Antelope Valley Transit Authority

Financial Statements as of June 30, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Antelope Valley Transit Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Antelope Valley Transit Authority (AVTA), which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Antelope Valley Transit Authority as of June 30, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 27, 2018 on our consideration of Antelope Valley Transit Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Antelope Valley Transit Authority's internal control over financial reporting and compliance.

Windes, Inc.

Long Beach, California
November 27, 2018

ANTELOPE VALLEY TRANSIT AUTHORITY

STATEMENTS OF NET POSITION

ASSETS

	June 30, 2018	June 30, 2017
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	$ 20,548,649	$ 19,727,227
Due from other governments (Note 3)	11,047,543	2,726,858
Other receivables	321,954	605,368
Inventory	326,350	282,354
Prepaid items	381,888	402,704
	32,626,384	23,744,511
NONCURRENT ASSETS		
Capital assets, depreciated, net (Note 5)	55,209,273	54,815,693
TOTAL ASSETS	87,835,657	78,560,204
DEFERRED OUTFLOWS OF RESOURCES		
Pension plan contributions and actuarial changes	843,132	888,674
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	4,679,669	3,022,786
Accrued payroll	48,233	42,597
Unearned revenue - Prop 1B (Note 4)	2,023,011	2,395,496
Unearned revenue – Other	45,068	6,500
Compensated absences (Note 6)	43,339	31,836
Total Current Liabilities	6,839,320	5,499,215
NONCURRENT LIABILITIES		
Noncurrent compensated absences	261,212	331,070
Net pension plan liability	1,099,901	880,874
	1,361,113	1,211,944
DEFERRED INFLOWS OF RESOURCES		
Pension plan assumption differences	71,796	142,398
NET POSITION		
Invested in capital assets	55,209,273	54,815,693
Restricted for capital acquisition	6,917,826	6,364,214
Unrestricted	18,279,461	11,415,414
TOTAL NET POSITION	$ 80,406,560	$ 72,595,321

ANTELOPE VALLEY TRANSIT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	For the Year Ended June 30, 2018	For the Year Ended June 30, 2017
OPERATING REVENUES		
Charges for services:		
Passenger fares	$ 4,981,587	$ 5,041,398
Total operating revenues	4,981,587	5,041,398
OPERATING EXPENSES		
Purchased transportation services:		
Outside transit contract	16,069,098	15,191,275
Fuel	2,228,593	1,882,075
E-Bus energy consumption	222,115	-
Other operating costs	902,306	837,546
General and administrative	5,156,074	4,720,280
Depreciation	4,233,182	4,022,844
Total operating expenses	28,811,368	26,654,020
Operating loss	(23,829,781)	(21,612,622)
NONOPERATING REVENUES (EXPENSES)		
Interest income	127,848	46,215
Local operating grants – LA Metro	10,882,937	8,859,197
Federal operating grants	5,129,240	6,784,749
Member agency contributions	3,306,164	3,371,198
Capital related expenses	(199,758)	(104,511)
Other	188,518	121,024
Total nonoperating revenues and expenses	19,434,949	19,077,872
Loss before capital contributions	(4,394,832)	(2,534,750)
CAPITAL CONTRIBUTIONS		
Capital grants	11,745,177	1,035,693
Member contributions	460,894	460,896
Total capital contributions	12,206,071	1,496,589
NET CHANGE IN NET POSITION	7,811,239	(1,038,161)
NET POSITION, BEGINNING OF YEAR	72,595,321	73,633,482
NET POSITION, END OF YEAR	$ 80,406,560	$ 72,595,321

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

ANTELOPE VALLEY TRANSIT AUTHORITY

STATEMENTS OF CASH FLOWS

	For the Year Ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 4,979,078	$ 5,041,398
Nonoperating miscellaneous received	188,514	343,930
Cash payments to suppliers for goods and services	(19,265,677)	(16,744,438)
Cash payments to employees for services	(3,585,548)	(3,585,200)
Net Cash Used In Operating Activities	(17,683,633)	(14,944,310)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating grants received	11,779,202	19,555,786
Contributions received from member agencies	3,325,010	3,352,352
Net Cash Provided By Noncapital Financing Activities	15,104,212	22,908,138
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(4,626,763)	(9,905,478)
Proceeds from sale of capital assets	-	120,305
Capital grants received	7,638,621	1,408,381
Grantable expenses	(199,758)	(104,511)
Capital contributions received from member agencies	460,894	460,896
Net Cash Provided By (Used In) Capital and Related Financing Activities	3,272,994	(8,020,407)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	127,849	46,215
Net Cash Provided By Investing Activities	127,849	46,215
NET CHANGE IN CASH AND CASH EQUIVALENTS	821,422	(10,364)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	19,727,227	19,737,591
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 20,548,649	$ 19,727,227

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

ANTELOPE VALLEY TRANSIT AUTHORITY

STATEMENTS OF CASH FLOWS
(Continued)

	For the Year Ended June 30, 2018	For the Year Ended June 30, 2017
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:		
Operating loss	($ 23,829,781)	($ 21,612,622)
Adjustments to net cash used in operating activities:		
Depreciation	4,233,182	4,022,844
Miscellaneous income	188,518	343,930
(Increase) decrease in other receivables	283,414	(258,658)
(Increase) in inventory	(43,996)	(19,901)
Decrease in prepaid items	20,816	66,934
(Increase) decrease in deferred outflows of resources	45,542	(262,630)
Increase in accounts payable	1,656,883	1,413,340
Increase in accrued payroll	5,636	4,082
(Decrease) in compensated absences payable	(58,355)	(41,841)
Increase (decrease) in unearned revenue	(333,917)	1,302,320
Increase in net pension liability	219,027	251,858
(Decrease) in deferred inflow of resources	(70,602)	(153,966)
Net Cash Used In Operating Activities	($ 17,683,633)	($ 14,944,310)

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

There were no noncash investing, capital or financing activities during the Fiscal Years ended June 30, 2018 and 2017, respectively.

NOTE 1 – Summary of Significant Accounting Policies

The Reporting Entity

The Antelope Valley Transit Authority (AVTA) is located in southern California approximately 70 miles northeast of Los Angeles. AVTA was formed to provide and administer public transportation services in the Antelope Valley, including local passenger bus service, a commuter bus service, and a Paratransit service.

AVTA is a public entity organized on July 1, 1992 pursuant to Section 6506 of the Government Code of the State of California. AVTA is governed by a Joint Powers Agreement (JPA) whose members consist of the County of Los Angeles (a political subdivision of the State of California), the City of Palmdale, and the City of Lancaster (each a municipal corporation of the State of California). The JPA provides a cost sharing agreement among its members who jointly fund their jurisdictional share of transportation services provided to the Antelope Valley. AVTA operates under a Board of Directors/Manager form of government, with the Board being comprised of two Directors appointed from each participating member's jurisdiction.

AVTA accounts for its financial transactions in accordance with the policies and procedures of the State of California - Uniform System of Accounts for Special Districts. The accounting policies of AVTA conform to accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants.

AVTA, for financial purposes, includes all operations of AVTA. The Board of Directors has governance responsibilities over all activities related to AVTA. AVTA receives funding from local, county, state and federal government sources and must comply with requirements of these entities.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Basis of Accounting

AVTA 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.

Classification of Revenues and Expenses

Enterprise funds distinguish operating revenues and expenses from nonoperating 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 AVTA consist of transit fees. Nonoperating revenues consist of federal, state and county operating grants, investment income, and jurisdictional member contributions designated for use for operating and capital purposes. Operating expenses include outside transit contracts, which provide transportation and maintenance services, fuel expenses, administrative expenses and depreciation on capital assets. Expenses not meeting this definition are reported as nonoperating expenses.

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

Cash and Cash Equivalents

For the purposes of the statements 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 nine months or less.

Budgetary Information

Although AVTA prepares and approves an annual budget, budgetary information is not presented because AVTA is not required to present a budget.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Inventory and Prepaid Items

Inventory consists of fuel in storage held for consumption and parts used for the maintenance of transportation equipment and facilities and is valued at cost using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the accompanying financial statements.

Capital Assets

It is AVTA's policy to capitalize all capital assets with a cost of more than $5,000. Depreciation of all exhaustible property, plant and equipment used by proprietary funds is charged as an expense against their operations. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Assets	Years
Transportation equipment	3-12
Vehicles	4-6
Buildings	34
Computer equipment	3
Furniture and fixtures	3-10
Equipment – other	3-12

Federal, State and Local Grants

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

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Compensated Absences

It is AVTA's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay is payable to employees at the time a vacation is taken or upon termination of employment. Upon termination, an employee will be paid for any unused vacation. Sick leave is payable when an employee is unable to work because of illness. Upon termination, AVTA employees are not paid for unused sick pay. Accumulated unpaid vacation and vested sick leave pay is recorded as an expense and a liability at the time the benefit is earned.

Deferred Outflows of Resources

In addition to assets, the Statement of Net Position includes a separate section for deferred outflows of resources. This separate financial statement section represents a disposition of net position that applies to future periods and will not be recognized as expense until that time.

Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position includes a separate section for deferred inflows of resources. This separate financial statement section represents an acquisition of net position that applies to future periods and will not be recognized as revenue until that time.

Use of Estimates

The preparation of the accompanying basic financial statements in conformity with generally accepted accounting principles in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, and expenditures, as well as to make disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The principal area requiring the use of estimates includes the determination of the useful lives of capital assets and assumptions utilized in the actuarial determined pension plan liability.

NOTE 2 – Cash and Cash Equivalents

Cash and cash equivalents consisted of the following:

	June 30, 2018	June 30, 2017
Cash on hand	$ 750	$ 750
Deposits with financial institutions	13,630,560	13,362,263
Local Agency Investment Fund (LAIF)	6,917,339	6,364,214
Total cash and cash equivalents	$ 20,548,649	$ 19,727,227

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

Authorized Investment Type	Authorized By Investment Policy	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer*
Local Agency Bonds	No	N/A	N/A	N/A
U.S. Treasury Obligations	Yes	1 year	50%	None
U.S. Agency Securities	No	N/A	N/A	N/A
Banker's Acceptances	Yes	180 days	15%	30%
Commercial Paper	Yes	180 days	10%	10%
Negotiable Certificates of Deposit	Yes	1 year	25-50%	None
Repurchase Agreements	Yes	1 year	None	None
Reverse Repurchase Agreements	No	N/A	N/A	N/A
Medium-Term Notes	No	N/A	N/A	N/A
Mutual Funds	No	N/A	N/A	N/A
Money Market Mutual Funds	Yes	N/A	15%	10%
Mortgage Pass-through Securities	No	N/A	N/A	N/A
County Pooled Investment Funds	No	N/A	N/A	N/A
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None

* Based on State law requirements or investment policy requirements, whichever is more restrictive.

NOTE 2 – Cash and Cash Equivalents (Continued)

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 AVTA's investment policy. AVTA did not have any investments held by bond trustees as of June 30, 2018 and 2017.

Disclosures Relating to Interest Risk

Interest rate risk arises for investments depending how sensitive the absolute level of interest rates is. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates.

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

Investment Type	Total	12 Months or Less
Local Agency Investment Fund (LAIF)	$ 6,917,339	$ 6,917,339
Money Market Fund	2,577,966	2,577,966
Total	$ 9,495,305	$ 9,495,305

Funds invested with the State Treasurer's LAIF may have maturities longer than 90 days; however, LAIF functions as a demand deposit account. Therefore, AVTA considers LAIF as cash equivalents.

Additionally, AVTA holds a government money market account with Wells Fargo bank for the purposes of building an operating reserve over time. The goal of this reserve is to eventually build up three months of operating funds to better cushion the ever changing government financial environment. This account has a weighted average maturity of 35 days. Forty percent of the portfolio with this fund is in government agency debt, while the other 60 percent is shared between government repurchase agreements and bond debt. This money market fund is highly liquid and, therefore, considered as cash equivalents. As of June 30, 2018, the money market fund makes up approximately 27% of AVTA's portfolio, which exceeds AVTA's investment policy of 15% maximum limit.

NOTE 2 – Cash and Cash Equivalents (Continued)

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

As of June 30, 2018 and 2017, AVTA 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 that investment. This is measured by the assignment of a nationally recognized statistical rating organization. LAIF and the money market do not have a rating provided by a nationally recognized statistical rating organization.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude to AVTA's investment in a single issue or instrument. AVTA's investment policy 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, 2018 and 2017, except for its investments in LAIF and Wells Fargo Bank, AVTA did not have any investments in any one issuer 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, a government 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.

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.

NOTE 2 – Cash and Cash Equivalents (Continued)

Custodial Credit Risk (Continued)

The California Government Code and AVTA's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investment, other than for the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (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 local government unit. 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.

Investment in State Investment Pool

AVTA is a voluntary participant in the Local Agency Investment Fund (LAIF). LAIF is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of AVTA's investment in this pool is reported in the accompanying financial statements at amounts based upon AVTA's 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, and is 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 by a recognized statistical rating organization.

NOTE 3 – Due From Other Governments

Due from other governments consisted of the following:

	June 30,	
	2018	**2017**
Federal grants	$ 6,922,691	$ 2,070,881
State Grants	3,568,276	-
Local grants - MTA	556,576	637,131
Operating contribution		
City of Lancaster	-	18,846
Total due from other governments	$ 11,047,543	$ 2,726,858

NOTE 4 – Unearned Revenue

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 fund grants to project sponsors in California for approved 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. It is AVTA's practice to record as unearned revenue any funds received prior to the incurrence of eligible expenses. PTMISEA activity during the fiscal years ended June 30, 2018 and 2017 was as follows:

Unspent PTMISEA funds as of July 1, 2016	$ 1,099,676
PTMISEA funds received during the fiscal year ended June 30, 2017	1,389,404
PTMISEA expenses incurred during the fiscal year ended June 30, 2017	(93,584)
Unspent PTMISEA cash receipts as of June 30, 2017	2,395,496
PTMISEA funds received during the fiscal year ended June 30, 2018	-
PTMISEA expenses incurred during the fiscal year ended June 30, 2018	(372,485)
Unspent PTMISEA cash receipts as of June 30, 2018	$ 2,023,011

NOTE 5 – Capital Assets

A schedule of changes in capital assets for the year ended June 30, 2018 is shown below.

	Balance at July 1, 2017	Increases	Decreases	Balance at June 30, 2018
Capital assets, not being depreciated:				
Land	$ 1,816,616	-	-	$ 1,816,616
Construction-in-progress	10,285,830	$ 866,558	($ 4,866,107)	6,286,281
Total capital assets, not being depreciated	12,102,446	866,558	(4,866,107)	8,102,897
Capital assets being depreciated:				
Buildings	34,858,963	5,398,232	-	40,257,195
Equipment	11,783,464	379,535	-	12,162,999
Transportation equipment	44,931,452	2,848,544	-	47,779,996
Total capital assets, being depreciated	91,573,879	8,626,311	-	100,200,190
Less accumulated depreciation:				
Buildings	(9,666,537)	(1,355,360)	-	(11,021,897)
Equipment	(10,107,955)	(625,504)	-	(10,733,459)
Transportation, equipment	(29,086,140)	(2,252,318)	-	(31,338,458)
Total accumulated depreciation	(48,860,632)	(4,233,182)	-	(53,093,814)
Total capital assets, being depreciated, net	42,713,247	4,393,129	-	47,106,376
Capital assets, net	$ 54,815,693	$ 5,259,687	($ 4,866,107)	$ 55,209,273

NOTE 5 – Capital Assets (Continued)

A schedule of changes in capital assets for the year ended June 30, 2017 is shown below.

	Balance at July 1, 2016	Increases	Decreases	Balance at June 30, 2017
Capital assets, not being depreciated:				
Land	$ 1,816,616	-	-	$ 1,816,616
Construction-in-progress	1,944,535	$ 8,894,295	($ 553,000)	10,285,830
Total capital assets, not being depreciated	3,761,151	8,894,295	(553,000)	12,102,446
Capital assets being depreciated:				
Buildings	34,078,928	780,035	-	34,858,963
Equipment	11,776,300	115,888	(108,724)	11,783,464
Transportation equipment	48,234,901	593,737	(3,897,186)	44,931,452
Total capital assets, being depreciated	94,090,129	1,489,660	(4,005,910)	91,573,879
Less accumulated depreciation:				
Buildings	(8,564,206)	(1,102,331)	-	(9,666,537)
Equipment	(9,568,073)	(648,606)	108,724	(10,107,955)
Transportation, equipment	(30,442,729)	(2,271,907)	3,628,496	(29,086,140)
Total accumulated depreciation	(48,575,008)	(4,022,844)	3,737,220	(48,860,632)
Total capital assets, being depreciated, net	45,515,121	(2,533,184)	(268,690)	42,713,247
Capital assets, net	$ 49,276,272	$ 6,361,111	($ 821,690)	$ 54,815,693

NOTE 6 – Compensated Absences

A schedule of changes in compensated absences for the year ended June 30, 2018 is shown below:

	Balance at July 1, 2017	Increases	Decreases	Balance at June 30, 2018	Amount due Within One Year
Compensated absences	$ 362,906	$ 304,551	$ 362,906	$ 304,551	$ 43,339

A schedule of changes in compensated absences for the year ended June 30, 2017 is shown below:

	Balance at July 1, 2016	Increases	Decreases	Balance at June 30, 2017	Amount due Within One Year
Compensated absences	$ 404,747	$ 362,906	$ 404,747	$ 362,906	$ 31,836

NOTE 7 – Defined Benefit Pension Plan (CalPERS)

AVTA follows GASB 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB 27*, and records a net pension liability associated with AVTA's defined benefit pension plan.

Plan Description

AVTA contributes to the California Public Employees Retirement System (CalPERS), a cost-sharing, multiple-employer, public employee defined benefit pension plan. CalPERS provides retirement, disability, and death benefits to plan members and their beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the state of California. CalPERS issues a publicly available financial report that includes financial statements and all required supplementary information for the cost sharing plans that they administered.

Copies of CalPERS' annual financial reports may be obtained by writing to the following address: CalPERS, 400 "P" Street, Sacramento, California 95814.

NOTE 7 – Defined Benefit Pension Plan (CalPERS) (Continued)

A summary of the principal actuarial assumptions used are as follows:

Actuarial cost method	Entry age normal
Actuarial assumptions	
Discount rate	7.15%
Inflation	2.75%
Salary increases	Varies by entry age and service
Investment rate of Return	7.50% net of investment and administrative expenses
Mortality tables	Derived from CalPERS' membership data
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

The asset allocation shown below reflects the CalPERS' fund in total and expected rate of return as of June 30, 2017.

Asset Class	Current Allocation	Current Target Allocation
Global equity	48.3%	51.0%
Private equity	8.0%	10.0%
Global fixed income	19.4%	20.0%
Real Assets	11.2%	12.0%
Liquidity	4.8%	1.0%
Inflation Assets	7.8%	6.0%
Total Plan Level	0.5%	-

Source: CalPERS Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017. Total Plan Level includes Multi-Asset Class, Absolute Return Strategies, transition, and plan level portfolios. These asset do not have targets because they are not components of the Total Fund Policy benchmark.

NOTE 7 – Defined Benefit Pension Plan (CalPERS) (Continued)

AVTA has reported the following pension related amounts as deferred outflows and deferred inflows of resources on the Statement of Net Position as of June 30, 2018:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,943	$ 27,844
Changes of assumptions	241,136	18,387
Net difference between projected and actual earnings on plan investments	54,535	-
Change in employer's proportion	219,193	25,565
Differences between the employer's contributions and the employer's proportionate share of contributions	91,131	-
Pension contributions subsequent to measurement date	235,194	-
	$ 843,132	$ 71,796

The $235,194 reported as deferred outflows of resources are related to contributions made by AVTA subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources will be amortized into pension expense as follows:

Fiscal year Ending June 30,	
2019	$ 221,584
2020	208,678
2021	138,260
2022	(32,380)
	$ 536,142

NOTE 7 – Defined Benefit Pension Plan (CalPERS) (Continued)

AVTA has reported the following pension related amounts as deferred outflows and deferred inflows of resources on the Statement of Net Position for the year ended June 30, 2017:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 7,449	$ 1,707
Changes of assumptions	-	70,472
Net difference between projected and actual earnings on plan investments	366,782	-
Change in employer's proportion	152,362	70,219
Differences between the employer's contributions and the employer's proportionate share of contributions	135,324	-
Pension contributions subsequent to measurement date	226,757	-
	$ 888,674	$ 142,398

The $226,757 reported as deferred outflows of resources are related to contributions made by AVTA subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

The total pension expense for the plan recognized during the years ended June 30, 2018 and 2017 was $429,161 and $62,019, respectively.

NOTE 7 – Defined Benefit Pension Plan (CalPERS) (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following represents the net position liability of the plan as of the measurement date, calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower, or 1% higher.

	Discount rate minus 1% (6.15%)	Current discount rate (7.15%)	Discount rate plus 1% (8.15%)
Net pension liability	$ 1,894,753	$ 1,099,901	$ 441,591

The following table is a Schedule of AVTA's proportionate share of the plan's net pension liability. Should the agency be dissolved in the current fiscal year (FY 2019), the liability to the jurisdictions for future retirees to Calpers would be a total of $1,099,901.

	Fiscal Year End	
	6/30/18	**6/30/17**
Measurement Date	6/30/17	6/30/16
Authority's proportion of the net pension liability	0.011091%	0.010180%
Authority's proportionate share of the net pension liability	$ 1,099,901	$ 880,874
Authority's covered-employee payroll *	2,548,087	2,602,471
Authority's proportionate share of the net pension liability as a percentage of covered- employee payroll	43.17%	33.85%
Plan's fiduciary net position as a percentage of the plan's total pension liability **	73.31%	74.06%

NOTE 8 – Risk Management

AVTA is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and natural disasters. AVTA protects itself against such losses by a balanced program of risk retention, risk transfers and the purchase of commercial insurance. Loss exposures retained by AVTA are treated as normal expenditures and include any loss contingency not covered by AVTA's purchased insurance policies.

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). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs) and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. AVTA maintains workers' compensation insurance policies covering claims up to $5,000,000. An excess coverage insurance policy covers individual claims in excess of $5,000,000. AVTA does not have any liabilities for unpaid claims as of June 30, 2018. Settled claims have not exceeded insurance coverage limits during the fiscal years ended June 30, 2018 and 2017.

NOTE 9 – Commitments and Contingencies

Litigation

AVTA contracts its transportation services. As part of this contract, the contractor operates and maintains all vehicles. The contract provides that the operator indemnify AVTA for all claims and litigation relating to the operation of AVTA vehicles. While AVTA has been named in several matters of litigation, the contract operator is responsible for defense and payment of any unfavorable settlement.

AVTA is subject to various legal proceedings and claims arising in the ordinary course of its business. While the ultimate outcome of these matters is difficult to predict, management believes that the ultimate resolution of these matters will not have a material adverse effect on AVTA's financial position or activities.

NOTE 9 – Commitments and Contingencies (Continued)

Federal, State and Local Grants

AVTA receives federal, state and county funds for specific purposes that are subject to audit by the granting agencies. Although the outcome of any such audits cannot be predicted, it is management's opinion that these audits would not have a material effect on AVTA's financial position or changes in financial position.

Purchase Contracts

AVTA has the following significant purchase commitments outstanding as of June 30, 2018. These purchase orders are for future buses AVTA has yet to receive as of June 30, 2018.

Vendor	Project	Amount	Expected Completion
BYD Motors, Inc. (BYD)	Electric Bus Fleet	17,500,000	End of FY19

NOTE 10 – Restricted Net Position for Capital Acquisition

Restricted net position consists of member contributions, which are designated for capital acquisitions. Total accumulated contributions from each member are as follows:

	June 30,	
	2018	2017
County of Los Angeles	$ 1,456,686	$ 1,360,908
City of Palmdale	2,513,789	2,340,192
City of Lancaster	2,686,897	2,495,378
Interest earned on reserve balances	260,454	167,736
	$ 6,917,826	$ 6,364,214