

**EASTERN SIERRA
TRANSIT AUTHORITY**

**ANNUAL FINANCIAL REPORT
WITH INDEPENDENT AUDITOR'S
THEREON**

June 30, 2016

EASTERN SIERRA TRANSIT AUTHORITY

Annual Financial Report
For the Year Ended June 30, 2016

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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, 2016, 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, 2016, 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.

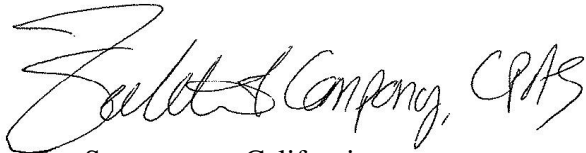
Members of the Board of Directors
Eastern Sierra Transit Authority

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

A handwritten signature in cursive script that reads "Fechter & Company, CPAs". The signature is written in dark ink and is positioned above the printed text of the firm's name and location.

Sacramento, California
December 22, 2016

**EASTERN SIERRA TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)
JUNE 30, 2016**

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, 2016.

FINANCIAL HIGHLIGHTS

- The assets of ESTA exceeded its liabilities at the close of the year by \$8,076,801. Of this amount, \$3,546,995 may be used to meet ESTA's ongoing obligations to its customers and creditors.
- Revenue significantly exceeded expenditures, primarily as a result of lowered operating expenses due to lower than budgeted fuel cost (\$351,024), lower than anticipated maintenance expense (\$99,726), lower employee compensation costs (\$95,398), and lower than budgeted unemployment expense (\$22,698). Fare revenue for the budget units, excluding MMSA, exceeded budget by \$209,091 primarily as a result of increases for the Reds Meadow Shuttle and the 395 Route budget units. This increased fare revenue was attributable to increased summer visitation in the eastern sierra during the 2015 summer as a result of low snowfall the prior winter.

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.

**EASTERN SIERRA TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)
JUNE 30, 2016**

Other Reports

Other reports include the Schedule of Federal Awards along with the Schedule of Findings and Questioned Costs. The Schedule of Federal Awards includes federal grant activity in accordance with OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations. Therefore some of the amounts differ from amounts presented in the basic financial statements. Additionally, this section contains reports on internal controls and compliance with financial and other matters.

NET POSITION

Condensed Statement of Net Position at June 30, 2016 and 2015

	Business Type Activities		
	2016	2015	Change
Assets			
Current and other assets	\$ 4,840,696	\$ 3,982,234	\$ 858,462
Capital assets	4,529,806	5,037,972	(508,166)
Total assets	<u>9,370,502</u>	<u>9,020,206</u>	<u>350,296</u>
Liabilities			
Current and other liabilities	905,807	638,778	(267,029)
Long-term liabilities	387,894	413,616	25,722
Total liabilities	<u>1,293,701</u>	<u>1,052,394</u>	<u>(241,307)</u>
Net position			
Invested in capital assets, net of related debt	4,529,806	5,037,972	(508,166)
Unrestricted	<u>3,546,995</u>	<u>2,929,840</u>	<u>617,155</u>
TOTAL NET POSITION	<u><u>\$ 8,076,801</u></u>	<u><u>\$ 7,967,812</u></u>	<u><u>\$ 108,989</u></u>

Net position invested in capital assets, net of related debt, represent 56 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 44 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 \$8,076,801 at the close of the most recent fiscal year. Besides capital assets, the most significant portion of ESTA's net position is \$4,076,332 of cash invested in the County's investment pool and one outside bank account, and \$554,849 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.

**EASTERN SIERRA TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)
JUNE 30, 2016**

CHANGES IN NET POSITION

	Business Type Activities		
	2016	2015	Change
Program revenues			
Fare revenues	\$ 1,882,113	\$ 1,720,918	\$ 161,195
Local Transportation Fund	1,297,755	1,278,976	18,779
State Transit Assistance	105,608	304,192	(198,584)
Operating grants	444,167	538,769	(94,602)
Capital grants	329,269	1,196,248	(866,979)
Other program revenues	1,340,221	905,852	434,369
General revenues			
Interest and other revenues	14,482	123,404	(108,922)
Total revenues	<u>5,413,615</u>	<u>6,068,359</u>	<u>(654,744)</u>
Expenses			
Transit expense	<u>5,304,626</u>	<u>5,026,715</u>	<u>(277,911)</u>
CHANGE IN NET POSITION	108,989	1,041,644	(932,655)
Net position – beginning of year	<u>7,967,812</u>	<u>7,199,324</u>	<u>768,488</u>
Prior period adjustment	<u>-</u>	<u>(273,156)</u>	<u>273,156</u>
End of Year	<u>\$ 8,076,801</u>	<u>\$ 7,967,812</u>	<u>\$ 108,989</u>

Total revenues decreased \$654,744 from FY14/15 to \$5,413,615. Capital grants revenue, which is primarily composed of reimbursement for vehicle purchases, declined by \$866,979 in FY15/16. The previous year saw a larger than normal amount of vehicle purchases and, correspondingly, an increase in the reimbursement revenue. State Transit Assistance revenue also declined significantly in 15/16 as the state only released two of the anticipated four quarterly STA payments during the fiscal year. Operating grant revenue was down for the year due to lower reimbursements due to lower operating costs, primarily fuel costs. Transit expense increased by \$277,911 in FY 15/16 as a result of a 6.5% increase in service hours operated. The service increase was primarily related to the MMSA routes due to increased visitation in the winter of 2015/16, and to the Mammoth Express route, which saw a service expansion due to a new funding source.

**EASTERN SIERRA TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)
JUNE 30, 2016**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

ESTA's investment in capital assets, as of June 30, 2016, amounts to \$4,529,806 (net of accumulated depreciation). This investment in capital assets is comprised of buses and equipment. The large increase from the prior years is due to a large Federal grant that was for the purchase of new buses.

Debt Administration

ESTA had long-term obligations of \$387,894 related to net pension liability as of June 30, 2016.

FUTURE ECONOMIC ISSUES

- The MOU with the ESTA Employees Association (EEA) expired in May of 2016 and has been under negotiation since that time. A tentative agreement has been reached with the Association, which includes increases in compensation and benefits. If approved by the Association, employee compensation will increase by approximately 4.5% (\$150,000) per year.
- The future of the Affordable Care Act is in question following the 2016 presidential election. Modifications to the ACA could have an as yet unknown impact on ESTA's health insurance costs.
- The legalization of marijuana in the State may make it more difficult to recruit employees, who are required by ESTA's Drug & Alcohol Testing Policy, and by federal regulation to not use marijuana
- Action by the State legislature to address the current transportation programs funding shortfall could provide much needed revenues to fund transportation programs, particular the State Transportation Improvement Program (STIP) which, in the past, has been a primary source of funding for vehicle replacement.

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, 2016**

ASSETS

Current Assets:

Cash	\$ 4,076,332
Accounts receivable	554,849

Total current assets	4,631,181
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Capital assets, net of accumulated depreciation	4,529,806
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TOTAL ASSETS	9,160,987
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DEFERRED OUTFLOWS OF RESOURCES

Deferred pensions (note 7)	209,515
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LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable and accrued liabilities	527,227
Payroll liabilities	226,673
Line of credit	5,378
Non-current liability - Net pension liability (note 6)	387,894

Total liabilities	1,147,172
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DEFERRED INFLOWS OF RESOURCES

Deferred pensions (note 7)	146,529
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Net Position

Invested in capital assets, net	4,529,806
Unrestricted	3,546,995

Total net position	8,076,801
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TOTAL LIABILITIES AND NET POSITION	\$ 9,223,973
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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, 2016

Operating revenues:	
Fare revenues	\$ 1,882,113
	<u>1,882,113</u>
Total operating revenues	<u>1,882,113</u>
Operating expenses:	
Salaries & benefits	2,543,599
Fuel	356,116
Vehicle maintenance	468,599
Professional & other services	189,403
Depreciation expense	1,209,489
Insurance	167,701
Rents	184,029
Miscellaneous expenses	33,054
Parts & supplies	80,933
Utilities	35,470
Advertising	36,233
	<u>5,304,626</u>
Total operating expenses	<u>5,304,626</u>
Operating income (loss)	<u>(3,422,513)</u>
Non-operating revenues:	
Local Transportation Fund allocation	1,297,755
State transportation fund allocation	105,608
PTMISEA revenues	467,636
Operating grants	444,167
Capital grants	329,269
Operating assistance	872,585
Gain on sale of asset	9,900
Other revenues	4,582
	<u>3,531,502</u>
Total non-operating revenues	<u>3,531,502</u>
Change in net position	108,989
Beginning net position	<u>7,967,812</u>
Ending net position	<u><u>\$ 8,076,801</u></u>

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, 2016**

Cash flows from operating activities:	
Receipts from customers	\$ 1,882,113
Other operating expenses	(1,238,638)
Payroll and related fringe benefits	<u>(2,522,158)</u>
Net cash used in operating activities	<u>(1,878,683)</u>
Cash flows from non-capital financing activities:	
Local transportation fund allocation	1,297,755
State transit assistance allocation	105,608
Operating and capital grants	1,072,191
Operating assistance	872,585
Other revenues	<u>4,582</u>
Net cash provided by non-capital financing activities	<u>3,352,721</u>
Cash flows from capital and related financing activities:	
Proceeds from asset sales	9,900
Proceeds of line of credit	5,378
Payments for capital asset purchases	<u>(701,321)</u>
Net cash used in capital and related financing activities	<u>(686,043)</u>
Net increase in cash and cash equivalents	787,995
Cash and cash equivalents, beginning of year	<u>3,288,337</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,076,332</u></u>

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, 2016**

**Reconciliation of operating income (loss) to net cash
provided by (used) by operating activities:**

Operating income (loss) \$ (3,422,513)

Adjustments to reconcile operating loss to net
cash used by operating activities:

Depreciation 1,209,489

Increase in accounts payable and accrued liabilities 283,224

Increase in payroll liabilities 21,441

Increase in net pension liability 29,676

Net cash provided used by operating activities **\$ (1,878,683)**

The accompanying notes are an integral part of these financial statements

**EASTERN SIERRA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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.

**EASTERN SIERRA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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.

**EASTERN SIERRA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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.

**EASTERN SIERRA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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.

**EASTERN SIERRA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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, 2016:

Deposits held in the County of Inyo investment pool	\$ 3,933,452
Deposits held in financial institutions	142,780
Imprest cash	<u>100</u>
Total	<u><u>\$ 4,076,332</u></u>

A. CUSTODIAL CREDIT RISK

At June 30, 2016, the carrying amount of the deposits held at banks was \$142,780 and the bank balances totaled \$142,780. 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

**EASTERN SIERRA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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, 2016, 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.

**EASTERN SIERRA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

Note 3: CAPITAL ASSETS

Capital assets consisted of the following at June 30, 2016:

	Balance 7/1/2015	Additions	Disposals	Balance 6/30/2016
Vehicles	\$8,832,676	\$ 202,475	\$(201,373)	\$8,833,778
Equipment	236,698	5,400	-	242,098
Buildings/structures	53,655	493,446	-	547,101
 Total assets	 9,123,029	 701,321	 (201,373)	 9,622,977
 Accumulated depreciation	 (4,085,055)	 (1,209,489)	 201,373	 (5,093,171)
 Capital Assets, Net	 <u>\$5,037,974</u>	 <u>\$ (508,168)</u>	 <u>\$ -</u>	 <u>\$4,529,806</u>

Depreciation expense was \$1,209,493 for the year ended June 30, 2016.

Note 4: LEASES

The Authority leases buildings and office facilities under non-cancelable operating leases. Total cost for such leases was \$168,000 for the year ended June 30, 2016. The future minimum lease payments for these leases are as follows:

Year Ending June 30	Amount
2017	\$ 150,000
2018	150,000
2019	150,000
2020	150,000
2021	150,000
 Total	 <u>\$ 750,000</u>

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:

**EASTERN SIERRA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

Note 5: FARE REVENUE RATIO (Continued)

	2016
Fare Revenues	\$1,882,113
Total Revenues	1,882,113
Operating Expenses	5,304,626
Less Allowable Exclusions:	
Depreciation and Amortization	(1,209,489)
Net Operating Expenses	\$4,095,137
Fare Revenue Ratio	45.95%

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 actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates for 2015-2016 were 9.067%, 8.003%, or 6.237% of covered payroll depending upon the retirement plan tier. In addition to the contribution rates noted above. The Authority has to make a separate payment attributable to the unfunded liability that is no longer included with the overall contribution rates. 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.

**EASTERN SIERRA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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

B. FUNDING POLICY (Continued)

At June 30, 2016, the District reported a liability of \$387,894 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, 2015 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, 2016, the District recognized pension expense of \$239,194 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. ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2015 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, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2014.

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:

**EASTERN SIERRA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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

C. ACTUARIAL 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	\$ 651,025	\$ 387,894	\$ 171,193

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 PERS.

**EASTERN SIERRA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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. The total is \$209,515.

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 \$146,529.

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.

\$307,930 was reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year-end June 30, 2016.

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
2016	\$ 77,840
2017	77,840
2018	70,738
2019	(71,247)
Total	\$ 155,172

Note 9: SUBSEQUENT EVENTS

Management has evaluated subsequent events to determine if events or transactions occurring through December 22, 2016, 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, 2016**

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

Last 10 Fiscal years*:

	FY 2014	FY 2015
District’s proportion of the net pension liability	Varies by plan	Varies by plan
District’s proportionate share of the net pension liability	\$ 413,616	\$ 387,894
District’s covered employee payroll	1,366,206	1,582,603
District’s proportionate share of the net pension liability as a percentage of its covered-employee payroll	30.27%	24.51%
Plan Fiduciary net position as a percentage of the total pension liability	79.87%	83.27%

*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
Actuarially determined contribution	\$ 115,464	\$ 183,362
Total actual contributions	(115,464)	(183,362)
Contribution deficiency (excess)	\$ -	\$ -
District’s covered-employee payroll	\$ 1,366,206	\$ 1,582,603
Contributions as a percentage of covered employee payroll	8.45%	11.59%

OTHER REPORTS

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, 2016, 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, 2016, 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.

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, 2016, the Authority received proceeds of \$467,636 of PTMISEA funds from Inyo.

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

A handwritten signature in cursive script that reads "Fechter & Company, CPAs". The signature is written in black ink and is positioned above the printed text of the firm's name and location.

Sacramento, CA
December 22, 2016