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

FINANCIAL REPORT

June 30, 2019

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

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BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

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 in the table of contents, of the Greater Roanoke Transit Company (the "Company"), a component unit of the City of Roanoke, Virginia, as of and for the year ended June 30, 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 audits 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.

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Report on the Financial Statements (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Company as of June 30, 2018 were audited by other auditors whose report dated November 30, 2018 expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require 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 November 15, 2019 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 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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 15, 2019

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

Management's Discussion and Analysis

Years Ended June 30, 2019 and 2018

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, 2019 and 2018. 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, 2019 and 2018.

Financial Highlights

The following major financial highlights are of note for the Years Ended June 30, 2019 and 2018:

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, 2019, 2018, and 2017, is as follows:

Summary of Net Position

	2019	2018	2017	Fiscal Year 2019 increase (decrease)	Fiscal Year 2018 increase (decrease)
Current assets	$ 4,561,311	$ 2,391,680	$ 2,250,139	$ 2,169,631	$ 141,541
Capital assets, net	13,886,034	10,601,961	9,947,065	3,284,073	654,896
Total assets	18,447,345	12,993,641	12,197,204	5,453,704	796,437
Current liabilities	4,107,910	1,492,817	1,222,636	2,615,093	270,181
Investment in capital assets	13,886,034	10,601,961	9,947,065	3,284,073	654,896
Unrestricted	453,401	898,863	1,027,503	(445,462)	(128,640)
Total Net position	$ 14,339,435	$ 11,500,824	$ 10,974,568	$ 2,838,611	$ 526,256

Fiscal Year 2019

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 2018

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, 2019, 2018, and 2017, is provided below, followed by additional breakdown and analysis of the changes in the various categories:

Condensed Statements of Changes in Net Position

	2019	2018	2017	Fiscal Year 2019 change	Fiscal Year 2018 change
Total operating revenues	$ 1,860,686	$ 1,908,445	$ 1,928,696	$ (47,759)	$ (20,251)
Total operating expenses	(12,167,911)	(11,308,872)	(10,773,008)	(859,039)	(535,864)
Total net nonoperating revenues	8,371,950	7,650,451	7,792,918	721,499	(142,467)
Capital contributions	4,773,886	2,276,232	972,048	2,497,654	1,304,184
Changes in net position	2,838,611	526,256	(79,346)	2,312,355	605,602
Ending net position	$ 14,339,435	$ 11,500,824	$ 10,974,568	$ 2,838,611	$ 526,256

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

Revenues

	2019	2018	2017	Fiscal year 2019 increase (decrease)	Fiscal year 2018 increase (decrease)
Operating revenues:					
Passenger fares	$ 1,595,535	$ 1,607,997	$ 1,602,126	$ (12,462)	$ 5,871
Smart Way fares	168,729	179,677	175,803	(10,948)	3,874
Smart Way Express	1,769	-	-	1,769	-
Smart Way Connector fares	-	19,608	62,796	(19,608)	(43,188)
S.T.A.R. fares	91,077	96,476	82,905	(5,399)	13,571
Other primary fares	3,576	4,687	5,066	(1,111)	(379)
Total operating revenues	1,860,686	1,908,445	1,928,696	(47,759)	(20,251)
Nonoperating revenues:					
Noncapital grants	8,122,505	7,378,891	7,482,401	743,614	(103,510)
Advertising	132,944	136,579	109,273	(3,635)	27,306
Rental income	65,610	64,045	66,473	1,565	(2,428)
Parking income	42,070	63,291	78,353	(21,221)	(15,062)
Interest income	1,449	1,164	1,210	285	(46)
Gain on disposal of capital assets, net	-	-	6,996	-	(6,996)
Miscellaneous	7,372	6,481	48,212	891	(41,731)
Total net nonoperating revenues	8,371,950	7,650,451	7,792,918	721,499	(142,467)
Capital contributions	4,773,886	2,276,232	972,048	2,497,654	1,304,184
Total revenues	$ 15,006,522	$ 11,835,128	$ 10,693,662	$ 3,171,394	$ 1,141,466

Fiscal Year 2019

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 2018

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

	2019	2018	2017	Fiscal year 2019 increase (decrease)	Fiscal year 2018 increase (decrease)
Operating expenses:					
Transportation	$ 5,543,546	$ 4,775,400	$ 4,687,526	$ 768,146	$ 87,874
Vehicle maintenance	1,067,466	1,087,068	1,159,144	(19,602)	(72,076)
Nonvehicle maintenance	301,879	301,820	291,795	59	10,025
Administration	3,537,023	3,434,757	2,957,572	102,266	477,185
Depreciation	1,717,997	1,709,827	1,676,971	8,170	32,856
Total operating expenses	$ 12,167,911	$ 11,308,872	$ 10,773,008	$ 859,039	$ 535,864

Fiscal Year 2019

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 2018

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 2020

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, 2019 and 2018

Assets		**2019**		**2018**
Current assets:				
Cash and cash equivalents	$	126,485	$	925,242
Due from:				
Federal Transit Administration		2,979,555		601,660
Commonwealth of Virginia		429,764		187,800
Local governments		196,256		54,884
Accounts receivable		306,071		109,835
Supplies and materials (note 4)		499,668		464,439
Other assets		23,512		47,820
Total current assets		4,561,311		2,391,680
Capital assets (notes 3 and 5):				
Land		720,724		720,724
Buildings, structures and improvements		11,795,786		11,682,642
Buses		18,835,707		18,614,375
Shop and garage equipment		3,087,517		2,876,931
Office equipment and furnishings		991,242		983,131
Accumulated depreciation		(21,544,942)		(24,275,842)
Capital assets, net		13,886,034		10,601,961
Total assets		18,447,345		12,993,641
Liabilities				
Current liabilities:				
Trade accounts payable		2,644,669		554,580
Accrued salaries and benefits		424,462		369,373
Other liabilities (notes 7 and 8)		1,038,779		568,864
Total current liabilities		4,107,910		1,492,817
Net Position				
Investment in capital assets		13,886,034		10,601,961
Unrestricted		453,401		898,863
Total net position	$	14,339,435	$	11,500,824

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, 2019 and 2018

	2019	2018
Operating revenues:		
Charges for passenger fares	$ 1,860,686	$ 1,908,445
Operating expenses:		
Salaries and wages	4,029,051	3,702,581
Fringe benefits (note 6)	1,892,893	1,971,278
Services	680,573	639,762
Utilities	224,589	224,575
Insurance	242,719	242,521
Purchased services and other expenses	1,943,544	1,751,244
Materials and supplies	1,436,545	1,067,084
Depreciation	1,717,997	1,709,827
Total operating expenses	12,167,911	11,308,872
Operating loss	(10,307,225)	(9,400,427)
Nonoperating revenues (expenses):		
Noncapital grants or assistance:		
Federal Transit Administration	3,301,998	3,046,645
Commonwealth of Virginia	2,128,404	1,947,093
City of Roanoke, Virginia	1,991,158	1,900,349
City of Salem, Virginia	202,579	179,252
Town of Vinton, Virginia	118,026	115,004
New River Valley Metropolitan Planning Organization	103,964	86,329
Virginia Tech University	186,923	12,952
Carilion Foundation	59,551	60,758
Downtown Roanoke, Inc.	29,902	30,508
Total noncapital revenues, net	8,122,505	7,378,890
Local share and other revenues:		
Advertising	132,944	136,579
Rental income (note 8)	65,610	64,045
Parking income	42,070	63,291
Interest income	1,449	1,164
Other	7,372	6,482
Total local share and other revenues	249,445	271,561
Total net nonoperating revenues, net	8,371,950	7,650,451
Loss before capital contributions	(1,935,275)	(1,749,976)
Capital contributions	4,773,886	2,276,232
Change in net position	2,838,611	526,256
Total net position at beginning of year	11,500,824	10,974,568
Total net position at end of the year	$ 14,339,435	$ 11,500,824

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, 2019 and 2018

	2019	2018
Cash flows from operating activities and local share and other revenues (excluding interest):		
Cash received from customers	$ 1,664,450	$ 1,894,994
Cash payments to suppliers for goods and services	(3,777,359)	(3,649,515)
Cash payments to employees for services	(5,866,855)	(5,655,559)
Local share and other revenue received	247,996	256,947
Net cash used in operating activities	(7,731,768)	(7,153,133)
Cash flows from noncapital financing activity:		
Noncapital grants received	5,669,082	6,937,242
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(3,203,598)	(2,364,723)
Capital contributions	4,466,078	2,276,231
Net cash used in capital and related financing activities	1,262,480	(88,492)
Cash flows from investing activity:		
Interest income received	1,449	1,165
Net changes in cash and cash equivalents	(798,757)	(303,218)
Cash and cash equivalents at beginning of year	925,242	1,228,460
Cash and cash equivalents at end of year	$ 126,485	$ 925,242
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (10,307,225)	$ (9,400,427)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Local share and other net revenue (excluding interest)	247,996	270,397
Depreciation	1,717,997	1,709,827
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(196,236)	(13,451)
Decrease (Increase) in supplies and materials	(35,229)	6,747
Decrease (increase) in other assets	24,308	3,593
Increase (decrease) in trade accounts payable	291,617	179,803
Increase in accrued salaries and benefits	55,089	18,301
Increase in other liabilities	469,915	72,077
Net cash used in operating activities	$ (7,731,768)	$ (7,153,133)

Supplemental cash flow data		
Noncash capital and financial activities		
Capital asset purchases financed with accounts payable	$ 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.

As of and for the years ended June 30, 2019 and 2018, 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.

(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.

(n) Subsequent Events

The Company has evaluated subsequent events through November 15, 2019 in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.

(2) Cash and Cash Equivalents

All cash and cash equivalents are held by financial institutions in the name of the Company. At June 30, 2019 and 2018, 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) Capital Grant Funds

(a) Capital Purchases

Capital asset purchases have been funded primarily under FTA capital grants to the Company. Additional matching requirements were met by the Commonwealth of Virginia, the City, and the New River Valley Metropolitan Planning Organization. Capital grant funds received (cash basis), beginning June 15, 2000, and capital grant funds outstanding at June 30, 2019 and 2018, are as follows:

	Capital grant funds received 2019	Cumulative capital grant funds received	Outstanding capital grant amount
FTA	$ 2,784,890	$ 27,539,885	$ 1,391,201
Commonwealth of Virginia	2,642,762	8,395,124	870,337
City of Roanoke	-	166,985	-
New River Valley MPO	-	76,750	-
	$ 5,427,652	$ 36,178,744	$ 2,261,538

	Capital grant funds received 2018	Cumulative capital grant funds received	Outstanding capital grant amount
FTA	$ 1,041,122	$ 24,755,025	$ 4,176,061
Commonwealth of Virginia	1,094,250	5,752,362	3,560,943
City of Roanoke	-	166,985	-
New River Valley MPO	-	76,750	-
	$ 2,135,372	$ 30,751,122	$ 7,737,004

(b) Operations

The Company receives operating assistance from the FTA, Commonwealth of Virginia, the City, City of Salem, Virginia, Town of Vinton, Virginia, and New River Valley Metropolitan Planning Organization. During fiscal years 2019 and 2018, the Company also received operating assistance from the Carilion Foundation and Downtown Roanoke, Inc. for its Star Line trolley bus service. The Company also received assistance from Virginia Tech University for an expansion of service on The Smart Way Service beginning February 2015.

(4) Supplies and Materials

As of June 30, 2019 and 2018, supplies and materials consisted of the following:

	2019	2018
Parts	$ 462,918	$ 434,411
Diesel fuel	31,644	22,296
Lubricating oil	5,106	7,732
	$ 499,668	$ 464,439

(5) Capital Assets

The following is a summary of the changes in capital assets, net for the fiscal Years Ended June 30, 2019 and 2018:

	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

	Balances June 30, 2017	Increases	Decreases	Balances June 30, 2018
Capital assets not being depreciated:				
Land	$ 720,724	$ -	$ -	$ 720,724
Other capital assets being depreciated:				
Building, structures and improvements	11,594,319	88,323		11,682,642
Buses	16,511,774	2,102,601	-	18,614,375
Shop and garage equipment	2,708,829	168,102	-	2,876,931
Office equipment and furnishings	977,434	- 5,697	- -	983,131
Accumulated depreciation	(22,566,015)	(1,709,827)	-	(24,275,842)
Net capital assets being depreciated	9,226,341	654,896	-	9,881,237
Capital assets, net	$ 9,947,065	$ 654,896	$ -	$ 10,601,961

(6) 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 $139,106 in fiscal year 2019 and $123,653 in fiscal year 2018.

(7) Other Liabilities

Included in other liabilities at June 30, 2019 and 2018, is unearned revenues of $801,967 and $332,162, respectively.

(8) 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, 2015 expiring June 30, 2020. The Company pays a monthly fee of $26,100 for management services. Total fees paid for the years ended June 30, 2019 and 2018, were $322,603 and $313,207, 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, approximating $13.9 million at June 30, 2019, 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, 2019 and 2018, totaled $65,610 and $64,045, respectively. Future minimum rental receipts under leases with original terms in excess of one year are as follows:

Years ending June 30:		
2020	$	64,975

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, 2019 and 2018, rental expense for tires approximated $74,401 and $65,400, 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
September 1, 2015 through August 31, 2016	$	843,820
September 1, 2016 through June 30, 2017		466,939
July 1, 2017 through June 30, 2018		615,780
July 1, 2018 through June 30, 2019		896,550

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.

The Company has an agreement with Rohrer Enterprises, Inc. to lease two Touring Coach revenue service vehicles. The agreement became effective April 30, 2018 and ends March 31, 2021. Due to a delay in delivering the vehicles, the lease began in February 2019. The company has acquired grant funding to purchase the two vehicles in FY 20. For the years ended June 30, 2019 and 2018, lease expense for the buses approximated, $49,912 and $0, respectively.

Litigation

The Company is unaware of any pending litigation or other contingencies that would have a material adverse effect on the financial condition or liquidity of the Company.

(9) 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. The only outstanding material claim that is probable of an unfavorable outcome is a result of an incident that occurred on a bus in June 2012. The Company's insurance coverage is sufficient to cover this claim.

(10) New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

The GASB issued Statement No. 84, Fiduciary Activities in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB issued Statement No. 87, Leases in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period in June 2018. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2019. The requirements of this Statement should be applied prospectively.

The GASB issued Statement No. 90, Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61 in August 2018. 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.

(Continued)

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 periods beginning after December 15, 2018.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.

The GASB issued Statement No. 91, Conduit Debt Obligations in May 2019. 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, 2020.

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

COMPLIANCE SECTION

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, 2019

Federal Grantor/Pass-Through Grantor/ Program Title or Cluster Title	Federal CFDA Number	Identifying Number	Passed Through to Subrecipients	Expenditures
Department of Transportation				
Federal Transit Cluster				
FY13 FTA Capital Assistance	20.507	VA-95-X123-00	$ -	$ 9,633
FY15 FTA Capital Assistance	20.507	VA-90-X019-00	-	111,826
FY17 Capital Assistance	20.507	VA-2018-009-00	-	2,136
FY18 Operating and Capital Assistance	20.507	VA-2018-009-00	-	1,772,677
FY19 Operating and Capital Assistance	20.507	VA-2018-018-00	-	2,789,143
Subtotal			-	4,685,415
FY14 FTA Capital Assistance	20.526	VA-34-0006-00	-	79,786
FY15 FTA Capital Assistance	20.526	VA-2016-009-00	-	189,514
FY18 FTA Capital Assistance	20.526	VA-2018-011-00	-	6,489
Subtotal			-	275,789
Total Federal Transit Cluster			-	4,961,204
Formula Grants for Rural Areas				
Virginia Department of Rail and Public Transportation				
FY18 FTA Operating Assistance	20.509	VA-2017-026-00	-	85,958
FY19 FTA Capital Assistance	20.509	VA-2018-034-00	-	426,897
Total Formula Grants for Rural Areas			-	512,855
Total Department of Transportation			-	5,474,059
Grand Total Federal Financial Assistance			$ -	$ 5,474,059

See accompanying notes to schedule of expenditures of federal awards.

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

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2019

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, 2019. 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.

BROWN EDWARDS
certified public accountants

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, 2019, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements, and have issued our report thereon dated November 15, 2019.

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) 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 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 2019-001 that we consider to be a material weakness.**

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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 the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed an instance of noncompliance 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 2019-002.**

Greater Roanoke Transit 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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 15, 2019

BROWNEDWARDS
certified public accountants

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, 2019. 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 2019-003 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 Custer.

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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 2019-004, 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.

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.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 15, 2019

GREATER ROANOKE TRANSIT COMPANY

SUMMARY OF COMPLIANCE MATTERS
June 30, 2019

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, 2019

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	20.507
Federal Transit Capital Assistance	20.526

8. The **threshold for** distinguishing Type A and B programs was **$750,000**.
9. The Company **was** determined to be a **low-risk auditee**.

B. 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.

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.

(Continued)

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

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

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. In addition, approximately $23,000 of unreconciled variances between pass sales and proceeds collected were identified.

Recommendation:

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

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.

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.

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)

2019-002: 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 2019-003.

C. 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.

Criteria:

All drawdowns of federal grant funds are to be based on actual grant funded expenditure needs. In addition, while the Federal Transit Administration allows capital funds to be drawn down before the disbursement to assist with the payment of eligible expenditures, those drawdowns are to be disbursed for their intended purposes no later than three days after receipt.

Cause:

Management did not submit their annual grant application for Federal Transit operating grant funds and, as a result, were lacking the funds necessary to support operating expenses.

Effect:

Vendors were unpaid for a significant amount of time. Ultimately, the operating grants were retroactively approved. However, a significant refund payable to the Federal Transit Administration was also recorded.

Recommendation:

All drawdowns should be based on actual expenditure needs.

(Continued)

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

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

Views of Responsible Officials and Planned Corrective Actions:

Greater Roanoke Transit Company did use capital funds for operating purposes due to its operating application not being submitted in a timely manner. It intends to submit its operating grant in a timely manner, not later than June 30th of each year, in the future to ensure that it remains in compliance. To ensure the grant has been filed, the General Manager will track the progress of the grant filing once the Certifications and Assurances have been signed in March of each year.

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.

Criteria:

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

Cause:

Due to an oversight, the annual operating funds grant application was not filed. This resulted in a lack of approved operating funding for the Company. As a result, management drew down capital funding to support operating costs.

Effect:

Retroactive approvals were obtained by the granting agency and a significant amount of additional funding that was erroneously drawn down is due back to the granting agency.

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:

Greater Roanoke Transit Company did use capital funds for operating purposes due to its operating application not being submitted in a timely manner. It intends to submit its operating grant in a timely manner, not later than June 30th of each year, in the future to ensure that it remains in compliance.