



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

Financial Statements and  
Required Supplementary Information

June 30, 2012 and 2011

(With Independent Auditors' Reports Thereon)

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

**Table of Contents**

	<b>Page(s)</b>
Required Supplementary Information:	
Management’s Discussion and Analysis	1 – 7
Independent Auditors’ Report	8
Financial Statements:	
Statements of Net Assets	9
Statements of Revenues, Expenses and Changes in Net Assets	10
Statements of Cash Flows	11
Notes to Financial Statements	12 – 18
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19 – 20

**GREATER ROANOKE TRANSIT COMPANY –  
TRANSIT OPERATIONS**

(A Component Unit of the City of Roanoke, Virginia)

Management's Discussion and Analysis

June 30, 2012 and 2011

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, 2012 and 2011. 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. This is the same basis of accounting employed by most private-sector enterprises.

Our financial statements include the following components:

- Statements of Net Assets, which presents information on the assets and liabilities of the Company, with the resulting difference between the two reported as net assets. Over time, increases or decreases in net assets 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 Assets, which reports revenues and expenses, classified as operating and nonoperating, and capital contributions for the period. The resulting change in net assets for the period is combined with the beginning of the year total net asset balance in order to reconcile to the end of the year total net assets on the Statements of Net Assets.
- 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 Assets.
- Notes to 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, 2012 and 2011.

**Financial Highlights**

The following major financial highlights are of note for the years ended June 30, 2012 and 2011:

**Fiscal Year 2012**

- Assets exceeded liabilities by \$13,427,363 (net assets) as of June 30, 2012. Net assets include \$900,334, which is considered unrestricted and available to meet ongoing and future obligations of the Company, including its share of capital projects.
- Net assets decreased \$1,646,302 for the year ended June 30, 2012. The unrestricted portion of net assets decreased \$123,548 and the portion of net assets invested in long-term capital assets decreased \$1,522,754 compared to the balance as of June 30, 2011.

**GREATER ROANOKE TRANSIT COMPANY –  
TRANSIT OPERATIONS**

(A Component Unit of the City of Roanoke, Virginia)

Management's Discussion and Analysis

June 30, 2012 and 2011

- Operating revenues increased by \$128,082 compared to the previous year, due primarily to additional income from the Smartway Connector service and an increase in ridership.
- Operating expenses increased \$646,716 primarily due to increases in fuel, employee benefits cost, and an increase in purchased services relating to Specialized Transit Arranged Rides (S.T.A.R.). The Company outsources S.T.A.R. services to a separate contractor, whose increase in rates for the year ended June 30, 2012 resulted in an increase in cost to the Company.
- Total net nonoperating revenues increased \$898,344 compared to the previous year due primarily to an increase in noncapital grant assistance of \$849,587.
- Capital contributions decreased \$441,347 compared to the previous year due to decreased federal and state contributions for capital asset purchases in fiscal year 2012.

**Fiscal Year 2011**

- Assets exceeded liabilities by \$15,073,665 (net assets) as of June 30, 2011. Net assets include \$1,023,882, which is considered unrestricted and available to meet ongoing and future obligations of the Company, including its share of capital projects.
- Net assets decreased \$1,584,665 for the year ended June 30, 2011. The unrestricted portion of net assets decreased \$401,970 and the portion of net assets invested in long-term capital assets decreased \$1,182,695 compared to the balance as of June 30, 2010.
- Operating revenues increased by \$99,159 compared to the previous year, due primarily to additional income from student fares and services provided to Virginia Western Community College (VWCC).
- Operating expenses increased \$580,461 primarily due to increases in fuel and employee benefits costs.
- Total net nonoperating revenues increased \$56,501 compared to the previous year due primarily to an increase in noncapital grant assistance of \$81,098. The increase in noncapital grant assistance was partially offset by a decrease in other nonoperating revenues in the amount of \$24,597.
- Capital contributions decreased \$1,517,728 compared to the previous year due to decreased federal and state contributions needed for capital asset purchases in fiscal year 2011.

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

**GREATER ROANOKE TRANSIT COMPANY –  
TRANSIT OPERATIONS**

(A Component Unit of the City of Roanoke, Virginia)

Management's Discussion and Analysis

June 30, 2012 and 2011

**Net Assets**

A summary of the major components of the Statements of Net Assets as of June 30, 2012, 2011, and 2010 is as follows:

**Summary of Net Assets**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Fiscal year 2012 increase (decrease)</u>	<u>Fiscal year 2011 increase (decrease)</u>
Current assets	\$ 1,952,375	1,779,553	2,089,897	172,822	(310,344)
Capital assets, net	12,527,029	14,049,783	15,232,478	(1,522,754)	(1,182,695)
Total assets	<u>14,479,404</u>	<u>15,829,336</u>	<u>17,322,375</u>	<u>(1,349,932)</u>	<u>(1,493,039)</u>
Current liabilities	<u>1,052,041</u>	<u>755,671</u>	<u>664,045</u>	<u>296,370</u>	<u>91,626</u>
Invested in capital assets	12,527,029	14,049,783	15,232,478	(1,522,754)	(1,182,695)
Unrestricted net assets	<u>900,334</u>	<u>1,023,882</u>	<u>1,425,852</u>	<u>(123,548)</u>	<u>(401,970)</u>
Total net assets	<u>\$ 13,427,363</u>	<u>15,073,665</u>	<u>16,658,330</u>	<u>(1,646,302)</u>	<u>(1,584,665)</u>

**Fiscal Year 2012**

Total net assets of \$13,427,363 decreased \$1,646,302, or 10.9%, for the year ended June 30, 2012. The decrease in net assets is primarily due to a decrease in capital assets, net, which decreased \$1,522,754, or 10.8%. Unrestricted net assets decreased \$123,548 in the current period primarily due to less funding provided by the Federal Transit Administration (FTA), which is necessary to cover daily operating expenditures.

Current assets increased \$172,822 primarily due to an increase in cash and cash equivalents and accounts receivable of \$348,901 and \$71,011, respectively. These increases were partially offset by a decrease in the amount due from the FTA of \$251,977.

Current liabilities increased \$296,370, or 39.2%, compared to the balance as of June 30, 2011. The increase is primarily due to an increase in trade accounts payable and other liabilities of \$93,798 and \$164,178, respectively. The increase in trade accounts payable is primarily due to payments due as of June 30, 2012 for industrial fans and exterior painting of the administrative facility totaling approximately \$47,000. The increase in other liabilities is primarily due to an increase in FTA retained proceeds of \$53,386 and the remaining balance of \$87,869 received in advance from the Department of Rail and Public Transportation (DRPT) as the state match for Smartway and Smartway Connector operating services for the period of October 2011 through September 2012. It is important to note that the Company has maintained financial operations without issuance of any long-term debt during fiscal year 2012.

**GREATER ROANOKE TRANSIT COMPANY –  
TRANSIT OPERATIONS**

(A Component Unit of the City of Roanoke, Virginia)

Management’s Discussion and Analysis

June 30, 2012 and 2011

**Fiscal Year 2011**

Total net assets of \$15,073,665 decreased \$1,584,665, or 9.5%, for the year ended June 30, 2011. The decrease in net assets is primarily due to a decrease in capital assets, net, which decreased \$1,182,695, or 7.8%. Unrestricted net assets decreased \$401,970 in the current period primarily due to an increase in the Company’s funding of operating expenditures related to fuel and health insurance of \$275,359 and \$166,995, respectively.

Current assets decreased \$310,344 primarily due to a decrease in the amount due from the Federal Transit Administration (FTA) of \$508,936 compared to June 30, 2010. The decrease was partially offset by an increase in cash and cash equivalents of \$103,915 compared to the previous fiscal year.

Current liabilities increased \$91,626, or 13.8%, compared to the balance as of June 30, 2010. It is important to note that the Company maintained financial operations without issuance of any long-term debt during fiscal year 2011.

**Changes in Net Assets**

Condensed financial information from the Statements of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2012, 2011, and 2010 is provided below, followed by additional breakdown and analysis of the changes in the various categories:

**Condensed Statements of Changes in Net Assets**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Fiscal year 2012 increase (decrease)</u>	<u>Fiscal year 2011 increase (decrease)</u>
Total operating revenues	\$ 2,131,743	2,003,661	1,904,502	128,082	99,159
Total operating expenses	(10,701,358)	(10,054,642)	(9,474,181)	646,716	580,461
Total net nonoperating revenues	6,534,290	5,635,946	5,579,445	898,344	56,501
Capital contributions	389,023	830,370	2,348,098	(441,347)	(1,517,728)
Change in net assets	(1,646,302)	(1,584,665)	357,864	(61,637)	(1,942,529)
Ending total net assets	13,427,363	15,073,665	16,658,330	(1,646,302)	(1,584,665)

**GREATER ROANOKE TRANSIT COMPANY –  
TRANSIT OPERATIONS**

(A Component Unit of the City of Roanoke, Virginia)

Management's Discussion and Analysis

June 30, 2012 and 2011

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

<b>Revenues</b>					
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Fiscal year 2012 increase (decrease)</u>	<u>Fiscal year 2011 increase (decrease)</u>
<b>Operating revenues:</b>					
Passenger fares	\$ 1,750,386	1,690,378	1,622,105	60,008	68,273
Smart Way fares	255,393	244,384	200,616	11,009	43,768
Smart Way Connector fares	32,165	—	—	32,165	—
S.T.A.R. fares	85,344	67,460	73,233	17,884	(5,773)
Other primary fares	8,455	1,439	8,548	7,016	(7,109)
Total operating revenues	<u>2,131,743</u>	<u>2,003,661</u>	<u>1,904,502</u>	<u>128,082</u>	<u>99,159</u>
<b>Nonoperating revenues:</b>					
Noncapital grants	6,183,264	5,333,677	5,252,579	849,587	81,098
Advertising	141,007	96,098	104,459	44,909	(8,361)
Rental income	109,347	128,342	142,250	(18,995)	(13,908)
Parking income	51,371	51,184	58,245	187	(7,061)
Interest income	5,722	4,983	7,337	739	(2,354)
Gain on disposal of capital assets, net	20,226	11,311	—	8,915	11,311
Miscellaneous	23,353	10,351	14,575	13,002	(4,224)
Total net nonoperating revenues	<u>6,534,290</u>	<u>5,635,946</u>	<u>5,579,445</u>	<u>898,344</u>	<u>56,501</u>
Capital contributions	<u>389,023</u>	<u>830,370</u>	<u>2,348,098</u>	<u>(441,347)</u>	<u>(1,517,728)</u>
Total revenues	<u>\$ 9,055,056</u>	<u>8,469,977</u>	<u>9,832,045</u>	<u>585,079</u>	<u>(1,362,068)</u>

**Fiscal Year 2012**

Total operating revenues increased \$128,082, or 6.4%. Passenger fares increased \$60,008, or 3.5% compared to the previous period primarily due to an increase in passenger ridership in the current period. Passenger ridership increased to 2,305,993 from 2,222,984 in the prior year for all standard fixed routes.

In fiscal year 2006, the Company started a commuter service (The Smart Way) between Roanoke and Blacksburg. The Smart Way service operating revenue increased \$11,009, or 4.5%, for the year ended June 30, 2012 compared to the previous year. Ridership on The Smart Way service increased to 72,247 in fiscal year 2012 from 68,117 in fiscal year 2011.

In fiscal year 2012, the Company started a commuter service (The Smart Way Connector) that travels to Lynchburg's multi-modal station, which includes the AmTrak passenger station. The Company generated \$32,165 in additional income from this service with 12,761 passenger rides. The Company's total passenger rides for fiscal year 2012, including all fixed and Smart Way routes, were 2,437,566.

**GREATER ROANOKE TRANSIT COMPANY –  
TRANSIT OPERATIONS**

(A Component Unit of the City of Roanoke, Virginia)

Management's Discussion and Analysis

June 30, 2012 and 2011

Total net nonoperating revenues increased \$898,344, or 15.9%, compared to the previous year primarily due to increases in noncapital grant funding of \$849,587. The Commonwealth of Virginia funding increased \$261,911, the City of Roanoke funding increased \$469,911, and the City of Salem funding increased \$29,853 compared to the previous year. Revenues from advertising on the buses increased \$44,909 compared to the year ended June 30, 2011.

Capital contributions decreased \$441,347, or 53.1%, compared to the previous year, due to the Company's reduction in overall capital purchases in fiscal year 2012 compared to fiscal year 2011. Capital assets purchased in fiscal year 2012 included industrial fans and a GPS system for the Company's buses.

Capital contributions fluctuate based on the capital asset needs of the Company. Accordingly, capital contributions decreased for the year ended June 30, 2012 over the year ended June 30, 2011 as a result of the decrease in capital asset purchases.

**Fiscal Year 2011**

Total operating revenues increased \$99,159, or 5.2%. Passenger fares increased \$68,273, or 4.2% compared to the previous year primarily due to additional income from Youth 11 – 18 of \$21,853 and from VWCC of \$66,191. The Company began a fare of \$0.75 for Youth 11 – 18 in July 2010. VWCC agreed to pay fares for its students and faculty in August 2010. Passenger rides on fixed routes of 2,222,984 decreased 158,387, or 6.7%, compared to the previous fiscal year ended June 30, 2010. This decrease is primarily due to a decrease in Youth 11 – 18 ridership in the current year.

In fiscal year 2006, the Company started a commuter service (The Smart Way) between Roanoke and Blacksburg. The Smart Way service operating revenue increased \$43,768, or 21.8%, in fiscal year 2011 compared to the previous year. The increase in fare revenue is primarily due to the increased fare on The Smart Way to \$4.00 per trip from \$3.00 per trip. This increase became effective on January 2, 2010. Passenger rides on The Smart Way service of 68,117 increased 8,642, or 14.5%. The Company's total passenger rides for fiscal year 2011 were 2,291,101.

Total net nonoperating revenues increased \$56,501, or 1%, compared to the previous year due primarily to an increase in funding from the Commonwealth of Virginia and the City of Roanoke for the fiscal year ended June 30, 2011. The Commonwealth of Virginia funding increased \$70,046, or 6.5% and the City of Roanoke funding increased \$65,640, or 5.9%. The increases were partially offset by decreases in FTA funding of \$48,604, or 1.8% and rental income of \$13,908, or 9.8%.

Capital contributions decreased \$1,517,728, or 64.6%, compared to the previous year, due to the Company's smaller purchases of capital assets in fiscal year 2011 compared to fiscal year 2010. The capital assets purchased in fiscal year 2011 included six (6) para-transit buses.

Capital contributions fluctuate based on the capital asset needs of the Company. Accordingly, capital contributions decreased for the year ended June 30, 2011 over the year ended June 30, 2010 as a result of the decrease in capital asset purchases.

**GREATER ROANOKE TRANSIT COMPANY –  
TRANSIT OPERATIONS**

(A Component Unit of the City of Roanoke, Virginia)

Management’s Discussion and Analysis

June 30, 2012 and 2011

	<b>Expenses</b>			<b>Fiscal year 2012 increase (decrease)</b>	<b>Fiscal year 2011 increase (decrease)</b>
	<b>2012</b>	<b>2011</b>	<b>2010</b>		
Operating expenses:					
Transportation	\$ 5,227,804	4,756,970	4,227,017	470,834	529,953
Vehicle maintenance	940,507	884,549	844,047	55,958	40,502
Nonvehicle maintenance	262,066	268,783	317,202	(6,717)	(48,419)
Administration	2,334,176	2,178,603	2,183,248	155,573	(4,645)
Depreciation	1,936,805	1,965,737	1,902,667	(28,932)	63,070
	<u>10,701,358</u>	<u>10,054,642</u>	<u>9,474,181</u>	<u>646,716</u>	<u>580,461</u>
Total operating expenses	\$ 10,701,358	10,054,642	9,474,181	646,716	580,461

**Fiscal Year 2012**

Total operating expenses totaling \$10,701,358 increased \$646,716 compared to fiscal year 2011. Transportation expenses increased \$470,834, or 9.9%, primarily due to increased fuel costs of \$298,959 and health insurance costs of \$48,716. Maintenance expenses increased \$55,959, or 6.3% primarily due to increased health insurance costs of \$15,537 and consumed vehicle parts costs of \$22,910. Administration expense increased \$155,573, or 7.1% primarily due to an increase in purchased transportation costs of \$142,822.

**Fiscal Year 2011**

Total operating expenses totaling \$10,054,642 increased \$580,461 compared to fiscal year 2010. Transportation expenses increased \$529,953, or 12.5%, primarily due to increased fuel costs of \$275,359 and health insurance costs of \$166,995. Maintenance expenses increased primarily due to increased cost of tires of \$5,261 and health insurance costs of \$18,530. The depreciation of the Company’s four (4) MCI buses purchased in the prior fiscal year is the primary factor for the \$63,070 increase in depreciation expense.

**Looking Ahead to 2013**

The Greater Roanoke Transit Company Board of Directors has adopted the Company’s budget for fiscal year 2013. The Company has received grant funding to replace ten (10) 2001 Gillig buses and intends to purchase the buses using the Commonwealth of Virginia’s procurement.

**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 Stephanie Giles, Director of Finance, 1108 Campbell Ave., S.E., P. O. Box 13247, Roanoke, Virginia 24032.



KPMG LLP  
Suite 1010  
10 S. Jefferson Street  
Roanoke, VA 24011-1331

## Independent Auditors' Report

The Board of Directors  
Greater Roanoke Transit Company:

We have audited the accompanying financial statements of Greater Roanoke Transit Company – Transit Operations (the Company), a discretely presented component unit of the City of Roanoke, Virginia, as of and for the years ended June 30, 2012 and 2011, as listed in the accompanying table of contents. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greater Roanoke Transit Company – Transit Operations as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 31, 2012 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 1 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

**KPMG LLP**

October 31, 2012

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

Statements of Net Assets

June 30, 2012 and 2011

<b>Assets</b>	<b>2012</b>	<b>2011</b>
	<b>2012</b>	<b>2011</b>
Current assets:		
Cash and cash equivalents, including cash equivalents of \$465,277 and \$197,187 in 2012 and 2011, respectively (note 2)	\$ 792,068	443,167
Due from:		
Federal Transit Administration	241,080	493,057
Commonwealth of Virginia	203,951	203,485
Local governments	35,598	43,118
Accounts receivable	155,511	84,500
Supplies and materials (note 4)	458,677	456,733
Other assets	65,490	55,493
Total current assets	1,952,375	1,779,553
Capital assets (notes 3 and 5):		
Land	720,724	720,724
Buildings, structures and improvements	10,655,037	10,562,254
Buses	14,752,168	14,745,275
Shop and garage equipment	2,573,802	2,698,316
Office equipment and furnishings	740,246	727,374
Accumulated depreciation	(16,914,948)	(15,404,160)
Capital assets, net	12,527,029	14,049,783
Total assets	14,479,404	15,829,336
<b>Liabilities</b>		
Current liabilities:		
Trade accounts payable	472,130	378,332
Accrued salaries and benefits	271,058	232,664
Other liabilities (note 7)	308,853	144,675
Total current liabilities	1,052,041	755,671
Commitments and contingencies (notes 6 and 8)		
<b>Net Assets</b>		
Invested in capital assets	12,527,029	14,049,783
Unrestricted	900,334	1,023,882
Total net assets	\$ 13,427,363	15,073,665

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2012 and 2011

	<b>2012</b>	<b>2011</b>
Operating revenues:		
Charges for passenger fares	\$ 2,131,743	2,003,661
Operating expenses:		
Salaries and wages	3,129,934	2,992,674
Fringe benefits (note 6)	1,698,738	1,632,417
Services	518,414	466,606
Utilities	221,823	253,242
Insurance	339,430	369,363
Purchased services and other expenses	946,006	800,871
Materials and supplies	1,910,208	1,573,732
Depreciation	1,936,805	1,965,737
Total operating expenses	10,701,358	10,054,642
Operating loss	(8,569,615)	(8,050,981)
Nonoperating revenues (expenses):		
Noncapital grants or assistance:		
Federal Transit Administration	2,812,022	2,832,539
Commonwealth of Virginia	1,415,238	1,171,083
City of Roanoke	1,648,504	1,178,593
City of Salem	132,252	102,399
Town of Vinton	85,040	78,592
New River Valley Metropolitan Planning Organization	63,460	43,465
Carilion Foundation	56,226	48,253
Downtown Roanoke, Inc.	24,856	21,994
O. Winston Link Transportation Museum	—	(36,399)
Commonwealth Coach and Trolley Museum	(13,735)	(48,269)
Roanoke Chapter National Railway Historical Society	(40,599)	(58,573)
Total noncapital grants or assistance	6,183,264	5,333,677
Local share and other revenue:		
Advertising	141,007	96,098
Rental income (note 8)	109,347	128,342
Parking income	51,371	51,184
Interest income	5,722	4,983
Gain on disposal of capital assets	20,226	11,311
Other	23,353	10,351
Total local share and other revenue	351,026	302,269
Total net nonoperating revenues	6,534,290	5,635,946
Loss before capital contributions	(2,035,325)	(2,415,035)
Capital contributions (note 3)	389,023	830,370
Change in net assets	(1,646,302)	(1,584,665)
Total net assets at beginning of year	15,073,665	16,658,330
Total net assets at end of the year	\$ 13,427,363	15,073,665

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	<b>2012</b>	<b>2011</b>
Cash flows from operating activities and local share and other revenue (excluding interest):		
Cash received from customers	\$ 2,131,743	2,003,661
Cash payments to suppliers for goods and services	(3,744,067)	(3,388,227)
Cash payments to employees for services	(4,790,278)	(4,685,617)
Local share and other revenue received	254,067	256,887
Net cash used in operating activities	(6,148,535)	(5,813,296)
Cash flows from noncapital financing activity:		
Operating grants received	6,430,145	5,000,209
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(359,830)	(783,042)
Proceeds from sale of capital assets	20,226	11,311
Capital contributions	401,173	1,683,750
Net cash provided by capital and related financing activities	61,569	912,019
Cash flows from investing activity:		
Interest income received	5,722	4,983
Net increase in cash and cash equivalents	348,901	103,915
Cash and cash equivalents at beginning of year	443,167	339,252
Cash and cash equivalents at end of year	\$ 792,068	443,167
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (8,569,615)	(8,050,981)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Local share and other net revenue (excluding interest)	345,304	297,286
Depreciation	1,936,805	1,965,737
Gain on disposal of capital assets	(20,226)	(11,311)
Changes in assets and liabilities:		
(Increase) in accounts receivable	(71,011)	(29,088)
(Increase) in supplies and materials	(1,944)	(52,655)
(Increase) in other assets	(9,997)	(23,910)
Increase in trade accounts payable	39,577	89,713
Increase (decrease) in accrued salaries and benefits	38,394	(60,526)
Increase in other liabilities	164,178	62,439
Net cash used in operating activities	\$ (6,148,535)	(5,813,296)

Noncash investing activities:

At June 30, 2012 and 2011, purchases of capital assets included in trade accounts payable totaled \$54,221 and \$0, respectively.

See accompanying notes to financial statements.

**GREATER ROANOKE TRANSIT COMPANY –  
TRANSIT OPERATIONS**

(A Component Unit of the City of Roanoke, Virginia)

Notes to Financial Statements

June 30, 2012 and 2011

**(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, 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 which expired in September 2011. Currently, the Company is in negotiations to renew the expired contract. Until the contract is renewed, both parties continue to operate under the terms and conditions of the expired agreement.

As of and for the years ended June 30, 2012 and 2011, the Company is reported as a discretely presented component unit of the primary governmental reporting entity of the City.

**(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 U.S. generally accepted accounting principles (GAAP) and conform with the requirements of the FTA's National Transit Database, as amended.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Company applies all applicable GASB pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued after November 30, 1989, unless they conflict with or contradict GASB pronouncements.

**(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 market value, and consist of money market mutual funds and a pooled repurchase agreement with an original maturity of three months or less collateralized by

**GREATER ROANOKE TRANSIT COMPANY –  
TRANSIT OPERATIONS**

(A Component Unit of the City of Roanoke, Virginia)

Notes to Financial Statements

June 30, 2012 and 2011

U.S. Government securities. At June 30, 2012, the Company's cash and cash equivalents on hand and in banks had a carrying value of \$792,068 and an actual bank balance of \$330,414.

**(d) 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 5 years
Office equipment and furnishings	2 to 10 years

**(e) 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.

**(f) 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.

**(g) Compensated Absences**

Company employees are granted vacation leave in varying amounts. In the event of termination, an employee is reimbursed 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 (i.e., the employer's share of social security and Medicare taxes) associated with its ultimate liquidation.

**(h) 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.

**(i) 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

**GREATER ROANOKE TRANSIT COMPANY –  
TRANSIT OPERATIONS**

(A Component Unit of the City of Roanoke, Virginia)

Notes to Financial Statements

June 30, 2012 and 2011

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 and the Plan 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 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 ERISA and DOL regulations. Charges to operations under the Plan are based on 3% of union and salary participants' eligible payroll. The Company increased its contribution percentage from 2.5% to 3.0% of eligible payroll for union participants, effective July 1, 2004.

*(j) 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 and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**(2) Deposits and Investments**

The Company may invest in the following approved investment vehicles:

- Direct obligations of the federal government backed by the full faith and credit of the United States;
- Obligations of the Commonwealth of Virginia, including stocks, bonds and other evidences of indebtedness of the Commonwealth of Virginia, and those unconditionally guaranteed as to the payment of principal and interest by the Commonwealth of Virginia;
- Obligations of Virginia counties, cities, etc. (subject to certain restrictions);
- Obligations of the International Bank, Asian Development Bank and African Development Bank;
- Domestic bankers' acceptances from institutions with a rating of B/C or better in the Keefe, Bruyette & Woods, Inc. ratings;
- Commercial paper with a maturity of two-hundred seventy (270) days or less with a Moody's rating of prime 1 and Standard & Poor's rating of A-1, with the issuing corporation having a net worth of at least fifty million dollars; the net income of the issuing corporation, or its guarantor, has averaged three million dollars per year of the previous five years; and all existing senior bonded indebtedness of the issuer, or its guarantor, is rated "A" or better by Moody's Investor Services, Inc., and Standard & Poor's, Inc.
- Corporate notes with a rating of at least Aa by Moody's Investors Service, Inc. and a rating of at least AA by Standard and Poor's, Inc. and a maturity of no more than five (5) years;
- Money market funds;

**GREATER ROANOKE TRANSIT COMPANY –  
TRANSIT OPERATIONS**

(A Component Unit of the City of Roanoke, Virginia)

Notes to Financial Statements

June 30, 2012 and 2011

- Demand and savings deposits; and
- Time deposits, certificates of deposit and repurchase agreements.

All cash and cash equivalents are held by financial institutions in the name of the Company. At June 30, 2012, 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 Expenditures*

Capital asset purchases have been funded primarily under FTA capital grants to the Company. Additional matching requirements were met by the Commonwealth of Virginia, City of Roanoke, 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, 2012 are as follows:

	<b>Capital grant funds received 2012</b>	<b>Cumulative capital grant funds received</b>	<b>Outstanding capital grant amount</b>
FTA	\$ 353,930	18,259,197	2,378,447
Commonwealth of Virginia	101,603	3,559,620	334,156
City of Roanoke	—	166,982	—
New River Valley MPO	—	76,750	—
	\$ 455,533	22,062,549	2,712,603

*(b) Operations*

The Company receives operating assistance from the FTA, Commonwealth of Virginia, City of Roanoke, City of Salem, Town of Vinton, and New River Valley Metropolitan Planning Organization. During fiscal years 2012 and 2011, the Company also received operating assistance from the Carilion Foundation and Downtown Roanoke, Inc. for its Star Line trolley bus service.

**(4) Supplies and Materials**

As of June 30, 2012 and 2011, supplies and materials consisted of:

	<b>2012</b>	<b>2011</b>
Parts	\$ 419,203	409,639
Diesel fuel	28,375	38,864
Lubricating oil	11,099	8,230
	\$ 458,677	456,733

Supplies and materials are valued on the weighted average cost basis.

**GREATER ROANOKE TRANSIT COMPANY –  
TRANSIT OPERATIONS**

(A Component Unit of the City of Roanoke, Virginia)

Notes to Financial Statements

June 30, 2012 and 2011

**(5) Capital Assets**

The following is a summary of the changes in capital assets, net for the years ended June 30, 2012 and 2011:

	<b>Balances June 30, 2011</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balances June 30, 2012</b>
Capital assets not being depreciated:				
Land	\$ 720,724	—	—	720,724
Other capital assets being depreciated:				
Building, structures and improvements	10,562,254	92,783	—	10,655,037
Buses	14,745,275	6,893	—	14,752,168
Shop and garage equipment	2,698,316	301,503	(426,017)	2,573,802
Office equipment and furnishings	727,374	12,872	—	740,246
Accumulated depreciation	(15,404,160)	(1,936,805)	426,017	(16,914,948)
Subtotal	13,329,059	(1,522,754)	—	11,806,305
Capital assets, net	\$ 14,049,783	(1,522,754)	—	12,527,029
	<b>Balances June 30, 2010</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balances June 30, 2011</b>
Capital assets not being depreciated:				
Land	\$ 603,302	117,422	—	720,724
Other capital assets being depreciated:				
Building, structures and improvements	10,553,898	8,356	—	10,562,254
Buses	15,281,620	16,279	(552,624)	14,745,275
Shop and garage equipment	2,143,907	600,399	(45,990)	2,698,316
Office equipment and furnishings	686,788	40,586	—	727,374
Accumulated depreciation	(14,037,037)	(1,965,737)	598,614	(15,404,160)
Subtotal	14,629,176	(1,300,117)	—	13,329,059
Capital assets, net	\$ 15,232,478	(1,182,695)	—	14,049,783

**(6) Deferred Compensation Plan**

The Company has a deferred compensation plan (see note 1(i)) covering all hourly and salaried employees. The Company made contributions to the deferred compensation plan in the amount of \$105,250 in fiscal year 2012 and \$100,050 in fiscal year 2011.

**(7) Other Liabilities**

Included in other liabilities at June 30, 2012 and 2011 is deferred revenue of \$149,088 and \$84,888, respectively.

**GREATER ROANOKE TRANSIT COMPANY –  
TRANSIT OPERATIONS**

(A Component Unit of the City of Roanoke, Virginia)

Notes to Financial Statements

June 30, 2012 and 2011

**(8) Commitments and Contingent Liabilities**

Under the provisions of a management contract with First Group America Company (dba First Transit, Inc.), which became effective on March 1, 2010 and expires on June 30, 2015, the Company pays a monthly fee of \$21,866 for management services. Total fees paid for the years ended June 30, 2012 and 2011 were \$262,400 for each respective year.

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 \$11.8 million at June 30, 2012 are subject to these grant requirements.

The Company has agreements with the City of Salem and Town of Vinton to provide bus service to each of these areas which may be terminated by either party upon written notice of twelve months and six months, respectively. The localities reimburse the Company for 75% 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, 2012 and 2011 totaled \$109,347 and \$128,342, respectively. Future minimum rental receipts under leases with original terms in excess of one year are \$15,986 for the year ending June 30, 2013.

The Company is the lessee in an agreement with a tire manufacturer for the rental of bus tires. The agreement became effective December 1, 2011 and ends November 30, 2016. It specifies a base rate per tire mile, which adjusts each year. The Company was previously in a similar tire rental lease agreement with a tire manufacturer that became effective November 1, 2007 and expired on November 1, 2010. This agreement included an option to incur rent expense during the run-out period until the tires reached the minimum tread wear pursuant to the agreement. The Company exercised this option on November 1, 2010. For the years ended June 30, 2012 and 2011, rental expense for tires approximated \$56,600 and \$49,500, respectively.

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.

Grants are subject to audit to determine compliance with the grant requirements. As a result of the audit performed over federal expenditures for the fiscal year ended June 30, 2008 and completed in March 2009, it was determined that the Company failed to comply with certain federal procurement requirements in connection with the purchase of certain office equipment and furnishings resulting in known questioned costs of \$178,641 reimbursed by the FTA under two federal grant agreements and \$27,616 reimbursed by the Virginia Department of Rail and Public Transportation (DRPT) under the state matching portion of the grant agreements. Total expenditures under the grant agreements were approximately \$223,137.

**GREATER ROANOKE TRANSIT COMPANY –  
TRANSIT OPERATIONS**

(A Component Unit of the City of Roanoke, Virginia)

Notes to Financial Statements

June 30, 2012 and 2011

First Transit, Inc. has agreed to reimburse the Company for any amounts that may be required to be reimbursed to the cognizant agencies. The FTA requested reimbursement of \$178,641 which was paid by First Transit, Inc. in June 2010. DRPT performed an audit in December 2011 that includes a tentative recommendation for the Company to reimburse DRPT \$29,313. This amount will be reimbursed by First Transit, Inc. upon completion of the DRPT audit.

As a result of the audit performed over federal expenditures for the year ended June 30, 2009, it was determined that certain expenditures related to fuel purchases were in violation of the City of Roanoke's procurement policies to obtain faxed quotes from vendors. The amount of the federal funds reimbursed for the fuel purchases approximated \$322,000. In addition, it was also noted that the Company's Request for Proposal (RFP) for health insurance did not include the necessary clauses per the FTA's grant compliance requirements and that the Company, nor the broker acting as agent for the Company, maintained the necessary information in the procurement file related to the awarding of the contract. Approximately \$221,500 was reimbursed with federal funds for health insurance for the year ended June 30, 2009.

Further, as a result of the June 30, 2010 audit over federal expenditures, it was noted that the Company did not properly publicize its health insurance RFP or include a section in the RFP regarding verification of suspension and debarment. The finding also asserted that the Company failed to notify the vendor awarded the contract the total dollar amount of the award and the percentage expected to be reimbursed with federal funds. Approximately \$261,000 was reimbursed with federal funds for health insurance for the year ended June 30, 2010.

As a result of the fuel and health insurance matters noted above, the Company received a demand notice for \$805,003 from the FTA in December 2011. The FTA asserts as the basis for the claim that the Company's purchases of health insurance and fuel failed to comply with federal and City of Roanoke procurement requirements in fiscal years 2009 and 2010. The Company responded to the demand notice in February 2012, seeking an administrative review of the FTA claim, both as to its validity and as to its amount. The Company has not received a response from the FTA as of the date of the financial statement issuance. If the claim stands, the Company may also be subject to a claim from DRPT for the match it provided for the expenditures, which approximated \$376,000. The Company has not accrued a liability for the demand notice as of June 30, 2012 due to uncertainty as to the probability about whether the FTA will ultimately enforce the notice after completion of the administrative review process.

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.



KPMG LLP  
Suite 1010  
10 S. Jefferson Street  
Roanoke, VA 24011-1331

**Independent Auditors' 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***

The Board of Directors  
Greater Roanoke Transit Company:

We have audited the financial statements of Greater Roanoke Transit Company – Transit Operations (the Company), a discretely presented component unit of the City of Roanoke, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 31, 2012. 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.

**Internal Control Over Financial Reporting**

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 31, 2012