***STAR TRANSIT***

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

For the Year Ended August 31, 2023

TABLE OF CONTENTS

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
STAR Transit
Terrell, Texas

## Report on the Audit of the Financial Statements

### *Opinion*

We have audited the accompanying financial statements of STAR Transit, as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise STAR Transit's basic financial statements as listed in the table of contents.

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, 2023, 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.

### *Basis for Opinion*

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the STAR Transit, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management 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, and for 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.



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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the STAR Transit's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditor’s Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards* , we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 STAR Transit’s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about STAR Transit’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit .

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and net pension liability information on pages 4-7 and 24-25 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards,* we have also issued our report dated May 20, 2024, 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 solely 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 the effectiveness of STAR Transit's 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.

YWRD, P.C.

YWRD, P.C.
*Certified Public Accountants*

Ennis, Texas
May 20, 2024

# *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, 2023.

**FINANCIAL HIGHLIGHTS**

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $8,395,019 (net position). Of this amount, $1,783,066 (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 $3,176,460.

**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 11-22 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 24-25 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 $8,395,019 as of August 31, 2023.

### STAR TRANSIT'S NET POSITION

| | 2023 | 2022 |
|---|---|---|
| Current and other assets | $ 2,169,148 | $ 2,188,710 |
| Capital assets | 6,947,892 | 3,956,652 |
| Total assets | 9,117,040 | 6,145,362 |
| | | |
| Deferred Outflows of Resources | 163,122 | 88,838 |
| | | |
| Long term liabilities | 324,300 | 335,939 |
| Other liabilities | 542,391 | 528,273 |
| Total liabilities | 866,691 | 864,212 |
| | | |
| Deferred Inflows of Resources | 18,452 | 151,429 |
| | | |
| Net position: | | |
| Net investment in capital assets | 6,611,953 | 3,609,358 |
| Restricted | - | 45,877 |
| Unrestricted | 1,783,066 | 1,563,324 |
| Total net position | $ 8,395,019 | $ 5,218,559 |

A large portion of the District's net position (79%) reflects its investments in capital assets (e.g., building and improvements, office furniture and equipment, vehicles, and leased assets). The District uses these capital assets to provide service to customers; consequently these assets are not available for future spending.

The remaining balance of unrestricted net position, $1,783,066, 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 increased net position by $3,176,460 in the current year.

## STAR TRANSIT'S CHANGE IN NET POSITION

| | 2023 | 2022 |
|---|---|---|
| Revenues: | | |
| Operating | $ 7,339,926 | $ 6,515,870 |
| Total revenues | 7,339,926 | 6,515,870 |
| Expenses: | | |
| Depreciation and amortization | 707,839 | 896,008 |
| Other operating | 7,072,847 | 6,575,804 |
| Nonoperating | (21,066) | (46,293) |
| Total expenses | 7,759,620 | 7,425,519 |
| Income (loss) before capital contributions | (419,694) | (909,649) |
| Capital contributions | 3,596,154 | 467,914 |
| Changes in net position | 3,176,460 | (441,735) |
| Net position - beginning | 5,218,559 | 5,660,294 |
| Net position - ending | $ 8,395,019 | $ 5,218,559 |

## CAPITAL ASSETS

The District's investment in capital assets as of August 31, 2023 amounts to $6,947,892 (net of accumulated depreciation).

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

- Addition of approximately $400,000 of buildings and improvements.
- Addition of approximately $3,354,000 of vehicles.
- Disposal of approximately $390,000 of vehicles.

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

| | 2023 | 2022 |
|---|---|---|
| Construction in progress | $ - | $ 42,282 |
| Buildings and improvements | 2,561,213 | 2,240,505 |
| Office furniture and equipment | 53,414 | 64,273 |
| Vehicles | 3,997,326 | 1,262,298 |
| Leased land | 335,939 | 347,294 |
| Total | $ 6,947,892 | $ 3,956,652 |

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 2024 budget, operating revenues are budgeted to decrease by 2% from the 2023 budget year with contracted revenues and operating grants making up about 97% 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, 500 Industrial Blvd, Terrell, Texas 75160.

## *STAR TRANSIT*
STATEMENT OF NET POSITION
August 31, 2023

| | |
|---|---|
| **ASSETS** | |
| Current assets: | |
| Cash | $ 1,022,476 |
| Receivables (net of allowance for uncollectibles) | 122,914 |
| Due from other governments | 928,788 |
| Inventory | 11,692 |
| Prepaid items | 350 |
| Total current assets | 2,086,220 |
| Noncurrent assets: | |
| Net pension asset | 82,928 |
| Capital assets: | |
| Depreciable (net of accumulated depreciation) | 6,947,892 |
| Total noncurrent assets | 7,030,820 |
| Total assets | 9,117,040 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Deferred outflows of resources related to pension | 163,122 |
| Total deferred outflows of resources | 163,122 |
| **LIABILITIES** | |
| Current liabilities: | |
| Accounts payable | 199,960 |
| Accrued expenses | 330,792 |
| Lease liability | 11,639 |
| Total current liabilities | 542,391 |
| Noncurrent liabilities: | |
| Lease liability | 324,300 |
| Total noncurrent liabilities | 324,300 |
| Total liabilities | 866,691 |
| **DEFERRED INFLOWS OF RESOURCES** | |
| Deferred inflows of resources related to pension | 18,452 |
| Total deferred inflows of resources | 18,452 |
| **NET POSITION** | |
| Net investment in capital assets | 6,611,953 |
| Unrestricted | 1,783,066 |
| Total net position | $ 8,395,019 |

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, 2023

| | |
|---|---|
| **OPERATING REVENUES** | |
| Passenger revenues | $ 197,611 |
| Contracted revenues | 225,970 |
| Intergovernmental revenues | 2,253,605 |
| Operating grants | 4,641,140 |
| Other | 21,600 |
| Total operating revenues | 7,339,926 |
| **OPERATING EXPENSES** | |
| Payroll | 3,714,649 |
| Payroll taxes | 270,285 |
| Employee benefits | 497,938 |
| Insurance | 162,458 |
| Advertising and marketing | 34,713 |
| Depreciation | 707,839 |
| Fuel and oil | 644,981 |
| IT license and maintenance | 4,445 |
| Legal and professional fees | 83,848 |
| Office expense | 70,875 |
| Other | 130,673 |
| Pre-employment, physical and drug testing | 15,441 |
| Telephone and communication | 148,040 |
| Training and education | 6,753 |
| Vehicle repairs and maintenance | 1,287,748 |
| Total operating expenses | 7,780,686 |
| OPERATING INCOME (LOSS) | (440,760) |
| **NONOPERATING REVENUES (EXPENSES)** | |
| Gain on disposal of capital assets | 21,066 |
| Total nonoperating revenues (expenses) | 21,066 |
| INCOME (LOSS) BEFORE CONTRIBUTIONS | (419,694) |
| Capital contributions | 3,596,154 |
| CHANGE IN NET POSITION | 3,176,460 |
| TOTAL NET POSITION, BEGINNING | 5,218,559 |
| TOTAL NET POSITION, ENDING | $ 8,395,019 |

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

***STAR TRANSIT***

STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2023

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | |
| Received from providing services | $ 2,645,121 |
| Received from operating grants | 4,646,879 |
| Payments to suppliers | (2,623,088) |
| Payments to employees | (4,502,500) |
| Net cash provided by (used for) operating activities | 166,411 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | |
| Acquisition of capital assets | (115,839) |
| Net cash provided by (used for) capital and related financing activities | (115,839) |
| NET DECREASE IN CASH | 50,572 |
| Cash September 1 | 971,904 |
| Cash August 31 | $ 1,022,476 |
| **Reconciliation of operating income to net cash provided by (used for) operating activities:** | |
| Operating income (loss) | $ (440,760) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | |
| Depreciation and amortization | 707,839 |
| (Increase) decrease in accounts receivable | (53,665) |
| (Increase) decrease in due from other governments | 5,739 |
| (Increase) decrease in inventory | (11,692) |
| (Increase) decrease in prepaid items | 5,500 |
| (Increase) decrease in net pension asset | 146,876 |
| (Increase) decrease in pension related deferred outflows | (11,025) |
| Increase (decrease) in accounts payable | (26,921) |
| Increase (decrease) in accrued expenses | 40,754 |
| Increase (decrease) in pension related deferred inflows | (196,233) |
| Total adjustments | 607,171 |
| Net cash provided by (used for) operating activities | $ 166,411 |
| **NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES** | |
| Contribution of capital assets | $ 3,596,154 |

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

## 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 63% 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).

**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, deferred outflows/inflows of resources, and net position**

**1. *Cash***

For purposes of the statement of cash flows, cash on hand and demand deposits are considered to be cash and cash equivalents.

**2. *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.

***3. Inventory and prepaid items***

Inventory is valued at cost using the first-in/first-out (FIFO) method and consist of fuel. The cost of such inventory is recorded as expenses when consumed rather than when purchased.

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

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

### C. Assets, liabilities, deferred outflows/inflows of resources, and net position (continued)

#### 4. *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 acquisition 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 |

#### 5. *Deferred outflows/inflows 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 (1) a deferred outflow of resources related to changes in actuarial assumptions of the District's defined benefit pension plan, (2) 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, (3) a deferred outflow of resources related to the difference between expected and actual pension experience data used by the actuary, and (4) a deferred outflow of resources related to the differences between the projected and actual investment earnings for the District's defined benefit pension plan. Deferred outflows for changes in actuarial assumptions is attributed to pension expense over a total of 4 years. Deferred outflows for pension contributions will be recognized in the subsequent fiscal year. Deferred outflows for differences in expected and actual pension experience is attributed to pension expense over a total of 3 years. The differences between the projected and actual investment earnings are attributed to pension expense over a total of 5 years, including the current year.

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

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents a consumption of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources reported in this year's financial statements are related to the difference between expected and actual pension experience data used by the actuary. Deferred inflows for differences in expected and actual pension experience is attributed to pension expense over a total of 4 years.

**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:

*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 $1,046,861. Of the bank balance, $250,000 was covered by federal depository insurance and the remaining balance was covered by collateral pledged in the District's name. The collateral was held in the District's name by the safekeeping department of the pledging bank's agent and had a fair value of approximately $1,285,000.

### B. Capital assets

Capital asset activity for the year ended August 31, 2023, was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Construction in progress | $ 42,282 | $ 340,875 | $ (383,157) | $ - |
| Total capital assets not being depreciated | 42,282 | 340,875 | (383,157) | - |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 2,864,449 | 400,159 | - | 3,264,608 |
| Office furniture and equipment | 1,118,371 | - | - | 1,118,371 |
| Vehicles | 6,361,401 | 3,354,061 | (390,162) | 9,325,300 |
| Leased land | 358,372 | - | - | 358,372 |
| Total capital assets being depreciated | 10,702,593 | 3,754,220 | (390,162) | 14,066,651 |
| Less accumulated depreciation and amortization for: | | | | |
| Buildings and improvements | (623,944) | (79,451) | - | (703,395) |
| Office furniture and equipment | (1,054,098) | (10,859) | - | (1,064,957) |
| Vehicles | (5,099,103) | (617,529) | 388,658 | (5,327,974) |
| Leased land | (11,078) | (11,355) | - | (22,433) |
| Total accumulated depreciation and amortization | (6,788,223) | (719,194) | 388,658 | (7,118,759) |
| Total capital assets being depreciated, net | 3,914,370 | 3,035,026 | (1,504) | 6,947,892 |
| Capital assets, net | $ 3,956,652 | $ 3,375,901 | $ (384,661) | $ 6,947,892 |

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

**C. Lease activity**

The District entered into a 30-year lease agreement, effective March 2015 with the City of Terrell, Texas, for a tract of land 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 rent expense for the year ended August 31, 2023 was $20,038.

At the time of the initial measurement, there was no interest rate specified in the original lease agreement. The District has used the risk free rate of 2.5% at the time of commencement, which was used to discount the annual lease payments to recognize the intangible right to use this asset and the lease liability.

Annual requirements to amortize this lease liability and related interest are as follows:

| Year Ending August 31 | Principal | Interest |
|---|---|---|
| 2024 | 11,639 | 8,398 |
| 2025 | 11,930 | 8,107 |
| 2026 | 12,228 | 7,809 |
| 2027 | 12,534 | 7,504 |
| 2028 | 12,847 | 7,190 |
| 2029-2033 | 69,219 | 30,969 |
| 2034-2038 | 78,314 | 21,874 |
| 2039-2043 | 88,606 | 11,582 |
| 2044-2045 | 38,621 | 1,454 |
| | $ 335,938 | $ 104,887 |

**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.

## NOTE 3 - DEFINED BENEFIT PENSION PLANS

### A. Plan description

The Texas County & District Retirement System (TCDRS) is a statewide, agent multiple-employer, public-employee retirement system. The system serves over 830 participating countries 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 adjust 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 o 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 plan 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.*

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 annually. At retirement, the account is matched at an employer set percentage (current match is 100%) and is then converted to an 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.

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.

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

**B. Benefits provided (continued)**

***Employees covered by benefit terms***

At the December 31, 2022 valuation and measurement date, the following employees were covered by the benefit terms:

| | |
|---|---|
| Inactive employees (or their beneficiaries) receiving benefits | 3 |
| Inactive employees entitled to, but not yet receiving benefits | 79 |
| Active employees | 92 |
| | 174 |

**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 a minimum the actuarially required rates, which are determined annually.
- 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 2.6% in calendar year 2022. The District's contributions to TCDRS for the year ended August 31, 2023 were $91,430, and were equal to the required contributions.

**D. Net pension liability (asset)**

The District's Net Pension Liability (Asset) (NPL) was measured as of December 31, 2022 and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

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

### D. Net pension liability (asset) (continued)

#### *Actuarial assumptions*

The actuarial assumptions that determine the TPL as of December 31, 2022 were based on the results of an actuarial experience study for the period January 1, 2018 through December 31, 2021, except where required to be different by GASB 68.

Key assumptions used in the December 31, 2022 actuarial valuation are as follows:

| | |
|---|---|
| Valuation Timing | Actuarially determined contribution rates are calculated on a calendar year basis as of December 31, two years prior to the end of the fiscal year in which the contributions are reported. |
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | |
| Recognition of economic/ demographics gains or losses | Straight-Line amortization over Expected Working Life |
| Recognition of assumptions changes or inputs | Straight-Line amortization over Expected Working Life |
| Asset Valuation Method | |
| Smoothing period | 5 years |
| Recognition method | Non-asymptotic |
| Corridor | None |
| Inflation | 2.50% |
| Salary Increases | Varies by age and service. 4.7% average over career including inflation |
| Investment Rate of Return | 7.50%, net of administrative and investments expenses, including inflation |
| Cost of Living Adjustments | Cost-of-Living Adjustments for STAR Transit are not considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustments is included in the GASB calculations. No assumption for future cost-of-living adjustments is included in the funding valuation. |
| Mortality | |
| Depositing members | 135% of Pub-2010 General Employees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Employees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010. |
| Service retirees, beneficiaries and non-depositing members | 135% of Pub-2010 General Retirees Amount-Weighted Mortality Table for males and 120% Pub-2010 General Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010. |
| Disabled retirees | 160% of Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for males and 125% Pub-2010 General Disabled Retirees Amount-Weighted Mortality Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010. |

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

### D. Net pension liability (asset) (continued)

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The target allocation and best estimate of geometric real rate of return for each major asset class are summarized in the following table:

| Asset Class | Benchmark | Target Allocation | Geometrical Real Rate of Return (Expected Minus Inflation) |
|---|---|---|---|
| U.S. Equities | Dow Jones U.S. Total Stock Market Index | 11.50% | 4.95% |
| Global Equities | MSCI World (net) Index | 2.50% | 4.95% |
| Int'l Equities - Developed | MSCI World Ex USA (net) Index | 5.00% | 4.95% |
| Int'l Equities - Emerging | MSCI Emerging Markets (net) Index | 6.00% | 4.95% |
| Investment-Grade Bonds | Bloomberg U.S. Aggregate Bond Index | 3.00% | 2.40% |
| Strategic Credit | FTSE High-Yield Cash-Pay Capped Index | 9.00% | 3.39% |
| Direct Lending | S&P.LSTA Leveraged Loan Index | 16.00% | 6.95% |
| Distressed Debt | Cambridge Associates Distressed Securities | 4.00% | 7.60% |
| REIT Equities | 67% FTSE NAREIT All Equity REITs Index + 33% S&P Global REIT (net) Index | 2.00% | 4.15% |
| Master Limited Partnerships (MLPs | Alerian MLP Index | 2.00% | 5.30% |
| Private Real Estate Partnerships | Cambridge Associates Real Estate Index | 6.00% | 5.70% |
| Private Equity | Cambridge Associates Global Private Equity & Venture Capital Index | 25.00% | 7.95% |
| Hedge Funds | Hedge Funds Research, Inc. (HFRI) Fund of Funds Composite Index | 6.00% | 2.00% |
| Cash Equivalents | 90-Day U.S. Treasury | 2.00% | 0.20% |

***Discount rate***

The discount rate used to measure the TPL was 7.60%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

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

**D. Net pension liability (asset) (continued)**

***Changes in the net pension liability (asset)***

| | Increase (Decrease) | | |
|---|---|---|---|
| | **Total Pension Liability (A)** | **Plan Fiduciary Net Position (B)** | **Net Pension Liability (Asset) (A) - (B)** |
| Balances as of December 31, 2021 | $ 1,021,865 | $ 1,251,669 | $ (229,804) |
| Changes for the year: | | | |
| Service cost | 200,096 | - | 200,096 |
| Interest | 91,564 | - | 91,564 |
| Effect of economic/demographic gains/losses | 30,008 | - | 30,008 |
| Effect of assumption changes or inputs | - | - | - |
| Refund of contributions | (30,097) | (30,097) | - |
| Benefit payments | (4,887) | (4,887) | - |
| Administrative expenses | - | (815) | 815 |
| Member contributions | - | 143,673 | (143,673) |
| Net investment income | - | (90,580) | 90,580 |
| Employer contributions | - | 94,116 | (94,116) |
| Other | - | 28,398 | (28,398) |
| Balances as of December 31, 2022 | $ 1,308,549 | $ 1,391,477 | $ (82,928) |

Sensitivity of the net pension liability (asset) to changes in the discount rate -

The following presents the NPL of the District, calculated using the discount rate of 7.60%, as well as what the District's NPL would be if it were calculated using a discount rate that is 1 percentage point lower (6.60%) or 1 percentage point higher (8.60%) than the current rate:

| | **1% Decrease in Discount Rate (6.60%)** | **Discount Rate (7.60%)** | **1% Increase in Discount Rate (8.60%)** |
|---|---|---|---|
| District's net pension liability (asset) | $ 96,200 | $ (82,928) | $ (234,382) |

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TCDRS financial report. That report may be obtained on the Internet at *www.tcdrs.org.*

**Payables to the Pension Plan** - Legally required contributions outstanding at the end of the year totaled $27,151.

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

### E. Pension expense and deferred outflows/inflows of resources related to pensions

For the fiscal year ended August 31, 2023, the District recognized pension expense of $31,048.

At August 31, 2023, the District reported deferred outflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Changes in actuarial assumptions | $ 18,059 | $ - |
| Pension contributions after measurement date | 57,917 | - |
| Differences in projected and actual earnings on pension assets | 63,259 | - |
| Difference in expected and actual pension experience | 23,887 | 18,452 |
| Total | $ 163,122 | $ 18,452 |

$57,917 reported as deferred outflows of resources related to pensions resulting from contributions made subsequent to the measurement date will be recognized as a reduction of the net pension asset for the year ended August 31, 2024. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended December 31 | |
|---|---|
| 2023 | $ (10,517) |
| 2024 | (18,716) |
| 2025 | (18,659) |
| 2026 | (38,861) |
| Total | $ (86,753) |

## REQUIRED SUPPLEMENTARY INFORMATION

These supplementary schedules are included to supplement the basic financial statements as required by Governmental Accounting Standards Board.

***STAR TRANSIT***

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Last 10 Calendar Years (will ultimately be displayed)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| **Total Pension Liability** | | | | | | |
| Service Cost | $ 179,338 | $ 177,286 | $ 182,665 | $ 167,777 | $ 194,974 | $ 200,096 |
| Interest on total pension liability | 14,481 | 29,483 | 45,789 | 59,697 | 75,948 | 91,564 |
| Effect of assumption changes or inputs | 270 | - | - | 49,781 | (3,708) | - |
| Effect of economic/demographic gains/losses | 1,339 | 8,295 | (19,473) | (6,318) | (24,065) | 30,008 |
| Benefit payments/refunds of contributions | (1,138) | (15,467) | (22,963) | (21,790) | (50,336) | (34,984) |
| **Net Change in Total Pension Liability** | 194,290 | 199,597 | 186,018 | 249,147 | 192,813 | 286,684 |
| **Total Pension Liability - Beginning** | - | 194,290 | 393,887 | 579,905 | 829,052 | 1,021,865 |
| **Total Pension Liability - Ending (a)** | $ 194,290 | $ 393,887 | $ 579,905 | $ 829,052 | $ 1,021,865 | $ 1,308,549 |
| | | | | | | |
| **Plan Fiduciary Net Position** | | | | | | |
| Employer contributions | $ 85,797 | $ 89,889 | $ 61,843 | $ 61,371 | $ 69,715 | $ 94,116 |
| Member contributions | 122,990 | 128,874 | 118,947 | 117,962 | 135,035 | 143,673 |
| Investment income net of investment expenses | 3,340 | (1,709) | 68,969 | 67,755 | 211,441 | (90,580) |
| Benefit payments/refunds of contributions | (1,138) | (15,467) | (22,963) | (21,790) | (50,336) | (34,984) |
| Administrative expenses | (142) | (338) | (497) | (645) | (677) | (815) |
| Other | 2,781 | 6,078 | 5,495 | 4,366 | 4,723 | 28,398 |
| **Net Change in Plan Fiduciary Net Position** | 213,628 | 207,327 | 231,794 | 229,019 | 369,901 | 139,808 |
| **Plan Fiduciary Net Position - Beginning** | - | 213,628 | 420,955 | 652,749 | 881,768 | 1,251,669 |
| **Plan Fiduciary Net Position - Ending (b)** | $ 213,628 | $ 420,955 | $ 652,749 | $ 881,768 | $ 1,251,669 | $ 1,391,477 |
| | | | | | | |
| **Net Pension (Asset) Liability - Ending (a) - (b)** | $ (19,338) | $ (27,068) | $ (72,844) | $ (52,716) | $ (229,804) | $ (82,928) |
| | | | | | | |
| **Plan Fiduciary Net Position as a Percentage of Total Pension Liability** | 109.95% | 106.87% | 112.56% | 106.36% | 122.49% | 106.34% |
| | | | | | | |
| **Covered Payroll** | 3,074,738 | 3,221,859 | 2,973,681 | 2,949,044 | 3,375,869 | 3,591,821 |
| | | | | | | |
| **Net Pension (Asset) Liability as a Percentage of Covered Payroll** | (0.63%) | (0.84%) | (2.45%) | (1.79%) | (6.81%) | (2.31%) |

**Notes to Schedule:**

N/A

***STAR TRANSIT***

SCHEDULE OF CONTRIBUTIONS

Last 10 Fiscal Years (will ultimately be displayed)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|
| Actuarially Determined Contribution | $ 49,584 | $ 92,668 | $ 69,809 | $ 61,027 | $ 67,340 | $ 76,453 | $ 90,928 |
| Contributions in relation to the actuarially determined contribution | 49,584 | 92,668 | 69,809 | 61,027 | 67,340 | 83,722 | 91,430 |
| Contribution deficiency (excess) | - | - | - | - | - | (7,269) | (502) |
| Covered payroll | 1,797,778 | 3,321,953 | 1,745,216 | 2,906,035 | 3,206,678 | 3,550,995 | 3,651,714 |
| Contributions as a percentage of covered payroll | 2.8% | 2.8% | 4.0% | 2.1% | 2.1% | 2.4% | 2.5% |

**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 | 18.5 years (based on contribution rate calculated in 12/31/2022 valuation) |
| Asset Valuation Method | 5-year smoothed market |
| Inflation | 2.50% |
| Salary Increases | Varies by age and service. 4.7% average over career including inflation. |
| Investment Rate of Return | 7.5%, 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 61. |
| Mortality | 135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010. |
| Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions* | 2015: New inflation, mortality and other assumptions were reflected<br>2017: New mortality assumptions were reflected.<br>2019: New inflation, mortality and other assumptions were reflected.<br>2022: New investment return and inflation assumptions were reflected. |
| Changes in Plan Provisions Reflected in the Schedule of Employer Contributions* | 2015: No changes in plan provisions were reflected in the Schedule.<br>2016: No changes in plan provisions were reflected in the Schedule.<br>2017: New Annuity Purchase Rates were reflected for benefits earned after 2017.<br>2018: No changes in plan provisions were reflected in the Schedule.<br>2019: No changes in plan provisions were reflected in the Schedule.<br>2020: No changes in plan provisions were reflected in the Schedule.<br>2021: No changes in plan provisions were reflected in the Schedule.<br>2022: No changes in plan provisions were reflected in the Schedule. |

** Only changes that affect the benefit amount and that are effective 2015 and later are shown in the Notes to Schedule.*

OTHER REPORT

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, 2023, and the related notes to the financial statements, which collectively comprise STAR Transit's basic financial statements and have issued our report thereon dated May 20, 2024.

**Report on 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 opinion 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Board of Directors
STAR Transit
Page Two

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether STAR Transit's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

*YWRD, P.C.*

YWRD, P.C.
*Certified Public Accountants*

Ennis, Texas
May 20, 2024