

**TEXOMA AREA
PARATRANSIT SYSTEM, INC.**

AUDITED FINANCIAL STATEMENTS

For the Years Ended September 30, 2017 and 2016

TEXOMA AREA PARATRANSIT SYSTEM, INC.

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September 30, 2017 and 2016

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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 years ended September 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise TAPS' basic financial statements as listed in the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

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.

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 unmodified opinion for the year ended September 30, 2017 and 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.

Unmodified Opinion on 2017 and Qualified Opinion on 2016

In our opinion, except for the possible effects on the 2016 financial statements of the matter discussed in the Basis of Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of TAPS for the years ended September 30, 2017 and 2016, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the 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. Our opinion on the basic financial statements is not affected by the missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2018, 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
January 29, 2018

TEXOMA AREA PARATRANSIT SYSTEM, INC.

STATEMENTS OF NET POSITION

September 30, 2017 and 2016

ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 219,972	\$ 121,827
Accounts receivable	975	807
Due from other governments	<u>370,216</u>	<u>676,910</u>
TOTAL CURRENT ASSETS	591,163	799,544
RESTRICTED ASSETS		
Cash	<u>165,523</u>	<u>64,478</u>
TOTAL RESTRICTED ASSETS	165,523	64,478
NONCURRENT ASSETS		
Capital assets, non-depreciable	211,780	211,780
Capital assets, net of depreciation	<u>1,579,403</u>	<u>2,863,837</u>
TOTAL NONCURRENT ASSETS	<u>1,791,183</u>	<u>3,075,617</u>
TOTAL ASSETS	<u>\$ 2,547,869</u>	<u>\$ 3,939,639</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 420,862	\$ 892,194
Accrued liabilities	<u>4,028,782</u>	<u>4,184,148</u>
TOTAL CURRENT LIABILITIES	4,449,644	5,076,342
NONCURRENT LIABILITIES		
Compensated absences	<u>59,898</u>	<u>59,898</u>
TOTAL LIABILITIES	4,509,542	5,136,240
NET POSITION		
Net investment in capital assets	1,791,183	3,075,617
Restricted	165,523	64,478
Unrestricted	<u>(3,918,379)</u>	<u>(4,336,696)</u>
TOTAL NET POSITION	<u>(1,961,673)</u>	<u>(1,196,601)</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,547,869</u>	<u>\$ 3,939,639</u>

TEXOMA AREA PARATRANSIT SYSTEM, INC.
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended September 30, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Federal direct financial assistance	\$ 453,073	\$ 540,974
State financial assistance	1,903,887	1,431,092
Medicaid	-	892,040
Program income	-	495,210
Fare revenue	47,090	63,043
Public contributions	201,100	114,940
In-kind contributions	-	367
Other income	1,037	516,008
TOTAL OPERATING REVENUES	2,606,187	4,053,674
OPERATING EXPENSES		
Salaries and employee benefits	-	581,092
Vehicle expenses	130,127	317,961
Building maintenance	625	14,444
Communications	4,758	77,868
Subcontractor expense	2,342,116	2,664,815
Travel	1,561	213
Supplies	373	2,809
Rent	-	21,300
Utilities	49,534	73,130
Insurance	24,304	20,882
Professional fees	-	49,219
Legal fees	27,286	194,161
In-kind expense	-	77
Depreciation	861,163	1,480,025
Other operating costs	25,070	196,773
Medicaid	-	564,239
Bad debt	-	86,110
TOTAL OPERATING EXPENSES	3,466,917	6,345,118
OPERATING LOSS	(860,730)	(2,291,444)
NON-OPERATING REVENUES (EXPENSES)		
Debt forgiveness	320,431	219,142
Interest	-	(3,392)
Loss on sale of assets	(294,560)	(3,348,758)
TOTAL NON-OPERATING REVENUES (EXPENSES)	25,871	(3,133,008)
NET LOSS BEFORE CAPITAL CONTRIBUTIONS	(834,859)	(5,424,452)
Capital contributions	69,787	-
CHANGES IN NET POSITION	(765,072)	(5,424,452)
NET POSITION – BEGINNING OF YEAR	(1,196,601)	4,476,277
RESTATEMENT	-	(248,426)
NET POSITION – BEGINNING OF YEAR, RESTATED	(1,196,601)	4,227,851
NET POSITION – END OF YEAR	\$ (1,961,673)	\$ (1,196,601)

See Notes to Financial Statements.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

STATEMENTS OF CASH FLOWS For the Year Ended September 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 249,059	\$ 1,669,273
Federal and state financial assistance	2,663,654	2,397,414
Payments to suppliers	(2,912,021)	(3,045,619)
Payments to employees and related benefits	-	(602,409)
NET CASH PROVIDED BY OPERATING ACTIVITIES	692	418,659
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds on sale of vehicles	128,711	600,086
Capital grants	69,787	-
Payments on line of credit	-	(938,788)
Interest paid	-	(3,392)
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	198,498	(342,094)
NET INCREASE IN CASH AND CASH EQUIVALENTS	199,190	76,565
BALANCES – BEGINNING OF YEAR	186,305	109,740
BALANCES – END OF YEAR	\$ 385,495	\$ 186,305
RECONCILIATIONS OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (860,730)	\$ (2,291,444)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	861,163	1,480,025
(Increase) Decrease in accounts receivable	(168)	479,705
(Increase) Decrease in due from other government	306,694	(466,692)
Decrease in accounts payable	(292,319)	(2,973,336)
Increase (Decrease) in accrued liabilities	(13,948)	4,190,892
Decrease in compensated absences	-	(491)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 692	\$ 418,659
SUPPLEMENTAL CASH FLOW INFORMATION:		
Non-cash contributions received in-kind	\$ -	\$ 367
Debt forgiveness	320,431	219,142

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the Years Ended September 30, 2017 and 2016

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, 2017 and 2016

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 Statement 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 Statement of Net Position at cost, and are depreciated over their useful life, using the straight-line method. Donated capital assets are recorded at estimated fair market value at the date of donation.

TEXOMA AREA PARATRANSIT SYSTEM, INC.

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

For the Years Ended September 30, 2017 and 2016

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Capital Assets - Continued

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 equip	5-7 years
Vehicles	5-12 years

Leasehold improvements are depreciated over the applicable lease term.

Impairment of Capital Assets

Management evaluates its capital assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value or fair value less cost to sell. At September 30, 2017, TAPS had an impaired asset due to office relocation. The carrying value of \$26,270 was reported on the Statement of Revenues, Expenses and Changes in Net Position as a loss on sale of assets.

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 donations. The amount of in-kind donations recognized in 2017 was \$0 and the amount for 2016 was \$367.

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, 2017 and 2016 represents 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.

TEXOMA AREA PARATRANSIT SYSTEM, INC.
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the Years Ended September 30, 2017 and 2016

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Revenue Recognition - Continued

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 is 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 were 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.

Net Position

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

- A. Net invested 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.

TEXOMA AREA PARATRANSIT SYSTEM, INC.
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the Years Ended September 30, 2017 and 2016

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Net Position - Continued

- 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 policies held by Transdev Services, Inc. on TAPS' behalf.

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.

New Accounting Standards

For the year ended September 30, 2017, TAPS implemented GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments".

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, 2017 and 2016

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. For the years ended September 30, 2017 and 2016 the estimated liabilities for these cases were \$2,134,985 and \$1,869,055, respectively, and are included in “accrued liabilities” on the Statement 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 Federal Deposit Insurance Corporation "(FDIC)".

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, TAPS' deposits may not be returned to it. At September 30, 2017 and 2016, TAPS had \$390,839 and \$190,700 on deposit, respectively. These balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash at September 30, 2017 exceeded the federally insured limits by \$140,839.

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.

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, 2017.

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, 2017 and 2016

NOTE 4 - DUE FROM OTHER GOVERNMENTS - Continued

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

	September 30, 2017		
	Federal	State	Total
Federal Transit Administration	\$ 65,076	\$ -	\$ 65,076
Texas Department of Transportation	<u>166,350</u>	<u>138,790</u>	<u>305,140</u>
Total due from other governments	<u>\$ 231,426</u>	<u>\$ 138,790</u>	<u>\$ 370,216</u>

	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>

NOTE 5 - CAPITAL ASSETS

Capital assets consist of the following:

	2017			
	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets, non-depreciable				
Land	\$ 211,780	\$ -	\$ -	\$ 211,780
Total capital assets, non-depreciable	211,780	-	-	211,780
Capital assets, depreciable				
Buildings	752,267	-	-	752,267
Leasehold improvements	231,640	-	(30,906)	200,734
Equipment	425,472	-	(6,975)	418,497
Vehicles	<u>6,206,928</u>	<u>-</u>	<u>(2,893,948)</u>	<u>3,312,980</u>
Total capital assets, depreciable	7,616,307	-	(2,931,829)	4,684,478
Less Accumulated Depreciation	<u>(4,752,470)</u>	<u>(861,163)</u>	<u>2,508,558</u>	<u>(3,105,075)</u>
Total capital assets, depreciable, net	<u>2,863,837</u>	<u>(861,163)</u>	<u>(423,271)</u>	<u>1,579,403</u>
Capital assets, net	<u>\$ 3,075,617</u>	<u>\$ (861,163)</u>	<u>\$ (423,271)</u>	<u>\$ 1,791,183</u>

TEXOMA AREA PARATRANSIT SYSTEM, INC.
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the Years Ended September 30, 2017 and 2016

NOTE 5 - CAPITAL ASSETS – Continued

	2016			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	-	(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>

Depreciation expense for the years ended September 30, 2017 and 2016, totaled \$861,163 and \$1,480,025, respectively. Included in the increase in accumulated depreciation for 2016 is \$2,030 of a prior period adjustment. TAPS owns the maintenance building and related land which are used for its operations. At September 30, 2017 and 2016, TAPS had idle rolling stock with carrying values of \$61,150 and \$493,898, respectively.

Liens assigned to the Texas Department of Transportation (TXDOT) have been placed on the title of all rolling stock purchases made using funds from TXDOT grants.

NOTE 8 – DEFICIT NET POSITION

The deficit net position for the years ended September 30, 2017, in the amount of \$1,961,673 is the result of the loss on the sale of assets which are presented as non-operating expenses and expenses exceeding revenues.

TEXOMA AREA PARATRANSIT SYSTEM, INC.
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
For the Years Ended September 30, 2017 and 2016

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 Auditor's Report. No material subsequent events have occurred since September 30, 2017, that require recognition or disclosure in the financial statements.

Kushner LaGraize, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

S. DAVID KUSHNER*, CPA, CRFAC
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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.

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 Texoma Area Paratransit System, Inc. (TAPS), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise TAPS' basic financial statements and have issued our report thereon dated January 29, 2018.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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 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 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
January 29, 2018

Kushner LaGraize, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

S. DAVID KUSHNER*, CPA, CRFAC
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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, 2017. 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.

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, 2017.

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
January 29, 2018

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended September 30, 2017

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Grant Award Number	State Award Number	Expenditures
FEDERAL AWARDS EXPENDED				
Federal Transit Cluster				
Federal Transit Administration Urbanized Area Formula Program	20.507	TX-2017-012-00		\$ 453,073
Federal Transit Administration passed Through Texas Dept of Transportation Capital Assistance Program	20.526	TX-34-0018	VCR 1603 (33)18	12,235
Total Federal Transit Cluster				465,308
Federal Transit Administration passed Through Texas Dept of Transportation				
Transit Services Programs Cluster				
Formula Grants for Rural Areas	*20.509	TX-18-X038	RPT 1501 (26) 38	57,552
Formula Grants for Rural Areas	*20.509	TX-18-X039	RPT 1504 (09) 39	373,506
Formula Grants for Rural Areas	*20.509	TX-2016-013	RPT 1601 (33) 013	649,085
Total Transit Services Programs Cluster				1,080,143
Total Federal Awards Expended				1,545,451
STATE AWARDS EXPENDED				
State Rural Transportation Grant			RUR 1601 (PO 7538)	172,328
State Rural Transportation Grant			RUR 1701 (33)	427,792
State Urban Transportation Grant			URB 1703 (33)	251,382
State Urban Transportation Grant			URB 1801 (33)	28,513
Scholarships				1,281
Total State Awards Expended				881,296
Total Federal and State Awards Expended				\$ 2,426,747

* Tested as major program

TEXOMA AREA PARATRANSIT SYSTEM, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended September 30, 2017

Note 1. Summary of Significant Accounting Policies and 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. De Minimus Cost Rate

During the year ended September 30, 2017, TAPS did not elect to use the 10% de minimus cost rate as covered in Section 200.414 of the Uniform Guidance.

TEXOMA AREA PARATRANSIT SYSTEM, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2017

I. SUMMARY OF AUDITORS' RESULTS

- a. The type of report issued on the basic financial statements: Unmodified.
- b. Significant deficiencies in internal control were disclosed by the audit of the financial statements: None reported; Material weaknesses: None.
- c. Noncompliance which is material to the financial statements: No.
- 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>
Federal Transit Administration - 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.

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS:

None noted

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, 2017

Finding/Recommendation

2016 – 001 Prior to March 2016, management was not following their internal control policies and procedures. This finding is resolved.