COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDING JUNE 30, 2010

Wherever Life Takes You…

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MST
MONTEREY-SALINAS TRANSIT

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MONTEREY-SALINAS TRANSIT

Monterey, California

Comprehensive Annual Financial Report

For The Fiscal Year Ended

June 30, 2010

Prepared by the Accounting Department

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

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MONTEREY-SALINAS TRANSIT

JOINT POWERS AGENCY MEMBERS:
City of Carmel-by-the Sea • City of Del Rey Oaks • City of Marina • City of Monterey • City of Pacific Grove
City of Salinas • City of Seaside • County of Monterey

Board of Directors and Passengers of Monterey-Salinas Transit
Monterey, California
December 23, 2010

Comprehensive Annual Financial Report (CAFR)
Year Ended June 30, 2010

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, 2010 and 2009. 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 Management's Discussion and Analysis provided in the Financial Section of this Report.

As required by state law, independent auditors selected by the Board of Directors audited the financial statements contained in the CAFR. For the fiscal year ended June 30, 2010, Vavrinek, Trine, Day & Co. LLP, expressed an opinion that the statements are fairly stated and in compliance with accounting principles generally accepted in the United States of America. This most favorable type of opinion is commonly referred to as "unqualified" or "clean". While the independent auditor has expressed such an opinion, MST management takes sole responsibility for the contents of this CAFR, including its presentation, completeness and disclosures. To the best of its knowledge, staff believes the information to be accurate in all material respects.

PROFILE OF THE REPORTING ENTITY

Joint-Powers Agency

For the Fiscal Year ending June 30, 2010, 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 new transit district are contiguous with those of the County of Monterey. The County of Monterey (the "County") is located along the Central Coast of California, bordered on the south by San Luis Obispo County, the west by the Pacific Ocean, the east by San Benito County, and the north by the counties of Santa Clara and Santa Cruz.

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

The MST began operations in 1973 as Monterey Peninsula Transit and, by 1981, had consolidated two separate municipal systems into a viable network of local service throughout a 110 square-mile service area. In 1997, MST began operation of RIDES, a demand-response service for patrons with mobility impairments, previously operated by the County. Over the years, MST's service area has expanded to what is as of FY 2010 approximately 275 square miles.

MST has received recognition as a leader in the public transit field with numerous awards. In 1998, MST won the California Governor's Quality Commitment Award. In addition, MST programs and individuals have received numerous awards from the Transportation Agency for Monterey County, the transportation-planning agency for Monterey County, from the California Transit Association, the Monterey County Business Council and the California Transportation Foundation

Special Purpose District

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

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

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

Some of the objectives and initiatives for fiscal year 2010 include the following:

- Complete Fremont/Lighthouse Bus Rapid Transit Project Development work.
- Complete Architectural and Engineering phase of the Monterey Bay Operations/Maintenance Center.
- Complete change in governance from Joint Powers Agency to Rapid Transit District
- Procure new smart card Farebox system and begin implementation.
- Implement Presidio of Monterey service.

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, marketing, advertising, public information and customer service, planning, programs and grant development.

Facilities and Maintenance - responsible for property management, procurement and inventory control, and vehicle maintenance.

Operations - responsible for administering bus transportation, various shuttles, ADA programs, service planning and quality assurance.

MONTEREY-SALINAS TRANSIT

Service Delivery Network

At the end of FY 2010, the MST fixed-route bus system consisted of fifty-three routes: thirty-seven operated by MST personnel, and sixteen routes operated by MV Transportation, Incorporated. In fiscal year 2010, these vehicles traveled approximately 3,864,816 miles and carried 4,249,622 passengers. RIDES, MST's paratransit service, transported approximately 104,877 mobility impaired patrons during FY 2010 on 29 specially equipped minibuses, minivans and sedans.

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 has leveled off in fiscal year 2008 to 4.7 million, followed by a further drop in FY 2009 and 2010 due to the severe economic downturn and associated high unemployment rate.

MST is a partner in a variety of community events in Monterey County and provides transportation service to the Monterey County Fair, Monterey Jazz Festival, Monterey Blues Festival, California International Airshow, First Night festivities on New Year's Eve, and races at Laguna Seca. MST buses also travel to Big Sur during the summer months and on weekends and holidays during the rest of the year, where visitors can observe the natural beauty of the region. During its 38 years of operations, MST has provided transportation to special events such as the 1985 Monterey Bay Aquarium Opening Day and the 1987 visit by Pope John Paul II. MST has provided emergency services to community evacuating local residents affected by natural disasters including floods, fires, and earthquakes.

During fiscal year 2010, MST expanded its service delivery network by adding fourteen new transit lines – Line 13 Ryan Ranch-Monterey, Lines 68 through 79 connecting the Presidio of Monterey with most areas of Monterey County as well as Gilroy and San Jose, and the MST Trolley Carmel-by-the-Sea. In addition, planning efforts were conducted for additional transit lines serving the City of Gonzales and California State University-Monterey Bay, which were implemented shortly after the end of the Fiscal Year.

Special Projects and New Programs

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

Naval Postgraduate School Express Routes

During FY 2009, MST implemented two new transit lines that connect the Naval Postgraduate School in Monterey with the La Mesa military housing community as well as housing areas on the former Fort Ord. This unique partnership is funded 100% by the military through the Department of Transportation transit benefit program. Through FY 2010, ridership continues to increase since their introduction in September of 2008.

Presidio Express Routes

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

MONTEREY-SALINAS TRANSIT

Carmel Trolley
In July of 2009, MST introduced the free Carmel Trolley for a weekends-only test project during the busy summer tourist season between Independence Day and Labor Day. The Carmel Trolley connects downtown Carmel with Carmel Beach, Carmel Mission and the Sunset [event] Center as well as a remote parking lot to reduce congestion in the community. Funded by the City of Carmel-by-the-Sea and through a grant from the Monterey Bay Unified Air Pollution Control District, the trolley now operates daily from Memorial Day weekend through Labor Day as well as during the week between Christmas and New Year's Day. Riders are transported to their favorite local destinations without having to deal with the hassle of traffic and parking.

CSUMB Free Fare Zone / Otter Trolley
A joint project between California State University Monterey Bay, the Monterey Bay Unified Air Pollution Control District and MST, the free fare zone at CSUMB's central campus and eastern residential campuses enable students, faculty, staff and visitors to board for free at MST bus stops in the area. Return trips to the university area are full fare, providing effectively a 50% discount for CSUMB bus passengers. MST is reimbursed for lost revenue through grants from the university and the Air District. Building on the success of this program, over the course of the fiscal year staff conducted the research planning and scheduling required to implement the CSUMB Otter Trolley, which was introduced September of 2010.

San Jose Express
Until the train connection from Gilroy to Salinas is established for the Caltrain System, MST is providing bus service from the Monterey Peninsula through Gilroy and Morgan Hill to San Jose. Since its implementation in September 2006, three round trips per day are being provided on Line 55 Monterey-San Jose Express. During FY 2010, MST added two more round trips between the Monterey Peninsula and Santa Clara County on the new Line 79 Presidio-San Jose Express via Gilroy.

New Operations Facilities
The Fort Ord Reuse Authority has transferred to MST several parcels of land located on the former Fort Ord. Fund raising is in progress to build an $80 million Operations and Maintenance facility to consolidate all fixed-route bus operations in one location. Two facilities located in Monterey and Salinas currently provide for all operation, maintenance and administrative functions and are at 30% to 50% beyond their original design capacities. MST has entered into a first of its kind partnership with San Joaquin Regional Transit District to design and engineer essentially identical facilities concurrently based on the existing design of Orange County Transportation Authority's Santa Ana bus base. During FY 2010, work continued on the final design and engineering phase of the project as well as the entitlement process, including environmental impact evaluations as required by the California Environmental Quality Act (CEQA).

MONTEREY-SALINAS TRANSIT

Elderly and Persons with Disabilities
For many county residents, especially seniors and those with disabilities, MST provides the only means of transportation via its accessible fixed-route and RIDES services. The entire fleet of vehicles is equipped with wheelchair lifts and full-size buses have kneeling features to ease access. During the fiscal year, MST offered a pilot taxi program for residents of the Pacific Meadows senior residential facility in Carmel Valley. Trips on taxis are subsidized for persons 65 and over using federal New Freedoms mobility management grant funds.

MST is now entering its 15th year of providing paratransit service to people with disabilities in Monterey County. In 1996, MST implemented arrangements with Monterey County to assume this service contracted with Pro Transportation Services, Inc., a privately owned company. MST's current paratransit contractor is MV Transportation, Inc. MST is in full compliance with the federally mandated Americans with Disabilities Act. In fiscal year ended June 30, 2010, RIDES vehicles, owned by MST and operated by MV Transportation under contract, provided a total of 55,432 hours of service.

FINANCIAL POLICY & CONTROL

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

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

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

The concept of reasonable assurance recognizes that:

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

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

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

MONTEREY-SALINAS TRANSIT

Budgetary Control

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

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

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

The Monterey-Salinas Transits financial position continues to be strong. Financial planning is based on the assumption of steady ridership patterns, continuation of the bus acquisition and replacement program, and extraordinary capital requirements associated with the Marina Transit Exchange and the FJL Monterey Bay Operations Facility at the former Fort Ord.

The Monterey-Salinas Transits financial position continues to be strong despite the Governor's and Legislature's elimination of all State Transit Assistance funds. Financial planning is based on the assumption of ridership stability, continuation of the bus acquisition and replacement program, and extraordinary capital requirements associated with the Monterey Bay Operations and Maintenance Facility at the former Fort Ord.

Revenue Sources

MST utilizes five primary sources of revenue to operate its public transit services: passenger fares, local transportation funds, investment income, non-transportation funds and federal funds. Operating income from patron fares and/or local transaction and use taxes must cover 15 percent of applicable operating expenses to be eligible for State of California Transportation Development Act (TDA). TDA funding provides one-quarter of one percent of the sales tax collected in Monterey County.

Local revenue now covers the yearly shortfall in operating expenses, provides the local match for federal capital grants and finances other needed capital programs. MST still relies heavily on federal assistance for capital expenditures.

Expenses and Expenditures

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

Capital Program

MST utilized $4.6 million of its federal American Recovery and Reinvestment Act (ARRA) funds to complete payments 2 years early on its bus expansion and replacement financing. By the end of FY 2009, MST was "debt free" for the first time since 2002. Design and engineering has commenced for the Monterey Bay Bus Operations and Maintenance Facility funded by $4.6 million in state Proposition 1B Transportation Bonds. The main thrust of MST's capital development program over the next five years is initiating construction of this facility. In addition twenty-one buses are scheduled to be replaced by the end of 2012.

ECONOMIC CONDITIONS

Ranking high in affluence among Northern California counties, Monterey County has a maturing economy. Due to lack of substantial industry diversification, Monterey County depends 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 fiscal year 2007, signs of economic stabilization appeared in low unemployment rates and steady tourism levels, which have lead 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 revenues fell accordingly. As of the date of this report, the state's fiscal crisis continues to have severe adverse impacts on MST's budget, with over $30 million in state transit assistance cut over the last decade. MST has covered shortfalls with fare increases, reductions in staffing and delay or cancellation of capital projects to reflect these state budgetary changes. In additional federal ARRA funds have provided MST some temporary stability in its budgetary picture for FY 2009 and 2010. With the purchase of the new smart card farebox system, MST will have exhausted its federal ARRA apportionment. Given the uncertain short- and long-term economic outlook, MST is taking a prudent course of cutting non-service related budgets and analyzing the appropriateness of current staffing levels and vacancies while seeking to maintain existing productive routes as much as possible.

FUTURE OUTLOOK

Notwithstanding current economic fluctuations, MST anticipates a transition over the next decade from its role as a local and line-haul bus operator to a more diversified enterprise encompassing multiple modes and performing mobility management for the entire community. MST will continue to provide local transportation for municipalities, but also will support its feeder bus service to the San Jose and San Francisco Bay area.

While the Association of Monterey Bay Area Governments (AMBAG) projects a 17.9% percent increase in county population by 2010, the County's inventory of jobs had been expected to grow by 13.8% percent. However, with the recent economic downturn, those estimates will most likely not fully materialize. Air quality standards are set by the Monterey Bay Unified Air Pollution Control District (MBUAPCD) with implementation of congestion management plans by local agencies. These services are underwritten by a variety of public and private funding sources. Capital funding will continue to support a bus acquisition program consistent with the MST's fleet modernization standards as well as MST's new headquarters on the former Fort Ord.

MONTEREY-SALINAS TRANSIT

SUMMARY

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

MST provides a modern bus fleet, is designing state-of-the-art bus maintenance facilities, and is an active participant in a coordinated regional transit network with direct connections to neighboring systems. MST services provide a choice in alternatives to automobile travel, improved access to work, education, and recreation opportunities to members of our community and improving the quality of life in the region by reducing traffic congestion and improving air quality.

Along with the economic stabilization provided by the federal ARRA economic stimulus funding, MST expects to consummate its strategic plan without compromising the sound financial structure developed over thirty-five years of operations. After past economic downturns, Monterey County has recovered more quickly than most other areas in California and the nation. However, given the scope and magnitude of this most recent economic slide, the county may struggle to recover as quickly as it has in the past.

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

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Monterey-Salinas Transit for its comprehensive annual financial report for the fiscal year ended June 30, 2009. This was the eighth 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 Kathy Williams and Accountant Angela Dawson 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

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, 2009

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

President

Executive Director

MONTEREY-SALINAS TRANSIT

BOARD OF DIRECTORS
Fiscal Year Ending June 30, 2010

FERNANDO ARMENTA, Chair

THOMAS MANCINI, Vice Chair

KRISTIN CLARK

LIBBY DOWNEY

JIM FORD

SERGIO SANCHEZ

KAREN SHARP

ALAN COHEN

MARIA OROZCO (Ex-Officio)

Fernando Armenta, Chair, was appointed in November 1996, and has been a member of the Monterey County Board of Supervisors since January 2001. He served as Chairperson from March 2000 to February 2001, when he became Vice Chair. He again serves as Chairperson beginning in February 2004. Mr. Armenta was initially appointed as the representative councilmember for the City of Salinas.

Thomas Mancini, councilmember from the City of Seaside, was appointed in January 1999. He began serving as Vice Chair in February 2004.

Kristin Clark, councilmember from the City of Del Rey Oaks, was appointed in May 2003.

Libby Downey, councilmember from the City of Monterey, was appointed in February 2005.

Jim Ford, councilmember from the City of Marina, was appointed in August 2007.

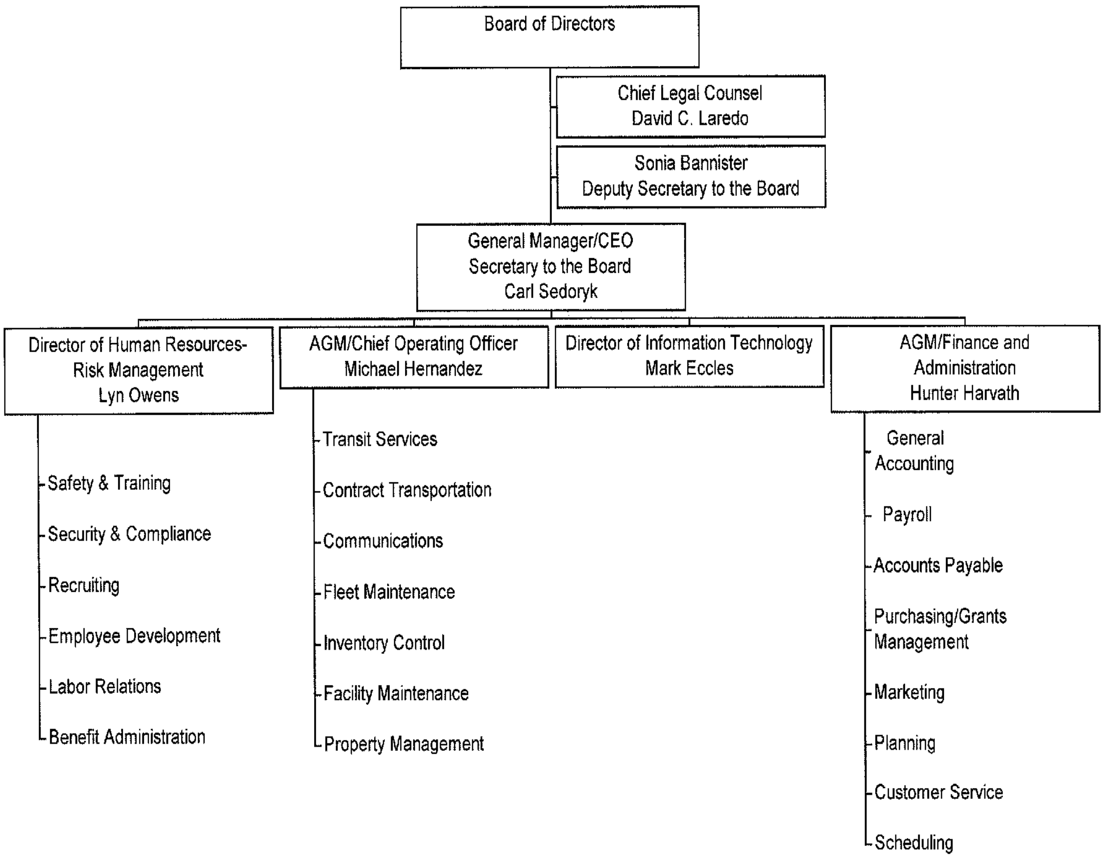
Sergio Sanchez, councilmember from the City of Salinas, was appointed by the Mayor of Salinas in January 2003.

Maria Orozco, Ex-Officio councilmember from the City of Gonzales, was appointed in November 2008.

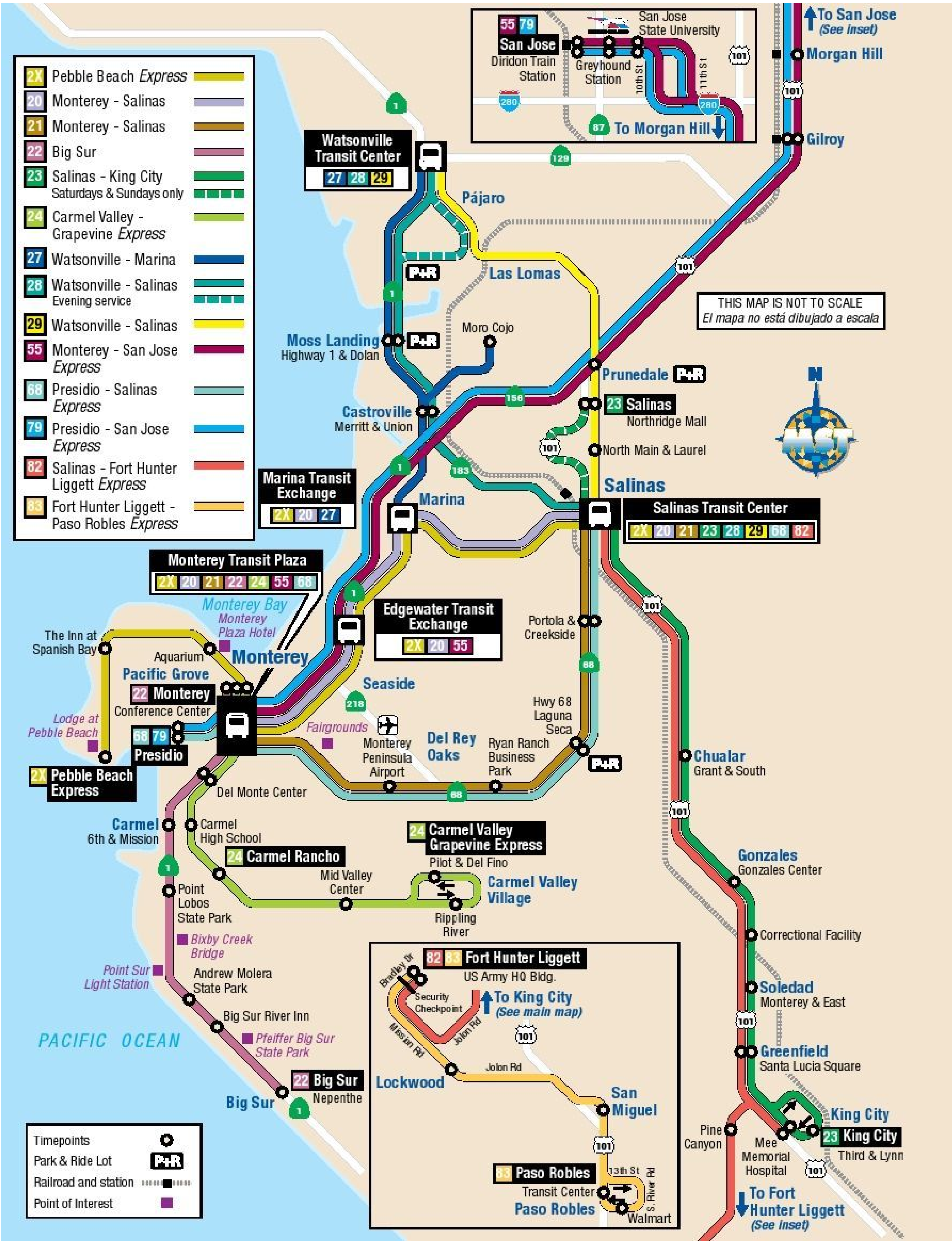
Karen Sharp, councilmember from the City of Carmel-By-The-Sea, was appointed in September 2007.

Alan Cohen, councilmember from the City of Pacific Grove was appointed in October 2009 by the City of Pacific Grove

MONTEREY-SALINAS TRANSIT




California
Monterey County
San Francisco
Los Angeles
Salinas
Monterey
King City


2X Pebble Beach Express
20 Monterey - Salinas
21 Monterey - Salinas
22 Big Sur
23 Salinas - King City
Saturdays & Sundays only
24 Carmel Valley - Grapevine Express
27 Watsonville - Marina
28 Watsonville - Salinas
Evening service
29 Watsonville - Salinas
55 Monterey - San Jose Express
68 Presidio - Salinas Express
79 Presidio - San Jose Express
82 Salinas - Fort Hunter Liggett Express
83 Fort Hunter Liggett - Paso Robles Express
55 79 San Jose
Diridon Train Station
Greyhound Station
San Jose State University
10th St
11th St
To Morgan Hill
To San Jose (See inset)
Morgan Hill
Gilroy
Watsonville Transit Center
27 28 29
Pájaro
Las Lomas
P+R
Moss Landing
Highway 1 & Dolan
Moro Cojo
THIS MAP IS NOT TO SCALE
El mapa no está dibujado a escala
Prunedale
23 Salinas
Northridge Mall
North Main & Laurel
Castroville
Merritt & Union
Marina Transit Exchange
2X 20 27
Marina
Salinas
Salinas Transit Center
2X 20 21 23 28 29 68 82
Monterey Transit Plaza
2X 20 21 22 24 55 68
Monterey Bay
Monterey Plaza Hotel
Edgewater Transit Exchange
2X 20 55
Portola & Creekside
The Inn at Spanish Bay
Aquarium
Monterey
Pacific Grove
Seaside
22 Monterey
Conference Center
Lodge at Pebble Beach
68 79 Presidio
Fairgrounds
Monterey Peninsula Airport
Del Rey Oaks
Hwy 68 Laguna Seca
Ryan Ranch Business Park
Chualar
Grant & South
2X Pebble Beach Express
Del Monte Center
Carmel
6th & Mission
Carmel High School
24 Carmel Rancho
24 Carmel Valley Grapevine Express
Pilot & Del Fino
Mid Valley Center
Carmel Valley Village
Rippling River
Gonzales
Gonzales Center
Point Lobos State Park
Bixby Creek Bridge
Correctional Facility
Point Sur Light Station
Andrew Molera State Park
Big Sur River Inn
Pfeiffer Big Sur State Park
PACIFIC OCEAN
22 Big Sur
Nepenthe
Big Sur
82 83 Fort Hunter Liggett
US Army HQ Bldg.
Bradley Dr
Security Checkpoint
Mission Rd
Jolon Rd
To King City (See main map)
Lockwood
San Miguel
83 Paso Robles
Transit Center
Paso Robles
13th St
S. River Rd
Walmart
Soledad
Monterey & East
Greenfield
Santa Lucia Square
King City
23 King City
Third & Lynn
Pine Canyon
Mee Memorial Hospital
To Fort Hunter Liggett (See inset)
MST
N
Timepoints
Park & Ride Lot
Railroad and station
Point of Interest

Section II

FINANCIAL

Independent Auditors' Report

Management's Discussion and Analysis

Financial Statements

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

Required Supplementary Information

- Schedule of Funding Progress

Other Supplemental Information

- Consolidating Statements by Program
- Budgetary Comparison

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Monterey-Salinas Transit

We have audited the accompanying statements of net assets of the Monterey-Salinas Transit (MST) as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of MST's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Monterey-Salinas Transit as of June 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 23, 2010, on our consideration of Monterey-Salinas Transit's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the schedule of funding progress listed in the table of contents are not required parts of the financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements of Monterey-Salinas Transit taken as a whole. The accompanying schedule of Federal Financial Assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments.* The Consolidating Statements by Program listed as Other Supplemental Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Monterey Salinas Transit. Both the schedule of Federal Financial Assistance and the Consolidating Statements by Program and the Budgetary Comparison Schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and the Statistical Section listed in the table of contents are also presented for the purpose of additional analysis and are not a required part of the financial statements. We have not audited this information and express no opinion on it.

Palo Alto, California
December 23, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of Monterey-Salinas Transit (MST) provide an introduction to the financial statements of MST for the fiscal year ended June 30, 2010.

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

MST ACTIVITIES HIGHLIGHTS

MST is based in Monterey, California, and consists of two operating divisions, Fixed-Route BUS and RIDES Paratransit, operating in two Federal Urbanized Zones: the Monterey Peninsula and Salinas. Overseeing some 239 employees who work together in the public interest, the General Manager/CEO coordinates the operations of these divisions according to the policy and direction of the Board of Directors. For the fiscal year ending June 30, 2010, the Board of Directors consisted of eight members representing the seven member cities and the County: Carmel-by-the-Sea, Del Rey Oaks, Marina, Monterey, Pacific Grove, Salinas, Seaside and Monterey County. A ninth member from the city of Gonzales sits on the board in an ex-officio status to provide input on issues that pertain to South County communities. Over 4.2 million passengers rode Monterey-Salinas Transit last fiscal year.

The recent economic downturn has resulted in a decrease in ridership for Fixed-Route BUS. With increases to fares during the previous fiscal year (effective January 2009) and the federal stimulus funds received by MST, service cuts were avoided during FY 2010. RIDES Paratransit demand has leveled off after jumping substantially over the last two years, primarily from increased demand from dialysis patients who no longer have their transportation to appointments provided by the Central Coast Alliance for Health.

	2010	2009	2008
Fixed- Route Passengers	4,249,622	4,399,711	4,655,574
% increase/(decrease)	(3.41%)	(5.50%)	(4.84%)
RIDES Paratranist Passengers	104,887	113,830	88,027
% increase/(decrease)	(7.85%)	29.31%	32.36%

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

FINANCIAL POSITION SUMMARY

Total net assets serve over time as a useful indicator of MST's financial position. MST's assets exceed liabilities by $37.4 million at June 30, 2010, which was a 24.4% increase from June 30, 2009. At June 30, 2009 MST's assets exceeded the liabilities by $30 million which is an increase of 7% from June 30, 2008. A condensed summary of net assets at June 30 is shown below ($ in thousands):

	2010	2009	2008
ASSETS:			
Current and other assets	$ 13,975	$ 13,923	$ 14,587
Capital assets	29,638	27,252	28,938
Total assets	$ 43,613	$ 41,175	$ 43,525
LIABILITIES			
Current liabilities	6,213	5,861	5,707
Non current liabilities	-	5,246	9,734
Total liabilities	6,213	11,107	15,441
NET ASSETS:			
Invested in capital assets	29,638	27,252	22,765
Unrestricted	7,762	2,816	5,319
TOTAL NET ASSETS	$ 37,400	$ 30,068	$ 28,084

The largest portion of MST's net assets each year (68% at June 30, 2010) is its investment in capital assets (e.g., buses, buildings, improvements, and equipment). MST uses these capital assets to provide services to its patrons, passengers and visitors to the region; consequently, these assets are not available for future spending. The remaining unrestricted net assets (32% at June 30, 2010) may be used to meet MST's ongoing obligations.

FINANCIAL OPERATIONS HIGHLIGHTS

- Total Revenues in 2010 compared to 2009 before capital contributions increased by 16.4% from $25.6 million to $29.8 million primarily as a result of increase in operating grants. Total Revenues in 2009 compared to 2008 before capital contributions increased by 5% from $24.4 million to $25.6 million primarily as a result of increase in federal operating grants.
- Operating Expenses in 2010 compared to 2009 before depreciation increased by 4.6% from $26.3 million to $27.5 million, primarily as a result in increased operating costs from our aging fleet and expansion of service. Operating Expenses in 2009 compared to 2008 before depreciation increased by 7.8% from $24.4 million to $26.3 million, primarily as a result of increased wages and materials and fuel costs.
- Capital contributions received in the form of grants from the Federal and State governments decreased from $7.3 million in 2009 to $3.8 million in 2010. Capital contributions received in the form of grants from the Federal and State governments decreased from $15.2 million in 2008 to $7.3 million in 2009.

SUMMARY OF CHANGES IN NET ASSETS ($ in thousands)

	2010	2009	2008
Total revenues	$ 29,846	$ 25,644	$ 24,405
Operating expenses	27,515	26,314	24,405
Operating loss before depreciation and interest expense	2,331	(670)	-
Interest expense	-	378	1,645
Loss on sale of assets	(8)	-	1
Depreciation	4,112	4,225	4,233
Net loss before capital contributions	(1,789)	(5,273)	(5,877)
Capital contributions	3,875	7,257	15,235
Special item	5,246	-	-
Increase (decrease) in net assets	$ 7,332	$ 1,984	$ 9,358

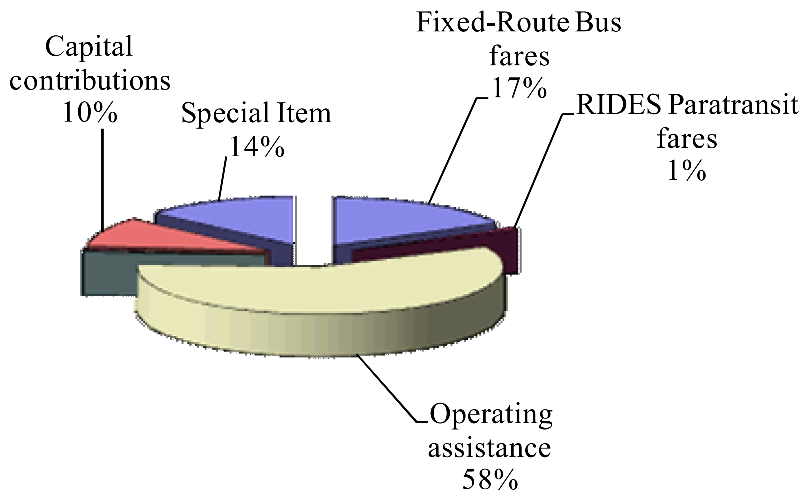
MST PASSENGER FARES

Passenger fares are set by Board Policy and changed when determined necessary by the Board. There were no fare changes in FY2010.

	2010	2009	2008
Fixed-Route Bus Single Zone Fare	$ 2.50	$ 2.50	$ 2.00
Fixed-Route Bus Single Zone Transfer	0.25	0.25	0.25
RIDES Paratransit Single Zone Fare	3.00	3.00	2.50

REVENUES

The following chart shows the major sources and the percentage of operating revenues for the year ended June 30, 2010 (fares, grants and other):



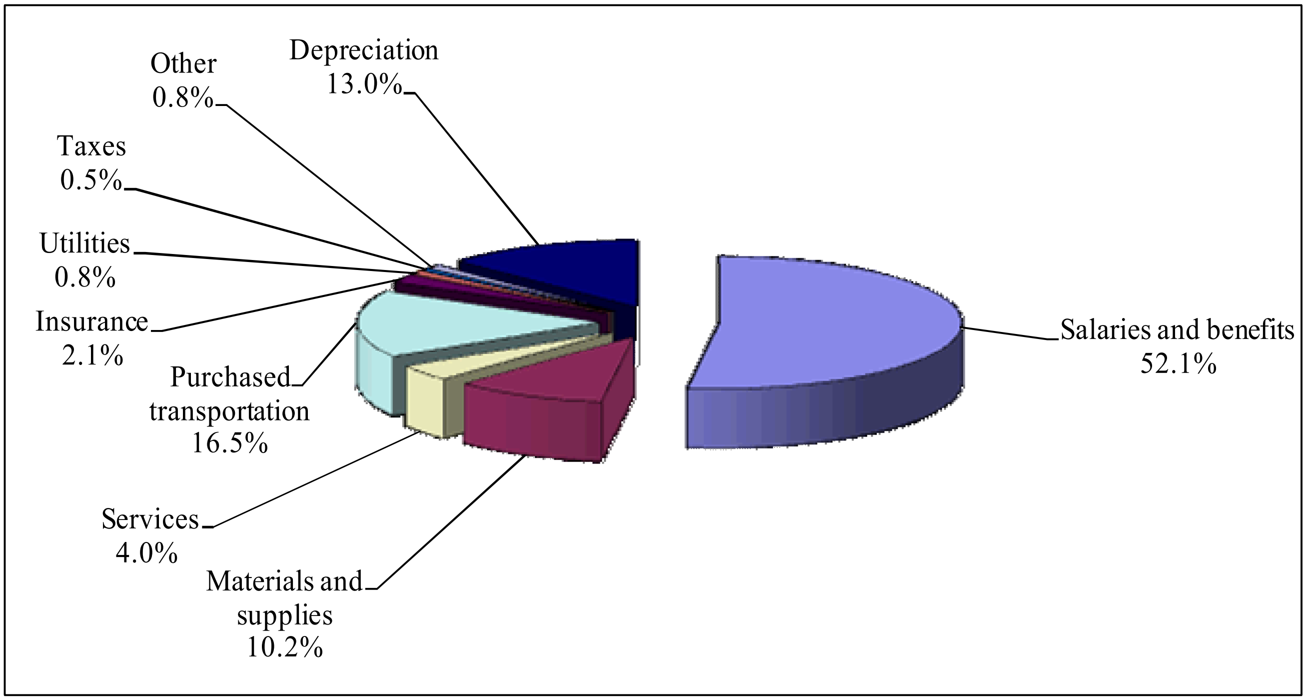
A summary of revenues for the year ended June 30, 2010, including the amount and percentage of change in relation to prior year amounts is as follows ($ in thousands):

	2010 Amount	Percent of Total	2010 Increase (Decrease) From 2009	Percent Increase/ (Decrease)	2009 Amount	Percent of Total	2009 Increase (Decrease) From 2008	Percent Increase/ (Decrease)	2008 Amount
Operating									
Fixed-Route Bus fares	$ 6,677	17.1%	$ (297)	(4.3%)	$ 6,974	21.2%	$ 450	6.9%	$ 6,524
RIDES Paratransit fares	311	0.8%	(124)	(28.5%)	435	1.3%	214	96.8%	221
Total Operating	6,988	17.9%	(421)	(5.7%)	7,409	22.5%	664	9.8%	6,745
Nonoperating:									
Federal grants	10,150	26.0%	2,025	24.9%	8,125	24.7%	785	10.7%	7,340
Local Transportation Fund	12,411	31.9%	2,719	28.1%	9,692	29.5%	(50)	(0.5%)	9,742
Investment income	166	0.4%	(16)	(8.8%)	182	0.6%	(221)	(54.8%)	403
Other	130	0.3%	(105)	(44.7%)	235	0.7%	59	33.5%	176
Total Nonoperating	22,857	58.7%	4,623	25.4%	18,234	55.4%	573	3.2%	17,661
Capital contributions	3,876	9.9%	(3,381)	(46.6%)	7,257	22.1%	(7,978)	(52.4%)	15,235
Special Item	5,246	13.5%	-	100.0%	-	0.0%	0.0%	0.0%	-
Total Revenues	$ 38,967	100.0%	$ 6,067	18.4%	$ 32,900	100.0%	$ (6,741)	(17.0%)	$ 39,641

The operating assistance increase is mainly attributable to the increased Transportation Development Act assistance.

EXPENSES

The following chart shows the major cost categories and the percentage of operating expenses for the year ended June 30, 2010:



A summary of expenses for the year ended June 30, 2010, including the amount and percentage of change in relation to prior year amounts is as follows ($ in thousands):

	2010 Amount	Percent of Total	2010 Increase (Decrease) From 2009	Percent Increase/ (Decrease)	2009 Amount	Percent of Total	2009 Increase (Decrease) From 2008	Percent Increase/ (Decrease)	2008 Amount
Operating:									
Salaries and benefits	$16,487	52.2%	$54	0.3%	$16,433	53.8%	$1,662	11.3%	$14,771
Materials and supplies	3,224	10.2%	113	3.6%	3,111	10.2%	(125)	(3.9%)	3,236
Professional and Technical Services	1,255	4.0%	(39)	-3.0%	1,294	4.2%	156	13.7%	1,138
Purchased transportation	5,227	16.5%	686	15.1%	4,541	14.9%	623	15.9%	3,918
Insurance	625	2.0%	231	58.6%	394	1.3%	(141)	(26.4%)	535
Utilities	261	0.8%	7	2.8%	254	0.8%	(14)	(5.2%)	268
Taxes	172	0.5%	122	244.0%	50	0.2%	(129)	(72.1%)	179
Other	264	0.8%	27	11.4%	237	0.8%	(122)	(34.0%)	359
Total operating expenses before depreciation	27,515	87.1%	1,201	4.6%	26,314	86.2%	1,910	7.8%	24,404
Depreciation and other	4,120	13.0%	(105)	-2.5%	4,225	13.8%	(9)	(0.2%)	4,234
Total operating expenses	$ 31,635	100.0%	$ 1,096	3.6%	$ 30,539	100.0%	$ 1,901	6.6%	$ 28,638

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. Some of those acquisitions were funded from the Bus Purchase Financing agreements that were paid off using stimulus grants in the current fiscal year. Additional information on MST's capital assets can be found in Note 5 of the notes to the financial statements.

ECONOMIC AND OTHER FACTORS

As it has for nearly four decades, MST is continuing its commitment to its mission of leading, advocating and delivering quality public transportation. In carrying out this mission, MST provides fixed-route bus and paratransit service 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 FY 2010, the financial condition of MST was strong despite the economic downturn, thanks in part to additional federal assistance through the American Recovery and Reinvestment Act (ARRA). MST used 10% of these ARRA funds to support operations and, by paying off its bus replacement loan two years early, interest savings was passed on to MST customers in the form of a temporary 25-cent cash fare reduction effective Labor Day weekend 2009 through Memorial Day weekend 2010. As the economy worsened, MST did trim its administrative workforce during the fiscal year in order to help balance the budget. However, federal funding through its military partnerships with Naval Postgraduate School and the Presidio of Monterey enabled MST to hire approximately 30 new bus drivers during the fiscal year to deploy 12 new bus routes to serve these facilities.

Going forward, the economic outlook at both the state and national levels will lead MST to take conservative approaches to budgeting and expenditures in future fiscal years. MST supports its activity primarily with transit fares and local transportation funds. Increasingly, MST has secured special, restricted federal grants to fund new services, demonstration projects, and capital expenditures. However, 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. In recent years, steps have been taken to back a 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 deficit and impasse has 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. Once the federal ARRA funding is exhausted by the end of FY 2011, MST will be forced to consider once again raising its fares or cutting service on its core, non-grant funded bus lines in order to offset the absence of local and state support of public transit. Looking to the future, the newly-formed MST District now has the power to levy local taxes to support transit operations, where the MST joint powers agency did not. If local support exists, additional funding could be sought through a local tax measure that would provide additional fiscal stability to MST and its transit services in the County.

Now debt free, MST is turning to an ambitious construction project – a new consolidated headquarters, operations and maintenance facility on the former Fort Ord to replace its two undersized, aging facilities in Monterey and Salinas. With a cost that could reach in the $80 to $90 million range, MST will be pursuing financing mechanisms in order to fund construction of this facility that is expected to be its home for the forseeable future. The new facility will enable MST to grow as it develops partnerships with major stakeholders in the county demanding new transit lines. Approximately $20 million of the cost of the project is funded through California State Proposition 1B Transit Bonds for capital projects. Financing the remaining portion of the funds will be pursued as the design and engineering of the facility nears completion.

MST is nearing completion of its agency-wide technological upgrade. Its $3.5 million Advanced Communication System has been in place since 2003 and is fully operational. The Global Positioning System (GPS) features of the ACS has enabled MST to install real-time electronic passenger information signage at its major transit hubs for the benefit of customers. Maintenance and inventory control systems are in place and fully functional. New scheduling software has allowed for more efficient runcutting and rostering, producing financial savings to the agency. The first phases of the financial management package are similarly in place and being utilized effectively by staff. Additional software packages, including Timekeeping & Dispatch and Human Resources components, have been implemented during FY 2010.

ADDDITIONAL FINANCIAL INFORMATION

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

MONTEREY-SALINAS TRANSIT

STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009

ASSETS	2010	2009
CURRENT ASSETS:		
Cash and investments	$ 4,475,690	$ 8,171,968
Operating grants receivable	7,204,603	4,636,366
Capital grants receivable	-	217,027
Material and supplies, at cost	354,204	406,544
Prepaid expenses	95,957	233,119
Other receivables	1,845,265	257,766
Total current assets	13,975,719	13,922,790
PROPERTY, PLANT, AND EQUIPMENT:		
Land	3,426,071	3,426,071
Buses	31,727,809	36,417,494
Shop, office and other equipment	26,815,115	25,839,140
Total	61,968,995	65,682,705
Accumulated depreciation	(36,797,755)	(39,711,895)
Construction in progress	4,466,271	1,280,916
Property, plant and equipment - net	29,637,511	27,251,726
TOTAL ASSETS	43,613,230	41,174,516
LIABILITIES AND CAPITAL		
CURRENT LIABILITIES:		
Accounts payable	2,871,994	1,854,252
Accrued liabilities	1,484,390	1,800,912
Self-insurance liabilities	1,856,820	2,205,392
Total current liabilities	6,213,204	5,860,556
NONCURRENT LIABILITIES		
Deferred credits	-	5,246,225
TOTAL LIABILITIES	6,213,204	11,106,781
NET ASSETS:		
Invested in capital assets net of related debt	29,637,511	27,251,726
Unrestricted	7,762,515	2,816,009
TOTAL NET ASSETS	$ 37,400,026	$ 30,067,735

See notes to financial statements.

MONTEREY-SALINAS TRANSIT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
OPERATING REVENUES:		
Fares	$ 6,988,114	$ 7,409,192
OPERATING EXPENSES:		
Salaries and benefits	16,487,015	16,432,816
Professional and technical services	1,254,967	1,293,572
Materials and supplies	3,223,602	3,111,045
Utilities	261,179	253,853
Insurance	625,144	394,434
Taxes	172,298	49,913
Purchased transportation	5,226,945	4,540,828
Other	264,632	237,294
Total operating expense	27,515,782	26,313,755
Operating loss before depreciation	(20,527,668)	(18,904,563)
DEPRECIATION	4,112,103	4,225,001
OPERATING LOSS	(24,639,771)	(23,129,564)
NON-OPERATING REVENUES AND EXPENSES		
Operating assistance:		
Federal grants	10,150,679	8,125,228
Local and State grants	12,411,355	9,692,276
Interest expense	-	(378,426)
Gain (Loss) on disposal of assets	(7,756)	-
Interest income	166,138	181,924
Other	129,739	235,452
Total non-operating revenues	22,850,155	17,856,454
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(1,789,616)	(5,273,110)
CAPITAL CONTRIBUTIONS	3,875,682	7,257,219
SPECIAL ITEM	5,246,225	-
CHANGE IN NET ASSETS	7,332,291	1,984,109
NET ASSETS, Beginning of year	30,067,735	28,083,626
NET ASSETS, End of year	$ 37,400,026	$ 30,067,735

See notes to financial statements.

MONTEREY-SALINAS TRANSIT

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fares	$ 6,988,114	$ 7,409,192
Payments to employees	(16,826,541)	(15,558,373)
Payments to vendors for services	(8,882,821)	(8,180,961)
Payments for insurance claims and premiums	(836,554)	(332,478)
Other	(1,885,476)	(267,096)
Net cash used in operating activities	(21,443,278)	(16,929,716)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating grants received	21,083,967	20,896,171
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants received	3,002,539	7,266,105
Interest payments	-	(378,426)
Payments under long-term financing agreement	-	(6,172,905)
Purchase of property, plant and equipment net of related debt	(6,505,644)	(2,538,638)
Net cash used by capital and related financing activities	(3,503,105)	(1,823,864)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	166,138	181,924
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,696,278)	2,324,515
CASH AND CASH EQUIVALENTS, Beginning of year	8,171,968	5,847,453
CASH AND CASH EQUIVALENTS, End of year	$ 4,475,690	$ 8,171,968
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (24,639,771)	$ (23,129,564)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	4,112,103	4,225,001
Other income	129,739	235,452
Effect of changes in:		
Materials and supplies	52,340	(47,178)
Prepaid expenses	137,162	(32,780)
Receivables	(1,587,499)	(7,361)
Accounts payable	1,017,742	867,467
Accrued liabilities	(316,522)	858,695
Self-insurance liabilities	(348,572)	100,552
Net cash used in operating activities	$ (21,443,278)	$ (16,929,716)

See notes to 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.

II. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting - The 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. The MST has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

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

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

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

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

MST's capitalization threshold is $500.

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

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

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

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

III. OPERATING ASSISTANCE

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

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

Operating grant activity for 2010 is summarized as follows:

	Federal Grants	Local Transportation Fund	State Operating Grants	Total
Amount recognized as revenue	$ 10,150,679	$ 10,305,754	$ 347,617	$ 20,804,050
Amount received prior to June 30, 2010	2,946,076	8,650,030	347,617	11,943,723
Grants receivable at June 30, 2010	$ 7,204,603	$ 1,655,724	$ -	$ 8,860,327

Operating grant activity for 2009 is summarized as follows:

	Federal Grants	Local Transportation Fund	State Operating Grants	Total
Amount recognized as revenue	$ 8,125,228	$ 8,021,113	$ 1,671,163	$ 17,817,504
Amount received prior to June 30, 2009	3,691,038	8,021,113	1,497,757	13,209,908
Grants receivable at June 30, 2009	$ 4,434,190	$ -	$ 173,406	$ 4,607,596

IV. DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2010 and 2009, consists of the following:

	2010	2009
Cash on hands and in banks	$ 3,936,517	$ 5,579,150
Investments in Local Agency Investment Fund	539,173	2,592,818
	$ 4,475,690	$ 8,171,968

Policies and Practices

The 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. The MST does not have a formal policy related for investments credit risk.

General Authorizations

Limitations as they relate to interest rate risk, credit 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. The MST manages its exposure to interest rate risk by depositing substantially all of its funds in the Local Agency Investment Fund Pool (LAIF). The fair value of the deposits with the LAIF at June 30, 2010 and 2009 was $548,015 and $2,596,201 respectively. The MST does not have a formal policy related for its investments interest rate risk.

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.

		Rating as of June 30, 2010	
	Total	AAA	Not Rated
Local Agency Investment Fund	$ 539,173	$ -	$ 539,173

		Rating as of June 30, 2009	
	Total	AAA	Not Rated
Local Agency Investment Fund	$ 2,592,818	$ -	$ 2,592,818

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. The MST is a voluntary participant in the investment pool. The MST had a contractual withdrawal value that equated to the fair value of its position in the pool.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the MST's deposits may not be returned to it. The 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, 2010 and 2009, MST's bank balances of $3,755,487 and $5,268,476, 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 the MST.

V. CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2010 and 2009, is as follows:

	Beginning Balance July 01, 2009	Additions	Retirements/ Reclassifications	Ending Balance June 30, 2010
Capital assets not depreciated				
Land	$ 3,426,071	$ -	$ -	$ 3,426,071
Construction in progress	1,280,914	3,185,357	-	4,466,271
Capital assets depreciated				
Buses	36,417,495	2,219,098	(6,908,784)	31,727,809
Shop, office and other equipment	25,839,141	1,001,999	(26,025)	26,815,115
Totals at historical cost	66,963,621	6,406,454	(6,934,809)	66,435,266
Accumulated depreciation				
Buses	18,585,414	2,763,209	(4,321,928)	17,026,695
Shop, office and other equipment	21,126,481	1,257,460	(2,612,881)	19,771,060
Total accumulated depreciation	39,711,895	4,020,669	(6,934,809)	36,797,755
Capital assets, net	$ 27,251,726	$ 2,385,785	$ -	$ 29,637,511

	Beginning Balance July 01, 2008	Additions	Retirements/ Reclassifications	Ending Balance June 30, 2009
Capital assets not depreciated				
Land	$ 3,426,071	$ -	$ -	$ 3,426,071
Construction in progress	164,507	2,538,639	1,422,232	1,280,914
Capital assets depreciated				
Buses	35,628,584	788,911	-	36,417,495
Shop, office and other equipment	25,205,820	633,321	-	25,839,141
Totals at historical cost	64,424,982	3,960,871	1,422,232	66,963,621
Accumulated depreciation				
Buses	15,780,373	2,805,041	-	18,585,414
Shop, office and other equipment	19,706,520	1,419,961	-	21,126,481
Total accumulated depreciation	35,486,893	4,225,002	-	39,711,895
Capital assets, net	$ 28,938,089	$ (264,131)	$ 1,422,232	$ 27,251,726

VI. SELF-INSURANCE

MST has self-insurance programs for the following risks:

- Liability to a maximum of $250,000 per incident, over which coverage is provided to $500,000 per incident by the California Transit Insurance Pool (CalTIP) (see Note 8), and from $500,000 to $5,500,000 per incident coverage is provided by a private carrier through CalTIP.

- Physical damage to a maximum of $5,000 bus and $500 for support vehicles per incident, over which coverage is provided to $100,000 per incident by CalTIP, and from $100,000 to $5,000,000 per incident, coverage is provided by a private carrier through CalTIP.

- Workers compensation to a maximum of $350,000 per incident, over which coverage is provided to $5,000,000 by a private carrier.

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

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

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

Changes in the balance of estimated self-insurance liabilities between the fiscal years ended June 30, 2008 through 2010 are approximately as follows:

	2010	2009	2008
Estimated self-insurance liabilities, beginning of year	$ 2,205,392	$ 2,104,840	$ 2,142,174
Current year claims and changes in estimates	466,175	1,162,746	1,024,860
Claim payments and administration	(814,747)	(1,062,194)	(1,062,194)
Estimated self-insurance liabilities, end of year	$ 1,856,820	$ 2,205,392	$ 2,104,840

VII. BUS PURCHASE FINANCING AGREEMENT

In September 2002, MST entered into a bus purchase financing agreement with Gillig Corporation and Municipal Services Group in the amount of $15,180,000 with interest rate of 4.64 percent. The payments end in 2012. The payments will be financed from MST's federal and local capital grants. In the 2009, MST terminated its 2002 financing agreement and completely paid off the debt using current capital grant funds.

	Original Balance	Balance as of July 1, 2008	Paid	Balance as of June 30, 2009	Due in One Year
2002 Bus purchase financing agreement	$ 15,180,000	$ 6,172,905	$ 6,172,905	$ -	$ -

CALTIP JOINT POWERS AGREEMENT

MST participates in the California Transit Insurance Pool (CalTIP), a joint powers agreement created to provide liability and physical damage insurance to its members through an insurance pool. MST paid premiums to CalTIP of approximately $228,512 and $276,749 in the fiscal years ended June 30, 2010 and 2009, respectively.

Condensed financial information of CalTIP (prepared using the accrual basis of accounting) for the year ended April 30, 2010 (most recent available information) is as follows:

	Audited
Current assets	$ 8,941,158
Noncurrent assets	17,740,154
Total Assets	$ 26,681,312
Current liabilities	$ 6,351,099
Noncurrent liabilities	3,782,190
Net assets	16,548,023
Total liabilities and equity	$ 26,681,312
Total revenues	$ 6,386,315
Total expenses	(5,916,329)
Net income	$ 469,986

VIII. COMPENSATED ABSENCES

Accumulated unpaid personal leave, consisting of vacation, holiday and sick pay, have been accrued at June 30, 2010 and 2009 in the amounts of $943,526 and $888,332, respectively. The MST's liability for compensated absences typically is liquidated within one year. MST accrued $1,417,415 and paid $1,666,407 during fiscal year 2009-2010.

IX. EMPLOYEES' RETIREMENT PLAN

Plan Description

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

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

Funding Policy

Employees are required to contribute 7% of covered salary to CalPERS. MST is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by the CalPERS Board of Administration. For the fiscal years ended June 30, 2010, 2009 and 2008 the employer contribution rate was 7.916%, 8.145% and 7.654%, respectively. MST, as part of its compensation to employees, pays the employees' contributions.

Annual Pension Cost

For the fiscal years ended June 30, 2010, 2009 and 2008, MST's annual pension cost of $1,591,139, $1,599,961 and $1,476,976 respectively for CalPERS was equal to MST's required and actual contributions. The required contribution was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return, and (b) projected salary increases that vary by duration of service. Both (a) and (b) included an inflation component of 3.00% and an amortization of the UAAL on a closed basis. The actuarial value of MST's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Three-Year Trend Information

Fiscal Year End	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/10	$ 1,591,139	100%	$ -
6/30/09	1,599,961	100%	-
6/30/08	1,476,976	100%	-

Funding Status and Progress

As of June 30, 2009, the recent actuarial valuation date the plan was 99.9% funded. The actuarial accrued liability was $40,453,371 and the actuarial value of assets was $40,416,306. The schedule of funding progress is presented in the required supplementary information following the notes to the financial statements. The following schedule shows the status of the plan for the most recent actuarial:

Actuarial * Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (Entry Age Normal)	Unfunded (Overfunded) Actuarial Accrued Liability (OAAL)	Funded Status	Annual Covered Payroll	OAAL as a Percentage Covered Payroll
6/30/09	$ 40,416,306	$ 40,453,371	$ 37,065	99.9%	$ 10,196,575	0.4%

X. SPECIAL ITEM

Effective July 1, 2010, legislation was passed to classify MST as a special district. In the process of this conversion, MST made the determination that the amounts of unspent local transportation funds classified as deferred credits on the balance sheet are no longer restricted and are available for operations. The $5,246,225 amount of deferred credits were recognized as revenues in the 2010 fiscal year as a special item in the statement of revenues, expenses and changes to net asset.

REQUIRED SUPPLEMENTARY INFORMATION

MONTEREY-SALINAS TRANSIT

MISCELLANEOUS PLAN OF THE
CALIFORNIA PUBLIC EMPLOYEE-RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2010

Actuarial * Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (Entry Age Normal)	Unfunded (Overfunded) Actuarial Accrued Liability (OAAL)	Funded Status	Annual Covered Payroll	OAAL as a Percentage Covered Payroll
6/30/09	$ 40,416,306	$ 40,453,371	$ 37,065	99.9%	$ 10,196,575	0.4%
6/30/08	38,316,189.00	36,103,257.00	(2,212,932.00)	1.06	10,078,335.00	(22%)
6/30/07	39,863,250.00	33,111,105.00	(6,752,145.00)	1.20	9,210,831.00	(23%)

* Most recent information available

OTHER SUPPLEMENTAL INFORMATION

MONTEREY-SALINAS TRANSIT

CONSOLIDATING SCHEDULE OF NET ASSETS BY PROGRAM
JUNE 30, 2010

ASSETS	FIXED-ROUTE BUS SERVICE	RIDES	TOTAL
CURRENT ASSETS:			
Cash and investments	$ 4,513,665	$ (37,975)	$ 4,475,690
Operating grants receivable	7,204,603	-	7,204,603
Materials and supplies, at cost	354,204	-	354,204
Prepaid expenses	95,957	-	95,957
Other receivables	1,845,265	-	1,845,265
Inter-program receivable	(23,299)	23,299	-
Total current assets	13,990,395	(14,676)	13,975,719
PROPERTY, PLANT AND EQUIPMENT:			
Land	3,426,071	-	3,426,071
Buses	29,989,403	1,738,406	31,727,809
Shop, office and other equipment	26,490,662	324,453	26,815,115
Total	59,906,136	2,062,859	61,968,995
Accumulated depreciation	(35,633,230)	(1,164,525)	(36,797,755)
Construction in progress	4,438,578	27,693	4,466,271
Property, plant and equipment - net	28,711,484	926,027	29,637,511
TOTAL ASSETS	42,701,879	911,351	43,613,230
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable	2,871,994	-	2,871,994
Accrued liabilities	1,477,134	7,256	1,484,390
Self-insurance liabilities	1,856,820	-	1,856,820
TOTAL LIABILITIES	6,205,948	7,256	6,213,204
NET ASSETS:			
Invested in capital assets net of related debt	28,711,484	926,027	29,637,511
Unrestricted	7,784,447	(21,932)	7,762,515
TOTAL NET ASSETS	$ 36,495,931	$ 904,095	$ 37,400,026

MONTEREY-SALINAS TRANSIT

CONSOLIDATING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS BY PROGRAM
YEAR ENDED JUNE 30, 2010

	FIXED-ROUTE BUS SERVICE	RIDES	TOTAL
REVENUES:			
Fares	$ 6,676,766	$ 311,348	$ 6,988,114
Operating assistance:			
Federal grants	10,150,679	-	10,150,679
Local and State grants	10,305,754	2,105,601	12,411,355
Interest income	166,138	-	166,138
Other	129,739	-	129,739
Total	27,429,076	2,416,949	29,846,025
EXPENSES:			
Salaries and benefits	16,426,786	60,229	16,487,015
Professional and technical services	1,234,868	20,099	1,254,967
Materials and supplies	3,224,703	(1,101)	3,223,602
Utilities	261,179	-	261,179
Insurance	625,144	-	625,144
Taxes	172,298	-	172,298
Purchased transportation	2,725,878	2,501,067	5,226,945
Other	264,373	259	264,632
Total	24,935,229	2,580,553	27,515,782
EXCESS OF EXPENSES BEFORE CAPITAL AND FINANCING ITEMS OVER REVENUES	2,493,847	(163,604)	2,330,243
INCOME (EXPENSE) FROM CAPITAL AND RELATED FINANCING			
Loss on disposal of assets	5,523	(13,279)	(7,756)
Capital contributions	3,510,053	365,629	3,875,682
Depreciation	(3,800,025)	(312,078)	(4,112,103)
Total	(284,449)	40,272	(244,177)
SPECIAL ITEM	4,373,082	873,143	5,246,225
CHANGE IN NET ASSETS	$ 6,582,480	$ 749,811	$ 7,332,291

MONTEREY-SALINAS TRANSIT

CONSOLIDATED SCHEDULE OF CASH FLOWS BY PROGRAM
YEAR ENDED JUNE 30, 2010

	FIXED ROUTE BUS SERVICE	RIDES	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from fares	$ 6,676,766	$ 311,348	$ 6,988,114
Payments to employees	(16,766,312)	(60,229)	(16,826,541)
Payments to vendors for services	(6,376,546)	(2,506,275)	(8,882,821)
Payments for insurance claims and premiums	(836,554)	-	(836,554)
Other	(1,885,217)	(259)	(1,885,476)
Net cash used in operating activities	(19,187,863)	(2,255,415)	(21,443,278)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Operating assistance received	17,947,109	3,136,858	21,083,967
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital grant funds received	3,510,053	(507,514)	3,002,539
Purchases of property, plant and equipment net of depreciation	(6,085,100)	(420,544)	(6,505,644)
Net cash used by capital and related financing activities	(2,575,047)	(928,058)	(3,503,105)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	166,138	-	166,138
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(3,649,663)	(46,615)	(3,696,278)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	8,163,328	8,640	8,171,968
CASH AND EQUIVALENTS, END OF YEAR	$ 4,513,665	$ (37,975)	$ 4,475,690

MONTEREY-SALINAS TRANSIT

BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2010

	Budgeted Amounts	Actual	Variances --- Favorable (Unfavorable)
REVENUES:			
Fares	$ 6,397,545	$ 6,988,114	$ 590,569
Operating assistance:			
Federal grants	9,924,094	10,150,679	226,585
Local and State grants	13,904,160	12,411,355	(1,492,805)
Interest	150,000	166,138	16,138
Other income	250,000	129,739	(120,261)
Total revenues	30,625,799	29,846,025	(779,774)
EXPENSES:			
Salaries and benefits	18,034,524	16,487,015	(1,547,509)
Professional and technical services	1,488,782	1,254,967	(233,815)
Materials and supplies	3,891,861	3,223,602	(668,259)
Utilities	273,862	261,179	(12,683)
Insurance	457,108	625,144	168,036
Taxes	253,469	172,298	(81,171)
Purchased transportation	5,900,973	5,226,945	(674,028)
Other	325,220	264,632	(60,588)
Total expenditures	30,625,799	27,515,782	(3,110,017)
Excess of revenues over expenditures	-	2,330,243	2,330,243
INCOME (EXPENSE) FROM CAPITAL AND RELATED FINANCING			
Loss on disposal of fixed assets	-	(7,756)	(7,756)
Depreciation	(4,138,870)	(4,112,103)	26,767
Capital contributions	-	3,875,682	3,875,682
Special Item	-	5,246,225	5,246,225
Total	(4,138,870)	5,002,048	9,140,918
CHANGE IN NET ASSETS	(4,138,870)	7,332,291	11,471,161
NET ASSETS, Beginning	30,067,735	30,067,735	-
NET ASSETS, Ending	$ 25,928,865	$ 37,400,026	$ 11,471,161

STATISTICAL

Financial Trends

- Changes in Net Assets
- Net Assets

Revenue Capacity

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

Debt Capacity

- Outstanding Debt
- Per Capita Debt
- Pledged Revenue Coverage

Demographic and Economic Indicators

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

Operating Information

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

STATISTICAL SECTION

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

Financial Trends

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

Debt Capacity

These schedules assist readers in understanding and assessing the 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 the MST's financial activities take place.

Operating Information

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

MONTEREY-SALINAS TRANSIT

FINANCIAL TRENDS – TEN-YEAR COMPARISON - Fiscal Year 2001 through Fiscal Year 2010

(In thousands)

Fiscal year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Passenger Fares	$ 4,226	$ 4,670	$ 4,729	$ 4,835	$ 4,787	$ 5,817	$ 6,448	$ 6,745	$ 7,409	$ 6,989
Operating Expenses	15,189	15,888	17,705	18,262	18,960	21,030	22,763	24,405	26,313	27,515
Depreciation Expense	2,771	3,099	3,446	4,381	4,557	4,729	5,379	4,234	4,225	4,112
Operating Loss	(13,734)	(14,317)	(16,422)	(17,808)	(18,730)	(19,942)	(21,694)	(21,894)	(23,129)	(24,638)
Nonoperating Revenues (Expenses)										
Federal Funds	2,292	3,791	4,872	5,709	5,384	5,977	6,391	7,340	8,125	10,156
Local Transportation Funds	8,215	6,875	7,697	7,605	8,494	8,926	9,634	9,742	9,692	12,405
Interest Expense	-	-	(1,014)	(603)	(540)	(477)	(179)	(1,644)	(378)	-
Gain (or loss) on disposal of asset	-	-	-	(1,467)	-	-	-	1	-	(7)
Interest Income	277	122	56	41	47	97	110	403	182	166
Other Income	179	430	351	72	248	213	179	175	235	130
Total Nonoperating	10,963	11,218	11,962	11,357	13,633	14,736	16,135	16,017	17,856	22,850
Net Income (Loss)	(2,771)	(3,099)	(4,460)	(6,451)	(5,097)	(5,206)	(5,559)	(5,877)	(5,273)	(1,788)
Capital Contributions	4,131	5,037	4,541	3,492	2,269	5,151	6,728	15,235	7,257	3,875
Special Items	-	-	-	-	-	-	-	-	-	5,246
Change in Net Assets	$ 1,360	$ 1,938	$ 81	$ (2,959)	$ (2,828)	$ (55)	$ 1,169	$ 9,358	$ 1,984	$ 7,333
Net Asset Component										
Invested in capital assets, net of related debt	$ 21,147	$ 23,084	$ 23,209	$ 19,628	$ 17,595	$ 16,835	$ 16,517	$ 22,765	$ 27,251	$ 29,638
Unrestricted	232	232	189	811	16	721	2,208	5,318	2,816	7,762
Net Assets, End of year	$ 21,379	$ 23,317	$ 23,398	$ 20,439	$ 17,611	$ 17,556	$ 18,725	$ 28,083	$ 30,067	$ 37,400

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

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

MONTEREY-SALINAS TRANSIT

REVENUE CAPACITY
Fiscal Year 2001 through Fiscal Year 2010

Fares are in thousands	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Passenger Fares	$4,226	$4,670	$4,729	$4,835	$4,787	$5,817	$6,448	$6,745	$ 7,409	$ 6,989
Number of Passengers	4,864	4,870	4,794	4,693	4,805	4,858	4,959	4,743	4,512	4,249
Fare Structure										
Full fare: Adult	$31.78	$31.93	$33.14	$32.84	$32.23	$32.08	$ 2.00	$ 2.00	$ 2.50	$ 2.50
Discount fare: Senior, Youth & Disabled	-	-	-	-	-	-	31.78	1.00	1.10	1.25
Transfers	-	-	-	-	-	-	0.25	0.25	0.25	0.25

Source: MST's Business Service Department

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

MONTEREY-SALINAS TRANSIT

DEBT CAPACITY
Fiscal Year 2005 through Fiscal Year 2009

Debt Capacity

Monterey-Salinas Transit financed its first long-term debt in fiscal year 2003 in the form of a 10-year lease obligation for the purchase of 46 buses and trolleys. There were no long-term obligations associated with capital assets between 2001 and 2003. In 2009, MST fully paid off their bus lease obligations

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

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

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

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

MONTEREY-SALINAS TRANSIT

DEMOGRAPHIC AND ECONOMIC INDICATORS
Fiscal Year 2001 through Fiscal Year 2010

Fiscal Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Service Area Population										
(In thousands)	402	405	416	421	425	425	410	428	432	435
Total Personal Income										
(In millions)	$ 12,230	$ 12,609	$ 13,179	$ 14,075	$ 14,771	$ 15,586	$ 16,694	$ 17,205	n/a	n/a
Per Capita Personal										
Income	$ 29,901	$ 30,635	$ 31,801	$ 33,952	$ 36,137	$ 38,193	$ 38,373	$ 42,144	n/a	n/a
Unemployment Rate	9.40%	10.40%	10.10%	9.50%	5.60%	5.60%	5.50%	8.80%	10.30%	10.50%

NA - Information is not available.

Source: State Employment Development Department and County of Monterey

Principal Industry	Employees in 2010	% of Total Employment	Employees in 2009	% of Total Employment
Services	4,600	2.6%	4,500	2.5%
Agriculture/Farming	54,100	30.8%	54,200	30.6%
Professional/Business Services	10,700	6.1%	10,900	6.2%
Construction	4,300	2.4%	4,800	2.7%
Manufacturing	5,800	3.3%	5,700	3.2%
Government	32,600	18.6%	32,400	18.3%
Finance and Insurance	4,500	2.6%	4,600	2.6%
Transportation/Utilities	23,400	13.3%	23,400	13.2%
Information	1,600	0.9%	1,700	1.0%
Mining	200	0.1%	200	0.1%
Education	13,500	7.7%	13,500	7.6%
Hospitality	20,300	11.6%	21,200	12.0%
Total	175,600	100%	177,100	100%

This table shows the employers by industry in Monterey County for 2009-2010 (most recent information available). This table also shows the service area population, personal income and unemployment rates in Monterey County.

MONTEREY-SALINAS TRANSIT

OPERATING INFORMATION – MISCELLANEOUS INFORMATION
Fiscal Year 2001 through Fiscal Year 2010

Fiscal year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Fixed-Route Service:*										
Net Cost/Passenger	$ 2.79	$ 2.92	$ 3.34	$ 3.59	$ 3.60	$ 4.05	$ 4.35	$ 4.87	$ 5.73	$ 5.94
Net Cost/Vehicle Mile	4.82	4.83	5.09	5.76	5.82	6.72	6.54	6.82	6.94	6.53
Net Cost/Service Hour	66.69	67.90	74.35	83.99	86.66	98.06	101.73	107.25	112.01	105.16
RIDES:*										
Net Cost/Passenger	$16.68	$18.15	$20.67	$24.76	$28.33	$24.85	$22.43	$21.39	$20.22	$24.60
Net Cost/Vehicle Mile	2.43	2.57	2.54	2.99	3.04	2.55	2.32	2.24	2.22	2.65
Net Cost/Service Hour	52.94	55.18	52.03	60.50	51.85	45.03	40.71	40.50	39.25	46.55
Employees:										
Administration	26	27	28	27	27	27	26	26	30	24
Facilities	5	5	6	5	5	5	5	5	6	6
Operations	147	148	154	152	150	149	147	147	167	160
Maintenance	32	32	33	33	32	32	32	32	36	38
Total	211	212	220	218	214	213	211	211	239	228
Fixed-Route Fares:										
Full	1.50	1.75	1.75	1.75	1.75	2.00	2.00	2.00	2.50	2.50
Senior/Disabled	0.75	0.85	0.85	0.85	0.85	1.00	1.00	1.00	1.25	1.25
Fleet Information:										
Standard Coaches	75	77	79	95	99	99	99	97	97	103
RIDES Vehicles	24	25	22	24	25	20	22	29	26	29
Total Revenue Vehicles	99	102	101	119	124	119	121	126	123	132

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

MONTEREY-SALINAS TRANSIT

OPERATING INFORMATION – CAPITAL ASSETS
Fiscal Year 2001 through Fiscal Year 2010

Fiscal year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Capital Assets Not Being Depreciated										
Land	$ 976	$ 976	$ 976	$ 976	$ 976	$ 976	$ 976	$ 3,426	$ 3,426	$ 3,426
Construction in progress	2,616	4,376	20,736	2,711	3,180	4,029	6,647	165	1,281	4,466
Total Capital Assets Not Being Depreciated	3,592	5,352	21,712	3,687	4,156	5,005	7,623	3,591	4,707	7,892
Other Capital Assets										
Buses	18,604	21,017	20,668	28,650	28,584	29,311	29,493	35,629	36,417	31,727
Shop, office and other equipment	15,593	16,406	14,762	18,458	17,493	18,178	18,330	25,206	25,839	26,815
Total Capital Assets Being Depreciated	34,197	37,423	35,430	47,108	46,077	47,489	47,823	60,835	62,256	58,542
Less Accumulated Depreciation For:*										
Buses	(7,668)	(9,073)	(9,497)	(8,046)	(10,175)	(12,935)	(15,780)	(15,781)	(18,585)	(17,026)
Shop, office and other equipment	(8,974)	(10,618)	(11,114)	(11,110)	(11,825)	(13,523)	(15,485)	(19,707)	(21,126)	(19,771)
Total Accumulated Depreciation	(16,642)	(19,691)	(20,611)	(19,156)	(21,999)	(26,458)	(31,265)	(35,488)	(39,711)	(36,797)
Capital Assets, Net	$ 21,147	$ 23,084	$ 36,531	$ 31,639	$ 28,234	$ 26,036	$ 24,181	$ 28,938	$ 27,252	$ 29,637

Source: MST's comprehensive annual financial reports

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

Section IV

SINGLE AUDIT

- Independent Auditor’s Report on Internal Control Cover Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
- Independent Auditors’ Compliance Report Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and the Transportation Development Act
- Independent Auditors’ Report on Compliance and on Internal Control Over Compliance Applicable to Each Major Federal Award Program and on Schedule of Expenditures of Federal Awards
- Schedule of Expenditures of Federal Awards
- Summary of Auditors’ Results
- Summary of Financial Statement Findings

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 Board of Directors
Monterey-Salinas Transit

We have audited the financial statements of the Monterey-Salinas Transit as of June 30, 2010 and 2009, and have issued our report thereon, dated December 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the MST's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MST's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MST's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

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

Compliance and Other Matters

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

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

Palo Alto, California
December 23, 2010

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

VALUE THE DIFFERENCE

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

To the Board of Directors
Monterey-Salinas Transit

We have audited the financial statements, of Monterey-Salinas Transit (MST) as of June 30, 2010 and 2009, and for the year then ended, and have issued our report thereon dated December 23, 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to MST is the responsibility of the management of MST. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of MST's compliance with certain provisions of the Transportation Development Act including Public Utilities Code Section 99245 as enacted and amended by statute through June 30, 2010 and the allocation instructions and resolutions of the Transportation Agency for Monterey County as required by Section 6667 of the California Administrative Code. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

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

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

Palo Alto, California
December 23, 2010

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

VALUE THE DIFFERENCE

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

The Board of Directors
Monterey-Salinas Transit

Compliance

We have audited the compliance of Monterey-Salinas Transit with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each its major Federal programs for the year ended June 30, 2010. The Monterey-Salinas Transit's major federal programs are identified in the Schedule of Expenditures of Federal Awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Monterey-Salinas Transit's management. Our responsibility is to express an opinion on Monterey-Salinas Transit's compliance based on our audit.

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

In our opinion, the Monterey-Salinas Transit complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010.

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Internal Control Over Compliance

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

A *control deficiency* in Monterey-Salinas Transit's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects Monterey-Salinas Transit's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the Monterey-Salinas Transit's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the Monterey-Salinas Transit's internal control.

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

Palo Alto, California
December 23, 2010

MONTEREY-SALINAS TRANSIT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Expense
U.S. DEPARTMENT OF TRANSPORTATION		
Federal Transit Capital and Operating Assistance Formula Grant [1]		
Operating		
CA96-0041 - ARRA	20.507	$ 2,531,414
CA26-0042	20.000	58,549
CA95-0067	20.507	73,311
CA90-0795	20.507	6,994,485
Nonurbanized Area Formula Grants	20.209	492,920
Toal Operating		10,150,679
Federal Transit Capital and Operating Assistance Formula Grant [1]		
Capital		
CA04-0125	20.500	$ 1,114,080
TOTAL FEDERAL ASSISTANCE EXPENDED		$ 11,264,759

[1] Tested as a major program

MONTEREY-SALINAS TRANSIT

SUMMARY OF AUDITORS' RESULTS
YEAR ENDED JUNE 30, 2010

Part I – Summary of Auditor's Results

1. The independent auditor's report on the financial statements expressed an unqualified opinion.

2. Significant deficiencies in internal control over financial reporting – No.

3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.

4. Significant deficiencies in internal control over compliance with requirements applicable to major federal awards programs – No.

5. The independent auditors' report on compliance with requirements that could have a direct and material effect on each major federal award programs expressed an unqualified opinion.

6. The audit disclosed no findings required to be reported by OMB Circular A-133.

7. The Organization's major program was:

Name of Federal Program	CFDA Number
Federal Transit Capital and Operating Assistance Formula Grant (includes ARRA)	20.507, 20.500

8. A threshold of $300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.

9. The Organization did qualify as a low risk auditee as that term is defined in OMB Circular A-133.

MONTEREY-SALINAS TRANSIT

SUMMARY OF FINANCIAL STATEMENT FINDINGS
YEAR ENDED JUNE 30, 2010

Part II – Financial Statement Findings Section

Reference Number	Findings	Questioned Costs

No matters are reportable

Part III – Federal Award Findings and Questioned Cost Section

Reference Number	Findings	Questioned Costs

No matters are reportable

Part IV– Status of Prior Period Audit Findings

Reference Number	Findings	Questioned Costs

No matters were reported

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MST
MONTEREY-SALINAS TRANSIT

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