MST

MONTEREY-SALINAS TRANSIT

Monterey, California

Comprehensive Annual Financial Report

For the Fiscal Year Ending June 30, 2006

MONTEREY-SALINAS TRANSIT

Monterey, California

Comprehensive Annual Financial Report

For The Fiscal Year Ended

June 30, 2006

Prepared by the Accounting Department

David A. Sobotka, Controller

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MST

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

Board of Directors and Passengers of Monterey-Salinas Transit
Monterey, California **December 29, 2006**

Comprehensive Annual Financial Report (CAFR)
Year Ended June 30, 2006

FORMAL TRANSMITTAL OF THE CAFR

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of Monterey-Salinas Transit (MST) for the fiscal year July 1, 2005 through June 30, 2006. 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. As such, unnecessary use of jargon has been avoided; further explanation of financial matters is provided in Management's Discussion and Analysis provided in the Financial Section of this Report.

As required by state law, independent auditors selected by the Board of Directors audited the financial statements contained in the CAFR. For the fiscal year ended June 30, 2006, Vavrinek, Trine, Day & Co. LLP, expressed an opinion that the statements are fairly stated and in compliance with accounting principles generally accepted in the United States of America. This most favorable type of opinion is commonly referred to as "unqualified" or "clean". While the independent auditor has expressed such an opinion, MST management takes sole responsibility for the contents of this CAFR, including its presentation, completeness and disclosures. To the best of its knowledge, staff believes the information to be accurate in all material respects.

This Comprehensive Annual Financial Report consists of the following four sections:

I. The *Introductory Section* contains this letter of transmittal, a list of principal officials, an organization chart and service area map.

II. The *Financial Section* begins with the management's discussion and analysis, independent auditor's opinion and the statements of financial position, cash flow and operating results. Also included are notes to the financial statements and certain supplemental information that enhance an understanding of MST's current financial status.

III. The *Statistical Section* depicts the past ten years of history and illustrates financial trends, providing unaudited information that is useful for a broader and more complete understanding of the MST's financial and operational affairs.

IV. The *Single Audit Section* provides the independent auditor's reports and financial schedules for federally-funded programs.

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PROFILE OF THE REPORTING ENTITY

Joint-Powers Agency

Monterey-Salinas Transit (MST) is 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. The County of Monterey (the *'County")* is located along the Central Coast of California, bordered on the south by San Luis Obispo County, the west by the Pacific Ocean, the east by San Benito County, and the north by the counties of Santa Clara and Santa Cruz.

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

The MST began operations in 1973 as Monterey Peninsula Transit and, by 1981 had consolidated two separate municipal systems into a viable network of local service throughout the 110 square-mile service area. In 1997, MST began operation of RIDES, a demand-response service for patrons with mobility impairments, previously operated by the County.

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

Special Purpose District

The agency is a special purpose district governed by an eight-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 seven joint-power cities appoint one elected city official, bringing membership to eight. Directors meet once a month to determine overall policy for MST. A 6-member RIDES Advisory Committee (representing the elderly and disabled) provides non-binding input to the Board.

The mission of MST is leading, advocating and delivering quality public transportation. The Board of Directors adopts objectives, key business drivers and then monitors staff implementation of programs and policies. This strategic planning process also provides the basis for the operating budget and the 5-year 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

MONTEREY-SALINAS TRANSIT

Some of the objectives and initiatives for fiscal year 2006 include the following:

- Develop Phase Two Build-out of the Marina Transit Station.
- Continue to pursue funding and begin development of the Monterey Bay Operations Center.
- Initiate planning for the Salinas Service Improvement Program.
- Conduct business within approved budget and performance indicators.
- Implement Financial Accounting Management Information System (FAMIS).
- Complete takeover of the Clean Air Refueling Station (CARS) and upgrades.

The Organization

MST is organized into the following principal departments:

Administration and Finance - responsible for employee administration and development, labor relations and safety and security, information technology, treasury and debt management, budgeting, grant administration, general accounting, payroll, audit functions, marketing, advertising, public information and customer service, planning, programs and grant development.

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

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

Service Delivery Network

The MST fixed-route bus system consists of 33 routes: twenty-seven operated by MST personnel, and six routes operated by MV Transportation, Incorporated. On an average weekday, these vehicles travel approximately 7,571 miles and carry more than 14,059 passengers. RIDES, MST's paratransit service, transports approximately 249 mobility impaired patrons daily on 24 specially equipped buses, minivans and sedans.

Bus ridership in Monterey County escalated from 280,000 in fiscal year 1973 to nearly 5 million in fiscal year 2002. As MST completed its 30th year of service in 2002, ridership had increased nearly 1,800 percent.

MST is partner in a variety of community events in Monterey County and provides special transportation service to the Monterey County Fair, California International Airshow, First Night festivities on New Year's Eve, and races at Laguna Seca. MST buses also travel to Big Sur during the summer months, where visitors can observe the natural beauty of the region. During its 30 years of operations, MST has provided transportation to special events such as the 1985 Aquarium Opening Day and the 1987 visit by Pope John Paul II. MST has provided emergency services to community evacuating local residents affected by natural disasters including floods, fires, and earthquakes.

MST implemented a new and improved system of routes and schedules on July 1, 1999 to respond to the needs of the community. The revamped system included new route numbers, additional services, and the consolidation or elimination of some routes.

MST
MONTEREY-SALINAS TRANSIT

Special Projects and New Programs

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

MST Trolleys

The City of Monterey and the Monterey Bay Aquarium formed a partnership to provided funds to MST for the purchase of Trolleys and operating free service along the Water Area Visitors Express (WAVE) route, from Downtown Monterey along Cannery Row to the Aquarium.

Caltrain Connection in Gilroy

Until the train connection from Gilroy to Salinas is established for the Caltrain System, MST is providing bus service from the Monterey Peninsula and Salinas. Commuter and mid-day service is being provided on this demonstration project to determine the feasibility of the program, which began in fiscal year 2003.

South Monterey County Service

Fixed-route bus service for Gonzales has been expanded to all south Monterey County cities, utilizing local and federal funds. This three-year demonstration project should fulfill a long outstanding unmet transit need of the rural areas of the County.

New Operations Facilities

The Fort Ord Reuse Authority has transferred 19.3 acres of land located on the former Fort Ord. Fund raising is in progress to build a $30 million Operations facility to consolidate all fixed-route bus and DART operations in one location. Two facilities located in Monterey and Salinas currently provide for all operation, maintenance and administrative functions.

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. During the past year, MST reaffirmed its special policy of providing discount fares to the senior and disabled community on fixed-route service. The entire fleet of vehicles is equipped with wheelchair lifts and some with a kneeling feature.

MST is now entering its 11th year of providing paratransit service to people with disabilities in Monterey County. In 1996, MST implemented arrangements with Monterey County to assume this service contracted with Pro Transportation Services, Inc., a privately owned company. MST is in full compliance with the federally mandated Americans with Disabilities Act.

In fiscal year ended June 30, 2006, RIDES vehicles, owned by MST, and contracted taxis provided a total of 36,352 hours of service.

MONTEREY-SALINAS TRANSIT

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. The MST's policy is to hold securities to maturity to avoid losses from a potential sale.

Risk Management

Every three years an independent consultant is retained to perform an actuarial study. MST implements the recommendations and coordinates the annual insurance program. Current insurance policies provide public liability coverage to $10,000,000 and property damage in excess of the $5,000 self-insured retention. For workers' compensation, the limit is $5,000,000 with $350,000 per occurrence self-insured. Staff monitors the program and the reserves throughout the year.

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 on an accrual basis.

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

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

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

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

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

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

Capital Program
The main thrust of MST's capital development program over the next five years will be the completion of the Marina Transit Station, the Intelligent Transportation System, and initiating construction of the Frank J. Lichtanski Monterey Bay Operations Facility, named for the former General Manager of 30 years, who deceased in June 2006.

ECONOMIC CONDITIONS

Ranking high in affluence among Northern California counties, Monterey County has a maturing economy. Due to lack of substantial industry diversification, Monterey County depends upon two industry segments for its prosperity – agriculture and tourism. In fiscal year 2006, signs of economic recovery appeared in lower unemployment rates and higher tourism levels, which have lead to increased revenues from sales taxes generated by these sources. As of the date of this report, MST is projecting a slight increase in revenues and ridership growth for the next year and services are being adjusted to reflect these changes. This upturn is expected to be moderate. While the long-term economic outlook remains favorable, MST is taking a prudent course of cutting non-service related budgets and analyzing the appropriateness of current staffing levels and vacancies while seeking to maintain existing productive routes as much as possible.

MONTEREY-SALINAS TRANSIT

FUTURE OUTLOOK

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

While the Association of Monterey Bay Area Governments (AMBAG) projects a 17.9% percent increase in county population by 2010, the County's inventory of jobs is expected to grow by 13.8% percent. Air quality standards are set by the Monterey Bay Unified Air Pollution Control District (MBUAPCD) with implementation of congestion management plans by local agencies. These services are underwritten by a variety of public and private funding sources. Capital funding will continue to support a bus acquisition program consistent with the MST's fleet modernization standards.

SUMMARY

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

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

Along with the recent economic recovery, MST expects to consummate its strategic plan without compromising the sound financial structure developed over thirty years of operations. In past economic recoveries, Monterey County has recovered more quickly than most other areas in California and the nation. 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, 2005. This was the fourth 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.

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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 Fred Libert, Senior Accounting Technicians Kathy Bertrand and Sharon Roberts, and Accounting Assistant Karleen Russell to recognize the high level of professionalism they bring to Monterey-Salinas Transit. In addition, this report could not have been produced without the timely audit and expert guidance of Vavrinek, Trine, Day & Co., LLP. Finally, we wish to thank the Board of Directors for their interest and support in the development of a strong financial system. We acknowledge that management is responsible for the content of this Comprehensive Annual Financial Report.

Respectfully submitted,

Carl Sedoryk
General Manager/CEO

David A. Sobotka
Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Monterey-Salinas Transit California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

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

President

Executive Director

MONTEREY-SALINAS TRANSIT

BOARD OF DIRECTORS
Fiscal Year Ending June 30, 2006

FERNANDO ARMENTA, Chair

THOMAS MANCINI, Vice Chair

KRISTIN CLARK

MICHAEL CUNNINGHAM

LIBBY DOWNEY

MARIA OROZCO (Ex-Officio)

RON SCHENK

SERGIO SANCHEZ

GARY WILMOT

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

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

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

Michael Cunningham, councilmember from the City of Carmel-By-The-Sea, was appointed in May 2004.

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

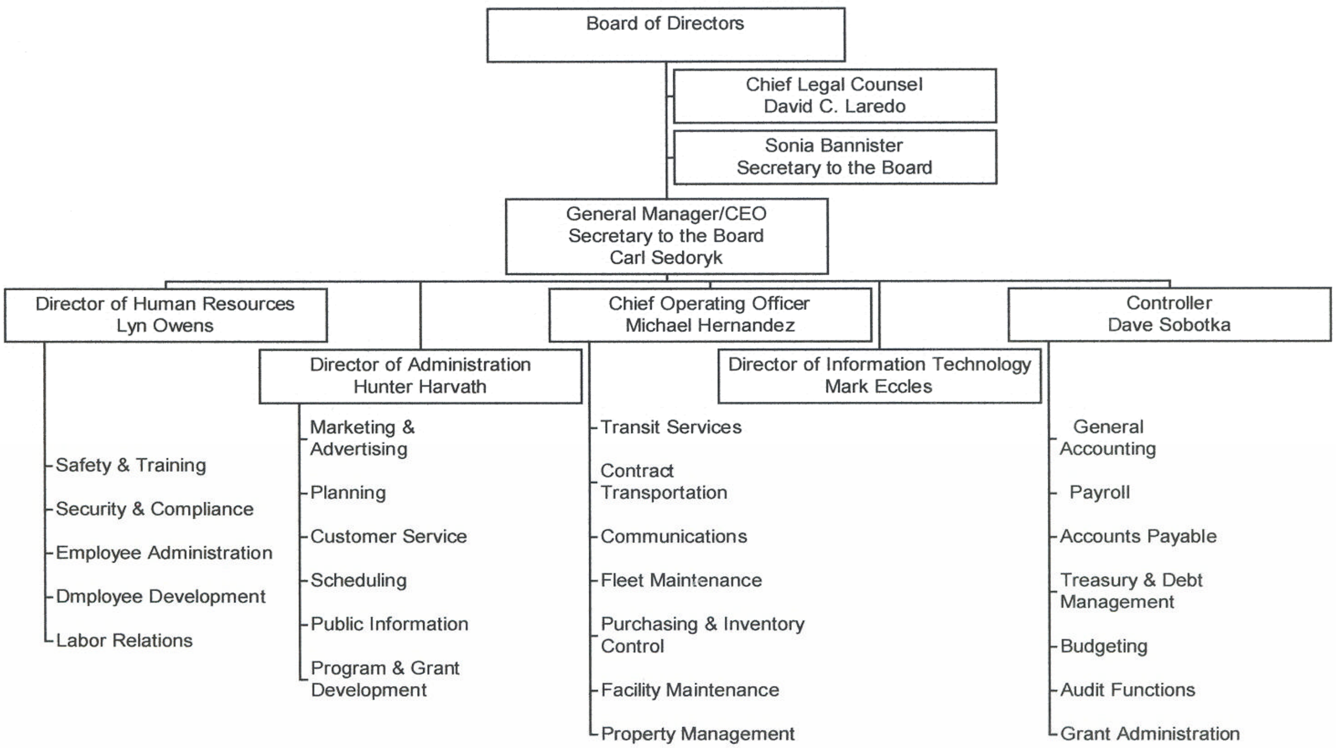
Maria Orozco, Ex-Officio councilmember from the City of Gonzales, was appointed in January 2004.

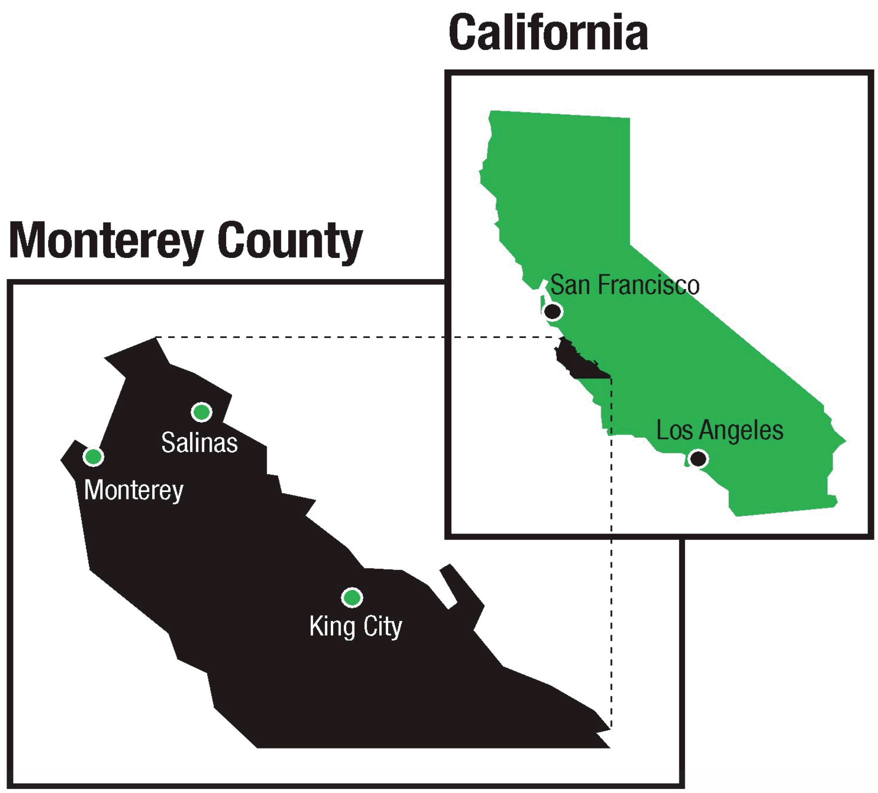
Ron Schenk, **c**ouncilmember from the City of Pacific Grove was appointed in December 2004 by the City of Pacific Grove.

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

Gary Wilmot, councilmember from the City of Marina, was appointed in December 2004.

MONTEREY-SALINAS TRANSIT




California
Monterey County
San Francisco
Los Angeles
Salinas
Monterey
King City


Monterey and Salinas Regional Bus Map
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21 Monterey - Salinas
22 Monterey - Big Sur
23 Salinas - King City
24 Carmel Valley - Carmel Rancho
Peak hours only
25 Monterey - Gilroy
26 Salinas - Gilroy
27 Watsonville - Monterey
28 Watsonville - Salinas
Special service
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25 26 Gilroy
Caltrain Station
27 28 29
Watsonville Transit Center
Riverside Drive
P‡jaro
Salinas Road
Las Lomas
Salinas Road
Moro Cojo
Moss Landing
Highway 1 & Dolan
P+R
Prunedale
Prunetree Shopping Center
Northridge Center
Harden Ranch Plaza
Northridge Main & Laurel
Castroville
Merritt & Union
Marina Transit Station
Marina Municipal Airport
Hartnell College
Salinas Transit Center
20 21 23 26 28 29
Reservation Road
PACIFIC OCEAN
Monterey Bay
Monterey Plaza Hotel
Conference Center
22
The Inn at Spanish Bay
Edgewater Transit Exchange
Portola & Creekside
Fremont Boulevard
Laguna Seca Regional Park
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Monterey Peninsula 53
Fairgrounds
Monterey Peninsula Airport
Ryan Ranch Industrial Park
Laureles Grade Road
SPCA
Chualar
Del Monte Center
Monterey Peninsula College
Olmsted Road
Canyon Del Rey
Carmel Bay
Carmel
6th & Mission
Carmel High School
24 Carmel Rancho
Point Lobos State Park
Carmel Valley Road
Mid Valley Center
24 Carmel Valley
Pilot & Del Fino
Flight Road
Rippling River
City Hall
Gonzales Center
Correctional Facility
Bixby Creek Bridge
Point Sur Light Station
Andrew Molera State Park
Soledad
Greenfield
Pfeiffer Big Sur State Park
Big Sur 22
Nepenthe
MST
23 King City
First & Lynn
53 King City
Mee Memorial
Park & Ride Lot
Railroad and station

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Section II

FINANCIAL

Independent Auditors' Report

Management's Discussion and Analysis

Financial Statements

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

Required Supplementary Information

- Schedule of Funding Progress

Other Supplemental Information

- Consolidating Statements by Program
- Budgetary Comparison

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Monterey-Salinas Transit

We have audited the accompanying statements of net assets of the Monterey - Salinas Transit (MST) as of June 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of MST's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 of the financial statements, the MST adopted Governmental Accounting Standards Board (GASB) Statement No. 44, *Economic Condition Reporting: The Statistical Section an amendment of NCGA Statement No. 1.*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Monterey-Salinas Transit as of June 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2006, on our consideration of the MST's internal control over financial reporting and our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9 and the Schedule of Funding Progress on page 24 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

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

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

Vavrinek Trine Day & Co. LLP

Palo Alto, California
September 29, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of Monterey-Salinas Transit (MST) provide an introduction to the financial statements of MST for the fiscal year ended June 30, 2006.

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

MST ACTIVITIES HIGHLIGHTS

MST is based in Monterey, California, and consists of two operating divisions, Fixed-Route BUS and RIDES Paratransit, operating in two Federal Urbanized Zones: the Monterey Peninsula and Salinas. Overseeing more than 213 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. The Board of Directors consists of eight members representing the seven member cities and the County: Carmel-by-the-Sea, Del Rey Oaks, Marina, Monterey, Pacific Grove, Salinas, Seaside and Monterey County. Over 4,700,000 passengers ride Monterey-Salinas Transit each year.

The recent turnaround from the economy and upturn in the investment industry has resulted in a increase in service for Fixed-Route BUS. RIDES Paratransit service continues to drop as intended due to the relinquishing of MediCal service at mid-year 2003.

	2006	2005	2004
Fixed- Route Passengers	4,793,200	4,738,112	4,624,558
% increase/(decrease)	1.16%	2.46%	
RIDES Paratranist Passengers	65,514	66,538	67,947
% increase/(decrease)	(1.54%)	(2.07%)	

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. As MST does not have the authority to levy taxes, the use of Local Transportation Funds is the only available local means MST has to support transit services. Presently, MST is funded approximately 30% by passenger fares for Fixed-Route service and 10% for RIDES Paratransit service. The remainder is met by Federal formula and Congestion Management Air Quality funds and other local air pollution control district funds.

FINANCIAL POSITION SUMMARY

Total net assets serve over time as a useful indicator of MST's financial position. MST's assets exceed liabilities by $17.6 million at June 30, 2006, which did not change from June 30, 2005. A condensed summary of net assets at June 30 is shown below ($ in thousands):

	2006	2005	2004
ASSETS:			
Current and other assets	$ 7,618	$ 7,063	$ 7,433
Capital assets	26,035	28,233	31,639
Total assets	$ 33,653	$ 35,296	$ 39,072
LIABILITIES			
Current liabilities	$ 4,883	$ 4,470	$ 5,271
Non current liabilities	11,214	13,215	13,362
Total liabilities	16,097	17,685	18,633
NET ASSETS:			
Invested in capital assets	16,835	17,595	19,628
Unrestricted	721	16	811
TOTAL NET ASSETS	$ 17,556	$ 17,611	$ 20,439

The largest portion of MST's net assets each year (96% at June 30, 2006) is its investment in capital assets (e.g., buses, buildings, improvements, and equipment). MST uses these capital assets to provide services to its patrons, passengers and visitors to the region; consequently, these assets are not available for future spending. The remaining unrestricted net assets (4% at June 30, 2006) may be used to meet MST's ongoing obligations.

FINANCIAL OPERATIONS HIGHLIGHTS

- Total Revenues before capital contributions increased by 16.5% from $19.0 million to $22.1 million.
- Operating Expenses before depreciation increased by 16.5% from $19.0 million to $22.1 million, primarily as a result of increased wages and materials and fuel costs.
- Capital contributions received in the form of grants from the Federal and State governments increased from $2.3 million in 2005 to $5.2 million in 2006.
- Operating Revenues generally equal Operating Expenditures before depreciation in order to comply with State Transportation Development requirements of MST as a publicly funded transportation entity.

SUMMARY OF CHANGES IN NET ASSETS ($ in thousands)

	2006	2005	2004
Total revenues	$21,030	$18,960	$18,263
Operating expenses	$21,030	18,960	18,263
Operating loss before depreciation and interest expense	-	-	-
Interest expense	477	540	603
Loss on disposal of assets	-	-	1,467
Depreciation	4,729	4,557	4,381
Net loss before capital contributions	(5,206)	(5,097)	(6,451)
Capital contributions	5,151	2,269	3,492
Increase (decrease) in net assets	$ (55)	$ (2,828)	$ (2,959)

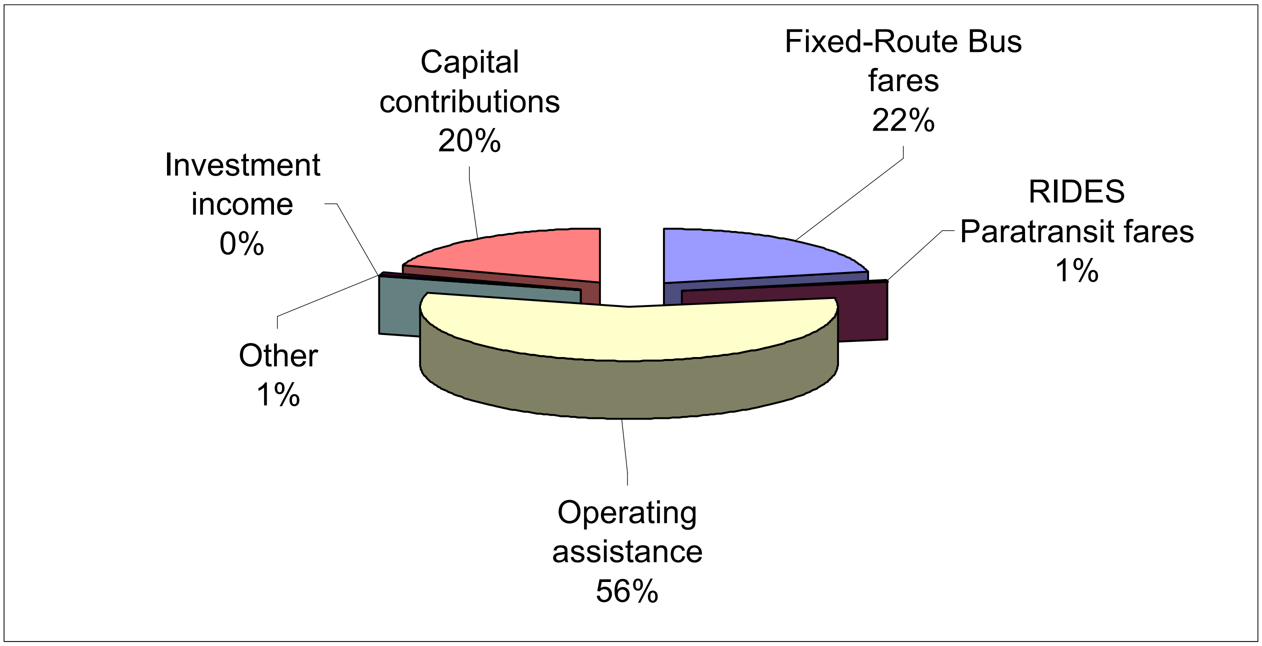
MST PASSENGER FARES

Passenger fares are set by Board Policy and changed when determined necessary by the Board. There was an increase of $.25 in Fixed-Route fares and $.50 in Paratransit fares in fiscal year 2006.

	2006	2005	2004
Fixed-Route Bus Single Zone Fare	$ 2.00	$ 1.75	$ 1.75
RIDES Paratransit Single Zone Fare	$ 2.50	$ 2.00	$ 2.00

REVENUES

The following chart shows the major sources and the percentage of operating revenues for the year ended June 30, 2006 (fares, grants and other):



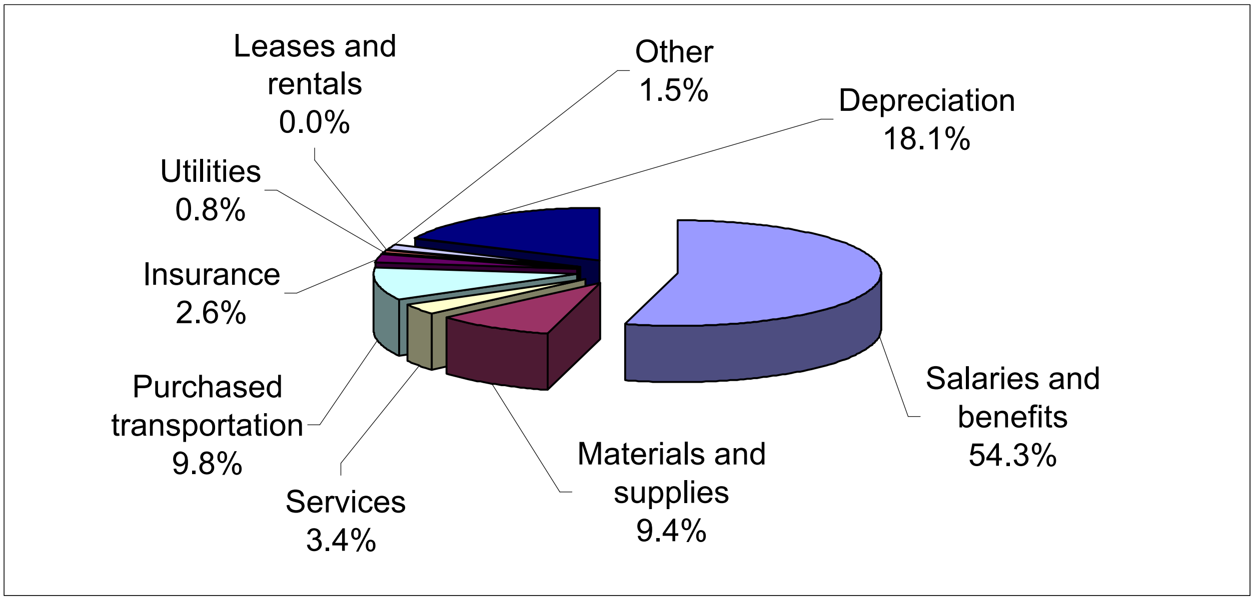
A summary of revenues for the year ended June 30, 2006, including the amount and percentage of change in relation to prior year amounts is as follows ($ in thousands):

	2006 Amount	Percent of Total	2006 Increase (Decrease) From 2005	Percent Increase/ (Decrease)	2005 Increase (Decrease) From 2004	Percent Increase/ (Decrease)
Operating						
Fixed-Route Bus fares	$ 5,661	21.6%	$ 1,049	22.7%	$ (47)	(1.0%)
RIDES Paratransit fares	156	0.6%	(18)	(10.3%)	(2)	(1.1%)
Total Operating	5,817	22.2%	1,031	21.5%	(49)	(1.0%)
Nonoperating:					-	
Federal grants	5,977	22.8%	593	11.0%	(325)	(5.7%)
Local Transportation Fund	8,926	34.1%	432	5.1%	889	11.7%
Investment income	97	0.4%	50	106.4%	6	14.6%
Other	213	0.8%	(35)	(14.1%)	176	244.4%
Total Nonoperating	15,213	58.1%	1,040	7.3%	746	5.6%
Capital contributions	5,151	19.7%	2,881	126.9%	(1,222)	(35.0%)
TOTAL REVENUES	$ 26,181	100.0%	$ 4,952	23.3%	$ (525)	(2.4%)

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

EXPENSES

The following chart shows the major cost categories and the percentage of operating expenses for the year ended June 30, 2006:



A summary of expenses for the year ended June 30, 2006, including the amount and percentage of change in relation to prior year amounts is as follows ($ in thousands):

	2006 Amount	Percent of Total	2006 Increase (Decrease) From 2005	Percent Increase/ (Decrease)	2005 Increase (Decrease) From 2004	Percent Increase/ (Decrease)
Operating:						
Salaries and benefits	$14,157	54.3%	$1,575	12.5%	$658	5.5%
Materials and supplies	2,445	9.4%	254	11.6%	299	15.8%
Professional and Technical Services	877	3.4%	121	16.0%	(2)	(0.3%)
Purchased transportation	2,566	9.8%	10	0.4%	(76)	(2.9%)
Insurance	688	2.6%	396	135.6%	(161)	(35.5%)
Utilities	212	0.8%	(21)	-9.0%	(11)	(4.5%)
Leases and rentals	9	0.0%	1	12.5%	(3)	(27.3%)
Other	393	1.5%	51	14.9%	(6)	(1.7%)
Total operating expenses before depreciation	21,347	81.9%	2,387	12.6%	698	3.8%
Depreciation	4,729	18.1%	172	3.8%	176	4.0%
Total operating expenses	$ 26,076	100.0%	$ 2,559	10.9%	$ 874	3.9%

FINANCIAL STATEMENTS

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

CAPITAL ACQUISITIONS AND CONSTRUCTION ACTIVITIES

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

ECONOMIC AND OTHER FACTORS

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

The financial condition of MST is strong and the economic outlook of the service area is positive in the long run. MST supports its activity primarily with transit fares and local transportation funds. Federal funding of operations is a major funding source. Steps have been taken to back a measure to receive support from a direct sales tax. MST is also developing a strategy to implement a step increase in fares over multiple years, rather than a single increase every four to six years.

Accelerated capital investment in transit coaches has been accomplished by arranging lease financing of $15 million over ten years for 46 buses. These coaches began arriving in fiscal year 2002 and all were on the road and provided service in 2004. The $3.5 million Advanced Communication System, which replaces a twenty-year-old radio system, went on-line in October 2002, and is the core for more sophisticated service in the future. Federal funding for Intelligent Transportation Systems has been allocated to MST, and represents the next phase of systems integration. A software contract was awarded in July 2004 for the first phase of this project to include run cutting, scheduling, rostering, dispatching and timekeeping. The second phase including fleet maintenance and inventory control was initiated during the fiscal year. The third phase, which will include the financial interface, will begin in this fiscal year and completed in the next fiscal year – 2007.

ADDDITIONAL FINANCIAL INFORMATION

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

MONTEREY-SALINAS TRANSIT

STATEMENTS OF NET ASSETS
JUNE 30, 2006 AND 2005

ASSETS	2006	2005
CURRENT ASSETS:		
Cash and investments	$ 5,189,822	$ 541,580
Operating grants receivable	233,738	5,146,659
Capital grants receivable	543,226	52,375
Material and supplies, at cost	320,720	296,115
Prepaid expenses	119,830	196,087
Other receivables	1,210,211	830,179
Total current assets	7,617,547	7,062,995
PROPERTY, PLANT, AND EQUIPMENT:		
Land	975,643	975,644
Buses	29,311,111	28,583,619
Shop, office and other equipment	18,177,700	17,493,201
Total	48,464,454	47,052,464
Accumulated depreciation	(26,458,031)	(21,999,494)
Construction in progress	4,029,002	3,179,923
Property, plant and equipment - net	26,035,425	28,232,893
TOTAL ASSETS	$ 33,652,972	$ 35,295,888
LIABILITIES AND CAPITAL		
CURRENT LIABILITIES:		
Accounts payable	$ 807,865	$ 803,155
Accrued liabilities	889,070	1,035,017
Self-insurance liabilities	1,681,265	1,194,025
Current portion of long-term financing agreement	1,504,905	1,437,434
Total current liabilities	4,883,105	4,469,631
NONCURRENT LIABILITIES		
Deferred credits	3,518,251	4,014,829
Obligation under financing agreement	7,695,506	9,200,410
Total noncurrent liabilities	11,213,757	13,215,239
TOTAL LIABILITIES	16,096,862	17,684,870
NET ASSETS:		
Invested in capital assets net of related debt	16,835,014	17,595,049
Unrestricted	721,096	15,969
TOTAL NET ASSETS	$ 17,556,110	$ 17,611,018

See notes to financial statements.

MONTEREY-SALINAS TRANSIT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
OPERATING REVENUES:		
Fares	$ 5,816,967	$ 4,786,573
OPERATING EXPENSES:		
Salaries and benefits	13,839,158	12,581,670
Materials and supplies	2,445,101	2,191,457
Professional and technical services	877,213	756,390
Purchased transportation	2,566,443	2,555,542
Insurance	688,928	291,687
Utilities	211,685	233,008
Leases and rentals	9,213	7,897
Other	392,406	341,935
Total operating expense	21,030,147	18,959,586
Operating loss before depreciation	(15,213,180)	(14,173,013)
DEPRECIATION	4,728,480	4,557,096
OPERATING LOSS	(19,941,660)	(18,730,109)
NON-OPERATING REVENUES AND EXPENSES		
Operating assistance:		
Federal grants	5,977,063	5,383,818
Local transportation fund	8,925,942	8,493,960
Interest expense	(477,113)	(540,247)
Interest income	96,611	46,822
Other	213,564	248,413
Total non-operating revenues	14,736,067	13,632,766
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(5,205,593)	(5,097,343)
CAPITAL CONTRIBUTIONS	5,150,685	2,269,566
CHANGE IN NET ASSETS	(54,908)	(2,827,777)
NET ASSETS, Beginning of year	17,611,018	20,438,795
NET ASSETS, End of year	$ 17,556,110	$ 17,611,018

See notes to financial statements.

MONTEREY-SALINAS TRANSIT

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fares	$ 5,436,934	$ 4,598,364
Payments to employees	(14,904,893)	(12,617,618)
Payments to vendors for services	(6,275,497)	(5,990,102)
Payments for insurance claims and premiums	940,304	(838,685)
Other	(178,732)	245,643
Net cash used in operating activities	(14,981,884)	(14,602,398)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating grants received	14,406,427	13,607,327
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants received	9,572,646	2,997,140
Interest payments	(477,113)	(540,247)
Payments under long-term financing agreement	(1,437,433)	(1,372,990)
Purchase of property, plant and equipment net of related debt	(2,531,012)	(1,151,417)
Net cash provided by capital and related financing activities	5,127,088	(67,514)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	96,611	46,822
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,648,242	(1,015,763)
CASH AND CASH EQUIVALENTS, Beginning of year	541,580	1,557,343
CASH AND CASH EQUIVALENTS, End of year	$ 5,189,822	$ 541,580
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (19,941,660)	$ (18,730,109)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	4,728,480	4,557,096
Other income	213,564	248,413
Effect of changes in:		
Materials and supplies	(24,605)	(19,026)
Prepaid expenses	76,257	(115,520)
Receivables	(380,032)	(188,209)
Accounts payable	4,710	227,903
Accrued liabilities	(145,838)	(35,948)
Self-insurance liabilities	487,240	(546,998)
Net cash used in operating activities	$ (14,981,884)	$ (14,602,398)

See notes to financial statements.

I. ORGANIZATION

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

II. SIGNIFICANT ACCOUNTING POLICIES

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

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

Implementation of Governmental Accounting Standards Board Statements

GASB Statement No. 42 **-** In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement requires governments to measure, recognize, and disclose the effects of capital asset impairments in their financial statements when it occurs. This statement also clarifies and establishes accounting requirements for insurance recoveries, including those associated with capital asset impairment. This statement is not effective until June 30, 2006. This statement did not have an impact on the Authority's financial statements..

GASB Statement No. 43 **-** In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes accounting and financial reporting standards for plans that provide postemployment benefits other than pension benefits (known as other postemployment benefits or OPEB). This statement is not effective until June 30, 2007. MST has not determined its effect on the financial statements.

GASB Statement No. 44 **-** In May 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section-an amendment of NCGA Statement No. 1*. This Statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles that* guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. The MST adopted the provisions of GASB 44 during fiscal year 2005-2006.

GASB Statement No. 45 **-** In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement is not effective until June 30, 2008. MST has not determined its effect on the financial statements.

GASB Statement No. 46 **-** In December 2004, the GASB issued Statement No. 46, Net Assets Restricted by Enabling Legislation-an amendment of GASB Statement No. 34. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government can compel a government to honor. This statement is effective for periods beginning after June 15, 2006. This statement did not have an impact on the Authority's financial statements.

GASB Statement No. 47 **-** In June 2006, the GASB issued Statement No. 47, Accounting for Termination Benefits. This Statement establishes accounting guidance and disclosure requirements for termination benefit arrangements. This statement is effective in two parts. For termination benefits provided through an existing defined benefit other post employment benefit plan (OPEB), the provisions should be implemented simultaneously with GASB Statement No. 45. For all other termination benefits, this Statement is effective for periods beginning after June 15, 2006. MST has not determined its effect on the financial statements.

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

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

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

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

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

MST's capitalization threshold is $500.

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

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

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

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

III. OPERATING ASSISTANCE

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

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

Operating grant activity for 2006 is summarized as follows:

	Federal Grants	Local Transportation Fund	Total
Amount recognized as revenue	$ 5,977,063	$ 8,925,942	$ 14,903,005
Amount received prior to June 30, 2006	(5,743,325)	(8,925,942)	(14,669,267)
Grants receivable at June 30, 2006	$ 233,738	$ -	$ 233,738

Operating grant activity for 2005 is summarized as follows:

	Federal Grants	Local Transportation Fund	Total
Amount recognized as revenue	$ 5,383,818	$ 8,493,960	$ 13,877,778
Amount received prior to June 30, 2005	(237,159)	(8,493,960)	(8,731,119)
Grants receivable at June 30, 2005	$ 5,146,659	$ -	$ 5,146,659

IV. DEPOSITS AND INVESTMENTS

Deposits and investments as of June 30, 2006 and 2005, consists of the following:

	2006	2005
Cash on hands and in banks	$ (463,641)	$ 675
Investments in Local Agency Investment Fund	5,653,463	540,905
	$ 5,189,822	$ 541,580

Policies and Practices

The MST is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The MST manages its exposure to interest rate risk by depositing substantially all of its funds in the Local Agency Investment Fund Pool (LAIF). The fair value of the deposits with the LAIF at June 30, 2006 and 2005 was $5,643,207 and $542,126 respectively.

Specific Identification

Information about the sensitivity of the fair values of the MST's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the MST's investment by maturity:

	Fiscal Year	Fair Value	Maturity
Local Agency Investment Fund (LAIF)	2006	$ 5,643,204	187 Days
Local Agency Investment Fund (LAIF)	2005	$ 542,126	133 Days

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. MST does not have any investments that are rated.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the MST's deposits may not be returned to it. The MST does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. As of June 30, 2006 and 2005, MST's bank balances of $283,048 and $306,615, respectively, were exposed to custodial credit risk because they were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the MST.

5. CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2006 and 2005, is as follows:

	Beginning Balance July 1, 2005	Additions	Retirements/ Reclassifications	Ending Balance June 30, 2006
Land	$ 975,643	$ -	$ -	$ 975,643
Construction in progress	3,179,923	849,079	-	4,029,002
Buses	28,583,619	727,493	-	29,311,112
Shop, office and other equipment	17,493,201	684,500	-	18,177,701
Totals at historical cost	50,232,386	2,261,072	-	52,493,458
Accumulated depreciation				
Buses	10,174,710	2,760,175	-	12,934,885
Shop, office and other equipment	11,824,784	1,698,362	-	13,523,146
Total accumulated depreciation	21,999,494	4,458,537	-	26,458,031
Capital assets, net	$ 28,232,892	$ (2,197,465)	$ -	$ 26,035,427

CAPITAL ASSETS	Beginning Balance July 1, 2004	Additions	Retirements/ Reclassifications	Ending Balance July 1, 2005
Land	$ 975,643	$ -	$ -	$ 975,643
Construction in progress	2,711,742	468,181	-	3,179,923
Buses	28,649,737	277,440	(343,558)	28,583,619
Shop, office and other equipment	18,457,813	405,463	(1,370,075)	17,493,201
Totals at historical cost	50,794,935	1,151,084	(1,713,633)	50,232,386
Accumulated depreciation				
Buses	8,045,900	2,446,692	(317,882)	10,174,710
Shop, office and other equipment	11,110,464	2,110,404	(1,396,084)	11,824,784
Total accumulated depreciation	19,156,364	4,557,096	(1,713,966)	21,999,494
Capital assets, net	$ 31,638,571	$ (3,406,012)	$ 333	$ 28,232,892

6. SELF-INSURANCE

MST has self-insurance programs for the following risks:

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

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

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

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

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

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

Changes in the balance of estimated self-insurance liabilities during the fiscal years ended June 30, 2006 and 2005 are approximately as follows:

	2006	2005	2004
Estimated self-insurance liabilities, beginning of year	$ 1,194,025	$ 1,741,023	$ 1,590,567
Current year claims and changes in estimates	1,799,597	357,751	1,484,181
Claim payments	(1,220,962)	(837,060)	(1,265,725)
Legal, administrative and other expenses	(91,395)	(67,689)	(68,000)
Estimated self-insurance liabilities, end of year	$ 1,681,265	$ 1,194,025	$ 1,741,023

7. BUS PURCHASE FINANCING AGREEMENT

In September 2002, MST entered into a bus purchase financing agreement with Gillig Corporation in the amount of $15,180,000 with interest rate of 4.64 percent. The payments end in 2012. The payments will be financed from MST's federal and local capital grants.

	Original Balance	Balance as of July 1, 2005	Paid	Balance as of June 30, 2006
Bus purchase financing agreement	$ 15,180,000	$ 10,637,844	$ 1,437,433	$ 9,200,411

Future minimum payments are as follows:

Fiscal Year	Principal	Interest	Total
2007	$ 1,504,905	$ 409,642	$ 1,914,547
2008	1,575,543	339,005	1,914,547
2009	1,649,496	265,052	1,914,547
2010	1,726,920	187,627	1,914,547
2011	1,807,979	106,569	1,914,547
2012	935,569	21,705	957,274
	$ 9,200,411	$ 1,329,599	$ 10,530,010

8. 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 $280,327 and $327,565 in the fiscal years ended June 30, 2006 and 2005, respectively.

Condensed financial information of CalTIP (prepared using the accrual basis of accounting) for the year ended April 30, 2005 (most recent available information) is as follows:

	Unaudited
Cash and investments	$ 14,592,327
Other assets	454,678
Total Assets	$ 15,047,005
Loss reserves	$ 8,771,224
Accounts payable and accrued liabilities	2,431,008
Retained earnings	3,844,773
Total liabilities and equity	$ 15,047,005
Total revenues	$ 7,459,957
Total expenses	(5,791,283)
Net income	$ 1,668,674

9. COMPENSATED ABSENCES

Accumulated unpaid personal leave, consisting of vacation, holiday and sick pay, have been accrued at June 30, 2006 and 2005 in the amounts of $765,772 and $692,406, respectively. The MST's liability for compensated absences typically is liquidated within one year. MST accrued $962,205 and paid $888,839 during fiscal year 2005-2006.

10. 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, 2006, 2005 and 2004 the employer contribution rate was 5.938%, 4.552% and 0%, respectively. MST, as part of its compensation to employees, pays the employees' contributions.

Annual Pension Cost

For the fiscal years ended June 30, 2006, 2005 and 2004, MST's annual pension cost of $1,176,706, $401,866 and $0 respectively for CalPERS was equal to MST's required and actual contributions. The required contribution was determined as part of the June 30, 2005 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 3.0%. The actuarial value of MST's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. Beginning July 1, 1997, the difference between the actuarial value of assets and the actuarial accrued liability is being amortized over a period ending June 30, 2011.

Three-Year Trend Information

Fiscal Year End	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/04	$ -	N/A	$ -
6/30/05	$ 401,866	100%	$ -
6/30/06	$ 1,176,706	100%	$ -

REQUIRED SUPPLEMENTARY INFORMATION

MONTEREY-SALINAS TRANSIT

MISCELLANEOUS PLAN OF THE CALIFORNIA PUBLIC EMPLOYEE-RETIREMENT SYSTEM SCHEDULE OF FUNDING PROGRESS YEAR ENDED JUNE 30, 2006

Actuarial * Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (Entry Age Normal)	Overfunded Actuarial Accrued Liability (OAAL)	Funded Status	Annual Covered Payroll	OAAL as a Percentage Covered Payroll
6/30/03	$ 24,632,183	$ 22,061,514	$ 2,570,669	111.7%	$ 8,899,850	28.9%
6/30/04	$ 26,579,282	$ 24,837,994	$ 1,741,288	107.0%	$ 8,828,340	19.7%
6/30/05	$ 28,930,928	$ 27,444,474	$ 1,486,454	105.4%	$ 8,681,292	17.1%

* Most recent information available

OTHER SUPPLEMENTAL INFORMATION

MONTEREY-SALINAS TRANSIT

CONSOLIDATING SCHEDULE OF NET ASSETS BY PROGRAM
JUNE 30, 2006

ASSETS	FIXED-ROUTE BUS SERVICE	RIDES	ELIMINATIONS	TOTAL
CURRENT ASSETS:				
Cash and investments	$ 5,161,766	$ 28,056	$ -	$ 5,189,822
Operating grants receivable	233,738	-	-	233,738
Capital grants receivable	543,226	-	-	543,226
Materials and supplies, at cost	320,720	-	-	320,720
Prepaid expenses	119,830	-	-	119,830
Other receivables	1,193,545	16,666	-	1,210,211
Inter-program receivable	-	328,331	(328,331)	-
Total current assets	7,572,825	373,053	(328,331)	7,617,547
PROPERTY, PLANT AND EQUIPMENT:				
Land	975,643	-	-	975,643
Buses	28,205,044	1,106,067	-	29,311,111
Shop, office and other equipment	18,177,700	-	-	18,177,700
Total	47,358,387	1,106,067	-	48,464,454
Accumulated depreciation	(25,785,467)	(672,564)	-	(26,458,031)
Construction in progress	3,857,148	171,854	-	4,029,002
Property, plant and equipment - net	25,430,068	605,357	-	26,035,425
TOTAL ASSETS	$ 33,002,893	$ 978,410	$ (328,331)	$ 33,652,972

LIABILITIES AND NET ASSETS	FIXED-ROUTE BUS SERVICE	RIDES	ELIMINATIONS	TOTAL
CURRENT LIABILITIES:				
Accounts payable	$ 807,865	$ -	$ -	$ 807,865
Accrued liabilities	889,070	-	-	889,070
Self-insurance liabilities	1,681,265	-	-	1,681,265
Current portion of financing agreement	1,504,905	-	-	1,504,905
Inter-program payable	328,331	-	(328,331)	-
Total current liabilities	5,211,436	-	(328,331)	4,883,105
NONCURRENT LIABILITIES				
Deferred credits	3,032,992	485,259	-	3,518,251
Obligation under financing agreement	7,695,506	-	-	7,695,506
Total noncurrent liabilities	10,728,498	485,259	-	11,213,757
TOTAL LIABILITIES	15,939,934	485,259	(328,331)	16,096,862
NET ASSETS:				
Invested in capital assets net of related debt	16,229,657	605,357	-	16,835,014
Unrestricted	833,302	(112,206)	-	721,096
TOTAL NET ASSETS	$ 17,062,959	$ 493,151	$ -	$ 17,556,110

MONTEREY-SALINAS TRANSIT

CONSOLIDATING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN THE NET ASSETS BY PROGRAM
YEAR ENDED JUNE 30, 2006

	FIXED-ROUTE BUS SERVICE	RIDES	ELIMINATIONS	TOTAL
REVENUES:				
Fares	$ 5,660,573	$ 156,394	$ -	$ 5,816,967
Operating assistance:				
Federal grants	5,718,063	259,000	-	5,977,063
Local Transportation Fund	7,713,092	1,212,850	-	8,925,942
Interest income	96,525	86	-	96,611
Other	213,564	-	-	213,564
Total	19,401,817	1,628,330	-	21,030,147
EXPENSES:				
Salaries and benefits	13,742,194	96,964	-	13,839,158
Materials and supplies	2,442,640	2,461	-	2,445,101
Professional and technical services	849,081	28,132	-	877,213
Purchased transportation	1,067,115	1,499,328	-	2,566,443
Insurance	688,928	-	-	688,928
Utilities	211,685	-	-	211,685
Leases and rentals	9,213	-	-	9,213
Other	390,961	1,445	-	392,406
Total	19,401,817	1,628,330	-	21,030,147
EXCESS OF EXPENSES BEFORE CAPITAL AND FINANCING ITEMS OVER REVENUES	-	-	-	-
INCOME (EXPENSE) FROM CAPITAL AND RELATED FINANCING				
Interest expense	(477,113)	-	-	(477,113)
Loss on disposal of assets	-	-	-	-
Capital contributions	5,005,085	145,600	-	5,150,685
Depreciation	(4,582,885)	(145,595)	-	(4,728,480)
Total	(54,913)	5	-	(54,908)
CHANGE IN NET ASSETS	$ (54,913)	$ 5	$ -	$ (54,908)

MONTEREY-SALINAS TRANSIT

CONSOLIDATING SCHEDULE OF CASH FLOWS BY PROGRAM
YEAR ENDED JUNE 30, 2006

	FIXED ROUTE BUS SERVICE	RIDES	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from fares	$ 5,280,491	$ 156,443	$ 5,436,934
Payments to employees	(14,611,685)	(293,208)	(14,904,893)
Payments to vendors for services	(4,743,082)	(1,532,415)	(6,275,497)
Payments for insurance claims and premiums	940,304	-	940,304
Other	(177,287)	(1,445)	(178,732)
Net cash used in operating activities	(13,311,259)	(1,670,625)	(14,981,884)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Operating assistance received	12,934,577	1,471,850	14,406,427
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital grant funds received	9,158,427	414,219	9,572,646
Interest Payments	(477,113)	-	(477,113)
Payments under long-term financing agreement	(1,437,433)	-	(1,437,433)
Purchases of property, plant and equipment net of depreciation	(2,338,059)	(192,953)	(2,531,012)
Net cash provided by capital and related financing activities	4,905,822	221,266	5,127,088
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	96,525	86	96,611
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	4,625,665	22,577	4,648,242
CASH AND EQUIVALENTS, BEGINNING OF YEAR	536,101	5,479	541,580
CASH AND EQUIVALENTS, END OF YEAR	$ 5,161,766	$ 28,056	$ 5,189,822

MONTEREY-SALINAS TRANSIT

BUDGETARY COMPARISON
YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			Variances --- Favorable (Unfavorable)	
	Original	Final	Actual	Original to Actual	Final to Actual
REVENUES:					
Fares	$ 4,831,989	$ 4,831,989	$ 5,816,967	$ 984,978	$ 984,978
Operating assistance:					
Federal grants	5,437,079	5,673,149	5,977,063	539,984	303,914
Local Transportation Fund	7,929,225	7,929,225	8,925,942	996,717	996,717
Interest	60,000	60,000	96,611	36,611	36,611
Other income	279,139	279,139	213,564	(65,575)	(65,575)
Total revenues	18,537,432	18,773,502	21,030,147	2,492,715	2,256,645
EXPENSES:					
Salaries and benefits	12,011,681	12,011,681	13,839,158	(1,827,477)	(1,827,477)
Materials and supplies	1,871,544	2,107,614	2,445,101	(573,557)	(337,487)
Professional and technical services	882,166	882,166	877,213	4,953	4,953
Purchased transportation	2,609,376	2,609,376	2,566,443	42,933	42,933
Insurance	525,000	525,000	688,928	(163,928)	(163,928)
Utilities	221,000	221,000	211,685	9,315	9,315
Leases and rentals	60,800	60,800	9,213	51,587	51,587
Other	355,865	355,865	392,406	(36,541)	(36,541)
Total expenditures	18,537,432	18,773,502	21,030,147	(2,492,715)	(2,256,645)
Excess of expenditures over revenues	-	-	-	-	-
INCOME (EXPENSE) FROM CAPITAL AND RELATED FINANCING					
Interest expense	(540,247)	(540,247)	(477,113)	63,134	63,134
Depreciation	(4,159,772)	(4,159,772)	(4,728,480)	(568,708)	(568,708)
Capital contributions	1,064,402	2,606,792	5,150,685	4,086,283	2,543,893
Total	(3,635,617)	(2,093,227)	(54,908)	3,580,709	2,038,319
CHANGE IN NET ASSETS	(3,635,617)	(2,093,227)	(54,908)	3,580,709	2,038,319
NET ASSETS, Beginning	17,611,018	17,611,018	17,611,018	-	-
NET ASSETS, Ending	$ 13,975,401	$ 15,517,791	$ 17,556,110	$ 3,580,709	$ 2,038,319

STATISTICAL

Financial Trends

- Changes in Net Assets
- Net Assets

Revenue Capacity

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

Debt Capacity

- Outstanding Debt
- Per Capita Debt
- Pledged Revenue Coverage

Demographic and Economic Indicators

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

Operating Information

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

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MONTEREY-SALINAS TRANSIT

FINANCIAL TRENDS – TEN-YEAR COMPARISON - Fiscal Year 1997 through Fiscal Year 2006

(In thousands)

FY	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Passenger Fares	$ 3,989	$ 3,899	$ 3,985	$ 3,892	$ 4,226	$ 4,670	$ 4,729	$ 4,835	$ 4,787	$ 5,817
Operating Expenses	10,034	10,413	11,309	13,380	15,189	15,888	17,705	18,262	18,960	21,030
Depreciation Expense	1,509	2,013	2,265	2,677	2,771	3,099	3,446	4,381	4,557	4,729
Operating Loss	(7,554)	(8,527)	(9,589)	(12,165)	(13,734)	(14,317)	(16,422)	(17,808)	(18,730)	(19,942)
Nonoperating Revenues (Expenses)										
Federal Funds	993	1,015	1,534	2,285	2,292	3,791	4,872	5,709	5,384	5,977
Local Transportation Funds	4,632	4,997	5,301	6,742	8,215	6,875	7,697	7,605	8,494	8,926
Interest Expense	-	-	-	-	-	-	(1,014)	(603)	(540)	(477)
Loss on disposal of asset	-	-	-	-	-	-	-	(1,467)	-	-
Interest Income	258	239	234	251	277	122	56	41	47	97
Other Income	163	192	255	211	179	430	351	72	248	213
Total Nonoperating	6,046	6,443	7,324	9,489	10,963	11,218	11,962	11,357	13,633	14,736
Net Income (Loss)	(1,508)	(2,084)	(2,265)	(2,676)	(2,771)	(3,099)	(4,460)	(6,451)	(5,097)	(5,206)
Capital Contributions	4,633	3,570	2,196	6,929	4,131	5,037	4,541	3,492	2,269	5,151
Change in Net Assets	$ 3,125	$ 1,486	$ (69)	$ 4,253	$ 1,360	$ 1,938	$ 81	$ (2,959)	$ (2,828)	$ (55)
Net Asset Component										
Invested in capital assets, net (	$ 13,987	$ 15,544	$ 15,477	$ 19,787	$ 21,147	$ 23,084	$ 23,209	$ 19,628	$ 17,595	$ 16,835
Unrestricted	362	291	289	232	232	232	189	811	16	721
Net Assets, End of year	$ 14,349	$ 15,835	$ 15,766	$ 20,019	$ 21,379	$ 23,317	$ 23,398	$ 20,439	$ 17,611	$ 17,556

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

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

MONTEREY-SALINAS TRANSIT

REVENUE CAPACITY
Fiscal Year 1997 through Fiscal Year 2006

REVENUE CAPACITY-Revenue Base amd Revenue Rate

Fares are in thousands	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Passenger Fares	$3,989	$3,899	$3,985	$3,892	$4,226	$4,670	$4,729	$4,835	$4,787	$5,817
Number of Passengers	3,816	3,938	4,027	4,308	4,864	4,870	4,794	4,693	4,805	4,858
Fare Structure										
Full fare: Adult	$ 1.50	$ 1.50	$ 1.50	$ 1.50	$ 1.50	$ 1.75	$ 1.75	$ 1.75	$ 1.75	$ 2.00
Discount fare: Senior, Youth & Disabled	0.75	0.75	0.75	0.75	0.75	0.85	0.85	0.85	0.85	1.00

Source: MST's Business Service Department

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

MONTEREY-SALINAS TRANSIT

DEBT CAPACITY
Fiscal Year 2003 through Fiscal Year 2006

Monterey-Salinas Transit financed its first long-term debt in fiscal year 2003 in the form of a 10-year lese obligation for the purchase of 46 buses and trolleys. There were no long-term obligations associated with capital assets between 1997 and 2002.

	2003	2004	2005	2006
Ratio of outstanding debt:				
As a percent of Personal Income	0.10%	0.10%	0.10%	0.10%
(2005 and 2006 based on 2004 income)				
Per Capita (Monterey County)	$ 32.02	$ 28.53	$ 25.03	$ 21.65
Pledged Revenue Coverage				
Available Revenue - Federal and Local Grants	$ 6,174,953	$ 5,716,716	$ 5,604,054	$ 5,899,664
Debt Service				
Principal	$ -	$ 1,311,432	$ 1,372,988	$ 1,437,434
Interest	1,014,085	603,115	540,247	477,113
Total	$ 1,014,085	$ 1,914,547	$ 1,913,235	$ 1,914,547
Coverage	6.09	2.99	2.93	3.08

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

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

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

MONTEREY-SALINAS TRANSIT

DEMOGRAPHIC AND ECONOMIC INDICATORS
Fiscal Year 1997 through Fiscal Year 2006

Fiscal Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Service Area Population										
(In thousands)	370	383	391	399	402	405	416	421	425	425
Total Personal Income										
(In millions)	$9,633	$10,442	$11,096	$11,802	$12,230	$12,609	$13,179	$ 14,075	NA	NA
Per Capita Personal										
Income	$25,566	$26,919	$28,001	$29,270	$29,901	$30,635	$31,801	$33,952	NA	NA
Unemployment Rate	10.80%	10.70%	9.60%	9.60%	9.40%	10.40%	10.10%	9.50%	5.60%	5.60%

NA - Information is not available.

Source: State Employment Development Department and Federal Bureau of Economic Analysis.

Principal Employers in Monterey County	Type of Entity	Employees in 2006	% of Total Employment	Employees in 2003	% of Total Employment
Dole Fresh Vegetables	Agriculture	4,619	2.5%	3,937	2.1%
County of Monterey	Government	4,112	2.2%	4,589	2.4%
Department of Defense	Government	3,716	2.0%	3,855	2.0%
Tanimura & Antle	Agriculture	2,500	1.4%	2,500	1.3%
Community Hospital of Monterey	Hospital	2,134	1.2%	2,017	1.1%
Salinas Valley Memorial Hospital	Hospital	2,112	1.2%	1,900	1.0%
Pebble Beach Company	Hospitality	1,839	1.0%	1,716	0.9%
D'Arrigo Brothers Co.	Agriculture	1,700	0.9%	1,675	0.9%
HSBC Card Services	Financial	1,592	0.9%	1,584	0.8%
Calif. Dept.of Corrections - Soledad	Government	1,488	0.8%	1,488	0.8%
Escamilla & Sons	Agriculture	-	-	1,500	0.8%
Total		25,812	14.1%	26,761	14.2%
Total County Labor Force		183,200		188,125	

Note: Information was not available for these employers for 1997. Data for 2006 was provided by sources of the County of Monterey Auditor-Controller's Department.

This table shows the top ten employers in Monterey County. This table also shows the service area population, personal income and unemployment rates in Monterey County.

MONTEREY-SALINAS TRANSIT

OPERATING INFORMATION – MISCELLANEOUS INFORMATION
Fiscal Year 1997 through Fiscal Year 2006

FY	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Fixed-Route Service:*										
Net Cost/Passenger	2.42	2.4	2.53	2.84	2.79	2.92	3.34	3.59	3.60	4.05
Net Cost/Vehicle Mile	3.99	4.05	4.31	4.63	4.82	4.83	5.09	5.76	5.82	6.72
Net Cost/Service Hour	60.44	62.57	64.58	63.05	66.69	67.9	74.35	83.99	86.66	98.06
RIDES:*										
Net Cost/Passenger	12.42	13.43	13.34	13.04	16.68	18.15	20.67	24.76	28.33	24.85
Net Cost/Vehicle Mile	1.51	1.64	1.9	1.85	2.43	2.57	2.54	2.99	3.04	2.55
Net Cost/Service Hour	31.53	34.21	40.54	41.58	52.94	55.18	52.03	60.50	51.85	45.03
Employees:										
Total	161	169	186	201	211	212	220	218	214	213
Fleet Information:										
Standard Coaches	80	71	71	71	75	77	79	95	99	99
RIDES Vehicles	25	24	23	24	24	25	22	24	25	20
Total Revenue Vehicles	105	95	94	95	99	102	101	119	124	119

* Excludes Depreciation

Source: MST's Business Service Department

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

MONTEREY-SALINAS TRANSIT

OPERATING INFORMATION – CAPITAL ASSETS
Fiscal Year 1997 through Fiscal Year 2006

Fiscal year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Capital Assets Not Being Depreciated										
Land	$ 976	$ 976	$ 976	$ 976	$ 976	$ 976	$ 976	$ 976	$ 976	$ 976
Construction in progress	281	656	541	63	2,616	4,376	20,736	2,711	3,180	4,029
Total Capital Assets Not Being Depreciated	1,257	1,632	1,517	1,039	3,592	5,352	21,712	3,687	4,156	5,005
Other Capital Assets										
Buses	13,847	16,526	16,510	22,581	18,604	21,017	20,668	28,650	28,584	29,311
Shop, office and other equipment	11,667	12,031	13,801	15,030	15,593	16,406	14,762	18,458	17,493	18,178
Total Capital Assets Being Depreciated	25,514	28,557	30,311	37,611	34,197	37,423	35,430	47,108	46,077	47,489
Less Accumulated Depreciation For:*										
Buses	(5,891)	(6,748)	(7,534)	(8,691)	(7,668)	(9,073)	(9,497)	(8,046)	(10,175)	(12,935)
Shop, office and other equipment	(6,893)	(7,897)	(8,817)	(10,171)	(8,974)	(10,618)	(11,114)	(11,110)	(11,825)	(13,523)
Total Accumulated Depreciation	(12,784)	(14,645)	(16,351)	(18,862)	(16,642)	(19,691)	(20,611)	(19,156)	(21,999)	(26,458)
Capital Assets, Net	$13,987	$15,544	$15,477	$19,788	$21,147	$23,084	$36,531	$31,639	$28,234	$26,036

Source: MST's comprehensive annual financial reports

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

Section IV

SINGLE AUDIT

- Independent Auditor's Report on Internal Control Cover Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

- Independent Auditors' Compliance Report Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and the Transportation Development Act

- Independent Auditors' Report on Compliance and on Internal Control Over Compliance Applicable to Each Major Federal Award Program and on Schedule of Expenditures of Federal Awards

- Schedule of Expenditures of Federal Awards
- Summary of Auditors' Results
- Summary of Financial Statement Findings

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

The Board of Directors
Monterey-Salinas Transit

We have audited the financial statements of Monterey-Salinas Transit as of and for the year ended June 30, 2006 and 2005, and have issued our report thereon dated September 29, 2006. 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 *Governmental Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the MST's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

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

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

Vavrinek Trine Day & Co. LLP

Palo Alto, California
September 29, 2006

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

VALUE THE DIFFERENCE

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

To the Board of Directors
Monterey-Salinas Transit

We have audited the financial statements, of Monterey-Salinas Transit (MST) as of June 30, 2006 and 2005, and for the year then ended, and have issued our report thereon dated September 29, 2006.

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

Compliance with laws, regulations, contracts and grants applicable to MST is the responsibility of the management of MST. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of MST's compliance with certain provisions of the Transportation Development Act including Public Utilities Code Section 99245 as enacted and amended by statute through June 30, 2006 and the allocation instructions and resolutions of the Transportation Agency for Monterey County as required by Section 6667 of the California Administrative Code. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

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

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

Vavrinek Trine Day & Co. LLP

Palo Alto, California
September 29, 2006

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Board of Directors
Monterey-Salinas Transit

Compliance

We have audited the compliance of Monterey-Salinas Transit with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. Monterey-Salinas Transit's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Monterey-Salinas Transit's management. Our responsibility is to express an opinion on Monterey-Salinas Transit's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Governmental Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133 *Audits of Stares, 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 affect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Monterey-Salinas Transit's, compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that out audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Monterey-Salinas Transit's compliance with those requirements.

In our opinion, Monterey-Salinas Transit complied, in all material respects with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Monterey-Salinas Transit is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Monterey-Salinas Transit's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures of the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, state funding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Vavrinek Trine Day & Co. LLP

Palo Alto, California
September 29, 2006

MONTEREY-SALINAS TRANSIT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

Grantor/CFDA Grantor's Program Title	Federal CFDA Number	Expenditures
U.S. DEPARTMENT OF TRANSPORTATION		
Federal Transit Capital and Operating Assistance Formula Grant[1]		
CA90-Y449	20.507	$ 5,977,063
CA90-Y322	20.507	425,845
CA90-Y739	20.507	373
CA03-0696	20.507	5,607
CA26-0042	20.507	618,683
CA90-0031	20.507	3,902
CA90-0976	20.507	3,814
CA03-0540	20.507	1,914,542
CA90-0931	20.507	643
TOTAL FEDERAL ASSISTANCE EXPENDED		$ 8,950,472

[1] Tested as a major program

MONTEREY-SALINAS TRANSIT

SUMMARY OF AUDITORS' RESULTS
YEAR ENDED JUNE 30, 2006

Part I – Summary of Auditor's Results

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

2. Reportable conditions in internal control over financial reporting – No.

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

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

5. The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.

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

7. The Organization's major program was:

Name of Federal Program	CFDA Number
Federal Transit Capital and Operating Assistance Formula Grant	20.507

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

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

MONTEREY-SALINAS TRANSIT

SUMMARY OF FINANCIAL STATEMENT FINDINGS
YEAR ENDED JUNE 30, 2006

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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