VICTOR VALLEY
TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

BASIC FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

TABLE OF CONTENTS

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' 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, 2017, 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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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.

10681 Foothill Blvd., Suite 300, Rancho Cucamonga, CA 91730 P 909.466.4410 F 909.466.4431 W vtdcpa.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2017, and the changes in financial position and cash flows thereof 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 13, schedule of the Authority's proportionate share of the net pension liability on page 35, and the schedule of contributions on page 36, 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 28, 2017, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co LLP

Rancho Cucamonga, California
December 28, 2017

Victor Valley Transit Authority

Management's Discussion and Analysis

June 30, 2017

This discussion and analysis of the Victor Valley Transit Authority's (Authority) financial performance for the fiscal year ended June 30, 2017, 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, 2017. 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.

HIGHLIGHTS

- Net Position: Overall Net Position decreased ($2,235,657) and was largely impacted by a reduction in net investment in capital assets and restricted capital assets ($3,044,921) offset by an increase in Unrestricted Net Position of $809,264. These changes are explained in detail in this report.

- The value of the Authority's capital assets (net of deletions and depreciation) decreased by ($3,681,851) or 5.5%. This decrease was caused by depreciation and asset retirement costs totaling $4,764,246, offset by a modest investment in new assets of $1,082,395. This reduction 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 a contracted 3.5% increase in its operations contract, the addition of a new route in Oak Hills, the expansion of an express route (45X), the addition of Saturday service on the BV Link intercity route, and a full year of operation of the Needles lifeline route launched near the end of FY15/16. The financial impact of these changes are discussed in detail throughout the MD&A.

- Program revenues: (passenger fares and operating assistance) increased by a modest 1.3% or $250,958, as compared to the prior year. Other program revenues for FY16/17 totaled $1,199,366, representing a decrease of ($1,643,711) when compared to the prior year. The decrease was largely due to the receipt of $1,524,000 in the prior year that was realized from the proceeds of a one-time debt cancellation agreement. The balance of the decrease was a result of expected variations in revenue sources contributing to this revenue category. Details of these revenue sources and changes are discussed in detail in the following report.

- Capital revenues contributed by Federal, State and Local agencies decreased by ($9,152,752) to a total of $2,573,620. 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 sufficient to meet the capital needs of the agency for FY16/17.

- Total revenues decreased by 31% from $34,369,109 in FY 15-16 to $23,823,604 in FY16/17 largely due to the reduction in capital revenues as explained above.

- Total expenses, including depreciation and interest, for the fiscal year totaled $26,059,261, a modest increase of $443,562 or 1.7% when compared to the prior fiscal year. This increase was impacted by increases in operating expenses of $880,523, General and Administrative cost increases of $495,457 and depreciation expense increase of $316,134, offset by a 51% decrease in capital interest expenses ($940,985) as a result of the refunding of the Authority's 2007 debt issuance, as well as a reduction in losses on disposable assets ($307,567).

- Cash and equivalents at end of year were $12,952,203. Of this amount, $1,273,631 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 $2,176,014 which is restricted by a debt agreement in connection with the construction of the Authority's facility, $5,197,560 in Prop 1B funds restricted by grant agreements for certain capital projects, and $4,304,999 restricted by the Authority's governing board for specific capital projects.

- In FY14/15 VVTA adopted the provisions of GASB68 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 FY16/17 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 FY16/17 is $137,916 or less than 0.5% 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 smary 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
	2017	**2016**	**Change**	**Change**
Current Assets	$ 19,584,014	$ 14,983,453	$ 4,600,561	
Capital assets (net)	63,151,713	66,833,564	(3,681,851)	
Total Assets	82,735,727	81,817,017	918,710	**1.1%**
Deferred Outflows (pensions)	508,148	421,188	86,960	
Deferred Outflows (refunding)	1,162,154	1,220,262	(58,108)	
Total Assets & Deferred Outflows	**$ 84,406,029**	**$ 83,458,467**	**$ 947,562**	**1.1%**
Current Liabilities	$ 13,604,142	$ 9,637,406	$ 3,966,736	
Non-Current Liabilities	23,896,844	24,608,837	(711,993)	
Net Pension Liability	137,916	121,552	16,364	
Total Liabilities	37,638,902	34,367,795	3,271,107	**9.5%**
Deferred Inflows (pension)	41,611	129,499	(87,888)	**N/A**
Net Position				
Net investment in capital assets	39,852,023	42,894,989	(3,042,966)	
Restricted for Debt Service	2,176,014	2,176,014	-	
Restricted for Capital Projects	-	1,955	(1,955)	
Unrestricted	4,697,479	3,888,215	809,264	
Total Net Position	46,725,516	48,961,173	(2,235,657)	**-4.6%**
Total Liabilities, Deferred Inflows & Net Position	**$ 84,406,029**	**$ 83,458,467**	**$ 947,562**	**1.1%**

Table A-1, shows the Authority's total net position decreased from $48,961,173 in FY 16-17, to $46,725,516 or 4.6% as a result of the year's activities and as explained further in this report.

- **Current assets** increased by $4,600,561 or 30.7% due to increases in Proposition 1B and LCTOP Capital project funds of $3,027,645, 'Cash and Investments-Board reserved $1,296,266, receivables $909,456 and prepaid expenses of $8,438. These increases were offset by decreases in Operating Cash of ($639,289) and Cash with Fiscal Agent ($1,955). Increases in Capital Project Funds were driven by the receipts of additional cash funds during FY17 from two state programs, Proposition 1B and LCTOP (Low Carbon Transit Operating Program). These funds are restricted by state regulations for specific future capital projects and are received in advance of capital expenditures. Therefore, these funds are considered unearned in FY2017. 'Cash and Investments-Board Reserved are set aside by the Authority's Board of Directors for future capital projects. Increase to these funds in FY17 were derived from California Solar Incentives (CSI) program of $239,644, the sale of Low Carbon Fuel Standard credits of $227,400, and the receipt of Federal Excise Tax credits for the production of Compressed Natural Gas in the amount of $450,388. These increases were offset by capital expenditures from these funds in the amount of ($111,190). Increases in receivables were driven primarily by federal and local grant funding cycles which delayed the Authority's ability to invoice for earned revenues until year-end or post year-end.

- **Total Capital Assets** (net of depreciation) **decreased by $3,681,851.** 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 decrease indicates that the Authority's investment activity in capital assets was less than its charges and decreased by 5.5% as compared to the prior year.

	FY2017	**FY2016**
Land	$1,693,350	$1,693,350
Construction in Process	236,056	170,669
Total Non-Depreciable	**1,929,406**	**1,864,019**
Property & Equipment	61,222,307	64,969,545
Total Capital Assets (net)	**$63,151,713**	**$66,833,564**

Depreciable Property and Equipment assets (net of depreciation) decreased by ($3,747,238). This decrease was due to new and replacement equipment acquisitions of $1,017,008 offset by ($34,162) in asset retirements and a net increase in accumulated depreciation expenses of ($4,730,084). The ending balance of $236,056 in the Construction in Progress account is for an Integrated Voice Response System and other phone infrastructure improvements that will support VVTA's demand response client services and is scheduled for completion in Q1- FY17-18.

Investment of $1.017m in Property & Equipment was for purchased capital assets of six (6) new electric service vehicles and one (1) new gas fuel service vehicle used to provide supervisory support to the transit system. Further investment was made into the replacement of major components (engines and 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 CA.

- **Total Liabilities increased by $3,271,107** when compared to FY15/16 due to an increase in unearned revenue of $3,734,023 from the receipt of Proposition 1B funds not expended, an increase of $217,713 in the balance of accounts payable and accrued expenses caused by an increase in operations expenses, along with a $15,000 increase in the current portion of VVTA's COP liability based on debt agreement terms. The balance of the change is reflected in a decrease of ($711,993) in the long-term balance of VVTA's COP liability as a result of principal payments in accordance with debt terms, and an increase in net pension liability of $16,364 as a result in changes in actuarial assumptions and pension fund investment income.

- **Net position – Net Investment in capital assets decreased by ($3,042,966).** This net decrease 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 $2,176,014 is restricted for debt service on a long-term lease arrangement maturing in 2037.** These funds are reserved as required by finance lease documents 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. This amount is unchanged when compared to FY15/16.

- **Net position- Capital Projects** decreased by ($1,955) as compared to FY15/16. These funds represented a small balance of proceeds from the 2007 COP debt that were restricted by contract and were used in FY16/17 towards payment of the refunded debt.

- **Net position in the amount of $4,697,479 is unrestricted.** Unrestricted net position, is the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. The balance in FY16/17 increased $809,264 as compared to FY15/16. This increase is largely due to the receipt of California Solar Initiative rebate funds $239,644, Alternative Fuel Credits of $450,388, Low Carbon Fuel Standard (LCFS) credits of $227,400, interest income of $25,111 on these funds, and miscellaneous income of $130,953 predominantly from retail fuel sales from VVTA's public fueling stations. These income amounts were offset by expenditures of $264,232 for capital projects. The majority of VVTA's unrestricted net position has been designated by VVTA's Board to be used on future capital projects.

Victor Valley Transit Authority

Management's Discussion and Analysis

June 30, 2017

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):	**2017**	**2016**	**Change**	**Change**
Charges for Services (Fares)	$ 2,861,282	$ 2,767,592	$ 93,690	
Federal Grants-Operating	2,932,815	3,571,346	(638,531)	
State and Local Grants-Operating	14,256,521	13,460,722	795,799	
Other Revenues	1,199,366	2,843,077	(1,643,711)	
Capital Revenues:				
Federal Grants	1,485,133	5,806,398	(4,321,265)	
State and Local Grants	1,088,487	5,919,974	(4,831,487)	
Total Revenues	**$ 23,823,604**	**$ 34,369,109**	**$ (10,545,505)**	**-30.7%**
Program Expenses				
Operations	$ 17,569,115	$ 16,688,592	$ 880,523	
General and Administration	2,861,911	2,366,454	495,457	
Depreciation	4,730,084	4,413,950	316,134	
Capital Expenses:				
Capital Interest Expense:	898,151	1,839,136	(940,985)	
Loss on Disposal of Assets	-	307,567	(307,567)	
Total Expenses	**$ 26,059,261**	**$ 25,615,699**	**$ 443,562**	**1.7%**
Changes in net position	**$ (2,235,657)**	**$ 8,753,410**	**$ (10,989,067)**	
Net Position - Beginning of year	**$ 48,961,173**	**$ 40,207,763**	**$ 8,753,410**	**22%**
Net Position - End of year	**$ 46,725,516**	**$ 48,961,173**	**$ (2,235,657)**	**-4.6%**

As shown on Table A-2, **Fare Revenues** increased by $93,690 or 3.4% in FY 16/17. This increase was largely due to an increase in service including the addition of Oak Hills route 24, expansion of the route 45 express, and a full year of service for the Needles lifeline. Fare Revenues are expected to increase in FY17/18 approximately ten percent (10%) due to a system wide fare rate increase coupled with service expansion.

Program revenues to support operations received from Federal, State and Local agencies increased by $157,268 or 1%, as compared to the prior year. Federal operating grants decreased ($638,531) but were offset by an increase in State and Local operating grants of $795,799. These changes were programmed as part of the FY16/17 budget.
Other program revenues for FY16/17 totaled $1,199,366, a decrease of ($1,643,711) when compared to the prior year. Other program revenues consisted of $227,400 for the sale of Low Carbon Fuel credits, $239,644 from California Solar Initiative (CSI) rebates, $450,388 in excise tax credits for the production of Compressed Natural Gas (CNG) for the Authority's service fleet, $60,796 in interest income, $61,536 in revenues from sales and insurance proceeds of retired assets, and the balance of $159,602 from miscellaneous support funds provided by NTC Fort Irwin National Training Center and retail sales of CNG fuel. Of these funds the CSI rebates, CNG tax credits, and LCFS credits were restricted for future capital use as directed by the Authority's Board of Directors and were unavailable to support operating costs in FY16/17. Due to changes in Federal legislation, the Authority has not budgeted revenue from CNG tax credits for FY17-18. Additionally, the Authority's CSI rebates will be ending in Q2 of FY17/18 and are anticipated to be about twenty five percent (25%) of FY16/17 levels. The decrease in other revenues from FY15/16 as compared to FY16/17, was largely due to the receipt of $1,524,000 in FY15/16 realized from the proceeds of a one-time debt cancellation agreement. The balance of the decrease was a result from small fluctuations in receipts for each of the sources of funds in this category.

Capital revenues contributed by Federal, State and Local agencies totaled $2,573,620, a decrease of ($9,152,752) when compared to FY15/16. 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 sufficient to meet the capital needs of the agency for FY16/17 which are detailed in this report's discussion of "Net Position".

Total revenues decreased by 31% from $34,369,109 in FY 15-16 to $23,823,604 in FY16/17, as explained in the report above.

Program expenses increased 7%, or $1,692,114 when compared to the prior year. Of this amount, operations expense increased by $880,523 mainly due to the expansion of service including the new Route 24 Oak Hills service, the expansion of the route 45 express service, and the addition of Saturday service on the BV Link intercity route. These service expansions were in addition to the budgeted 3.5% increase in operational costs as required by VVTA's operations contract with Transdev. General and Administration (G&A) costs increased by $495,457 as part of a budgeted expansion in G&A support for the Authority's growing operational requirements as a result of the merger of Barstow Area Transit.

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 for the next five years. This financial condition is evidenced in Table A-1, which shows the Authority's total ending net position of $46,725,516.

Some specific activities that have led to the Authority's financial condition as of June 30, 2017, include:

- This fiscal year, the authority invested $1.08m in new capital asset acquisitions of vehicles and equipment. While this is a relatively modest investment as compared to prior years, 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 FY17/18 is forecasted to increase substantially from investment in new Revenue vehicles, as well as continued capital investments in its facilities.

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

- 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 FY16/17 the Authority expanded its investment in these services by $70,382 or 23% when compared with FY15/16. This additional investment was used to expand existing programs and services which resulted in a continued reduction in the cost increase rate for its more traditional ADA services. It is estimated that the Authority has saved more than $0.5m through the provision of these new services. The Authority will continue its investment in the CTSA in FY17/18 with an estimated budget of $708,112.

- 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 has resulted in an estimated $3.0m increase in Federal funding for FY16/17 as compared to its cost of operating the service of $916k. 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 FY17/18 with further plans to grow the program by nineteen percent (19%) in that year.

- During FY16/17 the Authority contracted for a Comprehensive Operations Analysis (COA) which revealed several new services needed to support the Authority's expanded service area along with a five-year forecast (Short Range Transit Improvement Plan) that provides a road map for continued growth while maintaining strong financial stability. Based on the results of the COA, the Authority expects a 5.8% or $1.23m growth in its operating expenses and revenues through the next fiscal year. The growth of these expenses is largely due to the addition of a new route 42 serving Apple Valley, increases in span of service for Barstow routes 1-5, and the addition of Barstow route 6 along with increased investment in Vanpool services. Programmed investment in capital equipment and facility expansion is budgeted to be $14.1m in FY17/18.

- The Authority has issued a new 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 new contract with BP will also provide the Authority with a source of renewable natural gas, which will result in substantial reductions in green house emissions, as well as a forecasted decrease of up to 25% in its fuel expenses in FY17/18.

- In FY17/18, the Authority is coming to the end of its seven-year contract with its operations contractor, Transdev. Due to the significant increases in scope of service during this contract period, the Authority has decided that it will not exercise the optional years available in its existing contract but will issue a competitive solicitation for a new contract beginning in FY18/19. Additionally, the Authority has contracted for a comprehensive compensation study to be completed in FY17/18. It is anticipated that both of these events will likely result in significant increases in operational and G&A expenses in FY18/19.

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. Kevin Kane, Executive Director 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, 2017

ASSETS		
Current Assets		
Cash	$	6,471,190
Cash and investments with fiscal agent - restricted		2,176,014
Cash and investments - Board reserved		4,304,999
Receivables:		
Federal, State, and other local grants		6,441,411
Other		135,808
Prepaid expenses		32,597
Fuel inventory		21,995
Total Current Assets		19,584,014
Capital Assets		
Non-depreciable		1,929,406
Depreciable		89,396,352
Accumulated depreciation		(28,174,045)
Capital assets, net		63,151,713
TOTAL ASSETS		82,735,727
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts related to pensions		508,148
Deferred amounts related to debt refunding		1,162,154
TOTAL DEFERRED OUTFLOWS OF RESOURCES		1,670,302
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities		3,079,083
Unearned revenues		9,864,744
Refunding lease - due within one year		565,000
Compensated absences		95,315
Total Current Liabilities		13,604,142
Non Current liabilities		
Refunding lease - due in more than one year		23,896,844
Net pension liability		137,916
Total Non Current Liabilities		24,034,760
TOTAL LIABILITIES		37,638,902
DEFERRED INFLOWS OF RESOURCES		
Deferred amounts related to pensions		41,611
NET POSITION		
Net investment in capital assets		39,852,023
Restricted for:		
Debt service		2,176,014
Unrestricted		4,697,479
TOTAL NET POSITION	$	46,725,516

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, 2017

OPERATING REVENUES:	
Fares	$ 2,650,632
Special transit fares	210,650
Total Operating Revenues	2,861,282
OPERATING EXPENSES:	
Operations	17,569,115
General and administration	2,861,911
Depreciation	4,730,084
Total Operating Expenses	25,161,110
OPERATING LOSS	(22,299,828)
NON-OPERATING REVENUES AND EXPENSES:	
Operating Assistance:	
Federal Transit Administration Section 5307, operating	2,061,610
Federal Transit Administration Section 5310	50,648
Federal Transit Administration Section 5311	632,855
Federal Transit Administration Section 5316	47,511
Federal Transit Administration Section 5317	59,186
Federal Congestion Mitigation and Air Quality Improvement Program Demonstration	81,005
State Transit Assistance Fund, operating	190,790
Local Transportation Fund, operating	11,943,324
Measure I	1,975,721
AB 2766	113,320
Gain on disposal of assets	61,536
Interest income	60,796
Solar panel rebates	239,644
CNG Tax Credits	450,388
State Toll Credits	23,348
State - LCTOP	10,018
Miscellaneous	387,002
Interest expense	(898,151)
Total Non-operating Revenues, Expenses	17,490,551
INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS	(4,809,277)
CAPITAL CONTRIBUTIONS:	
Federal Transit Administration Section 5307, capital	1,457,753
Federal Transit Administration Section 5317, capital	27,380
Local Transportation Fund, capital	374,834
State Transit Assistance Fund	285,645
Proposition 1B	428,008
Total Capital Contributions	2,573,620
CHANGES IN NET POSITION	(2,235,657)
NET POSITION, Beginning of year	48,961,173
NET POSITION, End of year	$ 46,725,516

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, 2017

Cash flows from operating activities:	
Cash received from fares	$ 2,861,282
Payments to employees	(1,177,842)
Payments to vendors for services	(19,256,196)
Net cash used in operating activities	(17,572,756)
Cash flows from non-capital financing activities:	
Operating grants received/solar panels rebates/CNG Tax Credits	21,138,467
Cash flows from capital and related financing activities:	
Capital grants received	2,579,893
Purchase of capital assets	(1,048,233)
Principal payments, lease agreement	(696,993)
Interest paid	(840,043)
Gain on disposal of capital assets	61,536
Net cash provided by capital and related financing activities	56,160
Cash flows from investing activities:	
Interest received	60,796
Net increase in cash and cash equivalents	3,682,667
Cash and cash equivalents, beginning of year	9,269,536
Cash and cash equivalents, end of year	$ 12,952,203
Reconciliation of cash and cash equivalents to statement of net position:	
Cash	$ 6,471,190
Cash and investments with fiscal agent	2,176,014
Cash and investments Board reserved	4,304,999
Total Cash and Cash Equivalents	$ 12,952,203
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (22,299,828)
Adjustments to reconcile operating (loss) to net cash used in operating activities:	
Depreciation expense	4,730,084
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable	(47,530)
Prepaid expenses	(14,711)
Increase (decrease) in liabilities:	
Accounts payable and accrued liabilities	199,200
Compensated absences	18,513
Net pension liability	16,364
Change in deferred outflows of resources related to pensions	(86,960)
Change in deferred inflows of resources related to pensions	(87,888)
Total Adjustments	4,727,072
Net cash used in operating activities	$ (17,572,756)

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, 2017, the balance held with fiscal agent pursuant to this agreement was $2,176,014.

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 Associated Governments (SANBAG) 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, 2017, was $21,995.

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. 75 – In June, 2015, GASB issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – effective for fiscal years beginning after June 15, 2017. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement No. 68 and replaces GASB Statement No. 45. VVTA has not determined the effect on the financial statements.

GASB Statement No. 81 – In March 2016, GASB issued Statement No. 81, *Irrevocable Split–Interest Agreements.* The objective of the Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, the Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The Statement is effective for the reporting periods beginning after December 15, 2016, or the 2017-2018 fiscal year. VVTA has not determined the effect on the financial statements.

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

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. VVTA has not determined its effect on the financial statements.

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. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-2018 fiscal year. VVTA has not determined the effect of the Statement.

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-2018 fiscal year. VVTA has not determined the effect of the 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.

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 $239,644 in the current 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 $450,388 the current year. VVTA's Board of Directors has approved to allocate these tax credits to a Capital Reserve for Intelligent Transportation System (ITS) projects. 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 sold LCFS (Low Carbon Fuel Standard) credits in the amount of $227,400. VVTA's Board of Directors has approved to allocate this revenue to a Capital Reserve for future repairs, maintenance and development of its Transit Facilities in Barstow, CA.

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

<u>Federal Assistance</u>

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, 2017 was $4,417,948.

<u>Transportation Development Act</u>

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.

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

A. Section 6634, (Continued)

The computation of unearned revenue as of June 30, 2017 is as follows:

	Operating Funds	Capital Funds	Total
Beginning balance, July 1, 2016	$ 2,800,381	$ 3,330,340	$ 6,130,721
Gross receipts			
Local Transportation Fund:			
Article 3	-	24,148	24,148
Article 4	12,885,855	44,237	12,930,092
Federal Transportation Administration:			
Section 5307	2,737,408	781,955	3,519,363
Section 5309	-	-	-
Section 5310	50,648		50,648
Section 5311	632,855	-	632,855
Section 5316	47,511	-	47,511
Section 5317	59,186	27,380	86,566
Section 5339	-	-	-
CMAQ	81,005	-	81,005
State Transportation Fund, Article 6.5	190,790	285,645	476,435
Measure I	1,975,721	-	1,975,721
AB2766	113,320	-	113,320
LCTOP	45,895	891	46,786
Prop 1B	-	3,465,133	3,465,133
State toll credits	23,348	-	23,348
Other capital revenue	162,311	38,899	201,210
Fares	2,888,905	-	2,888,905
Other non-transportation revenue	16	63,006	63,022
Disposal of capital assets	1,469	-	1,469
Interest	35,657	-	35,657
Miscellaneous	159,602	25,685	185,287
Total gross receipts	22,091,502	4,756,979	26,848,481
Operating expenses, less depreciation	21,482,063	-	21,482,063
Capital acquisitions	-	1,632,395	1,632,395
Amounts received in excess of costs as of June 30, 2017	609,439	3,124,584	3,734,023
Amount unearned at June 30, 2017	$ 3,409,820	$ 6,454,924	$ 9,864,744

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 person, 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%.

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 1997, pursuant to Section 99405, a fare ratio requirement of 15% by SBCTA.

The fare ratio as of June 30, 2017, is calculated as follows:

	Motor Bus Routes	Handicapped Demand Response	Total
Operating expenses	$ 20,283,831	$ 4,877,279	$ 25,161,110
Less depreciation	(3,916,783)	(813,301)	(4,730,084)
Adjusted operating expenses	$ 16,367,048	$ 4,063,978	$ 20,431,026
Fare revenue	$ 2,331,743	$ 529,539	$ 2,861,282
Local Funds (Measure I) used by the operator to supplement fare box revenues to satisfy the 15% fare ratio as permitted by section 99268.19	123,315	-	
Adjusted fare revenue	$ 2,455,058	$ 529,539	
Fare ratio	15.0%	13.0%	
Total fare ratio pursuant to P.U.C. Sections 99405(c) and 99268.4, respectively	15.0%	10.0%	

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	TSSSDRA	Total
Unspent Prop 1B funds as of July 1, 2016	$ 2,149,814	$ 10,622	$ 2,160,436
Prop 1B funds received during fiscal year ended June 30, 2017	3,440,503	18,692	3,459,195
Prop 1B funds interest earned fiscal year ended June 30, 2017	5,853	84	5,937
Prop 1B expenses incurred during fiscal year ended June 30, 2017	(404,923)	(23,085)	(428,008)
Unearned balance, June 30, 2017	$ 5,191,247	$ 6,313	$ 5,197,560

NOTE 5 – CASH AND INVESTMENTS

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

Cash	$ 6,471,190	**
Cash and investments with fiscal agent - restricted	2,176,014	
Cash and investments - Board reserved	4,304,999	
Total	$ 12,952,203	

**Cash balance includes $5,197,560 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	$ 3,453
Deposits with financial institutions	8,489,078
Certificates of deposit	2,273,032
Cash and cash equivalents with fiscal agent	2,186,640
Total	$ 12,952,203

NOTE 5 – CASH AND INVESTMENTS, (CONTINUED)

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.

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	$ 2,273,032	$ 2,273,032

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	$ 2,273,032	N/A	$ 2,273,032

NOTE 5 – CASH AND INVESTMENTS, (CONTINUED)

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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2017, VVTA holds cash deposits with Desert Community Bank $10,512,110 in excess of FDIC insurance limits. These amounts are collateralized by securities held by the bank.

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, 2017, is as follows:

	Beginning Balance July 1, 2016	Additions	Retirements	Ending Balance June 30, 2017
Non-depreciable assets				
Land-Hesperia Facility	$ 1,500,000	$ -	$ -	$ 1,500,000
Land-Barstow Facility	193,350	-	-	193,350
Construction in progress	170,669	65,387	-	236,056
Total assets, not depreciated	1,864,019	65,387	-	1,929,406
Depreciable assets				
Bus Facility-Hesperia	51,177,636	99,919	-	51,277,555
Bus Facility-Barstow	594,671	102,564	-	697,235
Operations equipment	34,499,067	784,873	(532,421)	34,751,519
Furniture and office equipment	2,659,912	29,652	(19,521)	2,670,043
Total depreciated assets	88,931,286	1,017,008	(551,942)	89,396,352
Accumulated depreciation				
Bus Facility-Hesperia	(4,303,424)	(1,279,088)	-	(5,582,512)
Bus Facility-Barstow	-	(59,467)	-	(59,467)
Operations equipment	(16,998,405)	(3,391,529)	498,259	(19,891,675)
Furniture and office equipment	(2,659,912)	-	19,521	(2,640,391)
Subtotal accumulated depreciation	(23,961,741)	(4,730,084)	517,780	(28,174,045)
Net depreciable assets	64,969,545	(3,713,076)	(34,162)	61,222,307
Total capital assets, net	$ 66,833,564	$ (3,647,689)	$ (34,162)	$ 63,151,713

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.

NOTE 7 – RISK MANAGEMENT, (CONTINUED)

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 7-year contract with their service provider for operations, Transdev Services Inc. 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 June 30, 2018. There are three (3) one-year extension periods that could be added by mutual agreement of the parties.

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. There are two (2) one-year extension periods that could be 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, 2017:

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017	Due within One year	Due beyond One year
Governmental activities:						
2016 Refunding Lease	$ 21,925,000	$ -	$ (550,000)	$ 21,375,000	$ 565,000	$ 20,810,000
Premium	3,233,837	-	(146,993)	3,086,844	-	3,086,844
Compensated Absences	76,802	75,435	(56,922)	95,315	95,315	-
Total Long-Term Liabilities	$ 25,235,639	$ 75,435	$ (753,915)	$ 24,557,159	$ 660,315	$ 23,896,844

Certificates of Participation

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. As of June 30, 2017, $31,375,000 of the refunded debt was pending redemption.

NOTE 9 – LONG-TERM LIABILITIES, (CONTINUED)

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
2018	$ 565,000	$ 970,500	$ 1,535,500
2019	590,000	947,900	1,537,900
2020	615,000	924,300	1,539,300
2021	645,000	893,550	1,538,550
2022	675,000	861,300	1,536,300
2023-2027	3,935,000	3,763,500	7,698,500
2028-2032	5,015,000	2,677,000	7,692,000
2033-2037	9,335,000	1,290,500	10,625,500
Total	$ 21,375,000	$ 12,328,550	$ 33,703,550

NOTE 10 – COMPENSATED ABSENCES

Accumulated unpaid personal leave consisting of vacation pay, has been accrued at June 30, 2017 in the amount of $95,315. 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.

NOTE 11 – EMPLOYEES' RETIREMENT PLAN, (CONTINUED)

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, 2017, 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	11.008%	6.555%

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% of the employee contribution rate. Employer contributions to the pension plan were $118,569 for the year ended June 30, 2017.

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

As of June 30, 2017, VVTA reported a liability of $137,916 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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to June 30, 2016. VVTA's net pension liability for the Plan was measured as the total pension liability, less the pension plan's fiduciary net position.

NOTE 11 – EMPLOYEES' RETIREMENT PLAN, (CONTINUED)

VVTA's proportionate share of the net pension liability, measured as of June 30, 2015 and 2016, is as follows:

Proportion- June 30, 2015	0.00177	%
Proportion- June 30, 2016	0.00159	%
Change- Increase (Decrease)	(0.00018)	%

For the year ended June 30, 2017, VVTA recognized a pension credit of $39,915. At June 30, 2017, 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	$	3,775	$	865
Changes in assumptions		-		35,717
Net difference between projected and actual earnings on pension plan investments		185,897		-
Changes in proportion and difference between VVTA's contributions and proportionate share of contributions		199,907		5,029
Contributions subsequent to the measurement date		118,569		-
Total	$	508,148	$	41,611

The amount of $118,569 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, 2018. 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,		
2018	$	120,396
2019		97,197
2020		82,225
2021		48,150
Total	$	347,968

NOTE 11 – EMPLOYEES' RETIREMENT PLAN, (CONTINUED)

Actuarial Assumptions

The June 30, 2015 actuarial valuation was rolled forward to determine the June 30, 2016 total pension liability, based on the following actuarial methods and assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
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, 2015 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.

Discount rate

The discount rate used to measure the total pension liability was 7.65 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 7.65 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	51%	5.25%	5.71%
Global Fixed Income	20%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	1%	-0.55%	-1.05%
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 7.65 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	6.65%
Net Pension Liability	$ 209,833
Current Discount Rate	7.65%
Net Pension Liability	$ 137,916
1% Increase	8.65%
Net Pension Liability	$ 78,708

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, 2017

	2017	2016	2015
Proportion of the collective net pension liability	0.00159%	0.00177%	0.00244%
Proportionate share of the collective net pension liability	$ 137,916	$ 121,552	$ 151,936
Covered payroll	$ 1,039,065	$ 902,643	$ 690,387
Proportionate share of the net pension liability as a percentage of covered payroll	13.27%	13.47%	22.01%
Plan fiduciary net position as a percentage of the total pension liability	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 three years are shown.

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

SCHEDULE OF CONTRIBUTIONS
LAST TEN YEARS*
AS OF THE YEAR ENDED JUNE 30, 2017

	2017	2016	2015
Actuarially determined contributions - Miscellaneous	$ 118,569	$ 97,561	$ 142,248
Contributions in relation to the actuarially determined contribution	118,569	97,561	142,248
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 1,253,046	$ 1,039,065	$ 902,643
Contributions as a percentage of covered payroll	9.46%	9.39%	15.76%

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

VICTOR VALLEY
TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2017

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

FOR THE YEAR ENDED JUNE 30, 2017

TABLE OF CONTENTS

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*, THE TRANSPORTATION DEVELOPMENT ACT, AND CALIFORNIA GOVERNMENT CODE §8879.50

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

We have audited, in accordance with the 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, the financial statements of Victor Valley Transit Authority (Authority), California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 28, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

10681 Foothill Blvd., Suite 300, Rancho Cucamonga, CA 91730 P 909.466.4410 F 909.466.4431 W vtdcpa.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including Section 6667 of part 21 of the California Code of Regulations, Section §8879.50 of the California Government Code, and the allocation instructions of the San Bernardino County Transportation Authority, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards,* Section 6667 of part 21 of the California Code of Regulations, and Section §8879.50 of the California Government Code.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co LLP

Rancho Cucamonga, California
December 28, 2017

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited Victor Valley Transit Authority's (Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2017. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

10681 Foothill Blvd., Suite 300, Rancho Cucamonga, CA 91730 P 909.466.4410 F 909.466.4431 W vtdcpa.com

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Authority as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements. We issued our report thereon dated December 28, 2017, which, contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Vavrinek, Trine, Day & Co LLP

Rancho Cucamonga, California
December 28, 2017

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor Program Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures	Amounts Provided to Subrecipients
U.S. Department of Transportation				
Direct Grants				
Federal Transit Cluster:				
Federal Transit Formula Grants, Section 5307	20.507	CA-95-X132	$ 81,005	$ -
Federal Transit Formula Grants, Section 5307	20.507	CA-90-Z161	44,466	-
Federal Transit Formula Grants, Section 5307	20.507	CA-90-Z242	60,222	-
Federal Transit Formula Grants, Section 5307	20.507	CA-2016-109	76,000	-
Federal Transit Formula Grants, Section 5307	20.507	CA-2017-092-00	3,338,675	
Total Federal Transit Cluster			3,600,368	-
Transit Services Programs Cluster:				
Enhanced Mobility of Seniors and Individuals with Disabilities, Section 5310	20.513	SA-644575	36,404	-
Enhanced Mobility of Seniors and Individuals with Disabilities, Section 5310	20.513	SA-644577	14,244	-
Job Access Reverse Commute, Section 5316	20.516	CA-37-X178	4,692	-
New Freedom Program, Section 5317	20.521	CA-57-X057	59,715	-
New Freedom Program, Section 5317	20.521	CA-57-XO91	3,939	-
Total Transit Services Programs Cluster			118,994	-
Passed Through California Department of Transportation:				
Formula Grants for Rural Areas, Section 5311	20.509	SA-64B017-00561	632,855	-
Total Expenditures of Federal Awards			$ 4,352,217	$ -

See accompanying note to Schedule of Expenditures of Federal Awards.

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of federal award programs of the Victor Valley Transit Authority (Authority). The Authority's reporting entity is defined in Note 1 of the Authority's financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through from other government agencies are included on the Schedule of Expenditures of Federal Awards. VVTA has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

B. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting, which is described in Note 2 of the Authority's Financial Statements.

C. Subrecipients

The Authority did not make payments to subrecipients during the fiscal year ended June 30, 2017.

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2017

I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material Weakness(es) identified?	No
Significant Deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major federal programs:	
Material Weakness(es) identified?	No
Significant Deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 Section 200.516(a)?	No
Identification of major federal programs:	

CFDA Number(s)	Name of Federal Program or Cluster
20.507	Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes

II. FINANCIAL STATEMENT FINDINGS

None reported.

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2017

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

VICTOR VALLEY TRANSIT AUTHORITY
(A JOINT POWERS AUTHORITY)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2017

None reported.