COMPREHENSIVE ANNUAL FINANCIAL REPORT

Monterey, California

FOR THE FISCAL YEARS ENDING JUNE 30, 2016 AND 2015

Celebrating 125 Years of Public Transit in Monterey County

MST
MONTEREY-SALINAS TRANSIT

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MONTEREY-SALINAS TRANSIT

Monterey, California

Comprehensive Annual Financial Report

For The Fiscal Years Ended

June 30, 2016 and 2015

Prepared by the Accounting Department

Andrea Williams, General Accounting & Budget Manager

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 19, 2016

Comprehensive Annual Financial Report (CAFR)
Years Ended June 30, 2016 and 2015

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, 2016 and 2015. 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 years ended June 30, 2016 and 2015, Vavrinek, Trine, Day & Co. LLP, expressed an opinion that the statements are fairly stated in all material respects 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 "unmodified" 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

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, 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. 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, Aptos, and Santa Cruz in Santa Cruz County and Gilroy, Morgan Hill and San Jose in Santa Clara County, as well as south to San Miguel, Paso Robles, and Templeton in northern San Luis Obispo County. 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 paratransit service for patrons with mobility impairment that had been previously operated by the County government. Over the years, MST's service area has expanded to what is as of fiscal year 2016 approximately 294 square miles.

MST has received recognition as a leader in the public transit field with numerous awards. MST programs and individuals have been honored by the American Public Transportation Association, the Transportation Agency for Monterey County (the transportation-planning agency for Monterey County), 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, the Monterey Bay Aquarium, and the 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

MST 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 seniors and persons with disabilities) 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 major objectives and initiatives from fiscal year 2016 include the following:

- Introduce replacement buses into the fleet; retire vehicles that have reached the end of their useful operating life.
- Select alternative site(s) and finalize a long-term strategy for financing and construction of expanded transit administration, operations and maintenance facilities.
- Complete design and permitting of Monterey operations and maintenance facility rehabilitation.
- Complete an implementation plan for the recently approved local dedicated transit funding source (Measure Q 1/8% sales tax for transit).

__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; 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; oversight of MST's mobility management programs for seniors and persons with disabilities.

Service Delivery Network
At the end of fiscal year 2016, the MST fixed-route bus system consisted of sixty routes: thirty-five operated by MST personnel, twenty-four routes operated by MV Transportation, Incorporated, and one route – the MST Trolley – operated by both MST and MV. In fiscal year 2016, vehicles on these routes system-wide traveled approximately 4,599,434 miles and carried 4,291,955 passengers. RIDES, MST's paratransit service, transported approximately 114,829 mobility impaired patrons during fiscal year 2016 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 40^{th} 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. This ridership slide continued into fiscal year 2013 as the economy struggled to recover, especially in the Salinas area. Encouragingly, fiscal year 2014 saw a nearly 5% increase ridership, rebounding above 4.2 million annual boardings. Further solidifying this trend, ridership increased again in 2015 by 1.6% and by another 1.7% in 2016. With many transit agencies across the nation seeing ridership eroding due to prolonged low fuel costs and other factors, MST is bucking that trend with modest yet steady growth in passengers carried.

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, California International Airshow, the Monterey Symphony, the Salinas Holiday Parade of Lights, the Monterey Bay Aquarium, and First Night festivities on New Year's Eve. MST buses also travel to Big Sur (daily during the summer months – on weekends during the remainder of the year), where visitors can observe the natural beauty of the region. During its four-plus decades of operations, MST has provided transportation to special internationally recognized 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 the 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 2016, MST implemented further expansions in transit services for CSUMB students, faculty, and staff, and operated the longest public transit route in the nation, with daily bus service between King City and San Jose Mineta International Airport and Diridon Train Station – approximately 120 miles, or the equivalent of the distance between Washington DC to Philadelphia. Most importantly, MST started receiving revenues from Measure Q – a 1/8% local sales tax to support transit services for seniors, veterans, and persons with disabilities – approved by an overwhelming 72.54% margin in November of 2014. These new local funds, which flowed to MST for the entire fiscal year, have provided financial stability for the agency for the first time in many years, despite funding uncertainties at the federal and/or state levels.

Special Projects and New Programs

In April, MST celebrated 125 years of public transportation in Monterey County. MST can trace its history back to the Monterey and Pacific Grove Street Railway system, whose 1891 inaugural trip using a horse-drawn streetcar included President Benjamin Harrison among other local dignitaries. With the responsibility of providing public transportation shifting from private enterprise to a governmental agency over 40 years ago, 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:

Frank J. Lichtanski Administration Building

MST's headlining accomplishment in FY 2016 was the acquisition of 14,000 square feet of office space to house the administrative staff and board of directors meetings. Split among two floors of an office condominium at 19 Upper Ragsdale Drive in Monterey, approximately 20 staff members work upstairs in 10,000 square feet of offices, while the MST Information Technology staff share a 3,000 square foot space on the first floor with the new MST Board of Directors meeting room. Little more than new carpet and a fresh coat of paint were required for the upstairs offices, which had previously been occupied by a law firm. However, on the first floor, major tenant improvements were required to carve out the meeting room, which is now spacious enough to comfortably accommodate all 13 directors of the MST Board as well as members of the public and staff who wish to attend our monthly meetings.

MONTEREY-SALINAS TRANSIT

MST Operations & Maintenance Facility Expansion and Remodel Project
Moving the administrative staff out of the One Ryan Ranch Road facility and into the new Frank J. Lichtanski Administration Building will allow the $20 million reconstruction and expansion project to move forward. This unprecedented project for MST will create new maintenance bays, expanded bus parking capacity, and new driver and mechanic areas for rest breaks, exercise and training. Areas at the One Ryan Ranch Road facility formerly occupied by administrative staff will be transformed into maintenance shops and parts rooms, while a second floor will be added to house additional office space and a new state-of-the-art communications center, complete with a bird's eye view of the bus yard. During FY 2016, design and engineering was completed and all permits secured for construction, which is expected to begin in January 2017.

South County Bus Operations & Maintenance Facility
With the continued expansion of MST's bus service in southern Monterey County and northern San Luis Obispo County, MST has identified a need for a satellite bus maintenance and operations facility in the southern part of the county. Currently, MST dispatches buses from Monterey and Salinas to travel – often empty – to the southern reaches of its service area to begin their routes. Having a bus facility in South County could save substantial labor and fuel costs, not to mention reduce the amount of greenhouse gases produced by the MST fleet. To that end, MST staff evaluated several potential parcels in South County and, with the authorization of the Board of Directors, purchased a 4.8-acre tract in an industrial park in King City. In addition, staff began working with the US Department of Agriculture to secure low-interest financing from its Community Facilities program, which is designed to build public buildings and other infrastructure in rural areas with populations of less than 20,000. If successful in securing the financing, the MST South County Bus Operations & Maintenance Facility would be the first public transit facility financed and built through the USDA's Community Facilities program.

MST Military Partnerships
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. 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. These unique partnerships have been funded by the military through the Department of Transportation transit benefit program and provide meaningful congestion reduction on the streets leading to NPS and the Presidio of Monterey and at each facility's limited parking areas. Further expansion of MST's military partnerships occurred in fiscal year 2013, with the addition of Sunday 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. While similar to MST's Naval Postgraduate School and Presidio of Monterey programs, the Fort Hunter Liggett partnership is funded through both the federal transit benefit as well as through Federal Transit Administration Section 5311(f) rural intercity transportation grants, which are unique to this service in extreme southern Monterey County. After years of uncertain funding of the federal transit benefit program, in December 2015 Congress finally made the program permanent at an amount that will make these partnerships financially feasible into the future. In addition, staff from both MST and the US Army redoubled efforts to increase participation in the program among enlisted personnel at the Presidio, further stabilizing the partnerships.

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, as well as connections off campus to Marina, Seaside, Sand City and downtown Monterey, especially late at night on Fridays and Saturdays. After more than doubling its financial support for public transit to the campus in FY 2015, CSUMB continued its robust funding level, enabling the unprecedented expansion in bus service in and around the university to continue, adding an additional bus line to downtown Monterey and Del Monte Shopping Center on weekends for the benefit of students living on campus. At Hartnell Community College, the Associated Student Senate continues to fund a free fare zone at the Central Salinas campus through student activity fees and has expanded the zone to include its new Alisal Campus on the east side of the city as well as its King City Satellite Campus. This free fare zone enables students to board for free at MST bus stops adjacent to the three campuses. Return trips to the college areas 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.

Seniors, Veterans, and Persons with Disabilities

For many county residents, especially seniors, veterans, 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 continued its subsidized taxi programs for seniors living in Salinas and the Monterey Peninsula as well as for RIDES clients on a county-wide basis. Trips on taxis are subsidized for RIDES clients and persons 65 and over using MST's Measure Q funds. MST's senior shuttle program was enhanced in FY 2014 in the city of Salinas to include the new Line 95 Williams Ranch-Northridge, and Lines 91 and 92 were expanded in FY 2016 to include the Del Mesa Carmel senior living complex. 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. With federal funding for these beneficial programs being curtailed or eliminated through FY 2015, MST laid the groundwork in FY 2014 for a local sales tax to support transit services for veterans, seniors and persons with disabilities. This 1/8% sales tax was placed on the November 4, 2014, ballot and was approved with 72.54% of the vote. With this victory, MST's services for seniors, veterans and persons with disabilities were preserved in-tact for FY 2016 and will be expanded in future fiscal years as these funds are received by the agency.

In 2016, MST is entering its 20th year of providing paratransit service to people with disabilities in Monterey County through its paratransit contractor, MV Transportation, Inc. MST is in full compliance with the federally mandated Americans with Disabilities Act. In the fiscal year that ended June 30, 2016, RIDES vehicles, owned by MST and operated by MV Transportation under contract, traveled a total of 855,109 revenue miles throughout the service area.

MONTEREY-SALINAS TRANSIT

FINANCIAL POLICY AND 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.

MONTEREY-SALINAS TRANSIT

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, especially after the passage of Measure Q – the 1/8% sales tax to support transit services and projects for seniors, veterans and persons with disabilities. However, world-wide economic realities and uncertainties about funding at the federal level will necessitate close monitoring of revenues and expenses. FY 2016 saw no fare increases, and no additional service reductions were required on MST's Presidio military partnership routes since Congress permanently raised the federal transit benefit, which supports this program. 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 a robust vehicle replacement program 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 would 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. With Measure Q revenues flowing to the agency for an entire fiscal year, MST's financial position and its ability to implement a robust capital program have never been more promising.

Revenue Sources

MST utilizes six primary sources of revenue to operate its public transit services: passenger fares, local transportation funds, investment income, non-transportation funds, federal funds, and – as of April 1, 2015 – local sales taxes. 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 the 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. However, with the passage of Measure Q, the 1/8% sales tax approved by voters in November of 2014, approximately $ 7.5 to $8.0 million will flow to MST annually for the next 15 years, which will continue to greatly stabilize MST's ongoing budgetary needs and cash flow.

Expenses

Overall expenses 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 half of MST's full-sized buses have reached their replacement age. In FY 2013, MST received a $788,000 grant for four new hybrid diesel electric minibuses, which were delivered and deployed into service later that year. In addition, federal grants have helped MST purchase additional commuter-style coaches for use on rural transit lines in southern Monterey County. Federal grants have also 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 previous fiscal year, MST utilized a $5 million federal State of Good Repair capital grant to complete the purchase of 16 replacement transit buses. In addition, Regional Surface Transportation Funds began to be available again after a six-year hiatus, enabling MST to replace virtually all of its fixed-route minibuses that were due for retirement. And, 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.

MST's other major capital need – additional capacity to maintain and park buses – will soon be met as the design and permitting process for the expanded Monterey bus facility was completed during the fiscal year. In addition, property was acquired this fiscal year in King City, which will be the site of a future bus maintenance and operation facility, further addressing MST's capital facility needs.

ECONOMIC CONDITIONS

Ranking high in affluence among Northern California counties, Monterey County has a maturing economy that has seen a degree of stagnation in recent years as Silicon Valley and much of the rest of the Bay Area have once again resumed geometric growth attributed to a resurgent tech sector. Due to lack of substantial economic 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. MST has begun to leverage these educational and military sectors with its contracts for service with CSUMB, Hartnell College, Presidio of Monterey, Naval Postgraduate School, and Fort Hunter Liggett.

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. By FY 2013, the state's fiscal crisis seemed to have stabilized, with previous years' transit funding diversions having been replaced by a more reliable, albeit lower, fuel-tax based funding assistance program. However, the $30 million in transit funding lost in the county through state takeaways, diversions and cuts over the last decade will most likely never be recouped by the agency.

In response, MST covered these 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 continued to take a prudent course of cutting expenditures and staffing while seeking to maintain and enhance productive routes and public/private and public/public partnerships as much as possible.

This conservative approach to budgeting, along with broad-based community support – facilitated the successful passage of Measure Q – a 1/8% sales tax to support transit services for seniors, veterans, and persons with disabilities – in November of 2014. After years of financial instability due to state and federal budgetary problems, MST finally has a favorable financial outlook supported by the reliability of local sales tax revenues – for the first time ever.

FUTURE OUTLOOK

Notwithstanding current economic fluctuations, MST anticipates continuing its transformation 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 northward to San Jose and the San Francisco Bay area as well as southward to Paso Robles and San Luis Obispo County while strengthening its military and university partnerships, which are expected to generate approximately $4.5 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 Air Resources District 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 new "cap and trade" funds beginning to flow in FY 2016 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 were in operation this fiscal year and continue to produce positive results.

SUMMARY

The men and women of Monterey-Salinas Transit and its contract service provider (MV Transportation, Inc.) 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 operates a modern bus fleet which meets or exceeds all state and federal air quality rules, implemented the first Wireless Power Transfer Electric Bus System for a public transit system in the Western Hemisphere, has constructed a state-of-the-art Bus Rapid Transit system, has developed award-winning partnerships with three local military installations, 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. Plus, for the first time ever in Monterey County, it secured voter approval of a local sales tax to support public transportation. All told, 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 federal transportation trust fund now insolvent, MST will have to maintain a balanced budget through conservative fiscal policies and new revenue-generating partnerships with public and private entities – and through its new 1/8% sales tax, which took effect April 1, 2015. 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, portions of the county – including the Salinas Valley – may struggle to recover as quickly as they have in the past.

With the 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, 2015. This was the fourteenth 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.

MONTEREY-SALINAS TRANSIT

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 General Accounting and Budget Manager Andrea Williams and Accountant Angela Dawson and to recognize the high level of professionalism they bring 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,

Carl Sedoryk
General Manager/CEO

Hunter Harvath, AICP
Assistant General Manager – Finance & Administration

Government Finance Officers Association

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, 2015

Executive Director/CEO

MONTEREY-SALINAS TRANSIT

BOARD OF DIRECTORS
Fiscal Year Ending June 30, 2016

LIBBY DOWNEY, Chair, City of Monterey

TONY BARRERA, Vice Chair, City of Salinas

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

KRISTIN CLARK, City of Del Rey Oaks

ROBERT BONINCONTRI, City of Gonzales

LEAH SANTIBANEZ, City of Greenfield

MIKE LEBARRE, Vice Chair, City of King City

FRANK O'CONNELL, City of Marina

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DAVID PENDERGRASS, City of Sand City

DAVID PACHECO, City of Seaside

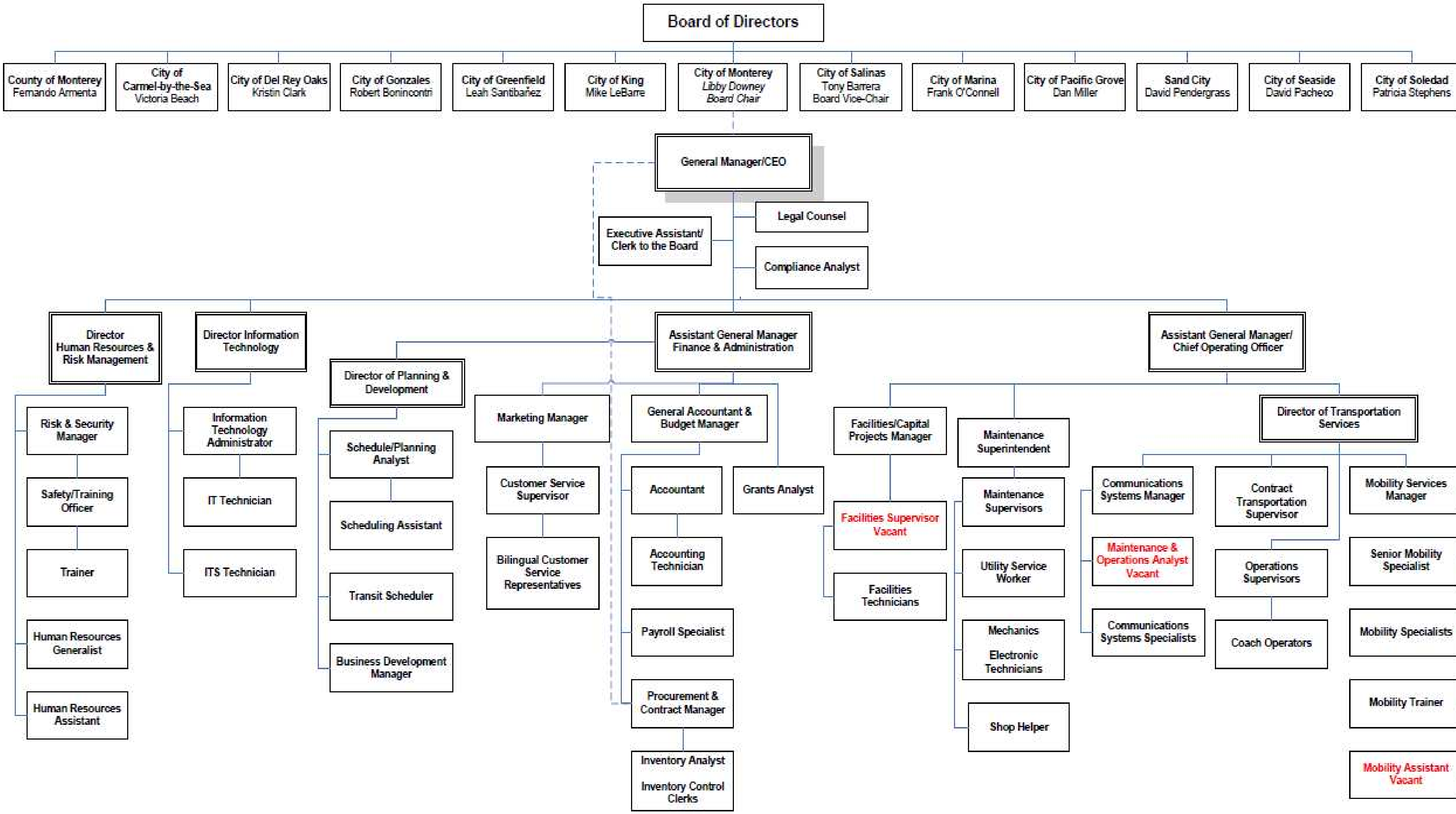
PATRICIA STEPHENS, City of Soledad

FERNANDO ARMENTA, County of Monterey

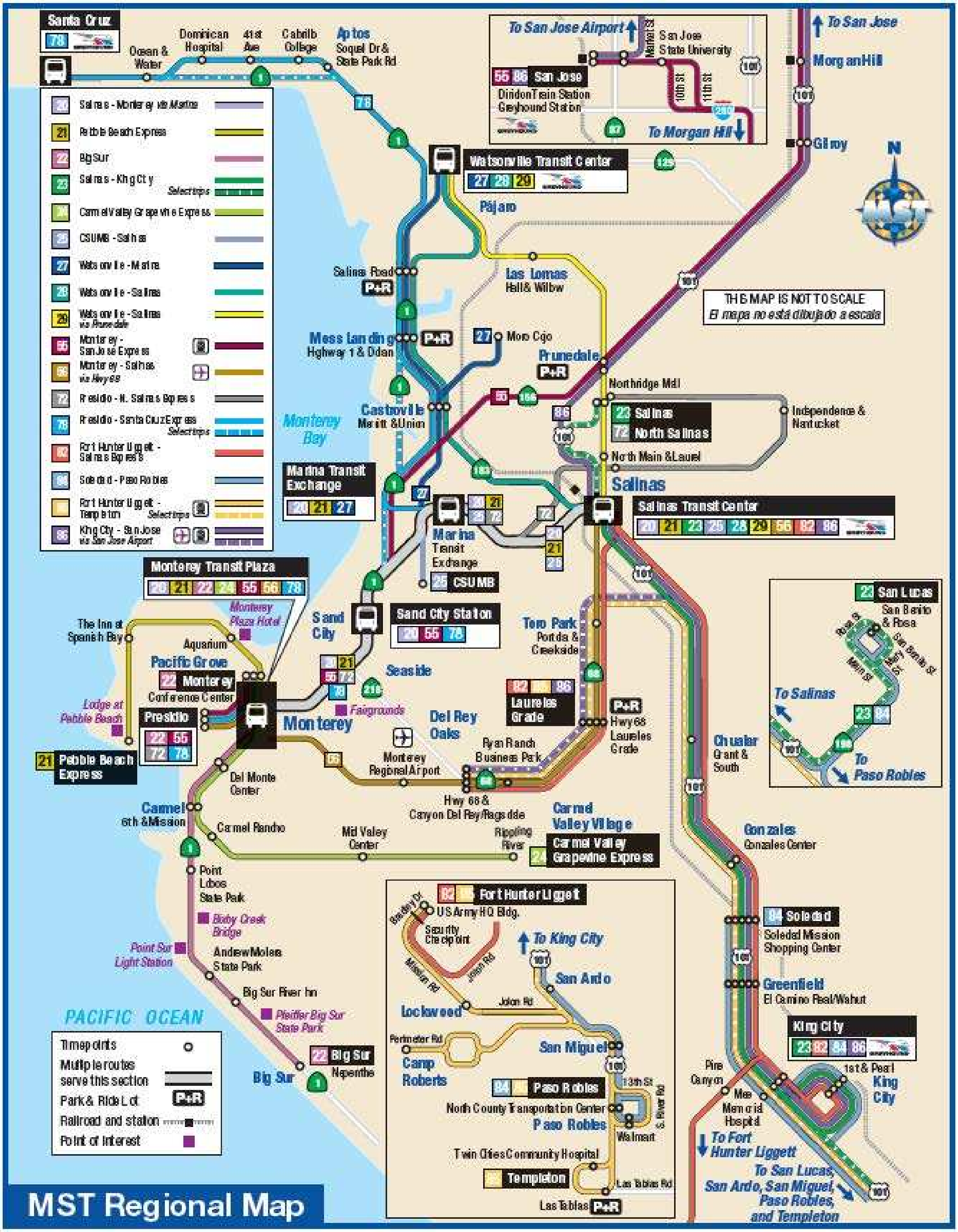
Monterey-Salinas Transit

Organization Chart

FY 2016



MST Service Area



MST Regional Map
Santa Cruz
Ocean & Water
Dominican Hospital
41st Ave
Cabrillo College
Aptos
Soquel Dr & State Park Rd
Salinas - Monterey via Marina
Pebble Beach Express
Big Sur
Salinas - King City
Select trips
Carmel Valley Grapevine Express
CSUMB - Salinas
Watsonville - Marina
Watsonville - Salinas
Watsonville - Salinas via Prunedale
Monterey - San Jose Express
Monterey - Salinas via Hwy 68
Presidio - N. Salinas Express
Presidio - Santa Cruz Express
Fort Hunter Liggett - Salinas Express
Soledad - Paso Robles
Fort Hunter Liggett - Templeton
King City - San Jose via San Jose Airport
To San Jose Airport
San Jose State University
San Jose
Diridon Train Station
Greyhound Station
10th St
11th St
To Morgan Hill
To San Jose
Morgan Hill
Gilroy
Watsonville Transit Center
Pájaro
Salinas Road
Las Lomas
Hall & Willow
THIS MAP IS NOT TO SCALE
El mapa no está dibujado a escala
Moss Landing
Highway 1 & Dolan
Moro Cojo
Prunedale
Northridge Mall
Castroville
Merritt & Union
Monterey Bay
Salinas
Salinas
North Salinas
Independence & Nantucket
North Main & Laurel
Marina Transit Exchange
Salinas Transit Center
Marina
Transit Exchange
CSUMB
Monterey Transit Plaza
Monterey Plaza Hotel
Sand City
Sand City Station
The Inn at Spanish Bay
Aquarium
Pacific Grove
Monterey Conference Center
Seaside
Toro Park
Portola & Creekside
San Lucas
San Benito & Rosa
To Salinas
To Paso Robles
Lodge at Pebble Beach
Presidio
Fairgrounds
Monterey
Del Rey Oaks
Laureles Grade
Hwy 68 Laureles Grade
Chualar
Grant & South
Pebble Beach Express
Del Monte Center
Monterey Regional Airport
Ryan Ranch Business Park
Hwy 68 & Canyon Del Rey/Ragsdale
Carmel
6th & Mission
Carmel Rancho
Mid Valley Center
Carmel Valley Village
Carmel Valley Grapevine Express
Gonzales
Gonzales Center
Point Lobos State Park
Bixby Creek Bridge
Point Sur Light Station
Andrew Molera State Park
Big Sur River Inn
Pfeiffer Big Sur State Park
Fort Hunter Liggett
US Army HQ Bldg.
Security Checkpoint
To King City
San Ardo
Lockwood
Soledad
Soledad Mission Shopping Center
Greenfield
El Camino Real/Walnut
King City
1st & Pearl
PACIFIC OCEAN
Big Sur
Nepenthe
Camp Roberts
San Miguel
Paso Robles
North County Transportation Center
Paso Robles
Walmart
Twin Cities Community Hospital
Templeton
Las Tablas
Pine Canyon
Mee Memorial Hospital
To Fort Hunter Liggett
To San Lucas, San Ardo, San Miguel, Paso Robles, and Templeton
Timepoints
Multiple routes serve this section
Park & Ride Lot
Railroad and station
Point of interest

Section II

FINANCIAL

Independent Auditor’s Report

Management’s Discussion and Analysis

Financial Statements

- Statements of Net Position
- Statements of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows
- Notes to Financial Statements

Required Supplementary Information

- Schedule of Changes in Net Pension Liability and Related Ratios
- Schedule of Employer Pension Contributions

Other Supplemental Information

- Consolidating Schedules by Program
- Budgetary Comparison Schedule

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT

The Board of Directors of
Monterey-Salinas Transit
Monterey, California

Report on the Financial Statements
We have audited the accompanying basic financial statements of the Monterey-Salinas Transit (MST), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MST as of June 30, 2016 and June 30, 2015, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter
MST adopted the following new accounting pronouncements: GASB Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 76, *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*; and GASB Statement 82, *Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73*. Our opinion is not modified respect to this matter.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in net pension liability and schedule of employer pension contributions as listed in the table of contents, 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the MST's financial statements as a whole. The introductory section, schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* the consolidating schedules by program, budgetary information and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of expenditures of federal awards, the consolidating schedules by program and budgetary information are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 schedule of expenditures of federal awards, consolidating schedules by program and budgetary information are fairly stated in all material respect in relation to the financial statements taken as a whole.

The introductory section and the statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016 on our consideration of MST's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MST's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 19, 2016

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, 2016 and 2015.

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: Monterey Peninsula (Seaside-Marina-Monterey) and Salinas. Overseeing approximately 240 direct and 115 contracted positions, working 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, 2016, 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. Over 4.4 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 fiscal year 2012, the effects of which were felt during fiscal year 2013. In addition, significant cuts to bus services were implemented during fiscal year 2013 as a result of ongoing financial pressures as well as staffing shortages due to the hiring freeze imposed on MST in association with the state pension reform dispute. However, fixed-route ridership rebounded in fiscal year 2014, posting a gain of nearly 5%. Fiscal Year 2015 saw a service reduction to Presidio military routes only, sparing most other routes frequented by the vast majority of MST customers. Between FY 2012 and FY 2013 RIDES paratransit demand had decreased by nearly 10% after jumping substantially since 2008, primarily from MST's mobility management efforts including the diversion of trips onto same-day service offered through the taxi voucher program. For fiscal years 2014, 2015, and 2016, demand for RIDES paratransit services has begun to creep back up compared to the previous fiscal years. This trend is expected to continue in the coming years as the baby-boomer generation transitions into the senior citizen age groups.

	2016	2015	2014
Fixed- Route Passengers	4,291,955	4,221,235	4,161,456
% increase/(decrease)	1.68%	1.44%	4.66%
RIDES Paratranist Passengers	114,829	113,759	107,259
% increase/(decrease)	0.94%	6.06%	1.92%

Presently, MST is funded approximately 26.9% by passenger fares for Fixed-Route service (excluding federal pass through revenues to local governments) and 13.4% for RIDES Paratransit service. The remainder is met by federal and state grants as well as a nominal amount of bus advertising and interest revenue, as well as – for the first time – a full year of local sales tax revenue, which began to be collected in the 4th quarter of the previous fiscal year. Before FY 2016, MST had been unique compared to Santa Cruz and San Francisco Bay Area transit operations, because it had been providing 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 had not been one of these so-called "self-help" counties, despite four failed attempts by the county transportation agency to pass a local funding initiative to support transportation, including public transit. In the past the former MST joint powers agency did not have the ability to levy taxes; however, the new MST District does have that authority. As such, the MST Board of Directors placed a 1/8-cent sales tax measure to support transit services for veterans, seniors and persons with disabilities on the November 2014 ballot. With 72.54% of voters approving this tax, revenues began to be collected on behalf of MST on April 1, 2015.

FINANCIAL POSITION SUMMARY

Total net position serves over time as a useful indicator of MST's financial position. MST's assets and deferred outflows exceed liabilities and deferred inflows by $46.6 million at June 30, 2016, which was a 9.8% increase from June 30, 2015. At June 30, 2015 MST's assets and deferred outflows exceeded the liabilities and deferred inflows by $42.5 million which was an increase of 8.2% from June 30, 2014. A condensed summary of net position at June 30 is shown below ($ in thousands):

	2016	2015	2014
ASSETS AND DEFERRED OUTFLOWS			
Current and other assets	$ 25,084	$ 26,422	$ 18,731
Capital assets	38,392	36,177	26,513
Deferred outflows	1,378	1,181	-
Total assets and deferred outflows	64,855	63,780	45,244
LIABILITIES AND DEFERRED INFLOWS			
Current liabilities	4,998	10,043	4,578
Non current liabilities	11,573	7,413	1,388
Deferred inflows	1,659	3,844	-
Total liabilities and deferred inflows	18,231	21,300	5,966
NET POSITION			
Net investment in capital assets	35,757	36,177	26,513
Restricted	8,368	10,981	9,715
Unrestricted	2,499	(4,678)	3,050
TOTAL NET POSITION	$ 46,624	$ 42,480	$ 39,277

The largest portion of MST's net position each year (76.7% at June 30, 2016) 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 restricted net position (17.9% at June 30, 2016) represents resources that are subject to external restrictions on how they may be used. The remaining unrestricted net position (5.4% at June 30, 2016) may be used to meet MST's ongoing obligations.

FINANCIAL OPERATIONS HIGHLIGHTS

- Total Revenues in 2016 compared to 2015 before capital contributions increased by 15.6% from $37.5 million to $43.3 million primarily as a result of an increase in net sales tax revenues for $6.6 million. Total Revenues in 2015 to 2014 before capital contributions increased by 9.1% from $34.3 million to $37.5 million primarily as a result of an increase in net sales tax revenues for $1.6 million and an increase in Local Transportation Funds, generated by one quarter percent of the state sale tax for $0.9 million.
- Operating Expenses in 2016 compared to 2015 before depreciation decreased by 1.9% from $36 million to $35.3 million. Operating Expenses in 2015 compared to 2014 before depreciation increased by 8.9% from $33.1 million to $36 million.
- Capital contributions received in the form of grants from the federal and state governments decreased from $14.7 million in 2015 to $1.3 million in 2016. Capital contributions received in the form of grants from the federal and state governments increased from $1.9 million in 2014 to $14.7 million in 2015. These capital expenditures can vary greatly from year to year as buses are purchased in large batches on an occasional basis, and major infrastructure projects and their associated infrastructure are significant, but relatively rare occurrences.

LONG-TERM DEBTS

On January 21, 2016, MST entered into an financial agreement with Rabobank N.A. and a private lender to finance the purchase of the administrative building of MST and its improvements in the amount of $2,699,768 in total. The maturity date of the promissory note of Rabobank N.A and the private lender is January 2026 and February 2031 respectively. Additional information on MST’s promissory notes can be found in Note XI of this report.

SUMMARY OF CHANGES IN NET POSITION ($ in thousands)

	2016	2015	2014
Total revenues	$ 43,311	$ 37,464	$ 34,339
Operating expenses	35,321	36,022	33,070
Operating income (loss) before depreciation and interest expense	7,990	1,442	1,269
Gain (Loss) on sale of assets	5	14	36
Depreciation	5,153	4,462	4,139
Deficiency of revenues over expenses	2,842	(3,006)	(2,835)
Capital contributions	1,302	14,688	1,946
Increase (decrease) in net position	4,144	11,682	(889)
Beginning net position	42,480	39,277	40,166
Restatement	-	(8,480)	-
Ending net position	$ 46,624	$ 42,480	$ 39,277

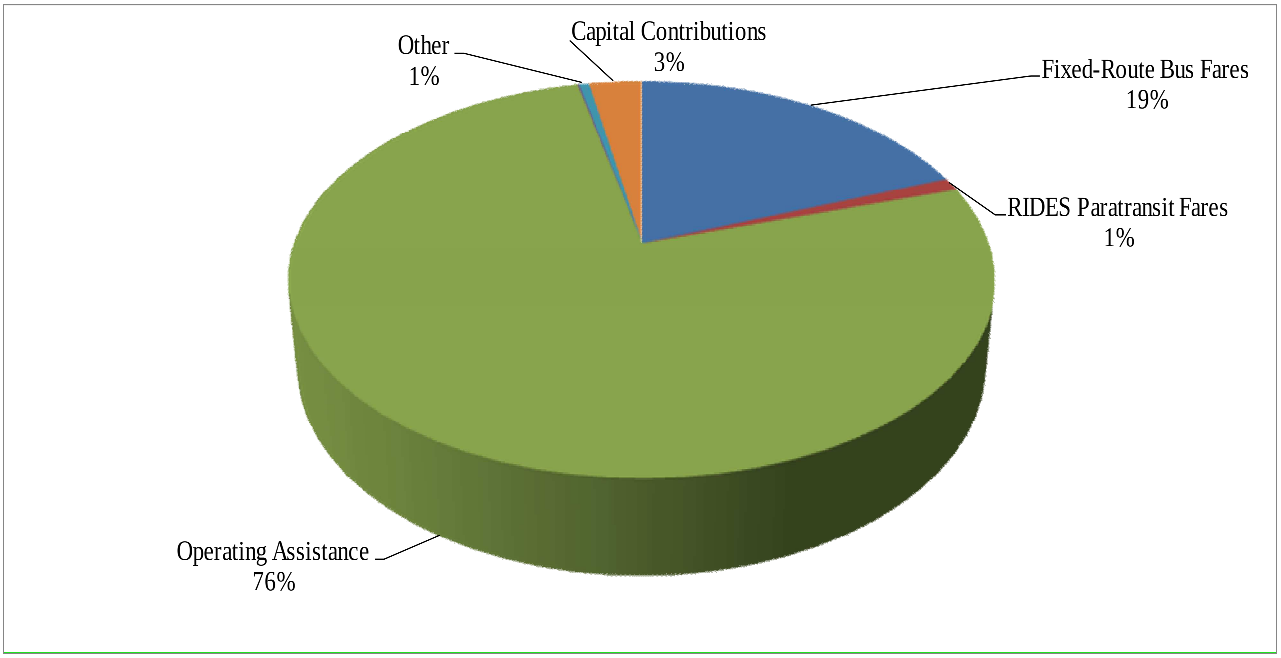
MST PASSENGER FARES

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 a 14 zone/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 day passes, 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. Fares were not increased during FY 2016.

	2016	2015	2014	2013	2012	2011
Fixed-Route Bus Fare	$1.50 - $3.50	$1.50 - $3.50	$1.50 - $3.50	$1.50 - $3.50	$1.50 - $3.50	$1 - $3
Fixed-Route Bus Transfer	n/a	n/a	n/a	n/a	n/a	n/a
RIDES Paratransit Fare	$3 - $7	$3 - $7	$3 - $7	$3 - $7	$3 - $7	$2 - $6

REVENUES

The following chart shows the major sources and the percentage of operating revenues for the year ended June 30, 2016 (fares, grants and other):



A summary of revenues for the year ended June 30, 2016, including the amount and percentage of change in relation to prior year amounts is as follows ($ in thousands):

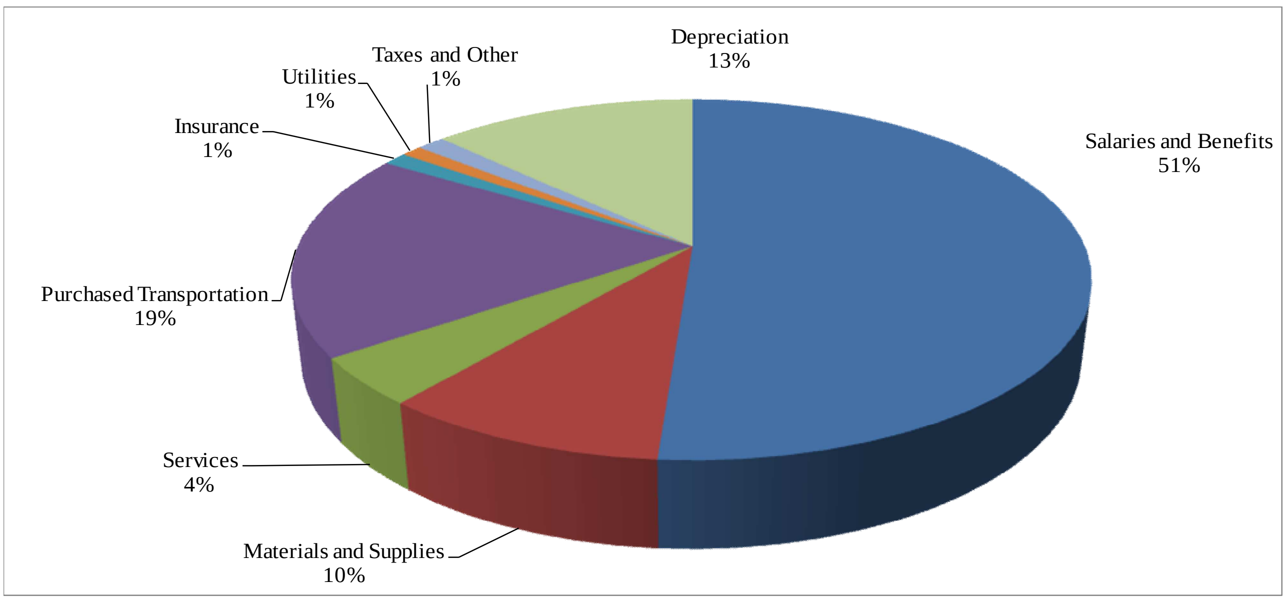
	2016 Amount	Percent of Total	2016 Increase (Decrease) From 2015	Percent Increase/ (Decrease)	2015 Amount	Percent of Total	2015 Increase (Decrease) From 2014	Percent Increase/ (Decrease)	2014 Amount
Operating									
Fixed-Route bus fares	$ 8,562	19.2%	$ 1,441	20.2%	$ 7,121	13.7%	$ 528	8.0%	$ 6,593
RIDES paratransit fares	460	1.0%	(9)	(1.9%)	469	0.9%	141	43.0%	328
Total Operating	9,022	20.2%	1,432	18.9%	7,590	14.5%	669	9.7%	6,921
Nonoperating:									
Sales Tax Revenues	8,148	18.3%	6,596	425.0%	1,552	3.0%	1,552	100.0%	-
Federal grants	8,755	19.6%	(1,722)	(16.4%)	10,477	20.1%	120	1.2%	10,357
Local transportation Fund	17,114	38.4%	(361)	(2.1%)	17,475	33.5%	898	5.4%	16,577
Investment income	39	0.1%	(11)	(21.1%)	50	0.1%	(8)	(13.9%)	58
Other	237	0.5%	(96)	(28.9%)	333	0.6%	(129)	(27.9%)	462
Total Nonoperating	34,294	76.9%	4,406	14.7%	29,888	57.3%	2,434	8.9%	27,454
Capital contributions	1,302	2.9%	(13,386)	(91.1%)	14,688	28.2%	12,742	654.8%	1,946
Total Revenues	$ 44,618	100.0%	$ (7,549)	(14.5%)	$ 52,167	100.0%	$ 15,846	43.6%	$ 36,321

EXPENSES

A summary of expenses for the year ended June 30, 2016, including the amount and percentage of change in relation to prior year amounts is as follows ($ in thousands):

	2016 Amount	Percent of Total	2016 Increase (Decrease) From 2015	Percent Increase/ (Decrease)	2015 Amount	Percent of Total	2015 Increase (Decrease) From 2014	Percent Increase/ (Decrease)	2014 Amount
Operating:									
Salaries and benefits	$20,706	51.2%	$ 1,137	5.8%	$19,569	48.3%	$ 1,068	5.8%	$ 18,501
Materials and supplies	3,971	9.8%	(835)	-17.4%	4,806	11.9%	(107)	(2.2%)	4,914
Professional and technical services	1,742	4.3%	258	17.4%	1,484	3.7%	(148)	(9.1%)	1,632
Purchased transportation	7,498	18.5%	248	3.4%	7,250	17.9%	673	10.2%	6,576
Insurance	460	1.1%	(216)	-31.9%	676	1.7%	309	84.0%	368
Utilities	399	1.0%	7	1.9%	392	1.0%	24	6.5%	368
Taxes	142	0.4%	(34)	-19.3%	176	0.4%	(18)	(9.3%)	194
Other	403	1.0%	(1,265)	-75.9%	1,668	4.1%	1,150	222.0%	518
Total operating expenses before depreciation	35,321	87.3%	(701)	(1.9%)	36,022	89.0%	2,952	8.9%	33,070
Depreciation	5,153	12.7%	691	15.5%	4,462	11.0%	323	7.8%	4,139
Total operating expenses	$40,474	100.0%	$ (10)	(0.0%)	$40,484	100.0%	$ 3,275	8.8%	$ 37,209

The following chart shows the major cost categories and the percentage of operating expenses for the year ended June 30, 2016:



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 V of the notes to the financial statements.

Now in its 44th year, MST is continuing the 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 2016, the financial condition of MST was stable despite the recent economic downturn and the county's slower to recover employment rate, thanks in part to a new local sales tax (with an entire year of revenues collected for the first time), reductions of service and fare increases that occurred during the previous years, as well as its ongoing partnerships with three local military installations and two institutions for higher learning. 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, Santa Cruz, Hartnell College as well as to the One Stop Career Center in Salinas are funded through JARC, while New Freedoms grants and Measure Q revenues 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 new shelters, electronic signage, and new "over the road" style 57-passenger coaches.

Going forward, the uncertain economic outlook at the federal level 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 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 or Measure Q funds, which must primarily benefit seniors, veterans and persons with disabilities. With the new federal transportation authorization bill Fixing America's Surface Transportation Act (FAST Act) in its first months of existence during FY 2016, MST was 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 in the past was the reduction in the federal transit benefit that had 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. It was raised again to $240 for part of fiscal year 2014, but was allowed to fall again to $130 as of December 31, 2013. Despite MST's attempts to advocate for restoration of the transit benefit back to $230, larger financial and political concerns in Washington, DC had left the benefit at $130, which led to service cuts for the Presidio bus services shortly after the beginning of FY2015. By the end of calendar year 2015, efforts of the transit industry advocating for restoration of this benefit paid off, as Congress passed legislation making the $240 transit benefit level permanent. In addition, the legislation calls for the benefit to increase annually to keep up with inflation. With this in place, the financial stability and the future viability of MST's military partnerships are secure.

Given historical fiscal uncertainties, steps were 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 was considering 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. Instead of taking these dire steps, the MST Board of Directors placed on the November 4, 2014, ballot a small 1/8% sales tax narrowly targeted to funding transportation services for the elderly, disabled individuals and veterans. With overwhelming passage at 72.54%, this sales tax will help ensure fiscal stability for MST and its transit services in the County, at least through the end of its 15-year sunset period.

With construction on MST’s JAZZ Bus Rapid Transit project complete, 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 nearly half 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, which were introduced into service during the previous fiscal year. In addition, the majority of MST’s remaining California State Proposition 1B Transit Bonds will be dedicated to vehicle replacement and bus maintenance facility construction. These Prop 1B bonds for facilities were supplemented by a $10 million competitive “cap-and-trade” grant, which fully funds the construction of the Monterey Bay Operations and Maintenance Facility expansion project, the designs for which were completed during the fiscal year.

Over the last decade, MST completed its agency-wide technological upgrade. Its $3.5 million Advanced Communication System (ACS) has been in place since 2003 and is fully operational, receiving a $1.3 million upgrade during FY 2015 and 2016. This upgrade will not only bring the technology up to current standards, it will also enable passengers to have access to real-time bus arrival and departure information on their smart phones as well as through interactive web-based and voice response systems. 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, BRT stations and other transit stops 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.

ADDITIONAL 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 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 19 Upper Ragsdale Drive, Monterey, California 93940.

MONTEREY-SALINAS TRANSIT

STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015

ASSETS:	2016	2015
CURRENT ASSETS:		
Cash and investments	$ 8,730,349	$ 2,841,018
Operating grants receivable	6,773,887	7,514,215
Capital grants receivable	277,113	4,382,614
Other receivables	411,283	291,134
Material and supplies, at cost	293,728	285,016
Prepaid items	229,252	126,709
Total current assets	16,715,612	15,440,706
NONCURRENT ASSETS:		
Restricted cash and investments	8,368,493	10,981,072
Capital assets:		
Land	3,426,071	3,426,071
Buses	40,651,143	46,098,047
Shop, office and other equipment	37,369,576	36,746,372
Total	81,446,790	86,270,490
Accumulated depreciation	(45,965,052)	(52,466,892)
Construction in progress	2,910,435	2,372,987
Capital assets - net	38,392,173	36,176,585
Total noncurrent assets	46,760,666	47,157,657
TOTAL ASSETS	63,476,278	62,598,363
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amounts from pension activities	1,378,399	1,181,404
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	1,875,186	6,933,241
Accrued liabilities	1,077,555	1,392,102
Current portion of notes payable	194,617	-
Current poriton of self-insurance liabilities	391,802	391,802
Current portion of vacation liabilities	1,459,141	1,326,103
Total current liabilities	4,998,301	10,043,248
NONCURRENT LIABILITIES:		
Notes payable	2,440,933	-
Self-insurance liabilities	1,837,949	1,851,872
Net pension liabilities	7,294,554	5,561,209
Total noncurrent liabilities	11,573,436	7,413,081
TOTAL LIABILITIES	16,571,737	17,456,329
DEFERRED INFLOWS OF RESOURCES:		
Deferred amounts from pension activities	1,659,006	3,843,821
NET POSITION:		
Net Investment in capital assets	35,756,623	36,176,585
Restricted for capital projects	8,368,493	10,981,072
Unrestricted	2,498,818	(4,678,040)
TOTAL NET POSITION	$ 46,623,934	$ 42,479,617

The accompanying notes are an integral part of the financial statements.

MONTEREY-SALINAS TRANSIT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITIONS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES:		
Fares	$ 9,022,365	$ 7,590,372
OPERATING EXPENSES:		
Salaries and benefits	20,705,641	19,568,651
Professional and technical services	1,741,815	1,484,332
Materials and supplies	3,970,897	4,806,464
Utilities	399,492	392,136
Insurance	460,114	676,374
Taxes	142,082	176,113
Purchased transportation	7,498,120	7,249,592
Other	402,798	1,668,380
Total operating expenses	35,320,959	36,022,042
Operating loss before depreciation	(26,298,594)	(28,431,670)
DEPRECIATION	5,152,939	4,462,179
OPERATING LOSS	(31,451,533)	(32,893,849)
NON-OPERATING REVENUES AND EXPENSES:		
Operating assistance:		
Sales tax revenues	8,536,576	1,980,969
State program admin fees	(388,310)	(428,740)
Federal grants	8,755,441	10,476,842
Local and state grants	17,114,159	17,475,172
Gain on disposal of assets	4,943	13,969
Interest income	39,447	50,350
Other	231,743	319,392
Total non-operating revenues (expenses)	34,293,999	29,887,954
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	2,842,466	(3,005,895)
CAPITAL CONTRIBUTIONS	1,301,851	14,688,369
CHANGE IN NET POSITION	4,144,317	11,682,474
NET POSITION, Beginning of year	42,479,617	39,277,486
Restatement	-	(8,480,343)
NET POSITION, End of year	$ 46,623,934	$ 42,479,617

The accompanying notes are an integral part of the financial statements.

MONTEREY-SALINAS TRANSIT

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fares	$ 9,022,365	$ 7,590,372
Payments to employees	(21,535,615)	(19,921,732)
Payments to vendors for services	(18,779,634)	(7,990,305)
Payments for insurance claims and premiums	(474,037)	(566,783)
Other	(433,286)	(1,327,724)
Net cash used in operating activities	(32,200,207)	(22,216,172)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating grants received	34,758,194	25,966,055
Net cash provided for non-capital and related financing activities	34,758,194	25,966,055
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants received	5,407,352	10,381,919
Proceeds from debt issuance	2,635,550	-
Purchase of capital assets	(7,363,584)	(14,111,938)
Net cash used in capital and related financing activities	679,318	(3,730,019)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	39,447	50,350
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,276,752	70,214
CASH AND CASH EQUIVALENTS, Beginning of year	13,822,090	13,751,876
CASH AND CASH EQUIVALENTS, End of year	$ 17,098,842	$ 13,822,090
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (31,451,533)	$ (32,893,849)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	5,152,939	4,462,179
Other income	231,743	319,392
Effect of changes in:		
Materials and supplies	(8,712)	(12,865)
Prepaid expenses	(102,543)	39,312
Receivables	(120,149)	197,377
Accounts payable	(5,058,055)	6,172,489
Accrued liabilities	(314,547)	(217,550)
Self-insurance liabilities	(13,923)	109,591
Vacation liabilities	133,038	(135,531)
Net pension liabilities and related deferrals	(648,465)	(256,717)
Net cash used in operating activities	$ (32,200,207)	$ (22,216,172)

The accompanying notes are an integral part of the financial statements.

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. The District now includes all 12 cities in Monterey County as well as all unincorporated areas of the County.

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. MST 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.

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. MST is a voluntary participant in LAIF which is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of MST's investment in the pool is reported in the accompanying financial statements at amounts based on MST's pro-rata share of the fair value provided by LAIF for the entire portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

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 unearned revenues. In addition, operating funds advanced from the Transportation Agency for Monterey County for working capital are treated as deferred inflow of resources until earned.

Inventories consist primarily of bus replacement parts and fuel and are stated at average cost which approximates market. 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 $1,000.

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 providing 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 confirm to the current year presentation.

Pensions – For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the MST's California Public Employees' Retirement System (CalPERS) plan (the Plan) and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available and can be obtained at CalPERS website under forms and publications.

Deferred Outflows/Inflows of Resources – In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. MST reports deferred amount related to pension as deferred outflows of resources.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenues) until that time. MST reports deferred amount related to pension as deferred inflows of resources.

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 5307 and 5311 of the Federal Transit Act. Such funds are apportioned to the local urbanized area by the Federal Transit Administration (FTA). Expenditures of federal operating assistance funds are subject to final audit and approval by the FTA.

Operating grant activity for 2016 is summarized as follows:

	Federal Grants	Local Transportation Fund	State Operating Grants	Sales Tax Revenue	Total
Amount recognized as revenue	$ 8,755,441	$ 15,247,596	$ 1,866,563	$ 8,536,576	$ 34,406,176
Amount received prior to June 30, 2016	7,784,563	12,100,252	918,323	6,829,151	27,632,289
Grants receivable at June 30, 2016	$ 970,878	$ 3,147,344	$ 948,240	1,707,425	$ 6,773,887

Operating grant activity for 2015 is summarized as follows:

	Federal Grants	Local Transportation Fund	State Operating Grants	Sales Tax Revenue	Total
Amount recognized as revenue	$ 10,476,842	$ 14,995,471	$ 2,479,701	$ 1,980,969	$ 29,932,983
Amount received prior to June 30, 2015	6,796,508	13,294,887	1,863,282	464,091	22,418,768
Grants receivable at June 30, 2015	$ 3,680,334	$ 1,700,584	$ 616,419	$ 1,516,878	$ 7,514,215

IV. DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2016 and 2015, consists of the following:

	2016	2015
Cash on hands and in banks - unrestricted	$ 8,687,388	$ 2,798,269
Cash on hands and in banks - restricted	8,368,493	10,981,072
Investments in Local Agency Investment Fund - unrestricted	42,961	42,749
	$ 17,098,842	$ 13,822,090

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, concentration or interest rate risk.

General Authorizations – California Government Code
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

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. Investments in LAIF were unrated.

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, 2016 and 2015, MST's bank balances of $16,908,112 and $13,485,527, 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.

*Fair Value Measure*ments
MST categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that MST has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include MST's own data. MST should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to MST are not available to other market participants.

Uncategorized - Investments in the Local Agency investment Fund are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at $1.00 net asset value per share.

V. CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2016 and 2015, is as follows:

	Beginning Balance July 1, 2015	Additions	Retirements/ Reclassifications	Ending Balance June 30, 2016
Capital assets not depreciated				
Land	$ 3,426,071	$ -	$ -	$ 3,426,071
Construction in progress	2,372,987	6,820,988	(6,283,540)	2,910,435
Capital assets depreciated				
Buses	46,098,047	764,306	(6,211,210)	40,651,143
Shop, office and other equipment	36,746,372	6,238,531	(5,615,327)	37,369,576
Totals at historical cost	88,643,477	13,823,825	(18,110,077)	84,357,225
Accumulated depreciation				
Buses	28,192,362	3,093,688	(6,039,453)	25,246,597
Shop, office and other equipment	24,274,530	2,059,252	(5,615,327)	20,718,455
Total accumulated depreciation	52,466,892	5,152,940	(11,654,780)	45,965,052
Capital assets, net	$ 36,176,585	$ 8,670,885	$ (6,455,297)	$ 38,392,173

	Beginning Balance July 1, 2014	Additions	Retirements/ Reclassifications	Ending Balance June 30, 2015
Capital assets not depreciated				
Land	$3,426,071.00	$ -	$ -	$ 3,426,071
Construction in progress	1,773,934.00	14,167,440	(13,568,387)	2,372,987
Capital assets depreciated				
Buses	34,989,600	11,981,035	(872,588)	46,098,047
Shop, office and other equipment	35,201,853	1,566,300	(21,781)	36,746,372
Totals at historical cost	75,391,458	27,714,775	(14,462,756)	88,643,477
Accumulated depreciation				
Buses	26,171,446	2,873,024	(852,107)	28,192,363
Shop, office and other equipment	22,707,155	1,589,156	(21,781)	24,274,530
Total accumulated depreciation	48,878,601	4,462,179	(873,888)	52,466,892
Capital assets, net	$ 26,512,857	$23,252,596	$ (13,588,868)	$ 36,176,585

VI. SELF-INSURANCE

MST has self-insurance programs for the following risks:

- General liability to a maximum of $250,000 per incident, over which coverage is provided to $1,000,000 per incident by the California Transit Indemnity Pool (CalTIP) (see Note VII), and from $1,000,000 to $10,000,000 per incident coverage is provided by a private carrier through CalTIP.
- Physical damage to a maximum of $5,000 per bus and $500 for support vehicle per incident, over which coverage is provided to $100,000 per incident by CalTIP, and from $100,000 to $25,000,000 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, 2014 through 2016 are approximately as follows:

	2016	2015	2014
Estimated self-insurance liabilities, beginning of year	$ 2,243,674	$ 2,134,083	$ 1,941,042
Current year claims and changes in estimates	1,219,795	933,686	939,307
Claim payments and administration	(1,233,718)	(824,095)	(746,266)
Estimated self-insurance liabilities, end of year	$ 2,229,751	$ 2,243,674	$ 2,134,083

VII. CALTIP JOINT POWERS AGREEMENT

MST participates in the California Transit Indemnity 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 $268,672 and $251,987 in the fiscal years ended June 30, 2016 and 2015, respectively.

Condensed financial information of CalTIP (prepared using the accrual basis of accounting) for the year ended April 30, 2015 (most recent available information) is as follows:

	Audited
Current assets	$ 11,190,681
Noncurrent assets	15,952,086
Total assets	$ 27,142,767
Current liabilities	$ 9,507,843
Noncurrent liabilities	11,979,575
Net position	5,655,349
Total liabilities and equity	$ 27,142,767
Total revenues	$ 9,597,626
Total expenses	(13,419,707)
Net income	$ (3,822,081)

VIII. COMPENSATED ABSENCES

Accumulated unpaid personal leave, consisting of vacation, holiday and sick pay, have been accrued at June 30, 2016 and 2015 in the amounts of $1,459,141 and $1,326,103, respectively. MST's liability for compensated absences typically is liquidated within one year. MST accrued $2,161,300 and paid $2,028,262 during fiscal year 2015-2016. MST accrued $2,039,888 and paid $1,918,702 during fiscal year 2014-2015. Compensated absences are reported as current liabilities because it is anticipated that these liabilities will be paid in the next fiscal year.

IX. PUBLIC TRANSPORTATION MODERNIZATION, IMPROVEMENT AND SERVICE ENHANCEMENT ACCOUNT (PTMISEA)

As part of the State of California's Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006, approved by California voters as Proposition 1B (Prop 1B) on November 7, 2006, MST was awarded funding from the Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA). MST received $0 and $5,437,399 in PTMISEA funding during fiscal year 2016 and 2015 respectively. As of June 30, 2016, and 2015, MST had unspent PTMISEA proceeds and interest of $7,956,392 and $10,590,190 respectively. These amounts are included as part of the restricted net position.

X. PENSION PLANS

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in MST's separate Miscellaneous Plans, agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% at 55	2.0% at 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Required employee contribution rates	0.07	0.0625
Required employer contribution rates	0.09797	0.09797

Employees Covered – At June 30, 2016, the following employees were covered by the benefit terms for each Plan:

Inactive employees or beneficiaries currently receiving benefits	132
Inactive employees entitled to but not yet receiving benefits	159
Active employees	266
Total	557

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Classic and New member are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. MST is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the years ended June 30, 2016 and 2015, the contributions to the Plan were $1,378,399 and $1,181,404 for employer contributions respectively.

B. Net Pension Liability

MST's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plans for fiscal year 2016 is measured using an annual actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The net pension liability of the Plans for fiscal year 2015 is measured using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability for fiscal years 2016 and 2015 follows.

Actuarial Assumptions - The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions	
Discount Rate	7.65%
Inflation	2.75%
Projected Salary Increase	Varies by Entry-Age and Service.
Investment Rate of Return	7.50% (1)
Mortality Rate Table	Derived using CaIPERS' Membership Data for all Funds (2)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power

(1) Net of pension plan investment expenses, including inflation.
(2) The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions	
Discount Rate	7.50%
Inflation	2.75%
Projected Salary Increase	Varies by Entry-Age and Service.
Investment Rate of Return	7.50% (1)
Mortality Rate Table	Derived using CaIPERS' Membership Data for all Funds (2)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power

(1) Net of pension plan investment expenses, including inflation.

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for each plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The tables below reflect the long-term expected real rate of return by asset class for fiscal year 2016 which is the same as fiscal year 2015. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Stregetic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	47.0%	5.3%	5.7%
Global Fixed Income	19.0%	1.0%	2.4%
Inflation Sensitive	6.0%	0.5%	3.4%
Private Equity	12.0%	6.8%	7.0%
Real Estate	11.0%	4.5%	5.1%
Infrastructure and Forestland	3.0%	4.5%	5.1%
Liquidity	2.0%	-0.6%	-1.1%
Total	100.0%		

(a) An expected inflation of 2.5% used for this period.
(b) An expected inflation of 3.0% used for this period.

C. Changes in the Net Pension Liability

The changes in the Net Pension Liability for the Plan follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2015	$ 61,632,590	$ 56,071,381	$ 5,561,209
Changes in the year:			
Service cost	2,083,605	-	2,083,605
Interest on the total pension liability	4,594,150	-	4,594,150
Differences between actual and expected experience	(499,608)	-	(499,608)
Changes in assumptions	(1,144,851)	-	(1,144,851)
Changes in benefit terms	-	-	(499,608)
Contribution - employer	-	1,174,672	(1,174,672)
Contribution - employee	-	935,755	(935,755)
Net investment income	-	1,254,149	(1,254,149)
Administrative expenses	-	(64,625)	64,625
Benefit payments, including refunds of employee contributions	(1,951,379)	(1,951,379)	-
Net changes	3,081,917	1,348,572	1,733,345
Balance at June 30, 2016	$ 64,714,507	$ 57,419,953	$ 7,294,554

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2014	$ 57,119,823	$ 47,615,538	$ 9,504,285
Changes in the year:			
Service cost	1,986,635	-	1,986,635
Interest on the total pension liability	4,292,256	-	4,292,256
Contribution - employer	-	1,023,942	(1,023,942)
Contribution - employee	-	828,109	(828,109)
Net investment income	-	8,369,916	(8,369,916)
Benefit payments, including refunds of employee contributions	(1,766,124)	(1,766,124)	-
Net changes	4,512,767	8,455,843	(3,943,076)
Balance at June 30, 2015	$ 61,632,590	$ 56,071,381	$ 5,561,209

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the MST's proportionate share of the net pension liability, as well as what the MST's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower or one-percentage point higher than the current rate:

2016	1% Decrease	Current Discount Rate	1% Increase
	6.65%	7.65%	8.65%
Net Pension Liability	$ 16,235,294	$ 7,294,554	$ (125,103)

2015	1% Decrease	Current Discount	1% Increase
	6.50%	7.50%	8.50%
Net Pension Liability	$ 13,810,879	$ 5,561,209	$ (1,315,674)

Pension Plan Fiduciary Net Position - Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS auditee financial report.

Change in Assumptions – Generally accepted accounting principles state that the long-term expected rate of return should be determined net of pension plan investment expense. The discount rate of 7.5% used for the 2015 fiscal year was net of administrative expenses. The discount rate for the 2016 fiscal year is without reduction of pension plan administrative expense.

D. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

MST recognized pension expense of $729,934 and $924,687 for the years ended June 30, 2016 and 2015, respectively. At June 30, 2016 and 2015, MST reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 1,378,399	$ -
Differences between expected and actual experience	-	364,579
Changes in assumptions	-	835,432
Net differences between projected and actual earnings	-	458,995
Total	$ 1,378,399	$ 1,659,006

2015	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 1,181,404	$ -
Differences between actual and expected experience	-	-
Changes in assumptions	-	-
Net differences between projected and actual earnings	-	(3,843,821)
Total	$ 1,181,404	$ (3,843,821)

$1,378,399 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized as a reduction to pension expense as follows:

Year Ended June 30	
2017	$ (799,435)
2018	(799,435)
2019	(666,102)
2020	605,967
	$ (1,659,006)

XI. LONG-TERM DEBT

On January 21, 2016, MST entered into an agreement with two lenders to finance the cost of acquiring the administration building of MST. The building was financed with funds received from two promissory notes from Rabobank, N.A. and a private lender in the amount of $1,860,000 and $839,768, respectively. The Bank's note carry a fixed interest rate of 4.3% and the private lenders note carry a fixed rate of 5%. The building was acquired for a total cost of $2,549,250 and additional improvements financed with the secondary loan from the private lender for the same amount. MST covenant to Rabobank N.A, that it will maintain a current ratio of 1.25 to 1.0. MST is in the opinion that it is in compliance with the debt covenant requirement. MST's promissory notes balances are as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Due in One Year
Roba Bank Promissory Note	$ -	$1,860,000	$ 51,572	$ 1,808,428	$ 155,392
Other Promissory Note	-	839,768	12,646	827,122	39,225
Total	$ -	$2,699,768	$ 64,218	$ 2,635,550	$ 194,617

MST's debt service requirements for the two notes are as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2017	$ 194,617	$ 116,764	$ 311,381
2018	203,584	107,796	311,381
2019	212,967	98,414	311,381
2020	222,636	88,745	311,381
2021	233,046	78,335	311,381
2022-2026	1,237,626	221,017	1,458,643
2027-2031	331,075	40,812	371,887
Total	$ 2,635,550	$ 751,882	$ 3,387,433

XII. RESTATEMENT

A prior period adjustment of $8,480,340 was made to decrease the beginning net position. The adjustment was made to record beginning net pension liability and deferred outflows of resources for contributions subsequent to the measurement date.

The restatement of beginning net position is summarized as follows.

	June 30, 2014 Previously Stated	Restatement	July 1, 2014 Restated
Net pension liability	$ -	$ (9,504,285)	$ (9,504,285)
Deferred outflows	-	1,023,942	1,023,942
Net Position	39,277,486	(8,480,343)	30,797,143

REQUIRED SUPPLEMENTARY INFORMATION

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MONTEREY-SALINAS TRANSIT

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
YEARS ENDED JUNE 30, 2016 AND 2015

Total Pension Liability		
Fiscal Years	June 30, 2016	June 30, 2015
Mesurement Period	June 30, 2015	June 30, 2014
Service Cost	$ 2,083,605	$ 1,986,635
Interest on total pension liability	4,594,150	4,292,256
Differences between expected and actual experience	(499,608)	-
Changes in assumptions	(1,144,851)	-
Changes in benefits	-	-
Benefit payments, including refunds of employee contributions	(1,951,379)	(1,766,124)
Net change in total pension liability	3,081,917	4,512,767
Total pension liability - beginning	61,632,590	57,119,823
Total pension liability - ending (a)	$ 64,714,507	$ 61,632,590
Plan fiduciary net position		
Contributions - employer	$ 1,174,672	$ 1,023,942
Contributions - employee	935,755	828,109
Net investment income	1,254,149	8,369,916
Administrative expenses	(64,625)	-
Benefit payments	(1,951,379)	(1,766,124)
Net change in plan fiduciary net position	1,348,572	8,455,843
Plan fiduciary net position - beginning	56,071,381	47,615,538
Plan fiduciary net position - ending (b)	$ 57,419,953	$ 56,071,381
Net pension liability - ending (a)-(b)	$ 7,294,554	$ 5,561,209
Plan fiduciary net position as a percentage of the total pension liability	88.73%	90.98%
Covered payroll	$ 13,774,991	$ 12,726,683
Net pension liability as percentage of covered payroll	52.96%	43.70%

Notes to Schedule:

10 years data is not available because this is the second year of implementaion of the pension reporting standards.

Change in Assumptions:
Discount rate changed from 7.5% at the June 30, 2014 measurement period to 7.65% at the June 30, 2015 measurement period.

MONTEREY-SALINAS TRANSIT

SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Actuarially determined contribution	$ 1,174,672	$ 1,023,942
Contributions in relation to the actuarially determined contributions	(1,174,672)	(1,023,942)
Contribution deficiency (excess)	$ -	$ -
Covered payroll	$ 13,972,736	$ 13,774,991
Contributions as a percentage of covered-employee payroll	8.53%	7.43%

Notes to Schedule:

Valuation date	June 30, 2014
Actuarial Cost Method	Entry Age
Amortization Method/Period	For details, see June 30, 2012 Funding Valuation Report
Asset Valuation Method	Actuarial Value of Assets For details, see June 30, 2012 Funding Valuation Report
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	7.65% Net of Pension Plan Investment and Administrative Expenses; includes Inflation for 2016 up from 7.5 for 2015
Retirement Age	55 to 62 years
Mortality	Probability mortality is based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of

10 years data is not available because this is the second year of implementation of the pension reporting standards.

OTHER SUPPLEMENTAL INFORMATION

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MONTEREY-SALINAS TRANSIT

CONSOLIDATING SCHEDULE OF NET POSITION BY PROGRAM
JUNE 30, 2016

ASSETS	FIXED-ROUTE BUS SERVICE	RIDES	SALES TAX	TOTAL
CURRENT ASSETS:				
Cash and investments	$ 8,730,349	$ -	$ -	$ 8,730,349
Operating grants receivable	5,066,462	625,545	1,081,880	6,773,887
Capital grants receivable	277,113	-	-	277,113
Materials and supplies, at cost	293,728	-	-	293,728
Prepaid items	209,610	19,642	-	229,252
Other receivables	411,283	-	-	411,283
Inter-program receivable	389,858	-	410,896	800,754
Total current assets	15,378,403	645,187	1,492,776	17,516,366
NON CURRENT ASSETS:				
Restricted cash and investments	8,359,853	8,640	-	8,368,493
Property, Plant And Equipment:				
Land	3,426,071	-	-	3,426,071
Buses	38,479,625	2,171,518	-	40,651,143
Shop, office and other equipment	36,772,920	596,656	-	37,369,576
Total	78,678,616	2,768,174	-	81,446,790
Accumulated depreciation	(44,198,982)	(1,766,070)	-	(45,965,052)
Construction in progress	2,711,660	198,775	-	2,910,435
Property, plant and equipment - net	37,191,294	1,200,879	-	38,392,173
TOTAL ASSETS	60,929,550	1,854,706	1,492,776	64,277,032
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred amounts from pension activities	1,378,399	-	-	1,378,399
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	1,875,186	-	-	1,875,186
Accrued liabilities	961,015	42,696	73,844	1,077,555
Current portion of notes payable	194,617	-	-	194,617
Current portion of self-insurance liabilities	391,802	-	-	391,802
Current portion of vacation liabilities	1,459,141	-	-	1,459,141
Inter-program payable	-	800,754	-	800,754
Total current liabilities	4,881,761	843,450	73,844	5,799,055
NONCURRENT LIABILITIES				
Notes payable	2,440,933	-	-	2,440,933
Self-insurance liabilities	1,837,949	-	-	1,837,949
Net pension liabilities	7,294,554	-	-	7,294,554
TOTAL LIABILITIES	16,455,197	843,450	73,844	17,372,491
DEFERRED INFLOWS OF RESOURCES:				
Deferred amounts from pension activities	1,659,006	-	-	1,659,006
NET POSITION:				
Net investment in capital assets	34,555,744	1,200,879	-	35,756,623
Restricted for capital projects	8,359,853	8,640	-	8,368,493
Unrestricted	1,278,149	(198,263)	1,418,932	2,498,818
TOTAL NET POSITION	$ 44,193,746	$ 1,011,256	$ 1,418,932	$ 46,623,934

MONTEREY-SALINAS TRANSIT

CONSOLIDATING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION BY PROGRAM
FOR THE YEAR ENDED JUNE 30, 2016

	FIXED-ROUTE BUS SERVICE	RIDES	SALES TAX	TOTAL
REVENUES:				
Fares	$ 8,562,399	$ 459,966	$ -	$ 9,022,365
Operating assistance:				
Sales Tax Revenue	-	3,127,522	5,409,054	8,536,576
Federal grants	8,755,441	-	-	8,755,441
Local and state grants	17,114,159	-	-	17,114,159
Interest income	39,447	-	-	39,447
Other	231,743	-	-	231,743
Total	34,703,189	3,587,488	5,409,054	43,699,731
EXPENSES:				
Salaries and benefits	20,233,178	88,487	383,976	20,705,641
Professional and technical services	1,637,070	30,157	74,588	1,741,815
Materials and supplies	3,560,916	345,792	64,189	3,970,897
Utilities	399,492	-	-	399,492
Insurance	460,114	-	-	460,114
Taxes	142,082	-	-	142,082
Purchased transportation	3,820,521	2,980,375	697,224	7,498,120
State Program Admin Fees	-	142,466	245,844	388,310
Other	307,816	213	94,769	402,798
Inter-program Transfers	(2,261,527)	-	2,261,527	-
Total	28,299,662	3,587,490	3,822,117	35,709,269
EXCESS (DEFICIENCY) OF REVENUE BEFORE CAPITAL AND FINANCING ITEMS OVER EXPENDITURES	6,403,527	(2)	1,586,937	7,990,462
INCOME (EXPENSE) FROM CAPITAL AND RELATED FINANCING:				
Gain (Loss) on disposal of assets	4,943	-	-	4,943
Capital contributions	797,032	504,819	-	1,301,851
Depreciation	(4,866,354)	(286,585)	-	(5,152,939)
Total	(4,064,379)	218,234	-	(3,846,145)
CHANGE IN NET POSITION	$ 2,339,148	$ 218,232	$ 1,586,937	$ 4,144,317

MONTEREY-SALINAS TRANSIT

CONSOLIDATING SCHEDULE OF CASH FLOWS BY PROGRAM
FOR THE YEAR ENDED JUNE 30, 2016

	FIXED ROUTE BUS SERVICE	RIDES	SALES TAX	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from fares	$ 8,562,399	$ 459,966	$ -	$ 9,022,365
Payments to employees	(21,096,232)	(83,226)	(356,157)	(21,535,615)
Payments to vendors for services	(14,232,590)	(3,372,989)	(1,174,055)	(18,779,634)
Payments for insurance claims and premiums	(474,037)	-	-	(474,037)
Other	2,799,711	834,999	(4,067,996)	(433,286)
Net cash used in operating activities	(24,440,749)	(2,161,250)	(5,598,208)	(32,200,207)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Operating assistance received	26,800,475	2,359,511	5,598,208	34,758,194
Net cash provided for non-capital and related financing activities	26,800,475	2,359,511	5,598,208	34,758,194
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital grant funds received	4,902,533	504,819	-	5,407,352
Proceed from debt issuance	2,635,550	-	-	2,635,550
Purchases of property, plant and equipment	(6,660,504)	(703,080)	-	(7,363,584)
Net cash used in capital and related financing activities	877,579	(198,261)	-	679,318
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	39,447	-	-	39,447
NET INCREASE IN CASH AND EQUIVALENTS	3,276,752	-	-	3,276,752
CASH AND EQUIVALENTS, BEGINNING OF YEAR	13,813,450	8,640	-	13,822,090
CASH AND EQUIVALENTS, END OF YEAR	$ 17,090,202	$ 8,640	$ -	$17,098,842

MONTEREY-SALINAS TRANSIT

BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts	Actual	Variances Positive (Negative)
REVENUES:			
Fares	$ 7,529,664	$ 9,022,365	$ 1,492,701
Operating assistance:			
Sales Tax Revenue	7,500,000	8,536,576	1,036,576
Federal grants	8,813,640	8,755,441	(58,199)
Local and State grants	16,630,776	17,114,159	483,383
Interest	49,764	39,447	(10,317)
Other income	292,812	231,743	(61,069)
Total revenues	40,816,656	43,699,731	2,883,075
EXPENSES:			
Salaries and benefits	22,842,840	20,705,641	2,137,199
Professional and technical services	2,147,832	1,741,815	406,017
Materials and supplies	5,746,320	3,970,897	1,775,423
Utilities	448,512	399,492	49,020
Insurance	455,040	460,114	(5,074)
Taxes	200,700	142,082	58,618
Purchased transportation	7,660,956	7,498,120	162,836
State program admin fees	123,756	388,310	(264,554)
Other	544,668	402,798	141,870
Total expenses	40,170,624	35,709,269	4,461,355
Excess of revenues over expenses	646,032	7,990,462	7,344,430
INCOME (EXPENSE) FROM CAPITAL AND RELATED FINANCING:			
Loss on disposal of capital assets	-	4,943	4,943
Depreciation	-	(5,152,939)	(5,152,939)
Capital contributions	-	1,301,851	1,301,851
Total	-	(3,846,145)	(3,846,145)
CHANGE IN NET POSITION	646,032	4,144,317	3,498,285
NET POSITION, Beginning	42,479,617	42,479,617	-
NET POSITION, Ending	$ 43,125,649	$ 46,623,934	$ 3,498,285

Section III

STATISTICAL

Financial Trends

- Changes in Net Position
- Net Position

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 YEARS 2007 THROUGH FISCAL YEAR 2016

(In thousands)

Fiscal year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Passenger Fares	$ 6,448	$ 6,745	$ 7,409	$ 6,989	$ 8,018	$ 7,859	$ 7,291	$ 6,921	$ 7,590	$ 9,022
Operating Expenses	22,763	24,405	26,313	27,515	31,613	33,120	33,303	33,070	36,022	35,321
Depreciation Expense	5,379	4,234	4,225	4,112	4,086	4,029	3,607	4,139	4,462	5,153
Operating Loss	(21,694)	(21,894)	(23,129)	(24,638)	(27,681)	(29,290)	(29,619)	(30,288)	(32,894)	(31,452)
Nonoperating Revenues (Expenses)										
Sales Tax Revenues	-	-	-	-	-	-	-	-	1,981	8,537
Federal Funds	6,391	7,340	8,125	10,156	8,419	8,679	10,082	10,357	10,477	8,755
Local Transportation Funds	9,634	9,742	9,692	12,405	12,544	15,007	18,462	16,577	17,475	17,114
Interest Expense	(179)	(1,644)	(378)	-	-	-	-	-	-	-
Gain (or loss) on disposal of asset	-	1	-	(7)	(5)	12	(8)	36	14	5
Interest Income	110	403	182	166	89	24	21	58	50	39
Other Income	179	175	235	130	208	251	524	426	319	232
State Program Admin Fees	-	-	-	-	-	-	-	-	(429)	(388)
Total Nonoperating	16,135	16,017	17,856	22,850	21,255	23,973	29,081	27,454	29,888	34,294
Net Income (Loss)	(5,559)	(5,877)	(5,273)	(1,788)	(6,426)	(5,317)	(538)	(2,835)	(3,006)	2,842
Capital Contributions	6,728	15,235	7,257	3,875	2,705	3,668	12,833	1,946	14,688	1,302
Special Items	-	-	-	5,246	1,048	-	(5,206)	-	-	-
Change in Net Position	$ 1,169	$ 9,358	$ 1,984	$ 7,333	$ (2,673)	$ (1,649)	$ 7,089	$ (889)	$ 11,682	$ 4,144
Net Position Component										
Invested in capital assets	$ 16,517	$ 22,765	$ 27,251	$ 29,638	$ 29,583	$ 28,198	$ 26,818	$ 26,513	$ 36,177	$ 35,757
Restricted for capital projects	-	-	-	-	-	-	11,476	9,715	10,981	8,368
Unrestricted	2,208	5,318	2,816	7,762	5,144	4,880	1,872	3,050	(4,678)	2,499
Net Position, End of year	$ 18,725	$ 28,083	$ 30,067	$ 37,400	$ 34,727	$ 33,078	$ 40,167	$ 39,278	$ 42,480	$ 46,624

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 position.

MONTEREY-SALINAS TRANSIT

REVENUE CAPACITY
FISCAL YEARS 2007 THROUGH FISCAL YEAR 2016
(In thousands)

Fares are in thousands	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Passenger Fares	$6,448	$6,745	$7,409	$6,989	$8,018	$ 7,859	$ 7,291	$ 6,921	$ 7,590	$ 9,022
Number of Passengers	4,959	4,743	4,512	4,355	4,477	4,449	4,082	4,269	4,335	4,407
Fare Structure										
Full fare: Adult	$ 2.00	$ 2.00	$ 2.50	$ 2.50	$ 2.50	$1.50-$3.50	$1.50-$3.50	$1.50-$3.50	$1.50-$3.50	$1.50-$3.50
Discount fare: Senior, Youth & Disabled	$ 1.00	$ 1.00	$ 1.10	$ 1.25	$.50-1.50	$.75-1.75	$.75-1.75	$.75-1.75	$.75-1.75	$.75-1.75
Transfers	$0.25/.1(	$0.25/.1(	$0.25/.1(	$0.25/.1(	$ -	$ -	$ -	$ -	$ -	$ -

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 YEARS 2007 THROUGH FISCAL YEAR 2016

	2007	2008	2013	2016*
Ratio of outstanding debt:				
As a percent of personal income	0.10%	0.05%	0.02%	0.01%
Per capita income (in thousands)	$ 34.09	$ 17.53	$ 86.99	$ 54.94
Total Debt	$ 1,735,294	$ 1,892,723	$ 3,600,000	$2,635,550

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

*2016 As a percent of Personal Income and Per Caita are estimated by multiplying 2% of annual inflation based on 2014 census data

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.

MONTEREY-SALINAS TRANSIT

DEMOGRAPHIC AND ECONOMIC INDICATORS
FISCAL YEARS 2007 THROUGH FISCAL YEAR 2016

Fiscal Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Service Area Population										
(In thousands)	424	429	434	416	420	423	424	425	425	434
Total Personal Income										
(In millions)	$16,694	$ 17,205	$ 17,382	$16,969	$ 17,356	$ 18,365	$ 19,233	$ 19,889	$ 20,287	$ 20,693
Per Capita Personal										
Income	$41,256	$42,506	$41,735	$40,754	$41,138	$ 43,034	$ 44,851	$ 46,109	$ 47,031	$ 47,972
Unemployment Rate	7.10%	8.40%	11.70%	12.70%	12.90%	11.10%	8.00%	7.00%	6.20%	5.50%

* Information is not available.

Source: State Employment Development Department and County of Monterey

*2015 and 2016 Personal Income and Per Caita Income are estimated by multiplying 2% of annual inflation based on 2014 census data

Principal Industry	**Employees in 2016**	**% of Total in 2016**
Farm	63,300	31.71%
Mining and Logging	300	0.15%
Construction	5,500	2.75%
Manufacturing	5,800	2.90%
Trade, Transportation & Utilities	26,900	13.47%
Information	1,200	0.60%
Financial Activities	4,100	2.05%
Professional & Business Services	13,100	6.56%
Educational & Health Services	19,300	9.66%
Leisure & Hospility	22,800	11.42%
Other Services	5,200	2.60%
Government	32,200	16.12%
TOTAL	199,700	100.00%

Principal Industry	**Employees in 2007**	**% of Total in 2007**
Farm	53,000	28.65%
Mining and Logging	200	0.11%
Construction	7,000	3.78%
Manufacturing	6,000	3.24%
Trade, Transportation & Utilities	25,600	13.84%
Information	2,100	1.14%
Financial Activities	6,100	3.30%
Professional & Business Services	12,000	6.49%
Educational & Health Services	14,600	7.89%
Leisure & Hospility	21,600	11.68%
Other Services	4,700	2.54%
Government	32,100	17.35%
TOTAL	185,000	100.00%

Source: Most recent information available from the State of California Employment Development Department.

MONTEREY-SALINAS TRANSIT

OPERATING INFORMATION – MISCELLANEOUS INFORMATION
FISCAL YEARS 2007 THROUGH FISCAL YEAR 2016

Fiscal year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Fixed-Route Service:*										
Net Cost/Passenger	$ 4.35	$ 4.87	$ 5.73	$ 5.94	$ 6.53	$ 6.83	$ 7.61	$ 7.22	$ 7.69	$ 7.48
Net Cost/Vehicle Mile	6.54	6.82	6.94	6.53	6.90	6.96	7.71	7.69	7.59	6.98
Net Cost/Service Hour	101.73	107.25	112.01	105.16	110.58	114.10	127.61	126.35	122.75	114.51
RIDES:*										
Net Cost/Passenger	$ 22.43	$ 21.39	$ 20.22	$ 24.60	$ 28.21	$ 23.20	$ 28.75	$ 28.24	$ 25.49	$ 31.24
Net Cost/Vehicle Mile	2.32	2.24	2.22	2.65	2.91	2.54	2.94	3.04	3.16	4.20
Net Cost/Service Hour	40.71	40.50	39.25	46.55	53.45	44.38	56.86	44.36	45.64	45.63
Employees:										
Administration	26	26	30	24	22	24	22	23	24	26
Facilities	5	5	6	6	6	6	6	6	6	6
Operations	147	147	167	160	173	173	167	158	166	164
Maintenance	32	32	36	38	39	41	37	38	36	38
Total	211	211	239	228	240	244	232	225	232	234
Fixed-Route Fares:										
Full	$ 2.00	$ 2.00	$ 2.50	$ 2.50	$1.00-$3.00	$1.50-$3.50	$1.50-$3.50	$1.50-$3.50	$1.50-$3.50	$1.50-$3.50
Senior/Disabled	$ 1.00	$ 1.00	$ 1.25	$ 1.25	$0.50-$1.50	$0.75-$1.75	$0.75-$1.75	$0.75-$1.75	$0.75-$1.75	$0.75-$1.75
Fleet Information:										
Standard Coaches	99	97	97	103	113	113	104	111	108	123
RIDES Vehicles	22	29	26	29	31	32	36	33	32	29
Total Revenue Vehicles	121	126	123	132	144	145	140	144	140	152

* 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 YEARS 2007 THROUGH FISCAL YEAR 2016

Fiscal year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Capital Assets Not Being Depreciated										
Land	$ 976	$ 3,426	$ 3,426	$ 3,426	$ 3,426	$ 3,426	$ 3,426	$ 3,426	$ 3,426	$ 3,426
Construction in progress	6,647	165	1,281	4,466	5,584	6,532	5,747	1,774	2,373	2,910
Total Capital Assets Not Being Depreciated	7,623	3,591	4,707	7,892	9,010	9,958	9,173	5,200	5,799	6,337
Other Capital Assets										
Buses	29,493	35,629	36,417	31,727	32,264	33,561	35,157	34,990	46,098	40,651
Shop, office and other equipment	18,330	25,206	25,839	26,815	28,916	27,501	28,626	35,202	36,746	37,370
Total Capital Assets Being Depreciated	47,823	60,835	62,256	58,542	61,180	61,062	63,783	70,191	82,844	78,021
Less Accumulated Depreciation For:										
Buses	(15,780)	(15,781)	(18,585)	(17,026)	(19,798)	(22,718)	(24,975)	(26,171)	(28,192)	(25,247)
Shop, office and other equipment	(15,485)	(19,707)	(21,126)	(19,771)	(20,810)	(20,105)	(21,164)	(22,707)	(24,275)	(20,718)
Total Accumulated Depreciation	(31,265)	(35,488)	(39,711)	(36,797)	(40,608)	(42,823)	(46,139)	(48,879)	(52,467)	(45,965)
Capital Assets, Net	$ 24,181	$ 28,938	$ 27,252	$ 29,637	$ 29,582	$ 28,197	$ 26,817	$ 26,513	$ 36,177	$ 38,392

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

COMPLIANCE

- 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 Transportation Development Act and California Government Code Section 8879.5
- Independent Auditor's Report on Compliance for Each Major Federal Program; and Report on Internal Control Over Compliance Required by *Uniform Guidance*
- Schedule of Expenditures of Federal Awards
- Schedule of Findings and Questioned Costs
- Summary Schedule of Prior Audit Findings

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

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 TRANSPORTATION DEVELOPMENT ACT AND CALIFORNIA GOVERNMENT CODE SECTION 8879.50

The Board of Directors of
Monterey-Salinas Transit
Monterey, California

We have audited, in accordance with the 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, the financial statements of the Monterey-Salinas Transit (MST), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise MST's basic financial statements, and have issued our report thereon dated December 19, 2016. Our report included an emphasis of matter regarding adoption of the new pension reporting standards.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered MST's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MST's internal control. Accordingly, we do not express an opinion on the effectiveness of the MST's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MST's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the applicable provisions of Section 6667 of Title 21 of the California Code of Regulations and California Government Code Section 8879.50 et seq., 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*, Section 6667 of Title 21 of the California Code of Regulations and California Government Code Section 8879.50 et seq.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 19, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

The Board of Directors of
Monterey-Salinas Transit
Monterey, California

Report on Compliance for Each Major Federal Program
We have audited Monterey-Salinas Transit's (MST) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of MST's major federal programs for the year ended June 30, 2016. MST's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of MST's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 MST'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 on compliance for each major federal program. However, our audit does not provide a legal determination of MST's compliance.

Opinion on Each Major Federal Program
In our opinion, MST complied, in all material respects, with the types of 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, 2016.

Report on Internal Control Over Compliance

Management of MST is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MST's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MST'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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
December 19, 2016

MONTEREY-SALINAS TRANSIT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grantor/Program Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
U.S. Department of Transportation			
Direct grants			
Federal Transit Cluster:			
Federal Transit Capital Formula Grants	20.507	CA90Z005	$ 65,273
Federal Transit Capital Formula Grants	20.507	CA201619	7,090,791
Total Federal Transit Capital Formula Grants			7,156,064
Passed Through California Department of Transportation:			
Transit Services Program Cluster:			
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	642531	504,819
Job Access Reverse Commute	20.516	Multiple numbers(1)	239,494
Total Transit Services Program Cluster			744,313
Formula Grants for Rural Areas	20.509	Multiple numbers(2)	1,587,045
U.S. Department of Housing and Urban Development			
Passed Through County of Monterey:			
Community Development Block Grants	14.218	642531	50,103
Total Expenditures of Federal Awards			$ 9,537,525

(1) There are multiple Grant Identification Numbers as follows: 642653, 642654, 643620 and 643626.

(2) There are multiple Grant Identification Numbers as follows: 6414416, 6414404, 6414405, 64C015-00340, and 64C01

Note - Summary Of Significant Accounting Policies

A. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of federal award programs of MST. MST's reporting entity is defined in Note II of MST's financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through from other government agencies are included on the Schedule of Expenditures of Federal Awards. MST has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

B. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note II of MST's Financial Statements.

MONTEREY-SALINAS TRANSIT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Part I – Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	None
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weaknesses identified?	None
Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major Federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	None

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
20.507	Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Part II – Financial Statement Findings Section

Reference Number	Findings	Questioned Costs
No matters are reported		

Part III – Federal Award Findings and Questioned Cost Section

Reference Number	Findings	Questioned Costs
No matters are reported		

MONTEREY-SALINAS TRANSIT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016

No matters are reported

MST

MONTEREY-SALINAS TRANSIT

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