EASTERN SIERRA
TRANSIT AUTHORITY

ANNUAL FINANCIAL REPORT
WITH INDEPENDENT AUDITOR'S
REPORT THEREON

June 30, 2017

EASTERN SIERRA TRANSIT AUTHORITY

Annual Financial Report
For the Year Ended June 30, 2017

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FECHTER
& COMPANY
Certified Public Accountants

Craig R. Fechter, CPA, MST

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors
Eastern Sierra Transit Authority
Bishop, California

We have audited the accompanying financial statements of the Eastern Sierra Transit Authority as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Eastern Sierra Transit 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.

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and California Society of CPAs

Members of the Board of Directors
Eastern Sierra Transit Authority

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 3–6 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.

Fechter & Company
Certified Public Accountants

Sacramento, California
January 8, 2018

As management of the Eastern Sierra Transit Authority (ESTA), we offer readers of our financial report this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2017.

FINANCIAL HIGHLIGHTS

- The assets of ESTA exceeded its liabilities at the close of the year by $7,686,694. Of this amount, $4,222,507 may be used to meet ESTA's ongoing obligations to its customers and creditors.
- The Board authorized an action to fully payoff ESTA's unfunded pension liability through CalPERS. Due to timing of the recognition of the payoff, the reduction in the Authority's liability will not be reflected until the FY 2017/18 year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to ESTA's basic financial statements. ESTA's basic financial statements comprise three components: 1) government-wide financial statements, 2) notes to the financial statements, and 3) other reports including the schedule of federal awards.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of ESTA's finances, in a manner similar to a private sector business. The Statement of Net Position presents information on all of ESTA's assets and liabilities, with the difference between the two reported as net position. The Statement of Activities presents information showing how ESTA's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event takes place, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in the statement for certain items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Reports

Other reports include the report on TDA compliance.

NET POSITION

Condensed Statement of Net Position at June 30, 2017 and 2016

	Business Type Activities		
	2017	2016	Change
Assets			
Current and other assets	$ 5,322,250	$ 4,840,696	$ 481,554
Capital assets	3,464,187	4,529,806	(1,065,619)
Total assets	8,786,437	9,370,502	(584,065)
Liabilities			
Current and other liabilities	558,772	905,807	347,035
Long-term liabilities	540,971	387,894	(153,077)
Total liabilities	1,099,743	1,293,701	193,958
Net position			
Invested in capital assets, net of related debt	3,464,187	4,529,806	(1,065,619)
Unrestricted	4,222,507	3,546,995	675,512
TOTAL NET POSITION	$ 7,686,694	$8,076,801	$ (390,107)

Net position invested in capital assets, net of related debt, represent 45 percent of total net position and reflect ESTA's investment in capital assets (consisting mainly of buses and equipment). ESTA uses the capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Unrestricted net position represents the remaining 55 percent that may be used to meet ESTA's ongoing obligations to staff members and creditors.

Net position may serve over time as a useful indicator of a government's financial position. In the case of ESTA, assets exceed liabilities by $7,686,694 at the close of the most recent fiscal year. Besides capital assets, the most significant portion of ESTA's net position is $3,767,413 of cash invested in the County's investment pool and one outside bank account, and $288,364 of accounts receivable. Cash and investments are maintained in the Inyo County's cash and investment pool where interest earned on ESTA's balance is apportioned to ESTA.

CHANGES IN NET POSITION

	Business Type Activities		
	2017	2016	Change
Program revenues			
Fare revenues	$ 1,882,654	$ 1,882,113	$ 541
Local Transportation Fund	1,271,810	1,297,755	(25,945)
State Transit Assistance	253,087	105,608	147,479
Operating grants	425,029	444,167	(19,138)
Capital grants	138,572	329,269	(190,697)
Other program revenues	783,523	1,340,221	(556,698)
General revenues			
Interest and other revenues	13,968	14,482	(514)
Total revenues	4,768,643	5,413,615	(644,972)
Expenses			
Transit expense	5,158,750	5,304,626	145,876
CHANGE IN NET POSITION	(390,107)	108,989	(499,096)
Net position – beginning of year	8,076,801	7,967,812	108,989
End of Year	$ 7,686,694	$ 8,076,801	$ (390,107)

Total revenues decreased $644,972 from FY 2015/16. Capital grants revenue, which is primarily composed of reimbursement for vehicle purchases, declined by $190,697 in FY16/17. The previous year saw a large expenditure ($493,446) for the Bishop Yard capital project. In addition, state capital grant revenue for vehicle purchases declined $121,173 from the previous year. The balance of the revenue decline was from lowered operating grant revenue reimbursements, primarily due to lower fuel and maintenance costs. Transit expense decreased by $145,876. This reduction was the net effect of a decrease of $610,269 in capital expense (Bishop Yard and increased vehicle purchases in FY 2015/16) and an increase in operating expense, primarily a result of an increase in employee wages and benefit. The increased employee compensation costs were a result of increased overtime expense due to ongoing driver shortages, and a new MOU which became effective December 25, 2016 which incorporates increases in wages and benefits.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

ESTA's investment in capital assets, as of June 30, 2017, amounts to $3,464,187 (net of accumulated depreciation). This investment in capital assets is comprised of buses and equipment.

Debt Administration

ESTA had long-term obligations of $540,971 related to net pension liability as of June 30, 2017.

FUTURE ECONOMIC ISSUES

- Eastern Sierra Transit, like most employers in the eastern sierra region has been experiencing increased challenges in recruiting and retaining employees. Much of this is believed to be related to an acute shortage of available housing in the region. Particularly in Mammoth Lakes, the growth of the short-term rental market (Air BNB, VRBO), has moved many properties from the long-term rental inventory to short term. Increased employee compensation may be needed in future years to address this situation.
- The recently enacted state SB-1 legislation promises to provide increased state revenues for both operations and capital projects. Specifically, the legislation will provide increased State Transit Assistance (STA) funding and new funding through a State of Good Repair program.
- The current administration on the federal level has threatened to reduce funding to nearly every federal department, including the Department of Transportation. This may reduce federal funding in the future for program such as the Intercity bus service funded under Section 5311(f).

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of ESTA's financial position for all interested parties. Questions concerning any information in this report or requests for additional financial information should be addressed to the Eastern Sierra Transit Authority Executive Director, at P.O. Box 1357, Bishop, CA 93515 or the Inyo County Auditor-Controller at P.O. Drawer R, Independence, CA 93526.

EASTERN SIERRA TRANSIT AUTHORITY
STATEMENT OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2017

ASSETS	
Current Assets:	
Cash	$ 3,767,413
Accounts receivable	288,364
Prepaid expenses	251,790
Total current assets	4,307,567
Capital assets, net of accumulated depreciation	3,464,187
TOTAL ASSETS	7,771,754
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pensions (note 7)	1,014,683
LIABILITIES AND NET POSITION	
Current liabilities:	
Accounts payable and accrued liabilities	252,435
Payroll liabilities	177,661
Deferred revenue	1,550
Line of credit	-
Non-current liability - Net pension liability (note 6)	540,971
Total liabilities	972,617
DEFERRED INFLOWS OF RESOURCES	
Deferred pensions (note 7)	127,126
Net Position	
Invested in capital assets, net	3,464,187
Unrestricted	4,222,507
Total net position	7,686,694
TOTAL LIABILITIES AND NET POSITION	$ 8,786,437

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

EASTERN SIERRA TRANSIT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

Operating revenues:	
Fare revenues	$ 1,882,654
Total operating revenues	1,882,654
Operating expenses:	
Salaries & benefits	2,451,803
Fuel	367,988
Vehicle maintenance	515,599
Professional & other services	98,742
Depreciation expense	1,151,273
Insurance	190,583
Rents	185,520
Miscellaneous expenses	29,107
Parts & supplies	76,746
Utilities	45,121
Advertising	46,268
Total operating expenses	5,158,750
Operating income (loss)	(3,276,096)
Non-operating revenues:	
Local Transportation Fund allocation	1,271,810
State transportation fund allocation	253,087
Operating grants	425,029
Capital grants	138,572
Operating assistance	783,523
Gain on sale of asset	7,600
Other revenues	6,368
Total non-operating revenues	2,885,989
Change in net position	(390,107)
Beginning net position	8,076,801
Ending net position	$ 7,686,694

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

EASTERN SIERRA TRANSIT AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

Cash flows from operating activities:	
Receipts from customers	$ 1,882,654
Other operating expenses	(2,082,256)
Payroll and related fringe benefits	(3,172,309)
Net cash used in operating activities	(3,371,911)
Cash flows from non-capital financing activities:	
Local transportation fund allocation	1,271,810
State transit assistance allocation	253,087
Operating and capital grants	831,636
Operating assistance	783,523
Other revenues	6,368
Net cash provided by non-capital financing activities	3,146,424
Cash flows from capital and related financing activities:	
Proceeds from asset sales	7,600
Proceeds of line of credit	89,877
Payments on line of credit	(95,255)
Payments for capital asset purchases	(85,654)
Net cash used in capital and related financing activities	(83,432)
Net increase in cash and cash equivalents	(308,919)
Cash and cash equivalents, beginning of year	4,076,332
Cash and cash equivalents, end of year	$ 3,767,413

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

EASTERN SIERRA TRANSIT AUTHORITY
STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED JUNE 30, 2017

Reconciliation of operating income (loss) to net cash provided by (used) by operating activities:	
Operating income (loss)	$ (3,276,096)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	1,151,273
Increase in prepaid expenses	(251,790)
Increase in accounts payable and accrued liabilities	(274,792)
Increase in payroll liabilities	(49,012)
Increase in net pension liability	(671,494)
Net cash provided used by operating activities	$ (3,371,911)

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

Note 1: SIGNIFICANT ACCOUNTING POLICIES

A. THE REPORTING ENTITY

The Eastern Sierra Transit Authority (the Authority) was established in 2007 by a joint powers agreement between Inyo County, Mono County, the City of Bishop, and the Town of Mammoth Lakes to operate a regional transportation system in the Eastern Sierra region.

As required by Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity", the Authority has reviewed criteria to determine whether other entities with activities that benefit the Authority should be included within its financial reporting entity. The criteria include, but are not limited to, whether the entity has a significant operational and financial relationship with the Authority.

The Authority has determined that no other outside entity meets the above criteria and, therefore, no agency has been included as a component unit in the Authority's financial statements. In addition, the Authority is not aware of any entity that has such a relationship to the Authority that would result in the Authority being considered a component unit of that other entity.

B. BASIS OF PRESENTATION

The accounts of the Authority are organized and operated on the basis of funds, each of which is considered an independent fiscal and accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses, as appropriate. Resources are allocated to and accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled. The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing transportation services to customers. The Authority's accounts are organized into the following fund types:

Proprietary Fund Type

The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Unrestricted net position for the enterprise fund represents the net assets available for future operations.

Note 1: SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund is accounted for on a flow of economic resources measurement focus. This measurement focus emphasizes the determination of increased/decreased net position. The accrual basis of accounting is used for the enterprise fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all Financial Accounting Standards Board (FASB) statements and authoritative pronouncements issued on and before November 30, 1989, are applied to proprietary operations unless they conflict with GASB pronouncements. The Authority has elected not to apply FASB statements issued subsequent to November 30, 1989.

Operating Revenues - Revenues from the sale of tickets and passenger rides are recognized as income when the related service is provided.

Non-Operating Revenues – the Authority receives substantial funds that are not reported as operating revenues. For example, the Authority receives operating assistance from the Town of Mammoth Lakes. These funds are recognized as revenue when all applicable eligibility requirements are met. The Authority receives annual allocations from the Local Transportation and State Transit Assistance funds of the two counties it provides services in. These allocations are recognized into income as received. The Authority also receives a number of grants from various sources. These are recognized into income as eligibility requirements are met.

The following is a description of the Authority's main funding sources:

Passenger Revenue:

Passenger fares consist of fare charges to the users of the system.

Operating Assistance:

As mentioned above, the Town of Mammoth Lakes, a member of the Joint Powers Authority, provides operating assistance to the Authority. These revenues are not included as a component of fare revenues, but instead are reported as non-operating revenues.

Note 1: SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

Federal Transit Administration (FTA):

FTA revenues are funded by a federal gas tax and revenues of the federal general fund. The Authority receives Section 5311 and Section 5316 grants which are used for operations. In addition, the Authority has received funds from Sections 5310 and 5320 as well as American Recovery and Reinvestment Act of 2009 (ARRA) funds, which have been used for capital assistance.

Transportation Development Act (TDA):

TDA provides funding for public transit operators. This is also known as Local Transportation Fund (LTF) funding. This state fund is one quarter of a percent of the sales taxes assessed in the multi-jurisdictional region. The Inyo County and Mono County Local Transportation commissions are responsible for apportionment of these funds within both Inyo and Mono Counties. This funding is highly dependent on local economic activity.

State Transit Assistance (STA):

STA funding comes from the Public Transportation Act (PTA) which derives its revenue from the state sales tax on gasoline. These funds are designated as discretionary or formula. The former is appropriated by the legislature. The latter is a formula based on population and fares generated.

D. BUDGETARY INFORMATION

State law requires the adoption of an annual budget for the enterprise fund, which must be approved by the Board of Directors. The Budget is prepared on an accrual basis. The Board of Directors adopts an annual budget for transit operations. The Executive Director shall have the authority to transfer funds between line items, not to exceed $5,000 or 20% for any one line item, whichever is greater, with the limits of the overall budget. The Executive Director shall report, on a regular basis, any such transfers to and from budgeted line items. Budget amendments in excess of $5,000 or 20% of a line item, whichever is greater, shall require Board approval.

E. CASH AND EQUIVALENTS

For purposes of the statement of cash flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash and equivalents.

Note 1: SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. INVESTMENTS

Investments consist of funds deposited in the pooled fund with Inyo County. Investments are stated at market value. Such investments are within the State Statutes and the Authority's investment policy.

G. CAPITAL ASSETS

Capital assets are stated at historical cost. The cost of normal maintenance and repairs is charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related properties. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Buildings and improvements	40 to 50 years
Buses and maintenance vehicles	4 to 12 years
Light-rail structures and light-rail vehicles	25 to 45 years
Other operating equipment	5 to 15 years

It is the policy of the Authority to capitalize all capital assets with an individual cost of more than $5,000, and a useful life in excess of one year.

H. COMPENSATED ABSENCES

The Authority's policy allows employees to accumulate earned but unused comprehensive leave and compensated time off, which will be paid to employees upon separation from the Authority's service, subject to a vesting policy.

I. FEDERAL, STATE, AND LOCAL GRANT FUNDS

Grants are accounted for in accordance with the purpose for which the funds are intended. Approved grants for the acquisition of land, building, and equipment are recorded as revenues as the related expenses are incurred. Approved grants for operating assistance are recorded as revenues in which the related grant conditions are met. Advances received on grants are recorded as a liability until related grant conditions are met. The Transportation Development Act (TDA) provides that any funds not earned and not used may be required to be returned to their source.

When both restricted and unrestricted resources are available for the same purpose the Authority uses restricted resources first.

Note 1: SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. USE OF 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

K. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable consist entirely of amounts due from other governmental agencies for operating and capital grants. Management believes its accounts receivable to be fully collectible, and, accordingly, no allowance for doubtful accounts is required.

Note 2: CASH AND INVESTMENTS

Cash & investments consisted of the following at June 30, 2017:

Deposits held in the County of Inyo investment pool	$ 3,731,534
Deposits held in financial institutions	35,779
Imprest cash	100
Total	$ 3,767,413

A. CUSTODIAL CREDIT RISK

At June 30, 2017, the carrying amount of the deposits held at banks was $35,779 and the bank balances totaled $35,779. The bank balances are insured by the FDIC for $250,000 and the remaining was collateralized, as required by California Government Code 53630, by the pledging financial institution with assets held in a common pool for the Authority and other governmental agencies. State law requires that the collateral be equal to or greater than 100% of all public deposit that is held with the pledging financial institution if government securities are used or 150% if mortgages are used as the collateral.

B. AUTHORIZED INVESTMENTS

California statutes authorize the Authority to invest idle or surplus funds in a variety of credit instruments as provided for in California Government Code Section 53600, Chapter 4 – Financial Affairs.

The Government Code allows investments in the following instruments:

- Securities of the United States Government, or its agencies

Note 2: CASH AND INVESTMENTS (Continued)

B. AUTHORIZED INVESTMENTS (Continued)

- Small Business Administration loans
- Certificates of Deposit (or Time Deposits) Negotiable Certificates of Deposit
- Commercial paper and medium-term corporate notes
- Local Agency Investment Fund (State Pool and County Pool) Demand Deposits
- Repurchase Agreements (Repos)
- Passbook Savings Account Demand Deposits
- Reverse Repurchase Agreements
- County Cash Pool

The bulk of the District's assets are held in an investment pool with the County of Inyo. More information about the County's investments can be found in the County's financial statements.

C. CASH IN COUNTY TREASURY

Cash in Inyo County is held by the Inyo County Treasurer in an investment pool. The County maintains a cash and investment pool in order to facilitate the management of cash. Cash in excess of current requirements is invested in various interest-bearing securities. Information regarding categorization and fair value of investments can be found in the County's financial statements. The Treasurer's investments and policies are overseen by the Inyo County Treasury Oversight Committee.

Government Accounting Standards Board Statement No. 40 requires additional disclosures about a government's deposits and investment risks that include custodial risk, credit risk, concentration risk, and interest rate. The Authority did not have a deposit or investment policy that addresses specific types of risks.

Required risk disclosures for the Authority's investment in the Inyo County Investment Pool at June 30, 2017, were as follows:

Credit risk	Not rated
Custodial risk	Not applicable
Concentration of credit risk	Not applicable
Interest rate risk	320 days average maturity

The fair value of the Authority's investment in the Inyo County Investment Pool is determined on an amortized cost basis which approximates fair value.

Note 3: CAPITAL ASSETS

Capital assets consisted of the following at June 30, 2017:

	Balance 7/1/2016	Additions	Disposals	Balance 6/30/2017
Vehicles	$8,833,778	$ 81,302	$(64,222)	$8,850,858
Equipment	242,098	-	-	242,098
Buildings/structures	547,101	4,350	-	551,451
Total assets	9,622,977	85,652	(64,222)	9,644,407
Accumulated depreciation	(5,093,171)	(1,151,273)	64,222	(6,180,222)
Capital Assets, Net	$4,529,806	$(1,065,621)	$ -	$3,464,185

Depreciation expense was $1,151,273 for the year ended June 30, 2017.

Note 4: LEASES

The Authority leases buildings and office facilities under non-cancelable operating leases. Total cost for such leases was $169,080 for the year ended June 30, 2017. The future minimum lease payments for these leases are as follows:

Year Ending June 30	Amount
2018	$ 151,620
2019	151,620
2020	151,620
2021	151,620
2022	150,540
Total	$ 757,020

Note 5: FARE REVENUE RATIO

The Authority is required to maintain a fare revenue-to-operating expense ratio of 10% in accordance with the Transportation Development Act. The fare revenue-to-operating expense ratio for the Authority is calculated as follows for the year ended June 30:

Note 5: FARE REVENUE RATIO (Continued)

	2017
Fare Revenues	$1,882,654
Total Revenues	1,882,654
Operating Expenses	5,158,750
Less Allowable Exclusions:	
Depreciation and Amortization	(1,151,273)
Net Operating Expenses	$4,007,477
Fare Revenue Ratio	46.98%

Note 6: AUTHORITY EMPLOYEE'S RETIREMENT PLAN (DEFINED BENEFIT PLAN)

A. PLAN DESCRIPTION

The Authority's defined benefit pension plan, the California Public Employee's Retirement System, provides retirement and disability annual cost of living adjustments, and death benefits to plan members and beneficiaries. The California Public Employee's Retirement System (CalPERS), a cost sharing multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within the Public Employee's Retirement Law. The Authority selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). CalPERS issues a separate report.

B. FUNDING POLICY

Active plan members in the Authority's defined pension plan are required to contribute either 8%, 7%, or 6.25% of their annual covered salary depending upon the plan in which the employee participates. The Authority is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The fiscal year 2016/2017 employer rates are as follows:

Tier	Misc.	PEPRA
Tier 1	9.498%	6.555%
Tier 2	8.377%	n/a

The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The contribution requirements of the plan members are established by state statute and the employer contribution rate is established and may be amended by CalPERS. Per the employee Memorandum of Understanding, the Authority pays the plan members contribution on their behalf for employees hired on or before December 31, 2012.

Note 6: AUTHORITY EMPLOYEE'S RETIREMENT PLAN (DEFINED BENEFIT PLAN) (Continued)

B. FUNDING POLICY (Continued)

At June 30, 2017, the District reported a liability of $540,971 in the Statement of Net Position for its proportionate share of the net pension liability. The net pension liability was 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 that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, which was actuarially determined.

For the fiscal year ended June 30, 2017, the District recognized pension expense of $19,149 in its Government-Wide financial statements. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions, and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

C. ACTURIAL ASSUMPTIONS

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees.

- Discount Rate/Rate of Return – 7.5%, net of investment expense
- Inflation Rate – 2.75%
- Salary increases – Varies by Entry Age and Service
- COLA Increases – up to 2.75%
- Post-Retirement Mortality – Derived using CalPERS' Membership Data for all Funds

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2015.

The long-term expected rate of return on pension plan investments (7.5%) was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Note 6: AUTHORITY EMPLOYEE'S RETIREMENT PLAN (DEFINED BENEFIT PLAN) (Continued)

C. ACTURIAL ASSUMPTIONS (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	47.0%	5.71%
Global Fixed Income	19.0%	2.43%
Inflation Sensitive	6.0%	3.36%
Private Equity	12.0%	6.95%
Real Estate	11.0%	5.13%
Infrastructure and Forestland	3.0%	5.09%
Liquidity	2.0%	(1.05)%

The discount rate used to measure the total pension liability was 7.5 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 contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension fund's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. In theory, the discount rate may differ from the long-term expected rate of return discussed previously. However, based on the projected availability of the pension fund's fiduciary net position, the discount rate is equal to the long-term expected rate of return on pension plan investments, and was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease 6.50%	Discount Rate 7.5%	1% Increase 8.5%
District's proportionate share of the net pension plan liability	$ 909,254	$ 540,971	$ 236,603

Detailed information about the pension fund's fiduciary net position is available in the separately issued CalPERS comprehensive annual financial report which may be obtained by contacting CalPERS.

Note 7: DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Pursuant to GASB Statement No. 63, the District recognized deferred outflows of resources in the government-wide and proprietary fund statements. These items are a consumption of net position by the District that is applicable to a future reporting period.

The District has one item that is reportable on the Government-Wide Statement of Net Position as Deferred Outflows of Resources which is related to pensions that are the CalPERS premiums for the 2017 fiscal year which will be recognized in a subsequent reporting period. The total for this is $690,642. These were the employer contributions for the 2017 fiscal year.

The District is also reporting deferred outflows of resources relating to differences between projected and actual investment earnings, change in employer proportions and differences between the employer's contributions and their proportionate share of contributions. The total of these amounts at year-end were $323,541 and they will be amortized over a 3.8 year period.

The District also recognized deferral inflows of resources in the government-wide financial statements. This is an acquisition of net position by the District that is applicable to a future reporting period. The District has one item related to pensions that is captured as a deferred inflow of resources. The total at year-end was $127,126.

Under the modified accrual basis of accounting, it is not enough that revenue is earned; it must also be available to finance expenditures of the current period. Governmental funds will therefore include deferred inflows of resources for amounts that have been earned but are not available to finance expenditures in the current period. Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2017	$ 14,934
2018	19,243
2019	104,277
2020	58,460
Total	$ 196,914

Note 8: SUBSEQUENT EVENTS

Management has evaluated subsequent events to determine if events or transactions occurring through January 8, 2018, the date the basic financial statements, were available to be issued, require adjustment to, or disclosure in, the basic financial statements. No events were found to have occurred that would materially affect the carrying balances of assets and liabilities at the balance sheet date out of the ordinary course of business operations.

EASTERN SIERRA TRANSIT AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
FOR THE YEAR ENDED JUNE 30, 2017

Eastern Sierra Transit Authority – Schedule of the Authority's proportionate share of the Net Pension Liability:

Last 10 Fiscal years*:

	FY 2014	FY 2015	FY 2016
District's proportion of the net pension liability	Varies by plan	.01655%	.01557%
District's proportionate share of the net pension liability	$ 413,616	$ 387,894	$ 540,971
District's covered employee payroll	1,366,206	1,582,603	1,517,088
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	30.27%	24.51%	35.66%
Plan Fiduciary net position as a percentage of the total pension liability	79.87%	83.27%	80.22%

*Amounts presented above were determined as of 6/30. Additional years will be presented as they become available.

CALPERS - Schedule of District contributions

Last 10 Fiscal Years*:

	FY 2014	FY 2015	FY 2016
Actuarially determined contribution	$ 115,464	$ 183,362	$ 209,515
Total actual contributions	(115,464)	(183,362)	(209,515)
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered-employee payroll	$ 1,366,206	$ 1,582,603	$ 1,517,088
Contributions as a percentage of covered employee payroll	8.45%	11.59%	13.81%

OTHER REPORTS

REPORT ON COMPLIANCE OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH THE STATUTES, RULES, AND REGULATIONS OF THE CALIFORNIA TRANSPORTATION DEVELOPMENT ACT AND THE ALLOCATION INSTRUCTIONS AND RESOLUTIONS OF THE TRANSPORTATION COMMISSION

Members of the Board of Directors
Eastern Sierra Transit Authority
Bishop, California

We have audited the financial statements of the Eastern Sierra Transit Authority as of and for the year ended June 30, 2017 and have issued our report thereon dated January 8, 2018. 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.

As part of obtaining reasonable assurance about whether the Eastern Sierra Transit Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Additionally, we performed tests to determine that allocations made and expenditures paid by the Mono County Local Transportation Commission and Inyo County Transportation Commission were made in accordance with the allocation instructions and resolutions of the Commission and in conformance with the California Transportation Development Act. Specifically, we performed each of the specific tasks identified in the California Code of Regulations Section 6667 that are applicable to the Eastern Sierra Transit Authority. In connection with our audit, nothing came to our attention that caused us to believe the Eastern Sierra Transit Authority failed to comply with the Statutes, Rules, and Regulations of the California Transportation Development Act and the allocation instructions and resolutions of the Local Transportation Commission. 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.

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Members of the Board of Directors
Eastern Sierra Transit Authority
Bishop, California

In November 2006, California voters passed a bond measure enacting the Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006. Of the 19.925 billion of state general obligation bonds authorized, $4 billion was set aside by the State as instructed by statute as the Public Transportation Modernization Improvement and Service Enhancement Account (PTMISEA). These funds are available to the California Department of Transportation for intercity rail projects and to transit operators in California for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, bus rapid transit improvements or for rolling stock procurement, rehabilitation or replacement.

During the fiscal year ended June 30, 2017, the Authority expensed $2,000 of PTMISEA funds from Inyo for which reimbursement will be sought in the 17/18 fiscal year.

This report is intended solely for the information and use of the Eastern Sierra Transit Authority, the Mono and Inyo County Local Transportation Commissions, management, the California Department of Transportation, and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Fechter & Company
Certified Public Accountants

Fechter & Company, CPAs

Sacramento, CA
January 8, 2018

EASTERN SIERRA TRANSIT AUTHORITY

MANAGEMENT REPORT

FOR THE YEAR ENDED JUNE 30, 2017

EASTERN SIERRA TRANSIT AUTHORITY

Management Report
For the Year Ended June 30, 2017

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FECHTER
& COMPANY
Certified Public Accountants

Craig R. Fechter, CPA, MST

Board of Directors of the
Eastern Sierra Transit Authority
Bishop, California

In planning and performing our audit of the financial statements of the Eastern Sierra Transit Authority for the year ended June 30, 2017, we considered the Authority's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We will review the status of this letter during our next audit engagement. We will be pleased to discuss them in further detail at your convenience or to perform any additional study of these matters. We thank the Authority's staff for its cooperation on this audit.

Fechter & Company
Certified Public Accountants

Fechter & Company, CPAs

Sacramento, California
January 8, 2018

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The Auditor's Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 5, 2017, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Authority financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Internal Control Related Matters

In any smaller entity, whether private enterprise or a governmental agency, the lack of segregation of duties can present potential issues in regards to the perpetuation and concealment of fraud. Even with a seemingly perfect segregation of duties frauds can be perpetuated and concealed.

California Government Code Section 12422.5 requires the State Controller's office to develop internal control guidelines applicable to each local agency by January 1, 2015. The intent of the legislation is to assist local agencies in establishing a system of internal control to safeguard assets and prevent and detect financial errors and fraud. To this end, the State Controller's Office has produced a draft of control guidelines for local Agencies. As the Authority contemplates changes to its system of internal control, we advise in utilizing these guidelines when developing internal procedures to assist with your internal control processes.

The State Controller's office has defined internal controls into five components that work together in an integrated framework. Their guidelines were adopted from the definitions and descriptions contained in *Internal Control – Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The components are:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring Activities

The objective of *control environment* is the set of standards, processes, and structures that provided the basis for carrying out internal control across the entity. The governing board and management establish the "tone at the top" regarding the importance of internal control, including expected standards of conduct which then cascade down through the various levels of the organization and have a strong effect on the overall system of internal control.

A Authority's *Risk Assessment* process includes how management identifies risks (including fraud risk) relevant to the preparation and fair presentation of the financial statements in accordance with the Authority's applicable financial reporting framework. In addition, this would also involve areas of business and operational risk which could potentially affect the Authority's finances on a go-forward basis.

Control Activities are in reference to establishing policies and procedures that achieve management directives and respond to identified risks in the internal control system. These are specific procedures designed to perform a secondary review of internal processes that will allow for segregation of duties and a management level review of processed transactions.

Information and Communication are the Authority's methods of identifying what information is relevant to present to management and the board to assist the Authority in making the correct decisions. It also is in reference to the Authority's internal processes of gathering and summarizing that information.

Monitoring involves evaluating the effectiveness of controls on an on-going basis and taking remedial actions when necessary when identified by the other control procedures in place. On-going monitoring activities often are built into the normal recurring activities of a local government and include regular management and supervisory activities.

There is no catch-all for finding all instances of fraud within any entity, whether public or private. One of the key factors in helping prevent fraud is to encourage ethical behavior at all levels of the organization, i.e., "tone at the top". Another key would be to note instances of abnormal behavior of finance or accounting staff when questioned about Authority financial matters.

The Authority should remember that they have outside resources available in the case of fraud – they are able to contact the Authority auditor, their attorney, or the county auditor-controller should anyone feel there is a risk of fraud or abuse.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

- Accrual and disclosure of compensated absences
- Capital asset lives and depreciation expense
- Calpers actuarial study of annual required contributions

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Authority's financial reporting process (that is, cause future financial statements to be materially misstated). The following audit adjustments, in our judgment, indicate matters that could have an effect on the Authority's financial reporting process:

- Reclassification of certain items
- Posting the adjustments to the net pension liability

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Auditors

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

EASTERN SIERRA TRANSIT AUTHORITY
Required Communications
For the Year Ended June 30, 2017

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However,
these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.