

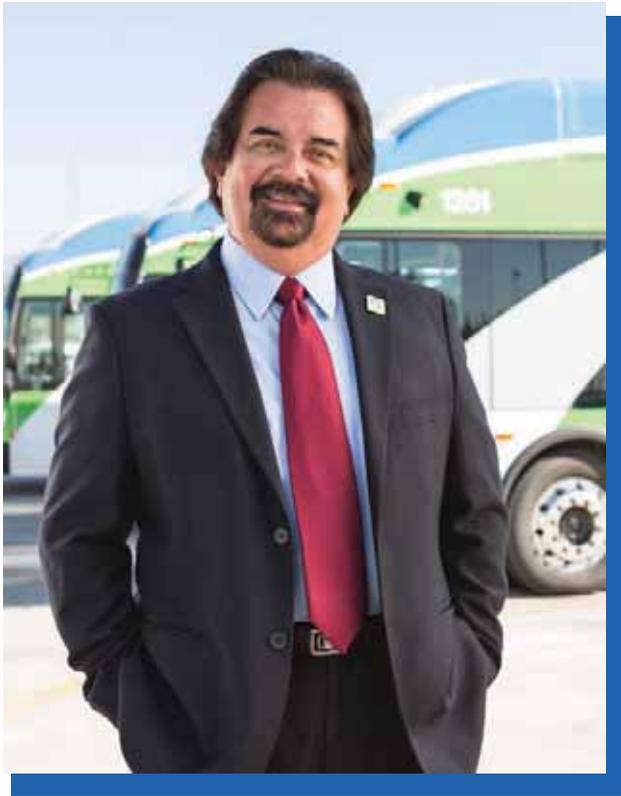
CONNECTING OUR COMMUNITY



OMNITRANS, San Bernardino, California

COMPREHENSIVE ANNUAL REPORT 2012





Before I came to Omnitrans, I always thought Omnitrans was a good organization. Now, having been Omnitrans' CEO/General Manager for two-and-a-half years, I know it is a great organization. Omnitrans only has one true purpose – to safely transport people from point A to point B. The difference we make in people's lives each day is an experience our coach operators are fortunate to witness as passengers make their way from home to work, school, the store, medical centers, and back home again. It's all about acknowledging the people that make Omnitrans a great organization – our passengers, our employees, and our business partners.

Omnitrans is currently in the midst of a Comprehensive Operational Analysis (COA), one of the most extensive ever to be conducted of Omnitrans by San Bernardino Associated Governments (SANBAG). According to the objective of the COA, there is the potential for numerous changes in our organizational structure and service delivery model. The challenge ahead will be to focus on what must be done to successfully implement the recommendation(s) of the COA adopted by the Board of Directors, while maintaining the highest sustainable quality of service. The completion of the COA is essential to charting the path forward for Omnitrans and reinventing the Agency to meet the growing demand for public transit services in our community.

MILO VICTORIA
CEO/General Manager

MISSION:

To provide the San Bernardino Valley with comprehensive mass transportation services, which maximize customer use, comfort, safety, and satisfaction while efficiently using financial and other resources, in an environmentally sensitive manner.

OMNITRANS

San Bernardino, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2012

(With Independent Auditor's Report Thereon)



Prepared by the Finance Department

DONALD WALKER
Director of Finance

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CONNECTING OUR COMMUNITY



CONNECTING OUR COMMUNITY





January 9, 2013

To the Members of the Omnitrans Board of Directors, CEO/General Manager and Citizens of the County of San Bernardino.

California Government Code sections 25250 and 25253 require that every general-purpose local government publish within six months of the close of each fiscal year a complete set of audited financial statements. This report is published in fulfillment of that requirement for the fiscal year ended June 30, 2012.

The Comprehensive Annual Financial Report (CAFR) is a valuable tool that enables Omnitrans' officials to make sound financial decisions. This report provides an independently audited account of the financial condition of the Agency. The financial statements, supplemental schedules, and statistical information are the representations of Omnitrans' management. Consequently, management assumes full responsibility for their accuracy, completeness and fairness. To provide a reasonable basis for making these representations, management has established a comprehensive internal-control framework that is designed both to protect the Agency's assets from loss, theft or misuse, and to compile sufficient reliable information for the preparation of the Agency's financial statements in conformity with generally accepted accounting principles. In conformance with these principles, this report was developed on the accrual basis of accounting, treating Omnitrans as a single enterprise fund.

Mayer Hoffman McCann LLP, a firm of licensed certified public accountants, audited Omnitrans' financial statements. The goal of the independent audit is to provide reasonable assurance that the financial statements of the Agency for the fiscal year ended June 30, 2012 are free of material misstatement. The independent audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that Omnitrans' financial statements for the fiscal year ended June 30, 2012 are fairly represented in conformity with Generally Accepted Accounting Principles (GAAP). The independent auditor's report is presented as the first component of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

The independent audit of the financial statements of Omnitrans was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report on the fair presentation of the financial statements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are included in a separate Single Audit report.

continued on next page

Omnitrans • 1700 West Fifth Street • San Bernardino, CA 92411
 Phone: 909-379-7100 • Web site: www.omnitrans.org • Fax 909-889-5779

Serving the communities of Chino Hills, Colton, County of San Bernardino, Fontana, Grand Terrace, Highland, Loma Linda, Montclair, Ontario, Rancho Cucamonga, Redlands, Rialto, San Bernardino, Upland and Yucaipa.

As stewards of the taxpayer’s money, Omnitrans continues to achieve its primary objective of safeguarding the funds entrusted to us. Our primary focus is the planning, securing and controlling of Omnitrans’ financial resources. This includes:

- Developing an Accurate Budget

Develop a realistic budget that clearly indicates what expenditures Omnitrans will incur during the fiscal year. In doing so, the finance department assists all departments of the agency in planning their activities. The budget clearly shows how much departments can spend on each particular activity.

- Coordinating Activities With Other Departments

Strive to coordinate the flow of funds with the agency's activities, using long-range planning while preparing for short-term needs. This involves timing, making sure Omnitrans has sufficient funds for its activities when needed.

- Secure Funding

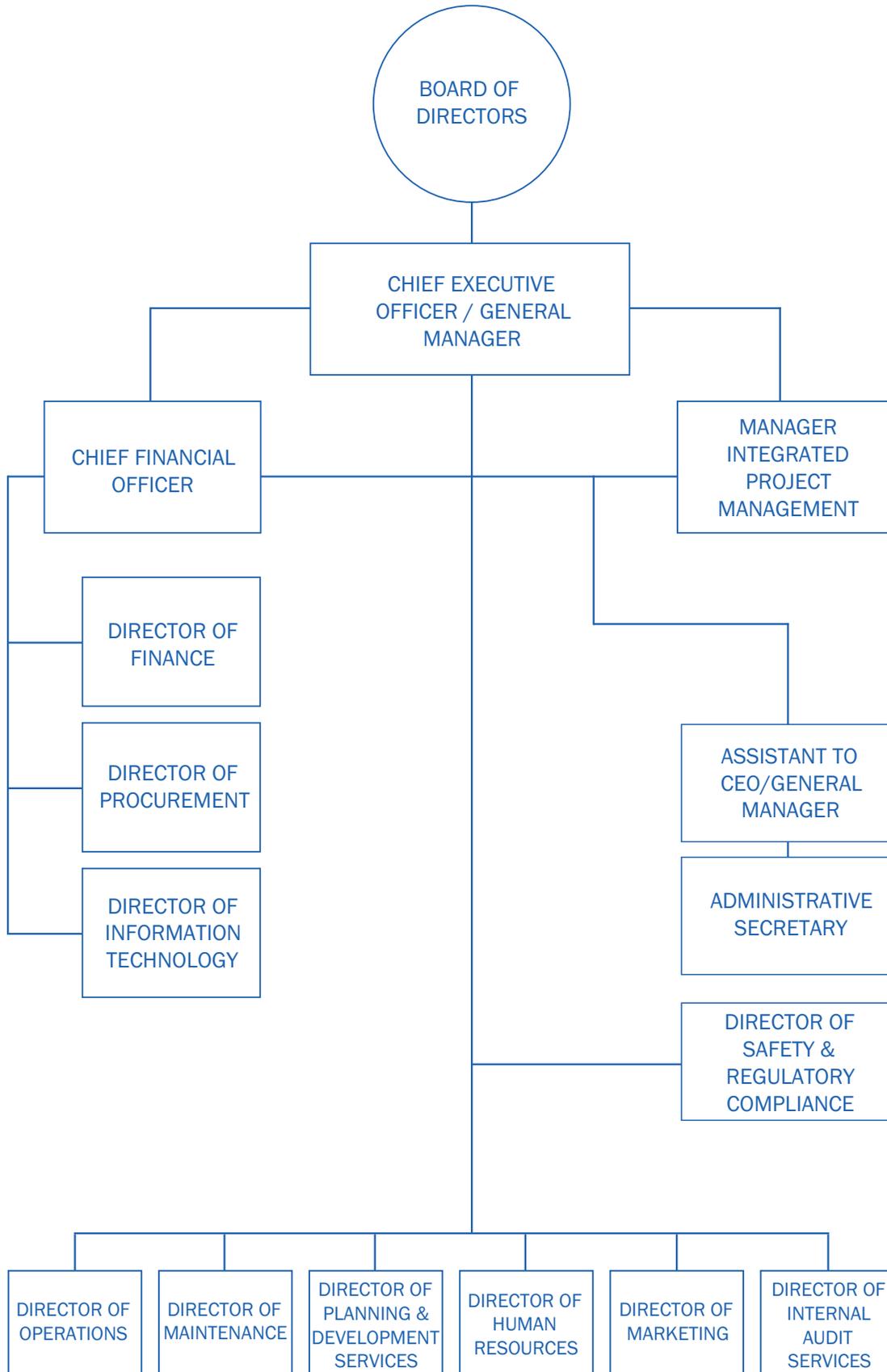
Research, apply and secure all available funding opportunities to ensure adequate cash flow to support the construction, operation and maintenance of Omnitrans’ transportation system. This includes the day-to-day operations as well as long-term goals.

- Maintaining Transparency

Provide transparency in our operations to all the stakeholders of Omnitrans to instill a sense of trust by consistent actions that show we are reliable, cooperative and committed to the success of Omnitrans. This includes providing thorough and accurate financial information to all stakeholders.

Omnitrans takes great pride in the fact that previously issued CAFRs have been awarded a prestigious award by the Government Finance Officers Association (GFOA) in the form of its Certificate of Achievement for Excellence in Financial Reporting. Omnitrans has received the GFOA “Certificate of Achievement for Excellence in Finance Reporting” a total of nine times. These prior awards and the one that we are currently seeking this year evidence the significant improvements regarding the strengthening of internal controls and our compliance with stringent GFOA standards for professional financial reporting. Omnitrans’ system of internal control is supported by written policies and procedures and is continually reviewed, evaluated and modified to meet current needs.

ORGANIZATIONAL CHART



OMNITRANS SENIOR LEADERSHIP TEAM

Milo Victoria
CEO/General Manager

Robert L. Miller
Chief Financial Officer

Donald Walker
Director of Finance

Marjorie Ewing
Director of Human Resources

William Tsuei
Director of Information Technology

Milind Joshi
Manager of Integrated Project Management Office

Samuel J. Gibbs
Director of Internal Audit Services

Jack Dooley
Director of Maintenance

Wendy S. Williams
Director of Marketing

P. Scott Graham
Director of Operations

Rohan Kuruppu
Director of Planning and Development Services

Jennifer Sims
Director of Procurement

Ray Lopez
Director of Safety and Regulatory Compliance

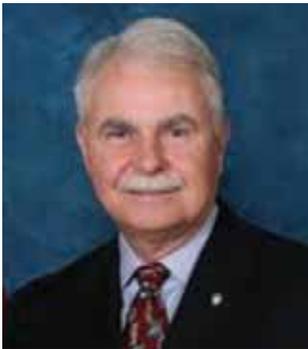
OMNITRANS BOARD OF DIRECTORS



Chair
Dick Riddell
- Yucaipa -



Vice Chair
Alan D. Wapner
- Ontario -



Supervisor
Gary Ovitt
- County -



Supervisor
Brad Mitzelfelt
- County -



Supervisor
Neil Derry
- County -



Supervisor
Josie Gonzales
- County -



Supervisor
Janice Rutherford
- County -



Dennis Yates
- Chino -



Ed Graham
- Chino Hills -



Frank Gonzales
- Colton -



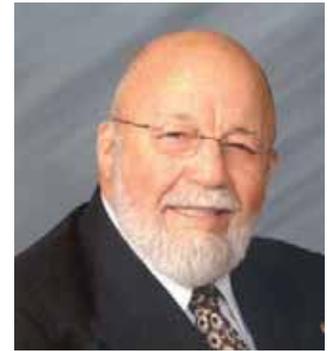
John B. Roberts, Jr
- Fontana -



Lee Ann Garcia
- Grand Terrace -



Ron Dailey
- Loma Linda -



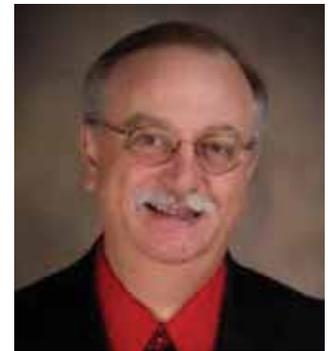
Paul Eaton
- Montclair -



Penny Liburn
- Highland -



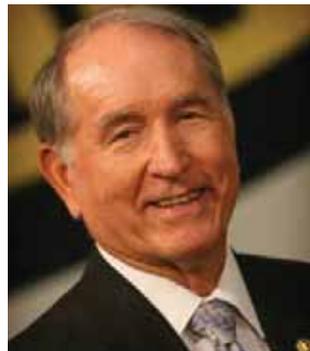
Sam Spagnolo
- Rancho Cucamonga -



Paul Foster
- Redlands -



Edward M. Palmer
- Rialto -



Pat Morris
- San Bernardino -



Ray Musser
- Upland -

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Omnitrans California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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



Linda C. Danison

President

Jeffrey R. Emery

Executive Director

PROFILE OF OMNITRANS

Omnitrans was founded in 1976 under a Joint Powers Agreement to provide transportation service to the San Bernardino Valley. Omnitrans is the major public transportation provider in the San Bernardino Valley, with a service area of approximately 456 square miles, serving 15 municipalities, and many unincorporated areas of San Bernardino County. Omnitrans also travels beyond the service area to Pomona and Riverside, to provide links to neighboring transit agencies. The service area is bordered by the Los Angeles County line to the west, the San Gabriel and San Bernardino Mountains to the north, Yucaipa in the east and the Riverside County line to the south. The map below shows the Omnitrans service area. Employees work out of two locations: East Valley (San Bernardino) and West Valley (Montclair).

The Board of Directors, made up of elected officials from each of the member jurisdictions, governs the Agency. The member jurisdictions include the following:

- City of Chino
- City of Chino Hills
- City of Colton
- City of Fontana
- City of Grand Terrace
- City of Highland
- City of Loma Linda
- City of Montclair
- City of Ontario
- City of Rancho Cucamonga
- County of San Bernardino
- City of Redlands
- City of Rialto
- City of San Bernardino
- City of Upland
- City of Yucaipa

Each city has one member and the County of San Bernardino has five members on the Board, who represent their respective County Districts. The Board is responsible for all policy, regulatory and budgetary decisions of the Agency.



Three Board committees oversee specific functional areas of the Agency with the provision to create ad-hoc committees as needed. These subcommittees are:

1. Executive Committee
2. Administrative and Finance Committee
3. Plans and Programs Committee

As of June 30, 2012, Omnitrans had a staff of 635 employees to provide its services. The CEO/General Manager is responsible for the day-to-day management of the Agency and acts as the liaison to the Board of Directors and each of the committees. Reporting to the CEO/General Manager are the following departments:

1. Administration
2. Human Resources
3. Maintenance
4. Marketing
5. Operations
6. Planning
7. Safety and Security
8. Integrated Project Management Office

Reporting to the Chief Financial Officer are the following departments:

1. Finance
2. Information Technology
3. Procurement

As cited in its Joint Powers Agreement (JPA), Omnitrans was created as a single umbrella agency to serve the bus transit needs of the San Bernardino Valley. Provisions were made in the JPA to: 1) Establish a uniform fare policy within the service area; 2) To coordinate a region-wide bus transit marketing program; and 3) To consolidate bus transit operating and administrative functions in order to achieve increased economies of scale.

To meet the bus transportation service demands efficiently and effectively, Omnitrans uses a multimodal approach to the provisions of service. The types of services presently offered are summarized below:

LOCAL FIXED-ROUTE SERVICE

- In accordance with the Operational Standards for the provision of service, Omnitrans operates 27 fixed routes and five OmniGo local circulator routes.
- Routes operate at 15- to 60-minute intervals.
- All routes operate Monday through Friday with service beginning at 3:48 AM and ending at 11:13 PM. On Saturdays, there are 25 routes and four OmniGo circulators in operation

with service beginning at 5:13 AM and ending at 10:16 PM. On Sundays, there are 23 routes and four OmniGo circulators in service, which begin at 5:52 AM and end at 7:54 PM.

- Coordinated local fixed-route service with Orange County Transit Authority, Foothill Transit, Los Angeles County Metropolitan Transportation Authority (limited), Riverside Transit Agency, and Mountain Area Regional Transit Authority; operated under Cooperative and/or Joint Service Agreements between Omnitrans and neighboring transit operators.

OMNIGO CIRCULATOR SERVICE

- OmniGo is a new fixed-route community circulator service that operates in the cities of Chino Hills, Grand Terrace and Yucaipa.
- Implemented in September of 2010, it connects points of interest within each city and provides connectivity to Omnitrans fixed-route bus services.
- All OmniGo services are contracted out by Omnitrans and operated by a private contractor.
- The vehicles used are the 16-passenger cutaway vehicles similar to those used by OmniLink and Access; this ensures that the service can both navigate the narrow residential streets and serve the residents of the city more cost-effectively.
- OmniGo routes operate all week long with the following spans: for Yucaipa Routes 308 and 309, Weekdays: 6:11 AM to 8:55 PM, Saturdays: 7:00 AM to 8:25 PM, Sundays: 7:30 AM to 6:39 PM; for Yucaipa Route 310, Weekdays: 6:00 AM to 7:52 PM; for Grand Terrace Route 325, Weekdays: 5:17 AM to 8:19 PM, Saturdays: 7:17 AM to 6:14 PM, Sundays: 8:27 AM to 6:14 PM; for Chino Hills Route 365, Weekdays: 5:05 AM to 10:00 PM, Saturdays: 6:05 AM to 7:00 PM, and Sundays: 6:05 AM to 6:00 PM.
- OmniGo fares are the same as those for other Omnitrans fixed-route bus services.

REGIONAL FIXED-ROUTE SERVICE

- Route 215 is a cross-county service provided by Omnitrans. This route provides service between the Omnitrans 4th Street Transit Mall and Riverside Transit Agency’s Downtown Terminal.
- This route operates on 20-/30-minute and 60-minute frequencies.

FY 12 FIXED-ROUTE SERVICE FREQUENCY BY ROUTE

Route Count	Route	Route Name	Service Days/Frequency		
			Weekday	Saturday	Sunday
1	1	ARMC-San Bernardino-Del Rosa	15/30	30	30
2	2	Cal State-E Street-Loma Linda	15/30	20	20/30
3	3	Baseline-Highland-San Bernardino CCW	15/20	20	20
4	4	Baseline-Highland-San Bernardino CW	15/20	20	20
5	5	San Bernardino-Del Rosa-Cal State	30/35	60	60
6	7	N. San Bernardino-Sierra Way-San Bernardino	30/60	60	60
7	8	San Bernardino-Mentone-Yucaipa	60	60	120
8	9	San Bernardino-Redlands-Yucaipa	60	60	120
9	10	Fontana-Baseline-San Bernardino	30/60	60	60
10	11	San Bernardino-Muscoy-Cal State	30/60	60	60
11	14	Fontana-Foothill-San Bernardino	15	15/30	15
12	15	Fontana-San Bndo/Highland-Redlands	30	60	60
13	19	Fontana-Colton-Redlands	30	60	60
14	20	Fontana Metrolink-Via Hemlock-Kaiser	30	60	60
15	22	North Rialto-Riverside Ave-ARMC	30	60	60
16	29	Bloomington-Valley Blvd-Kaiser	60	60	*
17	308/309	OmniGo: Yucaipa	30/60	30	60
18	310	OmniGo: Yucaipa	30/60	*	*
19	325	OmniGo: Grand Terrace	70	70	70
20	215	San Bernardino-Riverside	20/30	60	60
21	61	Fontana-Ontario Mills-Pomona	15	15	15
22	63	Chino-Ontario-Upland	60	60	60
23	65	Montclair-Chino Hills	60	60	60
24	66	Fontana-Foothill Blvd.-Montclair	15/30	30	30
25	67	Montclair-Baseline-Fontana	60	*	*
26	68	Chino-Montclair-Chaffey College	20/40	60	*
27	80	Montclair-OntConvCntr-Chaffey College	60	60	60
28	81	Ontario-Ontario Mills-Chaffey College	60	*	*
29	82	Rancho Cucamonga-Fontana-Sierra Lakes	60	60	60
30	83	Upland-Euclid-Chino	60	60	60
31	365	OmniGo: Chino Hills	60	60	60

METROLINK REGIONAL COMMUTER RAIL FEEDER SERVICE

- Metrolink service is provided between Omnitrans service area, Los Angeles, Riverside, Orange, Ventura and San Diego Counties by Southern California Regional Rail Authority.
- Omnitrans provides feeder bus service to seven Metrolink Stations located in San Bernardino, Rialto, Fontana, Rancho Cucamonga, Upland, Montclair and East Ontario.
- Metrolink ticket/pass is good for one free ride going to or leaving from any Metrolink Station that an Omnitrans bus serves. Tickets must be valid for the date on which you’re riding the bus.

ACCESS

- In accordance with the Americans with Disabilities Act (ADA), Omnitrans provides wheelchair-lift-equipped vans for curb-to-curb transportation services.
- Reservations for service must be made one day in advance of your travel needs, with the option to call up to seven days in advance.
- Access operates during the same days and hours as fixed route buses within a ¾-mile range of routes.
- Who can ride Access? – Those persons with an Omnitrans (or other transit agency) ADA certification ID card. Persons with an Omnitrans Disability card. Personal Care Attendants providing personal care to an ADA certified rider. Companions (Adult accompanying person with a disability) and/or Children of a qualified Adult ADA certified rider. (Maximum of two children 46" tall and under may ride free. Children under age 6 and/or under 60 pounds must travel in a rider-supplied, child-restraint device).

OMNILINK

- Omnilink is a general public demand response van service in the cities of Chino Hills and Yucaipa.
- Reservations can be made for same-day service on a space-available basis. Reservations can also be made up to three days in advance.
- Operates 7:00 AM to 6:00 PM, Monday through Friday.
- Omnilink is available to the general public on a first-come, first-service basis.

LOCAL ECONOMY

The leading industries in San Bernardino County are government, retail and service industries. Light manufacturing and warehouses dominate portions of the County, particularly near California State University and San Bernardino International Airport. Omnitrans operates within the greater San Bernardino-Riverside County, commonly referred to as the Inland Empire (IE).

San Bernardino-Riverside County residents can expect to see some growth in the area according to a recently released economic forecast. The forecast was authored by Beacon Economics and released in partnership with the University of California, Riverside's School of Business Administration. It will be several years before the IE experiences a return to peak employment levels, but employment is a lagging indicator, and the leading indicators show signs of continued growth, according to the report. The report's key findings include:

- The economic recovery in Inland Southern California has been slow, but the recovery is moving in the right direction and the region has made significant progress.

- The San Bernardino-Riverside metropolitan area has added 30,800 new jobs to its employment base since hitting bottom at the end of 2009, which is a slower rate of growth than seen in the state overall, but represents a recovery nonetheless.
- The second quarter of 2012 marked the 12th consecutive quarter of rising taxable sales in Inland Southern California.
- The region's hotels and restaurants are starting to thrive again, and sales tax receipts at restaurants and hotels across San Bernardino-Riverside are up by nearly nine percent on a year-to-date basis. This is the third fastest rate of growth by spending category.
- Inland areas are pulling ahead of the pack in home prices and new residential and non-residential construction. Rising employment, affordability and low interest rates are all helping to increase activity in the local economy, with 2013 expected to be even better.

Other advantages of the region include newer facilities at lower lease rates than competing markets, superior transportation infrastructure, and access to a market of 23 million people within three hours of driving. Significant speculative industrial construction activity has returned to the region, and with trade volumes expected to increase, the economic outlook for San Bernardino County continues to be optimistic.

The crowded coastal areas and resistance to densification signifies the IE as the final frontier for Southern California. Dissected by passes and freeways, San Bernardino County patiently waits on economic recovery to position itself as the intermodal logistics hub of Southern California. Inexpensive land prices (compared to Los Angeles and Orange Counties), a large supply of vacant land, and a transport network where many highways and railroads intersect have made the San Bernardino County a major shipping hub. Some of the nation's largest manufacturing companies continue to choose the County for their distribution facilities. The region serves as a critical link in the global supply chain for many international businesses. It is also the best location for companies looking for a regional distribution hub to serve the southwestern U.S.

LONG-TERM FINANCIAL PLANNING

Omnitrans continually plans for both the short-term and the long-term. The short-term planning rarely looks further ahead than the 12 months in the fiscal year. It seeks to ensure that the Agency has enough cash to pay its bills. In the long-term planning, the planning horizon is typically 2 to 5 years. The long-term financial planning focuses on the Agency's long-term goals and the funding that must be secured prior to project implementation.

Like many medium-size public transit agencies, Omnitrans' approach to long-term financial planning is very conservative.

The focus is centered on sustainability of current operations and the availability of federal, state and local funding opportunities. Primarily all major capital projects are not implemented until the necessary funding has been dedicated and secured. Omnitrans does not issue debt of any kind to secure funding for its capital projects.

Under the direction of the Chief Financial Officer, the Finance Department administers the financial affairs of Omnitrans. The department manages revenues, expenditures, investments, cash management, accounting, grants and budgeting. The Finance Department is responsible for keeping abreast of current federal, state and local grant funding opportunities to support the operations and long-term capital investment goals of Omnitrans.

There are two types of federal grant programs. Formula grant programs are funded to States based on formulas of population. Discretionary grant programs are awarded based on meeting application requirements and selected based on selected criteria specific to each. Each grant program is referred to by name and most also by a number that correlates to the section number of Title 49 of the United States Code.

In collaboration with the other departments, the Finance Department recently submitted discretionary grant applications and was awarded the following:

- 8.3 million – 5309 Bus and Bus Facilities (San Bernardino Transcenter)
- \$5.0 million – 5309 Bus and Bus Facilities (Fixed-Route Vehicle Replacement)
- \$1.1 million – 5310 Transportation for Elderly Persons and Persons with Disabilities (Access Van Replacement)
- \$850 thousand – 5339 Alternatives Analysis (Holt Boulevard Alternative Analysis)

There are several capital projects for which funding has been secured that are currently in progress with completion dates in the near future. The Agency's main focus is centered on sustainability of current operations and on the challenges and opportunities associated with the following:

- San Bernardino Express (sbX) E Street Corridor Bus Rapid Transit (BRT) Project
- East Valley Maintenance Facility Remodel Project
- Intermodal Transit Station (Transcenter) Project
- Rolling Stock Replacement Project

The sbX route is 15.7 miles along the E Street corridor. With 16 stations, sbX stops at the major activity centers where we live, work, shop, learn and play. The current route features 5.4 miles of exclusive lanes, separated from normal traffic.

The remaining 10.3 miles of the route will be in mixed traffic, with transit priority signals at key intersections.

The East Valley Maintenance Facility Remodel Project is the remodeling of the current facility to accommodate and service the buses that will be used in providing the sbX service. The sbX buses are 60-foot articulated buses that will require modification and replacement of facility and shop equipment.

The Transcenter is the transfer point for bus routes serving the downtown area, with future connections to the sbX BRT system, proposed downtown San Bernardino Passenger Rail Project, which is a one-mile Metrolink extension from the Santa Fe Depot, and the proposed Redlands Passenger Rail Project with stops on route to the University of Redlands.

The Rolling Stock Replacement Project is the Agency's ongoing bus replacement program to maintain the service reliability of its fleet and maintaining capital assets in a State of Good Repair (SGR) as required by the Federal Transit Administration (FTA). This is essential if public transportation systems are to provide safe and reliable service to its customers.

RELEVANT FINANCIAL POLICIES

Omnitrans is required by its Board of Directors to develop a balanced annual operating and capital expenditure budget within the prescribed limits to meet the objectives of the subsequent fiscal year. The annual operating and capital budgets show in detail the estimated revenues and expenses necessary to operate Omnitrans' service for the upcoming year. The annual budget serves as the foundation for Omnitrans financial planning and control of expenditures.

California Government Code, Section 53646, requires that each legislative body review and adopt an Investment Policy Statement on an annual basis. It is the policy of Omnitrans to invest public funds in a manner which will provide maximum security with the highest investment return while meeting the daily cash flow demands of the Agency and conforming to all state and local statutes governing the investment of public funds.

The investment policy applies to the cash funds of the Agency, except for its employees' retirement system fund, which is administered separately by the California Public Employees' Retirement System (PERS) and the 457 Deferred Compensation Fund, administered separately by the International City/County Management Association Retirement Corporation.

Omnitrans initially implemented a Forward Fuel Purchasing policy, which is an amended agreement with a liquefied natural gas (LNG) supplier to fix the price of up to 60%

of Omnitrans' LNG requirements or 180,000 gallons per month. The agreement expired on January 31, 2012. A new hedge was established on January 17, 2012; fixing the price of 150,000 gallons of fuel per month for Omnitrans beginning in February 2012 through June 2014. The Chief Financial Officer acts as the Trade Officer in the agreement.

MAJOR INITIATIVES

On the federal level, the Federal Transit Administration (FTA) sponsors an array of initiatives and programs to support research, coordination and development of public transportation. Some of the FTA initiatives and programs that are of particular interest to Omnitrans include:

- **Moving Ahead for Progress in the 21st Century Act (MAP-21)** - The new two-year surface transportation authority that provides FTA an authorization level of \$10.6 billion in FY 2013 and \$10.7 billion in FY 2014. MAP-21 consolidates certain transit programs to improve their efficiency and provides significant funding increases specifically for improving the state of good repair of the nation's transit systems. The law grants FTA authority to strengthen the safety of public transportation systems throughout the United States. It also streamlines the New Start process to expedite project delivery and provides for core capacity project eligibility. MAP-21 took effect on October 1, 2012.
- **State of Good Repair (SGR)** - State of Good Repair includes sharing ideas on recapitalization and maintenance issues, asset management practices, and innovative financing strategies. It also includes issues related to measuring the condition of transit capital assets, prioritizing local transit re-investment decisions and preventive maintenance practices. Finally, research and the identification of the tools needed to address this problem are vital. The FTA will lead the nation's effort to address the State of Good Repair by collaborating with the industry to bring the nation's transit infrastructure into the 21st century.
- **Job Access and Reverse Commute (JARC)** - The Job Access and Reverse Commute (JARC) program addresses the unique transportation challenges faced by welfare recipients and low-income persons seeking to obtain and maintain employment. Many

new entry-level jobs are located in suburban areas, and low-income individuals have difficulty accessing these jobs from their inner city, urban or rural neighborhoods. In addition, many entry-level jobs require working late at night or on weekends when conventional transit services are either reduced or non-existent. Finally, many employment-related trips are complex and involve multiple destinations, including reaching childcare facilities or other services.

- **New Freedom** - The New Freedom formula grant program aims to provide additional tools to overcome existing barriers facing Americans with disabilities seeking integration into the workforce and full participation in society. Lack of adequate transportation is a primary barrier to work for individuals with disabilities. The 2000 Census showed that only 60 percent of people between the ages of 16 and 64 with disabilities are employed. The New Freedom formula grant program seeks to reduce barriers to transportation services and expand the transportation mobility options available to people with disabilities beyond the requirements of the Americans with Disabilities Act (ADA) of 1990.
- **United We Ride** - A federal interagency initiative aimed at improving the availability, quality and efficient delivery of transportation services for older adults, people with disabilities and individuals with lower incomes.
- **Livable and Sustainable Communities** - Enhancing economic and social well-being of all Americans by creating and maintaining a safe, reliable integrated and accessible transportation network that enhances choices for transportation users, provides easy access to employment opportunities and other destinations, and promotes positive effects on the surrounding community.

Each year the federal government funds numerous public transit initiatives through an array of programs. Although the need for federal money to fund these initiatives has continued to grow, the federal budget increasingly has been strained by other competing funding priorities. To help finance major projects and achieve program goals, Omnitrans systematically "leverages" FTA funds with other state and local resources. An integral part of Omnitrans' long-term strategy of sustainability is leveraging federal funding whenever possible.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Omnitrans for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of a state or local government financial report. This was the ninth time Omnitrans has received this award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

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

Omnitrans was honored with the California Challenge Award in May 2012. The award, which is patterned on the national Malcolm Baldrige Award, is one of the highest honors an organization can achieve in the state of California. Evaluation criteria are based on seven categories: leadership, strategic planning, workforce focus, customer focus, measurement, analysis and knowledge management, and outcome focus.

Omnitrans' Marketing Department received multiple awards in the American Public Transportation Association (APTA) annual "AdWheel" competition for advertising campaign elements submitted in fiscal year 2012. Capturing first-place awards were the Omnitrans blog, Go Smart college pass program digital ads and the agency's "Dump the Pump Day" newspaper ad, radio commercial and interior bus cards.

Additionally, the Go Smart digital ad received the grand prize from among all first-place winners in the electronic media category. The annual AdWheel Awards competition honors APTA member organizations for excellence in advertising, marketing, promotion and communications. Each year, APTA members submit their very best advertising, marketing, promotion, and communications materials in the media categories of print, electronic, campaigns and special events to the AdWheel Awards competition.

Preparation of this report could not have been accomplished without the professional, efficient, and dedicated services of the Finance Department staff, with special thanks to Mae Sung, Accounting Manager and Maurice Mansion, Treasury Manager. We wish also to express our appreciation to Milo Victoria, our CEO/General Manager; Wendy Williams, Director of Marketing; and Rohan Kuruppu, Director of Planning and Development Services for their assistance and support of this report. We would also like to express our appreciation to the Board of Directors and members of the Administrative and Finance Committee. Finally, we acknowledge that this report could not have been completed without the partnership and professional oversight of Mayer Hoffman McCann, P.C.

Respectfully submitted,



Robert L. Miller
Chief Financial Officer, OMNITRANS

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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 on 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 of preparing the information and comparing the information

continued on next page

Board of Directors
Omnitrans
San Bernardino, California

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.

Irvine, California
October 31, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Omnitrans (the Agency), we offer the readers of the Agency's financial statements this narrative overview and analysis of the financial activities for the Agency for the fiscal year ended June 30, 2012.

We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the transmittal letter and financial statements, which are included in this report.

FINANCIAL HIGHLIGHTS

- At the end of fiscal year 2012, the Statement of Net Position presents total assets of \$176.9 million and total liabilities and deferred inflow of resources of \$32.2 million and \$55.3 thousand respectively. Total assets increased 9.9 percent over the previous fiscal year, resulting largely from increases in construction in progress that consists mainly of the E Street Bus Rapid Transit (sbX) project.
- Total liabilities at fiscal year ended June 30, 2012 was \$32.2 million, up \$5.3 million or 20.1 percent over previous fiscal year end. Accounts payable increases of \$6.0 million, attributed to the accrual of goods and services received but not yet paid, was offset by reductions in unearned revenues of \$2.4 million. Noncurrent liabilities increased \$1.8 million or 24.2 percent due to lease financing arrangements for support vehicles, office equipment, and the estimated outstanding losses highlighted in the actuarial study of the self-insured workers compensation and liability programs as of June 30, 2012.
- As a result of General Accounting Standards Board (GASB) 53, \$55.3 thousand of accumulated increase in fair value of hedging derivatives is presented on the Statement of Net Position at fiscal year ended June 30, 2012.
- Operating revenues at fiscal year ended June 30, 2012 of \$15.4 million decreased \$107.1 thousand or 0.7 percent compared to last fiscal year end. Operating expense, excluding depreciation, at fiscal year end June 30, 2012 increased \$2.7 million or 4.0 percent compared to last fiscal year end.
- Non-operating revenues, which include federal and local operating grants and pass-through to other agencies, increased by \$13.8 million or 41.4 percent. The majority of this increase is attributed to the return of \$16.0 million (collected in prior years) in Local Transportation Funds (LTF) to San Bernardino Associated Governments (SANBAG) in the previous fiscal year.
- At fiscal year end June 30, 2012, capital assistance of \$34.4 million increased \$13.4 million or 63.7 percent compared to the previous fiscal year. This increase is due to increased activity on the sbX project, the major capital project of Omnitrans.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of two parts: Management's Discussion and Analysis and the basic financial statements, including notes to the financial statements. The Agency financial statements offer key, high-level financial information about the Agency's activities.

The Agency is a government-funded entity that follows enterprise-fund accounting and presents its financial statement on the accrual basis of accounting. The enterprise-fund concept is similar to how private business enterprises are financed and operated.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The statements of net position include information on all of the Agency's assets and liabilities with the difference between assets and liabilities reported as net position. Changes in net position may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The statement of revenues, expenses and change in net position present information regarding how the Agency net position changed during the fiscal years ended June 30, 2012 and 2011. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, and amounts are measurable, regardless of the timing of related cash flows.

FINANCIAL STATEMENTS ANALYSIS

The following tables summarize revenues, expenses and changes in net position comparing fiscal year 2012 with fiscal year 2011. For additional information regarding the Agencies' financial activities for fiscal year ended June 30, 2012, readers are encourage to read this section in conjunction with the accompanying Notes to the Basic Financial Statements.

REVENUES AND EXPENSES

REVENUES

Omnitrans' total revenues for fiscal year ending June 30, 2012 show an increase of \$8.5 million or 9.5 percent compared to the last fiscal year. Revenue from fares, pass and ticket sales less discount to pass sale vendors was \$1.8 thousand less than the previous fiscal year. Reduction in advertising revenues account for the majority of the decrease in total operating revenues. Advertising revenue decreased \$103.3 thousand or 11.4 percent compared to the previous fiscal year. Other transportation revenues account for less than 0.3 percent of total operating revenues decreased \$2.0 thousand or 4.7 percent.

Federal and local operating grants for Omnitrans decreased from \$52.7 million in fiscal year 2011 to \$47.9 million in fiscal year 2012. This represents a \$4.8 million or 9.5 percent reduction in revenues. Omnitrans receive federal, state and local funding, which is utilized for both operating and capital expenditures.

The slow economy continues to affect the rate of return on the Agency's investment with Local Agency Investment Fund (LAIF). The Agency's interest income from LAIF decreased \$21.6 thousand or 29.0 percent compared to the previous fiscal year. LAIF's interest rate on investment remains under one percent.

Financing the construction, operation and maintenance of public transportation systems involves many different types of funding sources, including federal and non-federal grants, and other revenue sources. Omnitrans received \$47.9 million in federal and local operating grants and \$34.4 million in capital assistance for fiscal year ended June 30, 2012. Compared to last fiscal year, federal and local operating grants decreased \$4.8 million or 9.1 percent and capital assistance increased \$13.4 million or 63.7%. The source of federal and local operating grants and capital assistance include the following:

- Measure I - the ½-cent sales tax collected throughout San Bernardino County for transportation improvements.
- Local Transportation Fund (LTF) - Transportation Development Act (TDA) earmark ¼ percent of the state sales tax for transit.
- Urbanized Area Formula Program (5307) - transit capital and operating assistance in urbanized areas and for transportation-related planning.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- Congestion Mitigation and Air Quality Improvement (CMAQ) - established to support surface transportation projects and other related efforts that contribute air-quality improvements and provide congestion relief.
- Job Access and Reverse Commute (JARC) - established to improve access to transportation services to employment and employment-related activities for welfare recipients and eligible low-income individuals and to transport residents of urbanized areas and non-urbanized areas to suburban employment opportunities.
- New Freedom - a formula grant program aims to provide additional tools to overcome existing barriers facing Americans with disabilities seeking integration into the workforce available to people with disabilities beyond the requirements of the Americans with Disabilities Act of 1990 (ADA).
- State Transit Assistance Fund (STAF) - derived from sales tax on gasoline and diesel fuel, this funding is an allocation to local transit agencies to fund a portion of the operations and capital costs associated with local mass transportation programs.
- Public Transportation Modernization, Improvement and Service Enhancement Account Program (PTMISEA) - created by Proposition 1B, is funding available to transit operators over a ten-year period. PTMISEA funds may be used for transit rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid-transit improvements, or rolling stock (buses and rail cars) procurement, rehabilitation or replacement.

Interest income for the Agency consists of quarterly return on investment with the Local Agency Investment Fund (LAIF). The LAIF program offers local agencies the opportunity to participate in a major portfolio, which invests hundreds of millions of dollars, using the investment expertise of the State Treasurer's Office at no additional cost. Total interest income for fiscal year ended June 30, 2012 was \$52.7 thousand, down \$21.6 thousand or 29.0 percent compared to the previous fiscal year.

Other non-operating revenues consist mainly of quarterly reimbursement to the Agency from the Amalgamated Transit Union (ATU) Local 1704 for wages and benefits paid by the Agency to ATU Officers/Stewards during normal work hours to process grievances. Total other non-operating revenues increased \$4.9 thousand or 24.7 percent over last fiscal year.

OMNITRANS' REVENUES

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Passenger fares	\$14,536,931	14,538,747	(1,816)	(0.0)
Advertising revenue	805,904	909,176	(103,272)	(11.4)
Other transportation revenue	39,819	41,802	(1,983)	(4.7)
Federal and local operating grants	47,875,811	52,675,797	(4,799,986)	(9.1)
Capital assistance	34,412,696	21,016,685	13,396,011	63.7
Interest income	52,727	74,302	(21,575)	(29.0)
Other non-operating revenues	<u>24,951</u>	<u>20,002</u>	<u>4,949</u>	24.7
Total Revenue	<u>\$97,748,839</u>	<u>89,276,511</u>	<u>8,472,328</u>	9.5

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

EXPENSES

Total expenses for fiscal year 2012 decreased \$11.6 million or 11.8% compared to the previous fiscal year. The decrease in pass-through to other agencies of \$18.1 million and the increase in depreciation of \$4.3 million accounts for most of the difference.

Wages, salaries and benefits decreased by \$286.6 thousand or 0.7 percent under previous fiscal year. This reduction is attributed mainly to the recapture of cost associated with the Agency's cost allocation plan (CAP). Wage and benefit costs for an employee's time spent on capital projects was charged to the applicable grant. For fiscal year ending June 30, 2012, \$981.9 thousand in labor and benefit cost was recaptured compared to only \$346.0 thousand in the previous fiscal year. Additionally, Omnitrans operated under a Board of Directors-authorized wage freeze for the fiscal year ended June 30, 2012. Fiscal year 2012 is the third consecutive year wages, salaries and benefits were frozen.

Purchased transportation services for fiscal year ended June 30, 2012 increased \$760.9 thousand or 9.4 percent compared to the previous fiscal year. The increase in cost is attributed to increases negotiated in the contract, and the increase in service hours for additional OmniGo service.

General and administrative expenses consist mainly of occupancy expenses (utilities, communication and office equipment, repairs, ground maintenance, stops and stations, etc.) and casualty and liability expenses (property, general, vehicle and workers' compensation insurance). Occupancy expense decreased \$153.0 thousand, and casualty and liability cost increased \$426.7 thousand when compared to the previous fiscal year.

Material and supplies increased \$1.1 million or 14.6 percent over last fiscal year. The difference is attributed to the amount of compressed natural gas (CNG) fuel tax credit recognized in each of the fiscal years. In fiscal year ended June 30, 2011, the Agency recognized \$2.0 million in fuel tax credit to offset its fuel cost. In fiscal year ended June 30, 2012, only \$636.5 thousand was recognized to offset fuel cost.

The decrease in fuel tax credit was offset by the fuel hedge program implemented at Omnitrans. A fuel hedging program was implemented May 6, 2009, to increase the predictability of Omnitrans costs and reduce operational uncertainty in the event of dramatic fuel price increases in the open market. Omnitrans is authorized to hedge up to 150,000 gallons per month of compressed natural gas (CNG) on the New York Mercantile Exchange (NYMEX) through Morgan Stanley. Omnitrans CNG cost decreased \$472.5 thousand or 10.3 percent compared to the previous fiscal year.

Professional and technical services increased \$509.2 thousand or 31.1 percent above previous fiscal year ended June 30, 2011. The increase is mainly attributed to the outsourcing of computer hardware and maintenance function of the Information Technology department.

Omnitrans, as a direct grantee of FTA funding, is responsible for complying with specific FTA requirements. These include the solicitation, evaluation, selection and project management oversight of sub-recipients. The pass-through to other agencies represents federal and local reimbursements to sub-recipients for cost incurred on approved projects. Pass-through payments to other agencies decrease \$18.1 million or 96.7 percent compared to the previous fiscal year. This reduction is attributed to the return of LTF funds to San Bernardino Associated Governments (SANBAG), previously held by Omnitrans as unrestricted reserves in the previous fiscal year.

The increase in depreciation and loss on disposal of capital assets over the previous fiscal year is attributed to disposal and replacement of fixed-route and purchased transportation vehicles that were fully depreciated. The parts carried in inventory for repairs and maintenance for these vehicles was also disposed of in accordance with FTA requirements.

Miscellaneous expenses for the fiscal year ended June 30, 2012 increased \$206.7 thousand or 67.9 percent when compared to the last fiscal year. The increase is mainly attributed to increased travel and meeting expenses, employee training and employee recognition. Additionally, cost associated with CNG hedging activities we recognized as a result of accounting and financial reporting for derivative instruments (GASB 53).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

OMNITRANS' EXPENSES

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Wages, salaries and benefits	\$39,751,359	40,037,950	(286,591)	(0.7)
Purchased transportation services	8,882,227	8,121,333	760,894	9.4
General and administrative expenses	7,779,983	7,495,178	284,805	3.8
Materials and supplies	8,876,733	7,743,557	1,133,176	14.6
Capital purchases	345,063	263,908	81,155	30.8
Professional and technical services	2,147,300	1,638,070	509,230	31.1
Advertising and printing	916,224	931,927	(15,703)	(1.7)
Pass-through to other agencies	620,108	18,754,320	(18,134,212)	(96.7)
Loss on disposal of capital assets	271,438	739,670	(468,232)	(63.3)
Depreciation	17,070,294	12,772,455	4,297,839	33.6
Miscellaneous	<u>511,223</u>	<u>304,504</u>	<u>206,719</u>	67.9
Total Expenses	<u>\$87,171,952</u>	<u>98,802,872</u>	<u>(11,630,920)</u>	(11.8)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

NET POSITION

The Agency's total net position for fiscal year ending June 30, 2012 increased \$10.6 million or 7.9 percent above fiscal year ended June 30, 2011. The \$16.0-million increase in assets was offset by increases in both current and long-term liabilities. Ongoing construction of the sbX BRT project, preliminary engineering and design work for the San Bernardino Transit Center, and fixed-route bus replacement account for the majority of the increase in total assets.

OMNITRANS' Statement of Net Position

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
ASSETS:				
Current and other assets	\$40,204,481	41,450,301	(1,245,820)	(3.0)
Net Capital Assets	<u>136,758,507</u>	<u>119,480,534</u>	<u>17,277,973</u>	14.5
Total Assets	<u>176,962,988</u>	<u>160,930,835</u>	<u>16,032,153</u>	10.0
LIABILITIES:				
Current Liabilities	22,829,336	19,264,389	3,564,947	18.5
Long-term Liabilities	<u>9,417,445</u>	<u>7,582,426</u>	<u>1,835,019</u>	24.2
Total Liabilities	<u>32,246,781</u>	<u>26,846,815</u>	<u>5,399,966</u>	20.1
DEFERRED INFLOW OF RESOURCES:				
Accumulated increase in fair value of hedging derivatives (Note 12)	<u>55,300</u>	0	<u>55,300</u>	0.0
Total Deferred inflow of resources	<u>55,300</u>	0	<u>55,300</u>	0.0
NET POSITION:				
Invested in capital assets	136,112,836	119,366,226	16,746,610	14.0
Restricted		0	0	0
Unrestricted	<u>8,548,071</u>	<u>14,717,794</u>	<u>(6,169,723)</u>	(41.9)
Total Net Position	<u>\$144,660,907</u>	<u>134,084,020</u>	<u>10,576,887</u>	7.9

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CHANGES IN NET POSITION

The change in net position is noted in the ending balance for fiscal year 2012 and the beginning balance in fiscal year 2011 on the Statement of Revenues, Expenses and Changes in Net Position table. The following Statement of Revenues, Expenses and Changes in Net Position table illustrate and compare the various categories of assets, liabilities and net position for the two fiscal years.

OMNITRANS' Statement of Revenues, Expenses and Changes in Net Assets

	Fiscal Year <u>2012</u>	Fiscal Year <u>2011</u>	Increase (Decrease)	Percent Increase (Decrease)
Revenues:				
Passenger fares	\$14,536,931	14,538,747	(1,816)	(0.0)
Advertising revenues	805,904	909,176	(103,272)	(11.4)
Other transportation revenues	39,819	41,802	(1,983)	(4.7)
Total revenues	<u>15,382,654</u>	<u>15,489,725</u>	<u>(107,071)</u>	(0.7)
Expenses:				
Depreciation and amortization	17,070,294	12,772,455	4,297,839	33.6
Other operating expenses	69,206,132	66,529,837	2,676,295	4.0
Total expenses	<u>86,276,426</u>	<u>79,302,292</u>	<u>6,974,134</u>	8.8
Non-operating Revenue/(Expenses)				
Fed. and local operating grants (Note 3)	47,875,811	52,675,797	(4,799,986)	(9.1)
Interest income	52,727	74,302	(21,575)	(29.0)
Interest expense	(3,980)	(6,590)	2,610	39.6
Pass-through to other agencies (Note 10)	(620,108)	(18,754,320)	18,134,212	96.7
Other non-operating revenues (expenses)	(246,487)	(719,668)	473,181	65.7
Total non-operating revenues	<u>47,057,963</u>	<u>33,269,521</u>	<u>13,788,442</u>	41.4
Income before capital contribution	<u>(23,835,809)</u>	<u>(30,543,046)</u>	<u>6,707,237</u>	(22.0)
Capital contributions				
Capital assistance	34,412,696	21,016,685	13,396,011	63.7
Total capital contributions	<u>34,412,696</u>	<u>21,016,685</u>	<u>13,396,011</u>	63.7
Change in net assets	10,576,887	(9,526,361)	20,103,248	(211.0)
Net assets, beginning of year	<u>134,084,020</u>	<u>143,610,381</u>	<u>(9,526,361)</u>	(6.6)
Net assets, end of year	<u>\$144,660,907</u>	<u>134,084,020</u>	<u>10,576,887</u>	7.9

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

On June 30, 2012, the Agency had a total of \$136.7 million invested in capital assets. This total represents an overall increase of \$17.2 million or 14.4% over the prior year total of \$119.5 million. The increase is mainly attributed to the ongoing construction of the sbX BRT project, preliminary engineering and design work for the San Bernardino Transit Center, and fixed-route bus replacement.

OMNITRANS' Capital Assets (net of accumulated depreciation)

	Fiscal Year <u>2012</u>	Fiscal Year <u>2011</u>	Increase (Decrease)	Percent Increase (Decrease)
Buildings and improvements	\$45,893,036	45,893,036	0	0.0
Operations equipment	88,840,514	78,485,398	10,355,116	13.2
Furniture and office equipment	36,936,878	35,646,877	1,290,001	3.6
Construction in progress	52,444,563	33,000,960	19,443,603	58.9
Land	10,731,918	10,731,918	0	0.0
Accumulated depreciation	<u>(98,143,702)</u>	<u>(84,277,655)</u>	<u>(13,866,047)</u>	16.5
Total capital assets	<u>\$136,703,207</u>	<u>119,480,534</u>	<u>17,222,673</u>	14.4

Additional information regarding the Agency's capital assets can be found in Note 5 in the Notes to the Basic Financial Statements.

DEBT ADMINISTRATION

On June 30, 2012, the Agency had \$9.4 million in long-term liabilities compared to \$7.6 million on June 30, 2011. A significant portion of the Agency's claims payable is anticipated to become payable within one year. Additional information regarding the Agency's long-term liabilities can be found in Note 4 to the Basic Financial Statements.

OMNITRANS' Long-Term Liabilities

	Fiscal Year <u>2012</u>	Fiscal Year <u>2011</u>	Increase (Decrease)	Percent Increase (Decrease)
Claims payable	\$7,688,128	6,367,488	1,320,640	20.7
Capital leases	425,391	73,674	351,717	477.4
Compensated absences	<u>1,303,926</u>	<u>1,141,264</u>	<u>162,662</u>	14.3
Total long-term liabilities	<u>\$9,417,445</u>	<u>7,582,426</u>	<u>1,835,019</u>	24.2

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

NEXT YEAR'S BUDGET

Omnitrans continue to face the challenge of providing mobility, environmental and quality of life benefits within the San Bernardino Valley during difficult economic times with rising gas prices, high unemployment and discontinued school bus services. Omnitrans prepares an operating and capital budget annually that is approved by the Board of Directors prior to the beginning of its fiscal year. The operating budget for fiscal year ending June 30, 2013 will be comparable to the previous fiscal year 2012. Consequently, the focus will be to maintain cost for goods and services at current levels. Fiscal year 2013 will be the fourth consecutive fiscal year that Omnitrans' operating budget has remained at the existing level.

Omnitrans is currently in the midst of a Comprehensive Operational Analysis (COA), one of the most extensive ever to be conducted of Omnitrans by SANBAG. According to the objectives of the COA, numerous major changes will result for the COA.

The capital budget consists of a multi-year program that includes the sbX E Street Corridor project and the San Bernardino Transit Center. Funding for these major projects has been identified, approved by the Board of Directors, and committed to those projects.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, stakeholders and creditors with an overview of the Agency's financial operations and condition. If you have a question about this report or need additional information, you may contact the Agency's Finance Director at 1700 W. 5th Street, San Bernardino, California 92411-2401.

STATEMENT OF NET POSITION

Year Ended June 30, 2012 (with Comparative Totals for Year Ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
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	<u>40,204,481</u>	<u>41,450,301</u>
NON-CURRENT 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 NON-CURRENT ASSETS	<u>136,758,507</u>	<u>119,480,534</u>
TOTAL ASSETS	<u>176,962,988</u>	<u>160,930,835</u>
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	<u>22,829,336</u>	<u>19,264,389</u>
NON-CURRENT 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 NON-CURRENT LIABILITIES	<u>9,417,445</u>	<u>7,582,426</u>
TOTAL LIABILITIES	<u>32,246,781</u>	<u>26,846,815</u>
DEFERRED INFLOW OF RESOURCES:		
Accumulated increase in fair value of hedging derivatives (Note 12)	55,300	-
TOTAL DEFERRED INFLOW OF RESOURCES	<u>55,300</u>	<u>-</u>
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	<u>\$144,660,907</u>	<u>134,084,020</u>

See accompanying notes to basic financial statements

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended June 30, 2012 (with Comparative Totals for Year Ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
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	<u>15,382,654</u>	<u>15,489,725</u>
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	<u>86,276,426</u>	<u>79,302,292</u>
OPERATING INCOME/(LOSS)	<u>(70,893,772)</u>	<u>(63,812,567)</u>
NON-OPERATING 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 non-operating revenues (expenses)	24,951	20,002
TOTAL NON-OPERATING REVENUES	<u>47,057,963</u>	<u>33,269,521</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>(23,835,809)</u>	<u>(30,543,046)</u>
CAPITAL CONTRIBUTIONS:		
Capital assistance	34,412,696	21,016,685
CHANGE IN NET POSITION	<u>10,576,887</u>	<u>(9,526,361)</u>
NET POSITION, BEGINNING OF YEAR	<u>134,084,020</u>	<u>143,610,381</u>
NET POSITION, END OF YEAR	<u>\$ 144,660,907</u>	<u>134,084,020</u>

See accompanying notes to basic financial statements

STATEMENT OF CASH FLOWS

Year Ended June 30, 2012 (with Comparative Totals for Year Ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
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 NON-CAPITAL 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	9,656,222	5,629,312
CASH AND CASH EQUIVALENTS, END OF YEAR	\$5,977,550	9,656,222
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	\$5,977,550	9,656,222

(continued on next page)

See accompanying notes to basic financial statements

STATEMENT OF CASH FLOWS (CONTINUED)

Year Ended June 30, 2012 (with Comparative Totals for Year Ended June 30, 2011)

	<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
Non-operating 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	<u>1,263,767</u>	<u>338,098</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$(45,908,120)</u>	<u>(51,813,080)</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
New borrowings under capital lease	<u>\$652,369</u>	<u>-</u>

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2012

(1) 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 (ARBs) 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.

Statement No. 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 and 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.

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

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 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).

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 on 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.

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.

<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:

<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	\$21,693,589	21,693,589	-
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.

<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	\$21,693,589	N/A	-	-	-	21,693,589
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.

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.

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:

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 on June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance on 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.

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:

Year Ending June 30	Principal	Interest	Total
2013	\$164,981	8,007	172,988
2014	157,123	5,444	162,567
2015	139,166	2,757	141,923
2016	129,101	1,392	130,493
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:

	Balance at June 30, 2011	Additions	Retirements	Balance at June 30, 2012
CAPITAL ASSETS, NOT DEPRECIATED:				
Land	\$10,731,918	-	-	10,731,918
Construction in progress	33,000,960	33,343,986	(13,900,383)	52,444,563
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	35,646,877	1,301,778	(11,777)	36,936,878
Total capital assets, depreciated	<u>\$160,025,311</u>	<u>15,120,468</u>	<u>(3,475,351)</u>	<u>171,670,428</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	(14,475,351)	(7,539,974)	11,777	(22,003,548)
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:

<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 on 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.

On 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.

- **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' compensation 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%
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%.

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.

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.

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 of 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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CONNECTING OUR COMMUNITY



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STATISTICAL SECTION

This section of Omnitrans' Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about Omnitrans' overall financial health. This information has not been audited by the independent auditors.

	Page
<p>FINANCIAL TRENDS</p> <p>These schedules contain trend information to help the reader understand how Omnitrans' financial performance and well-being has changed over time.</p>	32
<p>REVENUE CAPACITY</p> <p>These schedules contain information to help the reader assess Omnitrans' most significant local revenue source, passenger fares.</p>	34
<p>THE ECONOMY AND ECONOMIC OUTLOOK</p> <p>These schedules offer demographic and economic indicators to help the reader understand the environment within which Omnitrans' financial activities take place.</p>	39
<p>OPERATING INFORMATION</p> <p>These schedules contain service and infrastructure data to help the reader understand how the information in Omnitrans' financial report relates to the services Omnitrans provides and the activities it performs.</p>	40

Source: Unless otherwise noted, the information in these schedules derived from the Comprehensive Annual Financial Reports for the relevant years. Omnitrans implemented Governmental Accounting Standards Board, Statement Number 34 (GASB 34) in the fiscal year ended June 30, 2003; schedules presented government-wide information includes information beginning in the year.

FINANCIAL TRENDS

NET POSITION BY COMPONENT

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Capital assets, net of accumulated depreciation	\$68,967,329	77,167,085	81,664,827	79,318,662	84,731,356	84,317,308	94,909,096	114,540,764	119,480,534	136,703,207
Less: Debt offsetting capital assets	547,921	850,173	0	(57,044)	(404,372)	(364,370)	(241,226)	(251,129)	(114,308)	(590,371)
Total invested in capital assets, net of related debt	69,515,250	78,017,258	81,664,827	79,261,618	84,326,984	83,952,938	94,667,870	114,289,635	119,366,226	136,112,836
Unrestricted net assets	16,778,833	15,005,583	17,617,017	28,256,748	29,683,079	33,300,903	33,883,455	29,320,746	14,717,794	8,548,071
Total net position	\$86,294,083	93,022,841	99,281,844	107,518,366	114,010,063	117,253,841	128,551,325	143,610,381	134,084,020	144,660,907

Omnitrans implemented GASB 34 during the fiscal year end June 30, 2003. The increase in net position is mainly attributed to ongoing construction of the San Bernardino Express Bus Rapid Transit (sbx), and preliminary engineering and design of the San Bernardino Transit Center projects.

Source: Finance Department

FINANCIAL TRENDS (CONTINUED)

CHANGES IN NET POSITION

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
OPERATING REVENUES										
Passenger fares	\$ 11,566,651	12,075,736	11,837,875	12,202,126	12,761,463	13,511,536	13,779,684	14,242,013	14,538,747	14,536,931
Advertising revenues	554,784	592,126	596,723	677,943	824,253	948,051	967,628	849,585	909,176	805,904
Other transportation revenues	163,002	189,553	267,901	111,577	37,862	47,307	42,708	39,752	41,802	39,819
Total revenues	\$ 12,284,437	12,857,415	12,702,499	12,991,646	13,623,578	14,506,894	14,790,020	15,131,350	15,489,725	15,382,654
OPERATING EXPENSES										
Depreciation and amortization	8,870,422	8,084,525	7,869,981	8,275,341	8,323,081	8,861,306	9,255,553	10,999,458	12,772,455	17,070,294
Other operating expenses	56,338,850	61,486,917	64,367,977	64,867,497	66,481,860	67,756,893	67,770,003	67,501,900	66,529,837	69,206,132
Total expenses	\$ 65,209,272	69,571,442	72,237,958	73,142,838	74,804,941	76,618,199	77,025,556	78,501,358	79,302,292	86,276,426
NON-OPERATING REVENUES/(EXPENSES)										
Federal and local operating grants	43,061,928	45,956,338	49,798,107	54,858,935	52,112,668	55,587,601	52,983,639	48,085,804	52,675,797	47,875,811
Interest income	338,592	285,807	464,377	995,770	1,714,629	1,656,529	758,950	243,098	74,302	52,727
Interest expense	0	0	0	(2,218)	(5,762)	(11,029)	(9,149)	(6,835)	(6,590)	(3,980)
Pass-through to other agencies	(2,884,271)	(3,727,931)	(2,625,321)	(800,137)	(729,007)	(1,254,751)	(2,779,299)	(3,031,642)	(18,754,320)	(620,108)
Other non-operating revenues (expenses)	116,692	(777,389)	171,574	55,196	(305,583)	(258,422)	(24,710)	(299,568)	(719,668)	(246,487)
Total non-operating revenues	\$ 40,632,941	41,736,825	47,808,737	55,107,546	52,786,945	55,719,928	50,929,431	44,990,857	33,269,521	47,057,963
Income before capital contribution	(12,291,894)	(14,977,202)	(11,726,722)	(5,043,646)	(8,394,418)	(6,391,377)	(11,306,105)	(18,379,151)	(30,543,046)	(23,835,809)
CAPITAL CONTRIBUTIONS										
Capital assistance	\$ 6,628,839	21,705,960	16,144,460	7,274,580	14,623,890	9,635,155	22,603,589	33,438,207	21,016,685	34,412,696
Contributions from other agencies	0	0	0	0	262,225	0	0	0	0	0
Total capital contributions	\$ 6,628,839	21,705,960	16,144,460	7,274,580	14,886,115	9,635,155	22,603,589	33,438,207	21,016,685	34,412,696
Change in net position	\$ (5,663,055)	6,728,758	4,417,738	2,230,934	6,491,697	3,243,778	11,297,484	15,059,056	(9,526,361)	10,576,887
Net position, beginning of year	\$ 91,957,138	86,294,083	94,864,106	105,287,432	107,518,366	114,010,063	117,253,841	128,551,325	143,610,381	134,084,020
Net position, end of year	\$ 86,294,083	93,022,841	99,281,844	107,518,366	114,010,063	117,253,841	128,551,325	143,610,381	134,084,020	144,660,907

Notes: Omnitrans implemented GASB 34 during the fiscal year ended June 30, 2003. The FY2005 beginning balance in net assets includes an adjustment for workers' compensation reserve that was previously overstated. In addition, the restatement includes certain revenues and expenses that were not recognized in prior period. Pass-through to other agencies for 2011 include return of \$16M in LTF-funds to SANBAG for future allocation.

Source: Finance Department

REVENUE CAPACITY

REVENUE SOURCE

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Passenger Fares - Individuals										
F/R Full Fares - Cash	\$4,449,891	\$3,960,198	\$3,453,606	\$3,885,180	\$4,321,978	\$4,571,811	\$4,510,511	\$4,715,996	\$4,756,220	\$4,564,607
F/R Senior/Disable Fare - Cash	148,347	151,782	137,899	179,632	210,954	256,870	263,959	297,986	34,730	360,603
F/R 1-Day & 7-Day Full Fare - Pass	2,855,475	3,450,711	3,634,606	3,910,662	4,139,709	4,015,846	3,925,863	3,626,533	3,540,698	3,478,828
F/R 1-Day & 7-Day S/D Fare - Pass	334,309	417,956	442,060	538,213	562,418	613,947	606,615	666,085	716,572	712,770
F/R 31-Day Full Fare - Pass (less: discount)	493,809	1,008,613	1,054,614	1,004,008	1,069,585	1,197,152	1,299,310	1,423,947	1,354,296	1,125,569
F/R 31-Day Student Fare-Pass	606,788	797,320	882,108	833,925	866,516	837,689	1,010,097	1,239,874	1,247,839	909,534
F/R 31-Day Senior Fare - Pass	91,233	109,414	91,278	84,538	82,373	86,571	93,902	0	0	0
F/R 31-Day Disability Fare - Pass	205,760	388,291	371,914	362,423	325,432	352,027	367,110	479,601*	542,878	571,416
University Passes	0	0	0	0	0	0	0	0	0	736,134
MetroLink Transfer	146	140	1,514	920	37,819	3,237	66,712	49,419	51,325	100,098
F/R 7-Day Student Pass					6,500	227,621	347,973	417,670	446,094	340,581
Access Base Fare - Cash	128,961	151,255	149,292	154,518	130,641	150,814	138,454	158,044	166,246	144,141
Access Base Fare (3 zones) - Ticket	8,089	483,474	888,070	889,053	918,970	1,032,973	991,817	1,023,493	1,183,363	1,248,892
Access Additional (1 zone) - Ticket	16,374	141,228	255	1,553	3,660	5,175	3,916	4,059	12,989	17,071
Access Monthly Subscription Zone - Pass	8,040	71,595	3,968	4,315	4,055	6,020	21,510	16,075	13,340	12,905
Total Passenger Fares	\$9,347,222	\$11,131,977	\$11,111,183	\$11,848,938	\$12,680,609	\$13,397,751	\$13,647,749	\$14,118,782	\$14,366,590	\$14,323,149
Special Transit Fares - Group										
F/R 1 - Trip Full Fare - Ticket	1,184	0		0	25	378	54,675	41,475	57,705	67,330
OmniLink (Yucaipa) - Cash	54,135	48,173	42,214	37,802	40,075	48,104	46,238	50,305	26,859	20,777
OmniLink (Chino Hills) - Cash	9,010	10,850	13,639	12,688	12,829	22,388	22,368	20,570	10,017	8,914
OmniLink S/D Fare - Ticket	1,620	0	1,496	2,583	2,525	5,821	5,495	5,994	5,535	4,199
OmniLink Full Fare - Ticket	56,760	38,739	17,883	40,250	25,400	35,960	297	459	0	54
OmniLink Student Fare - Ticket						1,134	2,862	4,428	2,934	2,304
OmniGo - Fares									69,107	110,204
Total Special Transit Fares	\$122,710	\$97,762	\$75,231	\$93,322	\$80,854	\$113,785	\$134,935	\$123,231	\$172,157	\$213,782
Total Fares	\$9,469,932	\$11,229,739	\$11,186,415	\$11,942,260	\$12,761,463	\$13,511,536	\$13,779,684	\$14,242,013	\$14,538,747	\$14,536,931

*F/R 31-Day Senior and Disable Passes were combined into a single pass.

**Implemented GoSmart Student Pass Program. Source: Finance Department

DEMOGRAPHIC AND ECONOMIC INFORMATION

DEMOGRAPHICS AND STATISTICS OF SAN BERNARDINO COUNTY

<u>Fiscal Year</u>	<u>Population</u>	<u>Personal Income (000)</u>	<u>Per Capita Personal Income</u>	<u>Median Age</u>	<u>School Enrollment</u>	<u>Unemployment Rate</u>
2003	1,853,248	44,452,948	23,987	30.4	407,228	6.3%
2004	1,907,138	47,921,959	25,128	30.3	419,084	5.8%
2005	1,953,229	50,916,445	26,068	30.4	423,780	5.3%
2006	1,987,505	53,928,618	27,134	30.4	427,631	4.8%
2007	2,007,800	56,940,673	28,187	30.3	427,583	5.6%
2008	2,044,895	59,800,525	29,016	30.3	428,142	8.0%
2009	2,045,632	60,875,315	30,363	30.3	420,325	13.6%
2010	2,048,217	60,800,000	29,848	30.3	415,549	14.3%
2011	2,053,348	63,600,000	30,245	30.9	417,202	14.3%
2012	2,065,000	59,300,605	28,717	31.2	417,000	12.2%

Source: U.S. Census Bureau; Bureau of Economic Analysis; California Employment Development Department; California Basic Educational Data Systems (CBEDS); California Department of Education.

PRINCIPAL EMPLOYERS OF SAN BERNARDINO COUNTY

<u>Employer</u>	<u>Rank</u>	<u>2012</u>		<u>2011</u>
		<u>Employees</u>	<u>Percent of Total Employment</u>	<u>Rank</u>
County of San Bernardino, San Bernardino	1	15,000 - 20,000	1.8%	3
U.S. Army, Fort Irwin & National Training Center	2	15,000 - 20,000	1.4%	4
Loma Linda University*	3	10,000 - 15,000	1.4%	6
U.S. Marine Corps Air Ground Combat Center	4	10,000 - 15,000	1.3%	5
San Bernardino City Unified School District	5	5,000 - 10,000	0.8%	12
Stater Brothers Markets, San Bernardino	6	5,000 - 10,000	0.8%	1
Ontario International Airport, Ontario	7	5,000 - 10,000	0.8%	7
Wal-Mart Stores Inc.	8	5,000 - 10,000	0.6%	8
Kaiser Permanente	9	5,000 - 10,000	0.6%	9
United Parcel Service (UPS)	10	5,000 - 10,000	0.5%	10
Arrowhead Regional Medical Center, Colton	11	2,000 - 5,000	0.5%	2
Fontana Unified School District	12	2,000 - 5,000	0.4%	13
San Manuel Band of Mission Indians	13	2,000 - 5,000	0.3%	15
Chino Valley Unified School District, Chino	14	2,000 - 5,000	0.3%	16
California State University, San Bernardino	15	2,000 - 5,000	0.3%	11
Colton Joint Unified School District	16	2,000 - 5,000	0.3%	14

*Includes: Loma Linda University, Loma Linda Medical Center, and VA Loma Linda Healthcare Systems

Source: The Inland Empire - Southern California's Backyard, U.S. Census Bureau, Inland SoCal

RIVERSIDE-SAN BERNARDINO-ONTARIO MSA (RIVERSIDE AND SAN BERNARDINO COUNTIES)

INDUSTRY EMPLOYMENT AND LABOR FORCE

TITLE	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12	Average
Civilian Labor Force	1,589,000	1,651,400	1,703,600	1,746,000	1,767,400	1,780,200	1,776,700	1,794,800	1,793,400	1,808,000	1,741,050
Civilian Employment	1,480,000	1,549,300	1,610,100	1,656,700	1,664,200	1,636,800	1,536,600	1,537,700	1,542,700	1,579,800	1,579,390
Civilian Unemployment	109,000	102,100	93,500	89,300	103,200	143,400	240,200	257,100	250,600	228,200	161,660
Civilian Unemployment Rate	6.9%	6.2%	5.5%	5.1%	5.8%	8.1%	13.5%	14.3%	14.0%	12.6%	9.2%
Total, All Industries	1,130,100	1,187,500	1,245,500	1,300,600	1,301,400	1,256,200	1,160,000	1,154,100	1,145,800	1,168,500	1,204,970
Total Farm	28,800	25,900	23,700	22,500	22,800	21,900	20,900	21,100	19,000	19,100	22,570
Total Nonfarm	1,101,300	1,161,600	1,221,800	1,278,100	1,278,600	1,234,300	1,139,100	1,133,000	1,126,800	1,149,400	1,182,400
Total Private	887,200	948,200	1,001,600	1,050,800	1,049,600	1,001,000	906,300	891,400	896,000	924,300	955,640
Goods Producing	217,000	234,400	247,000	259,400	237,800	203,500	159,900	147,800	146,100	146,300	199,920
Mining and Logging	1,200	1,200	1,300	1,400	1,300	1,200	1,200	1,000	1,000	1,100	1,190
Construction	99,800	112,200	124,900	132,600	116,600	93,800	69,800	61,300	59,100	59,300	92,940
Construction of Buildings	15,700	17,800	20,300	22,500	20,300	16,300	12,000	10,600	10,700	11,100	15,730
Heavy & Civil Engineering Construction	10,700	11,400	12,500	12,500	13,000	11,700	9,100	8,200	9,000	9,500	10,760
Specialty Trade Contractors	73,400	83,000	92,100	97,600	83,300	65,800	48,700	42,500	39,400	38,700	66,450
Building Foundation & Exterior Contractors	26,700	30,400	34,700	37,200	29,200	20,800	13,600	12,400	10,800	9,600	22,540
Building Equipment Contractors	18,400	20,000	22,200	22,900	21,800	19,200	15,800	13,700	13,400	13,200	18,060
Building Finishing Contractors	19,900	23,500	25,000	25,900	21,600	16,500	12,400	10,400	9,800	9,100	17,440
Manufacturing	116,000	121,000	120,800	125,400	119,900	108,500	88,900	85,500	86,000	85,900	105,790
Durable Goods	82,500	85,800	86,000	88,600	83,100	73,700	58,200	55,500	56,600	55,700	72,570
Fabricated Metal Product Manufacturing	15,900	16,500	17,000	16,800	16,100	14,900	11,900	11,500	12,500	12,400	14,550
Nondurable Goods	33,500	35,200	34,800	36,800	36,800	34,800	30,700	30,000	29,400	30,200	33,220
Food Mfg & Beverage & Tobacco Product Mfg	8,800	9,300	9,600	10,800	11,100	10,500	9,700	9,800	9,500	9,600	9,870
Service Providing	884,300	927,200	974,800	1,018,700	1,040,800	1,030,800	979,200	985,200	980,700	1,003,100	982,480
Private Service Producing	670,200	713,800	754,600	791,400	811,800	797,500	746,400	743,600	749,900	778,000	755,720
Trade, Transportation & Utilities	234,500	251,200	272,700	289,300	299,000	293,300	270,100	269,000	272,300	278,200	272,960
Wholesale Trade	44,000	45,100	49,900	54,200	56,900	55,000	48,900	48,900	48,800	54,100	50,580
Merchant Wholesalers, Durable Goods	26,900	27,200	30,800	34,100	34,500	33,000	29,100	29,200	29,000	31,400	30,520
Merchant Wholesalers, Nondurable Goods	13,400	13,000	13,800	14,500	16,500	16,600	15,400	15,500	15,500	16,100	15,030
Retail Trade	140,500	151,300	163,100	171,600	173,300	168,100	154,100	153,900	155,000	154,500	158,540
Motor Vehicle & Parts Dealer	22,600	23,700	25,000	25,900	25,300	23,200	18,600	18,700	19,600	20,400	22,300
Automotive Parts, Accessories & Tire Stores	6,500	6,700	6,700	6,800	6,400	6,300	6,000	6,400	6,500	6,500	6,480
Building Material & Garden Equipment Stores	12,500	14,300	15,300	16,200	15,400	13,900	12,800	12,500	12,300	12,300	13,750
Food & Beverage Stores	27,800	28,900	30,800	31,800	33,700	33,300	32,900	32,700	30,700	31,200	31,380
Health & Personal Care Stores	7,500	8,200	7,700	8,300	8,900	9,400	9,000	9,100	9,100	9,500	8,670
Clothing & Clothing Accessories Stores	12,300	12,500	13,500	14,500	16,100	16,200	14,400	15,600	17,100	18,000	15,020
Clothing Stores	9,100	9,200	10,100	11,000	12,400	12,600	11,200	12,300	13,500	14,000	11,540
General Merchandise Stores	28,500	31,200	35,400	38,400	37,700	37,100	35,500	35,500	35,000	35,100	34,940
Department Stores	21,200	23,900	27,800	30,500	29,200	27,900	25,100	24,600	23,800	23,700	25,770
Other General Merchandise Stores	7,300	7,300	7,600	7,900	8,500	9,200	10,400	10,900	11,200	11,400	9,170
Transportation, Warehousing & Utilities	50,000	54,800	59,700	63,500	68,800	70,200	67,100	66,200	68,500	69,600	63,840
Utilities	5,000	5,000	5,300	5,600	5,700	5,900	5,800	5,800	5,800	5,900	5,580
Transportation & Warehousing	45,000	49,800	54,400	57,900	63,100	64,300	61,300	60,400	62,700	63,700	58,260

RIVERSIDE-SAN BERNARDINO-ONTARIO MSA (RIVERSIDE AND SAN BERNARDINO COUNTIES) (CONTINUED)

INDUSTRY EMPLOYMENT AND LABOR FORCE

TITLE	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12	Average
Truck Transportation	19,000	20,700	23,300	23,100	23,700	22,900	21,400	20,200	21,900	22,900	21,910
General Freight Trucking	12,000	13,900	16,000	16,100	16,800	16,800	16,000	15,500	16,500	17,300	15,690
Couriers & Messengers	6,800	7,400	7,600	8,200	7,900	7,900	7,600	7,000	7,000	7,000	7,440
Warehousing & Storage	6,600	8,300	9,900	12,200	16,100	16,900	17,200	18,300	19,600	20,400	14,550
Information	13,800	14,000	14,600	15,400	15,500	14,900	15,300	16,100	14,900	14,900	14,940
Publishing Industries (except Internet)	3,400	3,500	3,300	3,400	3,200	3,000	2,400	1,900	1,800	1,900	2,780
Telecommunications	5,600	5,800	6,200	6,300	6,700	7,100	8,200	9,100	8,500	8,200	7,170
Financial Activities	42,900	45,500	48,500	52,100	50,200	46,500	42,200	40,900	39,800	38,600	44,720
Finance & Insurance	25,700	27,800	29,800	31,700	30,500	27,500	25,900	25,400	25,300	24,800	27,440
Credit Intermediation & Related Activities	14,900	16,200	17,900	19,000	18,200	16,500	15,300	14,900	14,900	14,700	16,250
Depository Credit Intermediation	8,500	9,300	9,800	10,400	11,000	10,800	10,100	10,100	9,800	9,500	9,930
Nondepository Credit Intermediation	5,000	5,600	6,500	6,800	5,500	4,400	4,000	3,600	4,000	4,200	4,960
Insurance Carriers & Related	8,700	9,600	10,000	10,600	10,300	9,100	8,900	8,800	9,000	9,000	9,400
Insurance Carriers	4,600	5,400	5,500	5,500	5,100	4,200	4,100	4,100	4,100	4,100	4,670
Real Estate & Rental & Leasing	17,200	17,700	18,700	20,400	19,700	19,000	16,300	15,500	14,500	13,800	17,280
Real Estate	11,300	11,800	12,600	13,700	13,000	12,000	10,500	10,400	9,800	9,500	11,460
Professional & Business Services	113,900	127,000	132,700	141,800	145,300	138,200	123,700	123,000	123,300	140,500	130,940
Professional, Scientific & Technical Services	28,400	30,600	34,600	39,300	40,300	39,800	36,700	34,100	34,600	36,900	35,530
Management of Companies & Enterprises	10,900	11,400	11,900	10,800	9,700	9,800	9,000	8,700	8,800	8,800	9,980
Administrative & Support & Waste Services	74,600	85,000	86,200	91,700	95,300	88,600	78,000	80,200	79,900	94,800	85,430
Administrative & Support Services	71,600	81,800	83,500	88,900	92,500	85,700	75,400	77,500	76,900	91,500	82,530
Employment Services	37,500	45,200	46,600	49,600	53,000	46,500	35,500	37,200	35,800	41,700	42,860
Investigation & Security Services	6,100	7,000	7,300	8,000	8,000	8,000	9,600	9,900	10,700	11,300	8,590
Services to Buildings & Dwellings	16,800	16,500	18,000	19,100	18,500	17,300	16,400	16,100	16,000	17,100	17,180
Educational & Health Services	116,600	119,300	120,700	121,800	126,000	131,100	133,500	132,500	136,700	140,300	127,850
Educational Services	13,300	13,900	14,000	13,700	14,300	15,100	15,600	14,900	14,500	14,200	14,350
Colleges, Universities & Professional Schools	5,100	5,300	5,600	4,600	4,600	4,900	5,600	5,400	5,500	5,600	5,220
Health Care & Social Assistance	103,300	105,400	106,700	108,100	111,700	116,000	117,900	117,600	122,200	126,100	113,500
Ambulatory Health Care Services	41,500	42,800	44,500	46,500	46,800	49,000	50,300	51,200	52,900	54,900	48,040
Offices of Physicians	21,400	21,300	20,900	21,700	20,400	21,900	23,000	23,200	24,200	24,900	22,290
Hospitals	29,300	29,100	28,900	28,800	30,100	31,700	32,600	32,300	34,000	34,000	31,080
Nursing & Residential Care Facilities	20,200	19,800	19,600	19,400	20,600	20,700	20,300	20,400	21,400	21,900	20,430
Leisure & Hospitality	109,300	117,600	124,300	128,400	133,800	131,300	124,100	122,900	123,500	125,600	124,080
Arts, Entertainment & Recreation	14,400	14,900	15,800	15,600	16,700	16,100	14,800	14,900	14,200	14,900	15,230
Accommodation & Food Services	94,900	102,700	108,500	112,800	117,100	115,200	109,300	108,000	109,300	110,700	108,850
Accommodation	16,500	18,500	17,900	18,200	17,400	16,300	14,600	13,600	13,900	14,900	16,180
Food Services & Drinking Places	78,400	84,200	90,600	94,600	99,700	98,900	94,700	94,400	95,400	95,800	92,670
Full-Service Restaurants	33,800	35,800	39,400	40,300	41,900	40,900	38,900	39,300	40,300	39,800	39,040
Limited-Service Eating Places	41,400	45,000	48,300	51,300	54,300	54,300	52,500	51,700	51,600	52,700	50,310
Other Services	39,200	39,200	41,100	42,700	42,000	42,200	37,500	39,200	39,400	39,900	40,240
Repair & Maintenance	16,500	16,400	17,000	17,700	15,900	15,400	13,000	12,900	13,000	13,000	15,080
Personal & Laundry Services	8,400	8,400	9,100	9,600	10,300	10,400	9,600	9,800	9,500	9,300	9,440

RIVERSIDE-SAN BERNARDINO-ONTARIO MSA (RIVERSIDE AND SAN BERNARDINO COUNTIES) (CONTINUED)

INDUSTRY EMPLOYMENT AND LABOR FORCE

TITLE	Jun-03	Jun-04	Jun-05	Jun-06	Jun-07	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12	Average
Government	214,100	213,400	220,200	227,300	229,000	233,300	232,800	241,600	230,800	225,100	226,760
Federal Government	17,000	17,000	18,800	19,300	19,500	19,700	20,300	25,000	21,400	20,500	19,850
Department of Defense	5,200	5,300	5,600	5,700	5,600	5,800	6,100	6,300	6,400	6,000	5,800
Federal Government excluding Department of Defense	11,800	11,700	13,200	13,600	13,900	13,900	14,200	18,700	15,000	14,500	14,050
State & Local Government	197,100	196,400	201,400	208,000	209,500	213,600	212,500	216,600	209,400	204,600	206,910
State Government	27,300	27,000	27,600	27,900	29,300	30,500	30,800	29,900	30,100	29,100	28,950
State Government Education	10,200	9,900	10,100	10,300	10,700	11,100	11,200	10,900	11,600	11,300	10,730
State Government Excluding Education	17,100	17,100	17,500	17,600	18,600	19,400	19,600	19,000	18,500	17,800	18,220
Local Government	169,800	169,400	173,800	180,100	180,200	183,100	181,700	186,700	179,300	175,500	177,960
Local Government Education	100,400	100,200	98,500	99,900	97,100	99,200	99,200	107,100	103,000	100,000	100,460
County	34,100	32,400	32,500	36,000	37,400	37,700	37,500	36,400	35,200	35,000	35,420
City	15,000	15,200	15,500	16,200	17,300	17,900	17,700	16,600	16,200	15,300	16,290
Special Districts plus Indian Tribes	20,300	21,600	27,300	28,000	28,400	28,300	27,300	26,500	24,900	25,200	25,780

Source: CA Employment Development Department Labor Market Information

THE ECONOMY AND ECONOMIC OUTLOOK

After a steady decline in employment in San Bernardino County since 2006, the number of jobs rose in 2011 and continued to rise into 2012. Between the high of 2006 and the low of 2010, employment declined by nearly 82,000 jobs. Employment began to rebound in 2011 and by the first quarter of 2012 had reached 760,600 jobs, an increase of 21,700. Still, over 110,000 San Bernardino County residents report being unemployed as of March 2012.

Paralleling unemployment trends nationwide, San Bernardino County's unemployment rate fell in 2011 and continued falling into early 2012 (according to the latest data available at the time of this report). During the 10-year period from 2002 to 2012, the unemployment rate in San Bernardino County ranged from a low of 4.8% in 2006 to a high of 14.2% in 2010. From its high in 2010, the unemployment rate decreased slightly to 13.2% in 2011 and 12.2% as of March 2012. In March 2012, San Bernardino County's unemployment rate was ranked 25th out of the 58 counties in California, the same ranking as in March 2011. San Bernardino County had higher unemployment rates than in the United States as a whole between 2002 and 2012.

The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 11.3 percent in November 2012, down from a revised 11.7 percent in October 2012, and below the year-ago estimate of 12.4 percent. This compares with an unadjusted unemployment rate of 9.6 percent for California and 7.4 percent for the nation during the same period. The unemployment rate was 11.5 percent in Riverside County and 11.0 percent in San Bernardino County.

As the economy continues to recover from the Great Recession, San Bernardino County has experienced a slow, but steady decline in unemployment. In 2011, the county added nearly 2,500 jobs to the local economy with significant activity in manufacturing and logistics. With the workforce driving corporate relocations and expansions, San Bernardino County is well positioned with a labor pool of 900,000 and a two million-resident metropolitan area. Other advantages of the region include newer facilities at lower lease rates than competing markets, superior transportation infrastructure, and access to a market of 23 million people within three hours of driving. Significant speculative industrial construction activity has returned to the region, and with trade volumes expected to increase, the economic outlook for San Bernardino County is optimistic.

Source: San Bernardino 2012 Community Indicator Report and the County of San Bernardino Economic Development Agency.

OPERATING INFORMATION

NUMBER OF EMPLOYEES

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Administration	3	3	3	4	4	5	5	5	5	5
Operation	501	470	491	504	494	504	474	473	445	438
Maintenance	109	113	108	116	117	118	118	111	99	102
Information Technology	6	6	6	6	7	10	10	10	6	6
Marketing	22	24	24	24	22	23	23	24	23	23
Planning	6	9	8	7	7	17*	15	16	17	19
Human Resources	10	10	10	10	10	11	11	11	9	9
Safety & Security	3	3	3	2	2	4	4	4	4	4
Procurement	17	15	21	22	19	21	21	21	17	19
Finance	<u>17</u>	<u>17</u>	<u>17</u>	<u>15</u>	<u>17</u>	<u>16</u>	<u>16</u>	<u>12</u>	<u>12</u>	<u>12</u>
Total	<u>694</u>	<u>670</u>	<u>691</u>	<u>710</u>	<u>699</u>	<u>729</u>	<u>697</u>	<u>687</u>	<u>637</u>	<u>637</u>

*Revised in 2008 to include Integrated Project Management Oversight Employees

Source: Human Resources Department

OPERATING INFORMATION (CONTINUED)

OPERATING EXPENSES BY CATEGORY

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Personnel	\$19,392,752	\$19,787,768	\$21,093,308	\$24,297,509	\$25,198,119	\$25,639,106	\$26,704,109	\$26,628,484	\$24,869,713	\$25,280,131
Materials & Supplies	7,268,910	7,249,581	8,073,124	10,732,723	10,911,136	10,053,655	9,062,296	8,831,959	7,743,557	8,479,014
Casualty & Liability	6,962,241	9,492,396	7,683,447	3,704,840	2,206,571	4,981,889	4,448,557	233,360	4,674,142	5,100,830
Purchased Transportation	7,227,663	8,884,853	9,876,923	7,404,173	6,241,231	6,336,702	6,719,510	7,114,073	8,831,959	8,882,227
Depreciation & Other	23,649,799	23,271,495	25,208,047	27,003,593	30,247,884	29,606,847	30,091,084	31,693,482	33,182,921	38,534,224
Total Operating Expenses	\$64,501,365	\$68,686,093	\$71,934,849	\$73,142,838	\$74,804,941	\$76,618,199	\$77,025,556	\$78,501,358	\$79,302,292	\$86,276,426

Source: Finance Department

OPERATING EXPENSES BY FUNCTION

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Transportation	\$19,605,284	\$19,071,473	\$21,794,508	\$24,680,219	\$25,506,068	\$26,163,421	\$27,787,511	\$28,239,330	\$29,168,399	\$29,261,593
Maintenance	13,955,552	14,134,065	14,054,738	17,488,081	18,315,985	17,867,594	16,627,719	15,770,795	14,204,780	14,830,016
Risk Management*	6,618,237	9,185,069	7,157,905	3,708,749	2,206,571	4,981,889	4,448,557	4,233,360	4,674,142	5,100,830
Marketing	1,835,971	2,115,129	2,111,795	2,275,828	2,328,273	2,366,484	2,330,561	2,673,847	2,260,166	2,259,488
General Administration	4,900,181	4,847,166	3,402,253	6,510,371	7,341,094	9,569,184	7,451,941	7,226,877	7,835,246	8,052,766
Depreciation & Other**	17,586,140	19,332,191	23,413,650	18,481,808	19,106,950	15,669,627	18,379,268	20,357,148	21,159,558	26,771,733
Total Operating Expenses	\$64,501,365	\$68,686,093	\$71,934,849	\$73,145,056	\$74,804,941	\$76,618,199	\$77,025,556	\$78,501,358	\$79,302,292	\$86,276,426

* Risk Management consists of casualty and liability costs.

** Depreciation & Other cost consists of depreciation, purchased transportation, leases and rentals, and capital purchases charged to operating.

Source: Finance Department

OPERATING INFORMATION (CONTINUED)

CAPITAL ASSETS BY FUNCTION

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Fixed route										
Buses	187	183	181	181	180	175	173	177	167	179
Paratransit										
Paratransit buses	100	101	101	101	101	95	102	101	106	106
Paratransit vans	0	0	0	0	0	6	10	10	10	10
Support vehicles										
Vans, cars & trucks	41	43	45	39	31	35	52	49	42	43

Source: Finance Department

CONNECTING OUR COMMUNITY



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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.



Irvine, California
October 31, 2012



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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.

Administrative and Finance Committee
Omnitrans
San Bernardino, California

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
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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.



Irvine, California
October 31, 2012



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**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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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
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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
<p align="center">1 (All Claimants)</p>	<p>Determine that Claimant is eligible under one of the following TDA Articles:</p> <ol style="list-style-type: none"> 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
<p align="center">2 (All Transit Claimants)</p>	<p>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.</p>
<p align="center">3 (All Transit Claimants)</p>	<p>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.</p> <p>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.</p>
<p align="center">4 (Article 6.5 Claimants Only)</p>	<p>Determine that claimant was eligible to receive State Transit Assistance.</p> <p>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.</p> <p>The actual cost per revenue hour comparison must be calculated in footnotes.</p>
<p align="center">5 (All Claimants)</p>	<p>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.</p>

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)	<p>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:</p> <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)	<p>Determine whether claimant has met the applicable fare ratio requirement.</p> <p>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.</p>
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

	<u>PTMISEA Program</u>	<u>CTSG Program</u>	<u>CAL EMA Program</u>	<u>Total</u>
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>

OMNITRANS

Annual National Transit Database Reporting

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



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**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, 2011 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 (Transtrak) to ensure that reported mileage was reported accurately and excluded deadhead miles. In comparing amounts reported on the trip sheets to the Transtrak Surveying Sheets we noted passenger mile variances on 12 of the 58 selected for testing. For the months selected, Transtrak 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 Transtrak 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 that reads "Mayer Hoffman McLean P.C.".

Irvine, California
October 19, 2012