

OMNITRANS

Annual National Transit Database Reporting

For the Period
July 1, 2011 through June 30, 2012



Mayer Hoffman McCann P.C.

An Independent CPA Firm

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Board of Directors
Omnitrans
San Bernardino, California

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

We have performed the procedures enumerated below on the data contained in the Federal Funding Allocation Statistics Form for Omnitrans for the fiscal year ended June 30, 2012, solely to assist the management of Omnitrans in evaluation of whether Omnitrans and First Transit, Inc. (Contractor) have complied with the standards described below, and that the information included in the National Transit Database (NTD) Report Federal Funding Allocation Statistics Form is presented in conformity with the requirements of the Uniform System of Accounts and Records and Reporting System, Final Rule, as specified in 49 CFR Part 630, *Federal Register*, January 15, 1993, and as presented in the 2012 Reporting Manual (Reporting Manual). Omnitrans' management is responsible for the Federal Funding Allocation Statistics Form.

We understand that Omnitrans is eligible to receive grants under the Urbanized Area Formula Program (formerly known as Section 9) of the Federal Transit Act, as amended, and in connection therewith, Omnitrans is required to report certain information to the Federal Transit Administration (FTA). Furthermore, we understand that Omnitrans has contracted with First Transit, Inc. for the purchase of specific mass transportation services.

The FTA has established the following standards with regard to the data reported in the Federal Funding Allocation Statistics Form of Omnitrans' annual NTD Report:

- Assurance that a system exists to record and gather data on a continuing basis.
- Assurance that a system exists, and is maintained, for recording data in accordance with NTD definitions.
- Assurance that source documents are available to support the reported data and are maintained for FTA review and audit for a minimum of three years following FTA's receipt of the NTD Annual report.
- Assurance that there is a system of internal controls to ensure the accuracy of the data collection process and recording system and that reported documents are not altered.
- Assurance that a supervisor reviews and signs documents as required.

- Assurance that the data collection methods are those suggested by the FTA; or have been approved by the FTA or a qualified statistician as being equivalent in quality and precision. The collection methods must be documented and followed.
- Assurance that the deadhead miles appear to be accurate.
- Documentation that reported data have undergone analytic review to ensure that they are consistent with prior reporting periods and other facts known about transit agency operations.
- Documentation of the specific documents reviewed and tests performed.
- Documentation of how purchased transportation (PT) fare revenues and contract expenditures are reported; i.e., PT fare revenues should include all fare revenues pertaining to the PT service, and buyer's contract expenditures are reported net of (not including) the PT fare revenues.

This engagement to apply agreed upon procedures was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures described below were applied separately to the information systems used to develop the reported vehicle revenue miles, passenger miles and operating expenses of Omnitrans for the fiscal year ended June 30, 2012, for the following transportation modes:

<u>Mode</u>	<u>Type of Service</u>
Motor bus	Directly operated (MBDO)
Motor bus	Purchased transportation (MBPT)
Demand response	Purchased transportation (DRPT)

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on Omnitrans' Federal Funding Allocation Statistics Form for the fiscal year ended June 30, 2012, which is presented in conformity with the requirements of the Uniform System of Accounts and Records and Reporting Systems, as specified in 49 CFR Part 630, *Federal Register*, January 15, 1993, and as presented in the 2012 Reporting Manual. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report relates only to the information described above and does not extend to Omnitrans' financial statements, or the forms in Omnitrans' NTD Report, other than the Federal Funding Allocation Statistics Form, for any date or period.

The procedures performed and the results of those procedures were as follows:

- a. We obtained and read a copy of Omnitrans' written procedures related to the system for reporting and maintaining data in accordance with NTD requirements and definitions set forth in 49 CFR part 630, *Federal Register*, January 15, 1991 and as presented in the 2012 Reporting Manual.

Results: Omnitrans' written procedures are in accordance with NTD requirements.

- b. We discussed with Omnitrans' personnel the procedures related to the system for preparing and maintaining data in accordance with the NTD requirements and definitions set forth in 49 CFR Part 630, Federal Register, January 15, 1991 and as presented in the 2012 Reporting Manual.

Results: The following is a listing of the individuals interviewed with the assigned responsibility of supervising the preparation and maintenance of the data:

- Directly operated services:
 - Gabriel Serna, Operations Analyst
 - Carolann Williams, Operations Analyst
 - Jeremiah Bryant, Manager of Planning
 - Elena Fitts, Senior Financial Analyst
- Purchased transportation services:
 - Frank Quass, Operations Services Supervisor

We discussed the procedures in place for purchased transportation with Omnitrans' personnel assigned with the responsibility of supervising the preparation and maintenance of NTD data. Omnitrans has adequate procedures for accumulating and reporting purchased transportation data. Omnitrans believes its procedures are in accordance with NTD requirements.

- c. We inquired of Omnitrans regarding the retention policy that is followed with respect to source documents supporting the NTD data reported on the Federal Funding Allocation Statistics Form (FFA-10).

Results: We obtained Omnitrans' records retention policy and noted that it includes provisions for maintaining source documents supporting NTD data for 11 years.

- d. Based upon the description of procedures referenced in Procedures a. and b. above, we identified the source documents that are to be retained for a minimum of three years. We selected the months of July 2011, August 2011 and November 2011, for directly operated services, and purchased transportation services and validated whether the documents were retained as required. The following is a listing of the source documents and other records (such as Data Summaries) which are to be retained:

- Access Core Trip Sheets
- Omni Link Trip Sheets
- Monthly Performance Indicator Reports
- Monthly Transit Agency Services Form
- Monthly Service Change Summary
- Coach Operators Seniority List – Full Time
- Part Time Coach Operator List
- Coach Operators Inactive List

- Daily Vehicle Surveying Reports
- Daily Driver Manifests
- Monthly Trip Log
- Service Interruptions Report
- Training/Absenteeism/Personnel Count Report
- Fixed Route Schedule
- Mandatory Federal Transit Administration NTD Survey

Results: No exceptions were noted as a result of our procedures.

- e. We inquired of Omnitrans personnel whether individuals independent of preparing source documents and posting data summaries and reviewing the source documents and data summaries for completeness, accuracy and reasonableness.

Results: No exceptions were noted as a result of our procedures.

- f. We randomly selected a sample of Bus Trip Sheets and Contractor's Trip Sheet Data Entry Database Print Screens for the months of July 2011, August 2011 and November 2011 for purchased transportation services to determine whether supervisors' signatures are present as required by the system of internal controls. Our sample included 58 trip sheets.

Results: No exceptions were noted as a result of our procedures.

- g. We obtained the worksheets utilized by Omnitrans, including documents obtained from the Contractor, to prepare the final data that is transcribed onto the Federal Funding Allocation Statistics Form. We compared the data included on the worksheets to periodic summaries prepared by Omnitrans and the Contractor, and verified the mathematical accuracy of the summarization for the months of July 2011, August 2011 and November 2011 for directly operated services, and purchased transportation services.

Results: No exceptions were noted as a result of our procedures.

- h. We discussed with Omnitrans management as to its procedures for accumulating and recording passenger mile data in accordance with NTD requirements.

Results: We noted that Omnitrans uses an estimate of passenger miles based upon a statistical sampling method that is in accordance with FTA C2710.1A, "Sampling Procedures For Obtaining Fix Route Bus Operating Data Required under the Section 15 Reporting System" for the directly operated program, and FTA C2710.2A "Sampling Techniques For Obtaining Demand Responsive Bus System Operating Data required Under the Section 15 Reporting System" for the purchased transportation program. No exceptions were noted as a result of our procedures.

- i. We discussed with Omnitrans management as to its eligibility to conduct statistical sampling for passenger mile data every third year.

Results: This procedure was not applicable. Omnitrans did not meet the criteria established by the FTA to conduct statistical sampling for passenger mile data every third year.

- j. We discussed with Omnitrans management as to the statistical sampling procedure used for the estimation of passenger mile data.

Results: We noted that Omnitrans obtains an estimate of passenger boarding based upon a statistical sampling method that is in accordance with FTA C2710.1A and meets the FTA's 95% confidence level and 10% precision requirements. We obtained a copy of Omnitrans' working papers to estimate passenger miles and noted that Omnitrans selects its sample from the universe of runs. We further noted that Omnitrans' policy is to randomly select more than the required amount to ensure the sample size will always consist of vehicles with a properly functioning Automatic Passenger Count (APC) fare box. No exceptions were noted as a result of our procedures.

- k. We selected a random sample of the source documents for accumulating passenger mileage data and determined that they are complete (all required data are recorded) and that the computations are accurate. We selected a random sample of the accumulation periods and recomputed the accumulations for each of the selected periods. We listed the accumulation periods that were tested, and verified the mathematical accuracy of the summarization.

Results: We reviewed the accumulation of passenger mileage data by judgmentally selecting a sample of 58 bus trip surveys for the months of July 2011, August 2011 and November 2011 for purchased transportation services. We also reviewed a sample of 135 trip surveys for the months of July 2011, August 2011 and November 2011 for directly operated services. We verified that all required data was recorded on the trip surveys and/or supporting documentation that were used for the calculation of passenger mileage, and ensured that the computations were mathematically accurate. We verified the mathematical accuracy of the accumulation of the passenger mileage data on the Daily Summary Report and the summarization of the passenger mileage data on the Monthly Ridership Summary Report for the items selected. No exceptions were noted as a result of our procedures.

- l. We discussed with Omnitrans management as to its procedures for the systematic exclusion of charter school bus and other ineligible vehicle miles from the calculation of vehicle revenue miles.

Results: This procedure was not applicable as Omnitrans does not operate school buses, charter services or other ineligible vehicles.

- m. We discussed with Omnitrans management as to its treatment of deadhead miles for directly operated services and purchased transportation services.

Results: Trip sheets are not prepared for directly operated services. Instead, directly operated bus routes are fixed and have scheduled revenue miles that exclude deadhead miles. Deadhead miles include mileage from the garage to the first pick-up, and from the last drop-off to the garage. Mileage driven during lunch, although rare, is also considered deadhead miles. We further noted that purchased transportation deadhead miles are similar to directly operated services deadhead miles and is excluded from the calculation of purchased transportation services. Purchased transportation miles are recorded on daily trip sheets and revenue mileage is derived by calculating the total mileage from the point of passenger pickup to the point of drop-off for each trip. The Contractor's vehicle revenue miles are calculated, recorded and reported directly to Omnitrans on a monthly basis.

We selected 58 purchased transportation trip sheets from the months of July 2011, August 2011 and November 2011 and agreed the reported mileage to print screens from the Trip Sheet Data Entry Database (Transtak) to ensure that reported mileage was reported accurately and excluded deadhead miles. In comparing amounts reported on the trip sheets to the Transtak Surveying Sheets we noted passenger mile variances on 12 of the 58 selected for testing. For the months selected, Transtak reported a total of 7,524 passenger miles while a total of 7,469 passenger miles were reported on the trip sheets. This resulted in 55 excess passenger miles reported in the Data Entry System.

Recommendation:

We recommend that Omnitrans develop and implement procedures to ensure that purchased transportation passenger miles entered into Transtak are in agreement with the supporting trip sheets.

Management Response:

Contractor audited and found clerical transcription errors occurred when the survey sheets were prepared. Contractor has added additional oversight by their Assistant General Manager and/or designee designed to review and verify the accuracy of the survey reporting. Omnitrans Operations has added additional oversight by the Operations Services Supervisor or designee to validate the monthly survey report to the original trip sheet data.

- n. We inquired as to whether Omnitrans provides rail service so that we could determine whether vehicle revenue miles were properly accumulated.

Results: This procedure was not applicable as Omnitrans does not provide rail service.

- o. We discussed with Omnitrans personnel as to the treatment of fixed guideway directional route miles in order to determine that reporting procedures meet the NTD service requirements. We discussed bus service operating over exclusive or controlled access rights-of-way. We discussed restricted access of High Occupancy Vehicles (HOV) and High Occupancy/Toll (HO/T) lanes.

Results: This procedure was not applicable as Omnitrans does not provide any fixed guideway, bus service over controlled access rights-of-way, or HOV lane services.

- p. We discussed with Omnitrans personnel as to the measurement of fixed guideway directional route miles in order to determine if the mileage reported is computed in accordance with NTD requirements. We also inquired as to whether a service change occurred during the year resulting in an increase or decrease in directional route miles.

Results: This procedure was not applicable as Omnitrans does not provide fixed guideway services.

- q. We inquired as to whether there were any interruptions in service for fixed guideway directional route miles.

Results: This procedure was not applicable as Omnitrans does not provide fixed guideway services.

- r. We measured the fixed guideway directional route miles from maps or by retracing the routes.

Results: This procedure was not applicable as Omnitrans does not provide fixed guideway services.

- s. We discussed with Omnitrans' personnel whether other public transit agencies operate service over the same fixed guideway segment.

Results: This procedure was not applicable as Omnitrans does not provide fixed guideway services.

- t. We performed an analysis of the Fixed Guideway Segment Form S-20. This procedure required comparing the 2010 S-20 to the 2011 S-20 to determine if the information reported was consistent. Additionally, this procedure required ensuring that the correct fixed guideway commencement date was reported.

Results: This procedure was not applicable as Omnitrans does not provide fixed guideway services.

- u. We reconciled operating expenses reported on the NTD Form F-40, Operating Expense Summary to the audited financial statements of Omnitrans.

Results: The operating expenses as reported on NTD Form F-40 agreed to the audited financial statements of Omnitrans without exception.

- v. We inquired as to whether Omnitrans purchased transportation services during the period July 1, 2011 through June 30, 2012. If so, we agreed purchased transportation (PT) revenues as reported on the Contractual Relationship Identification Form (B-30) to the audited financial statements.

Results: Omnitrans purchased transportation services from First Transit, Inc. during the period July 1, 2011 through June 30, 2012. PT fare revenues, as reported on Form B-30, agreed to the audited financial statements of Omnitrans. No exceptions were noted as a result of our procedures.

- w. We discussed with Omnitrans' management and First Transit, Inc. management, the reporting of the PT data.

Results: We noted that First Transit, Inc. does not operate in excess of 100 vehicles. As such, they are not required to have an Independent Auditor Statement for Federal Funding Allocation Data.

- x. We obtained a copy of the PT contract between Omnitrans and First Transit, Inc. and verified that it contained the following information as required by NTD guidelines: (1) specifies the specific public transportation services to be provided; (2) specifies the monetary consideration obligated by Omnitrans; (3) specifies the period covered by the contract and that this period is the same as, or a portion of, the period covered by Omnitrans' NTD report; and (4) is signed by representatives of both parties to the contract. We interviewed the person responsible for maintaining the NTD data regarding the retention of the executed contract, and determined that copies of the contracts are retained for three years.

Results: No exceptions were noted as a result of our procedures.

- y. We discussed with Omnitrans management and the Contractor regarding the allocation of statistical information over urbanized and/or non-urbanized areas.

Results: We noted that Omnitrans does provide service to more than one urbanized area, or an urbanized area and non-urbanized area. However, they do not perform an allocation of statistics between urbanized areas and non-urbanized areas. The allocation is provided by the San Bernardino Associated Governments (SANBAG) and the Southern California Association of Governments (SCAG). As such, no exceptions were noted as a result of our procedures.

- z. We compared the vehicle revenue miles, passenger miles and operating expense data reported on Form FFA-10 to comparable data for the prior year's Form FFA-10, and calculated the percentage change from the prior year to the current year.

Results: We performed the above procedure and noted the following changes (increases or decreases) in excess of 10%:

- MBPT – Vehicle Revenue Mileage (VRM) – Increase of 29.31%
- MBPT – Operating Expenses – Increase of 22.87%
- DRPT – Vehicle Revenue Mileage – Increase of 10.14%
- DRPT – Operating Expenses – Increase of 10.57%

The MBPT program began in September 2010, and the current fiscal year was the first full year of operations which adequately explain the increase in Vehicle Revenue Mileage and Operating Expenses. For DRPT, we noted an increase in ridership from 454,274 in fiscal year 2010-11 to 478,342 in fiscal year 2011-12, which accounts for the increases in Vehicle Revenue Miles and Operating Expenses.

This report is intended solely for the information and use of the Board of Directors and management of Omnitrans and its Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink, appearing to read "Mayra Hoffman M. C. P. C.".

Irvine, California
October 19, 2012



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Administrative and Finance Committee
Omnitrans
San Bernardino, California

We have audited the financial statements of Omnitrans for the year ended June 30, 2012, and have issued our report thereon dated October 31, 2012. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards
and OMB Circular A-133**

Our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. In planning and performing our audit, we considered Omnitrans' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered 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 for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the U.S. Office of Management and Budget (OMB) Circular A-133.

As part of obtaining reasonable assurance about whether Omnitrans' 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Omnitrans' compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement applicable to its major federal program for the purpose of expressing an opinion on Omnitrans' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Omnitrans' compliance with those requirements.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

Audit fieldwork was substantially completed by September 21, 2012. We performed the audit according to the planned scope and timing previously communicated to you in our letter dated August 13, 2012.

Significant Audit Findings

We reported to you in our single audit report on federal awards that our audit disclosed no material weaknesses in internal control. Other matters deserving your attention are reported in findings 2012-1 in the single audit report and in a separate letter addressed to you dated October 31, 2012.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. We will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Omnitrans are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, Omnitrans changed accounting policies related to the reporting of deferred outflows of resources, deferred inflows of resources and net position by implementing Statement of Governmental Accounting Standards Board (GASB) No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", in 2012. Implementing this GASB Statement did not result in any cumulative adjustment as of the beginning of the year. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Examples of significant judgments and estimates reflected in Omnitrans' financial statements include:

- Judgments involving the useful lives and depreciation methodology to use for capital assets; and

- Judgments concerning whether an accrual for incurred but not reported claims for workers' compensation and general liability should be estimated and recorded at year end.
- Judgments involving the fair value and effectiveness of derivative investments associated with hedging transactions to stabilize the cost of fuel for buses.

We evaluated each of the significant judgments and estimates and found them to be reasonable and based upon supported documentation and/or reports from consultants specializing in the related field.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. To our knowledge, no misstatements were identified during our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Omnitrans' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Omnitrans' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Administrative and Finance Committee and management of Omnitrans and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
October 31, 2012



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Board of Directors
Omnitrans
San Bernardino, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying basic financial statements of Omnitrans as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the management of Omnitrans. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of Omnitrans for the year ended June 30, 2011 and, in our report dated October 31, 2011, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Omnitrans at June 30, 2012, and the respective changes in financial position and cash flows of Omnitrans for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described further in note 1 to the financial statements, the accompanying financial statements reflect certain changes for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures due to the implementation of Governmental Accounting Standards Board Statement No. 63.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods

Board of Directors
Omnitrans
San Bernardino, California

of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Omnitrans' basic financial statements. The introductory section and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2012 on our consideration of Omnitrans' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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.

A handwritten signature in blue ink that reads "Mayer Hoffman McCann P.C.".

Irvine, California
October 31, 2012

OMNITRANS
STATEMENT OF NET POSITION

June 30, 2012

(with Comparative Totals for June 30, 2011)

	2012	2011
ASSETS:		
CURRENT ASSETS:		
Cash and investments (Note 2)	\$ 27,671,139	22,625,479
Receivables:		
Accounts net of allowances	166,142	667,835
Interest	18,085	19,691
Intergovernmental	10,545,846	16,301,034
Inventory	1,549,750	1,632,738
Prepaid items	253,519	203,524
TOTAL CURRENT ASSETS	40,204,481	41,450,301
NONCURRENT ASSETS:		
Capital assets, not depreciated (Note 5)	63,176,481	43,732,878
Capital assets, depreciated, net (Note 5)	73,526,726	75,747,656
Derivative Instrument - natural gas futures (Note 12)	55,300	-
TOTAL NONCURRENT ASSETS	136,758,507	119,480,534
TOTAL ASSETS	176,962,988	160,930,835
LIABILITIES:		
CURRENT LIABILITIES:		
Accounts payable	10,544,787	4,591,632
Accrued salaries and benefits	1,641,537	1,573,091
Retainage payable	17,195	17,195
Interest payable	1,155	1,657
Unearned revenue	4,914,153	7,340,403
Compensated absences payable - current portion (Note 4)	2,507,658	2,605,033
Capital leases payable - current portion (Note 4)	164,980	40,634
Claims payable - current portion (Note 4)	3,037,871	3,094,744
TOTAL CURRENT LIABILITIES	22,829,336	19,264,389
NONCURRENT LIABILITIES:		
Compensated absences payable (Note 4)	1,303,926	1,141,264
Capital leases payable (Note 4)	425,391	73,674
Claims payable (Note 4)	7,688,128	6,367,488
TOTAL NONCURRENT LIABILITIES	9,417,445	7,582,426
TOTAL LIABILITIES	32,246,781	26,846,815
DEFERRED INFLOW OF RESOURCES:		
Accumulated increase in fair value of hedging derivatives (Note 12)	55,300	-
TOTAL DEFERRED INFLOW OF RESOURCES	55,300	-
NET POSITION:		
Net investment in capital assets (Note 11)	136,112,836	119,366,226
Unrestricted (Note 11)	8,548,071	14,717,794
TOTAL NET POSITION	\$ 144,660,907	134,084,020

See accompanying notes to basic financial statements.

OMNITRANS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2012

(with Comparative Totals for Year Ended June 30, 2011)

	2012	2011
OPERATING REVENUES:		
Passenger fares	\$ 14,536,931	14,538,747
Advertising revenue	805,904	909,176
Other transportation revenue	39,819	41,802
TOTAL OPERATING REVENUES	15,382,654	15,489,725
OPERATING EXPENSES:		
Salaries and benefits	39,751,359	40,037,950
Purchased transportation services	8,882,227	8,121,333
General and administrative	7,779,983	7,495,178
Materials and supplies	8,876,733	7,743,557
Capital purchases	345,063	263,908
Professional and technical services	2,147,300	1,638,070
Advertising and printing	916,224	931,927
Depreciation	17,070,294	12,772,455
Miscellaneous	507,243	297,914
TOTAL OPERATING EXPENSES	86,276,426	79,302,292
OPERATING INCOME/(LOSS)	(70,893,772)	(63,812,567)
NONOPERATING REVENUES/(EXPENSES):		
Federal and local operating grants	47,875,811	52,675,797
Interest income	52,727	74,302
Interest expense	(3,980)	(6,590)
Pass-through to other agencies (Note 10)	(620,108)	(18,754,320)
Loss on disposal of capital assets	(271,438)	(739,670)
Other nonoperating revenues (expenses)	24,951	20,002
TOTAL NONOPERATING REVENUES	47,057,963	33,269,521
INCOME BEFORE CAPITAL CONTRIBUTIONS	(23,835,809)	(30,543,046)
CAPITAL CONTRIBUTIONS:		
Capital assistance	34,412,696	21,016,685
CHANGE IN NET POSITION	10,576,887	(9,526,361)
NET POSITION, BEGINNING OF YEAR	134,084,020	143,610,381
NET POSITION, END OF YEAR	\$ 144,660,907	134,084,020

See accompanying notes to basic financial statements.

OMNITRANS
STATEMENT OF CASH FLOWS

Year Ended June 30, 2012

(with Comparative Totals for Year Ended June 30, 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 15,889,414	14,965,317
Nonoperating miscellaneous receipts (payments)	24,951	20,002
Cash payments to suppliers for goods and services	(22,204,847)	(26,833,933)
Cash payments to employees for services	(39,617,638)	(39,964,466)
Net cash used for operating activities	(45,908,120)	(51,813,080)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Federal, state, and local operating grants	50,807,315	54,131,745
Pass-through payments to other agencies	(620,108)	(18,754,320)
Net cash provided by non-capital financing activities	50,187,207	35,377,425
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets	(33,911,700)	(18,104,911)
Principal paid on capital leases	(176,306)	(136,821)
Interest paid on capital leases	(4,482)	(7,310)
Proceeds from sale of capital assets	1,486	58,349
Capital grants received	34,803,242	20,153,259
Net cash provided by (used for) capital and related financing activities	712,240	1,962,566
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	46,785,300	64,200,000
Purchase of investments	(55,509,632)	(45,806,112)
Interest received	54,333	106,111
Net cash provided by investing activities	(8,669,999)	18,499,999
Net decrease in cash and cash equivalents	(3,678,672)	4,026,910
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>9,656,222</u>	<u>5,629,312</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,977,550</u>	<u>9,656,222</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO AMOUNTS REPORTED ON STATEMENT OF NET ASSETS:		
Reported on statement of net assets:		
Cash and investments	\$ 27,671,139	22,625,479
Less investments not meeting the definition of cash and cash equivalents	(21,693,589)	(12,969,257)
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,977,550</u>	<u>9,656,222</u>

(Continued)

See accompanying notes to basic financial statements.

OMNITRANS
STATEMENT OF CASH FLOWS
(Continued)

	<u>2012</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Operating income (loss)	\$ (70,893,772)	(63,812,567)
Adjustments to net cash used by operating activities:		
Depreciation	17,070,294	12,772,455
Nonoperating miscellaneous income (expense)	24,951	20,002
Realized gain (loss) on sale of capital assets	(271,438)	(739,670)
(Increase) decrease in accounts receivable	501,693	(545,255)
(Increase) decrease in inventory	82,988	263,337
(Increase) decrease in prepaid items	(49,995)	(83,990)
(Increase) decrease in other assets	269,616	334,337
Increase (decrease) in accounts payable	5,953,155	(350,023)
Increase (decrease) in accrued salaries and benefits	68,446	180,695
Increase (decrease) in retainage payable	-	(104,135)
Increase (decrease) in unearned revenue	6,888	20,847
Increase (decrease) in compensated absences payable	65,287	(107,211)
Increase (decrease) in claims payable	1,263,767	338,098
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ (45,908,120)</u>	<u>(51,813,080)</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:		
New borrowings under capital lease	<u>\$ 652,369</u>	<u>-</u>

See accompanying notes to basic financial statements.

Summary of Significant Accounting Policies

Nature of Business

Omnitrans was organized on March 8, 1976, by a joint powers agreement between the County of San Bernardino, California and the following cities: Chino; Colton; Fontana; Loma Linda; Montclair; Ontario; Redlands; Rialto; San Bernardino; and Upland under Section 6506 of the California Government Code for the purpose of providing transit services under a single agency. The following cities were added thereafter: Rancho Cucamonga and Grand Terrace in 1979; Highland in 1988; Yucaipa in 1990; and Chino Hills in 1992.

Omnitrans provides a variety of transit services to the public of San Bernardino County. These services include bus operations, purchased transportation services with independent contractors and demand response transportation services. Omnitrans also functions as a “pass-through” administrative agency for various federal, state and local grants.

Basis of Accounting

Omnitrans is accounted for as an enterprise fund (proprietary fund type) using the economic resources measurement focus, and the accrual basis of accounting. A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of enterprise funds closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges. Revenues are recognized when earned and expenses are recognized as they are incurred.

Omnitrans applies all applicable pronouncements issued by the Government Accounting Standards Board (GASB) in accounting and reporting for proprietary operations as well as pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedure.

Implementation of GASB No. 63

During the year ended June 30, 2012, Omnitrans implemented Statement No. 63 of the Governmental Accounting Standards Board, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.” The accompanying financial statements reflect certain changes that have been made with respect to the reporting of the basic financial statements as a result of the implementation of GASB No. 63.

(1) **Summary of Significant Accounting Policies (Continued)**

Implementation of GASB No. 63 (Continued)

Statement 63 requires governments to no longer report net assets, fund balance or equity, in favor of “net position.” Accordingly, Omnitrans has reported a Statement of Net Position in lieu of a Statement of Net Assets, with net position being equal to assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources.

Classification of Revenues and Expenses

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund’s principal operations. The principal operating revenues of Omnitrans consist of bus transit services. Non-operating revenues consist of federal, state and local operating grants, investment income, and special charges that can be used for either operating or capital purposes. Operating expenses for enterprise funds include the cost of sales, administrative expenses and depreciation on capital assets.

Expenses not meeting this definition are reported as non-operating expenses. Non-operating expenses primarily consist of payments to pass-through agencies and interest expense.

Capital contributions consist of grants that are legally restricted for capital expenses by federal, state or local law that established those charges.

When both restricted and unrestricted resources are available for use, it is Omnitrans' policy to use restricted resources first, and then unrestricted resources as they are needed.

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of three months or less.

Investments

Investments are reported in the accompanying Statement of Net Position at fair value. Changes in fair value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

(1) **Summary of Significant Accounting Policies (Continued)**

Allowance for Doubtful Accounts

Omnitrans has a policy which requires that receivables, except for intergovernmental receivables, be written off after 60 days. The allowance for doubtful accounts as of June 30, 2012 was \$69.

Budgetary Information

Although Omnitrans prepares and approves an annual budget, budgetary information is not presented because Omnitrans is not legally required to adopt a budget.

Inventories

Inventories consist of Operations vehicles' parts and fuel in storage held for consumption. The parts and fuel in storage are stated at the lower of cost (average cost method) or market. The value of parts and fuel held in storage as of June 30, 2012 was \$1,549,750.

Capital Assets

Capital assets are valued at cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair market value on the date donated. Omnitrans capitalizes all assets with a historical cost of at least \$2,000 and a useful life of at least one year. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciation of capital assets used by Omnitrans is charged as an expense against its operations. Depreciation is computed utilizing the straight-line method over the following estimated useful lives:

<u>Category</u>	<u>Number of Years</u>
Buildings and improvements	5 to 30
Operations equipment	3 to 10
Furniture and office equipment	3 to 20

(1) **Summary of Significant Accounting Policies (Continued)**

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until then. Omnitrans does not have any items that qualify for reporting in this category.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The government has one item that qualifies for reporting in this category. Omnitrans reports the value of their derivative instrument, a natural gas futures basket used for hedging purposes, as an inflow of resources in the period that the amounts become available.

Compensated Absences

It is Omnitrans' policy to permit employees to accumulate earned but unused vacation and sick leave benefits up to certain limits. Management, non-exempt, and coach operator employees begin to accrue vested sick leave hours after six months of service. Upon voluntary resignation, retirement or death and after six months of service, management and non-exempt employees or their estate are paid for any unused sick leave up to a maximum of 50 percent of the available sick leave hours not to exceed 1,200 hours (e.g. 50 percent of 1,200 hours would be paid at 600 hours). Represented employees begin to accrue vested sick leave hours after reaching a certain amount of service time based upon their respective work classification. Teamsters accrue sick leave after 1,040 hours of actual hours worked and Amalgamated Transit Union (ATU) members are after their first year of continuous full-time employment, based upon their respective work classification. Upon voluntary resignation, retirement, or death, and after a certain amount of years of service (ATU members after 8 years of service and Teamsters after 10 years of service), represented employees or their estate are paid for any unused sick leave up to a maximum of 50 percent of available sick leave hours not to exceed 1,200 hours (e.g. 50 percent of 1,200 hours would be paid at 600 hours).

Full-time non-represented employees begin to accrue vacation hours after 6 months of service. Employee vacation credits may be accrued and accumulated up to a maximum of 2 years total accumulated vacation credits. Eligible employees with an annual accrual of 3 or more weeks of vacation per year, after taking 80 hours vacation, shall be permitted to request 2 weeks pay in lieu of time off. Represented employees will accrue vacation benefits in accordance with the provisions of their respective Memorandum of Understanding (MOU).

(1) **Summary of Significant Accounting Policies (Continued)**

Compensated Absences (Continued)

Accumulated unpaid vacation and vested sick leave pay is recorded as an expense and a liability at the time the benefit is earned. Total compensated absences payable was \$3,811,584 at June 30, 2012.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Omnitrans' prior year financial statements, from which this selected financial data was derived.

Federal, State and Local Grants

Federal, state and local governments have made various grants available to Omnitrans for operating assistance and acquisition of capital assets. Grants for operating assistance, the acquisition of equipment or other capital outlay are not formally recognized in the accounts until the grant becomes a valid receivable as a result of Omnitrans complying with appropriate grant requirements. Operating assistance grants are included in non-operating revenues in the year in which the grant is applicable and the related expenses are incurred. Revenues earned under capital grants are recorded as capital contributions.

Pass-Through Activities

Revenues associated with grants, where Omnitrans serves as the administering agent, are recorded as either non-operating revenues or capital contributions based on the approved use of the grant. The related expense is recorded as "pass-through to other agencies" in the Statement of Revenues, Expenses, and Changes in Net Position as the expenses do not support the operations of Omnitrans nor provide an asset.

Net Position

The unrestricted net position of Omnitrans is restricted by state law for sole use by Omnitrans for bus transit operations. It is reported as unrestricted net position in the accompanying financial statements because this restriction corresponds to the general purpose for which Omnitrans has been established. It is unavailable for other government uses and is committed to the ongoing operations of Omnitrans, including amounts necessary to cover contingencies, unanticipated expenses, revenue shortfalls, and weather and economic fluctuations.

(1) **Summary of Significant Accounting Policies (Continued)**

Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(2) **Cash and Investments**

Cash and investments as of June 30, 2012 consist of the following:

Cash on hand	\$ 3,000
Deposits with financial institutions	5,974,550
Investments (includes market value adjustment)	<u>21,693,589</u>
	<u>\$27,671,139</u>

Investments Authorized by the California Government Code or Omnitrans' Investment Policy

The table below identifies the investment types that are authorized by the California Government Code (or Omnitrans' investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or Omnitrans' investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

(2) **Cash and Investments (Continued)**

<u>Authorized Investment Type</u>	<u>Authorized By Investment Policy</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	No	5 years	None	None
Federal Agency Securities	No	5 years	None	None
Banker's Acceptances	No	180 days	40%	30%
Commercial Paper	No	270 days	25%	10%
Negotiable Certificates of Deposit	No	5 years	30%	None
Repurchase Agreements	No	1 year	None	None
			20% of base	
Reverse Repurchase Agreements	No	92 days	value	None
Medium-Term Notes	No	5 years	30%	None
Mutual Funds	No	N/A	20%	10%
Money Market Mutual Funds	No	N/A	20%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund	Yes	N/A	None	None
State Pools (other investment pools)	Yes	N/A	None	None

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees, are governed by provisions of the debt agreements rather than the general provisions of the California Government Code or Omnitrans' investment policy. Omnitrans did not have any investments held by bond trustees as of June 30, 2012.

Disclosures Relating to 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 market value to changes in market interest rates.

Information about the sensitivity of the fair values of Omnitrans' investments to market interest rate fluctuations is provided by the following table that shows the distribution of Omnitrans' investments by maturity:

(2) **Cash and Investments (Continued)**

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturing (in Months)</u>	
		<u>12 Months Or Less</u>	<u>More Than 12 Months</u>
Local Agency Investment Fund	<u>\$21,693,589</u>	<u>21,693,589</u>	<u>-</u>
Total	<u>\$21,693,589</u>	<u>21,693,589</u>	<u>-</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

As of June 30, 2012, Omnitrans did not have any investments whose fair values are highly sensitive to interest rate fluctuations.

Disclosures Relating to Credit Risk

Generally, 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 nationally recognized statistical rating organization. The table below represents the minimum rating required by the California Government Code (where applicable), or Omnitrans' investment policy, and the actual rating as of year end for each investment type.

Disclosures Relating to Credit Risk (Continued)

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>			
			<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Not Rated</u>
Local Agency Investment Fund	<u>\$21,693,589</u>	N/A	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,693,589</u>
Total	<u>\$21,693,589</u>		<u>-</u>	<u>-</u>	<u>-</u>	<u>21,693,589</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of Omnitrans' investment in a single issue. The investment policy of Omnitrans contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2012, Omnitrans did not have any investments in any one issuer (other than external investment pools) that represented 5% or more of its total investment portfolio.

(2) Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, Omnitrans will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and Omnitrans' investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Omnitrans' deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2012, \$173,676 of Omnitrans' deposits held by Morgan Stanley Smith Barney were uncollateralized.

Investment in LAIF

Omnitrans is a voluntary participant in the Local Agency Investment Fund (LAIF), which is regulated by California Government Code Section 16429.1 through 16429.4 under the oversight of the Treasurer of the State of California. The fair value of Omnitrans' investment in this pool is reported in the accompanying financial statements at amounts based upon Omnitrans' pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured notes. LAIF is not rated.

(3) Federal, State and Local Grants

Omnitrans receives operating and capital assistance from various federal, state and local sources.

(3) Federal, State and Local Grants (Continued)

Federal Assistance

Under the provision of the Federal Transit Administration (FTA), funds are available to Omnitrans for preventive maintenance, security, and various capital costs. Total FTA revenue recognized during the fiscal year ended June 30, 2012 was \$39,989,581.

Transportation Development Act Assistance

Pursuant to provisions of the 1971 Transportation Development Act (TDA), as amended, the California State Legislature enacted the Local Transportation Fund (LTF) and the State Transit Assistance Fund (STAF) to provide operating and capital assistance for public transportation. These funds are received from the County of San Bernardino based on annual claims filed by Omnitrans and approved by the San Bernardino Associated Governments (SANBAG), the regional transportation planning entity.

To be eligible for TDA funds, Omnitrans must maintain a ratio of passenger fares to operating costs of not less than 20.00% for general public transit service and 10.00% for specialized service for the elderly and handicapped. After considering certain cost exemption provisions of the TDA, Omnitrans' ratios for the fiscal year ended June 30, 2012 were 23.81% for general public transit service, and 12.57% for specialized service for the elderly and handicapped. Total TDA revenue recognized during the fiscal year ended June 30, 2012 was \$33,828,990.

Measure I

Omnitrans receives Measure I funds for paratransit operating costs. Measure I funds are derived from a locally imposed 0.5% retail sales and use tax on all taxable sales within the County of San Bernardino. The allocation and administration of Measure I is performed by SANBAG. Total Measure I revenue recognized during the fiscal year ended June 30, 2012 was \$6,379,645.

Proposition 1B

The Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA) Fund is a part of the State of California's Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Bond Act), approved by California voters as Proposition 1B on November 7, 2006. A total of \$19.9 billion was deposited into the PTMISEA fund, \$3.6 billion of which was made available to project sponsors in California for allocation to eligible public transportation projects over a 10-year period. Proposition 1B funds can be used for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements, or for rolling stock procurement, rehabilitation or replacement. During the fiscal year ended June 30, 2012, Proposition 1B cash receipts and cash disbursements were as follows:

(3) **Federal, State and Local Grants (Continued)**

Unspent Proposition 1B funds as of June 30, 2011	\$7,120,882
Proposition 1B funds received during the fiscal year ended June 30, 2012	128,566
Proposition 1B expenses incurred during the fiscal year ended June 30, 2012	(2,418,114)
Interest revenue earned on unspent Proposition 1B funds during the fiscal year ended June 30, 2012	<u>5,170</u>
Total unspent Proposition 1B funds as of June 30, 2012	<u>\$4,836,504</u>

(4) **Long-Term Liabilities**

Long-term liabilities for the year ended June 30, 2012 are as follows:

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2012</u>	<u>Due Within One Year</u>	<u>Amount Due Beyond One Year</u>
Compensated absences	\$ 3,746,297	1,977,953	(1,912,666)	3,811,584	2,507,658	1,303,926
Capital leases	114,308	652,369	(176,306)	590,371	164,980	425,391
Claims payable	<u>9,462,232</u>	<u>2,859,989</u>	<u>(1,596,222)</u>	<u>10,725,999</u>	<u>3,037,871</u>	<u>7,688,128</u>
Total long-term liabilities	<u>\$13,322,837</u>	<u>5,490,311</u>	<u>(3,685,194)</u>	<u>15,127,954</u>	<u>5,710,509</u>	<u>9,417,445</u>

Capital Lease Obligations

During April 2012, Omnitrans entered into two lease financing arrangements for 29 vehicles with Enterprise Fleet Services. The minimum lease payments required during the current five-year term of these agreements are \$665,411. The lease payments have a present value of \$652,369, which approximates the value of the asset, and is the amount capitalized in Omnitrans' capital assets. The outstanding principal balance was \$516,696 as of June 30, 2012.

During May 2010, Omnitrans entered into two lease financing arrangements for five relief vehicles with Enterprise Fleet Services. The minimum lease payments required during the current five-year term of these agreements are \$147,420. The lease payments have a present value of \$135,836, which approximates the value of the asset, and is the amount capitalized in Omnitrans' capital assets. The outstanding principal balance was \$63,399 as of June 30, 2012.

(4) Long-Term Liabilities (Continued)

In December 2007, Omnitrans entered into an equipment lease for ten copiers in the amount of \$169,954. The term of the agreement approximates the useful lives of the copiers. The monthly installment payments of \$1,303 are due on the first day of each month commencing March 1, 2008 and ending February 1, 2013. The outstanding principal balance was \$10,276 as of June 30, 2012.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012 were as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 164,981	8,007	172,988
2014	157,123	5,444	162,567
2015	139,166	2,757	141,923
2016	<u>129,101</u>	<u>1,392</u>	<u>130,493</u>
Total	<u>\$ 590,371</u>	<u>17,600</u>	<u>607,971</u>

(5) Capital Assets

Capital asset activity for the year ended June 30, 2012 is as follows:

	<u>Balance at</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at</u> <u>June 30, 2012</u>
Capital assets, not depreciated:				
Land	\$ 10,731,918	-	-	10,731,918
Construction in progress	<u>33,000,960</u>	<u>33,343,986</u>	<u>(13,900,383)</u>	<u>52,444,563</u>
Total capital assets, not depreciated	<u>43,732,878</u>	<u>33,343,986</u>	<u>(13,900,383)</u>	<u>63,176,481</u>
Capital assets, depreciated:				
Buildings and improvements	45,893,036	-	-	45,893,036
Operations equipment	78,485,398	13,818,690	(3,463,574)	88,840,514
Furniture and office equipment	<u>35,646,877</u>	<u>1,301,778</u>	<u>(11,777)</u>	<u>36,936,878</u>
Total capital assets, depreciated	<u>160,025,311</u>	<u>15,120,468</u>	<u>(3,475,351)</u>	<u>171,670,428</u>

(5) **Capital Assets (Continued)**

	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2012</u>
Less accumulated depreciation for:				
Buildings and improvements	(21,026,164)	(1,840,128)	-	(22,866,292)
Operations equipment	(48,776,140)	(7,690,192)	3,192,470	(53,273,862)
Furniture and office equipment	<u>(14,475,351)</u>	<u>(7,539,974)</u>	<u>11,777</u>	<u>(22,003,548)</u>
Total accumulated depreciation	<u>(84,277,655)</u>	<u>(17,070,294)</u>	<u>3,204,247</u>	<u>(98,143,702)</u>
Total capital assets, depreciated, net	<u>75,747,656</u>	<u>(1,949,826)</u>	<u>(271,104)</u>	<u>73,526,726</u>
Capital assets, net	<u>\$ 119,480,534</u>	<u>31,394,160</u>	<u>(14,171,487)</u>	<u>136,703,207</u>

Depreciation expense for the year ended June 30, 2012 was \$17,070,294.

Construction in progress consists primarily of additions to operations equipment and building improvements. Significant components of construction in progress are as follows:

<u>Project</u>	<u>Amount Authorized</u>	<u>Cumulative Expenses June 30, 2012</u>	<u>Unexpended Commitments</u>
E Street Bus Rapid Transit	\$81,157,739	39,516,275	41,641,464
E Street Bus Rapid Transit - Right of Way	10,147,607	9,225,759	921,848
San Bernardino Transit Center	1,497,556	1,234,198	263,358
Computer Software and Hard Ware	<u>1,365,903</u>	<u>1,341,218</u>	<u>24,685</u>
Total major components of construction in progress	<u>\$94,168,805</u>	<u>51,317,450</u>	<u>42,851,355</u>

(6) **Operating Leases**

Omnitrans leases facilities and tires under noncancelable operating leases. Total costs for such leases were \$755,724 during the year ended June 30, 2012. The future minimum lease payments for these leases are as follows:

(6) **Operating Leases (Continued)**

<u>Year Ending June 30</u>	<u>Total</u>
2013	\$ 802,841
2014	156,068
2015	<u>112,702</u>
Total	<u>\$1,071,611</u>

(7) **Risk Management**

Omnitrans is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors or omissions; and natural disasters for which they carry commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been Incurred But Not Reported (IBNR). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The outstanding claims at June 30, 2012 were estimated to be \$10,725,999 and were based on an IBNR study performed in fiscal year 2011-2012. Changes in the fund claims liability amount for the last two fiscal years are as follows:

<u>Year Ended June 30,</u>	<u>Beginning of Year Liability</u>	<u>Provisions of Claims</u>	<u>Claim Payments</u>	<u>End of Year Liability</u>
2011	\$ 9,124,134	2,366,259	(2,028,161)	9,462,232
2012	9,462,232	2,859,989	(1,596,222)	10,725,999

Omnitrans is a member of the Association of California Public Transit Operators Joint Powers Insurance Authority (Authority). The Authority is a risk-pooling self-insurance authority, created under provisions of California law in 1987. The purpose of the Authority is to arrange and administer programs of insurance for the pooling of self-insured losses and to purchase excess insurance coverage.

At June 30, 2012, Omnitrans' participation in the self-insurance programs of the Authority is as follows:

- General Liability: Omnitrans is self-insured up to \$1,000,000 per occurrence and has purchased re-insurance and excess insurance coverage.
- Automobile Liability: Omnitrans is self-insured up to \$1,000,000 per occurrence and has purchased re-insurance and excess insurance coverage.

(7) Risk Management (Continued)

- Public Officials Errors and Omissions: Omnitrans is self-insured up to \$1,000,000 per occurrence and has purchased re-insurance and excess insurance coverage.
- Vehicle Collision and Comprehensive Liability: Insured up to actual cash value of covered vehicles up to \$10,000,000 per occurrence subject to per vehicle deductibles. The Authority has purchased excess insurance coverage.

Separate financial statements of the Authority can be obtained at 1415 L Street, Suite 200, Sacramento, CA 95814.

Omnitrans has also purchased additional insurance coverage outlined below:

- Workers Compensation Liability: Omnitrans is self-insured for workers' compensations claims up to \$1,000,000 with a limit of liability of \$5,000,000 and excess coverage up to \$95,000,000.
- Property Liability: Omnitrans is self-insured for property damage up to \$25,000 for Electronic Data Processing Equipment and \$10,000 for all other losses per occurrence, with limit of liability up to \$32,522,360. Omnitrans has also purchased earthquake and flood coverage for damage, for which it is self-insured up to \$25,000 for an earthquake and \$50,000 for a flood per occurrence, with a limit of liability of \$10,000,000 and excess coverage of \$10,000,000.
- Crime Liability: Omnitrans is self-insured for employee dishonesty and theft up to \$1,000 per occurrence, with a limit of liability up to \$50,000.
- Pollution Remediation Liability: Omnitrans is self-insured for pollution remediation claims up to \$50,000 per occurrence and \$150,000 in aggregate, with a limit of liability of \$5,000,000 per occurrence and \$10,000,000 in aggregate.
- Employment Related Practices Liability: Omnitrans is self-insured for employment related practices liability claims up to \$50,000 with a limit of liability of \$1,000,000

For the past three fiscal years, none of the above programs of protections has had settlements or judgments that exceeded pooled or insured coverage. As of June 30, 2012, in the opinion of legal counsel, Omnitrans had no material claims which would require loss provision in the financial statements and therefore no additional claims liability has been recorded.

(8) **Defined Benefit Pension Plan**

Plan Description

Omnitrans contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from their executive office: 400 Q Street, Sacramento, California 95811.

Funding Policy

Participants are required to contribute 7% of their annual covered salary. Omnitrans makes the contributions required of Omnitrans' employees on their behalf and for their account. The contribution requirements of the plan members and Omnitrans are established and may be amended by PERS.

Annual Pension Cost

Under GASB Statement No. 27, an employer reports an Annual Pension Cost (APC) equal to the Annual Required Contribution (ARC) plus an adjustment for the cumulative difference between the APC and the employer's actual plan contributions for the year. The cumulative difference is called the Net Pension Obligation (NPO). The ARC for the period July 1, 2011 to June 30, 2012 has been determined by an actuarial valuation of the plan as of June 30, 2009. The contribution rate indicated for the period is 11.070% of payroll. In order to calculate the dollar value of the ARC for inclusion in financial statements prepared as of June 30, 2012, this contribution rate, as modified by any amendments for the year, is multiplied by the payroll of covered employees that were actually paid during the period from July 1, 2011 to June 30, 2012.

A summary of principal assumptions and methods used to determine the ARC is shown below.

Valuation Date	June 30, 2009
Actuarial Cost Method	Entry Age Actuarial Cost Method
Amortization Method	Level Percent of Payroll
Average Remaining Period	22 Years as of the Valuation Date
Asset Valuation Method	15 Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.55% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%

(8) **Defined Benefit Pension Plan (Continued)**

Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%.
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Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 6% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

The Schedule of Funding Progress presented below presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Three Year Trend Information

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
6/30/10	3,041,854	100%	-
6/30/11	2,851,883	100%	-
6/30/12	3,050,337	100%	-

The Schedule of Funding Progress presented below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll.

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded/ Liability (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL As a % of Payroll</u>
6/30/08	\$ 83,978,470	81,559,403	2,419,067	97.1%	28,941,542	8.4%
6/30/09	95,214,597	89,108,941	6,105,656	93.6%	30,956,875	19.7%
6/30/10	102,163,260	97,530,157	4,633,103	95.5%	30,958,894	15.0%

(9) Commitments and Contingencies

Litigation

Omnitrans is subject to lawsuits and claims which arise out of the normal course of business. In the opinion of management, based upon the opinion of legal counsel, the disposition of such actions of which it is aware will not have a material effect on the financial position, results of operations or liquidity of Omnitrans.

Contingencies

Omnitrans has received federal and state funds for specific purposes that are subject to review and audit by grantor agencies. Although, such audits could generate expenditure disallowances under the terms of the grants, in the opinion of management, any additional required reimbursement will not have a material effect on the financial position, results of operations or liquidity of Omnitrans.

(10) Pass-through Grants

In November 2003, the Board approved a grant to the City of Needles for the restoration of the El Garces Hotel/Santa Fe Depot. The restoration is funded by FTA funds with Omnitrans acting as the administrative agent and the City of Needles acting as the sub-grantee. During the fiscal year ended June 30, 2012, expenses incurred were \$110,934.

In November 2004, the Board approved an agreement between Omnitrans and Chaffey College which initiated the cooperation and participation in development and construction of the Chaffey College Transcenter to be located in the City of Rancho Cucamonga. During the fiscal year ended June 30, 2012, expenses incurred were \$265,825.

In March 2008, the Board approved an agreement between Omnitrans and SANBAG which included a cooperative and collaborative process to establish the range of alternatives to be considered and factors to be addressed regarding the San Bernardino to Redlands Corridor Regionally Significant Transportation Investment Study (RSTIS) and Environmental Analysis. During the fiscal year ended June 30, 2012, expenses incurred were \$7,465.

In August 2009, the Board approved an agreement to obtain New Freedom Funds for the Inland Valley Recovery Services to operate a rehab center that would purchase and operate a vehicle. During the fiscal year ended June 30, 2012, expenses incurred were \$23,762.

(10) Pass-through Grants (Continued)

In October 2009, Omnitrans received an FTA Award for various projects. Within that award agreement was a portion to pass through to the City of Chino for the Chino Transit Terminal Facility Improvements to be located in the City of Chino. During the fiscal year ended June 30, 2012, expenses incurred were \$7,993.

In December 2010, the Board approved an agreement between Omnitrans and the City of Ontario to participate in the construction of the Ontario Civic Center Transit Station to be located in the city of Ontario. During the fiscal year ended June 30, 2012, expenses incurred were \$13,451.

In February 2011, the Board approved an agreement between Omnitrans and the City of Rialto to participate in the Rialto Metrolink Expansion Project to be located in the City of Rialto. During the fiscal year ended June 30, 2012, expenses incurred were \$14,532.

In March 2012, the Board approved an agreement between Omnitrans and Central City Lutheran to fund the purchase of a vehicle for medical and social service appointments and operating expenses. During the fiscal year ended June 30, 2012, expenses incurred were \$56,521.

In January 2012, the Board approved an agreement between Omnitrans and Pomona Valley Workshop (PVW) to participate in the PVW In Motion Program and fund the purchase of 4 vehicles and the hiring of a transportation coordinator to oversee the program. During the fiscal year ended June 30, 2012, expenses incurred were \$117,292.

In February 2012, the Board approved an agreement between Omnitrans and Valley Transportation Services to fund the staffing of 5 travel training project employees. During the fiscal year ended June 30, 2012, expenses incurred were \$1,725.

In February 2012, the Board approved an agreement between Omnitrans and Community Senior Services to establish a volunteer driver program to service disabled residents of west San Bernardino Valley. During the fiscal year ended June 30, 2012, expenses incurred were \$608.

(10) Pass-through Grants (Continued)

Pass-through activity for the year ended June 30, 2012 is summarized as follows:

City of Needles	\$110,934
Chaffey College Transit Center	265,825
SANBAG	7,465
Inland Valley Recovery Services	23,762
City of Chino	7,993
City of Ontario	13,451
City of Rialto	14,532
Central City Lutheran	56,521
Pomona Valley	117,292
Valley Transportation Services	1,725
Community Senior Services	<u>608</u>
Total	<u>\$620,108</u>

(11) Net Position

The following is a detailed breakdown of net position. Also shown below is a listing of the uses of unrestricted net position.

Capital assets, net of accumulated depreciation	\$136,703,207
Less: Debt offsetting capital assets	<u>(590,371)</u>
Net investment in capital assets	136,112,836
Unrestricted net position	<u>8,548,071</u>
Total net position	<u>\$144,660,907</u>

Although not legally restricted, unrestricted net position has been recorded as reserves for various purposes. These reserves have been established and maintained to provide sound financial management and a stable and equitable rate structure. The June 30, 2012 reserve amounts consist of the following:

Reserved for bus transit operations, workers compensation and general liability contingencies	<u>\$8,548,071</u>
Total unrestricted net position	<u>\$8,548,071</u>

(12) **Derivative Instruments**

Omnitrans holds a basket of natural gas futures contracts with a contract price of \$3.349 / MMBtu and a notional amount of 12,500 MMBtus / month that settle on a monthly basis. As of June 30, 2012 there were 23 remaining monthly settlements as the last maturity date is May 29, 2014. These futures contracts are classified as cash flow hedges of forecasted purchases (12,500 MMBtus per month) of clean energy natural gas through May 2014.

The fair values, classification and notional amounts for the natural gas hedge derivatives accounted for as derivative financial instruments as June 30, 2012 are summarized as follows:

<u>Cash Flow Hedges</u>	<u>Classification</u>	<u>Notional</u>	<u>Fair Value as of June 30, 2012</u>	<u>Changes in Fair Value for Fiscal Year</u>
Henry Hub Natural Gas Futures Basket (effective hedge)	Deferred Inflow	12,500 MMBtu/Month	\$55,300	\$55,300

The accounting standards, namely GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments" ("GASB 53"), require governments to record derivative instruments on the Statement of Net Position as either assets or liabilities depending on the fair value of the derivative. Omnitrans gas hedging contracts are an effective hedge, thus gains and losses are deferred on the Statement of Net Position as either current credits or charges for contracts with under 12 months remaining until expiration, or as long-term for contracts with over 12 months remaining until expiration. A deferred inflow of resources has also been recorded on the Statement of Net Position reflecting the deferred inflow associated with the derivative financial instrument.

In January 2012, Omnitrans entered into an agreement with Morgan Stanley Smith Barney for brokerage services for transactions to be executed in Omnitrans' name on the New York Mercantile Exchange (NYMEX). The objective of the brokerage agreement is to achieve cost certainty for deliveries of Liquefied Natural Gas (LNG) based on hedging activity of LNG futures contracts traded openly on the NYMEX.

The name of the derivative traded openly on the NYMEX is the *Henry Hub Natural Gas Futures Basket* (Futures Basket) and it has an effective date of January 17, 2012 and a maturity date of May 29, 2014. As required by the brokerage agreement with Morgan Stanley Smith Barney, Omnitrans deposited \$175,000 into a margin account to initiate the derivative.



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Administrative and Finance Committee
Omnitrans
San Bernardino, California

Recommendations Regarding Internal Control

In planning and performing our audit of the financial statements of Omnitrans as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered Omnitrans' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Omnitrans' internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

In addition, as a service to you, we identified other matters during our audit that provide you an opportunity to enhance your existing internal controls. The matters identified below are provided as recommendations for your consideration and are not considered to be material weaknesses or significant deficiencies in internal control.

(1) Enhancing Procedures Over Subrecipient Monitoring and Reporting

For all federal sub-awards, Omnitrans did not provide pertinent federal award information details (CFDA Title and number, award name and number, etc.) to its subrecipients as required by OMB Circular A-133.

For sub-awards made on or after October 1, 2010, Omnitrans did not obtain the subrecipient's DUNS number during the subrecipient application and award process as required by 2 CFR Section 25.110 and Appendix A to 2 CFR part 25.

For non-ARRA sub-awards in excess of \$25,000, Omnitrans did not enter key data elements of the sub-award into the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). A requirement under the Federal Funding Accountability and Transparency Act (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008) is that non-ARRA subawards over \$25,000 must be reported in the FSRS. The Information is to be reported in FSRS no later than the last day of the month following the month in which the award or the modification was signed.

Program personnel were not aware of these reporting requirements. Failure to obtain the DUNS number and ensure that all subrecipients are entered into FSRS could result in inaccurate reporting of subrecipient awards and expenditures.

Recommendation

We recommend that Omnitrans develop and implement subrecipient application and award procedures to ensure that the information required by OMB Circular A-133 is obtained from the subrecipient during the application process, and that the key data elements are provided to subrecipients and reported in FSRS by the end of the month following the month in which the award was made.

Management Response

As recommended, Omnitrans will develop and implement application and award procedures to ensure that the information required by OMB Circular A-133 is obtained from all subrecipients during the application and award process. Additionally, all key data elements will be transmitted and reported on the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS).

(2) Need for Enhanced Security Controls over Information Technology Systems

Access controls limit or detect inappropriate access to computer resources, thereby protecting them from unauthorized modification, loss and disclosure. Logical access controls require users to authenticate themselves (through the use of secret passwords or other identifiers) and limit the files and other resources that authenticated users can access and the actions that they can execute. Without adequate access controls, unauthorized individuals, including outside intruders and former employees, can surreptitiously read and copy sensitive data and make undetected changes or deletions for malicious purposes or personal gain. In addition, authorized users can intentionally or unintentionally read, add, delete, modify, or execute changes that are outside their span of authority. Inadequate access controls diminish the reliability of computerized data and increase the risk of destruction or inappropriate disclosure of data.

During our review of network and SAP accounts, we noted 5 former employees within active network accounts and 3 former employees with active SAP accounts. Omnitrans

IT indicated the accounts remain active by request by the departmental directors in order to access information from their accounts. However, the accounts result in a weakness in the security posture of the network. The accounts can be construed as “shared” accounts that are not directly associated to a current employee.

During our prior year review of password configurations for users logging onto the network, we noted certain security policies and procedures could be enhanced to provide better security over the network processing environment. It was indicated the password configurations were updated to be more in line with industry best practice. However, we noted additional areas where the password required could be further enhanced. Specifically, we noted password complexity requirements were not enabled. In addition, we noted the minimum password age was set to 0. Without a minimum password age set to greater than 0, users can cycle through passwords repeatedly until they get to an old favorite. Included below are generally accepted industry best practice password configurations:

- A minimum character length, at least 8 characters, should be required for passwords.
- Passwords should be required to be changed periodically, between 30 to 90 days.
- Passwords should be required to contain both alphanumeric and special characters.
- Use of old passwords (for example, within 6 generations) should be prohibited.
- Unsuccessful attempts to login should be limited to between 3 and 5 attempts.
- Individual users should be uniquely identified rather than having users within a group share the same ID or password; generic user IDs and passwords should not be used.

Recommendation

We recommend Omnitrans remove accounts for former employees. If this is not feasible, we recommend Omnitrans implement additional security controls over the accounts, including monitoring controls. In addition, we recommend Omnitrans enhance its user access (password) controls to be more in line with industry best practice.

Management Response

As recommended Omnitrans will implement additional security controls over the accounts, including monitoring controls. Additionally, Omnitrans has begun steps to enhance its user access (password) controls by implementing the following:

1. Password length has to be 8 characters or more.
2. Password has to include combination of alpha and numeric characters.
3. User cannot use the previous 6 passwords.
4. User cannot recycle old password within the 30 days window.
5. User password will expire every 60 days.

Omnitrans' written responses to the matters identified in our audit were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the management, those charged with governance, others within Omnitrans, and agencies that provided federal financial assistance to Omnitrans and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
October 31, 2012

OMNITRANS

Single Audit Report on
Federal Awards

Year Ended June 30, 2012

OMNITRANS

Single Audit Report on Federal Awards

Year Ended June 30, 2012

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Board of Directors
Omnitrans
San Bernardino, California

**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**

We have audited the basic financial statements of Omnitrans as of and for the year ended June 30, 2012, and have issued our report thereon dated October 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or

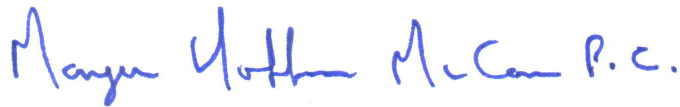
material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Omnitrans' in a separate letter dated October 31, 2012.

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

Mayer Hoffman McCann P.C.

Irvine, California
October 31, 2012



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Board of Directors
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San Bernardino, California

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

Independent Auditors' Report

Compliance and Other Matters

We have audited Omnitrans' compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on Omnitrans' major federal programs for the year ended June 30, 2012. Omnitrans' major federal programs are identified in the summary of auditors' 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 Omnitrans' management. Our responsibility is to express an opinion on Omnitrans' compliance based on our audit.

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

In our opinion, Omnitrans complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures

disclosed an immaterial instance of noncompliance with those requirements and which is described in the accompanying Schedule of Findings and Questioned Costs as Item 2012-1.

Internal Control Over Compliance

Management of Omnitrans 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 Omnitrans' internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Omnitrans' internal control over compliance.

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

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Omnitrans as of and for the year ended June 30, 2012, and have issued our report thereon dated October 31, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinion on the financial statements that collectively comprise Omnitrans' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of expenditures of

Board of Directors
Omnitrans
San Bernardino, California

Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Omnitrans' response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Omnitrans' response, and accordingly, we express no opinion on it.

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

Mayer Hoffman M. Co. P.C.

Irvine, California
October 31, 2012

OMNITRANS
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor Program Title	Federal Domestic Assistance Number	Grant Number	Federal Financial Assistance Expenditures	Amount Provided to Subrecipients
U.S. Department of Transportation:				
<u>Direct Assistance:</u>				
Federal Transit - Capital Investment Grants	20.500	CA-03-0624-00	\$ 4,613	\$ -
Federal Transit - Capital Investment Grants	20.500	CA-03-0699-00	86,833	86,832
Federal Transit - Capital Investment Grants	20.500	CA-03-0816-00	14,329,026	-
Federal Transit - Capital Assistance	20.500	CA-04-0035-01	6,976	6,976
Federal Transit - Capital Assistance	20.500	CA-04-0123-00	17,563	17,562
Federal Transit - Capital Assistance	20.500	CA-04-0152-00	6,540	6,540
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-X929-00	6,739	3,785
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-96-X058-00	60,096	-
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-95-X124-00	(14,139)	-
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Y064-00	330	-
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Y098-00	1,776	-
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Y164-00	150,550	-
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Y251-00	38,809	-
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Y333-00	87,397	-
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Y396-00	23,387	-
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Y495-00	216,740	-
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Y602-00	1,488,161	-
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Y681-00	1,706,687	6,395
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Y775-00	931,646	-
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Y850-00	584,404	14,532
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-96-Y156-00	9,220,955	-
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507	CA-90-Y939-00	10,585,337	-
FTA Insurance Reimbursement	20.507	CA-90-Y973-00	107,462	-
FTA Insurance Reimbursement	20.507	CA-90-X822-00	66,298	-
Subtotal			39,714,186	142,622
New Freedom Program	20.521	CA-57-X017-00	168,234	100,236
Job Access Reverse Commute	20.516	CA-37-X090-00	107,161	107,136
Total expenditures of federal awards			<u>\$ 39,989,581</u>	<u>\$ 349,994</u>

OMNITRANS

Note to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

(1) **Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards**

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred by Omnitrans that are reimbursable under federal programs of federal financial assistance. For the purposes of this schedule, federal financial assistance includes both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by Omnitrans from a non-federal agency or other organization. Only the portion of program expenditures reimbursable with such federal funds is reported in the accompanying schedule. Program expenditures in excess of the maximum federal reimbursement authorized or the portion of the program expenditures that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the accrual basis of accounting. Under the accrual basis of accounting, expenditures are recognized when Omnitrans becomes obligated for payment as a result of the receipt of the related goods and services. Expenditures reported included any property or equipment acquisitions incurred under the federal program.

(c) Subrecipients

During the fiscal year ended June 30, 2012, Omnitrans provided \$349,994 in federal awards to subrecipients from funding provided by the U.S. Department of Transportation – Federal Transit – Capital Investment Grants Program (CFDA Nos. 20.500 and 20.507), 5317 New Freedom Program (CFDA No. 20.521) and JARC Capital Program (CFDA 20.516).

OMNITRANS

Schedule Findings and Questioned Costs

Year Ended June 30, 2012

(A) **Summary of Auditors' Results**

1. An unqualified report was issued by the auditors on the financial statements of the auditee.
2. No material weaknesses or significant deficiencies in internal control over financial reporting were reported.
3. The audit disclosed no instances of noncompliance which are material to the financial statements of the auditee.
4. No material weaknesses or significant deficiencies in internal control over compliance with the major program of the auditee were reported.
5. An unqualified report was issued by the auditors on compliance for the major program.
6. There was one immaterial instance of noncompliance reported under OMB Circular A-133 and is described in the accompanying Section C as Item 2012-1.
7. The major programs of the auditee were:
 - CFDA No. 20.500 U.S. Department of Transportation – Federal Transit – Capital Investment Grants, and
 - CFDA No. 20.507, U.S. Department of Transportation – Federal Transit – Formula Grants (Urbanized Area Formula Program).
8. The dollar threshold used to distinguish Type A and Type B programs was \$1,199,687.
9. The auditee met the criteria to be considered a low risk auditee for the year ended June 30, 2012 for the purpose of major program determination.

(B) **Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS**

There are no auditors' findings required to be reported in accordance with GAGAS.

OMNITRANS

Schedule of Findings and Questioned Costs

(Continued)

(C) **Findings and Questioned Costs for Federal Awards**

2012-1: Subrecipient Monitoring and Reporting

FEDERAL AGENCY: U.S. Department of Transportation

CFDA No.: 20.500 and 20.507

FEDERAL PROGRAM NAME: Federal Transit – Capital Investment Grants Program, and Federal Transit – Formula Grants (Urbanized Area Formula Program)

FEDERAL AWARD PROGRAM NO.: Various

FEDERAL AWARD YEAR: Various

CONTROL CATEGORY: Subrecipient Monitoring & Reporting

QUESTIONED COSTS: \$0

Condition: For all federal sub-awards, Omnitrans did not provide pertinent federal award information details (CFDA Title and number, award name and number, etc.) to its subrecipients.

For sub-awards made on or after October 1, 2010, Omnitrans did not obtain the subrecipient's DUNS number during the subrecipient application and award process.

For non-ARRA sub-awards in excess of \$25,000, Omnitrans did not enter key data elements of the sub-award into the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS).

Criteria: In accordance with OMB Circular A-133 §____.400(d)(1), pass-through entities must inform subrecipients of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency.

For subawards made on or after October 1, 2010, an applicant for a non-ARRA award must provide a DUNS number as part of the application or before getting the award (2CFR section 25.110 and Appendix A to 2CFR part 25).

A requirement under the Federal Funding Accountability and Transparency Act (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008) is that non-ARRA subawards over \$25,000 must be reported in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). The Information is to be reported in FSRS no later than the last day of the month following the month in which the award or the modification was signed.

Cause: Program personnel were not aware of these recently implemented reporting requirements.

Effect: Failure to obtain the DUNS number and ensure that all subrecipients are entered into FSRS could result in inaccurate reporting of subrecipient awards and expenditures.

OMNITRANS

Schedule of Findings and Questioned Costs

(Continued)

(C) **Findings and Questioned Costs for Federal Awards (Continued)**

2012-1: Subrecipient Monitoring and Reporting (Continued)

Recommendation: We recommend that Omnitrans develop and implement subrecipient application and award procedures to ensure that the information required by OMB Circular A-133 is obtained from the subrecipient during the application process, and that the key data elements are transmitted and reported in FSRS by the subrecipient by the end of the month following the month in which the award was made.

Questioned Costs: None

Management's Response: As recommended, Omnitrans will develop and implement application and award procedures to ensure that the information required by OMB Circular A-133 is obtained from all subrecipients during the application and award process. Additionally, all key data elements will be transmitted and reported on the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS).

OMNITRANS

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2012

2011-1: Need to Charge Salary Costs Based Upon Actual

Recommendation: We recommended that Omnitrans implement procedures to ensure salary costs were based upon actual time worked.

Current Year Status: Omnitrans implemented procedures to ensure salary costs are based upon actual time worked. As such, this finding has been resolved.

2011-2: Data Quality Review of the ARRA 1512 Report

Recommendation: We recommended that Omnitrans develop and implement a data quality review process for the ARRA 1512 reports, following the guidance at OMB Memorandum number M-09-21 section 4.2.

Current Year Status: Omnitrans has successfully implemented data quality review processes for the ARRA 1512 reports. As such, this finding has been resolved.

OMNITRANS

Report on Transportation
Development Act and
Proposition 1B

Year Ended June 30, 2012

OMNITRANS

Report on Transportation Development Act and Proposition 1B

Year Ended June 30, 2012

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Board of Directors
Omnitrans
San Bernardino, California

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

We have audited the basic financial statements of Omnitrans as of and for the year ended June 30, 2012, and have issued our report thereon dated October 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Omnitrans is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Omnitrans' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Omnitrans' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Omnitrans' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Omnitrans' financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Omnitrans' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including Section 6667 of Part 21 of the California Code of Regulations, Section 8879.50 et seq of the California Government Code, and the fifteen tasks contained in the "SANBAG Transportation Development Act 2005 Compliance Guide", published by the San Bernardino Associated Governments (see Exhibit A), 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*, including Section 6667 of Part 21 of the California Code of Regulations, Section 8879.50 et seq of the California Government Code, and the fifteen tasks contained in the "SANBAG Transportation Development Act 2005 Compliance Guide", published by the San Bernardino Associated Governments. See Exhibit B for a Schedule of Receipts and Disbursements of Proposition 1B funds as required by Section 8879.50 et seq of the California Government Code.

We noted certain other matters that we reported to management of Omnitrans in a separate letter dated October 31, 2012.

This report is intended solely for the information and use of the Board of Directors of Omnitrans, its management, the San Bernardino Associated Governments, the California State Department of Transportation and the California State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.



Irvine, California
October 31, 2012



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Board of Directors
Omnitrans
San Bernardino, California

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

We have audited the basic financial statements of Omnitrans as of and for the year ended June 30, 2012, and have issued our report thereon dated October 31, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Receipts and Disbursements of Proposition 1B Funds (Exhibit B) is presented for purposes of additional analysis as required by Section 8879.50 et seq of the California government Code and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Receipts and Disbursements of Proposition 1B Funds is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Mayer Hoffman McCann P.C.

Irvine, California
October 31, 2012

OMNITRANS
Transportation Development Act
Compliance Requirements

Task Number	Task Description
1 (All Claimants)	Determine that Claimant is eligible under one of the following TDA Articles: 1. Article 3 (SB821) – Pedestrian and Bicycle Facilities 2. Article 4 – Public Transportation Systems 3. Article 4.5 – Community Transit Services 4. Article 4.5 – Consolidated Transportation Services Agencies 5. Article 6.5 (SB620) – State Transit Assistance Fund 6. Article 8 – Pedestrian and Bicycle Facilities 7. Article 8 – Public Transit Services 8. Article 8 – Local Streets and Roads 9. Article 8 – Multi-Modal Transportation Services
2 (All Transit Claimants)	Determine that claimant has maintained accurate and complete records and has prepared and submitted an annual report of its operations in accordance with the Uniform System of Accounts and Records adopted by the State Controller.
3 (All Transit Claimants)	Determine that claimant did not receive TDA funds in excess of the amount claimant was eligible for. If it is found that excess funds have been received, determine that they have been properly accounted for. Identify by footnote to the financial statement the manner in which the agency has treated the excess. Determine that claimant has not recorded as income or as an account receivable any TDA allocations being reserved in the Local Transportation Fund (LTF) or committed in the State Transit Assistance Fund (STAF). If either case is determined, the financial statement should be footnoted.
4 (Article 6.5 Claimants Only)	Determine that claimant was eligible to receive State Transit Assistance. Determine that claimant was eligible to receive State Transit Assistance for operating assistance, including but not limited to verifying the operators' operating cost per revenue hour does not exceed the prior year operating cost per revenue hour adjusted by the Consumer Price Index (CPI) or the average cost per revenue hour of the past three years adjusted by CPI. The actual cost per revenue hour comparison must be calculated in footnotes.
5 (All Claimants)	Determine that funds expended were eligible for expenditures under the provisions of the TDA. Determine that proposed budgets contained within the claim for the audit year are consistent with the audited financial statements and the Short Range Transit Plan or Transit Operating and Capital Plan. If an excess exists, refer to Task 3.

OMNITRANS
 Transportation Development Act
 Compliance Requirements (Continued)

Task Number	Task Description
6 (All Claimants)	Determine that claimant has expended funds in accordance with the terms of the allocation instructions of SANBAG. Verification of the expenditure of funds in conformance with the instructions should be on the basis of material conformance.
7 (Article 6.5 Claimants Only)	Determine the amount of STA funds apportioned and received by the operator.
8 (All Transit Claimants)	Include in the footnotes a detailed breakdown of TDA funds held by the claimant in its own account. For each unspent dollar in claimant's account, determine: <ul style="list-style-type: none"> • The years in which the funds were authorized for allocation and subsequently received by the claimant (include original allocation numbers); • The identification of obligations and commitments to spend such funds.
9 (All Transit Claimants)	Determine whether claimant has met the applicable fare ratio requirement. Financial statements should be footnoted as to which section is applicable to claimant. If subject to fare ratio, the required ratio should be stated in the footnote.
10 (Article 4 Claimants Only)	Determine that the employee retirement system or pension plan is in conformance.
11 (All Claimants)	Determine that interest earned on TDA funds allocated is properly accounted for and was expended only for those purposes for which the funds were allocated.
12 (All Transit Claimants)	Determine if claimant received support services and, if so, did claimant comply with the requirements of the State Controller's Uniform System of Accounts through identifying the value of such services provided.
13 (All Transit Claimants with Charter Services)	Determine if the claimant has met the minimums and rates specified in PUC §99250.
14 (All Transit Claimants)	Determine that the claimant is in compliance with PUC §99155 and §99155.5 concerning reduced fares for seniors, handicapped and disabled veterans; identification cards; service area residency requirement prohibition; dial-a-ride; and Paratransit services.

OMNITRANS
Transportation Development Act
Compliance Requirements (Continued)

Task Number	Task Description
15 (All Claimants)	Determine that claimant has complied with legislative or regulatory code changes that have occurred subsequent to the publication of the SANBAG Compliance Audit Guide and to additional provisions of the TDA that are specifically applicable to claimant.

OMNITRANS

Schedule of Receipts and Disbursements of Proposition 1B Funds

Year Ended June 30, 2012

	PTMISEA Program	CTSG Program	CAL EMA Program	Total
Unspent Proposition 1B Funds as of June 30, 2011	\$ 3,891,063	\$ 3,229,819	\$ -	\$ 7,120,882
Proposition 1B Funds collected during the year ended June 30, 2012	-	-	128,566	128,566
Proposition 1B expenses incurred during the year ended June 30, 2012	(2,071,118)	(346,996)	-	(2,418,114)
Interest revenue earned on unspent Proposition 1B funds during the year ended June 30, 2012	<u>2,413</u>	<u>2,757</u>	<u>-</u>	<u>5,170</u>
Unspent Proposition 1B funds as of June 30, 2012	<u>\$ 1,822,358</u>	<u>\$ 2,885,580</u>	<u>\$ 128,566</u>	<u>\$ 4,836,504</u>