

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT Uvalde, Texas

ANNUAL FINANCIAL AND COMPLIANCE REPORT

Years Ended August 31, 2022 and 2021

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

ANNUAL FINANCIAL AND COMPLIANCE REPORT

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SOUTHWEST AREA REGIONAL TRANSIT DISTRICT'S
Uvalde, Texas

PRINCIPAL OFFICIALS

August 31, 2022

Board Members

Cristine Cardona-Guerrero for Judge Francisco Ponce
Dimmit

Judge Souli A. Shanklin
Edwards

Judge Tully Shahan
Kinney

Damiana Guzman for Judge Joel Rodriguez, Jr.
La Salle

Judge David Saucedo
Maverick

Judge Bella A. Rubio
Real

Judge Lupe Valerio for Judge Joe Luna
Zavala

Judge Bill Mitchell
Uvalde

General Manager

Sarah Hidalgo-Cook

Assistant General Manager

Cynthia Rodriguez

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southwest Area Regional Transit District
Uvalde, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of the Southwest Area Regional Transit District (the District) as of and for the years ended August 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District'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 the business-type activities of the District, as of August 31, 2022 and 2021, and the respective 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.

Basis for Opinions

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 District 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 opinions.

Change in Accounting Principle

As discussed in Note I.C.2. to the financial statements, the District adopted Governmental Accounting Standards Board Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The District, as a lessee, and as required by GASB 87, has recognized a right-to-use liability and an intangible right-to-use lease asset. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

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 District'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 opinions. 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 District'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 the District'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, as listed in the table of contents, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements. The accompanying schedule of expenses by fund and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are 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 expenses by fund and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2023, on our consideration of the District’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 the District’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 the District’s internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "George Gonzalez" with a stylized flourish underneath.

February 24, 2023

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Southwest Area Regional Transit District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities for the year ended August 31, 2022. We encourage readers to consider the information presented here.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities by \$3,945,090 (net position) for the year ended August 31, 2022. This represents a slight decrease of \$22,659 from the previous year when assets exceeded liabilities by \$3,967,749.
- Total capital assets (net of depreciation) were \$3,028,283 for the current year reported compared to \$3,269,992 in the previous year, which decreased by \$241,709 for the current year reported.
- The District received COVID-19 federal assistance of \$207,107 from the Texas Department of Transportation. These funds were utilized for operating funds in lieu of the standard federal, state and local funding for this period.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: 1) proprietary fund financial statements, and 2) notes to the financial statements.

Basic financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Proprietary fund. The District maintains one proprietary fund (enterprise fund) to account for its transportation operations.

The basic financial statements can be found on pages 10 through 12.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the proprietary fund financial statements. The notes to the financial statements can be found on pages 13 – 22 of this report.

Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position.

The largest portion of the District's net position (77%) reflects its investment in capital assets (e.g., vehicles, office furniture and equipment, and buildings), net of any related debt. The District uses these capital assets to provide public transportation services to residents of Dimmit, Edwards, Kinney, La Salle, Maverick, Real, Uvalde, and Zavala Counties; consequently, these assets are not available for future spending.

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

The remaining portion of the District's net position (23%) represents unrestricted net position that may be used to meet the District's ongoing obligations to creditors.

The District's net position decreased by \$22,659, compared to the previous year.

Below are summaries of the District's Statement of Net Position and Statements of Revenues, Expenses, and Changes in Net Position.

Statements of Net Position			
August 31,			
	2022	2021	2020
Current Assets	\$ 1,153,273	\$ 850,305	\$ 492,392
Right-to-Use Leased Asset	38,244	-	-
Capital Assets	3,028,283	3,269,992	2,980,103
Total Assets	\$ 4,219,800	\$ 4,120,297	\$ 3,472,495
Current Liabilities	\$ 179,615	\$ 95,838	\$ 263,885
Long Term Liabilities	95,095	56,710	56,710
Total Liabilities	274,710	152,548	320,595
Net Position			
Net Investment in Capital Assets	3,028,283	3,269,992	2,980,103
Unrestricted	916,807	697,757	171,796
Total Net Position	\$ 3,945,090	\$ 3,967,749	\$ 3,151,899

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

	Statements of Activities		
	August 31,		
	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating Revenues			
Passenger Revenues	\$ 136,082	\$ 74,709	\$ 101,072
Rents and Other Revenues	885,357	546,415	292,360
Grants and Contributions	<u>2,532,965</u>	<u>3,088,075</u>	<u>2,125,188</u>
Total Operating Revenues	<u>3,554,404</u>	<u>3,709,199</u>	<u>2,518,620</u>
Operating Expenses			
Transportation Programs	3,005,768	3,100,257	2,304,663
Depreciation Expense	558,453	520,130	423,968
Amortization Expense	<u>10,430</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>3,574,651</u>	<u>3,620,387</u>	<u>2,728,631</u>
Operating Income (Loss)	<u>(20,247)</u>	<u>88,812</u>	<u>(210,011)</u>
Non-Operating Revenues (Expenses)			
Gain/(Loss) on Disposal of Capital Assets	-	(24,650)	(8,315)
Interest Expense	<u>(2,875)</u>	<u>(4,999)</u>	<u>(10,232)</u>
Total Non-Operating Revenue (Expenses)	<u>(2,875)</u>	<u>(29,649)</u>	<u>(18,547)</u>
Income (Loss) Before Capital Grants and Contributions	<u>(23,122)</u>	<u>59,163</u>	<u>(228,558)</u>
Capital Grants	<u>463</u>	<u>756,687</u>	<u>1,238,455</u>
Change in Net Position	(22,659)	815,850	1,009,897
Net Position at Beginning of Year	3,967,749	3,151,899	2,142,002
Net Position at End of Year	<u>\$ 3,945,090</u>	<u>\$ 3,967,749</u>	<u>\$ 3,151,899</u>

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

The District's investment in capital assets for its proprietary fund as of August 31, 2022, totaled to \$3,028,283 (net of accumulated depreciation). This investment in capital assets includes vehicles, buildings, furniture and equipment. No capital assets were disposed in the current year. In the current year the District acquired three (3) vehicles and made building improvements for a total value of \$316,744.

	Capital Assets (Net of Depreciation)		
	August 31,		
	2022	2021	2020
Land	\$ 209,654	\$ 209,654	\$ 209,654
Buildings	1,765,141	1,701,476	1,515,179
Machinery, Equipment & Vehicles	3,859,544	3,606,465	3,366,389
Accumulated Depreciation	<u>(2,806,056)</u>	<u>(2,247,603)</u>	<u>(2,111,119)</u>
Total	<u>\$ 3,028,283</u>	<u>\$ 3,269,992</u>	<u>\$ 2,980,103</u>

Additional information on the District's capital assets can be found in the notes to the financial statements.

LONG TERM LIABILITES

Long term liabilities consist of compensated absences for \$64,528 and non-current portion of lease liability for \$30,567. Additional detailed information is found in note II E. to the financial statements.

ECONOMIC FACTORS AND THE NEXT YEAR'S BUDGETS AND RATES

The budget for the year ended August 31, 2023 and actual revenues from fiscal year 2022 is as follows:

	Budget 2023	Actual 2022
Federal Grants	\$ 2,247,824	\$ 1,538,034
State Grants	572,946	641,066
TRS	991,757	648,417
Elderly and Disabled	597,000	375,338
Bus and Bus Facility	427,561	463
Other	35,000	114,402
Total	<u>\$ 4,872,088</u>	<u>\$ 3,317,720</u>

Federal and state grant allocations are expected to carry over into fiscal year 2022.

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

REQUEST FOR INFORMATION

The financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Sarah Hidalgo-Cook, CCTM
General Manager
Southwest Area Regional Transit District
713 East Main Street
Uvalde, Texas 78801
830-278-4155 or 800-499-1617
www.paseoswart.org

BASIC FINANCIAL STATEMENTS

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

STATEMENT OF NET POSITION

	August 31,	
	2022	2021
ASSETS		
Current Assets		
Cash	\$ 902,317	\$ 529,960
Restricted Cash - Staff Savings	28,440	16,130
Grants Receivable	222,516	304,215
Total Current Assets	1,153,273	850,305
Non-Current Assets		
Right-to-Use Lease Asset (net of accumulated amortization)	38,244	-
Capital Assets		
Land	209,654	209,654
Buildings & Improvements	1,765,141	1,701,476
Vehicles & Equipment	3,859,544	3,606,465
Less: Accumulated Depreciation	(2,806,056)	(2,247,603)
Total capital assets (net of accumulated depreciation)	3,028,283	3,269,992
Total Non-Current Assets	3,066,527	3,269,992
Total Assets	\$ 4,219,800	\$ 4,120,297
LIABILITIES		
Current Liabilities		
Accounts Payable	\$ 43,760	\$ 9,502
Accrued Salaries and Benefits Payable	73,711	62,016
Due to Employees for Staff Savings	30,330	17,310
Credit Card Payable	1,732	7,010
Unearned Revenue	20,369	-
Current Portion Long-term Lease Liability	9,713	-
Total Current Liabilities	179,615	95,838
Non-Current Liabilities		
Compensated Absences	64,528	56,710
Non-Current Portion Lease Liability	30,567	-
Total Non-Current Liabilities	95,095	56,710
Total Liabilities	274,710	152,548
NET POSITION		
Net Investment in Capital Assets	3,028,283	3,269,992
Unrestricted	916,807	697,757
Total Net Position	\$ 3,945,090	\$ 3,967,749

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

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Years Ended August 31,

	2022	2021
Operating Revenues		
Grants and Contracts	\$ 2,532,965	\$ 3,088,075
Passenger Fares	136,082	74,709
Rental Income	52,205	52,205
Contract Revenues	723,947	397,478
Donations	62,000	53,150
Other Revenues	47,205	43,582
Total Operating Revenues	3,554,404	3,709,199
Operating Expenses		
Transportation Programs	3,005,768	3,100,257
Depreciation Expense	558,453	520,130
Amortization Expense	10,430	-
Total Operating Expenses	3,574,651	3,620,387
Operating income (loss)	(20,247)	88,812
Non-Operating Revenues (Expenses)		
Gain/(Loss) on Disposal of Capital Assets	-	(24,650)
Interest	(2,875)	(4,999)
Total Non-Operating Revenues (Expenses)	(2,875)	(29,649)
Income (Loss) Before Capital Grants	(23,122)	59,163
Capital Grants and Contributions		
Capital Grants	463	756,687
Change in Net Position	(22,659)	815,850
Net Position at Beginning of Year	3,967,749	3,151,899
Net Position at End of Year	\$ 3,945,090	\$ 3,967,749

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

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

STATEMENT OF CASH FLOWS

Years Ended August 31,

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Grantors/Contractors	3,358,980	3,556,768
Receipts from Passengers	136,082	74,709
Receipts from Donors	62,000	53,150
Receipts from Others	99,410	95,787
Cash Paid to Vendors	(1,077,770)	(1,237,048)
Cash Paid to Employees	(1,866,485)	(1,968,973)
Net Cash Provided (Used) by Operating Activities	712,217	574,393
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Interest payments	(159)	(4,729)
Net Cash (Used) by Non Capital Financing Activities	(159)	(4,729)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Sale of Capital Assets	-	34,575
Purchase of Capital Assets	(316,281)	(112,558)
Principal Payments on Line of Credit and Notes Payable	-	(62,283)
Principal Payments on Lease Liability	(8,394)	-
Interest Paid on Lease Liability	(2,716)	-
Net Cash Provided/(Used) by Capital and Related Financing Activities	(327,391)	(140,266)
NET INCREASE IN CASH AND RESTRICTED CASH	384,667	429,398
CASH AND RESTRICTED CASH AT BEGINNING OF YEAR	546,090	116,692
CASH AND RESTRICTED CASH AT END OF YEAR	\$ 930,757	\$ 546,090
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (20,247)	\$ 88,812
Adjustments to Reconcile change in Net Position to Net Cash Provided By Operating Activities:		
Depreciation	558,453	520,130
Amortization on Right-to-Use Lease Asset	10,430	-
Loss on Disposal of Capital Assets	-	-
(Increase) Decrease in Operating Assets:		
Grants receivable	81,699	71,215
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	34,258	(5,437)
Accrued Salaries and Benefits Payable	11,695	(102,124)
Due to other funds	-	-
Due to Employees for Staff Savings	13,020	7,410
Credit Card Payable	(5,278)	(5,613)
Unearned Revenue	20,369	-
Compensated Absences	7,818	-
Net Cash Provided by Operating Activities	712,217	574,393
Supplemental Disclosures:		
Non-Cash Transaction: Acquisition of Equipment, Building, and Improvements from TXDOT programs	\$ 463	\$ 756,687
Reconciliation to Statement of Net Position:		
Cash	\$ 902,317	\$ 529,960
Restricted Cash	28,440	16,130
	\$ 930,757	\$ 546,090

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

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2022 and 2021

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Southwest Area Regional Transit District (the "District") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following represents the significant accounting policies and practices used by the District.

A. Reporting Entity

The District is a local governmental body and political subdivision existing under Chapters 458 of the Transportation Code of the State of Texas. The District is governed by a Board of Directors composed of elected officials from each of the counties served. The District offers public and specialized transportation services for the following counties; Dimmit, Edwards, LaSalle, Kinney, Maverick, Real, Uvalde, Val Verde, and Zavala. Medical transportation services are provided in Val Verde County. The District began operations effective June 1, 2012.

The following are the primary services offered by the District:

- Rural Public Transportation Services
- Job Access Transportation
- Non-Emergency Medical Transportation for Medicaid Eligible Clients
- Contracted Transportation

B. Basic Financial Statements – Fund Financial Statements

The financial statements of the District are reported as a proprietary fund financial statements. The fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, net position, revenues and expenses. The focus of proprietary fund measurement is on the determination of operating income, changes in net position, financial position, and cash flows. The general accounting principles applicable are those similar to businesses in the private sector. The following briefly describes the purpose of proprietary fund:

- Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods and services and the activity is financed with debt that is solely secured by a pledge of the net revenues.

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2022 and 2021

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting

1. Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If the balance has not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

The financial statements are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all Governmental Accounting Standards Board (GASB) pronouncements. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included on the fund Statement of Net Position. The fund equity is segregated into (1) net investment in capital assets and (2) unrestricted net position.

The District distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses consist of charges for services (including intergovernmental revenues received in exchange for providing transportation and in-kind revenues) and the cost of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.

2. Recently Issued Accounting Standards

The District implemented GASB Statement No. 87, *Leases*, during fiscal year 2022. GASB Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, the District, as a lessee, is required to recognize a lease liability and an intangible right-to-use asset.

A right-to-use lease is defined as a contract that conveys control of another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. To be accounted for as a lease, the lease must meet the definition of a "long-term" lease provided in GASB 87. The lease liability should be measured at the present value of payments expected to be made during the lease term and the interest included in the lease payment is recorded as an expense.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2022 and 2021

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Net Position

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District's cash and cash equivalents are comprised of cash on hand and in banks. Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

2. Grants Receivable

Grants receivable represent amounts due from federal and state agencies for the various programs administered by the District. The receivable includes amounts due on programs closed out and those in progress as of August 31, 2022.

3. Restricted Cash

Cash that has been earmarked in connection with an employee savings program is not available for general operations. The restricted cash balance at August 31, 2022 and 2021 totaled \$28,440 and \$16,130; respectively, and is presented in the Statement of Net Position.

4. Capital Assets and Depreciation

Capital assets, which include land, buildings and vehicles, are reported in the proprietary fund. 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 two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value on the date received.

The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. The District's grantor agencies retain a reversionary interest in the grant equipment that the District has recorded on their financial statements. That is, if the grantor agency were to terminate the program, the title to the equipment reverts to the grantor agency and the equipment would be required to be returned to the grantor agency.

Capital Assets of the District are depreciated using the straight-line method over the following useful lives:

Assets	Years
Building(s)	30
Vehicle(s)	8

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2022 and 2021

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Allowance for Doubtful Accounts

The District considers its receivables from reimbursement grants fully collectible; therefore, an allowance for doubtful accounts is not recognized. Grants receivable are written off when management makes the determination that an amount is not collectible. The District had no bad debts for the years ended August 31, 2022 or 2021.

6. Restricted/Unrestricted Resources

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

7. Retirement Plan

The District has adopted a tax-deferred plan under Section 401(a) of the Internal Revenue Code. The Plan provides that all employees are eligible to participate after completing six months of service and are at least eighteen years of age. The District may make a discretionary matching contribution based on a percentage of the participant's compensation. The matching contribution are to be determined by the employer and are determined on a plan year basis.

8. Net Position

Net position is comprised of three components:

- Net investment in capital assets – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net position – consist of net position that are restricted by the District's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted – all other net position is reported in this category.

9. Compensated Absences

District employees earn annual leave at rates varying according to their years of service. Annual leave is credited each pay period at the rate of 4 hours for employees working 12-59 months; 5 hours for employees working 60-119 months; and, 6 hours for employees working at least 120 months.

Upon termination of employment, the District pays employees who have completed 12 months of services the unused portion of their accrued annual leave, not to exceed 96 hours. However, if SWART, in its sole discretion, terminates employment for cause, forfeiture of unused annual leave time may result.

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2022 and 2021

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Upon resignation, an employee will be paid their unused portion of annual leave, not to exceed 96 hours if employed 12 to 59 months and 192 hours if employed 60 or more months, providing all policies were followed, including two-week notice and the exit interview.

The compensated absences liability at August 31, 2022 and 2021 totaled \$64,528 and \$56,710 respectively.

10. Capital Grants and Contributions

The District reports as capital grants and contributions revenues awarded by the U.S Department of Transportation for capital purchases under the Formula Grants for Rural Areas and the Bus and Bus Facilities Program for fiscal year 2022. Capital Grants and Contributions totaled \$463 and \$756,687 respectively for the years ended August 31, 2022 and 2021, respectively.

11. Budget and Budgetary Accounting

The District's primary funding source is federal, state grants and contracts which have contract periods that may or may not coincide with the District's fiscal year. These grants normally are for a 12-month period; however, they can be awarded for periods shorter or longer than 12 months.

Although the financial plan is reviewed and approved by the District's Board, it is not considered a legally adopted annual budget. Accordingly, comprehensive budget and actual results are not required to be presented in this report.

12. Leases

The District is a lessee for a non-cancelable lease of equipment. The District recognizes a lease liability and a right-to-use lease asset in the business type fund. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

A. Deposits and Investments

- a. State statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) banker's acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds.

During the year ended August 31, 2022 or 2021, the District did not own any types of securities or investments.

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2022 and 2021

II. DETAILED NOTES ON ALL FUNDS

b. Custodial Credit Risk for Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's funds are required to be deposited and invested under the terms of a depository contract. The District's deposits are required to be collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") Insurance. At August 31, 2022 and 2021, the District's bank deposits were fully insured by FDIC and pledged securities.

B. Grants Receivable

Grants receivable, due within one year for qualifying costs recorded in statements of net position, is comprised of the following:

Program	August 31,	
	2022	2021
CARES Funding	\$ 4,400	\$ -
Elderly	11,371	5,864
RPT Federal	60,174	98,483
RPT State	51,469	92,751
MPT/Other	95,102	107,117
Total	\$ 222,516	\$ 304,215

C. Unearned Revenue

Unearned revenue as of August 31, 2022 consists of the following:

Program	Amounts
AARP Grant Program	\$ 20,369
Total Unearned Revenue	\$ 20,369

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2022 and 2021

II. DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets

Capital asset activity for the year ended August 31, 2022, was as follows:

Governmental Activities	Balance September 1, 2021	Increases	Decreases	Balance August 31, 2022
Capital assets, not being depreciated:				
Land	\$ 209,654	\$ -	\$ -	\$ 209,654
Total capital assets, not being depreciated	209,654	-	-	209,654
Capital assets, being depreciated:				
Building and improvements	1,701,476	63,665	-	1,765,141
Machinery, equipment and vehicles	3,606,465	253,079	-	3,859,544
Total capital assets, being depreciated	5,307,941	316,744	-	5,624,685
Less accumulated depreciation for:				
Building and improvements	(939,810)	(69,700)	-	(1,009,510)
Machinery, equipment and vehicles	(1,307,793)	(488,753)	-	(1,796,546)
Total accumulated depreciation	(2,247,603)	(558,453)	-	(2,806,056)
Total capital assets depreciated, net	3,060,338	(241,709)	-	2,818,629
Total capital assets, net	\$ 3,269,992	\$ (241,709)	\$ -	\$ 3,028,283

Capital asset activity for the year ended August 31, 2021, was as follows:

Governmental Activities	Balance September 1, 2020	Increases	Decreases	Balance August 31, 2021
Capital assets, not being depreciated:				
Land	\$ 209,654	\$ -	\$ -	\$ 209,654
Total capital assets, not being depreciated	209,654	-	-	209,654
Capital assets, being depreciated:				
Building and improvements	1,515,179	186,297	-	1,701,476
Machinery, equipment and vehicles	3,366,389	682,948	(442,872)	3,606,465
Total capital assets, being depreciated	4,881,568	869,245	(442,872)	5,307,941
Less accumulated depreciation for:				
Building and improvements	(875,959)	(63,851)	-	(939,810)
Machinery, equipment and vehicles	(1,235,160)	(456,279)	383,646	(1,307,793)
Total accumulated depreciation	(2,111,119)	(520,130)	383,646	(2,247,603)
Total capital assets depreciated, net	2,770,449	349,115	(59,226)	3,060,338
Total capital assets, net	\$ 2,980,103	\$ 349,115	\$ (59,226)	\$ 3,269,992

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2022 and 2021

II. DETAILED NOTES ON ALL FUNDS (Continued)

D. Right-to-Use Lease

On January 18, 2021, the District entered into a sixty-three-month lease agreement with Documation for the lease of 7 copy machines, that meet the definition of a “long-term” lease provided in GASB 87. As such, a right-to-use lease liability is reported at the present value of payments expected to be made during the lease term. The liability is reduced as payments are made and the lease asset is amortized based off a discount rate of 6.75%. The lessee is required to make monthly payments in the amount of \$1,010, plus applicable taxes, over the lease term. Total principal payments made during the year was \$8,394 and interest paid was \$2,716.

The right-to-use lease asset(s) and related accumulated amortization is as follows:

	September 1, 2021	Increases	Decreases	August 31, 2022
Right-to-Use Assets				
Leased Copiers	\$ -	\$ 48,674	\$ -	\$ 48,674
Total Right-to-Use Assets	-	48,674	-	48,674
Less accumulated amortization for:				
Leased Copiers	\$ -	\$ 10,430	\$ -	\$ 10,430
Total accumulated Amortization	-	10,430	-	10,430
Right-to-Use Assets, Net	\$ -	\$ 38,244	\$ -	\$ 38,244

E. Long-Term Liabilities

The District’s liabilities consist of compensated absences and lease payable.

Changes in Long-Term Liabilities

A summary of long-term liabilities of the District for the year ended August 31, 2022 is as follows:

	September 1, 2021	Increases	Decreases	August 31, 2022
Compensated Absences	\$ 56,710	\$ 64,750	\$ (56,932)	\$ 64,528
Lease Payable	-	48,674	(8,394)	40,280
Total	\$ 56,710	\$ 113,424	\$ (65,326)	\$ 104,808

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2022 and 2021

II. DETAILED NOTES ON ALL FUNDS (Continued)

Annual debt service requirements to maturity for the lease liability is as follows:

Year Ending August 31,	Principal	Interest	Total
2023	\$ 9,713	\$ 2,352	\$ 12,065
2024	10,448	1,672	12,120
2025	11,175	945	12,120
2026	8,944	201	9,145
	\$ 40,280	\$ 5,170	\$ 45,450

E. Risks Related to Grantor Concentration

The District receives the majority of its support and revenue from the U. S. Department of Transportation and the Texas Department Transportation. The District receives annual grants from these agencies and is required to prepare reports that detail the program expenses incurred for which the District is requesting reimbursement. The District would realize a severe negative impact should the level of these grant revenues be significantly reduced or discontinued.

F. Risk Management

The District's exposure to various risks of loss related to torts; theft of damage to and destruction of assets; errors and omissions; and natural disasters is covered with commercial property, liability and automobile insurance. There have been no significant reductions in insurance coverage for these risks of loss since the prior year; and there have been no claims in excess of insurance coverage for any of the past three fiscal years.

G. Line of Credit

The District has an approved line of credit of \$300,000 with TXN Bank. The per annum rate is 6.5%. There were no outstanding balances at August 31, 2022 or 2021, respectively.

H. 401 (A) Employees Plan

The District established a defined contribution pension plan for its employees effective January 1, 2013. The District acts as the plan administrator and is responsible for maintaining records on participants, determining eligibility for benefits and interpreting and administering the provisions of the plan. The plan year begins on January 1 and ends on December 31 of each year.

Participants are fully vested in their own contributions to the Plan. Participants vesting in employer matching contributions are based on years of service. Employees with less than two years of service are 0% vested, between two and three years are 50% vested, and three or more years are 100% vested.

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2022 and 2021

II. DETAILED NOTES ON ALL FUNDS (Continued)

The Plan is an annuity contract issued by an insurance company. Earnings (gains and/or losses), changes, and expenses will be treated as provided for in the contract.

Employee contributions made to the Plan for the year ended August 31, 2022 and 2021 were \$20,549 and \$18,066, respectively. Employer contributions were \$56,331 in 2022 and \$47,279 in 2021. Employee contributions were paid to OneAmerica as a matching contribution representing 100% of the first 5% of employee contributions to the plan.

A group of annuity contract issued by an insurance company is the funding medium used for the accumulation of assets from which benefits are paid. Earnings (gains and/or losses), changes, and expenses will be treated as provided for in the contract.

I. Contingent Liabilities and Commitments

Federal and state funding received related to various grant programs are based upon periodic reports detailing reimbursable expenses made, in compliance with program guidelines, to the grantor agency. These programs are governed by various statutory rules and regulations of the grantors. Amounts received and receivable under these various funding programs are subject to periodic audit and adjustment by the funding agencies. To the extent, if any, the District has not complied with all the rules and regulations, financial or otherwise, adjustment to or return of fund monies may be required.

As it pertains to other matters of compliance, in the opinion of the District, there are no significant contingent liabilities relating to matters of compliance and accordingly, no provision has been made in the accompanying financial statements for such contingencies.

J. IRS Lien

The U.S Internal Revenue Service (IRS) has a tax lien on the property that was transferred from the Community Council of Southwest Texas Inc. Management has been in communication with the IRS attempting to negotiate the clearing of the lien. Management position is that this will be resolved in SWART's favor.

SUPPLEMENTARY INFORMATION

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

SCHEDULE OF OPERATING PROGRAM EXPENSES BY FUND

For The Year Ended August 31, 2022

	<u>RPT Federal</u>	<u>RPT State</u>	<u>Transit Support</u>	<u>Total</u>
EXPENSES				
SALARIES	\$ 723,634	\$ 358,986	\$ 346,805	\$ 1,429,425
FRINGE BENEFITS	253,897	117,313	98,383	469,593
TOTAL PERSONNEL	<u>977,531</u>	<u>476,299</u>	<u>445,188</u>	<u>1,899,018</u>
AUDIT FEES	31,680	-	-	31,680
CONSULTANTS	73,340	-	-	73,340
TRAVEL/MEETING	21,787	14,983	29,074	65,844
TRAINING	7,632	5,553	8,636	21,821
UTILITIES	34,842	18,347	14,949	68,138
INSURANCE	68,312	7,287	4,729	80,328
FUEL AND OIL	169,403	58,617	62,608	290,628
MAINTENANCE/REPAIR	40,768	3,278	11,697	55,743
EMPLOYEE INCENTIVE	-	-	30,812	30,812
FEES/DUES	7,699	4,865	7,035	19,599
RENTAL/LEASES	14,602	8,402	5,253	28,257
SUPPLIES & UNIFORMS	17,663	9,523	21,935	49,121
OFFICE EQUIP/FURNITURE	184	122	102	408
MISCELLANEOUS	-	-	7,859	7,859
VEHICLE PREVENTATIVE MAINT	45,775	12,105	8,288	66,168
BLDG MAINT AND REPAIR	11,166	1,849	1,341	14,356
AUTOMATION SERVICES	16,031	7,857	4,502	28,390
HARDWARE ACQUISITION	72,190	313	261	72,764
SOFTWARE FEES	52,495	4,739	3,442	60,676
MISC EQUIP ACQUISITION	8,988	49	25	9,062
RENOVATIONS	31,756	-	-	31,756
CAPITAL EQUIP & VEHICLES	-	-	-	-
TOTAL TRANSPORTATION PROGRAMS	<u>1,703,844</u>	<u>634,188</u>	<u>667,736</u>	<u>3,005,768</u>
DEPRECIATION	467,139	-	91,314	558,453
AMORTIZATION	5,894	3,469	1,067	10,430
TOTAL OPERATING EXPENSES	<u>\$ 2,176,877</u>	<u>\$ 637,657</u>	<u>\$ 760,117</u>	<u>\$ 3,574,651</u>

FEDERAL AWARDS SECTION

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
Southwest Area Regional Transit District
Uvalde, 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 the business-type activities of the Southwest Area Regional Transit District (the District), as of and for the year ended August 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 24, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 or significant deficiencies may exist that were not identified.

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.

A handwritten signature in black ink, appearing to read "George Gonzalez" with a flourish underneath.

February 24, 2023

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Directors
Southwest Area Regional Transit District
Uvalde, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Southwest Area Regional Transit District's (the District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2022. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

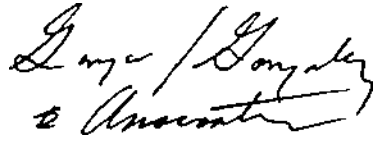
Report on Internal Control over Compliance

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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

A handwritten signature in black ink, appearing to read "Lopez / Gonzalez & Associates". The signature is written in a cursive style with a large, sweeping flourish at the end.

February 24, 2023

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended August 31, 2022

SECTION I --- SUMMARY OF AUDITOR'S RESULTS

<i>Financial Statements</i>		
Type of auditor's report issued:	<u>Unmodified</u>	
Internal control over financial reporting: • Material weakness(es) identified?	___ Yes	_X_ No
• Significant deficiency(s) identified not considered to be material weaknesses?	___ Yes	_X_ None Reported
Noncompliance material to financial statements noted?	___ Yes	_X_ No

<i>Federal Awards</i>		
Internal control over major programs: ▪ Material weakness(es) identified?	___ Yes	_X_ No
▪ Significant deficiency(s) identified not considered to be material weaknesses?	___ Yes	_X_ None Reported
Type of auditor's report issued on compliance for major programs	<u>Unmodified</u>	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR, Section. 200.516(a)?	___ Yes	_X_ No

<i>Identification of Major Programs</i>		
CFDA Numbers(s)	Name of Federal Program or Cluster	
20.509	Formula Grants for Rural Areas/CARES Act Rural Area Federal Formula Program	
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000	
Auditee qualified as low-risk auditee?	_X_ Yes	___ No

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended August 31, 2022

SECTION II --- FINANCIAL STATEMENT FINDINGS

There were no financial statement findings required to be reported in accordance with *Government Auditing Standards*.

SECTION III --- FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings and questioned costs required to be reported by the Uniform Guidance Section 200.516(a).

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended August 31, 2022

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Transportation			
<u>Passed Through Texas Department of Transportation</u>			
Section 5304 Federal - Planning	20.505	51008013021	\$ 81,771
Section 5304 Federal - Planning	20.505	51008013022	12,500
Total CFDA Number 20.505			<u>94,271</u>
Section 5311 Federal - Formula Grants for Rural Areas	20.509	51018013021	134,391
Section 5311 Federal - Formula Grants for Rural Areas	20.509	51018013022	769,391
Section 5311 Federal - Formula Grants for Rural Areas	20.509	51T18025122	14,137
Section 5311 Federal - Formula Grants for Rural Areas	20.509	51018023021	105,775
Section 5311 Federal - Formula Grants for Rural Areas	20.509	51018023022	90,074
Section 5311 Federal - Formula Grants for Rural Areas	20.509	51018043022	95,421
Total Formula Grants for Rural Areas			<u>1,209,189</u>
CARES Act - Section 5311 Federal - Formula Grants for Rural Areas	20.509	51018053021	207,107
Total CFDA Number 20.509			<u>1,416,296</u>
Section 5310 Federal - Enhanced Mobility of Seniors & Individuals With Disabilities	20.513	51016013022	196,000
Section 5310 Federal - Enhanced Mobility of Seniors & Individuals With Disabilities	20.513	51016013021	57,079
Section 5310 Federal - Enhanced Mobility of Seniors & Individuals With Disabilities	20.513	51016023022	122,259
Total CFDA Number 20.513			<u>375,338</u>
Section 5339 Federal - Bus and Bus Facilities Formula Program (Rural)	20.526	51003013020	463
Total CFDA Number 20.526			<u>463</u>
<u>Total Passed Through Texas Department of Transportation</u>			<u>1,886,368</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,886,368</u>

SOUTHWEST AREA REAGIONAL TRANSIT DISTRICT
Uvalde, Texas

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended August 31, 2022

1. The District utilizes fund accounting for each of its grants. A separate fund is maintained for each grant.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Amounts reported in the schedule of expenditures of federal awards are based on billed expenditures. Difference between billed expenditures and actual expenditures consist of expenditures financed with program income and other local revenues.
2. The District's funds are accounted for using the full accrual basis of accounting.
3. The District does not have any subrecipients.
4. The District did not elect to use the 10% de minimus indirect cost rate provided for by the Uniform Guidance.
5. During the year the District expended \$68,120 and \$572,946 through the Rural State Program (Project ID #51218013021 and ID # 51218013022, respectively). Accordingly, these state expenditures were not included in the Schedule of Expenditures of Federal Awards; and, an audit in accordance with the State Single Audit Circular was not applicable.
6. There were no outstanding loan guarantee programs during the year.

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended August 31, 2022

There were no prior audit findings reported.

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT Uvalde, Texas

REPORT ON THE CONDUCT OF AUDIT

Year Ended August 31, 2022

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Southwest Area Regional Transit District
Uvalde, Texas

We have audited the financial statements of the Southwest Area Regional Transit District (The District), a governmental entity, for the year ended August 31, 2022. Professional standards require that we provide you with information about our responsibilities under U.S. generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance; and, that we also communicate to you other information related to our audit. Such information is provided in Parts I through VII of this report.

This letter does not affect our report dated February 24, 2023, on the financial statements of the District.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these parties.

We would like to take this opportunity to acknowledge the courtesy and assistance extended by personnel of the District during the course of our audit.

A handwritten signature in black ink, appearing to read "Garza / Gonzalez & Associates". The signature is written in a cursive, flowing style.

February 24, 2023

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT
Uvalde, Texas

REPORT ON THE CONDUCT OF AUDIT

Year Ended August 31, 2022

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I. The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards*, and the Uniform Guidance

As stated in our engagement letter dated January 31, 2023, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions examined and the areas tested.

In planning and performing our audit, we will consider the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 is not an objective of our audit. Also, in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on the District's compliance with those requirements.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

II. Qualitative Aspects of Accounting Practices

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. The application of existing policies was not changed during the year ended August 31, 2022; however, in fiscal year 2022, the District adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The implementation of this Statement no longer requires that the District differentiate between capital and operating leases. The District, as a lessee, and as required by GASB Statement No. 87, has recognized a right-to-use lease liability and an intangible right-to-use lease asset.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Financial Statement Disclosures

The financial statement disclosures, as included in the financial statements, are neutral, consistent, and clear.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements is depreciation expense which is based on the estimated useful lives of assets and accrued annual leave, which is based on the number of leave hours accumulated through August 31, 2022. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

III. Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

IV. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We recommended an adjusting entry to increase capital assets and decrease expenses by \$ 63,665 and to record a right to use leased asset and related liability by \$ 48,676.

V. Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

VI. Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 24, 2023.

VII. Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

VIII. Other Matters

Matters Discussed with Management Prior to Reappointment

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to reappointment as the District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Supplementary Information

With respect to the schedule of expenditures of federal awards and the schedule of operating program expenses by fund accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled such information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Information in Documents Containing the Audited Financial Statements

We are not aware of any other documents that contain the audited financial statements and the auditor’s report therein. If we become aware that such documents were published, we would have a responsibility to read such information, in order to identify material inconsistencies, if any, with the audited financial statements.