

**FY 2018  
DRAFT AUDIT**

**SOUTHWEST AREA REGIONAL TRANSIT DISTRICT**  
Uvalde, Texas

**REPORT ON THE CONDUCT OF AUDIT**

Year Ended August 31, 2018

**DRAFT**

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

REPORT ON THE CONDUCT OF AUDIT

Year Ended August 31, 2018

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**DRAFT**

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

As stated in our engagement letter dated February 20, 2019, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

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

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

**II. Qualitative Aspects of Accounting Practices**

*Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2018. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.



#### *Financial Statement Disclosures*

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The financial statement disclosures, as included in the financial statements, are neutral, consistent, and clear.

#### *Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the District's financial statements is depreciation expense. Management's estimate for the depreciation is based on the estimated useful lives of the capital assets. We evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

### **III. Difficulties Encountered in Performing the Audit**

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

### **IV. Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The District's management has accepted all proposed audit adjustments to correct these misstatements. Significant audit adjustments were as follows:

- Adjustment to record purchase of vehicles \$1,126,399,
- Adjustment to decrease revenue and increase the line of credit payable by \$32,000,
- Adjustment to decrease accounts payable and expenditures by \$30,220,
- Adjustment to decrease accrued wages liability and expenditures by \$13,936,
- Adjustment to decrease CDTLS loan payable and interest by \$19,979,
- Adjustment to reduce compensated absence liability by \$10,854.

### **V. Disagreements with Management**

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

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated May 8, 2019.

## **VI. Management Consultations with Other Independent Accountants**

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

## **VII. Other Issues**

### *Matters Discussed with Management Prior to Reappointment*

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

### *Other Information in Documents Containing the Audited Financial Statements*

The District’s financial statements are not included in any entity or in other documents.

## **VIII. Internal Control**

In planning and performing our audit of the financial statements, we considered the District’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 District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District’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 and significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, which is described below.

## **General Ledger Review and Reconciliation**

A key component of internal control is a timely review and reconciliation of the general ledger account balances. As part of our preliminary assessment at the beginning of the audit, we noted that some of the accounts did not appear correct. Management indicated that the account misstatements noted resulted from duplicate balances created during the conversion of the accounting system to the Cloud, as well as other balances not properly uploading during conversion. We understand the conversion took place in October 2017; however, the misstatements were not corrected until the beginning of the audit fieldwork in March 2019.

We recommend that management perform a timely review of the general ledger to ensure that the balances are correct so that reports generated from the general ledger are reliable and free of significant misstatements.

## **IX. Other Comments**

### **Payroll Clearing Fund Balance Sheet Accounts**

During the year, the District converted its fund accounting software to the Cloud. As part of the conversion process, the District closed the payroll bank account. However, the related payroll clearing fund remained as an 'active' fund on the general ledger. The fund has several balance sheet account balances that should be transferred to active funds.

We recommend the District review the remaining balances in the payroll clearing fund and transfer the related balances to the proper funds.

### **Payroll Liability Adjusting Entries**

As part of the audit, management provided adjusting journal entries to reconcile a number of payroll related liabilities, including health insurance, and FICA liabilities.

We recommend the District continue their efforts to reconcile the payroll liability accounts on a monthly basis. The review should include comparing the liability accounts to the payments made in the subsequent month. Any existing variances should be considered during the monthly reconciliation process and adjusted as necessary and should be performed prior to the annual financial audit.

## **AUDIT'S MANAGEMENT LETTER CORRECTIVE ACTION PLAN**

### **General Ledger Review and Reconciliation**

The transition to the cloud Terminal Server took place on October 31 of 2017. Financial balance's data from all years since SWART's beginning, were exported to the cloud. There were some duplication amounts, which were a system error that affected some general ledger accounts, especially on the Receivables, Payables, and Liability accounts.

SWART will follow the auditor's recommendation and reconcile the General Ledger accounts monthly to ensure that all accounts in the system's general ledger are reliable for financial reporting. Starting the first of June 2019, we'll print Trial Balances by fund to analyze the information and correct any issues that may appear.

SWART will make the necessary adjustments up to 60 days after the previous audit report is approved and have the necessary information to prepare for the audit beforehand, in order to have all the financial information ready under the Accounting Standard principles.

### **IX. Other Comments**

#### **Payroll Clearing Fund Balance Sheet Accounts**

Our Transition Payroll account will be eliminated and most of the Payroll Liability accounts, which have been created through past years.

SWART has stopped using the payroll clearing account early this year by the auditor's recommendation.

SWART has consulted with MIP software experts, in order to revise the Payroll process and system setup to adjust any errors on the allocation of payroll liabilities being entered correctly into the proper general ledger accounts and as a credit balance.

#### **Payroll Liability Adjusting Entries**

SWART has proposed and adjusted several payroll GL transactions to true-up some previous year account balances, as well as new duplication errors we encountered. We have the two-party check capital purchases for example, which we have entered both into the accounting system as into the Fixed Asset module as well.

The CAP plan process started in late April of the current year and will continue until the end of June of the same year.

SWART met early May with the external auditors to schedule for July a plan to start the review process for fiscal year 2019 financial information.

Some of the auditor's recommendations were to start reviewing our processes for: receivables, liability payments posted in FY2019, aged payables, accruals, and transactions using the clearing payroll fund.

We are to continue to adjust the necessary payroll liability accounts which may have debit balances or are showing previous years balances. This activity will be done monthly by our Finance assistant with the supervision of the Chief Financial Officer. (Please view Financial Activities by role attached to this letter).

In the month of May, SWART has made progress in reconciling all revenues from: subcontracts, credit card, fares, vehicle disposals, and outstanding Purchase Orders.

Also, together with TXDOT SWART has systematically checked and reconciled the Grant Revenue Balances to match our records and with the Texas Comptroller's amounts in their Website.

SWART's Cash Flow plan has been updated on a weekly basis and posted on a shared file to be viewed by our Admin staff. We reported the Cash Flow projection last Board Meeting in February and was submitted to TXDOT for review as well. We'll report an updated version this following Board of Directors meeting.

SWART will issue an updated progress report on the CAP plan on the next Board of Directors Meeting in August. A copy will be submitted to TXDOT as required.

Sincerely,

A handwritten signature in dark ink, appearing to read 'SV', with a horizontal line extending from the end.

Sebastian Viteri

CFO - SWART

JOB DESCRIPTION		Activities	Revised &
Finance Assistant			Approved by:
Weekly:			
	AP (Accts. Payable)	Data entry : PO transfer, Vouchers with no PO's , Run Checks, Age Payables Recon	CFO
	PR (Payroll)	Review Timesheets (Upload to EWS), correct if necessary. Review Leave entries. Review printed checks for accuracy	CFO
	TXDOT Billing Backup	Scan all back up for Operating & Payroll Expenses for each month. Create cover sheets	CFO
	Collection Calls/ emails	Call and/ or email subcontractors going by the Invoice worksheet aged receivables	CFO
	Retirement data entry	Data enter all Full time employee's retirement amounts into worksheet every PP	CFO
Montly:			
	AR (Accts. Receivable)	Data entry: Invoices, Cash Receipts. Reconcile Receivables monthly	CFO
	Credit Card Recon	Reconcile all Credit Card transactions to Match PO's, Interest and Payments made.	CFO
	Outstanding Checks	Reconcile Check register with Bank account and match with MIP Bank Rec	CFO
	Filing	File all documentation withdrawn for Billings, Audit's, other	CFO
Quaterly:			
	TWC	Data entry: Employment payroll data into TWC website	CFO
Year End:			
	Budget data entry	Enter BD approved Original/ Revised budget data into MIP budget module	CFO
	Audit Support	Pull out documentation according to the PBC list, support to auditors	CFO
	DBE letters	Send out DBE letters to our top vendors with DBE opportunities	CFO

JOB DESCRIPTION	Activities/ Responsibilities	Revised & Approved by:
Chief Financial Officer		
<u>Weekly:</u>		
Cash Flow Analysis	Analyze Cash flow activity and projections weekly, give recommendations to the GM on financial planning. Use trend analysis from previous years data to propose cost reduction plans and/ or monetary descions in benefit of the company.	GM
AP (Accts. Payable)	Revise payables, program payments , and Purchas Orders (POs)with cash flow analysis. Created a formula worksheet to automatically distribute the expense allocation based on the budget and chase projections for each month	GM
PR (Payroll)	Approve Timesheets (EWS), Review payroll entries	GM
TXDOT Billing Reports	Elaborate all the financial reporting needed for Expense Billings RFR's: Detail Expense worksheet, Summary Expense worksheet, Revenue and Expense report, Expanded General Ledger report, Labor Distribution report, Sick & Vacation Leave report, and Check Register report	GM
Bank Reconciliation	Revise all balances on the Bank Rec software, match with cash flow report and projections.	GM
Retirement 401K	Review and approve all retirement Data entered on the worksheet every PP for benefit payment and employee deductions	GM
Funding Analysis	Analyze formula funding (Fed, State, Local) and propose changes to the percent allocation in salaries and expenses to meet budget and financial planning goals	GM
Grant Expense and Revenue Coding	Analyze and approve the distribution allocation on the GL and Fund accounts to be used on entering Revenues and Expenses on the accounting software.	GM
Cost Analysis	Analyze all the finacial agreements with subcontractors, in accordance with the Trip Generator Excel worksheet data which analyze all variables affecting the cost of every type of trip: Cost per/ mile, wear & tear, gas per/ mile, salary, overtime, etc. Analyze cost in all areas to	GM
Management Meetings	Meet with management team and share with them financial information and receive feedback on issues that may require other area's support and/ or approval to continue the process	GM
Internal Control	Review the Internal control process according to our Manual, recommend changes or upgrades to existing policies. Add any recommendation from auditors from last audit. Do internal audits radomly to determine any deficiencies in cash reporting.	GM
<u>Montly:</u>		
Financial Reporting	Elaborate and analyze all financial reports in conjunction: Income statement, Cash Flow report, Statement of Revenue and Expenditure, Capital Asset report, Financial Billing reports, Tax reports, Labor distribution reports, among others	
AR (Accts. Receivable)	Analyze and approve revenues and invoices entered on Accounting software. Make sure it matches with the Bank Rec and Cash Flow report	GM
Credit Card Recon	Revise an approve the Credit Card reconcile report	GM
Outstanding Checks	Review outstanding check and program payment with Finance Assistant	GM
Income Statement	Analyze the data on the Income statement for each month and make a trend analysis from previous months of past grant years, comparing the date and recommenda monetary and policy changes if needed	GM
<u>Quaterly:</u>		
TWC	Analyze and approve Employment payroll data entered into TWC website	GM
IRS TAXES	Revise and approve all Tax reports to be submitted to the IRS for payment.	GM
PTN-128	prepare all financial information necessary for the PTN-128 report and send it to the GM	GM
<u>Year End:</u>		
Budget Analysis	Elaborate regression and statistical analysis to calculate future Budget requirements for the company. Use that data to fill all the Grant Budget for approval.	GM
Audit Prep	Review the End Year Trial balance and match the opening balances from last audit. Go over the Normal Trial Balance by Fund, to review if there is any inconsistency in the values. Make adjusting entries if needed. Reviw allreceivable and payables to see if all the numbers are consistent, and if accrual entries are needed. Review the Expanded General Ledger transactions by Fund to match any error found on the Trial balance.	GM

**SOUTHWEST AREA REGIONAL TRANSIT DISTRICT**  
Uvalde, Texas

**ANNUAL FINANCIAL AND COMPLIANCE REPORT**

Years Ended August 31, 2018 and 2017

**DRAFT**



SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

ANNUAL FINANCIAL AND COMPLIANCE REPORT

Years Ended August 31, 2018 and 2017

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SOUTHWEST AREA REGIONAL TRANSIT DISTRICT'S  
Uvalde, Texas

PRINCIPAL OFFICIALS

August 31, 2018

**Board Members**

Christine Cardona-Guerrero for Judge Francisco Ponce  
Dimmit

Judge Souli A. Shanklin  
Edwards

Judge Tully Shahan  
Kinney

Judge Joel Rodriguez, Jr.  
La Salle

Commissioner Morales for Judge David Saucedo  
Maverick

Commissioner Shackelford for Judge W. B. Samson  
Real

Lupe Valerio for Judge Joe Luna  
Zavala

Maggie Del Toro for Judge Bill Mitchell  
Uvalde

**General Manager**

Sarah Hidalgo-Cook

Assistant General Manager

Cynthia Rodriguez

## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Southwest Area Regional Transit District (the District) as of and for the years ended August 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of August 31, 2018 and 2017, and the respective changes in financial position, and, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental schedule of expenses by fund is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The supplementary schedule of expenses by fund and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the schedule of expenses by fund and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

May 8, 2019

## SOUTHWEST AREA REGIONAL TRANSIT DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Southwest Area Regional Transit District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities for the year ended August 31, 2018. We encourage readers to consider the information presented here.

#### FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities by \$2,602,050 (net position) for the current year reported. This compares to the previous year when assets exceeded liabilities by \$2,027,380
- The District's total net position increased by \$574,670 for the current year reported.
- Total capital assets (net of depreciation) were \$2,638,647 for the current year reported compared to \$1,961,749 in the previous year.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

*Proprietary fund.* The District maintains one proprietary fund and uses an enterprise fund to account for its transportation operations.

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

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

#### Proprietary Fund Financial Analysis

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

The largest portion of the District's net position (101%) reflects its investment in capital assets (e.g. vehicles, office furniture and equipment, and buildings), net of any related debt. The District uses these capital assets to provide services to residents of Dimmit, Edwards, Kinney, La Salle, Maverick, Real, Uvalde, and Zavala, Counties; consequently, these assets are not available for future spending.

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

The remaining portion of the District's net position (-1%) represents unrestricted net position that may be used to meet the government's ongoing obligations to creditors.

The District's net position increased \$574,670.

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

**Statements of Net Position**

	2018	2017
Current Assets	\$ 206,405	\$ 330,499
Capital Assets	2,638,647	1,961,749
Total Assets	<u>\$ 2,845,052</u>	<u>\$ 2,292,248</u>
Current Liabilities	\$ 188,201	\$ 199,213
Long Term Liabilities	54,801	65,655
Total Liabilities	<u>\$ 243,002</u>	<u>\$ 264,868</u>
Net Position		
Net invested in capital assets	\$ 2,638,647	\$ 1,947,273
Unrestricted	<u>(36,597)</u>	<u>80,107</u>
Total Net Position	<u>\$ 2,602,050</u>	<u>\$ 2,027,380</u>

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

	<b>Changes in Net Position</b>	
	<u>2018</u>	<u>2017</u>
Operating Revenues		
Passenger Revenues	\$ 141,462	\$ 193,419
Rents and Other	250,239	241,160
Medical Transportation	642,675	760,442
Operating Grants and Contributions	<u>1,617,233</u>	<u>1,463,319</u>
Total Operating Revenues	<u>2,651,609</u>	<u>2,658,340</u>
Operating Expenses		
Transportation Operations	<u>3,199,808</u>	<u>3,128,295</u>
Total Operating Expenses	<u>3,199,808</u>	<u>3,128,295</u>
Operating Loss	<u>(548,199)</u>	<u>(469,955)</u>
Non-Operating Revenues (Expenses)		
Gain/(Loss) on Disposal of Capital Assets	7,750	5,350
Interest Expense	<u>(11,280)</u>	<u>(7,987)</u>
Total Non-Operating Revenue (Expenses)	<u>(3,530)</u>	<u>(2,637)</u>
Income (Loss) Before Capital Grants and Contributions	<u>(551,729)</u>	<u>(472,592)</u>
Capital Grants and Contributions	<u>1,126,399</u>	<u>225,737</u>
Change in Net Position	<u>574,670</u>	<u>(246,855)</u>
Net Position at Beginning of Year	<u>2,027,380</u>	<u>2,274,235</u>
Net Position at End of Year	<u>\$ 2,602,050</u>	<u>\$ 2,027,380</u>



SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**CAPITAL ASSETS**

The District's investment in capital assets for its proprietary fund as of August 31, 2018, totaled to \$2,638,647 (net of accumulated depreciation). This investment in capital assets includes vehicles, buildings, furniture and equipment. In the current year the District acquired 15 vehicles for a total value of 1,126,399.

	Capital Assets (Net of Depreciation)	
	2018	2017
Land	\$ 209,654	\$ 209,654
Buildings	605,008	648,728
Vehicles	1,823,985	1,103,367
Total	<u>\$ 2,638,647</u>	<u>\$ 1,961,749</u>

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

**LONG TERM LIABILITIES**

Long term liabilities of \$54,801 consist of compensated absences. Additional detailed information is found in note F to the financial statements.

**ECONOMIC FACTORS AND THE NEXT YEAR'S BUDGETS AND RATES**

The budget for the year ended August 31, 2019 is consistent with the levels from 2018.

	Budget 2019	Actual 2018
Federal Grants	\$ 1,048,616	\$ 1,074,135
State Grants	611,768	565,094
ED	162,800	154,086
MTP/AMR	301,217	642,675
Tiger Grant	1,002,000	994,506
Veterans	200,000	93,184
Other	274,883	254,328
Total	<u>\$ 3,601,284</u>	<u>\$ 3,778,008</u>

Federal, State, and ED grant allocations were reduced as per TxDOT formula. An estimated reduction in MTP funds were based on the transition into a Medical Transportation Broker System under American Medical Response (AMR).

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS

**REQUEST FOR INFORMATION**

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

Sarah Hidalgo-Cook, CCTM  
General Manager  
Southwest Area Regional Transit District  
713 East Main Street  
Uvalde, Texas 78801  
830-278-4155 x 3009 or 800-499-1617 x 3009  
830-486-0364 FAX -- 830-900-9929 Cell  
[www.paseoswart.org](http://www.paseoswart.org)

## **BASIC FINANCIAL STATEMENTS**

**DRAFT**

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

STATEMENTS OF NET POSITION

	August 31,	
	2018	2017
<b>ASSETS</b>		
Current Assets		
Cash	\$ 9,556	\$ 133,226
Grants Receivable	172,729	176,732
Restricted Cash	24,120	20,541
Total Current Assets	<u>206,405</u>	<u>330,499</u>
Noncurrent Assets		
Capital Assets		
Land	209,654	209,654
Buildings	1,387,164	1,387,164
Vehicles	3,594,584	2,468,185
Less: Accumulated Depreciation	<u>(2,552,755)</u>	<u>(2,103,254)</u>
Total capital assets (net of accumulated depreciation)	<u>2,638,647</u>	<u>1,961,749</u>
Total Noncurrent Assets	<u>\$ 2,638,647</u>	<u>\$ 1,961,749</u>
Total Assets	<u>\$ 2,845,052</u>	<u>\$ 2,292,248</u>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable	\$ 41,261	\$ 35,742
Accrued Salaries and Benefits Payable	48,722	64,444
Due to Employees for Staff Savings	24,120	20,541
Loans Payable	-	14,476
Line of Credit	74,098	64,010
Total Current Liabilities	<u>188,201</u>	<u>199,213</u>
Non Current Liabilities		
Compensated Absences	<u>54,801</u>	<u>65,655</u>
Total Non Current Liabilities	<u>54,801</u>	<u>65,655</u>
Total Liabilities	<u>243,002</u>	<u>264,868</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	2,638,647	1,947,273
Unrestricted	<u>(36,597)</u>	<u>80,107</u>
Total Net Position	<u>\$ 2,602,050</u>	<u>\$ 2,027,380</u>

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

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

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

Years Ended August 31,

	2018	2017
Operating Revenues		
Grants and Contributions	\$ 1,617,233	\$ 1,463,319
Medical Transportation	642,675	760,442
Passenger Fares	141,462	193,419
Rental Income	36,254	20,805
Other Revenues	213,985	220,355
Total Operating Revenues	<u>2,651,609</u>	<u>2,658,340</u>
Operating Expenses		
Transportation Programs	2,750,307	2,714,276
Depreciation Expense	449,501	414,019
Total Operating Expenses	<u>3,199,808</u>	<u>3,128,295</u>
Operating income (loss)	(548,199)	(469,955)
Non-Operating Revenues (Expenses)		
Gain/(Loss) on Disposal of Capital Assets	7,750	5,350
Interest	(11,280)	(7,987)
Total Non-Operating Revenues (Expenses)	<u>(3,530)</u>	<u>(2,637)</u>
Income (Loss) Before Capital Grants and Contributions	<u>(551,729)</u>	<u>(472,592)</u>
Capital Grants and Contributions		
Capital Grants	<u>1,126,399</u>	<u>225,737</u>
Change in Net Position	574,670	(246,855)
Net Position at Beginning of Year	<u>2,027,380</u>	<u>2,274,235</u>
Net Position at End of Year	<u>\$ 2,602,050</u>	<u>\$ 2,027,380</u>

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

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

STATEMENTS OF CASH FLOWS

Years Ended August 31,

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ (548,199)	\$ (469,955)
Adjustments to Reconcile change in Net Position to Net Cash Provided By Operating Activities:		
Depreciation	449,501	414,019
(Increase) Decrease in Operating Assets:		
Accounts receivable	-	3,640
Grants receivable	4,003	(7,869)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	5,519	(35,027)
Accrued Salaries and Benefits Payable	(15,722)	(27,272)
Due to Employees for Staff Savings	3,579	4,945
Compensated Absences	(10,854)	28,916
Net Cash (Used) by Operating Activities	<u>(112,173)</u>	<u>(88,603)</u>
<b>CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES</b>		
Interest payments	(11,280)	(7,987)
Net Cash (Used) by Non Capital Financing Activities	<u>(11,280)</u>	<u>(7,987)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Line of Credit	32,000	38,989
Proceeds from Sale of Capital Assets	7,750	5,350
Principal Payments on Line of Credit and Notes Payable	(36,388)	(39,714)
Net Cash Provided by Capital and Related Financing Activities	<u>3,362</u>	<u>4,625</u>
<b>NET INCREASE/(DECREASE) IN CASH AND RESTRICTED CASH</b>	(120,091)	(91,965)
<b>CASH AND RESTRICTED CASH AT BEGINNING OF YEAR</b>	<u>153,767</u>	<u>245,732</u>
<b>CASH AND RESTRICTED CASH AT END OF YEAR</b>	<u><u>\$ 33,676</u></u>	<u><u>\$ 153,767</u></u>
<b>Supplemental Disclosures:</b>		
Non-Cash Transaction: Acquisition of Buses from TXDOT (Tiger Discretionary Program)	\$ 994,506	\$ 225,737
Acquisition of Equipment from TXDOT (Bus and Bus Facilities Program (Rural))	72,129	-
Acquisition of Equipment from TXDOT (Enhanced Mobility of Seniors and Individuals with Disabilities)	59,764	-

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

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2018 and 2017

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

The following are the primary services offered by the District:

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

**B. Basic Financial Statements – Fund Financial Statements**

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

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

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2018 and 2017

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus and Basis of Accounting**

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

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

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

**D. Use of Estimates**

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

**E. Assets, Liabilities and Net Position**

**1. Cash and Cash Equivalents**

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

**2. Grants Receivable**

Grants receivable represent amounts due from federal and state agencies for the various programs administered by the District. The receivable includes amounts due on programs closed out and those in progress as of August 31, 2018.



SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2018 and 2017

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Restricted Assets**

Cash and cash equivalents that have been earmarked in connection with an employee savings program are not available for general operations. The restricted cash balance at August 31, 2018 and 2017 totaled \$24,120 and \$20,541; respectively, and is presented in the Statement of Net Position in an amount equal to amounts Due to Employees for Staff Savings.

**4. Capital Assets and Depreciation**

Capital assets, which include land, buildings and vehicles, are reported in the proprietary fund. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value on the date received.

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

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

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

**5. Allowance for Doubtful Accounts**

The District considers its receivables from reimbursement grants fully collectible; therefore, an allowance for doubtful accounts is not recognized. Grants receivable are written off when management makes the determination that an amount is not collectible. The District had no bad debts for the years ended August 31, 2018 or 2017.

**6. Restricted/Unrestricted Resources**

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

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2018 and 2017

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**7. Retirement Plan**

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

**8. Net Position**

Net position is comprised of three components:

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

**9. Compensated Absences**

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

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

**10. Capital Grants and Contributions**

The District reports as capital grants and contributions revenues awarded by the U.S Department of Transportation for capital purchases under the Tiger Grant for fiscal year 2018 and the Texas Department of Transportation for capital purchases under the Elderly and Disabled program for fiscal year 2017. Capital Grants and Contributions totaled \$1,126,399 and \$225,737 for the years ended August 31, 2018 and 2017, respectively.

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2018 and 2017

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**1. Budget and Budgetary Accounting**

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

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

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

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

During the year ended August 31, 2018 or 2017, the District did not own any types of securities or investments.

**b. Custodial Credit Risk for Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's funds are required to be deposited and invested under the terms of a depository contract. The District's deposits are required to be collateralized with securities held by the pledging financial institution's trust department or agent in the District's name. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") Insurance. At August 31, 2018, the District's bank deposits were fully insured by FDIC.

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2018 and 2017

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**B. Grants Receivable**

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

Program	August 31, 2018	August 31, 2017
RPT Federal	\$ 94,959	\$ 58,789
RPT State	41,192	68,205
Elderly Disabled	-	9,409
MPT	36,578	35,329
RTAP Rodeo	-	5,000
	<u>\$ 172,729</u>	<u>\$ 176,732</u>

**C. Capital Assets**

Capital asset activity for the year ended August 31, 2018, was as follows:

Governmental Activities	Balance September 1, 2017	Increases	Decreases	Balance August 31, 2018
Capital assets, not being depreciated:				
Land	\$ 209,654	\$ -	\$ -	\$ 209,654
Total capital assets, not being depreciated	<u>209,654</u>	<u>-</u>	<u>-</u>	<u>209,654</u>
Capital assets, being depreciated:				
Building and improvements	1,387,164	-	-	1,387,164
Machinery, equipment and vehicles	2,468,185	1,126,399	-	3,594,584
Total capital assets, being depreciated	<u>3,855,349</u>	<u>1,126,399</u>	<u>-</u>	<u>4,981,748</u>
Less accumulated depreciation for:				
Building and improvements	(738,436)	(43,720)	-	(782,156)
Machinery, equipment and vehicles	(1,364,818)	(405,781)	-	(1,770,599)
Total accumulated depreciation	<u>(2,103,254)</u>	<u>(449,501)</u>	<u>-</u>	<u>(2,552,755)</u>
Total capital assets depreciated, net	<u>1,752,095</u>	<u>676,898</u>	<u>-</u>	<u>2,428,993</u>
Total capital assets, net	<u>\$ 1,961,749</u>	<u>\$ 676,898</u>	<u>\$ -</u>	<u>\$ 2,638,647</u>

(Continued)

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2018 and 2017

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

Capital asset activity for the year ended August 31, 2017, was as follows:

Governmental Activities	Balance September 1, 2016	Increases	Decreases	Balance August 31, 2017
Capital assets, not being depreciated:				
Land	\$ 209,654	\$ -	\$ -	\$ 209,654
Total capital assets, not being depreciated	209,654	-	-	209,654
Capital assets, being depreciated:				
Building and improvements	1,387,164	-	-	1,387,164
Machinery, equipment and vehicles	2,561,746	225,737	(319,298)	2,468,185
Total capital assets, being depreciated	3,948,910	225,737	(319,298)	3,855,349
Less accumulated depreciation for:				
Building and improvements	(694,716)	(43,720)	-	(738,436)
Machinery, equipment and vehicles	(1,313,817)	(370,299)	319,298	(1,364,818)
Total accumulated depreciation	(2,008,533)	(414,019)	319,298	(2,103,254)
Total capital assets depreciated, net	1,940,377	(188,282)	-	1,752,095
Total capital assets, net	\$ 2,150,031	\$ (188,282)	\$ -	\$ 1,961,749

**D. Risks Related to Grantor Concentration**

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

**E. Risk Management**

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

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2018 and 2017

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**F. Changes in Long-Term Debt**

The following is a summary of the long-term obligations of the District for the year ended August 31, 2018.

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Loans Payable					
CDTS	\$ 14,476	\$ -	\$ 14,476	\$ -	\$ -
Total Loans Payable	14,476	-	14,476	-	-
Compensated Absences	65,655	-	10,854	54,801	-
Long Term Debt	\$ 80,131	\$ -	\$ 25,530	\$ 54,801	\$ -

The following is a summary of the long-term obligations of the District for the year ended August 31, 2017.

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Loans Payable					
CDTS	\$ 39,211	\$ -	\$ 24,735	\$ 14,476	\$ 14,476
Total Loans Payable	39,211	-	24,735	14,476	14,476
Compensated Absences	36,739	28,916	-	65,655	-
Long Term Debt	\$ 75,950	\$ 28,916	\$ 24,735	\$ 80,131	\$ 14,476

**G. Line of Credit**

The District renewed a line of credit from Hondo National Bank during the fiscal year with an interest rate of 6.00%. The District borrowed an additional \$32,000 during the year and made principal payments of \$21,912 and interest payments of \$3,561. The remaining balance as of August 31, 2018 is \$74,098.

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2018 and 2017

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**H. 401 (A) Employees Plan**

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

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

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

Employee contributions made to the Plan for the year ended August 31, 2018 and 2017 were \$47,163 and \$26,405, respectively. Contributions were paid to OneAmerica as a matching contribution representing 100% of the first 5% of employee contribution to the plan.

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

**I. Contingencies**

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

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

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

NOTES TO THE FINANCIAL STATEMENTS

Years Ended August 31, 2018 and 2017

**III. DETAILED NOTES ON ALL FUNDS (Continued)**

**J. Contingencies**

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

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



## **SUPPLEMENTARY INFORMATION**

**DRAFT**

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

SCHEDULE OF EXPENSES BY FUND

For The Year Ended August 31, 2018

	RPT Federal	RPT State	Medical Transportation	RTAP Rodeo	Planning EP Property	Elderly/Disabled Grant
<b>EXPENSES</b>						
SALARIES	\$ 493,045	\$ 271,768	\$ 467,198	\$ -	\$ -	\$ -
FRINGE BENEFITS	118,930	70,344	168,568	-	-	-
TOTAL PERSONNEL	611,975	342,112	635,766	-	-	-
TRAVEL IN AREA	22	8	23	-	-	-
CAR RENTAL	78	58	173	-	-	-
TRAVEL OUT OF AREA	1,365	740	3,650	-	-	-
MEAL PER DIEM	2,977	2,002	5,312	-	-	-
LODGING EXPENSE	10,986	7,012	13,267	-	-	-
MEAL REIMBURSEMENT	-	-	6,723	-	-	-
MEETING EXPENSE	22	8	1,242	1,184	-	-
PROFESSIONAL SERVICES	17,414	8,289	10,818	-	-	-
JANITORIAL SERVICES	310	193	605	-	-	-
OFFICE SUPPLIES	5,950	1,138	4,203	1,442	-	-
JANITORIAL SUPPLIES	1,085	599	1,007	-	-	-
AUTO SHOP SUPPLIES	844	495	777	-	-	-
COPIER SUPPLIES	6	4	798	-	-	-
POSTAGE	548	317	440	-	-	-
ADVRT/PUB NOTICES	1,260	746	3,245	-	-	-
UTILITIES	14,466	8,542	10,160	-	-	-
CABLE	496	301	265	-	-	-
TELEPHONE	35,415	18,574	30,710	-	-	-
CONTRACTUAL	19	12	15	-	-	-
FUEL AND OIL	99,666	52,742	132,612	371	-	-
NSF BANK FEES	-	-	30	-	-	-
PARKING AND TOLL EXPENSE	147	95	65	-	-	-
INTEREST LOANS	-	-	11,280	-	-	-
SERVICE CHRG FEE	94	44	7,403	-	-	-
PETTY CASH	-	-	729	-	-	-
UNIFORMS	4,810	2,467	3,178	-	-	-
TRAINING	3,673	1,884	10,634	20,000	-	-
MEMBERSHIP DUES	-	-	2,390	-	-	-
EMPLOYEE REIMBURSEMENTS	-	-	150	-	-	-
MISCELLANEOUS/APPRAISALS	40	17	27,423	-	6,500	-
FUNDRAISER EXPENSE	-	-	226	-	-	-
HOLIDAY EXPENSE	-	-	2,283	-	-	-
INCENTIVE	-	-	11,318	-	-	-
RENTAL	13,804	6,372	14,328	-	-	-
EQUIPMENT LEASE	16,483	9,569	11,637	-	-	-
EQUIPMENT MAINT/REPAIRS	211	128	640	-	-	-
BLDG & MAINT RPR	7,844	4,868	5,742	-	-	-
BLDG INSURANCE	2,875	1,606	2,525	-	-	-
VEHICLE INSURANCE	22,768	12,802	19,117	-	-	-
D & O INSURANCE	-	-	1,000	-	-	-
INSPECTIONS	851	516	446	-	-	-
DRUG TESTING	2,090	1,434	1,755	-	-	-
BACKGROUND CHECK	3,356	2,110	3,875	-	-	-
PHYSICAL EXAM	465	721	394	-	-	-
INTERNET COST	2,039	1,226	1,548	-	-	-
AUTOMATION	11,558	6,781	10,608	-	-	-
RADIO COMMUNICATIONS	2,405	1,338	2,279	-	-	1,442
AUTO PARTS, TIRES, SUPPLES	16,723	10,179	17,921	-	-	32,939
VEHICLE REPAIRS	1,032	288	4,223	-	-	35,856
VEHICLE LICENSE FEES	229	141	301	-	-	-
TRANSIT SERVICE PURCHASE	-	-	-	-	-	12,547
EQUIPMENT/COMPUTER	3,349	2,038	4,557	-	-	13,671
SOFTWARE COST	15,345	16,269	15,477	-	-	4,135
DEPRECIATION- BUILDINGS	-	-	46,239	-	-	-
DEPRECIATION- EQUIPTMENT	-	-	8,644	-	-	-
DEPRECIATION- VEHICLES	138,628	-	(2,519)	-	-	82,484
TOTAL EXPENSES	\$ 1,075,723	\$ 526,785	\$ 1,109,657	\$ 22,997	\$ 6,500	\$ 183,074

Planning	Veteran Affairs Program	Rural Discretionary EP Property	Tiger Discretionary Program	Bus Facilities Program	Total Expenses
\$ 14,293	\$ 44,595	\$ -	\$ -	\$ -	\$ 1,290,899
2,352	9,509	-	-	-	369,703
16,645	54,104	-	-	-	1,660,602
-	-	-	-	-	53
-	-	-	-	-	309
-	-	-	-	-	5,755
803	-	-	-	-	11,094
-	-	-	-	-	31,265
-	41	-	-	-	6,764
-	-	-	-	-	2,456
-	-	-	-	-	36,521
-	-	-	-	-	1,108
-	1,353	-	-	-	14,086
-	1,474	-	-	-	4,165
-	-	-	-	-	2,116
-	356	-	-	-	1,164
-	24	-	-	-	1,329
-	-	-	-	-	5,251
-	1,879	-	-	-	35,047
-	-	-	-	-	1,062
-	22	-	-	-	84,721
-	-	-	-	-	46
-	-	-	-	-	285,391
-	-	-	-	-	30
-	29	-	-	-	336
-	-	-	-	-	11,280
-	-	-	-	-	7,541
-	-	-	-	-	729
-	979	-	-	-	11,434
-	-	-	-	-	36,191
-	-	-	-	-	2,390
-	-	-	-	-	150
-	-	15,638	-	-	49,618
-	-	-	-	-	226
-	-	-	-	-	2,283
-	-	-	-	-	11,318
-	-	-	-	-	34,504
-	-	-	-	-	37,689
-	-	-	-	-	979
-	-	-	-	-	18,454
-	-	-	-	-	7,006
-	4,385	-	-	-	59,072
-	-	-	-	-	1,000
-	-	-	-	-	1,813
-	-	-	-	-	5,279
-	-	-	-	-	9,341
-	-	-	-	-	1,580
-	-	-	-	-	4,813
-	1,399	-	-	-	30,346
-	1,392	-	-	-	8,856
-	6,047	-	-	-	83,809
-	2,896	-	-	-	44,295
-	-	-	-	-	671
-	-	-	-	-	12,547
-	-	-	-	-	23,615
-	861	-	-	-	52,087
-	-	-	-	-	46,239
-	-	-	-	-	8,644
-	-	-	55,080	120,945	394,618
\$ 17,448	\$ 77,241	\$ 15,638	\$ 55,080	\$ 120,945	\$ 3,211,088

## **FEDERAL AWARDS SECTION**

**DRAFT**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Southwest Area Regional Transit District (the District) , as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 8, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In addition, we noted other matters involving internal control and its operation that we have reported to management of the District in a separate letter dated May 8, 2019.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

May 8, 2019

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

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

**Report on Compliance for Each Major Federal Program**

We have audited the Southwest Area Regional Transit District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

## **Opinion on Each Major Federal Program**

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2018.

## **Report on Internal Control over Compliance**

Management of the District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Purpose of this Report**

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.

May 8, 2019



SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended August 31, 2018

**SECTION I --- SUMMARY OF AUDITOR'S RESULTS**

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

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

<b><i>Identification of Major Programs</i></b>			
	<b>CFDA Numbers(s)</b>	<b>Name of Federal Program or Cluster</b>	
	20.933	National Infrastructure Investments (TIGER Discretionary Grant)	
Dollar threshold used to distinguish between Type A and Type B programs:			\$750,000
Auditee qualified as low-risk auditee?			<u>  X  </u> Yes <u>    </u> No

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended August 31, 2018

**SECTION II --- FINANCIAL STATEMENT FINDINGS**

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

**SECTION III --- FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

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

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended August 31, 2018

Source and Program Description	Federal CFDA No.	Grant Number	Program Expenditures
<b>U.S. Department of Transportation</b>			
<b>Pass Through - Texas Department of Transportation</b>			
Section 5310 Federal - Enhanced Mobility of Seniors & Individuals With Disabilities	20.513	MGA-2017-2021-SWART-103	\$ 154,086
Section 5304 Federal - Planning	20.505	MGA-2017-2021-SWART-103	11,940
Section 5311 Federal - Formula Grants for Rural Areas	20.509	MGA-2017-2021-SWART-103	836,430
Section 5339 Federal - Bus and Bus Facilities Program (Rural)	20.526	MGA-2017-2021-SWART-103	72,129
National Infrastructure Investments Program (TIGER Discretionary Grant)	20.933	MGA-2017-2021-SWART-103	<u>994,506</u>
<b>Total Expenditures of Federal Awards</b>			<u><b>\$ 2,069,091</b></u>

SOUTHWEST AREA REAGIONAL TRANSIT DISTRICT  
Uvalde, Texas

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended August 31, 2018

1. The District utilizes fund accounting for each of its grants. A separate fund is maintained for each grant.  
  
Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Amounts reported in the schedule of expenditures of federal awards are based on billed expenditures. Difference between billed expenditures and actual expenditures consist of expenditures financed with program income and other local revenues.
2. The District's funds are accounted for using the full accrual basis of accounting.
3. The District does not have any subrecipients.
4. The District did not elect to use the 10% de minimus indirect cost rate provided for by the Uniform Guidance.
5. Non-cash awards totaled \$1,126,399 were funded by the Department of Transportation for the acquisition of buses/vehicles during the year and are included in the Schedule of Expenditures of Federal Awards.

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended August 31, 2018

**SECTION II --- FINANCIAL STATEMENT FINDINGS**

**Finding 2017-01 – General Ledger Reconciliation/Review**

*Criteria:* The reconciliation process of the general ledger throughout the year is an integral part of the internal control to effectively manage and monitor the financial operations of the District.

*Condition:* Several general ledger accounts were not completely and/or timely reconciled during the year and at year end, including: grants revenue/ receivable, interfund receivables/payables, accounts payable, payroll liabilities and grant revenues.

*Cause:* There were changes in accounting personnel in the middle of the year. Also, the District implemented changes in its accounting system and implemented new accounting modules. The accounting functions may not have been sufficiently staffed during the year.

*Effect:* As a result of this, a number of adjusting journal entries were required to be prepared as part of the audit to fairly state the account balances.

*Recommendation:* We recommend that management implement a monthly review and reconciliation process of the grants revenue/receivables, interfund receivables/payables, and accounts payable and payroll liabilities to strengthen controls over financial reporting.

***Status:***

SWART has been working diligently to reconcile general ledger transactions on a monthly basis, especially in the following areas:

- SWART hired a financial clerk to assist in the day-to-day accounting transactions in the company
- The accounting software was updated to a Terminal server in a cloud basis, adding new modules like the EWS (Employee Web Services) module, and the electronic Purchase Order system, in order to strengthen the internal controls of SWART.
- The grants revenue/ receivables were reconciled with the information from the Bank statements and the Texas Comptroller's payment website
- There were no interfund receivables/ payables during the FY 2018 year
- The accounts payable transactions were reconciled with the Bank Reconciliation module on the MIP Accounting Software and the Bank statements from The Hondo National Bank

SOUTHWEST AREA REGIONAL TRANSIT DISTRICT  
Uvalde, Texas

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended August 31, 2018

SWART continues to work with the support of Accounting Software consultants to reconcile all balances from the current year payroll transition account (Fund 30).

We want to do away with fund 30 to improve our reconciliation process and decrease any errors that can arise while using Fund 30 for all payroll payable liability accounts.

SWART is in the process of downsizing the amount of payroll liabilities accounts and create a process to improve the mechanism of reconciling the payroll expense accounts with the payroll liability accounts, in order to eliminate the number of audit adjustments that may be needed to fairly state the account balances on the payroll liability accounts, as well as to reinforce our control over financial reporting.