

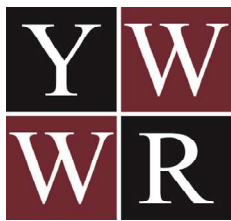
***STAR TRANSIT***

FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT

For the Year Ended August 31, 2017

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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, 2017, 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, 2017, and the respective changes in financial position, and cash flows thereof for the year 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 and schedule of contributions on page 21 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 12, 2018, 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.

A handwritten signature in blue ink that reads "Yeldell, Wilson, Wood & Reeve, P.C.".

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

Ennis, Texas  
February 12, 2018

## **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, 2017.

#### **FINANCIAL HIGHLIGHTS**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$6,679,630 (net position). Of this amount, \$755,984 (unrestricted net position) may be used to meet the government's ongoing obligations to customers and creditors.
- The District's total net position increased by \$1,394,930.

#### **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 11-19 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the District's progress in funding its obligations to provide pension benefits to its employees. Required supplementary information can be found on pages 20-21 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 \$6,679,630 as of August 31, 2017.

A large portion of the District's net position (88%) 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.

An additional portion of the District's net position (0.3%) represents resources that are subject to external restriction on how they may be used.

### **STAR TRANSIT'S NET POSITION**

	<b>2017</b>	<b>2016</b>
Current and other assets	\$ 1,730,545	\$ 783,657
Capital assets	5,903,756	5,055,646
Total assets	<u>7,634,301</u>	<u>5,839,303</u>
Deferred Outflows of Resources	<u>49,584</u>	<u>-</u>
Other liabilities	<u>1,004,255</u>	<u>554,603</u>
Total liabilities	<u>1,004,255</u>	<u>554,603</u>
Net position:		
Net investment in capital assets	5,903,756	5,055,646
Restricted	19,890	-
Unrestricted	755,984	229,054
Total net position	<u>\$ 6,679,630</u>	<u>\$ 5,284,700</u>

The remaining balance of unrestricted net position, \$755,984, 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 all three categories of net position.

The following table provides a summary of the District's operations. The District's operations increased net position by \$1,394,930 in the current year.

## STAR TRANSIT'S CHANGE IN NET POSITION

	<u>2017</u>	<u>2016</u>
Revenues:		
Operating	\$ 6,007,206	\$ 5,486,032
Total revenues	<u>6,007,206</u>	<u>5,486,032</u>
Expenses:		
Depreciation and amortization	964,871	971,119
Other operating	5,479,848	5,362,812
Nonoperating	31,057	533,556
Total expenses	<u>6,475,776</u>	<u>6,867,487</u>
Income (loss) before capital contributions	(468,570)	(1,381,455)
Capital contributions	<u>1,863,500</u>	<u>1,027,842</u>
Changes in net position	1,394,930	(353,613)
Net position - beginning, as restated	<u>5,284,700</u>	<u>5,638,313</u>
Net position - ending	<u><u>\$ 6,679,630</u></u>	<u><u>\$ 5,284,700</u></u>

### CAPITAL ASSETS

The District's investment in capital assets as of August 31, 2017 amounts to \$5,903,756 (net of accumulated depreciation).

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

- Received donation of approximately \$1,863,500 of new vehicles.
- Disposal of approximately \$187,000 of vehicles.

### Capital Assets at Year-End Net of Accumulated Depreciation

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 1,671,711	\$ 1,720,968
Office furniture and equipment	267,824	407,906
Vehicles	3,964,221	2,926,772
Total	<u><u>\$ 5,903,756</u></u>	<u><u>\$ 5,055,646</u></u>

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 2018 budget, operating revenues are budgeted to increase by 4% from the 2017 budget year with contracted revenues and operating grants making up about 98% 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, 2017

**ASSETS**

Current assets:

Cash	\$ 217,699
Receivables (net of allowance for uncollectibles)	198,838
Due from other governments	1,313,333
Prepaid items	675
Total current assets	<u>1,730,545</u>

Noncurrent assets:

Capital assets:

Depreciable (net of accumulated depreciation)	<u>5,903,756</u>
Total noncurrent assets	<u>5,903,756</u>
Total assets	<u>7,634,301</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Contributions subsequent to the measurement date	<u>49,584</u>
Total deferred outflows of resources	<u>49,584</u>

**LIABILITIES**

Current liabilities:

Accounts payable	748,224
Payroll taxes payable	138
Accrued expenses	<u>255,893</u>
Total current liabilities	<u>1,004,255</u>
Total liabilities	<u>1,004,255</u>

**NET POSITION**

Net investment in capital assets	5,903,756
Restricted for:	
Capital transit project	19,890
Unrestricted	<u>755,984</u>
Total net position	<u>\$ 6,679,630</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, 2017

**OPERATING REVENUES**

Passenger revenues	\$ 153,379
Contracted revenues	1,489,147
Intergovernmental revenues	1,158,660
Operating grants	3,193,170
Other	12,850
Total operating revenues	<u>6,007,206</u>

**OPERATING EXPENSES**

Payroll	3,054,556
Payroll taxes	217,365
Employee benefits	447,380
Insurance	98,978
Advertising and marketing	105,574
Community programs	12,889
Depreciation	964,871
Fuel and oil	580,390
IT license and maintenance	188,078
Legal and professional fees	23,569
Office expense	82,777
Other	41,785
Pre-employment, physical and drug testing	14,113
Telephone and communication	204,026
Training and education	23,090
Vehicle repairs and maintenance	385,278
Total operating expenses	<u>6,444,719</u>

OPERATING INCOME (LOSS)	(437,513)
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**NONOPERATING REVENUES (EXPENSES)**

Loss on disposal of capital assets	(29,135)
Interest	(1,922)
Total nonoperating revenues (expenses)	<u>(31,057)</u>

INCOME (LOSS) BEFORE CONTRIBUTIONS	(468,570)
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Capital contributions	<u>1,863,500</u>
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CHANGE IN NET POSITION	1,394,930
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TOTAL NET POSITION, BEGINNING	<u>5,284,700</u>
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TOTAL NET POSITION, ENDING	<u><u>\$ 6,679,630</u></u>
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The notes to financial statements are an integral part of this statement.

**STAR TRANSIT**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended August 31, 2017

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from providing services	\$ 2,736,673
Received from operating grants	2,497,262
Payments to suppliers	(1,358,999)
Payments to employees	(3,638,481)
Net cash provided by (used for) operating activities	<u>236,455</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Proceeds from note payable	191,769
Interest paid on note payable	(1,922)
Principal paid on note payable	(273,769)
Net cash provided by (used for) noncapital financing activities	<u>(83,922)</u>

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

Proceeds from the disposal of capital assets	21,384
Net cash provided by (used for) capital and related financing activities	<u>21,384</u>

NET INCREASE IN CASH 173,917

Cash September 1 43,782

Cash August 31 \$ 217,699

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

Operating income (loss)	\$ (437,513)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation and amortization	964,871
(Increase) decrease in accounts receivable	(77,196)
(Increase) decrease in due from other governments	(695,908)
(Increase) decrease in due from related party	(167)
(Increase) decrease in prepaid items	300
(Increase) decrease in contributions subsequent to the measurement date	(49,584)
Increase (decrease) in accounts payable	504,715
Increase (decrease) in payroll taxes payable	(26,266)
Increase (decrease) in accrued expenses	53,203
Total adjustments	<u>673,968</u>
Net cash provided by (used for) operating activities	<u><u>\$ 236,455</u></u>

**NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES**

Contribution of capital assets	<u><u>\$ 1,863,500</u></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, 2017

**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 53.29% 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, 2017

**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, deferred outflows of resources, 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, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Assets, deferred outflows of resources, 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

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

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

**6. Deferred outflows of resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources reported in this year's financial statements include a deferred outflow of resources for contributions made to the District's defined benefit plan between the measurement date of the net pension liabilities from that plan and the end of the District's fiscal year. Deferred outflows for pension contributions will be recognized in the subsequent fiscal year.

**7. 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.

**STAR TRANSIT**  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Assets, deferred outflows of resources, liabilities, and net position (continued)**

**8. 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:

*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 \$254,170, all of which was covered by federal depository insurance.



**STAR TRANSIT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
August 31, 2017

**NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES (continued)**

**B. Capital assets**

Capital asset activity for the year ended August 31, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Buildings and improvements	\$ 2,008,326	\$ -	\$ -	\$ 2,008,326
Office furniture and equipment	1,043,363	-	-	1,043,363
Vehicles	4,399,874	1,863,500	(187,021)	6,076,353
Total capital assets being depreciated	7,451,563	1,863,500	(187,021)	9,128,042
Less accumulated depreciation for:				
Buildings and improvements	(287,358)	(49,257)	-	(336,615)
Office furniture and equipment	(635,457)	(140,082)	-	(775,539)
Vehicles	(1,473,102)	(775,533)	136,503	(2,112,132)
Total accumulated depreciation	(2,395,917)	(964,872)	136,503	(3,224,286)
Total capital assets being depreciated, net	5,055,646	898,628	(50,518)	5,903,756
Capital assets, net	\$ 5,055,646	\$ 898,628	\$ (50,518)	\$ 5,903,756

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

**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 December 31, 2045. The lease requires escalating annual payments from \$12,022 to \$20,038. The total lease payments for the year ended August 31, 2017 was \$15,196. Future minimum payments due under the agreement are shown below:

Year Ending August 31	Annual Payment
2018	\$ 17,199
2019	19,203
2020	20,038
2021	20,038
2022	20,038
2023-2027	100,188
2028-2032	100,188
2033-2037	100,188
2038-2042	100,188
2043-2045	46,754
	<u>\$ 544,022</u>

**STAR TRANSIT**  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2017

**NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES (continued)**

**C. Other significant commitments (continued)**

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, 2017 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.

**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 shares employees and office space with Senior Connect. 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 \$100,888.

**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 20, 2018. At August 31, 2017, there was no outstanding balance on this line of credit.

The following is a summary of changes in the note payable for the year ended August 31, 2017:

Balance, September 1, 2016	\$ 82,000
Increases	191,769
Decreases	<u>(273,769)</u>
Balance, August 31, 2017	<u><u>\$ -</u></u>

**STAR TRANSIT**  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2017

**NOTE 3 - DEFINED BENEFIT PENSION PLANS**

**A. Plan description**

The District began participating in the Texas County & District Retirement System (TCDRS) as of January 1, 2017, and therefore did not have any participating employees as of the TCDRS measurement date of December 31, 2016.

TCDRS is a statewide, agent multiple-employer, public-employee retirement system. The system serves 701 participating counties and districts throughout Texas. Each employer maintains its own customized plan of benefits. Plan provisions are adopted by the governing body of each employer, within the options available in the TCDRS Act. Because of that, the District has the flexibility and local control to select benefits and pay for those benefits based on its needs and budgets.

Each employer has a defined benefit plan that functions similarly to a cash balance plan. The assets of the plans are pooled for investment purposes, but each employer's plan assets may be used only for the payment of benefits to the members of that employer's plan. In accordance with Texas law, it is intended that the pension can be construed and administered in a manner that the retirement system will be considered a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TCDRS issues a publicly available comprehensive annual financial report that can be obtained at [www.tcdrs.org](http://www.tcdrs.org).

All eligible employees (except temporary staff) of the District must be enrolled in the plan.

**B. Benefits provided**

A brief description of benefit terms:

1. All full- and part-time non-temporary employees participate in the plan, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership.
2. The plan provides retirement, disability and survivor benefits.
3. TCDRS is a savings-based plan. For the district's plan, 4.00% of each employee's pay is deposited into his or her TCDRS account. By law, employee accounts earn 7.00% interest on beginning of year balances. At retirement, the account is matched at an employer set percentage (current match is 100%) and is then converted to a lifetime annuity.
4. There are no automatic COLAs. Each year, the district may elect an ad hoc COLA for its retirees (if any). There are two COLA types, each limited by actual inflation.

**STAR TRANSIT**  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2017

**NOTE 3 - DEFINED BENEFIT PENSION PLANS (continued)**

**B. Benefits provided (continued)**

5. Benefit terms are established under the TCDRS Act. They may be amended as of January 1 of each year, but must remain in conformity with the Act.

***Employees covered by benefit terms***

At the December 31, 2016 valuation and measurement date, the District had no employees covered in TCDRS.

**C. Contributions**

A combination of three elements funds each employer's plan: employee deposits, employer contributions, and investment income.

- The deposit rate for employees is 4.00%, 5.00%, 6.00% and 7.00% of compensation, as adopted by the employer's governing body.
- Participating employer's are required, by law, to contribute at actuarially determined rates, which are determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method.
- Investment income funds a large part of the benefits employees earn.

Employers have the option of paying more than the required contribution rate each year. Extra contributions can help employer's "prefund" benefit increases, such as cost-of-living adjustment to retirees, and they can be used to help offset or mitigate future increases in the required rate due to negative plan experience. There are two approaches for making extra contributions:

- (a) paying an elected contribution rate higher than the required rate and
- (b) making an extra lump-sum contribution to the employer account.

Employees for the District were required to contribute 4.00% of their annual gross earnings during the year. The contribution rate for the District was 2.79% in calendar year 2017. The District's contributions to TCDRS for the year ended August 31, 2017 were \$49,584, and were equal to the required contributions.

**STAR TRANSIT**  
NOTES TO THE FINANCIAL STATEMENTS  
August 31, 2017

**NOTE 3 - DEFINED BENEFIT PENSION PLANS (continued)**

**D. Pension expense and deferred outflows/inflows or resources related to pensions**

For the fiscal year ended August 31, 2017, the District recognized pension expense of \$0.

At August 31, 2017, the District reported deferred outflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>
Contributions subsequent to the measurement date	<u>\$ 49,584</u>

**NOTE 4 – OTHER INFORMATION**

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. During 2017, the District terminated this plan. For the year ended August 31, 2017, the District's retirement expense under this plan was \$8,869.

## REQUIRED SUPPLEMENTARY INFORMATION

This supplementary schedule is included to supplement the basic financial statements as required by Governmental Accounting Standards Board.

**STAR TRANSIT**  
**SCHEDULE OF CONTRIBUTIONS**  
Last 10 Fiscal Years (will ultimately be displayed)

	<u><b>2017</b></u>
Actuarially Determined Contribution	\$ 49,584
Contributions in relation to the actuarially determined contribution	<u>49,584</u>
Contribution deficiency (excess)	-
Covered employee payroll	1,797,778
Contributions as a percentage of covered employee payroll	2.8%

**NOTES TO SCHEDULE OF CONTRIBUTIONS**

**Valuation Date:** Actuarially determined contribution rates are calculated each December 31, two years prior to the end of fiscal year in which contributions are reported.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	20 years (based on contribution rate calculated in 12/31/2015 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.0%, net of investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 60.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.

Changes in Plan Provisions  
Reflected in the Schedule\* No changes in plan provisions are reflected in the Schedule of Employer Contributions.

\* Only changes effective 2016 and later are shown in the Notes to Schedule

## SINGLE AUDIT SECTION



**STAR TRANSIT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended August 31, 2017

<b>Federal Grantor/Pass-through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Agency or Pass-through Number</b>	<b>Federal Disbursements/ Expenditures</b>
U.S. Department of Transportation: <b><i>Federal Transit Cluster</i></b>			
Pass-through North Central Texas Council of Governments: Federal Transit - Formula Grants	20.507	NCTCOG	\$ 1,470,975
Bus and Bus Facilities Grants Program:			
Pass-through Texas Department of Transportation	20.526	TX-34-0018	31,280
Pass-through North Central Texas Council of Governments	20.526	NCTCOG	994,757
Total Bus and Bus Facilities Grants Program			<u>1,026,037</u>
<b><i>Total Federal Transit Cluster</i></b>			2,497,012
<b><i>Transit Services Programs</i></b>			
Pass-through North Central Texas Council of Governments:			
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	NCTCOG	522,709
Job Access and Reverse Commute Program	20.516	NCTCOG	<u>130,099</u>
<b><i>Total Transit Services Programs</i></b>			652,808
<b><i>Other Programs</i></b>			
Pass-through Texas Department of Transportation:			
Formula Grants for Rural Areas	20.509	TX-2016-013	734,561
TIGER Discretionary Program	20.933	TX-2016-043	<u>837,000</u>
Total U.S. Department of Transportation			<u>4,721,381</u>
Total expenditures of federal awards			<u>\$ 4,721,381</u>

**STAR TRANSIT**  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
August 31, 2017

**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, 2017. 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**

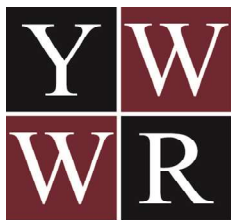
Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**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, 2017

There are no prior audit findings.



# 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 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, 2017, 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 12, 2018.

### **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 internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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.

A handwritten signature in blue ink that reads "Yeldell, Wilson, Wood & Reeve, P.C.".

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

Ennis, Texas  
February 12, 2018



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, 2017. 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.

***Opinion on Each Major Federal Program***

In our opinion, STAR Transit complied, in all material respects, with the 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, 2017.

## 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.*

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

Ennis, Texas  
February 12, 2018

**STAR TRANSIT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended August 31, 2017

**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. No material weaknesses are reported.
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:

Federal Transit Cluster:

20.507 Federal Transit - Formula Grants  
20.526 Bus and Bus Facilities Grants Program

20.933 TIGER Discretionary Program

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