



Annual Financial Report

Community Transit of Watertown-Sisseton, Inc.
Watertown, South Dakota

For the years ended September 30, 2021 and 2020



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Community Transit of Watertown-Sisseton, Inc.

Annual Financial Report

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Community Transit of Watertown-Sisseton, Inc.
Watertown, South Dakota

Report on Financial Statements

We have audited the accompanying financial statements of Community Transit of Watertown-Sisseton, Inc. (the Organization), a South Dakota not-for-profit corporation, which comprise the statements of financial position as of September 30, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's 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 audit 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 Organization'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 Organization'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 financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information in Relation to the Financial Statements as a Whole

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for the purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated NEED DATE on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Organization's internal control over financial reporting and compliance.

Abdo

Minneapolis, Minnesota

NEED DATE



FINANCIAL STATEMENTS

Community Transit of Watertown-Sisseton, Inc.

Statement of Financial Position
September 30, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,372,880	\$ 977,441
Accounts receivable	86,212	102,334
Grants receivable	362,133	345,782
Prepaid expenses	4,330	-
Total Current Assets	1,825,555	1,425,557
Investments		
Co-op in retained patronage earnings	15,073	14,221
Property and Equipment		
Building	121,832	-
Furniture and equipment	220,223	220,223
Vehicles	2,719,780	2,342,425
Total Property and Equipment	3,061,835	2,562,648
Less Accumulated Depreciation	(1,726,511)	(1,569,741)
Total Property and Equipment, Net	1,335,324	992,907
Other Assets		
Intangible assets, net of accumulated amortization of \$2,733 and \$1,933 in 2021 and 2020, respectively	1,267	2,067
Total Assets	\$ 3,177,219	\$ 2,434,752
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 44,764	\$ 1,198
Accrued expenses	78,110	123,142
Deferred revenue	2,127	-
Total Current Liabilities	125,001	124,340
Net Assets		
Without donor restriction		
Unrestricted	2,660,682	2,310,412
Board designated	391,536	-
Total Without Donor Restriction	3,052,218	2,310,412
Total Net Assets	3,052,218	2,310,412
Total Liabilities and Net Assets	\$ 3,177,219	\$ 2,434,752

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

Community Transit of Watertown-Sisseton, Inc.
Statement of Activities
For the Years Ended September 30, 2021 and 2020

	2021	2020
Support and Revenue		
Government grants	\$ 2,138,078	\$ 2,184,436
Projects	416,858	405,175
Contributions	133,050	225,068
Contract income	370,440	193,312
Interest income	3,737	6,940
Gain on sale of asset	5,204	-
Total Support and Revenue	3,067,367	3,014,931
Expenses		
Program services	1,648,685	1,543,091
Management and general	676,876	635,389
Total Expenses	2,325,561	2,178,480
Change in Net Assets	741,806	836,451
Net Assets, Beginning	2,310,412	1,473,961
Net Assets, Ending	\$ 3,052,218	\$ 2,310,412

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

Community Transit of Watertown-Sisseton, Inc.
Statement of Functional Expenses
For the Years Ended September 30, 2021 and 2020

	2021		
	Program Services	Management and General	Total
Payroll and Related Expenses			
Salaries and wages	\$ 933,893	\$ 331,004	\$ 1,264,897
Benefits and payroll taxes	124,790	61,885	186,675
Total Payroll and Related Expenses	<u>1,058,683</u>	<u>392,889</u>	<u>1,451,572</u>
Professional fees	-	65,303	65,303
Advertising	-	10,248	10,248
Office expense	-	22,634	22,634
Telephone	-	40,460	40,460
Occupancy	4,778	11,508	16,286
Repairs and maintenance	72,421	-	72,421
Travel and vehicle expenses	148,597	10,897	159,494
Insurance	104,419	5,064	109,483
Dues, licenses and memberships	212	2,080	2,292
Miscellaneous	11,178	87,393	98,571
Depreciation and amortization	<u>248,397</u>	<u>28,400</u>	<u>276,797</u>
 Total Expenses	 <u>\$ 1,648,685</u>	 <u>\$ 676,876</u>	 <u>\$ 2,325,561</u>

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

Community Transit of Watertown-Sisseton, Inc.
Statement of Cash Flows
For the Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 741,806	\$ 836,451
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	275,997	206,194
Amortization	800	800
Gain on sale of asset	(5,204)	-
Change in assets and liabilities		
Account receivable	16,122	21,115
Grants receivable	(16,351)	(345,782)
Prepaid expenses	(4,330)	-
Account payable	43,566	(46,711)
Accrued expenses	(45,032)	93,697
Deferred revenue	2,127	-
Net Cash Provided by Operating Activities	<u>1,009,501</u>	<u>765,764</u>
Cash Flows from Investing Activities		
Opening transfer of equity	-	(14,221)
Purchase of equity	(852)	-
Purchase of property and equipment	(618,450)	(685,946)
Proceeds from sale of property and equipment	5,240	-
Net Cash Used by Investing Activities	<u>(614,062)</u>	<u>(700,167)</u>
Net Change in Cash and Cash Equivalents	395,439	65,597
Beginning Cash and Cash Equivalents	<u>977,441</u>	<u>911,844</u>
Ending Cash and Cash Equivalents	<u>\$ 1,372,880</u>	<u>\$ 977,441</u>

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

Community Transit of Watertown-Sisseton, Inc.

Notes to the Financial Statements
September 30, 2021 and 2020

Note 1: Summary of Significant Accounting Policies

A. Nature of Activities

Community Transit of Watertown-Sisseton, Inc. (the Organization) is committed to providing safe, reliable and courteous public transportation to the counties of Brown, Campbell, Clark, Codington, Day, Deuel, Edmunds, Faulk, Grant, Hamlin, Lincoln, Marshall, McPherson, Roberts, Spink. Public transportation promotes quality of life, livability, self-sufficiency and freedom through mobility.

B. Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets:

Net Assets Without Donor Restrictions

Those resources over which the Organization has discretionary control. Designated amounts represent those revenues that the Board of Directors has set aside for a particular purpose.

Net Assets With Donor Restrictions

Those resources subject to donor-imposed restrictions, which are satisfied by actions of the Organization or passage of time or are to be maintained permanently by the Organization. The Organization did not have any net assets with donor restrictions at September 30, 2021 and 2020.

C. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

F. Accounts Receivable

Accounts receivable are reported at the amount the Organization expects to collect on balances outstanding at period end. The Organization uses the allowance method to account for uncollectible receivables. This method provides allowances for doubtful receivables based on historical experience and management's evaluation of estimated losses that will be incurred in the collection of receivables. The Organization had no allowance for uncollectible accounts as of September 30, 2021 and 2020.

Community Transit of Watertown-Sisseton, Inc.
Notes to the Financial Statements
September 30, 2021 and 2020

Note 1: Summary of Significant Accounting Policies (Continued)

G. Grants Receivable

Grants receivable are due primarily from Federal, State and Local governmental units and agencies and arise primarily from the Organization's contracts with those agencies to administer various programs. All grants receivable are considered collectible by management based upon history and assessed risk of collection; therefore, no allowance for doubtful accounts is presented.

H. Investments – Co-op in Retained Patronage Earnings

The Organization maintains a cooperative equity where they receive stock and patronage dividends from Sioux Valley Cooperative (SVC) for SVC's purchasing of fuel and propane. At September 30, 2021 and 2020, the balance of the cooperative equity was \$15,073 and \$14,221, respectively.

I. Property and Equipment

Property and equipment with an initial cost of \$5,000 or more are reported on the balance sheets and are stated at cost or fair market value at the date of acquisition. Depreciation is computed using appropriate straight-line methods over the estimated useful lives as follows:

Assets	Useful Lives in Years
Building	39
Furniture and equipment	2 - 7
Vehicles	5 - 10

Depreciation expense was \$275,997 and \$206,194 for the years ended September 30, 2021 and 2020, respectively.

J. Impairment of Long-lived Assets

The Organization reviews long-lived assets, including property and equipment and intangible assets, for any impairment whenever events or changes in business circumstances indicate the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of the asset. To date, there have been no such losses.

K. Accrued Expenses

Employees of the Organization are entitled to personal time off, depending on job classification, length of service and other factors. Accrued salary at September 30, 2021 and 2020 was \$37,195 and \$87,596, respectively. Accrued vacation at September 30, 2021 and 2020 amounted to \$40,915 and \$35,546, respectively.

L. Revenue Recognition

Revenues of the Organization are largely derived from grant awards from various sources. Revenues from grants that are accounted for as exchange transactions are recognized as income when earned. Grants received in advance are reported as deferred grant revenue and recognized when related expenses are incurred. Amounts earned in excess of receipts are reported as grants receivable. Program income is recognized on the accrual basis.

Community Transit of Watertown-Sisseton, Inc.

Notes to the Financial Statements
September 30, 2021 and 2020

Note 1: Summary of Significant Accounting Policies (Continued)

M. Contributions

Contributions received are recorded as donor restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for non-donor-restricted use unless specifically restricted by the donor. However, if a restriction is fulfilled in the same period in which the contribution is received, the Organization reports the support as being without donor restriction.

N. Advertising

The Organization expenses advertising costs as incurred. Advertising expense was \$10,248 and \$18,054 for the years ended September 30, 2021 and 2020, respectively.

O. Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. The largest portion of expenses, including salaries and benefits, are charged directly to the applicable functional category. For those expenses that are organization-wide in nature, allocations to the programs and supporting services benefited are determined by management on an equitable basis using a full-time equivalent methodology.

P. Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Q. Upcoming Accounting Pronouncements

In March 2016, the FASB issued ASU No. 2016-02, *Leases*, as a new topic; Accounting Standards Codification 842. The objective of ASU No. 2016-02 is to increase transparency and comparability among organizations by reorganizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2021, and shall be applied using either a full retrospective or modified retrospective approach. Early adoption is permitted. The new guidance is effective for Community Transit of Watertown-Sisseton, Inc. on October 1, 2022. The Organization is currently evaluating the impact on the results of operations, financial condition and cash flows and has not determined the impact on its consolidated financial statements at this time.

In September 2020, the FASB issued ASU No. 2020-07 *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which is intended to improve the transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations. This ASU requires not-for-profit organizations to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. In addition to separate presentation on the statement of activities, this amendment requires enhanced disclosures around each category of contributed nonfinancial assets for donor-imposed restrictions, valuation techniques, description of programs or activities in which the assets were used, and if monetized a policy about monetizing rather than utilizing the asset(s). The amendments in this ASU should be applied on a retrospective basis and are effective for annual reporting periods beginning after June 15, 2021. Early adoption is permitted. The new guidance is effective for Community Transit of Watertown-Sisseton, Inc. on October 1, 2021. The Organization is currently evaluating the impact this standard will have on its financial statements.

R. Subsequent Events

In preparing these financial statements the Organization has evaluated events and transactions for potential recognition or disclosure through NEED DATE, the date the financial statements were available to be issued.

Community Transit of Watertown-Sisseton, Inc.
Notes to the Financial Statements
September 30, 2021 and 2020

Note 2: Concentration of Credit Risk

The Organization maintains cash balances at financial institutions where the accounts are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000 at each institution. At certain times during the year, cash balances may be in excess of FDIC coverage. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Note 3: Intangible Assets

Intangible assets are summarized as follows as of September 30, 2021 and 2020:

	2021	2020
Setup costs	\$ 4,000	\$ 4,000
Less: accumulated amortization	(2,733)	(1,933)
Total Intangible Assets, Net	\$ 1,267	\$ 2,067

Amortization expense was \$800 and \$800 for the years ended September 30, 2021 and 2020, respectively.

Note 4: Paycheck Protection Program (PPP)

In March 2021, the Organization entered into a promissory note agreement with Dacotah Bank in the amount of \$271,160 pursuant to the Paycheck Protection Program (PPP) created by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and governed by the Small Business Administration (SBA). The note accrues interest at 1 percent per annum and is scheduled to mature March 2026. Up to 100 percent of the loan is forgivable when used to pay specified payroll and other costs within the qualified period (generally 24 weeks after receiving the funds). This note payable was considered fully forgiven in August 2021 and is included in the statement of activities for the year ended September 30, 2021.

Note 5: Line of Credit

The Organization has a revolving line of credit agreement with Reliabank Dakota to provide for available borrowings up to \$60,100. The agreement matured on November 27, 2020, and was not renewed. Borrowings under the line of credit bear interest at 5.75%. Borrowings are collateralized by personal property. There was no outstanding balance on the line as of September 30, 2021 and 2020.

Note 6: Board Designated Net Assets

In June 2021, the Board of Directors of the Organization approved \$450,000 to be designated as a Capital Improvement Fund. This fund is to be used for fixed asset purchases. At September 30, 2021 and 2020, board designated net assets were \$391,536 and \$0, respectively.

Community Transit of Watertown-Sisseton, Inc.

Notes to the Financial Statements
September 30, 2021 and 2020

Note 7: Operating Leases

The Organization leases a garage. The lease commenced on October 1, 2020, and is ongoing. Monthly rent payments are \$200. Rent expense was \$2,400 and \$0 during the years ended September 30, 2021 and 2020, respectively.

Future minimum payments under operating leases are as follows:

Year Ending September 30,	Amount
2022	\$ 2,400
2023	2,400
2024	2,400
2025	2,400
2026	2,400
Total	\$ 12,000

Note 8: COVID-19

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world during 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Organization is unable to determine if it will have a material impact to its operations.

Note 9: Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	2021	2020
Cash and cash equivalents	\$ 1,372,880	\$ 977,441
Accounts receivable	86,212	102,334
Grants receivable	362,133	345,782
Total financial assets available within one year	1,821,225	1,425,557
Less: amounts unavailable for general expenditures within one year, due to:		
Board designated net assets	(391,536)	-
Financial Assets Available to Meet Cash Needs For General Expenditures Within One Year	\$ 1,429,689	\$ 1,425,557

As part of our liquidity management, The Organization structures its financial assets to be available as its general expenditures, liabilities, and obligations become due. The Organization invests cash more than monthly requirements in savings and money market funds which provides the Organization with the flexibility to match liquidity needs as they arise. The Organization's Board of Directors and Executive Directors continuously monitor the liquidity of the Organization. Management routinely monitors cash reserves which fund operations and program services and transfers funds as needed to ensure availability.

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

Board of Directors
Community Transit of Watertown-Sisseton, Inc.
Watertown, South Dakota

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 Community Transit of Watertown-Sisseton, Inc. (the Organization), a South Dakota not-for-profit corporation, which comprise the statement of financial position as of September 30, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated NEED DATE.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ABC Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2021-001 that we consider to be a material weakness.

Compliance and Other Matters

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

Organization’s Response to Findings

The Organization’s response to the findings identified in our audit is described in the accompanying corrective action plan. The Organization’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization’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 Organization’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Abdo
Minneapolis, Minnesota
NEED DATE



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

Board of Directors
Community Transit of Watertown-Sisseton, Inc.
Watertown, South Dakota

Report on Compliance for Each Major Federal Program

We have audited Community Transit of Watertown-Sisseton, Inc.'s (the Organization), a South Dakota not-for-profit corporation, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended September 30, 2021. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended September 30, 2021.

Report on Internal Control Over Compliance

Management of the Organization 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 the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a material weakness.

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 preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-002 to be a material weakness.

The Organization's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. The Organization's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

Abdo
Minneapolis, Minnesota
NEED DATE



Community Transit of Watertown-Sisseton, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2021

Federal Grantor/Program Title Pass-Through Grantor	Assistance Listing Number	Pass-Through Identification Number	Pass- Through Federal Expenditures
United States Department of Transportation:			
Passed-Through South Dakota Department of Transportation:			
Federal Transit Cluster:			
Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526	SD-34-001; SD-2016-006; SD-2018-008; SD-2018-011; SD-2020-001	492,343
Transit Services Programs Cluster: Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	SD-2018-001; SD-2020-004	24,609
Other Programs: Formula Grants for Rural Areas and Tribal Transit Program	20.509	SD-2020-007; SD-2020-009	1,335,849
Bus Testing Facility	20.529	SD-2020-001	14,116
Total Other Programs			1,349,965
Total Federal Expenditures			<u>\$ 1,866,917</u>

Community Transit of Watertown-Sisseton, Inc.
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2021

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Organization under programs of the federal government for the year ended September 30, 2021. The information in this schedule is presented in accordance with the requirement of the Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

Note 2: Summary of Significant Accounting Policies for Expenditures

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

Note 3: Pass-through Entity Identifying Numbers

Pass-through entity identifying numbers are presented where available.

Note 4: Subrecipients

No federal expenditures presented in this schedule were provided to subrecipients.

Note 5: Indirect Cost Rate

During the year ended September 30, 2021, the Organization did not elect to use the 10% de minimis indirect cost rate.

Community Transit of Watertown-Sisseton, Inc.
 Schedule of Findings and Questioned Costs
 For the Year Ended September 30, 2021

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses	No
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance?	No

**Assistance
Listing
Number**

Identification of Major Programs:

Formula Grants for Rural Areas and Tribal Transit Program	20.509
Dollar threshold used to distinguish between Type A and Type B Programs:	\$ 750,000
Auditee qualified as low-risk auditee pursuant to the Uniform Guidance	No

Section II - Findings - Financial Statement Audit

A material weakness relating to the Organization's internal controls is reported in the SAS 115 letter. Finding 2021-001 is reported as a material weakness.

2021-001 Material Weakness in Internal Controls over Compliance

Condition:

During our audit, material adjustments were needed to adjust accounts to correct balances at year end. Significant accounts affected include cash, accumulated depreciation, and depreciation expense.

Criteria:

Management should have procedures in place to identify misstatements in the financial statements.

Cause:

As a result of the processes and procedures in place, the financials were not being properly updated for cash, accumulated depreciation, and depreciation expense.

Effect:

Accounts were materially misstated. The audit firm noted the misstatements and presented adjusting journal entries to correct the misstatement during the audit.

Recommendation:

We recommend the Organization review and update its year-end processes to ensure all accounts are current at year end.

Community Transit of Watertown-Sisseton, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2021

Section III - Findings and Questioned Costs - Major Federal Award Programs Audit

A material weakness relating to the Organization's compliance with the Uniform Guidance is reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and Reporting on Internal Control over Compliance Required by the Uniform Guidance. Finding 2021-002 is reported as a material weakness.

2021-002 Material Weakness in Internal Controls over Compliance

Condition:

During our audit, we noted errors related to calculations of federal expenditures on the Schedule of Expenditures of Federal Awards.

Criteria:

Uniform Guidance requires proper reporting of federal expenditures.

Cause:

Management did not have the information needed to prepare the Schedule of Expenditures of Federal Awards.

Effect:

As a result, federal expenditures were understated by \$254,049 on the Schedule of Expenditures of Federal Awards.

Recommendation:

We recommend that the Organization implement a review process to ensure correct reporting on the Schedule of Expenditures of Federal Awards prior to the audit, including a reconciliation between the Schedule of Expenditures of Federal Awards and the accounting system. We also recommend updating the federal grant tracking spreadsheet to track expenditures by fiscal year.

Other Issues

See the following page for the Summary Schedule of Prior Audit Findings.

See the following page for the Corrective Action Plan.

Community Transit of Watertown-Sisseton, Inc.

Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2021

DEPARTMENT OF TRANSPORTATION

**Finding 2020-001: ALN 20.509 Formula Grants for Rural Areas and Tribal Transit Program -
Material Weakness in Internal Controls over Compliance**

Condition: This finding noted a significant number of errors on the SEFA related to calculations of federal expenditures.

Recommendation: The auditor recommended that the Organization implement a review process to ensure correct reporting on the Schedule of Expenditures of Federal Awards prior to the audit.

Current Status: The Organization developed a spreadsheet to track all federal grants. Documentation on this spreadsheet includes the grant award amounts, grant agreement numbers, Assistance Listing numbers, grant dates, amounts used, and what is left of the grant. A similar finding was reported for the 2021 audit.

**Finding 2020-002: ALN 20.509 Formula Grants for Rural Areas and Tribal Transit Program -
Significant Deficiency in Internal Controls over Compliance**

Condition: This finding noted an \$18,228 payment from South Dakota Department of Transportation where the purpose and program could not be identified.

Recommendation: The auditor recommended that the Organization implement control procedures to review all federal funding received to ensure they can be tied back to an agreement and a request for reimbursement, if applicable. The auditor also recommended that the Organization contact the funder to identify the reason for the payment if funds are received that cannot be tied back to an agreement.

Current Status: The Organization developed a grant reimbursement form that shows the grant number, Assistance Listing number, and amount requested. This document was used each time the Organization requested a grant payment from the South Dakota Department of Transportation. No similar finding was reported for the 2021 audit.

**Finding 2020-003: ALN 20.509 Formula Grants for Rural Areas and Tribal Transit Program -
Significant Deficiency in Internal Controls over Compliance**

Condition: This finding noted a significant number of paid invoices with no signed approval.

Recommendation: The auditor recommended that the Organization review their control procedures so no invoices get paid without proper signed approval.

Current Status: The Organization implemented a process in which authorized office personnel verify that there are initials with "OK to pay" on every invoice and the contracted bookkeeper also reviews the invoices to ensure that all invoices are initialed. No similar finding was reported for the 2021 audit.



CORRECTIVE ACTION PLAN

07/13/2022

U.S. Department of Transportation
Passed-Through South Dakota Department of Transportation

Community Transit of Watertown-Sisseton, Inc. respectfully submits the following corrective action plan for the year ended September 30, 2021.

Name and address of independent public accounting firm:

Abdo LLP

5201 Eden Avenue, Suite 250

Edina, MN 55436

Audit period: October 01, 2020 - September 30, 2021

The findings from the September 30, 2021 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

U.S. Department of Transportation

Formula Grants for Rural Areas and Tribal Transit Program - ALN 20.509

2021-001 Material Weakness in Internal Controls over Compliance

Recommendation:

We recommend the Organization review and update its year-end processes to ensure all accounts are current at year end.

Planned Action:

Community Transit of Watertown-Sisseton, Inc. will correct this deficiency in the 2022 fiscal year by implementing a review process to ensure correct reporting, any grant payments from SDDOT will be reconciled on a monthly basis from our grant tracking spreadsheet with our QuickBooks reports that are prepared by our contracted bookkeeping service.

2021-002 Material Weakness in Internal Controls over Compliance

Recommendation:

We recommend that the Organization implement a review process to ensure correct reporting on the Schedule of Expenditures of Federal Awards prior to the audit, including a reconciliation between the Schedule of Expenditures of Federal Awards and the accounting system. We also recommend updating the federal grant tracking spreadsheet to track expenditures by fiscal year.

Planned Action:

Community Transit of Watertown-Sisseton, Inc. will correct this deficiency in the 2022 fiscal year by reviewing the schedule of expenditures of Federal awards and the accounting system prior to the audit. CTWSI will update the federal grant tracking spreadsheet as soon as grant agreements become available which will coincide with the fiscal year awarded.

The Organization strives to remain compliant with Uniform Guidance in all respects to present both accurate and transparent records. If the South Dakota Department of Transportation has questions regarding this plan, please call Terry Hoffman or Kathy Holman, Co-Executive Directors, at 605-882-5287.

Sincerely,

Kathy Holman

Co-Executive Director