Antelope Valley Transit Authority

Financial Statements
June 30, 2012 and 2011

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Antelope Valley Transit Authority

We have audited the accompanying financial statements of the Antelope Valley Transit Authority (AVTA) as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of AVTA's management. 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 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 AVTA'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 audits 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 AVTA as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows for the years 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 November 27, 2012 on our consideration of AVTA'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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Windes & McClaughry

Long Beach, California
November 27, 2012

MANAGEMENT DISCUSSION AND ANALYSIS

The management of the Antelope Valley Transit Authority (AVTA or Authority) offers the readers of AVTA's financial statements this narrative overview and analysis of the financial activities of AVTA for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with the accompanying basic financial statements.

Financial Highlights

- AVTA's cash and investments at fiscal year-end June 30, 2012 were $11,844,405.
- The assets of AVTA exceeded its liabilities at the close of the most recent fiscal year by $48,635,511. Of this amount, $7,313,190 may be used to meet AVTA's ongoing financial obligations.
- After recording the value of AVTA's capital assets net of accumulated depreciation, the increase from the prior year in net assets resulting from operations for the most recent fiscal year was $8,265,399.
- Total revenues from all sources were $33,417,859, which reflects an increase of $13,156,979 or approximately 64.9% over the last fiscal year.
- The total costs of all AVTA's transit services and projects were $25,152,460, an increase of $774,473, or 3.2%, from the last fiscal year.
- For the current fiscal year, the excess of total revenues from all sources, over total costs and operating expense (including depreciation) of AVTA's transit services and projects was $8,265,399. Prior fiscal year revenues were lower than total costs and expenses, which resulted in a shortfall of ($4,117,107).
- For the current fiscal year, the operating loss from providing transit services was $19,646,823, a decrease of $52,755, or 0.3%, from the last fiscal year.
- Member jurisdictions contributed $3,286,384 in support of operations and $460,896 for capital reserves, for a total of $3,747,280.
- At the end of the fiscal year, capital assets not subject to depreciation were $8,442,796; net capital assets subject to depreciation were $28,455,812. Total net capital assets at fiscal yearend were $36,898,608.
- At the end of the fiscal year, unrestricted net assets of AVTA were $7,313,190. This figure is exclusive of funds restricted for capital acquisition of $4,423,713. (Includes contributions from FY2012 and years prior).

Introduction

The Antelope Valley Transit Authority is a government funded entity that practices enterprise fund accounting and presents its financial statements based on the accrual method of accounting. The enterprise fund concept is similar to how private business enterprises are financed and operated, thus the accompanying financial statements provide a top-level view of the Authority's financial picture in a format similar to that of private-sector companies. The Authority, like local and state governments, uses funds accounting to ensure and demonstrate compliance with financially-related legal requirements.

The following reports comprise AVTA's financial statements:

Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two figures reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating, although it is important to consider other non-financial factors in accurately assessing the overall health of AVTA, such as the ridership, fuel cost volatility, and other indicators.

Statement of Revenues, Expenses and Changes in Net Assets. The information presented in this report shows how AVTA's net assets changed during the most recent fiscal year. Because the financial statements are prepared on an accrual basis, changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenditures are reported in these statements that for some items will result in cash flows in future fiscal periods.

Statement of Cash Flows. This report presents the sources and uses of funds of AVTA. It shows the inflow and outflow of cash from AVTA's operating activities, non-capital financing activities, capital and non-related activities, and investing activities.

Notes to the Financial Statements. The notes provide additional information essential in gaining a full understanding of the data provided in the financial statements.

Other Audits. There were other audits that were, or planned to be, conducted by relevant authorities in conjunction with the annual financial audit. This year, the Los Angeles Metropolitan Transportation Authority ("LA Metro"), commissioned two audits to be performed.

The annual *Proposition A Discretionary Incentive Grant (Schedule of Expenditures)* Audit was concluded in October 2012. The final statement will be issued upon review by LA Metro; no exceptions were reported in the draft statements.

On behalf of the State of California and Caltrans, AVTA is participating in the Triennial Audit of Transportation and Development Act Funding activities ("TDA"). The audit is mandatory with all transit entities operating under the auspices of LA Metro. While AVTA receives no direct funding from TDA, the Authority has expended all funds in accordance with the TDA statutes and regulations.

Overview of AVTA Financial Statements

As mentioned previously, net assets may serve over time as a useful indicator of a government's financial position. At June 30, 2012, AVTA's net assets were $48,635,511, as shown on Table 1. The increase of $8,265,399, or about 20.5% over the prior fiscal year-end balance, is largely attributable to an increase in federal funding for both operating and capital grants. Details of AVTA's Statement of Net Assets are shown in Table 1 below.

Table 1

Statement of Net Assets

	2012	2011
Current and other assets	$17,550,395	$12,542,745
Capital assets	36,898,608	32,036,915
Total assets	54,449,003	44,579,660
Long-term liabilities	0	0
Other liabilities	5,813,492	4,209,548
Total liabilities	5,813,492	4,209,548
Net assets:		
Invested in capital assets, net of accumulated depreciation	36,898,608	32,036,915
Restricted	4,423,713	3,949,444
Unrestricted	7,313,190	4,383,753
Total net assets	$48,635,511	$40,370,112

At the end of the fiscal year, AVTA's assets exceeded its liabilities by $48,635,511; unrestricted net assets of $7,313,190 as of the same date are available to meet the Authority's ongoing financial obligations.

Financial Analysis

For the fiscal year just ended, AVTA's total revenues from all sources were $33,417,859 and total expenses were $25,152,460, resulting in an increase in net assets of $8,265,399.

The details of the changes in AVTA's Net Assets are shown in Table 2 below

Table 2

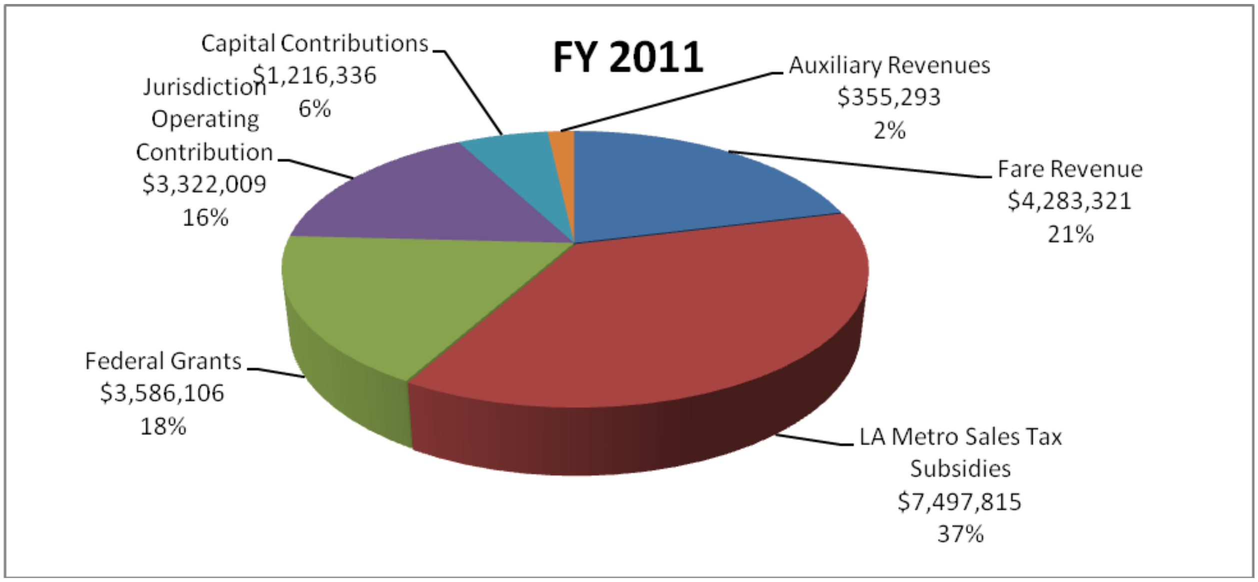
Statement of Changes in Net Assets

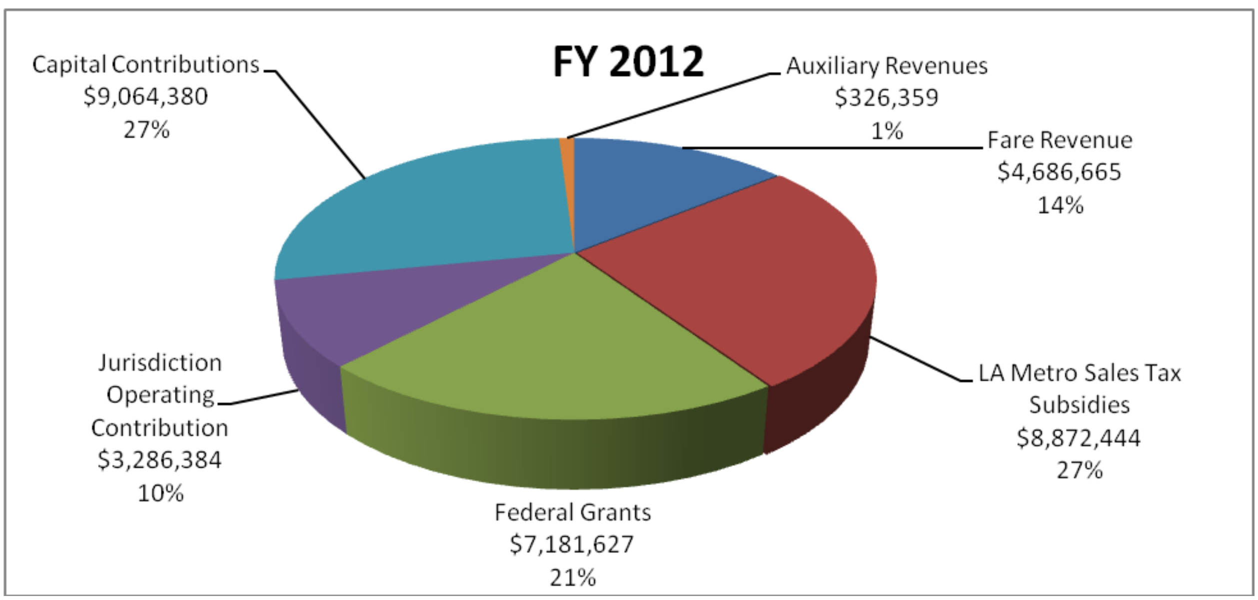
	2012	2011
Revenues:		
Charges for services	$4,686,665	$4,283,321
Operating grants and contributions	19,340,455	14,595,031
Capital grants and contributions	9,064,380	1,216,336
Other non-transportation revenues	326,359	162,242
Total revenues	33,417,859	20,256,930
Expenses:		
Purchased transportation	10,457,322	8,802,872
Fuel	3,081,667	2,792,580
Other operating costs	1,363,069	1,639,043
General and administrative expenses	5,215,431	6,311,030
(Gain)/Loss on disposal of assets	399,159	(3,950)
Capital Expenses	419,813	395,088
Depreciation	4,215,999	4,437,374
Total expenses	25,152,460	24,374,037
Change in net assets	8,265,399	(4,117,107)
Net assets, beginning of year	40,370,112	44,487,219
Net assets, end of year	$48,635,511	$40,370,112

Revenues

AVTA's operating and capital revenue sources for the previous and current fiscal years are illustrated in the pie charts in Figure 1. The percentage relationship of these revenues to each other, as well as their impact on AVTA's total funding sources, is also shown below.

Figure 1 – Revenues by Source





In FY 2012, Los Angeles Metro Sales Tax Subsidies (Propositions A and C, and Measure R), capital grants and federal operating grants comprised the majority of AVTA's total funding sources, at 75% of the total. Capital grants in particular increased 1,038% over the prior fiscal year.

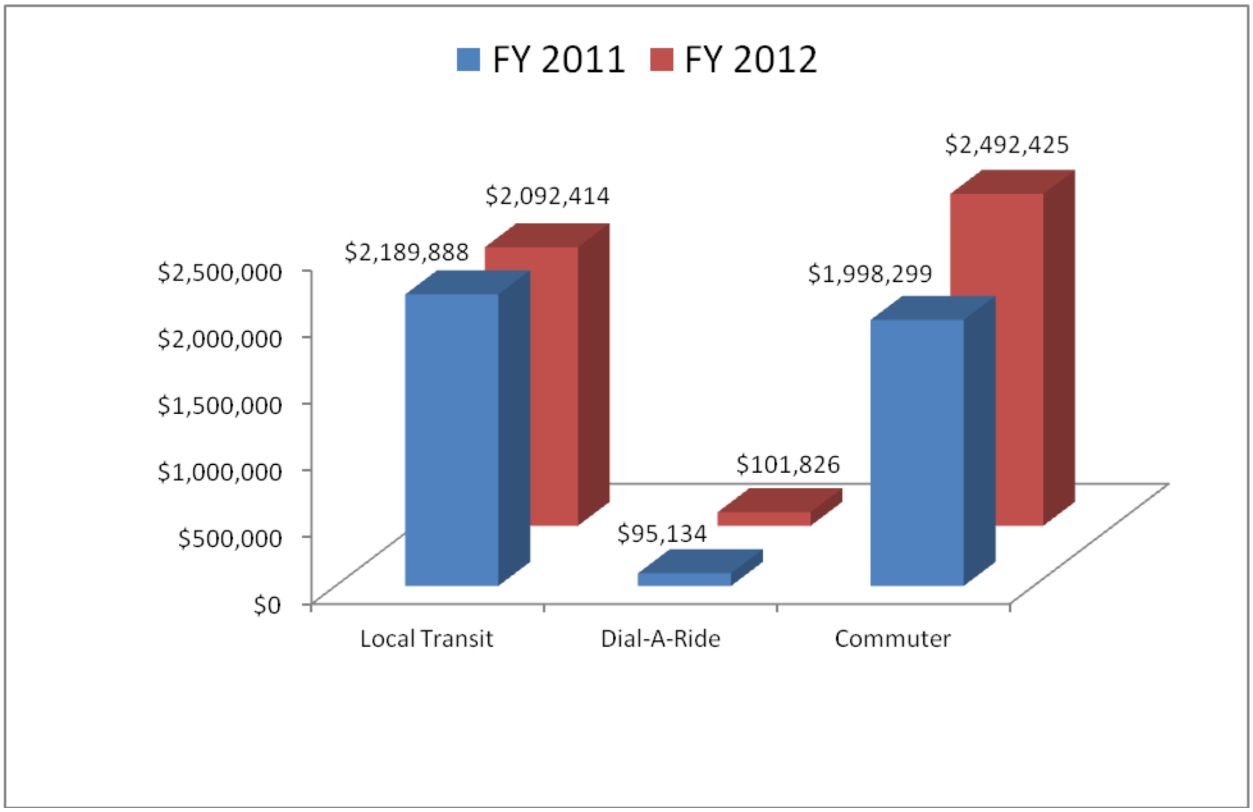
For Fiscal Year 2011, the Metro Sales Tax Subsidies and fare revenues were the highest sources of revenue at 58% of the total.

Jurisdiction contributions decreased slightly between the two years due to a reduction in Bus Stop Funding from Los Angeles County.

As shown in Table 2, there was an increase of $13.2 million in AVTA's total revenues received between Fiscal Years 2012 and 2011. Capital grant revenues in FY 2012 were $7.8 million more than FY 2011 due to inflows for Phase II Construction and Bus Refurbishment Funds. Operating grants and contributions were $4.7 million higher in FY 2012 when compared with FY 2011.

AVTA's farebox receipts are derived from three major transit service categories: Local Transit, Dial-a-Ride and Commuter. The relative relationships of each service to total farebox revenues for two fiscal years are illustrated in Figure 2 below.

Figure 2 – Farebox Revenues by Type



Overall, farebox revenue increased from $4.3 million to $4.7 million from FY 2011 to FY 2012, an increase of 9.4%. The increase was due to increased commuter ridership while AVTA's fare structure remained the same in both years. Commuter fare revenues increased by 24.7% over the previous fiscal year, and have the highest recovery ratio of the three services at 72.5%. Dial-a-Ride revenues increased by 7.0%, even as the service was outsourced in January 2012. Local Transit fare revenues decreased by 4.5%; ridership increased while the farebox recovery ratio dipped. Analysis of fare structures and farebox recovery ratios are priorities for management.

Expenses

AVTA's total operating expenses are reported in the following categories: Purchased Transportation, Fuel, Other Operating, and General and Administrative. As reported in Table 2, total expenses increased $0.8 million, or 3.2% from the previous fiscal year to $25.2 million in the current fiscal year.

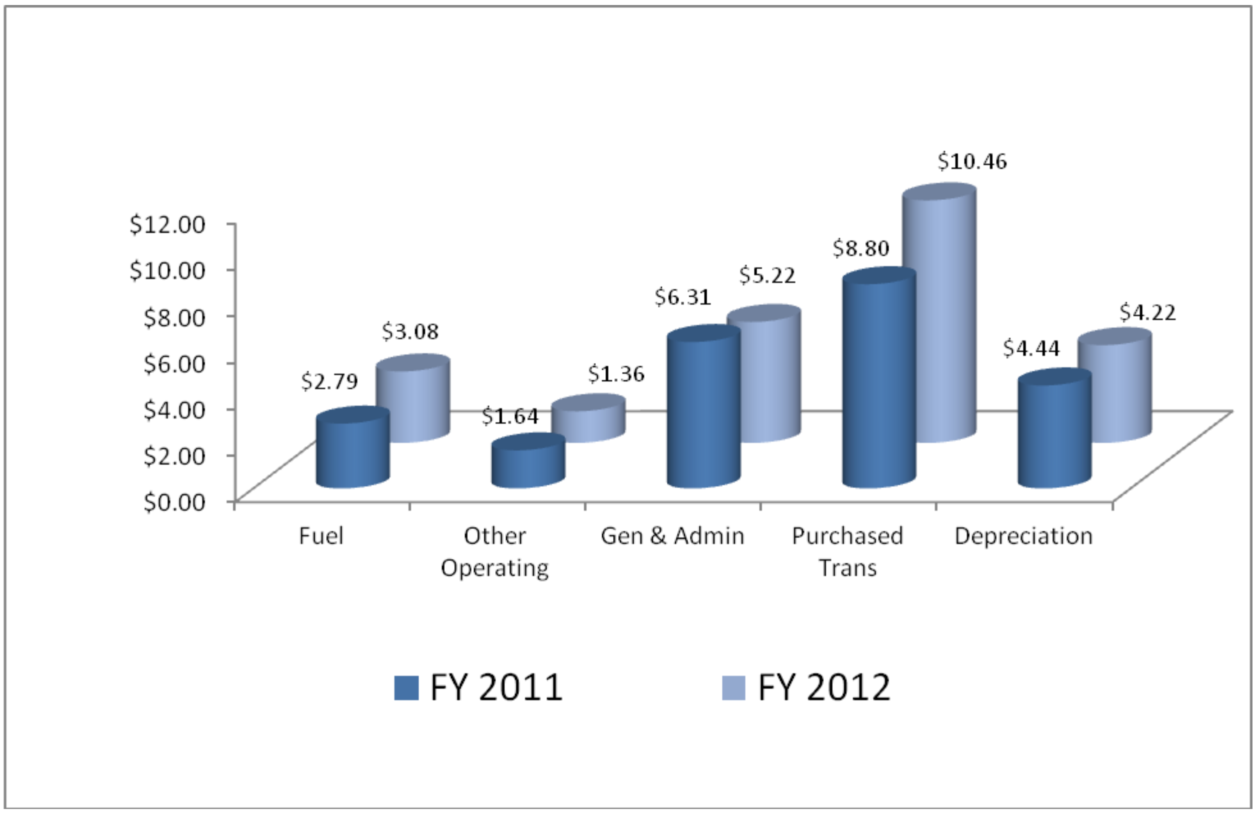
Maintenance was part of purchased transportation costs effective January 2012. Conversely, general

Purchased transportation expenses increased by approximately 18.8% or $1.7 million because administration costs were reduced $1.0 million, or 17.4%. The cost of fuel increased $0.3 million, or 10.4%.

AVTA contracts with Veolia Transportation for transit services. As shown below in figures 3 and 4 below, purchased transportation comprised about 42% of AVTA's total operating expenses in FY 2012 compared to 36% in FY 2011. FY 2012 fuel costs comprised approximately 13% of the total operating expenses, increasing from 12% the previous fiscal year. General and administrative costs were 21% of total operating expenses in FY 2012 and 26% in FY 2011; a decrease of $1.0 million, or 17.4%, from the previous year to the current year. Depreciation expense in the current fiscal year was 17% ($4.2 million) of total operating expenses, compared to 18% ($4.4 million) in FY 2011.

Figure 3 below shows the differences in expenses by category for FY 2011 and FY 2012, while Figure 4 illustrates each category as a percentage of total expenses.

Figure 3 – Operating Expenses by Type ($millions)



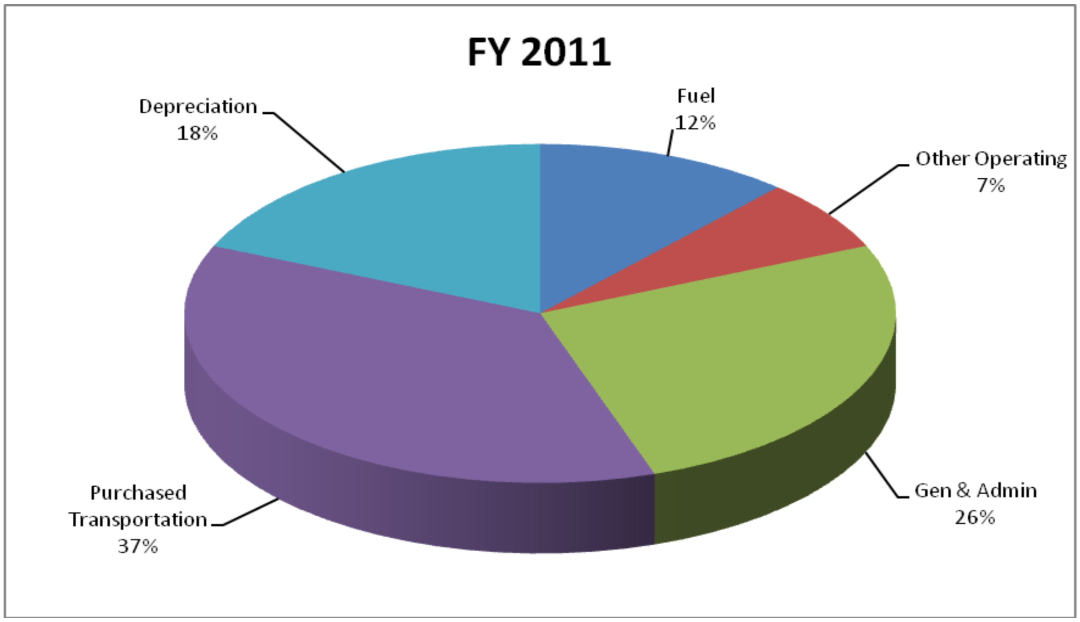
Other items of note in expenses and costs that occurred during the year are shown below.

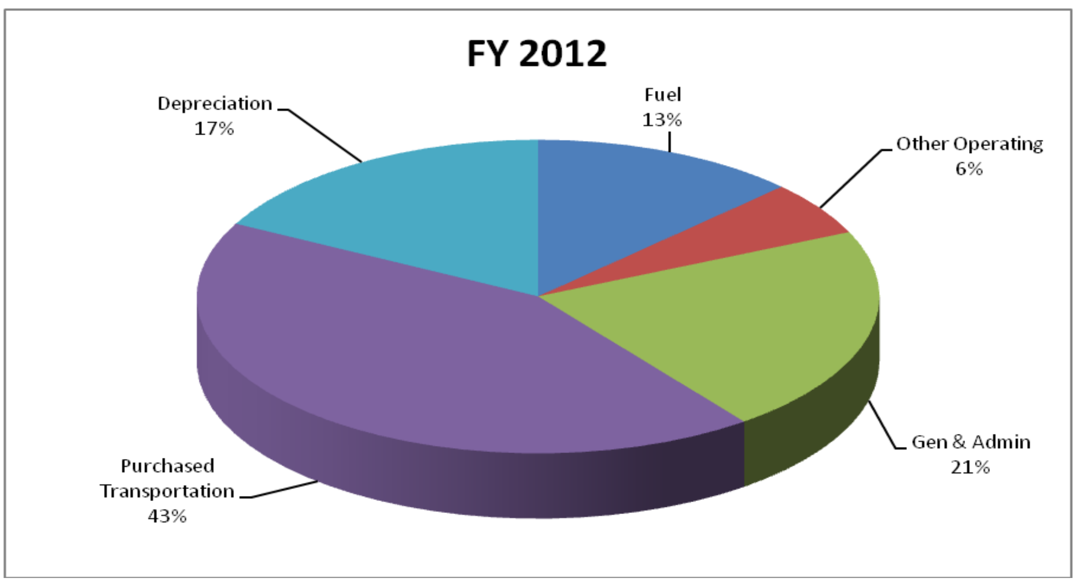
With Board approval, management elected to prepay the employer portion of the CalPERS funding obligation for Fiscal Year 2012, resulting in a savings of $206,000.

At the beginning of Fiscal Year 2012, AVTA's maintenance function was included as part of its internal operations. As of January 1, 2012, the maintenance function was contracted out, which resulted in savings of $190,000 to the Authority's risk premiums for workman's compensation and general liability. This was because each incident that occurred while maintenance was an internal function was subject to a large deductible. Further, other contracts were awarded as well, including the Authority's Dial-A-Ride Services, which began operating under a new service model that is proving to be less expensive than the in-house model.

After the Dial-A-Ride function was subcontracted, 14 Dial-A-Ride vehicles became surplus to the Authority's needs. With the approval of the Federal Transit Authority, the vehicles were transferred for service with the Victor Valley Transit Authority directly. AVTA incurred a loss equal to the remaining book value of the fourteen units of ($470,000), since an exchange transaction did not occur.

Figure 4 – Operating Expenses as a Percentage of Total





Analysis of Major Funds

AVTA uses fund accounting to ensure and demonstrate compliance with financially related legal requirements. The general fund is the chief operating fund of AVTA. The focus of the general fund is to provide information on near-term inflows, outflows and balances of spendable resources. The capital fund account is for capital projects that are applicable to particular funding streams, usually a specific and dedicated federal funding source. With respect to operating expenses, unrestricted net assets may serve as the measure of the Authority's net resources available for meeting its obligations as of the end of the fiscal year.

As of June 30, 2012, AVTA reported combined unrestricted net assets of $7,313,190, representing an increase of $2.9 million, or a 64.7% increase over the prior year's balance. The jurisdictional capital reserve contributions balance, shown as a restricted line item in net assets, is $4,423,713 as of the same date.

General Fund Budgetary Highlights

For FY 2012, operating revenues exceeded budget by $1.8 million, a favorable variance of 8.1%. Total operating expenditures excluding depreciation was less than budget by $1.0 million, another favorable variance of 4.4%.

The details of AVTA's investment in capital assets for the past two fiscal years 2012 and 2011 are presented in Table 3.

Table 3
Capital Assets

	FY 2012	FY 2011	% Variance
Land and Construction in Progress	$8,442,796	$2,051,999	311.4%
Buildings and Improvements	16,390,047	17,002,104	-3.6%
Equipment	1,511,133	2,329,449	-35.1%
Transportation Equipment	10,554,632	10,653,363	-0.9%
Totals	$36,898,608	$32,036,915	15.2%

Table 3 shows a $4.9 million, or 15.2%, increase in AVTA's capital assets between the current and prior fiscal years. This increase is due to Phase II Construction and Bus Refurbishment inflows. See Note 5 to the financial statements for additional information on capital asset balances and activity during FY 2012.

Long-term Debt

AVTA has no direct or indirect bonded indebtedness. The Authority's strategic plan contains no provision to incur any bonded indebtedness.

Budget and Economic Factors

The most recent adopted annual budget for Fiscal Year 2013 shows that AVTA continues to operate in a financially responsible manner. The major goals and issues that dominated the process for the annual budget are discussed in the FY 2013 Business Plan narrative in conjunction with the major initiatives for the fiscal year. The primary budget assumption for FY 2013 was that maintenance was to be contracted out for the year. This was accomplished as planned for the final six months of Fiscal Year 2012 and thereafter, which impacted planning assumptions for purchased transportation costs. Additionally, separate contracts for commuter, local fixed routes and Dial-a-Ride services were awarded in January 2012. The new contract for Dial-a-Ride did not require AVTA vehicles and AVTA transferred the federal interest and vehicles to other eligible transit operators after obtaining permission from the Federal Transit Authority. AVTA finished FY 2012 well within its projected budgeted expenditures; the projected expenditures for FY 2013 are projected to be 7% lower than the FY 2012 budget. Higher-than-anticipated fare revenues and lower-than-budgeted fuel costs were major contributors to the Fiscal Year 2013 projections. Fiscal Year 2013 is also the first year of AVTA Fleet Replacement Program, a five-year plan to replace its aging bus fleet with new, modern units, including hybrid and fuel-efficient clean diesel units.

The economic outlook for Los Angeles County continues to show small signs of recovery. AVTA's FY 2013 Business Plan includes an increase in sales tax revenues of $0.3 million, a 5.1% increase over the previous year's funding. Increased ridership is expected to continue, and AVTA will look for ways to meet the demand for additional service while remaining financially stable.

Requests for Information

This financial report is designed to provide a general overview of AVTA's finances to all interested parties. Any questions regarding this report or requests for additional information should be addressed to AVTA's Finance Department, at 44210 6th St. West, Lancaster, CA 93534.

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ANTELOPE VALLEY TRANSIT AUTHORITY

STATEMENTS OF NET ASSETS

ASSETS

	June 30, 2012	June 30, 2011
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	$ 11,844,405	$ 7,872,776
Due from other governments (Note 3)	5,051,979	1,453,477
Other receivables	237,689	2,429,835
Inventory	355,692	620,132
Prepaid items	60,630	166,525
	17,550,395	12,542,745
NONCURRENT ASSETS		
Capital assets, depreciated, net (Note 5)	36,898,608	32,036,915
TOTAL ASSETS	54,449,003	44,579,660

LIABILITIES AND NET ASSETS

	June 30, 2012	June 30, 2011
CURRENT LIABILITIES		
Accounts payable	2,599,028	1,338,303
Due to Federal Transit Administration	79,200	2,110,475
Accrued payroll	66,409	73,107
Unearned revenue - Prop 1B (Note 4)	2,828,151	465,788
Compensated absences (Note 6)	240,704	221,875
Total Current Liabilities	5,813,492	4,209,548
NET ASSETS		
Invested in capital assets	36,898,608	32,036,915
Restricted for capital acquisition	4,423,713	3,949,444
Unrestricted	7,313,190	4,383,753
TOTAL NET ASSETS	$ 48,635,511	$ 40,370,112

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

ANTELOPE VALLEY TRANSIT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011
OPERATING REVENUES		
Charges for services:		
Passenger fares	$ 4,686,665	$ 4,283,321
Total operating revenues	4,686,665	4,283,321
OPERATING EXPENSES		
Purchased transportation services:		
Outside transit contract	10,457,322	8,802,872
Fuel	3,081,667	2,792,580
Other operating costs	1,363,069	1,998,585
General and administrative	5,215,431	5,951,488
Depreciation	4,215,999	4,437,374
Total operating expenses	24,333,488	23,982,899
Operating loss	(19,646,823)	(19,699,578)
NONOPERATING REVENUES (EXPENSES)		
Interest income	18,089	189,101
Local operating grants – LA Metro	8,872,444	7,497,815
Federal operating grants	7,181,627	3,586,106
Member agency contributions	3,286,384	3,322,009
Capital expenses	(419,813)	(395,088)
Gain/(Loss) on sale of capital asset	(399,159)	3,950
Other	308,270	162,242
Total nonoperating revenues and expenses	18,847,842	14,366,135
Loss before capital contributions	(798,981)	(5,333,443)
CAPITAL CONTRIBUTIONS		
Capital grants	8,603,484	755,440
Member contributions	460,896	460,896
Total capital contributions	9,064,380	1,216,336
NET CHANGE IN NET ASSETS	8,265,399	(4,117,107)
NET ASSETS, BEGINNING OF YEAR	40,370,112	44,487,219
NET ASSETS, END OF YEAR	$ 48,635,511	$ 40,370,112

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, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 4,560,134	$ 4,283,321
Non-operating miscellaneous received	308,270	162,242
Cash payments to suppliers for goods and services	(11,936,791)	(14,322,525)
Cash payments to employees for services	(3,887,742)	(4,892,132)
Net Cash Used In Operating Activities	(10,956,129)	(14,769,094)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating grants received	14,144,719	10,312,849
Contributions received from member agencies	2,361,679	3,251,193
Net Cash Provided By Noncapital Financing Activities	16,506,398	13,564,042
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(9,555,310)	(1,113,534)
Proceeds received from sale of capital assets	78,459	3,950
Capital grants received	8,074,638	491,244
Capital expenses	(419,813)	(395,088)
Capital contributions received from member agencies	225,297	460,896
Net Cash Used In Capital and Related Financing Activities	(1,596,729)	(552,532)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	18,089	189,101
Net Cash Provided By Investing Activities	18,089	189,101
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,971,629	(1,568,483)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,872,776	9,441,259
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 11,844,405	$ 7,872,776

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, 2012	For the Year Ended June 30, 2011
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES:		
Operating loss	($ 19,646,823)	($ 19,699,578)
Adjustments to net cash used in operating activities:		
Depreciation	4,215,999	4,437,374
Miscellaneous income	308,270	162,242
Decrease/(increase) in other receivables	2,192,146	(2,391,751)
Decrease/(increase) in inventory	264,440	(2,726)
Decrease/(increase) in prepaid items	105,895	(133,825)
Increase in accounts payable	1,260,725	500,952
(Decrease)/increase in due to Federal Transit Administration	(2,031,275)	2,110,475
(Decrease)/increase in accrued payroll	(6,698)	9,861
Increase in unearned revenue	2,362,363	125,000
Increase in compensated absences payable	18,829	112,882
Net Cash Used In Operating Activities	($ 10,956,129)	($ 14,769,094)

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

There were no noncash investing, capital or financing activities during the year ended June 30, 2012 and 2011.

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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 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.

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

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 and member agency billings. Nonoperating revenues consist of federal and county operating grants, investment income, and member contributions that can be used for either operating or capital purposes. Operating expenses for enterprise funds include purchased transportation 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.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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 three 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.

Inventory and Prepaid Items

Inventory consists of fuel in storage held for consumption and parts used for 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

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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 non-operating 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.

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.

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.

Reclassifications

Certain reclassifications have been made to the June 30, 2011 financial statement amounts presented in order to conform with the June 30, 2012 financial statement presentation. Such reclassifications had no effect on net changes in net assets as previously reported.

NOTE 2 – Cash and Cash Equivalents

Cash and cash equivalents consisted of the following:

	June 30, 2012	June 30, 2011
Cash on hand	$ 750	$ 750
Deposits with financial institutions	8,265,951	4,311,920
Local Agency Investment Fund (LAIF)	3,577,704	3,560,106
Total cash and cash equivalents	$ 11,844,405	$ 7,872,776

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, 2012 and 2011.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value 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)	$ 3,577,704	$ 3,577,704
Total	$ 3,577,704	$ 3,577,704

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.

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

As of June 30, 2012 and 2011, AVTA did not have any investments whose fair values are highly sensitive to interest rate fluctuations.

NOTE 2 – Cash and Cash Equivalents (Continued)

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 does 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, 2012 and 2011, except for its investment in LAIF, 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.

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.

NOTE 2 – Cash and Cash Equivalents (Continued)

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 are recorded on an amortized cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured notes. LAIF is not rated by a recognized statistical rating organization.

NOTE 3 – Due From Other Governments

Due from other governments consisted of the following:

	June 30,	
	2012	2011
Federal grants	$ 3,822,732	$ 1,384,534
Operating contributions		
City of Lancaster	395,133	68,943
City of Palmdale	321,951	
Los Angeles County	276,564	
Capital reserve contribution		
City of Lancaster	137,625	
City of Palmdale	40,724	
Los Angeles County	57,250	
Total due from other governments	$ 5,051,979	$ 1,453,477

NOTE 4 – Proposition 1B

The Public Transportation Modernization, Improvement and Service Enhancement Account (PTMISEA) Fund is a part of the State of California's Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Bond Act), approved by California voters as Proposition 1B on November 7, 2006. A total of $19.9 billion was deposited into the PTMISEA fund, $3.6 billion of which was made available to 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, 2012 and 2011 was as follows:

Unspent PTMISEA funds as of July 1, 2010, as restated	$ 337,905
PTMISEA funds received during fiscal year ended June 30, 2011	127,883
PTMISEA expenses incurred during fiscal year ended June 30, 2011	–
Unspent PTMISEA funds as of July 1, 2011	465,788
PTMISEA funds received during fiscal year ended June 30, 2012	3,619,364
PTMISEA expenses incurred during fiscal year ended June 30, 2012	(1,257,001)
Unspent PTMISEA cash receipts as of June 30, 2012	$ 2,828,151

NOTE 5 – Capital Assets

A schedule of changes in capital assets for the year ended June 30, 2012 is shown below:

	Balance at July 1, 2011	Increases	Decreases	Balance at June 30, 2012
Capital assets, not being depreciated:				
Land	$ 1,816,616			$ 1,816,616
Construction-in-progress	235,383	$ 6,390,797		6,626,180
Total capital assets, not being depreciated	2,051,999	6,390,797		8,442,796
Capital assets being depreciated:				
Buildings	21,337,733		($ 12,601)	21,325,132
Equipment	10,711,282	43,758	(228,360)	10,526,680
Transportation equipment	33,244,977	3,120,756	(3,970,158)	32,395,575
Total capital assets, being depreciated	65,293,992	3,164,514	(4,211,119)	64,247,387
Less accumulated depreciation:				
Buildings	(4,335,629)	(610,345)	10,889	(4,935,085)
Equipment	(8,381,833)	(858,236)	224,522	(9,015,547)
Transportation equipment	(22,591,614)	(2,747,418)	3,498,089	(21,840,943)
Total accumulated depreciation	(35,309,076)	(4,215,999)	3,733,500	(35,791,575)
Total capital assets, being depreciated, net	29,984,916	(1,051,485)	(477,619)	28,455,812
Capital assets, net	$ 32,036,915	$ 5,339,312	($ 477,619)	$ 36,898,608

NOTE 5 – Capital Assets (Continued)

A schedule of changes in capital assets for the year ended June 30, 2011 is shown below:

	Balance at July 1, 2010 (As Restated)	Increases	Decreases	Transfers	Balance at June 30, 2011
Capital assets, not being depreciated:					
Land	$ 1,816,616				$ 1,816,616
Construction-in-progress	2,229,375	$ 235,383	($ 2,229,375)		235,383
Total capital assets, not being depreciated	4,045,991	235,383	(2,229,375)		2,051,999
Capital assets being depreciated:					
Buildings	20,757,888	356,690		$ 223,155	21,337,733
Equipment	10,565,929	145,353			10,711,282
Transportation equipment	32,996,683	495,006	(23,557)	(223,155)	33,244,977
Total capital assets, being depreciated	64,320,500	997,049	(23,557)	–	65,293,992
Less accumulated depreciation:					
Buildings	(3,730,840)	(604,789)			(4,335,629)
Equipment	(7,276,071)	(1,130,234)	24,472		(8,381,833)
Transportation equipment	(19,888,350)	(2,702,349)	(915)		(22,591,614)
Total accumulated depreciation	(30,895,261)	(4,437,372)	23,557		(35,309,076)
Total capital assets, being depreciated, net	33,425,239	(3,440,323)	–		29,984,916
Capital assets, net	$ 37,471,230	($ 3,204,940)	($ 2,229,375)	–	$ 32,036,915

NOTE 6 – Compensated Absences

A schedule of changes in compensated absences for the year ended June 30, 2012 is shown below:

	Balance at July 1, 2011	Increases	Decreases	Balance at June 30, 2012	Amount Due Within One Year
Compensated absences	$ 221,875	$ 22,447	($ 3,618)	$ 240,704	$ 240,704

A schedule of changes in compensated absences for the year ended June 30, 2011 is shown below:

	Balance at July 1, 2010	Increases	Decreases	Balance at June 30, 2011	Amount Due Within One Year
Compensated absences	$ 108,993	$ 346,044	($ 233,162)	$ 221,875	$ 221,875

NOTE 7 – Defined Benefit Pension Plan (CalPERS)

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)

Contributions and Funding Policy

AVTA contributes 7% of participants' annual covered salary. AVTA is required to contribute at an actuarially determined rate. The rate for the year ended June 30, 2012 is 9.340% of annual covered payroll. The contribution requirements of plan members and AVTA are established and may be amended by the Board of Directors. AVTA's contributions to the plan for the years ending June 30, 2010, 2011, and 2012 were $161,032, $278,642, and $337,481, respectively, and were equal to the required contributions for each year.

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, 2012. Settled claims have not exceeded insurance coverage limits in any of the previous three fiscal years.

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.

Federal and Local Grants

AVTA receives federal 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.

NOTE 10 – Restricted Net Assets

Restricted net assets consists of member contributions, which are designated for capital acquisitions. Contributions from each member are as follows:

	June 30, 2012	June 30, 2011
County of Los Angeles	$ 959,862	$ 845,362
City of Palmdale	1,655,307	1,492,411
City of Lancaster	1,737,723	1,554,223
Interest earned on reserve balances	70,821	57,448
	$ 4,423,713	$ 3,949,444