GREATER ROANOKE TRANSIT COMPANY
(A Component Unit of the City of Roanoke, Virginia)

FINANCIAL REPORT

June 30, 2020

GREATER ROANOKE TRANSIT COMPANY
(A Component Unit of the City of Roanoke, Virginia)

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Board of Directors
Greater Roanoke Transit Company
Roanoke, Virginia

Report on the Financial Statements

We have audited the accompanying basic financial statements and the related notes to the financial statements, as listed above in the table of contents, of the Greater Roanoke Transit Company (the "Company"), a component unity of the City of Roanoke, Virginia, as of and for the years ended June 30, 2020 and 2019.

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 and this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinion.

Report on the Financial Statements (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Company, as of June 30, 2020 and 2019, and the respective changes in financial position and cash flows thereof 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 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 an opinion on the financial statements that collectively comprise the Company's 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* (Uniform Guidance), and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards 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. 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 expenditures of federal awards is 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 _______________, 2021 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
______________, 2021

The management of the Greater Roanoke Transit Company (the "Company") offers readers of our financial statements the following narrative overview and analysis of our financial activities for the years ended June 30, 2020 and 2019. The following should be read in conjunction with our financial statements and notes thereto.

Financial Statements

The financial statements of the Company reflect the transit operations of the Company. Our financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). This is the same basis of accounting employed by most private-sector enterprises.

Our financial statements include the following components:

- Statements of Net Position, which presents information on the assets and liabilities of the Company, with the resulting difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Company is improving or deteriorating.

- Statements of Revenues, Expenses, and Changes in Net Position, which reports revenues and expenses, classified as operating and nonoperating, and capital contributions for the period. The resulting change in net position for the period is combined with the beginning of the year total net position balance in order to reconcile to the end of the year total net position on the Statements of Net Position.

- Statements of Cash Flows, which reports the cash flows experienced by the Company from operating, noncapital financing, capital and related financing, and investing activities. The net result of the cash provided by or used in these activities for the period, added to the beginning of the year cash and cash equivalents balance, reconciles to the cash and cash equivalents balance presented on the Statements of Net Position.

- Notes to the Basic Financial Statements, which explain and provide additional information on the data presented in the financial statements as of and for the years ended June 30, 2020 and 2019.

Financial Highlights

The following major financial highlights are of note for the years ended June 30, 2020 and 2019:

Fiscal Year 2019

- Assets exceeded liabilities by $14,339,435 (net position) as of June 30, 2019. $453,401 of net position is considered unrestricted and available to meet ongoing and future obligations of the Company, including its share of capital projects.

- Net position increased $2,838,611 for the year ended June 30, 2019. The unrestricted portion of net position decreased $445,462 and the investment in capital assets portion of net position increased $3,284,073 compared to the balance as of June 30, 2018.

- Operating revenues decreased $47,759 compared to the previous year, due primarily to a decrease in ridership.
- Operating expenses increased $859,039 primarily due to the Smart Way Express service expansion and increases in labor & benefits, contract services, and purchased transportation expenses.
- Total net nonoperating revenues increased $721,500 compared to the previous year due primarily to an increase in noncapital state assistance for the Smart Way Express service.
- Capital contributions increased $2,497,654 compared to the previous year due to increased federal and state contributions for capital asset purchases in fiscal year 2019.

Fiscal Year 2018

- Assets exceeded liabilities by $11,500,824 (net position) as of June 30, 2018. $898,863 of net position is considered unrestricted and available to meet ongoing and future obligations of the Company, including its share of capital projects.
- Net position increased $526,256 for the year ended June 30, 2018. The unrestricted portion of net position decreased $128,640 and the investment in capital assets portion of net position increased $654,896 compared to the balance as of June 30, 2017.
- Operating revenues decreased $20,251 compared to the previous year, due primarily to a decrease in the Smart Way Connector passenger fares and a decrease in ridership.
- Operating expenses increased $535,864 primarily due to increases in labor & benefits, contract services, and purchased transportation expenses.
- Total net nonoperating revenues decreased $142,467 compared to the previous year due primarily to a decrease in noncapital state assistance.
- Capital contributions increased $1,304,184 compared to the previous year due to increased federal and state contributions for capital asset purchases in fiscal year 2018.

Additional detail on the above items, along with other information, is discussed in the following sections.

Net Position

A summary of the major components of net position as of June 30, 2020, 2019, and 2018, is as follows:

Summary of Net Position

	2020	2019	2018	Fiscal Year 2020 increase (decrease)	Fiscal Year 2019 increase (decrease)
Current assets	$ 5,227,813	$ 4,561,311	$ 2,391,680	$ 666,502	$ 2,169,631
Capital assets, net	14,434,645	13,886,034	10,601,961	548,611	3,284,073
Total assets	19,662,458	18,447,345	12,993,641	1,215,113	5,453,704
Current liabilities	4,356,754	4,107,910	1,492,817	248,844	2,615,093
Investment in capital assets	14,434,645	13,886,034	10,601,961	548,611	3,284,073
Unrestricted	871,059	453,401	898,863	417,658	(445,462)
Total Net position	$ 15,305,704	$ 14,339,435	$ 11,500,824	$ 966,269	$ 2,838,611

Fiscal Year 2020

Total net position of $14,339,435 increased $2,838,611, or 24.7%, for the year ended June 30, 2019. The increase in net position is primarily due to an increase in capital assets, net, which increased $3,284,073 or 31%. This increase was offset by a decrease in the unrestricted portion of net position that decreased $445,462 or 49.6%. The decrease in the unrestricted portion is primarily due to an increase in the Company funding the portion of capital net acquisitions not provided by federal and state capital grants.

Current assets increased $2,169,631 primarily due to increases in the amount due from the Federal Transit Administration and the Commonwealth of Virginia for $2,377,895 and $241,964, respectively. This increase was partially offset by a decrease in cash and cash equivalents of $798,757.

Current liabilities increased $2,615,093, or 175.2%, compared to the balance as of June 30, 2018. The increase is primarily due to increases in trade accounts payable and other liabilities of $2,090,089 and $469,915, respectively. It is important to note that the Company has maintained financial operations without issuance of any long-term debt during fiscal year 2019.

Fiscal Year 2019

Total net position of $11,500,824 increased $526,256, or 4.8%, for the year ended June 30, 2018. The increase in net position is primarily due to an increase in capital assets, net, which increased $654,896 or 6.6%. This decrease was offset by a decrease in the unrestricted portion of net position that decreased $128,640 or 12.5%. The decrease in the unrestricted portion is primarily due to an increase in the Company funding the portion of capital net acquisitions not provided by federal and state capital grants.

Current assets increased $141,541 primarily due to increases in the amount due from the Federal Transit Administration and the Commonwealth of Virginia for $375,859 and $75,676, respectively. This increase was partially offset by a decrease in cash and cash equivalents of $303,218.

Current liabilities increased $270,181, or 22.1%, compared to the balance as of June 30, 2017. The increase is primarily due to increases in trade accounts payable and other liabilities of $179,803 and $72,077, respectively. It is important to note that the Company has maintained financial operations without issuance of any long-term debt during fiscal year 2018.

Changes in Net Position

Condensed financial information from the Statements of Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2020, 2019, and 2018, is provided below, followed by additional breakdown and analysis of the changes in the various categories:

Condensed Statements of Changes in Net Position

	2020	2019	2018	Fiscal Year 2020 change	Fiscal Year 2019 change
Total operating revenues	$ 1,340,659	$ 1,860,686	$ 1,908,445	$ (520,027)	$ (47,759)
Total operating expenses	(12,260,699)	(12,167,911)	(11,308,872)	(92,788)	(859,039)
Total net nonoperating revenues	9,498,175	8,371,950	7,650,451	1,126,225	721,499
Capital contributions	2,388,134	4,773,886	2,276,232	(2,385,752)	2,497,654
Changes in net position	966,269	2,838,611	526,256	(1,872,342)	2,312,355
Ending net position	$ 15,305,704	$ 14,339,435	$ 11,500,824	$ 966,269	$ 2,838,611

Additional discussion on each component of the Statement of Revenues, Expenses, and Changes in Net Position is provided in the following paragraphs:

Revenues

	2020	2019	2018	Fiscal year 2020 increase (decrease)	Fiscal year 2019 increase (decrease)
Operating revenues:					
Passenger fares	$ 1,155,983	$ 1,595,535	$ 1,607,997	$ (439,552)	$ (12,462)
Smart Way fares	111,789	168,729	179,677	(56,940)	(10,948)
Smart Way Express	1,325	1,769	-	(444)	1,769
Smart Way Connector fares	16	-	19,608	16	(19,608)
S.T.A.R. fares	59,350	91,077	96,476	(31,727)	(5,399)
Other primary fares	12,196	3,576	4,687	8,620	(1,111)
Total operating revenues	1,340,659	1,860,686	1,908,445	(520,027)	(47,759)
Nonoperating revenues:					
Noncapital grants	9,044,192	8,122,505	7,378,891	921,687	743,614
Advertising	120,206	132,944	136,579	(12,738)	(3,635)
Rental income	60,112	65,610	64,045	(5,498)	1,565
Parking income	30,010	42,070	63,291	(12,060)	(21,221)
Interest income	2,799	1,449	1,164	1,350	285
Miscellaneous	240,856	7,372	6,481	233,484	891
Total net nonoperating revenues	9,498,175	8,371,950	7,650,451	1,126,225	721,499
Capital contributions	2,388,134	4,773,886	2,276,232	(2,385,752)	2,497,654
Total revenues	$ 13,226,968	$ 15,006,522	$ 11,835,128	$ (1,779,554)	$ 3,171,394

Fiscal Year 2020

Total operating revenues decreased $47,759 or 2.5%. Passenger fares decreased $12,462, or less than 1%, compared to the previous period primarily due to decreases in 31 Day and 7 Day pass sales of $38,264 and $21,766, respectively. The decrease was offset by increases in boarding fares and daily pass sales of $21,483 and $26,085, respectively. Passenger ridership decreased to 1,891,552 from 1,936,247 in the prior year for all standard fixed routes.

The Company operates a commuter service, The Smart Way, between Roanoke and Blacksburg. The Smart Way service operating revenue decreased $10,948, or 6.1%, for the year ended June 30, 2019, compared to the previous year. Ridership on The Smart Way service decreased to 43,092 in fiscal year 2019 from 46,781 in fiscal year 2018.

The Company started operating an expansion service named The Smart Way Express on July 9, 2018. The service travels between Roanoke's Carilion Medical College and Blacksburg with limited stops. The Smart Way Express operating revenue in FY 19 was $1,769. Ridership in FY 19 was 15,907.

The Company previously operated a second commuter service, The Smart Way Connector traveled to Lynchburg's multi-modal station, which includes the AmTrak passenger station. This service was discontinued on October 30, 2017. Smart Way Connector service revenues decreased to $-0- in fiscal year 2019 from $19,608 in fiscal year 2018. Ridership on The Smart Way Connector service decreased to-0- in fiscal year 2019 from 5,958 in fiscal year 2018.

The Company occasionally provides charter service for organizations or individuals that are unable to obtain this service from other service providers. Other primary fares for these services decreased to $$3,576 in fiscal year 2019 from $4,687 in fiscal year 2018. The Company's total passenger rides for fiscal year 2019, including all fixed and Smart Way routes, were 1,895,355.

Total net nonoperating revenues increased $721,500, or 9.4%, compared to the previous year primarily due to increases in noncapital grant funding of $436,664. The increases in funding were primarily due to the expansion service for the Smart Way Express. The Federal Transportation Administration and the Commonwealth of Virginia funding increased $255,353 and $181,311, respectively. The Virginia Tech funding increased $173,971 compared to FY 18.

Capital contributions fluctuate based on the capital asset needs of the Company. Accordingly, capital contributions increased $2,497,654, or 109.7%, compared to the previous year, due to the Company's increase in capital purchases in fiscal year 2019 compared to fiscal year 2018. Capital assets purchased in fiscal year 2019 included ten 35" replacement buses, and a GPS/AVL system. Accordingly, capital contributions increased for the year ended June 30, 2019, over the year ended June 30, 2018, as a result of an increase in capital asset purchases.

Fiscal Year 2019

Total operating revenues decreased $20,251 or 1%. Passenger fares increased $5,871, or .4%, compared to the previous period primarily due to an increase in boarding fares and daily pass sales of $29,796 and $6,721, respectively. The decrease was offset by decreases in 31 Day and 7 Day pass sales of $13,993 and $16,653, respectively. Passenger ridership decreased to 1,936,247 from 2,068,429 in the prior year for all standard fixed routes. The Company increased fares for the standard fixed routes effective January 1, 2018.

The Company operates a commuter service, The Smart Way, between Roanoke and Blacksburg. The Smart Way service operating revenue increased $3,874, or 2.2%, for the year ended June 30, 2018, compared to the previous year. Ridership on The Smart Way service increased to 46,781 in fiscal year 2018 from 46,221 in fiscal year 2017.

The Company operates a second commuter service, The Smart Way Connector traveled to Lynchburg's multi-modal station, which includes the AmTrak passenger station. This service was discontinued on October 30, 2017. Smart Way Connector service revenues decreased to $19,608 in fiscal year 2018 from $62,796 in fiscal year 2017. Ridership on The Smart Way Connector service decreased to 5,958 in fiscal year 2018 from 19,440 in fiscal year 2017.

The Company occasionally provides charter service for organizations or individuals that are unable to obtain this service from other service providers. Other primary fares for these services decreased to $4,687 in fiscal year 2018 from $5,066 in fiscal year 2017. The Company's total passenger rides for fiscal year 2018, including all fixed and Smart Way routes, were 2,091,007.

Total net nonoperating revenues decreased $142,467, or 1.8%, compared to the previous year primarily due to decreases in noncapital grant funding of $103,510. The Commonwealth of Virginia funding decreased $237,544 primarily due to a decrease in the states allocation of it funds. This decrease was partially offset by increases to Federal Transit Administration and New River Valley funding for $82,682 and $41,566, respectively.

Capital contributions fluctuate based on the capital asset needs of the Company. Accordingly, capital contributions increased $1,304,184, or 134.2%, compared to the previous year, due to the Company's increase in capital purchases in fiscal year 2018 compared to fiscal year 2017. Capital assets purchased in fiscal year 2018 included two 35" and two 40" replacement buses, and replacement of eight (8) bus lifts. Accordingly, capital contributions increased for the year ended June 30, 2018, over the year ended June 30, 2017, as a result of an increase in capital asset purchases.

Expenses

	2020	2019	2018	Fiscal year 2020 increase (decrease)	Fiscal year 2019 increase (decrease)
Operating expenses:					
Transportation	$ 5,537,819	$ 5,543,546	$ 4,775,400	$ (5,727)	$ 768,146
Vehicle maintenance	1,162,959	1,067,466	1,087,068	95,493	(19,602)
Nonvehicle maintenance	197,937	301,879	301,820	(103,942)	59
Administration	3,551,179	3,537,023	3,434,757	14,156	102,266
Depreciation	1,954,556	1,717,997	1,709,827	236,559	8,170
Total operating expenses	$ 12,404,450	$ 12,167,911	$ 11,308,872	$ 236,539	$ 859,039

Fiscal Year 2020

Total operating expenses, totaling $12,167,911, increased $859,039 compared to fiscal year 2018. Depreciation expense increased $8,170 compared to June 30, 2018.

Transportation increased $768,146 primarily due to an increase in Labor and Materials and Supplies for $405,382 and $333,360, respectively. Labor increased primarily due to The Smart Way Express service labor of $122,182. The Materials and Supplies increased primarily due to an increase in fuel expense for $302,684.

Vehicle maintenance decreased $19,602 primarily due to decreased labor and benefits expenses of $11,755 and 33,851, respectively. These decreases were partially offset by an increase in materials and supplies for $26,168.

Administration expenses increased $102,266 primarily due to increased expenses for contract services and purchased transportation expenses for $30,985 and $194,717, respectively. Purchased transportation costs increased primarily due to the service provider's loss of New Freedom funding.

Fiscal Year 2019

Total operating expenses, totaling $11,308,872, increased $535,864 compared to fiscal year 2017. Depreciation expense increased $32,856 compared to June 30, 2017.

Transportation increased $87,874 primarily due to an increase in fringe benefits for $148,336. Fringe benefits increased primarily due to an internal change in recording holiday and vacation benefits for administrative personnel. These expenses were partially offset by a decrease in material and supplies expense for $79,702.

Vehicle maintenance decreased $72,076 primarily due to decreased materials and supplies expense of $63,005. Materials and supplies decreased primarily due to a decrease in revenue vehicle parts expense for $65,712.

Administration expenses increased $477,185 primarily due to increased expenses for contract services and purchased transportation expenses for $54,313 and $424,905, respectively. Purchased transportation costs increased primarily due to the service provider's loss of JARC funding and increased ridership on the STAR service.

Looking Ahead to Fiscal Year 2021

The Company's Board of Directors has adopted the Company's budget for fiscal year 2020. The Company anticipates replacing eight (8) Gillig buses, four (4) Trolley buses, and six (6) para-transit vehicles. The Company anticipates beginning the design and engineering phase of the new Transfer Center in January.

Request for Information

This financial report is designed to provide interested parties with a general overview of the Company's finances. Should you have any questions about this report or need additional information, please contact the Director of Finance, 1108 Campbell Avenue SE, P. O. Box 13247, Roanoke, VA 24032.

GREATER ROANOKE TRANSIT COMPANY
(A Component Unit of the City of Roanoke, Virginia)

Statements of Net Position

June 30, 2020 and 2019

Assets		**2020**		**2019**
Current assets:				
Cash and cash equivalents	$	1,212,645	$	126,485
Due from:				
Federal Transit Administration		2,270,485		2,979,555
Commonwealth of Virginia		948,330		429,764
Local governments		40,524		196,256
Accounts receivable		256,121		306,071
Supplies and materials (note 3)		496,106		499,668
Other assets		3,602		23,512
Total current assets		5,227,813		4,561,311
Capital assets (note 4):				
Land		720,724		720,724
Buildings, structures and improvements		11,805,081		11,795,786
Buses		20,917,204		18,835,707
Shop and garage equipment		3,235,800		3,087,517
Office equipment and furnishings		1,040,643		991,242
Construction in progress		214,691		-
Accumulated depreciation		(23,499,498)		(21,544,942)
Capital assets, net		14,434,645		13,886,034
Total assets		19,662,458		18,447,345
Liabilities				
Current liabilities:				
Trade accounts payable		2,110,411		2,644,669
Accrued salaries and benefits		446,461		424,462
Other liabilities (note 6)		1,799,882		1,038,779
Total current liabilities		4,356,754		4,107,910
Net Position				
Investment in capital assets		14,434,645		13,886,034
Unrestricted		871,059		453,401
Total net position	$	15,305,704	$	14,339,435

See accompanying notes to the basic financial statements.

GREATER ROANOKE TRANSIT COMPANY
(A Component Unit of the City of Roanoke, Virginia)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2020 and 2019

	2020	2019
Operating revenues:		
Charges for passenger fares	$ 1,340,659	$ 1,860,686
Operating expenses:		
Salaries and wages	3,991,690	4,029,051
Fringe benefits (note 5)	1,959,655	1,892,893
Services	693,492	680,573
Utilities	219,258	224,589
Insurance	244,373	242,719
Purchased services and other expenses	1,908,179	1,943,544
Materials and supplies	1,289,496	1,436,545
Depreciation	1,954,556	1,717,997
Total operating expenses	12,260,699	12,167,911
Operating loss	(10,920,040)	(10,307,225)
Nonoperating revenues (expenses):		
Noncapital grants or assistance:		
Federal Transit Administration	4,139,839	3,301,998
Commonwealth of Virginia	2,869,205	2,128,404
City of Roanoke, Virginia	1,527,260	1,991,158
City of Salem, Virginia	155,531	202,579
Town of Vinton, Virginia	79,251	118,026
New River Valley Metropolitan Planning Organization	76,601	103,964
Virginia Tech University	130,664	186,923
Carilion Foundation	43,831	59,551
Downtown Roanoke, Inc.	22,010	29,902
Total noncapital revenues, net	9,044,192	8,122,505
Local share and other revenues:		
Advertising	120,206	132,944
Rental income (note 7)	60,112	65,610
Parking income	30,010	42,070
Interest income	2,799	1,449
Other	240,856	7,372
Total local share and other revenues	453,983	249,445
Total net nonoperating revenues, net	9,498,175	8,371,950
Loss before capital contributions	(1,421,865)	(1,935,275)
Capital contributions	2,388,134	4,773,886
Change in net position	966,269	2,838,611
Total net position at beginning of year	14,339,435	11,500,824
Total net position at end of the year	$ 15,305,704	$ 14,339,435

See accompanying notes to the basic financial statements.

GREATER ROANOKE TRANSIT COMPANY
(A Component Unit of the City of Roanoke, Virginia)

Statements of Cash Flows

Years ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities and local share and other revenues (excluding interest):		
Cash received from customers	$ 1,390,609	$ 1,664,450
Cash payments to employees for services	(5,929,346)	(5,866,855)
Cash payments to suppliers for goods and services	(4,609,438)	(3,777,359)
Local share and other revenue received	1,212,287	247,996
Net cash used in operating activities	(7,935,888)	(7,731,768)
Cash flows from noncapital financing activity:		
Noncapital grants received	10,385,539	5,669,082
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(2,759,313)	(3,203,598)
Capital contributions	1,393,023	4,466,078
Net cash used in capital and related financing activities	(1,366,290)	1,262,480
Cash flows from investing activity:		
Interest income received	2,799	1,449
Net changes in cash and cash equivalents	1,086,160	(798,757)
Cash and cash equivalents at beginning of year	126,485	925,242
Cash and cash equivalents at end of year	$ 1,212,645	$ 126,485
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (10,920,040)	$ (10,307,225)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Local share and other net revenue (excluding interest)	451,184	247,996
Depreciation	1,954,556	1,717,997
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	49,950	(196,236)
Decrease (Increase) in supplies and materials	3,562	(35,229)
Decrease (increase) in other assets	19,910	24,308
Increase (decrease) in trade accounts payable	(278,112)	291,617
Increase in accrued salaries and benefits	21,999	55,089
Increase in other liabilities	761,103	469,915
Net cash used in operating activities	$ (7,935,888)	$ (7,731,768)
Supplemental cash flow data		
Noncash capital and financial activities		
Capital asset purchases financed with accounts payable	$ 1,542,326	$ 1,798,472

See accompanying notes to the basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization and Purpose

The Greater Roanoke Transit Company (the "Company") is a private, nonprofit, public service organization wholly owned by the City of Roanoke, Virginia (the "City"). The Company provides a comprehensive range of transportation services for the residents of the greater Roanoke area, including bus service along fixed routes, special services for the disabled, and shuttle buses. Similar to other public transportation systems, government subsidies are required to fund operations. The Company is the recipient of operating and capital grants from federal, state, and local agencies, including the Federal Transit Administration (the "FTA"), the Virginia Department of Rail and Public Transportation (the "DRPT"), and the City.

Company policy decisions are made by the Board of Directors, which is comprised of two (2) City Council members, two (2) City employees, and three (3) citizens of the community at large. The Company contracts with First Group America Company (dba First Transit, Inc.) to provide senior management professionals. The remainder of the staff are employees of Southwestern Virginia Transit Management Company, Inc. ("SVTMC"), a subsidiary of First Transit, Inc. Bargaining unit employees of SVTMC, which include all bus drivers and mechanics, are under a separate contract ratified by the Amalgamated Transit Union, A.F.L.-C.I.O.-C.L.C., Local Union 1493 ("Union") in September 2017 and expiring on June 30, 2020.

The Company is reported as a discretely presented component unit with the City's reporting entity.

(b) Basis of Accounting

The accompanying financial statements reflect the transit operations of the Company and are accounted for on the economic resources measurement focus and use the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America ("GAAP"), as promulgated by the Governmental Accounting Standards Board, and conform with the requirements of the FTA's National Transit Database, as amended. Accordingly, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. *Nonexchange transactions*, in which the Company receives value without directly giving equal value in exchange, include appropriations from the City, grants, and donations. Revenues from grants and contributions are recognized in the fiscal year in which all eligibility requirements, including time requirements, if any are met.

(c) Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents are stated at cost, which approximates fair value, and consist of money market mutual funds and a pooled repurchase agreement with an original maturity of three months or less collateralized by U.S. government securities.

(d) Supplies and Materials

Supplies and materials consist of various consumable items which are maintained on a perpetual basis with periodic verification based on physical count. Supplies and materials are valued using a weighted average cost approach.

(e) Capital Assets

Capital assets are stated at cost less accumulated depreciation computed by the straight-line method over the estimated lives of the respective assets as follows:

Buildings, structure, and improvements	2 to 40 years
Buses	2 to 12 years
Shop and garage equipment	2 to 10 years
Office equipment and furnishings	2 to 10 years

Contributed and donated capital assets are recorded at acquisition value at the date of receipt. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

(f) Revenue Recognition

Passenger fares and advertising are recorded as revenue at the time of sale. Rental and parking income are recorded on the accrual basis of accounting based upon the date in which services are provided to customers.

(g) Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company does not record an allowance for existing accounts receivable based on historical experience. Account balances are charged off after all means of collection have been exhausted and the potential for recovery is considered remote.

(h) Compensated Absences

Company employees are granted vacation leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation in full. Accumulated vacation is recorded as an expense and liability as the benefits accrue to employees. Sick leave is recorded as an expense as the employee utilizes it.

In accordance with GAAP, the liability calculations include an accrual at the current rate of pay and ancillary salary-related payments associated with its ultimate liquidation. Compensated absence liabilities are reported as a component of accrued salaries and benefits.

(Continued)

(i) Operating Revenues and Expenses

Operating revenues consist of charges for passenger fares. Operating expenses include costs of services provided, including personnel costs, purchased services, utilities, materials and supplies, insurance and depreciation. All other revenues and expenses, with the exception of capital contributions, are classified as nonoperating revenues and expenses.

(j) Unearned Revenues

Unearned revenues represent amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Grants and contributions received before the eligibility requirements are met have been recorded as unearned revenues.

(k) Deferred Compensation Plan

Company employees participate in the Southwestern Virginia Transit Management Company, Inc. Retirement Plan (the "Plan"), which is a deferred compensation plan and trust covering all eligible employees of the Company. Under the terms of the Plan agreement, all full-time employees are required to participate in the Plan upon completion of their probationary employment period, which is 90 days from date of hire for all employees. Southwest Virginia Transit Management Company, Inc. is the Trustee of the Plan, which is administered by the Reliance Trust Company. Participants contribute to the Plan through both mandatory and voluntary payroll deductions. Participants are required to contribute a minimum of 3% of annual compensation. Participants may elect to defer up to 100% of their pretax compensation not to exceed the Internal Revenue Service ("IRS") limitations on net contributions. The Company can make contributions at its discretion. The Plan qualifies as a government plan under Section 457 of the *Internal Revenue Code*. This qualification exempts the Plan from the Employee Retirement Income Security Act and the Department of Labor regulations. Charges to operations under the Plan are based on 3% of union and salary participants' eligible payroll.

(l) Net Position

Net position represents the difference between assets and liabilities. Net position may be comprised of three components:

Net Investment in Capital Assets – Consists of the historical cost of capital assets net of any accumulated depreciation and outstanding debt used to finance those assets.

Restricted – Consists of assets where limitations are imposed through external restrictions imposed by creditors, grantors, or the laws and regulations of other governments.

Unrestricted – All other net position is reported as net invested in this category.

(m) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and net position at the date of the financial statements and the reported amounts of revenues, expenses, and changes in net position during the reporting period. Actual results could differ from these estimates.

(2) Cash and Cash Equivalents

All cash and cash equivalents are held by financial institutions in the name of the Company. At June 30, 2020 and 2019, all cash and cash equivalents were fully collateralized pursuant to agreements with all participating financial institutions to pledge assets on a pooled basis to secure public deposits according to the Virginia Security for Public Deposits Act Regulations of the Code of Virginia.

(3) Supplies and Materials

As of June 30, 2020 and 2019, supplies and materials consisted of the following:

	2020	2019
Parts	$ 459,813	$ 462,918
Diesel fuel	29,661	31,644
Lubricating oil	6,632	5,106
	$ 496,106	$ 499,668

(4) Capital Assets

The following is a summary of the changes in capital assets, net for the fiscal years ended June 30, 2020 and 2019:

	Balances June 30, 2019	Increases	Decreases	Balances June 30, 2020
Capital assets not being depreciated:				
Land	$ 720,724	$ -	$ -	$ 720,724
Construction in progress	-	214,691	-	214,691
Other capital assets being depreciated:				
Building, structures and improvements	11,795,786	9,295	-	11,805,081
Buses	18,835,707	2,081,497	-	20,917,204
Shop and garage equipment	3,087,517	148,283	-	3,235,800
Office equipment and furnishings	991,242	49,401	-	1,040,643
Accumulated depreciation	(21,544,942)	(1,954,556)	-	(23,499,498)
Net capital assets being depreciated	13,165,310	333,920	-	13,499,230
Capital assets, net	$ 13,886,034	$ 548,611	$ -	$ 14,434,645

	Balances June 30, 2018	Increases	Decreases	Balances June 30, 2019
Capital assets not being depreciated:				
Land	$ 720,724	$ -	$ -	$ 720,724
Other capital assets being depreciated:				
Building, structures and improvements	11,682,642	116,114	(2,970)	11,795,786
Buses	18,614,375	4,499,180	(4,277,848)	18,835,707
Shop and garage equipment	2,876,931	378,665	(168,079)	3,087,517
Office equipment and furnishings	983,131	8,111	-	991,242
Accumulated depreciation	(24,275,842)	(1,717,997)	4,448,897	(21,544,942)
Net capital assets being depreciated	9,881,237	3,284,073	-	13,165,310
Capital assets, net	$ 10,601,961	$ 3,284,073	$ -	$ 13,886,034

(5) Deferred Compensation Plan

The Company has a deferred compensation plan (see note 1(k)) covering all hourly and salaried employees. The Company contributions to the deferred compensation plan were $142,643 in fiscal year 2020 and $139,106 in fiscal year 2019.

(6) Other Liabilities

Included in other liabilities at June 30, 2020 and 2019, is unearned revenues of $1,798,785 and $801,967, respectively.

(7) Commitments and Contingent Liabilities

Contractual Commitments

Under the provisions of a management contract with First Group America Company (dba First Transit, Inc.), which originally became effective on March 1, 2010 and was renewed July 1, 2020. The Company paid a monthly fee of $27,690 and $26,884 for management services for years ended June 30, 2020 and 2019, respectively. Total fees paid for the years ended June 30, 2020 and 2019, were $332,282 and $322,603, respectively.

Certain assets acquired with FTA grants must be kept in service for a specified time period as a requirement of the grants. If these assets are removed from service, the Company must reimburse FTA for up to 80% of their fair market value on the date of disposition. Capital assets, net, approximated $14.4 million and $13.9 million for the years ended June 30, 2020 and 2019, respectively, and are subject to these grant requirements.

The Company has agreements with the City of Salem, Virginia and Town of Vinton, Virginia to provide bus service to each locality, which may be terminated by either party upon written notice of twelve months and six months, respectively. The localities reimburse the Company for 51% of the net operating costs based upon passenger counts and service miles.

The Company is the lessor of space in the Intermodal Transportation Center in downtown Roanoke. Rental income for the years ended June 30, 2020 and 2019, totaled $60,112 and $65,610, respectively. Future minimum rental receipts under leases with original terms in excess of one year are as follows:

Year ending June 30:		
2021	$	65,576

The Company is the lessee in an agreement with a tire manufacturer for the rental of bus tires. The agreement became effective beginning December 1, 2016 and ends November 30, 2021. It specifies a base rate per tire mile, which adjusts each year. For the years ended June 30, 2020 and 2019, rental expense for tires approximated $70,240 and $74,401, respectively.

The Company is party to various supply contracts with vendors for Ultra-Low Sulfur Diesel fuel that require the purchase of certain minimum volumes per year and set a total number of gallons to be purchased during the terms of the contract. These contracts enable the Company to purchase fuel at a fixed-rate price to be used in buses that serve our operating area. The Company’s agreements, along with the contract total of gallons to be purchased during the year, are as follows:

	Minimum Purchases
2021	$ 722,400
2022	722,400
	$ 1,444,800

Failure of the Company to meet such annual minimum purchase agreements allows the Company’s vendors the option of terminating or not renewing the contracts. Management intends to fully utilize these contracts to ensure fuel for operations is obtained at an efficient market price.

Litigation

The Company is involved in various legal proceedings from time to time in the normal course of business. In management’s opinion, the Company is not currently involved in any legal proceedings which individually or in the aggregate could have a material effect on the financial condition, results of operations and/or liquidity of the Company.

(Continued)

(8) Risk Management

The Company is exposed to various risks of loss such as theft of, damage to, and destruction of assets, injuries to employees, and natural disasters. The Company carries commercial insurance for their risks. There have been no significant reductions in insurance coverage from coverage in the prior year and settled claims have not exceeded the amount of insurance coverage in any of the past three fiscal years.

(9) COVID-19 Impact

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The Company's operations are dependent on the ability to assess passenger fees and provide transit services. Additionally, access to grants and contracts from federal and state governments may decrease or may not be available depending on appropriations. The outbreak may have a continued material adverse impact on economic and market conditions, triggering a period of global economic slowdown.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude the pandemic will have on the Company's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

(10) New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective. The effective dates below are updated based on **Statement No. 95**, *Postponement of the Effective Dates of Certain Authoritative Guidance* due to the COVID-19 pandemic.

In January 2017, the GASB issued **Statement No. 84**, *Fiduciary Activities*. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

In June 2017, The GASB issued **Statement No. 87**, *Leases*. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for fiscal years beginning after June 15, 2021.

(10) New Accounting Pronouncements (Continued)

In August 2018, the GASB issued **Statement No. 90**, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

In May 2019, the GASB issued **Statement No. 91**, *Conduit Debt Obligations*. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

In January 2020, the GASB issued **Statement No. 92**, *Omnibus*. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

(10) New Accounting Pronouncements (Continued)

In March 2020, the GASB issued **Statement No. 93**, *Replacement of Interbank Offered Rates*. This Statement addresses accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

In March 2020, the GASB issued **Statement No. 94**, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In May 2020, the GASB issued **Statement No. 96**, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

In June 2020, the GASB issued **Statement No. 97**, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. This Statement provides a more consistent financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans, while mitigating the costs associated with reporting those plans. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

GREATER ROANOKE TRANSIT COMPANY
(A Component Unit of the City of Roanoke, Virginia)

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/ Program Title or Cluster Title	Federal CFDA Number	Identifying Number	Expenditures
Department of Transportation			
Federal Transit Cluster			
FY10 FTA Capital Assistance	20.500	VA-04-0046-00	$ 21,204
FY13 FTA Capital Assistance	20.500	VA-95-X123-00	35,566
FY18 Operating and Capital Assistance	20.507	VA-2018-009-00	471,744
FY19 Operating and Capital Assistance	20.507	VA-2019-018-00	2,590,834
FY20 FTA Capital Assistance	20.500	VA-2020-043-01	111,741
FY20 FTA Capital Assistance	20.500	VA-2020-043-03	177,273
FY20 COVID Operating Assistance	20.507	VA-2020-025-00	1,608,703
Bus and Bus Facilities Formula Program			
FY14 FTA Capital Assistance	20.526	VA-34-0006-00	9,721
FY15 FTA Capital Assistance	20.526	VA-2016-009-00	88,746
FY18 FTA Capital Assistance	20.526	VA-2018-011-00	370,566
Total Federal Transit Cluster			5,486,098
Formula Grants for Rural Areas			
Virginia Department of Rail and Public Transportation			
FY18 FTA Operating Assistance	20.509	VA-2017-026-00	85,959
FY19 FTA Capital Assistance	20.509	VA-2018-034-00	217,306
FY20 FTA Capital Assistance	20.509	VA-2020-019-00	221,860
Total Formula Grants for Rural Areas			525,125
Total Department of Transportation			6,011,223
Grand Total Federal Financial Assistance			$ 6,011,223

See accompanying notes to schedule of expenditures and federal awards

NOTE A—BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Greater Roanoke Transit Company (the "Company") under programs of the federal government for the year ended June 30, 2020. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Company, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Company.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C—INDIRECT COST RATE

The Company has not elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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COMPLIANCE SECTION

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

Board of Directors
Greater Roanoke Transit Company
Roanoke, Virginia

We have audited, 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, the financial statements of the Greater Roanoke Transit Company (the "Company") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements, and have issued our report thereon dated ______, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) as a basis for designing 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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. **We did identify a deficiency in internal control, as described in the accompanying schedule of findings and questioned costs as item 2020-001, which we consider to be a material weakness.**

319 McClanahan Street, S.W. • Roanoke, Virginia 24014-7705 • 540-345-0936 • Fax: 540-342-6181 • www.BEcpas.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed an instance of noncompliance or other matters 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 2020-002.**

Company's Response to Findings

The Company's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Company's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Company'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 Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
_______, 2021

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

Board of Directors
Greater Roanoke Transit Company
Roanoke, Virginia

Report on Compliance for Each Major Federal Program

We have audited the Greater Roanoke Transit Company's (the "Company") 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 Company's major federal programs for the year ended June 30, 2020. The Company'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 Company'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 Company'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 qualified opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Company's compliance.

Basis for Qualified Opinion on Federal Transit Cluster

As described in the accompanying schedule of findings and questioned costs, the Company did not comply with the requirements regarding the Federal Transit Cluster as described in item 2020-003 for cash management. Compliance with such requirements is necessary, in our opinion, for the Company to comply with the requirements applicable to the Federal Transit Cluster.

Report on Internal Control over Compliance

Management of the Company 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 Company'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 Company's internal control over compliance.

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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. **We consider the deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2020-003, to be a material weakness.**

The Company's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Company's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance (Continued)

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.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
____________, 2021

GREATER ROANOKE TRANSIT COMPANY

SUMMARY OF COMPLIANCE MATTERS

June 30, 2020

As more fully described in the 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*, we performed tests of the Company's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

LOCAL COMPLIANCE MATTERS

Company By-Laws

COMMONWEALTH OF VIRGINIA COMPLIANCE MATTERS

Virginia Public Procurement Act – Prompt Payment Requirement

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

GREATER ROANOKE TRANSIT COMPANY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2020

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **One material weakness** relating to the audit of the financial statements was reported in the 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 G*overnment Auditing Standards.*
3. **One instance of noncompliance** material to the financial statements was disclosed.
4. **One material weakness** relating to the audit of the major federal award program was reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award program expresses a **qualified opinion**.
6. The audit disclosed **one audit finding relating to the major program**.
7. The programs tested as a major program were:

Federal Transit Administration Grant Cluster:	
Federal Transit Operating and Capital Assistance	20.500
Federal Transit Operating and Capital Assistance	20.507
Federal Transit COVID Operating Assistance	20.507
Federal Transit Capital Assistance	20.526

8. The **threshold for** distinguishing Type A and B programs was **$750,000**.
9. The Company **was not** determined to be a **low-risk auditee**.

(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2020-001: Segregation of Duties and Management Oversight (Material Weakness)

Condition:

Due to turnover in the Accounting Supervisor position during the year, duties handled by the Director of Finance included incompatible duties such as:

- Preparation of journal entries
- Preparation of bank reconciliations
- Collect cash, post receipts to general ledger, and prepare bank deposit slips
- Prepare payroll, edit master employee file, and sign payroll checks

In addition, during the year there was lack of performance of various oversight functions by management including reviews of bank reconciliations and journal entries.

Criteria:

A fundamental concept of internal controls is the separation of duties. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. In addition, all significant transactions and controls should involve reconciliations and supervisory, or management level, reviews of those processes. An effective and timely review process is intended to prevent and detect both fraud and errors.

Cause:

Turnover in key positions can result in individuals performing duties that are not appropriately segregated. In addition, turnover can also create challenges in the oversight or review function.

Effect:

As noted in later findings, noncompliance occurred in relation to federal compliance due to lack of oversight in the grant functions.

Recommendation:

Steps should be taken to eliminate conflicting duties and implement compensating controls, where possible.

(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2020-001: Segregation of Duties/Management Oversight (Material Weakness) (Continued)

Views of Responsible Officials and Planned Corrective Actions:

The Director handled the duties of preparing journal entries in the absence of the Accounting Supervisor. The normal control is that the Director review and sign the journal entries. The control has been established that if the Director prepares the journal entries, the General Manager (GM) or Assistant General Manager (AGM) will sign-off on the journal entry form. The GM or AGM will sign-off on all ACH payments initiated by the Director. In addition, the Finance Department intends to perform quarterly audits on pass sales to help prevent fraud in the future.

2020-002: Virginia Public Procurement Act Prompt Payment Requirement

Condition:

As discussed in later findings, due to misapplication of grant funds, the Company did not pay a certain vendor for purchases of capital assets on a timely basis.

Criteria:

Section 2.2-4352 of the *Code of Virginia* requires that every agency of local government that acquires goods or services shall promptly pay for the completed delivered goods or services by the required payment date. The required payment date shall be either (i) the date on which payment is due under the terms of the contract for the provision of the goods or services or (ii) if a date is not established by contract, not more than forty-five days after goods or services are received or the invoice is rendered.

Cause:

Due to the misapplication of grants intended to fund capital purchases, insufficient funds were available to pay a certain vendor timely.

(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

2020-002: Virginia Public Procurement Act Prompt Payment Requirement (Continued)

Effect:

The vendor was aware that the delivered products were acquired with federal grant funds and upon delay of receipt of payment within a reasonable timeframe, the vendor contacted granting agencies.

Recommendation:

All vendors are to be paid in a timely manner as defined by the *Code of Virginia.*

Views of Responsible Officials and Planned Corrective Actions:

See response to finding 2020-003.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

2020-003: Federal Transit Cluster – CFDA 20.507 and 20.526, Cash Management – Material Noncompliance/Material Weakness

Condition:

A lack of oversight in the annual grant application process, resulted in a vendor not being paid timely.

Criteria:

All grant activities should include management level oversight to ensure timeliness, accuracy, and compliance with specified grant requirements.

Cause:

A capital grant was drawn down for the purchase of buses but was not paid to the vendor timely.

Effect:

Vendor was not paid for over six months after receipt of buses.

Recommendation:

A designated management level individual should have oversight to require timely and accurate grant applications are filed and that drawdowns are accurate.

Views of Responsible Officials and Planned Corrective Actions:

[need from client]

(Continued)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2020

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2019-001: Segregation of Duties and Management Oversight (Material Weakness)

Condition:

Due to turnover in the Accounting Supervisor position during the year, duties handled by the Director of Finance included incompatible duties such as:

- Preparation of journal entries
- Preparation of bank reconciliations
- The ability to initiate ACH payments

In addition, during the year there was lack of performance of various oversight functions by management including reviews of bank reconciliations and journal entries, as well as lack of oversight related to bus pass records.

Recommendation:

Steps should be taken to eliminate conflicting duties and implement compensating controls, where possible.

Current Status: Comment still applicable for journal entries and bank reconciliation. See 2020-001 for current year additional matters noted.

2019-002: Virginia Public Procurement Act Prompt Payment Requirement

Condition:

As discussed in later findings, due to misapplication of grant funds, the Company did not pay a certain vendor for purchases of capital assets on a timely basis.

Recommendation:

All vendors are to be paid in a timely manner as defined by the *Code of Virginia.*

Current Status: Still applicable.

(Continued)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2020

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

2019-003: Federal Transit Cluster – CFDA 20.507 and 20.526, Cash Management – Material Noncompliance

Condition:

Management made erroneous drawdowns of capital grant funding and was untimely in use of funds for their required purpose. In addition, capital funding drawdowns were used for operating expenses.

Recommendation:

All drawdowns should be based on actual expenditure needs.

Current Status: No similar instance noted in current year. Comment no longer applicable.

2019-004: Federal Transit Cluster – CFDA 20.507 and 20.526, Cash Management – Material Weakness

Condition:

As noted in finding 2019-003, a lack of oversight in the annual grant application process, as well as a lack of oversight in the drawdown and use of funding processes, resulted in vendors remaining unpaid as well as allowed the misapplication of Federal funds for their intended purpose.

Recommendation:

A designated management level individual should have oversight to require timely and accurate grant applications are filed and that drawdowns are accurate.

Current Status: There were no capital drawdowns used for operating expenses; however, funds received were still not used timely as discussed in 2020-003.

(Continued)