Board of Directors
Mountain Area Regional Transit Authority
Big Bear Lake, California

We have audited the financial statements of the Mountain Area Regional Transit Authority (MARTA) for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by MARTA are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by MARTA during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the depreciation of capital assets is based upon the estimated useful lives of the related capital assets.
- Management's estimate of compensated absences liability is based upon the vacation leave balance and pay rate of all eligible employees
- Management's estimate of the self-insurance liabilities is based upon the annual statement provided by an external self-insurance administrator
- Management's footnote disclosure on the employee pensions and deferred compensation plan is based on executed agreements between MARTA and the pension plan and deferred compensation plan providers

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of deficit unrestricted net assets in Note 12 to the financial statements. As of June 30, 2012, MARTA reported a deficit of $56,715. Management indicated that the deficit was primarily due to the long term insurance liability described in Note 7 to the financial statements. The deficit is expected to be funded through future earnings. Management asserted that no impact to operations is anticipated.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The misstatements noted below were corrected by management:

- Compensated absences were overstated by $5,834 as of June 30, 2012.
- Self insurance liabilities were overstated by $24,489 as of June 30, 2012.

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 March 22, 2013.

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 the Authority's 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 MARTA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of MARTA and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
March 22, 2013

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

BASIC FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

JUNE 30, 2012

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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mountain Area Regional Transit Authority
Big Bear Lake, California

We have audited the accompanying financial statements of the Mountain Area Regional Transit Authority (MARTA) as of and for the year ended June 30, 2012. These financial statements are the responsibility of MARTA's management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MARTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, 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 previously present fairly, in all material respects, the financial position of MARTA as of June 30, 2012 and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2013, on our consideration of MARTA's internal control over financial reporting and on our tests of its compliance with certain provisions of law, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
March 22, 2013

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MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 877,919
Accounts receivable	609
Operating grants receivable	255,226
Capital grants receivable	19,094
Prepaid expenses	169
Total Current Assets	1,153,017
CAPITAL ASSETS	
Nondepreciable - land	542,457
Depreciable	4,827,062
Accumulated depreciation	(3,110,254)
Capital assets, net	2,259,265
TOTAL ASSETS	3,412,282
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	55,702
Accrued liabilities	102,558
Deferred revenue	609,432
Total Current Liabilities	767,692
NONCURRENT LIABILITIES	
Self-insurance liabilities	442,040
TOTAL LIABILITIES	1,209,732
NET ASSETS:	
Invested in capital assets	2,259,265
Unrestricted	(56,715)
TOTAL NET ASSETS	$ 2,202,550

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

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012

OPERATING REVENUES:	
Fares	$ 300,053
OPERATING EXPENSES:	
Operations	1,270,430
Maintenance	175,863
General and administration	792,199
Depreciation	420,134
Total Operating Expense	2,658,626
OPERATING (LOSS)	(2,358,573)
NON-OPERATING REVENUES AND EXPENSES:	
Operating Assistance:	
Federal Transit Administration Section 5311	306,251
Local Transportation Fund Article 4	1,483,842
Measure I	110,066
Interest income	226
Reimbursement	4,601
Other	6,235
Interest expense	(650)
Total Non-operating Revenues (Expenses)	1,910,571
NET (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(448,002)
CAPITAL CONTRIBUTIONS:	
Federal Transit Administration Section 5311	186,530
State Transit Assistance Fund	48,672
Congestion Mitigation and Air Quality Improvement Program	198,316
CTGSP	36,333
PTMISEA	124,308
Total Capital Contributions	594,159
CHANGE IN NET ASSETS	146,157
NET ASSETS, Beginning of year	2,056,393
NET ASSETS, End of year	$ 2,202,550

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

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012

Cash flows from operating activities:		
Cash received from fares	$	301,216
Payments to employees		(1,420,020)
Payments to vendors for services		(884,087)
Net cash used in operating activities		(2,002,891)
Cash flows from non-capital financing activities:		
Payments, line of credit		(150,000)
Interest payments		(650)
Operating grants received		2,212,614
Net cash provided by non-capital financing activities		2,061,964
Cash flows from capital and related financing activities:		
Capital grants received		543,878
Purchase of capital assets		(571,690)
Net cash used in capital and related financing activities		(27,812)
Cash flows from investing activities:		
Interest received		226
Net increase in cash and cash equivalents		31,487
Cash and cash equivalents, beginning of year		846,432
Cash and cash equivalents, end of year	$	877,919
Reconciliation of operating (loss) to net cash used in operating activities:		
Operating income (loss)	$	(2,358,573)
Adjustments to reconcile operating (loss) to net cash used in operating activities:		
Depreciation expense		420,134
Changes in assets and liabilities:		
Decrease in assets:		
Accounts receivable		1,164
(Decrease) in liabilities:		
Accounts payable and accrued liabilities		(41,127)
Self-insurance liabilities		(24,489)
Total Adjustments		355,682
Net cash used in operating activities	$	(2,002,891)

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

NOTE 1 – ORGANIZATION

Mountain Area Regional Transit Authority (MARTA) is a joint powers authority whose members are the City of Big Bear and the County of San Bernardino. MARTA provides bus services to the Big Bear Lake and Crestline Communities, off-the-mountain bus services, and Dial-a-Ride services. MARTA is governed by a Board of Directors comprised of representatives of the member jurisdictions and a member-at-large.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity - MARTA meets the criteria as a stand-alone government, and accordingly, is accounted for and reported on as though it were a primary government.

Basis of Accounting - MARTA is a single enterprise fund and maintains its records on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of related cash flows. MARTA has elected under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements, as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board, or any Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. MARTA has elected not to follow subsequent private sector guidance.

Cash and cash equivalents includes demand deposits and amounts invested in savings accounts. For the purpose of the Statement of Cash Flows, cash and cash equivalents are defined as short-term deposits with original maturities of three months or less from the date of acquisition.

Grants for operating assistance and capital acquisitions are included in revenue in the period in which the grant was earned. Federal capital grant funds claimed on a reimbursement basis have receivables for grant funds recorded as the related obligations are incurred. Capital grant funds advanced but not yet earned are treated as deferred revenues. Also, operating funds advanced from San Bernardino Associated Governments for working capital are treated as deferred revenues until earned. Operating assistance grants are included in non-operating revenues in the year in which the grant is applicable and the related expenses are incurred. Revenue earned under capital grants are recorded as capital contributions.

Capital assets are stated at cost and depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	15 to 30 years
Passenger facilities	5 to 10 years
Shop, office, and other equipment	5 to 10 years

MARTA's capitalization threshold is $1,000. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the useful lives are not capitalized.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Compensated Employee Absences – Compensated employee absences (vacation leave) are accrued as an expense and liability.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Operating and Non-Operating Revenue – MARTA distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from directly providing services in connection with MARTA's principal operation of bus transit services. These revenues are primarily passenger fares. Operating expenses include the cost of sales and services, administrative expenses and depreciation on capital assets. Non-operating revenues consist of federal, state and local operating grants and investment income. Operating expenses include operations, maintenance, and administrative expenses and depreciation on capital assets.

Expenses not meeting this definition are reported as non-operating expenses. Non-operating expenses consist of 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 MARTA's policy to use restricted resources first, and then unrestricted resources as they are needed.

NOTE 3 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS

MARTA is subject to the provisions pursuant to Section 6634 of the California Code of Regulations and Sections 99268.4 and 99313.3 of the Public Utilities Code.

MARTA receives allocations of local transportation funds pursuant to the Transportation Development Act of 1971. These funds are generated within San Bernardino County and are allocated based on annual claims filed by MARTA and approved by SANBAG.

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

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE 3 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS (CONTINUED)

A. Section 6634

Pursuant to Section 6634, a transit claimant is precluded from receiving monies from the local transportation fund and the State Transit Assistance Fund in an amount which exceeds the claimant's costs less the sum of fares received, local support required to meet the fare ratio, federal operating assistance, and the amount received during the year from a city or county to which the operator has provided service beyond its boundaries.

The computation of deferred revenue for 2012 is as follows:

	Operating Funds	Capital Funds	Total
Beginning balance, July 1, 2011	$ 1,628	$ 448,731	$ 450,359
Gross receipts			
State Transit Assistance Fund		48,672	48,672
Local Transportation Fund, Article 4	1,729,271		1,729,271
Federal Transportation Admin, Section 5311	306,251	186,530	492,781
Measure I	110,066		110,066
Interest income	226	440	666
Fares	297,816		297,816
Prepaid Fares*	473		473
CMAQ		198,316	198,316
CTGSP		75,000	75,000
Reimbursements	4,601		4,601
Proceeds from disposal of assets	898		898
Other	5,337	5,358	10,695
Total gross receipts	2,454,939	514,316	2,969,255
Operating expenses, less depreciation	(2,210,667)	(27,825)	(2,238,492)
Capital acquisitions		(571,690)	(571,690)
Receipts over (under) expenses in current period	244,272	(85,199)	159,073
Amounts received in excess of costs as of June 30, 2012	$ 245,900	$ 363,532	
Amount deferred at June 30, 2012 *	$ 245,900	$ 363,532	$ 609,432

* Prepaid fares are not considered revenue until earned and are reflected as deferred revenue in the Statement of Net Assets

NOTE 3 – TRANSPORTATION DEVELOPMENT ACT REQUIREMENTS (CONTINUED)

B. Section 99268.4

Section 99268.4 indicates that in the case of an operator which is serving a non-urbanized area, the operator shall be eligible for local transportation funds in any fiscal year if it maintains, for the fiscal year, a ratio of fare revenues to operating cost at least equal to 10%.

The fare ratio as of June 30, 2012, is calculated as follows:

Operating expenses	$	2,658,626
Less depreciation		(420,134)
Adjusted operating expenses	$	2,238,492
Fare revenue	$	300,053
Fare ratio		13.40%

NOTE 4 – CASH AND CASH EQUIVALENTS

Deposits as of June 30, 2012, consist of the following:

Demand accounts	$	328,272
Savings accounts		549,647
Total	$	877,919

Policies and Practices

MARTA is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations as specified in Section 53600. MARTA does not have a formal policy for investments that is more restrictive than the noted Government Code.

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, MARTA 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. MARTA does not have a policy of custodial credit risk for deposits. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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 deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

NOTE 5 – CAPITAL ASSETS

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

	Beginning Balance July 1, 2011	Additions	Deletions	Ending Balance June 30, 2012
Nondepreciable assets				
Land	$ 542,457			$ 542,457
Depreciable assets				
Buildings and improvements	1,697,098	$ 235,380		1,932,478
Passenger facilities	11,979			11,979
Shop, office and other equipment	2,553,533	336,310	$ (7,238)	2,882,605
subtotal depreciable assets	4,262,610	571,690	(7,238)	4,827,062
Accumulated depreciation				
Buildings and improvements	(1,108,131)	(53,183)		(1,161,314)
Passenger facilities	(11,979)			(11,979)
Shop, office and other equipment	(1,577,248)	(366,951)	7,238	(1,936,961)
subtotal accumulated depreciation	(2,697,356)	(420,134)	7,238	(3,110,254)
Net depreciable assets	1,565,254	151,556	-	1,716,808
Total capital assets	$ 2,107,711	$ 151,556	$ -	$ 2,259,265

NOTE 6 – LINE OF CREDIT

MARTA has an unsecured line of credit with First Mountain Bank in the amount of $250,000. The line of credit specifies that MARTA will pay the loan amount in full immediately upon the Bank's demand. In addition MARTA will pay regular monthly payments of all accrued interest. The interest rate on the line of credit is variable and is the Wall Street Journal Prime Rate plus .750 percent; but in no case will the rate be less than six percent, or more than the maximum rate allowed by law.

Line of credit, June 30, 2011	$ 150,000
Payments	(150,000)
Balance, June 30, 2012	$ -

NOTE 7 – RISK MANAGEMENT

MARTA is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 121 California public entities, and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The Authority began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

NOTE 7 – RISK MANAGEMENT (CONTINUED)

Each member pays an annual contribution (formerly called the primary deposit) to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, outstanding claims are valued. A retrospective deposit computation is then conducted annually thereafter, until all claims incurred during the coverage period are closed on a pool-wide basis. This subsequent cost re-allocation among members, based on actual claim development, can result in adjustments of either refunds or additional deposits required. As of June 30, 2012, the retrospective deposit calculation resulted in a liability of $442,040. MARTA has had no settled claims resulting from these risks that exceeded its coverage in any of the past three fiscal years.

The total funding requirement for self-insurance programs is estimated using actuarial models and pre-funded through the annual contribution. Costs are allocated to individual agencies based on exposure (payroll) and experience (claims) relative to other members of the risk sharing pool. Additional information regarding the cost allocation methodology is provided below.

General Liability – In the liability program, claims are pooled separately between police and non-police exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to $30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from $30,000 to $750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of $750,000, up to the reinsurance attachment point of $5 million, are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from $5 million to $10 million are paid under a reinsurance contract subject to a $2.5 million annual aggregate deductible. Costs of covered claims from $10 million to $15 million are paid under two reinsurance contracts subject to a combined $3 million annual aggregate deductible. (6) Costs of covered claims from $15 million up to $50 million are covered through excess insurance policies. The overall coverage limit for each member, including all layers of coverage, is $50 million per occurrence.

Costs of covered claims for subsidence losses are paid by reinsurance and excess insurance with a pooled sub-limit of $35 million per occurrence. This $35 million subsidence sub-limit is composed of: (a) $5 million retained within the pool's Self Insured Retention (SIR), (b) $10 million in reinsurance and (c) $20 million in excess insurance. The excess insurance layer has a $20 million annual aggregate.

Workers' Compensation – In the workers' compensation program, the payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to $50,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from $50,000 to $100,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of $100,000, up to the reinsurance attachment point of $2 million, are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from $2 million up to statutory limits are paid under a reinsurance policy. Protection is provided per statutory liability under California Workers' Compensation Law.

NOTE 8 – COMPENSATED ABSENCES

Accumulated unpaid personal leave consisting of vacation pay, has been accrued at June 30, 2012 in the amount of $47,481. MARTA's liability for compensated absences typically is liquidated within one year. MARTA accrued $64,505 and paid $70,423 during fiscal year 2012. The balance related to compensated absences is included in accrued liabilities in the Statement of Net Assets.

NOTE 9 – EMPLOYEES' RETIREMENT PLAN

MARTA contributes to the Western Conference of Teamsters Pension Plan Trust Fund (WCTPTF) administered by Trustees of the Western Conference of Teamsters Pension Plan. WCTPTF acts as a common investment and administrative agent for various employers in 13 Western states. WCTPTF provides retirement benefits based on two different defined benefit formulas, one for service prior to 1987 and the other for service after 1986. Employees vest after five years of service. The Trustees may amend the Plan at any time and in any respect, retroactively or otherwise.

The Western Conference of Teamsters Pension Plan issues publicly financial statements. A copy of that report may be obtained online at http://www.wctpension.org/.

MARTA's participation is limited to making required contributions to the plan which are established through a Memorandum of Understanding (MOU) between MARTA and Teamsters Local 572. Under this MOU, MARTA is required to contribute $0.25 per hour for all hours worked by represented employees. For the fiscal year ended June 30, 2012, MARTA contributed $10,116.

NOTE 10 – DEFERRED COMPENSATION PLAN

MARTA offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan, available to all non-represented MARTA employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

MARTA has adopted the provisions of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code 457 Deferred Compensation Plans.* Management believes that MARTA has no fiduciary role under the plan, and plan funds are not available to MARTA's general creditors. Accordingly, MARTA has not reported plan assets in the accompanying financial statements.

NOTE 11 – 401(a) RETIREMENT PLAN

MARTA administers a defined contribution pension plan, the MARTA 401(a) Plan (Plan), which is available to nonrepresented employees who have attained 21 years of age and completed 500 hours of service. Plan provisions may be amended by MARTA under the provisions of Internal Revenue Code Section 401(a).

Participants may make after-tax contributions to the Plan. MARTA's Plan contributions include matching 50% of elective deferral contributions to the employee's 457 plan and nonelective employer contributions. MARTA's contributions to the Plan totaled $17,790 during the fiscal year ended June 30, 2012.

NOTE 12 – DEFICIT UNRESTRICTED NET ASSETS

MARTA's financial statements reflect deficit unrestricted net assets of $56,715. Management of MARTA asserts that the deficit is primarily due to the long term insurance liability described in Note 7. The deficit is expected to be funded through future earnings. No impact to operations is anticipated.

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MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2012

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

FOR THE YEAR ENDED JUNE 30, 2012

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

VALUE THE DIFFERENCE

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*

To the Board of Directors
Mountain Area Regional Transit Authority
Big Bear Lake, California

We have audited the basic financial statements of the Mountain Area Regional Transit Authority (MARTA) as of and for the year ended June 30, 2012 and have issued our report thereon dated March 22, 2013. Our report included an explanatory paragraph regarding MARTA's omission of management's discussion and analysis. 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 MARTA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered MARTA's 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 MARTA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MARTA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2012-01, 2012-02, and 2012-04 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2012-03 to be a significant deficiency.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether MARTA's 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 and the allocation instructions of San Bernardino Associated Governments, 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.*

MARTA's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit MARTA's responses and, accordingly, we express no opinion on them.

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
March 22, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Mountain Area Regional Transit Authority
Big Bear Lake, California

Compliance

We have audited the Mountain Area Regional Transit Authority's (MARTA) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of MARTA's major federal programs for the year ended June 30, 2012. MARTA's 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 each of its major federal programs is the responsibility of MARTA's management. Our responsibility is to express an opinion on MARTA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *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 MARTA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of MARTA's compliance with those requirements.

In our opinion, MARTA 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 instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-05.

Internal Control Over Compliance

Management of MARTA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered MARTA's internal control over compliance with the 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 MARTA's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be 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. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2012-05. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of MARTA as of and for the year ended June 30, 2012, and have issued our report thereon dated March 22, 2013, which contained an unqualified opinion on those financial statements. Our report included an explanatory paragraph regarding MARTA's omission of management's discussion and analysis. Our audit was performed for the purpose of forming our opinion on the financial statements that collectively comprise MARTA's 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

MARTA's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit MARTA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of MARTA's Board, 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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
March 22, 2013

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor Program Title (Direct or Indirect)	Federal CFDA Number	Pass-Through Entity's Identifying Number	Pass-Through Entity's Name	Federal Expenditures
Department of Transportation				
Federal Transit Administration				
ARRA - Formula Grants for Other than Urbanized Areas (Indirect)	20.509	649866	State of California Department of Transportation	$ 186,530
Formula Grants for Other than Urbanized Areas (Indirect)	20.509	640205	State of California Department of Transportation	198,316
Formula Grants for Other than Urbanized Areas (Indirect)	20.509	642152	State of California Department of Transportation	214,235
Formula Grants for Other than Urbanized Areas (Indirect)	20.509	648437	State of California Department of Transportation	63,213
Formula Grants for Other than Urbanized Areas (Indirect)	20.509	640407	State of California Department of Transportation	28,803
Total Expenditures of Federal Awards				$ 691,097

See accompanying notes to Schedule of Expenditures of Federal Awards.

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2012

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of federal award programs of the Mountain Area Regional Transit Authority's (MARTA). MARTA's reporting entity is defined in Note 1 of MARTA's financial statements. All federal awards received directly from federal agencies as well as federal awards passed through from other government agencies are included on the Schedule of Expenditures of Federal Awards.

B. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 1 of MARTA's Financial Statements.

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2012

I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material Weakness(es) identified?	Yes
Significant Deficiency(ies) identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major programs:	
Material Weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	Yes
Identification of major programs:	

CFDA Number(s)	Name of Federal Program or Cluster
20.509	Formula Grants for Other than Urbanized Areas (includes ARRA)

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	No

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2012

II. FINANCIAL STATEMENT FINDINGS

Finding 2012-01

INTERNAL CONTROLS

Criteria:

For certain internal controls, such as a review or an approval, a signature demonstrating the performance of the control should be evident.

Condition:

While testing various transaction cycles, we noted that certain internal controls were asserted by management to be implemented; however the evidence that the internal control was performed could not be presented.

Context:

The conditions noted above were identified during testing of various transaction cycles and inquiry with personnel throughout the engagement.

Effect:

The internal control environment is weakened.

Cause:

The performance of certain internal controls were not documented.

Recommendation:

MARTA should document the performance of internal controls through a signature, initial, date, or other method to ensure that the control was performed and to demonstrate the timing of the completion of the control.

View of Responsible Official and Planned Corrective Actions:

To better improve the performance of internal controls and to provide evidence that a review or approval of a document has taken place, management has implemented the practice whereby employees performing these reviews, approvals and data entry of financial documents will include their signature or initials and date that the action took place.

II. FINANCIAL STATEMENT FINDINGS

Finding 2012-02

POLICIES AND PROCEDURES

Criteria:

MARTA should have policies and procedures for each of the key internal control systems. These policies should address:

- Control Environment; tone at the top, including the oversight of those charged with governance.
- Risk Assessment, the identification of risk, the process and/or procedures to address and manage risks (including fraud risks).
- Information and Communication; the policies should address how information is captured for financial reporting; and how MARTA will ensure effective communication will be maintained at all levels relating to the flow of information for financial and/or compliance reporting.
- Control Activities; outlining the specific and detailed procedures which will be followed for each internal control system.

Condition:

MARTA does not have a comprehensive set of formal policies and procedures. We have noted that many of the specific procedures followed by MARTA are based upon historical processes passed down verbally from employee to employee. Some of the specific areas which will need to have formal policies and procedures developed include: fraud, ethics, cash receipting, disbursements, payroll, budget, information technology, disaster recovery, capital assets, federal and state grant reporting, financial reporting, and year end closing. We noted the processes with formal written policies and procedures include capital assets and procurement which have not been updated since 1999 and 2001, respectively. As such policies and procedures over capital assets and procurement should be reviewed and updated as necessary.

Context:

The conditions noted above were identified during testing of various transaction cycles and inquiry with personnel throughout the engagement.

Effect:

The internal control environment is weakened. MARTA is at risk if certain employees were to leave as many of the processes are focused around specific employees that possess the detailed understanding of the systems.

Cause:

MARTA has not reviewed and/or documented in writing several of the key business processes. In addition, MARTA has not provided cross training for some of these areas.

II. FINANCIAL STATEMENT FINDINGS

Recommendation:

MARTA should begin the process of the review, development, documentation and implementation of policies and procedures. In addition, personnel should work though the same process to ensure that all business practices address appropriate risks, internal controls are properly designed and documented, staff are properly trained, and that cross training is taking place.

View of Responsible Official and Planned Corrective Actions:

MARTA management is committed to improving control environment, risk management, communication and training of policy and procedures in key areas and thereby improving MARTA's systems and procedures. Subsequent to June 30, 2012, various policies and procedures including ethics, cash handling, disbursements, payroll, budget, capital assets, financial reporting and year-end closing have been written and implemented. Staff has received copies and training in these policies and procedures. Annually, management will perform a review of the procedures and processes making updates as necessary.

Finding 2012-03

FINANCIAL REPORTING

Criteria:

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein and for the fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles. This requires management to work through a year-end closing process to accumulate, reconcile, and summarize information for inclusion in the annual financial statements. The year-end closing process includes the review and/or reconciliation of all balances within MARTA's general ledger. Accounts must be reviewed for proper cutoff, classification and presentation. These processes should be complete before the external auditors begin the final fieldwork.

Condition:

MARTA did not have formal year-end closing procedures. As a result, the following deficiencies in the year end closing process were identified and recorded in the general ledger eight months after the fiscal year end, as follows:

- Compensated absences were not calculated correctly as of June 30, 2012.
- MARTA did not reconcile risk management liabilities relating to general liability and risk management per the general ledger to statements from the California Joint Powers Insurance Authority identifying liability balances at June 30, 2012.

II. FINANCIAL STATEMENT FINDINGS

Context:

The condition noted above was identified during testing of various accounts related to MARTA's year-end balances. MARTA did not have a comprehensive year-end closing process. In addition, personnel were not adequately trained on the year-end closing process.

Effect:

As a result of the year-end closing process that was used by MARTA, the financial information provided contained several material misstatements.

Cause:

MARTA does not perform a complete year-end close on a timely basis and does not maintain a comprehensive closing checklist or formalized policies and procedures to ensure that year-end accounting entries have been reported.

Recommendation:

As a result of the audit fieldwork MARTA began to address the above noted items. MARTA must continue to develop a comprehensive year-end closing process. This process should include detailed checklists to ensure that each financial statement area is reconciled, balanced and reviewed during the closing process. The closing process manual should also detail specific assignments, staff and timelines to complete the process. After each area has been closed by staff it should go through a review process to ensure accuracy. Each of these steps should be documented and signed off on the comprehensive checklist. In addition MARTA should provide staff training on the year-end closing process to ensure that all areas have been adequately addressed.

View of Responsible Official and Planned Corrective Actions:

Subsequent to June 30, 2012, management has implemented written procedures for year-end closing, which includes a checklist for review and entries. Staff has reviewed and has been trained on the detail of the steps specific to completing the process

Finding 2012-04

BANK RECONCILIATIONS

Criteria:

Bank reconciliations, reconciling the bank statements to the general ledger should be prepared, reviewed, and approved timely.

II. FINANCIAL STATEMENT FINDINGS

Condition:

We noted the bank reconciliations included items listed as reconciling that appeared to have cleared previously. We also noted that, in certain instances, the reconciled balance did not agree to the corresponding general ledger account balance.

Context:

MARTA maintains multiple bank accounts. The total cash balance on the reconciliation agreed to the total cash balance in the general ledger however, as noted in the condition above, the balances of certain individual accounts did not agree. The reconciliations also included detail that had cleared previously however had not been removed from the reconciliation.

Effect:

The risk of misstatement related to cash reconciliations is heightened.

Cause:

MARTA's procedures did not accurately reconcile cash to individual accounts and the review of the reconciliations was not documented.

Recommendation:

MARTA should enhance procedures to accurately reconcile cash to individual accounts and document the preparation, review, and approval of the reconciliations.

View of Responsible Official and Planned Corrective Actions:

A CPA firm has been hired by MARTA to do bank statement reconciliation of all accounts on a monthly basis, with documentation and review and approval being completed by the General Manager. This change is reflected in MARTA's Accounting Procedures.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2012-05

Program: Formula Grants for Other Than Urbanized Areas (includes ARRA)
CFDA No.: 20.509
Federal Grantor: U.S. Department of Transportation
Passed-through: State of California – California Department of Transportation
Award No.: Various
Award Year: Various
Compliance Requirement: Equipment and Real Property Management

Criteria:

The June 2012 Office of Budget and Management (OMB) Circular A-133 Compliance Supplement suggests that auditors obtain the entity's policies and procedures for equipment management and ascertain if they comply with the State's policies and procedures.

Condition:

MARTA does not have a comprehensive equipment management policy.

Questioned Costs:

None

Context:

The condition noted above was identified during our examination of the equipment management requirements of the program.

Effect:

As a result of the condition, there is an increased risk of noncompliance with equipment management provisions.

Cause:

MARTA does not have a comprehensive equipment management policy.

Recommendation:

We recommend that MARTA adopt a comprehensive equipment management policy.

Views of Responsible Officials and Planned Corrective Actions:

Management has implemented written policies and procedures for asset management (procurement policy, disposition of assets policy, and inventory tracking procedures) subsequent to June 30, 2012.

MOUNTAIN AREA REGIONAL TRANSIT AUTHORITY

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RESPONSES

FOR THE YEAR ENDED JUNE 30, 2012

Summarized below is the current status of all audit findings reported in the prior year audit's schedule of audit findings and questioned costs.

Financial Statement Findings

Finding No.	Area	Status of Corrective Action
2011-01	Internal Controls	Partially implemented. See current year finding 2012-01
2011-02	Policies and Procedures	Not implemented. See current year finding 2012-02
2011-03	Financial Reporting	Partially implemented. See current year finding 2012-03
2011-04	Capital Assets	Partially implemented. See current year finding 2012-02
2011-05	Risk Management	Not implemented. See current year finding 2012-03
2011-06	Bank Reconciliations	Not implemented. See current year finding 2012-04
2011-07	Statement of Economic Interests	Implemented

Federal Awards Findings

Finding No.	Program	CFDA No.	Compliance Requirement	Status of Corrective Action
2011-08	Formula Grants for Other than Urbanized Areas (Indirect)	20.509	Reporting	Implemented
2011-09	Formula Grants for Other than Urbanized Areas (Indirect)	20.509	Equipment and Real Property Management	Not implemented. See current year finding at 2012-05
2011-10	Formula Grants for Other than Urbanized Areas (Indirect)	20.509	Reporting	Implemented