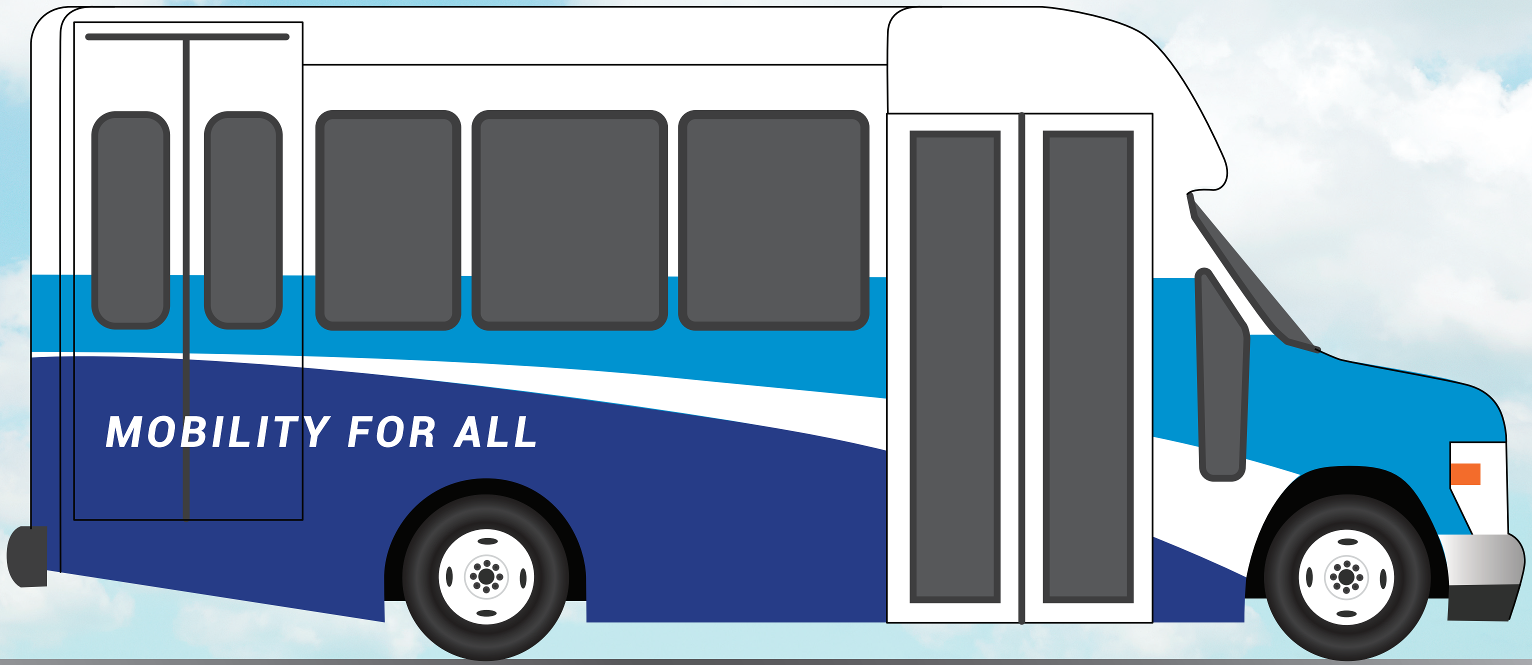
COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEARS ENDING
JUNE 30,2019 AND 2018



MONTEREY, CALIFORNIA

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Monterey, California

Comprehensive Annual Financial Report

For Fiscal Years Ended

June 30, 2019 and 2018

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Board of Directors and Passengers of Monterey-Salinas Transit
Monterey, California
December 19, 2019

Comprehensive Annual Financial Report (CAFR)
Years Ended June 30, 2019 and 2018

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, 2019 and 2018. This transmittal letter provides a summary of finances, achievements, economic prospects and services in a manner that is easily accessible to those without a background in accounting or finance. Further explanation of financial matters is provided in the Management's Discussion and Analysis provided in the Financial Section of this Report.

As required by state law, independent auditors selected by the Board of Directors audited the financial statements contained in the CAFR. For the fiscal years ended June 30, 2019 and 2018, Eide Bailly LLP, expressed an opinion that the statements are fairly stated in all material respects and in compliance with accounting principles generally accepted in the United States of America. This most favorable type of opinion is commonly referred to as "unmodified" or "clean". While the independent auditor has expressed such an opinion, MST management takes sole responsibility for the contents of this CAFR, including its presentation, completeness and disclosures. To the best of its knowledge, staff believes the information to be accurate in all material respects.

PROFILE OF THE REPORTING ENTITY

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

MST provides bus transit services throughout the County and north into downtown Watsonville, Aptos, and Santa Cruz in Santa Cruz County and Gilroy, and San Jose in Santa Clara County, as well as south to San Miguel, Paso Robles, and Templeton in northern San Luis Obispo County. There is no other organization within Monterey County with a similar scope of public transportation service.

MST began operations in 1973 as Monterey Peninsula Transit and, by 1981, had consolidated two separate municipal systems into a viable network of local service throughout a 110 square-mile service area. In 1997, MST began operation of RIDES, a demand-response paratransit service for patrons with mobility impairment that had been previously operated by the County government. Over the years, MST's service area has expanded to what is as of fiscal year 2019 approximately 295 square miles.

MST has received recognition as a leader in the public transit field with numerous awards. MST programs and individuals have been honored by the American Public Transportation Association, the Transportation Agency for Monterey County (the transportation-planning agency for Monterey County), the California Transit Association, California Association for Coordinated Transportation, the Monterey County Business Council, Monterey Peninsula Chamber of Commerce, Old Monterey Business Association, Monterey County Hospitality Association, California Transportation Foundation, the Monterey Bay Aquarium, and the Secretary of the US Army. In 2012, MST was awarded the Gold Safety Excellence Award by the American Public Transportation Association in recognition of the agency being named the safest bus system nationwide in the 4 million to 20 million annual boardings category. In October 2018 MST received the Federal Transit Administrator's Award for Outstanding Public Service in recognition of MST's superior contribution to 'providing access to education and healthcare, improving efficiency through innovative practices and supporting coordinated planning efforts in rural communities.

Special Purpose District

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

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

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

Some of the major objectives and initiatives from fiscal year 2019 include the following:

- Purchased new trolley buses to be used on the popular Monterey Trolley line.

- Adopted and began implementation of a comprehensive marketing plan to increase passenger boardings and improve customer and stakeholder satisfaction with MST services.

- Installed automatic passenger counters on 65 buses to support National Transit Database reporting requirements.

- Completed the Salinas Valley Express Transit Corridor Planning Study.

- Completed improvements at the Mobility Services Center in downtown Salinas which serves as an indoor training grounds for passengers learning how to ride transit and to assess functional needs of future RIDES passengers.

The Organization
MST is organized into the following principal departments:

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

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

Operations - responsible for administering bus transportation, various shuttles and special transit services, ADA programs, and quality assurance; oversight of MST's mobility management programs for seniors and persons with disabilities.

Service Delivery Network
At the end of fiscal year 2019, the MST fixed-route bus system consisted of sixty-one routes: thirty-three operated by MST personnel, twenty-eight routes operated by MV Transportation, Incorporated (MV). In fiscal year 2019, vehicles on these routes system-wide traveled approximately 4,684,476 miles and carried 4,272,624 passengers. RIDES, MST's paratransit service, transported approximately 205,138 persons with disabilities during fiscal year 2019 on 40 specially equipped minibuses, minivans and sedans.

Since the founding of MST as a public agency, bus ridership in Monterey County escalated from 280,000 in fiscal year 1973 to nearly 5 million in fiscal year 2002. As MST completed its 30th year of service in 2002, ridership had increased nearly 1,800 percent. Service improvements to MST's Monterey Peninsula routes in January of 2007 provided more direct service and reduced the frequency of transfers between lines for customers. Because of this increased convenience for customers, the number of individual boardings had leveled off in fiscal year 2008 to 4.7 million, followed by a further drop in fiscal years 2009 and 2010 due to the severe economic downturn and associated high unemployment rate. In fiscal year 2011, ridership began to rebound, posting a 3 percent increase over the previous year. By fiscal year 2012, MST's 40th year, service reductions and a system-wide fare increase began to erode ridership further, even though operational efficiency measured in passengers per hour improved during the year. This ridership slide continued into fiscal year 2013 as the economy struggled to recover, especially in the Salinas area. Encouragingly, fiscal year 2014 saw a nearly 5% increase in ridership, rebounding above 4.2 million annual boardings. Further solidifying this trend, ridership increased again in 2015 by 1.6% and by another 1.7% in 2016. With many transit agencies across the nation seeing ridership eroding due to prolonged low fuel costs and other factors, MST was bucking that trend in FY 2017 with relatively stable levels in passengers carried and finished FY 2018 with a slight increase in boardings for the fiscal year. In 2019, passenger boardings leveled off with a slight decrease of 4.0% for the year.

MST is a partner in a variety of community events in Monterey County and provides transportation service to the Monterey County Fair, Monterey Jazz Festival, the Salinas Holiday Parade of Lights, the Monterey Bay Aquarium, and First Night festivities on New Year's Eve. MST buses also travel to Big Sur (daily during the summer months – on weekends during the remainder of the year), where visitors can observe the natural beauty of the region. During its four-plus decades of operations, MST has provided transportation to special internationally recognized events such as the 1985 Monterey Bay Aquarium Opening Day and the 1987 visit by Pope John Paul II. Additionally, MST has provided emergency services to the community evacuating local residents affected by natural disasters including floods, fires, and earthquakes as well as other incidents such as major power outages and chemical leaks.

During fiscal year 2019, MST's "Free 40's" promotion, which make all routes within the city of Salinas fare-free on Saturdays, Sundays and most holidays, remained very popular. In addition, MST RIDES ADA paratransit was also fare-free on those days for trips that begin and end inside the city limits of Salinas. The "Free 40's" promotion was made possible through a grant from the California Climate Fund Low Carbon Transit Operations Program, and the fare reduction on MST RIDES was made possible by utilizing revenues from Measure Q – a 1/8% local sales tax to support transit services for seniors, veterans, and persons with disabilities – approved by an overwhelming 72.54% margin in November of 2014. In addition to providing new programs to benefit MST customers, these new Measure Q local funds have also provided financial stability for the agency for the first time in many years, despite funding uncertainties at the federal and/or state levels.

Special Projects and New Programs

In fiscal year 2019, MST celebrated 46 years of operating transit services as a public agency in Monterey County. Innovative partnerships with the military, local colleges, the city of Monterey, and the Monterey Bay Aquarium continued to support a stable ridership base of locals and visitors alike. With the responsibility of providing public transportation for over 4 decades, MST is focusing on several major projects designed to improve travel in the County and into Santa Clara and San Luis Obispo Counties, which include:

Facility Updates Improve Customer and Employee Experiences

Recent renovations and upcoming construction are creating a more pleasant experience for MST passengers, drivers, customer service professionals and mechanics.

The Salinas Transit Center (STC) serves over 300,000 passengers a year. This fall, MST updated the 30-year-old facility with a new Portland Loo restroom that offers a clean, user-friendly experience. Durable, graffiti-resistant, reliable and wheelchair-accessible, it's one of the few public restrooms available in downtown Salinas.

The remodeled STC customer service counter features new furniture, expanded storage and a brighter work environment for team members who answer passenger questions and sell bus passes. Crews also renovated the STC staff breakroom and added dedicated employee restrooms at the facility. Outside, new drought-tolerant landscaping welcome customers and reduces water consumption. MST completed additional breakroom, restroom and storage renovations at its Clarence J. Wright Operations and Maintenance Facility in Salinas, important to supporting maintenance and operations functions since 1986.

In December 2019, MST will award a design-build contract for the new South County Operations and Maintenance Facility in King City's East Ranch Business Park. The project will support MST's fixed-route and on-call services in southern Monterey and San Luis Obispo counties. Basing buses near the start of regional routes, rather than 50 miles away in Salinas, reduces labor costs, decreases vehicle wear and tear, and curbs both fuel consumption and overall emissions.

The United States Department of Agriculture (USDA) provided a $5 million project loan through its Community Facilities Direct Loan Program. This marks the USDA's first partnership with a public transit operator, and the collaboration could serve as a model for other like-sized agencies. MST also received $4 million in support from the Federal Transit Administration, and will pay down project debt with Transportation Agency for Monterey County (TAMC) Measure X funds.

The 12- to 18-month construction project is slated to begin in summer 2020.

Free Fare Programs Attract New MST Riders

As public transit agencies nationwide face declining ridership, MST's innovative community partnerships are generating increased passenger numbers.

Much of the recent ridership loss throughout the country is due to a combination of record-low fuel prices, the low cost of car ownership, increased availability of drivers licenses to undocumented individuals, and the loss of affordable housing among those who traditionally depend on public transportation. Monterey County is not immune to these issues. However, MST is driving overall ridership with programs that make transit look free to passengers on certain lines.

The agency established its first free line 25 years ago, partnering with the city of Monterey and the Monterey Bay Aquarium on the Waterfront Area Visitor Express (WAVE). Now operating as the Monterey Trolley, the weekend, holiday and summer-season service transports visitors and residents between downtown Monterey, the Aquarium and Cannery Row.

Since then, MST has expanded its free fare offerings by tapping into California Climate Investment Grant (formerly cap-and-trade) funds and teaming up with public and nonprofit partners. As MST leaders research new collaboration opportunities, they have been invited to share success stories at industry conferences across the United States.

The key to these partnerships is demonstrating that MST is responsible and responsive to the needs of the community, while helping third parties recognize that public transit investments reduce traffic congestion, cut greenhouse gas emissions and improve overall quality of life.

Educational Partnerships. MST works with three local universities to offer free services. A new Monterey Peninsula College program launched in August 2019 lets individuals with a valid student ID board MST buses for free at stops on the Monterey and Marina campuses. Hartnell College expanded its MST partnership in August, extending free student fares across all MST stops and routes. Students and staff with a valid California State University Monterey Bay (CSUMB) ID also enjoy free fares on campus and across the MST service area. The transit agency works with CSUMB planners to tailor select routes to the needs of the campus community.

Free 40s Routes. MST's groundbreaking "Ride the 40s on Us" campaign offers free weekend and holiday fares on 40s routes that start and end in the city of Salinas. Established as a pilot program in 2017, the Ride the 40s initiative was so well received that MST's board of directors extended funding through June 2020. MST has been able to sustain an 80% increase in weekend passenger boardings translating into over 100,000 additional passengers traveling to shopping centers, medical appointments, family functions and church events at no cost during the first year.

Military Partnerships. Monterey County is the home to a number of military installations including the Defense Language Institute, Naval Postgraduate School, Fort Hunter-Liggett and Camp Roberts. After the terrorist attacks of September 11, 2001, local military bases closed their gates to public transit. However, with expanding missions which created additional traffic congestion on and around military installations, the Presidio of Monterey partnered with MST to implement commuter services from remote military housing locations directly to each military base to be 100% funded utilizing the military federal transit benefit. Over the years, ridership grew from zero to over 900,000 passenger boardings comprising one-fifth of all MST passenger trips. In July 2019, MST celebrated the 10-year military partnership with ceremonies at Monterey's Defense Language Institute Foreign Language Center. By leveraging federal transit benefits and creating routes that serve the DLI, Naval Postgraduate School, Fort Hunter Liggett and Camp Roberts, MST provides a convenient, affordable and environmentally friendly transportation option for enlisted individuals and civilian staffers. MST's programs have been recognized by the secretary of the Army and serve as a model for defense communities nationwide.

MST Celebrates 5 Years of Measure Q Impact

After four previously failed attempts at raising local sales taxes in Monterey County, Monterey-Salinas Transit struck on its own in 2014 to fund essential transit services for seniors, veterans and people with disabilities. With a 72% saying "Yes" to transit, local voters overwhelmingly approved Measure Q in November 2014, supporting a 15-year, 1/8-cent local sales tax. Five years later, Measure Q collections are positively impacting thousands of local residents.

"Since the historic passage of Measure Q, MST has invested in everything from 50-percent fare reductions for the MST RIDES ADA paratransit program, to new routes serving seniors and veterans, to expanded taxi voucher programs and mobility services. Trips on Measure Q programs have grown over 60% since the passage of our local sales tax in 2014 with over 125,000 additional trips being made each year by local seniors, veterans and persons with disabilities," says MST General Manager and CEO Carl Sedoryk. "We're proud to serve our friends and neighbors who need a helping hand."

Reaching Measure Q Goals
Four goals set as Measure Q collections began have now been met.

1. ***MST Navigators expansion***. New incentives helped MST recruit volunteers who teach individuals with mobility challenges to navigate the public transit system.
2. ***Free bus passes for veterans.*** MST teamed up with local organizations to honor deserving veterans with free transit passes.
3. ***Veterans-helping-veterans program.*** Inspired by the MST Navigators program, MST trained military veterans to help their comrades use local public transit services.
4. ***Volunteer driver reimbursements.*** The MST Transportation Reimbursement Incentive Program (TRIPS) program pays designated relatives, friends and neighbors 40 cents per mile, up to 250 miles per month, when they drive qualified Monterey County residents to medical appointments and other basic services.

Looking Ahead
By next summer, MST hopes to implement a paratransit emergency response program that will help the agency coordinate evacuations and emergency assistance for individuals with physical or cognitive disabilities. MST is also pursuing grant funds to support a sixth Measure Q goal, which involves creating a flexible voucher medium that passengers can use on both MST RIDES routes and commercial transportation services. As MST celebrates this initial Measure Q success, we're outlining ambitious programs that will assist deserving community members over the next five years.

Salinas Mobility Center
Another exciting Measure Q-inspired addition is the MST Salinas Mobility Center that opened in February 2019. Dedicated to the memory of Alma Almanza, an enthusiastic local transit supporter who advocated for individuals with disabilities, the indoor facility houses a simulated street environment with real-life features: bus shelters, benches, curbs, traffic signals and informational signs, plus a model MST RIDES ADA paratransit bus and full-sized MST coach with ramps, lifts, fare boxes, working route signs and more.

Automatic Passenger Counters
MST installed automatic passenger counters (APC) on 65 fixed-route and on-call buses in fiscal year 2019. The infrared APC sensors note where riders board and disembark, presenting an accurate, system-wide picture of transit use. In the past, MST estimated such numbers based on human counts and existing reports. APC-generated information will shape future route and schedule updates. This data helps MST chose the right bus for the right route at the right time. The data will also inform infrastructure investments, helping MST make efficient use of taxpayer funds and grants.

Remix
With access to the Remix transit-planning platform, MST administrators can more accurately analyze existing services and explore how moving stops, updating timetables or adding new lines will impact passengers.

The comprehensive, cloud-based program lets MST layer numbers from the agency's new automatic passenger counters with maps, ridership trends, origin-destination data and demographic information. Planners can then drag and drop routes and stop locations in real time to see what changes might mean for customers and overall traffic flow.

Remix helps the MST planning team test ideas and make smart decisions as neighborhoods grow and employment centers shift. Remix shows anonymous data on where people are living, working and traveling, so that transit agencies can understand patterns and tailor services to customers' needs.

New Zero-Emission Buses

MST added two battery-electric buses to its Salinas fleet in October 2018, and the agency's plans to purchase two more zero-emission vehicles.

Two battery-electric buses now operate on Line 41, serving the Salinas Transit Center, East Alisal corridor and Northridge Mall. A smiling electric plug decal on the exterior of each vehicle emphasizes MST's commitment to clean, quiet vehicles.

MST funded these battery-electric buses with help from the Monterey Bay Air Resources District and California Climate Investment cap-and-trade dollars. The two battery electric buses were manufactured by Build Your Dreams in Lancaster, Calif.; Gillig, located in Livermore, Calif., will build the next two vehicles.

New MST Trolleys

In fiscal year 2019, MST purchased five vintage-style trolleys for its popular Monterey Trolley route. The vehicles, constructed by Hometown Trolley in Wisconsin, replaced a fleet of 16-year-old trolleys that reached the end of their useful life. MST's trolleys were ready for operators during the 2019 summer season.

FINANCIAL POLICY AND CONTROL

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

Internal Accounting Controls

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

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

The concept of reasonable assurance recognizes that:

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

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

Cash Management

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

Budgetary Control

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

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

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

Monterey-Salinas Transit's financial position continues to be strong, especially after the passage of Measure Q – the 1/8% sales tax to support transit services and projects for seniors, veterans and persons with disabilities. However, world-wide economic realities and uncertainties about funding at the federal level will necessitate close monitoring of revenues and expenses. Fiscal year 2019 saw no fare increases, and no additional service reductions were required on MST's Presidio military partnership routes since Congress permanently raised the federal transit benefit, which supports this program. In fact, thanks to the fiscal stability provided by Measure Q and MST's military partnerships, paratransit fares were lowered and another military route was added connecting the Presidio with shopping areas in Sand City and Marina on weekends. Financial planning is based on the assumption of steady ridership patterns, continuation of the bus acquisition and replacement program, and extraordinary capital requirements associated with a robust vehicle replacement program and the need for additional bus maintenance and storage capacity. Without a local sales tax to support its bus operations and capital projects, Monterey-Salinas Transit's financial position would continue to be subject to state and federal actions related to increases or decreases in transportation funding as well as the ability of the US Congress to adopt annual budgets promptly and effectively. With Measure Q revenues flowing to the agency for three fiscal years, MST's financial position and its ability to implement a robust capital program have never been more promising.

Revenue Sources

MST utilizes six primary sources of revenue to operate its public transit services: passenger fares, local transportation funds, investment income, non-transportation funds, federal funds, and – as of April 1, 2015 – local sales taxes. Operating income from patron fares and/or local transaction and use taxes must cover at least 15 percent of applicable operating expenses to be eligible for the State of California Transportation Development Act (TDA). TDA funding returns one-quarter of one percent of the state sales tax collected in Monterey County to support transportation operations, planning and projects, including MST bus service. This state-directed revenue now covers a significant portion of MST's operating expenses for fixed-route services, provides the local match for federal grants, and finances other needed capital programs. In addition, MST still relies heavily on federal assistance for capital and operating expenditures. However, with the passage of Measure Q, the 1/8% sales tax approved by voters in November of 2014, approximately $10 million will flow to MST until 2030, which will continue to stabilize MST's ongoing budgetary needs and cash flow. In addition, the Transportation Agency for Monterey County (TAMC) was successful in passing a county-wide sales tax (Measure X) in November 2016 that contains capital and operating funds to support additional MST projects and programs. As this tax is effective for 30 years, staff is working with TAMC to align the cash flow of the sales tax funds with the anticipated needs in the coming years.

Expenses

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

Capital Program
As with previous fiscal years, bus replacement remains the primary capital need for the agency. In fact, as the fiscal year began, approximately half of MST's full-sized buses had reached their replacement age. In fiscal year 2013, MST received a $788,000 grant for four new hybrid diesel electric minibuses, which were delivered and deployed into service later that year. In addition, federal grants have helped MST purchase additional commuter-style coaches for use on rural transit lines in southern Monterey County. Federal grants have also allowed MST to replace and expand its minibus fleet to meet the specific transportation needs of elderly and disabled populations in the county. During fiscal year 2015, MST utilized a $5 million federal State of Good Repair capital grant to complete the purchase of 16 replacement transit buses. In addition, Regional Surface Transportation Funds began to be available again after a six-year hiatus, enabling MST to replace virtually all of its fixed-route minibuses that were due for retirement. And, California Proposition 1B Transportation Bonds continued to provide needed local match for federally funded capital projects and bus replacements and funded other capital needs of the agency related to safety, security and technology. In 2018, an order of 26 transit buses was delivered and placed into service by the end of the fiscal year. The purchase of these buses was made possible by utilizing a variety of federal, state and local funds, as well as just under $3 million of low interest private financing. In the coming years, similar creative funding patchworks will be required to keep MST's rolling stock in a state of good repair.

MST's other major capital need – additional capacity to maintain and park buses – has begun to be met as construction was completed on the expanded Monterey bus facility at the end of the fiscal year. In addition, property that was acquired during fiscal year 2016 in King City will be the site of a future bus maintenance and operation facility, further addressing MST's capital facility needs. In the near future, MST will be turning to its Salinas bus maintenance and operations facility to identify ways to expand capacity at that location as the city is anticipating future growth towards the northeast quadrant of its boundaries.

ECONOMIC CONDITIONS

Ranking high in affluence among Northern California counties, Monterey County has a maturing economy that has seen a degree of stagnation in recent years as Silicon Valley and much of the rest of the Bay Area have once again resumed geometric growth attributed to a resurgent tech sector. Due to lack of substantial economic diversification, Monterey County has traditionally depended upon two industry segments for its prosperity – agriculture and tourism. Recent statistics show that a third segment – education – is nearing a level of economic impact as tourism. In addition, the various military installations in the county pump $1 billion of economic impact into the area. MST has begun to leverage these educational and military sectors with its partnerships for service with CSUMB, Hartnell College, Presidio of Monterey, Naval Postgraduate School, Fort Hunter Liggett, and Camp Roberts.

In fiscal year 2007, signs of economic stabilization appeared in low unemployment rates and steady tourism levels, which led to increased revenues from sales taxes generated by these sources. By fiscal year 2008, economic uncertainty had begun to emerge culminating in record high fuel prices, plummeting home values and lower tax revenues on the horizon. As the nation's economy entered into the worst recession since the Great Depression of the 1930's, MST's ridership and sales tax-based revenues fell accordingly. By fiscal year 2013, the state's fiscal crisis seemed to have stabilized, with previous years' transit funding diversions having been replaced by a more reliable, albeit lower, fuel-tax based funding assistance program. However, the $30 million in transit funding lost in the county through state takeaways, diversions and cuts over the last decade are unlikely to be recouped by the agency.

In response, MST covered these shortfalls with fare increases, reductions in staffing and delay or cancellation of capital projects to reflect these state budgetary changes. While federal American Reconstruction and Reinvestment Act (ARRA) funds provided MST some temporary stability in its budgetary picture for fiscal years 2009 and 2010, MST exhausted its federal ARRA apportionment and had to once again rely on its traditional sources of revenue as the economy slowly recovered. Now, as the country proceeds through the longest economic expansion in history, unusually low unemployment rates have presented a different kind of challenge for MST. Hiring qualified coach operators has rarely been this difficult, leaving staff to consider reducing service due to lack of personnel to drive buses. Given the uncertain short- and long-term economic outlook, MST continued to take a prudent course of monitoring expenditures and staffing levels while seeking to maintain and enhance productive routes and public/private and public/public partnerships as much as possible.

This conservative approach to budgeting, along with broad-based community support – facilitated the successful passage of Measure Q – a 1/8% sales tax to support transit services for seniors, veterans, and persons with disabilities – in November of 2014. Then, in November of 2016, an additional sales tax for transportation was passed in the county, which will generate approximately $55 million for MST projects and services over the next 30 years. After years of financial instability due to state and federal budgetary problems, MST finally has a favorable financial outlook supported by the reliability of local sales tax revenues – for the first time ever. The result of this methodical stabilization of the finances of the District over recent years was realized during fiscal year 2018 with the largest capital outlay in MST's history, with a $23 million maintenance and operations facility completed and 26 new buses delivered by the end of the fiscal year.

FUTURE OUTLOOK

Notwithstanding current economic fluctuations, MST anticipates continuing its transformation from its role as a local bus operator to a more diversified enterprise encompassing multiple modes and performing mobility management for the entire community. MST will continue to provide local transportation for municipalities, but also will support its feeder bus service northward to San Jose and the San Francisco Bay area as well as southward to Paso Robles and San Luis Obispo County while strengthening its military and university partnerships, which are expected to generate approximately $5 million in revenue annually.

While the 2010 census showed minimal population growth in most areas of the county, the long-term economic success of the region will be measured more directly by the quantity and quality of new jobs created in the region. Air quality standards are set by the Monterey Bay Air Resources District with implementation of congestion management plans by local agencies. These air quality programs are underwritten by a variety of public and private funding sources, with new “cap and trade” funds continuing to flow in fiscal year 2019 as California’s historic greenhouse gas reduction legislation (AB 32 / SB 375) is fully implemented. Capital funding will continue to be required to support a bus acquisition program consistent with MST’s fleet modernization standards as well as to meet MST’s need for expanded operations and maintenance capacity in the Salinas Valley. Innovative Bus Rapid Transit projects and alternative fuel propulsion projects were in operation this fiscal year and continue to produce positive results. Staff is working on planning efforts for a phase two of its Bus Rapid Transit system as well as anticipating the delivery of a fourth electric bus in fiscal year 2020.

SUMMARY

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

MST operates a modern bus fleet which meets or exceeds all state and federal air quality rules, implemented the first Wireless Power Transfer Electric Bus System for a public transit system in the Western Hemisphere, has constructed a state-of-the-art Bus Rapid Transit system, has developed award-winning partnerships with four local military installations, and is an active participant in a coordinated regional transit network covering one-fifth of the coast of California with direct connections to neighboring systems in 3 surrounding counties. Plus, for the first time ever in Monterey County, it secured voter approval of a local sales tax to support public transportation. All told, MST services provide a choice in alternatives to automobile travel; improved access to work, education, and recreation opportunities to members of our community; and help improve the quality of life in the region by reducing traffic congestion and improving air quality.

With the federal transportation trust fund now insolvent, MST will have to maintain a balanced budget through conservative fiscal policies and new revenue-generating partnerships with public and private entities – and through its new 1/8% sales tax, which took effect April 1, 2015. MST expects to carry out its three-year strategic plan without compromising the sound financial structure developed over its four decades of operations. After past economic downturns, Monterey County has recovered more quickly than most other areas in California and the nation. However, given the scope and magnitude of this most recent economic slide, portions of the county – including the Salinas Valley – may struggle to recover as quickly as they have in the past.

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

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Monterey-Salinas Transit for its comprehensive annual financial report for the fiscal year ended June 30, 2018. This was the seventeenth consecutive year that MST has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

ACKNOWLEDGEMENTS

The preparation of this report required the dedicated extra efforts of MST staff and we extend our grateful recognition to all individuals who assisted. Within the Finance Division, we particularly wish to acknowledge the contributions of General Accounting and Budget Manager Andrea Williams and Accountant Lori Lee and to recognize the high level of professionalism they bring to Monterey-Salinas Transit. In addition, this report could not have been produced without the timely audit and expert guidance of Eide Bailly 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

Lisa Rheinheimer,
Assistant General Manager

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Monterey-Salinas Transit California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morrill

Executive Director/CEO

MONTEREY-SALINAS TRANSIT

BOARD OF DIRECTORS
Fiscal Year Ending June 30, 2019

MIKE LEBARRE, Chair, City of King City

DAN ALBERT, Vice Chair, City of Monterey

JEFF BARON, City of Carmel-by-the-Sea

KRISTIN CLARK, City of Del Rey Oaks

LORRAINE WORTHY, City of Gonzales

YANELY MARTINEZ, City of Greenfield

FRANK O'CONNELL, City of Marina

TONY BARRERA, City of Salinas

JOE AMELIO, City of Pacific Grove

MARY ANN CARBONE, City of Sand City

DAVID PACHECO, City of Seaside

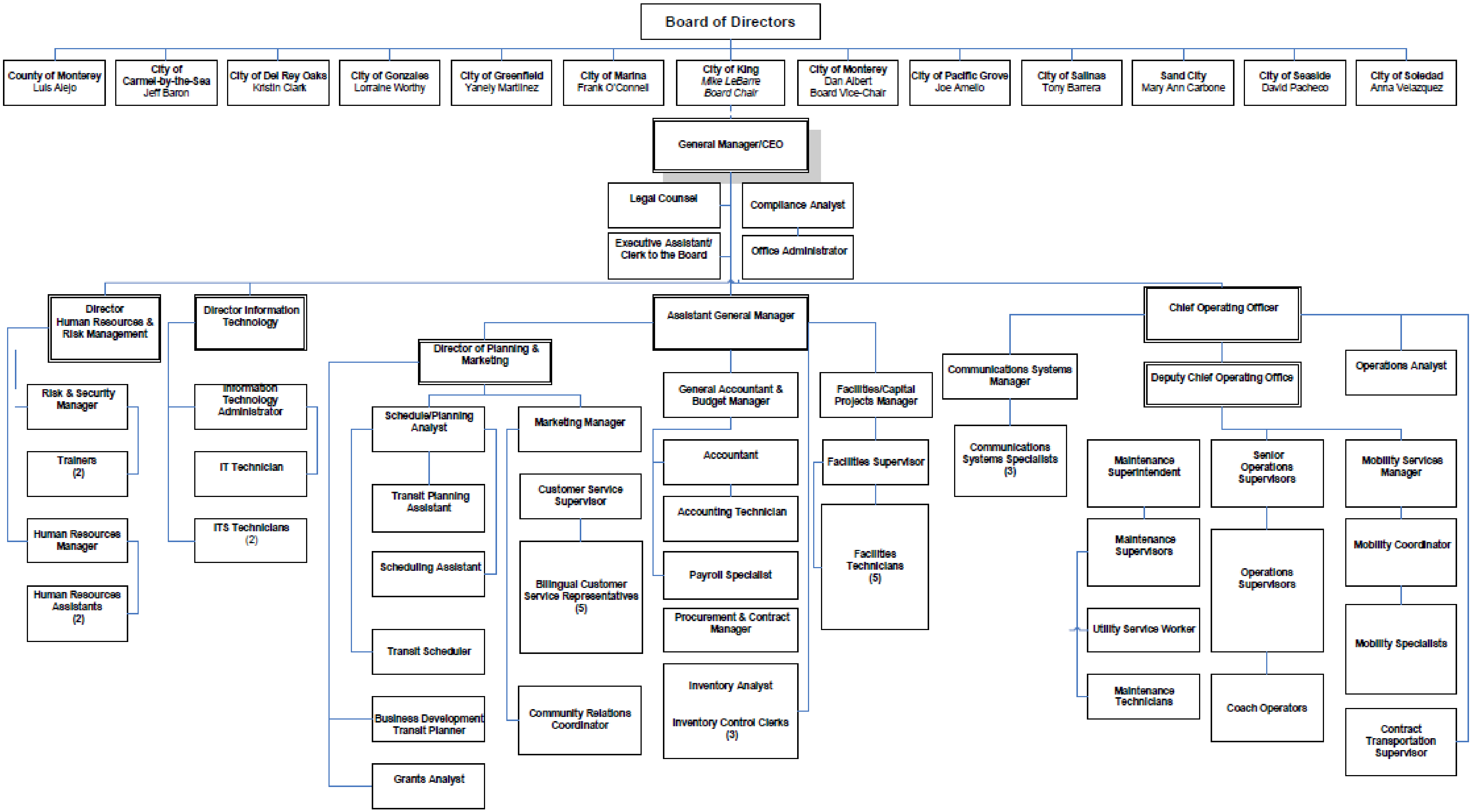
ANNA VELAZQUEZ, City of Soledad

LUIS ALEJO, County of Monterey

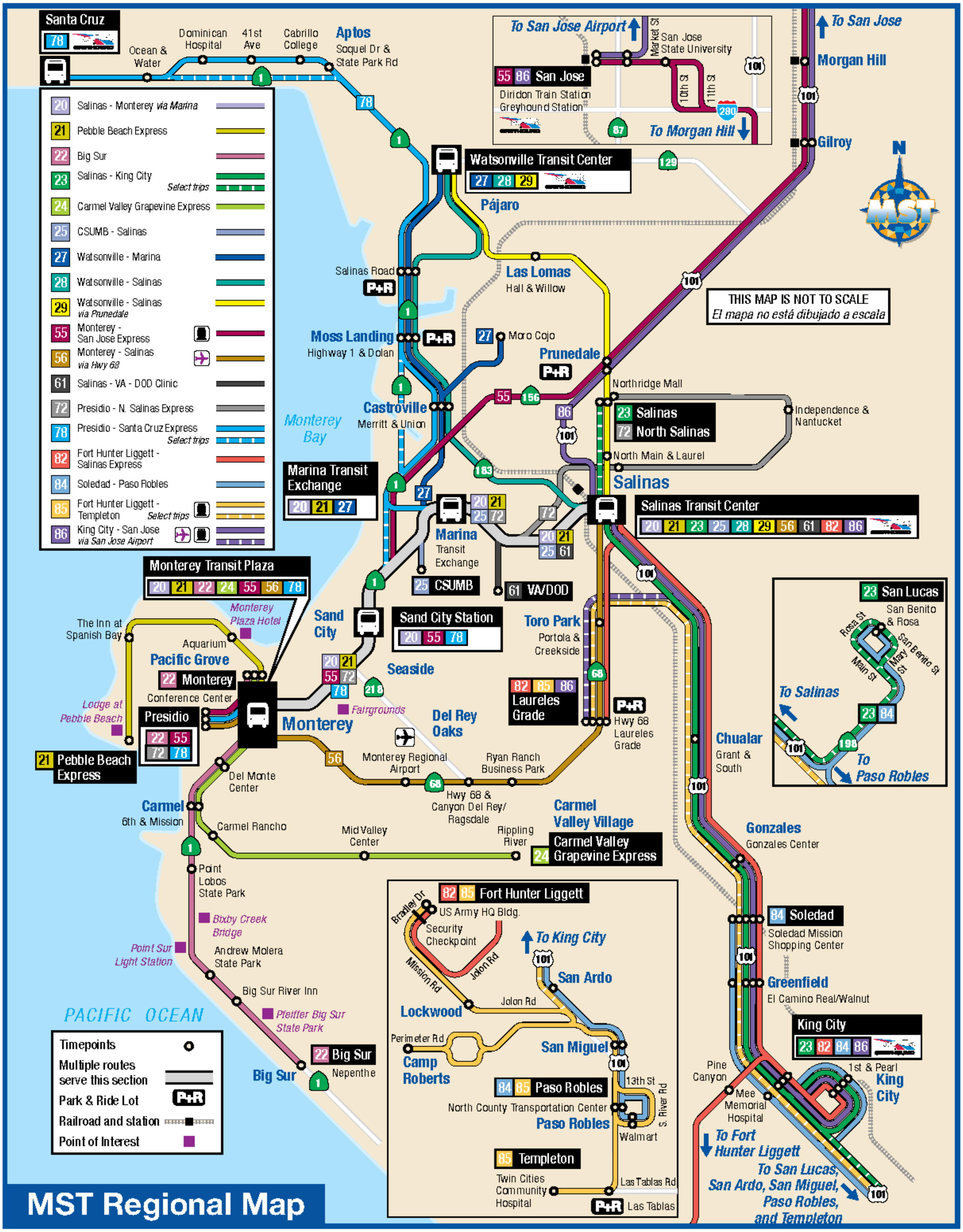
Monterey-Salinas Transit

Organization Chart

FY 2019




MST SERVICE AREA
CALIFORNIA
San Jose
Santa Cruz
Salinas
Monterey
King City
Paso Robles
Templeton
San Francisco
Los Angeles


MST Regional Map
Santa Cruz
78
Ocean & Water
Dominican Hospital
41st Ave
Cabrillo College
Aptos
Soquel Dr & State Park Rd
To San Jose Airport
Market St
San Jose State University
55 86 San Jose
Diridon Train Station
Greyhound Station
10th St
11th St
To Morgan Hill
To San Jose
Morgan Hill
Gilroy
20 Salinas - Monterey via Marina
21 Pebble Beach Express
22 Big Sur
23 Salinas - King City
Select trips
24 Carmel Valley Grapevine Express
25 CSUMB - Salinas
27 Watsonville - Marina
28 Watsonville - Salinas
29 Watsonville - Salinas via Prunedale
55 Monterey - San Jose Express
56 Monterey - Salinas via Hwy 68
61 Salinas - VA - DOD Clinic
72 Presidio - N. Salinas Express
78 Presidio - Santa Cruz Express
Select trips
82 Fort Hunter Liggett - Salinas Express
84 Soledad - Paso Robles
85 Fort Hunter Liggett - Templeton
Select trips
86 King City - San Jose via San Jose Airport
Watsonville Transit Center
27 28 29
Pájaro
Las Lomas
Hall & Willow
THIS MAP IS NOT TO SCALE
El mapa no está dibujado a escala
Salinas Road
P+R
Moss Landing
Highway 1 & Dolan
P+R
27 Moro Cojo
Prunedale
P+R
Northridge Mall
Castroville
Merritt & Union
55
Monterey Bay
23 Salinas
72 North Salinas
Independence & Nantucket
North Main & Laurel
Salinas
Marina Transit Exchange
20 21 27
Marina
Transit Exchange
Salinas Transit Center
20 21 23 25 28 29 56 61 82 86
25 CSUMB
61 VA/DOD
Monterey Transit Plaza
20 21 22 24 55 56 78
Monterey Plaza Hotel
The Inn at Spanish Bay
Aquarium
Pacific Grove
22 Monterey
Conference Center
Sand City
Sand City Station
20 55 78
Toro Park
Portola & Creekside
Seaside
Fairgrounds
Lodge at Pebble Beach
Presidio
22 55
72 78
Monterey
Del Rey Oaks
82 85 86
Laureles Grade
P+R
Hwy 68 Laureles Grade
21 Pebble Beach Express
Del Monte Center
56
Monterey Regional Airport
Ryan Ranch Business Park
Hwy 68 & Canyon Del Rey/ Ragsdale
Carmel
6th & Mission
Carmel Rancho
Mid Valley Center
Rippling River
Carmel Valley Village
Carmel Valley
24 Grapevine Express
23 San Lucas
San Benito & Rosa
Rosa St
San Benito St
May St
Main St
To Salinas
23 84
To Paso Robles
Chualar
Grant & South
Gonzales
Gonzales Center
Point Lobos State Park
Bixby Creek Bridge
Point Sur Light Station
Andrew Molera State Park
Big Sur River Inn
Pfeiffer Big Sur State Park
PACIFIC OCEAN
22 Big Sur
Big Sur
Nepenthe
82 85 Fort Hunter Liggett
Bradley Dr
US Army HQ Bldg.
Security Checkpoint
To King City
Mission Rd
Jolon Rd
San Ardo
Jolon Rd
Lockwood
Perimeter Rd
San Miguel
Camp Roberts
84 85 Paso Robles
13th St
North County Transportation Center
Paso Robles
S. River Rd
Walmart
85 Templeton
Twin Cities Community Hospital
Las Tablas Rd
P+R Las Tablas
84 Soledad
Soledad Mission Shopping Center
Greenfield
El Camino Real/Walnut
King City
23 82 84 86
Pine Canyon
1st & Pearl
King City
Mee Memorial Hospital
To Fort Hunter Liggett
To San Lucas, San Ardo, San Miguel, Paso Robles, and Templeton
Timepoints
Multiple routes serve this section
Park & Ride Lot
P+R
Railroad and station
Point of Interest

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Section II

FINANCIAL

Independent Auditor's Report

Management's Discussion and Analysis

Financial Statements

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

Required Supplementary Information

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

Other Supplemental Information

- Net Positions and Change in Net Positions Schedules by Program
- Schedule of Cash Flows by Program
- Budgetary Comparison Schedule

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CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Monterey-Salinas Transit (MST), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MST as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Information

The financial statements of the MST as of and for the year ended June 30, 2018, were audited by Vavrinek, Trine, Day and Co. LLP, who joined Eide Bailly LLP on July 22, 2019, and whose report dated November 5, 2018, expressed an unmodified opinion on those statements.

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

The schedule of expenditures of federal awards, the consolidating schedules by program and budgetary information are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards, consolidating schedules by program, and budgetary information are fairly stated in all material respects in relation to the financial statements taken as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2019 on our consideration of MST's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of 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* in considering MST's internal control over financial reporting and compliance.

Eide Bailly LLP

Palo Alto, California
December 19, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of Monterey-Salinas Transit (MST) provides an introduction to the financial statements of MST for the fiscal years ended June 30, 2019 and 2018.

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

MST ACTIVITIES HIGHLIGHTS

MST is based in Monterey, California, and consists of two operating divisions, Fixed-Route bus and RIDES Paratransit, operating in two Federal Urbanized Zones: Monterey Peninsula (Seaside-Marina-Monterey) and Salinas. Overseeing approximately 250 direct and 122 contracted positions, working together in the public interest, the General Manager/CEO coordinates the operations of these divisions according to the policy and direction of the Board of Directors. For the fiscal year ending June 30, 2019, the Board of Directors consisted of thirteen members representing Monterey County and the all twelve cities in the county: Carmel-by-the-Sea, Del Rey Oaks, Gonzales, Greenfield, King City, Marina, Monterey, Pacific Grove, Salinas, Sand City, Seaside and Soledad. Nearly 4.5 million passengers rode Monterey-Salinas Transit last fiscal year.

The economic downturn which began in 2007 resulted in a decrease in ridership for Fixed-Route bus from historical peak levels of 2007. During fiscal year 2011, MST's reserves were used to further delay the need for additional fare increases or service reductions to balance the annual operating budget. In coordination with fiscal uncertainty and budgetary stress, increases to fares were enacted near the end of fiscal year 2012, the effects of which were felt during fiscal year 2013. In addition, significant cuts to bus services were implemented during fiscal year 2013 as a result of ongoing financial pressures as well as staffing shortages due to the hiring freeze imposed on MST in association with the state pension reform dispute. However, fixed-route ridership rebounded in fiscal year 2014, posting a gain of nearly 5%. Fiscal Year 2015 saw a service reduction to Presidio military routes only, sparing most other routes frequented by the vast majority of MST customers. Between fiscal year 2012 and fiscal year 2013 RIDES paratransit demand had decreased by nearly 10% after jumping substantially since 2008, primarily from MST's mobility management efforts including the diversion of trips onto same-day service offered through the taxi voucher program. For fiscal years 2014, 2015, and 2016, demand for RIDES paratransit services has begun to creep back up compared to the previous fiscal years. Both fiscal year 2017 and 2018 saw significant jumps in paratransit demand, as adult day care and dialysis trips continue to grow as additional services were offered to an expanding demographic of disabled individuals. This trend is expected to continue in the coming years as the baby-boomer generation transitions into the senior citizen age groups. In addition, fare reductions on all ADA paratransit trips and completely free ADA paratransit trips within the city limits of Salinas on weekends contributed to the substantial growth in demand for MST RIDES.

	2019	2018	2017
Fixed-Route Passengers	4,272,624	4,452,389	4,262,312
% increase/(decrease)	-4.04%	4.46%	-0.69%
RIDES Paratranist Passengers	205,138	183,565	132,769
% increase/(decrease)	11.75%	38.26%	15.62%

Presently, MST is funded approximately 20.0% by passenger fares for Fixed-Route service (excluding federal pass through revenues to local governments) and 4.5% for RIDES Paratransit service. The remainder is met by federal and state grants as well as a nominal amount of bus advertising and interest revenue, as well as local sales tax revenue, which began to be collected in the 4th quarter of fiscal year 2016. Before fiscal year 2016, MST had been unique compared to Santa Cruz and San Francisco Bay Area transit operations, because it had been providing transit service without support from direct sales tax measures or dedicated general funds. While nearly 90% of the population of the state of California live in counties with these local sales taxes supporting transit, Monterey County had not been one of these "self-help" counties, despite four failed attempts by the county transportation agency to pass a local funding initiative to support transportation, including public transit. Prior to 2010, the former MST joint powers agency did not have the ability to levy taxes; however, the new MST District does have that authority. As such, the MST Board of Directors placed a 1/8-cent sales tax measure to support transit services for veterans, seniors and persons with disabilities on the November 2014 ballot. With 72.54% of voters approving this tax, revenues began to be collected on behalf of MST on April 1, 2015. Following that success, the Transportation Agency for Monterey County put a sales tax (Measure X) on the ballot in November of 2016, where it too garnered in excess of the two-thirds majority required in the state of California. While most of the funds generated by this tax will be dedicated to repairing local streets and roads, MST will be receiving $15 million to help support the expansion of Bus Rapid Transit services on the Monterey Peninsula as well as $25 million to support transit services and capital projects in the Salinas Valley.

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. The notes to the financial statements provide additional detail about MST's significant accounting policies.

The Statements of Net Position reports assets, deferred outflows of resources, liabilities, deferred inflows of resources and the difference as net position. The entire equity section is combined to report total net position and is displayed in three components - net investment in capital assets, restricted net position, and unrestricted net position.

The net position component "net investment in capital assets" consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any borrowings attributable to the acquisition, construction or improvements of those assets.

Restricted net position consists of assets where constraints on their use are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position that does not meet the definition of restricted or net investment in capital assets. This net position component includes net position that has been designated by management for specific purposes, which in the case of MST include allocations to fund capital projects and other liabilities, which indicate that management does not consider them to be available for general operations.

The Statements of Revenues, Expenses and Changes in Net Position consist of operating and nonoperating revenues and expenses. Other sources of MST revenues, such as capital contributions, are reported separately after nonoperating revenues and expenses.

FINANCIAL POSITION SUMMARY

Total net position serves over time as a useful indicator of MST's financial position. MST's assets and deferred outflows exceed liabilities and deferred inflows by $63.9 million at June 30, 2019, which was a 2.4% decrease from June 30, 2018. At June 30, 2018 MST's assets and deferred outflows exceeded the liabilities and deferred inflows by $65.5 million which was an increase of 37.8% from June 30, 2017. A condensed summary of net position at June 30 is shown below ($ in thousands):

	2019	2018	2017
ASSETS			
Current and other assets	$ 25,212	$ 23,671	$ 25,201
Capital assets	66,843	68,889	41,521
Total assets	92,055	92,559	66,722
Deferred outflows of resources	4,251	6,029	5,671
LIABILITIES			
Current liabilities	11,523	13,264	7,182
Non current liabilities	19,685	18,775	16,903
Total liabilities	31,208	32,039	24,085
Deferred inflows of resources	1,192	1,044	756
NET POSITION			
Net investment in capital assets	62,354	66,651	39,080
Restricted	1,562	3,277	4,154
Unrestricted	(9)	(4,422)	4,319
TOTAL NET POSITION	$ 63,906	$ 65,506	$ 47,553

The largest portion of MST's net position each year (97.6% at June 30, 2019) is its investment in capital assets (e.g., buses, buildings, improvements, and equipment). MST uses these capital assets to provide services to its patrons, passengers and visitors to the region; consequently, these assets are not available for future spending. The restricted net position (2.4% at June 30, 2019) represents resources that are subject to external restrictions on how they may be used. The remaining unrestricted net position (-0.01% at June 30, 2019) may be used to meet MST's ongoing obligations. Excluding the implementation of GASB Statement No. 68 Pension Standards implemented in fiscal year 2015, MST has the following net position available for future capital and operating needs ($ in thousands):

	2019	2018
Unrestricted Net Position	$ (9)	$ (4,422)
GASB 68 Effect from CalPERS:		
Deferred outflows	(4,251)	(6,029)
Net pension liability	14,556	15,131
Deferred inflows	1,192	1,044
Total Net GASB 68 Effect from CalPERS	11,497	10,145
Net Position Available for Future Capital and Operating Needs	$ 11,488	$ 5,723

FINANCIAL OPERATIONS HIGHLIGHTS

- Operating revenues in 2019 compared to 2018 decreased by $2.1 million from $10.8 million to $8.7 million primarily as a result of decreasing levels of military and civilian participation in the Mass Transportation Benefit Program. Operating revenues in 2018 to 2017 increased by $0.4 million from $10.4 million to $10.8 million primarily as a result of small increases in levels of military and civilian participation in the Mass Transportation Benefit Program.

- Operating expenses in 2019 compared to 2018 before depreciation increased by $2.5 million from $45.1 million to $47.6 million mainly attributable to liability expenses and an increase in purchased transportation costs over the prior year. Operating Expenses in 2018 compared to 2017 before depreciation increased by $4.2 million from $40.9 million to $45.1 million which is mainly attributable to wages, provisions required for long-term pension obligations, medical benefits and workers' compensation liabilities, fuel costs, and purchased transportation costs over the prior year.

- Depreciation expense increased by $3.1 million to $8.6 million in 2019 from $5.5 million in 2018 due to the completion of construction for the Monterey Bay Operations and Maintenance Facility, improvements at the Mobility Services Center, purchase of two BYD electric buses, construction of a charging station at the Salinas yard (CJW), and the full year depreciation of the 26 revenue vehicles purchased in 2018. Depreciation expense increased by $0.4 million to $5.5 million in 2018 from $5.1 million in 2017 due to the implementation of MST Real Time, major ITS software upgrades, support vehicles for facilities and in the maintenance department, four Prius sedans used as coach operator relief units and one month of the 26 new replacement transit buses.

- Non operating revenues (expenses) increased by $4.3 million to $43.3 million in 2019 from $39.0 million in 2018 due to a higher allocation in Local Transportation Funds, State Transit Assistance and Measure Q (Sales Tax) Revenues. Non operating revenues (expenses) increased by $4.3 million to $39.0 million in 2018 from $34.7 million in 2017 due to a higher allocation in Local Transportation Funds, State Transit Assistance and Federal Urbanized Area Formula Funding program (5307 Formula Funds).

- Capital contributions received in the form of grants from the federal and state governments decreased from $18.8 million in 2018 to $2.6 million in 2019. Capital contributions received in the form of grants from the federal and state governments increased from $1.8 million in 2017 to $18.8 million in 2018. These capital expenditures can vary greatly from year to year as buses are purchased in large batches on an occasional basis, and major infrastructure projects and their associated infrastructure are significant, but relatively rare occurrences.

LONG-TERM DEBTS

On January 21, 2016, MST entered into a financial agreement with Rabobank N.A. and a private lender to finance the purchase of the administrative building of MST and its improvements in the amount of $2,699,768 in total. The maturity date of the promissory note of Rabobank N.A and the private lender is January 2026 and February 2031 respectively. MST also entered into another financial agreement with Rabobank N.A. to finance the purchase of the MST buses in the amount of $2,919,751 in total on July 2, 2018. The maturity date of the new promissory note of Rabobank N.A is September 2023. Additional information on MST's promissory notes can be found in Note XI of this report.

SUMMARY OF CHANGES IN NET POSITION ($ in thousands)

	2019	2018	2017
Operating revenues	$ 8,715	$ 10,817	$ 10,371
Operating expenses	(56,222)	(50,676)	(45,985)
Operating income loss	(47,507)	(39,859)	(35,614)
Non operating revenues and expenses	43,288	39,034	34,740
Capital contributions	2,619	18,778	1,803
Change in net position	(1,600)	17,953	929
Net position, beginning	65,506	47,553	46,624
Net position, ending	$ 63,906	$ 65,506	$ 47,553

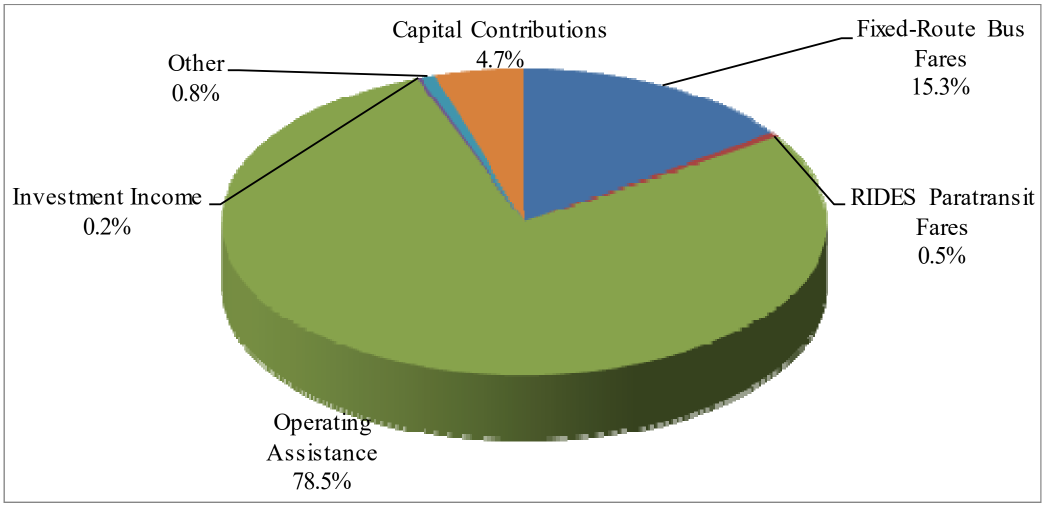
MST PASSENGER FARES

Passenger fares are set by Board Policy and changed when determined necessary by the Board. A complete overhaul of our passenger fares took place in March 2011. The fare structure was changed from a 14 zone/overlap zone configuration to a distanced-based system comprised of only four categories: Primary (Base), Local, Regional and Commuter fares. All categories of fares, including day passes, monthly passes, weekly passes and paratransit fares were increased by an average of 25% on May 26, 2012. Fares now range from $1.50 for short-distance local routes, to $2.50 for primary base-fare routes, to $3.50 for regional routes between Monterey Peninsula, the Salinas Valley, and rural northern Monterey County, to $12.00 for long-distance commuter routes that connect to San Jose, Morgan Hill and Gilroy in Santa Clara County, Fort Hunter Liggett and Camp Roberts in extreme southern Monterey County, and Paso Robles and Templeton in northern San Luis Obispo County. Fares were not increased during fiscal year 2019.

	2018-2019	2012-2017
Fixed-Route Bus Fare	$1.50 - $3.50	$1.50 - $3.50
Fixed-Route Bus Transfer	n/a	n/a
RIDES Paratransit Fare	$1.50 - $3.50	$3 - $7

REVENUES

The following chart shows the major sources and the percentage of operating revenues for the year ended June 30, 2019 (fares, grants and other):



A summary of revenues for the year ended June 30, 2019, including the amount and percentage of change in relation to prior year amounts is as follows ($ in thousands):

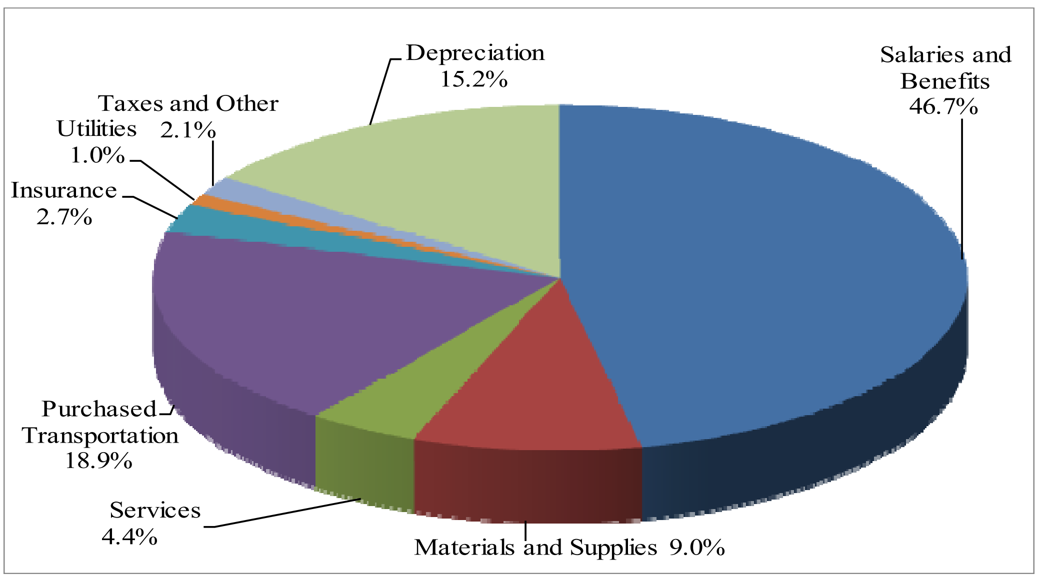
	2019 Amount	Percent of Total	2019 Increase (Decrease) From 2018	Percent Increase/ (Decrease)	2018 Amount	Percent of Total	2018 Increase (Decrease) From 2017	Percent Increase/ (Decrease)	2017 Amount
Operating									
Fixed-Route bus fares	$ 8,438	15.3%	$ (2,084)	(19.8%)	$ 10,522	15.3%	$ 632	6.4%	$ 9,890
RIDES paratransit fares	278	0.5%	(17)	(5.9%)	295	0.4%	(185)	(38.5%)	480
Total Operating	8,715	15.8%	(2,102)	(19.4%)	10,817	15.7%	447	4.3%	10,370
Nonoperating:									
Sales tax revenues	9,948	18.0%	1,357	15.8%	8,591	12.5%	144	1.7%	8,447
Federal grants	9,843	17.8%	570	6.1%	9,273	13.5%	515	5.9%	8,758
Local transportation fund	23,513	42.6%	2,704	13.0%	20,810	30.2%	3,368	19.3%	17,442
Investment income	120	0.2%	47	63.2%	74	0.1%	5	7.0%	69
Other	431	0.8%	(39)	(8.2%)	470	0.7%	446	1,858.1%	24
Total Nonoperating	43,855	79.5%	4,638	11.8%	39,217	57.0%	4,477	12.9%	34,740
Capital contributions	2,619	4.7%	(16,158)	(86.1%)	18,778	27.3%	16,975	941.5%	1,803
Total Revenues	$ 55,190	100.0%	$ (13,622)	(19.8%)	$ 68,812	100.0%	$ 21,899	46.7%	$ 46,913

EXPENSES

A summary of expenses for the year ended June 30, 2019, including the amount and percentage of change in relation to prior year amounts is as follows ($ in thousands):

	2019 Amount	Percent of Total	2019 Increase (Decrease) From 2018	Percent Increase/ (Decrease)	2018 Amount	Percent of Total	2018 Increase (Decrease) From 2017	Percent Increase/ (Decrease)	2017 Amount
Operating expenses:									
Salaries and benefits	$ 26,286	46.8%	$ (286)	-1.1%	$26,573	52.4%	$ 3,008	12.8%	$ 23,565
Materials and supplies	5,105	9.1%	195	4.0%	4,910	9.7%	463	10.4%	4,447
Professional and technical services	2,475	4.4%	71	2.9%	2,404	4.7%	(244)	-9.2%	2,648
Purchased transportation	10,662	19.0%	1,727	19.3%	8,935	17.6%	892	11.1%	8,043
Insurance	1,526	2.7%	822	116.7%	704	1.4%	(7)	-0.9%	711
Utilities	588	1.0%	161	37.8%	427	0.8%	(9)	-2.1%	436
Taxes	193	0.3%	6	3.2%	187	0.4%	33	21.4%	154
Other	798	1.4%	(207)	-20.6%	1,005	2.0%	136	15.7%	869
Total operating expenses before depreciation	47,634	84.7%	2,489	5.5%	45,145	89.1%	4,272	10.5%	40,873
Depreciation	8,588	15.3%	3,057	55.3%	5,531	10.9%	418	8.2%	5,113
Total operating expenses	$ 56,222	100.0%	$ 5,546	10.9%	$50,676	100.0%	$ 4,690	10.2%	$ 45,986

The following chart shows the major cost categories and the percentage of operating expenses for the year ended June 30, 2019:



CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

During fiscal year 2019, MST received RIDES replacement and expansion vehicles. Since the fare decrease and free rides on weekends in Salinas began, the number of RIDES passengers has outpaced anticipated growth in the program. It was therefore necessary to acquire replacement and expansion vehicles to support the RIDES service.

Also, in fiscal year 2019 and in support of mobility services, MST completed construction of improvements at the Mobility Services Center in Salinas which serves as a training site as well as a place to perform functional assessments of individuals requesting RIDES services. This facilities project costs $352 thousand and will be utilized well into the future as the older generations, those with disabilities and others are expected to grow in numbers over time.

Additional information on MST's capital assets can be found in Note V of this report.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide MST's customers, stakeholders and other interested parties with an overview of MST's financial operations and condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact the Assistant General Manager at 19 Upper Ragsdale Drive Suite 200, Monterey, California 93940.

MONTEREY-SALINAS TRANSIT

STATEMENT OF NET POSITION
AS OF JUNE 30, 2019 AND 2018

ASSETS:	2019	2018
CURRENT ASSETS:		
Cash and investments	$ 15,308,568	$ 9,027,751
Operating grants receivable	7,075,988	9,811,758
Capital grants receivable	1,704,468	3,431,203
Other receivables	435,261	841,469
Material and supplies, at cost	301,680	306,352
Prepaid items	386,020	252,201
Total current assets	25,211,985	23,670,734
NONCURRENT ASSETS:		
Capital assets:		
Land	3,914,786	3,914,786
Buses	53,905,658	52,918,680
Shop, office and other equipment	61,647,787	34,142,525
Total	119,468,231	90,975,991
Accumulated depreciation	(55,973,643)	(48,043,213)
Construction in progress	3,348,871	25,955,729
Capital assets - net	66,843,459	68,888,507
TOTAL ASSETS	92,055,444	92,559,241
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amounts from pension activities	4,251,494	6,029,087
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	1,406,497	5,736,999
Accrued liabilities	4,348,093	3,506,469
Unearned revenues	2,578,734	1,663,032
Current portion of notes payable	774,462	212,967
Current poriton of self-insurance liabilities	731,985	447,595
Current portion of vacation liabilities	1,683,691	1,697,051
Total current liabilities	11,523,462	13,264,113
NONCURRENT LIABILITIES:		
Notes payable	3,714,904	2,024,382
Self-insurance liabilities	1,413,707	1,619,819
Net pension liabilities	14,556,244	15,130,777
Total noncurrent liabilities	19,684,855	18,774,978
TOTAL LIABILITIES	31,208,317	32,039,091
DEFERRED INFLOWS OF RESOURCES:		
Deferred amounts from pension activities	1,192,137	1,043,546
NET POSITION:		
Net Investment in capital assets	62,354,093	66,651,158
Restricted for capital projects	1,561,558	3,276,910
Unrestricted	(9,167)	(4,422,377)
TOTAL NET POSITION	$ 63,906,484	$ 65,505,691

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

MONTEREY-SALINAS TRANSIT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
OPERATING REVENUES:		
Fares	$ 8,715,328	$ 10,817,163
OPERATING EXPENSES:		
Salaries and benefits	26,286,386	26,572,590
Professional and technical services	2,474,744	2,403,890
Materials and supplies	5,104,905	4,909,665
Utilities	588,380	426,940
Insurance	1,526,270	704,306
Taxes	192,928	186,946
Purchased transportation	10,661,634	8,935,084
Other	798,279	1,005,450
Depreciation	8,588,074	5,530,752
Total operating expenses	56,221,600	50,675,623
OPERATING LOSS	(47,506,272)	(39,858,460)
NON-OPERATING REVENUES AND EXPENSES:		
Operating assistance:		
Sales tax revenues	10,365,729	8,990,950
Sales tax state admin fees	(418,210)	(399,970)
Federal grants	9,842,643	9,272,663
Local and state grants	23,513,295	20,809,630
Loss on disposal of assets	(355,163)	(49,043)
Interest income	120,480	73,835
Interest expense	(212,384)	(134,035)
Other	431,302	469,941
Total non-operating revenues and expenses	43,287,692	39,033,971
LOSS BEFORE CAPITAL CONTRIBUTIONS	(4,218,580)	(824,489)
CAPITAL CONTRIBUTIONS	2,619,373	18,777,515
CHANGE IN NET POSITION	(1,599,207)	17,953,026
NET POSITION, Beginning of year	65,505,691	47,552,665
NET POSITION, End of year	$ 63,906,484	$ 65,505,691

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

MONTEREY-SALINAS TRANSIT

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fares	$ 8,715,328	$ 10,817,163
Payments to employees	(23,190,769)	(21,476,167)
Payments to vendors for services	(23,289,312)	(13,690,388)
Payments for insurance claims and premiums	(1,447,992)	(651,200)
Other	(153,697)	(1,258,862)
Net cash used for operating activities	(39,366,442)	(26,259,454)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating grants received	46,039,227	38,045,637
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants received	4,346,108	16,459,065
Interest paid on capital debt	(212,384)	(116,764)
Principal paid on capital debt	(667,734)	(203,584)
Proceeds from debt issuance	2,919,751	-
Purchase of capital assets	(6,898,189)	(32,947,741)
Net cash used for capital and related financing activities	(512,448)	(16,809,024)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	120,480	73,835
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,280,817	(4,949,006)
CASH AND CASH EQUIVALENTS, Beginning of year	9,027,751	13,976,757
CASH AND CASH EQUIVALENTS, End of year	$ 15,308,568	$ 9,027,751
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (47,506,272)	$ (39,858,460)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	8,588,074	5,530,752
Other income	431,302	258,087
Change in assets, liabilities, deferred inglows, and deferred outflow:		
Materials and supplies	4,672	(49,387)
Prepaid expenses	(133,819)	(20,814)
Receivables	406,208	(207,789)
Accounts payable	(4,330,502)	2,938,628
Accrued liabilities	1,757,326	3,109,849
Self-insurance liabilities	78,278	53,106
Vacation liabilities	(13,360)	122,378
Net pension liabilities and related deferrals	1,351,651	1,864,196
Net cash used in operating activities	$ (39,366,442)	$ (26,259,454)

Noncash investing, capital and financing activities: MST's noncash capital contributions were $1,725,631 and $2,318,450 for 2019 and 2018, respectively.

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

I. ORGANIZATION

Monterey-Salinas Transit (MST) was created July 1, 1981 through the merger of Monterey Peninsula Transit and Salinas Transit System under a joint exercise of powers agreement to provide, either directly or through contract, public transportation services within certain areas of the County of Monterey and the Cities of Carmel-by-the-Sea, Del Rey Oaks, Marina, Monterey, Pacific Grove, Seaside and Salinas. MST provides bus services to those areas and is governed by a Board of Directors composed of representatives of the member jurisdictions. In addition, effective July 1, 1996, the administration of the RIDES program was transferred to MST from the County of Monterey. The RIDES program fulfills MST's obligation, under the Americans with Disabilities Act, to provide complementary Paratransit service. The RIDES program is a "curb-to-curb" transportation program for persons with disabilities unable to use fixed-route public transit. As of July 1, 2010, the MST Joint Powers Agency was replaced by the Monterey-Salinas Transit District, which was created through legislation (AB 644 Caballero) passed by the California Legislature and signed into law by Governor Arnold Schwarzenegger. The District now includes all 12 cities in Monterey County as well as all unincorporated areas of the County.

II. SIGNIFICANT ACCOUNTING POLICIES

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

Restricted and Unrestricted Resources - when both restricted and unrestricted resources are available for the same purpose (e.g. a construction project), the MST's policy is to use all available restricted resources first before unrestricted resources are utilized.

Basis of Accounting - MST is a single enterprise fund and maintains its records on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

Deposits and Investments - 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. Only investments with maturities of three months or less at the time of purchase may be classified as cash equivalents. Investments in the State of California Local Agency Investment Fund (LAIF) are stated at amortized cost which approximates fair value. MST is a voluntary participant in LAIF which is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of MST's investment in the pool is reported in the accompanying financial statements at amounts based on MST's pro-rata share of the fair value provided by LAIF for the entire portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

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

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

Capital Assets - are 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
Buildings	15 to 40 years

MST's capitalization threshold is $1,000.

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

Estimates - the preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities.

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

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

Pensions - for purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the MST's California Public Employees' Retirement System (CalPERS) plan (the Plan) and additions to/deductions from the Plan fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Investments are reported at fair value.

Deferred Outflows/Inflows of Resources - in addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period.

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

III. OPERATING ASSISTANCE

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

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

Operating grant activity for 2019 is summarized as follows:

	Federal Grants	Local Transportation Fund	State Operating Grants	Sales Tax Revenue	Total
Amount recognized as revenue	$ 9,842,643	$ 18,489,523	$ 5,023,772	$ 10,365,729	$ 43,721,667
Amount received prior to June 30, 2019	8,246,320	16,113,734	3,695,686	8,589,939	36,645,679
Grants receivable at June 30, 2019	$ 1,596,323	$ 2,375,789	$ 1,328,086	$ 1,775,790	$ 7,075,988

Operating grant activity for the year ended June 30, 2018 is summarized as follows:

	Federal Grants	Local Transportation Fund	State Operating Grants	Sales Tax Revenue	Total
Amount recognized as revenue	$ 9,272,663	$ 17,095,561	$ 3,714,069	$ 8,990,950	$ 39,073,243
Amount received prior to June 30, 2018	4,229,958	15,018,531	2,488,449	7,524,547	29,261,485
Grants receivable at June 30, 2018	$ 5,042,705	$ 2,077,030	$ 1,225,620	$ 1,466,403	$ 9,811,758

Deposits and investments as of June 30, 2019 and 2018, consists of the following:

	2019	2018
Cash on hands and in banks - unrestricted	$ 8,447,896	$ 6,229,232
Investments in Local Agency Investment Fund - unrestricted	6,860,672	2,798,519
	$ 15,308,568	$ 9,027,751

IV. DEPOSITS AND INVESTMENTS

Policies and Practices

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

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.

General Authorizations - California Government Code

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

Investment Type	**Maximum Remaining Maturity**	**Maximum Specified % Of Portfolio**	**Minimum Quality Requirements**
Local Agency Bonds	5 Years	None	None
U.S. Treasury Obligations	5 Years	None	None
State Obligations: CA and Others	5 Years	None	None
CA Local Agency Obligations	5 Years	None	None
U.S. Agency Obligations	5 Years	None	None
Bankers' Acceptances	180 days	40%	None
Commercial Paper: Non-pooled Funds	270 days or less	25% of the agency's money	Highest letter and number rating by an NRSRO
Commercial Paper: Pooled Funds	270 days or less	40% of the agency's money	Highest letter and number rating by an NRSRO
Negotiable Certificates of Deposit	5 Years	30%	None
Non-negotiable Certificates of Deposit	5 Years	None	None
Medium-term Notes	5 years or less	30%	"A" rating category or its equivalent or better
Mutual Funds and Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple
Local Agency Investment Fund (LAIF)	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 LAIF has a maturity of less than one year. The weighted average maturity of investments in the LAIF was less than one year on June 30, 2019 as well as on June 30, 2018.

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. Investments in the LAIF are unrated as of June 30, 2019 and June 30, 2018.

Custodial Credit Risk - Deposits
This is the risk that in the event of a bank failure, MST's deposits may not be returned to it. MST does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. As of June 30, 2019 and 2018, MST's bank balances of $9,242,083 and $8,870,435, respectively, were exposed to custodial credit risk because they were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of MST.

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

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

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

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

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

V. CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2019 and 2018, is as follows:

	Beginning Balance July 1, 2018	Additions	Retirements/ Reclassifications	Ending Balance June 30, 2019
Capital assets not depreciated				
Land	$ 3,914,786	$ -	$ -	$ 3,914,786
Construction in progress	25,955,729	6,899,282	(29,506,140)	3,348,871
Capital assets depreciated				
Buses	52,918,680	1,529,150	(542,172)	53,905,658
Shop, office and other equipment	34,142,525	27,662,917	(157,655)	61,647,787
Totals at historical cost	116,931,720	36,091,349	(30,205,967)	122,817,102
Accumulated depreciation				
Buses	29,142,925	3,676,182	(499,989)	32,319,118
Shop, office and other equipment	18,900,288	4,911,892	(157,655)	23,654,525
Total accumulated depreciation	48,043,213	8,588,074	(657,644)	55,973,643
Capital assets, net	$ 68,888,507	$27,503,275	$ (29,548,323)	$ 66,843,459

	Beginning Balance July 1, 2017	Additions	Retirements/ Reclassifications	Ending Balance June 30, 2018
Capital assets not depreciated				
Land	$ 3,914,786	$ -	$ -	$ 3,914,786
Construction in progress	8,795,898	32,949,962	(15,790,131)	25,955,729
Capital assets depreciated				
Buses	40,609,294	13,235,037	(925,651)	52,918,680
Shop, office and other equipment	32,397,054	2,555,094	(809,623)	34,142,525
Totals at historical cost	85,717,032	48,740,093	(17,525,405)	116,931,720
Accumulated depreciation				
Buses	27,281,718	2,783,948	(922,741)	29,142,925
Shop, office and other equipment	16,914,753	2,746,804	(761,269)	18,900,288
Total accumulated depreciation	44,196,471	5,530,752	(1,684,010)	48,043,213
Capital assets, net	$ 41,520,561	$43,209,340	$ (15,841,394)	$ 68,888,507

VI. RISK MANAGEMENT

The MST is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disaster.

The following is a summary of MST's self-insured retention, external insurance and limitations on coverage:

- General liability to a maximum of $250,000 per incident, over which coverage is provided to $2,000,000 per incident by the California Transit Indemnity Pool (CalTIP) (see Note VII), and from $2,000,000 to $25,000,000 per incident coverage is provided by a private carrier through CalTIP.
- Physical damage to a maximum of $5,000 per bus and $500 for support vehicle per incident, over which coverage is provided to $100,000 per incident by CalTIP, and from $100,000 to $30,000,000 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.

There were no settlements that exceeded the insurance coverage in the past three years. There has not been a significant reduction of coverage to date, or from the prior year.

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, 2017 through 2019 are approximately as follows:

	2019	2018	2017
Estimated self-insurance liabilities, beginning of year	$ 2,067,414	$ 2,014,308	$ 2,229,751
Current year claims and changes in estimates	1,932,083	1,413,298	994,363
Claim payments	(1,853,805)	(1,360,192)	(1,209,806)
Estimated self-insurance liabilities, end of year	$ 2,145,692	$ 2,067,414	$ 2,014,308

CALTIP JOINT POWERS AGREEMENT

MST participates in the California Transit Indemnity Pool (CalTIP), a joint powers agreement created to provide liability and physical damage insurance to its members through an insurance pool. MST paid premiums to CalTIP of approximately $698,934 and $519,960 in the fiscal years ended June 30, 2019 and 2018, respectively.

VII. COMPENSATED ABSENCES

Accumulated unpaid personal leave, consisting of vacation, holiday and sick pay, have been accrued at June 30, 2019 and 2018 in the amounts of $1,683,691 and $1,697,051, respectively.

VIII. UNEARNED REVENUES

MST's unearned revenues consist of the following sources:

a. Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA).

As part of the State of California's Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006, approved by California voters as Proposition 1B (Prop 1B) on November 7, 2006, MST was awarded funding from the Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA). As of June 30, 2019, and 2018, MST had unspent PTMISEA proceeds and interest of $482,780 and $1,663,032 respectively. These amounts are included as a component of the unearned revenues.

b. The Low Carbon Transit Operations Program (LCTOP) is one of several programs that are part of the Transit, Affordable Housing, and Sustainable Communities Program established by the California Legislature in 2014 by Senate Bill 862. The LCTOP was created to provide operating and capital assistance for transit agencies to reduce greenhouse gas emission and improve mobility, with a priority on serving disadvantaged communities. Approved projects in LCTOP will support new or expanded bus or rail services, expand intermodal transit facilities, and may include equipment acquisition, fueling, maintenance and other costs to operate those services or facilities, with each project reducing greenhouse gas emissions. As of June 30, 2019 and 2018, MST had unspent LCTOP proceeds and interest of $1,599,008 and $355,978, respectively.

c. The Fort Ord Reuse Authority (FORA) had provided bus replacement funding to MST in their Capital Improvement Program. MST has $500,000 unspent funds as of June 30, 2019.

IX. PENSION PLANS

A. General Information about the Pension Plans

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

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 (52 for PEPRA employees) with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. Benefit provisions and all other requirements are established by State statute and may be amended by MST's contract with the employees.

The Plans' provisions and benefits in effect at June 30, 2019, are summarized as follows:

Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% at 55	2.0% at 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Earliest retirement age	50	52
Required employee contribution rates	6.87%	6.25%
Required employer contribution rates(1)	8.54%	8.54%

(1) Annual employer UAL prepayment of $698,928 is not included.

Employees Covered – At June 30, 2019, the following employees were covered by the benefit terms for each Plan:

Inactive employees or beneficiaries currently receiving benefits	160
Inactive employees entitled to but not yet receiving benefits	238
Active employees	244
Total	642

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

For the years ended June 30, 2019 and 2018, the contributions to the Plan were $2,028,140 and $1,705,194 for employer contributions respectively.

B. Net Pension Liability

MST's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan for fiscal year 2019 is measured using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The net pension liability of the Plans for fiscal year 2018 is measured using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability for fiscal years 2019 and 2018 follows.

Actuarial Assumptions - The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions	
Discount Rate	7.15%
Inflation	2.75%
Projected Salary Increase	Varies by Entry-Age and Service.
Investment Rate of Return	7.50% (1)
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds (2).
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

(1) Net of pension plan investment and administrative expenses, including inflation.
(2) The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions	
Discount Rate	7.15%
Inflation	2.75%
Projected Salary Increase	Varies by Entry-Age and Service.
Investment Rate of Return	7.50% (1)
Mortality Rate Table	Derived using CaIPERS' Membership Data for all Funds (2).
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

(1) Net of pension plan investment and administrative expenses, including inflation.
(2) The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

Discount Rate – The discount rate used to measure the total pension liability was 7.15 percent for each plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees' Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

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

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

The tables below reflect the long-term expected real rate of return by asset class for fiscal year 2019 and fiscal year 2018, respectively. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	50.0%	4.8%	6.0%
Global Fixed Income	28.0%	1.0%	2.6%
Inflation Sensitivity	0.0%	0.8%	1.8%
Private Equity	8.0%	6.3%	7.2%
Real Estate	13.0%	3.8%	4.9%
Liquidity	1.0%	0.0%	-0.9%
Total	100.0%		

(a) An expected inflation of 2.00% used for this period.

(b) An expected inflation of 2.92% used for this period.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	46.0%	5.3%	5.7%
Global Fixed Income	20.0%	1.0%	2.4%
Inflation Sensitive	9.0%	0.5%	3.4%
Private Equity	8.0%	6.8%	7.0%
Real Estate	11.0%	4.5%	5.1%
Infrastructure and Forestland	2.0%	4.5%	5.1%
Liquidity	4.0%	-0.6%	-1.1%
Total	100.0%		

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

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

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

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2018	$ 79,756,041	$ 64,625,264	$ 15,130,777
Changes in the year:			
Service cost	2,550,044	-	2,550,044
Interest on the total pension liability	5,630,975	-	5,630,975
Differences between actual and expected experience	(168,750)	-	(168,750)
Changes in assumptions	(684,609)	-	(684,609)
Net plan to plan resource movement		(161)	161
Contribution - employer	-	1,698,096	(1,698,096)
Contribution - employee	-	1,030,707	(1,030,707)
Net investment income	-	5,465,494	(5,465,494)
Administrative expenses	-	(100,704)	100,704
Benefit payments, including refunds of employee contributions	(2,845,585)	(2,845,585)	-
Other miscellaneous income/(expenses)	-	(191,239)	191,239
Net changes	4,482,075	5,056,608	(574,533)
Balance at June 30, 2019	$ 84,238,116	$ 69,681,872	$ 14,556,244

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2017	$ 71,129,246	$ 57,932,313	$ 13,196,933
Changes in the year:			
Service cost	2,533,695	-	2,533,695
Interest on the total pension liability	5,317,147	-	5,317,147
Differences between actual and expected experience	(1,328,635)	-	(1,328,635)
Changes in assumptions	4,491,878	-	4,491,878
Contribution - employer	-	1,598,978	(1,598,978)
Contribution - employee	-	1,033,733	(1,033,733)
Net investment income	-	6,533,063	(6,533,063)
Administrative expenses	-	(85,533)	85,533
Benefit payments, including refunds of employee contributions	(2,387,290)	(2,387,290)	-
Net changes	8,626,795	6,692,951	1,933,844
Balance at June 30, 2018	$ 79,756,041	$ 64,625,264	$ 15,130,777

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

2019	1% Decrease	Current Discount Rate	1% Increase
	6.15%	7.15%	8.15%
Net Pension Liability	$ 26,044,688	$ 14,556,244	$ 5,026,316

2018	1% Decrease	Rate	1% Increase
	6.15%	7.15%	8.15%
Net Pension Liability	$ 26,250,992	$ 15,130,777	$ 5,908,466

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

Change in Assumptions – In the fiscal years 2019 and 2018, there were no changes of assumptions.

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

MST recognized pension expense of $3,395,444 and $3,569,390 for the years ended June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018, MST reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2019	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 2,028,140	$ -
Differences between expected and actual experience	176,340	692,557
Changes in assumptions	1,925,090	499,580
Net differences between projected and actual earnings	121,924	-
Total	$ 4,251,494	$ 1,192,137

2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 1,705,194	$ -
Differences between actual and expected experience	529,022	1,043,546
Changes in assumptions	2,991,890	-
Net differences between projected and actual earnings	802,981	-
Total	$ 6,029,087	$ 1,043,546

$2,028,140 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferrals to pensions will be recognized as a pension expense (pension credit) as follows:

Year Ended June 30	
2020	$ 1,625,788
2021	391,587
2022	(813,015)
2023	(173,143)
	$ 1,031,217

X. LONG-TERM DEBT

On January 21, 2016, MST entered into an agreement with two lenders to finance the cost of acquiring the administration building of MST (direct borrowings). The building was financed with funds received from two promissory notes from Rabobank, N.A. and a private lender in the amount of $1,860,000 and $839,768, respectively. The Promissory note carries a fixed rate of 5 percent paid through 2031. The Bank's note carries a fixed interest rate of 4.3 percent paid through 2026. The building was acquired for a total cost of $2,549,250 and additional improvements financed with the secondary loan from the private lender for the same amount. In 2019, MST entered into a financing agreement with Rabobank N.A.(direct borrowings) to finance the purchase of the MST buses for a total of $2,919,751. The maturity date of the new promissory note of Rabobank N.A is 2023. The Bank's note carries a fixed interest rate of 4.68 percent. MST's promissory notes balances are as follows:

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Due in One Year
Rabobank Promissory Note (Building)	$ 1,490,683	$ -	$ 169,625	$ 1,321,058	$ 177,078
Other Promissory Note	746,666	-	43,341	703,325	45,558
Rabobank Promissory Note (Buses)	-	2,919,751	454,768	2,464,983	551,826
Total	$ 2,237,349	$2,919,751	$ 667,734	$ 4,489,366	$ 774,462

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due in One Year
Rabobank Promissory Note (Building)	$ 1,653,036	$ -	$ 162,353	$ 1,490,683	$ 169,625
Other Promissory Note	787,897	-	41,231	746,666	43,341
Total	$ 2,440,933	$ -	$ 203,584	$ 2,237,349	$ 212,967

Rabobank Promissory Note (Building) and Other Promissory Note contain a provision that in an event of default, outstanding amounts become immediately due if MST fails to make payment. Rabobank Promissory Note (Building) and Other Promissory Note are secured with collateral of the MST's administrative building.

Rabobank Promissory Note (Buses) contains a provision that in an event of default, outstanding amounts become immediately due if MST fails to make payment and Lender may require MST to deliver to Lender all or any portion of the collateral and any end all certificates of title and other documents relating to the collateral. Rabobank Promissory Note (Buses) are secured with collateral of 12 units of 2018 Gillig Transit Bus.

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

Fiscal Year	Principal	Interest to Maturity	Total
2020	$ 774,462	$ 194,105	$ 968,567
2021	811,909	156,658	968,567
2022	850,726	117,841	968,567
2023	891,401	77,166	968,567
2024	357,728	45,179	402,907
2025-2029	675,960	87,611	763,571
2030-2031	127,180	5,637	132,817
Total	$ 4,489,366	$ 684,197	$ 5,173,563

REQUIRED SUPPLEMENTARY INFORMATION

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MONTEREY-SALINAS TRANSIT

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
YEARS ENDED JUNE 30, 2019 AND 2018

Total Pension Liability

Fiscal Years	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Years	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Service Cost	$ 2,550,044	$ 2,533,695	$ 2,214,379	$ 2,083,605	$ 1,986,635
Interest on total pension liability	5,630,975	5,317,147	5,050,074	4,594,150	4,292,256
Differences between expected and actual	(168,750)	(1,328,635)	1,234,386	(499,608)	-
Changes in assumptions	(684,609)	4,491,878	-	(1,144,851)	-
Changes in benefits	-	-	-	-	-
Benefit payments, including refunds of employee contributions	(2,845,585)	(2,387,290)	(2,084,100)	(1,951,379)	(1,766,124)
Net change in total pension liability	4,482,075	8,626,795	6,414,739	3,081,917	4,512,767
Total pension liability - beginning	79,756,041	71,129,246	64,714,507	61,632,590	57,119,823
Total pension liability - ending (a)	$ 84,238,116	$ 79,756,041	$ 71,129,246	$ 64,714,507	$ 61,632,590
Plan fiduciary net position					
Net plan to plan resource movement	$ (161)	$ -	$ -	$ -	$ -
Contributions - employer	1,698,096	1,598,978	1,378,441	1,174,672	1,023,942
Contributions - employee	1,030,707	1,033,733	969,400	935,755	828,109
Net investment income	5,465,494	6,533,063	283,613	1,254,149	8,369,916
Administrative expenses	(100,704)	(85,533)	(34,994)	(64,625)	-
Benefit payments	(2,845,585)	(2,387,290)	(2,084,100)	(1,951,379)	(1,766,124)
Other miscellaneous income/(expenses)	(191,239)	-	-	-	-
Net change in plan fiduciary net position	5,056,608	6,692,951	512,360	1,348,572	8,455,843
Plan fiduciary net position - beginning	64,625,264	57,932,313	57,419,953	56,071,381	47,615,538
Plan fiduciary net position - ending (b)	$ 69,681,872	$ 64,625,264	$ 57,932,313	$ 57,419,953	$ 56,071,381
Net pension liability - ending (a)-(b)	$ 14,556,244	$ 15,130,777	$ 13,196,933	$ 7,294,554	$ 5,561,209
Plan fiduciary net position as a percentage of the total pension liability	82.72%	81.03%	81.45%	88.73%	90.98%
Covered payroll	$ 15,492,749	$ 14,459,041	$ 13,972,736	$ 13,774,991	$ 12,726,683
Net pension liability as percentage of covered payroll	93.96%	104.65%	94.45%	52.96%	43.70%

Notes to Schedule:

Ten years of data is not available before the implementation of the pension standards.

Change in Assumptions:

Discount rate changed from 7.65% at the June 30, 2016 measurement period to 7.15% at the June 30, 2017 measurement period.

MONTEREY-SALINAS TRANSIT

SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018	2017	2016	2015[1]
Actuarially determined contribution	$ 2,028,140	$ 1,705,194	$ 1,606,149	$ 1,378,399	$ 1,023,942
Contributions in relation to the actuarially determined	(2,028,140)	(1,705,194)	(1,606,149)	(1,378,399)	(1,023,942)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$15,564,605	$ 15,492,749	$ 14,459,041	$ 13,972,736	$ 13,774,991
Contributions as a percentage of covered payroll	13.03%	11.01%	11.11%	9.86%	7.43%

(1) Ten years of data is not available before the implementation of the pension standards.

OTHER SUPPLEMENTAL INFORMATION

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MONTEREY-SALINAS TRANSIT

SCHEDULE OF NET POSITION BY PROGRAM
JUNE 30, 2019

ASSETS	FIXED-ROUTE BUS SERVICE	RIDES	SALES TAX	TOTAL
CURRENT ASSETS:				
Cash and investments	$ 15,299,928	$ 8,640	$ -	$ 15,308,568
Operating grants receivable	5,300,198	971,125	804,665	7,075,988
Capital grants receivable	1,704,468	-	-	1,704,468
Materials and supplies, at cost	301,680	-	-	301,680
Prepaid items	268,670	77,739	39,611	386,020
Other receivables	435,261	-	-	435,261
Inter-program receivable	6,189,586	-	-	6,189,586
Total current assets	29,499,791	1,057,504	844,276	31,401,571
NON CURRENT ASSETS:				
Restricted cash and investments	-	-	-	-
Property, plant And equipment:				
Land	3,914,786	-	-	3,914,786
Buses	51,231,635	2,674,023	-	53,905,658
Shop, office and other equipment	61,095,383	506,058	46,346	61,647,787
Total	116,241,804	3,180,081	46,346	119,468,231
Accumulated depreciation	(53,619,426)	(2,354,217)	-	(55,973,643)
Construction in progress	3,331,101	10,250	7,520	3,348,871
Property, plant and equipment - net	65,953,479	836,114	53,866	66,843,459
TOTAL ASSETS	95,453,270	1,893,618	898,142	98,245,030
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred amounts from pension activities	4,251,494	-	-	4,251,494
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	1,405,331	-	1,166	1,406,497
Accrued liabilities	4,236,733	60,899	50,461	4,348,093
Unearned revenues	2,578,734	-	-	2,578,734
Current portion of notes payable	774,462	-	-	774,462
Current portion of self-insurance liabilities	731,985	-	-	731,985
Current portion of vacation liabilities	1,683,691	-	-	1,683,691
Inter-program payable	-	2,180,919	4,008,667	6,189,586
Total current liabilities	11,410,936	2,241,818	4,060,294	17,713,048
NONCURRENT LIABILITIES				
Notes payable	3,714,904	-	-	3,714,904
Self-insurance liabilities	1,413,707	-	-	1,413,707
Net pension liabilities	14,556,244	-	-	14,556,244
Total noncurrent liabilities	19,684,855	-	-	19,684,855
TOTAL LIABILITIES	31,095,791	2,241,818	4,060,294	37,397,903
DEFERRED INFLOWS OF RESOURCES:				
Deferred amounts from pension activities	1,192,137	-	-	1,192,137
NET POSITION:				
Net investment in capital assets	61,464,113	836,114	53,866	62,354,093
Restricted for capital projects	1,561,558	-	-	1,561,558
Unrestricted	4,391,165	(1,184,314)	(3,216,018)	(9,167)
TOTAL NET POSITION	$ 67,416,836	$ (348,200)	$ (3,162,152)	$ 63,906,484

MONTEREY-SALINAS TRANSIT

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION BY PROGRAM FOR THE YEAR ENDED JUNE 30, 2019

	FIXED-ROUTE BUS SERVICE	RIDES	SALES TAX	TOTAL
REVENUES:				
Fares	$ 8,437,793	$ 277,535	$ -	$ 8,715,328
Operating assistance:				
Sales tax revenue	-	5,897,406	4,468,323	10,365,729
Federal grants	9,842,643	-	-	9,842,643
Local and state grants	23,513,295	-	-	23,513,295
Interest income	120,480	-	-	120,480
Other	431,302	-	-	431,302
Total	42,345,513	6,174,941	4,468,323	52,988,777
EXPENSES:				
Salaries and benefits	25,798,568	173,850	313,968	26,286,386
Professional and technical services	2,335,642	92,684	46,418	2,474,744
Materials and supplies	4,341,133	623,983	139,789	5,104,905
Utilities	585,500	1,360	1,520	588,380
Insurance	1,526,270	-	-	1,526,270
Taxes	192,928	-	-	192,928
Purchased transportation	4,134,771	5,053,631	1,473,232	10,661,634
Sales tax state admin fees	-	228,706	189,504	418,210
Interest expense	212,384	-	-	212,384
Other	652,656	727	144,896	798,279
Inter-program transfers	(5,130,966)	-	5,130,966	-
Total	34,648,886	6,174,941	7,440,293	48,264,120
EXCESS (DEFICIENCY) OF REVENUE BEFORE CAPITAL AND FINANCING ITEMS OVER EXPENDITURES	7,696,627	-	(2,971,970)	4,724,657
INCOME (EXPENSE) FROM CAPITAL AND RELATED FINANCING:				
Gain (Loss) on disposal of assets	(81,688)	(273,475)	-	(355,163)
Capital contributions	2,619,373	-	-	2,619,373
Depreciation	(8,298,495)	(289,579)	-	(8,588,074)
Total	(5,760,810)	(563,054)	-	(6,323,864)
CHANGE IN NET POSITION	$ 1,935,817	$ (563,054)	$ (2,971,970)	$ (1,599,207)

MONTEREY-SALINAS TRANSIT

SCHEDULE OF CASH FLOWS BY PROGRAM
FOR THE YEAR ENDED JUNE 30, 2019

	FIXED-ROUTE BUS SERVICE	RIDES	SALES TAX	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from fares	$ 8,437,793	$ 277,535	$ -	$ 8,715,328
Payments to employees	(22,713,641)	(164,443)	(312,685)	(23,190,769)
Payments to vendors for services	(15,824,002)	(5,799,847)	(1,665,463)	(23,289,312)
Payments for insurance claims and premiums	(1,447,992)	-	-	(1,447,992)
Other	1,154,051	887,397	(2,195,145)	(153,697)
Net cash used for operating activities	(30,393,791)	(4,799,358)	(4,173,293)	(39,366,442)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Operating assistance received	36,401,095	5,410,973	4,227,159	46,039,227
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital grant funds received	4,346,108	-	-	4,346,108
Interest payments	(212,384)	-	-	(212,384)
Principal payments	(667,734)	-	-	(667,734)
Proceed from debt issuance	2,919,751	-	-	2,919,751
Purchases of property, plant and equipment	(6,232,708)	(611,615)	(53,866)	(6,898,189)
Net cash provided by (Used for) capital and related financing activities	153,033	(611,615)	(53,866)	(512,448)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	120,480	-	-	120,480
NET INCREASE IN CASH AND EQUIVALENTS	6,280,817	-	-	6,280,817
CASH AND EQUIVALENTS, BEGINNING OF YEAR	9,019,111	8,640	-	9,027,751
CASH AND EQUIVALENTS, END OF YEAR	$ 15,299,928	$ 8,640	$ -	$15,308,568

MONTEREY-SALINAS TRANSIT

BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2019

	Budgeted Amounts	Actual	Variances Positive (Negative)
REVENUES:			
Fares	$ 10,932,768	$ 8,715,328	$ (2,217,440)
Operating assistance:			
Sales tax revenue	9,339,984	10,365,729	1,025,745
Federal grants	9,210,900	9,842,643	631,743
Local and State grants	19,718,256	23,513,295	3,795,039
Interest	12,000	120,480	108,480
Other income	346,944	431,302	84,358
Total revenues	49,560,852	52,988,777	3,427,925
EXPENSES:			
Salaries and benefits	27,180,264	26,286,386	893,878
Professional and technical services	3,029,292	2,474,744	554,548
Materials and supplies	6,073,344	5,104,905	968,439
Utilities	563,148	588,380	(25,232)
Insurance	961,776	1,526,270	(564,494)
Taxes	211,596	192,928	18,668
Purchased transportation	10,075,788	10,661,634	(585,846)
State program admin fees	405,468	418,210	(12,742)
Interest expense	200,004	212,384	(12,380)
Other	860,172	798,279	61,893
Total expenses	49,560,852	48,264,120	1,296,732
Excess of revenues over expenses	$ -	$ 4,724,657	$ 4,724,657
RECONCILING ITEMS:			
Loss on disposal of capital assets		(355,163)	
Depreciation		(8,588,074)	
Capital contributions		2,619,373	
Total		(6,323,864)	
CHANGE IN NET POSITION		(1,599,207)	
NET POSITION, Beginning		65,505,691	
NET POSITION, Ending		$ 63,906,484	

Section III

STATISTICAL

Financial Trends

- Changes in Net Position
- Net Position

Revenue Capacity

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

Debt Capacity

- Outstanding Debt
- Per Capita Debt
- Pledged Revenue Coverage

Demographic and Economic Indicators

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

Operating Information

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

STATISTICAL SECTION

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

Financial Trends

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

Revenue Capacity Information

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

MONTEREY-SALINAS TRANSIT

FINANCIAL TRENDS – TEN-YEAR COMPARISON - FISCAL YEARS 2010 THROUGH FISCAL YEAR 2019

(In thousands)

Fiscal year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Passenger Fares	$ 6,989	$ 8,018	$ 7,859	$ 7,291	$ 6,921	$ 7,590	$ 9,022	$ 10,371	$ 10,817	$ 8,715
Operating Expenses	31,627	35,699	37,149	36,910	37,209	40,484	40,474	45,985	50,676	56,222
Operating Loss	(24,638)	(27,681)	(29,290)	(29,619)	(30,288)	(32,894)	(31,452)	(35,614)	(39,858)	(47,506)
Nonoperating Revenues (Expenses)										
Sales Tax Revenues	-	-	-	-	-	1,981	8,537	8,923	8,991	10,366
Federal Funds	10,156	8,419	8,679	10,082	10,357	10,477	8,755	8,758	9,273	9,843
Local Transportation Funds	12,405	12,544	15,007	18,462	16,577	17,475	17,114	17,442	20,810	23,513
Gain (or loss) on disposal of asset	(7)	(5)	12	(8)	36	14	5	(272)	(49)	(355)
Interest Income	166	89	24	21	58	50	39	69	74	120
Other Income	130	208	251	524	426	319	232	296	336	219
State Program Admin Fees	-	-	-	-	-	(429)	(388)	(476)	(400)	(418)
Total Nonoperating	22,850	21,255	23,973	29,081	27,454	29,887	34,294	34,740	39,034	43,288
Net Income (Loss)	(1,788)	(6,426)	(5,317)	(538)	(2,835)	(3,006)	2,842	(874)	(824)	(4,219)
Capital Contributions	3,875	2,705	3,668	12,833	1,946	14,688	1,302	1,803	18,778	2,619
Special Items	5,246	1,048	-	(5,206)	-	-	-	-	-	-
Change in Net Position	$ 7,333	$ (2,673)	$ (1,649)	$ 7,089	$ (889)	$ 11,682	$ 4,144	$ 929	$ 17,953	$ (1,599)
Net Position Component										
Net investment in capital assets	$ 29,638	$ 29,583	$ 28,198	$ 26,818	$ 26,513	$ 36,177	$ 35,757	$ 39,080	$ 66,651	$ 62,354
Restricted for capital projects	-	-	-	11,476	9,715	10,981	8,368	4,154	3,277	1,562
Unrestricted	7,762	5,144	4,880	1,872	3,050	(4,678)	2,499	4,319	(4,422)	(9)
Net Position, End of year	$ 37,400	$ 34,727	$ 33,078	$ 40,166	$ 39,277	$ 42,480	$ 46,624	$ 47,553	$ 65,506	$ 63,906

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

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

MONTEREY-SALINAS TRANSIT

REVENUE CAPACITY
FISCAL YEARS 2010 THROUGH FISCAL YEAR 2019
(In thousands)

Fares are in thousands	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Passenger Fares	$ 6,989	$ 8,018	$ 7,859	$ 7,291	$ 6,921	$ 7,590	$ 9,022	$ 10,371	$ 10,817	$ 8,715
Number of Passengers	4,355	4,477	4,449	4,082	4,269	4,335	4,407	4,395	4,636	4,478
Fare Structure										
Full fare: Adult	$ 2.50	$ 2.50	$1.50-$3.50	$1.50-$3.50	$1.50-$3.50	$1.50-$3.50	$1.50-$3.50	$1.50-$3.50	$1.50-$3.50	$1.50-$3.50
Discount fare: Senior, Youth & Disabled	$ 1.25	$.50-1.50	$.75-1.75	$.75-1.75	$.75-1.75	$.75-1.75	$.75-1.75	$.75-1.75	$.75-1.75	$.75-1.75
Transfers	$0.25/.10	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Source: MST's Business Service Department

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

MONTEREY-SALINAS TRANSIT

DEBT CAPACITY
FISCAL YEARS 2013 THROUGH FISCAL YEAR 2019

Monterey-Salinas Transit did not have long-term obligations associated with capital assets until 2013.

	2013	2016	2017	2018*	2019*
Ratio of outstanding debt:					
As a percent of personal income	0.02%	0.01%	0.01%	0.01%	0.02%
Per capita income (in thousands)**	$ 44.85	$ 52.45	$ 54.40	$ 55.49	$ 56.59
Total Debt	$ 3,600,000	$ 2,635,550	$ 2,440,933	$ 2,237,349	$4,489,366

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

*As a percent of Personal Income and Per Caita are estimated by multiplying 2% of annual inflation based on 2017 data.

This table also shows MST's total debt based on the mean personal income for Monterey County.

MST does not have any overlapping debt with any other government.

MONTEREY-SALINAS TRANSIT

DEMOGRAPHIC AND ECONOMIC INDICATORS
FISCAL YEARS 2010 THROUGH FISCAL YEAR 2019

Fiscal Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Service Area Population										
(In thousands)	416	420	423	424	425	425	434	438	438	436
Total Personal Income**										
(In millions)	$16,969	$ 17,356	$ 18,365	$ 19,233	$ 20,252	$ 22,143	$ 22,827	$ 23,820	$ 24,296	$ 24,782
Per Capita Personal										
Income**	$40,754	$41,138	$ 43,034	$ 44,851	$ 47,107	$ 51,256	$ 52,448	$ 54,395	$ 55,483	$ 56,593
Unemployment Rate***	12.80%	12.40%	11.40%	10.10%	9.10%	8.10%	7.60%	7.20%	6.30%	6.00%

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

**2019 and 2018 Personal Income and Per Capita Income are estimated by multiplying 2% of annual inflation based on 2017 census data.

*** Unemployement rate is based on annual rate

Principal Industry	Employees in 2019	% of Total in 2019
Farm	71,400	32.41%
Mining and Logging	300	0.14%
Construction	6,800	3.09%
Manufacturing	5,700	2.59%
Trade, Transportation & Utilities	26,200	11.89%
Information	1,000	0.45%
Financial Activities	4,500	2.04%
Professional & Business Services	14,500	6.58%
Educational & Health Services	20,600	9.35%
Leisure & Hospitality	28,000	12.71%
Other Services	5,200	2.36%
Government	36,100	16.39%
TOTAL	220,300	100.00%

Principal Industry	Employees in 2010	% of Total in 2010
Farm	60,300	31.99%
Mining and Logging	200	0.11%
Construction	4,200	2.23%
Manufacturing	5,700	3.02%
Trade, Transportation & Utilities	24,000	12.73%
Information	1,700	0.90%
Financial Activities	4,400	2.33%
Professional & Business Services	11,800	6.26%
Educational & Health Services	16,500	8.75%
Leisure & Hospitality	21,000	11.14%
Other Services	4,700	2.50%
Government	34,000	18.04%
TOTAL	188,500	100.00%

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

MONTEREY-SALINAS TRANSIT

OPERATING INFORMATION – MISCELLANEOUS INFORMATION FISCAL YEARS 2010 THROUGH FISCAL YEAR 2019

Fiscal year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Fixed-Route Service:*										
Net Cost/Passenger	$ 5.94	$ 6.53	$ 6.83	$ 7.61	$ 7.22	$ 7.69	$ 7.48	$ 8.74	$ 9.14	$ 9.85
Net Cost/Vehicle Mile	6.53	6.90	6.96	7.71	7.69	7.59	6.98	8.14	8.78	8.98
Net Cost/Service Hour	105.16	110.58	114.10	127.61	126.35	122.75	114.51	128.96	142.80	146.21
RIDES:*										
Net Cost/Passenger	$ 24.60	$ 28.21	$ 23.20	$ 28.75	$ 28.24	$ 25.49	$ 31.24	$ 30.99	$ 26.50	$ 30.10
Net Cost/Vehicle Mile	2.65	2.91	2.54	2.94	3.04	3.16	4.20	4.21	4.09	4.80
Net Cost/Service Hour	46.55	53.45	44.38	56.86	44.36	45.64	45.63	55.90	65.77	73.79
Employees:										
Administration	24	22	24	22	23	24	26	32	30	31
Facilities	6	6	6	6	6	6	6	7	8	9
Operations	160	173	173	167	158	166	164	169	170	163
Maintenance	38	39	41	37	38	36	38	41	45	47
Total	228	240	244	232	225	232	234	249	253	250
Fixed-Route Fares:										
Full	$ 2.50	$1.00-$3.00	$1.50-$3.50	$1.50-$3.50	$1.50-$3.50	$1.50-$3.50	$1.50-$3.50	$1.50-$3.50	$1.50-$3.50	$1.50-$3.50
Senior/Disabled	$ 1.25	$0.50-$1.50	$0.75-$1.75	$0.75-$1.75	$0.75-$1.75	$0.75-$1.75	$0.75-$1.75	$0.75-$1.75	$0.75-$1.75	$0.75-$1.75

* Excludes Depreciation

Source: This table is from the MST Business Department.

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

MONTEREY-SALINAS TRANSIT

OPERATING INFORMATION – CAPITAL ASSETS
FISCAL YEARS 2010 THROUGH FISCAL YEAR 2019

Fiscal year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Capital Assets Not Being Depreciated										
Land	$ 3,426	$ 3,426	$ 3,426	$ 3,426	$ 3,426	$ 3,426	$ 3,426	$ 3,915	$ 3,915	$ 3,915
Construction in progress	4,466	5,584	6,532	5,747	1,774	2,373	2,910	8,796	25,956	3,349
Total Capital Assets Not Being Depreciated	7,892	9,010	9,958	9,173	5,200	5,799	6,337	12,711	29,871	7,264
Other Capital Assets										
Buses	31,727	32,264	33,561	35,157	34,990	46,098	40,651	40,609	52,919	53,906
Shop, office and other equipment	26,815	28,916	27,501	28,626	35,202	36,746	37,370	32,397	34,143	61,648
Total Capital Assets Being Depreciated	58,542	61,180	61,062	63,783	70,191	82,844	78,021	73,006	87,061	115,553
Less Accumulated Depreciation For:										
Buses	(17,026)	(19,798)	(22,718)	(24,975)	(26,171)	(28,192)	(25,247)	(27,282)	(29,143)	(32,319)
Shop, office and other equipment	(19,771)	(20,810)	(20,105)	(21,164)	(22,707)	(24,275)	(20,718)	(16,915)	(18,900)	(23,655)
Total Accumulated Depreciation	(36,797)	(40,608)	(42,823)	(46,139)	(48,879)	(52,467)	(45,965)	(44,196)	(48,043)	(55,974)
Capital Assets, Net	$ 29,637	$ 29,582	$ 28,197	$ 26,817	$ 26,513	$ 36,177	$ 38,392	$ 41,521	$ 68,889	$ 66,843
Fleet Information:										
Standard Coaches	103	113	113	104	111	108	123	122	128	128
RIDES Vehicles	29	31	32	36	33	32	29	34	34	40
Total Revenue Vehicles	132	144	145	140	144	140	152	156	162	168

Source: MST's comprehensive annual financial reports.

Section IV

COMPLIANCE

- Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards,* the Transportation Development Act and California Government Code Section 8879.5
- Independent Auditor's Report on Compliance for Each Major Federal Program; and Report on Internal Control Over Compliance Required by *Uniform Guidance*
- Schedule of Expenditures of Federal Awards
- Schedule of Findings and Questioned Costs
- Summary Schedule of Prior Audit Findings

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*, THE TRANSPORTATION DEVELOPMENT ACT AND CALIFORNIA GOVERNMENT CODE SECTION 8879.55

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Monterey-Salinas Transit (MST), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise MST's basic financial statements, and have issued our report thereon dated December 19, 2019.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether MST's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the applicable provisions of Section 6667 of Title 21 of the California Code of Regulations and California Government Code Section 8879.55 et seq., noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* Section 6667 of Title 21 of the California Code of Regulations and California Government Code Section 8879.55 et seq.

Purpose of this Report

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

Eide Bailly LLP

Palo Alto, California
December 19, 2019

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

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

Report on Compliance for Each Major Federal Program
We have audited Monterey-Salinas Transit's (MST) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of MST's major federal programs for the year ended June 30, 2019. MST's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of MST's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MST's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of MST's compliance.

Opinion on Each Major Federal Program
In our opinion, MST complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

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Report on Internal Control Over Compliance

Management of MST is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MST's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MST's internal control over compliance.

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

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

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

Eide Bailly LLP

Palo Alto, California
December 19, 2019

MONTEREY-SALINAS TRANSIT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019

Federal Grantor/Program Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
U.S. Department of Transportation			
Direct grants			
Federal Transit Cluster:			
Federal Transit Capital Formula Grants	20.507	CA90Z005	$ 23,575
Federal Transit Capital Formula Grants	20.507	CA201938	8,369,886
Total Federal Transit Capital Formula Grants			8,393,461
Bus and Bus Facilities Formula Program	20.526	CA201739	5,770
Bus and Bus Facilities Formula Program	20.526	CA201853	44,717
Bus and Bus Facilities Formula Program	20.526	CA201925	1,444,004
Total Bus and Bus Facilities Formula Program			1,494,491
Total Federal Transit Cluster			9,887,952
Passed Through California Department of Transportation:			
Formula Grants for Rural Areas	20.509	N/A(1)	624,199
Formula Grants for Rural Areas	20.509	64C019-00901	835,288
Total Formula Grants for Rural Areas			1,459,487
Total U.S. Department of Transportation			11,347,439
Total Expenditures of Federal Awards			$ 11,347,439

(1) Grant Identification Number is not available as of June 30, 2019

NOTE 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of MST under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of MST, it is not intended to and does not present the financial position, changes in net assets, or cash flows of MST.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3: INDIRECT COST RATE

MST has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

MONTEREY-SALINAS TRANSIT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

Part I – Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major federal programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) Section 200.516(a) of the Uniform Guidance?	No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
20.507 and 20.526	Federal Transit Cluster

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019

Part II – Financial Statement Findings Section

Reference Number	Findings	Questioned Costs
No matters are reported		

Part III – Federal Award Findings and Questioned Cost Section

Reference Number	Findings	Questioned Costs
No matters are reported		

MONTEREY-SALINAS TRANSIT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2019

No matters are reported.

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