

STAR TRANSIT

ANNUAL FINANCIAL AND COMPLIANCE REPORT

FOR THE YEAR ENDED AUGUST 31, 2013



GMS

CERTIFIED PUBLIC
ACCOUNTANTS

GEORGE | MORGAN | SNEED

STAR TRANSIT
Annual Financial Report
For the Year Ended August 31, 2013

TABLE OF CONTENTS

	<u>Page</u>
Principal Officials	1
Independent Auditor's Report	2 - 4
Management's Discussion and Analysis	5 - 8
Basic Financial Statements:	
Proprietary Fund Financial Statements	
Statement of Net Position – Proprietary Fund	9
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund	10
Statement of Cash Flows – Proprietary Fund	11
Notes to the Financial Statements	12 - 17
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	18 - 19
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	20 – 21
Schedule of Findings and Questioned Costs	22 – 23
Summary Schedule of Prior Audit Findings	24
Corrective Action Plan	25
Schedule of Expenditures of Federal Awards	26
Notes to the Schedule of Expenditures of Federal Awards	27

STAR TRANSIT

BOARD OF DIRECTORS

YEAR ENDED AUGUST 31, 2013

PRESIDENT

Roy Ferrell

VICE-PRESIDENT

Carlton Tidwell

SECRETARY

Lee Ayres

BOARD MEMBER

David Magness

EXECUTIVE DIRECTOR

Omega Hawkins

COMPTROLLER

David Mojica, Jr.

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, 2013, 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.

Opinion

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, 2013, 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.

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 5 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 January 28, 2014, on our consideration of the 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.



Weatherford, Texas

January 28, 2014

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, 2013. We encourage readers to consider the information presented here.

FINANCIAL HIGHLIGHTS

- The assets of STAR Transit exceeded its liabilities by \$5,458,269 (net position) for the current year reported. This compares to the previous year when assets exceeded liabilities by \$4,549,784.
- STAR Transit's total net position increased by \$908,485 for the current year reported. Net position in the previous year increased by \$1,497,418.
- Total capital assets (net of depreciation) were \$4,644,901 for the current year reported compared to \$4,209,635 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 9 through 11.

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 12 - 17 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 \$5,458,269 as of August 31, 2013.

The largest portion of STAR Transit's net position (85%) 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 and Navarro Counties; consequently, these assets are not available for future spending.

An additional portion of the District's net position (15%) represents unrestricted net position (\$813,368) represents resources that may be used to meet the government's ongoing obligations to creditors.

STAR Transit's net position increased \$908,485.

Total operating revenues increased \$655,323 (23%) from the previous year. The increase is primarily due to increase in contracted revenues by \$226,860, increase in operating grants and contributions by \$400,897 and increase in passenger revenues by \$27,566.

Total operating expenses increased \$430,871 (14%) from the previous year. The increase is largely due to increase in salaries, benefits and taxes by \$109,289, insurance increased \$23,037, advertising and marketing increased \$19,959, telephone and communication increased \$57,056, repairs and maintenance increased \$59,263, IT maintenance increased \$74,779, fuel and oil decreased \$14,631, planning expense increased \$20,000 and depreciation increased \$68,732.

Capital grants and contributions decreased \$795,643 primarily due to decrease in capital grant receipts by \$385,271 and in the previous year STAR Transit received donated vehicles valued at \$410,372.

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

	2013	2012
Current assets	\$ 1,350,138	\$ 470,960
Capital assets	4,644,901	4,209,635
Total assets	5,995,039	4,680,595
Liabilities:		
Current liabilities	536,770	130,811
	536,770	130,811
Net position		
Invested in capital assets	4,644,901	4,209,635
Unrestricted	813,368	340,149
Total net position	\$ 5,458,269	\$ 4,549,784

Changes in Net Position

	2013	2012
Operating revenues		
Passenger revenues	\$ 96,134	\$ 68,568
Contracted revenues	1,577,719	1,350,859
Operating grants and contributions	1,875,915	1,475,018
Total operating revenues	3,549,768	2,894,445
Operating expenses		
Transportation operations	3,565,247	3,134,376
Total operating expenses	3,565,247	3,134,376
Operating loss	(15,479)	(239,931)
Nonoperating revenues (expenses)		
Loss on disposal of capital assets	(41,020)	(28,826)
Interest expense	-	(5,124)
Miscellaneous revenues	13,494	24,166
Total nonoperating revenues (expenses)	(27,526)	(9,784)
Income (loss) before capital grants and contributions	(43,005)	(249,715)
Capital grants and contributions	951,490	1,747,133
Change in net position	908,485	1,497,418
Net position at beginning of year	4,549,784	3,052,366
Net position at end of year	\$ 5,458,269	\$ 4,549,784

Capital Assets

STAR Transit's investment in capital assets for its *proprietary* fund as of August 31, 2013, amounts to \$4,644,901 (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:

- Improvements to the Operation Complex for total cost of \$128,469.
- Purchased server, software, projector and card access security system for total cost of \$116,497.
- Acquired twelve buses for total cost of \$706,524.

STAR Transit's Capital Assets (Net of Depreciation)

	2013	2012
Building and improvements	\$ 1,390,475	\$ 1,297,483
Office furniture and equipment	512,342	545,367
Vehicles	2,742,084	2,366,785
Work in progress	-	-
Total	\$ 4,644,901	\$ 4,209,635

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

This is a year we will look back and describe as a transformation year. The year STAR Transit made the next step to be a totally professional transportation system. The change is not complete. It will be a venture in motion for the next few years, but a giant step has been made.

The hiring of a Comptroller for the new Business Office and the ongoing steps to move to accrual accounting and usage of purchase orders are just some of the various steps this agency has taken. Accrual accounting and the use of purchase order form will start September 1, 2013.

Other departments are being designed. During the budget process, each department has been given its own budget. During this transformational year we will have departments that are not fully staffed but have expenses. These will be the future departments STAR Transit will need.

The STAR Transit staff was given the direction of designing a step program to attract future drivers and retain current drivers. The 2014 budget will raise the starting salary from \$8.90 to \$10.00 per hour. This step program will allow a driver to be in control of improving his/her compensation by taking steps in the development of going from driver to a senior operator.

As we raise the starting pay of the drivers, the review of the compensation and appropriate adjustments for the entire staff of STAR Transit will be required. Certifying the suitable distance of staff and the adjusted duties are mirrored in salary. Allowing for not only raising the beginning pay for the drivers but this procedure identified the situation of some of the supervisors' compensation. These adjustments allow STAR Transit to compete in the market for employees.

The future looks good. The needs study identified directions STAR Transit can proceed. The City of Terrell has reopened the conversation concerning the land and local support STAR Transit will need to grow on industrial, and the possibility of adding STAR Transit to the city's budget (in talks). The City of Forney is also discussing possibly adding STAR Transit to the city's budget. STAR Transit has requested local support in the past, but this year they came to us to talk about transportation. The need for a covered and secured property in Rockwall is reaching the top of the list of internal needs STAR Transit has identified. The staff has written a grant to work with the Kaufman Hospital, and the "emergency room" in Forney contacted STAR Transit to work on needs they have identified.

Outside of our existing service area also looks as if the future could be very positive for STAR Transit. STAR Transit is encouraged by funding sources to enhance our service area and make available service in areas surrounding STAR Transit.

With the encouragement of the STAR Transit Board and funding sources remaining the same as in the past, the size of STAR Transit as a professional transit system will be obvious in the future.

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, 2013

ASSETS

Current Assets:

Cash	\$ 204,170
Receivables (Net of allowances for uncollectibles):	
Accounts receivable - Trade	182,733
Accounts receivable - KCSCSI	27,220
Grants	813,139
Prepaid expense	122,876
Total current assets	1,350,138

Noncurrent Assets

Capital assets (net of accumulated depreciation):

Building and improvements	1,390,475
Office furniture and equipment	512,342
Vehicles	2,742,084
Capital assets, net	4,644,901

Total Assets	\$ 5,995,039
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LIABILITIES

Current Liabilities:

Accounts payable	418,518
Payroll liabilities	14,907
Accrued expenses	103,345
Total current liabilities	536,770

NET POSITION

Net investment in capital assets	4,644,901
Unrestricted net position	813,368
Total net position	\$ 5,458,269

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, 2013

Operating revenues		
Passenger revenues	\$ 96,134	
Contracted revenues	1,577,719	
Operating grants and contributions	1,875,915	
Total operating revenues	<u>3,549,768</u>	
Operating expenses		
Salaries	1,441,514	
Employee benefits	185,733	
Payroll taxes	121,810	
Dues and subscriptions	5,991	
Training and education	12,206	
Utilities	26,871	
Insurance	57,196	
Licensing/toll tags	2,746	
Travel	1,954	
Office expense	24,172	
Advertising and marketing	33,691	
Telephone and communication	132,303	
Legal and professional fees	14,900	
Repairs and maintenance	209,740	
IT maintenance	157,946	
Fuel and oil	639,451	
Pre-employment, physical and drug testing	5,717	
Planning	20,000	
Other	2,102	
Depreciation	469,204	
Total operating expenses	<u>3,565,247</u>	
Operating loss	<u>(15,479)</u>	
Nonoperating revenues (expenses)		
Loss on disposal of capital assets	(41,020)	
Miscellaneous revenues	13,494	
Total nonoperating revenues (expenses)	<u>(27,526)</u>	
Income (loss) before capital grants and contributions	<u>(43,005)</u>	
Capital grants and contributions		
Capital grants and contributions	<u>951,490</u>	
Change in net position	908,485	
Net position at beginning of year	<u>4,549,784</u>	
Net position at end of year	<u><u>\$ 5,458,269</u></u>	

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, 2013

Cash flows from operating activities:	
Cash received from customers	\$ 2,918,925
Cash payments to suppliers for goods and services	(1,604,721)
Cash paid to employees	<u>(1,396,025)</u>
Net cash used by operating activities	<u>(81,821)</u>
Cash flow from capital and related financing activities:	
Purchase of capital assets	(763,704)
Capital grants received	951,490
Proceeds from disposal of capital assets	<u>6,000</u>
Net cash provided by capital and related financing activities	<u>193,786</u>
Cash flow from noncapital financing activities:	
Miscellaneous receipts	<u>13,494</u>
Net cash provided by noncapital financing activities	<u>13,494</u>
Net increase in cash and cash equivalents	125,459
Cash and cash equivalents, September 1	<u>78,711</u>
Cash and cash equivalents, August 31	<u>\$ 204,170</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating loss	<u>\$ (15,479)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	469,204
(Increase) decrease in accounts receivable	(107,440)
(Increase) decrease in grants receivable	(523,403)
(Increase) decrease in prepaid expense	(122,876)
Increase (decrease) in accounts payable	163,572
Increase (decrease) in payroll liabilities	9,112
Increase (decrease) in accrued expenses	45,489
Total adjustments	<u>(66,342)</u>
Net cash used by operating activities	<u>\$ (81,821)</u>

The notes to the financial statements are an integral part of this statement.

STAR TRANSIT
Notes to the Financial Statements
August 31, 2013

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 62% of STAR Transit's 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 proprietary fund.

- 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, 2013

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	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, 2013, 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, 2013

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, 2013, STAR Transit's retirement expense was \$20,555.

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, 2013, STAR Transit did not own any types of securities other than those permitted by statute.

STAR TRANSIT
Notes to the Financial Statements
August 31, 2013

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, 2013, \$20,718 of Star Transit's bank balance of \$270,718 was exposed to custodial credit risk.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Depreciable Assets:				
Building and improvements	\$ 1,424,992	\$ 128,469	\$ -	\$ 1,553,461
Office furniture and equipment	996,447	116,497	(154,392)	958,552
Vehicles	<u>3,195,567</u>	<u>706,524</u>	<u>(117,829)</u>	<u>3,784,262</u>
Total capital assets being depreciated	<u>5,617,006</u>	<u>951,490</u>	<u>(272,221)</u>	<u>6,296,275</u>
Accumulated depreciation:				
Building and improvements	(127,509)	(35,477)		(162,986)
Office furniture and equipment	(451,080)	(109,770)	114,640	(446,210)
Vehicles	<u>(828,782)</u>	<u>(323,957)</u>	<u>110,561</u>	<u>(1,042,178)</u>
Total accumulated depreciation	<u>(1,407,371)</u>	<u>(469,204)</u>	<u>225,201</u>	<u>(1,651,374)</u>
Business-type activities capital assets, net	<u>\$ 4,209,635</u>	<u>\$ 482,286</u>	<u>\$ (47,020)</u>	<u>\$ 4,644,901</u>

Depreciation expense charged to public transportation was \$469,204.

STAR TRANSIT
Notes to the Financial Statements
August 31, 2013

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 in 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.

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 and Rockwall 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, 2013

NOTE 9 – RELATED PARTY TRANSACTION

STAR Transit entered into a transportation contract with Kaufman County Senior Citizens Services, Inc. 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, 2013, the amount of transportation revenue related to this contract is \$39,212.

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 – SUBSEQUENT EVENTS

STAR Transit has evaluated subsequent events through January 28, 2014, 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, 2013, 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 January 28, 2014.

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. However, material weaknesses may exist that have not been identified.

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 with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Weatherford, Texas
January 28, 2014



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH 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, 2013. 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, 2013.

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.

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 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 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.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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.



Weatherford, Texas
January 28, 2014

STAR TRANSIT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2013

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiency(s) identified that are not considered to be material weaknesses? Yes X No

Noncompliance material to financial statements noted Yes X No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiency(s) identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.507*	Federal Transit_Formula Grants
20.500*	Federal Transit_Capital Investment Grants

* Transit Services Program Cluster

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

Auditee qualified as low-risk auditee? X Yes No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

STAR TRANSIT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED AUGUST 31, 2013

None

STAR TRANSIT
CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2013

Federal Award Finding

None

STAR TRANSIT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2013

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	51318F7204	\$ 290,385
Formula Grants for Other Than Urbanized Areas	20.509	51118F7103	6,959
Formula Grants for Other Than Urbanized Areas	20.509	51218F7221	569,712
Total CFDA Number 20.509			<u>867,056</u>
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	51318F7147	302,000
Federal Transit_Capital Investment Grants	20.500	51318F7123	178,506
Job Access-Reverse Commute	20.516	51118F7113	106,594
Total Passed Through Texas Department of Transportation			<u>1,454,156</u>
Passed Through North Central Texas Council of Governments			
Federal Transit-Formula Grants	20.507	POP	576,746
ARRA-Federal Transit-Formula Grants	20.507	ARRA	230,135
Total CFDA Number 20.507			<u>806,881</u>
Job Access-Reverse Commute	20.516	NCTCOG	162,407
New Freedom Program	20.521	NCTCOG	27,921
Total Passed Through North Central Texas Council of Governments			<u>997,209</u>
Total U.S. Department of Transportation			<u>2,451,365</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 2,451,365</u></u>

STAR TRANSIT
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2013

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.



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To the Board of Directors
STAR Transit
Terrell, Texas

In planning and performing our audit of the financial statements of the STAR Transit for the year ended August 31, 2013; we considered the STAR Transit's internal control 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.

However, during our audit we became aware of matters that are an opportunity for strengthening internal control and operating efficiency. This letter does not affect our report dated January 28, 2014, on the financial statements of the STAR Transit. The following summarizes our comment and recommendation.

Prior Year Comment

Bank Reconciliation

Comment:

We noted that monthly bank reconciliation statements for the months of March to August 2012 were not prepared in a timely manner.

Recommendation:

We recommend management consider implementing controls to ensure the preparation of monthly bank reconciliation statement is prepared in a timely manner.

Current Year Observation:

Bank accounts are now reconciled in a timely manner.

Current Year Comment

Custodial Credit Risk for Deposits

Comment:

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

George, Morgan & Sneed, P.C.

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

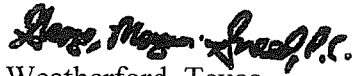
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and invested under the terms of a depository contract. STAR Transit's deposits are required to be collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") Insurance. At August 31, 2013, \$20,718 of Star Transit's bank balance of \$270,718 was exposed to custodial credit risk.

Recommendation:

We recommend management consider implementing controls to ensure that deposits are adequately secured.

This report is intended solely for the information and use of the Board of Directors of STAR Transit and management and is not intended to be and should not be used by anyone other than these specified parties.



Weatherford, Texas

January 28, 2014

January 28, 2014

To the Board of Directors
Star Transit

We have audited the financial statements of STAR Transit for the year ended August 31, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated July 25, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by STAR Transit 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 STAR Transit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached list of misstatements detected as a result of audit procedures were corrected by management.

Disagreements with Management

For purposes of this letter, a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, 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.

George, Morgan & Sneed, P.C.

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 28, 2014.

Management Consultation with Other Independent Accountants

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.

Other Audit Findings or Issues

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

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Director and management of STAR Transit, and is not intended to be, and should not be used by anyone other than these specified parties.

Very truly yours,



GEORGE, MORGAN & SNEED, P.C.