Financial Statements
September 30, 2020

Valley Regional Transit

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Independent Auditor's Report

To the Board of Directors
Valley Regional Transit
Meridian, Idaho

Report on the Financial Statements
We have audited the accompanying financial statements of Valley Regional Transit (VRT) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise VRT's basic financial statements as listed in the table of contents.

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

Auditor's Responsibility
Our responsibility is to express 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 Audit Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VRT as of September 30, 2020, the change in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of employer's share of net pension liability and employer contributions as listed in the table of contents, 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 or 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 VRT's financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is not a required part of the 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 January 29, 2021 on our consideration of VRT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of VRT's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering VRT's internal control over financial reporting and compliance.

Esde Sailly LLP

Boise, Idaho
January 29, 2021

The following provides the readers of Valley Regional Transit's (VRT) financial statements with a narrative overview and analysis of the financial activities of VRT for the fiscal year ended September 30, 2020 (Fiscal Year 2020).

Financial Highlights

- The assets and deferred outflows of financial resources of VRT exceeded its liabilities and deferred inflows of financial resources at September 30, 2020, by $29,984,726.

- Total net position of VRT decreased by $654,874 while the investment in capital assets portion of net position decreased by $1,856,959. Unrestricted net position increased by $1,202,085 between the two fiscal years.

Overview of the Financial Statements

The discussion and analysis related to the overview of the financial statements is intended to serve as an introduction to Valley Regional Transit's basic financial statements and is designed to provide readers with a broad overview of VRT's finances in a manner similar to a private-sector business. The following describes each of the statements and their use.

- *Statement of Net Position* presents information on the assets, deferred outflow of resources, liabilities and deferred inflow of resources; with the resultant net difference being reported as net position. Analyzing increases and decreases in net position is one way to measure VRT's overall financial position and may serve as an indicator of whether the financial position of the organization is improving or deteriorating.

- *Statement of Revenues, Expenses, and Change in Net Position* shows how VRT's net position changed during the year. VRT is structured as a single enterprise fund established to operate in a manner similar to private business enterprises where our intent is to provide services to our ridership on a continuing basis in part through user fees. VRT's accounting system functions and reports on an accrual basis of accounting. Accrual accounting dictates that revenues are recognized when earned, not when received, and expenses are recognized when incurred, not when paid. Additionally, all changes in net position are reported as soon as the underlying event occurs, regardless of the timing of related cash flows.

The notes to the financial statements provide additional information that is helpful when analyzing the data provided in the basic financial statements.

Financial Analysis

Statement of Net Position

As previously noted, net position may serve over time as a useful indicator of an entity's financial position. As of September 30, 2020, the net position of Valley Regional Transit was $29,984,726.

	2020	2019
Assets		
Current assets	$ 6,006,516	$ 2,173,170
Capital assets	29,181,683	31,038,642
Total assets	35,188,199	33,211,812
Deferred outflow of resources	370,603	152,237
Total assets and deferred outflow of resources	$ 35,558,802	$ 33,364,049
Liabilities		
Current liabilities	$ 4,359,929	$ 1,962,456
Long-term liabilities	1,171,996	518,297
Total liabilities	5,531,925	2,480,753
Deferred inflow of resources	42,151	243,696
Total liabilites and deferred inflow of resources	5,574,076	2,724,449
Net position		
Investment in capital assets	29,181,683	31,038,642
Unrestricted	803,043	(399,042)
Total net position	29,984,726	30,639,600
Total liabilities and deferred inflow of resources	$ 35,558,802	$ 33,364,049

Current asset balances were $3,833,346 higher in FY 2020 as compared to the prior fiscal year. Cash increased by $1,975,438 between the two years. Other asset and inventory balances increased by $17,632 and $41,445, respectively. Inventory balances fluctuate based on when inventories are consumed and replaced.

The balance of current liabilities was $2,397,473 higher in FY 2020, as compared to the prior fiscal year. Total working capital (current assets less current liabilities) increased $1,435,873 between the two fiscal years. VRT working capital was in a positive position $1,646,587 at the end of FY 2020.

By far, the largest portion of VRT's net position reflects the regional transportation authority's investment in capital assets. All capital assets are used by VRT in the provision of regional public transportation services and are utilized in the capacity as intended and therefore are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. As of September 30, 2020, VRT has not issued debt associated with the purchase of capital assets. VRT's net capital assets are further restricted. Any liquidation occurring prior to the end of the asset's useful life must have the corresponding Federal assistance repaid to the Federal Transit Administration (FTA).

The capital asset base decreased net by $1,856,959 after taking into consideration increases in depreciation and certain vehicle and equipment disposals at September 30, 2020.

VRT's depreciation schedule is compliant with FTA regulations and is an unfunded expense.

Unrestricted net position, which represents assets that may be used to meet on going obligations to VRT's ridership and creditors, was in a net position of $803,043 at the end of the fiscal year. Unrestricted net position increased by $1,202,085, as compared to the prior fiscal year.

Statement of Revenues, Expenses, and Change in Net Position

Operating as a single enterprise fund, Valley Regional Transit's financial structure is similar to a private business enterprise with the exception of unique revenue and expense reporting categories which are dictated by the FTA. All recipients of Federal assistance are required to conform to standardized revenue and expense classifications for the purpose of reporting on specific Federal grant assistance programs.

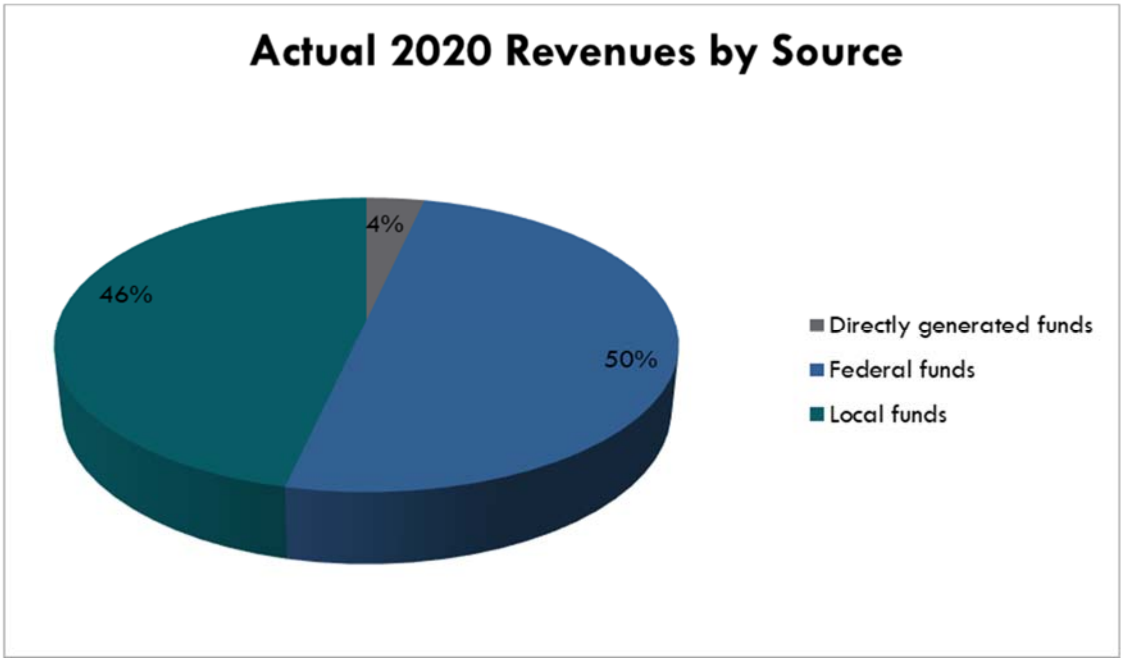
Valley Regional Transit receives Federal operating and capital assistance through the FTA Section 5307 Urbanized Area Formula Program and the FTA Section 5339 Capital Program for both the Boise Transportation Management Area (TMA) and the Nampa Urbanized Area (UZA). VRT also receives funding from Federal Section 5310 (Enhanced Mobility for Seniors and Individuals with Disabilities) Program. While Valley Regional Transit is the designated recipient of Federal funds for both the Boise TMA and Nampa UZA, each area is operated and funded independently.

Local revenues are contributions made by each of the members of VRT's supporting regional management as well as service contributions which are intended to fund the operating expenses of the various VRT programs, depending upon the services a member receives.

	2020	2019
Revenues		
Directly generated funds	$ 713,700	$ 1,032,959
Auxiliary transportation funds	526,527	256,215
Non transportation funds	444,663	29,746
Federal funds	10,137,904	8,089,952
Local funds	9,398,415	9,397,545
Net Gain on sale of capital assets	3,718	-
Total revenues	21,224,927	18,806,417
Expenses		
Salaries and fringe benefits	11,126,481	10,345,533
Professional services	1,611,155	1,761,567
Materials and supplies	1,175,856	1,344,437
Utilities	274,902	296,506
Casualty and liability insurance	513,363	521,306
Miscellaneous	1,031,290	635,926
Interest expense	66	91
Lease and rental	182,587	169,657
Non-capital expenditures	1,899,818	544,987
Purchased transportation	1,182,769	1,314,083
Depreciation	2,881,514	2,795,205
Total expenses	21,879,801	19,729,298
Change in Net Position	(654,874)	(922,881)
Beginning Balance Net Position	30,639,600	31,562,481
Ending Balance Net Position	$ 29,984,726	$ 30,639,600

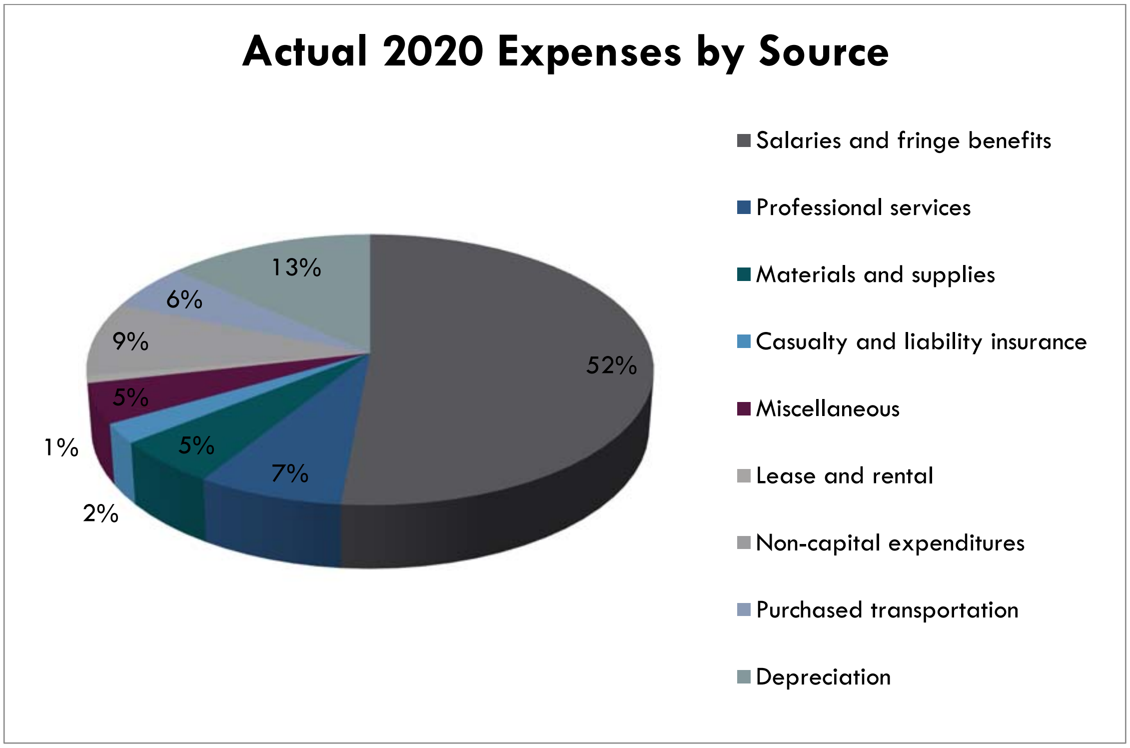
Analysis of Revenues

Total revenues were $21,224,927 and $18,806,417 for FY 2020 and FY 2019, respectively. Total revenues increased $2,418,510 on a net basis, or 12.86%, in comparison to the prior fiscal year. In FY 2020, Federal revenues increased $2,047,952, non-transportation funds increased $414,917, local funds increased $870 and auxiliary transportation funds increased $270,312. These increases were partially offset by a decrease in directly generated revenues of $319,259. It should be noted that the collection of fares was suspended for much of FY 2020 due to the COVID-19 pandemic. The change in revenues was largely due to the following events: 1) The Federal revenues increase was due to higher FTA grant drawdown activity; 2) Non-transportation increased due to receiving the compressed natural gas rebate; 3) Local revenues increased due to recognizing more of this revenue source than in the previous year; and 4) Auxiliary transportation revenues increased due to higher advertising revenue earned during FY 2020 as compared to the prior fiscal year.



Analysis of Expenses

Total expenses for FY 2020 were $21,879,801 and $19,729,298 for FY 2019. Expenses increased $2,150,503 or 10.90% in comparison to the prior fiscal year largely due to the following events: 1) Non-capital expenditures increased $1,354,831, or 248.60%. FY 2020 had a $929,236 expense related to the Nampa bike/pedestrian improvement project, $394,260 expense related to System enhancements and FY 2019 had no such expenses. Decreased expenses in professional services, materials and supplies, utilities and insurance partially offset the increase of $780,948 in salaries and fringe benefits. Salaries and fringe benefit expenses increased across all Systems with the highest increase in Regional. Actual salaries and fringe benefit expenses were $222,431 below the budgeted amount approved by the Valley Regional Transit Board of Directors.



Capital Asset and Debt Administration

Valley Regional Transit's net investment in capital assets, as of September 30, 2020, was $29,181,683 (net of accumulated depreciation). This investment in capital assets includes office equipment, building and improvements, vehicles, machinery and equipment, software, land and construction in process. Additional information can be found in Note 3 of the financial statements.

The decrease in VRT's net investment in capital assets for the current fiscal year was $1,856,959, or -5.98%. This net decrease was the result of vehicle and equipment disposals and a delay of vehicle purchases as VRT moves towards electric buses. The purchase of the electric buses is anticipated to occur in FY 2021.

Capital Assets Net of Accumulated Depreciation

	2020	2019
Construction in process	$ 263,952	$ 999,142
Land	1,210,000	1,210,000
Office Equipment	786,141	812,493
Software	2,373,523	2,373,523
Machinery and Equipment	1,129,942	1,099,005
Vehicles	21,668,678	21,329,956
Building and Improvements	27,952,911	26,823,403
Total Capital Assets	55,385,147	54,647,522
Accumulated Depreciation	(26,203,464)	(23,608,880)
Net Capital Assets	$ 29,181,683	$ 31,038,642

As of September 30, 2020, Valley Regional Transit had no debt obligations outstanding.

Economic Factors and Next Year's Budgets

As a component of the annual budget process, VRT prepares a six-year operating budget and a ten-year capital budget. These budget projections assist with the current year budget development by establishing base fundamental assumptions with regard to capital replacement requirements, maintenance demands, changes to wage overhead rates, operating expenses, funding projections, and fare returns.

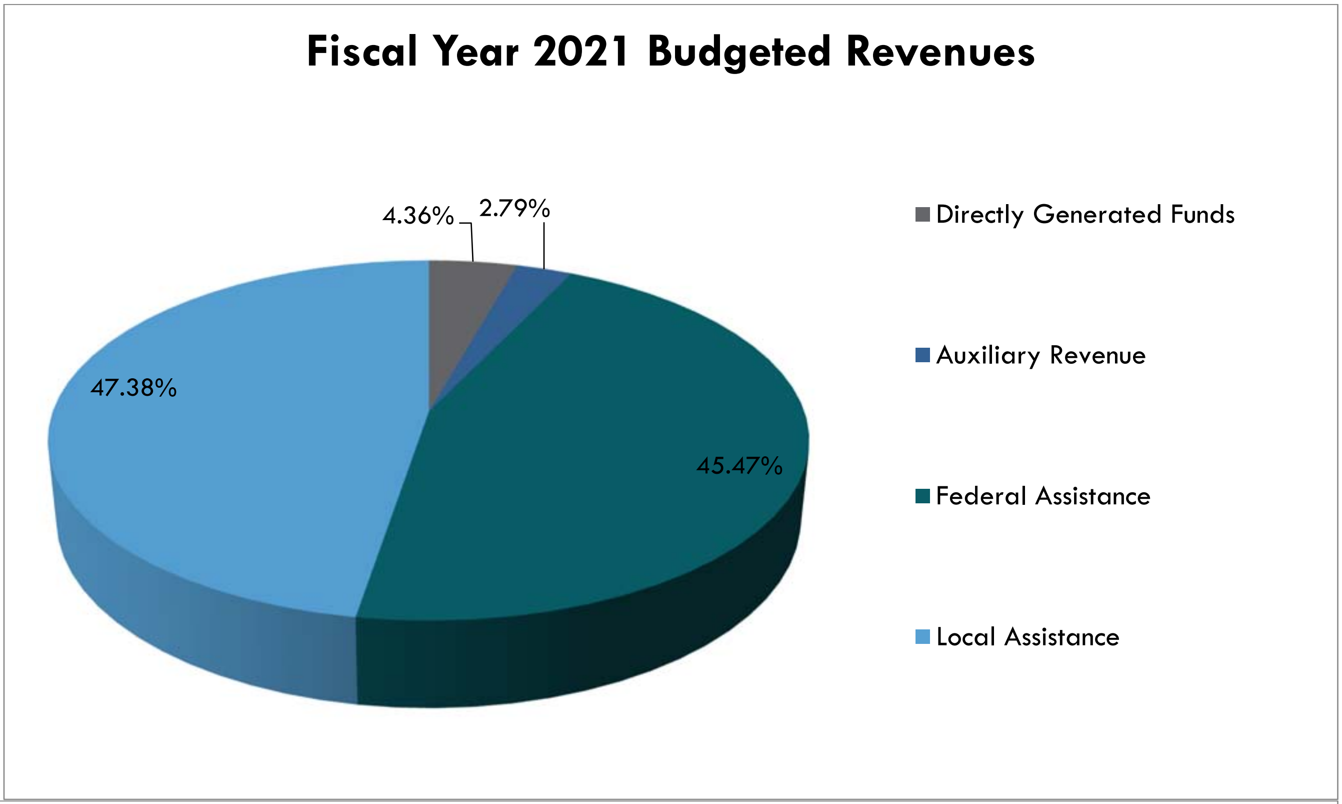
Valley Regional Transit's FY 2021 operating budget increased by $1,257,828, or 6.56%, over the FY 2020 amount. The capital budget for FY 2021 decreased by $10,303,550, or -69.23%, under the FY 2020 amount.

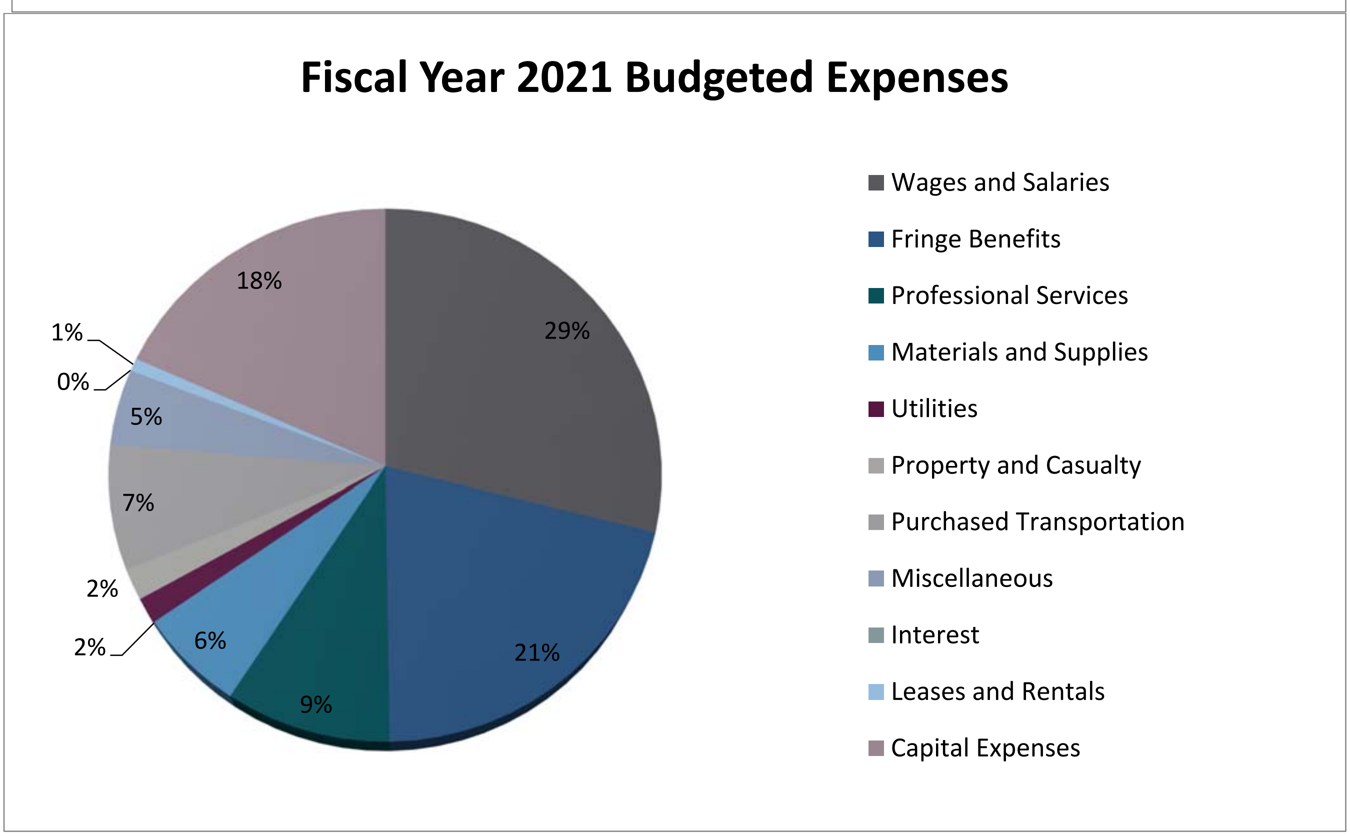
Increased operating budget amounts are due to the following: 1) Salaries and wages are budgeted higher across all Systems; 2) Fringe benefit expenses are budgeted higher across all Systems with the exception of Community Transportation Services; 3) Professional services expenses that are budgeted higher in the Canyon County and Regional Systems; 4) Higher materials and supplies expenses in the Boise and Regional Systems and finally 5) Higher miscellaneous expenses across all Systems.

Decreases in capital budget amounts are due to the following: 1) Delay of vehicle purchases as VRT moves towards electric buses 2) Anticipated capital carryforwards from FY 2020 to the FY 2021 amended budget.

The Fiscal Year 2021 operating budget is $20,443,145, whereas the capital budget is $4,578,900.

The following charts show the composition of anticipated revenues and expenses within the 2021 budget.


Fiscal Year 2021 Budgeted Revenues
4.36%
2.79%
47.38%
45.47%
Directly Generated Funds
Auxiliary Revenue
Federal Assistance
Local Assistance


Fiscal Year 2021 Budgeted Expenses
18%
1%
0%
5%
7%
2%
2%
6%
9%
21%
29%
Wages and Salaries
Fringe Benefits
Professional Services
Materials and Supplies
Utilities
Property and Casualty
Purchased Transportation
Miscellaneous
Interest
Leases and Rentals
Capital Expenses

Fiscal Year 2021 budget issues include:

- A dedicated VRT funding source has not yet been established. Therefore, the Fiscal Year 2021 budget was built upon member contributions, directly generated funds, auxiliary funds, and Federal assistance.

- The COVID-19 pandemic may have impacts on member contributions, directly generated funds and auxiliary funds. The Federal government made Federal assistance available through the Coronavirus Aid, Relief, and Economic Security Act (CARES) to assist transit agencies with these types of COVID-19 related impacts.

- VRT conducted an analysis of capital needs based on the adopted Transit Asset Management (TAM) policy and plan adopted in FY 2020. This new process will lead to higher investments over the next five years as a strategy to improve the overall condition rating of VRT's assets.

Assets	
Cash	$ 2,726,868
Accounts receivable	
Federal receivable	2,564,687
Dues and capital commitments receivable	66,242
Other receivable	86,603
Prepaid expenses	84,789
Inventories	477,327
Capital assets	
Construction in process	263,952
Land	1,210,000
Office equipment	786,141
Software	2,373,523
Machinery and equipment	1,129,942
Vehicles	21,668,678
Buildings and improvements	27,952,911
Accumulated depreciation	(26,203,464)
Total assets	35,188,199
Deferred Outflows of Resources	
Deferred net pension	370,603
Liabilities	
Accounts payable and other accrued expenses	2,160,389
Accrued payroll and benefits	827,934
Unearned revenue	1,371,606
Net pension liability	1,171,996
Total liabilities	5,531,925
Deferred Inflows of Resources	
Deferred net pension	42,151
Net Position	
Investment in capital assets	29,181,683
Unrestricted	803,043
Total net position	$ 29,984,726

Operating Revenues	
Directly generated funds	$ 713,700
Auxiliary transportation funds	526,527
Federal funds	6,811,405
Local funds	9,242,761
Total operating revenues	17,294,393
Operating Expenses	
Salaries and fringe benefits	11,126,481
Professional services	1,611,155
Materials and supplies	1,175,856
Utilities	274,902
Casualty and liability insurance	513,363
Miscellaneous	1,031,290
Lease and rental	182,587
Non-capital expenditures	1,899,818
Purchased transportation	1,182,769
Depreciation	2,881,514
Total operating expenses	21,879,735
Operating Loss	(4,585,342)
Nonoperating Revenue and Expense	
Other income	444,663
Net gain on sale of capital assets	3,718
Interest expense	(66)
Total nonoperating revenue, net	448,315
Loss Before Capital Grants	(4,137,027)
Capital Grants	
Federal capital grants	3,326,499
Local capital grants	155,654
Total capital grants	3,482,153
Change in Net Position	(654,874)
Net Position, Beginning of Year	30,639,600
Net Position, End of Year	$ 29,984,726

Operating Activities	
Receipts from customers and users	$ 1,314,255
Receipts from federal government	4,912,132
Receipts from local government	10,219,464
Payments to suppliers	(6,854,301)
Payments to employees	(10,784,678)
Net Cash used for Operating Activities	(1,193,128)
Investing Activities	
Net interest received on cash	305
Net Cash from Investing Activities	305
Noncapital Financing Activities	
Non-exchange receipt from CNG rebate	418,248
Non-transportation miscellaneous receipts	26,044
Net Cash from Noncapital Financing Activities	444,292
Capital and Related Financing Activities	
Interest paid	
Receipts of capital grants	3,482,153
Purchase of capital assets	(766,476)
Proceeds from sale of capital assets	8,292
Net Cash from Capital and Related Financing Activities	2,723,969
Net Change in Cash	1,975,438
Cash, Beginning of Year	751,430
Cash, End of Year	$ 2,726,868
Reconciliation of Operating Loss to Net Cash used for Operating Activities	
Operating loss	$ (4,585,342)
Adjustment to reconcile operating loss to net cash used for operating activities	
Depreciation	2,881,514
GASB 68 actuarial pension expense	233,788
Changes in assets and liabilities	
Accounts receivable	(1,798,831)
Prepaid expenses	(17,632)
Inventories	(41,445)
Accounts payable and other accrued expenses	1,076,516
Accrued payroll and benefits	108,015
Unearned revenue	950,289
Net Cash used for Operating Activities	$ (1,193,128)
Supplemental Disclosure of Non-Cash Investing Financing Activities	
Property and equipment purchases included in accounts payable	$ 262,653

Note 1 - Summary of Significant Accounting Policies

The financial statements of Valley Regional Transit (VRT) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting and reporting policies and practices used by VRT are described below.

Reporting Entity

VRT is an enterprise fund created by a vote of Ada and Canyon County voters. VRT is the regional public transportation authority responsible for the short and long-term planning and operations of the regional transit system. The VRT Board of Directors consists of 28 appointed representatives from incorporated cities, counties and highway districts in Ada and Canyon Counties, plus one representative from Capital City Development Corporation, one representative from Meridian Development Corporation, one representative from Idaho Department of Transportation and one representative from Boise State University.

VRT entered into a contract with Transit Management of Ada County (TMAC) and Transit Management of Canyon County (TMCC), wholly-owned subsidiaries of First Transit Corporation, for operation of the Ada County transit system and the Canyon County transit system, respectively. Under this model, TMAC and TMCC are responsible for all operational and personnel decisions for operations. TMAC and TMCC perform all payroll and human resource functions, issue standard purchase orders, approve accounts payable, manage inventory and maintain separate bank accounts for the operations. TMAC and TMCC enter all approved purchase orders and accounts payable into the Fleetnet system, which is the overall financial information system for VRT. VRT generates all accounts payable payments which are approved by the Board of Directors and signed by authorized signatories within VRT. VRT transfers funds to the TMAC and TMCC payroll accounts on a bi-weekly basis to cover incurred personnel expenses. The results of all financial and personnel transactions are reflected in VRT’s financial statements. TMAC and TMCC are responsible for remittance and reporting of all employer related payroll expenses.

The financial statements for VRT include all organizations for which VRT is financially accountable, and other organizations for which the nature and significance of their relationships with VRT are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. There were no such organizations included in the current year.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

VRT is accounted for and reported as a proprietary-type enterprise fund, using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred, regardless of the timing of cash flows. Grants, local funds, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statement of net position and the statement of revenues, expenses, and change in net position display information about VRT. These statements include the financial activity of the overall reporting entity. These statements report all activities of VRT as a business type activity. Operations are financed from Federal grant monies, local contributions, advertising and fares.

When both restricted and unrestricted resources are available for use, it is VRT's policy to use restricted resources first, then unrestricted resources as they are needed.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of VRT are user charges to customers, local contributions, dues, and operating grants. Operating expenses for VRT include the costs of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Accounts Receivable

Receivables are due from city and federal governments for capital commitment contributions and federal grants. Based on experience, no allowance for uncollectible accounts has been established as of September 30, 2020. It is reasonably possible that this estimate will change in the near future of the date of the financial statements.

Prepaids

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid in the financial statements.

Inventories

Inventories are stated at cost determined by the first-in, first-out method. Inventories consist of spare parts and equipment held for consumption. The cost is recorded as an expense at the time individual inventory items are used.

Capital Assets

The policy of VRT is to capitalize all property, such as land, buildings, and equipment with a cost equal to or greater than $5,000, and a useful life of one or more years. All capital assets are valued at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend an asset's life is not capitalized.

Depreciation of all exhaustible capital assets is charged as an expense against operations. Depreciation has been provided over the estimated useful lives using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the results of operations in the period of disposal.

The estimated useful lives of fixed assets are as follows:

Office equipment	3-15 years
Software	3 years
Machinery and equipment	5-15 years
Vehicles	3-15 years
Buildings and improvements	10-45 years

Pensions

For purposes of measuring the net pension liability and pension expense, information about the fiduciary net position of the Public Employee Retirement System of Idaho Base Plan (Base Plan) and additions to/deductions from Base Plan's fiduciary net position have been determined on the same basis as they are reported by the Base Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

The statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. VRT has one item that qualifies for reporting in this category: the deferred outflows related to the net pension liability reported on the statement of net position. The deferred net pension results from changes in assumptions or other inputs, differences between expected and actual experience, changes in VRT's proportion and VRT's contributions and proportionate share of contributions, and the net difference between projected and actual earnings on pension plan investments in the actuarial calculation of VRT's net pension liability.

The statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. VRT has one item that qualifies for reporting in this category: the deferred inflows related to the net pension liability. The deferred net pension results from the differences between the expected and actual experience and the changes in VRT's proportion and VRT's contributions and proportionate share of contributions derived from the actuarial calculation of VRT's net pension liability.

Accrued Compensated Absences

Accumulated unpaid vacation and compensatory time amounts are accrued and charged to expenses when earned. Terminated employees are paid out their unused vacation without stipulation except for TMCC terminated employees who are not paid for unused vacation unless they have 10 years of service or are over 62 years of age at the date of termination.

Sick pay amounts are charged to expenses when used. Terminated employees are not paid for unused sick time unless they are over 65 years of age at the date of termination (VRT employee) or unless they have 15 years of service or are over 60 years of age at the date of termination (TMAC employee), in which case they are eligible to receive 50% of their sick pay balance. Terminated TMCC employees are not paid for unused sick time.

Unearned Revenue

Valley Regional Transit receives some funds from local government and private partners that are earmarked for specific projects. Until expenses specific to these projects occur, the earmarked funds are recognized as unearned revenue.

Net Position

VRT classifies net position, revenues and other support based on the existence or absence of grantor-imposed restrictions. Accordingly, net position of VRT and changes therein are classified and reported as follows:

Investment in Capital Assets – This represents VRT's total investment in capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included in this section.

Unrestricted Net Position – Net position not subject to grantor-imposed stipulations or received with restrictions that were satisfied in the same period.

Risk Management

VRT is exposed to various risks of loss related to theft of, damage to, or destruction of assets. VRT participates in a public entity risk pool, Idaho Counties Risk Management Pool (ICRMP), for liability insurance. VRT's exposure to loss from its participation in ICRMP is limited only to the extent of their deductible.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, net position and disclosures regarding contingent assets and liabilities. Actual results could differ from those estimates.

Note 2 - Cash

Financial instruments which potentially subject VRT to concentration of credit risk consist principally of cash accounts. VRT maintains its cash accounts in one commercial bank.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, VRT will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All deposits greater than the FDIC insurance coverage were subject to custodial credit risk. VRT has a written policy limiting custodial credit risk through preauthorization of financial institutions. Accounts at the commercial bank are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per bank.

A summary of the total insured and uninsured bank balances follows:

Total cash in bank	$ 2,947,584
Portion insured by FDIC	(250,000)
Uninsured and uncollateralized cash	$ 2,697,584

Note 3 - Capital Assets

The following presents capital asset activity for the year ended September 30, 2020.

	Balance October 1, 2019	Additions	Deletions	Transfers	Balance September 30, 2020
Non-depreciable					
Construction in process	$ 999,142	$ 368,291	$ (4,574)	$ (1,098,907)	$ 263,952
Land	1,210,000	-	-	-	1,210,000
Depreciable					
Office equipment	812,493	21,362	(47,714)	-	786,141
Software	2,373,523	-	-	-	2,373,523
Machinery and equipment	1,099,005	30,937	-	-	1,129,942
Vehicles	21,329,956	577,938	(239,216)	-	21,668,678
Building and improvements	26,823,403	30,601	-	1,098,907	27,952,911
Total capital assets	54,647,522	1,029,129	(291,504)	-	55,385,147
Accumulated depreciation	(23,608,880)	(2,881,514)	286,930	-	(26,203,464)
Net capital assets	$ 31,038,642	$ (1,852,385)	$ (4,574)	$ -	$ 29,181,683

Note 4 - Defined Contribution Plan

TMAC provides for a non-discretionary 401(k) contribution of 7.5% of eligible compensation to TMAC eligible employees. To participate, the TMAC employee must have completed three months of continuous service. The 401(k) plan allows employee deferred pre-tax and Roth contributions. The maximum contribution amount to the plan is 100% of compensation less any mandatory income and payroll tax withholding or the IRS prescribed amount, whichever is less.

TMCC provides for a 401(k) plan that all ATU Bargaining Unit employees who have completed three months of service can contribute to a pre-tax and a Roth contribution up to 100% of compensation less any mandatory income and payroll tax withholding or the IRS prescribed amount, whichever is less. TMCC will offer matching contributions of $0.50 for each $1.00 an employee contributes, up to a maximum of 50% of the first 6% of the employee’s pay.

During the year ended September 30, 2020, VRT reimbursed TMAC and TMCC for contributions of $294,156 to the plans that are managed by Quorum Financial.

Note 5 - Defined Benefit Pension Plan

Plan Description

Valley Regional Transit contributes to the Base Plan which is a cost-sharing multiple-employer defined benefit pension plan administered by Public Employee Retirement System of Idaho (PERSI or System) that covers substantially all employees of the State of Idaho, its agencies and various participating political subdivisions. The cost to administer the plan is financed through the contributions and investment earnings of the plan. PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Responsibility for administration of the Base Plan is assigned to the Board comprised of five members appointed by the Governor and confirmed by the Idaho Senate. State law requires that two members of the Board be active Base Plan members with at least ten years of service and three members who are Idaho citizens not members of the Base Plan except by reason of having served on the Board.

Pension Benefits

The Base Plan provides retirement, disability, death and survivor benefits of eligible members or beneficiaries. Benefits are based on members' years of service, age, and highest average salary. Members become fully vested in their retirement benefits with five years of credited service (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% of the average monthly salary for the highest consecutive 42 months.

The benefit payments for the Base Plan are calculated using a benefit formula adopted by the Idaho Legislature. The Base Plan is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The PERSI Board has the authority to provide higher cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature.

Member and Employer Contributions

Member and employer contributions paid to the Base Plan are set by statute and are established as a percent of covered compensation. Contribution rates are determined by the PERSI Board within limitations, as defined by state law. The Board may make periodic changes to employer and employee contribution rates (expressed as percentages of annual covered payroll) that are adequate to accumulate sufficient assets to pay benefits when due.

The contribution rates for employees are set by statute at 60% of the employer rate for general employees. As of June 30, 2020, it was 7.16% for general employees. The employer contribution rate as a percent of covered payroll is set by the Retirement Board and was 11.94% for general employees as of June 30, 2020. VRT's contributions were $219,740 for the year ended September 30, 2020.

Pension Liabilities, Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2020, VRT reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. VRT's proportion of the net pension liability was based on VRT's share of contributions in the Base Plan pension plan relative to the total contributions of all participating PERSI Base Plan employers. At June 30, 2020, VRT's proportion was 0.0504707 percent. At June 30, 2019, VRT's proportion was 0.0435406 percent.

For the year ended September 30, 2020, VRT recognized pension expense of $453,527. At September 30, 2020, VRT reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 91,569	$ 38,268
Changes in assumptions or other inputs	19,821	-
Net difference between projected and actual earnings on pension plan investments	134,333	-
Changes in the employer's proportion and differences between the employer's contributions and the employer's proportionate contributions	73,669	3,883
VRT's contributions subsequent to the measurement date	51,211	-
Total	$ 370,603	$ 42,151

The $51,211 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2021.

The average of the expected remaining service lives of all employees that are provided with pensions through the System (active and inactive employees) determined at July 1, 2019, the beginning of the measurement period ended June 30, 2020 is 4.7 years.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Years ended September 30:	
2021	$ 23,130
2022	68,568
2023	86,969
2024	98,574
	$ 277,241

Actuarial Assumptions

Valuations are based on actuarial assumptions, the benefit formulas, and employee groups. Level percentages of payroll normal costs are determined using the Entry Age Normal Cost Method. Under the Entry Age Normal Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated as a level percentage of each year's earnings of the individual between entry age and assumed exit age. The Base Plan amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. The maximum amortization period for the Base Plan permitted under Section 59-1322, Idaho Code, is 25 years.

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Assumptions	
Inflation	3.00%
Salary increases**	3.75%
Salary inflation	3.75%
Investment rate of return-net of investment fees	7.05%
Cost of Living (COLA) Adjustments	1.00%

**There is an additional component of assumed salary grown (on top of the 3.75%) that varies for each individual member based on years of service.

Mortality rates were based on the RP – 2000 combined table for healthy males or females as appropriate with the following offsets:

- Set back 3 years for teachers
- No offset for male fire and police
- Forward one year for female fire and police
- Set back one year for all general employees and all beneficiaries

An experience study was performed for the period July 1, 2013 through June 30, 2017 which reviewed all economic and demographic assumptions including mortality. The Total Pension Liability as of June 30, 2020 is based on the results of an actuarial valuation date June 30, 2020.

The long-term expected rate of return on pension plan investments was determined using the building block approach and a forward-looking model in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Even though history provides a valuable perspective for setting the investment return assumption, the System relies primarily on an approach which builds upon the latest capital market assumptions. Specifically, the System uses consultants, investment managers and trustees to develop capital market assumptions in analyzing the System's asset allocation. The assumptions and the System's formal policy for asset allocation are shown below. The formal asset allocation policy is somewhat more conservative than the current allocation of the System's assets.

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions as of 2020 are as follows:

Capital Market Assumptions from Callen 2020

Asset Class	Target Allocation	Long-Term Expected Nominal Rate of Return (Arithmetic)	Long-Term Expected Real Rate of Return (Arithmetic)
Core Fixed Income	30.00%	2.80%	0.55%
Broad US Equities	55.00%	8.55%	6.30%
Developed Foreign Equities	15.00%	8.70%	6.45%
Assumed Inflation - Mean		2.25%	2.25%
Assumed Inflation - Stardard Deviation		1.50%	1.50%
Portfolio Arithmetic Mean Return		6.85%	4.60%
Portfolio Standard Deviation		12.33%	12.33%
Portfolio Long-Term (Geometric) Expected Rate of Return		6.25%	3.89%
Assumed Investment Expenses		0.40%	0.40%
Portfolio Long-Term (Geometric) Expected Rate of Return, Net of Investments Expenses		5.85%	3.49%

Investment Policy Assumptions from PERSI November 2019

Portfolio Long-Term Expected Real Rate of Return, Net of Investment Expenses	4.14%
Portfolio Standard Deviation	14.16%

Economic/Demographic Assumptions from Milliman 2018

Valuation Assumptions Chosen by PERSI Board	
Long-Term Expected Real Rate of Return, Net of Investment Expenses	4.05%
Assumed Inflation	3.00%
Long-Term Expected Geometric Rate of Return, Net of Investment Expenses	**7.05%**

Discount Rate

The discount rate used to measure the total pension liability was 7.05%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate. Based on these assumptions, the pension plans' net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return was determined net of pension plan investment expense but without reduction for administrative expense.

Sensitivity of the Employer's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Employer's proportionate share of the net pension liability of PERSI Employer's calculated using the discount rate of 7.05%, as well as what the Employer's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.05%) or 1-percentage-point higher (8.05%) than the current rate:

	1% Decrease (6.05%)	Current Discount Rate (7.05%)	1% Increase (8.05%)
Employer's proportionate share of the net pension liability	$ 2,403,444	$ 1,171,996	$ 153,790

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERSI financial report.

PERSI issues a publicly available financial report that includes financial statements and the required supplementary information for PERSI. That report may be obtained on the PERSI website at www.persi.idaho.gov.

Payables to the Pension Plan

At September 30, 2020, VRT had reported payables to the defined benefit pension plan of $19,822 for legally required employer contributions, $11,887 for legally required employee contributions, and $6,290 for the PERSI Choice 401(k) of which had been withheld from employee wages but not yet remitted to PERSI.

Defined Contribution – PERSI Choice 401(k)

Employees of VRT participating in the PERSI Base Plan may enroll in the PERSI Choice 401(k) defined contribution retirement savings plan available to active members. Participation is voluntary. The PERSI Choice 401(k) is intended to be a government plan within the meaning of Code Section 414 (d) and within the meaning of section 3(32) of the Employee Retirement Income Security Act (ERISA) and as such, is exempt from provisions of Title I ERISA. VRT does not match participants' contributions in the PERSI Choice 401(k). A participant shall be 100% vested in their individual account at all times. The authority of the benefit and contribution terms are established and amended by the PERSI Board. VRT recognized $64,469 contributions to the PERSI Choice 401(k) as benefits expense during the year ended September 30, 2020.

Note 6 - Lease Commitments

VRT assumed lease payments for the vehicle maintenance facility renewed effective October 1, 2015 expiring September 30, 2045. Monthly lease payments are $8,456 beginning October 1, 2020. Subsequent to October 1, 2020, base rent payments increase annually based on the Consumer Price Index.

VRT entered a lease agreement effective September 1, 2018, for the use of a facility in the operations of the Boise Bike Share Program. The lease is a three-year lease, with monthly payments of $2,300.

VRT is in a lease agreement with Day Wireless for radio repeater use for five years starting in October of 2017. The annual payments are $9,360.

VRT is also in a lease agreement for copiers for 39 months starting in September of 2018. The monthly payments are $1,917.

Minimum lease payments are as follows:

2021	$ 159,140
2022	117,588
2023	103,487
2024	104,508
2025	105,538
Thereafter	2,343,565
	$ 2,933,827

Total rent expense was $182,587 for the year ended September 30, 2020.

Note 7 - Concentrations

Approximately 48% of VRT's total revenue for the year ended September 30, 2020, was derived from contracts with the Federal government, and 82% of the local revenue came from the City of Boise.

Note 8 - Self-Insurance

TMAC established a partially self-funded health plan for its employees. The employees are responsible for the first $250 of their individual deductible and $500 of their family deductible. TMAC is responsible for the remainder of the deductible up to the $1,575 individual out-of-pocket limit and $3,150 family out-of-pocket limit. The employee is responsible for all further claims not covered by the insurance. The health care plan is administered by Blue Cross of Idaho and they are responsible for the approval, processing and payment of claims.

At September 30, 2020, VRT has reported a liability of $132,123 within Accounts Payable and Other Accrued Expenses, which represents amounts payable by VRT towards the employee's deductible for claims incurred as of the end of the year but not paid by VRT as of that date.

Note 9 - Related Party

The Board of VRT is made up of representatives from member organizations that pay dues to VRT as a part of the local match requirement on federal grants.

Note 10 - Contingencies

COVID-19 Pandemic

During 2020, the world-wide coronavirus pandemic continues to impact national and global economies. VRT management is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and future full impact is not known.

Required Supplementary Information
September 30, 2020

Valley Regional Transit

Schedule of Employer’s Share of Net Pension Liability
PERSI – Base Plan
Last 10 – Fiscal Years *

	2015	2016	2017	2018	2019	2020
Employer’s portion of the net pension liability	0.000439740	0.000443322	0.000445219	0.000438584	0.00045406	0.000504707
Employer’s proportionate share of the net pension liability	$ 579,066	$ 898,682	$ 699,808	$ 646,919	$ 518,297	$ 1,171,996
Employer’s covered payroll	$ 1,231,700	$ 1,296,576	$ 1,425,209	$ 1,411,082	$ 1,542,171	$ 1,800,522
Employer’s proportional share of the net pension liability as a percentage of its covered payroll	47.01%	69.31%	49.10%	45.85%	33.61%	65.09%
Plan fiduciary net position as a percentage of the total pension liability	91.38%	87.26%	90.68%	91.69%	93.79%	88.22%

* GASB Statement No. 68 requires ten years of information to be presented in this table.
However, until a full 10-year trend is compiled, VRT will present information for those years for which information is available.

Data reported is measured at the measurement date which is as of June 30 of each year.

Schedule of Employer Contributions
PERSI – Base Plan
Last 10 – Fiscal Years **

	2015	2016	2017	2018	2019	2020
Statutorily required contribution	$ 138,531	$ 152,675	$ 150,283	$ 162,701	$ 182,493	$ 219,740
Contributions in relation to the statutorily required contribution	$ (140,279)	$ (150,744)	$ (145,075)	$ (170,757)	$ (189,393)	$ (233,612)
Contribution (deficiency) excess	$ 1,748	$ (1,931)	$ (5,208)	$ 8,056	$ 6,899	$ 13,872
Employer’s covered payroll	$ 1,223,775	$ 1,348,714	$ 1,350,824	$ 1,437,288	$ 1,594,325	$ 1,840,370
Contributions as a percentage of covered payroll	11.46%	11.18%	10.74%	11.88%	11.88%	12.69%

** GASB Statement No. 68 requires ten years of information to be presented in this table.
However, until a full 10-year trend is compiled, VRT will present information for those years for which information is available.

Data reported is measured as of September 30 of each year.

Federal Awards Reports in Accordance with the Uniform Guidance
September 30, 2020

Valley Regional Transit

Federal/Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Number	Expenditures	Amounts Passed Through to Subrecipients
Direct from U.S. Department of Transportation				
Formula Grants	20.507	N/A	$ 7,128,602	$ 1,515,652
Formula Grants - CARES Act	20.507	N/A	514,986	293,817
Total Formula Grants			7,643,588	1,809,469
Total Federal Transit Cluster			7,643,588	1,809,469
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	N/A	608,867	-
Total Transit Services Cluster			608,867	-
Pass through from Idaho Department of Transportation				
Formula Grants for Rural Areas	20.509	ID18042	192,492	192,492
Total U.S. Department of Transportation			$ 8,444,947	$ 2,001,961

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Valley Regional Transit (VRT) under programs of the federal government for the year ended September 30, 2020. The information 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* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of VRT, it is not intended to and does not present the financial position, changes in net position, or cash flows of VRT.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the cash basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Indirect Cost Rate

VRT has not elected to use the 10% de minimis cost rate.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Valley Regional Transit
Meridian, Idaho

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 Valley Regional Transit (VRT), as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise VRT's basic financial statements, and have issued our report thereon dated January 29, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered VRT's internal control over financial reporting (internal control) as a basis for determining audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of VRT's internal control. Accordingly, we do not express an opinion on the effectiveness of VRT'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 VRT'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 certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2020-001 that we consider to be a material weakness.

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

VRT's Response to Finding
VRT's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. VRT's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Eide Bailly LLP

Boise, Idaho
January 29, 2021

CPAs & BUSINESS ADVISORS

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

To the Board of Directors
Valley Regional Transit
Meridian, Idaho

Report on Compliance for the Major Federal Program
We have audited Valley Regional Transit's (VRT) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on VRT's major federal program for the year ended September 30, 2020. VRT's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

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

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

Opinion on the Major Federal Program
In our opinion, VRT complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended September 30, 2020.

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

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

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

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.

Eide Bailly LLP

Boise, Idaho
January 29, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major program:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516?	No

Identification of major programs:

Name of Federal Program	CFDA Number
Federal Transit Cluster Dept. of Transportation – Formula Grants	20.507

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

Material Weakness: 2020-001

Criteria:
VRT should have a system of internal control in place to prevent or detect and correct misstatements in the financial statements related to unearned revenues, local funds revenue, and receivables. A key component of an adequate system of internal controls is timely review and reconciliation of local receipts, local spending, and ending balances of funding received in advance. This timely reconciliation and review allows management to record all necessary year-end closing entries, which leads to timely and accurate year-end reporting.

Condition:
VRT did not have procedures in place to allow for timely review and reconciliation over the flow of funding from local sources, including funds received in advance (unearned revenue) and receivables from members in order to record year-end closing entries and accurately report year-end balances.

During the audit, it was noted that unearned revenue was reported without an actual receipt of cash as of year-end, and therefore the unearned revenue liability and receivables balances were overstated. The misstatements were detected as a result of audit procedures and corrected by management.

Cause:
The misstatement was caused by lack of timely reconciliation and year-end closing procedures.

Effect:
Due to the misstatements noted above, unearned revenue liability was overstated by $1,020,218, and receivables were overstated by $1,020,218 as of September 30, 2020.

Recommendation:
VRT should have processes and procedures in place to ensure a timely year-end close process and the correct recognition of financial statement balances.

Views of Responsible Officials:
The misstatement noted above was caused by a single batch of invoices to a funding partner that had not been paid by the close of the fiscal year, but have since been paid in FY 2021. VRT will develop and implement additional year-end procedures to reconcile unpaid Accounts Receivable invoices prior to the end of the fiscal year. Additional processes will be performed to ensure that unpaid receivables as of September 30 are reviewed and appropriately addressed before the fiscal year has closed. Particular emphasis will be placed on scrutinizing receivables related to future capital projects to ensure they are recognized in the correct fiscal year

Section III – Federal Award Findings and Questioned Costs

None reported