Comprehensive Annual Financial Report

For the fiscal years ending June 30, 2013 and June 30, 2012

Lupe Galaviz
Soledad

MONTEREY, CALIFORNIA

MST

MONTEREY-SALINAS TRANSIT

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MONTEREY-SALINAS TRANSIT

Monterey, California

Comprehensive Annual Financial Report

For The Fiscal Years Ended

June 30, 2013 and 2012

Prepared by the Accounting Department

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

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Section I

INTRODUCTORY

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- Organization Chart
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Board of Directors and Passengers of Monterey-Salinas Transit
Monterey, California
January 31, 2014

Comprehensive Annual Financial Report (CAFR)
Years Ended June 30, 2013 and 2012

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, 2013 and 2012. This transmittal letter provides a summary of finances, achievements, economic prospects and services in a manner that is easily accessible to those without a background in accounting or finance. Further explanation of financial matters is provided in the Management's Discussion and Analysis provided in the Financial Section of this Report.

As required by state law, independent auditors selected by the Board of Directors audited the financial statements contained in the CAFR. For the fiscal year ended June 30, 2013, Vavrinek, Trine, Day & Co. LLP, expressed an opinion that the statements are fairly stated and in compliance with accounting principles generally accepted in the United States of America. This most favorable type of opinion is commonly referred to as "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

For the fiscal year ending June 30, 2013, Monterey-Salinas Transit (MST) was an independent political subdivision of the State of California. It was originally formed by a joint-powers agreement in 1972, which was revised in 1981 to include the Salinas Transit System. As of July 1, 2010, MST Joint Powers Agency was replaced by the Monterey-Salinas Transit District, which was created through legislation (AB 644 Caballero) passed by the California Legislature and signed into law by Governor Arnold Schwarzenegger. The borders of the MST District are contiguous with those of the County of Monterey. The County of Monterey (the "County") is located along the Central Coast of California, bordered on the south by San Luis Obispo County, the west by the Pacific Ocean, the east by San Benito County, and the north by the counties of Santa Clara and Santa Cruz.

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

MST began operations in 1973 as Monterey Peninsula Transit and, by 1981, had consolidated two separate municipal systems into a viable network of local service throughout a 110 square-mile service area. In 1997, MST began operation of RIDES, a demand-response 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 2013 approximately 280 square miles.

MST has received recognition as a leader in the public transit field with numerous awards. MST programs and individuals have received numerous awards from the 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, and Secretary of the US Army. In 2012, MST was awarded the Gold Safety Excellence Award by the American Public Transportation Association in recognition of the agency being named the safest bus system nationwide in the 4 million to 20 million annual boardings category.

Special Purpose District

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

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

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

Some of the major objectives and initiatives from fiscal year 2013 include the following:

- Complete Fremont/Lighthouse "JAZZ" Bus Rapid Transit construction.
- Procure replacement buses as funding allows.
- Participate in local and regional planning activities to develop improved transit corridors and transfer locations including Highway 1, the former Fort Ord, Salinas Amtrak station and proposed downtown Monterey transit center.
- Review alternative sites and identify a long-term strategy for financing and construction of expanded transit operations and maintenance facilities.
- Perform research and outreach to develop a preferred local dedicated transit funding source.

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 2013, the MST fixed-route bus system consisted of fifty-nine routes: thirty-six operated by MST personnel, twenty-two routes operated by MV Transportation, Incorporated, and one subcontracted to and operated by San Luis Obispo Regional Transit. In fiscal year 2013, vehicles on these routes system-wide traveled approximately 3,926,824 miles and carried 3,976,279 passengers. RIDES, MST's paratransit service, transported approximately 105,241 mobility impaired patrons during fiscal year 2013 on 36 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.

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

During fiscal year 2013, MST introduced the new JAZZ Bus Rapid Transit service along the Fremont/Lighthouse corridor of the Monterey Peninsula and added a new commute-hour bus line connecting the Presidio of Monterey and downtown Monterey with Aptos, Cabrillo College and downtown Santa Cruz. In addition, system-wide service reductions were implemented in May 2013 due to budgetary concerns and a severe staffing shortage created by a hiring freeze imposed on the agency as a result of the state of California's public employee pension reform dispute with the United States Department of Labor.

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

JAZZ Bus Rapid Transit Construction Project
By the end of the fiscal year, MST had completed construction on its new Bus Rapid Transit (BRT) system along the busy Fremont/Lighthouse corridor on the Monterey Peninsula. Spanning nearly 7 miles from Monterey Bay Aquarium at the edge of Pacific Grove, through downtown Monterey and Seaside, and ending at one of the area's regional shopping centers in Sand City, the BRT system is expected to cut travel times along the corridor by as much as 25 percent. A partnership with the Monterey Jazz Festival, the new BRT line was designed and constructed with a musical jazz theme and features museum-quality displays of photos and text at each BRT bus stop profiling the 56-year history of the world-famous Monterey Jazz Festival.

Naval Postgraduate School Express Routes
During fiscal year 2009, MST implemented two new transit lines that connect the Naval Postgraduate School in Monterey with the La Mesa military housing community as well as housing areas on the former Fort Ord. This unique partnership is funded 100% by the military through the Department of Transportation transit benefit program. Through fiscal year 2013, ridership on these lines continues to be strong, and the services provide meaningful congestion reduction on the streets leading to NPS and at its limited parking areas.

Presidio Express Routes
Building on the success of the aforementioned Naval Postgraduate School routes, MST entered into another partnership with the Presidio of Monterey for transit service. Shortly after the beginning of fiscal year 2010, nine express lines were implemented connecting the base with communities throughout the county as well as Gilroy and San Jose in Santa Clara County. In January of 2010, three additional lines serving the Presidio were added. These new Presidio Express lines utilize the same 100% federal funding mechanism as the Naval Postgraduate School's program and routinely carry approximately 55,000 passengers per month. In fiscal year 2013 another new Presidio Express route was added connecting the military installation with Aptos, Capitola and downtown Santa Cruz. Funded through a federal Jobs Access Reverse Commute grant as well as state of California Department of Transportation Toll Credits, Line 78 Presidio-Santa Cruz Express offers the first ever MST services north of Watsonville into downtown Santa Cruz and provides work trips for employees during morning and afternoon weekday rush hours as well as transportation for leisure travelers on weekends during late morning and evening hours. The purchase of a special commuter bus was also funded through these federal and state grant programs for Line 78.

Fort Hunter Liggett Routes
Further expansion of MST's military partnerships occurred in fiscal year 2013, with the addition of Sunday service to MST's two long-distance commute routes connecting Fort Hunter Liggett in extreme southern Monterey County with communities in the Salinas Valley as well as Paso Robles in San Luis Obispo County. As with MST's Naval Postgraduate School and Presidio of Monterey programs, the Fort Hunter Liggett partnership is funded through the federal transit benefit as well as through Federal Transit Administration Section 5311(f) rural intercity transportation grants. After additional 5311(f) grants were used to install nine

new bus shelters in the rural areas of southern Monterey County (including Fort Hunter Liggett) during FY 12, a third Fort Hunter Liggett bus route was awarded grant funding in FY 13 and is being planned for implementation in FY 14, connecting the military installation with the Mineta San Jose International Airport as well as including intermediate stops at Greyhound Bus stations in King City, Salinas and San Jose.

CSUMB University Pass Program / Hartnell Free Fare Zone
A joint project between California State University Monterey Bay and MST, the CSUMB University Pass program offers unlimited access to MST's entire route network for students, faculty and staff. In addition, the University Pass program funds expanded transit services on campus including the CSUMB Otter Trolley, as well as connections off campus to Marina, Seaside, Sand City and downtown Monterey, especially late at night on Fridays and Saturdays. At Hartnell Community College, the Associated Student Senate voted to continue to fund a free fare zone at the Central Salinas campus and expanded the zone to include its new Alisal Campus on the east side of the city. This free fare zone enables students to board for free at MST bus stops adjacent to the two campuses. Return trips to the college areas are full fare, providing effectively a 50% discount for Hartnell students who use MST to get to and from classes. MST is reimbursed for lost revenue on a per-student basis. In fact, the program was so successful in its first years that the college allocated additional funds to include the college's King City satellite campus as a free far zone for the 2013-2014 school year.

Regional Express Routes
Until the train connection from Gilroy to Salinas is established for the Caltrain System, MST is providing bus service from the Monterey Peninsula through Gilroy and Morgan Hill to San Jose. Since its implementation in September 2006, three round trips per day are being provided on Line 55 Monterey-San Jose Express. During fiscal year 2010, MST added two more round trips between the Monterey Peninsula and Santa Clara County on the new Line 79 Presidio-San Jose Express via Gilroy. Due to reductions in the federal transit benefit, Line 79 had to be eliminated. Alternatively, MST secured 100% grant funding from the federal and state governments to introduce first-ever regional commute hour service between downtown Monterey and downtown Santa Cruz, with stops at key park & ride and transfer points in between the two cities. MST continued providing a regional link between the Salinas Valley and San Luis Obispo County through a partnership with Fort Hunter-Liggett and San Luis Obispo County Regional Transit Authority, growing the service to seven days a week during FY 2013.

Elderly and Persons with Disabilities
For many county residents, especially seniors and those with disabilities, MST provides the only means of transportation via its accessible fixed-route and RIDES services. The entire fleet of vehicles is equipped with wheelchair lifts and full-size buses have kneeling features to ease access. During the fiscal year, MST continued its subsidized taxi programs for seniors living in Salinas and most of the Monterey Peninsula as well as for RIDES clients on a county-wide basis. Trips on taxis are subsidized for persons 65 and over using federal New Freedoms mobility management grant funds. MST's senior shuttle program was enhanced on the Monterey Peninsula to include the new Line 94 Sand City-Carmel Rancho, which connected the Fremont corridor to destinations in Sand City, Carmel and Del Monte Shopping Center. Planning efforts for a Salinas senior shuttle were conducted during the fiscal year, with service starting September of 2013. To complement these expanded programs for seniors and persons with disabilities, MST offers travel training services to instruct prospective customers as to how to use fixed-route transit buses. In addition, MST offers assistance carrying packages for seniors who ride the bus and accompanying them on their trips through its volunteer "Navigators" program.

MST is now entering its 17th year of providing paratransit service to people with disabilities in Monterey County through its paratransit contractor, MV Transportation, Inc. MST is in full compliance with the federally mandated Americans with Disabilities Act. In the fiscal year that ended June 30, 2013, RIDES vehicles, owned by MST and operated by MV Transportation under contract, provided a total of 53,209 hours of service.

FINANCIAL POLICY & CONTROL

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

Internal Accounting Controls

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

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

The concept of reasonable assurance recognizes that:

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

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

Cash Management

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

Budgetary Control

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

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

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

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

Revenue Sources

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

Expenses and Expenditures

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

Capital Program

As with previous fiscal years, bus replacement remains the primary capital need for the agency. In fact, approximately 30 of MST's 80 full-sized buses have reached their replacement age. Last year, MST received a $788,000 grant for four new hybrid diesel electric minibuses, which were delivered and deployed into service during FY 2013. In addition, rural grants helped MST purchase an additional commuter-style coach and associated equipment for use on Line 78 Presidio-Santa Cruz Express. Federal grants allowed MST to replace and expand its minibus fleet to meet the specific transportation needs of elderly and disabled populations in the county. During the fiscal year, MST utilized a portion of its $2.78 million federal capital grant to complete construction for the new JAZZ Bus Rapid Transit line on the Monterey Peninsula. California Proposition 1B Transportation Bonds continued to provide needed local match for federally funded capital projects and bus replacements and funded other capital needs of the agency related to safety, security and technology.

MONTEREY-SALINAS TRANSIT

ECONOMIC CONDITIONS

Ranking high in affluence among Northern California counties, Monterey County has a maturing economy. Due to lack of substantial industry diversification, Monterey County has traditionally depended upon two industry segments for its prosperity – agriculture and tourism. Recent statistics show that a third segment – education – is nearing a level of economic impact as tourism. In addition, the various military installations in the county pump $1 billion of economic impact into the area. MST has begun to leverage these educational and military sectors with its contracts for service with CSUMB, Hartnell College, Presidio of Monterey, Naval Postgraduate School, and Fort Hunter Liggett.

In fiscal year 2007, signs of economic stabilization appeared in low unemployment rates and steady tourism levels, which led to increased revenues from sales taxes generated by these sources. By fiscal year 2008, economic uncertainty had begun to emerge culminating in record high fuel prices, plummeting home values and lower tax revenues on the horizon. As the nation's economy entered into the worst recession since the Great Depression of the 1930's, MST's ridership and sales tax-based revenues fell accordingly. By FY 2013, the state's fiscal crisis seemed to have stabilized, with previous years' transit funding diversions having been replaced by a more reliable, albeit lower, fuel-tax based funding assistance program. However, the $30 million in transit funding lost in the county through state takeaways, diversions and cuts over the last decade will most likely never be recouped by the agency.

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

FUTURE OUTLOOK

Notwithstanding current economic fluctuations, MST anticipates a transition over the next decade from its role as a local and line-haul bus operator to a more diversified enterprise encompassing multiple modes and performing mobility management for the entire community. MST will continue to provide local transportation for municipalities, but also will support its feeder bus service 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 $2 million in revenue annually.

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

SUMMARY

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

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

With the federal transportation trust fund now insolvent, MST will have to maintain a balanced budget through cost reductions and new revenue-generating partnerships with public and private entities – or perhaps through a proposed 1/8% sales tax currently under consideration and study by the Board of Directors. MST expects to carry out its three-year strategic plan without compromising the sound financial structure developed over its four decades of operations. After past economic downturns, Monterey County has recovered more quickly than most other areas in California and the nation. However, given the scope and magnitude of this most recent economic slide, the county may struggle to recover as quickly as it has in the past.

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

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Monterey-Salinas Transit for its comprehensive annual financial report for the fiscal year ended June 30, 2012. This was the eleventh consecutive year that MST has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

MONTEREY-SALINAS TRANSIT

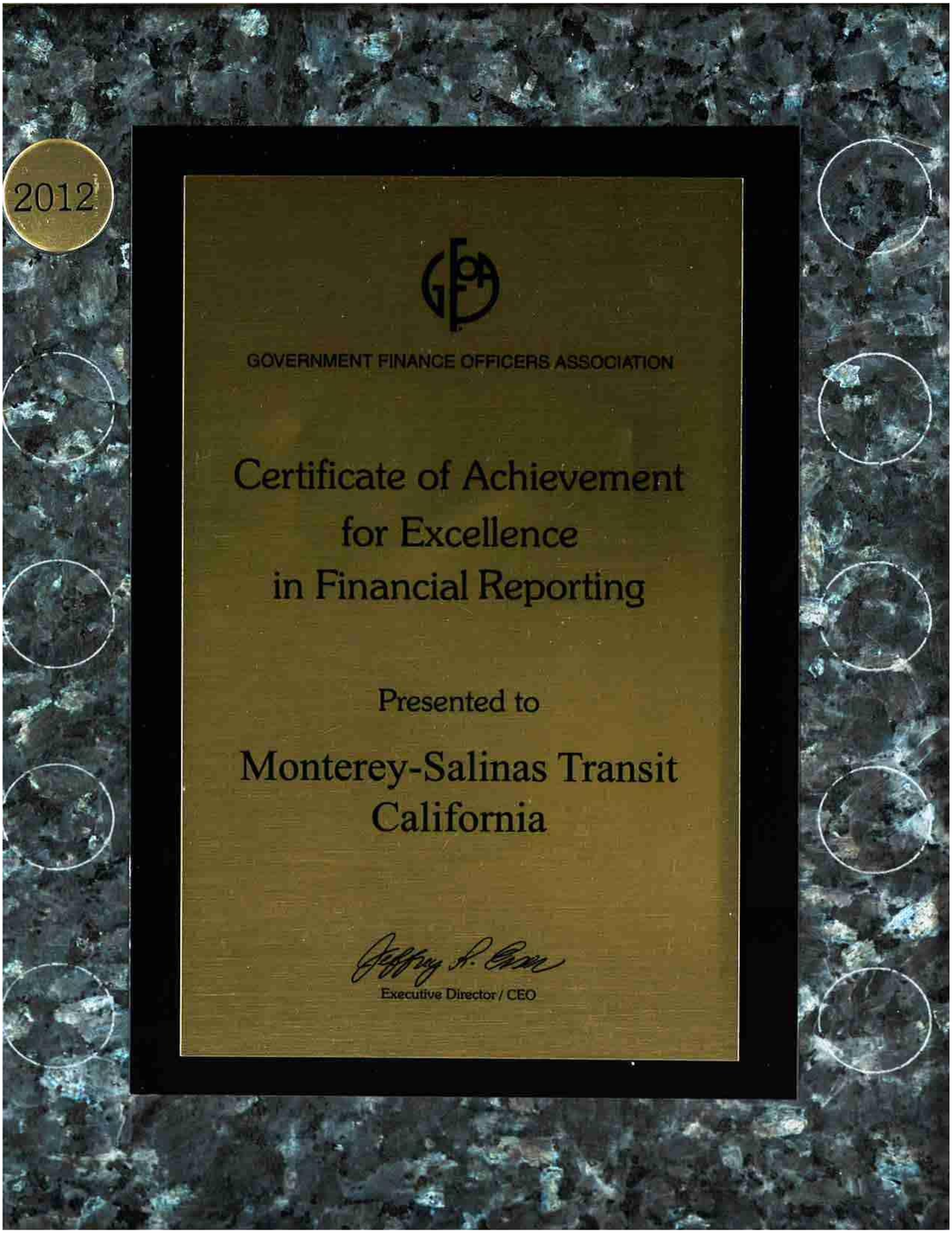
ACKNOWLEDGEMENTS

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

Respectfully submitted,

Carl Sedoryk
General Manager/CEO

Hunter Harvath, AICP
Assistant General Manager – Finance & Administration


2012
GOVERNMENT FINANCE OFFICERS ASSOCIATION
Certificate of Achievement
for Excellence
in Financial Reporting
Presented to
Monterey-Salinas Transit
California
Executive Director / CEO

MONTEREY-SALINAS TRANSIT

BOARD OF DIRECTORS

Fiscal Year Ending June 30, 2013

MARIA OROZCO, Chair, City of Gonzales

LIBBY DOWNEY, Vice Chair, City of Monterey

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

KRISTIN CLARK, City of Del Rey Oaks

RANDY HURLEY, City of Greenfield

TERRY HUGHES, City of King

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ALAN COHEN, City of Pacific Grove

TONY BARRERA, City of Salinas

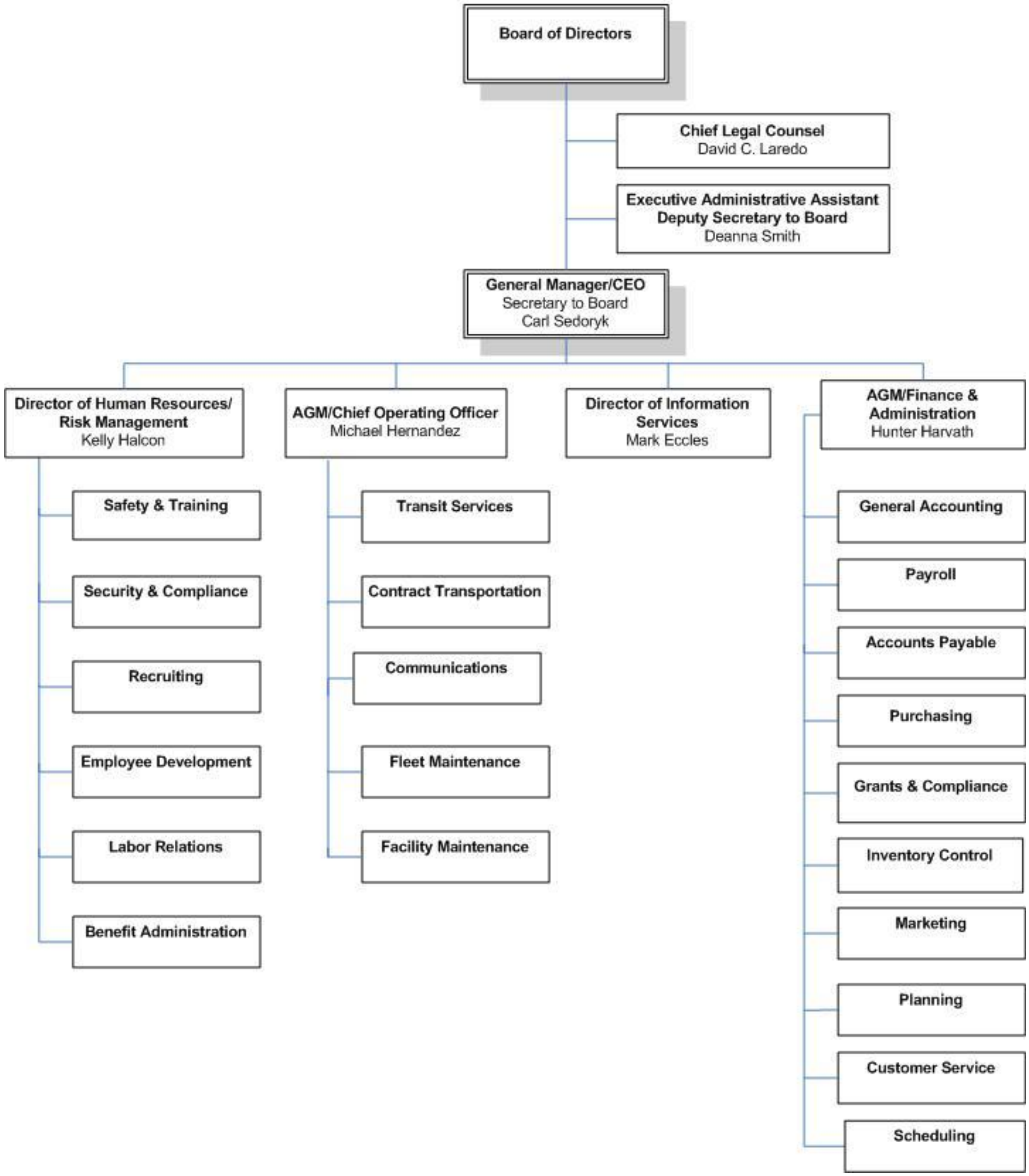
DAVID PENDERGRASS, City of Sand

ALVIN EDWARDS, City of Seaside

PATRICIA STEPHENS, City of Soledad

FERNANDO ARMENTA, County of Monterey

Monterey-Salinas Transit




MST
Service
Area
California
San
Francisco
Los Angeles
San Jose
Santa
Cruz
Salinas
Monterey
King City
Paso Robles


MST Regional Map
Santa Cruz METRO Center
78
Ocean & Water
Dominican Hospital
Cabrillo College
Aptos
Soquel Dr & State Park Rd
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 Salinas - Monterey
78 Presidio - Santa Cruz Express
82 Fort Hunter Liggett - Salinas Express
83 Fort Hunter Liggett - Paso Robles Express
55 San Jose
Diridon Train Station
San Jose State University
Greyhound Station
10th St
11th St
To Morgan Hill
To San Jose
(See inset)
Morgan Hill
Gilroy
Watsonville Transit Center
27 28 29
Pájaro
Las Lomas
Salinas Road
P+R
Moss Landing
Highway 1 & Dolan
27 Moro Cojo
THIS MAP IS NOT TO SCALE
El mapa no está dibujado a escala
Prunedale
Castroville
Merritt & Union
23 Salinas
Northridge Mall
56 Creekbridge
Constitution & Manchester
North Main & Laurel
Salinas
Salinas Transit Center
20 21 23 25 28 29 56 82
Marina Transit Exchange
20 21 27
Marina
Transit Exchange
25 CSUMB
Monterey Transit Plaza
20 21 22 24 55 56 78
Monterey Bay
Monterey Plaza Hotel
Sand City
Sand City Station
20 21 55 78
Toro Park
Portola & Creekside
The Inn at Spanish Bay
Aquarium
Pacific Grove
22 Monterey
Conference Center
Seaside
Lodge at Pebble Beach
22 56 78
Presidio
Fairgrounds
Monterey
Del Rey Oaks
Ryan Ranch Business Park
Monterey Regional Airport
Hwy 68 Laureles Grade
82 Laureles Grade
21 Pebble Beach Express
Del Monte Center
Chualar
Grant & South
Carmel
6th & Mission
Carmel Rancho
Mid Valley Center
Rippling River
Carmel Valley Village
24 Carmel Valley Grapevine Express
Gonzales
Gonzales Center
Point Lobos State Park
Bixby Creek Bridge
Point Sur Light Station
Andrew Molera State Park
Big Sur River Inn
Pfeiffer Big Sur State Park
PACIFIC OCEAN
22 Big Sur
Nepenthe
Big Sur
82 83 Fort Hunter Liggett
US Army HQ Bldg.
Bradley Dr.
Security Checkpoint
Mission Rd
Jolon Rd
To King City
(See main map)
Jolon Rd
Lockwood
San Miguel
83 Paso Robles
Transit Center
13th St
S. River Rd
Paso Robles
Walmart
Soledad
Soledad Mission Shopping Center
Greenfield
Santa Lucia Square
23 King City
1st & Pearl
King City
Pine Canyon
Mee Memorial Hospital
To Fort Hunter Liggett
(See inset)
Timepoints
Multiple routes serve this section
Park & Ride Lot
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
- Statements of Cash Flows
- Notes to Financial Statements

Required Supplementary Information

- Schedule of Funding Progress

Other Supplemental Information

- Consolidating Statements by Program
- Budgetary Comparison

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements
We have audited the accompanying basic financial statements of the Monterey-Salinas Transit (MST), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

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

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

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of MST as of June 30, 2013 and June 30, 2012, 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.

260 Sheridan Avenue, Suite 440, Palo Alto, CA 94306 Tel: 650.462.0400 Fax: 650.462.0500 www.vtdcpa.com

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Emphasis of Matter

MST adopted Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, as of July 1, 2012. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the MST's financial statements as a whole. The introductory section, schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, the consolidating statements by program, budgetary information and statistical section 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 statements 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 statements by program and budgetary information are fairly stated in all material respect in relation to the financial statements taken as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2014 on our consideration of MST's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MST's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
January 31, 2014

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, 2013 and 2012.

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 some 232 direct and 50 contracted employees, who work together in the public interest, the General Manager/CEO coordinates the operations of these divisions according to the policy and direction of the Board of Directors. For the fiscal year ending June 30, 2013, the Board of Directors consisted of thirteen members representing Monterey County and the twelve member cities: Carmel-by-the-Sea, Del Rey Oaks, Gonzales, Greenfield, King City, Marina, Monterey, Pacific Grove, Salinas, Sand City, Seaside and Soledad. Nearly 4.1 million passengers rode Monterey-Salinas Transit last fiscal year.

The recent economic downturn has resulted in a decrease in ridership for Fixed-Route BUS from historical peak levels of 2007. During fiscal year 2011, MST's reserves were used to further delay the need for additional fare increases or service reductions to balance the annual operating budget. In coordination with fiscal uncertainty and budgetary stress, increases to fares were enacted near the end of the last fiscal year, the effects of which were felt during the current fiscal year. 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. RIDES paratransit demand has 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.

	2013	2012	2011
Fixed- Route Passengers	3,976,279	4,333,843	4,249,622
% increase/(decrease)	(8.25%)	1.98%	(5.50%)
RIDES Paratranist Passengers	105,241	115,045	104,887
% increase/(decrease)	(8.52%)	9.68%	29.31%

Presently, MST is funded approximately 23.7% by passenger fares for Fixed-Route service and 12.2% 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. MST is unique compared to Santa Cruz and San Francisco Bay Area transit operations because it provides transit service without support from direct sales tax measures or dedicated general funds. While nearly 90% of the population of the state of California live in counties with these local sales taxes supporting transit, Monterey County is not one of these so-called "self-help" counties. While in the past the former MST joint powers agency did not have the ability to levy taxes, the new MST District does have such authority. As such, the MST Board of Directors is currently considering the possibility of asking voters on the November 2014 ballot to approve a 1/8% sales tax to support transit operations.

FINANCIAL POSITION SUMMARY

Total net position serve over time as a useful indicator of MST's financial position. MST's assets exceed liabilities by $40 million at June 30, 2013, which was a 21% increase from June 30, 2012. At June 30, 2012 MST’s assets exceeded the liabilities by $33 million which was a decrease of 5% from June 30, 2011. A condensed summary of net position at June 30 is shown below ($ in thousands):

	2013	2012	2011
ASSETS			
Current and other assets	$ 12,590	$ 3,898	$ 9,559
Capital assets and restricted investments	38,294	37,509	29,583
Total assets	50,884	41,407	39,142
LIABILITIES			
Current liabilities	9,894	3,803	3,837
Non current liabilities	824	627	578
Total liabilities	10,718	4,430	4,415
NET POSITION			
Invested in capital assets	26,818	28,197	29,583
Restricted	11,476	5,412	-
Unrestricted	1,872	(532)	5,144
TOTAL NET POSITION	$ 40,166	$ 33,077	$ 34,727

The largest portion of MST's net position each year (67% at June 30, 2013) is its investment in capital assets (e.g., buses, buildings, improvements, and equipment). MST uses these capital assets to provide services to its patrons, passengers and visitors to the region; consequently, these assets are not available for future spending. The remaining restricted and unrestricted net position (29% and 4% respectively at June 30, 2013) may be used to meet MST's ongoing obligations.

FINANCIAL OPERATIONS HIGHLIGHTS

- Total Revenues in 2013 compared to 2012 before capital contributions increased by 14.3% from $31.8 million to $36.4 million primarily as a result of an increase Local Transportation Funds, generated by one quarter percent of the state sales tax. Total Revenues in 2012 to 2011 before capital contributions increased by 8.7% from $29.2 million to $31.8 million primarily as a result of an increase Local Transportation Funds, generated by one quarter percent of the state sale tax.
- Operating Expenses in 2013 compared to 2012 before depreciation increased by .1% from $33.1 million to $33.3 million, primarily as a result in increased operating costs from our aging fleet and contractual salary increases. Operating Expenses in 2012 compared to 2011 before depreciation increased by 4.8% from $31.6 million to $33.1 million, primarily as a result in increased operating costs from our aging fleet and contractual salary increases.
- Capital contributions received in the form of grants from the federal and state governments increased from $3.7 million in 2012 to $12.8 million in 2013. Capital contributions received in the form of grants from the federal and state governments increased from $2.7 million in 2011 to $3.7 million in 2012.

SUMMARY OF CHANGES IN NET POSITION ($ in thousands)

	2013	2012	2011
Total revenues	$ 36,380	$ 31,821	$ 29,278
Operating expenses	33,303	33,121	31,614
Operating income (loss) before depreciation and interest expense	3,077	(1,300)	(2,336)
Interest expense	-	-	-
Gain (Loss) on sale of assets	(8)	12	(5)
Depreciation	3,607	4,029	4,085
Net loss before capital contributions	(538)	(5,317)	(6,426)
Capital contributions	12,833	3,668	2,705
Special item	(5,206)	-	1,048
Increase (decrease) in net position	$ 7,089	$ (1,649)	$ (2,673)

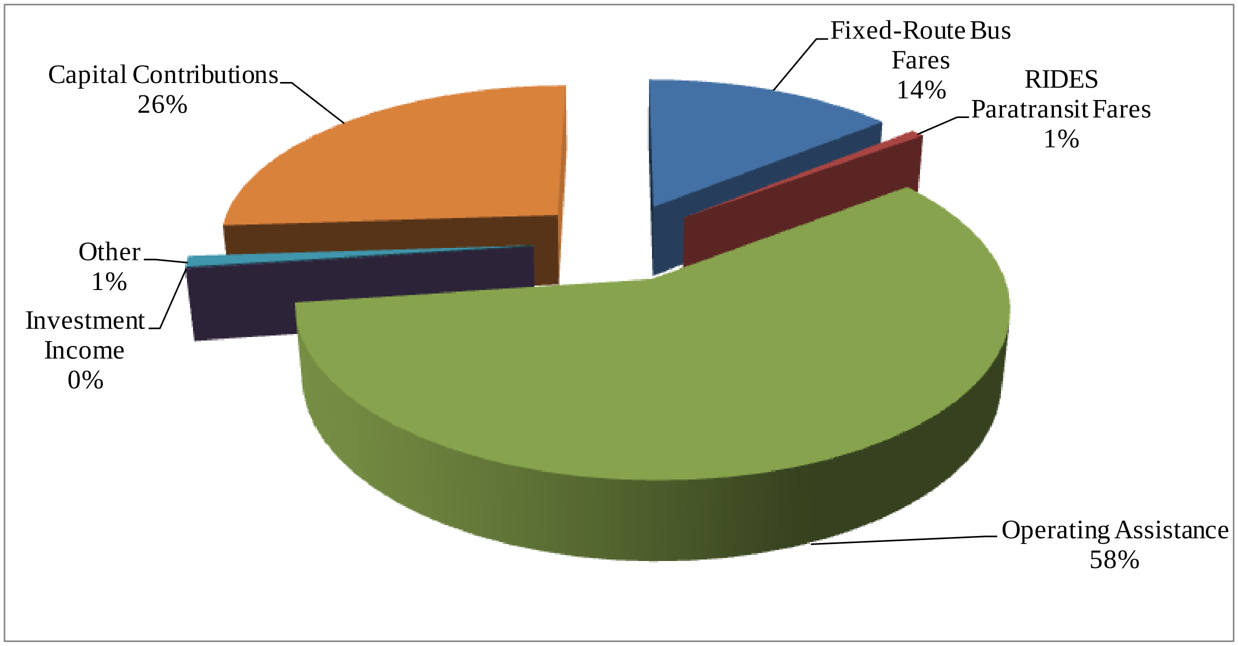
MST PASSENGER FARES

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

	2013	2012	2011	2010	2009	2008
Fixed-Route Bus Fare	$1.50 - $3.50	$1.50 - $3.50	$1 - $3	$ 2.50	$ 2.50	$ 2.00
Fixed-Route Bus Transfer	n/a	n/a	n/a	$ 0.25	$ 0.25	$ 0.25
RIDES Paratransit Fare	$3 - $7	$3 - $7	$2 - $6	$ 3.00	$ 3.00	$ 2.50

REVENUES

The following chart shows the major sources and the percentage of operating revenues for the year ended June 30, 2013 (fares, grants and other):



A summary of revenues for the year ended June 30, 2013, including the amount and percentage of change in relation to prior year amounts is as follows ($ in thousands):

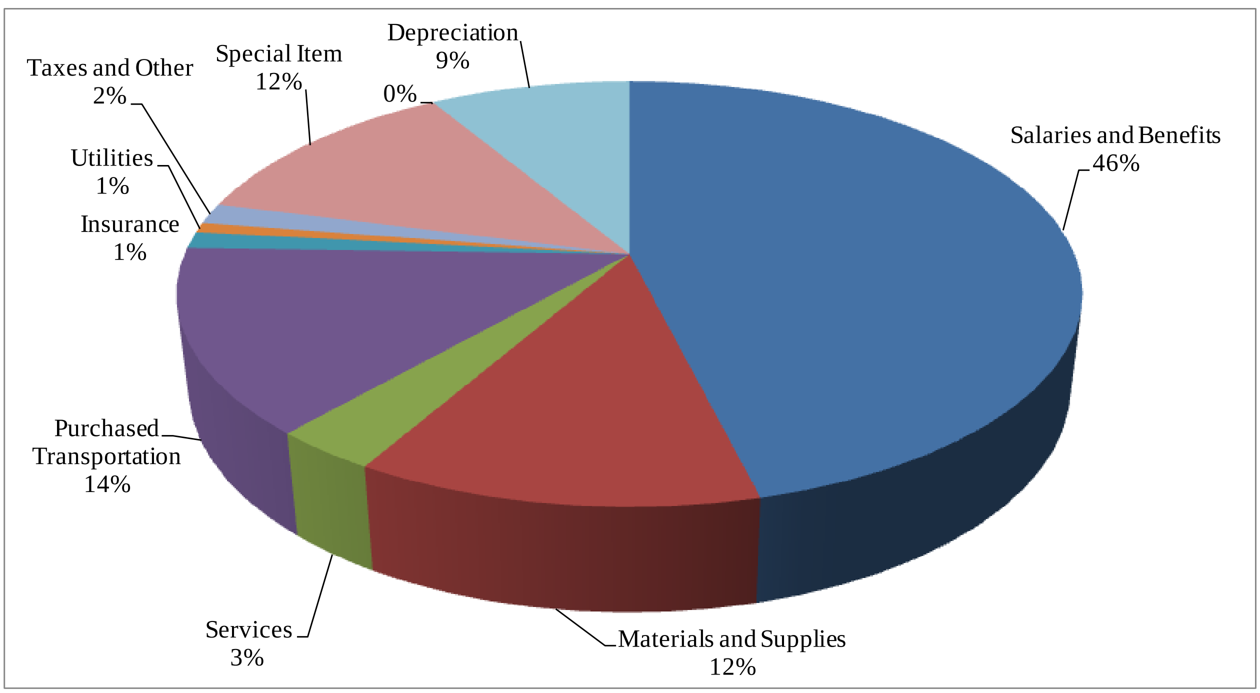
	2013 Amount	Percent of Total	2013 Increase (Decrease) From 2012	Percent Increase/ (Decrease)	2012 Amount	Percent of Total	2012 Increase (Decrease) From 2011	Percent Increase/ (Decrease)
Operating								
Fixed-Route Bus fares	$ 6,921	14.1%	$ (596)	(7.9%)	$ 7,517	21.2%	$ (188)	(2.4%)
RIDES Paratransit fares	369	0.7%	27	7.9%	342	1.0%	29	9.3%
Total Operating	7,290	14.8%	(569)	(7.2%)	7,859	22.1%	(159)	(2.0%)
Nonoperating:								
Federal grants	10,082	20.5%	1,701	20.3%	8,381	23.6%	(38)	(0.5%)
Local Transportation Fur	18,463	37.5%	3,158	20.6%	15,305	43.1%	2,761	22.0%
Investment income	21	0.0%	(3)	(12.5%)	24	0.1%	(65)	(73.0%)
Other	524	1.1%	273	108.8%	251	0.7%	43	20.7%
Total Nonoperating	29,090	59.1%	5,129	21.4%	23,961	67.5%	2,701	12.7%
Capital contributions	12,833	26.1%	9,165	249.9%	3,668	10.3%	962	35.6%
Special Item	-	0.0%	-	100.0%	-	0.0%	0.0%	0.0%
Total Revenues	$ 49,213	100.0%	$ 13,725	38.7%	$ 35,488	100.0%	$ 2,456	7.4%

EXPENSES

The following chart shows the major cost categories and the percentage of operating expenses for the year ended June 30, 2013:

	2013 Amount	Percent of Total	2013 Increase (Decrease) From 2012	Percent Increase/ (Decrease)	2012 Amount	Percent of Total	2012 Increase (Decrease) From 2011	Percent Increase/ (Decrease)	2011 Amount
Operating:									
Salaries and benefits	$19,430	46.1%	$ 1,050	5.7%	$18,380	49.5%	$ 129	0.7%	$18,251
Materials and supplies	5,131	12.2%	(488)	-8.7%	5,619	15.1%	1,516	36.9%	4,103
Professional and Technical Services	1,342	3.2%	(101)	-7.0%	1,443	3.9%	(21)	(1.4%)	1,464
Purchased transportation	5,895	14.0%	(195)	-3.2%	6,090	16.4%	(91)	(1.5%)	6,181
Insurance	526	1.2%	172	48.6%	354	1.0%	(130)	(26.9%)	484
Utilities	320	0.8%	27	9.2%	293	0.8%	4	1.4%	289
Taxes	211	0.5%	(18)	-7.9%	229	0.6%	14	6.5%	215
Other	448	1.1%	(265)	-37.2%	713	1.9%	87	13.9%	626
Total operating expenses before depreciation	33,303	79.1%	182	0.5%	33,121	89.2%	1,508	4.8%	31,613
Depreciation	3,615	8.6%	(403)	(10.0%)	4,018	10.8%	(73)	(1.8%)	4,091
Special Item	5,206	12.4%	5,206	100.0%	-	0.0%	-	0.0%	-
Total Expenses	$42,124	100.0%	$ 4,985	13.4%	$37,139	100.0%	$ 1,435	0.0%	$35,704

A summary of expenses for the year ended June 30, 2013, including the amount and percentage of change in relation to prior year amounts is as follows ($ in thousands):



FINANCIAL STATEMENTS

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

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

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

Now in its 41st year, MST is continuing the commitment to its mission of advocating and delivering quality public transportation as a leader in our community and industry. In carrying out this mission, MST provides fixed-route bus and paratransit services and carries out these activities in a cost-effective, fiscally responsible manner. Furthermore, MST recognizes its responsibility to work with federal, state, regional, and local governments and agencies to best meet the transportation needs of the people, communities, and businesses of Monterey County and the Central Coast areas.

During fiscal year 2013, the financial condition of MST was stable despite the economic downturn, thanks in part to reductions of service and fare increases that occurred during the previous year, as well as its ongoing partnerships with three local military installations and two institutions for higher learning. Aside from its basic federal annual operating assistance and state funding through the Transportation Development Act, MST has been successful in utilizing Jobs Access Reverse Commute and New Freedoms grants to support its operations and capital needs. Specifically, commute services to San Jose, Santa Cruz as well as to the One Stop Career Center in Salinas are funded through JARC, while New Freedoms grants fund a variety of mobility management services designed to improve transportation access to seniors and persons with disabilities who do not qualify for the MST RIDES ADA paratransit program. Caltrans has also awarded MST federal Section 5311(f) rural intercity grants to help support operations and capital needs in southern Monterey County, funding long-distance transit services to Fort Hunter Liggett and San Luis Obispo County as well as 9 new shelters and a new “over the road” style 57-passenger coach.

Going forward, the uncertain economic outlook at both the state and national levels will lead MST to take conservative approaches to budgeting and expenditures in future fiscal years. Traditionally, MST has supported its activity primarily with transit fares, federal formula operating assistance and local transportation funds. Increasingly, MST has secured special, restricted federal grants administered by Caltrans to fund new services, demonstration projects, and capital expenditures. With federal operating assistance nearly flat, MST is increasingly reliant on accessing these targeted grant programs such as JARC, New Freedoms and 5311(f) to introduce new services and routes to customers, many of whom need special assistance due to age, disability or lack of employment. As such, funding MST’s core services that carry the majority of the system’s passengers has become increasingly challenging, as these “back-bone” routes are not eligible for these targeted federal grants. With the new federal transportation authorization bill Moving Ahead for Progress in the 21st Century (MAP-21) now in place, MST will be monitoring how changes to existing programs and new programs being introduced will affect funding levels for the agency in the coming years. Of particular concern is the reduction in the federal transit benefit that has supported MST's military partnership programs with the Naval Postgraduate School, the Presidio of Monterey and Fort Hunter Liggett. As of January 1, 2012, Congress cut the monthly allowable benefit from $230 to $125. Despite MST's attempts to advocate for restoration of the transit benefit back to $230, larger fiscal and political concerns in Washington, DC have left the benefit at $125, which will lead to a re-evaluation of the terms of MST's military partnerships in fiscal year 2014.

Given this overall fiscal uncertainty, steps have been taken in recent years to put forth a ballot measure to receive funding from a direct county-wide sales tax to support transportation and transit projects. However, only 64% of voters supported this measure during the November 2008 elections, falling short of the two-thirds majority needed to pass a dedicated tax in California. At the same time, the California budget deficits led to suspension and proposed elimination of the State Transit Assistance program, a vital source of revenue that has in recent years funded the MST RIDES paratransit program. During fiscal year 2011, a negotiated agreement between the state's transit agencies and legislators resulted in the resumption of STA payments, albeit at a lower level than had previously been in place before the state's fiscal crisis occurred. With federal ARRA funding exhausted and impacts of long-term federal transportation funding still unclear, MST may be forced to consider once again raising its fares or cutting service on its core, non-grant funded bus lines in order to offset the absence of local, state and federal support of public transit. Looking to the future, the MST District formed at the beginning in 2011 fiscal year now has the power to levy local taxes to support transit operations, where the MST joint powers agency did not. Initial polling indicates that local support exists for a small 1/8% sales tax narrowly targeted to funding transportation services for the elderly, disabled individuals, veterans and veterans with disabilities. The MST Board of Directors is currently considering the possibility of asking voters to implement such a small, targeted local sales tax in November of 2014, which would help ensure fiscal stability to MST and its transit services in the County.

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

Over the last decade, MST completed its agency-wide technological upgrade. Its $3.5 million Advanced Communication System (ACS) has been in place since 2003 and is fully operational. The Global Positioning System (GPS) features of the ACS have enabled MST to install real-time electronic passenger information signage at its major transit hubs for the benefit of customers. Maintenance and inventory control systems are in place and fully functional. New scheduling software has allowed for more efficient run-cutting and rostering, producing financial savings to the agency. The financial management package is similarly in place and being utilized effectively by staff. Additional software and hardware packages, including Timekeeping & Dispatch, Human Resources, and Smart Card Farebox components, were implemented during fiscal years 2010 and 2011. With the rapidly changing nature of technology, MST received funding at the end of the fiscal year to upgrade the original ACS system, which will be completed during fiscal year 2014. The upgrade will not only bring the technology up to current standards, it will also enable passengers to have access to real-time bus arrival and departure information on their smart phones as well as through interactive web-based and voice response systems.

ADDDITIONAL FINANCIAL INFORMATION

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

MONTEREY-SALINAS TRANSIT

STATEMENT OF NET POSITION
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS:		
CURRENT ASSETS:		
Cash and investments	$ 2,486,272	$ 350,250
Operating grants receivable	9,312,168	2,546,839
Capital grants receivable	26,000	94,650
Other receivables	424,516	527,320
Material and supplies, at cost	271,250	312,003
Prepaid expenses	70,553	67,033
Total current assets	12,590,759	3,898,095
NON CURRENT ASSETS:		
Restricted cash and investments	11,476,214	5,412,340
Property, Plant, And Equipment:		
Land	3,426,071	3,426,071
Buses	35,156,558	33,561,443
Shop, office and other equipment	28,626,276	27,501,971
Total	67,208,905	64,489,485
Accumulated depreciation	(46,138,787)	(42,824,610)
Construction in progress	5,747,699	6,532,781
Property, plant and equipment - net	26,817,817	28,197,656
TOTAL ASSETS	50,884,790	37,508,091
LIABILITIES AND CAPITAL		
CURRENT LIABILITIES:		
Accounts payable	3,442,659	1,730,528
Accrued liabilities	1,735,022	2,058,701
Current poriton of self-insurance liabilities	1,117,097	14,217
Short-term loans	3,600,000	-
Total current liabilities	9,894,778	3,803,446
NONCURRENT LIABILITIES		
Self-insurance liabilities	823,945	627,000
TOTAL LIABILITIES	10,718,723	4,430,446
NET POSITION:		
Net Investment in capital assets	26,817,817	28,197,656
Restricted for capital projects	11,476,214	5,412,340
Unrestricted	1,872,036	(532,351)
TOTAL NET POSITION	$ 40,166,067	$ 33,077,645

See notes to financial statements.

MONTEREY-SALINAS TRANSIT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
OPERATING REVENUES:		
Fares	$ 7,290,715	$ 7,859,392
OPERATING EXPENSES:		
Salaries and benefits	19,430,214	18,379,946
Professional and technical services	1,342,243	1,442,610
Materials and supplies	5,130,625	5,618,981
Utilities	320,058	292,785
Insurance	525,720	354,009
Taxes	211,249	228,903
Purchased transportation	5,894,546	6,089,742
Other	448,404	713,666
Total operating expenses	33,303,059	33,120,642
Operating loss before depreciation	(26,012,344)	(25,261,250)
DEPRECIATION	3,607,418	4,029,658
OPERATING LOSS	(29,619,762)	(29,290,908)
NON-OPERATING REVENUES AND EXPENSES:		
Operating assistance:		
Federal grants	10,082,059	8,381,215
Local and state grants	18,462,632	15,305,044
Gain (Loss) on disposal of assets	(7,630)	12,098
Interest income	20,708	24,396
Other	523,773	250,863
Total non-operating revenues and expenses	29,081,542	23,973,616
NET INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(538,220)	(5,317,292)
CAPITAL CONTRIBUTIONS	12,832,836	3,667,817
SPECIAL ITEM	(5,206,194)	-
CHANGE IN NET POSITION	7,088,422	(1,649,475)
NET POSITION, Beginning of year	33,077,645	34,727,120
NET POSITION, End of year	$ 40,166,067	$ 33,077,645

See notes to financial statements.

MONTEREY-SALINAS TRANSIT

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fares	$ 7,290,715	$ 7,859,392
Payments to employees	(19,753,893)	(18,017,466)
Payments to vendors for services	(10,938,108)	(12,594,650)
Payments for insurance claims and premiums	774,105	(483,770)
Other	(33,076)	380,332
Net cash used in operating activities	(22,660,257)	(22,856,162)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating grants received	21,779,362	24,897,003
Short term borrowing	3,600,000	-
Net cash provided for non-capital and related financing activities	25,379,362	24,897,003
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants received	12,901,486	3,667,817
Purchase of property, plant and equipment net of related debt	(7,441,403)	(2,632,232)
Net cash provided for capital and related financing activities	5,460,083	1,035,585
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	20,708	24,396
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,199,896	3,100,822
CASH AND CASH EQUIVALENTS, Beginning of year	5,762,590	2,661,768
CASH AND CASH EQUIVALENTS, End of year	$ 13,962,486	$ 5,762,590
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (29,619,762)	$ (29,290,908)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,607,418	4,029,658
Other income	523,773	250,863
Effect of changes in:		
Materials and supplies	40,753	45,363
Prepaid expenses	(3,520)	59,834
Receivables	102,804	2,033,584
Accounts payable	1,712,131	11,112
Accrued liabilities	(323,679)	344,415
Self-insurance liabilities	1,299,825	(340,083)
Net cash used in operating activities	$ (22,660,257)	$ (22,856,162)

See notes to financial statements.

I. ORGANIZATION

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

II. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Grants for operating assistance and capital acquisitions are included in revenue in the period in which the grant was earned. Federal capital grant funds are claimed on a reimbursement basis and receivables for grant funds are recorded as the related obligations are incurred. Capital grant funds advanced but not yet earned are treated as deferred revenues. Also, 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. Inventories are charged to expense at the time that individual items are withdrawn from inventory.

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

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

MST's capitalization threshold is $500.

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

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

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

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

III. OPERATING ASSISTANCE

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

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

Operating grant activity for 2013 is summarized as follows:

	Federal Grants	Local Transportation Fund	State Operating Grants	Total
Amount recognized as revenue	$ 10,082,059	$ 15,439,680	$ 3,022,952	$ 28,544,691
Amount received prior to June 30, 2013	4,454,147	12,510,422	2,267,954	19,232,523
Grants receivable at June 30, 2013	$ 5,627,912	$ 2,929,258	$ 754,998	$ 9,312,168

Operating grant activity for 2012 is summarized as follows:

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

IV. DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2013 and 2012, consists of the following:

	2013	2012
Cash on hands and in banks - unrestricted	$ 2,443,733	$ 307,850
Cash on hands and in banks - restricted	11,476,214	5,412,340
Investments in Local Agency Investment Fund - unrestricted	42,539	42,400
	$ 13,962,486	$ 5,762,590

Policies and Practices

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

General Authorizations

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

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

Interest Rate Risk

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

Credit Risk

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

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

Custodial Credit Risk - *Deposits*

This is the risk that in the event of a bank failure, MST’s deposits may not be returned to it. MST does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. As of June 30, 2013 and 2012, MST's bank balances of $13,583,419 and $5,949,485, respectively, were exposed to custodial credit risk because they were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of MST.

V. CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2013 and 2012, is as follows:

	Beginning Balance July 01, 2012	Additions	Retirements/ Reclassifications	Ending Balance June 30, 2013
Capital assets not depreciated				
Land	$ 3,426,071	$ -	$ -	$ 3,426,071
Construction in progress	6,532,781	7,441,405	(8,226,487)	5,747,699
Capital assets depreciated				
Buses	33,561,443	1,855,370	(260,255)	35,156,558
Shop, office and other equipment	27,501,971	1,164,923	(40,618)	28,626,276
Totals at historical cost	71,022,266	10,461,698	(8,527,360)	72,956,604
Accumulated depreciation				
Buses	22,718,960	2,508,585	(252,626)	24,974,919
Shop, office and other equipment	20,105,650	1,098,833	(40,615)	21,163,868
Total accumulated depreciation	42,824,610	3,607,418	(293,241)	46,138,787
Capital assets, net	$ 28,197,656	$ 6,854,280	$ (8,234,119)	$ 26,817,817

	Beginning Balance July 01, 2011	Additions	Retirements/ Reclassifications	Ending Balance June 30, 2012
Capital assets not depreciated				
Land	$ 3,426,071	$ -	$ -	$ 3,426,071
Construction in progress	5,584,902	2,644,369	(1,696,490)	6,532,781
Capital assets depreciated				
Buses	32,263,937	1,297,506	-	33,561,443
Shop, office and other equipment	28,916,554	398,944	(1,813,527)	27,501,971
Totals at historical cost	70,191,464	4,340,819	(3,510,017)	71,022,266
Accumulated depreciation				
Buses	19,797,987	2,920,973	-	22,718,960
Shop, office and other equipment	20,810,493	1,108,684	(1,813,527)	20,105,650
Total accumulated depreciation	40,608,480	4,029,657	(1,813,527)	42,824,610
Capital assets, net	$ 29,582,984	$ 311,162	$ (1,696,490)	$ 28,197,656

VI. SELF-INSURANCE

MST has self-insurance programs for the following risks:

- Liability to a maximum of $250,000 per incident, over which coverage is provided to $500,000 per incident by the California Transit Insurance Pool (CalTIP) (see Note 7), and from $500,000 to $5,500,000 per incident coverage is provided by a private carrier through CalTIP.

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

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

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

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

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

Changes in the balance of estimated self-insurance liabilities between the fiscal years ended June 30, 2011 through 2013 are approximately as follows:

	2013	2012	2011
Estimated self-insurance liabilities, beginning of year	$ 981,300	$ 1,856,820	$ 2,205,392
Current year claims and changes in estimates	1,446,995	88,159	466,175
Claim payments and administration	(487,253)	(963,679)	(814,747)
Estimated self-insurance liabilities, end of year	$ 1,941,042	$ 981,300	$ 1,856,820

VII. CALTIP JOINT POWERS AGREEMENT

MST participates in the California Transit Insurance Pool (CalTIP), a joint powers agreement created to provide liability and physical damage insurance to its members through an insurance pool. MST paid premiums to CalTIP of approximately $265,268 and $243,083 in the fiscal years ended June 30, 2013 and 2012, respectively.

Condensed financial information of CalTIP (prepared using the accrual basis of accounting) for the year ended April 30, 2013 (most recent available information) is as follows:

	Audited
Current assets	$ 6,544,590
Noncurrent assets	19,433,048
Total assets	$ 25,977,638
Current liabilities	$ 9,033,436
Noncurrent liabilities	3,624,822
Net position	13,319,380
Total liabilities and equity	$ 25,977,638
Total revenues	$ 6,036,026
Total expenses	(7,153,680)
Net income	$ (1,117,654)

VIII. COMPENSATED ABSENCES

Accumulated unpaid personal leave, consisting of vacation, holiday and sick pay, have been accrued at June 30, 2013 and 2012 in the amounts of $1,075,088 and $1,102,898, respectively. MST's liability for compensated absences typically is liquidated within one year. MST accrued $1,537,797 and paid $1,565,607 during fiscal year 2012-2013.

IX. SHORT-TERM BORROWINGS

During the current fiscal year, MST initiated two lines of credit from Rabobank, N.A. and TAMC for $600,000 and $3,000,000 respectively. The line of credit from Rabobank matures on December 31, 2013 and the line of credit from TAMC was paid off in July 2013.

Pursuant to various agreements and resolutions entered into by the MST and Rabobank, N.A, MST is required to abide the following provisions:

- Maintain a Current Ratio in excess of 1.25:1.00. Requirement to be measured annually.
- Maintain a Debt to tangible Net Worth not in excess of .50 to 1.0. Requirement to be measured annually.
- Maintain a period of 30 consecutive days out of debt annually.
- A Rabobank N.A. deposit relationship is required throughout the life of the loan.

For the year ended June 30, 2013 and 2012, management believes that the MST was in compliance with the preceding covenants.

X. EMPLOYEES' RETIREMENT PLAN

Plan Description

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

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

Funding Policy.

Employees are required to contribute 7% of covered salary to CalPERS. MST is required to contribute the remaining amounts necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by the CalPERS Board of Administration. For the fiscal years ended June 30, 2013, 2012 and 2011 the employer contribution rates were 8.281%, 9.093% and 10.707%, respectively. MST, as part of its compensation to employees, pays the employees' contributions.

Annual Pension Cost

For the fiscal years ended June 30, 2013, 2012 and 2011, MST's annual pension cost of $1,994,261, $1,727,738 and $1,639,201 respectively for CalPERS was equal to MST's required and actual contributions. The required contribution was determined as part of the June 30, 2010 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return, and (b) projected salary increases that vary by duration of service. Both (a) and (b) included an inflation component of 3.00% and an amortization of the UAAL on a rolling 20 year amortization basis. The actuarial value of MST's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period.

Three-Year Trend Information

Fiscal Year End	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/13	$ 1,994,261	100%	-
06/30/12	1,727,738	100%	-
06/30/11	1,639,201	100%	-

Funding Status and Progress

As of June 30, 2012, the most recent actuarial valuation date the plan was 98.1% funded. The actuarial accrued liability was $50,890,149 and the actuarial value of assets was $49,921,448. The schedule of funding progress is presented in the required supplementary information following the notes to the financial statements. The following schedule shows the status of the plan for the most recent actuarial valuation:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (Entry Age Normal)	Unfunded (Overfunded) Actuarial Accrued Liability (OAAL)	Funded Status	Annual Covered Payroll	UAAL as a as a Percentage Covered Payroll
6/30/2012	$ 49,921,448	$ 50,890,149	$ (968,701)	98.1%	$13,101,665	-7.39%

XI. SPEICAL ITEM

In 2013, management determined that the one of its capital projects under construction is impaired in accordance with the parameters set forth in GASB Statement No. 42, *Accounting And Financial Reporting For Impairment Of Capital Assets And For Insurance Recoveries*. The impairment in the amount of $5,206,194 was treated as a special item on the statement of changes in net position.

REQUIRED SUPPLEMENTARY INFORMATION

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MONTEREY-SALINAS TRANSIT

MISCELLANEOUS PLAN OF THE
CALIFORNIA PUBLIC EMPLOYEE-RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS
YEAR ENDED JUNE 30, 2013

Actuarial * Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (Entry Age Normal)	Unfunded (Overfunded) Actuarial Accrued Liability (OAAL) UAAL	Funded Status	Annual Covered Payroll	UAAL as a Percentage Covered Payroll
6/30/12	$ 49,921,448	$ 50,890,149	$ (968,701)	98.1%	$13,101,665	-7.39%
6/30/11	46,605,136	47,826,862	(1,221,726)	97.4%	13,208,001	-9.25%
6/30/10	43,215,008	43,763,858	(548,850)	98.7%	12,157,510	4.51%

* Most recent information available

OTHER SUPPLEMENTAL INFORMATION

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MONTEREY-SALINAS TRANSIT

CONSOLIDATING SCHEDULE OF NET POSITION BY PROGRAM
JUNE 30, 2013

ASSETS	FIXED-ROUTE BUS SERVICE	RIDES	TOTAL
CURRENT ASSETS:			
Cash and investments	$ 2,486,272	$ -	$ 2,486,272
Operating grants receivable	6,214,629	3,097,539	9,312,168
Capital grants receivable	26,000	-	26,000
Materials and supplies, at cost	271,250	-	271,250
Prepaid expenses	53,095	17,458	70,553
Other receivables	424,516	-	424,516
Inter-program receivable	2,969,330	(2,969,330)	-
Total current assets	12,445,092	145,667	12,590,759
NON CURRENT ASSETS:			
Restricted cash and investments	11,467,574	8,640	11,476,214
Property, Plant And Equipment:			
Land	3,426,071	-	3,426,071
Buses	33,465,987	1,690,571	35,156,558
Shop, office and other equipment	28,265,942	360,334	28,626,276
Total	65,158,000	2,050,905	67,208,905
Accumulated depreciation	(44,439,514)	(1,699,273)	(46,138,787)
Construction in progress	5,747,699	-	5,747,699
Property, plant and equipment - net	26,466,185	351,632	26,817,817
TOTAL ASSETS	50,378,851	505,939	50,884,790
LIABILITIES AND NET POSITIONS			
CURRENT LIABILITIES:			
Accounts payable	3,442,659	-	3,442,659
Accrued liabilities	1,734,932	90	1,735,022
Current portion of self-insurance liabilities	1,117,097	-	1,117,097
Current portion of financing agreement	3,600,000	-	3,600,000
Total current liabilities	9,894,688	90	9,894,778
NONCURRENT LIABILITIES			
Self-insurance liabilities	823,945	-	823,945
TOTAL LIABILITIES	10,718,633	90	10,718,723
NET POSITION:			
Invested in capital assets	26,466,185	351,632	26,817,817
Restricted for capital projects	11,467,574	8,640	11,476,214
Unrestricted	1,726,459	145,577	1,872,036
TOTAL NET POSITION	$ 39,660,218	$ 505,849	$ 40,166,067

MONTEREY-SALINAS TRANSIT

CONSOLIDATING SCHEDULE OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION BY PROGRAM
FOR THE YEARS ENDED JUNE 30, 2013

	FIXED-ROUTE BUS SERVICE	RIDES	TOTAL
REVENUES:			
Fares	$ 6,921,260	$ 369,455	$ 7,290,715
Operating assistance:			
Federal grants	10,082,059	-	10,082,059
Local and state grants	15,755,629	2,707,003	18,462,632
Interest income	20,708	-	20,708
Other	523,773	-	523,773
Total	33,303,429	3,076,458	36,379,887
EXPENSES:			
Salaries and benefits	19,409,598	20,616	19,430,214
Professional and technical services	1,311,893	30,350	1,342,243
Materials and supplies	4,632,280	498,345	5,130,625
Utilities	320,058	-	320,058
Insurance	525,720	-	525,720
Taxes	211,249	-	211,249
Purchased transportation	3,418,206	2,476,340	5,894,546
Other	448,403	1	448,404
Total	30,277,407	3,025,652	33,303,059
EXCESS OF REVENUE BEFORE CAPITAL AND FINANCING ITEMS OVER REVENUES	3,026,022	50,806	3,076,828
INCOME (EXPENSE) FROM CAPITAL AND RELATED FINANCING:			
Loss on disposal of assets	(7,630)	-	(7,630)
Capital contributions	12,832,836	-	12,832,836
Depreciation	(3,376,189)	(231,229)	(3,607,418)
Total	9,449,017	(231,229)	9,217,788
SPECIAL ITEM	(5,206,194)	-	(5,206,194)
CHANGE IN NET POSITION	$ 7,268,845	$ (180,423)	$ 7,088,422

MONTEREY-SALINAS TRANSIT

CONSOLIDATING SCHEDULE OF CASH FLOWS BY PROGRAM
YEAR ENDED JUNE 30, 2013

	FIXED ROUTE BUS SERVICE	RIDES	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from fares	$ 6,921,260	$ 369,455	$ 7,290,715
Payments to employees	(19,733,367)	(20,526)	(19,753,893)
Payments to vendors for services	(7,924,811)	(3,013,297)	(10,938,108)
Payments for insurance claims and premiums	774,105	-	774,105
Other	(2,352,656)	2,319,580	(33,076)
Net cash used in operating activities	(22,315,469)	(344,788)	(22,660,257)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Operating assistance received	21,388,642	390,720	21,779,362
Short term borrowing	3,600,000	-	3,600,000
Net cash used provided for non-capital and related financing activities	24,988,642	390,720	25,379,362
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital grant funds received	12,901,486	-	12,901,486
Purchases of property, plant and equipment net of depreciation	(7,395,471)	(45,932)	(7,441,403)
Net cash provided for capital and related financing activities	5,506,015	(45,932)	5,460,083
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	20,708	-	20,708
NET INCREASE IN CASH AND EQUIVALENTS	8,199,896	-	8,199,896
CASH AND EQUIVALENTS, BEGINNING OF YEAR	5,753,950	8,640	5,762,590
CASH AND EQUIVALENTS, END OF YEAR	$ 13,953,846	$ 8,640	$13,962,486

MONTEREY-SALINAS TRANSIT

BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts	Actual	Variances Favorable (Unfavorable)
REVENUES:			
Fares	$ 9,339,155	$ 7,290,715	$ (2,048,440)
Operating assistance:			
Federal grants	8,729,919	10,082,059	1,352,140
Local and State grants	13,889,771	18,462,632	4,572,861
Interest	36,350	20,708	(15,642)
Other income	175,000	523,773	348,773
Total revenues	32,170,195	36,379,887	4,209,692
EXPENSES:			
Salaries and benefits	18,103,986	19,430,214	(1,326,228)
Professional and technical services	1,209,907	1,342,243	(132,336)
Materials and supplies	5,260,225	5,130,625	129,600
Utilities	249,160	320,058	(70,898)
Insurance	386,419	525,720	(139,301)
Taxes	196,125	211,249	(15,124)
Purchased transportation	5,887,842	5,894,546	(6,704)
Other	216,950	448,404	(231,454)
Total expenses	31,510,614	33,303,059	(1,792,445)
Excess of revenues over expenses	659,581	3,076,828	2,417,247
INCOME (EXPENSE) FROM CAPITAL AND RELATED FINANCING:			
Loss on disposal of fixed assets	-	(7,630)	(7,630)
Depreciation	-	(3,607,418)	(3,607,418)
Capital contributions	-	12,832,836	12,832,836
Total	-	9,217,788	9,217,788
SPECIAL ITEM	-	(5,206,194)	(5,206,194)
CHANGE IN NET POSITION	659,581	7,088,422	6,428,841
NET POSITION, Beginning	33,077,645	33,077,645	-
NET POSITION, Ending	$ 33,737,226	$ 40,166,067	$ 6,428,841

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 2004 THROUGH FISCAL YEAR 2013

(In thousands)

Fiscal year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Passenger Fares	$ 4,835	$ 4,787	$ 5,817	$ 6,448	$ 6,745	$ 7,409	$ 6,989	$ 8,018	$ 7,859	$ 7,291
Operating Expenses	18,262	18,960	21,030	22,763	24,405	26,313	27,515	31,613	33,120	33,303
Depreciation Expense	4,381	4,557	4,729	5,379	4,234	4,225	4,112	4,086	4,029	3,607
Operating Loss	(17,808)	(18,730)	(19,942)	(21,694)	(21,894)	(23,129)	(24,638)	(27,681)	(29,290)	(29,619)
Nonoperating Revenues (Expenses)										
Federal Funds	5,709	5,384	5,977	6,391	7,340	8,125	10,156	8,419	8,679	10,082
Local Transportation Funds	7,605	8,494	8,926	9,634	9,742	9,692	12,405	12,544	15,007	18,462
Interest Expense	(603)	(540)	(477)	(179)	(1,644)	(378)	-	-	-	
Gain (or loss) on disposal of asset	(1,467)	-	-	-	1	-	(7)	(5)	12	(8)
Interest Income	41	47	97	110	403	182	166	89	24	21
Other Income	72	248	213	179	175	235	130	208	251	524
Total Nonoperating	11,357	13,633	14,736	16,135	16,017	17,856	22,850	21,255	23,973	29,081
Net Income (Loss)	(6,451)	(5,097)	(5,206)	(5,559)	(5,877)	(5,273)	(1,788)	(6,426)	(5,317)	(538)
Capital Contributions	3,492	2,269	5,151	6,728	15,235	7,257	3,875	2,705	3,668	12,833
Special Items	-	-	-	-	-	-	5,246	1,048	-	(5,206)
Change in Net Position	$ (2,959)	$ (2,828)	$ (55)	$ 1,169	$ 9,358	$ 1,984	$ 7,333	$ (2,673)	$ (1,649)	$ 7,089
Net Position Component										
Invested in capital assets	$ 19,628	$ 17,595	$ 16,835	$ 16,517	$ 22,765	$ 27,251	$ 29,638	$ 29,583	$ 28,198	$ 26,818
Restricted for capital projects										11,476
Unrestricted	811	16	721	2,208	5,318	2,816	7,762	5,144	4,880	1,872
Net Position, End of year	$ 20,439	$ 17,611	$ 17,556	$ 18,725	$ 28,083	$ 30,067	$ 37,400	$ 34,727	$ 33,078	$ 40,167

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 2004 THROUGH FISCAL YEAR 2013
(In thousands)

Fares are in thousands	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Passenger Fares	$4,835	$4,787	$5,817	$ 6,448	$ 6,745	$ 7,409	$ 6,989	$ 8,018	$ 7,859	$ 7,291
Number of Passengers	4,693	4,805	4,858	4,959	4,743	4,512	4,249	4,477	4,449	4,082
Fare Structure										
Full fare: Adult	$ 1.75	$ 1.75	$ 2.00	$ 2.00	$ 2.00	$ 2.50	$ 2.50	$ 2.50	$1.50-$3.50	$1.50-$3.50
Discount fare: Senior, Youth & Disabled	$ 0.85	$ 0.85	$ 1.00	$ 1.00	$ 1.00	$ 1.10	$ 1.25	$.50-1.50	$.75-1.75	$.75-1.75
Transfers	$ -	$ -	$ -	$0.25/.10	$0.25/.10	$0.25/.10	$0.25/.10	$ -	$ -	$ -

Source: MST's Business Service Department

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

MONTEREY-SALINAS TRANSIT

DEBT CAPACITY
FISCAL YEARS 2004 THROUGH FISCAL YEAR 2013

	2004	2005	2006	2007	2008	2013
Ratio of outstanding debt:						
As a percent of Personal Income	0.10%	0.10%	0.10%	0.10%	0.05%	0.02%
(2013 debt ratio is based on 2012 income)						
Per Capita (Monterey County)	$ 28.53	$ 25.03	$ 21.65	$ 34.09	$ 17.53	$ 86.99
Pledged Revenue Coverage						
Available Revenue - Federal and Local Grants	$ 5,716,716	$ 5,604,054	$ 5,899,664	$ 11,894,042	$ 6,172,905	NA
Debt Service						
Principal	$ 1,311,432	$ 1,372,988	$ 1,437,434	$ 1,735,294	$ 1,892,723	$ 3,600,000
Interest	603,115	540,247	477,113	179,253	737,791	40,443
Total	$ 1,914,547	$ 1,913,235	$ 1,914,547	$ 1,914,547	$ 2,630,514	$ 3,640,443
Coverage	2.99	2.93	3.08	6.21	2.35	NA

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

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

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

MONTEREY-SALINAS TRANSIT

DEMOGRAPHIC AND ECONOMIC INDICATORS
FISCAL YEARS 2004 THROUGH FISCAL YEAR 2013

Fiscal Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Service Area Population										
(In thousands)	421	421	421	424	429	434	438	420	421	425
Total Personal Income										
(In millions)	$14,096	$14,654	$15,774	$16,694	NA	NA	$16,969	$16,913	$ 17,619	*
Per Capita Personal Income	$34,362	$36,014	$39,053	$41,256	$42,506	$41,735	$40,754	$40,312	$41,850	*
Unemployment Rate	8.30%	7.30%	6.90%	7.10%	8.40%	11.70%	12.70%	12.90%	11.10%	8.20%

* Information is not available.

Source: State Employment Development Department and County of Monterey

Principal Industry	**Employees in 2013**	**% of Total in 2013**
Agriculture, Forestry, Fishing & Hunting	30,045	22.45%
Accommodation and Food Services	18,609	13.91%
Health Care and Social Assistance	17,857	13.34%
Retail Trade (44 & 45)	15,881	11.87%
Education Services	13,662	10.21%
Public Administration	13,270	9.92%
Professional Scientific & Technical Svc	5,315	3.97%
Admin., Support, Waste Mgmt, Remediation	5,018	3.75%
Manufacturing (31-33)	4,984	3.72%
Wholesale Trade	4,658	3.48%
Other Services	4,519	3.38%
TOTAL	133,818	100.00%

Source: Most recent information available from the State of California Employment Development Department.
2004 information not available

MONTEREY-SALINAS TRANSIT

OPERATING INFORMATION – MISCELLANEOUS INFORMATION
FISCAL YEARS 2004 THROUGH FISCAL YEAR 2013

Fiscal year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Fixed-Route Service:*										
Net Cost/Passenger	$ 3.59	$ 3.60	$ 4.05	$ 4.35	$ 4.87	$ 5.73	$ 5.94	$ 6.53	$ 6.83	$ 7.61
Net Cost/Vehicle Mile	5.76	5.82	6.72	6.54	6.82	6.94	6.53	6.90	6.96	7.71
Net Cost/Service Hour	83.99	86.66	98.06	101.73	107.25	112.01	105.16	110.58	114.10	127.61
RIDES:*										
Net Cost/Passenger	$24.76	$28.33	$24.85	$22.43	$21.39	$20.22	$24.60	$ 28.21	$ 23.20	$ 28.75
Net Cost/Vehicle Mile	2.99	3.04	2.55	2.32	2.24	2.22	2.65	2.91	2.54	2.94
Net Cost/Service Hour	60.50	51.85	45.03	40.71	40.50	39.25	46.55	53.45	44.38	56.86
Employees:										
Administration	27	27	27	26	26	30	24	22	24	22
Facilities	5	5	5	5	5	6	6	6	6	6
Operations	152	150	149	147	147	167	160	173	173	167
Maintenance	33	32	32	32	32	36	38	39	41	37
Total	218	214	213	211	211	239	228	240	244	232
Fixed-Route Fares:										
Full	$ 1.75	$ 1.75	$ 2.00	$ 2.00	$ 2.00	$ 2.50	$ 2.50	$1.00-$3.00	$1.50-$3.50	$1.50-$3.50
Senior/Disabled	$ 0.85	$ 0.85	$ 1.00	$ 1.00	$ 1.00	$ 1.25	$ 1.25	$0.50-$1.50	$0.75-$1.75	$0.75-$1.75
Fleet Information:										
Standard Coaches	95	99	99	99	97	97	103	113	113	104
RIDES Vehicles	24	25	20	22	29	26	29	31	32	36
Total Revenue Vehicles	119	124	119	121	126	123	132	144	145	140

* Excludes Depreciation

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

MONTEREY-SALINAS TRANSIT

OPERATING INFORMATION – CAPITAL ASSETS
FISCAL YEARS 2004 THROUGH FISCAL YEAR 2013

Fiscal year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Capital Assets Not Being Depreciated										
Land	$ 976	$ 976	$ 976	$ 976	$ 3,426	$ 3,426	$ 3,426	$ 3,426	$ 3,426	$ 3,426
Construction in progress	2,711	3,180	4,029	6,647	165	1,281	4,466	5,584	6,532	5,747
Total Capital Assets Not Being Depreciated	3,687	4,156	5,005	7,623	3,591	4,707	7,892	9,010	9,958	9,173
Other Capital Assets										
Buses	28,650	28,584	29,311	29,493	35,629	36,417	31,727	32,264	33,561	35,157
Shop, office and other equipment	18,458	17,493	18,178	18,330	25,206	25,839	26,815	28,916	27,501	28,626
Total Capital Assets Being Depreciated	47,108	46,077	47,489	47,823	60,835	62,256	58,542	61,180	61,062	63,783
Less Accumulated Depreciation For:*										
Buses	(8,046)	(10,175)	(12,935)	(15,780)	(15,781)	(18,585)	(17,026)	(19,798)	(22,718)	(24,975)
Shop, office and other equipment	(11,110)	(11,825)	(13,523)	(15,485)	(19,707)	(21,126)	(19,771)	(20,810)	(20,105)	(21,164)
Total Accumulated Depreciation	(19,156)	(21,999)	(26,458)	(31,265)	(35,488)	(39,711)	(36,797)	(40,608)	(42,823)	(46,139)
Capital Assets, Net	$ 31,639	$ 28,234	$ 26,036	$ 24,181	$ 28,938	$ 27,252	$ 29,637	$ 29,582	$ 28,197	$ 26,817

Source: MST's comprehensive annual financial reports

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

Section IV

SINGLE AUDIT

- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards, 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 the *OMB Circular A-133.*
- Schedule of Expenditures of Federal Awards
- Summary of Auditor's Results
- Summary of Financial Statement Findings

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*, THE TRANSPORTATION DEVELOPMENT ACT AND CALIFORNIA GOVERNMENT CODE SECTION 8879.50

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Monterey-Salinas Transit (MST), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise MST's basic financial statements, and have issued our report thereon dated January 31, 2014. Our report includes an emphasis of matter describing MST's implementation of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* effective July 1, 2012.

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 8879.50 et seq., noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, Section 6667 of Title 21 of the California Code of Regulations and California Government Code Section 8879.50 et seq.

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

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
January 31, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY *OMB CIRCULAR A-133*

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

Report on Compliance for Each Major Federal Program

We have audited the Monterey-Salinas Transit's (MST) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the MST's major federal programs for the year ended June 30, 2013. The MST's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2013.

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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 the 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 OMB Circular A-133, 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 the 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Palo Alto, California
January 31, 2014

MONTEREY-SALINAS TRANSIT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

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 Investments Grants	20.500	CA030717	$ 62,110
Federal Transit Capital Investments Grants	20.500	CA030814	2,058,220
Total Federal Transit Capital Investments Grants			2,120,330
Federal Transit Capital Formula Grants	20.507	CA90Z005	898,146
Federal Transit Capital Formula Grants	20.507	CA90Z022	6,477,979
Federal Transit Capital Formula Grants	20.507	CA90Y926	145,830
Federal Transit Capital Formula Grants	20.507	CA90Y951	(9,035)
Total Federal Transit Capital Formula Grants			7,512,920
Total Federal Transit Cluster			9,633,250
Clean Fuels	20.519		711,619
Passed Through California Department of Transportation:			
Transit Services Program Cluster:			
Job Access Reverse Commute	20.516		466,813
New Freedom Program	20.521		496,693
Total Transit Services Program Cluster			963,506
Formula Grants for Rural Areas	20.509		1,544,489
Total Expenditures of Federal Awards			**$ 12,852,864**

MONTEREY-SALINAS TRANSIT

SUMMARY OF AUDITOR'S RESULTS
YEAR ENDED JUNE 30, 2013

Part I – Summary of Auditor's Results

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

2. Significant deficiencies or material weaknesses in internal control over financial reporting – None.

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

4. Significant deficiencies or material weaknesses in internal control over compliance with requirements applicable to major federal awards programs – None.

5. The independent auditor's report on compliance for each major federal award programs expressed an unmodified opinion.

6. The audit disclosed no findings required to be reported by OMB Circular A-133, Section 510(a).

7. The Organization's major programs were:

Name of Federal Program	CFDA Number
Federal Transit Capital and Operating Assistance Formula Grants	20.507, 20.500
Clean Fuels	20.519

8. A threshold of $385,586 was used to distinguish between Type A and Type B programs.

9. MST qualified as a low risk auditee as that term is defined in OMB Circular A-133.

SUMMARY OF FINANCIAL STATEMENT FINDINGS
YEAR ENDED JUNE 30, 2013

Part II – Financial Statement Findings Section

Reference Number	Findings	Questioned Costs
No matters are reportable		

Part III – Federal Award Findings and Questioned Cost Section

Reference Number	Findings	Questioned Costs
No matters are reportable		

Part IV– Status of Prior Period Audit Findings

Reference Number	Findings	Questioned Costs
No matters were reported		

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