

STAR TRANSIT

ANNUAL FINANCIAL AND COMPLIANCE REPORT

FOR THE YEAR ENDED AUGUST 31, 2015



GMS

CHARTERED
ACCOUNTANTS

GEORGE | MORGAN | SNEED

STAR TRANSIT
Annual Financial Report
For the Year Ended August 31, 2015

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STAR TRANSIT

BOARD OF DIRECTORS

YEAR ENDED AUGUST 31, 2015

CHAIRMAN

Roy Ferrell

VICE-CHAIRMAN

David Magness

SECRETARY

Carlton Tidwell

BOARD MEMBER

Mike Townsend

Lee Ayres

Stan Pickett

Carrie Gordon

EXECUTIVE DIRECTOR

Omega Hawkins



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
STAR Transit
Terrell, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of STAR Transit, as of and for the year ended August 31, 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of STAR Transit, as of August 31, 2015, and the respective 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.

George, Morgan & Sneed, P.C.

1849 Wall Street | Weatherford, TX 76086-6298 | Phone 817.594.2704 | Fax 817.599.7389

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 4 through 8 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 with management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statement, 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 an opinion on the financial statements that collectively comprise the STAR Transit's basic financial statements as a whole. 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 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2016, on our consideration of STAR Transit's internal control over financial reporting and 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 any opinion on the 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 STAR Transit's internal control over financial reporting and compliance.

George Morgan, Inc., P.C.

Weatherford, Texas
February 26, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of STAR Transit, we offer readers of the STAR Transit's financial statements this narrative overview and analysis of the financial activities for the year ended August 31, 2015. We encourage readers to consider the information presented here.

FINANCIAL HIGHLIGHTS

- The assets of STAR Transit exceeded its liabilities by \$5,625,624 (net position) for the current year reported. Of this amount, \$53,803 (unrestricted net position) may be used to meet STAR Transit's ongoing obligations and operations. This compares to the previous year when assets exceeded liabilities by \$5,034,416.
- STAR Transit's total net position increased by \$591,208 for the current year reported. Net position in the previous year decreased by \$(423,853).
- Total capital assets (net of depreciation) were \$5,571,821 for the current year reported compared to \$4,400,377 in the previous year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the STAR Transit's basic financial statements. The STAR Transit's basic financial statements comprise two components: 1) proprietary fund financial statements, and 2) notes to the financial statements.

Proprietary fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. STAR Transit, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Proprietary fund. STAR Transit maintains one proprietary fund and uses an enterprise fund to account for its transportation operations.

The basic financial statements can be found on pages 8 through 10.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the proprietary fund financial statements. The notes to the financial statements can be found on pages 11 - 16 of this report.

Proprietary Fund Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of STAR Transit, assets exceeded liabilities by \$5,625,624 as of August 31, 2015.

The largest portion of STAR Transit's net position (99.04%) reflects its investment in capital assets (e.g. office furniture and equipment, building improvements and vehicles), net of any related debt. STAR Transit uses these capital assets to provide services to residents of Kaufman, Rockwall, Ellis, Navarro and Dallas Counties; consequently, these assets are not available for future spending.

An additional portion of the District's net position (0.96%) represents unrestricted net position (\$53,803) represents resources that may be used to meet the government's ongoing obligations to creditors.

STAR Transit's net position increased by \$591,208 .

Total operating revenues increased \$1,017,546 (27%) from the previous year. The increase is primarily due to an increase in contracted revenues by \$718,188 . Key elements in the increase in contracted revenues were due to increased coverage area for on-demand services and Purchase of Services (POS) contracts with cities. Total passengers serviced increased due to increased service coverage area which increased passenger revenues by \$34,183 . Operating grants and contributions increased by \$265,175 .

Total operating expenses increased \$1,465,613 (32%) from the previous year. Key elements of these changes are as follows:

- Salaries, benefits and taxes increased \$805,690 . STAR Transit is growing at a rapid pace providing on-demand services to the City of Balch Springs, City of Seagoville and City of Mesquite. Salary increases and additional employees hired to keep-up with the expansion increased salaries by \$737,117 . Employee benefits also increased \$40,628 due to health insurance premium increases and more employees becoming eligible for the benefits.
- Fuel and oil increased \$12,706 (2%) because total gas gallons increased 42% due to 25% increase in total miles drive; however average cost per gallon decreased 28%.
- Legal and professional fees increased \$59,748 , advertising and marketing increased \$31,854 , telephone and communication increased \$86,062 , repairs and maintenance increased \$126,715 , IT maintenance increased \$80,568 and depreciation increased \$279,208 .

Capital grants and contributions increased \$1,123,188 because in the prior year three buses were purchased with grant funds whereas in the current year nineteen were purchased.

Below are summaries of the STAR Transit's Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position-Proprietary Fund.

Condensed Statement of Net Position

	2015	2014
Assets:		
Current assets	\$ 841,249	\$ 1,042,678
Capital assets	5,571,821	4,400,378
Total assets	<u>6,413,070</u>	<u>5,443,056</u>
Liabilities:		
Current liabilities	659,446	408,639
Notes payable	128,000	-
	<u>787,446</u>	<u>408,639</u>
Net position:		
Invested in capital assets	5,571,821	4,400,378
Unrestricted	53,803	634,038
Total net position	<u>\$ 5,625,624</u>	<u>\$ 5,034,416</u>

Changes in Net Position

	2015	2014
Operating revenues		
Passenger revenues	\$ 169,158	\$ 134,975
Contracted revenues	2,481,271	1,763,083
Operating grants and contributions	2,157,338	1,892,163
	<u>4,807,767</u>	<u>3,790,221</u>
Operating expenses		
Transportation operations	5,984,526	4,518,913
	<u>5,984,526</u>	<u>4,518,913</u>
Operating loss	<u>(1,176,759)</u>	<u>(728,692)</u>
Nonoperating revenues (expenses)		
Loss on disposal of capital assets	(169,860)	(92,033)
Miscellaneous revenues	19,752	8,739
Interest expense	(2,246)	-
	<u>(152,354)</u>	<u>(83,294)</u>
Income (loss) before capital grants and contributions	<u>(1,329,113)</u>	<u>(811,986)</u>
Capital grants and contributions	1,920,321	388,133
Change in net position	<u>591,208</u>	<u>(423,853)</u>
Net position at beginning of year	5,034,416	5,458,269
Net position at end of year	<u>\$ 5,625,624</u>	<u>\$ 5,034,416</u>

Capital Assets

STAR Transit's investment in capital assets for its *proprietary* fund as of August 31, 2015, amounts to \$5,571,821 (net of accumulated depreciation). This investment in capital assets includes building improvements, office furniture and equipment and vehicles.

Major capital asset events during the current year included the following:

- Completed building improvements this year for a total cost of \$306,551.
- Purchased furniture, fixtures, IT server, software, laptops and telephone system for total cost of \$119,041.
- Acquired nineteen buses for total cost of \$1,159,633.
- Received from the City of Mesquite twenty used buses valued at \$409,000.

STAR Transit's Capital Assets
(Net of Depreciation)

	2015	2014
Building and improvements	\$ 1,628,890	\$ 1,360,423
Office furniture and equipment	570,413	474,911
Vehicles	3,372,518	2,438,855
Work in progress	-	126,189
Total	\$ 5,571,821	\$ 4,400,378

Additional information on the STAR Transit's capital assets can be found in the notes to the financial statements.

Economic Factors and the Next Year's Budgets and Rates

Fiscal Year 2015 continue to be transitional and transformational for STAR Transit. The agency revamped an existing service, added two new services, completed a building renovation project as well as hired a Deputy Executive Director.

The Kaufman Trolley has been operating since 2012. In an effort to increase the number of rides on the Trolley as well as increase the number of people who have access to the route, STAR Transit, along with help from the North Central Texas Council of Government, made minor upgrades enhancing the already great service.

The City of Balch Springs voted to offer citizens transportation by amending the Interlocal Agreement which not only continued the demand response bus transportation service but added a Commuter Demand Response Route. The Balch Springs Midtown Express launched June 15, 2015. There are nine designated stops along this fixed route with flex service to the DART Buckner Station based on request. STAR Transit also revised its website to include the map of the route and schedule.

STAR Transit continued its foray into Dallas County by partnering with the City of Rowlett to provide senior members of the Rowlett Community Centre free transportation from their home to the centre and back home. The Rowlett Senior Shuttle Service began operating January 4, 2016.

STAR Transit's portfolio of services wasn't the only thing that expanded in FY 15. In August, renovations were completed on the existing Operational Complex building. The 5060 sq. ft. bus bay was converted into 13 new offices as well as a new 1400 sq. ft. Call Center.

In preparing for the expected continued growth of the agency and in following the guidance of the Board of Directors, STAR Transit hired a Deputy Executive Director. The Deputy Executive Director role will be developing and maintaining partnerships with local governments, partner transit agencies, grant entities and the private sector.

While STAR Transit is poised to grow its services, the Board's position is to only expand if STAR Transit is the best fit for the transit customer and local partners. Our goal is to continue to develop sustainable partnership programs for services which assist transit customers. STAR Transit's commitment has been and will continue to be to our clients.

Request for Information

The financial report is designed to provide a general overview of STAR Transit's finances for all those with an interest in STAR Transit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, 200 S. Virginia, Terrell, Texas 75160.

BASIC FINANCIAL STATEMENTS

STAR TRANSIT
Statement of Net Position
Proprietary Fund
August 31, 2015

ASSETS

Current Assets:

Cash	\$ 135,690
Receivables (Net of allowances for uncollectibles):	
Accounts receivable - Trade	174,667
Accounts receivable - KCSCSI	64,447
Grants	443,021
Prepaid expense	23,424
	841,249

Noncurrent Assets

Capital assets (net of accumulated depreciation):	
Building and improvements	1,628,890
Office furniture and equipment	570,413
Vehicles	3,372,518
	5,571,821
Capital assets, net of accumulated depreciation	5,571,821

Total Assets	\$ 6,413,070
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LIABILITIES

Current Liabilities:

Accounts payable	\$ 447,498
Payroll liabilities	32,498
Accrued expenses	179,450
Notes payable	128,000
	787,446
Total current liabilities	787,446

NET POSITION

Net investment in capital assets	5,571,821
Unrestricted net position	53,803
	5,625,624
Total net position	5,625,624

Total Liabilities and Net Position	\$ 6,413,070
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The notes to the financial statements are an integral part of this statement.

STAR TRANSIT
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended August 31, 2015

Operating revenues	
Passenger revenues	\$ 169,158
Contracted revenues	2,481,271
Operating grants and contributions	2,157,338
	<hr/>
Total operating revenues	4,807,767
Operating expenses	
Salaries	2,721,790
Employee benefits	349,842
Payroll taxes	192,523
Training and education	17,181
Insurance	72,270
Office expense	65,206
Advertising and marketing	97,642
Telephone and communication	236,629
Legal and professional fees	77,302
Vehicle repairs and maintenance	380,816
IT maintenance	184,889
Fuel and oil	718,062
Pre-employment, physical and drug testing	14,544
Community programs	5,036
Other	48,467
Depreciation	802,327
	<hr/>
Total operating expenses	5,984,526
	<hr/>
Operating loss	(1,176,759)
Nonoperating revenues (expenses)	
Loss on disposal of capital assets	(169,860)
Miscellaneous revenues	19,752
Interest	(2,246)
	<hr/>
Total nonoperating revenues (expenses)	(152,354)
	<hr/>
Income (loss) before capital grants and contributions	(1,329,113)
Capital grants and contributions	
Capital grants	1,511,321
Capital contributions	409,000
	<hr/>
Capital grants and contributions	1,920,321
	<hr/>
Change in net position	591,208
Net position at beginning of year	5,034,416
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Net position at end of year	\$ 5,625,624
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The notes to the financial statements are an integral part of this statement.

STAR TRANSIT
Statement of Cash Flows
Proprietary Fund
For the Year Ended August 31, 2015

Cash flows from operating activities	
Cash received from customers	\$ 169,158
Contracted revenues received	2,452,793
Operating grants and contributions received	2,096,407
Cash payments to suppliers for goods and services	(1,536,626)
Cash payments to employees and for employee benefits	(3,304,601)
	<hr/>
Total operating revenues	(122,869)
Cash flows from noncapital financing activities	
Miscellaneous revenues	19,752
	<hr/>
Total cash flows from noncapital financing activities	19,752
Cash flows from capital and related financing activities	
Purchases of capital assets	(1,757,030)
Capital grants	1,511,321
Proceeds from sale of capital assets	22,399
Interest paid	(2,246)
Proceeds of notes payable	200,000
Repayment of notes payable	(72,000)
	<hr/>
Total cash flows from capital and related financing activities	(97,556)
Net change in cash and cash equivalents	(200,673)
Cash and cash equivalents, September 1	336,363
	<hr/>
Cash and cash equivalents, August 31	\$ 135,690
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Noncash capital and related financing activities	
Capital assets acquired through capital asset contributions	\$ 409,000
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Reconciliation of operating income\loss to net cash provided\used by operating activities	
Operating income\loss	\$ (1,176,759)
	<hr/>
Adjustments to reconcile operating income\loss to net cash provided\used by operating activities	
Depreciation expense	802,327
(Increase)\decrease in accounts receivable	(5,630)
(Increase)\decrease in related party receivable	(22,848)
(Increase)\decrease in grants receivable	(60,931)
(Increase)\decrease in prepaid expenses	90,165
Increase\decrease in accounts payable	259,445
Increase\decrease in payroll liabilities	(40,446)
Increase\decrease in accrued expenses	31,808
	<hr/>
Total Adjustments	1,053,890
Net cash provided\used by operating activities	\$ (122,869)
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The notes to the financial statements are an integral part of this statement.

STAR TRANSIT
Notes to the Financial Statements
August 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Nature of Activities

STAR Transit was established in 1988 to provide public transportation. STAR Transit became a political subdivision in 2002 created under the Interlocal Corporation Act of 1971, operation as a rural transit district, as set forth in Chapter 458 of the Texas Transportation Code. The basic operations of STAR Transit are financed primarily by Federal Transit Administration and Texas Department of Transportation funds. Approximately 44.87% of STAR Transit's operating revenue came from federal and state grants.

STAR Transit's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

B. Basic Financial Statements – Fund Financial Statements

The financial statements of STAR Transit are reported in the proprietary fund financial statements. The fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, net position, revenues and expenses.

Proprietary Fund

The focus of proprietary fund measurement is on the determination of operating income, changes in net position, financial position, and cash flows. The general accounting principles applicable are those similar to businesses in the private sector. The following briefly describes the purpose of a proprietary fund.

- An enterprise fund is required to be used to account for operations for which a fee is charged to external users for goods and services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

C. Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Fees and charges are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Cost reimbursement grant funds are considered to be earned to the extent of expenses made under the provisions of the grant.

STAR TRANSIT
Notes to the Financial Statements
August 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

D. Assets, Liabilities and Net Assets

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from date of acquisition.

Property, Plant and Equipment

Property, plant, and equipment are stated at cost and represent an item having an estimated useful life of more than one year. Donated capital assets are valued at their estimated fair value at the date of donation. STAR Transit established a threshold of \$1,000 for capitalization of depreciable assets.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

Vehicles	3-10 years
Office furniture and equipment	5-10 years
Buildings and improvements	40-45 years

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results may differ from those estimates.

Allowance for Doubtful Accounts

Accounts receivable are recorded net of an allowance for doubtful accounts. The allowance is estimated from historical performance and management's judgment. At August 31, 2015, the allowance for doubtful accounts is \$0.

Restricted Resources

STAR Transit applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

STAR TRANSIT
Notes to the Financial Statements
August 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Defining Operating Revenues and Expenses

STAR Transit's proprietary fund distinguishes between operating and nonoperating revenues and expense. Operating revenues and expenses consist of charges for services (including intergovernmental revenues received in exchange for providing transportation and in-kind revenues) and the cost of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Retirement Plan

STAR Transit has adopted a tax-deferred plan under Section 401(k) of the Internal Revenue Code. The Plan provides that all employees are eligible to participate after completing one year of eligibility service and are at least twenty-one years of age. STAR Transit contributes 100% of the first 3% of compensation contributed to the plan and 50% of the next 2% of compensation contributed to the plan. At August 31, 2015, STAR Transit's retirement expense was \$38,089.

Proprietary Fund Net Position

Proprietary fund net position are divided into three components:

- Net investment in capital assets – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net position – consist of net position that are restricted by STAR Transit's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted – all other net position are reported in this category.

NOTE 2 – DEPOSITS AND INVESTMENTS

- a. The State Public Funds Investment Act authorize the government to invest in obligations of the U.S. Treasury, obligations of states, agencies, counties, cities and other political subdivisions, secured certificates of deposit, repurchase agreements, banker's acceptance, commercial paper, mutual funds, guaranteed investment contracts and investment pools.

During the year ended August 31, 2015, STAR Transit did not own any types of securities other than those permitted by statute.

STAR TRANSIT
Notes to the Financial Statements
August 31, 2015

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

b. Custodial Credit Risk for Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. STAR Transit's funds are required to be deposited and invested under the terms of a depository contract. STAR Transit's deposits are required to be collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") Insurance. At August 31, 2015, \$0 of STAR Transit's bank balance of \$165,016 was exposed to custodial credit risk.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2015, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Reclass</u>	<u>Ending Balance</u>
Business Type Activities					
Non-Depreciable Assets					
Work in progress	\$ 126,189	\$ 320,413	\$ -	\$ (446,602)	\$ -
Depreciable Assets					
Buildings and improvements	1,561,410	-	-	306,551	1,867,961
Office furniture and equipment	794,104	105,179	-	140,051	1,039,334
Vehicles	3,684,993	1,740,437	(540,670)	-	4,884,760
Total capital assets being depreciated	<u>6,040,507</u>	<u>1,845,616</u>	<u>(540,670)</u>	<u>446,602</u>	<u>7,792,055</u>
Accumulated Depreciation					
Buildings and improvements	(200,987)	(38,084)	-	-	(239,071)
Office furniture and equipment	(319,193)	(149,728)	-	-	(468,921)
Vehicles	(1,246,138)	(614,515)	348,411	-	(1,512,242)
Total accumulated depreciation	<u>(1,766,318)</u>	<u>(802,327)</u>	<u>348,411</u>	<u>-</u>	<u>(2,220,234)</u>
Total	<u>\$ 4,400,378</u>	<u>\$ 1,363,702</u>	<u>\$ (192,259)</u>	<u>\$ -</u>	<u>\$ 5,571,821</u>

Depreciation expense charged to public transportation was \$802,327.

STAR TRANSIT
Notes to the Financial Statements
August 31, 2015

NOTE 4 – RECEIVABLE

Grants receivable represents amount owed by the Federal Government for expenses incurred and billed under the provisions of the grant.

Accounts receivable represents amount owed by various organizations to which STAR Transit is contracted to provide transportation services.

NOTE 5 – DESCRIPTION OF LEASING ARRANGEMENTS

STAR Transit leases a tract of land from a local government, which is used as a storage facility for its transportation vehicles. In June 2008, STAR Transit signed a twenty-year lease at \$5,200 per year. STAR Transit is responsible for the payment of utilities, insurance, maintenance and repair of any facility it constructs on the property.

STAR Transit leases a tract of land from the Union Pacific Railroad for \$300 per year for a minimum term of 5 years. The latest agreement began in 2014 and continues until 2019. The government's building at 200 Virginia Street is located on the leased land.

NOTE 6 – COMPENSATED ABSENCES

It is STAR Transit's policy to permit employees to accumulate earned but unused vacation and sick pay benefits with the approval of the Executive Director. It is the government's policy that employees will not receive payment for unused sick pay benefits upon separation from service therefore no liability is reported for unpaid sick leave. Upon termination, accrued vacation leave benefits not taken will be paid to the employee at the employee's regular pay rate. Vacation leave is accrued when incurred and reported as a liability in the financial statements.

NOTE 7 – ECONOMIC DEPENDENCE

STAR Transit's primary source of revenues and support is from Federal Transit Administration and Texas Department of Transportation funds. Secondary sources of revenue are from contracted and program services fees. Due to the concentration of support from federal and state funds, STAR Transit is vulnerable to the risk of future program cuts or funding delays. Funding delays or even program cuts due to budget cuts can have a severe impact on STAR Transit's ability to continue to provide these transportation services to the citizens of Kaufman, Rockwall and Dallas Counties at the current level. STAR Transit also provides Medicaid transportation to the citizens of Ellis and Navarro Counties.

NOTE 8 – RISK MANAGEMENT

STAR Transit is exposed to various risk of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. STAR Transit is a member of the Texas Municipal League and participates in the Intergovernmental Risk Pool insurance coverage and are 100% covered through third-party insurance policies.

STAR TRANSIT
Notes to the Financial Statements
August 31, 2015

NOTE 9 – RELATED PARTY TRANSACTION

STAR Transit entered into a transportation contract with Kaufman County Senior Citizens Services (KCSCS) to provide transportation services to senior citizens of Kaufman, Rockwall and Navarro Counties to and from the senior center, medical facilities and shopping centers. At August 31, 2015, the amount of transportation revenue related to this contract is \$100,860.

KCSCS shares office, overhead expenses and employees with STAR Transit. Shared employees include the executive director, accounting and human resources. At year-end a receivable of \$40,935 had been accrued for shared employees and overhead costs.

NOTE 10 – CONTINGENCIES

Federal and state funding received related to various grant programs are based upon periodic reports detailing reimbursable expenses made, in compliance with program guidelines, to the grantor agency. These programs are governed by various statutory rules and regulations of the grantors. Amounts received and receivable under these various funding programs are subject to periodic audit and adjustment by the funding agencies.

To the extent, if any, STAR Transit has not complied with all the rules and regulations, financial or otherwise, adjustment to or return of fund monies may be required.

As it pertains to other matters of compliance, in the opinion of STAR Transit, there are no significant contingent liabilities relating to matters of compliance and accordingly, no provision has been made in the accompanying financial statements for such contingencies.

NOTE 11 – SHORT-TERM DEBT

On March 13, 2015, STAR Transit entered into an agreement with the American National Bank of Texas for a \$200,000 line of credit at 5.25% interest rate payable on March 13, 2016. At August 31, 2015, the loan has a balance of \$128,000.

NOTE 12 – SUBSEQUENT EVENTS

STAR Transit has evaluated subsequent events through February 26, 2016, the date which the financial statements were available to be issued.

**OVERALL COMPLIANCE, INTERNAL CONTROL AND
FEDERAL AWARDS SECTION**



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*

To the Board of Directors
STAR Transit

We have audited, in accordance with auditing standards general 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 STAR Transit as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the STAR Transit's basic financial statements and have issued our report thereon dated February 26, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the STAR Transit'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 STAR Transit's internal control. Accordingly, we do not express an opinion on the effectiveness of STAR Transit'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 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. We did identify certain deficiencies in internal control, described as 2015-001 and 2015-002 in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether STAR Transit'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

George, Morgan & Sneed, P.C.

1849 Wall Street | Weatherford, TX 76086-6298 | Phone 817.594.2704 | Fax 817.599.7389

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questions costs as 2015-001 and 2015.002.

STAR Transit's Response to Findings

STAR Transit's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. STAR Transit's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

George Morgan Jones, P.C.

Weatherford, Texas
February 26, 2016



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

To the Board of Directors
STAR Transit

Report on Compliance for Each Major Federal Program

We have audited STAR Transit's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that that could have a direct and material effect on each of STAR Transit's major federal programs for the year ended August 31, 2015. STAR Transit'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 on compliance for each of STAR Transit's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 STAR Transit's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, STAR Transit, complied, in all material respects, with each types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2015.

George, Morgan & Sneed, P.C.

1849 Wall Street | Weatherford, TX 76086-6298 | Phone 817.594.2704 | Fax 817.599.7389

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described as 2015-001 and 2015-002 in the accompanying schedule of findings and questioned costs.

STAR Transit's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. STAR Transit's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

George Morgan Sneed, P.C.

Weatherford, Texas
February 26, 2016

STAR TRANSIT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2015

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	_____ Yes <u> X </u> No
Significant deficiency(s) identified that are not considered to be material weaknesses?	<u> X </u> Yes _____ No
Noncompliance material to financial statements noted	_____ Yes <u> X </u> No
Federal Awards	
Internal control over major programs:	
Material weakness(es) identified?	_____ Yes <u> X </u> No
Significant deficiency(s) identified that are not considered to be material weaknesses?	<u> X </u> Yes _____ No
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	<u> X </u> Yes _____ No
Identification of major programs:	
<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.507	Federal Transit_Formula Grants
Dollar threshold used to distinguish between type A and type B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> Yes _____ No

B. Financial Statement Findings

None

C. Federal Award Findings and Questioned Costs

CFDA number 20.507 Federal Transit_Formula Grants – U.S. Department of Transportation passed-through the North Central Texas Council of Governments (NCTCOG)

2015-001. Cost Principles

Condition: STAR Transit provides accounting and personnel services to Kaufman County Senior Citizens Services (“KCSCS”) and also shares its offices and certain administrative costs. Expenditures related to the operations of KCSCS were not properly allocated during the year. Expenditures of \$40,934 were identified and allocated to the KCSCS after the issue was identified by auditors and recorded as a receivable. The adjustment in the expenditures also resulted in the correction of the billings to NCTCOG, the agency that administers the Federal program.

Criteria: The administrative costs related to the operations of KCSCS should be identified at the beginning of the fiscal year. These costs should be excluded from monthly billing requests.

Possible Effects: The administrative costs related to the operations of KCSCS totaling \$40,934 were included in the STAR Transit’s billing requests charged to Federal program. This resulted in a program overpayment of \$11,220.

Questioned Costs: \$11,220

Cause: STAR Transit management does not have procedures in place to identify and allocate administrative costs related to the operations of KCSCS.

Information for perspective: The administrative costs identified and billed to NCTCOG for the program was \$11,220.

Recommendation: STAR Transit management should develop procedures for identifying and allocating administrative costs related to the operations of KCSCS. These costs should be necessary and reasonable for the proper administration of KCSCS.

Views of responsible officials:

The condition that has been identified as a deficiency for STAR Transit was discovered during the audit of a related entity, KCSCSI. STAR Transit followed the recommendation of the auditors and funding sources for KCSCSI to correct the lack of expenditures allocated to a KCSCSI program. It was not until after STAR Transit created a cost allocation of shared expenses and generated credit memos to our funding sources that a finding was reported for STAR Transit. It was expressed that if a weakness was noted on the audit of a related entity (KCSCSI) that our funding sources would expect to see a reported weakness on the audit of the other related entity (STAR Transit).

STAR Transit's funding sources were notified of the billing correction and a credit memo has been issued. A portion of the monies that were identified as questionable expenses has been made available to STAR Transit for future reimbursement requests.

Shared STAR Transit and KCSCSI services, administrative costs, and personnel have been identified and allocated appropriately. The shared services and administrative costs are split between both parties at the time of payment, and the costs for shared personnel are split biweekly during payroll processing.

CFDA number 20.509 Formula Grants for Other Than Urbanized Areas – U.S. Department of Transportation passed-through the Texas Department of Transportation (TXDot)

2015-002. Cost Principles

Condition: STAR Transit provides accounting and personnel services to KCSCS and also shares its offices and certain administrative costs. Expenditures related to the operations of KCSCS were not properly allocated during the year. Expenditures of \$40,934 were identified and allocated to the Organization after the issue was identified by auditors and recorded as a receivable. The adjustment in the expenditures also resulted in the correction of the billings to TXDot, the agency that administers the Federal program.

Criteria: The administrative costs related to the operations of KCSCS should be identified at the beginning of the fiscal year. These costs should be excluded from monthly billing requests.

Possible Effects: The administrative costs related to the operations of KCSCS totaling \$40,934 were included in the STAR Transit's billing requests charged to Federal program. This resulted in a program overpayment of \$16,146.

Questioned Costs: \$16,146

Cause: STAR Transit management does not have procedures in place to identify and allocate administrative costs related to the operations of KCSCS.

Information for perspective: The administrative costs identified and billed to TXDot for the program was \$16,146.

Recommendation: STAR Transit management should develop procedures for identifying and allocating administrative costs related to the operations of KCSCS. These costs should be necessary and reasonable for the proper administration of KCSCS.

Views of responsible officials:

The condition that has been identified as a deficiency for STAR Transit was discovered during the audit of a related entity, KCSCSI. STAR Transit followed the recommendation of the auditors and funding sources for KCSCSI to correct the lack of expenditures allocated to a KCSCSI program. It was not until after STAR Transit created a cost allocation of shared expenses and generated credit memos to our funding sources that a finding was reported for STAR Transit. It was expressed that if a weakness was

noted on the audit of a related entity (KCSCSI) that our funding sources would expect to see a reported weakness on the audit of the other related entity (STAR Transit).

STAR Transit's funding sources were notified of the billing correction and a credit memo has been issued. A portion of the monies that were identified as questionable expenses has been made available to STAR Transit for future reimbursement requests.

Shared STAR Transit and KCSCSI services, administrative costs, and personnel have been identified and allocated appropriately. The shared services and administrative costs are split between both parties at the time of payment, and the costs for shared personnel are split biweekly during payroll processing.

STAR TRANSIT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED AUGUST 31, 2015

None

STAR TRANSIT
CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2015

Contact for Corrective Action Plan:

Omega Hawkins
Executive Director

Financial Audit Findings

None

Federal Award Findings and Questioned Costs

CFDA number 20.507 Federal Transit_Formula Grants – U.S. Department of Transportation passed-through the North Central Texas Council of Governments (NCTCOG)

2015-001. Cost Principles

Questioned Costs: \$11,220

Recommendation: STAR Transit management should develop procedures for identifying and allocating administrative costs related to the operations of KCSCS. These costs should be necessary and reasonable for the proper administration of KCSCS.

Action Taken: Shared STAR Transit and Kaufman County Senior Citizens Services administrative costs and personnel have been identified and allocated appropriately. The shared services and administrative costs are split between both parties at the time of payment, and the costs for shared personnel are split biweekly during payroll processing.

To help strengthen our monthly financial review process we have implemented a Monthly Post Closing Review Guide. The guide includes an acknowledgement that all balance sheet accounts have been properly reconciled and approved, all standard journal entries have been posted and approved, and all billing allocations have been properly processed and submitted.

CFDA number 20.509 Formula Grants for Other Than Urbanized Areas – U.S. Department of Transportation passed-through the Texas Department of Transportation (TXDot)

2015-002. Cost Principles

Questioned Costs: \$16,146

Recommendation: STAR Transit management should develop procedures for identifying and allocating administrative costs related to the operations of KCSCS. These costs should be necessary and reasonable for the proper administration of KCSCS.

Action Taken: Shared STAR Transit and Kaufman County Senior Citizens Services administrative costs and personnel have been identified and allocated appropriately. The shared services and administrative costs are split between both parties at the time of payment, and the costs for shared personnel are split biweekly during payroll processing.

To help strengthen our monthly financial review process we have implemented a Monthly Post Closing Review Guide. The guide includes an acknowledgement that all balance sheet accounts have been properly reconciled and approved, all standard journal entries have been posted and approved, and all billing allocations have been properly processed and submitted.

STAR TRANSIT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Transportation</u>			
Passed Through Texas Department of Transportation			
Formula Grants for Other Than Urbanized Areas	20.509	51426F7202	\$ 355,909
Enhanced Mobility of Seniors and Individual with Disabilities	20.513	51526F7114	30,000
Total Passed Through Texas Department of Transportation			<u>385,909</u>
Passed Through North Central Texas Council of Governments			
Federal Transit_Formula Grants	20.507	NCTCOG	2,453,350
Job Access-Reverse Commute	20.516	NCTCOG	30,231
Total Passed Through North Central Texas Council of Governments			<u>2,483,581</u>
Total U.S. Department of Transportation			<u>2,869,490</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 2,869,490</u></u>

The accompanying notes are an integral part of this schedule.

STAR TRANSIT
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2015

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of STAR Transit 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.

Note 2 – Related Party Transactions

STAR Transit entered into a transportation contract with Kaufman County Senior Citizens (KCSCS) Services to provide transportation services to senior citizens of Kaufman, Rockwall and Navarro Counties to and from the senior center, medical facilities and shopping centers. At August 31, 2015, the amount of transportation revenue related to this contract is \$100,860.

KCSCS shares office, overhead expenses and employees with STAR Transit. Shared employees include the executive director, accounting and human resources. At year-end a receivable of \$40,935 had been accrued for shared employees and overhead costs.