Basic Financial Statements
June 30, 2019

Victor Valley Transit Authority
(A Joint Powers Authority)

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VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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Independent Auditor's Report

To the Board of Directors
Victor Valley Transit Authority
Hesperia, California

Report on the Financial Statements
We have audited the accompanying financial statements of the Victor Valley Transit Authority (Authority) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Auditor's 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 auditor considers 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of June 30, 2019, and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, schedule of the Authority's proportionate share of the net pension liability and the schedule of contributions, as listed in the table of contents, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2019, on our consideration of the 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 solely 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 effectiveness of the Authority's 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 the Authority's internal control over financial reporting and compliance.

Eide Bailly LLP

Rancho Cucamonga, California
December 23, 2019

Victor Valley Transit Authority

Management's Discussion and Analysis

June 30, 2019

This discussion and analysis of the Victor Valley Transit Authority's (Authority) financial performance for the fiscal year ended June 30, 2019, provides a financial summary of the Authority's current year results in comparison to the prior year. It should be read in conjunction with the accompanying, financial statements and notes to the financial statements.

The Management's Discussion and Analysis (MD&A) section of the Authority's annual financial report provides condensed comparative data and briefly discusses the financial activities during the fiscal year ended June 30, 2019. It is a separate but an integral part of the financial statements and notes that follow. The purpose of this MD&A is to promote an understanding of the Authority's financial statements.

The financial statements of the Authority supply information using accounting methods similar to those used by private sector companies. These statements offer short and long-term information about its activities.

The Statement of Net Position includes all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provides the basis for evaluating the capital structure, liquidity and overall financial integrity of the Authority.

The Statement of Revenues, Expenses and Changes in Net Position displays the revenues, expenses and changes in net position for the Authority and measures the success of operations over the past year. It can be used to determine credit worthiness and whether revenue sources matched, exceeded or failed to meet expenses.

The final financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It accounts for the cash and cash equivalents balance available at the beginning of the year and at year's end. It displays cash received, cash expended, and the net change in the amount of cash and cash equivalents.

Victor Valley Transit Authority

Management's Discussion and Analysis

June 30, 2019

HIGHLIGHTS

- Net Position: Overall Net Position increased $7,840,948 and was largely impacted by a net investment in capital assets and restricted capital assets of $3,052,958 as well as a increase in Unrestricted Net Position of $4,787,990. These changes are explained in detail in this report.

- The value of the Authority's capital assets (net of deletions and depreciation) increased by $3,071,068 or 4.6%. This increase was caused by investment in new assets of $8,643,992 offset by depreciation and asset retirement costs totaling $5,572,924. This increase in depreciable asset value also had a significant impact on the overall ending net position as explained later in this discussion.

- The Authority's overall operations statistics were impacted this year by the new Operations and Maintenance contract that started October 1st, 2018. The new Contractor's rates were higher by 8.22% when compared to the rate for the prior contract. This increase is consistent with the transit service required by the Authority to provide the best service to our community. Additionally, FY 18/19 shows significant increase in the fuel expenses due to the increase of the fuel market prices countrywide.

- Program revenues: Passenger Fares increased by 12% or $325,081, as compared to the prior year. This increase is due in part to a new client (ALS) which increased the purchases of student monthly passes. Other program revenues for FY18/19 totaled $1,893,366 representing an increase of $711,802 when compared to the prior year. This increase was largely due to the result of selling LCFS credits. Program revenues contributed by Federal, State and Local agencies increased by $7,489,429 were sufficient to meet the operating expense needs of the Authority.

- Capital revenues contributed by Federal, State and Local agencies decreased by $658,519 to a total of $7,953,777. Capital revenues from these sources were provided by grants to support specific capital purchases. Capital purchases vary greatly from year to year depending on the needs and objectives of the Authority. The funds received were enough to meet the capital needs of the agency for FY18/19.

- Total revenues increased by 25.3% from $31,108,702 in FY 17/18 to $38,976,495 in FY187/19 largely due to the addition of operating revenues as explained above.

- Total expenses, including depreciation and interest, for the fiscal year totaled $31,135,547 and represents an increase of $3,098,508 or 11% when compared to the prior fiscal year. This was impacted by increases in operating expenses of $2,412,673 as mentioned above due the new contractor rates and the increase in the fuel market prices. Additionally, increases in General and Administrative costs of $222,929, depreciation expenses of $279,583, and interest expenses of $275,234, offset the contribution of capital assets totaling ($91,911) to a non-profit partner providing ride services to senior and disabled clients (not applicable in 18/19).

- Cash and equivalents at end of year were $23,280,616. Of this amount, $3,356,568 is available for operations, with the balance restricted by grant agreements or governing body policy to be used on specific capital projects including the purchasing of rolling stock, vehicle equipment and capital improvements, repairs and equipment for the Authority's facility.

  Included in this cash position is $12,264,054 which is restricted by a debt agreement in connection with the 2016 COP construction of the Authority's facility and 2018 COP the construction of the new facility in Barstow, $1,797,842 in Prop 1B funds and $939,454 in LCTOP funds both of which are restricted by grant agreements for certain capital projects, and $4,922,698 restricted by the Authority's governing board for specific capital projects.

- In FY14/15 VVTA adopted the provisions of GASB 68 which had implications on costs and net position of the Authority. Statement 68 was issued by GASB in June 2012, requiring public employers who participate in a defined benefit pension plan administered as a trust or similar arrangement (such as CalPERS), to comply with new accounting and financial reporting standards. These standards required, amongst other things, that risk pooled employers like VVTA, would have to report their proportionate share of collective Net Pension Liability (NPL), Pension Expenses, and Deferred Inflows/Outflows of resources, from the funds that CalPERS managed. Prior to GASB 68, VVTA reported only amounts contributed by VVTA to the CalPERS retirement plan on behalf of eligible participating staff members, as an expense without indication of a shared liability for future potential pension expenses. In the FY18/19 financial statements, VVTA has reported its proportionate share of collective Net Pension Liability (NPL), Pension Expenses, and Deferred Inflows/Outflows of resources. These requirements had a very minor impact on VVTA's overall financial statements. Ending proportionate share of NPL for VVTA in FY18/19 is $162,489 or 0.4% of total liabilities.

- Additional information pertaining to the specific impact of these Statements and the treatment on the Authorities' financial statements are detailed in the "notes to the financial statements" and in the "Required Supplementary Information" section following the notes.

FINANCIAL ANALYSIS OF VICTOR VALLEY TRANSIT AUTHORITY

One of the most important questions asked is "*Is the Authority better off or worse off as a result of the year's activities?*" The Statement of Net Position and the Statement of Revenues and Expenses, provide information about the Authority's activities to help answer that question. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or weakening. The Authority accounts for all transactions in an enterprise fund which uses the full accrual basis of accounting. The activity shown in Table A-1 represents all activity through that fund.

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES

A summary of the Authority's *Statement of Net Position* is presented in Table A-1.

Table A-1
Condensed Statement of Net Position

	30-Jun		Dollar	Percentage
	2019	2018	Change	Change
Current Assets	$30,071,736	$18,107,714	$ 11,964,022	
Capital assets (net)	$69,230,642	$66,159,574	$ 3,071,068	
Total Assets	**$99,302,378**	**$84,267,288**	**$ 15,035,090**	**17.8%**
Deferred Outflows (pensions)	$394,426	$470,625	$ (76,199)	
Deferred Outflows (refunding)	$1,045,939	$1,104,047	$ (58,108)	
Total Assets & Deferred Outflows	**$100,742,743**	**$85,841,960**	**$ 14,900,783**	**17.4%**
Current Liabilities	$9,923,514	$12,665,288	$ (2,741,774)	
Non-Current Liabilities	$32,997,893	$23,159,851	$ 9,838,042	
Net Pension Liability	$162,489	$179,958	$ (17,469)	
Total Liabilities	**$43,083,896**	**$36,005,097**	**$ 7,078,799**	**19.7%**
Deferred Inflows (pension)	$20,720	$39,684	**$ (18,964)**	**N/A**
Net Position				
Net investment in capital assets	$36,478,688	$43,513,770	$ (7,035,082)	
Restricted for Debt Service	$12,264,054	$2,176,014	$ 10,088,040	
Unrestricted	$8,895,385	$4,107,395	$ 4,787,990	
Total Net Position	**$57,638,127**	**$49,797,179**	**$ 7,840,948**	**15.7%**
Total Liabilities, Deferred Inflows & Net Position	**$100,742,743**	**$85,841,960**	**$ 14,900,783**	**17.4%**

Table A-1, shows the Authority's total net position increased from $49,797,179 in FY17/18 to $57,638,127 in FY18/19 or 15.7% as a result of the year's activities and as explained further in this report.

- **Current assets** Increased by $11,964,022 or 66%, the increase is mainly due to the increase of cash with fiscal agent by $10,088,040 which is the 2018 COP funds for the new facility in Barstow (construction in progress). Additionally, the increase includes the Board reserved funds of $623,024, the increase in interest revenue due to the investment of the 2018 COP unused funds, the increase of cash offset with the usage of Proposition 1B and LCTOP funds. The Authority expects to spend down its remaining funding over the next two years. Cash and Investments-Board Reserved are set aside by the Authority's Board of Directors for future capital projects. The increase to these funds in FY19 were derived from the sale of the LCFS credits.

- **Total Capital Assets** (net of depreciation) **increased by $3,071,068.** This change reflects the net activity in the capital asset accounts including additions and retirements of assets as well as accumulated depreciation expense charges. This increase indicates that the Authority's investment activity in capital assets was more than its charges and increased by 4.6% as compared to the prior year.

	FY2019	FY2018
Land	$1,693,350	$1,693,350
Construction in Process	1,995,653	986,075
Total Non-Depreciable	**3,689,003**	**2,679,425**
Property & Equipment	65,541,639	63,480,149
Total Capital Assets (net)	**$69,230,642**	**$66,159,574**

The ending balance of $1,995,653 in the Construction in Progress account is for the new transit facility in Barstow, scheduled to be completed on Spring 2020.

Investment of $6.89m in Property and Equipment was for purchased capital assets of seven (7) new 35 and 40 ft Eldorado Axess buses used in Fixed Route operations, two (2) new Eldorado Aerotech buses used in Demand Responsive service, and two (2) new service vehicles used to provide supervisory support to the transit system, plus the first BEB Battery Electric Bus received in FY18/19 and the construction of the charging station to be ready for additional Electric Buses. Further investment was made into the installation of the ITS Intelligent Transportation System to replace the old Avail Technology System which monitors and tracks the buses. Some other replacement of major components (engines & transmissions) in a number of revenue vehicles to extend their useful life, new and replacement bus shelters and solar lighting for bus stops, along with furnishings, fixtures and computer equipment to support the Authority's transit facilities in Hesperia and Barstow California.

- **Total Liabilities increased by $7,078,799** when compared to FY17/18 due to the new 2018 COP liability for the new facility in Barstow. offset with the decrease of the long-term liability of the 2016 COP as a result of terms for principle payments, plus the decrease of the unearned revenue.

- **Net position – Net Investment in capital assets decreased by $7,035,082.** This was a result of the net activity in capital asset and liability accounts including additions and retirements of capital assets as well as accumulated depreciation expense charges and increases or decreases in liabilities as explained earlier in this discussion.

- **Net position in the amount of $12,264,054 is restricted, $2.2m for debt service on a long-term lease arrangement maturing in 2037.** These funds are reserved as required by finance lease documents 2016 COP to provide security to the lessor for future lease payment obligations by the Authority. These funds will remain in this restricted status until the lease agreement matures in 2037. Additionally, $10M is restricted for the construction of the new facility in Barstow per the 2018 COP documents.

- **Net position in the amount of $8,895,385 is unrestricted.** Unrestricted net position, is the part of the net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

REVENUES – EXPENSES – AND CHANGES IN NET POSITION

While the Statement of Net Position shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes.

Table A-2
Statement of Revenues, Expenses and Changes in Net Postion

Revenues	30-Jun		Dollar	Percentage
Program Revenues (operating):	**2019**	**2018**	**Change**	**Change**
Charges for Services (Fares)	$3,086,679	$2,761,598	325,081	
Federal Grants-Operating	$4,515,941	$2,942,112	1,573,829	
State and Local Grants-Operating	$21,526,732	$15,611,132	5,915,600	
Other Revenues	$1,893,366	$1,181,564	711,802	
Capital Revenues:				
Federal Grants	$4,611,189	$5,093,781	(482,592)	
State and Local Grants	$3,342,588	$3,518,515	(175,927)	
Total Revenues	**$38,976,495**	**$31,108,702**	**7,867,793**	**25.3%**
Program Expenses				
Operations	$21,474,495	$19,061,822	2,412,673	
General and Administration	$3,635,343	$3,412,414	222,929	
Depreciation	$4,868,549	$4,588,966	279,583	
Capital Expenses:				
Capital Interest Expense:	$1,157,160	$881,926	275,234	
Contributed Capital	$0	$91,911	(91,911)	
Loss on Disposal of Assets	$0	$0	0	
Total Expenses	**$31,135,547**	**$28,037,039**	**3,098,508**	**11.1%**
Changes in net position	**$7,840,948**	**$3,071,663**	**4,769,285**	
Net Position - Beginning of year	**$49,797,179**	**$46,725,516**	**$3,071,663**	**7%**
Net Position - End of year	**$57,638,127**	**$49,797,179**	**$7,840,948**	**15.7%**

As shown on Table A-2, **Fare Revenues** Increased by $325,081 or 12% in FY 18/19. This increase was largely due to an increase in the monthly pass organizations that provide passes to students. Fare Revenues are expected to increase in FY19/20 approximately three percent (3%) due to targeted marketing efforts to increase ridership as well as applying the Touch Pass card system

Program revenues to support operations received from Federal, State and Local agencies increased by $7,489,429 or 40%, as compared to the prior year. Federal operating grants increased $1,573,829, while State and Local operating grants increased $5,915,600. These changes were programmed as part of the FY18/19 budget that covered the Authority needs for the operating expenses.

Other program revenues for FY18/19 totaled $1,893,366, increased by $711,802 when compared to the prior year, the main reason of this increase is the sale of LCFS credits more than last year plus the $287k received from HVIP as credits for buying zero emission buses.

Capital revenues contributed by Federal, State and Local agencies totaled $7,953,777, a decrease of $658,519 when compared to FY17/18. Capital revenues from these sources were provided by grants to support specific capital purchases. Capital purchases vary greatly from year to year depending on the needs and objectives of the Authority. The funds received were enough to meet the capital needs of the agency for FY18/19 which are detailed in this report's discussion of "Net Position".

Total revenues increased by 25% from $31,108,702 in FY 17/18 to $38,976,495 in FY18/19, as explained in the report above.

Program expenses increased 11%, or $3,098,508 when compared to the prior year. Of this amount, operation expenses increased by $2,412,673 mainly due to the new contractor rates that started October 1st, 2018 as mentioned above, as well as the increase of the fuel market prices countrywide. General and Administration (G&A) costs increased by $222,929 as part of a budgeted expansion in G&A support for the Authority's growing operational requirements.

FINANCIAL CONDITION

Overall, the Authority's financial condition remained strong and stable as a result of various planned program activity growth along with continued capital investment. The Authority continues to enjoy strong financial support from a variety of sources including Federal, State and Local funding sources as well as continuing an aggressive program of growing other program revenues such as Low Carbon Fuel Standard credits that generate income from the production of vehicle fuels from natural gas. Additionally, with the passage of the FAST act, the Federal government has pledged increased and stable support for transit overall, from which the Authority will continue to benefit. This strong financial condition is evidenced in Table A-1, which shows the Authority's total ending net position of **$57,638,127**.

Some specific activities that have led to the Authority's financial condition as of June 30, 2019, include:

- This fiscal year, the authority invested $6.89m in new capital asset acquisitions of vehicles and equipment. This robust investment demonstrates that the Authority's access to capital funding through Federal, State and local sources remains strong. The Authority's investment strategy is based on need from expansion, innovation and maintenance of its existing services. Capital asset investment in FY19/20 is forecasted to remain strong from investment in new Revenue vehicles and Electric Buses, as well as continued capital investments in its facilities. Additionally, the Authority raised $10m through the issuance of Certificates of Participation for the construction of a Bus Maintenance Facility to support its expanded operations in Barstow, California.

- The Authority continued its extensive program for increasing the number of bus shelters, BEB buses, benches, solar lights and other passenger amenities. This program of bus stop improvements will continue into the next fiscal year. Plus completing the infrastructure for the BEB bus chargers.

- In June 2015, the Authority was designated as a Consolidated Transportation Services Agency (CTSA) for the High & North Desert regions of San Bernardino County. This represented an expanding role and commitment to the Authority's already established Mobility Management department and increased the VVTA service area from 425 to 950 square miles. Through the CTSA designation, the Authority has locked in Federal and Local funding and increased other funding opportunities through local non-profit partnerships. Throughout FY18/19 the Authority maintained these services by a slight increase in expenses of $26,443 when compared with FY17/18.

- The Authority continued to invest in its Vanpool program operated under the management of its CTSA department. This program provides support for residents of the Authority's service area who must commute out of the service area for work. These vanpools serve to reduce traffic congestion and improve the environment through the lowering of carbon emissions. Additionally, the Authority reports the passenger miles produced by these vanpools continues to generate additional federal apportionment funding. These additional Federal funds are used for capital and operating support and expansion of VVTA's other transportation services. The Authority has continued its commitment to the Vanpool program in FY19/20 with further plans to aggressively market and grow the program. Additionally, the Authority is proud to report that VVTA is currently the 18th largest countrywide in the number of clients using Vanpool.

- The Authority is in its third year of a three-year contract for natural gas supply with BP Energy. This natural gas is used to create Compressed Natural Gas (CNG) fuel for the Authority's fleet of vehicles. The contract with BP has provided the Authority with a source of renewable natural gas (RNG), which has resulted in substantial reductions in greenhouse emissions. Additionally, the Authority generated $818k in LCFS credits as a result of the RNG sourcing. The Authority will continue to source this valuable and environmentally friendly fuel in FY19/20.

- The overall financial outlook for the Authority's programs and services remains strong, with a continued commitment to investment in capital assets, technologies and services coupled with fiscally responsible management that protects the investments of the Authority and its' member jurisdictions, and its investors, while providing the highest quality of transportation services to the communities it serves.

CONTACTING THE AUTHORITY

This financial report is designed to provide our citizens and customers with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions regarding this report or require additional financial information, please contact **Mr. Maged Azer, Director of Finance at**: **Victor Valley Transit Authority, 17150 Smoke Tree St., Hesperia, California 92345.**

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

STATEMENT OF NET POSITION
JUNE 30, 2019

ASSETS	
Current Assets	
Cash	$ 6,093,864
Cash and investments with fiscal agent - restricted	12,264,054
Cash and investments - Board reserved	4,922,698
Receivables:	
Federal, State, and other local grants	6,568,082
Other	155,853
Prepaid expenses	37,526
Fuel inventory	29,659
Total Current Assets	30,071,736
Capital Assets	
Non-depreciable	3,689,003
Depreciable	99,017,874
Accumulated depreciation	(33,476,235)
Capital assets, net	69,230,642
TOTAL ASSETS	99,302,378
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts related to pensions	394,426
Deferred amounts related to debt refunding	1,045,939
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,440,365
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	3,850,569
Unearned revenues	5,161,287
Compensated absences	111,658
Long-term liabilities - due within one year	800,000
Long-term liabilities - due in more than one year	32,997,893
Net pension liability	162,489
TOTAL LIABILITIES	43,083,896
DEFERRED INFLOWS OF RESOURCES	
Deferred amounts related to pensions	20,720
NET POSITION	
Net investment in capital assets	36,478,688
Restricted for:	
Debt service	12,264,054
Unrestricted	8,895,385
TOTAL NET POSITION	$ 57,638,127

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

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2019

OPERATING REVENUES:	
Fares	$ 2,872,179
Special transit fares	214,500
Total Operating Revenues	3,086,679
OPERATING EXPENSES:	
Operations	21,474,495
General and administration	3,635,343
Depreciation	4,868,549
Total Operating Expenses	29,978,387
OPERATING LOSS	(26,891,708)
NON-OPERATING REVENUES AND EXPENSES:	
Operating Assistance:	
Federal Transit Administration Section 5307	3,385,672
Federal Transit Administration Section 5310	51,314
Federal Transit Administration Section 5311	671,949
Federal Transit Administration Section 5316	14,944
Federal Transit Administration Section 5317	9,562
Federal Congestion Mitigation and Air Quality Improvement Program Demonstration	382,500
State Transit Assistance Fund, operating	157,237
Local Transportation Fund, operating	18,213,156
Measure I	1,128,340
AB 2766	1,095,545
Gain on disposal of assets	5,923
Interest income	300,277
LCFS Credit Sales	848,650
State - LCTOP	932,454
Miscellaneous	451,516
HVIP Credit	287,000
Interest expense	(1,157,160)
Total Non-operating Revenues and Expenses	26,778,879
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(112,829)
CAPITAL CONTRIBUTIONS:	
Federal Transit Administration Section 5307, capital	3,678,092
Federal Transit Administration Section 5310, capital	194,000
Federal Transit Administration Section 5339, capital	739,097
AB 2766, capital	6,567
Local Transportation Fund, capital	1,348,217
State Transit Assistance Fund	552,216
Proposition 1B	1,435,588
Total Capital Contributions	7,953,777
CHANGE IN NET POSITION	7,840,948
NET POSITION, Beginning of year	49,797,179
NET POSITION, End of year	$ 57,638,127

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

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019

Cash flows from operating activities:	
Cash received from fares	$ 3,086,679
Payments to employees	(996,956)
Payments to vendors for services	(23,667,537)
Net cash used in operating activities	(21,577,814)
Cash flows from non-capital financing activities:	
Operating grants received	21,875,452
Cash flows from capital and related financing activities:	
Capital grants received	7,945,047
Purchase of capital assets	(7,939,617)
Debt proceeds	10,905,035
Principal payments	(856,993)
Interest paid	(1,099,052)
Proceeds from disposal of capital assets	5,923
Net cash provided by capital and related financing activities	8,960,343
Cash flows from investing activities:	
Interest received	300,277
Net increase in cash and cash equivalents	9,558,258
Cash and cash equivalents, beginning of year	13,722,358
Cash and cash equivalents, end of year	$ 23,280,616
Reconciliation of cash and cash equivalents to statement of net position:	
Cash	$ 6,093,864
Cash and investments with fiscal agent	12,264,054
Cash and investments Board reserved	4,922,698
Total Cash and Cash Equivalents	$ 23,280,616

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

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED JUNE 30, 2019

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (26,891,708)
Adjustments to reconcile operating (loss) to net cash used in operating activities:	
Depreciation expense	4,868,549
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	(29,246)
Prepaid expenses	(16,577)
Increase (decrease) in liabilities:	
Accounts payable and accrued liabilities	450,253
Compensated absences	1,149
Net pension liability	(17,469)
Change in deferred outflows of resources	76,199
Change in deferred inflows of resources	(18,964)
Total Adjustments	5,313,894
Net cash used in operating activities	$ (21,577,814)

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

NOTE 1 – ORGANIZATION

Victor Valley Transit Authority (VVTA) is a joint powers authority whose members are the cities of Adelanto, Barstow, Hesperia, Victorville, the Town of Apple Valley and the County of San Bernardino First and Third district. VVTA provides bus services to these cities, as well as the communities of Lucerne Valley, Phelan, Pinon Hills, Wrightwood, Helendale, Oro Grande, Fort Irwin, Hinkley, Newberry Springs, Yermo and Needles, as a means of meeting the transit needs of various transit-dependent groups within their 950-square mile geographic service area. The bus services VVTA provides includes fixed route services, deviated route services, County deviated routes, ADA para-transit routes, and commuter services. Additionally, VVTA is designated as a Consolidated Transportation Services Agency (CTSA) for the High Desert and North Desert regions of San Bernardino County, and provides a variety of services to support transit dependent groups that are unable to access its standard transit services. Through direct contracts with vendor providers as well as cooperative agreements with various non-profit organizations, VVTA's CTSA supports a Vanpool Program, Car Share program, Travel Reimbursement Incentive Program (TRIP), and directly provides Travel Training services. CTSA services are provided for rural areas of the North Desert, the communities of Trona and Big River in addition to the communities listed above. VVTA is governed by a Board of Directors comprised of seven (7) representatives. Five Board members are elected council members each appointed by the cities they represent as well as the San Bernardino County Supervisors representing the First and Third County districts.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting – VVTA's proprietary fund financial statements are reported using the *economic resources measurement focus* and accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of related cash flows.

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

Cash and investments with fiscal agent restricted – Certain VVTA accounts are restricted by debt agreements to fund specified debt service requirements. At June 30, 2019, the balance held with fiscal agent pursuant to this agreement was $12,264,054.

Fair Value Measurements - Investments are reported at fair value which is the amount at which financial instruments could be exchanged in a current transaction between willing parties. All fair values are determined by external consultants. Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

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

Prepaid Expenses – Prepaid expenses include inventories and costs for certain payments to vendors that reflect costs applicable to future accounting periods. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

Fuel Inventory – Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of fuel for VVTA vehicles. The cost of such inventories is recorded as expenses when consumed rather than purchased. The value of fuel held at the transit facility on June 30, 2019, was $29,659.

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

Buildings and improvements	5 to 40 years
Operations equipment	3 to 12 years
Furniture and office equipment	3 to 10 years

VVTA's capitalization threshold is $1,500. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the useful lives are not capitalized. Interest incurred during the construction phase of the new facility project is included as part of the capitalized value of the assets constructed. No interest was capitalized during the fiscal year.

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

Operating and Non-Operating Revenue – VVTA distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from directly providing services in connection with VVTA's principal operation of bus transit services. These revenues are primarily passenger fares. Non-operating revenues consist of federal, state and local operating grants, fuel tax credits, and investment income.

Operating Expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Expenses not meeting this definition are reported as Non-Operating Expenses.

Capital Contributions consist of grants that are legally restricted for capital expenses by federal, state, or local law that established those charges.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of VVTA's participation in the California Public Employees Retirement System (CalPERS) plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported to CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until then. VVTA reports a deferred outflow related to pensions. VVTA also reports a deferred amount related to debt refunding which represents the remaining unamortized balance of the difference between the carrying value of the refunded debt and the reacquisition price.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until then. VVTA reports deferred inflows related to pensions.

New GASB Pronouncements

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019-20 fiscal year. VVTA has not determined the effect of this Statement.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or 2020-2021 fiscal year. VVTA has not determined the effect of the Statement.

Governmental Accounting Standard No. 89 – GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objective of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2019. VVTA has not determined the effect of this Statement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Governmental Accounting Standard No. 90 – GASB Statement No. 90, *Majority Equity Interests-(an amendment of GASB Statements No. 14 and No. 61)*. The primary objectives of this Statement are to improve consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. VVTA has not determined the effect of this statement.

Governmental Accounting Standard No. 91 – GASB Statement No. 91, (*Conduit Debt Obligations)*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2020. VVTA has not determined the effect of this statement.

NOTE 3 – LEGAL SETTLEMENT, SOLAR PANEL REBATES, AND CNG TAX CREDITS

During the fiscal year ending June 30, 2014, VVTA received a legal settlement from the insurance companies of the primary contractor of the Administrative Office Facility in the amount of $1,622,018. VVTA's Board of Directors approved to set aside these funds for future major repairs and renovation of the facility into an Administration/Maintenance Facility Reserve. The balance of these funds will be tracked separately on an annual basis. The balance is included in the unrestricted net position on the Statement of Net Position.

VVTA has received SCE Solar Panel Rebates totaling $115,808 in the prior year. VVTA's Board of Directors has approved to allocate these rebates to the Administration/Maintenance Facility Reserve. The balance of these funds will be tracked separately on an annual basis. The balance is included in the unrestricted net position on the Statement of Net Position.

VVTA has also received CNG tax credits totaling $563,348 the prior year. VVTA's Board of Directors has approved to allocate these tax credits to a Capital Reserve for Battery Electric Bus (BEB) Infrastructure project. The balance of these funds will be tracked separately on an annual basis. The balance is included in the unrestricted net position on the Statement of Net Position.

San Bernardino County Transportation Authority (SBCTA) has agreed that these funds are available to be retained and expended based upon the direction provided by VVTA's Board in accordance with existing Board Resolutions.

NOTE 4 – FEDERAL, STATE, AND LOCAL GRANTS

Federal Assistance

Under the provision of the Federal Transit Administration (FTA), funds are available to VVTA for operating assistance, security, and various capital costs. Total FTA assistance provided during the fiscal year ended June 30, 2019 was $9,127,130.

NOTE 4 – FEDERAL, STATE, AND LOCAL GRANTS, (CONTINUED)

Transportation Development Act

VVTA is subject to the provisions pursuant to Section 6634 of the California Code of Regulations and Sections 99268.4 and 99313.3 of the Public Utilities Code. VVTA receives allocations of local transportation funds pursuant to the Transportation Development Act of 1971. These funds are generated within San Bernardino County and are distributed based on annual claims filed by VVTA and approved by SBCTA.

A. Section 6634

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

The computation of unearned revenue as of June 30, 2019 is as follows:

	Operating Funds	Capital Funds	Total
Beginning balance, July 1, 2018	$ 3,489,486	$ 5,074,977	$ 8,564,463
Gross receipts			
Local Transportation Fund:			
Article 4	15,537,070	256,950	15,794,020
Federal Transportation Administration:			
Section 5307	3,385,672	3,678,092	7,063,764
Section 5310	51,314	194,000	245,314
Section 5311	671,949	-	671,949
Section 5316	14,944	-	14,944
Section 5317	9,562	-	9,562
Section 5339	-	585,957	585,957
CMAQ	382,500	-	382,500
State Transportation Fund, Article 6.5	157,237	-	157,237
Measure I	658,162	-	658,162
LCTOP	-	1,573,510	1,573,510
Prop 1B	-	17,799	17,799
State of Good Repair	-	1,246,414	1,246,414
Fares	3,086,679	-	3,086,679
Total gross receipts	23,955,089	7,552,722	31,507,811
Operating expenses, less depreciation	26,266,998	-	26,266,998
Capital acquisitions	-	8,643,989	8,643,989
Amounts received (used) in excess of costs as of June 30, 2019	(2,311,909)	(1,091,267)	(3,403,176)
Amount unearned at June 30, 2019	$ 1,177,577	$ 3,983,710	$ 5,161,287

NOTE 4 – FEDERAL, STATE, AND LOCAL GRANTS, (CONTINUED)

B. Section 99268.4 and 99405

Section 99268.4 indicates that in the case of an operator which is providing services using vehicles for the exclusive use of elderly and handicapped persons, the operator shall be eligible for the Local Transportation Funds commencing with claims for the 1980-81 fiscal year if it maintains, for the fiscal year, a ratio of fare revenue to operating costs at least equal to 10-percent for the elderly and handicapped service or a ratio of fare revenue to combined operating costs at least equal to 18-percent.

Section 99405(c) indicates that the 50-percent limitation shall not apply to the allocation to a city, county, or transit district for services under contract pursuant to subdivision (c) or (d) of Section 99400. The city, county or transit district shall be subject to Sections 99268.3, 99268.4, 99268.5, or 99268.9, as the case may be, and shall be deemed an operator for purposes of those sections, or shall be subject to regional, countywide, or county subarea purposes of those sections, or shall be subject to regional, countywide, or county subarea performance criteria, local match requirements, or fare recovery ratios adopted by resolution of the transportation planning agency or the county transportation commission for those services.

The Victor Valley Transit Authority was granted in September of 2017, pursuant to Section 99405, a fare ratio requirement of 18-percent by SBCTA.

The fare ratio as of June 30, 2019, is calculated as follows:

	Motor Bus Routes	Handicapped Demand Response	Total
Operating expenses	$ 26,461,222	$ 4,674,324	$ 31,135,546
Less: Depreciation	(4,082,489)	(786,060)	(4,868,549)
Less: Exemptions	(5,462,341)	-	(5,462,341)
Adjusted operating expenses	$ 16,916,392	$ 3,888,264	$ 20,804,656
Fare revenue	$ 2,726,716	$ 359,960	$ 3,086,676
Fare ratio	16.1%	9.3%	14.8%
Local Funds (Measure I) used by the operator to supplement fare box revenues to satisfy the 18% fare ratio as permitted by section 99268.19	1,128,340	-	1,128,340
Adjusted fare revenue	$ 3,855,056	$ 359,960	$ 4,215,016
Adjusted fare ratio	22.8%	9.3%	20.3%
Total fare ratio pursuant to P.U.C. Sections 99405(c), 99268.4 and , respectively	18.0%		18.0%

NOTE 4 – FEDERAL, STATE, AND LOCAL GRANTS, (CONTINUED)

Proposition 1B

The Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) Fund and the California Transit Assistance Fund (CTAF) are 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 Proposition 1B fund, $3.6 billion of which was made available to project sponsors in California for allocation to eligible public transportation projects over a 10-year period. Proposition 1B funds can be used for rehabilitation, safety, security, disaster response or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements, or for rolling stock procurement, rehabilitation or replacement. Proposition 1B cash receipts and cash disbursements were as follows:

	PTMISEA
Unspent Prop 1B funds as of July 1, 2018	$ 3,236,927
Prop 1B funds interest earned fiscal year ended June 30, 2019	17,799
Prop 1B expenses incurred during fiscal year ended June 30, 2019	(1,456,884)
Unearned balance, June 30, 2019	$ 1,797,842

Low Carbon Transit Operations Program

The Low Carbon Transit Operations Program (LCTOP) provides funds for approved projects to support new or expanded bus or rail services, expand intermodal transit facilities, and may include equipment acquisition, fueling, maintenance and other costs to operate those services or facilities, with each project reducing greenhouse gas emissions. The unearned balance of LCTOP funds as of June 30, 2019, was $939,454.

State of Good Repair

The State of Good Repair (SGR) program is a part of the Road Repair and Accountability Act of 2017, Senate Bill (SB) 1, signed by the Governor on April 28, 2017 in order to provide additional revenues for transit infrastructure repair and services improvements. These funds are to be made available for eligible transit maintenance, rehabilitation and capital projects. The unearned balance of SGR funds as of June 30, 2019, was $1,246,414.

NOTE 5 – CASH AND INVESTMENTS

Cash and Investments are classified in the accompanying financial statements as follows:

Cash	$	6,093,864	**
Cash and investments with fiscal agent - restricted		12,264,054	
Cash and investments - Board reserved		4,922,698	
Total	$	23,280,616	

**Cash balance includes $1,797,842 of unspent Prop 1B grant funds which are restricted by grant covenants for specific capital projects and are not available for operating expenses or liabilities related to operating costs.

Cash and Investments consist of the following:

Cash on hand	$	25,673
Deposits with financial institutions		8,451,146
Certificates of deposit		2,539,743
Cash and cash equivalents held with fiscal agent		12,264,054
Total	$	23,280,616

Policies and Practices

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

Investments of cash within the new facility project and accompanying funds held by the lease trustee is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code.

NOTE 5 – CASH AND INVESTMENTS, (CONTINUED)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates that 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. VVTA does not have a formal policy related to its investments interest rate risk.

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

		Remaining Maturity (in Months)
Investment Type	Total	12 Months Or Less
Investments held by Authority:		
Certificates of Deposit	$ 2,539,743	$ 2,539,743

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Holdings held by the trustee are insured by the trust agreement. VVTA does not have a formal policy related to its investments credit risk. Presented below is the minimum rating required by (where applicable) the California Government Code and the actual rating as of year-end for each investment type.

Investment Type	Total	Minimum Rating	Not Rated or Not Applicable
Held by Authority			
Certificates of Deposit	$ 2,539,743	N/A	$ 2,539,743

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, VVTA 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. VVTA does not have a policy of custodial credit risk for deposits. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. As of June 30, 2019, VVTA holds cash deposits with Desert Community Bank $8,559,947 in excess of FDIC insurance limits. These amounts are collateralized by securities held by the bank.

NOTE 5 – CASH AND INVESTMENTS, (CONTINUED)

Fair Value Hierarchy

VVTA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

Various inputs are used in determining the value of VVTA's investments and other financial instruments. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. These inputs are summarized in the three broad levels: Level 1 - quoted prices in active markets for identical investments, Level 2 - other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.) and Level 3 - significant unobservable inputs (including VVTA's own assumptions in determining the fair value of investments).

The fair value of the certificates of deposits is based on uncategorized inputs not defined as Level 1, Level 2, or Level 3.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal years ended June 30, 2019, is as follows:

	Beginning Balance July 1, 2018	Additions	Retirements	Ending Balance June 30, 2019
Non-depreciable assets				
Land-Hesperia Facility	$ 1,500,000	$ -	$ -	$ 1,500,000
Land-Barstow Facility	193,350	-	-	193,350
Construction in progress	986,075	1,756,976	(747,398)	1,995,653
Total assets, not depreciated	2,679,425	1,756,976	(747,398)	3,689,003
Depreciable assets				
Bus Facility-Hesperia	51,315,015	3,508	-	51,318,523
Bus Facility-Barstow	702,363	-	-	702,363
Operations equipment	39,367,537	6,780,796	(1,421,972)	44,726,361
Furniture and office equipment	2,676,838	102,709	(508,920)	2,270,627
Total depreciated assets	94,061,753	6,887,013	(1,930,892)	99,017,874
Accumulated depreciation				
Bus Facility-Hesperia	(6,864,118)	(1,283,165)	1,436	(8,145,847)
Bus Facility-Barstow	(129,191)	(70,339)	-	(199,530)
Operations equipment	(20,975,147)	(3,515,045)	1,463,562	(23,026,630)
Furniture and office equipment	(2,613,148)	-	508,920	(2,104,228)
Subtotal accumulated depreciation	(30,581,604)	(4,868,549)	1,973,918	(33,476,235)
Net depreciable assets	63,480,149	2,018,464	43,026	65,541,639
Total capital assets, net	$ 66,159,574	$ 3,775,440	$ (704,372)	$ 69,230,642

NOTE 7 – RISK MANAGEMENT

VVTA is a member of the Public Entity Risk Management Authority (PERMA), a joint powers insurance authority formed under Section 990 of the California Government Code for the purpose of jointly funding programs of insurance coverage for its members. PERMA is comprised of thirty-two participating member agencies: twenty-two cities, four transit agencies and six special districts. VVTA participates in the general liability, property, and business auto physical damage programs of PERMA.

The liability program provides coverage up to $50 million per occurrence for personal injury, bodily injury, property damage and public officials' errors and omissions. VVTA participates in risk sharing pools for losses of up to $1 million followed by PERMA's membership in the CSAC Excess Insurance Agency (EIA) for $49 million excess liability coverage.

The property insurance program is group purchased under a master property insurance policy with accumulated values from all participants effecting lower rates and broader coverage for members. The program covers real property, business personal property, inland marine coverage for special mobile equipment and business interruption. Commercial property coverage is written on a replacement cost basis, eliminating the traditional commercial "named peril" policy.

The business auto physical damage insurance program is also group purchased under a master insurance policy with accumulated values from all participants effecting lower rates for members. Business auto physical damage is written on an agreed amount basis.

VVTA has not had any settlements that exceeded coverage within the last three (3) years and there have been no significant changes in insurance policies or coverage amounts.

NOTE 8 – COMMITMENTS

VVTA has a 5-year contract with their service provider for operations, National Express Transit. The contract includes services for the Fixed Routes, Demand Response, and commuter routes for Fort Irwin, and County connector routes. This contract is due to expire September 30, 2023.

VVTA currently contracts through ADA Ride for its ADA eligibility certification process. This contract provides ADA certifications for all disabled transit riders seeking transportation services within ADA guidelines. The current contract was established in 2008 and was renewed on July 20, 2015 for a three year period plus two one-year extension periods that are added by mutual agreement of the parties.

NOTE 9 – LONG-TERM LIABILITIES

The following is a summary of the changes in the principal balance of long-term liabilities for the year ended June 30, 2019:

	Balance at June 30, 2018	Additions	Deletions	Balance at June 30, 2019	Due within One year	Due beyond One year
Governmental activities:						
2016 Refunding Lease	$ 20,810,000	$ -	$ (590,000)	$ 20,220,000	$ 615,000	$ 19,605,000
Premium on 2016 Refunding Lease	2,939,851	-	(146,993)	2,792,858	-	2,792,858
2018 Certificates of Participation	-	10,475,000	(120,000)	10,355,000	185,000	10,170,000
Premium on 2018 COP's	-	430,035	-	430,035		430,035
Total Long-Term Liabilities	$ 23,749,851	$ 10,905,035	$ (856,993)	$ 33,797,893	$ 800,000	$ 32,997,893

<u>Certificates of Participation</u>

In 2016, VVTA sold certificates of participation in the amount of $23,300,000 to refund the 2007 Lease/Trust Agreement Certificates of Participation. As a result, the 2007 Lease/Trust Agreement Certificates of Participation were retired and the liability for those bonds has been removed from the Statement of Net Position. Proceeds were used to continue to finance the construction of the transit facility located in Hesperia, California. Proceeds were also used to pay delivery costs of the certificates.

Certificates began maturing on July 1, 2016 with semi-annual interest payments due January 1 and July 1 at various interest rates from 2.00 to 5.00 percent. Principal payments are due annually, July 1 at various amounts from $550,000 to $4,335,000. The final principal payment of the certificates is scheduled for July 1, 2037.

As part of the refunding, VVTA pledged farebox revenues as collateral for the issuance. Additionally, debt service payments were to be made from all legally available revenues, including farebox revenues, Federal Transit Assistance Funds, Local Transportation Funds, and State Transit Assistance Funds.

The future lease payment requirements for the refunding are as follows:

Year Ending June 30,	Principal	Interest	Total
2020	$ 615,000	$ 924,300	$ 1,539,300
2021	645,000	893,550	1,538,550
2022	675,000	861,300	1,536,300
2023	710,000	827,550	1,537,550
2024	750,000	792,050	1,542,050
2025-2029	4,335,000	3,360,000	7,695,000
2030-2033	5,535,000	2,163,000	7,698,000
2034-2037	6,955,000	588,400	7,543,400
Total	$ 20,220,000	$ 10,410,150	$ 30,630,150

NOTE 9 – LONG-TERM LIABILITIES, (CONTINUED)

Certificates of Participation

In 2018, VVTA sold Certificates of Participation in the par amount of $10,475,000 to finance the construction of a new Bus Maintenance Facility on its property in Barstow, California. The debt payment schedule is set for thirty (30) years ending in 2048 with an average annual debt service payment of $640,000. The total amount of debt payments will be $18,163,050. The Authority has pledged its fare box revenues as collateral against the debt. In the event of default by VVTA under the Lease/Trust agreement, the Trustee has the right to exercise any remedy available under law or equity, including declaring all principal components of the unpaid lease payments, together with accrued interest at the rate or rates specified in the respective Outstanding Certificates from the immediately preceding Certificate Payment Date on which payment was made, to be immediately due and payable.

Certificates began maturing on July 1, 2019 with semi-annual interest payments due January 1 and July 1 at various interest rates from 4.00 to 5.00 percent. Principal payments are due annually, July 1 at various amounts from $120,000 to $615,000. The final principal payment of the certificates is scheduled for July 1, 2048.

The future lease payment requirements for the refunding are as follows:

Year Ending June 30,	Principal	Interest	Total
2020	$ 185,000	$ 453,850	$ 638,850
2021	195,000	446,450	641,450
2022	200,000	438,650	638,650
2023	210,000	428,650	638,650
2024	225,000	418,150	643,150
2025-2029	1,295,000	1,911,250	3,206,250
2030-2033	1,655,000	1,553,250	3,208,250
2034-2039	1,630,000	1,156,400	2,786,400
2040-2044	2,435,000	764,600	3,199,600
2045-2048	2,325,000	236,800	2,561,800
Total	$ 10,355,000	$ 7,808,050	$ 18,163,050

NOTE 10 – COMPENSATED ABSENCES

Accumulated unpaid personal leave consisting of vacation pay, has been accrued at June 30, 2019 in the amount of $111,658. VVTA's liability for compensated absences is typically liquidated within one year.

NOTE 11 – EMPLOYEES' RETIREMENT PLAN

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Public Agency Cost-Sharing Multiple-Employer Defined Benefit Pension Plan (Plan) administered by the California Public Employees' Retirement System (CalPERS). The Plan consists of individual rate plans (benefit tiers) within a safety risk pool and a miscellaneous risk pool. Plan assets may be used to pay benefits for any employer rate plan of the safety and miscellaneous pools. Accordingly, rate plans within the safety or miscellaneous pools are not separate plans under GASB Statement No. 68. Individual employers may sponsor more than one rate plan in the miscellaneous or safety risk pools. VVTA sponsors two tiers within the miscellaneous plans. Benefit provisions under the Plan are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

Benefits Provided

CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees or beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The plan's provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Miscellaneous	
	Classic	New Member
Hire Date	Prior to January 1, 2013	On or After January 1, 2013
Formula	2.7% @ 55	2% @ 62
Benefit Vesting Schedule	5 Years of Service	5 Years of Service
Benefit Payments	Monthly for Life	Monthly for Life
Retirement Age	55	62
Monthly Benefits, as a % of Annual Salary	2.7%	2%
Required Employee Contribution Rates	8%	6.25%
Required Employer Contribution Rates	13.162%	7.036%

NOTE 11 – EMPLOYEES' RETIREMENT PLAN, (CONTINUED)

Contributions

Section 20814(c) of the California Public Employees' Retirement law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on July 1 following the notice of change in rate. Funding contributions for the plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. VVTA is required to contribute the difference between the actuarially determined rate and the contribution rates of employees. During the year, VVTA paid 3-percent of the employee contribution rate for classic members, which are classified as employee contributions. Employer contributions to the pension plan were $166,440 for the year ended June 30, 2019.

Pension Liabilities, Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2019, VVTA reported a liability of $162,489 for its proportionate share of the collective net pension liability.

VVTA's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability is measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018. VVTA's net pension liability for the Plan was measured as the total pension liability, less the pension plan's fiduciary net position.

VVTA's proportionate share of the net pension liability, measured as of June 30, 2017 and 2018, is as follows:

Proportion- June 30, 2018	0.00181	%
Proportion- June 30, 2019	0.00169	%
Change- Increase (Decrease)	(0.00012)	%

For the year ended June 30, 2019, VVTA recognized pension expense of $206,206. At June 30, 2019, VVTA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 6,235	$ 2,122
Changes in assumptions	18,524	4,540
Net difference between projected and actual earnings on pension plan investments	803	-
Difference between VVTA's contributions and proportionate share of contributions	111,448	-
Change in Employer's Proportion	90,976	14,058
Contributions subsequent to the measurement date	166,440	-
Total	$ 394,426	$ 20,720

NOTE 11 – EMPLOYEES' RETIREMENT PLAN, (CONTINUED)

The amount of $166,440 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,		
2020	$	102,278
2021		85,728
2022		20,721
2023		(1,461)
Total	$	207,266

Actuarial Assumptions

The June 30, 2017 actuarial valuation was rolled forward to determine the June 30, 2018 total pension liability, based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increase	3.3%-14.2% (1)
Mortality	Derived using CalPERS' Membership data

(1) Depending on age, service, and type of employment

The underlying mortality assumption and all other actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period 1997 to 2011. Further details of the experience study can be found on the CalPERS website.

Change of Assumption

The inflation rate of 2.50 percent used for the June 30, 2018 measurement date was decreased from 2.75 percent used for the June 30, 2017 measurement date.

Discount rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the City's contributions will be made at rates equal to the difference between actuarially determined contribution rates and employee rates. Based on those assumptions, each pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 11 – EMPLOYEES' RETIREMENT PLAN, (CONTINUED)

In determining the long-term expected 7.15 percent rate of return on pension plan investments, CalPERS took into account both short and long-term market return expectations as well as the expected pension fund cash flows. Based on the expected benefit payments of the Public Employees' Retirement Fund, CalPERS indicated that a 19 year horizon was ideal in determining the level equivalent discount rate assumption. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for the fund. The expected rate of return was set by calculating the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are the same for the Plan. These geometric rates of return are net of administrative expenses and are summarized in the following table:

Asset Class	Target Allocation	Real Rate of Return Years 1-10	Real Rate of Return Years 11+
Global Equity	50.00%	4.80%	5.98%
Global Fixed Income	28.00%	1.00%	2.62%
Inflation Sensitive	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Estate	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100%		

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents VVTA's proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what VVTA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous
1% Decrease	6.15%
Net Pension Liability	$ 377,955
Current Discount Rate	7.15%
Net Pension Liability	$ 162,489
1% Increase	8.15%
Net Pension Liability	$ (15,373)

Pension Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 12 – DEFERRED COMPENSATION PLAN

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

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

REQUIRED SUPPLEMENTARY INFORMATION

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST TEN YEARS*
AS OF THE YEAR ENDED JUNE 30, 2019

	2019	2018	2017	2016	2015
Proportion of the collective net pension liability	0.00169%	0.00181%	0.00159%	0.00177%	0.00244%
Proportionate share of the collective net pension liability	$ 162,489	$ 179,958	$ 137,916	$ 121,552	$ 151,936
Covered payroll	$ 1,517,121	$ 1,253,046	$ 1,039,065	$ 902,643	$ 690,387
Proportionate share of the net pension liability as a percentage of covered payroll	10.71%	14.36%	13.27%	13.47%	22.01%
Plan fiduciary net position as a percentage of the total pension liability	75.26%	73.31%	74.06%	78.40%	79.82%

Note to Schedule:

*Historical information is required only for measurement for which GASB 68 is applicable. Fiscal Year 2015 was the first year of implementation, therefore, only five years are shown.

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

SCHEDULE OF CONTRIBUTIONS
LAST TEN YEARS*
AS OF THE YEAR ENDED JUNE 30, 2019

	2019	2018	2017	2016	2015
Actuarially determined contributions - Miscellaneous	$ 166,440	$ 137,899	$ 118,569	$ 97,561	$ 142,248
Contributions in relation to the actuarially determined contribution	166,440	137,899	118,569	97,561	142,248
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 1,800,825	$ 1,517,121	$ 1,253,046	$ 1,039,065	$ 902,643
Contributions as a percentage of covered payroll	9.24%	9.09%	9.46%	9.39%	15.76%

* - Fiscal year 2015 was the first year of implementation, therefore, only five years are shown.