

**EASTERN SIERRA TRANSIT AUTHORITY**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2018**



[CLAcconnect.com](http://CLAcconnect.com)

**WEALTH ADVISORY**  
**OUTSOURCING**  
**AUDIT, TAX, AND**  
**CONSULTING**

**EASTERN SIERRA TRANSIT AUTHORITY  
TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2018**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>3</b>
<b>STATEMENT OF NET POSITION</b>	<b>7</b>
<b>STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>	<b>8</b>
<b>STATEMENT OF CASH FLOWS</b>	<b>9</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>11</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	<b>23</b>
<b>OTHER REPORTS</b>	
<b>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	<b>25</b>
<b>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 LOCAL TRANSPORTATION COMMISSION</b>	<b>27</b>

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Eastern Sierra Transit Authority  
Bishop, California

We have audited the accompanying financial statements of Eastern Sierra Transit Authority (ESTA), which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eastern Sierra Transit Authority as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *Implementation of New Accounting Standards*

As disclosed in the notes to the financial statements, ESTA implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during fiscal year 2018. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

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

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2019, on our consideration of ESTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of ESTA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ESTA's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Roseville, California  
March 19, 2019

**EASTERN SIERRA TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

The following Management's Discussion and Analysis (MD&A) of the Eastern Sierra Transit Authority (ESTA) financial performance provides an introduction to the financial statements for the year ended June 30, 2018. The information contained in this MD&A should be considered in conjunction with the information contained in ESTA's financial statements.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

ESTA's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board. ESTA is structured as an enterprise fund. ESTA's revenues are recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are capitalized and, with the exception of land, are depreciated over their useful lives. See the notes to the financial statements for a summary of ESTA's significant accounting policies.

Following this discussion and analysis are the basic financial statements of ESTA.

ESTA's basic financial statements are designed to provide readers with a broad overview of ESTA's financial status.

*The statement of net position* presents information on all of ESTA's assets and deferred outflows of resources and liabilities and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of ESTA's financial position.

$$\text{Net Position} = (\text{Assets} + \text{Deferred Outflows of Resources}) - (\text{Liabilities} + \text{Deferred Inflows of Resources})$$

*The statement of revenues, expenses, and changes in net position* presents information showing the change in ESTA's net position during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are recorded and reported in this statement for some items that will result in cash flows in future periods.

*The statement of cash flows* relates to the flows of cash and cash equivalents. Consequently, only transactions that affect ESTA's cash accounts are recorded in this statement. A reconciliation of the statement of cash flows is provided at the bottom of the statement to assist in understanding the difference between cash flows from operating activities and operating income.

*The notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

**EASTERN SIERRA TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**FINANCIAL HIGHLIGHTS**

On June 30, 2018, the assets and deferred outflows of ESTA exceeded its liabilities and deferred inflows by \$6,972,483 (net position). Of this amount, \$4,234,395 (unrestricted net position) may be used to meet ESTA's ongoing obligations to citizens and creditors and \$2,738,088 is ESTA's net investment in capital assets.

ESTA's capital assets (e.g., land, infrastructure and equipment) decreased by \$726,099 due to \$394,636 of capital asset additions and \$89,205 of retirements offset by the annual depreciation of existing assets.

Long-term liabilities increased by \$219,296 due to the initial recognition of the total other postemployment benefits liability of \$610,279 and a decrease to the net pension liability of \$390,983.

**FINANCIAL POSITION**

**Condensed Statement of Net Position**

	<u>2018</u>	<u>2017</u>	<u>Variance</u>	<u>Change</u>
Assets:				
Current and Other Assets	\$ 5,039,778	\$ 4,307,567	17.00 %	\$ 732,211
Capital Assets	2,738,088	3,464,187	(20.96)	(726,099)
Total Assets	<u>7,777,866</u>	<u>7,771,754</u>	0.08	6,112
Deferred Outflows	917,552	1,014,683	(9.57)	(97,131)
Liabilities:				
Current Liabilities	637,010	431,646	47.58	205,364
Long-Term Liabilities	<u>760,267</u>	<u>540,971</u>	40.54	219,296
Total Liabilities	1,397,277	972,617	43.66	424,660
Deferred Inflows	325,658	127,126	156.17	198,532
Net Position:				
Net Investment in Capital Assets	2,738,088	3,464,187	(20.96)	(726,099)
Unrestricted	<u>4,234,395</u>	<u>4,222,507</u>	0.28	11,888
Total Net Position	<u><u>\$ 6,972,483</u></u>	<u><u>\$ 7,686,694</u></u>	(9.29)	<u><u>\$ (714,211)</u></u>

As shown in the schedule above, at June 30, 2018, ESTA's total assets are \$7,777,866. The total assets held increased \$6,112 from the June 30, 2017 balance of \$7,771,754. The increase in total assets was due primarily to the \$751,577 increase in Due from Other Governments. Deferred outflows of \$917,552 represent contributions made by ESTA during fiscal year 2017/18 after the pension and OPEB liability measurement date of June 30, 2017 and other pension related deferred outflows.

The largest portion of ESTA's net position reflects its unrestricted portion. These funds may be used to meet ESTA's ongoing obligations to citizens and creditors.

**EASTERN SIERRA TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**Changes in Net Position  
Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>	<u>Variance</u>	<u>Change</u>
Revenues:				
Operating	\$ 1,882,467	\$ 1,882,654	-0.01%	\$ (187)
Nonoperating	3,081,579	2,747,417	12.16%	334,162
Total Revenues	<u>4,964,046</u>	<u>4,630,071</u>	7.21%	<u>333,975</u>
Expenses:				
Operating Expenses	5,581,493	5,158,750	8.19%	422,743
Nonoperating Expenses	139,629	-	100.00%	139,629
Total Expenses	<u>5,721,122</u>	<u>5,158,750</u>	10.90%	<u>562,372</u>
Capital Contributions	<u>562,763</u>	<u>138,572</u>	306.12%	<u>424,191</u>
Change in Net Position	(194,313)	(390,107)	50.19%	195,794
Net Position - Beginning	7,686,694	8,076,801	-4.83%	(390,107)
Prior Period Adjustment	(519,898)	-	100.00%	(519,898)
Net Position - Ending	<u>\$ 6,972,483</u>	<u>\$ 7,686,694</u>	-9.29%	<u>\$ (714,211)</u>

*Revenues* – ESTA’s revenues for fiscal year 2017/18 increased by 7.21% or \$333,975. The increase was related primarily to additional State funding due to SB-1 legislation, increased Federal revenue for operation of expanded Reno/Lancaster service, and increases in other agency contributions. There were also increases to miscellaneous revenue which includes insurance and utility billings to the Town of Mammoth Lakes.

*Expenses* – ESTA’s expenses for fiscal year 2017/18 increased 10.90% or \$562,372. Non-operating expenses increased by \$139,629 due to the return of unused funding in 2018. While this funding is still available to ESTA, it should be paid on a reimbursement basis. Operating expenses increased by 8.19% from the prior fiscal year primarily due to the implementation of GASB 75 that resulted in the reporting of a postemployment benefits liability and increased pension expenses.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

*Capital Assets* – ESTA’s investment in capital assets as of June 30, 2018 amounted to \$2,738,088 (net of accumulated depreciation and related debt). This investment in capital assets includes land, land improvements, and equipment. The \$726,099 decrease is due to depreciation of \$1,120,735.

*Additional information on ESTA’s capital assets can be found in Note 3 of this report.*

*Long-term liabilities* - At June 30, 2018, ESTA reported \$760,267 related to net pension and OPEB liabilities.

*Additional information on ESTA’s long-term liabilities can be found in Notes 5 and 6 of this report.*

**EASTERN SIERRA TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2018**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

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 current administration at 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 programs such as the Inter-city bus service funded under Section 5311(f).

ESTA anticipates working on the new administration building which is partially funded with the 2018 FTA 5339 Bus & Bus Facilities Infrastructure Investment Program grant and will continue applying for additional funding.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of ESTA's finances for all those with an interest in ESTA's finances. Questions concerning any of the information provided 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  
JUNE 30, 2018**

**ASSETS**

**CURRENT ASSETS**

Cash	\$	3,863,822
Accounts Receivable		203,100
Due From Other Governments		751,577
Interest Receivable		12,258
Prepaid Expenses		209,021
Total Current Assets		5,039,778

Capital Assets, Net of Accumulated Depreciation		2,738,088
---	--	-----------

Total Assets		7,777,866
--------------	--	-----------

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Other Postemployment Benefits		859
Deferred Pensions		916,693
		917,552

**LIABILITIES AND NET POSITION**

**CURRENT LIABILITIES**

Accounts Payable and Accrued Liabilities		371,864
Salaries Payable		120,958
Compensated Absences		142,538
Unearned Revenue		1,650
Total Current Liabilities		637,010

**NONCURRENT LIABILITY**

Net Other Post Employment Benefits Liability		610,279
Net Pension Liability		149,988
Total Noncurrent Liabilities		760,267

Total Liabilities		1,397,277
-------------------	--	-----------

**DEFERRED INFLOWS OF RESOURCES**

Deferred Pensions		325,658
		325,658

**NET POSITION**

Net Investment in Capital Assets		2,738,088
Unrestricted		4,234,395
Total Net Position		\$ 6,972,483

See accompanying Notes to Financial Statements.

**EASTERN SIERRA TRANSIT AUTHORITY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2018**

**OPERATING REVENUES**

Fare Revenues	\$ 1,882,467
Total Operating Revenues	1,882,467

**OPERATING EXPENSES**

Salaries and Benefits	2,694,624
Fuel	454,961
Vehicle Maintenance	575,870
Professional and Other Services	181,844
Depreciation Expense	1,120,735
Insurance	185,761
Rents	180,219
Miscellaneous Expenses	36,934
Parts and Supplies	51,595
Utilities	59,638
Advertising	39,312
Total Operating Expenses	5,581,493

**OPERATING LOSS**

(3,699,026)

**NONOPERATING REVENUES**

Local Transportation Fund Allocation	1,240,646
State Transportation Fund Allocation	349,860
Intergovernmental Revenues	595,269
Capital Grants	562,763
Operating Assistance	876,958
Return of Unused Funding	(139,629)
Other Revenues	16,888
Use of Money and Property	1,958
Total Nonoperating Revenues	3,504,713

**CHANGE IN NET POSITION**

(194,313)

Net Position - Beginning of Year - Restated

7,166,796

**NET POSITION - END OF YEAR**

\$ 6,972,483

See accompanying Notes to the Financial Statements.

**EASTERN SIERRA TRANSIT AUTHORITY  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2018**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from Customers	\$ 1,901,446
Other Operating Expenses	(1,743,565)
Payroll and Related Fringe Benefits	(2,613,728)
Net Cash Used by Operating Activities	(2,455,847)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Received for Use of Money and Property	(1,395)
Net Cash Used by Investing Activities	(1,395)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Local Transportation Fund Allocation	1,240,646
State Transit Assistance Allocation	349,860
Operating and Capital Grants	595,269
Operating Assistance	590,612
Other Revenues	16,888
Net Cash Provided by Noncapital Financing Activities	2,793,275

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Capital Grants	155,012
Payments for Capital Asset Purchases	(394,636)
Net Cash Used by Capital and Related Financing Activities	(239,624)

**NET INCREASE IN CASH AND CASH EQUIVALENTS**

96,409

Cash and Cash Equivalents - Beginning of Year

3,767,413

**CASH AND CASH EQUIVALENTS - END OF YEAR**

\$ 3,863,822

**EASTERN SIERRA TRANSIT AUTHORITY  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2018**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH  
PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Income (Loss)	\$	(3,699,026)
Adjustments to Reconcile Operating Loss to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation		1,120,735
(Increase) Decrease in:		
Accounts Receivable		18,879
Prepaid Expense		42,769
Deferred Pensions		97,990
Deferred Other Postemployment Benefits		(859)
Increase (Decrease) in:		
Accounts Payable and Accrued Liabilities		(20,200)
Salaries Payable		85,835
Unearned Revenue		100
Net Pension Liability		(390,983)
Net Other Postemployment Liability		90,381
Deferred Pensions		198,532
		198,532
Net Cash Provided (Used) by Operating Activities	<u>\$</u>	<u>(2,455,847)</u>

**NONCASH CAPITAL AND FINANCING ACTIVITIES**

Repayment of Operating Assistance	<u>\$</u>	<u>139,629</u>
-----------------------------------	-----------	----------------

See accompanying Notes to the Financial Statements.

**EASTERN SIERRA TRANSIT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Eastern Sierra Transit Authority (ESTA) 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*, ESTA has reviewed criteria to determine whether other entities with activities that benefit ESTA 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 ESTA.

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

**Basis of Presentation**

ESTA reports the activity relevant to its operations in an enterprise fund. 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 position available for future operations.

**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.

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

**Nonoperating Revenues** — ESTA receives substantial funds that are not reported as operating revenues. For example, ESTA receives operating assistance from the Town of Mammoth Lakes. These funds are recognized as revenue when all applicable eligibility requirements are met. ESTA 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. ESTA also receives a number of grants from various sources. These are recognized into income as eligibility requirements are met.

**EASTERN SIERRA TRANSIT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

The following is a description of ESTA'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 ESTA. These revenues are not included as a component of fare revenues, but instead are reported as nonoperating revenues.

**Federal Transit Administration (FTA)**

FTA revenues are funded by a federal gas tax and revenues of the federal general fund. ESTA receives Section 5311 and Section 5316 grants which are used for operations. In addition, ESTA 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.

**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.

**Cash and Cash Equivalents**

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

**EASTERN SIERRA TRANSIT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**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 ESTA's investment policy.

**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 ESTA to capitalize all capital assets with an individual cost of more than \$5,000, and a useful life in excess of one year.

**Compensated Absences**

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

**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 ESTA uses restricted resources first.

**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.

**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.

**EASTERN SIERRA TRANSIT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 2 CASH AND INVESTMENTS**

Cash and investments consisted of the following at June 30, 2018:

Deposits Held in the County of Inyo Investment Pool	\$ 3,739,757
Deposits Held in Financial Institutions	123,865
Imprest Cash	200
Total	<u>\$ 3,863,822</u>

**Custodial Credit Risk**

At June 30, 2018, the carrying amount of the deposits held at banks was \$123,865 and the bank balances totaled \$123,865. The bank balances are insured by the FDIC for \$250,000. 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.

**Authorized Investments**

California statutes authorize ESTA 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
- 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 ESTA'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.



**EASTERN SIERRA TRANSIT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**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. ESTA did not have a deposit or investment policy that addresses specific types of risks.

Required risk disclosures for ESTA's investment in the Inyo County Investment Pool at June 30, 2018 were as follows:

Credit Risk	Not rated
Custodial Risk	Not applicable
Concentration of Credit Risk	Not applicable
Interest Rate Risk	671 days average maturity

The fair value of ESTA'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, 2018:

	Balance 7/1/2017	Additions	Deletions	Balance 6/30/2018
Capital assets, not being depreciated				
Construction in progress	\$ -	\$ 23,189	\$ -	\$ 23,189
Total capital assets not being depreciated	<u>-</u>	<u>23,189</u>	<u>-</u>	<u>23,189</u>
Capital assets, being depreciated				
Structures and improvements	551,453	-	(6,981)	544,472
Equipment	9,092,957	371,447	(82,224)	9,382,180
Total capital assets, being depreciated	<u>9,644,410</u>	<u>371,447</u>	<u>(89,205)</u>	<u>9,926,652</u>
Less accumulated depreciation for				
Structures and improvements	(51,869)	(26,676)	6,981	(71,564)
Equipment	(6,128,354)	(1,094,059)	82,224	(7,140,189)
Total accumulated depreciation	<u>(6,180,223)</u>	<u>(1,120,735)</u>	<u>89,205</u>	<u>(7,211,753)</u>
Capital Assets, Net	<u>\$ 3,464,187</u>	<u>\$ (726,099)</u>	<u>\$ -</u>	<u>\$ 2,738,088</u>

Depreciation expense was \$1,120,735 for the year ended June 30, 2018.

**EASTERN SIERRA TRANSIT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**NOTE 4 FARE REVENUE RATIO**

ESTA 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 ESTA is calculated as follows for the year ended June 30, 2018:

Fare Revenues	\$ 1,882,467
Operating Expenses	5,581,493
Less: Allowable Exclusions:	
Depreciation and Amortization	(1,120,735)
Net Operating Expenses	\$ 4,460,758
Fare Revenue Ratio	42.20%

**NOTE 5 LEASES**

**Operating Leases**

ESTA leases office space and grounds under non-cancellable leases. Total costs for these leases was \$180,219 for the year ended June 30, 2018. The future minimum lease payments are as follows:

Year Ending June 30,	Amount
2019	\$ 21,492
2020	19,836
2021	1,350
Total	\$ 42,678

ESTA also leases office and garage space from the town of Mammoth Lakes. This lease is cancellable by ESTA and is paid for on a month to month basis at a rate of \$12,500 per month.

**NOTE 6 EMPLOYEES' RETIREMENT PLAN (DEFINED BENEFIT PLAN)**

**Plan Description**

ESTA'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) is 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 are established by state statutes within the Public Employee's Retirement Law. ESTA 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.

**EASTERN SIERRA TRANSIT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

**Funding Policy**

Active plan members in ESTA'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. ESTA is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The fiscal year 2017/2018 employer rates are as follows:

Tier	Misc.	PEPRA
Tier 1	9.5390 %	6.5330 %
Tier 2	8.4180 %	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, ESTA pays the plan members' contribution on their behalf for employees hired on or before December 31, 2012.

**Actuarial Assumptions**

ESTA's net pension liability is measured as its proportionate share of the total pension liability, less the proportionate share of the pension plan's fiduciary net position. The net pension liability of the cost sharing plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

- Discount Rate/Rate of Return – 7.15%, - reduced from 7.65% in the previous valuation
- 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, 2017 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011. The Experience Study Report can be obtained at CalPERS' website under Forms and Publications.

**EASTERN SIERRA TRANSIT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

The long-term expected rate of return on pension plan investments (7.15%) 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.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10 (a)</u>	<u>Real Return Years 11 + (b)</u>
Global Equity	47.00 %	4.90 %	5.38 %
Fixed Income	19.00	0.80	2.27
Inflation Sensitive	6.00	0.60	1.39
Private Equity	12.00	6.60	6.63
Real Estate	11.00	2.80	5.21
Infrastructure and Forestland	3.00	3.90	5.36
Liquidity	2.00	(0.40)	(0.90)
	<u>100.00 %</u>		

(a) An expected inflation of 2.50% used for this period.

(b) An expected inflation of 3.00% used for this period.

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.

**Net Pension Liability**

At June 30, 2018, ESTA reported a liability of \$149,988 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, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. ESTA's proportion of the net pension liability was based on a projection of ESTA's long-term share of contributions to the pension plan relative to the projected contributions of all pension plan participants, which was actuarially determined.

**Sensitivity of Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of ESTA's proportionate share of the Plan as of the measurement date calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.15%) or 1 percentage point higher (8.15%) than the current rate.

	<u>1% Decrease 6.15%</u>	<u>Discount Rate 7.15%</u>	<u>1% Increase 8.15%</u>
ESTA's Proportionate Share of the Net Pension Plan Liability	\$ 592,796	\$ 149,988	\$ (216,754)

**EASTERN SIERRA TRANSIT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

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

Pension expense represents the change in the net pension liability during the measurement period, adjusted by actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. During the year ended June 30, 2018, ESTA recognized a pension expense of \$95,722. At June 30, 2018, ESTA reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions Differences between Expected and Actual Experience	\$ 134,336	\$ 10,243
Differences between Projected and Actual Investment Earnings	1,083	15,511
Differences between Employer Contributions and Proportionate Share of Contributions	30,381	-
Change in Employer's Proportion Pension Contributions Made Subsequent to Measurement Date	506,405	-
	54,305	299,904
	190,183	-
	<u>\$ 916,693</u>	<u>\$ 325,658</u>

The \$190,183 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017, measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 177,906
2020	143,851
2021	97,133
2022	(18,038)
Total	<u>\$ 400,852</u>

**NOTE 7 OTHER POSTEMPLOYMENT BENEFITS PLAN**

**Plan Description**

*Plan administration.* ESTA sponsors healthcare coverage under the California Public Employees Medical and Hospital Care Act ("PEMHCA"), commonly referred to as PERS Health. PEMHCA provides health insurance through a variety of Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) options.

**EASTERN SIERRA TRANSIT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

*Benefits provided.* Employees hired before January 1, 2013 are eligible for ESTA-paid retiree medical benefits upon attainment of age 50 and 5 years CalPERS service. Employees hired on or after January 1, 2013 are eligible for ESTA-paid retiree medical benefits upon attainment of age 52 and 5 years CalPERS service.

ESTA contributes the PEMHCA minimum under the unequal method (5% times number of years ESTA has been in PEMHCA). ESTA joined PEMHCA in 2007, therefore for 2017, ESTA contributes 50% of the PEMHCA minimum (\$128), or \$64 per month to its retirees. In 2018, this amount is 55% of the PEMHCA minimum (\$133), or \$73.15 per month. The 2019 PEMHCA minimum is \$136, and ESTA will contribute \$81.60 per month towards retirees. In addition to the PEMHCA minimum, ESTA pays administrative fees of 0.23% per premium. Also, survivor benefits are available.

Plan membership. At July 1, 2017, membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefit payments	3
Active plan members	42

Contributions – ESTA currently finances benefits on a pay-as-you-go basis.

**Net OPEB Liability**

ESTA's Net OPEB Liability was measured as of June 30, 2017 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of July 1, 2017 (June 30, 2017). Standard actuarial update procedures were used to project/discount from valuation to measurement dates.

**Actuarial Assumptions**

The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	3.00 percent
Medical cost trend rate	6.00 percent for 2017; 5.00 percent for 2018 and later years
PEMHCA minimum increase	3.5 percent after 2019
Age adjustment factor	3.00 percent
Percent married	60 percent

Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.

**EASTERN SIERRA TRANSIT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

*Discount rate.* GASB 75 requires a discount rate that reflects the following:

- a) The long-term expected rate of return on OPEB plan investments – to the extent that the OPEB plan’s fiduciary net position (if any) is projected to be sufficient to make projected benefit payments and assets are expected to be invested using a strategy to achieve that return;
- b) A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher – to the extent that the conditions in (a) are not met.

To determine a resulting single (blended) rate, the amount of the plan’s projected fiduciary net position (if any) and the amount of projected benefit payments is compared in each period of projected benefit payments. The discount rate used to measure ESTA’s Total OPEB liability is based on these requirements and the following information:

<u>Reporting Date</u>	<u>Measurement Date</u>	<u>Long-Term Expected Return of Plan (if any)</u>	<u>Municipal Bond 20-Year High Grade Rate Index</u>	<u>Discount Rate</u>
June 30, 2018	June 30, 2017	4.00%	3.13%	3.13%

**Changes in the Net OPEB Liability**

The table below shows the changes in the Total OPEB liability, the Plan Fiduciary Net Position, and the Net OPEB liability as of the measurement date June 30, 2017

	<u>Increase (Decrease)</u>		
	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balance - June 30, 2016	\$ 522,014	\$ -	\$ 522,014
Change in the Year:			
Service Cost	74,075	-	74,075
Interest on Total OPEB Liability	16,306	-	16,306
Benefit Payments <sup>1</sup>	(2,116)	-	(2,116)
Contributions - Employer <sup>1</sup>	-	2,116	2,116
Benefit Payments	-	(2,116)	(2,116)
Net Changes	<u>88,265</u>	<u>-</u>	<u>88,265</u>
Balance - June 30, 2017	<u>\$ 610,279</u>	<u>\$ -</u>	<u>\$ 610,279</u>

<sup>1</sup> Amount includes implicit subsidy associated with benefits paid

**EASTERN SIERRA TRANSIT AUTHORITY  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2018**

If an actuarially determined contribution is calculated for a single or agent employer, the employer is required to present in required supplementary information a schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the OPEB plan, and related ratios. If a single or agent employer does not have information about an actuarially determined contribution but has a contribution requirement that is established by statute or contract, the employer is required to present a schedule covering each of the 10 most recent fiscal years that includes information about the statutorily or contractually required contribution rate, contributions to the OPEB plan, and related ratios.

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the net OPEB liability of ESTA, as well as what ESTA's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate.

	1% Decrease 2.13%	Discount Rate 3.13%	1% Increase 4.13%
Net OPEB Liability	\$ 696,979	\$ 610,279	\$ 539,370

The following presents the net OPEB liability of ESTA, as well as what ESTA's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates.

	1% Decrease (5.00% decreasing to 4.00%)	Trend Rate (6.00% decreasing to 5.00%)	1% Increase (7.00% decreasing to 6.00%)
Net OPEB Liability	\$ 537,309	\$ 610,279	\$ 699,254

ESTA implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* and restated net position for the cumulative effect as follows:

Net position at July 1, 2017 as previously stated	\$ 7,686,694
Net OPEB liability adjustment	<u>(519,898)</u>
Net position at July 1, 2017 as restated	<u><u>\$ 7,166,796</u></u>



**EASTERN SIERRA TRANSIT AUTHORITY  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2018**

**Other Postemployment Benefits Plan (OPEB) – Schedule of Changes in the Net OPEB Liability and Related Ratios**

Last 10 Fiscal Years\*

	FY 2017
<b>Total OPEB Liability</b>	
Service Cost	\$ 74,075
Interest	16,306
Benefit Payments	(2,116)
Net Changes in Total OPEB Liability	88,265
Total OPEB Liability - beginning	522,014
Total OPEB Liability - ending (a)	\$ 610,279
 <b>Plan Fiduciary Net Position</b>	
Contributions - Employer	\$ 2,116
Benefit Payments	(2,116)
Net Change in Plan Fiduciary Net Position	-
Plan Fiduciary Net Position - beginning	-
Plan Fiduciary Net Position - ending (b)	\$ -
 ESTA's Net OPEB Liability - ending (a) - (b)	\$ 610,279
 Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.00%
 Covered Employee Payroll	\$ 1,285,438
 ESTA's Net OPEB Liability as a Percentage of Covered Employee Payroll	47.48%
 Measurement Date	6/30/2017

\* Additional years will be presented as they become available

**EASTERN SIERRA TRANSIT AUTHORITY  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2018**

**Schedule of ESTA's Proportionate Share of the Net Pension Liability (Last 10 Fiscal Years\*):**

	Reporting Fiscal Year Ended June 30, Measurement Date as of June 30,			
	2015 2014	2016 2015	2017 2016	2018 2017
ESTA's Proportion of the Net Pension Liability	Varies by plan	0.0166 %	0.0156 %	0.0166 %
ESTA's Proportionate Share of the Net Pension Liability	\$ 413,616	\$ 387,894	\$ 540,971	\$ 149,988
ESTA's Covered Employee Payroll	\$ 1,366,206	\$ 1,582,603	\$ 1,517,088	\$ 1,296,176
ESTA's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	30.27 %	24.51 %	35.66 %	11.57 %
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.87 %	83.27 %	80.22 %	75.39%

**CalPERS — Schedule of ESTA Contributions (Last 10 Fiscal Years\*)**

	FY 2015	FY 2016	FY 2017	FY 2018
Actuarially Determined Contribution	\$ 183,362	\$ 209,515	\$ 227,073	\$ 190,183
Total Actual Contributions	(183,362)	(209,515)	(690,642)	(190,183)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ (463,569)	\$ -
ESTA's Covered-Employee Payroll	\$ 1,582,603	\$ 1,517,088	\$ 1,296,176	\$ 1,285,438
Contributions as a Percentage of Covered Payroll	11.59%	13.81%	53.28%	14.80%

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

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors  
Eastern Sierra Transit Authority  
Bishop, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Eastern Sierra Transit Authority (ESTA), as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated March 19, 2019.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

**CliftonLarsonAllen LLP**

Roseville, California  
March 19, 2019

**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 LOCAL  
TRANSPORTATION COMMISSION**

Board of Directors  
Eastern Sierra Transit Authority  
Bishop, California

We have audited the financial statements of the Eastern Sierra Transit Authority (ESTA) as of and for the year ended June 30, 2018 and have issued our report thereon dated March 19, 2019. 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.

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, 2018, ESTA received \$202,037 of PTMISEA funds. As of June 30, 2018, ESTA had expended \$25,429 of the PTMISEA funds and had unexpended funds of \$176,608 remaining.

This report is intended solely for the information and use of the Eastern Sierra Transit Authority, the Mono County Local Transportation Commission, the Inyo County Local Transportation Commission, 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.



**CliftonLarsonAllen LLP**

Roseville, California  
March 19, 2019