

STAR TRANSIT

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

For the Year Ended August 31, 2016

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YELDELL, WILSON, WOOD & REEVE, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Greer Yeldell, CPA | Glen Wilson, CPA | Tracie Wood, CPA | Joyce Reeve, CPA
Glenda Valek, CPA | Caitlyn Keller, CPA

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, 2016, and the related notes to the financial statements, which collectively comprise STAR Transit's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of STAR Transit, as of August 31, 2016, 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.

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 4-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise STAR Transit's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is 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 relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards 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 14, 2017, on our consideration of STAR Transit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering STAR Transit's internal control over financial reporting and compliance.



Yeldell, Wilson, Wood & Reeve, P.C.
Certified Public Accountants

Ennis, Texas
February 14, 2017

STAR TRANSIT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of STAR Transit, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2016.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$5,284,700 (net position). Of this amount, \$229,054 (unrestricted net position) may be used to meet the government's ongoing obligations to customers and creditors.
- The District's total net position decreased by \$353,613.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The District's financial statements are comprised of two components: 1) fund financial statements and 2) notes to the financial statements.

Basic Financial Statements. The financial statements are designed to provide readers with an overview of the District's finances, in a manner similar to private-sector businesses, using the accrual basis of accounting.

The Statement of Net Position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Revenues, Expenses, and Change in Net Position shows the revenue sources and expenses and reflects the net change in position for the fiscal year. This statement can be used to determine whether the District has recovered all of its actual and projected costs through passenger fees and other charges.

The Statement of Cash Flows provides information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities.

The basic financial statements can be found on pages 8-10 of this report.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to financial statements can be found on pages 11-17 of this report.

FINANCIAL ANALYSIS OF THE ENTITY

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$5,284,700 as of August 31, 2016.

A large portion of the District's net position (96%) reflects its investments in capital assets (e.g., building and improvements, office furniture and equipment, and vehicles). The District uses these capital assets to provide service to customers; consequently these assets are not available for future spending.

STAR TRANSIT'S NET POSITION

	2016	2015
Current and other assets	\$ 783,657	\$ 853,938
Capital assets	5,055,646	5,571,821
Total assets	<u>5,839,303</u>	<u>6,425,759</u>
Other liabilities	554,603	787,446
Total liabilities	<u>554,603</u>	<u>787,446</u>
Net position:		
Net investment in capital assets	5,055,646	5,571,821
Unrestricted	229,054	66,492
Total net position	<u>\$ 5,284,700</u>	<u>\$ 5,638,313</u>

Certain reclassifications have been made to the prior year data to conform with the current year presentation and reflect adjustments to prior year data.

The remaining balance of unrestricted net position, \$229,054, may be used to meet the District's ongoing obligation to customers and creditors.

At the end of the current fiscal year, the District is able to report positive balances in both categories of net position.

The following table provides a summary of the District's operations. The District's operations decreased net position by \$353,613 in the current year.

STAR TRANSIT'S CHANGE IN NET POSITION

	2016	2015
Revenues:		
Operating	\$ 5,486,032	\$ 4,827,519
Total revenues	5,486,032	4,827,519
Expenses:		
Depreciation and amortization	971,119	802,327
Other operating	5,362,812	5,182,199
Nonoperating	533,556	172,106
Total expenses	6,867,487	6,156,632
Income (loss) before capital contributions	(1,381,455)	(1,329,113)
Capital contributions	1,027,842	1,920,321
Changes in net position	(353,613)	591,208
Net position - beginning, as restated	5,638,313	5,047,105
Net position - ending	\$ 5,284,700	\$ 5,638,313

Certain reclassifications have been made to the prior year data to conform with the current year presentation and reflect adjustments to prior year data.

CAPITAL ASSETS

The District's investment in capital assets as of August 31, 2016 amounts to \$5,055,646 (net of accumulated depreciation).

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

- Approximately \$902,000 of new vehicles were purchased.
- Disposal of approximately \$1,407,000 of vehicles.

Capital Assets at Year-End Net of Accumulated Depreciation

	2016	2015
Buildings and improvements	\$ 1,720,968	\$ 1,628,890
Office furniture and equipment	407,906	570,413
Vehicles	2,926,772	3,372,518
Total	\$ 5,055,646	\$ 5,571,821

Additional information on the District's capital assets can be found in note 2.B on page 15 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In the 2017 budget, operating revenues are budgeted to increase by 8% from the 2016 budget year with contracted revenues and operating grants making up about 84% of budgeted revenues. The District's rates for contracted services and grant awards are reviewed by staff and the Board of Directors on an annual basis.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government'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 South Virginia, Terrell, Texas 75160.

STAR TRANSIT
STATEMENT OF NET POSITION
August 31, 2016

ASSETS

Current assets:

Cash	\$ 43,782
Receivables (net of allowance for uncollectibles)	121,475
Due from other governments	617,425
Prepaid items	975
Total current assets	<u>783,657</u>

Noncurrent assets:

Capital assets:

Non-depreciable	
Depreciable (net of accumulated depreciation)	<u>5,055,646</u>
Total noncurrent assets	<u>5,055,646</u>
Total assets	<u>5,839,303</u>

LIABILITIES

Current liabilities:

Accounts payable	243,509
Payroll taxes payable	26,404
Accrued expenses	202,690
Note payable	82,000
Total current liabilities	<u>554,603</u>

NET POSITION

Net investment in capital assets	5,055,646
Unrestricted	<u>229,054</u>
Total net position	<u>\$ 5,284,700</u>

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

STAR TRANSIT
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
For the Year Ended August 31, 2016

OPERATING REVENUES

Passenger revenues	\$ 179,231
Contracted revenues	1,536,811
Intergovernmental revenues	842,148
Operating grants	2,899,200
Other	28,642
Total operating revenues	5,486,032

OPERATING EXPENSES

Payroll	2,913,729
Payroll taxes	226,744
Employee benefits	359,343
Insurance	113,942
Advertising and marketing	59,579
Community programs	7,763
Depreciation	971,119
Fuel and oil	592,560
IT license and maintenance	231,990
Legal and professional fees	74,678
Office expense	71,043
Other	58,812
Pre-employment, physical and drug testing	14,628
Telephone and communication	243,858
Training and education	5,658
Vehicle repairs and maintenance	388,485
Total operating expenses	6,333,931

OPERATING INCOME (LOSS) (847,899)

NONOPERATING REVENUES (EXPENSES)

Loss on disposal of capital assets	(526,703)
Interest	(6,853)
Total nonoperating revenues (expenses)	(533,556)

INCOME (LOSS) BEFORE CONTRIBUTIONS (1,381,455)

Capital contributions 1,027,842

CHANGE IN NET POSITION (353,613)

TOTAL NET POSITION, BEGINNING, as restated 5,638,313

TOTAL NET POSITION, ENDING \$ 5,284,700

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

STAR TRANSIT
STATEMENT OF CASH FLOWS
For the Year Ended August 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Received from providing services	\$ 2,581,848
Received from operating grants	2,860,109
Payments to suppliers	(2,049,378)
Payments to employees	(3,477,828)
Net cash provided by (used for) operating activities	<u>(85,249)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Proceeds from note payable	111,000
Interest paid on note payable	(6,853)
Principal paid on note payable	(157,000)
Net cash provided by (used for) noncapital financing activities	<u>(52,853)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition of capital assets	(18,273)
Proceeds from the disposal of capital assets	64,467
Net cash provided by (used for) capital and related financing activities	<u>46,194</u>

NET INCREASE IN CASH (91,908)

Cash September 1 135,690

Cash August 31 \$ 43,782

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

Operating income (loss)	\$ (847,899)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation and amortization	971,119
(Increase) decrease in accounts receivable	130,329
(Increase) decrease in due from other governments	(174,404)
(Increase) decrease in prepaid items	22,449
Increase (decrease) in accounts payable	(236,344)
Increase (decrease) in payroll taxes payable	26,261
Increase (decrease) in accrued expenses	23,240
Total adjustments	<u>762,650</u>
Net cash provided by (used for) operating activities	<u>\$ (85,249)</u>

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Contribution of capital assets	<u>\$ 1,027,842</u>
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The notes to financial statements are an integral part of this statement.

STAR TRANSIT
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

STAR Transit (the "District") was established in 1988 to provide public transportation. The District became a political subdivision in 2002 created under the Interlocal Corporation Act of 1971, operating as a rural transit District, as set forth in Chapter 458 of the Texas Transportation Code. The basic operations of the District are financed primarily by Federal Transit Administration and Texas Department of Transportation funds. Approximately 52.85% of the District's operating revenues came from federal and state grants.

Accounting principles generally accepted in the United States of America require that this financial statement present the District (the primary government) and its component units. Component units generally are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both the following criteria; the primary government is accountable for the potential component unit (i.e., the primary government appoints the voting majority of its board) and the primary government is able to impose its will upon the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government. The District does not have any component units that meet these criteria.

As a political subdivision of the State of Texas, the District is exempt from federal income taxes, state and local sales and use taxes, and local real and personal property taxes. The District has no taxing authority.

B. Measurement focus, basis of accounting, and basis of presentation

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Government entities included: All activities over which the Board of Directors exercises control and has fiscal responsibility and control are included in the financial statements.

Fund accounting: The accounts of the District are organized on the basis of funds. The District has a single fund - the transportation fund. It is an enterprise fund, which is a proprietary fund type. An enterprise fund is used to account for operations (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees charged from the activity; or (ii) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation and debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation and debt service).

STAR TRANSIT
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement focus, basis of accounting, and basis of presentation (continued)

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred outflows of resources associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) are segregated into net investment in capital assets and unrestricted components.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operation. The principal operating revenues are charges to customers for transportation services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources, as they are needed.

C. Assets, liabilities, and net position

1. Cash

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

2. Investments

Investments maturing more than three months from the date acquired are classified as investments held to maturity. Investments for the District are reported at fair value.

3. Receivables

All trade receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of sixty days typically comprise the trade accounts receivable allowance for uncollectibles. No allowance has been recorded as management considers all receivables collectible.

STAR TRANSIT
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, liabilities, and net position (continued)

4. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Capital assets

Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Capital asset classes	Lives
Buildings and improvements	40-45
Office furniture and equipment	3-7
Vehicles	3-10

6. Compensated absences

Employees are granted vacation leave based on hours accrued. Vacation leave earned within a calendar year carries over into the next year. Vacation leave begins to accrue at the time of hire. Vacation leave is accrued when earned.

7. Net position

Net position comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

STAR TRANSIT
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Assets, liabilities, and net position (continued)

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES

A. Deposits

Custodial credit risk-deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. At year end, the District's bank balance was \$103,315, all of which was covered by federal depository insurance.

STAR TRANSIT
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2016

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES (continued)

B. Capital assets

Capital asset activity for the year ended August 31, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 1,867,961	\$ 140,365	\$ -	\$ 2,008,326
Office furniture and equipment	1,039,334	4,029	-	1,043,363
Vehicles	4,884,760	901,721	(1,406,607)	4,379,874
Total capital assets being depreciated	<u>7,792,055</u>	<u>1,046,115</u>	<u>(1,406,607)</u>	<u>7,431,563</u>
Less accumulated depreciation for:				
Buildings and improvements	(239,071)	(48,287)	-	(287,358)
Office furniture and equipment	(468,921)	(166,536)	-	(635,457)
Vehicles	(1,512,242)	(756,296)	815,436	(1,453,102)
Total accumulated depreciation	<u>(2,220,234)</u>	<u>(971,119)</u>	<u>815,436</u>	<u>(2,375,917)</u>
Total capital assets being depreciated, net	5,571,821	74,996	(591,171)	5,055,646
Capital assets, net	<u>\$ 5,571,821</u>	<u>\$ 74,996</u>	<u>\$ (591,171)</u>	<u>\$ 5,055,646</u>

C. Other significant commitments

The District leases a tract of land from a local government for a storage facility for its transportation vehicles that expires on May 30, 2028, but can be cancelled at any point with a thirty day notice. The lease requires annual payments of \$5,200. The total lease payments for the year ended August 31, 2016 was \$5,200.

The District leases a tract of land from Union Pacific Railroad that expires in 2019, but can be cancelled at any point with a thirty day notice. The lease requires annual payments of \$300. The total lease payments for the year ended August 31, 2016 was \$300.

D. Economic dependence

The District's primary source of revenues and contributions is from U.S. Department of Transportation and Texas Department of Transportation funds. Due to the concentration of support from federal and state funds, the District 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 the District's ability to continue to provide transportation services at the current level.

STAR TRANSIT
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2016

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES (continued)

E. Risk management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not materially exceeded this commercial coverage in any of the past three fiscal years.

F. Related party transactions

STAR Transit has two contracts with Senior Connect in which STAR Transit provides transportation for Senior Connect. The current year revenue for the two contracts was \$111,079. As of August 31, 2016, \$15,065 has not been collected and is included in receivables in the statement of net position.

G. Short-term liabilities

Note payable

The District has an unsecured \$200,000 revolving line of credit with a bank to help meet working capital needs while waiting for grant reimbursements. Interest is due monthly at a variable rate equal to WSJ Prime rate plus 2.00 percent, with all principal due on March 13, 2017. At August 31, 2016, \$82,000 was outstanding on this line of credit.

The following is a summary of changes in the note payable for the year ended August 31, 2016:

Balance, September 1, 2015	\$ 128,000
Increases	111,000
Decreases	<u>(157,000)</u>
Balance, August 31, 2016	<u><u>\$ 82,000</u></u>

H. Retirement plan

The District 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. The District contributes 100% of the first 5% of compensation contributed to the plan. At August 31, 2016, The District's retirement expense was \$30,045.

STAR TRANSIT
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2016

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES (continued)

I. Subsequent events

Subsequent to year end, the District:

- Purchased a vehicle for approximately \$30,000.
- Began participating in the Texas Counties and Districts Retirement System.

J. Prior period adjustment

Corrections have been made to the beginning net position due to an understatement of assets and net position in the prior period. The changes to the beginning net position as of September 1, 2015 are summarized as follows:

	<u>Financial Statements</u>
As previously reported, September 1, 2015	\$ 5,625,624
Correct understatement of receivables	12,689
Restated, September 1, 2015	<u>\$ 5,638,313</u>

The above adjustment had no effect on the prior year change in net position.

SINGLE AUDIT SECTION

STAR TRANSIT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2016

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures
U.S. Department of Transportation:			
Pass-through Texas Department of Transportation:			
Formula Grants for Rural Areas	20.509	TX-18-X039	\$ 654,426
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	TX-16-X030	9,450
Total passed through Texas Department of Transportation			<u>663,876</u>
Pass-through North Central Texas Council of Governments:			
Federal Transit - Formula Grants	20.507	NCTCOG	1,307,698
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	NCTCOG	470,944
Job Access and Reverse Commute Program	20.516	NCTCOG	112,268
Total passed through North Central Texas Council of Governments			<u>1,890,910</u>
Total U.S. Department of Transportation			<u>2,554,786</u>
Total expenditures of federal awards			<u><u>\$ 2,554,786</u></u>

STAR TRANSIT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
August 31, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of STAR Transit under programs of the federal government for the year ended August 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of STAR Transit, it is not intended to and does not present the financial position, changes in net assets, or cash flows of STAR Transit.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

STAR Transit has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

STAR TRANSIT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended August 31, 2016

DEPARTMENT OF TRANSPORTATION

FINDING 2015-001: Federal Transit-Formula Grants.

Condition: STAR Transit under allocated \$40,934 of office and administrative costs to a commonly managed organization. As a result, the program reimbursement requested and received by STAR Transit was overstated by \$11,220.

Recommendation: The auditor recommended that STAR Transit management develop procedures for identifying and allocating administrative costs related to the operations of the commonly managed organization. These costs should be necessary and reasonable for the proper administration of the commonly managed organization.

Current Status: The recommendation was implemented for the fiscal year 2016. No similar findings were noted in the 2016 audit.

FINDING 2015-002: Formula Grants for Other Than Urbanized Areas.

Condition: STAR Transit under allocated \$40,934 of office and administrative costs to a commonly managed organization. As a result, the program reimbursement requested and received by STAR Transit was overstated by \$16,146.

Recommendation: The auditor recommended that STAR Transit management develop procedures for identifying and allocating administrative costs related to the operations of the commonly managed organization. These costs should be necessary and reasonable for the proper administration of the commonly managed organization.

Current Status: The recommendation was implemented for the fiscal year 2016. No similar findings were noted in the 2016 audit.



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
Terrell, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of STAR Transit, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise STAR Transit's basic financial statements and have issued our report thereon dated February 14, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District'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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Yeldell, Wilson, Wood & Reeve, P.C.

Yeldell, Wilson, Wood & Reeve, P.C.
Certified Public Accountants

Ennis, Texas
February 14, 2017



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
STAR Transit
Terrell, Texas

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 Compliance Supplement* that could have a direct and material effect on each of STAR Transit's major federal programs for the year ended August 31, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

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 and report on internal control over compliance in accordance with the Uniform Guidance, 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 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.

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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Yeldell, Wilson, Wood & Reeve, P.C.
Certified Public Accountant

Ennis, Texas
February 14, 2017

STAR TRANSIT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2016

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of STAR Transit were prepared in accordance with GAAP.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of STAR Transit, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies related to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for STAR Transit expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The programs tested as a major program were:

20.507 Federal Transit - Formula Grants
8. The threshold used to distinguish between Type A and Type B programs was \$750,000.
9. STAR Transit did qualify as a low-risk auditee.

FINDINGS - FINANCIAL STATEMENTS AUDIT

None

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS AUDIT

None