



Board of Directors  
Valley Transportation Services  
Upland, California

We have audited the financial statements of the Valley Transportation Services (VTrans) (a California nonprofit organization) for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, 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 VTrans are described in Note 2 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 VTrans 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.

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

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.

#### *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 13, 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 VTrans' 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 SANBAG, the Board of Directors and management of VTrans and is not intended to be and should not be used by anyone other than these specified parties.

*Vaurimole, Tami, Day, Co., LLP*

Rancho Cucamonga, California  
March 13, 2013

**VALLEY TRANSPORTATION SERVICES  
(A California Non-Profit Organization)**

**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED JUNE 30, 2012**

**VALLEY TRANSPORTATION SERVICES  
(A California Nonprofit Organization)**

**JUNE 30, 2012**

**TABLE OF CONTENTS**

<b>INDEPENDENT AUDITORS' REPORT .....</b>	<b>1</b>
Statement of Financial Position.....	2
Statement of Activities .....	3
Statement of Cash Flows.....	4
Statement of Functional Expenses.....	5
Notes to Financial Statements .....	6
<b>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 <i>GOVERNMENT AUDITING STANDARDS</i>.....</b>	<b>11</b>
Schedule of Finding and Response.....	13



## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Valley Transportation Services  
Upland, California

We have audited the accompanying statement of financial position of Valley Transportation Services (V-Trans), (a California nonprofit organization), as of June 30, 2012, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of V-Trans' management. Our responsibility is to express an opinion on these financial statements based upon our audits.

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 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 V-Trans' 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 above present fairly, in all material respects, the financial position of V-Trans as of June 30, 2012, and the respective changes in its net assets 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 a report dated March 13, 2013, on our consideration of V-Trans' 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.

*Vavrinek, Trine, Day & Co., LLP*

Rancho Cucamonga, California  
March 13, 2013

**VALLEY TRANSPORTATION SERVICES**  
**(A California Nonprofit Organization)**

**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2012**

**ASSETS**

Cash	\$ 140,608
Investments	2,734,553
Prepaid expenses	721
Total Current Assets	<u>2,875,882</u>

Furniture and equipment	25,377
Less: Accumulated depreciation	(2,371)
Total Non-Current Assets	<u>23,006</u>
Total Assets	<u>\$ 2,898,888</u>

**LIABILITIES AND NET ASSETS**

Accrued expenses	\$ 51,013
Total Liabilities	<u>51,013</u>

**NET ASSETS**

Unrestricted	<u>2,847,875</u>
Total Net Assets	<u>2,847,875</u>
Total Liabilities and Net Assets	<u>\$ 2,898,888</u>

See accompanying notes to financial statements.

**VALLEY TRANSPORTATION SERVICES**  
**(A California Nonprofit Organization)**

**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2012**

REVENUES

Measure I	\$ 1,750,250
Interest income	<u>6,221</u>
Total Revenues	<u>1,756,471</u>

EXPENSES

Program services:	
Community service	50,332
Support services:	
Administrative	<u>388,825</u>
Total Expenses	<u>439,157</u>

Change in Net Assets 1,317,314

Net Assets, Beginning of Year 1,530,561

Net Assets, End of Year \$ 2,847,875

See accompanying notes to financial statements.

**VALLEY TRANSPORTATION SERVICES**  
**(A California Nonprofit Organization)**

**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2012**

Change in Net Assets	\$ 1,317,314
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	2,359
Increase in Prepaid Expenses	(721)
Increase in Accrued Expenses	37,199
Net Cash Provided by Operating Activities	<u>1,356,151</u>
Cash Flows from Investing Activities:	
Purchase of Property and Equipment, Net	<u>(22,789)</u>
Net Cash Used in Investing Activities	<u>(22,789)</u>
Net Increase in Cash and Cash Equivalents	1,333,362
Cash and Cash Equivalents, beginning of year	<u>1,541,799</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 2,875,161</u></u>

See accompanying notes to financial statements.

**VALLEY TRANSPORTATION SERVICES**  
**(A California Nonprofit Organization)**

**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2012**

	<u>Program Services</u>	<u>Administrative</u>	<u>Total</u>
Community Support:			
Pomona Valley	\$ 31,459		\$ 31,459
Central City Lutheran	18,873		18,873
Support Services:			
Staff salaries and benefits		\$ 102,365	102,365
Professional and technical services		207,754	207,754
Materials and supplies		33,910	33,910
Insurance		1,843	1,843
Taxes		10	10
Leases and rentals		32,068	32,068
Depreciation and amortization		2,359	2,359
Travel		3,937	3,937
Professional development		1,450	1,450
Dues and memberships		549	549
Miscellaneous		2,579	2,579
Total	<u>\$ 50,332</u>	<u>\$ 388,825</u>	<u>\$ 439,157</u>

See accompanying notes to financial statements.

**VALLEY TRANSPORTATION SERVICES  
(A California Nonprofit Organization)**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012**

**NOTE 1 – ORGANIZATION**

Valley Transportation Services (V-Trans) is a new nonprofit 501 (c)(3) corporation created and designated in October 2010 by SANBAG as the Consolidated Transportation Services Agency eligible to receive 2% of the Measure I Senior/Disabled funds collected in the Valley portion of San Bernardino County. Valley Transportation Services' mission is to improve mobility for seniors, persons with disabilities and persons of low income.

County voters approved Measure I, supporting the half-cent sales tax in the incorporated and unincorporated areas of the County for the 20 year period between April 1, 1990 and March 31, 2010. On November 4, 2004, the voters of San Bernardino County approved San Bernardino County Transportation Authority Ordinance 04-01, extending the half cent sales tax for 30 years to March 31, 2040.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*The Financial Reporting Entity* – Under FASB ASC 958-210-50, V-Trans is required to report information regarding its financial positions and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, V-Trans is required to present a statement of cash flows.

*Basis of Accounting* – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred.

*Cash and Cash Equivalents* includes all unrestricted and highly liquid investments with an initial maturity of three months or less to be cash.

*Grants* for operating assistance are included in revenue in the period in which the grant was earned.

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

Computer Equipment	5 years
Office Equipment	7 years

V-Trans' capitalization threshold is \$500.

*Functional Allocation of Expenses* – The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, management has allocated certain costs among the programs and supporting services benefited.

*Prepaid Expenses* consist of funds disbursed for deposits required in advance of a training event that did not occur until the following fiscal year.

**VALLEY TRANSPORTATION SERVICES  
(A California Nonprofit Organization)**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)**

*Estimates* – The preparation of 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Income Taxes* – V-Trans is a nonprofit organization that is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been recorded in the financial statements. Income tax returns for 2009 and forward may be audited by regulatory agencies; however, V-Trans is not aware of any such actions at this time.

V-Trans has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain, and, accordingly, no accounting adjustment has been made to the financial statements.

*Fair Value Measurements* – V-Trans determines the fair market values of certain financial instruments based on a fair value hierarchy established in FASB ASC 820-10-50, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

The following provides a summary of the hierarchical levels used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

V-Trans used the market approach to determine fair value for all investment assets.

**VALLEY TRANSPORTATION SERVICES  
(A California Nonprofit Organization)**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012**

**NOTE 3 – CASH**

Cash consisted of the following at June 30, 2012:

Cash in Banks	<u>\$ 140,608</u>
TOTAL	<u><u>\$ 140,608</u></u>

V-Trans has exposure to credit risk to the extent that its cash and cash equivalents exceed amounts covered by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2012, V-Trans had no amount over the FDIC Limit.

**NOTE 4 – INVESTMENTS**

Investments are comprised of the following at June 30, 2012:

	<u>Fair Value</u>	<u>Cost</u>
Money Market Accounts	\$ 2,634,386	\$ 2,634,386
Certificate of Deposit	<u>100,167</u>	<u>100,167</u>
	<u><u>\$ 2,734,553</u></u>	<u><u>\$ 2,734,553</u></u>

Investment income is comprised of the following at June 30, 2012:

Interest Income	<u>\$ 6,221</u>
	<u><u>\$ 6,221</u></u>

**NOTE 5 – FAIR VALUE MEASUREMENT**

The following table presents the balances of the assets measured at fair value on a recurring basis as of June 30, 2012, is set forth in the following table. V-Trans did not have any liabilities measured at fair value on a recurring basis as of June 30, 2012.

ASSETS	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Accounts	\$ 2,634,386	\$ -	\$ -	\$ 2,634,386
Certificate of Deposit	-	<u>100,167</u>	-	<u>100,167</u>
Total	<u><u>\$ 2,634,386</u></u>	<u><u>\$ 100,167</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,734,553</u></u>

**VALLEY TRANSPORTATION SERVICES  
(A California Nonprofit Organization)**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012**

**NOTE 6 – CONCENTRATION OF INCOME SOURCES**

During 2012, V-Trans received all of its revenue from the local sales tax measure, Measure I. V-Trans receives 2% of the revenues collected within the San Bernardino Valley. Currently SANBAG and V-Trans have a 3 year agreement setting out roles and responsibilities and set levels of funding for FY10/11, FY11/12 and FY12/13 which is approximately \$1.7 million per year. Additional revenue sources such as federal grants have been budgeted and may be available for future years.

**NOTE 7 – PROPERTY AND EQUIPMENT**

A schedule of changes in Property and Equipment and Accumulated Depreciation for the year ended June 30, 2012 is as follows:

	Beginning Balance <u>July 01, 2011</u>	Additions	Retirements	Ending Balance <u>June 30, 2012</u>
Furniture and Equipment	\$ 2,588	\$ 22,789	\$ -	\$ 25,377
Total Fixed Assets	<u>2,588</u>	<u>22,789</u>	<u>-</u>	<u>25,377</u>
Less accumulated depreciation for:				
Furniture and Equipment	<u>12</u>	<u>2,359</u>	<u>-</u>	<u>2,371</u>
Total Accumulated Depreciation	<u>12</u>	<u>2,359</u>	<u>-</u>	<u>2,371</u>
Fixed Assets, net	<u>\$ 2,576</u>	<u>\$ 20,430</u>	<u>\$ -</u>	<u>\$ 23,006</u>

**NOTE 8– VACATION AND SICK LEAVE**

At June 30, 2012, V-Trans had \$3,480 in unpaid accumulated personal leave balances, consisting of vacation and sick pay. These amounts are included in the Accrued Expenses on the Statement of Financial Position.

**NOTE 9 – OPERATING LEASES**

V-Trans entered into an office space lease agreement on June 15, 2011 with 2 years lease term. V-Trans’ office is located at 299 W. Foothill Blvd, Suite 202 in Upland, California. Rental expenditures for the year ended June 30, 2012 were \$27,185. The following is the amount due under the lease agreement.

2013	<u>\$ 33,924</u>
Total	<u>\$ 33,924</u>

**VALLEY TRANSPORTATION SERVICES  
(A California Nonprofit Organization)**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012**

**NOTE 10 – EMPLOYEES’ RETIREMENT PLAN**

V-Trans currently has a 457(b) Private Non-Qualified Deferred Compensation Plan for eligible employees. The plan was formed late in the fiscal year and consequently no contributions were made during the year. The unpaid obligation for V-Trans as of June 30, 2012 was \$2,954. The plan also allows for matching funds for employees who have made eligible salary deferrals during the years. As of June 30, 2012, there were no such salary deferrals and consequently, no matching obligations for V-Trans.

**NOTE 11 – SUBSEQUENT EVENTS**

V-Trans’ management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheets date through March 13, 2013, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.



**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**

Board of Directors  
Valley Transportation Services  
Upland, California

We have audited the financial statements of the Valley Transportation Services (V-Trans), (a California nonprofit organization), (V-Trans) as of June 30, 2012, and have issued our report thereon, dated March 13, 2013. 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 V-Trans is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered V-Trans' 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 V-Trans' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of V-Trans' internal control over financial reporting.

Our consideration of 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 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 responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 that we consider 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 accompany schedule of finding and response as item 2012-01 to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether V-Trans' 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*.

V-Trans' responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit V-Trans' response and, accordingly, we express no opinion on them.

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

*Vawter, Tami, Day, Co., LLP*

Rancho Cucamonga, California  
March 13, 2013

**VALLEY TRANSPORTATION SERVICES  
(A California Nonprofit Organization)**

**SCHEDULE OF FINDING AND RESPONSE  
JUNE 30, 2012**

The following finding represents a significant deficiency, material weakness, and/or instance of noncompliance related to the financial statements that are required to be reported in accordance with *Government Audit Standards*.

**Finding 2012-01**

*Significant Deficiency*

**INTERNAL CONTROL – LACK OF SEGREGATION OF DUTIES**

**Criteria or Specific Requirement:**

An element of effective internal controls is the proper segregation of duties. The basic premise of segregating duties is to prevent situations where an employee has the ability to perpetrate an error or irregularity and to conceal it as well. Proper segregation of duties provides for a system of checks and balances such that the functions by one employee are subject to review through the performance of the interrelated functions of another employee or management.

**Condition Found:**

We noted a lack of segregation of duties in the preparation of year end closing and adjusting journal entries, as no additional review are imposed on the prepared and posted journal entries in the general ledger. The monthly bank reconciliation process is also lacking adequate segregation of duties, as the external consultant is assigned with the task of compiling the bank reconciliations and booking the interest income journal entries in the general ledger without further management approval.

**Context:**

A fundamental concept in the design of an effective system of internal control is the segregation of duties.

**Effect:**

V-Trans' internal control system is weakened and adequate safeguards in preventing material misstatements in the financial statements are missing.

**Cause:**

V-Trans' current internal control system is not adequately designed to maintain a sufficient and effective level of segregation of duties.

**Recommendation:**

To strengthen the internal control system, we recommended that V-Trans implement procedures to ensure adequate of management review and approval for all accounting related processes.

**VALLEY TRANSPORTATION SERVICES  
(A California Nonprofit Organization)**

**SCHEDULE OF FINDING AND RESPONSE  
JUNE 30, 2012**

**Views of Responsible Officials and Planned Corrective Action:**

V-Trans has relied on professional consultants to assist in administrative functions to minimize its overhead and add desired expertise to the organization in its formative years. V-Trans agrees that an additional review would be beneficial and will immediately implement procedures in which the Chief Executive Officer will review and sign-off on all bank reconciliations and journal entries.