

FINANCIAL STATEMENTS

COMMUNITY TRANSIT OF WATERTOWN-SISSETON, INC.
WATERTOWN, SOUTH DAKOTA

FOR THE YEARS ENDED
SEPTEMBER 30, 2023 AND 2022

Community Transit of Watertown-Sisseton, Inc.
Annual Financial Report
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For the Years Ended September 30, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Community Transit of Watertown-Sisseton, Inc. (the Organization), which comprise the statements of financial position as of September 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organization as of September 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization 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.

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 Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 Organization'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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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*, is presented for 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 as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2024, on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.



Abdo
Minneapolis, Minnesota
June 17, 2024



FINANCIAL STATEMENTS

Community Transit of Watertown-Sisseton, Inc.
 Statements of Financial Position
 September 30, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,119,049	\$ 2,122,071
Accounts receivable	83,538	175,539
Grants receivable	278,906	202,057
Promises to give	2,880	-
Prepaid expenses	31,683	32,282
Total Current Assets	2,516,056	2,531,949
Investments		
Co-op in retained patronage earnings	14,376	14,652
Property and Equipment		
Building	121,832	121,832
Furniture and equipment	220,223	220,223
Vehicles	3,081,593	2,788,912
Total Property and Equipment	3,423,648	3,130,967
Less Accumulated Depreciation	(2,055,252)	(1,946,063)
Total Property and Equipment, Net	1,368,396	1,184,904
Other Assets		
Intangible assets, net of accumulated amortization of \$4,000 and \$3,533 in 2023 and 2022, respectively	-	467
Total Assets	\$ 3,898,828	\$ 3,731,972
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 82,682	\$ 121,052
Accrued expenses	75,240	64,361
Deferred revenue	19,504	-
Total Current Liabilities	177,426	185,413
Net Assets		
Without donor restriction		
Unrestricted	3,427,351	3,155,023
Board designated	294,051	391,536
Total Without Donor Restriction	3,721,402	3,546,559
Total Liabilities and Net Assets	\$ 3,898,828	\$ 3,731,972

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

Community Transit of Watertown-Sisseton, Inc.
 Statements of Activities
 For the Years Ended September 30, 2023 and 2022

	2023	2022
Support and Revenue		
Government grants	\$ 2,033,795	\$ 1,862,850
Projects	535,203	488,482
Contributions	250,358	282,158
In-kind donations	2,880	-
Contract income	448,597	503,798
Interest income	9,882	3,959
Gain on sale of assets	19,548	26,185
Total Support and Revenue	3,300,263	3,167,432
Expenses		
Program services	2,246,016	1,929,369
Management and general	879,404	743,722
Total Expenses	3,125,420	2,673,091
Change in Net Assets	174,843	494,341
Net Assets, Beginning	3,546,559	3,052,218
Net Assets, Ending	\$ 3,721,402	\$ 3,546,559

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

Community Transit of Watertown-Sisseton, Inc.
 Statements of Functional Expenses
 For the Years Ended September 30, 2023 and 2022

	2023		
	Program Services	Management and General	Total
Payroll and Related Expenses			
Salaries and wages	\$ 1,142,777	\$ 358,993	\$ 1,501,770
Benefits and payroll taxes	122,882	92,082	214,964
Total Payroll and Related Expenses	<u>1,265,659</u>	<u>451,075</u>	<u>1,716,734</u>
Professional fees	-	140,145	140,145
Advertising	-	7,812	7,812
Office expense	-	15,443	15,443
Telephone	-	48,072	48,072
Occupancy	5,523	15,369	20,892
Repairs and maintenance	81,278	-	81,278
Travel and vehicle expenses	238,353	29,752	268,105
Insurance	91,236	26,596	117,832
Dues, licenses and memberships	-	1,607	1,607
Miscellaneous	221,161	105,495	326,656
Depreciation and amortization	<u>342,806</u>	<u>38,038</u>	<u>380,844</u>
 Total Expenses	 <u>\$ 2,246,016</u>	 <u>\$ 879,404</u>	 <u>\$ 3,125,420</u>

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

Community Transit of Watertown-Sisseton, Inc.

Statements of Functional Expenses (Continued)
For the Years Ended September 30, 2023 and 2022

	2022		
	Program Services	Management and General	Total
Payroll and Related Expenses			
Salaries and wages	\$ 1,036,966	\$ 343,989	\$ 1,380,955
Benefits and payroll taxes	88,616	60,125	148,741
Total Payroll and Related Expenses	<u>1,125,582</u>	<u>404,114</u>	<u>1,529,696</u>
Professional fees	-	123,213	123,213
Advertising	-	4,686	4,686
Office expense	-	18,463	18,463
Telephone	-	41,778	41,778
Occupancy	8,087	16,812	24,899
Repairs and maintenance	85,669	-	85,669
Travel and vehicle expenses	246,116	13,215	259,331
Insurance	95,939	23,277	119,216
Dues, licenses, and memberships	-	1,304	1,304
Miscellaneous	75,593	63,573	139,166
Depreciation and amortization	<u>292,383</u>	<u>33,287</u>	<u>325,670</u>
Total Expenses	<u>\$ 1,929,369</u>	<u>\$ 743,722</u>	<u>\$ 2,673,091</u>

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

Community Transit of Watertown-Sisseton, Inc.
Statements of Cash Flows
For the Years Ended September 30, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Change in net assets	\$ 174,843	\$ 494,341
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	380,377	324,870
Amortization	467	800
Gain on sale of asset	(19,548)	(26,185)
Change in assets and liabilities		
Account receivable	92,001	(89,327)
Grants receivable	(76,849)	160,076
Promises to give	(2,880)	-
Prepaid expenses	599	(27,952)
Accounts payable	(38,370)	76,288
Accrued expenses	10,879	(13,749)
Deferred revenue	19,504	(2,127)
Net Cash Provided by Operating Activities	541,023	897,035
Cash Flows from Investing Activities		
Purchase of co-op equity	(284)	-
Proceeds from co-op equity	560	421
Purchase of property and equipment	(553,334)	(183,905)
Proceeds from sale of property and equipment	9,013	35,640
Net Cash Used by Investing Activities	(544,045)	(147,844)
Net Change in Cash and Cash Equivalents	(3,022)	749,191
Beginning Cash and Cash Equivalents	2,122,071	1,372,880
Ending Cash and Cash Equivalents	\$ 2,119,049	\$ 2,122,071
Supplemental Disclosure of Non-cash Transactions		
Disposal of fully depreciated property and equipment	\$ 248,721	\$ -

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, 2023 and 2022

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, and 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, 2023 and 2022.

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, 2023 and 2022.

Community Transit of Watertown-Sisseton, Inc.
Notes to the Financial Statements
September 30, 2023 and 2022

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 the Organization's purchase of fuel and propane. At September 30, 2023 and 2022, the balance of the cooperative equity was \$14,376 and \$14,652, respectively.

I. Property and Equipment

Property and equipment with an initial cost of \$5,000 or more are reported on the statements of financial position 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:

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

Depreciation expense was \$380,377 and \$324,870 for the years ended September 30, 2023 and 2022, 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, 2023 and 2022 was \$36,621 and \$30,889, respectively. Accrued vacation at September 30, 2023 and 2022 amounted to \$38,619 and \$33,472, respectively.

Community Transit of Watertown-Sisseton, Inc.
Notes to the Financial Statements
September 30, 2023 and 2022

Note 1: Summary of Significant Accounting Policies (Continued)

L. Leases

The Organization determines if an arrangement is a lease at inception. If an arrangement contains a lease, the Organization performs a lease classification test to determine if the lease is an operating lease or a finance lease. Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Operating lease liabilities are recognized on the commencement date of the lease based on the present value of the future lease payments over the lease term and are included in long-term liabilities and current liabilities on the statement of financial position. ROU assets are valued at the initial measurement of the lease liability, plus any indirect costs or rent prepayments, and reduced by any lease incentives and any deferred lease payments. Operating ROU assets are recorded on the face of the statement of financial position and are amortized over the lease term. To determine the present value of lease payments on lease commencement, the Organization uses the implicit rate when readily determinable. Lease terms include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense is recognized on a straight-line basis over the life of the lease and is included within operating expenses on the statement of activities. The Organization has made the following elections related to leases:

- The Organization has elected to use a risk-free rate as the discount rate on all classes of underlying assets when an implicit rate is not readily available.
- The Organization has elected the practical expedient to account for the lease and non-lease components as a single lease component for classes of underlying assets.
- The Organization has elected to apply the short-term lease exception to all leases with a term of one year or less. Short-term leases will not be capitalized.

M. 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 and contract income for ride tokens are recognized when the service is purchased. Program income and contract income for other rides are recognized when the ride is taken by the participant.

N. 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.

O. Advertising

The Organization expenses advertising costs as incurred. Advertising expense was \$7,812 and \$4,686 for the years ended September 30, 2023 and 2022, respectively.

Community Transit of Watertown-Sisseton, Inc.
Notes to the Financial Statements
September 30, 2023 and 2022

Note 1: Summary of Significant Accounting Policies (Continued)

P. 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.

Q. Income Taxes

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

R. Upcoming Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU amends the guidance on the impairment of financial instruments and adds an impairment model, known as the current expected credit losses model, that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes, as an allowance, its estimate of expected credit losses over the contractual life of a financial asset. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326)*, which defers the effective date to annual reporting periods beginning after December 15, 2022, with early adoption permitted. The provisions of this ASU are to be applied using the modified retrospective approach. The Organization is currently evaluating the impact this standard will have on its financial statements.

S. New 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. The new guidance was effective for the Organization on October 1, 2022. ASU No. 2016-02 was applied using the modified retrospective approach for the year ended September 30, 2023. See Note 5 for further information.

T. Subsequent Events

In preparing these financial statements the Organization has evaluated events and transactions for potential recognition or disclosure through June 17, 2024, the date the financial statements were available to be issued.

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.

Community Transit of Watertown-Sisseton, Inc.
Notes to the Financial Statements
September 30, 2023 and 2022

Note 3: Intangible Assets

Intangible assets are summarized as follows as of September 30, 2023 and 2022:

	2023	2022
Setup costs	\$ 4,000	\$ 4,000
Less: accumulated amortization	(4,000)	(3,533)
Total Intangible Assets, Net	\$ -	\$ 467

Amortization expense was \$467 and \$800 for the years ended September 30, 2023 and 2022, respectively.

Note 4: 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. As of September 30, 2023 and 2022, the Organization has used \$155,949 and \$58,464 of these funds for fixed asset purchases, respectively. At September 30, 2023 and 2022, board designated net assets were \$294,051 and \$391,536, respectively.

Note 5: 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 \$2,400 during the years ended September 30, 2023 and 2022, respectively.

Note 6: In-Kind Donations

The Organization had in-kind donations of \$2,880 for the year ended September 30, 2023. These in-kind donations were categorized as land donations for the Organization's program, and the fair value technique used was estimated prices of identical or similar products if purchased in the region. This donation did not have any donor restrictions.

Community Transit of Watertown-Sisseton, Inc.
Notes to the Financial Statements
September 30, 2023 and 2022

Note 7: 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:

	2023	2022
Cash and cash equivalents	\$ 2,119,049	\$ 2,122,071
Accounts receivable	83,538	175,539
Grants receivable	278,906	202,057
Total financial assets available within one year	2,481,493	2,499,667
Less: amounts unavailable for general expenditures within one year, due to:		
Board designated net assets	(294,051)	(391,536)
 Financial Assets Available to Meet Cash Needs For General Expenditures Within One Year	 \$ 2,187,442	 \$ 2,108,131

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.

SINGLE AUDIT AND
OTHER REQUIRED REPORTS

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, 2023, 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 June 17, 2024.

Report on 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 the 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. 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.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
June 17, 2024



**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

Opinion on 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 identified as subject to audit 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, 2023. 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.

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 each of its major federal programs for the year ended September 30, 2023.

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 Organization 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 Organization'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 Organization'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 Organization'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 Organization'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 Organization'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 Organization'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 Organization'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.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2023-001. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



Report on Internal Control over Compliance

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 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.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a significant deficiency.

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.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the internal control over compliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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
June 17, 2024



Community Transit of Watertown-Sisseton, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Pass-Through Identification Number	Total 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-2020-014; SD-2022-003	<u>459,915</u>
Transit Services Programs Cluster:			
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	SD-2021-013;SD-2021-019	<u>20,994</u>
Other Programs:			
Formula Grants for Rural Areas and Tribal Transit Program	20.509	SD-2022-019	1,299,082
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	SD-2022-022; SD-2021-017	<u>128,476</u>
Total Other Programs			<u>1,427,558</u>
Total Expenditures of Federal Awards			<u>\$ 1,908,467</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

Community Transit of Watertown-Sisseton, Inc.
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2023

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, 2023. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2: 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, 2023, 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, 2023

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
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?	No
Significant deficiencies identified not considered to be material weaknesses	Yes
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?	Yes

**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

There are no significant deficiencies, material weaknesses, or instances of noncompliance related to the financial statements that are required to be reported in accordance with Government Auditing Standards.

Community Transit of Watertown-Sisseton, Inc.
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended September 30, 2023

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

A significant deficiency 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 2023-001 is reported as a significant deficiency.

2023-001 Significant Deficiency in Internal Controls over Compliance

Condition:

The Organization purchased property and services without implementing procedures that comply with procurement standards set out at 2 CFR sections 200.318 through 200.326.

Criteria:

Non-Federal entities other than States, including those operating Federal programs as subrecipients of states, must follow the procurement standards set out at 2 CFR sections 200.318 through 200.326. They must use their own documented procurement procedures, which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal statutes and the procurement requirements identified in 2 CFR part 200.

Cause:

The Organization did not use their own documented procurement procedures, which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal statutes and the procurement requirements identified in 2 CFR part 200.

Effect:

The Organization did not comply with procurement requirements identified in 2 CFR part 200.

Context:

A sample of 5 purchases totaling \$37,971 was selected for audit from a population of 21 purchases totaling \$284,550. The test found that five purchases did not adhere to the Organization's documented procurement procedures and 1 purchase that also did not include competitive bidding.

Recommendation:

We recommend that the Organization use their own documented procurement procedures that comply with procurement standards set out at 2 CFR sections 200.318 through 200.326.

Views of Responsible Officials:

Management agrees with the finding.

Other Issues

See the following pages for the Summary Schedule of Prior Audit Findings and the Corrective Action Plan.

Community Transit of Watertown-Sisseton, Inc.
Summary Schedule of Prior Audit Findings
For the Year Ended September 30, 2023

DEPARTMENT OF TRANSPORTATION

**Finding 2022-001: ALN 20.509 Formula Grants for Rural Areas and Tribal Transit Program -
Material Weakness in Internal Controls over Financial Reporting**

Condition: During our audit, material adjustments were needed to adjust accounts to correct balances at year end. Significant accounts affected include payroll liabilities, accumulated depreciation, depreciation expense, and net assets.

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

Current Status: The Organization corrected this deficiency in fiscal year 2023 by implementing a review process to ensure correct reporting. Any grant payments from SDDOT have been reconciled on a monthly basis and reported on a grant tracking spreadsheet. We also make sure these payments match what has been logged into our bookkeeping software.

**Finding 2022-002: ALN 20.509 Formula Grants for Rural Areas and Tribal Transit Program -
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.

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, including a reconciliation between the Schedule of Expenditures of Federal Awards and the accounting system. The auditor also recommended updating the federal grant tracking spreadsheet to track expenditures by fiscal year.

Current Status: The Organization corrected this deficiency in fiscal year 2023 by reviewing the Schedule of Expenditures of Federal Awards and the accounting system prior to the audit. The Organization updates the federal grant tracking spreadsheet when the agreement becomes available which coincides with the fiscal year.



205 1st Ave NE, Watertown, SD 57201

605-882-5287

CORRECTIVE ACTION PLAN

REPORT DATE: 06/17/2024

U.S. Department of the Transportation
Passed-through the State of South Dakota

Community Transit of Watertown-Sisseton, Inc. respectfully submits the following corrective action plan for the year ended September 30, 2023.

Name and address of independent public accounting firm:
Abdo, LLP
5201 Eden Avenue, Suite 250
Edina, MN 55436

Audit period: October 01, 2022 - September 30, 2023

The findings from the September 30, 2023 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Findings – Financial Statement Audit

2023-001 Significant Deficiency in Internal Controls over Compliance

Recommendation:

We recommend that the Organization use their own documented procurement procedures that comply with procurement standards set out at 2 CFR sections 200.318 through 200.326.

Planned Action:

The Organization plans to use their procurement policy to ensure they are in compliance with the procurement standards.

The Organization strives to remain compliant with Uniform Guidance in all respects to present both accurate and transparent records. If the State of South Dakota, or the U.S. Department of the Transportation have questions regarding this plan, please call Terry Hoffman or Kathy Holman, Co-Executive Directors, at (605)-698-7511

Sincerely,

Terry Hoffman and Kathy Holman
Co-Executive Directors