

**TEXOMA AREA
PARATRANSIT SYSTEM, INC.
AUDITED FINANCIAL STATEMENTS**

For the Years Ended September 30, 2016 and 2015

TEXOMA AREA PARATRANSIT SYSTEM, INC.

TABLE OF CONTENTS

September 30, 2016 and 2015

	PAGE
INDEPENDENT AUDITORS' REPORT	1-3
STATEMENTS OF NET POSITION	4
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	5
STATEMENTS OF CASH FLOWS	6
NOTES TO THE FINANCIAL STATEMENTS	7-14
OTHER SUPPLEMENTARY INFORMATION	
INDEPENDENT AUDITORS' 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	15-16
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	17-19
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS AND NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS	20
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	21-23
SCHEDULE OF PRIOR YEAR FINDINGS	24
MANAGEMENT'S CORRECTIVE ACTION PLAN	25

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INDEPENDENT AUDITORS' REPORT

Members
American Institute of CPA's
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The Board of Directors
Texoma Area Paratransit System, Inc.

We have audited the accompanying financial statements of Texoma Area Paratransit System, Inc. (TAPS) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise TAPS' basic financial statements as listed in the foregoing table of contents. Other auditors were engaged to audit the financial statements of TAPS as of and for the year ended September 30, 2015, whose report dated July 29, 2016 disclaimed an opinion on those statements.

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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, issued by other auditors, they were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements for the year ended September 30, 2015.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion for the year ended September 30, 2016.

Opinions

Basis for Qualified Opinion

TAPS underwent significant changes in the Board of Directors and management during the fiscal year 2016. The books and records for Medicaid expenses totaling \$564,239, as identified on the Statement of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2016, were missing key supporting documentation. Because we were unable to obtain sufficient appropriate audit evidence, we were unable to satisfy ourselves as to the value of the Medicaid expense account and we cannot determine the possible effects on the financial statements of undetected misstatements, if any, that could be material but not pervasive.

Qualified Opinion

In our opinion, except for the effect of the matter described in the Basis of Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of TAPS for the year ended September 30, 2016, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Disclaimer of Opinion

TAPS underwent significant changes in the Board of Directors and management in March 2016, including key members of financial management. The books and records, including journal entries, for the years ended September 30, 2015 and 2014, and for prior periods that were created and maintained by previous management were incomplete and missing key supporting documentation. Because of the pervasiveness of these conditions, the other auditors were unable to obtain sufficient, competent evidential matter over substantially all elements of the financial statements as of and for the year ended September 30, 2015. As a result of these matters, the other auditors were unable to determine whether any adjustments might have been found necessary in the financial statements and the elements making up the financial statements.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, the other auditors have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, the other auditors did not express an opinion on these financial statements.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise TAPS' basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule referred to in the preceding paragraph 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 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2017, on our consideration of TAPS' 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 TAPS' internal control over financial reporting and compliance.

Kushner LaGraize, L.L.C.

Metairie, Louisiana
February 6, 2017

TEXOMA AREA PARATRANSIT SYSTEM, INC.

STATEMENTS OF NET POSITION

September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 121,827	\$ 109,740
Accounts receivable	807	495,674
Due from other governments	<u>676,910</u>	<u>391,157</u>
TOTAL CURRENT ASSETS	799,544	996,571
RESTRICTED ASSETS		
Cash	<u>64,478</u>	<u>-</u>
TOTAL RESTRICTED ASSETS	64,478	-
NONCURRENT ASSETS		
Capital assets, non-depreciable	211,780	211,780
Capital assets, net of depreciation	<u>2,863,837</u>	<u>8,292,706</u>
TOTAL NONCURRENT ASSETS	<u>3,075,617</u>	<u>8,504,486</u>
TOTAL ASSETS	<u>\$ 3,939,639</u>	<u>\$ 9,501,057</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 892,194	\$ 3,803,753
Loan payable	-	1,157,930
Accrued liabilities	4,184,148	2,708
Current portion compensated absences	<u>-</u>	<u>18,118</u>
TOTAL CURRENT LIABILITIES	5,076,342	4,982,509
NONCURRENT LIABILITIES		
Compensated absences	<u>59,898</u>	<u>42,271</u>
TOTAL LIABILITIES	5,136,240	5,024,780
NET POSITION		
Net investment in capital assets	3,075,617	8,504,486
Restricted	64,478	-
Unrestricted	<u>(4,336,696)</u>	<u>(4,028,209)</u>
TOTAL NET POSITION	<u>(1,196,601)</u>	<u>4,476,277</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 3,939,639</u>	<u>\$ 9,501,057</u>

See Notes to Financial Statements.

TEXOMA AREA PARATRANSIT SYSTEM, INC.
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Federal direct financial assistance	\$ 540,974	\$ 7,404,649
State financial assistance	1,431,092	850,892
Medicaid	892,040	5,249,923
Program income	495,210	1,670,378
Fare revenue	63,043	469,719
Public contributions	114,940	157,325
In-kind contributions	367	104,937
Other income	<u>516,008</u>	<u>3,659,374</u>
TOTAL OPERATING REVENUES	4,053,674	19,567,197
OPERATING EXPENSES		
Salaries and employee benefits	581,092	3,803,324
Vehicle expenses	317,961	2,421,969
Building maintenance	14,444	38,108
Communications	77,868	795,876
Subcontractor expense	2,664,815	8,359,149
Travel	213	1,726,917
Supplies	2,809	93,246
Rent	21,300	201,483
Utilities	73,130	92,603
Insurance	20,882	(17,941)
Professional fees	49,219	211,209
Legal fees	194,161	-
Marketing	-	104,902
In-kind expense	77	66,570
Depreciation	1,480,025	1,965,970
Other operating costs	196,773	211,404
Medicaid	564,239	-
Bad debt	<u>86,110</u>	<u>-</u>
TOTAL OPERATING EXPENSES	<u>6,345,118</u>	<u>20,074,789</u>
OPERATING LOSS	(2,291,444)	(507,592)
NON-OPERATING REVENUES (EXPENSES)		
Debt forgiveness	219,142	-
Interest	(3,392)	(78,984)
Gain (loss) on sale of assets	<u>(3,348,758)</u>	<u>13,865</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(3,133,008)</u>	<u>(65,119)</u>
CHANGE IN NET POSITION	(5,424,452)	(572,711)
NET POSITION – BEGINNING OF YEAR	4,476,277	5,048,988
RESTATEMENT	<u>(248,426)</u>	<u>-</u>
NET POSITION – BEGINNING OF YEAR, RESTATED	<u>4,227,851</u>	<u>-</u>
NET POSITION – END OF YEAR	<u>\$ (1,196,601)</u>	<u>\$ 4,476,277</u>

TEXOMA AREA PARATRANSIT SYSTEM, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,669,273	\$ 6,262,510
Federal and state financial assistance	2,397,414	13,505,464
Payments to suppliers	(3,045,619)	(13,192,928)
Payments to employees and related benefits	(602,409)	(3,839,749)
NET CASH PROVIDED BY OPERATING ACTIVITIES	418,659	2,735,297
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds on sale of vehicles	600,086	54,538
Purchase of fixed assets	-	(2,735,718)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	600,086	(2,681,180)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on line of credit	(938,788)	(596,849)
Interest paid	(3,392)	(78,984)
NET CASH USED IN FINANCING ACTIVITIES	(942,180)	(675,833)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	76,565	(621,716)
BALANCES – BEGINNING OF YEAR	109,740	731,456
BALANCES – END OF YEAR	\$ 186,305	\$ 109,740
RECONCILIATIONS OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (2,291,444)	\$ (507,592)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	1,480,025	1,965,970
(Increase) Decrease in accounts receivable	479,705	(313,871)
(Increase) Decrease in due from other government	(466,692)	
Increase (Decrease) in accounts payable	(2,973,336)	514,648
Increase (Decrease) in accrued liabilities	4,190,892	1,112,567
Increase (Decrease) in other liabilities	-	(32,996)
Increase (Decrease) in compensated absences	(491)	(3,429)
NET CASH PROVIDED BY (USED) IN OPERATING ACTIVITIES	\$ 418,659	\$ 2,735,297
SUPPLEMENTAL CASH FLOW INFORMATION:		
Non-cash contributions received in-kind	\$ 367	\$ 104,937
Debt forgiveness	219,142	-

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended September 30, 2016 and 2015

ORGANIZATION

Texoma Area Paratransit System, Inc. ("TAPS") was incorporated on July 14, 1986 as a Texas nonprofit corporation. Its purpose is to provide coordinated transportation services to the public in several North Central Texas counties. Services are directed primarily toward meeting the needs of the elderly, handicapped and economically disadvantaged.

The Texas legislature enacted the Rural and Urban Transit Act in 1995 which created transit districts that can receive public transportation funds through the Texas Department of Transportation. Although TAPS' meets the requirements of the Act, it operates as a nonprofit corporation, but retains the option to elect to implement the act and operate as a rural transit district by action of its Board of Directors.

In March 2016, the TAPS Board of Directors entered into a 5-year Public Private Partnership with Transdev Services, Inc. to manage and directly operate the TAPS transit system. All employees are employed by Transdev Services, Inc.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements of TAPS have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. TAPS is reported as a stand-alone entity as defined by GASB Statement No. 14, as amended by GASB Statement No. 61, "The Financial Reporting Entity." TAPS is fiscally dependent on the federal and state governments for financial assistance. However, it does not provide specific financial benefits to or impose specific financial burdens on the governments. No other potential component units meet the criteria for inclusion in the financial statements of TAPS.

Basis of Accounting

TAPS operations are accounted for in a proprietary fund type - the enterprise fund. The proprietary fund type is accounted for using the flow of economic resources measurement focus. With this measurement focus all assets and liabilities associated with the operations are included on the statement of net position. Fund equity is segregated into contributed capital and net position. The operating statement presents increases (revenues) and decreases (expenses) in net total position.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the Years Ended September 30, 2016 and 2015

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting - Continued

TAPS operations are financed and operated in a manner similar to private business enterprises. The intent of the governing body is that the costs (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges. The measurement focus emphasizes the determination of net income.

TAPS follows the accrual basis of accounting for its proprietary fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Cash and Cash Equivalents

Cash includes amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, TAPS may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Texas law and national banks having their principal offices in Texas.

Restricted Cash

Cash and cash equivalents that are restricted as to withdrawal or use under the terms of certain contractual agreements are recorded as restricted cash on the Statements of Net Position.

Restricted cash balances include cash from sales of capital assets originally purchased with federal or state funds that are required to be held for future capital use.

Capital Assets

TAPS defines capital assets as those with an individual cost of \$5,000 or more and a useful life exceeding five years. They are included on the Statements of Net Position at cost, and are depreciated over their useful life, using the straight-line method.

All capital assets are depreciated using the straight-line method over the following useful lives.

<u>Description</u>	<u>Estimated Lives</u>
Building and improvements	40 years
Furniture, fixtures and equipment	5-7 years
Vehicles	5-12 years

Leasehold improvements are depreciated over the applicable lease term.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the Years Ended September 30, 2016 and 2015

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributed Services

Necessary services donated by persons with specialized skills are reported as unrestricted support at the fair market value of those services during the period services are provided. These services are reported as in-kind contributions. The amount of in-kind contributions recognized in 2016 was \$367 and the amount for 2015 was \$104,937.

Revenue Recognition

Grants – Support received under grant contract agreements with various federal and state agencies are recorded as revenue when the costs are incurred. Grants receivable at September 30, 2016 and 2015 represent amounts due for expenses incurred prior to the respective fiscal year end.

Public contributions – Contributions received from the public, corporations, intercounty agencies, and local governments are recognized as support when received and are reported as unrestricted net position.

In-kind contributions – represent the estimated fair value of contributed assets, facilities, fuel, equipment, and professional and administrative fees. Contributions of services are only recognized if the services received require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donations.

Income Taxes

TAPS operates under Section 501(c)(3) of the Internal Revenue Code and is generally exempt from federal, state and local income taxes. Accordingly, no provision for income taxes is included in the financial statements.

Compensated Absences

TAPS employees earned vacation and sick leave beginning with the month following the probationary period. Accrued leave was based on eight hours per day for full-time employees working 40 hours per week and a pro-rata share for those working 30 or more hours per week. Sick leave was accrued at the rate of one day per month. Vacation leave was accrued annually based on length of service at rates ranging from 5 - 20 days. The maximum amount of vacation and sick leave that could be earned was 200 hours and 264 hours, respectively. Sick leave was not vested and unused hours are forfeited upon termination of service. Accumulated unused vacation was fully vested but was not fully paid upon termination of service. The liability is presented as noncurrent in the accompanying financial statements as management may not be able to pay this within the next year. All current employees are employed by Transdev Services, Inc.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the Years Ended September 30, 2016 and 2015

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Position

In proprietary fund financial statements, equity is classified as net position and displayed in three components:

- A. Net investment in capital assets - consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- B. Restricted net position - consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributions, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.
- C. Unrestricted net position - all other net assets that do not meet the definition of restricted or net invested in capital assets.

TAPS considers restricted net position to be spent for expenses first when both restricted and unrestricted resources are available.

Risk Management

TAPS is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and natural disasters. Management is of the opinion that any such losses would be covered by the existing insurance of TAPS. In addition, TAPS carries a separate insurance policy for environmental liability.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Commitments and Contingencies

TAPS receives a substantial amount of its support from federal and state grant programs, the funding of which is subject to the political process. Additionally, the programs are periodically audited for compliance by the granting agencies. The amount, if any, of expenditures which may be disallowed or repayments required by the granting agencies cannot be determined at this time.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the Years Ended September 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Commitments and Contingencies - Continued

During the period of TAPS financial difficulties, the agency was unable to regularly pay all its vendors and accumulated significant debt. As a result, numerous litigation cases are pending, some of which may ultimately result in settlements. The estimated liabilities for these cases are \$1,869,055 and are included in "accrued liabilities" on the Statements of Net Position.

NOTE 2 - CASH AND CASH EQUIVALENTS

For the purpose of the statements of cash flows, TAPS considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All cash and cash equivalents are covered by the Federal Deposit Insurance Corporation "(FDIC)".

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, TAPS's deposits may not be returned to it. At September 30, 2016 and 2015, TAPS had \$190,700 and \$109,740 on deposit, respectively. These balances were secured from risk by the \$250,000 federal deposit insurance.

NOTE 3 - ACCOUNTS RECEIVABLE

TAPS believes that sufficient detail of receivable balances is provided in the notes to the financial statements to avoid the obscuring of significant components by aggregation.

At September 30, 2016, TAPS evaluated the status of all accounts receivable balances for collectability. It was determined that some receivable balances from the prior and current period were deemed uncollectable. These amounts were adjusted through a prior period or bad debt entry. Management has evaluated the necessity of providing for an allowance for doubtful accounts and has concluded that no such allowance is required for September 30, 2016.

NOTE 4 - DUE FROM OTHER GOVERNMENTS

The due from other governments represents the amount uncollected from state and federal financial assistance.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the Years Ended September 30, 2016 and 2015

NOTE 4 - DUE FROM OTHER GOVERNMENTS - Continued

The following is a summary of federal and state financial assistance by contracting source:

	September 30, 2016		
	Federal	State	Total
Federal Transit Administration	\$ 161,873	\$ -	\$ 161,873
Texas Department of Transportation	<u>195,216</u>	<u>319,821</u>	<u>515,037</u>
Total due from other governments	<u>\$ 357,089</u>	<u>\$ 319,821</u>	<u>\$ 676,910</u>

	September 30, 2015		
	Federal	State	Total
Texas Department of Transportation	<u>\$ 390,395</u>	<u>\$ 762</u>	<u>\$ 391,157</u>
Total due from other governments	<u>\$ 390,395</u>	<u>\$ 762</u>	<u>\$ 391,157</u>

NOTE 5 - CAPITAL ASSETS

Capital assets consist of the following:

	2016			
	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, non-depreciable				
Land	<u>\$ 211,780</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 211,780</u>
Total capital assets, non-depreciable	211,780	-	-	211,780
Capital assets, depreciable				
Buildings	812,950	-	(60,683)	752,267
Leasehold improvements	277,999	-	(46,359)	231,640
Equipment	804,282	-	(378,810)	425,472
Vehicles	<u>12,503,496</u>	<u>17,400</u>	<u>(6,313,968)</u>	<u>6,206,928</u>
Total capital assets, depreciable	14,398,727	17,400	(6,799,820)	7,616,307
Less Accumulated Depreciation	<u>(6,106,021)</u>	<u>(1,482,055)</u>	<u>2,835,606</u>	<u>(4,752,470)</u>
Total capital assets, depreciable, net	<u>8,292,706</u>	<u>(1,464,655)</u>	<u>(3,964,214)</u>	<u>2,863,837</u>
Capital assets, net	<u>\$ 8,504,486</u>	<u>\$ (1,464,655)</u>	<u>\$ (3,964,214)</u>	<u>\$ 3,075,617</u>

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the Years Ended September 30, 2016 and 2015

NOTE 5 - CAPITAL ASSETS - Continued

	2015			Ending Balances
	Beginning Balances	Increases	Decreases	
Capital assets, non-depreciable				
Land	\$ 211,780	\$ -	\$ -	\$ 211,780
Total capital assets, non-depreciable	211,780	-	-	211,780
Capital assets, depreciable				
Buildings	812,950	-	-	812,950
Leasehold improvements	277,999	-	-	277,999
Equipment	720,622	83,659	-	804,282
Vehicles	9,892,110	2,611,386	-	12,503,496
Total capital assets, depreciable	11,703,681	2,695,045	-	14,398,727
Less Accumulated Depreciation	(4,140,050)	(1,965,971)	-	(6,106,021)
Total capital assets, depreciable, net	7,563,631	729,074	-	8,292,706
Capital assets, net	\$ 7,775,411	\$ 729,074	\$ -	\$ 8,504,486

Depreciation expense for the years ended September 30, 2016 and 2015, totaled \$1,480,025 and \$1,965,971, respectively. Included in the increase in accumulated depreciation is \$2,030 of a prior period adjustment. TAPS owns the maintenance building and related land which are used for its operations.

NOTE 6 – LINE OF CREDIT

TAPS had a \$300,000 unsecured operating line of credit with a bank that matured May 14, 2015 at an interest rate of 7% per annum based on a year of 360 days. The balance owed under the line of credit as of September 30, 2015 was \$299,779.

A second line of credit was entered into with a bank on August 7, 2014 in the amount of \$1,500,000 at an interest rate of 4.57% per annum based on a year of 360 days. The balance owed under this line of credit as of September 30, 2015 was \$858,151.

In May 2016, the bank forgave the line of credit balances that were outstanding in the amount of \$219,142. The related debt forgiveness is shown on the accompanying Statements of Revenues, Expenses and Changes in Net Position.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the Years Ended September 30, 2016 and 2015

NOTE 7 – PRIOR PERIOD ADJUSTMENT

The prior period adjustment of \$248,426 was made to adjust the beginning net position as a result of current management identifying recording errors in certain asset and liability accounts.

NOTE 8 – DEFICIT NET POSITION

The deficit net position of \$1,196,601 at September 30, 2016, is the result of the loss on the sale of assets which is presented as a non-operating expense.

NOTE 9 - SUBSEQUENT EVENTS

TAPS has evaluated subsequent events through the date the financials were available to be issued, which corresponds with the date of the Independent Auditors' Report. No material subsequent events have occurred since September 30, 2016 that require recognition or disclosure in the financial statements.

Kushner LaGraize, L.L.C.

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INDEPENDENT AUDITORS' 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
Texoma Area Paratransit System, Inc.

Internal Control over Financial Reporting

In planning and performing our audit the financial statements, we considered TAPS' 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 TAPS' internal control. Accordingly, we do not express an opinion on the effectiveness of TAPS' 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control described in the accompanying schedule of findings and questioned costs as item 2016-001 that we consider to be a material weakness.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of TAPS, 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2016-001.

TAPS' Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an engagement to perform an audit 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.

Kushner LaGraize, L.L.C.

Metairie, Louisiana
February 6, 2017

Kushner LaGraize, L.L.C.

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

To the Board of Directors
Texoma Area Paratransit System, Inc.

Report on Compliance for Each Major Federal Program

We have audited Texoma Area Paratransit System, Inc. (TAPS) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of TAPS' major federal programs for the year ended September 30, 2016. TAPS' major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of TAPS' 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 TAPS' 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 TAPS' compliance.

Additional Audit Testing

We performed additional audit testing on the major federal program for the U.S. Department of Transportation, Federal Transit Administration, passed through the Texas Department of Transportation, Formula Grants for Rural Areas, CFDA Number 20.509, as presented on the accompanying Schedule of Expenditures of Federal and State Awards and Notes to the Schedule of Expenditures of Federal and State Awards, for the year ended September 30, 2016. The audit work was completed on March 16, 2017 which resulted in dual-dating of our audit report.

Opinion on Each Major Federal Program

In our opinion, TAPS, 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 September 30, 2016.

Report on Internal Control over Compliance

Management of TAPS 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 TAPS' 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 TAPS' 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 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 preceding 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.

Kushner LaGraize, L.L.C.

Metairie, Louisiana

February 6, 2017, except for additional audit work performed and described in Note 2 to the Schedule of Expenditures of Federal and State Awards and Notes to the Schedule of Expenditures of Federal and State Awards as to which the date is March 16, 2017.

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
AND NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended September 30, 2016

Federal Grantor/Pass-Through Grantor Program Title	CFDA <u>Number</u>	Grant Award <u>Number</u>	<u>Expenditures</u>
FEDERAL AWARDS EXPENDED			
Federal Transit Cluster			
Federal Transit Administration:			
Urbanized Area Formula Program	*20.507	TX-90-Y132	\$ 435,046
Urbanized Area Formula Program	*20.507	TX-90-Y134	<u>105,928</u>
Total Federal Transit Cluster			540,974
Texas Department of Transportation:			
Formula Grants for Rural Areas	*20.509	RPT 1504	<u>369,494</u>
Total Federal Awards Expended			910,468
STATE AWARDS EXPENDED			
State Rural Transportation Grant		RUR 1601 (PO 7538)	621,909
State Rural Transportation Grant		RUR 1602 (PO 7531)	191,289
State Urban Transportation Grant		URB 1603 (PO 7535)	247,945
Scholarships			<u>455</u>
Total State Awards Expended			1,061,598
Total Federal and State Awards Expended			<u>\$ 1,972,066</u>

* Tested as major programs

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all federal and state financial assistance programs of TAPS and is presented using the accrual basis of accounting. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Reissue of Schedule of Federal and State Awards

The accompanying Schedule of Federal and State Awards and Notes to the Schedule of Expenditures of Federal and State Awards was reissued to include the results of additional audit work performed on *U.S. Department of Transportation, Federal Transit Administration, passed through the Texas Department of Transportation, Formula Grants for Rural Areas, CFDA Number 20.509*. Additional audit testing on this grant was performed and completed which resulted in an unmodified opinion for this major program and dual-dating of the audit report.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2016

I. SUMMARY OF AUDITORS' RESULTS

- a. The type of report issued on the basic financial statements: Qualified.
- b. Significant deficiencies in internal control were disclosed by the audit of the financial statements: None reported. Material weaknesses: Yes.
- c. Noncompliance which is material to the financial statements: Yes.
- d. Significant deficiencies in internal control over major program: None reported: Material weaknesses: None.
- e. The type of report issued on compliance for major program: Unmodified.
- f. Any audit findings which are required to be reported under Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards: None.

g. Major Programs Include:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Urbanized Area Formula Program	20.507 (Federal Transit Cluster)
Formula Grants for Rural Areas	20.509

- h. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.
- i. Auditee qualified as a low-risk auditee under Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards: No.

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
For the Year Ended September 30, 2016

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

2016-001

Criteria

TAPS has on file the *TAPS Public Transit Policies & Procedures* manual which documents all necessary policies and procedures to maintain an effective and efficient internal control system over major transaction classes, the financial accounting system, and to ensure compliance with all federal and state standards, laws and regulations governing federal and state grant programs.

Condition

During our testing, we noted the following which occurred prior to March 2016:

- Purchase orders were not consistently prepared.
- Instances of insufficient documentation available to support expenditures.

Cause

Management was not following their internal control policies and procedures.

Effect

Noncompliance with federal and state standards, laws and regulations governing federal and state grant programs, which may jeopardize future grant funding. In addition, the lack of internal controls increases the potential for the misappropriation of assets due to fraud or error.

Recommendation

We recommend that TAPS continue to implement their internal control policies and procedures to ensure compliance with all federal and state standards, laws and regulations governing federal and state grant programs.

Management's Response

See Management's Corrective Action Plan.

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
For the Year Ended September 30, 2016

3. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS:
None Noted.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

SCHEDULE OF PRIOR YEAR FINDINGS

For the Year Ended September 30, 2016

Finding/Recommendation

- 2015-001 TAPS may not be following the appropriate authoritative guidance for accounting, financial reporting or audit purposes. This finding is resolved.
- 2015-002 Management was not complying with applicable policies and procedures. This finding is partially resolved. See current year finding 2016-001.
- 2015-003 Audits have not been completed timely. This finding is resolved.
- 2015-004 Management did not follow internal control policies or procedures as defined by their Policies and Procedures Manual or comply with the applicable federal and state standards, laws and regulations governing federal grant programs. This finding is resolved.
- 2015-005 Management did not follow internal control policies or procedures as defined by their Policies and Procedures Manual or comply with the applicable federal and state standards, laws and regulations governing federal funding passed through state grant programs. This finding was partially resolved. This finding is resolved.
- 2015-006 Federal Transit Administration Triennial Review. This finding was resolved.
- 2015-007 Federal Transit Administration Financial Management Oversight Review. This finding was resolved.

TO: Board of Directors

FROM: Shellie White
Finance Manager
Shellie.white@transdev.com
(903) 357-5792 direct

RE: Corrective Action for Audit Findings
FYE 09/30/2016

DATE: March 17, 2017



The purpose of this memo is to address the findings in the audit for the fiscal year ended 09/30/2016.

2016-001 Management was not following their internal control policies and procedures.

Response: The specific finding was due to lack of purchase orders and insufficient documentation prior to March 2016. Subsequent to that time period, TAPS management has updated the Financial Policies and Procedures to more closely reflect the finance department procedures under current management. Staff will continue to work on and update policies and procedures as needed to ensure all internal control procedures are in place and followed to the best of our ability with limited staff.