AGENDA

Broadband Advisory Council Virtual Meeting
December 4, 2020
2:00 p.m. to 4:00 p.m.
To access the meeting using video
https://meet.google.com/ybi-dbeh-cmt
To access the meeting using audio
(US) +1 617-675-4444 PIN: 377 181 572 0900#

I.	Opening	
	a. Call to Order	Chairman
	b. Roll Call	DHCD Staff
II.	Public Comment	Chairman
III.	Consent Agenda	Chairman
	a. Approval of Minutes: November 13, 2020 meeting	
IV.	Overview of Options to Recommend to House Appropriations and Senate Finance and Appropriations Committee Chairs	Erik Johnston/ Evan Feinman
V.	**Action Item:** Budget Language Recommendation	Council Members
VI.	Possible Legislative Initiatives	Evan Feinman
	a. Rail crossings	
	b. Municipal broadband	
	c. Broadband Affordability	
	d. Pole attachments	
	e. Unserved/Underserved definitions	
	f. Mapping	
	g. Other Items	
VII.	New Business	Council Members
VIII.	Adjournment	Chairman

BROADBAND ADVISORY COUNCIL
November 13, 2020
UNAPPROVED MINUTES
2:00 PM
Digital Meeting via Google Meets

Members Present	Members Absent
The Honorable Brian Ball (Proxy by Evan Feinman)	Senator Lynwood W. Lewis
Senator Jennifer Boysko, Chair	
James Carr	
Mike Culp	
Senator Ghazala Hashmi	
Kristie Helmick Proctor	
Delegate Chris Hurst	
Mike Keyser	
Delegate Paul E. Krizek	
Ray LaMura	
Delegate James A. Leftwich, Jr.	
Senator Lynwood W. Lewis, Jr.	
Steve Sandy	
Richard Schollman	
The Honorable Bettina K. Ring	
Delegate Roslyn C. Tyler, Vice Chair	

Call to Order

Senator Jennifer Boysko, Chair of the Broadband Advisory Council, called the meeting to order at 2:04 p.m.

Mr. Chandler Vaughan, Policy Analyst for the Office of Broadband at the Virginia Department of Housing and Community Development (DHCD), announced that due to the Governor's Declared State of Emergency due to COVID-19, it is impracticable and unsafe for the Broadband Advisory Council to assemble in a single location, so the council meeting will be held electronically, by video conference and telephone options, pursuant to 2020 Amendments to the 2020 Appropriation Act. The purpose of the meeting is to discuss or transact the business statutorily required or necessary to continue operations of the Broadband Advisory Council and the discharge of its lawful purposes, duties, and responsibilities. The public is welcome to use the link and phone number options made available by staff to attend the meeting electronically. The Broadband Advisory Council will make available a recording or transcript of the meeting on its website in accordance with the timeframes established in Sections 2.2-3707 and 2.2-

3701.1 of the Code of Virginia.

Roll Call	Mr. Vaughan called the roll and stated that a quorum was present.
Approval of Minutes	A motion was made by Mr. Feinman and properly seconded by Mr. Krizek to approve the minutes of the August 14, 2020 meeting of the Broadband Advisory Council. The motion passed (Yea: Boysko, Carr, Culp, Feinman, Helmick Proctor, Hurst, Keyser, Krizek, LaMura, Sandy, Shollman, Ring, Tyler; Nay: None)
Virginia Telecommunications Initiative Budget Overview (VATI)	Dr. Tamarah Holmes, Director of the Office of Broadband at DHCD provided the Council with an update on the VATI application process. She noted that 45 applications representing 53 different localities were submitted for a combined amount of $105M. The VATI team is working with applicants to determine the validity of 14 challenges to applications and is also working to re-scope projects with valid challenges.
Budget Discussion	Mr. Erik Johnston, Director of DHCD and Mr. Feinman provided an overview of budget language directing the Broadband Advisory Council to evaluate a possible policy change to allow public broadband authorities to apply directly for VATI funds without investment from the private sector.
Presentations	Mike Culp, Frank Smith, and Jason Grey provided overviews of the services provided and future broadband plans of Albemarle Broadband Authority, Roanoke Valley Broadband Authority, and Danville Utilities, respectively.

Public Comment Period	Dawn Meyer, Executive Director of the Loudoun Education Foundation, spoke in support of the BAC evaluating any possible flexibilities that the VATI program may be able to utilize in order to bridge the digital divide for the sake of limiting disparities in educational opportunities statewide. Michael McEvoy, Chair of the Roanoke Valley Broadband Authority, spoke in support of expanding broadband coverage as well as addressing affordability problems for broadband access. Mr. Vaughan read a letter addressed to the Council from Steve Trivett, Mayor of Ashland, in support of revisions to the VATI program that would allow greater return on investment for taxpayers. Kevin McNulty spoke on behalf of Cox Communications to explain steps Cox Communications is taking in Roanoke to help combat access and affordability issues. Ray LaMura stated the importance and success of VATI's efforts to expand access to broadband. Sherri Neil spoke on behalf of Portsmouth in support of VATI program revisions that would allow municipal authorities to apply for funding. Jennifer Eddy, speaking on behalf of herself, spoke in support of evaluating any and all options that would help to bolster broadband access across the state as quickly as possible.
Councilmember Comments	Evan Feinman spoke to clarify the division of thinking on the access versus affordability issues presented in broadband expansions. Mr. Feinman stated VATI is designed to address the access problem, not the affordability program. Mike Keyser noted the upcoming Rural Digital Opportunity Fund Auction (RDOF) and asked staff if this upcoming auction presented implications to allowing public broadband authorities to directly apply for VATI funding. Mr. Feinman stated the complexity the RDOF auction adds to broadband expansion efforts, but reinstated the difference between federal and state broadband funding sources, noting the nature of each.

Delegate Hurst called for the Broadband Advisory Council to define underserved in regards to broadband access to guide discussions around broadband access and broadband affordability.

Delegate Krizek provided suggestions for agenda items at the December meeting, including: an evaluation of provider models, an evaluation of the cost-benefit analysis, an overview of the progress VATI has made and study of failures VATI has experienced.

Ray LaMura stated his favor for maintaining VATI's focus on the unserved populations around Virginia.

Delegate Roslyn Tyler reinforced comments from Mr. LaMura, stating large unserved areas exist in her district in Southside Virginia and the focus for VATI should remain on providing access to unserved areas.

Delegate Tyler asked if a statewide mapping tool was available to identify unserved areas. Dr. Holmes stated DHCD staff are working with Virginia Tech to update the broadband mapping tool to provide a more user friendly experience and provide VATI applicants a way to identify unserved areas in their communities.

Jimmy Carr requested staff provide financial information of public broadband authorities prior to the December meeting of the Broadband Advisory Council to inform discussion.

Adjournment

Upon a motion duly made and seconded, the meeting was adjourned.

MEMORANDUM

TO: Members of the Broadband Advisory Council

FROM: Erik C. Johnston, Director-Department of Housing and Community Development;

Evan Feinman, Chief Broadband Advisor

DATE: November 20, 2020

RE: Options to Recommend to Chairs of House Appropriations and Senate Finance and Appropriations Committees

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As directed through House Bill 5005, enrolled in the 2020 Special Session 1, the Broadband Advisory Council shall assess updating the Virginia Telecommunications Initiative prior to the start of the 2021 General Assembly. Specific language from HB 5005 is provided below.

2020 Special Session 1. Budget Bill – HB5005 (Enrolled). Item 114. L. 5.

> *"The Broadband Advisory Council shall assess updating the Virginia Telecommunication Initiative (VATI) to allow for public broadband authorities to apply directly for VATI funds without investment from the private sector. The Department of Housing and Community Development on behalf of the Council shall submit feedback on the potential impacts of this policy change to the Chairs of the House Appropriations and Senate Finance and Appropriations Committees on or before the start of the 2021 General Assembly Session."*

The following are options available to the council as possible recommendations to the Chairs of the House Appropriations and Senate Finance and Appropriations Committees. These recommendations could only be implemented in the second year of the biennium and should only apply to that fiscal year.

A. The Broadband Advisory Council may recommend the VATI guidelines remain the same in requiring a public-private partnership. Public broadband authorities can continue to apply through a partnership with a private sector partner that owns and operates the project.
B. The Broadband Advisory Council may recommend a change to the budget language in which public broadband authorities are allowed to apply directly for VATI funds without investment from the private sector or requirement of private ownership and operation.
C. The Broadband Advisory Council may recommend the General Assembly consider directing the Department of Housing and Community Development create a pilot program within VATI, with awards not to exceed 10% of total available VATI funds

in FY22, to which public broadband authorities may apply without investment from the private sector.

Should the Council recommend allowing public broadband authorities to apply directly for VATI funds without investment from the private sector, potential changes to the current budget language are listed below.

<u>Potential Language that allows public broadband authorities to apply without private sector investment or ownership (**Option B**):</u>

2020 Special Session 1. Budget Bill – HB5005 (Enrolled). Item 114. L. 1 & 2.

1. Out of the amounts in this Item, $49,725,000 the first year and $34,725,000 the second year from the general fund is provided for the Virginia Telecommunication Initiative. The funds shall be used for providing financial assistance to supplement construction costs by ~~private sector~~ broadband service providers to extend service to areas that presently are unserved by any broadband provider. Any balances for the purposes specified in this paragraph which are unexpended on June 30, 2021, and June 30, 2022, shall not revert to the general fund but shall be carried forward and reappropriated.

2. The department shall develop appropriate criteria and guidelines for the use of the funding provided to the Virginia Telecommunication Initiative. Such criteria and guidelines shall: (i) facilitate the extension of broadband networks ~~by the private sector~~ and shall focus on unserved areas; (ii) attempt to identify the most cost-effective solutions, given the proposed technology and speed that is desired; (iii) ~~give consideration to proposals that are public-private partnerships in which the private sector will own and operate the completed project;~~ (iv) consider the number of locations where the applicant states that service will be made available, in addition to whether customers take the service in both evaluating applications and in establishing completion and accountability requirements~~; and, (v) require investment from the private sector partner in the project prior to making any award from the fund at an appropriate level determined by the Department.~~ The department shall encourage additional assistance from the local governments in areas designated to receive funds to lower the overall cost and further assist in the timely completion of construction, including assistance with permits, rights of way, easement and other issues that may hinder or delay timely construction and increase the cost.

<u>Permit public broadband authorities to apply under a pilot program **(Option C)**:</u>

2020 Special Session 1. Budget Bill – HB5005 (Enrolled). Item 114. L. 1 & 2.

1. Out of the amounts in this Item, $49,725,000 the first year and $34,725,000 the second year from the general fund is provided for the Virginia Telecommunication Initiative. The funds shall be used for providing financial assistance to supplement construction costs by private sector broadband service providers to extend service to areas that presently are unserved by any broadband provider. Any balances for the purposes specified in this *paragraph which are unexpended on June 30, 2021, and June 30, 2022, shall not revert to the general fund but shall be carried forward and reappropriated.*

2. The department shall develop appropriate criteria and guidelines for the use of the funding provided to the Virginia Telecommunication Initiative. Such criteria and guidelines shall: (i) facilitate the extension of broadband networks by the private sector and shall focus on unserved areas; (ii) attempt to identify the most cost-effective solutions, given the proposed technology and speed that is desired; (iii) give consideration to proposals that are public-private partnerships in which the private sector will own and operate the completed project; (iv) consider the number of locations where the applicant states that service will be made available, in addition to whether customers take the service in both evaluating applications and in establishing completion and accountability requirements; and, (v) require investment from the private sector partner in the project prior to making any award from the fund at an appropriate level determined by the department~~.~~ Notwithstanding Item 114. L.1 and L.2 the Department shall establish a 1-year pilot program in the second year in which local governments may apply directly for VATI funds without investment by the private sector or requirement of private ownership or operation. The department shall not make awards under the pilot program exceeding 10% of total funds appropriated in the second year to the Virginia Telecommunication Initiative. The department shall encourage additional assistance from the local governments in areas designated to receive funds to lower the overall cost and further assist in the timely completion of construction, including assistance with permits, rights of way, easement and other issues that may hinder or delay timely construction and increase the cost appropriated funds.

Meeting Date: December 4, 2020

Subject: Financial Reports of Public Broadband Authorities

Overview

At the request of the Council, staff requested the financial information of three of the Commonwealth's public broadband authorities: the Eastern Shore of Virginia Broadband Authority, the Roanoke Valley Broadband Authority, and The Wired Road Authority. A list of reports provided by each authority is provided below.

Attached Reports

The following financial documents are enclosed in the Council packet for the December 2020 meeting.

- Eastern Shore of Virginia Broadband Authority (ESVBA)
  - FY 2018 Balance Sheet
  - FY 2018 Income Statement
  - FY 2019 Balance Sheet
  - FY 2019 Income Statement
  - FY 2020 Balance Sheet
  - FY 2020 Income Statement
- Roanoke Valley Broadband Authority
  - FY 2017 Financial Report
  - FY 2018 Financial Report
  - FY 2019 Financial Report
- The Wired Road Authority
  - FY 2017 Financial Report
  - FY 2018 Financial Report
  - FY 2019 Financial Report

Eastern Shore of Virginia Broadband Authority
Balance Sheet
End of Jun 2018

Financial Row	Amount
ASSETS	
Current Assets	
Bank	
10010 - General Operating Account - BB&T (0720)	$2,483,665.15
10020 - Capital Expansion Account - BB&T (0747)	$428,604.13
10030 - Equipment Accrual - BB&T (0739)	$403,569.51
10160 - Annual Accrual - BB&T (7622) Savings Acct	$364,320.58
10180 - Merchant Services - BB&T (8016)	$412.85
10990 - Petty Cash	$150.00
Total Bank	**$3,680,722.22**
Accounts Receivable	
11000 - Accounts Receivable	$134,929.55
Total Accounts Receivable	**$134,929.55**
Other Current Asset	
11800 - Prepaid Items	$500.00
13100 - Inventory Asset	$844,766.13
Total Other Current Asset	**$845,266.13**
Total Current Assets	**$4,660,917.90**
Fixed Assets	
14100 - General Furniture Fixtures	$14,967.05
14199 - Accumulated Depreciation - Furniture	($14,967.05)
14200 - Equipment:Computers, Printers, Equip, Software	$68,458.18
14299 - Accumulated Depreciation - Equipment	($9,444.06)
15010 - Physical Plant Structure	$10,192,505.39
15020 - Physical Plant Electronics	$3,123,193.19
15040 - Physical Plant Towers	$150,840.58
15050 - Physical Plant Mobile - (Mobile Carriers & Generators)	$101,446.32
15060 - Physical Plant Huts	$170,497.91
15098 - Accumulated Depreciation - Plant In Service	($5,570,164.91)
15100 - Physical Plant Network & Software	$11,585.00
15199 - Accumulated Depreciation - Software	($36,533.90)
15200 - Vehicles & Equipment	$466,060.13
15299 - Accumulated Depreciation - Vehicles	($294,580.65)
16000 - Railway Easement	$250,000.00
17000 - Land	$10,000.00
Total Fixed Assets	**$8,633,863.18**
Total ASSETS	**$13,294,781.08**
LIABILITIES & EQUITY	
Current Liabilities	
Accounts Payable	
20000 - Accounts Payable	$157,994.64
Total Accounts Payable	**$157,994.64**
Total Credit Card	**$564.42**
Other Current Liability	
20010 - Accrued Purchases	($1,058.24)
22500 - ANEC (RUS) $200K Loan	$50,000.00
26100 - USAC Tax Payable	$6,029.88
Total Other Current Liability	**$54,971.64**
Total Current Liabilities	**$213,530.70**
Long Term Liabilities	
28000 - Deferred Income	$231,167.20
Total Long Term Liabilities	**$231,167.20**
Equity	
Retained Earnings	$11,604,557.50
Net Income	$1,245,525.68
Total Equity	**$12,850,083.18**
Total LIABILITIES & EQUITY	**$13,294,781.08**

Eastern Shore of Virginia Broadband Authority
Income Statement
From Jul 2017 to Jun 2018

Financial Row	Amount
Income	
40000 - Broadband Income	
Education Income	$623,239
Enterprise Income	$181,124
Government Income	$97,877
Medical Income	$141,233
Other Income	$10,016
Residential Income	$29,558
Wholesale Income	$2,729,757
Total - 40000 - Broadband Income	**$3,812,803**
40900 - Installation Income	
Education Income	$500
Enterprise Income	$5,000
Government Income	$19,700
Residential Income	$23,210
Wholesale Income	$25,359
Total - 40900 - Installation Income	**$73,769**
46400 - Other Income	
Enterprise Income	$16,881
Other Income	$4,309
Wholesale Income	$1,800
Total - 46400 - Other Income	**$22,991**
46460 - Interest Income	
Other Income	$688
Total - 46460 - Interest Income	**$688**
Total - Income	**$3,910,250**
Cost Of Sales	
50100 - Cost of Goods Sold:Internet Access	$182,699
50300 - Cost of Goods Sold:3rd Party Dark service	$264,332
50400 - Cost of Goods Sold:Utility Locates	$1,268
50500 - Cost of Goods Sold:Pole Attachments	$598
50600 - Cost of Goods Sold:3rd Party Transport	$352,897
51010 - Cost of Goods Sold:Collocation/Hut Expense:Utilities	$27,720
51020 - Cost of Goods Sold:Collocation/Hut Expense:Phone, Communic.	$1,519
51030 - Cost of Goods Sold:Collocation/Hut Expense:Fuel	$812
51090 - Cost of Goods Sold:Collocation/Hut Expense:Maintenance	$3,423
Total - Cost Of Sales	**$835,269**
Gross Profit	**$3,074,982**
Expense	
61200 - Payroll Expenses:Wages & Benefits	$381,823
62100 - Sales and Marketing:Sales Commissions	$2,425
62200 - Sales and Marketing:Marketing and Promotions	$12,167
62300 - Sales and Marketing:Marketing Materials	$18,387
63100 - Travel and Meetings:Conference, Convention, Meeting	$2,689
63200 - Travel and Meetings:Mileage/Tolls Reimbursement	$6,907
63400 - Travel and Meetings:Meals & Entertainment	$4,075
63500 - Travel and Meetings:Other Travel	$5,713
64100 - Advertising Expenses	$6,946
64200 - Bank Charges & Fees	$3,423
64250 - Depreciation Expense	$945,737
64300 - Dues, Subscriptions, Books	$1,937
64320 - Dumpster/Trash Removal	$994
64350 - Interest Expense	$9
64360 - Insurance - Liability, D and O	$10,384
64370 - Janitorial Services	$3,900
64380 - Plant Equipment Tools & Supplies (DO NOT USE)	$6,406

64400 - Office Supplies & Expense	$5,260
64420 - Printing and Copying	$1,021
64450 - Postage, Mailing & Shipping	$1,121
64460 - Office IT Hardware/Software	$27,386
64470 - Office Maintenance & Repair	$1,666
64480 - Rent or Lease Payments	$7,800
64630 - Staff Development	$1,000
64700 - Taxes	-$8,039
64750 - Telephone & Telecommunications	$5,428
64760 - Mobile Phones	$1,620
65100 - Professional Services:Accounting & Administration	$52,954
65200 - Professional Services:Legal Fees	$65,124
66100 - Outside Contractor Services:Installation Technician	$36,119
66200 - Outside Contractor Services:Field Inspector	$57,941
66300 - Outside Contractor Services:OSP Engineer	$6,182
67000 - Vehicle & Equipment Expenses	$283
67100 - Vehicle DMV Expenses (DO NOT USE)	$10
67200 - Vehicle Equipment	$1,754
67300 - Vehicle Fuel	$17,017
67400 - Vehicle & Equip Maintenance & Repair Expenses	$9,684
68000 - Physical Plant & Electrical Maintenance	$13,782
68100 - Physical Plant Maintenance/Agreements/Warranties/Software	$36,824
68200 - Physical Plant Permits & Fees	$1,500
68300 - Physical Plant Repairs	$18,819
68330 - Physical Plant/Inventory Disposed Items	$29,350
68400 - Physical Plant Tools & Safety Equipment	$19,932
68500 - Physical Plant Shipping Freight & Delivery	$9,594
68600 - Retail Hardware Expense	-$5,598
Total - Expense	**$1,829,456**
Net Income	**$1,245,526**

Eastern Shore of Virginia Broadband Authority
Balance Sheet
End of Jun 2019

Financial Row	Amount
ASSETS	
Current Assets	
Bank	
10010 - General Operating Account - BB&T (0720)	$2,313,009.57
10020 - Capital Expansion Account - BB&T (0747)	$490,155.61
10030 - Equipment Accrual - BB&T (0739)	$494,430.43
10160 - Annual Accrual - BB&T (7622) Savings Acct	$971,559.36
10165 - Expansion Proceeds BB&T Savings Acct (0070)	$4,749,103.64
10180 - Merchant Services - BB&T (8016)	$13,865.30
10990 - Petty Cash	$150.00
Total Bank	**$9,032,273.91**
Accounts Receivable	
11000 - Accounts Receivable	$204,917.18
Total Accounts Receivable	**$204,917.18**
Other Current Asset	
13100 - Inventory Asset	$799,531.86
Total Other Current Asset	**$799,531.86**
Total Current Assets	**$10,036,722.95**
Fixed Assets	
14100 - General Furniture Fixtures	$42,727.66
14199 - Accumulated Depreciation - Furniture	($14,967.05)
14200 - Equipment:Computers, Printers, Equip, Software	$74,068.68
14299 - Accumulated Depreciation - Equipment	($81,364.76)
15010 - Physical Plant Structure	$11,118,236.79
15020 - Physical Plant Electronics	$3,531,842.49
15040 - Physical Plant Towers	$150,840.58
15050 - Physical Plant Mobile - (Mobile Carriers & Generators)	$101,446.32
15060 - Physical Plant Huts	$177,197.91
15070 - Physical Plant Tools & Equipment	$15,563.30
15098 - Accumulated Depreciation - Plant In Service	($6,104,261.48)
15100 - Physical Plant Network & Software	$11,585.00
15199 - Accumulated Depreciation - Software	($43,215.85)
15200 - Vehicles & Equipment	$503,851.69
15299 - Accumulated Depreciation - Vehicles	($258,233.00)
16000 - Railway Easement	$250,000.00
17000 - Land	$10,000.00
Total Fixed Assets	**$9,485,318.28**
Total ASSETS	**$19,522,041.23**
LIABILITIES & EQUITY	
Current Liabilities	
Accounts Payable	
20000 - Accounts Payable	$303,460.24
Total Accounts Payable	**$303,460.24**
Total Credit Card	**$1,008.45**
Other Current Liability	
20010 - Accrued Purchases	$82,497.44
22500 - ANEC (RUS) $200K Loan	$25,000.00
26100 - USAC Tax Payable	$2,805.69
Total Other Current Liability	**$110,303.13**
Total Current Liabilities	**$414,771.82**
Long Term Liabilities	
27500 - BB&T Loan for Expansion	$5,000,000.00
28000 - Deferred Income	$218,558.08
Total Long Term Liabilities	**$5,218,558.08**
Equity	
Retained Earnings	$12,850,083.18
Net Income	$1,038,628.15
Total Equity	**$13,888,711.33**
Total LIABILITIES & EQUITY	**$19,522,041.23**

Eastern Shore of Virginia Broadband Authority
Income Statement
From Jul 2018 to Jun 2019

Financial Row	Amount
Income	
40000 - Broadband Income	
Education Income	$562,212
Enterprise Income	$230,470
Government Income	$96,072
Medical Income	$123,618
Other Income	$100
Residential Income	$153,500
Wholesale Income	$2,695,069
Total - 40000 - Broadband Income	**$3,861,041**
40900 - Installation Income	
Education Income	$850
Enterprise Income	$7,300
Residential Income	$80,460
Wholesale Income	$26,709
Total - 40900 - Installation Income	**$115,319**
46400 - Other Income	
Enterprise Income	$793
Other Income	$4,824
Residential Income	$35
Wholesale Income	$1,800
Total - 46400 - Other Income	**$7,452**
46460 - Interest Income	
- No Vertical -	$129
Other Income	$44,427
Total - 46460 - Interest Income	**$44,556**
46470 - Other Income- USAC	
Other Income	$48,048
Total - 46470 - Other Income- USAC	**$48,048**
Total - Income	**$4,076,416**
Cost Of Sales	
50100 - Cost of Goods Sold:Internet Access	$121,542
50300 - Cost of Goods Sold:3rd Party Dark service	$329,570
50400 - Cost of Goods Sold:Utility Locates	$1,453
50500 - Cost of Goods Sold:Pole Attachments	$317
50600 - Cost of Goods Sold:3rd Party Transport	$236,708
50900 - Cost of Goods Sold:Costs of Plant Repairs - COGS	$498
51010 - Cost of Goods Sold:Collocation/Hut Expense:Utilities	$30,322
51020 - Cost of Goods Sold:Collocation/Hut Expense:Phone, Communic.	$1,598
51030 - Cost of Goods Sold:Collocation/Hut Expense:Fuel	$113
51090 - Cost of Goods Sold:Collocation/Hut Expense:Maintenance	$7,040
Total - Cost Of Sales	**$729,162**
Gross Profit	**$3,347,255**
Expense	
61200 - Payroll Expenses:Wages & Benefits	$772,250
62200 - Sales and Marketing:Marketing and Promotions	$15,295
62300 - Sales and Marketing:Marketing Materials	$4,708
63100 - Travel and Meetings:Conference, Convention, Meeting	$1,801
63200 - Travel and Meetings:Mileage/Tolls Reimbursement	$2,677
63400 - Travel and Meetings:Meals & Entertainment	$4,114
63500 - Travel and Meetings:Other Travel	$3,453
64100 - Advertising Expenses	$217
64200 - Bank Charges & Fees	$6,745
64250 - Depreciation Expense	$576,352
64300 - Dues, Subscriptions, Books	$3,533
64320 - Dumpster/Trash Removal	$1,290

64350 - Interest Expense	$284,566
64360 - Insurance - Liability, D and O	$11,811
64370 - Janitorial Services	$3,900
64380 - Plant Equipment Tools & Supplies (DO NOT USE)	$230
64400 - Office Supplies & Expense	$11,622
64420 - Printing and Copying	$1,547
64450 - Postage, Mailing & Shipping	$834
64460 - Office IT Hardware/Software	$44,495
64470 - Office Maintenance & Repair	$2,652
64480 - Rent or Lease Payments	$8,050
64630 - Staff Development	$5,507
64700 - Taxes	$16,639
64750 - Telephone & Telecommunications	$6,200
64760 - Mobile Phones	$2,260
64800 - Utilities	$91
65100 - Professional Services:Accounting & Administration	$49,985
65200 - Professional Services:Legal Fees	$202,732
66100 - Outside Contractor Services:Installation Technician	$6,078
66200 - Outside Contractor Services:Field Inspector	$11,036
67000 - Vehicle & Equipment Expenses	$23,263
67200 - Vehicle Equipment	$1,115
67300 - Vehicle Fuel	$28,611
67400 - Vehicle & Equip Maintenance & Repair Expenses	$10,468
68100 - Physical Plant Maintenance/Agreements/Warranties/Software	$113,736
68200 - Physical Plant Permits & Fees	$2,680
68300 - Physical Plant Repairs	$12,455
68330 - Physical Plant/Inventory Disposed Items	$10,446
68400 - Physical Plant Tools & Safety Equipment	$20,858
68500 - Physical Plant Shipping Freight & Delivery	$22,325
Total - Expense	**$2,308,627**
Net Income	**$1,038,628**

Eastern Shore of Virginia Broadband Authority
Balance Sheet
End of Jun 2020

Financial Row	Amount
ASSETS	
Current Assets	
Bank	
10010 - General Operating Account - BB&T (0720)	$2,003,892.19
10020 - Capital Expansion Account - BB&T (0747)	$554,281.17
10030 - Equipment Accrual - BB&T (0739)	$594,792.73
10160 - Annual Accrual - BB&T (7622) Savings Acct	$1,077,794.54
10165 - Expansion Proceeds BB&T Savings Acct (0070)	$2,141,281.62
10180 - Merchant Services - BB&T (8016)	$15,025.28
10990 - Petty Cash	$150.00
Total Bank	**$6,387,217.53**
Accounts Receivable	
11000 - Accounts Receivable	$309,212.07
Total Accounts Receivable	**$309,212.07**
Other Current Asset	
11900 - Undeposited Funds	$2,247.32
13100 - Inventory Asset	$977,216.78
15000 - Plant in Service	$300.00
Total Other Current Asset	**$979,764.10**
Total Current Assets	**$7,676,193.70**
Fixed Assets	
14100 - General Furniture Fixtures	$42,727.66
14199 - Accumulated Depreciation - Furniture	($14,967.05)
14200 - Equipment:Computers, Printers, Equip, Software	$74,068.68
14299 - Accumulated Depreciation - Equipment	($81,364.76)
15010 - Physical Plant Structure	$14,691,626.27
15020 - Physical Plant Electronics	$3,913,972.65
15040 - Physical Plant Towers	$150,840.58
15050 - Physical Plant Mobile - (Mobile Carriers & Generators)	$101,446.32
15060 - Physical Plant Huts	$177,197.91
15070 - Physical Plant Tools & Equipment	$17,932.19
15098 - Accumulated Depreciation - Plant In Service	($6,104,261.48)
15100 - Physical Plant Network & Software	$19,120.09
15199 - Accumulated Depreciation - Software	($43,215.85)
15200 - Vehicles & Equipment	$505,171.66
15299 - Accumulated Depreciation - Vehicles	($258,233.00)
16000 - Railway Easement	$250,000.00
17000 - Land	$10,000.00
Total Fixed Assets	**$13,452,061.87**
Total ASSETS	**$21,128,255.57**
LIABILITIES & EQUITY	
Current Liabilities	
Accounts Payable	
20000 - Accounts Payable	$295,185.67
Total Accounts Payable	**$295,185.67**
Total Credit Card	**$2,321.24**
Other Current Liability	
20010 - Accrued Purchases	$2,020.23
26200 - Va Communications Tax	$3.52
Total Other Current Liability	**$2,023.75**
Total Current Liabilities	**$299,530.66**
Long Term Liabilities	
27500 - BB&T Loan for Expansion	$4,594,000.00
28000 - Deferred Income	$205,948.96
Total Long Term Liabilities	**$4,799,948.96**
Equity	
Retained Earnings	$13,888,711.33
Net Income	$2,140,064.62
Total Equity	**$16,028,775.95**
Total LIABILITIES & EQUITY	**$21,128,255.57**

Eastern Shore of Virginia Broadband Authority
Income Statement
FY 2020

Financial Row	Amount
Income	
40000 - Broadband Income	
Education Income	$566,666
Enterprise Income	$334,882
Government Income	$97,623
Medical Income	$124,451
Other Income	$349
Residential Income	$493,920
Wholesale Income	$2,719,375
Total - 40000 - Broadband Income	**$4,337,267**
40900 - Installation Income	
Enterprise Income	$51,183
Government Income	$4,900
Medical Income	$1,800
Residential Income	$176,895
Wholesale Income	$16,559
Total - 40900 - Installation Income	**$251,337**
46400 - Other Income	
Enterprise Income	-$552
Other Income	$6,388
Wholesale Income	$1,800
Total - 46400 - Other Income	**$7,636**
46460 - Interest Income	
- No Vertical -	-$129
Other Income	$43,336
Total - 46460 - Interest Income	**$43,207**
46470 - Other Income- USAC	
Other Income	$8,391
Total - 46470 - Other Income- USAC	**$8,391**
Total - Income	**$4,647,838**
Cost Of Sales	
50100 - Cost of Goods Sold:Internet Access	$138,502
50300 - Cost of Goods Sold:3rd Party Dark service	$321,393
50400 - Cost of Goods Sold:Utility Locates	$1,857
50500 - Cost of Goods Sold:Pole Attachments	$2,981
50600 - Cost of Goods Sold:3rd Party Transport	$191,488
51010 - Cost of Goods Sold:Collocation/Hut Expense:Utilities	$32,234
51020 - Cost of Goods Sold:Collocation/Hut Expense:Phone, Communic.	$1,636
51030 - Cost of Goods Sold:Collocation/Hut Expense:Fuel	$2,285
51090 - Cost of Goods Sold:Collocation/Hut Expense:Maintenance	$13,527
Total - Cost Of Sales	**$705,904**
Gross Profit	**$3,941,934**
Expense	
61200 - Payroll Expenses:Wages & Benefits	$1,062,500
62100 - Sales and Marketing:Sales Commissions	$10,095
62200 - Sales and Marketing:Marketing and Promotions	$8,340
62300 - Sales and Marketing:Marketing Materials	$2,035
63100 - Travel and Meetings:Conference, Convention, Meeting	$1,488
63200 - Travel and Meetings:Mileage/Tolls Reimbursement	$2,337
63400 - Travel and Meetings:Meals & Entertainment	$3,445
63500 - Travel and Meetings:Other Travel	$1,579
64100 - Advertising Expenses	$104
64200 - Bank Charges & Fees	$19,539
64300 - Dues, Subscriptions, Books	$2,325
64320 - Dumpster/Trash Removal	$2,260
64350 - Interest Expense	$216,317

64360 - Insurance - Liability, D and O	$600
64370 - Janitorial Services	$3,900
64400 - Office Supplies & Expense	$18,404
64420 - Printing and Copying	$3,230
64450 - Postage, Mailing & Shipping	$1,633
64460 - Office IT Hardware/Software	$56,488
64470 - Office Maintenance & Repair	$1,717
64480 - Rent or Lease Payments	$7,800
64630 - Staff Development	$1,780
64700 - Taxes	$13,146
64750 - Telephone & Telecommunications	$6,156
64760 - Mobile Phones	$2,500
64800 - Utilities	$252
65100 - Professional Services:Accounting & Administration	$25,000
65200 - Professional Services:Legal Fees	$11,266
67000 - Vehicle & Equipment Expenses	$10
67200 - Vehicle Equipment	$1,123
67300 - Vehicle Fuel	$25,407
67400 - Vehicle & Equip Maintenance & Repair Expenses	$13,128
68100 - Physical Plant Maintenance/Agreements/Warranties/Software	$118,151
68200 - Physical Plant Permits & Fees	$1,230
68300 - Physical Plant Repairs	$13,166
68330 - Physical Plant/Inventory Disposed Items	$53,201
68400 - Physical Plant Tools & Safety Equipment	$27,766
68500 - Physical Plant Shipping Freight & Delivery	$62,453
Total - Expense	**$1,801,870**
Net Income	**$2,140,065**

Roanoke Valley Broadband Authority

Financial Report

Year Ended June 30, 2017

Roanoke Valley Broadband Authority
Financial Report
Year Ended June 30, 2017

Table of Contents

FINANCIAL SECTION

Independent Auditors' Report

To the Members of the Board of Directors
Roanoke Valley Broadband Authority
Roanoke, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Roanoke Valley Broadband Authority, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority'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.

Auditors' 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. 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 auditors' 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 the business-type activities of the Roanoke Valley Broadband Authority, as of June 30, 2017, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension funding on pages 3-5 and 36-38, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2017, on our consideration of the Roanoke Valley Broadband Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Roanoke Valley Broadband Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
September 18, 2017

Management's Discussion and Analysis FY 2016/2017

Roanoke Valley Broadband Authority

This section of the Roanoke Valley Broadband Authority's annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year that ended June 30, 2017. Please read it in conjunction with the Authority's financial statements and related notes which follow this section.

Overview of the Financial Statements

On May 28, 2015, the RVBA issued its $5,780,000 Broadband Infrastructure Revenue Bond, Series 2015 (the "First Bond") pursuant to a Local Bond Sale and Financing Agreement offered through the Virginia Resources Authority Virginia Pooled Financing Program. The First Bond is to be paid back by the City of Roanoke, Virginia, and the City of Salem, Virginia, by October 1, 2025, in accordance with a support agreement (the "First Support Agreement") signed by the two participating jurisdictions. Funds were used to design, construct and operate the original 47-mile metropolitan, suburban and rural fiber optic telecommunications network with single ring architecture in the Roanoke Valley (the "Original Project").

On August 10, 2016, the RVBA issued its $3,450,000 Taxable Broadband Infrastructure Revenue Bond (the "Second Bond") pursuant to a second Local Bond Sale and Financing Agreement offered through the Virginia Resources Authority Virginia Pooled Financing Program. The Second Bond is to be paid back by October 1, 2026 by the County of Roanoke in accordance with a new support agreement (the "Second Support Agreement") for the Second Bond. The First Support Agreement was amended by the City of Roanoke, Virginia, and the City of Salem, Virginia, with the First Amendment to the Support Agreement. Funds were to be used to design, construct and operate an approximately 25-mile extension to the Original Project.

An Invitation for Bids was issued in the Fall of 2016 for the construction of the fiber network expansion. Notice of Award was issued by Thompson it Litton, Inc., the Authority's representative, to Utility Service Contractor, Inc. on December 21, 2016. Notice to Proceed was issued on February 8, 2017 with substantial completion to be completed by August 7, 2017.The contract price was set at $1,991,402.80. As of June 30, construction was 83-95% complete, depending on the route.

Debt service payments on the Second Bond totaling $49,240.19 were paid by the County of Roanoke. The first interest only payment was due and paid on 10/1/2016 and the next interest-only payment was due and paid on 4/1/2017. Most of the bond proceeds, except for required debt service reserves, were spent during the 2016/2017 fiscal year.

Interest payments on the First Bond totaling $279,651.75 were paid equally by the Cities of Roanoke and Salem. The first principal payment was due and paid on 10/1/2016 in the amount of $525,000.

In August 2016, the Authority hired a part-time Chief Fiscal Officer. In September 2016, the Authority hired a full time Vice President of Network Engineering and Operations and in May 2017, a Director of Solutions Engineering was hired.

EDDY Communications, a Branding and Marcom firm, was selected to design the new website which was completed in March 2017.

In September of 2016, a draft re-budget for operations was presented for the Board's approval. Some monies were moved from expense line items into other expense line items.

Service Rates were published in the Roanoke Times on December 11, 12, and 16, of 2016 in anticipation of a public hearing that was held on March 18, 2017. The rates were formally adopted by the Authority at the March 18, 2017 board meeting.

The Western Virginia Water Authority is responsible for GIS mapping of the RVBA network and payroll completion.

The Roanoke Valley Alleghany Regional Commission had housed the Authority and provided administrative and financial staffing. In March 2017, Authority staff moved into Suite 210 located at 601 S. Jefferson St. (Coulter Building) in Roanoke. The Authority still receives assistance from the Commission in the form of VA 811 mapping and assistance with Board meetings.

Virginia General Assembly Activities for Fiscal Year 2016/17

The RVBA participated in the legislative process in Richmond, Virginia to support and maintain its right by law to provide municipal broadband services to the community. Friends of Municipal Broadband provided support at the national, regional, and local policy levels to ensure the right of municipal broadband providers to deliver services as authorized through the Wireless Services Authority Act passed unanimously by both the House of Delegates and the Senate of the Virginia General Assembly. The RVBA received extensive national, regional, and local media coverage for its effort to support and protect municipal broadband.

Financial Analysis

Presented below is a Summary of the Authority's financial statements for the current and prior fiscal year. The Authority was in the development stage during these periods and therefore significant activity is related to the construction of infrastructure assets and basic operating expenditures.

Summary Statement of Net Position

	Fiscal Year Ending, June 30th	
Assets	2017	2016
Current assets	$ 296,545	$ 589,071
Non current assets	10,093,863	6,153,516
Total Assets	$ 10,390,408	$ 6,742,587
Deferred outflows of resources	$ 14,084	$ -
Liabilities		
Current liabilities	$ 1,492,511	$ 967,209
Non current liabilities	7,870,236	5,260,000
Total Liabilities	$ 9,362,747	$ 6,227,209
Deferred inflows of resources	$ 2,595	$ -
Net Position		
Net investment in capital assets	$ 905,413	$ 14,549
Unrestricted	133,737	500,829
Total Net Position	$ 1,039,150	$ 515,378

The Summary of Net Position shows an increase of $523,772.

Summary Statement of Revenues, Expenditures & Changes in Net Position

	Fiscal Year Ending, June 30th	
	2017	2016
Operating revenues	$ 176,736	$ 10,048
Operating expenditures	(1,101,489)	(308,510)
Operating income (loss)	$ (924,753)	$ (298,462)
Nonoperating revenues(expenses)	1,448,525	620,000
Change in net position	523,772	321,538
Net position, beginning of year	515,378	193,840
Net position, end of year	$ 1,039,150	$ 515,378

Economic Factors and Future Outlook

The RVBA continues to expand its network and serve the Roanoke Valley to support its mission and mandate. The RVBA is now looking at new services areas and delivery methods to support the Economic Development and well-being of the Roanoke Valley.

Contacting the Authority's Financial Management Staff

This financial report is designed to provide a general overview of the Authority's finances and show the Authority's accountability for the funds it receives. If you have questions about this report or need additional information, contact the Authority's Chief Fiscal Officer at 601 S. Jefferson Street, Suite 110, in Roanoke, Virginia 24011-2432, telephone 540-904-4739, or at odooley@highspeedroanoke.net.

Basic Financial Statements

Roanoke Valley Broadband Authority **Exhibit 1**

Statement of Net Position
As of June 30, 2017

Assets:		
Current Assets:		
Cash and cash equivalents	$	289,229
Accounts receivable (net of allowance for uncollectibles)		4,037
Prepaid items		3,279
Total current assets	$	296,545
Noncurrent Assets:		
Restricted cash and cash equivalents	$	2,080,836
Capital Assets:		
Purchased easements		73,893
Leasehold improvements		6,416
Infrastructure		5,963,797
Accumulated depreciation		(273,145)
Sub-total	$	5,770,961
Construction in progress		2,242,066
Total net capital assets	$	8,013,027
Total noncurrent assets	$	10,093,863
Total assets	$	10,390,408
Deferred Outflows of Resources:		
Items related to the measurement of the net pension liability:		
VRS pension plan	$	7,211
Contributions subsequent to the measurement date		6,873
Total deferred outflows of resources	$	14,084
Liabilities:		
Current Liabilities:		
Accounts payable	$	90,440
Construction related payables		400,702
Retainage payable		82,748
Accrued interest payable		52,424
Compensated absences - current portion		16,197
Revenue bonds - current portion		850,000
Total current liabilities	$	1,492,511
Noncurrent Liabilities:		
Compensated absences - net of current portion	$	5,399
Notes payable - net of current portion		5,000
Revenue bonds - net of current portion		7,855,000
Net pension liability		4,837
Total noncurrent liabilities	$	7,870,236
Total liabilities	$	9,362,747
Deferred Intflows of Resources:		
Items related to the measurement of the net pension liability:		
VRS pension plan	$	2,595
Net Position:		
Net investment in capital assets	$	905,413
Unrestricted		133,737
Total net position	$	1,039,150

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

Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2017

Operating Revenues:		
Charges for services	$	160,645
Miscellaneous		16,091
Total operating revenues	$	176,736
Operating expenses:		
Accounting	$	300
Advertising		2,721
Computer expenses		9,514
Professional fees		70,955
Insurance		2,991
Supplies - office		22,083
Carrier service		80,282
Telephone		5,985
Travel		16,811
Utilities		1,747
Postage		1,189
Dues and publications		2,566
Rent		23,051
Training expenses		2,373
Wages and benefits		367,065
Repairs and maintenance		17,486
Brand management		78,053
811 locates		47,363
Lobbying		63,500
Equipment		11,102
NOC Services		30,727
Depreciation		235,966
Miscellaneous		7,659
Total operating expenses	$	1,101,489
Operating income (loss)	$	(924,753)
Nonoperating revenues (Expenses):		
Interest income	$	1,648
Interest expense		(184,248)
Bond issuance costs		(68,849)
Contributions - operating		1,699,974
Total nonoperating revenues (expenses)	$	1,448,525
Change in net position	$	523,772
Net position, beginning of year		515,378
Net position, end of year	$	1,039,150

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

Roanoke Valley Broadband Authority **Exhibit 3**

Statement of Cash Flows
Year Ended June 30, 2017

Cash flows from operating activities:		
Receipts from customers and users	$	182,747
Payments to suppliers		(447,115)
Payments to employees		(352,121)
Net cash provided by (used for) operating activities	$	(616,489)
Cash flows from noncapital financing activities:		
Intergovernmental revenues/contributions	$	1,699,974
Net cash provided by (used for) noncapital financing activities	$	1,699,974
Cash flows from capital and related financing activities:		
Purchase of capital assets	$	(2,628,439)
Issuance of debt		3,450,000
Cost of debt issuance		(68,849)
Principal payments on bonds		(525,000)
Contributions in aid of construction		422,504
Interest payments		(193,360)
Net cash provided by (used for) capital and related financing activities	$	456,856
Cash flows from investing activities:		
Interest received	$	1,648
Net cash provided by (used for) investing activities	$	1,648
Increase (decrease) in cash and cash equivalents	$	1,541,989
Cash and cash equivalents, including restricted cash and cash equivalents, at beginning of year		828,076
Cash and cash equivalents, including restricted cash and cash equivalents, at end of year	$	2,370,065
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$	(924,753)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation		235,966
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable		6,011
(Increase) decrease in prepaid expenses		7,113
(Increase) decrease in pension deferred outflows		(14,084)
Increase (decrease) in operating payables		44,230
Increase (decrease) in compensated absences		21,596
Increase (decrease) in net pension liability		4,837
Increase (decrease) in pension deferred inflows		2,595
Net cash provided by (used for) operating activities	$	(616,489)

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

Interest expense of $24,504 was capitalized during the fiscal year.

Note 1–Summary of Significant Accounting Policies:

The financial statements of the Roanoke Valley Broadband Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. Financial Reporting Entity

The Roanoke Valley Broadband Authority was created as an authority pursuant to the Virginia Wireless Service Authorities Act, Chapter 54.1, Title 15.2 of the *Code of Virginia 1950 as amended.* The governing bodies of the County of Roanoke, the County of Botetourt, the City of Roanoke, and the City of Salem established the Roanoke Valley Broadband Authority (the "Authority") for the purpose of providing broadband services and related services to individuals and organizations within the boundaries of the aforementioned participating jurisdictions.

B. Basis of Accounting

The Roanoke Valley Broadband Authority, (the Authority) operates as an enterprise fund and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority’s principal ongoing operations. The principal operating revenues of the Authority will be charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of cash on hand, demand deposits, certificates of deposit and short-term investments with original maturities of three months or less from the date of acquisition.

D. Basic Financial Statements

The Authority's financial statements are prepared in accordance with GASB Statement No. 34, *Basic Financial Statements – For State and Local Governments.*

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Basic Financial Statements (Continued)

Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For the Authority, the basic financial statements and required supplementary information consist of:

- Enterprise fund financial statements
    - Statement of Net Position
    - Statement of Revenues, Expenses, and Changes in Net Position
    - Statement of Cash Flows
    - Notes to the Financial Statements
    - Required supplementary information

E. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Roanoke Valley Broadband Authority has two items that qualify for reporting in this category.

- Item one is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as an adjustment of the net pension liability next fiscal year. For more detailed information on these items, refer to the pension note herein (note 6).

- Item two is comprised of certain items related to the measurement of the net pension liability. This includes the net difference between projected and actual earnings on pension plan investments. For more detailed information on this item, refer to the pension note herein (note 6).

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Roanoke Valley Broadband Authority has one type of item that qualifies for reporting in this category.

- Certain items related to the measurement of the net pension asset are reported as deferred inflows of resources. This includes differences between expected and actual experience. For more detailed information on these items, refer to the pension note herein (note 6).

Note 1-Summary of Significant Accounting Policies: (Continued)

F. Restricted Assets

Certain resources set aside from bond proceeds are classified as restricted assets on the statement of net position because they are maintained in separate bank and/or investment accounts and their use is limited by applicable bond covenants. At year end, restricted assets totaling $2,080,836 were comprised of debt service reserves of $1,057,704, funds restricted for capital of $1,013,111, and escrow funds totaling $10,021 held pursuant to an escrow agreement with American Electric Power, Inc.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water and sewer systems), are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Interest expense for the period totaled $184,248 of which $24,504 was capitalized during the fiscal year. Property, plant, and equipment and infrastructure are depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Infrastructure	10-30
Easements	30

H. Prepaid Items

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

I. Other Significant Accounting Policies

- Investments, if any, are stated at fair value.
- The Authority bills for services in advance; therefore, no allowance for doubtful accounts has been reported.

Note 1-Summary of Significant Accounting Policies: (Continued)

J. Use of Estimates

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

K. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid accumulated leave balances. The liability is based on the leave accumulated at June 30. Limited leave may be accumulated until retirement or termination. Accumulated leave is paid at the employee's current wage upon retirement or termination.

L. Net Position

Net position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

M. Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Note 2-Deposits and Investments:

Deposits: Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. Seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Note 2-Deposits and Investments: (Continued)

Investments: Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

Custodial Credit Risk (Investments)

Custodial credit risk is the risk that, in the event of the failure of the counterparty, The Roanoke Valley Broadband Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Roanoke Valley Broadband Authority does has an investment policy for custodial credit risk. The Roanoke Valley Broadband Authority's investments at June 30, 2017 were held in the Organization's name by the Organization's custodial bank.

Credit Risk of Debt Securities

The Organization's rated debt investments as of June 30, 2017 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Authority's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings	
	AAAm	
First American Tax Free Obligations Fund	$	2,070,815

Note 3-Fair Value Measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy establish by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The Authority maximizes the use of observable inputs and minimized the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at a measurement date
- Level 2 – Directly or indirectly observable inputs for the asset or liability other than quoted prices
- Level 3 – Unobservable inputs that are supported by little or no market activity for the asset or liability

Note 3-Fair Value Measurement: (Continued)

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk.

The Authority has the following recurring fair value measurements as of June 30, 2017:

		Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
First American Tax Free Obligations Fund	6/30/2017	$ 2,070,815	$ -	$ -

Note 4-Capital Assets:

A summary of changes in capital assets for the year ended June 30, 2017 follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	$ -	$ 2,242,066	$ -	$ 2,242,066
Total capital assets not being depreciated, net	$ -	$ 2,242,066	$ -	$ 2,242,066
Capital assets, being depreciated:				
Purchased easements	$ 73,893	$ -	$ -	$ 73,893
Leasehold improvements	-	6,416	-	6,416
Infrastructure	5,434,853	528,944	-	5,963,797
Total capital assets being depreciated	$ 5,508,746	$ 535,360	$ -	$ 6,044,106
Accumulated depreciation:				
Purchased easements	$ (411)	$ (2,463)	$ -	$ (2,874)
Leasehold improvements	-	(357)	-	(357)
Infrastructure	(36,768)	(233,146)	-	(269,914)
Total accumulated depreciation	$ (37,179)	$ (235,966)	$ -	$ (273,145)
Total capital assets being depreciated, net	$ 5,471,567	$ 299,394	$ -	$ 5,770,961

Note 5-Long-term Obligations:

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2017:

	Balance July 1, 2016	Issuances	Retirements	Balance June 30, 2017
Revenue bonds	$ 5,780,000	$ 3,450,000	$ (525,000)	$ 8,705,000
Note payable	5,000	-	-	5,000
Compensated absences	-	21,596	-	21,596
Total	$ 5,785,000	$ 3,471,596	$ (525,000)	$ 8,731,596

Annual requirements to amortize long-term obligations and the related interest are as follows:

Year Ending	Revenue Bonds		Notes Payable	
December 31,	Principal	Interest	Principal	Interest
2018	$ 850,000	$ 204,397	$ -	$ -
2019	865,000	192,264	5,000	-
2020	875,000	177,112	-	-
2021	890,000	159,216	-	-
2022	915,000	138,268	-	-
2023-2027	4,310,000	290,125	-	-
Totals	$ 8,705,000	$ 1,161,382	$ 5,000	$ -

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Note 5-Long-term Obligations: (Continued)

Details of long-term obligations:

		Total Amount Due		Amount Due Within One Year
Revenue Bonds				
$5,780,000 in taxable revenue bonds issued on May 28, 2015. The bonds bear interest at rates ranging from 0.899% to 3.516% depending on maturity date. The bonds mature annually in amounts ranging from $525,000 to $655,000 on October 1, 2016 through October 1, 2025. Interest payments are due semi-annually on April 1st and October 1st.	$	5,255,000	$	530,000
$3,450,000 in taxable revenue bonds issued on July 27, 2016. The bonds bear interest at rates ranging from 1.141% to 2.622% depending on maturity date. The bonds mature annually in amounts ranging from $320,000 to $380,000 on October 1, 2017 through October 1, 2026. Interest payments are due semi-annually on April 1st and October 1st.		3,450,000		320,000
Subtotal	$	8,705,000	$	850,000
Note Payable				
$5,000 note payable due to the Roanoke Valley Alleghany Regional Commission issued on January 1, 2014. The interest free note is due on or before January 1, 2019.	$	5,000	$	-
Other Long-Term Obligations				
Compensated absences	$	21,596	$	16,197
Total long-term obligations	$	8,731,596	$	866,197

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Note 6-Pension Plan:

Plan Description

All full-time, salaried permanent employees of the Authority are automatically covered by VRS Retirement Plan upon employment, through the Western Virginia Water Authority. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. However, several entities participate in the VRS plan through Western Virginia Water Authority and the participating entities report their proportionate information on the basis of a cost-sharing plan. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS (CONTINUED)</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr><td></td><td></td><td>• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</td></tr>
<tr><td>Eligible Members
Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election
VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</td><td>Eligible Members
Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Hybrid Opt-In Election
Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</td><td>Eligible Members
Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:
• Political subdivision employees*
• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

*Non-Eligible Members
Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:
• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.</td></tr>
</table>

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Hybrid Opt-In Election (Cont.)** Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	***Non-Eligible Members (Cont.)** Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of July 1, 2016.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **Defined Contributions Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS (CONTINUED)</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr><td>Vesting (Cont.)</td><td>Vesting (Cont.)</td><td>Vesting (Cont.)
<u>Defined Contributions Component:</u> (Cont.)
Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.
• After two years, a member is 50% vested and may withdraw 50% of employer contributions.
• After three years, a member is 75% vested and may withdraw 75% of employer contributions.
• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.</td></tr>
<tr><td>Calculating the Benefit
The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</td><td>Calculating the Benefit
See definition under Plan 1.</td><td>Calculating the Benefit
<u>Defined Benefit Component:</u>
See definition under Plan 1.</td></tr>
</table>

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit (Cont.)**	**Calculating the Benefit (Cont.)** **<u>Defined Contribution Component:</u>** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **Sheriffs and regional jail superintendents:** The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. **Political subdivision hazardous duty employees:** The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **Sheriffs and regional jail superintendents:** Same as Plan 1. **Political subdivision hazardous duty employees:** Same as Plan 1.	**Service Retirement Multiplier** **<u>Defined Benefit Component:</u>** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Sheriffs and regional jail superintendents:** Not applicable. **Political subdivision hazardous duty employees:** Not applicable. **Defined Contribution Component:** Not applicable.

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Normal Retirement Age **VRS:** Age 65. **Political subdivisions hazardous duty employees:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Normal Retirement Age** **Defined Benefit Component:** **VRS:** Same as Plan 2. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **Political subdivisions hazardous duty employees:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Earliest Reduced Retirement Eligibility (Cont.) **Political subdivisions hazardous duty employees:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **Eligibility:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2.

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS (CONTINUED)</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr><td>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)

<u>Exceptions to COLA Effective Dates:</u>
The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:
• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
• The member retires on disability.
• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
• The member dies in service and the member’s survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</td><td>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)

<u>Exceptions to COLA Effective Dates:</u>
Same as Plan 1.</td><td>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)

<u>Exceptions to COLA Effective Dates:</u>
Same as Plan 1 and Plan 2.</td></tr>
</table>

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **<u>Defined Benefit Component:</u>** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. **<u>Defined Contribution Component:</u>** Not applicable.

Note 6-Pension Plan: (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report-pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Authority's contractually required contribution rate for the year ended June 30, 2017 was 6.07% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were $6,873 and $4,020 for the years ended June 30, 2017 and June 30, 2016, respectively.

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

At June 30, 2017, the Authority reported a liability of $4,837 for its proportionate share of the net pension liability. The Authority's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016. The Authority's proportionate share of the same was calculated using creditable compensation as of June 30, 2016 and 2015 as a basis for allocation. At June 30, 2016 and 2015, the Authority's proportion was 1.2736% and 00.00%, respectively.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Note 6-Pension Plan: (Continued)

Actuarial Assumptions – General Employees (Continued)

Inflation	2.5%
Salary increases, including inflation	3.5% – 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Note 6-Pension Plan: (Continued)

Actuarial Assumptions – General Employees (Continued)

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

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Note 6-Pension Plan: (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System 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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
		Inflation	2.50%
		*Expected arithmetic nominal return	8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

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Note 6-Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Authority Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Authority's proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	(6.00%)	**(7.00%)**	**(8.00%)**
Authority's proportionate share of the Authority Retirement Plan Net Pension Liability (Asset)	$ 28,959	$ 4,837	$ (14,874)

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Note 6-Pension Plan: (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the Authority recognized pension expense of $221. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2017, the Authority 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	$ -	$ 2,595
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	5,793	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,418	-
Employer contributions subsequent to the measurement date	6,873	-
Total	$ 14,084	$ 2,595

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Note 6-Pension Plan: (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

$6,873 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30		
2018	$	1,212
2019		1,212
2020		1,212
2021		1,212
2022		(232)

Note 7-Risk Management:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority participates with other government entities in a public entity risk pool for their coverage of liability insurance through the Virginia Municipal League (VML). Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The Authority makes contributions to a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss, deficit, or depletion of all available excess insurance, the pool may assess all members in the proportion to which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. Settled claims resulting from the aforementioned risks have not exceeded coverage in any of the past three years.

Note 8-Concentration of Funding:

The Authority received substantially all of its revenue in the current year from participant contributions and expects additional contributions will be necessary until a customer base sufficient to cover projected operating and capital costs is established.

Note 9-Upcoming Pronouncements:

The following standards have been issued by the Governmental Accounting Standards Board (GASB):

Statement No. 81, Irrevocable Split-Interest Agreements, improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Statement No. 83, Certain Asset Retirement Obligations, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 86, Certain Debt Extinguishment Issues, improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Statement No. 87, Leases, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

Schedule of Authority's Proportionate Share of the Net Pension Liability
Year Ended June 30, 2017

Date (1)	Proportion of the Net Pension Liability (NPL) (2)	Proportionate Share of the NPL (3)	Covered Payroll (4)	Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4) (5)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (6)
2016	1.2736%	$ 4,837	$ 101,538	4.76%	96.87%

Schedule is intended to show information for 10 years. The Authority did not participate in VRS until the 2016 fiscal year. As such, data is shown for all applicable periods.

Schedule of Employer Retirement Contributions
Years Ended June 30, 2016 through June 30, 2017

Date		Contractually Required Contribution (1)		Contributions in Relation to Contractually Required Contribution (2)		Contribution Deficiency (Excess) (3)		Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2017	$	6,873	$	6,873	$	-	$	209,362	3.28%
2016		4,020		4,020		-		101,538	3.96%

Schedule is intended to show information for 10 years; however the Authority did not participate in the retirement plan until the fiscal year ending June 30, 2016.

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:
- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:
- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

COMPLIANCE SECTION

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*

To the Members of the Board of Directors
Roanoke Valley Broadband Authority
Roanoke, Virginia

We have audited, in accordance with the 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 *Specifications for Audits of Authorities, Boards and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of the Roanoke Valley Broadband Authority, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Roanoke Valley Broadband Authority's basic financial statements, and have issued our report thereon dated September 18, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
September 18, 2017

Roanoke Valley Broadband Authority

Financial Report

Year Ended June 30, 2018

ROANOKE VALLEY BROADBAND AUTHORITY

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2018

Roanoke Valley Broadband Authority
Financial Report
Year Ended June 30, 2018

Table of Contents

FINANCIAL SECTION

Independent Auditors' Report

To the Members of the Board of Directors
Roanoke Valley Broadband Authority
Roanoke, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Roanoke Valley Broadband Authority, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority'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.

Auditors' 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. 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 auditors' 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 the business-type activities of the Roanoke Valley Broadband Authority, as of June 30, 2018, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension funding on pages 3-5 and 38-40, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2018, on our consideration of the Roanoke Valley Broadband Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Roanoke Valley Broadband Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Roanoke Valley Broadband Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
September 17, 2018

Management's Discussion and Analysis FY 2017/2018

Roanoke Valley Broadband Authority

This section of the Roanoke Valley Broadband Authority's annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year that ended June 30, 2018. Please read it in conjunction with the Authority's financial statements and related notes which follow this section.

Overview of Activity

On May 28, 2015, the RVBA issued its $5,780,000 Broadband Infrastructure Revenue Bond, Series 2015 (the "First Bond") pursuant to a Local Bond Sale and Financing Agreement through the Virginia Resource Authority Virginia Pooled Financing Program. The First Bond is to be paid back by the City of Roanoke, Virginia, and the City of Salem, Virginia, by October 1, 2025, in accordance with a support agreement (the First Support Agreement") signed by the two participating jurisdictions. Funds were used to design, construct and operate the original 47-mile metropolitan, suburban and rural fiber optic telecommunications network with single ring architecture in the Roanoke Valley (the "Original Project"). The Authority continues to service this debt through contributions from the participants.

On August 10, 2016, the RVBA issued its $3,450,000 Broadband Infrastructure Revenue Bond, Series 2015 (the "Second Bond") pursuant to a second Local Bond Sale and Financing Agreement through the Virginia Resource Authority Virginia Pooled Financing Program. The Second Bond is to be paid back by October 1, 2026 by County of Roanoke, in accordance with a new support agreement (the Second Support Agreement") for the Second Bond. The First Support Agreement was amended by the City of Roanoke, Virginia, and the City of Salem, Virginia, with the First Amendment to the Support Agreement. Funds were used to design, construct and operate an approximately 25-mile extension to the Original Project. Substantial completion of Phase II was completed on August 21, 2017. The Authority continues to service this debt through contributions from the participants.

Two new telecommunications switching centers located at the Roanoke County Library and on Cook Drive in Salem were completed in the summer of 2017. A third telecommunications switching center was installed in a public safety facility.

A computerized billing system was put in place beginning July 1, 2017. A cloud-based network monitoring system was put into place in July 2017 and a computerized fiber management system was put into place in May 2018.

The RVBA assisted the County of Botetourt with a Broadband survey which occurred Oct – Dec 2017. Roanoke City, Salem City and Roanoke County businesses were surveyed for their requirements during the Winter of 2018. This reaffirmed the critical need for the services provided by the RVBA to the community.

The RVBA provided services in the Botetourt County area which included a lateral extension to the Greenfield Industrial Park in Daleville.

A seminar focusing on the benefits of Broadband for business was held in Roanoke County in March of 2018 to in support of economic development initiatives.

An Industry Advisory Group (IAG) was created to bring senior members of the local government IT teams to explore and examine new ways to utilize the services of the RVBA to support the community.

An Employee Handbook adopted in January of 2018.

A new position of Sales Director was created and filled in March of 2018.

The Western Virginia Water Authority continues to support the GIS mapping and payroll services requirements of the RVBA.

Virginia General Assembly Activities for Fiscal Year 2017/18

The RVBA continued to actively participate in the legislative process in Richmond, Virginia to support and maintain its right by law to provide municipal broadband services to the community.

Financial Analysis

Presented below is a Summary of the Authority's financial statements for the current and prior fiscal year. The Authority was in the development stage during these periods and therefore significant activity is related to the construction of infrastructure assets and basic operating expenditures.

Summary Statement of Net Position

	Fiscal Year Ending, June 30th		
Assets	2018	2017	2016
Current assets	$ 605,296	$ 296,545	$ 589,071
Noncurrent assets	9,570,524	10,093,863	6,153,516
Total Assets	$ 10,175,820	$ 10,390,408	$ 6,742,587
Deferred outflows of resources	$ 9,424	$ 14,084	$ -
Liabilities			
Current liabilities	$ 1,212,681	$ 1,492,511	$ 967,209
Noncurrent liabilities	6,996,136	7,870,236	5,260,000
Total Liabilities	$ 8,208,817	$ 9,362,747	$ 6,227,209
Deferred inflows of resources	$ 12,224	$ 2,595	$ -
Net Position			
Net investment in capital assets	$ 1,701,909	$ 905,413	$ 14,549
Unrestricted	262,294	133,737	500,829
Total Net Position	$ 1,964,203	$ 1,039,150	$ 515,378

The Summary of Net Position shows an increase of $925,053.

Summary Statement of Revenues, Expenditures & Changes in Net Position

	Fiscal Year Ending, June 30th		
	2018	2017	2016
Operating revenues	$ 224,813	$ 176,736	$ 10,048
Operating expenditures	(1,392,311)	(1,101,489)	(308,510)
Operating income (loss)	$ (1,167,498)	$ (924,753)	$ (298,462)
Nonoperating revenues(expenses)	$ 2,092,551	$ 1,448,525	$ 620,000
Change in net position	925,053	523,772	321,538
Net position, beginning of year	1,039,150	515,378	193,840
Net position, end of year	$ 1,964,203	$ 1,039,150	$ 515,378

Economic Factors and Future Outlook

The RVBA continues to expand its network and serve the Roanoke Valley to support its mission and mandate. The RVBA continues to examine and evaluate new services areas and delivery methods to support the Economic Development and well-being of the Roanoke Valley.

Contacting the Authority's Financial Management Staff

This financial report is designed to provide a general overview of the Authority's finances and show the Authority's accountability for the funds it receives. If you have any questions about this report or need additional information, contact the Authority's Chief Fiscal Officer at 601 S. Jefferson Street, Suite 110, Roanoke, Virginia 24011-2432, telephone 540-904-4739, or at odooley@highspeedroanoke.net.

Basic Financial Statements

Roanoke Valley Broadband Authority **Exhibit 1**

Statement of Net Position
As of June 30, 2018

Assets:		
Current Assets:		
Cash and cash equivalents	$	477,680
Accounts receivable (net of allowance for uncollectibles)		32,933
Inventory		45,773
Prepaid items		48,910
Total current assets	$	605,296
Noncurrent Assets:		
Restricted cash and cash equivalents	$	1,069,352
Net pension asset		13,615
Capital Assets:		
Purchased easements		73,893
Leasehold improvements		6,416
Infrastructure		8,942,273
Accumulated depreciation		(608,403)
Sub-total	$	8,414,179
Construction in progress		73,378
Total net capital assets	$	8,487,557
Total noncurrent assets	$	9,570,524
Total assets	$	10,175,820
Deferred Outflows of Resources:		
Items related to the measurement of the net pension liability:		
VRS pension plan	$	1,464
Contributions subsequent to the measurement date		7,960
Total deferred outflows of resources	$	9,424
Liabilities:		
Current Liabilities:		
Accounts payable	$	110,800
Accrued interest payable		49,774
Unearned revenue		163,699
Compensated absences - current portion		18,408
Note payable-current portion		5,000
Revenue bonds - current portion		865,000
Total current liabilities	$	1,212,681
Noncurrent Liabilities:		
Compensated absences - net of current portion	$	6,136
Revenue bonds - net of current portion		6,990,000
Total noncurrent liabilities	$	6,996,136
Total liabilities	$	8,208,817
Deferred Intflows of Resources:		
Items related to the measurement of the net pension liability:		
VRS pension plan	$	12,224
Net Position:		
Net investment in capital assets	$	1,701,909
Unrestricted		262,294
Total net position	$	1,964,203

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

Roanoke Valley Broadband Authority **Exhibit 2**

Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2018

Operating Revenues:		
Charges for services	$	223,662
Miscellaneous		1,151
Total operating revenues	$	224,813
Operating expenses:		
Wages and benefits		443,965
Professional fees		166,614
Carrier service		90,309
811 locates		61,876
Brand management		59,409
Repairs and maintenance		43,968
NOC Services		39,526
Rent		37,830
Supplies - office		23,867
Billing expense		18,000
Miscellaneous		16,187
Travel		12,819
Telephone		10,645
Advertising		7,296
Installation		6,237
Computer expenses		5,206
Insurance		4,102
Utilities		2,782
Postage		2,780
Training expenses		1,970
Dues and publications		1,665
Depreciation		335,258
Total operating expenses	$	1,392,311
Operating income (loss)	$	(1,167,498)
Nonoperating revenues (expenses):		
Interest income	$	2,823
Interest expense		(174,819)
Connection/installation fees		185,611
Contributions - operating		2,078,936
Total nonoperating revenues (expenses)	$	2,092,551
Change in net position	$	925,053
Net position, beginning of year		1,039,150
Net position, end of year	$	1,964,203

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

Roanoke Valley Broadband Authority **Exhibit 3**

Statement of Cash Flows
Year Ended June 30, 2018

Cash flows from operating activities:	
Receipts from customers and users	$ 195,917
Payments to suppliers	(684,132)
Payments to employees	(445,180)
Net cash provided by (used for) operating activities	$ (933,395)
Cash flows from noncapital financing activities:	
Intergovernmental revenues/contributions	$ 2,242,635
Net cash provided by (used for) noncapital financing activities	$ 2,242,635
Cash flows from capital and related financing activities:	
Purchase of capital assets	$ (1,293,238)
Contributions/installation fees	185,611
Principal payments on bonds	(850,000)
Interest payments	(177,469)
Net cash provided by (used for) capital and related financing activities	$ (2,135,096)
Cash flows from investing activities:	
Interest received	$ 2,823
Net cash provided by (used for) investing activities	$ 2,823
Increase (decrease) in cash and cash equivalents	$ (823,033)
Cash and cash equivalents, including restricted cash and cash equivalents, at beginning of year	2,370,065
Cash and cash equivalents, including restricted cash and cash equivalents, at end of year	$ 1,547,032
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	$ (1,167,498)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	335,258
Changes in operating assets and liabilities:	
(Increase) decrease in accounts receivable	(28,896)
(Increase) decrease in inventory	(45,773)
(Increase) decrease in prepaid expenses	(45,631)
(Increase) decrease in pension deferred outflows of resources	4,660
Increase (decrease) in operating payables	20,360
Increase (decrease) in compensated absences	2,948
Increase (decrease) in net pension liability or asset	(18,452)
Increase (decrease) in pension deferred inflows of resources	9,629
Net cash provided by (used for) operating activities	$ (933,395)

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

Interest expense of $25,038 was capitalized during the fiscal year.

Note 1–Summary of Significant Accounting Policies:

The financial statements of the Roanoke Valley Broadband Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. Financial Reporting Entity

The Roanoke Valley Broadband Authority was created as an authority pursuant to the Virginia Wireless Service Authorities Act, Chapter 54.1, Title 15.2 of the *Code of Virginia 1950 as amended.* The governing bodies of the County of Roanoke, the County of Botetourt, the City of Roanoke, and the City of Salem established the Roanoke Valley Broadband Authority (the "Authority") for the purpose of providing broadband services and related services to individuals and organizations within the boundaries of the aforementioned participating jurisdictions.

B. Basis of Accounting

The Roanoke Valley Broadband Authority, (the Authority) operates as an enterprise fund and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority will be charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of cash on hand, demand deposits, certificates of deposit and short-term investments with original maturities of three months or less from the date of acquisition.

D. Basic Financial Statements

The Authority's financial statements are prepared in accordance with GASB Statement No. 34, *Basic Financial Statements – For State and Local Governments.*

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Basic Financial Statements (Continued)

Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For the Authority, the basic financial statements and required supplementary information consist of:

- Enterprise fund financial statements
    - Statement of Net Position
    - Statement of Revenues, Expenses, and Changes in Net Position
    - Statement of Cash Flows
    - Notes to the Financial Statements
    - Required supplementary information

E. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Roanoke Valley Broadband Authority has two items that qualify for reporting in this category.

- Item one is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as an adjustment of the net pension liability next fiscal year. For more detailed information on these items, refer to the pension note herein (note 6).

- Item two is comprised of certain items related to the measurement of the net pension liability/asset. This includes the net difference between projected and actual earnings on pension plan investments. For more detailed information on this item, refer to the pension note herein (note 6).

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Roanoke Valley Broadband Authority has one type of item that qualifies for reporting in this category.

- Certain items related to the measurement of the net pension asset are reported as deferred inflows of resources. This includes differences between expected and actual experience. For more detailed information on these items, refer to the pension note herein (note 6).

Note 1–Summary of Significant Accounting Policies: (Continued)

F. Restricted Assets

Certain resources set aside from bond proceeds are classified as restricted assets on the statement of net position because they are maintained in separate bank and/or investment accounts and their use is limited by applicable bond covenants. At year end, restricted assets totaling $1,069,352 were comprised of debt service reserves of $1,059,327 and escrow funds totaling $10,025 held pursuant to an escrow agreement with American Electric Power, Inc.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water and sewer systems), are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Interest expense for the period totaled $199,857 of which $25,038 was capitalized during the fiscal year. Property, plant, and equipment and infrastructure are depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Infrastructure	10-30
Easements	30
Leasehold improvements	term of lease

H. Prepaid Items

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

I. Other Significant Accounting Policies

- The Authority bills for services in advance; therefore, no allowance for doubtful accounts has been reported.

Note 1–Summary of Significant Accounting Policies: (Continued)

J. Use of Estimates

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

K. Investments

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs) and external investment pools are measured at amortized cost in accordance with GASB 79. All other investments are reported at fair value.

L. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid accumulated leave balances. The liability is based on the leave accumulated at June 30. Limited leave may be accumulated until retirement or termination. Accumulated leave is paid at the employee's current wage upon retirement or termination.

M. Net Position

Net position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

N. Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Note 2-Deposits and Investments:

Deposits: Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. Seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments: Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

Credit Risk of Debt Securities

The Organization's rated debt investments as of June 30, 2018 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Authority's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings
	AAAm
First American Government Obligations Fund - Class D	$ 1,059,327

Interest Rate Risk

The Organization has not adopted an investment policy for interest rate risk. Investments subject to interest rate risk are presented below along with their corresponding maturities.

	Investment Maturities (in years)		
Investment Type	Fair Value	Less 1 yr	6-10 yrs
First American Government Obligations Fund - Class D	$ 1,059,327	$ 1,059,327	$ -

Concentration of Credit Risk

The Organization has not adopted an investment policy for concentration of credit risk.

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Note 3-Fair Value Measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy establish by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The Authority maximizes the use of observable inputs and minimized the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at a measurement date
- Level 2 – Directly or indirectly observable inputs for the asset or liability other than quoted prices
- Level 3 – Unobservable inputs that are supported by little or no market activity for the asset or liability

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk.

The Authority has the following recurring fair value measurements as of June 30, 2018:

	Fair Value Measurement Using		
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
First American Government Obligations Fund - Class D	$ 1,059,327	$ -	$ -

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Note 4-Capital Assets:

A summary of changes in capital assets for the year ended June 30, 2018 follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	$ 2,242,066	$ 73,378	$ (2,242,066)	$ 73,378
Total capital assets not being depreciated, net	$ 2,242,066	$ 73,378	$ (2,242,066)	$ 73,378
Capital assets, being depreciated:				
Purchased easements	$ 73,893	$ -	$ -	$ 73,893
Leasehold improvements	6,416	-	-	6,416
Infrastructure	5,963,797	2,978,476	-	8,942,273
Total capital assets being depreciated	$ 6,044,106	$ 2,978,476	$ -	$ 9,022,582
Accumulated depreciation:				
Purchased easements	$ (2,874)	$ (2,462)	$ -	$ (5,336)
Leasehold improvements	(357)	(2,138)	-	(2,495)
Infrastructure	(269,914)	(330,658)	-	(600,572)
Total accumulated depreciation	$ (273,145)	$ (335,258)	$ -	$ (608,403)
Total capital assets being depreciated, net	$ 5,770,961	$ 2,643,218	$ -	$ 8,414,179
Capital assets, net	$ 8,013,027	$ 2,716,596	$ (2,242,066)	$ 8,487,557

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Note 5-Long-term Obligations:

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2018:

	Balance July 1, 2017	Issuances	Retirements	Balance June 30, 2018
Revenue bonds	$ 8,705,000	$ -	$ (850,000)	$ 7,855,000
Note payable	5,000	-	-	5,000
Compensated absences	21,596	19,145	(16,197)	24,544
Total	$ 8,731,596	$ 19,145	$ (866,197)	$ 7,884,544

Annual requirements to amortize long-term obligations and the related interest are as follows:

Year Ending	Revenue Bonds		Notes Payable	
December 31,	Principal	Interest	Principal	Interest
2019	$ 865,000	$ 192,264	$ 5,000	$ -
2020	875,000	177,112	-	-
2021	890,000	159,216	-	-
2022	915,000	138,268	-	-
2023	940,000	114,171	-	-
2023-2027	3,370,000	175,954	-	-
Totals	$ 7,855,000	$ 956,985	$ 5,000	$ -

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Note 5-Long-term Obligations: (Continued)

Details of long-term obligations:

	Total Amount Due	Amount Due Within One Year
Revenue Bonds		
$5,780,000 in taxable revenue bonds issued on May 28, 2015. The bonds bear interest at rates ranging from 0.899% to 3.516% depending on maturity date. The bonds mature annually in amounts ranging from $525,000 to $655,000 on October 1, 2016 through October 1, 2025. Interest payments are due semi-annually on April 1st and October 1st.	$ 4,725,000	$ 540,000
$3,450,000 in taxable revenue bonds issued on July 27, 2016. The bonds bear interest at rates ranging from 1.141% to 2.622% depending on maturity date. The bonds mature annually in amounts ranging from $320,000 to $380,000 on October 1, 2017 through October 1, 2026. Interest payments are due semi-annually on April 1st and October 1st.	3,130,000	325,000
Subtotal	$ 7,855,000	$ 865,000
Note Payable		
$5,000 note payable due to the Roanoke Valley Alleghany Regional Commission issued on January 1, 2014. The interest free note is due on or before January 1, 2019.	$ 5,000	$ 5,000
Other Long-Term Obligations		
Compensated absences	$ 24,544	$ 18,408
Total long-term obligations	$ 7,884,544	$ 888,408

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Note 6-Pension Plan:

Plan Description

All full-time, salaried permanent employees of the Authority are automatically covered by VRS Retirement Plan upon employment, through the Western Virginia Water Authority. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. However, several entities participate in the VRS plan through Western Virginia Water Authority and the participating entities report their proportionate information on the basis of a cost-sharing plan. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
		• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Hybrid Opt-In Election (Cont.)** Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	***Non-Eligible Members (Cont.)** Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contribution Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **Defined Contribution Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Vesting (Cont.)	**Vesting (Cont.)**	**Vesting (Cont.)** **Defined Contribution Component: (Cont.)** Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1.

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit (Cont.)**	**Calculating the Benefit (Cont.)** **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **Sheriffs and regional jail superintendents:** The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. **Political subdivision hazardous duty employees:** The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **Sheriffs and regional jail superintendents:** Same as Plan 1. **Political subdivision hazardous duty employees:** Same as Plan 1.	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Sheriffs and regional jail superintendents:** Not applicable. **Political subdivision hazardous duty employees:** Not applicable. **Defined Contribution Component:** Not applicable.

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Normal Retirement Age **VRS:** Age 65. **Political subdivisions hazardous duty employees:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Normal Retirement Age** **<u>Defined Benefit Component:</u>** **VRS:** Same as Plan 2. **Political subdivisions hazardous duty employees:** Not applicable. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **Political subdivisions hazardous duty employees:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **<u>Defined Benefit Component:</u>** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Not applicable. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **<u>Defined Benefit Component:</u>** **VRS: A**ge 60 with at least five years (60 months) of creditable service.

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Earliest Reduced Retirement Eligibility (Cont.) **Political subdivisions hazardous duty employees:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Not applicable. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **<u>Eligibility:</u>** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **<u>Eligibility:</u>** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement** **<u>Defined Benefit Component:</u>** Same as Plan 2. **<u>Defined Contribution Component:</u>** Not applicable. **<u>Eligibility:</u>** Same as Plan 1 and Plan 2.

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Cost-of-Living Adjustment (COLA) in Retirement (Cont.) **Exceptions to COLA Effective Dates:** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **Exceptions to COLA Effective Dates:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.	**Disability Coverage** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • **Defined Contribution Component:** Not applicable.

Note 6-Pension Plan: (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report-pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Authority's contractually required employer contribution rate for the year ended June 30, 2018 was 6.07% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were $7,960 and $6,873 for the years ended June 30, 2018 and June 30, 2017, respectively.

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the Authority reported an asset of $13,615 for its proportionate share of the net pension asset. The Authority's net pension asset was measured as of June 30, 2017. The total pension asset used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017. The Authority's proportionate share of the same was calculated using creditable compensation as of June 30, 2017 and 2016 as a basis for allocation. At June 30, 2017 and 2016, the Authority's proportion was 1.4056% and 1.2736%, respectively.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Note 6-Pension Plan: (Continued)

Actuarial Assumptions – General Employees (Continued)

Inflation	2.5%
Salary increases, including inflation	3.5% – 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Largest 10 – Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

Note 6-Pension Plan: (Continued)

Actuarial Assumptions – General Employees (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

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Note 6-Pension Plan: (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System 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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

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Note 6-Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Authority Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability (asset) using the discount rate of 7.00%, as well as what the Authority's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	(6.00%)	**(7.00%)**	**(8.00%)**
Authority's proportionate share of the Authority Retirement Plan Net Pension Liability (Asset)	$ 14,274	$ (13,615)	$ (36,391)

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Note 6-Pension Plan: (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the Authority recognized pension expense of $4,164. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2018, the Authority 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	$ -	$ 4,227
Change in assumptions	-	5,110
Net difference between projected and actual earnings on pension plan investments	-	2,887
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,464	-
Employer contributions subsequent to the measurement date	7,960	-
Total	$ 9,424	$ 12,224

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Note 6-Pension Plan: (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

$7,960 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30		
2019	$	(2,390)
2020		(2,390)
2021		(2,390)
2022		(3,590)
2023		-
Thereafter		-

Note 7-Risk Management:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority participates with other government entities in a public entity risk pool for their coverage of liability insurance through the Virginia Municipal League (VML). Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The Authority makes contributions to a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss, deficit, or depletion of all available excess insurance, the pool may assess all members in the proportion to which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. Settled claims resulting from the aforementioned risks have not exceeded coverage in any of the past three years.

Note 8-Concentration of Funding:

The Authority received substantially all of its revenue in the current year from participant contributions and expects additional contributions will be necessary until a customer base sufficient to cover projected operating and capital costs is established.

Note 9-Upcoming Pronouncements:

The following standards have been issued by the Governmental Accounting Standards Board (GASB):

Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, clarifies which liabilities governments should include when disclosing information related to debt. It defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, it requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Note 9-Upcoming Pronouncements: (Continued)

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

Schedule of Authority's Proportionate Share of the Net Pension Liability (Asset)
For the Years Ended June 30, 2017 through June 30, 2018

Date (1)	Proportion of the Net Pension Liability (Asset) (NPLA) (2)	Proportionate Share of the NPLA (3)	Covered Payroll (4)	Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4) (5)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (Asset) (6)
2017	1.4056%	$ (13,615)	$ 209,362	-6.50%	-107.42%
2016	1.2736%	4,837	101,538	4.76%	96.87%

Schedule is intended to show information for 10 years. The Authority did not participate in VRS until the 2016 fiscal year. As such, data is shown for all applicable periods.

Schedule of Employer Retirement Contributions
Years Ended June 30, 2016 through June 30, 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2018	$ 7,960	$ 7,960	$ -	$ 281,169	2.83%
2017	6,873	6,873	-	209,362	3.28%
2016	4,020	4,020	-	101,538	3.96%

Schedule is intended to show information for 10 years; however the Authority did not participate in the retirement plan until the fiscal year ending June 30, 2016.

Notes to Required Supplementary Information
Year Ended June 30, 2018

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy,	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Largest 10 – Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy,	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy,	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

All Others (Non 10 Largest) – Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy,	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

COMPLIANCE SECTION

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*

To the Members of the Board of Directors
Roanoke Valley Broadband Authority
Roanoke, Virginia

We have audited, in accordance with the 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 *Specifications for Audits of Authorities, Boards and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of the Roanoke Valley Broadband Authority, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Roanoke Valley Broadband Authority's basic financial statements, and have issued our report thereon dated September 17, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
September 17, 2018

Roanoke Valley Broadband Authority

Financial Report

Year Ended June 30, 2019

ROANOKE VALLEY BROADBAND AUTHORITY

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2019

Roanoke Valley Broadband Authority
Financial Report
Year Ended June 30, 2019

Table of Contents

FINANCIAL SECTION

Independent Auditors' Report

To the Members of the Board of Directors
Roanoke Valley Broadband Authority
Roanoke, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Roanoke Valley Broadband Authority, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority'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.

Auditors' 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. 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 auditors' 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 the business-type activities of the Roanoke Valley Broadband Authority, as of June 30, 2019, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 9 to the financial statements, in 2019, the Roanoke Valley Broadband Authority adopted new accounting guidance, GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension funding on pages 3-5 and 28-30, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2019, on our consideration of the Roanoke Valley Broadband Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Roanoke Valley Broadband Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Roanoke Valley Broadband Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
October 4, 2019

<u>**Management's Discussion and Analysis FY 2018/2019**</u>

Roanoke Valley Broadband Authority

This section of the Roanoke Valley Broadband Authority's (RVBA) annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year that ended June 30, 2019. Please read it in conjunction with the Authority's financial statements and related notes which follow this section.

Overview of Activity

Service revenue increased forty percent over the previous fiscal year, accordingly, cash on hand at year end increased thirty eight percent. Operating expenses increased only four percent, allowing the Roanoke Valley Broadband Authority to allocate more to the operating expense with consistently increasing service revenue. Net income was up by 18 percent.

The RVBA continued to expand its network footprint through the addition of approximately ten additional miles of fiber that supports both core backbone infrastructure and customer connections. The RVBA supported the expansion of Rural Broadband in the Bent Mountain area of Roanoke County and expanded its service to the community through the connection of the City of Roanoke's libraries. In addition to expanding service to the government and business community, the RVBA now serves major education and research institutions in the Innovation District of the City of Roanoke. The City of Salem continues to engage the RVBA in economic development projects such as the Salem Motor Lofts mixed used project. The County of Botetourt has partnered with the RVBA to develop a mission critical telecommunications facility in the Greenfield Center. The RVBA continues to positively impact the community it serves and the localities that support it.

On May 28, 2015, the RVBA issued its $5,780,000 Broadband Infrastructure Revenue Bond, Series 2015 (the "First Bond") pursuant to a Local Bond Sale and Financing Agreement through the Virginia Resource Authority Virginia Pooled Financing Program. The First Bond is to be paid back by the City of Roanoke, Virginia, and the City of Salem, Virginia, by October 1, 2025, in accordance with a support agreement (the First Support Agreement") signed by the two participating jurisdictions. Funds were used to design, construct and operate the original 47-mile metropolitan, suburban and rural fiber optic telecommunications network with single ring architecture in the Roanoke Valley (the "Original Project"). The Authority continues to service this debt through contributions from the participants.

On August 10, 2016, the RVBA issued its $3,450,000 Broadband Infrastructure Revenue Bond, Series 2015 (the "Second Bond") pursuant to a second Local Bond Sale and Financing Agreement through the Virginia Resource Authority Virginia Pooled Financing Program. The Second Bond is to be paid back by October 1, 2026 by the County of Roanoke, in accordance with a new support agreement (the Second Support Agreement") for the Second Bond. The First Support Agreement was amended by the City of Roanoke, Virginia, and the City of Salem, Virginia, with the First Amendment to the Support Agreement. Funds were used to design, construct and operate an approximately 25-mile extension to the Original Project. Substantial completion of Phase II was completed on August 21, 2017. The Authority continues to service this debt through contributions from the participants.

The Western Virginia Water Authority continues to support the GIS mapping and payroll services requirements of the RVBA.

Virginia General Assembly Activities for Fiscal Year 2018/19

The RVBA continued to actively participate in the legislative process in Richmond, Virginia to support and maintain its right by law to provide municipal broadband services to the community.

Financial Analysis

Presented below is a Summary of the Authority's financial statements for the current and prior fiscal years. The Authority was in the development stage during these periods and therefore significant activity is related to the construction of infrastructure assets and basic operating expenditures.

Summary Statement of Net Position

	Fiscal Year Ending, June 30th		
	2019	2018	2017
Assets			
Current asset	$ 738,278	$ 605,296	$ 296,545
Non current assets	9,672,295	9,570,524	10,093,863
Total assets	$ 10,410,573	$ 10,175,820	$ 10,390,408
Deferred outflows of resources	$ 7,146	$ 9,424	$ 14,084
Liabilities			
Current liabilities	$ 1,233,073	$ 1,212,681	$ 1,492,511
Non current liabilities	6,122,883	6,996,136	7,870,236
Total liabilities	$ 7,355,956	$ 8,208,817	$ 9,362,747
Deferred inflows of resources	$ 9,923	$ 12,224	$ 2,595
Net position			
Net investment in capital assets	$ 2,464,765	$ 1,701,909	$ 905,413
Unrestricted	587,075	262,294	133,737
Total net position	$ 3,051,840	$ 1,964,203	$ 1,039,150

The Summary of Net Position shows an increase of $1,087,637.

Summary Statement of Revenues, Expenditures & Changes in Net Position

	Fiscal Year Ending, June 30th		
	2019	2018	2017
Operating revenues	$ 326,378	$ 410,424	$ 176,736
Operating expenditures	(1,453,891)	(1,392,311)	(1,101,489)
Operating income (loss)	$ (1,127,513)	$ (981,887)	$ (924,753)
Nonoperating revenues (expenses)	$ 2,215,150	$ 1,906,940	$ 1,448,525
Change in net position	$ 1,087,637	$ 925,053	$ 523,772
Net position, beginning of year	1,964,203	1,039,150	515,378
Net position, end of year	$ 3,051,840	$ 1,964,203	$ 1,039,150

Economic Factors and Future Outlook

The RVBA continues to expand its network and serve the Roanoke Valley to support its mission and mandate. The RVBA continues to examine and evaluate new services areas and delivery methods to support the Economic Development and well-being of the Roanoke Valley.

Contacting the Authority's Financial Management Staff

This financial report is designed to provide a general overview of the Authority's finances and show the Authority's accountability for the funds it receives. If you have any questions about this report or need additional information, contact the Authority's Chief Fiscal Officer at 601 S. Jefferson Street, Suite 110, Roanoke, Virginia 24011-2432, telephone 540-204-9200, or at odooley@highspeedroanoke.net.

Basic Financial Statements

Roanoke Valley Broadband Authority **Exhibit 1**

Statement of Net Position
As of June 30, 2019

Assets:		
Current Assets:		
Cash and cash equivalents	$	660,795
Accounts receivable (net of allowance for uncollectibles)		17,114
Inventory		30,151
Prepaid items		30,218
Total current assets	$	738,278
Noncurrent Assets:		
Restricted cash and cash equivalents	$	1,070,933
Net pension asset		15,757
Capital Assets:		
Purchased easements		76,693
Machinery and equipment		14,344
Leasehold improvements		6,416
Infrastructure		9,196,421
Accumulated depreciation		(973,101)
Sub-total	$	8,320,773
Construction in progress		264,832
Total net capital assets	$	8,585,605
Total noncurrent assets	$	9,672,295
Total assets	$	10,410,573
Deferred Outflows of Resources:		
Pension related items	$	7,146
Total deferred outflows of resources	$	7,146
Liabilities:		
Current Liabilities:		
Accounts payable	$	81,194
Construction related payables		191,684
Retainage payable		10,089
Accrued interest payable		46,358
Unearned revenue		5,100
Compensated absences - current portion		23,648
Revenue bonds - current portion		875,000
Total current liabilities	$	1,233,073
Noncurrent Liabilities:		
Compensated absences - net of current portion	$	7,883
Revenue bonds - net of current portion		6,115,000
Total noncurrent liabilities	$	6,122,883
Total liabilities	$	7,355,956
Deferred Inflows of Resources:		
Pension related items	$	9,923
Total deferred inflows of resources		9,923
Net Position:		
Net investment in capital assets	$	2,464,765
Unrestricted		587,075
Total net position	$	3,051,840

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

Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2019

Operating Revenues:		
Charges for services	$	311,379
Miscellaneous		14,999
Total operating revenues	$	326,378
Operating expenses:		
Wages and benefits		518,336
Professional fees		93,935
Carrier service		99,672
811 locates		61,978
Brand management		60,000
Repairs and maintenance		85,012
NOC Services		25,740
Rent		43,834
Supplies - office		25,149
Billing expense		17,500
Miscellaneous		10,524
Travel		14,298
Telephone		3,951
Advertising		3,701
Installation		4,803
Computer expenses		5,656
Insurance		5,049
Utilities		2,883
Postage		3,696
Training expenses		1,683
Dues and publications		1,793
Depreciation		364,698
Total operating expenses	$	1,453,891
Operating income (loss)	$	(1,127,513)
Nonoperating revenues (expenses):		
Interest income	$	2,670
Interest expense		(174,990)
Connection/installation fees		354,046
Contributions - operating		2,033,424
Total nonoperating revenues (expenses)	$	2,215,150
Change in net position	$	1,087,637
Net position, beginning of year		1,964,203
Net position, end of year	$	3,051,840

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

Roanoke Valley Broadband Authority **Exhibit 3**

Statement of Cash Flows
Year Ended June 30, 2019

Cash flows from operating activities:		
Receipts from customers and users	$	342,197
Payments to suppliers		(566,149)
Payments to employees		(513,514)
Net cash provided by (used for) operating activities	$	(737,466)
Cash flows from noncapital financing activities:		
Intergovernmental revenues/contributions	$	1,874,825
Net cash provided by (used for) noncapital financing activities	$	1,874,825
Cash flows from capital and related financing activities:		
Purchase of capital assets	$	(260,973)
Contributions/installation fees		354,046
Principal payments on bonds and note		(870,000)
Interest payments		(178,406)
Net cash provided by (used for) capital and related financing activities	$	(955,333)
Cash flows from investing activities:		
Interest received	$	2,670
Net cash provided by (used for) investing activities	$	2,670
Increase (decrease) in cash and cash equivalents	$	184,696
Cash and cash equivalents, including restricted cash and cash equivalents, at beginning of year		1,547,032
Cash and cash equivalents, including restricted cash and cash equivalents, at end of year	$	1,731,728
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$	(1,127,513)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation		364,698
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable		15,819
(Increase) decrease in inventory		15,622
(Increase) decrease in prepaid expenses		18,692
(Increase) decrease in deferred outflows of resources		2,278
Increase (decrease) in operating payables		(29,606)
Increase (decrease) in compensated absences		6,987
Increase (decrease) in net pension asset		(2,142)
Increase (decrease) in deferred inflows of resources		(2,301)
Net cash provided by (used for) operating activities	$	(737,466)

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

Interest expense of $3,423 was capitalized during the fiscal year.

Roanoke Valley Broadband Authority
Notes to the Financial Statements
As of June 30, 2019

Note 1-Summary of Significant Accounting Policies:

The financial statements of the Roanoke Valley Broadband Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. Financial Reporting Entity

The Roanoke Valley Broadband Authority was created as an authority pursuant to the Virginia Wireless Service Authorities Act, Chapter 54.1, Title 15.2 of the *Code of Virginia 1950 as amended.* The governing bodies of the County of Roanoke, the County of Botetourt, the City of Roanoke, and the City of Salem established the Roanoke Valley Broadband Authority (the "Authority") for the purpose of providing broadband services and related services to individuals and organizations within the boundaries of the aforementioned participating jurisdictions.

B. Basis of Accounting

The Roanoke Valley Broadband Authority, (the Authority) operates as an enterprise fund and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority will be charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of cash on hand, demand deposits, certificates of deposit and short-term investments with original maturities of three months or less from the date of acquisition.

D. Basic Financial Statements

The Authority's financial statements have been prepared in accordance with accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board (GASB).

Note 1-Summary of Significant Accounting Policies: (Continued)

D. <u>Basic Financial Statements</u> (Continued)

Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For the Authority, the basic financial statements and required supplementary information consist of:

- Enterprise fund financial statements
  - Statement of Net Position
  - Statement of Revenues, Expenses, and Changes in Net Position
  - Statement of Cash Flows
  - Notes to the Financial Statements
- Required supplementary information

E. <u>Deferred Outflows/Inflows of Resources</u>

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Roanoke Valley Broadband Authority has two items that qualify for reporting in this category.

- Item one is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as an adjustment of the net pension liability next fiscal year. For more detailed information on these items, refer to the pension note herein (note 6).

- Item two is comprised of certain items related to the measurement of the net pension liability/asset. This includes the net difference between projected and actual earnings on pension plan investments. For more detailed information on this item, refer to the pension note herein (note 6).

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Roanoke Valley Broadband Authority has one type of item that qualifies for reporting in this category.

- Certain items related to the measurement of the net pension asset are reported as deferred inflows of resources. This includes differences between expected and actual experience. For more detailed information on these items, refer to the pension note herein (note 6).

Note 1-Summary of Significant Accounting Policies: (Continued)

F. Restricted Assets

Certain resources set aside from bond proceeds are classified as restricted assets on the statement of net position because they are maintained in separate bank and/or investment accounts and their use is limited by applicable bond covenants. At year end, restricted assets totaling $1,070,933 were comprised of debt service reserves of $1,060,905 and escrow funds totaling $10,028 held pursuant to an escrow agreement with American Electric Power, Inc.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water and sewer systems), are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Interest expense for the period totaled $178,413 of which $3,423 was capitalized during the fiscal year. Property, plant, and equipment and infrastructure are depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Infrastructure	10-30
Easements	30
Leasehold improvements	term of lease
Equipment	5

H. Prepaid Items

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

I. Other Significant Accounting Policies

- The Authority bills for services in advance; therefore, no allowance for doubtful accounts has been reported.

Note 1-Summary of Significant Accounting Policies: (Continued)

J. Use of Estimates

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

K. Investments

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs) and external investment pools are measured at amortized cost in accordance with GASB 79. All other investments are reported at fair value.

L. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid accumulated leave balances. The liability is based on the leave accumulated at June 30. Limited leave may be accumulated until retirement or termination. Accumulated leave is paid at the employee's current wage upon retirement or termination.

M. Net Position

Net position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

N. Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Note 2-Deposits and Investments:

Deposits: Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. Seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments: Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

Credit Risk of Debt Securities

The Organization's rated debt investments as of June 30, 2019 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Authority's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings	
		AAAm
First American Government Obligations Fund	$	1,060,905

Interest Rate Risk

The Organization has not adopted an investment policy for interest rate risk. Investments subject to interest rate risk are presented below along with their corresponding maturities.

	Investment Maturities (in years)		
Investment Type	Fair Value	Less 1 yr	6-10 yrs
First American Government Obligations Fund	$ 1,060,905	$ 1,060,905	$ -

Concentration of Credit Risk

The Organization has not adopted an investment policy for concentration of credit risk.

Note 3-Fair Value Measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy establish by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The Authority maximizes the use of observable inputs and minimized the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at a measurement date
- Level 2 – Directly or indirectly observable inputs for the asset or liability other than quoted prices
- Level 3 – Unobservable inputs that are supported by little or no market activity for the asset or liability

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk.

The Authority has the following recurring fair value measurements as of June 30, 2019:

	Fair Value Measurement Using		
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	Level 1	Level 2	Level 3
First American Government Obligations Fund	$ 1,060,905	$ -	$ -

Note 4-Capital Assets:

A summary of changes in capital assets for the year ended June 30, 2019 follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	$ 73,378	$ 264,831	$ (73,377)	$ 264,832
Total capital assets not being depreciated, net	$ 73,378	$ 264,831	$ (73,377)	$ 264,832
Capital assets, being depreciated:				
Purchased easements	$ 73,893	$ 2,800	$ -	$ 76,693
Leasehold improvements	6,416	-	-	6,416
Equipment	-	14,344	-	14,344
Infrastructure	8,942,273	254,148	-	9,196,421
Total capital assets being depreciated	$ 9,022,582	$ 271,292	$ -	$ 9,293,874
Accumulated depreciation:				
Purchased easements	$ (5,336)	$ (2,556)	$ -	$ (7,892)
Leasehold improvements	(2,495)	(2,139)	-	(4,634)
Equipment	-	(2,327)	-	(2,327)
Infrastructure	(600,572)	(357,676)	-	(958,248)
Total accumulated depreciation	$ (608,403)	$ (364,698)	$ -	$ (973,101)
Total capital assets being depreciated, net	$ 8,414,179	$ (93,406)	$ -	$ 8,320,773
Capital assets, net	$ 8,487,557	$ 171,425	$ (73,377)	$ 8,585,605

At year end, accounts and retainage payable related to construction projects totaled $201,773.

Note 5-Long-term Obligations:

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2019:

	Balance July 1, 2018	Issuances	Retirements	Balance June 30, 2019
Revenue bonds	$ 7,855,000	$ -	$ (865,000)	$ 6,990,000
Note from direct borrowings and direct placement	5,000	-	(5,000)	-
Compensated absences	24,544	25,395	(18,408)	31,531
Total	$ 7,884,544	$ 25,395	$ (888,408)	$ 7,021,531

Annual requirements to amortize long-term obligations and the related interest are as follows:

Year Ending June 30,	Revenue bonds Principal	Revenue bonds Interest
2020	$ 875,000	$ 177,112
2021	890,000	159,216
2022	915,000	138,268
2023	940,000	114,171
2024	970,000	87,188
2025-2027	2,400,000	88,766
Totals	$ 6,990,000	$ 764,721

Note 5-Long-term Obligations: (Continued)

Details of long-term obligations:

		Total Amount Due		Amount Due Within One Year
Revenue Bonds				
$5,780,000 in taxable revenue bonds issued on May 28, 2015. The bonds bear interest at rates ranging from 0.899% to 3.516% depending on maturity date. The bonds mature annually in amounts ranging from $525,000 to $655,000 on October 1, 2016 through October 1, 2025. Interest payments are due semi-annually on April 1st and October 1st.	$	4,185,000	$	550,000
$3,450,000 in taxable revenue bonds issued on July 27, 2016. The bonds bear interest at rates ranging from 1.141% to 2.622% depending on maturity date. The bonds mature annually in amounts ranging from $320,000 to $380,000 on October 1, 2017 through October 1, 2026. Interest payments are due semi-annually on April 1st and October 1st.		2,805,000		325,000
Subtotal	$	6,990,000	$	875,000
Other Long-Term Obligations				
Compensated absences	$	31,531	$	23,648
Total long-term obligations	$	7,021,531	$	898,648

Note: Support agreements for revenue bonds have been issued by Roanoke County and the Cities of Roanoke and Salem.

Note 6-Pension Plan:

Plan Description

All full-time, salaried permanent employees of the Authority are automatically covered by VRS Retirement Plan upon employment, through the Western Virginia Water Authority. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. However, several entities participate in the VRS plan through Western Virginia Water Authority and the participating entities report their proportionate information on the basis of a cost-sharing plan. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

Benefit Structures

The System administers three different benefit structures for covered employees – Plan 1, Plan 2 and Hybrid. Each of these benefit structures has different eligibility criteria, as detailed below.

a. Employees hired before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of creditable service or age 50 with at least 30 years of creditable service. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of creditable service or age 50 with at least 10 years of creditable service.

b. Employees hired on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013 are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service or when the sum of their age and service equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service.

c. Non-hazardous duty employees hired on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 – April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service, or when the sum of their age and service equal 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

Note 6-Pension Plan: (Continued)

Average Final Compensation and Service Retirement Multiplier

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total creditable service. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.7% for non-hazardous duty employees and 1.85% for sheriffs and regional jail superintendents. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees and 1.85% for sheriffs and regional jail superintendents. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of creditable service are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The Authority's contractually required employer contribution rate for the year ended June 30, 2019 was 4.60% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were $5,555 and $7,960 for the years ended June 30, 2019 and June 30, 2018, respectively.

Note 6-Pension Plan: (Continued)

Net Pension Liability (Asset)

At June 30, 2019, the Authority reported an asset of $15,757 for its proportionate share of the net pension asset. The net pension liability (asset) is calculated separately for each employer and represents that particular employer's total pension liability (asset) determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. The Authority's net pension asset was measured as of June 30, 2018. The total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2017 rolled forward to the measurement date of June 30, 2018. The Authority's proportionate share of the same was calculated using creditable compensation as of June 30, 2018 and 2017 as a basis for allocation. At June 30, 2018 and 2017, the Authority's proportion was 1.3286% and 1.4056%, respectively.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.5%
Salary increases, including inflation	3.5% – 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Largest 10 – Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

Note 6-Pension Plan: (Continued)

Actuarial Assumptions – General Employees (Continued)

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Note 6-Pension Plan: (Continued)

Actuarial Assumptions – General Employees (Continued)

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System 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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

Note 6-Pension Plan: (Continued)

Long-Term Expected Rate of Return (Continued)

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2018, the alternate rate was the employer contribution rate used in FY 2012 or 90% of the actuarially determined employer contribution from the June 30, 2015, actuarial valuations, whichever was greater. From July 1, 2018 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability (asset) using the discount rate of 7.00%, as well as what the Authority's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

		Rate	
	(6.00%)	**(7.00%)**	**(8.00%)**
Authority's proportionate share of the Authority Retirement Plan Net Pension Liability (Asset)	$ 13,667	$ (15,757)	$ (39,790)

Note 6-Pension Plan: (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2019, the Authority recognized pension expense of $2,752. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2019, the Authority 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	$ 338	$ 3,062
Change in assumptions	-	3,789
Net difference between projected and actual earnings on pension plan investments	-	3,072
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,253	-
Employer contributions subsequent to the measurement date	5,555	-
Total	$ 7,146	$ 9,923

Note 6-Pension Plan: (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

$5,555 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30		
2020	$	(2,138)
2021		(2,581)
2022		(3,549)
2023		(64)
2024		-
Thereafter		-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Note 7-Risk Management:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority participates with other government entities in a public entity risk pool for their coverage of liability insurance through the Virginia Municipal League (VML). Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The Authority makes contributions to a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss, deficit, or depletion of all available excess insurance, the pool may assess all members in the proportion to which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. Settled claims resulting from the aforementioned risks have not exceeded coverage in any of the past three years.

Note 8-Concentration of Funding:

The Authority received substantially all of its revenue in the current year from participant contributions and expects additional contributions will be necessary until a customer base sufficient to cover projected operating and capital costs is established.

Note 9-Adoption of Accounting Principle:

The Authority implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement clarifies which liabilities governments should include when disclosing information related to debt. It defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, it requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

Note 10-Upcoming Pronouncements:

The following standards have been issued by the Governmental Accounting Standards Board (GASB):

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Note 10-Upcoming Pronouncements: (Continued)

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

Required Supplementary Information

Roanoke Valley Broadband Authority **Exhibit 4**

Schedule of Authority's Proportionate Share of the Net Pension Liability (Asset)
For the Measurement Dates of June 30, 2017 through June 30, 2019

Date (1)	Proportion of the Net Pension Liability (Asset) (NPLA) (2)	Proportionate Share of the NPLA (3)	Covered Payroll (4)	Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4) (5)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (Asset) (6)
2018	1.3286%	$ (15,757)	$ 261,170	-6.03%	-108.13%
2017	1.4056%	(13,615)	209,362	-6.50%	-107.42%
2016	1.2736%	4,837	101,538	4.76%	96.87%

Schedule is intended to show information for 10 years. The Authority did not participate in VRS until the 2016 fiscal year. As such, data is shown for all applicable periods.

Schedule of Employer Retirement Contributions
Years Ended June 30, 2016 through June 30, 2019

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2019	$ 5,555	$ 5,555	$ -	$ 295,231	1.88%
2018	7,960	7,960	-	261,170	3.05%
2017	6,873	6,873	-	209,362	3.28%
2016	4,020	4,020	-	101,538	3.96%

Schedule is intended to show information for 10 years; however the Authority did not participate in the retirement plan until the fiscal year ending June 30, 2016.

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy,	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

All Others (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy,	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

COMPLIANCE SECTION

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*

To the Members of the Board of Directors
Roanoke Valley Broadband Authority
Roanoke, Virginia

We have audited, in accordance with the 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 *Specifications for Audits of Authorities, Boards and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of the Roanoke Valley Broadband Authority, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Roanoke Valley Broadband Authority's basic financial statements, and have issued our report thereon dated October 4, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
October 4, 2019

THE WIRED ROAD AUTHORITY

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2017

The Wired Road Authority
Financial Report
Year Ended June 30, 2017

Table of Contents

FINANCIAL SECTION

Independent Auditors' Report

To the Members of the Board
The Wired Road Authority
Galax, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of The Wired Road Authority, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Authority'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.

Auditors' 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. 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 auditors' 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 the business-type activities of The Wired Road Authority, as of June 30, 2017, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2018, on our consideration of The Wired Road Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Wired Road Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
January 23, 2018

Basic Financial Statements

THE WIRED ROAD AUTHORITY **Exhibit 1**

STATEMENT OF NET POSITION
AS OF JUNE 30, 2017

ASSETS		
Current assets:		
Cash and cash equivalents	$	249,124
Accounts receivable		8,721
Prepaid items		30,627
Total current assets	$	288,472
Noncurrent assets:		
Capital assets:		
Equipment	$	136,696
Buildings and improvements		36,804
Computer software		122,741
Infrastructure		2,260,326
Accumulated depreciation		(990,999)
Total capital assets, net	$	1,565,568
Total noncurrent assets	$	1,565,568
Total assets	$	1,854,040
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	$	21,609
Due to the City of Galax, Virginia		31,658
Accrued interest payable		862
Unearned revenue		29,410
Loan payable (amount due in one year)		29,411
Total current liabilities	$	112,950
Noncurrent liabilities:		
Loan payable (amount due in more than one year)	$	30,513
Total noncurrent liabilities	$	30,513
Total liabilities	$	143,463
NET POSITION		
Net investment in capital assets	$	1,505,644
Unrestricted		204,933
Total net position	$	1,710,577

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

THE WIRED ROAD AUTHORITY **Exhibit 2**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2017

Operating revenues:		
Charges for services	$	51,795
Total operating revenues	$	51,795
Operating expenses		
Professional services	$	59,526
Office expense		7,663
Utilities		23,190
Telecommunications		1,199
Leases		10,537
Travel, meals and lodging		247
Supplies and equipment		31,685
Contractual services		11,300
Miscellaneous		76
Depreciation		158,828
Total operating expenses	$	304,251
Operating income (loss)	$	(252,456)
Nonoperating revenues (expenses)		
Interest expense	$	(2,992)
Contributions - Operating Grants		201,658
Total nonoperating revenues (expenses)	$	198,666
Income (loss) before capital contributions	$	(53,790)
Capital contributions	$	5,800
Change in net position	$	(47,990)
Net position, beginning of year		1,758,567
Net position, end of year	$	1,710,577

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

THE WIRED ROAD AUTHORITY **Exhibit 3**

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017

Cash flows from operating activities:		
Receipts from customers and users	$	52,897
Payments to suppliers, participants and corporations		(172,019)
Net cash provided by (used for) operating activities	$	(119,122)
Cash flows from noncapital financing activities:		
Operating contributions	$	170,000
Net cash provided by (used for) noncapital financing activities	$	170,000
Cash flows from capital and related financing activities:		
Purchase of capital assets	$	(4,392)
Contributions in aid of construction		5,800
Net cash provided by (used for) capital and related financing activities	$	1,408
Increase (decrease) in cash and cash equivalents	$	52,286
Cash and cash equivalents at beginning of year		196,838
Cash and cash equivalents at end of year	$	249,124
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$	(252,456)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation		158,828
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable		1,102
(Increase) decrease in prepaid items		(537)
Increase (decrease) in accounts payable and accrued expenses		(26,059)
Net cash provided by (used for) operating activities	$	(119,122)

Supplemental disclosure:
Debt service of $31,658 ($28,348 principal and $3,310 interest) was paid on behalf of the Authority by the City of Galax, Virginia.

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

Note 1-Summary of Significant Accounting Policies:

The financial statements of the Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of more significant policies:

A. Financial Reporting Entity

The Wired Road Authority was created as an authority by concurrent resolutions of the founding jurisdictions under the Virginia Wireless Service Authorities Act, Chapter 54.1 of Title 15.2 of the Code of Virginia, 1950, as amended. The members of the Authority; the County of Grayson, Virginia, the County of Carroll, Virginia and the City of Galax, Virginia, each of which is a political subdivision of the Commonwealth of Virginia, are authorized by the Act to participate in the Authority. The Authority is governed by five (5) board members. One (1) member is appointed by each member locality, one (1) member shall be the Chairperson of the Carroll-Galax-Grayson Regional Industrial Facilities Authority, and one (1) member is appointed by the Carroll-Galax-Grayson Regional Industrial Facilities Authority. The Authority was created to provide qualifying communications services as authorized by Article 5.1 (§ 56-484.7: 1 et seq.) of Chapter 15 of Title 56 of the Code of Virginia, 1950, as amended and to provide such other services as provided by law and Chapter 54.1 of Title 15.2 of the Code of Virginia, 1950 as amended.

B. Basis of Accounting

The Wired Road Authority operates as an enterprise fund and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of cash on hand, demand deposits, certificates of deposit and short-term investments with original maturities of three months or less from the date of acquisition.

Note 1-Summary of Significant Accounting Policies: (continued)

D. Basic Financial Statements

The Authority's financial statements are prepared in accordance with GASB Statement No. 34, Basic Financial Statements – For State and Local Governments.

Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For the Authority, the basic financial statements consist of:

- Enterprise fund financial statements
    - Statement of Net Position
    - Statement of Revenues, Expenses, and Changes in Net Position
    - Statement of Cash Flows
    - Notes to the Financial Statements

E. Investments

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposits (CDs)) and external investment pools are measured at amortized cost. All other investments are reported at fair value.

F. Prepaid Expenses

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements. The cost of prepaid expenses is recorded as expenses when consumed rather than when purchased.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current year or prior year.

Note 1-Summary of Significant Accounting Policies: (continued)

G. Capital Assets (continued)

Property, infrastructure, and equipment are depreciated using the straight line method over the following estimated useful lives:

Asset	Years
Buildings and Improvements	5-40
Infrastructure	20
Equipment and software	5

H. Other Significant Accounting Policies

- Accounts receivable are stated at book value utilizing the direct write-off method for uncollectible accounts. At year end, the Authority has not reserved any amount as uncollectible.

I. Use of Estimates

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

J. Net Position

Net position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding obligation related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related obligation are also included in this component of net position.

K. Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Note 1-Summary of Significant Accounting Policies: (continued)

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority did not have any deferred outflows of resources as of June 30, 2017.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority did not have any deferred inflows of resources as of June 30, 2017.

Note 2-Deposits and Investments:

Deposits: Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act"), Section 2.2-4400 et. seq. of the Code of Virginia . Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments: Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). For the year ended June 30, 2017, the Authority did not have any investments.

Note 3-Economic Dependency:

The Wired Road is economically dependent on contributions from the participating jurisdictions as revenue generated by the Organization is insufficient to cover operating costs. Any significant reduction in contributions could negatively impact the Organization.

Note 4-Capital Assets:

A summary of changes in capital assets for the year ended June 30, 2017 follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Equipment	$ 132,304	$ 4,392	$ -	$ 136,696
Buildings and improvements	36,804	-	-	36,804
Infrastructure	2,260,326	-	-	2,260,326
Software	122,741	-	-	122,741
Total capital assets being depreciated	$ 2,552,175	$ 4,392	$ -	$ 2,556,567
Accumulated depreciation:				
Equipment	$ (108,394)	$ (13,771)	$ -	$ (122,165)
Buildings and improvements	(11,046)	(1,422)	-	(12,468)
Infrastructure	(589,990)	(143,635)	-	(733,625)
Software	(122,741)	-	-	(122,741)
Total accumulated depreciation	$ (832,171)	$ (158,828)	$ -	$ (990,999)
Total capital assets being depreciated, net	$ 1,720,004	$ (154,436)	$ -	$ 1,565,568
Capital assets, net	$ 1,720,004	$ (154,436)	$ -	$ 1,565,568

Note 5-Long-Term Obligations:

Annual requirements to amortize long-term obligations and the related interest are as follows:

Year Ending June 30,	Bank Loan Principal	Bank Loan Interest
2018	$ 29,411	$ 2,247
2019	30,513	1,145
Totals	$ 59,924	$ 3,392

Note 5-Long-Term Obligations: (continued)

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2017:

	Balance July 1, 2016	Issuances	Retirements	Balance June 30, 2017
Bank Loan	$ 88,272	$ -	$ (28,348)	$ 59,924
Total	$ 88,272	$ -	$ (28,348)	$ 59,924

Details of long-term indebtedness:

Bank Loan	Total Amount Due	Amount Due Within One Year
$260,000 loan issued on February 19, 2009 through BB&T. Annual payments of $31,657 are due on February 20th through 2019. Interest accrues at the annual rate of 3.75%.	$ 59,924	$ 29,411
Total long-term obligations	$ 59,924	$ 29,411

Note 6-Risk Management:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority participates with other government entities in a public entity risk pool for their coverage of workers' compensation, public officials and liability insurance through the Virginia Municipal Liability Pool. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The Authority makes contributions to a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss, deficit, or depletion of all available excess insurance, the pool may assess all members in the proportion to which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The Authority continues to carry commercial insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

COMPLIANCE SECTION

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*

To the Members of the Board
The Wired Road Authority
Galax, Virginia

We have audited, in accordance with the 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 *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of The Wired Road Authority as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise The Wired Road Authority's basic financial statements and have issued our report thereon dated January 23, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
January 23, 2018

THE WIRED ROAD AUTHORITY

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2018

The Wired Road Authority
Financial Report
Year Ended June 30, 2018

Table of Contents

FINANCIAL SECTION

Independent Auditors' Report

To the Members of the Board
The Wired Road Authority
Galax, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of The Wired Road Authority, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority'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.

Auditors' 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. 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 auditors' 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 the business-type activities of The Wired Road Authority, as of June 30, 2018, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2019, on our consideration of The Wired Road Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Wired Road Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Wired Road Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
January 9, 2019

Basic Financial Statements

THE WIRED ROAD AUTHORITY **Exhibit 1**

STATEMENT OF NET POSITION
AS OF JUNE 30, 2018

ASSETS		
Current assets:		
Cash and cash equivalents	$	272,396
Accounts receivable		4,753
Prepaid items		26,927
Total current assets	$	304,076
Noncurrent assets:		
Capital assets:		
Equipment	$	136,696
Buildings and improvements		36,804
Computer software		122,741
Infrastructure		2,260,326
Accumulated depreciation		(1,142,526)
Total capital assets, net	$	1,414,041
Total noncurrent assets	$	1,414,041
Total assets	$	1,718,117
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	$	15,350
Due to the City of Galax, Virginia		31,658
Accrued interest payable		407
Unearned revenue		29,410
Line of credit		9,847
Loan payable		30,514
Total current liabilities	$	117,186
Total liabilities	$	117,186
NET POSITION		
Net investment in capital assets	$	1,383,527
Unrestricted		217,404
Total net position	$	1,600,931

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2018

Operating revenues:		
Charges for services	$	50,051
Total operating revenues	$	50,051
Operating expenses		
Professional services	$	59,296
Office expense		1,062
Utilities		25,037
Telecommunications		1,244
Leases		19,672
Travel, meals and lodging		197
Supplies and equipment		23,274
Contractual services		45,301
Insurance		4,287
Miscellaneous		2,463
Depreciation		151,527
Total operating expenses	$	333,360
Operating income (loss)	$	(283,309)
Nonoperating revenues (expenses)		
Interest expense	$	(1,792)
Contributions - Localities		145,000
Contributions - DHCD		30,455
Total nonoperating revenues (expenses)	$	173,663
Change in net position	$	(109,646)
Net position, beginning of year		1,710,577
Net position, end of year	$	1,600,931

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

THE WIRED ROAD AUTHORITY **Exhibit 3**

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

Cash flows from operating activities:		
Receipts from customers and users	$	54,019
Payments to suppliers, participants and corporations		(184,392)
Net cash provided by (used for) operating activities	$	(130,373)
Cash flows from noncapital financing activities:		
Issuance of line of credit	$	9,847
Operating contributions		143,798
Net cash provided by (used for) noncapital financing activities	$	153,645
Increase (decrease) in cash and cash equivalents	$	23,272
Cash and cash equivalents at beginning of year		249,124
Cash and cash equivalents at end of year	$	272,396
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$	(283,309)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation		151,527
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable		3,968
(Increase) decrease in prepaid items		3,700
Increase (decrease) in accounts payable and accrued expenses		(6,259)
Net cash provided by (used for) operating activities	$	(130,373)

Supplemental disclosure:
Debt service of $31,657 ($29,410 principal and $2,247 interest) was paid on behalf of the Authority by the City of Galax, Virginia.

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

Note 1-Summary of Significant Accounting Policies:

The financial statements of the Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of more significant policies:

A. Financial Reporting Entity

The Wired Road Authority was created as an authority by concurrent resolutions of the founding jurisdictions under the Virginia Wireless Service Authorities Act, Chapter 54.1 of Title 15.2 of the Code of Virginia, 1950, as amended. The members of the Authority; the County of Grayson, Virginia, the County of Carroll, Virginia and the City of Galax, Virginia, each of which is a political subdivision of the Commonwealth of Virginia, are authorized by the Act to participate in the Authority. The Authority is governed by five (5) board members. One (1) member is appointed by each member locality, one (1) member shall be the Chairperson of the Carroll-Galax-Grayson Regional Industrial Facilities Authority, and one (1) member is appointed by the Carroll-Galax-Grayson Regional Industrial Facilities Authority. The Authority was created to provide qualifying communications services as authorized by Article 5.1 (§ 56-484.7: 1 et seq.) of Chapter 15 of Title 56 of the Code of Virginia, 1950, as amended and to provide such other services as provided by law and Chapter 54.1 of Title 15.2 of the Code of Virginia, 1950 as amended.

B. Basis of Accounting

The Wired Road Authority operates as an enterprise fund and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of cash on hand, demand deposits, certificates of deposit and short-term investments with original maturities of three months or less from the date of acquisition.

Note 1-Summary of Significant Accounting Policies: (continued)

D. Basic Financial Statements

The Authority's financial statements are prepared in accordance with GASB Statement No. 34, Basic Financial Statements – For State and Local Governments.

Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For the Authority, the basic financial statements consist of:

- Enterprise fund financial statements
  - Statement of Net Position
  - Statement of Revenues, Expenses, and Changes in Net Position
  - Statement of Cash Flows
  - Notes to the Financial Statements

E. Investments

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposits (CDs)) and external investment pools are measured at amortized cost. All other investments are reported at fair value.

F. Prepaid Expenses

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements. The cost of prepaid expenses is recorded as expenses when consumed rather than when purchased.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current year or prior year.

Note 1–Summary of Significant Accounting Policies: (continued)

G. Capital Assets (continued)

Property, infrastructure, and equipment are depreciated using the straight line method over the following estimated useful lives:

Asset	Years
Buildings and Improvements	5-40
Infrastructure	20
Equipment and software	5

H. Other Significant Accounting Policies

- Accounts receivable are stated at book value utilizing the direct write-off method for uncollectible accounts. At year end, the Authority has not reserved any amount as uncollectible.

I. Use of Estimates

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

J. Net Position

Net position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding obligation related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related obligation are also included in this component of net position.

K. Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Note 1-Summary of Significant Accounting Policies: (continued)

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority did not have any deferred outflows of resources as of June 30, 2018.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority did not have any deferred inflows of resources as of June 30, 2018.

Note 2-Deposits and Investments:

Deposits: The Wired Road has over $250,000 in one bank, the deposits in excess of $250,000 are not covered by the Federal Deposit Insurance Corporation (FDIC) and, accordingly, are exposed to custodial credit risk because they are uncollateralized. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (1) uncollateralized, (2) collateralized with securities held by the pledging financial institution, or (3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor government's name. The Wired Road had $22,396 in uninsured deposits at June 30, 2018.

Investments: Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). For the year ended June 30, 2018, the Authority did not have any investments.

Note 3-Economic Dependency:

The Wired Road is economically dependent on contributions from the participating jurisdictions as revenue generated by the Organization is insufficient to cover operating costs. Any significant reduction in contributions could negatively impact the Organization.

Note 4-Capital Assets:

A summary of changes in capital assets for the year ended June 30, 2018 follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Equipment	$ 136,696	$ -	$ -	$ 136,696
Buildings and improvements	36,804	-	-	36,804
Infrastructure	2,260,326	-	-	2,260,326
Software	122,741	-	-	122,741
Total capital assets being depreciated	$ 2,556,567	$ -	$ -	$ 2,556,567
Accumulated depreciation:				
Equipment	$ (122,165)	$ (6,473)	$ -	$ (128,638)
Buildings and improvements	(12,468)	(1,421)	-	(13,889)
Infrastructure	(733,625)	(143,633)	-	(877,258)
Software	(122,741)	-	-	(122,741)
Total accumulated depreciation	$ (990,999)	$ (151,527)	$ -	$ (1,142,526)
Total capital assets being depreciated, net	$ 1,565,568	$ (151,527)	$ -	$ 1,414,041
Capital assets, net	$ 1,565,568	$ (151,527)	$ -	$ 1,414,041

Note 5-Long-Term Obligations:

Annual requirements to amortize long-term obligations and the related interest are as follows:

Year Ending June 30,	Bank Loan Principal	Bank Loan Interest
2019	$ 30,514	$ 1,145
Totals	$ 30,514	$ 1,145

Note 5-Long-Term Obligations: (continued)

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2018:

	Balance July 1, 2017	Issuances	Retirements	Balance June 30, 2018
Bank Loan	$ 59,924	$ -	$ (29,410)	$ 30,514
Total	$ 59,924	$ -	$ (29,410)	$ 30,514

Details of long-term indebtedness:

Bank Loan	Total Amount Due	Amount Due Within One Year
$260,000 loan issued on February 19, 2009 through BB&T. Annual payments of $31,657 are due on February 20th through 2019. Interest accrues at the annual rate of 3.75%.	$ 30,514	$ 30,514
Total long-term obligations	$ 30,514	$ 30,514

Note 6-Line of Credit:

On April 19, 2017, The Authority entered into a $300,000 line of credit with Skyline National Bank with an interest rate of 2.5% to cover cash shortfalls during the year. During the year the Authority drew down the line of credit as detailed below:

	Balance July 1, 2017	Issuances	Retirements	Balance June 30, 2018
Line of credit	$ -	$ 9,847	$ -	$ 9,847
Total	$ -	$ 9,847	$ -	$ 9,847

Note 7-Unearned Revenue:

Advances from Carroll County, Virginia, to be used for the future projects, are shown as unearned revenue. At June 30, 2018, the Wired Road had unearned revenue of $29,410.

Note 8-Risk Management:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority participates with other government entities in a public entity risk pool for their coverage of workers' compensation, public officials and liability insurance through the Virginia Municipal Liability Pool. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The Authority makes contributions to a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss, deficit, or depletion of all available excess insurance, the pool may assess all members in the proportion to which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The Authority continues to carry commercial insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

COMPLIANCE SECTION

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*

To the Members of the Board
The Wired Road Authority
Galax, Virginia

We have audited, in accordance with the 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 *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of The Wired Road Authority as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise The Wired Road Authority's basic financial statements and have issued our report thereon dated January 9, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
January 9, 2019

THE WIRED ROAD AUTHORITY

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2019

THE WIRED ROAD AUTHORITY
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2019

TABLE OF CONTENTS

FINANCIAL SECTION

Independent Auditors' Report

To the Members of the Board
The Wired Road Authority
Galax, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of The Wired Road Authority, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority'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.

Auditors' 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. 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 auditors' 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 the business-type activities of The Wired Road Authority, as of June 30, 2019, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 8 to the financial statements, in 2019, the Authority adopted new accounting guidance, GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2020, on our consideration of The Wired Road Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Wired Road Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Wired Road Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
January 27, 2020

Basic Financial Statements

THE WIRED ROAD AUTHORITY **Exhibit 1**

STATEMENT OF NET POSITION
AS OF JUNE 30, 2019

ASSETS		
Current assets:		
Cash and cash equivalents	$	257,386
Accounts receivable		9,107
Prepaid items		24,657
Total current assets	$	291,150
Noncurrent assets:		
Capital assets:		
Equipment	$	136,696
Buildings and improvements		36,804
Computer software		122,741
Infrastructure		2,260,326
Construction in Progress		308,285
Accumulated depreciation		(1,251,418)
Total capital assets, net	$	1,613,434
Total noncurrent assets	$	1,613,434
Total assets	$	1,904,584
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	$	65,186
Due to the City of Galax, Virginia		31,658
Accrued interest payable		167
Unearned revenue		29,410
Loan payable		33,649
Total current liabilities	$	160,070
Noncurrent liabilities:		
Loan payable (amount due in more than one year)	$	88,179
Total noncurrent liabilities	$	88,179
Total liabilities	$	248,249
NET POSITION		
Net investment in capital assets	$	1,491,606
Unrestricted		164,729
Total net position	$	1,656,335

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

THE WIRED ROAD AUTHORITY **Exhibit 2**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2019

Operating revenues:		
Charges for services	$	56,038
Total operating revenues	$	56,038
Operating expenses:		
Professional services	$	62,178
Office expense		564
Utilities		23,550
Telecommunications		1,333
Leases		15,371
Travel, meals and lodging		178
Supplies and equipment		51,829
Insurance		4,337
Miscellaneous		489
Depreciation		108,892
Total operating expenses	$	268,721
Operating income (loss)	$	(212,683)
Nonoperating revenues (expenses):		
Interest expense	$	(2,424)
Contributions - Localities		145,000
Contributions - DHCD		125,511
Total nonoperating revenues (expenses)	$	268,087
Change in net position	$	55,404
Net position, beginning of year		1,600,931
Net position, end of year	$	1,656,335

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

THE WIRED ROAD AUTHORITY **Exhibit 3**

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2019

Cash flows from operating activities:		
Receipts from customers and users	$	51,684
Payments to suppliers, participants and corporations		(107,723)
Net cash provided by (used for) operating activities	$	(56,039)
Cash flows from noncapital financing activities:		
Operating contributions	$	238,853
Net cash provided by (used for) noncapital financing activities	$	238,853
Cash flows from capital and related financing activities:		
Purchase of capital assets	$	(308,285)
Issuance of Skyline Bank Loan		141,569
Loan repayment		(29,588)
Interest payments		(1,520)
Net cash provided by (used for) capital and related financing activities	$	(197,824)
Increase (decrease) in cash and cash equivalents	$	(15,010)
Cash and cash equivalents at beginning of year		272,396
Cash and cash equivalents at end of year	$	257,386
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$	(212,683)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation		108,892
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable		(4,354)
(Increase) decrease in prepaid items		2,270
Increase (decrease) in accounts payable and accrued expenses		49,836
Net cash provided by (used for) operating activities	$	(56,039)

Supplemental disclosure:
Debt service of $31,658 ($30,514 principal and $1,144 interest) was paid on behalf of the Authority by the City of Galax, Virginia.

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

Note 1–Summary of Significant Accounting Policies:

The financial statements of the Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of more significant policies:

A. Financial Reporting Entity

The Wired Road Authority was created as an authority by concurrent resolutions of the founding jurisdictions under the Virginia Wireless Service Authorities Act, Chapter 54.1 of Title 15.2 of the Code of Virginia, 1950, as amended. The members of the Authority; the County of Grayson, Virginia, the County of Carroll, Virginia and the City of Galax, Virginia, each of which is a political subdivision of the Commonwealth of Virginia, are authorized by the Act to participate in the Authority. The Authority is governed by five (5) board members. One (1) member is appointed by each member locality, one (1) member shall be the Chairperson of the Carroll-Galax-Grayson Regional Industrial Facilities Authority, and one (1) member is appointed by the Carroll-Galax-Grayson Regional Industrial Facilities Authority. The Authority was created to provide qualifying communications services as authorized by Article 5.1 (§ 56-484.7: 1 et seq.) of Chapter 15 of Title 56 of the Code of Virginia, 1950, as amended and to provide such other services as provided by law and Chapter 54.1 of Title 15.2 of the Code of Virginia, 1950 as amended.

B. Basis of Accounting

The Wired Road Authority operates as an enterprise fund and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Authority accrues revenue for services rendered but not yet billed at the end of the fiscal year.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of cash on hand, demand deposits, certificates of deposit and short-term investments with original maturities of three months or less from the date of acquisition.

Note 1-Summary of Significant Accounting Policies: (continued)

D. Basic Financial Statements

Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For the Authority, the basic financial statements consist of:

- Enterprise fund financial statements
    - Statement of Net Position
    - Statement of Revenues, Expenses, and Changes in Net Position
    - Statement of Cash Flows
    - Notes to the Financial Statements

E. Investments

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposits (CDs)) and external investment pools are measured at amortized cost. All other investments are reported at fair value.

F. Prepaid Expenses

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements. The cost of prepaid expenses is recorded as expenses when consumed rather than when purchased.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of more than $1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current year or prior year.

Note 1-Summary of Significant Accounting Policies: (continued)

G. Capital Assets (continued)

Property, infrastructure, and equipment are depreciated using the straight line method over the following estimated useful lives:

Asset	Years
Buildings and Improvements	5-40
Infrastructure	20
Equipment and software	5

H. Other Significant Accounting Policies

Accounts receivable are stated at book value utilizing the direct write-off method for uncollectible accounts. At year end, the Authority has not reserved any amount as uncollectible.

I. Use of Estimates

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

J. Net Position

Net position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding obligation related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related obligation are also included in this component of net position.

K. Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Note 1-Summary of Significant Accounting Policies: (continued)

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority did not have any deferred outflows of resources as of June 30, 2019.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority did not have any deferred inflows of resources as of June 30, 2019.

Note 2-Deposits and Investments:

Deposits: The Wired Road has over $250,000 in one bank, the deposits in excess of $250,000 are not covered by the Federal Deposit Insurance Corporation (FDIC) and, accordingly, are exposed to custodial credit risk because they are uncollateralized. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (1) uncollateralized, (2) collateralized with securities held by the pledging financial institution, or (3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor government's name. The Wired Road had $12,558 in uninsured deposits at June 30, 2019.

Investments: Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). For the year ended June 30, 2019, the Authority did not have any investments.

Note 3-Economic Dependency:

The Wired Road is economically dependent on contributions from the participating jurisdictions as revenue generated by the Organization is insufficient to cover operating costs. Any significant reduction in contributions could negatively impact the Organization.

Note 4-Capital Assets:

A summary of changes in capital assets for the year ended June 30, 2019 follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	$ -	$ 308,285	$ -	$ 308,285
Total capital assets not being depreciated, net	$ -	$ 308,285	$ -	$ 308,285
Capital assets, being depreciated:				
Equipment	$ 136,696	$ -	$ -	$ 136,696
Buildings and improvements	36,804	-	-	36,804
Infrastructure	2,260,326	-	-	2,260,326
Software	122,741	-	-	122,741
Total capital assets being depreciated	$ 2,556,567	$ -	$ -	$ 2,556,567
Accumulated depreciation:				
Equipment	$ (128,638)	$ (4,661)	$ -	$ (133,299)
Buildings and improvements	(13,889)	(1,421)	-	(15,310)
Infrastructure	(877,258)	(102,810)	-	(980,068)
Software	(122,741)	-	-	(122,741)
Total accumulated depreciation	$ (1,142,526)	$ (108,892)	$ -	$ (1,251,418)
Total capital assets being depreciated, net	$ 1,414,041	$ (108,892)	$ -	$ 1,305,149
Capital assets, net	$ 1,414,041	$ 199,393	$ -	$ 1,613,434

Note 5-Long-Term Obligations:

Annual requirements to amortize long-term obligations and the related interest are as follows:

Year Ending June 30,	Direct Borrowing and Placement: Skyline Loan Principal	Interest
2020	$ 33,649	$ 2,713
2021	34,551	1,810
2022	35,424	937
2023	18,204	134
Totals	$ 121,828	$ 5,594

Note 5-Long-Term Obligations: (continued)

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2019:

	Balance July 1, 2018	Issuances	Retirements	Balance June 30, 2019
Direct Borrowings and Placements:				
Bank Loan	$ 30,514	$ -	$ (30,514)	$ -
Skyline Loan	9,847	141,569	(29,588)	121,828
Total	$ 40,361	$ 141,569	$ (60,102)	$ 121,828

Details of long-term indebtedness:

	Total Amount Due	Amount Due Within One Year
Direct Borrowing and Placement:		
$300,000 loan issued on April 19, 2017 through Skyline National Bank. Monthly payments of $3,030 are due through April 19, 2027. Interest accrues at the annual rate of 2.5%.	$ 121,828	$ 33,649
Total long-term obligations	$ 121,828	$ 33,649

In the event of default by the Authority, the issuing bank may demand immediate repayment of all monies owed under this note including principal, accrued unpaid interest, and other accrued charges.

Note 6-Unearned Revenue:

Advances from Carroll County, Virginia, to be used for the future projects, are shown as unearned revenue. At June 30, 2019, the Wired Road had unearned revenue of $29,410.

Note 7-Risk Management:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Authority participates with other government entities in a public entity risk pool for their coverage of workers' compensation, public officials and liability insurance through the Virginia Municipal Liability Pool. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The Authority makes contributions to a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss, deficit, or depletion of all available excess insurance, the pool may assess all members in the proportion to which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The Authority continues to carry commercial insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Note 8-Adoption of Accounting Principle:

The Authority implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* during the fiscal year ended June 30, 2019. This Statement clarifies which liabilities governments should include when disclosing information related to debt. It also requires that additional essential information related to debt be disclosed in notes to financial statements. No restatement was required as a result of this implementation.

Note 9-Upcoming Pronouncement:

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, provides guidance for reporting capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No, 14 and No. 61*, provides guidance for reporting a government's majority equity interest in a legally separate organization and for reporting financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

COMPLIANCE SECTION

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*

To the Members of the Board
The Wired Road Authority
Galax, Virginia

We have audited, in accordance with the 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 *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of The Wired Road Authority as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise The Wired Road Authority's basic financial statements and have issued our report thereon dated January 27, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
January 27,2020