

Comprehensive Annual Financial Report

For the fiscal year ending June 30, 2012



MONTEREY, CALIFORNIA

MST

MONTEREY-SALINAS TRANSIT

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Comprehensive Annual Financial Report

For The Fiscal Years Ended

June 30, 2012 and 2011

Prepared by the Accounting Department

Hunter Harvath, AICP, Assistant General Manager for Finance & Administration

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Section I

INTRODUCTORY

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**Board of Directors and Passengers of Monterey-Salinas Transit
Monterey, California
December 28, 2012**

**Comprehensive Annual Financial Report (CAFR)
Year Ended June 30, 2012 and 2011**

FORMAL TRANSMITTAL OF THE CAFR

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of Monterey-Salinas Transit (MST) for the fiscal years ending June 30, 2012 and 2011. This transmittal letter provides a summary of finances, achievements, economic prospects and services in a manner that is easily accessible to those without a background in accounting or finance. Further explanation of financial matters is provided in the Management's Discussion and Analysis provided in the Financial Section of this Report.

As required by state law, independent auditors selected by the Board of Directors audited the financial statements contained in the CAFR. For the fiscal year ended June 30, 2012, Vavrinek, Trine, Day & Co. LLP, expressed an opinion that the statements are fairly stated and in compliance with accounting principles generally accepted in the United States of America. This most favorable type of opinion is commonly referred to as "unqualified" or "clean". While the independent auditor has expressed such an opinion, MST management takes sole responsibility for the contents of this CAFR, including its presentation, completeness and disclosures. To the best of its knowledge, staff believes the information to be accurate in all material respects.

PROFILE OF THE REPORTING ENTITY

For the fiscal year ending June 30, 2012, Monterey-Salinas Transit (MST) was an independent political subdivision of the State of California. It was originally formed by a joint-powers agreement in 1972, which was revised in 1981 to include the Salinas Transit System. As of July 1, 2010, MST Joint Powers Agency was replaced by the Monterey-Salinas Transit District, which was created through legislation (AB 644 Caballero) passed by the California Legislature and signed into law by Governor Arnold Schwarzenegger. The borders of the MST District are contiguous with those of the County of Monterey. The County of Monterey (the "County") is located along the Central Coast of California, bordered on the south by San Luis Obispo County, the west by the Pacific Ocean, the east by San Benito County, and the north by the counties of Santa Clara and Santa Cruz.

MST provides bus transit services throughout the County and north into downtown Watsonville in Santa Cruz County and Gilroy, Morgan Hill and San Jose in Santa Clara County, as well as to Paso Robles in northern San Luis Obispo County. MST's reporting entity is legally separate and financially independent as defined in Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity." There is no other organization within Monterey County with a similar scope of public transportation service.

MST began operations in 1973 as Monterey Peninsula Transit and, by 1981, had consolidated two separate municipal systems into a viable network of local service throughout a 110 square-mile service area. In 1997, MST began operation of RIDES, a demand-response service for patrons with mobility impairments, previously operated by the County. Over the years, MST's service area has expanded to what is as of fiscal year 2012 approximately 280 square miles.



MST has received recognition as a leader in the public transit field with numerous awards. MST programs and individuals have received numerous awards from the Transportation Agency for Monterey County (the transportation-planning agency for Monterey County), from the California Transit Association, California Association for Coordinated Transportation, the Monterey County Business Council, Monterey Peninsula Chamber of Commerce, Old Monterey Business Association, Monterey County Hospitality Association, California Transportation Foundation, and Secretary of the US Army. In 2012, MST was awarded the Gold Safety Excellence Award by the American Public Transportation Association in recognition of the agency being named the safest bus system nationwide in the 4 million to 20 million annual boardings category.

Special Purpose District

As of July 1, 2010, the agency is a special purpose district governed by a thirteen-member Board of Directors. The county Board of Supervisors selects one of its own members to serve on the MST Board. The mayors of each of the twelve cities in the county appoint one elected city official, bringing membership to thirteen. Directors meet once a month to determine overall policy for MST. A fifteen-seat Mobility Advisory Committee (representing the elderly and disabled) provides non-binding input to the Board.

The mission of MST is advocating and delivering quality public transportation as a leader within our community and industry. The Board of Directors adopts objectives, key business drivers and then monitors staff implementation of programs and policies. This strategic planning process also provides the basis for the operating budget and the capital improvement program. MST's key business drivers are organized under four general categories:

1. Operate safely, effectively and efficiently
2. Increase customer satisfaction
3. Strengthen employee development and satisfaction
4. Enhance support by MST members and other stakeholders

Some of the objectives and initiatives for fiscal year 2012 include the following:

- Complete Fremont/Lighthouse Bus Rapid Transit Project Development work
- Apply for grants to design Del Monte Bus Rapid Transit Corridor
- Conduct Salinas Area Service Analysis and implement recommendations as funding allows
- Complete Monterey Bay Operations/Maintenance Building/Finance Plan and complete Construction Bid as funding allows
- Implement options for contracted transit services and restructure ADA transit service model to decrease costs and increase efficiency

The Organization

MST is organized into the following principal departments:

Administration and Finance - responsible for employee administration and development, labor relations and safety and security, information technology, treasury and debt management, budgeting, grant administration, general accounting, payroll, audit functions; procurement, parts and inventory control; government relations, marketing, advertising, public information, customer service; route scheduling and planning; mobility management programs; and grant development.



Facilities and Maintenance - responsible for property management/maintenance as well as revenue vehicle and support vehicle maintenance.

Operations - responsible for administering bus transportation, various shuttles and special transit services, ADA programs, and quality assurance.

Service Delivery Network

At the end of fiscal year 2012, the MST fixed-route bus system consisted of sixty-two routes: thirty-eight operated by MST personnel, twenty-three routes operated by MV Transportation, Incorporated, and one subcontracted to and operated by San Luis Obispo Regional Transit. In fiscal year 2012, vehicles on these routes system-wide traveled approximately 4,248,467 miles and carried 4,333,843 passengers. RIDES, MST's paratransit service, transported approximately 115,045 mobility impaired patrons during fiscal year 2012 on 29 specially equipped minibuses, minivans and sedans.

Since the founding of MST as a public agency, bus ridership in Monterey County escalated from 280,000 in fiscal year 1973 to nearly 5 million in fiscal year 2002. As MST completed its 30th year of service in 2002, ridership had increased nearly 1,800 percent. Service improvements to MST's Monterey Peninsula routes in January of 2007 provided more direct service and reduced the frequency of transfers between lines for customers. Because of this increased convenience for customers, the number of individual boardings had leveled off in fiscal year 2008 to 4.7 million, followed by a further drop in fiscal years 2009 and 2010 due to the severe economic downturn and associated high unemployment rate. In fiscal year 2011, ridership began to rebound, posting a 3 percent increase over the previous year. By fiscal year 2012, MST's 40th year, service reductions and a system-wide fare increase began to erode ridership further, even though operational efficiency measured in passengers per hour improved during the year.

MST is a partner in a variety of community events in Monterey County and provides transportation service to the Monterey County Fair, Monterey Jazz Festival, Monterey Blues Festival, California International Airshow, First Night festivities on New Year's Eve, and car and motorcycle races at Laguna Seca. MST buses also travel to Big Sur during the summer months, where visitors can observe the natural beauty of the region. During its four decades of operations, MST has provided transportation to special events such as the 1985 Monterey Bay Aquarium Opening Day and the 1987 visit by Pope John Paul II. Additionally, MST has provided emergency services to community evacuating local residents affected by natural disasters including floods, fires, and earthquakes as well as other incidents such as major power outages and chemical leaks.

During fiscal year 2012, MST modified its service delivery network by adding a general public dial-a-ride service to the city of Soledad as well as expanded weekend service on its Senior Shuttle system on the Monterey Peninsula. System-wide service reductions were implemented due to budgetary concerns in September 2011 and April 2012. In addition, a University Pass Program for students, faculty and staff for California State University-Monterey Bay and a "free-fare zone" for students of Hartnell College in Salinas were both implemented shortly after the beginning of the fiscal year.



Special Projects and New Programs

As we progress through its fourth decade of service, MST is focusing on several major projects designed to improve travel in the County and into Santa Clara and San Luis Obispo Counties, which include:

JAZZ Bus Rapid Transit Construction Project

By the end of the fiscal year, MST had completed design and awarded a construction contract for its new Bus Rapid Transit (BRT) system planned for the busy Fremont/Lighthouse corridor on the Monterey Peninsula. Spanning nearly 7 miles from Monterey Bay Aquarium at the edge of Pacific Grove, through downtown Monterey and Seaside, and ending at one of the area's regional shopping centers in Sand City, the BRT system is expected to cut travel times along the corridor by as much as 25 percent. A partnership with the Monterey Jazz Festival, the new BRT line is being designed and constructed with a musical Jazz theme and will feature museum-quality displays of photos and text at each BRT bus stop profiling the 55-year history of the world-famous Monterey Jazz Festival.

Naval Postgraduate School Express Routes

During fiscal year 2009, MST implemented two new transit lines that connect the Naval Postgraduate School in Monterey with the La Mesa military housing community as well as housing areas on the former Fort Ord. This unique partnership is funded 100% by the military through the Department of Transportation transit benefit program. Through fiscal year 2012, ridership on these lines continues to be strong, and the services provide meaningful congestion reduction on the streets leading to NPS and at its limited parking areas.

Presidio Express Routes

Building on the success of the aforementioned Naval Postgraduate School routes, MST entered into another partnership with the Presidio of Monterey for transit service. Shortly after the beginning of fiscal year 2010, nine express lines were implemented connecting the base with communities throughout the county as well as Gilroy and San Jose in Santa Clara County. In January of 2010, three additional lines serving the Presidio were added. These new Presidio Express lines utilize the same 100% federal funding mechanism as the Naval Postgraduate School's program and routinely carry approximately 40,000 passengers per month.

Fort Hunter Liggett Routes

Further expansion of MST's military partnerships occurred in fiscal year 2012, with the addition of Saturday service to MST's two long-distance commute routes connecting Fort Hunter Liggett in extreme southern Monterey County with communities in the Salinas Valley as well as Paso Robles in San Luis Obispo County. As with MST's Naval Postgraduate School and Presidio of Monterey programs, the Fort Hunter Liggett partnership is funded through the federal transit benefit as well as through Federal Transit Administration Section 5311(f) rural intercity transportation grants. Additional 5311(f) grants were used to install nine new bus shelters in the rural areas of southern Monterey County (including Fort Hunter Liggett).

Pacific Grove Trolley

In August of 2010, MST conducted an 11-day test of a free Trolley connecting the Monterey Bay Aquarium with downtown Pacific Grove, Asilomar Conference Grounds and other inns, hotels, and businesses in the community. With a pre-recorded narration supplied by Aquarium staff, the Pacific Grove Trolley provided an educational and informational journey along the ocean and into the city's historic downtown. Funded by a grant from the Monterey Bay Unified Air Pollution Control District, the Pacific Grove Trolley now operates daily from Memorial Day weekend through Labor Day and has been well received by visitors and locals alike.



CSUMB University Pass Program / Hartnell Free Fare Zone

A joint project between California State University Monterey Bay and MST, the CSUMB University Pass program offers unlimited access to MST's entire route network for students, faculty and staff. In addition, the University Pass program funds expanded transit services on campus including the CSUMB Otter Trolley, as well as connections off campus to Marina, Seaside, Sand City and downtown Monterey, especially late at night on Fridays and Saturdays. At Hartnell Community College, the Associated Student Senate voted to fund a free fare zone at the Salinas campus for the 2011-2012 school year. The free fare zone enables students to board for free at MST bus stops adjacent to the Central Campus. Return trips to the college area are full fare, providing effectively a 50% discount for Hartnell students who use MST to get to and from classes. MST is reimbursed for lost revenue on a per-student basis. In fact, the program was so successful in its inaugural year that the college allocated additional funds to ensure the program would continue for a full 12 months.

Regional Express Routes Until the train connection from Gilroy to Salinas is established for the Caltrain System, MST is providing bus service from the Monterey Peninsula through Gilroy and Morgan Hill to San Jose. Since its implementation in September 2006, three round trips per day are being provided on Line 55 Monterey-San Jose Express. During fiscal year 2010, MST added two more round trips between the Monterey Peninsula and Santa Clara County on the new Line 79 Presidio-San Jose Express via Gilroy. MST also began providing a regional link between the Salinas Valley and San Luis Obispo County through a partnership with Fort Hunter-Liggett and San Luis Obispo County Regional Transit Authority with weekday service between Salinas and Paso Robles.

Elderly and Persons with Disabilities

For many county residents, especially seniors and those with disabilities, MST provides the only means of transportation via its accessible fixed-route and RIDES services. The entire fleet of vehicles is equipped with wheelchair lifts and full-size buses have kneeling features to ease access. During the fiscal year, MST implemented subsidized taxi programs for seniors living in Salinas and most of the Monterey Peninsula as well as for RIDES clients on a county-wide basis. Trips on taxis are subsidized for persons 65 and over using federal New Freedoms mobility management grant funds. MST's senior shuttle program was expanded on the Monterey Peninsula to new destinations in Sand City and was enhanced to include new trips on Saturdays and Sundays to popular destinations in Carmel and Monterey including Del Monte Shopping Center. To complement these expanded programs for seniors and persons with disabilities, MST offers travel training services to instruct prospective customers as to how to use fixed-route transit buses. In addition, MST offers assistance carrying packages for seniors who ride the bus and accompanying them on their trips through its volunteer "Navigators" program.

MST is now entering its 16th year of providing paratransit service to people with disabilities in Monterey County. In 1996, MST implemented arrangements with Monterey County to assume this service contracted with Pro Transportation Services, Inc., a privately owned company. MST's current paratransit contractor is MV Transportation, Inc. MST is in full compliance with the federally mandated Americans with Disabilities Act. In fiscal year ended June 30, 2012, RIDES vehicles, owned by MST and operated by MV Transportation under contract, provided a total of 60,121 hours of service.

FINANCIAL POLICY & CONTROL

MST is accounted for in a single enterprise fund on the accrual method of accounting. In developing and evaluating the accounting system, emphasis is placed on the adequacy of internal accounting controls.



Internal Accounting Controls

Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding:

1. The safeguarding of assets against loss from unauthorized use or disposition; and
2. The reliability of financial records for preparing financial statements and accounting for assets.

The concept of reasonable assurance recognizes that:

1. The cost of control should not exceed the benefits likely to be derived; and
2. The evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that MST's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Cash Management

The Board of Directors has adopted an investment policy as prescribed by State of California law. This policy emphasizes safety and liquidity over return on investment. Within these parameters, MST pursues a prudent cash management and investment program in order to achieve maximum return on all available funds. MST's policy is to hold securities to maturity to avoid losses from a potential sale.

Budgetary Control

State law requires the adoption of an annual budget, and the Board of Directors has unlimited authority to approve and amend the budget. In the opinion of legal counsel, the *State of California's* Gann Act appropriation limit does not apply to this special purpose organization. Staff bases the MST budget on agency goals and objectives and presents it to the Board of Directors in the spring of the preceding fiscal year. The Board adopts a balanced budget by resolution that is supported by adequate reserves to cover excess expenditures over revenues. Cost center managers are responsible for monitoring budget-to-actual performance.

MST's budget process identifies goals and objectives and allocates resources accordingly. Operating revenues and expenses are budgeted on the accrual basis and staff monitors and controls progress through variance analysis. A supplemental schedule comparing the adopted budget to actual on a budgetary basis is included in the Financial Section.

FINANCIAL HIGHLIGHTS – More financial information is available from the Management Discussion and Analysis included in the Financial Section.

Monterey-Salinas Transit's financial position continues to be strong, but world-wide economic realities has forced the agency to reduce spending and increase revenues through cutting bus services and staffing and raising fares. Financial planning is based on the assumption of steady ridership patterns, continuation of the bus acquisition and replacement program, and extraordinary capital requirements associated with the JAZZ Bus Rapid Transit project and the need for additional bus maintenance and storage capacity. Without a local sales tax to support its bus operations and capital projects, Monterey-Salinas Transit's financial position will continue to be subject to state and federal actions related to increases or decreases in transportation funding as well as the ability of the California legislature and the US Congress to adopt annual budgets promptly and effectively.



Revenue Sources

MST utilizes five primary sources of revenue to operate its public transit services: passenger fares, local transportation funds, investment income, non-transportation funds and federal funds. Operating income from patron fares and/or local transaction and use taxes must cover at least 15 percent of applicable operating expenses to be eligible for State of California Transportation Development Act (TDA). TDA funding returns one-quarter of one percent of the state sales tax collected in Monterey County to support transportation operations, planning and projects, including MST bus service. This state-directed revenue now covers MST's operating expenses for fixed-route and RIDES paratransit services, provides the local match for federal grants, and finances other needed capital programs. In addition, MST still relies heavily on federal assistance for capital and operating expenditures.

Expenses and Expenditures

Overall expenses and expenditures are classified into nine categories: salaries/benefits, professional and technical services, materials and supplies, utilities, insurance, taxes, purchased transportation and other expenses and depreciation.

Capital Program

As with previous fiscal years, bus replacement remains the primary capital need for the agency. In fact, approximately 30 of MST's 80 full-sized buses have reached their replacement age. During fiscal year 2012, MST received a \$788,000 grant for four new hybrid diesel electric minibuses. In addition, rural grants helped MST purchase an additional "over the road" style coach and associated equipment for use in southern Monterey County. Federal grants allowed MST to replace and expand its minibus fleet to meet the specific transportation needs of elderly and disabled populations in the county. During the fiscal year, MST utilized a portion of its \$2.78 million federal capital grant to complete design for the new JAZZ Bus Rapid Transit line on the Monterey Peninsula. California Proposition 1B Transportation Bonds continued to provide needed local match for federally funded capital projects and bus replacements and funded other capital needs of the agency related to safety, security and technology.

ECONOMIC CONDITIONS

Ranking high in affluence among Northern California counties, Monterey County has a maturing economy. Due to lack of substantial industry diversification, Monterey County has traditionally depended upon two industry segments for its prosperity – agriculture and tourism. Recent statistics show that a third segment – education – is nearing a level of economic impact as tourism. In addition, the various military installations in the county pump \$1 billion of economic impact into the area.

In fiscal year 2007, signs of economic stabilization appeared in low unemployment rates and steady tourism levels, which led to increased revenues from sales taxes generated by these sources. By fiscal year 2008, economic uncertainty had begun to emerge culminating in record high fuel prices, plummeting home values and lower tax revenues on the horizon. As the nation's economy entered into the worst recession since the Great Depression of the 1930's, MST's ridership and sales tax-based revenues fell accordingly. As of the date of this report, the state's fiscal crisis continues to have severe adverse impacts on MST's budget, with over \$30 million



in state transit assistance cut over the last decade. MST has covered shortfalls with fare increases, reductions in staffing and delay or cancellation of capital projects to reflect these state budgetary changes. While federal ARRA funds provided MST some temporary stability in its budgetary picture for fiscal years 2009 and 2010, MST has since exhausted its federal ARRA apportionment and has to now rely on its traditional sources of revenue as the economy slowly recovers. Given the uncertain short- and long-term economic outlook, MST continues to take a prudent course of cutting expenditures and staffing while seeking to maintain and enhance productive routes and public/private partnerships as much as possible.

FUTURE OUTLOOK

Notwithstanding current economic fluctuations, MST anticipates a transition over the next decade from its role as a local and line-haul bus operator to a more diversified enterprise encompassing multiple modes and performing mobility management for the entire community. MST will continue to provide local transportation for municipalities, but also will support its feeder bus service to San Jose and the San Francisco Bay area as well as strengthen its military and university partnerships, which will generate approximately \$2 million in revenue annually.

While the 2010 census showed minimal population growth in most areas of the county, the long-term economic success of the region will be measured more directly by the quantity and quality of new jobs created in the region. Air quality standards are set by the Monterey Bay Unified Air Pollution Control District (MBUAPCD) with implementation of congestion management plans by local agencies. These air quality programs are underwritten by a variety of public and private funding sources, with possible new “cap and trade” funds on the horizon as California’s historic greenhouse gas reduction legislation (AB 32 / SB 375) is fully implemented. Capital funding will continue to be required to support a bus acquisition program consistent with MST’s fleet modernization standards as well as to meet MST’s need for expanded operations and maintenance capacity on the Monterey Peninsula and in the Salinas Valley. Innovative Bus Rapid Transit projects and alternative fuel propulsion projects are in development and should produce results in the next fiscal year.

SUMMARY

The men and women of the Monterey-Salinas Transit and its contract service provider bring an effective combination of skills, experience and dedication to carrying out their mission of advocating and delivering quality public transportation as leaders in our community.

MST provides a modern bus fleet, is designing a state-of-the-art Bus Rapid Transit system, and is an active participant in a coordinated regional transit network covering one fifth of the coast of California with direct connections to neighboring systems in 3 surrounding counties. MST services provide a choice in alternatives to automobile travel; improved access to work, education, and recreation opportunities to members of our community; and help improve the quality of life in the region by reducing traffic congestion and improving air quality.

With the economic stabilization provided by the federal ARRA economic stimulus funding coming to an end, MST will have to maintain a balanced budget through cost reductions and new revenue-generating partnerships with public and private entities. MST expects to carry out its three-year strategic plan without compromising



the sound financial structure developed over its four decades of operations. After past economic downturns, Monterey County has recovered more quickly than most other areas in California and the nation. However, given the scope and magnitude of this most recent economic slide, the county may struggle to recover as quickly as it has in the past.

With the continued dedication of its transit professionals, Monterey-Salinas Transit will continue to meet the transportation challenges faced by our community, and will strive to exceed the expectations of our customers, employees, and stakeholders.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Monterey-Salinas Transit for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the tenth consecutive year that MST has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The preparation of this report required the dedicated extra efforts of MST staff and we extend our grateful recognition to all individuals who assisted. Within the Finance Division, we particularly wish to acknowledge the contributions of Accountant Angela Dawson to recognize the high level of professionalism she brings to Monterey-Salinas Transit. In addition, this report could not have been produced without the timely audit and expert guidance of Vavrinek, Trine, Day & Co., LLP. Finally, we wish to thank the Board of Directors for their interest and support in the development of a strong financial system. We acknowledge that management is responsible for the content of this Comprehensive Annual Financial Report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Carl Sedoryk".

Carl Sedoryk
General Manager/CEO

A handwritten signature in black ink, appearing to read "Hunter Harvath".

Hunter Harvath, AICP
Assistant General Manager – Finance & Administration

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Monterey-Salinas Transit
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2011

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



Christopher P. Morinell
President

Jeffrey L. Esser
Executive Director

MONTEREY-SALINAS TRANSIT

BOARD OF DIRECTORS

Fiscal Year Ending June 30, 2012

FERNANDO ARMENTA, Chair, County of Monterey

KRISTIN CLARK, Vice Chair, City of Del Rey Oaks

VICTORIA BEACH, City of Carmel-by-the-Sea

ALVIN EDWARDS, City of Seaside

MARIA OROZCO, City of Gonzales

JOHN HUERTA, JR, City of Greenfield

SUSAN KLEBER, City of King

FRANK O'CONNELL, City of Marina

LIBBY DOWNEY, City of Monterey

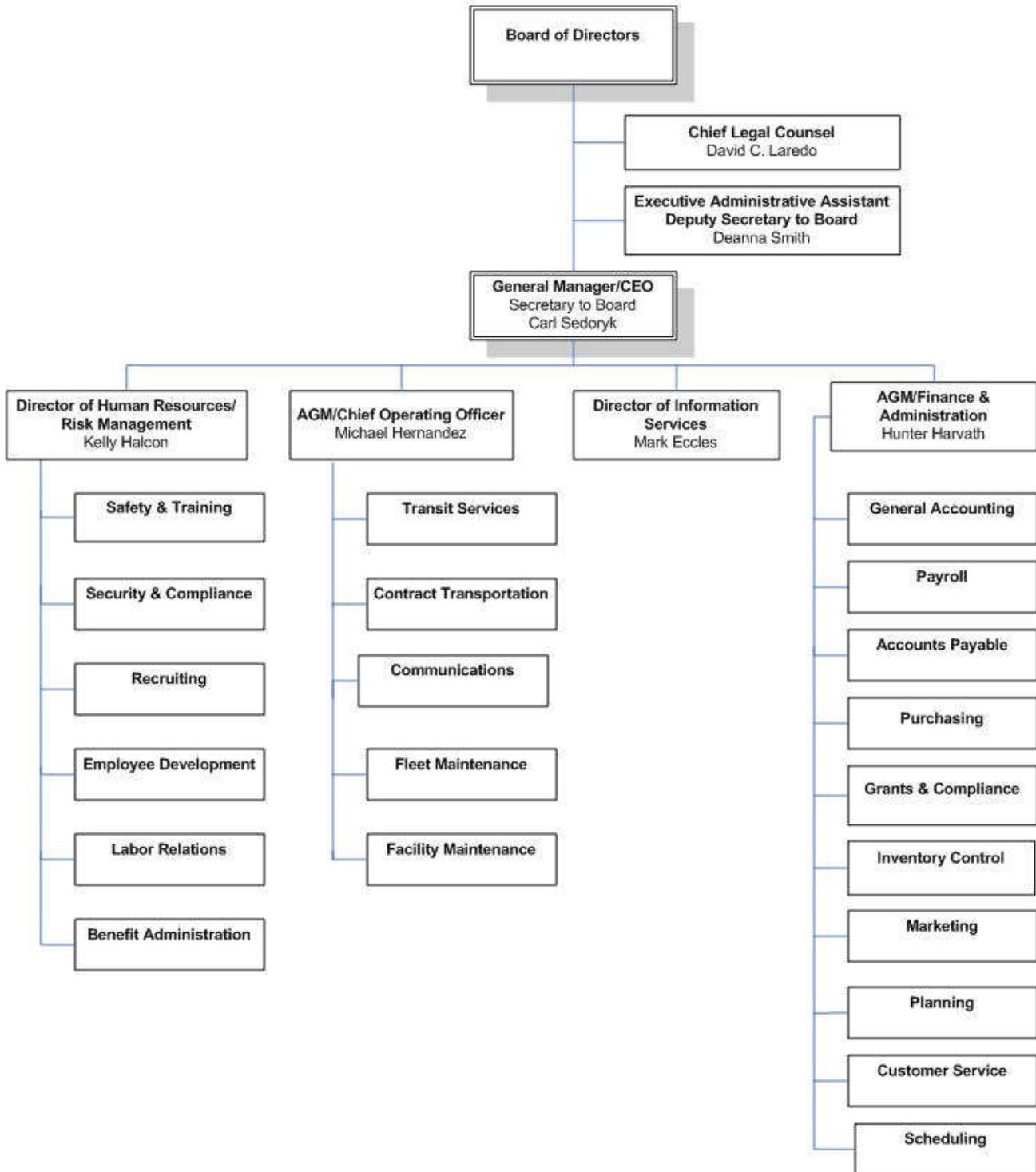
ALAN COHEN, City of Pacific Grove

SERGIO SANCHEZ, City of Salinas

DAVID PENDERGRASS, City of Sand

PATRICIA STEPHENS, City of Soledad

Monterey-Salinas Transit

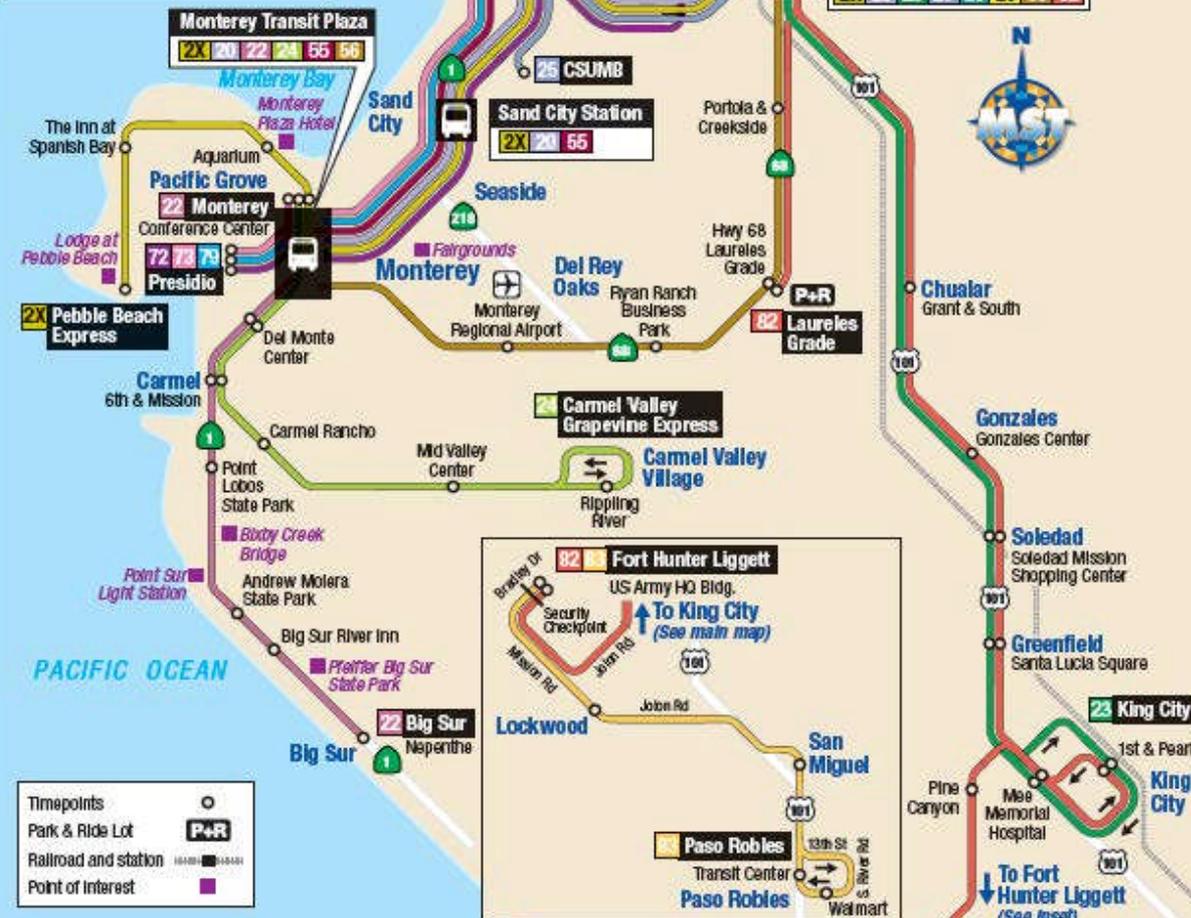


**MST
Service
Area**



MST Regional Map

- 2X Pebble Beach Express
- 20 Salinas - Monterey via Marina
- 22 Big Sur
- 23 Salinas - King City
Select trips
- 24 Carmel Valley Grapevine Express
- 25 CSUMB - Salinas
- 27 Watsonville - Marina
- 28 Watsonville - Salinas
via Castroville *Select trips*
- 29 Watsonville - Salinas
via Prunedale
- 56 Monterey - San Jose Express
- 58 Salinas - Monterey
via Hwy 68
- 72 Presidio - N. Salinas Express
- 73 Presidio - Prunedale Express
via Castroville & Oak Hills
- 79 Presidio - San Jose Express
via Gilroy
- 82 Fort Hunter Liggett -
Salinas Express
- 88 Fort Hunter Liggett -
Paso Robles Express



Section II

FINANCIAL

Independent Auditor's Report

Management's Discussion and Analysis

Financial Statements

- Statements of Net Assets
- Statements of Revenues, Expenses and Changes in Net Assets
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Required Supplementary Information

- Schedule of Funding Progress

Other Supplemental Information

- Consolidating Statements by Program
- Budgetary Comparison

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Monterey-Salinas Transit

We have audited the accompanying statements of net assets of the Monterey-Salinas Transit (MST) as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of MST's management. Our responsibility is to express opinions on these financial statements based upon our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the MST as of June 30, 2012 and 2011 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 28, 2012, on our consideration of MST's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension schedule of funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise MST's financial statements. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133)* and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 28, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of Monterey-Salinas Transit (MST) provides an introduction to the financial statements of MST for the fiscal years ended June 30, 2012 and 2011.

Following the MD&A are the basic financial statements of MST together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements.

MST ACTIVITIES HIGHLIGHTS

MST is based in Monterey, California, and consists of two operating divisions, Fixed-Route BUS and RIDES Paratransit, operating in two Federal Urbanized Zones: the Monterey Peninsula and Salinas. Overseeing some 245 direct and 50 contracted employees, who work together in the public interest, the General Manager/CEO coordinates the operations of these divisions according to the policy and direction of the Board of Directors. For the fiscal year ending June 30, 2012, the Board of Directors consisted of thirteen members representing Monterey County and the twelve member cities: Carmel-by-the-Sea, Del Rey Oaks, Gonzales, Greenfield, King City, Marina, Monterey, Pacific Grove, Salinas, Sand City, Seaside and Soledad. Nearly 4.5 million passengers rode Monterey-Salinas Transit last fiscal year.

The recent economic downturn has resulted in a decrease in ridership for Fixed-Route BUS from historical peak levels of 2007. During fiscal year 2011, MST's reserves were used to further delay the need for additional fare increases or service reductions to balance the annual operating budget. In coordination with fiscal uncertainty and budgetary stress, increases to fares were enacted near the end of the current fiscal year (effective May 2012), and significant cuts to bus services were implemented twice during fiscal year 2012. While RIDES Paratransit demand had leveled off after jumping substantially since 2008, primarily from increased demand from dialysis patients who no longer have their transportation to appointments provided by the Central Coast Alliance for Health, ridership for fiscal year 2012 increased by nearly 10% over the previous fiscal year.

	2012	2011	2010
Fixed- Route Passengers	4,333,843	4,249,622	4,399,711
% increase/(decrease)	1.98%	(3.41%)	(5.50%)
RIDES Paratranist Passengers	115,045	104,887	113,830
% increase/(decrease)	9.68%	(7.85%)	29.31%

MST is unique compared to Santa Cruz and San Francisco Bay Area transit operations because it provides transit service without support from direct sales tax measures or dedicated general funds. While nearly 90% of the population of the state of California live in counties with these local sales taxes supporting transit, Monterey County is not one of these so-called "self-help" counties. As the MST joint powers agency did not have the authority to levy taxes, the use of Local Transportation Funds has been the only available local means MST has to support transit services. Presently, MST is funded approximately 28.1% by passenger fares for Fixed-Route service and 15.2% for RIDES Paratransit service. The remainder is met by federal grants, local air pollution control district funds, and bus advertising revenue.

FINANCIAL POSITION SUMMARY

Total net assets serve over time as a useful indicator of MST's financial position. MST's assets exceed liabilities by \$33 million at June 30, 2012, which was a 5% decrease from June 30, 2011. At June 30, 2011 MST's assets exceeded the liabilities by \$34.7 million which is an increase of 24% from June 30, 2010. A condensed summary of net assets at June 30 is shown below (\$ in thousands):

	2012	2011	2010
ASSETS:			
Current and other assets	\$ 9,310	\$ 9,559	\$ 13,975
Capital assets	28,197	29,583	29,638
Total assets	\$ 37,507	\$ 39,142	\$ 43,525
LIABILITIES			
Current liabilities	3,803	3,837	6,213
Non current liabilities	627	578	-
Total liabilities	4,430	4,415	15,441
NET ASSETS:			
Invested in capital assets	28,197	29,583	29,638
Unrestricted	4,880	5,144	7,762
TOTAL NET ASSETS	\$ 33,077	\$ 34,727	\$ 28,084

The largest portion of MST's net assets each year (85% at June 30, 2012) is its investment in capital assets (e.g., buses, buildings, improvements, and equipment). MST uses these capital assets to provide services to its patrons, passengers and visitors to the region; consequently, these assets are not available for future spending. The remaining unrestricted net assets (15% at June 30, 2012) may be used to meet MST's ongoing obligations.

FINANCIAL OPERATIONS HIGHLIGHTS

- Total Revenues in 2012 compared to 2011 before capital contributions increased by 8.7% from \$29.2 million to \$31.8 million primarily as a result of an increase Local Transportation Funds, generated by one quarter percent of the state sales tax. Total Revenues in 2011 to 2010 before capital contributions decreased by 1.9% from \$29.8 million to \$29.3 million primarily as a result of decrease in operating grants.
- Operating Expenses in 2012 compared to 2011 before depreciation increased by 4.8% from \$31.6 million to \$33.1 million, primarily as a result in increased operating costs from our aging fleet and contractual salary increases. Operating Expenses in 2011 compared to 2010 before depreciation increased by 14.9% from \$27.5 million to \$31.6 million, also as a result in increased operating costs from our aging fleet and expansion of service.
- Capital contributions received in the form of grants from the federal and state governments increased from \$2.7 million in 2011 to \$3.7 million in 2012. Capital contributions received in the form of grants from the federal and state governments decreased from \$3.9 million in 2010 to \$2.7 million in 2011.

SUMMARY OF CHANGES IN NET ASSETS (\$ in thousands)

	2012	2011	2010
Total revenues	\$ 31,821	\$ 29,278	\$ 29,846
Operating expenses	33,121	31,614	27,515
Operating income (loss) before depreciation and interest expense	(1,300)	(2,336)	-
Interest expense	-	-	378
Gain (Loss) on sale of assets	12	(5)	(8)
Depreciation	4,029	4,085	4,112
Net loss before capital contributions	(5,317)	(6,426)	(4,498)
Capital contributions	3,668	2,705	3,875
Special item	-	1,048	5,246
Increase (decrease) in net assets	<u>\$ (1,649)</u>	<u>\$ (2,673)</u>	<u>\$ (623)</u>

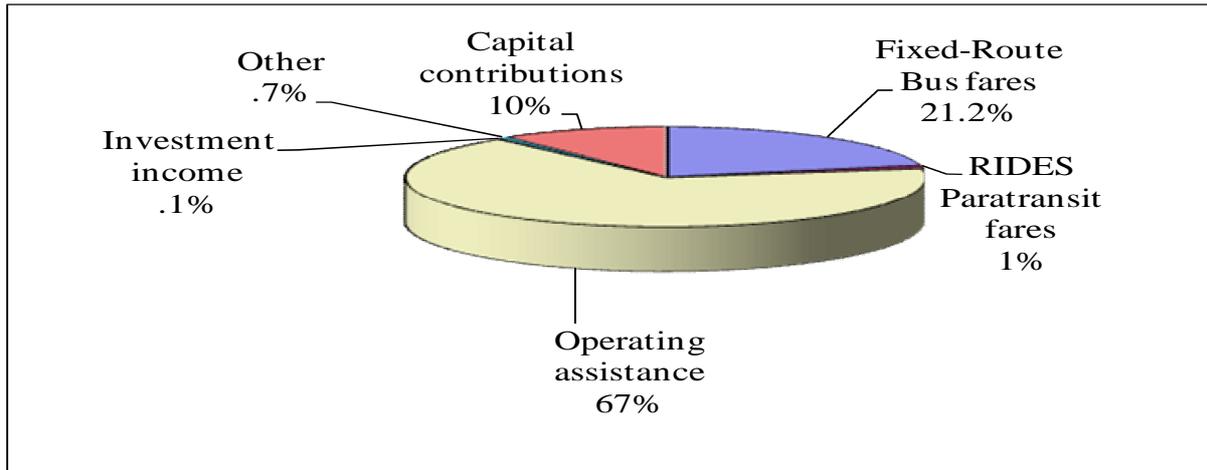
MST PASSENGER FARES

Passenger fares are set by Board Policy and changed when determined necessary by the Board. A complete overhaul of our passenger fares took place in March 2011. The fare structure was changed from an 11-zone and overlap zone configuration to a distanced-based system comprised of only four categories: Primary (Base), Local, Regional and Commuter fares. All categories of fares, including daypasses, monthly passes, weekly passes and paratransit fares were increased by an average of 25% on May 26, 2012. Fares now range from \$1.50 for short-distance local routes, to \$2.50 for primary base-fare routes, to \$3.50 for regional routes between Monterey Peninsula, the Salinas Valley, and rural northern Monterey County, to \$12.00 for long-distance commuter routes that connect to San Jose, Morgan Hill and Gilroy in Santa Clara County, Fort Hunter Liggett in extreme southern Monterey County, and Paso Robles in northern San Luis Obispo County.

	2012	2011	2010	2009	2008	2007
Fixed-Route Bus Fare	\$1.50 - \$3.50	\$1 - \$3	\$ 2.50	\$ 2.50	\$ 2.00	\$ 2.00
Fixed-Route Bus Transfer	n/a	n/a	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.25
RIDES Paratransit Fare	\$3 - \$7	\$2 - \$6	\$ 3.00	\$ 3.00	\$ 2.50	\$ 2.50

REVENUES

The following chart shows the major sources and the percentage of operating revenues for the year ended June 30, 2012 (fares, grants and other):



A summary of revenues for the year ended June 30, 2012, including the amount and percentage of change in relation to prior year amounts is as follows (\$ in thousands):

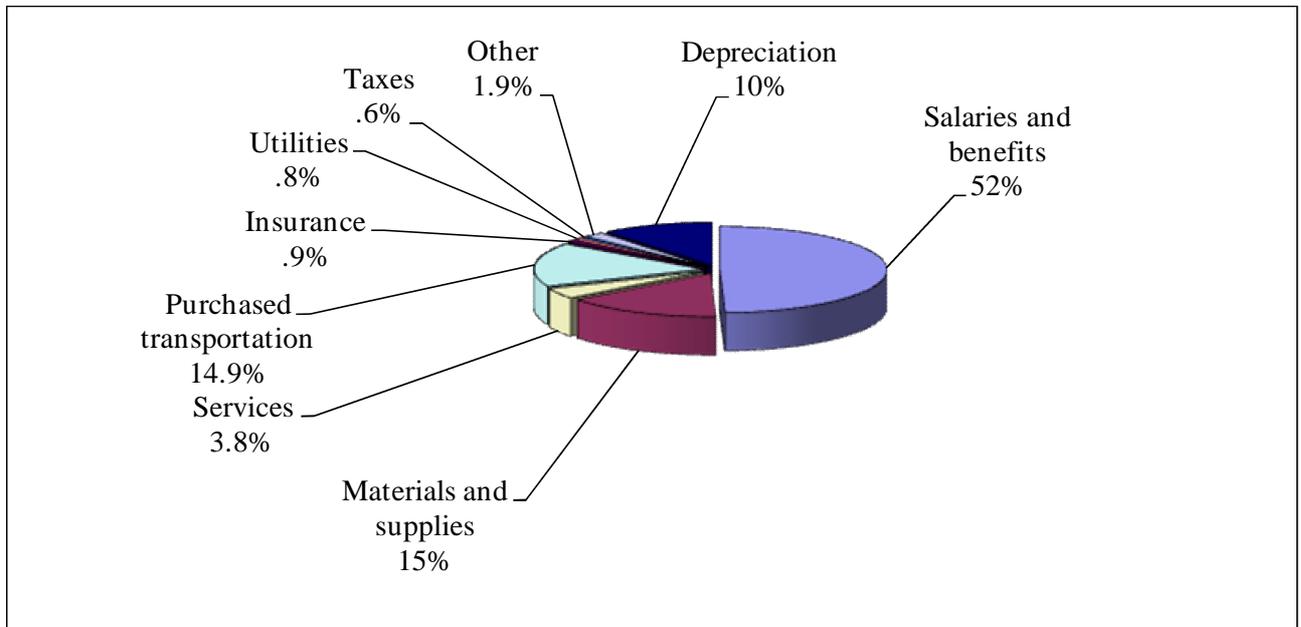
	2012	Percent	2012 Increase	Percent	2011	Percent	2011 Increase	Percent	2010
	Amount	of Total	(Decrease)	Increase/ (Decrease)	Amount	of Total	From 2010	Increase/ (Decrease)	Amount
Operating									
Fixed-Route Bus fares	\$ 7,517	21.2%	\$ (188)	(2.4%)	\$ 7,705	23.3%	\$ 1,028	15.4%	\$ 6,677
RIDES Paratransit fares	342	1.0%	29	9.3%	313	0.9%	2	0.6%	311
Total Operating	7,859	22.1%	(159)	(2.0%)	8,018	24.3%	1,030	14.7%	6,988
Nonoperating:									
Federal grants	8,381	23.6%	(38)	(0.5%)	8,419	25.5%	(1,731)	(17.1%)	10,150
Local Transportation Fun	15,305	43.1%	2,761	22.0%	12,544	38.0%	133	1.1%	12,411
Investment income	24	0.1%	(65)	(73.0%)	89	0.3%	(77)	(46.4%)	166
Other	251	0.7%	43	20.7%	208	0.6%	78	60.0%	130
Total Nonoperating	23,961	67.5%	2,701	12.7%	21,260	64.4%	(1,597)	(7.0%)	22,857
Capital contributions	3,668	10.3%	962	35.6%	2,706	8.2%	(1,170)	(30.2%)	3,876
Special Item	-	0.0%	(1,048)	100.0%	1,048	3.2%	0.0%	0.0%	5,246
Total Revenues	\$ 35,488	100.0%	\$ 2,456	7.4%	\$ 33,032	100.0%	\$ (5,935)	(15.2%)	\$ 38,967

EXPENSES

The following chart shows the major cost categories and the percentage of operating expenses for the year ended June 30, 2012:

	2012 Amount	Percent of Total	2011 Increase (Decrease) From 2010	Percent Increase/ (Decrease)	2011 Amount	Percent of Total	2010 Increase (Decrease) From 2009	Percent Increase/ (Decrease)	2010 Amount
Operating:									
Salaries and benefits	\$18,380	52.0%	\$129	0.7%	\$18,251	51.1%	\$1,764	10.7%	\$16,487
Materials and supplies	5,619	15.0%	1,516	36.9%	4,103	11.5%	879	27.3%	3,224
Professional and Technical Services	1,443	3.8%	(21)	-1.4%	1,464	4.1%	209	16.7%	1,255
Purchased transportation	6,089	14.9%	(92)	-1.5%	6,181	17.3%	954	18.3%	5,227
Insurance	354	1.0%	(130)	-26.9%	484	1.4%	(141)	(22.6%)	625
Utilities	293	0.8%	4	1.4%	289	0.8%	28	10.7%	261
Taxes	229	0.6%	14	6.5%	215	0.6%	43	25.0%	172
Other	713	1.9%	87	13.9%	626	1.8%	362	137.1%	264
Total operating expenses before depreciation	33,120	90.0%	1,507	4.8%	31,613	88.5%	4,098	14.9%	27,515
Depreciation and other	4,018	10.0%	(73)	(1.8%)	4,091	11.5%	(29)	(0.7%)	4,120
Total operating expenses	<u>\$37,138</u>	<u>100.0%</u>	<u>\$ 1,434</u>	<u>4.0%</u>	<u>\$35,704</u>	<u>100.0%</u>	<u>\$ 4,069</u>	<u>12.9%</u>	<u>\$31,635</u>

A summary of expenses for the year ended June 30, 2012, including the amount and percentage of change in relation to prior year amounts is as follows (\$ in thousands):



FINANCIAL STATEMENTS

MST's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles promulgated by the Government Accounting Standards Board. MST is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and (except for land and construction in progress) are depreciated over their useful lives. See the notes to the financial statements for a summary of MST's significant accounting policies.

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

Capital asset acquisitions are capitalized at cost. Acquisitions are funded using federal grants with matching State funds and local grant funds. Additional information on MST's capital assets can be found in Note 5 of the notes to the financial statements.

ECONOMIC AND OTHER FACTORS

Now in its 40th year, MST is continuing its commitment to its mission of advocating and delivering quality public transportation as a leader in our community and industry. In carrying out this mission, MST provides fixed-route bus and paratransit services and carries out these activities in a cost-effective, fiscally responsible manner. Furthermore, MST recognizes its responsibility to work with federal, state, regional, and local governments and agencies to best meet the transportation needs of the people, communities, and businesses of Monterey County and the Central Coast areas.

During fiscal year 2012, the financial condition of MST was stable despite the economic downturn, thanks in part to reductions of service and fare increases that occurred during the year, as well as its ongoing partnerships with three local military installations. Aside from its basic federal annual operating assistance and state funding through the Transportation Development Act, MST has been successful in utilizing Jobs Access Reverse Commute and New Freedoms grants to support its operations and capital needs. Specifically, commute services to San Jose and the One Stop Career Center in Salinas are funded through JARC, and New Freedoms grants fund a variety of mobility management services designed to improve transportation access to seniors and persons with disabilities who do not qualify for the MST RIDES ADA paratransit program. Caltrans has also awarded MST federal Section 5311(f) rural intercity grants to help support operations and capital needs in southern Monterey County, funding long-distance transit services to Fort Hunter Liggett and San Luis Obispo County as well as 9 new shelters and a new "over the road" style 57-passenger coach.

Going forward, the uncertain economic outlook at both the state and national levels will lead MST to take conservative approaches to budgeting and expenditures in future fiscal years. Traditionally, MST has supported its activity primarily with transit fares, federal formula operating assistance and local transportation funds. Increasingly, MST has secured special, restricted federal grants administered by Caltrans to fund new services, demonstration projects, and capital expenditures. With federal operating assistance nearly flat, MST is increasingly reliant on accessing these targeted grant programs such as JARC, New Freedoms and 5311(f) to introduce new services and routes to customers, many of whom need special assistance due to age, disability or lack of employment. As such, funding MST's core services that carry the majority of the system's passengers has become increasingly challenging, as these "back-bone" routes are not eligible for these targeted federal grants. With the new federal transportation

authorization bill Moving Ahead for Progress in the 21st Century (MAP-21) now in place; MST will be monitoring how changes to existing programs and new programs being introduced will affect funding levels for the agency in the coming years. Of particular concern is the reduction in the federal transit benefit that has supported MST's military partnership programs with the Naval Postgraduate School, the Presidio of Monterey and Fort Hunter Liggett. As of January 1, 2012, Congress cut the monthly allowable benefit from \$230 to \$125. Despite MST's attempts to advocate for restoration of the transit benefit back to \$230, larger fiscal and political concerns in Washington, DC have left the benefit at \$125, which will lead to a re-evaluation of the terms of MST's military partnerships in fiscal year 2013.

Given this overall fiscal uncertainty, steps have been taken in recent years to put forth a ballot measure to receive funding from a direct county-wide sales tax to support transportation and transit projects. However, only 64% of voters supported this measure during the November 2008 elections, falling short of the two-thirds majority needed to pass a dedicated tax in California. At the same time, the California budget deficits led to suspension and proposed elimination of the State Transit Assistance program, a vital source of revenue that has in recent years funded the MST RIDES paratransit program. During fiscal year 2011, a negotiated agreement between the state's transit agencies and legislators resulted in the resumption of STA payments, albeit at a lower level than had previously been in place before the state's fiscal crisis occurred. With federal ARRA funding exhausted and impacts of long-term federal transportation funding still unclear, MST will be forced to consider once again raising its fares or cutting service on its core, non-grant funded bus lines in order to offset the absence of local, state and federal support of public transit. Looking to the future, the MST District formed at the beginning of the previous fiscal year now has the power to levy local taxes to support transit operations, where the MST joint powers agency did not. If local support exists, additional funding could be sought through a local tax measure that would provide additional fiscal stability to MST and its transit services in the County.

With MST's JAZZ Bus Rapid Transit project fully funded and under construction, bus replacement and expanded maintenance capacity remain MST's top unfunded capital priorities. Nearly two decades in planning and design, a new consolidated headquarters, operations and maintenance facility on the former Fort Ord to replace its two undersized, aging facilities in Monterey and Salinas was ultimately rejected by the Monterey County Board of Supervisors in February of 2012. As such, MST is evaluating alternative de-centralized strategies to obtain the expanded maintenance and bus storage capacity it needs sited in the most operationally efficient locations in its service area. And, with 30% of the fleet nearing or exceeding its useful life, bus replacement has become a primary focus of capital planning, including successful grant applications for \$750,000 for medium hybrid buses and \$5 million for full-size transit buses. In addition, approximately \$20 million in California State Proposition 1B Transit Bonds remain available for MST capital projects in the coming years; however, the timeliness of the availability of these funds from the state remains uncertain.

MST has completed its agency-wide technological upgrade. Its \$3.5 million Advanced Communication System (ACS) has been in place since 2003 and is fully operational. The Global Positioning System (GPS) features of the ACS have enabled MST to install real-time electronic passenger information signage at its major transit hubs for the benefit of customers. Maintenance and inventory control systems are in place and fully functional. New scheduling software has allowed for more efficient run-cutting and rostering, producing financial savings to the agency. The financial management package is similarly in place and being utilized effectively by staff. Additional software and hardware packages, including Timekeeping & Dispatch, Human Resources, and Smart Card Farebox components, were implemented during fiscal years 2010 and 2011. With the rapidly changing nature of technology, MST is looking to upgrade and/or replace its original ACS system, which is now a decade old.

ADDDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide MST's customers, stakeholders and other interested parties with an overview of MST's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Assistant General Manager for Finance and Administration at One Ryan Ranch Road, Monterey, California 93940-5795

MONTEREY-SALINAS TRANSIT

STATEMENTS OF NET ASSETS JUNE 30, 2012 AND 2011

ASSETS	2012	2011
CURRENT ASSETS:		
Cash and investments	\$ 5,762,590	\$ 2,661,768
Operating grants receivable	2,546,839	3,786,633
Capital grants receivable	94,650	65,600
Material and supplies, at cost	312,003	357,366
Prepaid expenses	67,033	126,867
Other receivables	527,320	2,560,904
Total current assets	<u>9,310,435</u>	<u>9,559,138</u>
PROPERTY, PLANT, AND EQUIPMENT:		
Land	3,426,071	3,426,071
Buses	33,561,443	32,263,937
Shop, office and other equipment	27,501,971	28,916,554
Total	<u>64,489,485</u>	<u>64,606,562</u>
Accumulated depreciation	(42,824,610)	(40,608,480)
Construction in progress	6,532,781	5,584,902
Property, plant and equipment - net	<u>28,197,656</u>	<u>29,582,984</u>
TOTAL ASSETS	<u><u>37,508,091</u></u>	<u><u>39,142,122</u></u>
LIABILITIES AND CAPITAL		
CURRENT LIABILITIES:		
Accounts payable	1,730,528	1,719,416
Accrued liabilities	2,058,701	1,714,286
Current portion of self-insurance liabilities	14,217	402,961
Total current liabilities	<u>3,803,446</u>	<u>3,836,663</u>
NONCURRENT LIABILITIES		
Self-insurance liabilities	<u>627,000</u>	<u>578,339</u>
TOTAL LIABILITIES	<u><u>4,430,446</u></u>	<u><u>4,415,002</u></u>
NET ASSETS:		
Invested in capital assets net of related debt	28,197,656	29,582,984
Unrestricted	4,879,989	5,144,136
TOTAL NET ASSETS	<u><u>\$ 33,077,645</u></u>	<u><u>\$ 34,727,120</u></u>

See notes to financial statements.

MONTEREY-SALINAS TRANSIT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES:		
Fares	\$ 7,859,392	\$ 8,018,253
OPERATING EXPENSES:		
Salaries and benefits	18,379,946	18,251,302
Professional and technical services	1,442,610	1,464,260
Materials and supplies	5,618,981	4,103,167
Utilities	292,785	289,188
Insurance	354,009	484,027
Taxes	228,903	214,982
Purchased transportation	6,089,742	6,180,572
Other	713,666	625,941
Total operating expense	<u>33,120,642</u>	<u>31,613,439</u>
 Operating loss before depreciation	 (25,261,250)	 (23,595,186)
 DEPRECIATION	 <u>4,029,658</u>	 <u>4,085,924</u>
 OPERATING LOSS	 <u>(29,290,908)</u>	 <u>(27,681,110)</u>
NON-OPERATING REVENUES AND EXPENSES		
Operating assistance:		
Federal grants	8,381,215	8,418,672
Local and state grants	15,305,044	12,544,255
Gain (Loss) on disposal of assets	12,098	(5,820)
Interest income	24,396	89,095
Other	250,863	207,675
Total non-operating revenues	<u>23,973,616</u>	<u>21,253,877</u>
 NET LOSS BEFORE CAPITAL CONTRIBUTIONS	 <u>(5,317,292)</u>	 <u>(6,427,233)</u>
 CAPITAL CONTRIBUTIONS	 <u>3,667,817</u>	 <u>2,705,804</u>
 SPECIAL ITEM	 <u>-</u>	 <u>1,048,523</u>
 CHANGE IN NET ASSETS	 (1,649,475)	 (2,672,906)
 NET ASSETS, Beginning of year	 <u>34,727,120</u>	 <u>37,400,026</u>
 NET ASSETS, End of year	 <u>\$ 33,077,645</u>	 <u>\$ 34,727,120</u>

See notes to financial statements.

MONTEREY-SALINAS TRANSIT

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fares	\$ 7,859,392	\$ 8,018,253
Payments to employees	(18,017,466)	(18,032,215)
Payments to vendors for services	(12,594,650)	(13,293,194)
Payments for insurance claims and premiums	(483,770)	(1,390,457)
Other	380,332	(1,237,811)
Net cash used in operating activities	<u>(22,856,162)</u>	<u>(25,935,424)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating grants received	<u>24,897,003</u>	<u>25,363,820</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants received	3,667,817	2,705,804
Purchase of property, plant and equipment net of related debt	<u>(2,632,232)</u>	<u>(4,037,217)</u>
Net cash provided for/ (used in capital and related financing activities)	<u>1,035,585</u>	<u>(1,331,413)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	<u>24,396</u>	<u>89,095</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	3,100,822	(1,813,922)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>2,661,768</u>	<u>4,475,690</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 5,762,590</u>	<u>\$ 2,661,768</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (29,290,908)	\$ (27,681,110)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	4,029,658	4,085,924
Other income	250,863	207,675
Effect of changes in:		
Materials and supplies	45,363	(3,162)
Prepaid expenses	59,834	(30,910)
Receivables	2,033,584	(715,639)
Accounts payable	11,112	(1,152,578)
Accrued liabilities	344,415	229,896
Self-insurance liabilities	(340,083)	(875,520)
Net cash used in operating activities	<u>\$ (22,856,162)</u>	<u>\$ (25,935,424)</u>

See notes to financial statements.

MONTEREY-SALINAS TRANSIT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

I. ORGANIZATION

Monterey-Salinas Transit (MST) was created July 1, 1981 through the merger of Monterey Peninsula Transit and Salinas Transit System under a joint exercise of powers agreement to provide, either directly or through contract, public transportation services within certain areas of the County of Monterey and the Cities of Carmel-by-the-Sea, Del Rey Oaks, Marina, Monterey, Pacific Grove, Seaside and Salinas. MST provides bus services to those areas and is governed by a Board of Directors composed of representatives of the member jurisdictions. In addition, effective July 1, 1996, the administration of the RIDES program was transferred to MST from the County of Monterey. The RIDES program fulfills MST's obligation, under the Americans with Disabilities Act, to provide complementary Paratransit service. The RIDES program is a "curb-to-curb" transportation program for persons with disabilities unable to use fixed-route public transit. As of July 1, 2010, the MST Joint Powers Agency was replaced by the Monterey-Salinas Transit District, which was created through legislation (AB 644 Caballero) passed by the California Legislature and signed into law by Governor Arnold Schwarzenegger

II. SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity - Although the nucleus of a financial reporting entity usually is a primary government, an organization other than primary government, such as a stand-alone government, may serve as the nucleus for its financial reporting entity when the stand-alone government provides separately issued financial statements. A stand-alone government is a legally separate governmental organization that does not have a separately elected governing body and does not meet the definition of a component unit. Monterey-Salinas Transit meets the criteria as a stand-alone government, and accordingly, is accounted for and reported on as though it were a primary government.

Basis of Accounting - MST is a single enterprise fund and maintains its records on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. MST has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

MONTEREY-SALINAS TRANSIT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Cash equivalents include demand deposits and amounts invested in the State treasurer's investment pool (the State of California Local Agency Investment Fund), which are available upon demand. Investments in the State of California Local Agency Investment Fund are stated at amortized cost which approximates fair value.

Grants for operating assistance and capital acquisitions are included in revenue in the period in which the grant was earned. Federal capital grant funds are claimed on a reimbursement basis and receivables for grant funds are recorded as the related obligations are incurred. Capital grant funds advanced but not yet earned are treated as deferred credits. Also, operating funds advanced from the Transportation Agency for Monterey County for working capital are treated as deferred credits until earned.

Inventories consist primarily of bus replacement parts and fuel and are stated at average cost. Inventories are charged to expense at the time that individual items are withdrawn from inventory.

Property, plant, and equipment is stated at cost and depreciated using the straight-line method over the following estimated useful lives:

Buses	8 to 12 years
Shop, office, and other equipment	3 to 30 years

MST's capitalization threshold is \$500.

Self-Insurance Liabilities – Claims liabilities, including claims incurred but not reported, are measured based on the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Significant estimates include the valuation of self-insurance liabilities and the depreciable lives of property, plant and equipment. Actual results could differ from those estimates.

Operating and Non-Operating Revenue – MST distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from directly providing services in connection with MST's principal operation of bus transit services. These revenues are primarily passenger fares. Operating expenses include the cost of sales and services, administrative expenses, contracted services and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Reclassifications – Certain reclassifications have been made to the prior year financial statements in order to conform to the current year presentation.

MONTEREY-SALINAS TRANSIT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

III. OPERATING ASSISTANCE

MST receives allocations of local transportation funds pursuant to the Transportation Development Act of 1971. These funds are generated within Monterey County and are allocated based on annual claims filed by MST and approved by the Transportation Agency for Monterey County (TAMC)

MST also receives allocated federal operating assistance funds pursuant to Sections 5303, 5307 and 5311 of the Federal Transit Act of 1964. Such funds are apportioned to the local urbanized area by the Federal Transit Authority (FTA). Expenditures of federal operating assistance funds are subject to final audit and approval by the FTA.

Operating grant activity for 2012 is summarized as follows:

	Federal Grants	Local Transportation Fund	State Operating Grants	Total
Amount recognized as revenue	\$ 8,381,215	\$ 12,627,446	\$ 2,677,598	\$ 23,686,259
Amount received prior to June 30, 2012	<u>6,615,632</u>	<u>12,627,446</u>	<u>2,677,598</u>	<u>21,920,676</u>
Grants receivable at June 30, 2012	<u>\$ 1,765,583</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,765,583</u>

Operating grant activity for 2011 is summarized as follows:

	Federal Grants	Local Transportation Fund	State Operating Grants	Total
Amount recognized as revenue	\$ 8,418,672	\$ 9,945,000	\$ 2,255,651	\$ 20,619,323
Amount received prior to June 30, 2011	<u>3,721,068</u>	<u>8,839,994</u>	<u>2,255,651</u>	<u>14,816,713</u>
Grants receivable at June 30, 2011	<u>\$ 4,697,604</u>	<u>\$ 1,105,006</u>	<u>\$ -</u>	<u>\$ 5,802,610</u>

MONTEREY-SALINAS TRANSIT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

IV. DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2012 and 2011, consists of the following:

	2012	2011
Cash on hands and in banks	\$ 5,720,190	\$ 2,619,852
Investments in Local Agency Investment Fund	42,400	41,916
	<u>\$ 5,762,590</u>	<u>\$ 2,661,768</u>

Policies and Practices

MST is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations. MST does not have a formal policy related for investments credit risk or interest rate risk.

General Authorizations

Limitations as they relate to interest rate risk and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
Country Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

MONTEREY-SALINAS TRANSIT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. MST does not have significant exposure to interest rate risk because it substantially deposited their cash in money market funds. The LAIF has a maturity of less than one year.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The LAIF is a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee comprised of California State officials and various participants provide oversight to the management of the fund. The daily operations and responsibilities of LAIF fall under the auspices of the State Treasurer's office. MST is a voluntary participant in the investment pool. MST had a contractual withdrawal value that equated to the fair value of its position in the pool.

MONTEREY-SALINAS TRANSIT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, MST's deposits may not be returned to it. MST does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. As of June 30, 2012 and 2011, MST's bank balances of \$5,949,485 and \$2,910,304, respectively, were exposed to custodial credit risk because they were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of MST.

V. CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2012 and 2011, is as follows:

	Beginning Balance July 01, 2011	Additions	Retirements/ Reclassifications	Ending Balance June 30, 2012
Capital assets not depreciated				
Land	\$ 3,426,071	\$ -	\$ -	\$ 3,426,071
Construction in progress	5,584,902	2,644,369	(1,696,490)	6,532,781
Capital assets depreciated				
Buses	32,263,937	1,297,506		33,561,443
Shop, office and other equipment	28,916,554	398,944	(1,813,527)	27,501,971
Totals at historical cost	70,191,464	4,340,819	(3,510,017)	71,022,266
Accumulated depreciation				
Buses	19,797,987	2,920,973		22,718,960
Shop, office and other equipment	20,810,493	1,108,684	(1,813,527)	20,105,650
Total accumulated depreciation	40,608,480	4,029,657	(1,813,527)	42,824,610
Capital assets, net	<u>\$ 29,582,984</u>	<u>\$ 311,162</u>	<u>\$ (1,696,490)</u>	<u>\$ 28,197,656</u>
	Beginning Balance July 01, 2010	Additions	Retirements/ Reclassifications	Ending Balance June 30, 2011
Capital assets not depreciated				
Land	\$ 3,426,071	\$ -	\$ -	\$ 3,426,071
Construction in progress	4,466,271	4,088,025	(2,969,394)	5,584,902
Capital assets depreciated				
Buses	31,727,809	718,736	(182,608)	32,263,937
Shop, office and other equipment	26,815,115	2,250,658	(149,219)	28,916,554
Totals at historical cost	66,435,266	7,057,419	(3,301,221)	70,191,464
Accumulated depreciation				
Buses	17,026,695	2,897,272	(125,980)	19,797,987
Shop, office and other equipment	19,771,060	1,188,652	(149,219)	20,810,493
Total accumulated depreciation	36,797,755	4,085,924	(275,199)	40,608,480
Capital assets, net	<u>\$ 29,637,511</u>	<u>\$ 2,971,495</u>	<u>\$ (3,026,022)</u>	<u>\$ 29,582,984</u>

MONTEREY-SALINAS TRANSIT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

VI. SELF-INSURANCE

MST has self-insurance programs for the following risks:

- Liability to a maximum of \$250,000 per incident, over which coverage is provided to \$500,000 per incident by the California Transit Insurance Pool (CalTIP) (see Note 7), and from \$500,000 to \$5,500,000 per incident coverage is provided by a private carrier through CalTIP.
- Physical damage to a maximum of \$5,000 bus and \$500 for support vehicles per incident, over which coverage is provided to \$100,000 per incident by CalTIP, and from \$100,000 to \$5,000,000 per incident, coverage is provided by a private carrier through CalTIP.
- Workers compensation to a maximum of \$350,000 per incident, over which coverage is provided to \$5,000,000 by a private carrier.

MST does not carry insurance for risks in excess of the above stated limits. There were no settlements that exceeded the insurance coverage in the past three years.

Estimated self-insurance liabilities are based on the results of actuarial valuations and include amounts for claims incurred but not reported. Estimated self-insurance liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economics social factors.

Expenses related to such self-insurance risks are classified on the statement of revenues and expenses as salaries and benefits for workers compensation and insurance expense for general liability and physical damage.

Changes in the balance of estimated self-insurance liabilities between the fiscal years ended June 30, 2010 through 2012 are approximately as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Estimated self-insurance liabilities, beginning of year	\$ 981,300	\$ 1,856,820	\$ 2,205,392
Current year claims and changes in estimates	147,170	88,159	466,175
Claim payments and administration	<u>(487,253)</u>	<u>(963,679)</u>	<u>(814,747)</u>
Estimated self-insurance liabilities, end of year	<u>\$ 641,217</u>	<u>\$ 981,300</u>	<u>\$ 1,856,820</u>

MONTEREY-SALINAS TRANSIT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

VII. CALTIP JOINT POWERS AGREEMENT

MST participates in the California Transit Insurance Pool (CalTIP), a joint powers agreement created to provide liability and physical damage insurance to its members through an insurance pool. MST paid premiums to CalTIP of approximately \$243,083 and \$179,565 in the fiscal years ended June 30, 2012 and 2011, respectively.

Condensed financial information of CalTIP (prepared using the accrual basis of accounting) for the year ended April 30, 2012 (most recent available information) is as follows:

	<u>Audited</u>
Current assets	\$ 10,703,815
Noncurrent assets	16,760,316
Total Assets	<u>\$ 27,464,131</u>
Current liabilities	\$ 9,028,591
Noncurrent liabilities	3,998,506
Net assets	14,437,034
Total liabilities and equity	<u>\$ 27,464,131</u>
Total revenues	\$ 5,284,303
Total expenses	(6,129,880)
Net income	<u>\$ (845,577)</u>

MONTEREY-SALINAS TRANSIT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

VIII. COMPENSATED ABSENCES

Accumulated unpaid personal leave, consisting of vacation, holiday and sick pay, have been accrued at June 30, 2012 and 2011 in the amounts of \$1,102,898 and \$1,023,000, respectively. MST's liability for compensated absences typically is liquidated within one year. MST accrued \$1,590,693 and paid \$1,510,795 during fiscal year 2011-2012.

IX. EMPLOYEES' RETIREMENT PLAN

Plan Description

MST contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating entities within the State of California. The benefits for the public agencies are established by contract with CalPERS in accordance with the provisions of the Public Employees Retirement Law.

CalPERS issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for CalPERS. A copy of that report may be obtained by writing to CalPERS, Central Supply, P.O. Box 942715, Sacramento, CA 94229-2715.

Funding Policy

Employees are required to contribute 7% of covered salary to CalPERS. MST is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by the CalPERS Board of Administration. For the fiscal years ended June 30, 2012, 2011 and 2010 the employer contribution rate was 9.093%, 10.707% and 7.916%, respectively. MST, as part of its compensation to employees, pays the employees' contributions.

Annual Pension Cost

For the fiscal years ended June 30, 2012, 2011 and 2010, MST's annual pension cost of \$1,727,738, \$1,639,201 and \$1,591,139 respectively for CalPERS was equal to MST's required and actual contributions. The required contribution was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return, and (b) projected salary increases that vary by duration of service. Both (a) and (b) included an inflation component of 3.00% and an amortization of the UAAL on a rolling 30 year amortization basis. The actuarial value of MST's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

MONTEREY-SALINAS TRANSIT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

Three-Year Trend Information

Fiscal Year End	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/12	\$ 1,727,738	100%	\$ -
6/30/11	\$ 1,639,201	100%	\$ -
6/30/10	\$ 1,591,139	100%	\$ -

Funding Status and Progress

As of June 30, 2010, the recent actuarial valuation date the plan was 98.7% funded. The actuarial accrued liability was \$43,763,858 and the actuarial value of assets was \$43,215,008. The schedule of funding progress is presented in the required supplementary information following the notes to the financial statements. The following schedule shows the status of the plan for the most recent actuarial valuation:

Actuarial * Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (Entry Age Normal)	Unfunded (Overfunded) Actuarial Accrued Liability (OAAL)	Funded Status	Annual Covered Payroll	Unfunded (OAAL) as a Percentage Covered Payroll
6/30/10	\$ 43,215,008	\$43,763,858	\$ (548,850)	-1.3%	\$ 12,157,510	4.51%

REQUIRED SUPPLEMENTARY INFORMATION

MONTEREY-SALINAS TRANSIT

**MISCELLANEOUS PLAN OF THE
CALIFORNIA PUBLIC EMPLOYEE-RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2012**

Actuarial * Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (Entry Age Normal)	Unfunded (Overfunded) Actuarial Accrued Liability (OAAL) UAAL	Funded Status	Annual Covered Payroll	Over funded/ Unfunded (OAAI UAAL as a Percentage Covered Payroll
6/30/10	\$ 43,215,008	\$43,763,858	\$ (548,850)	-1.3%	\$12,157,510	4.51%
6/30/09	40,416,306	40,453,371	(37,065)	-0.1%	10,196,575	0.36%
6/30/08	37,873,587	36,103,257	1,770,330	4.9%	10,078,335	-17.57%

* Most recent information available

OTHER SUPPLEMENTAL INFORMATION

MONTEREY-SALINAS TRANSIT

CONSOLIDATING SCHEDULE OF NET ASSETS BY PROGRAM JUNE 30, 2012

ASSETS	FIXED-ROUTE BUS SERVICE	RIDES	TOTAL
CURRENT ASSETS:			
Cash and investments	\$ 5,753,950	\$ 8,640	\$ 5,762,590
Operating grants receivable	1,765,583	781,256	2,546,839
Capital grants receivable	94,650	-	94,650
Materials and supplies, at cost	312,003	-	312,003
Prepaid expenses	57,837	9,196	67,033
Other receivables	527,320	-	527,320
Inter-program receivable	649,749	(649,749)	-
Total current assets	<u>9,161,092</u>	<u>149,343</u>	<u>9,310,435</u>
PROPERTY, PLANT AND EQUIPMENT:			
Land	3,426,071	-	3,426,071
Buses	31,794,355	1,767,088	33,561,443
Shop, office and other equipment	27,159,162	342,809	27,501,971
Total	<u>62,379,588</u>	<u>2,109,897</u>	<u>64,489,485</u>
Accumulated depreciation	(41,251,642)	(1,572,968)	(42,824,610)
Construction in progress	6,532,781	-	6,532,781
Property, plant and equipment - net	<u>27,660,727</u>	<u>536,929</u>	<u>28,197,656</u>
TOTAL ASSETS	<u>36,821,819</u>	<u>686,272</u>	<u>37,508,091</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	1,730,528	-	1,730,528
Accrued liabilities	2,058,701	-	2,058,701
Current portion of self-insurance liabilities	14,217	-	14,217
NONCURRENT LIABILITIES			
Self-insurance liabilities	627,000	-	627,000
TOTAL LIABILITIES	<u>4,430,446</u>	<u>-</u>	<u>5,057,446</u>
NET ASSETS:			
Invested in capital assets net of related debt	27,660,727	536,929	28,197,656
Unrestricted	4,730,646.0	149,343.0	4,879,989
TOTAL NET ASSETS	<u>\$ 32,391,373</u>	<u>\$ 686,272</u>	<u>\$ 33,077,645</u>

MONTEREY-SALINAS TRANSIT

CONSOLIDATING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS BY PROGRAM YEAR ENDED JUNE 30, 2012

	FIXED-ROUTE BUS SERVICE	RIDES	TOTAL
REVENUES:			
Fares	\$ 7,517,060	\$ 342,332	\$ 7,859,392
Operating assistance:			
Federal grants	8,381,215	-	8,381,215
Local and state grants	12,835,519	2,469,525	15,305,044
Interest income	24,396	-	24,396
Other	250,863	-	250,863
Total	<u>29,009,053</u>	<u>2,811,857</u>	<u>31,820,910</u>
EXPENSES:			
Salaries and benefits	18,318,013	61,933	18,379,946
Professional and technical services	1,423,235	19,375	1,442,610
Materials and supplies	5,612,092	6,889	5,618,981
Utilities	292,785	-	292,785
Insurance	354,009	-	354,009
Taxes	228,903	-	228,903
Purchased transportation	3,476,737	2,613,005	6,089,742
Other	710,758	2,908	713,666
Total	<u>30,416,532</u>	<u>2,704,110</u>	<u>33,120,642</u>
EXCESS OF EXPENSES BEFORE CAPITAL AND FINANCING ITEMS OVER REVENUES	<u>(1,407,479)</u>	<u>107,747</u>	<u>(1,299,732)</u>
INCOME (EXPENSE) FROM CAPITAL AND RELATED FINANCING			
Gain on disposal of assets	12,098	-	12,098
Capital contributions	3,689,357	(21,540)	3,667,817
Depreciation	(3,755,360)	(274,298)	(4,029,658)
Total	<u>(53,905)</u>	<u>(295,838)</u>	<u>(349,743)</u>
CHANGE IN NET ASSETS	<u>\$ (1,461,384)</u>	<u>\$ (188,091)</u>	<u>\$ (1,649,475)</u>

MONTEREY-SALINAS TRANSIT

CONSOLIDATING SCHEDULE OF CASH FLOWS BY PROGRAM YEAR ENDED JUNE 30, 2012

	FIXED ROUTE BUS SERVICE	RIDES	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from fares	\$ 7,517,060	\$ 342,332	\$ 7,859,392
Payments to employees	(17,955,533)	(61,933)	(18,017,466)
Payments to vendors for services	(10,748,374)	(1,846,276)	(12,594,650)
Payments for insurance claims and premiums	(474,574)	(9,196)	(483,770)
Other	391,311	(10,979)	380,332
	<u>(21,270,110)</u>	<u>(1,586,052)</u>	<u>(22,856,162)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Operating assistance received	<u>23,208,736</u>	<u>1,688,267</u>	<u>24,897,003</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital grant funds received	3,689,357	(21,540)	3,667,817
Purchases of property, plant and equipment net of depreciation	<u>(2,551,557)</u>	<u>(80,675)</u>	<u>(2,632,232)</u>
Net cash used by capital and related financing activities	<u>1,137,800</u>	<u>(102,215)</u>	<u>1,035,585</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	<u>24,396</u>	<u>-</u>	<u>24,396</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	3,100,822	-	3,100,822
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>2,653,128</u>	<u>8,640</u>	<u>2,661,768</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 5,753,950</u>	<u>\$ 8,640</u>	<u>\$ 5,762,590</u>

MONTEREY-SALINAS TRANSIT

**BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts	Actual	Variances Favorable (Unfavorable)
REVENUES:			
Fares	\$ 8,287,151	\$ 7,859,392	\$ (427,759)
Operating assistance:			
Federal grants	8,126,608	8,381,215	254,607
Local and State grants	13,938,329	15,305,044	1,366,715
Interest	76,350	24,396	(51,954)
Other income	175,000	250,863	75,863
Total revenues	<u>30,603,438</u>	<u>31,820,910</u>	<u>1,217,472</u>
EXPENSES:			
Salaries and benefits	18,102,251	18,379,946	(277,695)
Professional and technical services	1,126,210	1,442,610	(316,400)
Materials and supplies	4,801,416	5,618,981	(817,565)
Utilities	258,160	292,785	(34,625)
Insurance	268,083	354,009	(85,926)
Taxes	168,000	228,903	(60,903)
Purchased transportation	5,570,904	6,089,742	(518,838)
Other	308,414	713,666	(405,252)
Total expenses	<u>30,603,438</u>	<u>33,120,642</u>	<u>(2,517,204)</u>
Excess of revenues over expenses	<u>-</u>	<u>(1,299,732)</u>	<u>(1,299,732)</u>
INCOME (EXPENSE) FROM CAPITAL AND RELATED FINANCING			
Loss on disposal of fixed assets	-	12,098	12,098
Depreciation	-	(4,029,658)	(4,029,658)
Capital contributions	-	3,667,817	3,667,817
Total	<u>-</u>	<u>(349,743)</u>	<u>(349,743)</u>
CHANGE IN NET ASSETS	-	(1,649,475)	(1,649,475)
NET ASSETS, Beginning	<u>34,727,120</u>	<u>34,727,120</u>	<u>-</u>
NET ASSETS, Ending	<u>\$ 34,727,120</u>	<u>\$ 33,077,645</u>	<u>\$ (1,649,475)</u>

STATISTICAL

Financial Trends

- Changes in Net Assets
- Net Assets

Revenue Capacity

- Fixed Route Transportation – Ridership
- Fixed Route Transportation – Bus Passenger Fares
- Revenue Base
- Revenue Rate

Debt Capacity

- Outstanding Debt
- Per Capita Debt
- Pledged Revenue Coverage

Demographic and Economic Indicators

- Population
- Total Personal Income
- Per Capita Personal Income
- Unemployment Rates
- Principal Employers

Operating Information

- Fixed-Route Service
- RIDES
- Employees
- Fixed-Route Fares
- Fleet Information
- Capital Assets

STATISTICAL SECTION

The Statistical Section of MST's CAFR presents detailed information as a context for understanding the information in the financial statement, notes disclosure and supplementary information for assessing MST's economic condition.

Financial Trends

These schedules contain trend information to assist readers in understanding and assessing how MST's financial position has changed over time.

Revenue Capacity Information

These schedules contain information to assist readers in understanding and assessing the factors affecting MST's ability to generate passenger fares.

Debt Capacity

These schedules assist readers in understanding and assessing MST's debt burden and its ability to issue future debt.

Demographic and Economic Information

These schedules present socioeconomic indicators to assist readers in understanding the environment within which MST's financial activities take place.

Operating Information

These schedules contain contextual information about MST's operations and resources to assist readers in using financial statement information to understand and assess MST's economic condition.

MONTEREY-SALINAS TRANSIT

FINANCIAL TRENDS – TEN-YEAR COMPARISON - Fiscal Year 2003 through Fiscal Year 2012 (In thousands)

<i>Fiscal year</i>	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Passenger Fares	\$ 4,729	\$ 4,835	\$ 4,787	\$ 5,817	\$ 6,448	\$ 6,745	\$ 7,409	\$ 6,989	\$ 8,018	\$ 7,859
Operating Expenses	17,705	18,262	18,960	21,030	22,763	24,405	26,313	27,515	31,613	33,120
Depreciation Expense	3,446	4,381	4,557	4,729	5,379	4,234	4,225	4,112	4,086	4,029
Operating Loss	(16,422)	(17,808)	(18,730)	(19,942)	(21,694)	(21,894)	(23,129)	(24,638)	(27,681)	(29,290)
<i>Nonoperating Revenues (Expenses)</i>										
Federal Funds	4,872	5,709	5,384	5,977	6,391	7,340	8,125	10,156	8,419	8,679
Local Transportation Funds	7,697	7,605	8,494	8,926	9,634	9,742	9,692	12,405	12,544	15,007
Interest Expense	(1,014)	(603)	(540)	(477)	(179)	(1,644)	(378)	-	-	-
Gain (or loss) on disposal of asset	-	(1,467)	-	-	-	1	-	(7)	(5)	12
Interest Income	56	41	47	97	110	403	182	166	89	24
Other Income	351	72	248	213	179	175	235	130	208	251
Total Nonoperating	11,962	11,357	13,633	14,736	16,135	16,017	17,856	22,850	21,255	23,973
Net Income (Loss)	(4,460)	(6,451)	(5,097)	(5,206)	(5,559)	(5,877)	(5,273)	(1,788)	(6,426)	(5,317)
Capital Contributions	4,541	3,492	2,269	5,151	6,728	15,235	7,257	3,875	2,705	3,668
Special Items	-	-	-	-	-	-	-	5,246	1,048	-
Change in Net Assets	\$ 81	\$ (2,959)	\$ (2,828)	\$ (55)	\$ 1,169	\$ 9,358	\$ 1,984	\$ 7,333	\$ (2,673)	\$ (1,649)
<i>Net Asset Component</i>										
Invested in capital assets, net of related debt	\$23,209	\$ 19,628	\$ 17,595	\$ 16,835	\$ 16,517	\$ 22,765	\$ 27,251	\$ 29,638	\$ 29,583	\$ 28,198
Unrestricted	189	811	16	721	2,208	5,318	2,816	7,762	5,144	4,880
Net Assets, End of year	\$23,398	\$ 20,439	\$ 17,611	\$ 17,556	\$ 18,725	\$ 28,083	\$ 30,067	\$ 37,400	\$ 34,727	\$ 33,078

Source: MST's comprehensive annual financial reports (CAFR)

This table shows our operating revenues and expenses, non operating revenues and expenses, contributions, depreciation as well as restrictions of our net assets.

MONTEREY-SALINAS TRANSIT

REVENUE CAPACITY

Fiscal Year 2003 through Fiscal Year 2012

Fares are in thousands	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Passenger Fares	\$ 4,729	\$ 4,835	\$ 4,787	\$ 5,817	\$ 6,448	\$ 6,745	\$ 7,409	\$ 6,989	\$ 8,018	\$ 7,859
Number of Passengers	4,794	4,693	4,805	4,858	4,959	4,743	4,512	4,249	4,477	4,449
Fare Structure										
Full fare: Adult	\$ 1.75	\$ 1.75	\$ 1.75	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.50	\$ 2.50	\$ 2.50	\$1.50-\$3.50
Discount fare: Senior, Youth & Disabled	\$ 0.85	\$ 0.85	\$ 0.85	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.10	\$ 1.25	\$1.50-1.50	\$.75-1.75
Transfers	\$ -	\$ -	\$ -	\$ -	\$0.25/.10	\$0.25/.10	\$0.25/.10	\$0.25/.10	\$ -	\$ -

Source: MST's Business Service Department

This table shows passenger fares, number of passengers and each revenue fare structure at MST. MST does not have major revenue payers as most of the revenues are derived from passenger fares.

MONTEREY-SALINAS TRANSIT

DEBT CAPACITY

Fiscal Year 2003 through Fiscal Year 2012

Monterey-Salinas Transit financed its first long-term debt in fiscal year 2003 in the form of a 10-year lease obligation for the purchase of 46 buses and trolleys. There were no long-term obligations associated with capital assets in 2003. In 2009, MST fully paid off its bus lease obligations

	2004	2005	2006	2007	2008
Ratio of outstanding debt:					
As a percent of Personal Income (2006 and 2007 based on 2005 income)	0.10%	0.10%	0.10%	0.10%	0.05%
Per Capita (Monterey County)	\$ 28.53	\$ 25.03	\$ 21.65	\$ 34.09	\$ 17.53
Pledged Revenue Coverage					
Available Revenue - Federal and Local Grants	\$ 5,716,716	\$ 5,604,054	\$ 5,899,664	\$ 11,894,042	\$ 6,172,905
Debt Service					
Principal	\$ 1,311,432	\$ 1,372,988	\$ 1,437,434	\$ 1,735,294	\$ 1,892,723
Interest	603,115	540,247	477,113	179,253	737,791
Total	\$ 1,914,547	\$ 1,913,235	\$ 1,914,547	\$ 1,914,547	\$ 2,630,514
Coverage	2.99	2.93	3.08	6.21	2.35

Source: County of Monterey and MST's comprehensive annual financial reports

This table shows the ability of MST to issue debt based on the total federal revenue pledged to meet this debt. This table also shows MST's total debt based on the mean personal income for Monterey County.

MST does not have any overlapping debt with any other government. Additionally, MST does not have any legal debt limitation.

MONTEREY-SALINAS TRANSIT

DEMOGRAPHIC AND ECONOMIC INDICATORS Fiscal Year 2002 through Fiscal Year 2012

<i>Fiscal Year</i>	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Service Area Population											
(In thousands)	414	420	421	421	421	424	429	434	438	420	*
Total Personal Income											
(In millions)	\$12,676	\$13,381	\$14,096	\$14,654	\$15,774	\$16,694	NA	NA	\$16,969	*	*
Per Capita Personal Income											
	\$30,931	\$32,527	\$34,362	\$36,014	\$39,053	\$41,256	\$42,506	\$41,735	\$40,754	NA	NA
Unemployment Rate	8.90%	9.00%	8.30%	7.30%	6.90%	7.10%	8.40%	11.70%	12.70%	12.90%	11.10%

* Information is not available.

Source: State Employment Development Department and County of Monterey

<u>Principal Industry</u>	<u>Employees in 2010</u>	<u>% of Total Employment</u>	<u>Employees in 2009</u>	<u>% of Total Employment</u>
Farming / Agriculture	45,900	27.40%	45,100	27.10%
Mining / Logging	200	0.10%	200	0.10%
Construction	3,900	2.30%	4,100	2.50%
Manufacturing	5,600	3.30%	5,600	3.40%
Trade, Transportation & Utilities	24,000	14.30%	23,500	14.10%
Information	1,600	1.00%	1,700	1.00%
Financial Activities	4,200	2.50%	4,300	2.60%
Professional & Business Services	11,800	7.00%	11,500	6.90%
Education & Health Services	13,600	8.10%	13,400	8.00%
Leisure & Hospitality	20,400	12.20%	20,000	12.00%
Other Services	4,600	2.70%	4,600	2.80%
Government	31,700	18.90%	32,600	19.60%
TOTAL	167,500	100.00%	166,600	100.00%

Source: State of California Employment Development Department.

MONTEREY-SALINAS TRANSIT

OPERATING INFORMATION – MISCELLANEOUS INFORMATION

Fiscal Year 2003 through Fiscal Year 2012

<i>Fiscal year</i>	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Fixed-Route Service:*										
Net Cost/Passenger	\$ 3.34	\$ 3.59	\$ 3.60	\$ 4.05	\$ 4.35	\$ 4.87	\$ 5.73	\$ 5.94	\$ 6.53	\$ 6.83
Net Cost/Vehicle Mile	5.09	5.76	5.82	6.72	6.54	6.82	6.94	6.53	6.90	6.96
Net Cost/Service Hour	74.35	83.99	86.66	98.06	101.73	107.25	112.01	105.16	110.58	114.10
RIDES:*										
Net Cost/Passenger	\$20.67	\$24.76	\$28.33	\$24.85	\$22.43	\$21.39	\$20.22	\$24.60	\$ 28.21	\$ 23.20
Net Cost/Vehicle Mile	2.54	2.99	3.04	2.55	2.32	2.24	2.22	2.65	2.91	2.54
Net Cost/Service Hour	52.03	60.50	51.85	45.03	40.71	40.50	39.25	46.55	53.45	44.38
Employees:										
Administration	28	27	27	27	26	26	30	24	22	24
Facilities	6	5	5	5	5	5	6	6	6	6
Operations	154	152	150	149	147	147	167	160	173	173
Maintenance	33	33	32	32	32	32	36	38	39	41
Total	220	218	214	213	211	211	239	228	240	244
Fixed-Route Fares:										
Full	\$ 1.75	\$ 1.75	\$ 1.75	\$ 2.00	\$ 2.00	\$ 2.00	\$ 2.50	\$ 2.50	\$1.00-\$3.00	\$1.50-\$3.50
Senior/Disabled	\$ 0.85	\$ 0.85	\$ 0.85	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.25	\$ 1.25	\$0.50-\$1.50	\$0.75-\$1.75
Fleet Information:										
Standard Coaches	79	95	99	99	99	97	97	103	113	113
RIDES Vehicles	22	24	25	20	22	29	26	29	31	32
Total Revenue Vehicles	101	119	124	119	121	126	123	132	144	145

* Excludes Depreciation

This table shows information about our costs to provide services to our customers. We also show in this table the total number of employees as well as information about our fleet.

MONTEREY-SALINAS TRANSIT

OPERATING INFORMATION – CAPITAL ASSETS

Fiscal Year 2003 through Fiscal Year 2012

<i>Fiscal year</i>	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Capital Assets Not Being Depreciated										
Land	\$ 976	\$ 976	\$ 976	\$ 976	\$ 976	\$ 3,426	\$ 3,426	\$ 3,426	\$ 3,426	\$ 3,426
Construction in progress	20,736	2,711	3,180	4,029	6,647	165	1,281	4,466	5,584	6,532
Total Capital Assets Not Being Depreciated	21,712	3,687	4,156	5,005	7,623	3,591	4,707	7,892	9,010	9,958
Other Capital Assets										
Buses	20,668	28,650	28,584	29,311	29,493	35,629	36,417	31,727	32,264	33,561
Shop, office and other equipment	14,762	18,458	17,493	18,178	18,330	25,206	25,839	26,815	28,916	27,501
Total Capital Assets Being Depreciated	35,430	47,108	46,077	47,489	47,823	60,835	62,256	58,542	61,180	61,062
Less Accumulated Depreciation For:*										
Buses	(9,497)	(8,046)	(10,175)	(12,935)	(15,780)	(15,781)	(18,585)	(17,026)	(19,798)	(22,718)
Shop, office and other equipment	(11,114)	(11,110)	(11,825)	(13,523)	(15,485)	(19,707)	(21,126)	(19,771)	(20,810)	(20,105)
Total Accumulated Depreciation	(20,611)	(19,156)	(21,999)	(26,458)	(31,265)	(35,488)	(39,711)	(36,797)	(40,608)	(42,823)
Capital Assets, Net	\$ 36,531	\$ 31,639	\$ 28,234	\$ 26,036	\$ 24,181	\$ 28,938	\$ 27,252	\$ 29,637	\$ 29,582	\$ 28,197

Source: MST's comprehensive annual financial reports

This table shows the total non-depreciable capital assets, total depreciable capital assets and total accumulated depreciation.

Section IV

SINGLE AUDIT

- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- Independent Auditor's Compliance Report Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and the Transportation Development Act
- Independent Auditor's Report on Compliance with the Requirements That Could Have a Direct and Material Effect on Each Major Federal Award Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
- Schedule of Expenditures of Federal Awards
- Summary of Auditor's Results
- Summary of Financial Statement Findings

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

The Board of Directors
Monterey-Salinas Transit

We have audited the financial statements of the Monterey-Salinas Transit as of June 30, 2012, and have issued our report thereon, dated December 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

The management of Monterey-Salinas Transit is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Monterey-Salinas Transit's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Monterey-Salinas Transit's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Monterey-Salinas Transit's internal control over financial reporting.

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management, and others within MST and officials of applicable state grantor agencies and is not intended to be, and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 28, 2012

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS* AND THE TRANSPORTATION DEVELOPMENT ACT

To the Board of Directors
Monterey-Salinas Transit

We have audited the financial statements, of Monterey-Salinas Transit (MST) as of June 30, 2012, and for the year then ended, and have issued our report thereon dated December 28, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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.

Compliance with laws, regulations, contracts and grants applicable to MST is the responsibility of the management of MST. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of MST's compliance with certain provisions of the Transportation Development Act including Public Utilities Code Section 99245 as enacted and amended by statute through June 30, 2012 and the allocation instructions and resolutions of the Transportation Agency for Monterey County as required by Section 6667 of the California Administrative Code. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The result of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* and the standards referred to in the second and third paragraphs.

This report is intended solely for the information and use of the Board of Directors, management, and others within MST and officials of applicable state grantor agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 28, 2011

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

The Board of Directors
Monterey-Salinas Transit

Compliance

We have audited the compliance of Monterey-Salinas Transit with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each its major federal programs for the year ended June 30, 2012. The Monterey-Salinas Transit's major federal programs are identified in the Schedule of Expenditures of Federal Awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Monterey-Salinas Transit's management. Our responsibility is to express an opinion on Monterey-Salinas Transit's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Monterey-Salinas Transit's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Monterey-Salinas Transit's compliance with those requirements.

In our opinion, the Monterey-Salinas Transit complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of Monterey-Salinas Transit is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Monterey-Salinas Transit's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133, but not for purposes of expressing an opinion on the effectiveness of the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Monterey-Salinas Transit's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Board of Directors, management, and others within MST and officials of applicable state grantor agencies and is not intended to be, and should not be, used by anyone other than these specified parties

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 28, 2012

MONTEREY-SALINAS TRANSIT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

<u>Grantor/CFDA Grantor's Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF TRANSPORTATION		
Direct Grants		
Federal Transit Capital and Operating Assistance Formula Grant: ^[1]		
Operating		
CA95-0067	20.507	\$ 24,348
CA90-4926	20.507	54,170
CA90-4951	20.507	6,480,954
Total Operating		<u>6,559,472</u>
Capital		
CA030-814	20.500	251,567
CA030-649	20.500	236,602
Total Capital		<u>488,169</u>
Total Federal Transit Capital and Operating Assistance Formula Grant		<u>7,047,641</u>
Passed Through California Department of Transportation:		
Nonurbanized Area Formula Grants- Section 5311 ^[1]	20.509	961,941
Transit Service Program Cluster: ^[1]		
Job Access- Reverse Commute Grant	20.516	190,050
New Freedom Program	20.521	254,881
Capital Assistance Program for Elderly or Persons with Disabilities	20.513	16,245
Total Transit Service Program Cluster		<u>461,176</u>
Total Passed Through California Department of Transportation		<u>1,423,117</u>
TOTAL FEDERAL ASSISTANCE EXPENDED		<u>\$ 8,470,758</u>

^[1] Tested as a major program

MONTEREY-SALINAS TRANSIT

SUMMARY OF AUDITOR'S RESULTS YEAR ENDED JUNE 30, 2012

Part I – Summary of Auditor's Results

1. The independent auditor's report on the financial statements expressed an unqualified opinion.
2. Significant deficiencies in internal control over financial reporting – None.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. Significant deficiencies in internal control over compliance with requirements applicable to major federal awards programs – None.
5. The independent auditor's report on compliance with requirements that could have a direct and material effect on each major federal award programs expressed an unqualified opinion.
6. The audit disclosed no findings required to be reported by OMB Circular A-133.
7. The Organization's major programs were:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Federal Transit Capital and Operating Assistance Formula Grant	20.507, 20.500
Nonurbanized Area Formula Grants	20.509
Job Access Reverse Commute Grant, New Freedom Program, and Capital Assistance Program for Elderly or Persons with Disabilities Cluster	20.516, 20.521, 20.513

8. A threshold of \$300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
9. MST qualified as a low risk auditee as that term is defined in OMB Circular A-133.

MONTEREY-SALINAS TRANSIT

**SUMMARY OF FINANCIAL STATEMENT FINDINGS
YEAR ENDED JUNE 30, 2012**

Part II – Financial Statement Findings Section

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
No matters are reportable		

Part III – Federal Award Findings and Questioned Cost Section

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
No matters are reportable		

Part IV – Status of Prior Period Audit Findings

<u>Reference Number</u>	<u>Findings</u>	<u>Questioned Costs</u>
No matters were reported		

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