

**EASTERN SIERRA
TRANSIT AUTHORITY**

AUDITED FINANCIAL STATEMENTS

*For the Year Ended
June 30, 2014*

EASTERN SIERRA TRANSIT AUTHORITY

Financial Statements
For the Year Ended June 30, 2014

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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, 2014, 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 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. 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, 2014, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Eastern Sierra Transit Authority's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 30, 2014, on our consideration of the Eastern Sierra Transit Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Eastern Sierra Transit Authority's internal control over financial reporting and compliance.

Fechter & Company, Certified Public Accountants


Sacramento, California

November 30, 2014

EASTERN SIERRA TRANSIT AUTHORITY
Management's Discussion and Analysis (MD&A)
June 30, 2014

As management of the Eastern Sierra Transit Authority (ESTA), we offer readers of our financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2014.

FINANCIAL HIGHLIGHTS

- The assets of ESTA exceeded its liabilities at the close of the year by \$7,199,324. Of this amount, \$2,283,333 may be used to meet ESTA's ongoing obligations to its customers and creditors.
- ESTA continued direct operation of the Reds Meadow Shuttle under a Special Use Permit issued by the US Forest Service. Due to an early start for the service as a result of last winter's drought, and strong visitation throughout the summer, record revenues were received and the service provided a positive contribution to the Authority's fund balance of \$80,088.
- Revenue significantly exceeded expenditures, primarily as a result of lower than budgeted fuel prices, turnover among benefitted employee positions, lower than budgeted unemployment expense, and reduced operating costs as a result of the low snowfall 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.

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, 2014 and 2013

	Business Type Activities		
	2014	2013	Change
Assets			
Current and other assets	\$ 2,758,420	\$2,175,245	\$ 583,175
Capital assets	4,915,991	4,818,548	97,443
Total assets	<u>7,674,411</u>	<u>6,993,793</u>	<u>680,618</u>
Liabilities			
Current and other liabilities	475,087	544,892	69,805
Long-term liabilities	-	-	-
Total liabilities	<u>475,087</u>	<u>544,892</u>	<u>69,805</u>
Net position			
Invested in capital assets, net of related debt	4,915,991	4,818,548	97,443
Unrestricted	<u>2,283,333</u>	<u>1,630,353</u>	<u>652,980</u>
TOTAL NET POSITION	<u>\$ 7,199,324</u>	<u>\$6,448,901</u>	<u>\$ 750,423</u>

Net position invested in capital assets, net of related debt, represent 68 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 32 percent that may be used to meet ESTA's ongoing obligations to staff members and creditors.

Net position may serve over time as a useful indicator of a government's financial position. In the case of ESTA, assets exceed liabilities by \$7,199,324 at the close of the most recent fiscal year. Besides capital assets, the most significant portion of ESTA's net position is \$2,758,420 of cash invested in the County's investment pool, and \$292,433 of accounts receivable. Cash and investments are maintained in the Inyo County's cash and investment pool where interest earned on ESTA's balance is apportioned to ESTA.

CHANGES IN NET POSITION

	Business Type Activities		
	2014	2013	Change
Program revenues			
Fare revenues	\$ 1,776,616	\$ 2,028,963	\$ (252,347)
Local Transportation Fund	1,225,598	1,288,697	(63,099)
State Transit Assistance	-	221,786	(221,786)
Operating grants	521,644	654,766	(133,122)
Capital grants	1,104,488	777,287	327,201
Other program revenues	805,852	744,834	61,018
General revenues			
Interest and other revenues	39,988	35,017	4,971
Total revenues	<u>5,474,186</u>	<u>5,751,350</u>	<u>(277,164)</u>
Expenses			
Transit expense	<u>4,723,763</u>	<u>5,036,259</u>	<u>(312,496)</u>
CHANGE IN NET POSITION	750,423	715,091	35,332
Net position – beginning of year	<u>6,448,901</u>	<u>5,733,810</u>	<u>715,091</u>
End of Year	<u>\$ 7,199,324</u>	<u>\$ 6,448,901</u>	<u>\$ 750,423</u>

Total revenues were \$5,474,186 which represents a decrease of \$277,164 from the prior year. Total expenditures were \$4,723,763 which represents a decrease of \$312,496. Revenues decreased primarily as a result of a reduction in State Transit Assistance and fare revenue associated with the Mammoth Mountain Ski Area (MMSA) contract. The MMSA contract revenue reduction was a direct result of reduced visitation due to low snowfall. ESTA did not meet the state required efficiency standard for the 2011 year due to an aberration in operating costs as a result of having to subcontract the operation of the Reds Meadow Shuttle. Accordingly, the STA allocated to the Mono County LTC cannot be used for operating expenses. The Mono County LTC is holding these funds, and the Authority expects to utilize the funds for allowable capital projects in the coming years. Expenditures declined from the previous year as a result of reductions in the level of service operated in Mammoth Lakes due to the near record low snowfall and associated reduction in visitation.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

ESTA's investment in capital assets, as of June 30, 2014, amounts to \$4,915,991 (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 did not have any long-term obligations as of June 30, 2014.

FUTURE ECONOMIC ISSUES

- The State of California issued a directive to transit employers in the state who participate in CalPERS that an exemption for transit employees would affect the pension reform act that had been effective January 1, 2013 (PEPRA). The PEPRA exemption for ESTA will result in approximately \$16,000 in additional pension expense for the Authority in FY2014/15. Future legal decisions regarding the PEPRA exemption could result in variations in ESTA's annual PERS retirement contract expense.
- The ESTA Board is continuing to analyze funding for bus replacements that will be required in future years. Nearly \$275,000 has been set aside in the past two years for replacement of the Reds Meadow/MMSA buses, however, additional funds will need to be set aside in the coming years to provide adequate funding the Authority's other buses, which have been primarily purchased using 100% grant funding which no longer exists. It is anticipated that this Board direction will reduce the Authority's undesignated fund balance in the future.
- The Affordable Care Act (ACA) provisions are expected to be fully implemented in 2015. While the Authority believes that its current health insurance plan offerings meet the requirements of the ACA, and will not require additional health insurance expenditures, future interpretations of the ACA could result in increased costs.

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, 2014

ASSETS

Current Assets:

Cash	\$ 2,465,987
Accounts receivable	<u>262,800</u>

Total current assets	<u>2,728,787</u>
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Capital assets, net of accumulated depreciation	<u>4,915,991</u>
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TOTAL ASSETS	<u><u>\$ 7,644,778</u></u>
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LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable and accrued liabilities	\$ 257,517
Payroll liabilities	<u>187,937</u>

Total current liabilities	445,454
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Net Position

Invested in capital assets, net	4,915,991
Unrestricted	<u>2,283,333</u>

Total net position	<u>7,199,324</u>
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TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 7,644,778</u></u>
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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, 2014

Operating revenues:	
Fare revenues	\$ 1,776,616
	<u>1,776,616</u>
Operating expenses:	
Salaries & benefits	2,284,562
Fuel	527,293
Vehicle maintenance	368,081
Professional & other services	93,941
Depreciation expense	963,656
Insurance	180,511
Rents	168,000
Miscellaneous expenses	10,171
Parts & supplies	57,225
Utilities	35,413
Advertising	34,910
	<u>4,723,763</u>
Total operating expenses	<u>4,723,763</u>
Operating income (loss)	<u>(2,947,147)</u>
Non-operating revenues and (expenses):	
Local Transportation Fund allocation	1,225,598
PTMISEA revenues	82,070
Operating grants	521,644
Capital grants	1,022,418
Operating assistance	805,852
Gain on sale of asset	8,185
Other revenues	31,803
	<u>3,697,570</u>
Total non-operating revenues and (expenses)	<u>3,697,570</u>
Change in net position	750,423
Beginning net position	<u>6,448,901</u>
Ending net position	<u><u>\$ 7,199,324</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, 2014

Cash flows from operating activities:	
Receipts from customers	\$ 1,776,616
Other operating expenses	(1,509,418)
Payroll and related fringe benefits	<u>(2,297,617)</u>
Net cash (used in) operating activities	<u>(2,030,419)</u>
Cash Flows from non-capital financing activities:	
Local transportation fund allocation	1,225,598
State transit assistance allocation	82,070
Operating and capital grants	1,730,758
Operating assistance	805,852
Other revenues	<u>39,988</u>
Net cash provided by non-capital financing activities	<u>3,884,266</u>
Cash flows from capital and related financing activities:	
Inter-department transfers	(53,500)
Payments for capital assets	<u>(1,060,110)</u>
Net cash provided by (used in) capital and related financing activities	<u>(1,113,610)</u>
Net increase in cash and cash equivalents	740,237
Cash and cash equivalents, beginning of year	<u>1,725,750</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,465,987</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, 2014

Reconciliation of operating income (loss) to net cash provided by (used) by operating activities:	
Operating income (loss)	\$ (2,947,147)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	962,666
Increase (decrease) in accounts payable and accrued liabilities	(32,883)
Increase (decrease) in payroll liabilities	<u>(13,055)</u>
Net cash provided (used) by operating activities	<u><u>\$ (2,030,419)</u></u>

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, 2014**

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, 2014**

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, 2014**

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. The Authority was not eligible to use STA funds for operating expenses in 2013/14 due to the fact that the required efficiency standard was not achieved due to an aberration in operating costs in 2011. The 13/14 STA funds deposited with the Inyo and Mono County Local Transportation Commissions, which are available to ESTA for capital assistance amount to \$289,687. The Authority has subsequently achieved the required efficiency standard and will be allowed to use STA funding for operating expenses in fiscal year 2014/2015.

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.

**EASTERN SIERRA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 1: SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2014**

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.

L. GASB 63

The District adopted the provisions of GASB Statement No. 63 (GASB 63), Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASB 63 provides financial reporting guidance for deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. It also identifies net position as the residual of all other elements presented in a statement of financial position, or the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. As implied above, GASB 63 changes the previous classification of net assets to net position, and consequently, the statement of net assets to the statement of net position. The District had no deferred inflows or outflows of resources as of June 30, 2014.

Note 2: CASH AND INVESTMENTS

Cash & investments consisted of the following at June 30, 2014:

Deposits held in the County of Inyo investment pool	\$ 2,405,479
Deposits held in financial institutions	60,408
Imprest cash	100
Total	\$ 2,465,987

A. CUSTODIAL CREDIT RISK

At June 30, 2014, the carrying amount of the deposits held at banks was \$60,408 and the bank balances totaled \$60,408. 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

**EASTERN SIERRA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 2: CASH AND INVESTMENTS (Continued)

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
- 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 Risk. 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, 2014 were as follows:

Credit Risk	Not rated
Custodial risk	Not applicable

**EASTERN SIERRA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 2: CASH AND INVESTMENTS (Continued)

C. CASH IN COUNTY TREASURY (Continued)

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

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

Note 3: CAPITAL ASSETS

Capital assets consisted of the following at June 30, 2014:

	Balance 7/1/2013	Additions	Disposals	Balance 6/30/2014
Vehicles	\$7,527,489	\$1,050,734	\$(307,401)	\$8,270,822
Equipment	213,146	10,367	-	223,513
Buildings/structures	53,655	-	-	53,655
Total assets	7,794,290	1,061,101	(307,401)	8,547,990
Accumulated depreciation	(2,975,744)	(963,656)	307,401	(3,631,999)
Capital Assets, Net	\$4,818,546	\$ 97,445	\$ -	\$4,915,991

Depreciation expense was \$963,656 for the year ended June 30, 2014.

Note 4: LEASES

OPERATING LEASES

The Authority leases buildings and office facilities under non-cancelable operating leases. Total cost for such leases was \$36,133 for the year ended June 30, 2014. The future minimum lease payments for these leases are as follows:

Year Ending June 30	Amount
2015	\$ 1,267
Total	\$ 1,267

**EASTERN SIERRA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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:

	2014
Fare Revenues	\$1,776,616
Total Revenues	1,776,616
Operating Expenses	4,723,763
Less Allowable Exclusions:	
Depreciation and Amortization	963,656
Net Operating Expenses	\$3,760,107
Fare Revenue Ratio	47.25%

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 8% of their annual covered salary. 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 rate for fiscal year 2013-2014 was 14.520% of covered payroll. 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.

**EASTERN SIERRA TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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

C. Annual Pension Cost

For fiscal year 2013-2014, the Authority's annual pension cost of \$258,895 was equal to the Authority's required and actual contributions. The required contribution for the fiscal year 2013-2014 was determined as part of the October 2011 actuarial valuation using entry age normal actuarial cost method with contributions determined as a percent of pay. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.305% to 14.20% depending on age, service and type of employment; (c) 3.00% overall payroll growth; and (d) an inflation rate of 2.75%. The actuarial value of the plan's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a two to five year period depending on the size of the unfunded amount being amortized as a level percentage of projected payroll on a closed basis.

Plan Specific Summary of Liability and Rates as of June 30, 2011:

<u>Valuation Date</u>	<u>Accrued Liabilities (AL)</u>	<u>Actuarial Assets</u>	<u>Unfunded Liabilities (UL)</u>	<u>Funded Ratio (AVA/AL)</u>	<u>Annual Covered Payroll</u>	<u>UL as % of payroll</u>
06/30/2011	\$ 1,286,326	\$ 1,040,476	\$ 931,190	80.90%	\$ 1,208,284	77.07%

Note 8: SUBSEQUENT EVENTS

Management has evaluated subsequent events to determine if events or transactions occurring through November 30, 2014, 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
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

Grantor/Pass-through Grantor/Program Name	Federal CFDA Number	Contract Number	Period	Contract Amount	Federal Expenditures
<u>CALIFORNIA DEPARTMENT OF TRANSPORTATION</u>					
<u>FEDERAL DEPARTMENT OF TRANSPORTATION</u>					
FTA Section 5311 Apportionment	20.509	643132	July 2012 - March 2014	121,868	\$ 121,868 *
FTA Section 5311 Apportionment	20.509	643131	July 2012 - March 2014	93,323	93,323 *
FTA Section 5311(f)	20.509	641490	July 2013 - Dec 2013	257,284	177,921 *
FTA Section 5311	20.509	640187	Feb 2011 - Dec 2014	148,750	14,300 *
FTA Section 5316 Job Access and Reverse Commute	20.516	643600	October 2013 - Jan 2015	10,000	1,544
FTA Section 5316 Job Access and Reverse Commute	20.516	643632	January 2014 - Nov 2015	56,299	17,765
FTA Section 5316 Job Access and Reverse Commute	20.516	642613	October 2012 - Jan 2014	90,694	26,178
FTA Section 5316 Job Access and Reverse Commute	20.516	643618	January 2013 - Oct 2015	46,570	18,640
FTA Section 5316 Job Access and Reverse Commute	20.516	642614	October 2012 - Sept 2014	58,018	9,593
FTA Section 5317 New Freedom	20.521	643706	October 2013 - Oct 2015	21,469	5,105
Reds Meadow Bus Purchase	20.509	CA-20-x010-01	October 2011	4,800,000	407,506 *
Totals					<u>\$ 893,743</u>

* - Denotes a major program

Note 1 - This schedule includes the federal grant activity of the Eastern Sierra Transit Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

OTHER REPORTS



**INDEPENDENT AUDITOR'S 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**

Members of the 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 which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

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.

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

Compliance and Other Matters

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 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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 name and date.

Sacramento, California
November 30, 2014

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

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

We have audited the financial statements of the Eastern Sierra Transit Authority as of and for the years ended June 30, 2014 and have issued our report thereon dated November 30, 2014. 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.

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, 2014, the Authority received proceeds of \$82,049 of PTMISEA funds from Inyo. \$28,091 as provided by the Mono County LTC for the purchase of a service truck, \$8,054 was provided by the Inyo County LTC for the purchase of dispatching software, and \$45,925 was provided directly by the state for the Bishop Yard Project. The balance of the Bishop Yard project is expected to be completed and expended in the 2014/2015 fiscal year.

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

Fechter & Company, Certified Public Accountants


Sacramento, CA
November 30, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

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

Compliance

We have audited the Eastern Sierra Transit Authority's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Eastern Sierra Transit Authority's major federal programs for the year ended June 30, 2014. The Eastern Sierra Transit Authority's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our Responsibility is to express an opinion for each of the Eastern Sierra Transit Authority's major federal programs based on our audit of the types of compliance requirements referred to to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Eastern Sierra Transit Authority's compliance with those requirements and performing such other procedures as we considered necessary under the circumstances.

We believe that our audit provides a reasonable basis for our opinion. However, our audit does not provide a legal determination of the Eastern Sierra Transit Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Eastern Sierra Transit Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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

Report on Internal Control Over Compliance

Management of the Eastern Sierra Transit Authority is responsible for establishing and maintaining an effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Eastern Sierra Transit Authority's internal control over compliance with the types of requirements that could have direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the Eastern Sierra Transit Authority's internal control over compliance.

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

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

This report is intended solely for the information and use of management, Board of Directors, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone but these specified parties.

Fechter & Company, Certified Public Accountants


Sacramento, California
November 30, 2014

**EASTERN SIERRA TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? No
- Noncompliance material to financial statements noted? No

Federal Awards:

Internal control over major programs:

- Material weaknesses identified? No
- Significant deficiencies identified that are not Considered to be material weaknesses? No

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? No

Identification of major programs:

<u>Program Title</u>	<u>CFDA Number</u>
Non-Urbanized Area Formula Program Grant	20.509

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee No

**EASTERN SIERRA
TRANSIT AUTHORITY**

MANAGEMENT REPORT

FOR THE YEAR ENDED JUNE 30, 2014

EASTERN SIERRA TRANSIT AUTHORITY

**Management Report
For the Year Ended June 30, 2014**

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Craig R. Fechter, CPA, MST
Scott A. German, CPA

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

In planning and performing our audit of the financial statements of the Eastern Sierra Transit Authority for the year ended June 30, 2014, we considered the Authority's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

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

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

Fechter & Company, Certified Public Accountants

A handwritten signature in black ink that reads 'Fechter & Company, CPAs'. The signature is stylized and cursive.

November 30, 2014
Sacramento, California

EASTERN SIERRA TRANSIT AUTHORITY
Required Communications
For the Year Ended June 30, 2014

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

As stated in our engagement letter dated October 22, 2014, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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

As part of obtaining reasonable assurance about whether the Authority financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Accounting Policies

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

Internal Control Related Matters

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

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

EASTERN SIERRA TRANSIT AUTHORITY
Required Communications
For the Year Ended June 30, 2014

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

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

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

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

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

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

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

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

EASTERN SIERRA TRANSIT AUTHORITY
Required Communications
For the Year Ended June 30, 2014

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

Accounting Estimates

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

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

Audit Adjustments

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

- Reclassification of certain items

Disagreements with Management

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

Consultations with Other Independent Auditors

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

EASTERN SIERRA TRANSIT AUTHORITY
Required Communications
For the Year Ended June 30, 2014

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

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