



Department of Transportation

Division of Secretariat

Office of Air, Rail & Transit

700 East Broadway Avenue

Pierre, South Dakota 57501-2586

OFFICE: 605/773-3574

FAX: 605/773-2804

January 16, 2019

Prairie Hills Transit
Barb Cline
2015 Tumble Weed Trail
Spearfish, SD 57783

Dear Barb,

The South Dakota Department of Transportation (SDDOT) has received a copy of your September 30, 2017 audit report which included audit findings pertinent to funds administered through SDDOT's Transit Program. OMB Uniform Guidance 2 CFR §200.521 requires that a management decision is issued within six months of acceptance of the of the audit report by the Federal Audit Clearinghouse.

Finding: 2017-001 Internal Control over Financial Reporting

Prairie Hills Transit corrective action plan indicates: The entity will continue to have the auditor draft financial statements and has noted the Board will provide oversight. No further action is planned.

Management Decision: SDDOT agrees with Prairie Hills Transit's action plan to have the Board review and approve the year-end financial statements and notes.

Finding: 2017-002 Internal Control over Financial Reporting

Prairie Hills Transit corrective action plan indicates: Management has taken steps to improve this deficiency and will continue to improve.

Management Decision: SDDOT agrees with Prairie Hills Transit's action plan.

Finding: 2017-003 Internal Control over Financial Reporting

Prairie Hills Transit corrective action plan indicates: Prairie Hills Transit has made several staffing changes and has significantly revised policies and procedures directly relating to internal controls.

Management Decision: SDDOT agrees with Prairie Hills Transit's action plan.

Finding: 2017-004 Internal Control over Compliance

Prairie Hills Transit corrective action plan indicates: Prairie Hills Transit disputes this as a Significant Deficiency due to lack of requested format. Prairie Hills will be adding additional fields to their tracking data.

Management Decision: SDDOT agrees with Prairie Hills Transit's disagreement regarding it being a finding because of information not provided in the single auditor's specific format. Prairie Hills would be able to provide the data requested by the single auditor and is adding additional information to meet the single auditor's request. Federal Transit Administration's (FTA) Transit Asset Management (TAM) requires any facility and equipment related assets over \$50,000 be tracked, in addition to all rolling stock. SDDOT has provided access for PHT to TAM tracking software to track assets and apply condition readings.

Finding: 2017-005 Internal Control over Compliance, and Noncompliance

Prairie Hills Transit corrective action plan indicates: See 2017-001 response.

Management Decision: See 2017-001 response.

Finding: 2017-006 Internal Control over Compliance

Prairie Hills Transit corrective action plan indicates: Prairie Hills Transit will develop a system of allocating expenses and payroll to the various programs that can be easily reviewed.

Management Decision: SDDOT agrees with Prairie Hills Transit's action plan and recognizes SDDOT also has a role in oversight reviewing expenses and payroll for reimbursement.

Finding: 2017-007 Internal Control over Compliance

Prairie Hills Transit corrective action plan indicates: Prairie Hills Transit will prepare time studies to determine cost allocation per federal program.

Management Decision: SDDOT agrees with the single auditor's recommendation to develop a mechanism for tracking personnel expenses charged to federal programs. Documentation should be based on *actual work performed*.

Please note all action plans must be implemented/resolved by September 30, 2019. Progress reports on all findings are required quarterly (FTA C 5010.1E) until the findings are mitigated. Jana Uhrig with SDDOT's Audits team will request your quarterly progress report via email. If you have any questions regarding the progress report, please call Jana at (605) 773-4312 or email Jana at Jana.Uhrig@state.sd.us.

If you are dissatisfied with this management decision letter and/or the required follow up action, you may appeal this letter. Your appeal must be submitted to Jack Dokken, Program Manager within 60 days of the date of this letter. Your appeal must be written and submitted via email or letter and must provide reasons and supporting information as to why the determination listed in this letter is incorrect. The appeal should clearly identify the determination(s) that you are appealing. Upon receipt of your appeal, SDDOT will decide to affirm the original determination or vary the management decision letter within 30 days of receipt of the appeal.

Sincerely,



Jack Dokken
Air, Rail and Transit Program Manager



Chris Ott
Audits Program Manager

CC: Lisa Donner, Transit Transportation Specialist
Jana Uhrig, SDDOT Audits
Jan Talley, SDDOT Finance
Samantha Dewell, Dept. of Human Services Program Specialist



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C/O 500 EAST CAPITOL
PIERRE SD 57501-5070
(605) 773-3595

MARTIN L. GUINDON, CPA
AUDITOR GENERAL

Date: October 26, 2018

To: SD Department of Transportation
State Board of Internal Control

Re: Audit Report on – West River Transit Authority, Inc.
dba Prairie Hills Transit
As of and for the year ended September 30, 2017
By: Casey Peterson, Ltd., CPAs

We have accepted the final report on the audit of the above-named entity conducted under the requirements of OMB Uniform Guidance.

OMB Uniform Guidance requires the State of South Dakota, as a direct recipient of federal assistance who provides federal awards to a subrecipient, to:

1. Ensure that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Uniform Guidance for that fiscal year.
2. Ensure that the subrecipient takes timely and appropriate corrective action when the audit report discloses instances of noncompliance with federal laws and regulations.
3. Consider whether this subrecipient audit necessitates adjustment of your program records.

The accompanying audit report is submitted to you to help fulfill these requirements.

The report does identify audit findings pertaining to federal award programs administered by your agency/department that are required to be reported in accordance with OMB Uniform Guidance, §200.516(a). See pages 9-12. Accordingly, you are required to issue a management decision on the audit findings within six months after receipt of this audit report (OMB Uniform Guidance §200.331(d)(3)).

Please contact us if you have any questions.

Sincerely,

Martin L. Guindon, CPA
Auditor General

MLG:sld

Enclosure

**WEST RIVER TRANSIT
AUTHORITY, INC.
DBA PRAIRIE HILLS TRANSIT**

INDEPENDENT AUDITOR'S REPORTS,
FINANCIAL STATEMENTS, AND
SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2017

CASEY  PETERSON

Leading the Way.

RAPID CITY, SOUTH DAKOTA
GILLETTE, WYOMING

West River Transit Authority, Inc. dba Prairie Hills Transit
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September 30, 2017

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CASEY PETERSON

Leading the Way.

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

West River Transit Authority, Inc. dba Prairie Hills Transit
Spearfish, 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 West River Transit Authority, Inc. dba Prairie Hills Transit (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017, 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 September 27, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered West River Transit Authority, Inc. dba Prairie Hills Transit'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 West River Transit Authority, Inc. dba Prairie Hills Transit's internal control. Accordingly, we do not express an opinion on the effectiveness of West River Transit Authority, Inc. dba Prairie Hills Transit'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 certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001, 2017-002, and 2017-003 that we consider to be material weaknesses.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether West River Transit Authority, Inc. dba Prairie Hills Transit'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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2017-005.

West River Transit Authority, Inc. dba Prairie Hills Transit's Response to Findings

West River Transit Authority, Inc. dba Prairie Hills Transit's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. West River Transit Authority, Inc. dba Prairie Hills Transit'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.

Casey Peterson, LTD.

Casey Peterson, Ltd.

Rapid City, South Dakota
September 27, 2018

CASEY & PETERSON

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Independent Auditor's Report on Compliance for the Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors
West River Transit Authority, Inc. dba Prairie Hills Transit
Spearfish, South Dakota

Report on Compliance for the Major Federal Program

We have audited West River Transit Authority, Inc. dba Prairie Hills Transit's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on West River Transit Authority, Inc. dba Prairie Hills Transit's major federal program for the year ended September 30, 2017. West River Transit Authority, Inc. dba Prairie Hills Transit's major federal program is 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 West River Transit Authority, Inc. dba Prairie Hills Transit's major federal program 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 West River Transit Authority, Inc. dba Prairie Hills Transit'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 the major federal program. However, our audit does not provide a legal determination of West River Transit Authority, Inc. dba Prairie Hills Transit's compliance.

Opinion on the Major Federal Program

In our opinion, West River Transit Authority, Inc. dba Prairie Hills Transit complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2017.

CASEY & PETERSON LTD.



CPAs & FINANCIAL ADVISORS

909 St. Joseph Street, Suite 101 | Rapid City, SD 57701 | 605.348.1930
612 S. Douglas Hwy | Gillette, WY 82716 | 307.682.4795

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2017-005. Our opinion on the major federal program is not modified with respect to this matter.

West River Transit Authority, Inc. dba Prairie Hills Transit's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. West River Transit Authority, Inc. dba Prairie Hills Transit's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of West River Transit Authority, Inc. dba Prairie Hills Transit 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 West River Transit Authority, Inc. dba Prairie Hills Transit's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 West River Transit Authority, Inc. dba Prairie Hills Transit'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 identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2017-005, 2017-006, and 2017-007 to be material weaknesses.

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 2017-004 to be a significant deficiency.

West River Transit Authority, Inc. dba Prairie Hills Transit's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. West River Transit Authority, Inc. dba Prairie Hills Transit's response was not subjected to the 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.

Casey Peterson, LTD.

Casey Peterson, Ltd.

Rapid City, South Dakota
September 27, 2018

West River Transit Authority, Inc. dba Prairie Hills Transit
Schedule of Findings and Questioned Costs
September 30, 2017

SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

- a. The Independent Auditor's Report expresses an unmodified opinion on the financial statements of West River Transit Authority, Inc. dba Prairie Hills Transit.
- b. Material weaknesses related to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance with Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- c. An instance of noncompliance material to the financial statements of the Organization, which is required to be reported in accordance with Government Auditing Standards, was noted during the audit.
- d. An instance of noncompliance, material weaknesses, and a significant deficiency in internal control over compliance related to the major federal program were reported in the Independent Auditor's Report on Compliance for Each Major Program and Internal Control over Compliance in Accordance with the Uniform Guidance.
- e. The independent auditor's report on compliance for the major federal award program of West River Transit Authority, Inc. dba Prairie Hills Transit expresses an unmodified opinion on the major federal program.
- f. Findings required to be reported in accordance with 2 CFR section 200.516(a) are reported in this schedule.
- g. The Organization's major program for the year ended September 30, 2017 was:
 Formula Grants for Rural Areas CFDA #20.509
- h. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$750,000.
- i. West River Transit Authority, Inc. dba Prairie Hills Transit did qualify as a low-risk auditee.

FINDINGS - FINANCIAL STATEMENTS AUDIT

Material Weakness

Internal Control over Financial Reporting

Drafting the Financial Statements and Related Notes

2017-001 *Condition:* The Organization lacks the ability to prepare financial statements and related notes. The Organization requests its auditors to draft the year-end financial statements and related notes.

Criteria: Establishing internal controls over preparation of the financial statements and drafting the financial statements are the responsibility of management. The Organization should have a system of internal controls in place related to the preparation of the financial statements. In addition, the Uniform Guidance requires the auditee to prepare appropriate financial statements in accordance with Section 200.510.

Cause: The Organization does not have a system of internal controls in place to prepare the financial statements, which is common for an organization of this size due to the limited number of staff.

Effect: The Organization engages its auditors to draft the financial statements and related notes. There is a risk that errors may occur and not be detected.

West River Transit Authority, Inc. dba Prairie Hills Transit
Schedule of Findings and Questioned Costs
September 30, 2017

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the Organization's auditors drafting the financial statements because of cost or other considerations. If the Organization chooses not to accept this risk, a third-party accountant should be engaged to prepare the draft financial statements and related notes.

View of Management: Management agrees with the finding. A response can be found in the Corrective Action Plan.

Material Weakness

Internal Control over Financial Reporting

Lack of Monthly and Year-end Reconciliation

2017-002 *Condition:* The Organization lacks an appropriate system of internal controls to ensure monthly and year-end reconciliations are properly performed as part of their monthly and year-end closing process and that those reconciliations have proper oversight and review. In addition, journal entries and reconciliations are not reviewed by a staff member capable of identifying errors in the journal entries or reconciliations.

Criteria: Monthly and year-end financial statements should be presented on the full accrual basis in accordance with generally accepted accounting principles. Closing entries and reconciliations should be performed by the accountant and reviewed and approved by a member of management or the Board capable of identifying errors. Performing an adequate closing process at month-end and year-end results in accurate financial reporting in accordance with generally accepted accounting principles.

Cause: The Organization is not properly performing all of the necessary month-end and year-end entries and reconciliations to present the financial statements on the full accrual basis. Material adjustments resulting from audit procedures were necessary in the areas of cash, accounts receivable, inventory, property and equipment, prepaid expenses, and interdivision activity.

Effect: There were various corrections identified by the auditors to properly state amounts presented within the financial statements of the Organization on the full accrual basis in accordance with generally accepted accounting principles.

Auditor's Recommendation: We recommend management develop a system of internal controls to ensure month-end and year-end entries and reconciliations are properly performed. We suggest comparing prior year and current year balances to ensure reasonableness and obtaining all necessary support to perform reconciliations. In addition, we recommend a staff member or Board member capable of identifying errors in journal entries and reconciliations review the journal entries and reconciliations monthly.

View of Management: Management agrees with the finding. A response can be found in the Corrective Action Plan.

Material Weakness

Internal Control over Financial Reporting

Lack of Segregation of Duties

2017-003 *Condition:* There is a lack of segregation of duties and monitoring related to various accounting functions. Staff are performing incompatible functions with little oversight or review.

West River Transit Authority, Inc. dba Prairie Hills Transit
Schedule of Findings and Questioned Costs
September 30, 2017

Criteria: Duties should be properly segregated between staff to ensure custody of assets and accounting for assets are not performed by the same person. Reconciliations should be performed timely and they should be documented. In addition, qualified personnel should review all reconciliations, journal entries, and related supporting documents.

Cause: This condition exists due to the small staff size within the finance function of the Organization. These issues are common in an organization of this size.

Effect: The Finance Director performs closing entries and reconciliations with limited oversight. The possibility of fraud or errors occurring and not being detected or corrected is present.

Auditor's Recommendation: We recommend management assign responsibilities to staff to ensure accounting and custody of assets are segregated. We recommend periodically during the year the Finance Director review all account balances to ensure all adjustments are properly posted and balances agree to the necessary support. In addition, management should improve the process for oversight of reconciliations and journal entries to ensure those items are reviewed and approved by qualified personnel.

View of Management: Management agrees with the finding. A response can be found in the Corrective Action Plan.

FINDINGS - MAJOR FEDERAL PROGRAM

U.S. Department of Transportation
Formula Grants for Rural Areas CFDA #20.509

Significant Deficiency
Internal Control over Compliance
Lack of Proper Tracking of Inventory

2017-004 *Condition:* The Organization's system for tracking inventory and equipment purchased with federal funds is lacking specific criteria required by the Department of Transportation Federal Transit Administration and the Uniform Guidance.

Criteria: Inventory and equipment items purchased with federal award funds should be tracked based on the requirements of the Uniform Guidance and the Department of Transportation. The Asset Management Guide issued by the Federal Transit Administration and 2 CFR Part 200.313(d) require specific elements to be maintained in property records. 2 CFR Part 200.313(d) states that property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. We noted that the Organization's property records were specifically lacking the source of funding and program/award identification, percentage of federal participation in cost, and disposition data, such as disposal date, sale price, and method used to determine the fair value.

Cause: The Organization is tracking items purchased with federal funds. However, specific elements are not included in the Organization's internal tracking mechanism.

West River Transit Authority, Inc. dba Prairie Hills Transit
Schedule of Findings and Questioned Costs
September 30, 2017

Effect: The Organization is not able to identify which federal award program was used to purchase inventory items. As a result, there is a risk that the Organization may not follow all appropriate requirements related to disposing of items purchased with federal funds.

Auditor's Recommendation: We recommend management review their mechanism for tracking all property purchased with federal funds to ensure all required elements are included.

View of Management: Management disagrees with the finding. A response can be found in the Corrective Action Plan.

Auditor's Evaluation of Management's Response: Management's response within the Corrective Action Plan states the missing information can be found within the grant files. While we understand the Organization keeps copies of all grants and purchase information for vehicles purchased with federal funds in files, the finding is reported due to management not maintaining the inventory listing in the federally mandated format. Further, this information is not readily available and would require pulling numerous contracts from prior years to compile the necessary information to identify the source of funding, percentage of federal participation in cost, and disposition information. Organizations are required to follow the disposition instructions of the Federal awarding agency when required by the terms and conditions of the federal award. The Organization does not have adequate records to readily identify assets purchased with federal funds and the grants with which they were purchased. Accordingly, the Organization cannot ensure appropriate disposition methods are followed without looking through grant files. It is likely that most assets are purchased with funds from the same Federal awarding agency. However, the inventory listing does provide such documentation. All prior grant agreements would need to be reviewed, and purchase information such as asset identification numbers would need to be compared to the listing and identified in order to make a determination.

U.S. Department of Transportation
Formula Grants for Rural Areas CFDA #20.509

Material Weakness
Internal Control over Compliance and Noncompliance
Drafting the Financial Statements and Related Notes

2017-005 See Finding 2017-001 for a description of the condition, criteria, cause, effect, auditor's recommendation, and view of management.

U.S. Department of Transportation
Formula Grants for Rural Areas CFDA #20.509

Material Weakness
Internal Control over Compliance
Lack of Review of Federal Award Processes

2017-006 *Condition:* There is a lack of review of the accounting processes involved in the federal awards processes, including review of expense allocations, payroll allocations, match requirements, and cash management procedures.

West River Transit Authority, Inc. dba Prairie Hills Transit
Schedule of Findings and Questioned Costs
September 30, 2017

Criteria: The Uniform Guidance 2 CFR 200.303 requires auditees to establish and maintain effective internal control over federal awards that provides reasonable assurance that the awards are being managed in compliance with the federal statutes, regulations, and the terms and conditions of the federal award. The Organization should have a system of internal control in place to provide reasonable assurance that expenses charged to programs, expenses requested for reimbursement, expenses reported as matching funds, and other information reported to the oversight agency are accurate. The Organization should assign an individual capable of reviewing federal award accounting processes review all processes relating to federal awards.

Cause: This condition exists due to the small staff size within the finance function of the Organization. These issues are common in an organization of this size.

Effect: The Finance Director performs federal award processes with limited oversight. The possibility of fraud, errors, or noncompliance occurring and not being detected or corrected is present.

Auditor's Recommendation: We recommend management assign responsibility to review federal award accounting processes to an individual capable of reviewing the processes and identifying instances or errors or noncompliance. The Organization should maintain supporting documentation of these reviews, including signature and date of review.

View of Management: Management disagrees with the finding. A response can be found in the Corrective Action Plan.

Auditor's Evaluation of Management's Response: Management's response within the Corrective Action Plan states the State Department of Transportation's oversight plays an important in the Organization's system of internal control over compliance. Other agencies cannot be a part of an Organization's system of internal control. Additionally, information provided to the State Department of Transportation does not contain the level of detail necessary for them to identify errors. It is the Organization's responsibility to oversee federal award processes.

U.S. Department of Transportation
Formula Grants for Rural Areas CFDA #20.509

Material Weakness
Internal Control over Compliance
Lack of Support for Payroll Allocations

2017-007 *Condition:* The Organization does not have an adequate system of internal control to ensure wages charged to federal grants are consistent with the actual employee effort.

Criteria: Per section (8)(i)(1) of § 200.430 of Uniform Guidance, changes to allocations should be evaluated when there are significant changes to work activity and estimated amounts should be adjusted based on actual time worked in each program at least annually. Documentation of personnel expenses must reflect the total activity for which each employee was compensated and include both federally-assisted and all other non-federally assisted activities.

Cause: Current allocations are based on an outdated time study, timesheets do not contain appropriate detail to identify federal award programs to which wages should be allocated, and timesheets do not represent the total hours worked by each employee.

West River Transit Authority, Inc. dba Prairie Hills Transit
Schedule of Findings and Questioned Costs
September 30, 2017

Effect: Allocations of payroll expenses to federal award programs may not accurately reflect actual time spent on federal program activities. We believe any difference between amounts charged and actual time spent would not be material to the program. However, the Organization does not have adequate records available to determine this difference.

Auditor's Recommendation: We recommend management develop a mechanism for tracking personnel expenses charged to each federal award program. Documentation should be based on actual work performed and should include all activities performed by employees.

View of Management: Management agrees with the finding. A response can be found in the Corrective Action Plan.



2015 Tumble Weed Trail, Spearfish, SD 57783
Office (605) 642-6668 Fax (605) 642-6434
www.prairiehillstransit.org

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

FINDINGS - FINANCIAL STATEMENT AUDIT

There were no findings reported in the prior year financial statement audit.

FINDINGS - MAJOR FEDERAL AWARD PROGRAMS

There were no findings applicable to federal programs in the prior year.



2015 Tumble Weed Trail, Spearfish, SD 57783
Office (605) 642-6668 Fax (605) 642-6434
www.prairiehillstransit.org

CORRECTIVE ACTION PLAN (UNAUDITED)

West River Transit Authority, Inc. dba Prairie Hills Transit respectfully submits the following Corrective Action Plan for the year ended September 30, 2017.

Name and address of independent accounting firm:

Casey Peterson, Ltd.
909 Saint Joseph Street, Ste 101
Rapid City, SD 57701

FINDINGS - FINANCIAL STATEMENTS AUDIT

Material Weakness

Internal Control over Financial Reporting

Drafting the Financial Statements and Related Notes

2017-001 *Condition:* The Organization lacks the ability to prepare financial statements and related notes. The Organization requests its auditors to draft the year-end financial statements and related notes.

Criteria: Establishing internal controls over preparation of the financial statements and drafting the financial statements are the responsibility of management. The Organization should have a system of internal controls in place related to oversight and review of preparation of the financial statements. In addition, the Uniform Guidance requires the auditee to prepare appropriate financial statements in accordance with Section 200.510.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the Organization's auditors drafting the financial statements because of cost or other considerations. If the Organization chooses not to accept this risk, a third-party accountant should be engaged to prepare the draft financial statements and related notes.

Management's Response: We agree with the auditor's recommendation and are aware of the lack of internal controls over drafting the financial statements and accompanying notes. No action is planned for this finding due to cost restraints. The Organization will continue to have the auditor draft the financial statements and accompanying notes as the Organization feels the additional cost would not provide significant benefit. Management feels that the most effective control is oversight by the Board and knowledge of matters relating to daily operations.

CORRECTIVE ACTION PLAN (UNAUDITED) (CONTINUED)

Material Weakness

Internal Control over Financial Reporting

Lack of Monthly and Year-end Reconciliation

2017-002 *Condition:* The Organization lacks an appropriate system of internal controls to ensure monthly and year-end reconciliations are properly performed as part of their monthly and year-end closing process and that those reconciliations have proper oversight and review. In addition, journal entries and reconciliations are not reviewed by a staff member capable of identifying errors in the journal entries or reconciliations.

Criteria: Monthly and year-end financial statements should be presented on the full accrual basis in accordance with generally accepted accounting principles. Closing entries and reconciliations should be performed by the accountant and reviewed and approved by a member of management or the Board capable of identifying errors. Performing an adequate closing process at month-end and year-end results in accurate financial reporting in accordance with generally accepted accounting principles.

Auditor's Recommendation: We recommend management develop a system of internal controls to ensure month-end and year-end entries and reconciliations are properly performed. We suggest comparing prior year and current year balances to ensure reasonableness and obtaining all necessary support to perform reconciliations. In addition, we recommend a staff member or Board member capable of identifying errors in journal entries and reconciliations review the journal entries and reconciliations monthly.

Management's Response: Management has taken steps to improve the year-end reconciliation process and to provide better oversight and review. The Finance Manager is documenting all journal entries made for FY17-18 and providing related support for each entry. Prairie Hills Transit has a highly qualified Finance Committee that will review and approve reconciliations and financial reports. The CEO will also review reconciliations, adjustments, and completed financial reports to ensure balances appear correct based on the results of operations and other operating metrics. The full governing Board receives financial reports at the monthly Board meeting that provide prior year and current year comparisons as well as month-to-month comparisons. These are reviewed monthly and documentation is readily available in the monthly Board minutes that show review, discussion and acceptance. A year-end review is completed after the final report for the fiscal year-end is completed.

Material Weakness

Internal Control over Financial Reporting

Lack of Segregation of Duties

2017-003 *Condition:* There is a lack of segregation of duties and monitoring related to various accounting functions. Staff are performing incompatible functions with little oversight or review.

CORRECTIVE ACTION PLAN (UNAUDITED) (CONTINUED)

Criteria: Duties should be properly segregated between staff to ensure custody of assets and accounting for assets are not performed by the same person. Reconciliations should be performed timely and they should be documented. In addition, qualified personnel should review all reconciliations and journal entries and related supporting documents.

Auditor's Recommendation: We recommend management assign responsibilities to staff to ensure accounting and custody of assets are segregated. We recommend periodically during the year the Finance Director review all account balances to ensure all adjustments are properly posted and balances agree to the necessary support. In addition, management should improve the process for oversight of reconciliations and journal entries to ensure those items are reviewed and approved by qualified personnel.

Management's Response: Subsequent to the year ended September 30, 2017, the Organization made several staffing changes and significantly revised policies and procedures directly relating to internal controls. Management had identified and corrected weaknesses in the deposit process to better segregate the responsibilities of the Finance Director and allow more clear oversight in this process. A more diligent review of payroll, timesheets, ACH deposits, and HR payroll changes were also implemented. Review, dating, and initialing by senior staff show reviews are being performed routinely. Reconciliations are performed by a separate staff person and in a timely manner. Reconciliations are documented and maintained in the Finance Manager's office. All reconciliations are reviewed by the Finance Manager and are dated and initialed upon review. Management has spent considerable time developing, maintaining, and supervising adequate checks and balances and has always striven to strengthen internal controls. We are continually evaluating the process and feel that improvements are still being made to allow efficiencies that address the audit issues that were identified.

FINDINGS - MAJOR FEDERAL PROGRAM

U.S. Department of Transportation
Formula Grants for Rural Areas CFDA #20.509

Significant Deficiency
Internal Control over Compliance
Lack of Proper Tracking of Inventory

2017-004 *Condition:* The Organization's system for tracking inventory and equipment purchased with federal funds is lacking specific criteria required by the Department of Transportation Federal Transit Administration and the Uniform Guidance.

CORRECTIVE ACTION PLAN (UNAUDITED) (CONTINUED)

Criteria: Inventory and equipment items purchased with federal award funds should be tracked based on the requirements of the Uniform Guidance and the Department of Transportation. The Asset Management Guide issued by the Federal Transit Administration and 2 CFR Part 200.313(d) require specific elements to be maintained in property records. 2 CFR Part 200.313(d) states that property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. We noted that the Organization's property records were specifically lacking the source of funding and program/award identification, percentage of federal participation in cost, and disposition data, such as disposal date, sale price, and method used to determine the fair value.

Auditor's Recommendation: We recommend management review their mechanism for tracking all property purchased with federal funds to ensure all required elements are included.

Management's Response: The PHT Finance committee chooses to dispute this as a Significant Deficiency. All information is available in the PHT files. Because it is not currently in the suggested spreadsheet format suggested by the Auditor does not mean there is a Significant Deficiency. The Finance Manager is able to add the columns requested to identify the information requested by the Auditor in the future. All items and the Agreement numbers are readily available in our files. DOT also completes an annual review of assets that includes the Agreement Number, the DUNS number, unique entity identifier, FAIN, Award date and the amount of federal funds obligated. This also included the CFDA No. Each of these numbered agreements states the State will provide eighty percent of the funding. All elements are available for review.

U.S. Department of Transportation
Formula Grants for Rural Areas CFDA #20.509

Material Weakness
Internal Control over Compliance, and Noncompliance
Drafting the Financial Statements and Related Notes

2017-005 See Finding 2017-001 for a description of the condition, criteria, auditor's recommendation, and management's response.

CORRECTIVE ACTION PLAN (UNAUDITED) (CONTINUED)

U.S. Department of Transportation
Formula Grants for Rural Areas CFDA #20.509

Material Weakness
Internal Control over Compliance
Lack of Review of Federal Award Processes

2017-006 *Condition:* There is a lack of review of the accounting processes involved in the federal awards processes, including review of expense allocations, payroll allocations, match requirements, and cash management procedures

Criteria: The Uniform Guidance 2 CFR 200.303 requires auditees to establish and maintain effective internal control over federal awards that provides reasonable assurance that the awards are being managed in compliance with the federal statutes, regulations, and the terms and conditions of the federal award. The Organization should have a system of internal control in place to provide reasonable assurance that expenses charged to programs, expenses requested for reimbursement, expenses reported as matching funds, and other information reported to the oversight agency are accurate. The Organization should assign an individual capable of reviewing federal award accounting processes review all processes relating to federal awards.

Auditor's Recommendation: We recommend management assign responsibility to review federal award accounting processes to an individual capable of reviewing the processes and identifying instances or errors or noncompliance. The Organization should maintain supporting documentation of these reviews, including signature and date of review.

Management's Response: Management will develop a system of allocating expenses and payroll to the various programs that can be easily reviewed by the CEO and finance committee. Management will also revise documentation maintained supporting matching requirements and cash management monitoring. These documents will be initialed and dated by the reviewer and maintained in a grant file for each individual grant. These reports will be generated from documentation in the accounting system. While federal audit requirements may not recognize oversight by the State Department of Transportation, we feel it is important to note that there is significant compliance and review from their office.

U.S. Department of Transportation
Formula Grants for Rural Areas CFDA #20.509

Material Weakness
Internal Control Over Compliance
Lack of Support for Payroll Allocations

2017-007 *Condition:* The Organization does not have an adequate system of internal control to ensure wages charged to federal grants are consistent with the actual employee effort.



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CORRECTIVE ACTION PLAN (UNAUDITED) (CONTINUED)

Criteria: Per section (8)(i)(1) of § 200.430 of Uniform Guidance, changes to allocations should be evaluated when there are significant changes to work activity and estimated amounts should be adjusted based on actual time worked in each program at least annually. Documentation of personnel expenses must reflect the total activity for which each employee was compensated and include both federally-assisted and all other non-federally assisted activities.

Auditor's Recommendation: We recommend management develop a mechanism for tracking personnel expenses charged to each federal award program. Documentation should be based on actual work performed and should include all activities performed by employees.

Management's Response: Management will have staff that are assigned to multiple cost objectives prepare time studies several times each year, such that management can ensure staff time allocations are consistent with amounts charged to federal programs. Management will review all staff allocations at least annually to make updates as necessary.

If there are any questions regarding this plan, please contact Barb Cline, Executive Director at (605) 642-6668.

Sincerely,

Barb Cline, Executive Director
West River Transit Authority, Inc. dba Prairie Hills Transit

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CASEY PETERSON

Leading the Way.

Independent Auditor's Report

To the Board of Directors of
West River Transit Authority, Inc. dba Prairie Hills Transit
Spearfish, South Dakota

We have audited the accompanying financial statements of West River Transit Authority, Inc. dba Prairie Hills Transit (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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 an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 presentation of the financial statements.

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 West River Transit Authority, Inc. dba Prairie Hills Transit as of September 30, 2017, 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.

CASEY • PETERSON LTD



CPAs & FINANCIAL ADVISORS

909 St. Joseph Street, Suite 101 | Rapid City, SD 57701 | 605.348.1930
612 S. Douglas Hwy | Gillette, WY 82716 | 307.682.4795

Other Matters

Other 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 of Federal Awards, is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Corrective Action Plan has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2018 on our consideration of West River Transit Authority, Inc. dba Prairie Hills Transit'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 to describe the scope of our testing of 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 consideration of West River Transit Authority, Inc. dba Prairie Hills Transit's internal control over financial reporting and compliance.

Casey Peterson, LTD.

Casey Peterson, Ltd.

Rapid City, South Dakota
September 27, 2018

FINANCIAL STATEMENTS

West River Transit Authority, Inc. dba Prairie Hills Transit
Statement of Financial Position
September 30, 2017

ASSETS

Cash	\$ 585,033
Accounts Receivable, Net	331,524
Inventory	10,200
Long-term Investments	740,454
Related-party Receivable - Long-term	10,000
Property and Equipment, Net	4,064,835
Judgment Receivable	16,803
Patronage Dividends Receivable	<u>8,790</u>

TOTAL ASSETS

\$ 5,767,639

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts Payable	\$ 52,615
Accrued Payroll Liabilities	48,433
Accrued Leave Payable	<u>45,814</u>
 Total Liabilities	 <u>146,862</u>

NET ASSETS

Unrestricted Net Assets	4,880,323
Board-designated Net Assets	<u>740,454</u>
 Total Net Assets	 <u>5,620,777</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 5,767,639

The accompanying notes are an integral part of this statement.

West River Transit Authority, Inc. dba Prairie Hills Transit
Statement of Activities
For the Year Ended September 30, 2017

REVENUE, GAINS, AND OTHER SUPPORT

Grants	\$ 1,128,890
Contracts and Fares	762,919
Child Care Tuition	211,077
Contributions	173,869
Interest and Dividend Income	1,848
Miscellaneous Income	5,574
Meals Donations	1,000
Rent	150
Investment Return	40,371
Gain on Sale of Property and Equipment	<u>24,934</u>
Total Revenue, Gains, and Other Support	<u>2,350,632</u>

EXPENSES

Program Services:	
Transportation	1,396,803
Child Care	188,990
Nutrition	80,531
Supporting Services:	
Management and General	<u>443,307</u>
Total Expenses	<u>2,109,631</u>

CHANGE IN UNRESTRICTED NET ASSETS	241,001
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UNRESTRICTED NET ASSETS - BEGINNING	<u>5,379,776</u>
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UNRESTRICTED NET ASSETS - ENDING	<u><u>\$ 5,620,777</u></u>
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The accompanying notes are an integral part of this statement.

West River Transit Authority, Inc. dba Prairie Hills Transit
Statement of Functional Expenses
For the Year Ended September 30, 2017

	Program Services		
	Transportation	Child Care	Nutrition
Salaries	\$ 521,270	\$ 129,412	\$ 24,701
Depreciation and Amortization	346,414	6,901	-
Payroll Taxes and Benefits	104,494	15,199	2,821
Fuel	116,767	-	-
Insurance	98,422	1,946	-
Supplies	3,620	24,695	52,590
Repairs and Maintenance	77,726	1,259	174
Reimbursable Expenses	77,463	65	-
Utilities	20,511	6,622	-
Professional Fees	-	-	-
Bad Debts	14,088	1,243	5
Computer Service	2,428	512	80
Contract Services	4,572	-	-
Travel	284	-	-
Dues and Licenses	1,678	65	-
Bank Charges and Credit Card Fees	975	-	-
Other Employee Costs	1,441	1,071	160
Advertising and Publications	-	-	-
Miscellaneous	4,650	-	-
Total Expenses	<u>\$ 1,396,803</u>	<u>\$ 188,990</u>	<u>\$ 80,531</u>

The accompanying notes are an integral part of this statement.

	Supporting Services	
Total	Management and General	Total Expenses
\$ 675,383	\$ 303,830	\$ 979,213
353,315	-	353,315
122,514	42,332	164,846
116,767	-	116,767
100,368	378	100,746
80,905	11,724	92,629
79,159	1,128	80,287
77,528	-	77,528
27,133	24,977	52,110
-	22,920	22,920
15,336	-	15,336
3,020	9,167	12,187
4,572	4,781	9,353
284	7,349	7,633
1,743	5,380	7,123
975	4,438	5,413
2,672	2,494	5,166
-	2,409	2,409
4,650	-	4,650
<u>\$ 1,666,324</u>	<u>\$ 443,307</u>	<u>\$ 2,109,631</u>

The accompanying notes are an integral part of this statement.

West River Transit Authority, Inc. dba Prairie Hills Transit
Statement of Cash Flows
For the Year Ended September 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ 241,001
Adjustments to Reconcile Change in Net Assets to Net Cash	
Provided by Operating Activities:	
Depreciation	353,315
Capital Assets Purchased on Behalf of the Organization	(174,437)
Gain on Disposal of Property and Equipment	(24,934)
Investment Fees Paid Using Investment Funds	6,899
Gain on Investments	(40,371)
(Increase) Decrease in:	
Accounts Receivable, Net	(109,996)
Judgment Receivable	(16,803)
Inventory	(3,274)
Prepaid Expenses	4,807
Patronage Dividends Receivable	(697)
Increase (Decrease) in:	
Accounts Payable	(104,841)
Accrued Payroll Liabilities	2,321
Accrued Leave Payable	393
Net Cash Provided by Operating Activities	<u>133,383</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Property and Equipment	(46,333)
Proceeds from Sale of Property and Equipment	10,500
Receipt of Insurance Settlement on Vehicle	14,667
Purchase of Investments	(130,730)
Sale of Investments	<u>130,730</u>
Net Cash Used by Investing Activities	<u>(21,166)</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS 112,217

CASH AND CASH EQUIVALENTS - BEGINNING 472,816

CASH AND CASH EQUIVALENTS - ENDING \$ 585,033

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Capital Assets Purchased on Behalf of the Organization	<u><u>\$ 174,437</u></u>
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The accompanying notes are an integral part of this statement.

West River Transit Authority, Inc. dba Prairie Hills Transit
Note to the Financial Statements
September 30, 2017

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

West River Transit Authority, Inc. dba Prairie Hills Transit (the Organization) provides rural and specialized public transportation in western South Dakota. Approximately 80% of the Organization's revenues were derived from operations of the transportation program for the year ended September 30, 2017. Approximately 49% of its support came from federal, state and local government agencies for the year ended September 30, 2017. The Organization also includes Prairie Hills Child Care Center which provides childcare services for ages six weeks to twelve years in Spearfish, South Dakota and Sturgis Nutrition Program which provides meals to the elderly in Sturgis, SD.

Basis of Accounting

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

Basis of Presentation

The Organization records resources for accounting and reporting purposes into three net asset categories: unrestricted, temporarily restricted, and permanently restricted, based on the existence or absence of donor-imposed restrictions. For the year ended September 30, 2017, the Organization had only unrestricted net assets.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with an initial maturity of three months or less. Cash allocated to the investment portfolio as part of the Organization's investment strategy is reported as investments.

Accounts Receivable

Accounts receivable consist primarily of grant receivables from federal programs and program receivables from childcare tuition. An allowance for uncollectible accounts receivable is estimated based on potential collection problems identified by management. The allowance for doubtful accounts at September 30, 2017 was \$13,460. Accounts receivable will be charged off as uncollectible when management feels they have exhausted all reasonable collection efforts.

Judgment Receivable

During the year ended September 30, 2017, the Organization was awarded restitution from a former employee by the Fourth Circuit Court of the South Dakota Unified Judicial System. The receivable related to this judgment was \$49,164 as of September 30, 2017. An allowance for uncollectible restitution is estimated based on potential collection problems identified by management. The allowance for uncollectible restitution at September 30, 2017 was \$32,361.

Inventory

Inventory is stated at the lower of cost or market. The cost valuation method is first-in, first-out.

Income Taxes

Tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the taxing authorities.

West River Transit Authority, Inc. dba Prairie Hills Transit
Note to the Financial Statements
September 30, 2017

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Organization is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation. The Organization is not liable for income taxes if it operates within the confines of its exempt status. However, the Organization may be responsible for taxes on unrelated business activities. In the event of an examination of the income tax returns, the tax liability of the Organization could be changed if taxing authorities make adjustments to the tax-exempt purpose of the Organization or if taxing authorities determine activities are subject to unrelated business income.

As of September 30, 2017, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization's income tax filings are subject to audit by various taxing authorities. The Organization is no longer subject to federal and state income tax examinations by taxing authorities for years before 2014. Management continually evaluates expiring statutes of limitation, audits, proposed settlements, changes in tax law, and new authoritative rulings. The Organization believes its estimates are appropriate based on current facts and circumstances. Interest and penalties assessed by income taxing authorities, if any, are included in interest expense.

Investments

Investments are reported at fair value and are based primarily on quoted market prices or estimated fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities. Expenses relating to investment revenues, including custodial fees and investment advisory fees, were \$6,895 for the year ended September 30, 2017.

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets. Purchased property and equipment are carried at cost. Donated property and equipment are recorded as contributions or grant revenue at their estimated fair value at the date of the donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Building Improvements	15 years
Equipment	3 - 7 years

Patronage Dividends Receivable

Patronage dividends receivable represent equity allocated to the Organization by utility cooperatives. Patronage dividends receivable are accounted for at cost plus allocated equities and retirements. The cooperatives' patronage savings and losses vary from year to year and interim information is not available. Accordingly, patronage dividends are recognized upon declaration by the cooperatives and allocation of savings or losses are recognized when notified by the cooperatives. Differences between estimated and actual amounts are accounted for when known.

West River Transit Authority, Inc. dba Prairie Hills Transit
Note to the Financial Statements
September 30, 2017

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Board-designated Net Assets

Board-designated net assets consist of investments designated by the Board of Directors as an operating fund and a contingency fund. The operating fund had a balance of \$227,337 as of September 30, 2017. The contingency fund had a balance of \$513,117 as of September 30, 2017.

Restricted and Unrestricted Revenue

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Advertising Costs

The Organization's policy is to expense advertising costs as they are incurred. Advertising costs for the year ended September 30, 2017 were \$2,409.

Liquidity

Assets and liabilities are presented in the order of liquidity in the Statement of Financial Position. Any further restrictions are disclosed in the notes to the financial statements.

Accounting 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 disclosures of contingent matters at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In May 2014, the FASB issued (ASU) 2014-09, Revenue from Contracts with Customers: Topic 606. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective retrospectively for fiscal years beginning after December 15, 2017. The Organization has not yet implemented this ASU and is in the process of assessing the effect on the Organization's financial statements.

West River Transit Authority, Inc. dba Prairie Hills Transit
Note to the Financial Statements
September 30, 2017

NOTE 1 - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In February 2016, the FASB issued (ASU) 2016-02, Leases. This ASU affects any entity that enters into a lease, with some specified scope exemptions. The main difference between previous GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019. The Organization has not yet implemented this ASU and is in the process of assessing the effect on the Organization's financial statements.

In August 2016, the FASB issued (ASU) 2016-14, Not-for-Profit Entities: Topic 958. The amendments in this update affect not-for-profit entities (NFP) and the users of their general purpose financial statements. The amendments in this Update make certain improvements to the current net asset classification requirements and the information presented in financial statements and notes about a NFP's liquidity, financial performance, and cash flows. The amendments in the ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Organization has not yet implemented this ASU and is in the process of assessing the effect on the Organization's financial statements.

In June 2018, the FASB issued (ASU) 2018-08, Not-for-Profit Entities: Topic 958. This ASU clarifies the scope and accounting guidance for contributions received and contributions made. The amendments in this update allow for entities to evaluate whether transactions should be accounted for as contributions or exchange transactions (and subject to other guidance) or determining whether a contribution is conditional. The amendments in the ASU are effective for annual financial statements for fiscal years beginning after December 15, 2018. The Organization has not yet implemented this ASU and is in the process of assessing the effect on the Organization's financial statements.

NOTE 2 - DESCRIPTION OF PROGRAM SERVICES AND SUPPORTING SERVICES

Transportation

The Organization provides rural and specialized public transportation in western South Dakota.

Childcare Services

The Organization provides childcare services for children six weeks to twelve years old residing in Spearfish, South Dakota and the surrounding area.

Nutrition

The Organization provides nutritious meals to the elderly residents of Sturgis, South Dakota.

Management and General

Management and general expenses include the functions necessary to maintain the Organization's stated purpose and manage the fiscal responsibilities of the entity.

NOTE 3 - INVENTORIES

Inventories consist of the following as of September 30, 2017:

Fleet Supplies	\$	5,500
Nutrition Program Food		<u>4,700</u>
	\$	<u>10,200</u>

West River Transit Authority, Inc. dba Prairie Hills Transit
Note to the Financial Statements
September 30, 2017

NOTE 4 - FAIR VALUE MEASUREMENTS

The Organization classifies assets and liabilities measured at fair market value within a hierarchy based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market based information obtained from independent sources, while unobservable inputs reflect estimates about market data. The three-level fair value hierarchy is defined as follows:

Level I - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Organization has the ability to access as of the measurement date. The type of investments which would generally be included in Level I include listed equities and listed derivatives.

Level II - Significant other observable inputs other than Level I prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities, and mutual funds.

Level III - Significant unobservable inputs that reflect the Organization's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given investment is based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The following table presents the assets measured at fair value on a recurring basis as of September 30, 2017 on the accompanying Statement of Financial Position by fair value hierarchy, as described above.

	<u>Level I</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 16,145	\$ 16,145
Equities	217,574	217,574
Fixed Income Securities	<u>506,735</u>	<u>506,735</u>
	<u>\$ 740,454</u>	<u>\$ 740,454</u>

There were no Level II or III investments as of September 30, 2017. The Organization carried no other assets or liabilities measured at fair value on a recurring or non-recurring basis as of September 30, 2017.

Investment return consisted of the following as of September 30, 2017:

Interest and Dividends	\$ 19,211
Realized Gains/Losses	5,345
Unrealized Gains/Losses	<u>15,815</u>
	<u>\$ 40,371</u>

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the Statement of Financial Position.

West River Transit Authority, Inc. dba Prairie Hills Transit
Note to the Financial Statements
September 30, 2017

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of September 30, 2017:

Land	\$ 379,451
Buildings	3,368,028
Building Improvements	414,501
Equipment	<u>3,438,891</u>
	7,600,871
Less: Accumulated Depreciation	<u>(3,536,036)</u>
Net Property and Equipment	<u>\$ 4,064,835</u>

The land, building, and several of the vehicles were acquired with federal grants. The land, building, and vehicles are considered owned by the Organization while the items continue to be used within the transportation program for which they were purchased or in future authorized programs.

Payments made from a granting agency on behalf of the Organization to vendors are included in the Statement of Activities and are capitalized. The total amount of payments made directly to vendors from a granting agency was \$174,437 during the year ended September 30, 2017.

NOTE 6 - RELATED-PARTY TRANSACTIONS

A board member of the Organization is a representative on the board of Black Hills Transit. Black Hills Transit is a non-profit organization organized to provide transportation service to the larger population areas that cannot be served by West River Transit dba Prairie Hills Transit. During the year ended September 30, 2016, the Organization loaned Black Hills Transit \$10,000 on a long-term basis. This is recorded in accounts receivable at year end. This receivable is non-interest bearing and will be repaid as Black Hills Transit has available cash flow.

NOTE 7 - COMPENSATED ABSENCES

Employees of the Organization are entitled to paid time off based on job classification, length of service, and other factors. The paid time off, which is reported as Accrued Leave Payable, is recorded as a liability in the financial statements as it is vested and will be paid upon use or termination of employment.

The Organization previously offered an extended leave program, under which employees accrued extended sick leave based on specific criteria. The program was discontinued in August 2013. Employees may no longer accrue hours under this program. Use of remaining extended leave hours is restricted based on a defined criteria and is not payable upon termination of employment. Accordingly, no liability for the extended leave has been recorded in the financial statements. It is the policy of the Organization to recognize the costs of extended leave when actually paid to the employees upon use. The Organization estimates the value of the extended leave liability was \$23,000 as of September 30, 2017.

West River Transit Authority, Inc. dba Prairie Hills Transit
Note to the Financial Statements
September 30, 2017

NOTE 8 - CONCENTRATIONS

As of September 30, 2017, the Organization had amounts on deposit at certain financial institutions in excess of the insurance limits provided by the Federal Deposit Insurance Corporation (FDIC). The Organization has not experienced any losses in such accounts. The Organization monitors the financial stability of financial institutions regularly and management does not believe there is significant credit risk associated with deposits in excess of federally insured amounts.

A significant portion of the Organization's revenues consist of government grants. Therefore, its funding is vulnerable to changes in the legislative priorities of federal and state governments.

NOTE 9 - SUBSEQUENT EVENTS

As of May 31, 2018, operations of the Sturgis Nutrition Program transferred from West River Transit Authority, Inc. dba Prairie Hills Transit to another nonprofit organization. The inventory and property used by the Sturgis Nutrition Program also transferred ownership at this time.

Subsequent events were evaluated through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

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SUPPLEMENTAL INFORMATION

West River Transit Authority, Inc. dba Prairie Hills Transit
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2017

CFDA Numbers	Cluster/Program Name	Pass-through Entity	Pass-through Entity Identifying Number	Amount
U.S. Department of Transportation				
Federal Transit Cluster				
20 .500	Federal Transit - Capital Investment Grants	SD Department of Transportation	811216	\$ 4,388
20 .526	Bus and Bus Facilities Formula Program (Note 4)	SD Department of Transportation	Note 6	209,277
	Total Federal Transit Cluster			<u>213,665</u>
Transit Services Programs Cluster:				
20 .513	Enhanced Mobility of Seniors and Individuals with Disabilities	SD Department of Transportation	811435	7,851
	Total Transit Services Programs Cluster			<u>7,851</u>
20 .509	Formula Grants for Rural Areas (Note 2)	SD Department of Transportation	Note 7	655,097
20 .514	Public Transportation Research, Technical Assistance, and Training	SD Department of Transportation	811303	9,600
	Total U.S. Department of Transportation			<u>886,213</u>
U.S. Department of Agriculture				
10 .558	Child and Adult Care Food Program (CACFP) (Note 2)	SD Department of Education	M1280013	6,526
	Total U.S. Department of Agriculture			<u>6,526</u>
U.S. Department of Health and Human Services				
Aging Cluster				
93 .044	Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers (Note 2)	SD Department of Social Services	811462	74,201
93 .045	Special Programs for the Aging - Title III, Part C - Nutrition Services (Note 2)	SD Department of Social Services	17-0832-628	31,694
93 .053	Special Programs for the Aging - Title III, Part C - Nutrition Services (Note 2)	SD Department of Social Services	17-0832-628	8,758
	Total U.S. Department of Health and Human Services			<u>114,653</u>
	Total Federal Financial Assistance			<u>\$ 1,007,392</u>

See independent auditor's report.

NOTE 1: This schedule of expenditures of federal awards includes the federal grant activity of West River Transit Authority, Inc. dba Prairie Hills Transit and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, preparation of the basic financial statements.

NOTE 2: Federal reimbursements are not based upon specific expenditures, therefore, the amounts reported here represent cash received rather than federal expenditures.

NOTE 3: West River Transit Authority, Inc. dba Prairie Hills Transit did not elect to use the 10% de minimis indirect cost rate.

NOTE 4: Expenditures include payments made directly to vendors on behalf of the Organization in the amount of \$174,437.

NOTE 5: West River Transit Authority, Inc. dba Prairie Hills Transit has not passed any awards through to subrecipients.

NOTE 6: Bus and Bus Facilities Formula Program pass-through entity identifying numbers include 811323, 811324, 811354, 811386, 811427, 811495, 811497, and 811499.

NOTE 7: Formula Grants for Rural Areas pass-through entity identifying numbers include 811462, SD-2016-002, and SD-2017-003.

See independent auditor's report.