

Roanoke Valley Broadband Authority

Financial Report

Year Ended June 30, 2016

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FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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, 2016, 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, 2016, 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 1 to the financial statements, in 2016, the Authority adopted new accounting guidance, GASB Statement No. 72 Fair Value Measurement and Application. 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 on pages 3-6 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 August 1, 2016, 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, Turner, Cox Associates

Blacksburg, Virginia
August 1, 2016

Management's Discussion and Analysis FY 2015/2016

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, 2016. Please read it in conjunction with the Authority's financial statements and related notes which follow this section.

Overview of the Financial Statements

On April 10, 2015, the RVBA entered into a Virginia Pooled Financing Agreement through the Virginia Resource Authority. The amount of the bond was \$5,780,000 and is to be paid back by April 1, 2026 by the Cities of Roanoke and Salem in accordance with support agreements signed by the localities. Funds were to be used to finance the design, engineering and construction of a 47-mile metropolitan, suburban and rural fiber optic telecommunications network with single ring architecture in the Roanoke Valley, including related landscaping, infrastructure and issuance costs.

Debt service payments totaling \$135,512.14 were split evenly by the Cities of Roanoke and Salem. The first interest only payment was due and paid on 10/1/2015 and the next interest only payment was due and paid on 4/1/2016. Substantially all of the bond proceeds, except for required debt service reserves, were spent during the 2015/2016 fiscal year. RVBA received a Certificate of Substantial Completion on April 15, 2016 signed by the Engineer, contractor and Owner. The length of the completed network is 47 miles

Salem City offered to manage the hiring of an Executive Director. In August, the Authority began negotiations for the position of full time Executive Director. The new Executive Director was appointed on August 20, 2015 and became employed temporarily by the Western Virginia Water Authority with the Broadband Authority reimbursing the Water Authority for the Executive Director's expenses. The Authority's intent is to have this position "in house" as soon as feasible.

An Invitation for Bids was issued in late May 2015 for the construction of the fiber network. Notice to Proceed was issued by Thompson Litton, the Authority's representative, on July 13, 2015 to Utility Service Contractors, Inc. in order that the construction company could start securing fiber, which was in short supply. The contract price was set at \$3,468,111.03, this included alternates 1,2,3,4 and 5. Construction of the fiber network began on August 30 and construction was to be completed during January 2016. Construction ended in July 2016 as a result of normal route modifications and weather delays experienced during the project.

An Electronics RFP for integrated optical transport network with a turn-key supporting system and service infrastructure was issued in October 2015 by competitive sealed bid. Walker & Associates Inc. was chosen in December in partnership with Ciena Government Solutions, Inc. to provide the network electronics with a ceiling of \$710,000 which was approved by the board at the December 2015 meeting.

Several business arrangements were entered into during the 2015/2016 fiscal year:

1. Indefeasible Right of Use (IRU) and lease governing certain service and operational activities of the Authority in support of the Roanoke Higher Education.
2. Blue Ridge Public Television fifteen-year lease to house a network switching center.
3. In August, a licensing agreement with the City of Roanoke to allow the contractor to start working on approximately 10 city parcels that needed to be entered.
4. The Authority entered into a twenty-five-year resource sharing agreement with the Virginia Department of Transportation which allows the Authority access to VDOT's right-of-ways in exchange for access to the Authority's fiber.
5. Several co-location agreements were entered into.
6. Several carrier agreements were entered into for the provisioning of Data and IP transport services for the Authority's network.
7. Inspection services were procured and executed on a regular basis with full reporting back to the Authority.
8. Utility locate services with the Water Authority beginning in January of 2016.
9. Remote Network Operations Center Services with Ciena Corporation for 24X7 monitoring of the Authority's network for Layer 1 and Layer 2 services.

Several customers requested specific laterals & drops be built. Each customer paid for the construction work for their respective lateral and drop.

EDDY Communications, a Branding and Marcom firm, was selected in February 2016 to provide marketing research and advisory services over a three-month period. The launch of the telecommunications network was held on April 26, 2016 at the Blue Ridge Public television property on McNeil Drive.

In February of 2016, a draft re-budget for operations was presented for the Board's approval in March 2016. Some monies were moved from expense line items into other expense line items with the budget remaining the same in the amount of \$443,229 and was adopted at the March 2016 meeting.

Service Rates were published in the Roanoke times on January 8 and 15, in anticipation of a public hearing to be held on March 18, 2016. The rates were formally adopted by the Authority at the March 18, 2016 board meeting.

The Roanoke Valley Alleghany Regional Commission is housing the Authority and providing administrative and financial staffing at no cost the Authority.

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

| | 2016 | 2015 |
|----------------------------------|---------------------|---------------------|
| Assets: | | |
| Current and Other Assets | \$ 589,071 | \$ 244,644 |
| Noncurrent Assets | 6,153,516 | 5,758,041 |
| Total Assets | <u>\$ 6,742,587</u> | <u>\$ 6,002,685</u> |
| Liabilities: | | |
| Current Liabilities | \$ 967,209 | \$ 23,845 |
| Noncurrent Liabilities | 5,260,000 | 5,785,000 |
| Total Liabilities | <u>\$ 6,227,209</u> | <u>\$ 5,808,845</u> |
| Net Position | | |
| Net Investment in Capital Assets | \$ 14,549 | \$ (21,959) |
| Unrestricted | 500,829 | 215,799 |
| Total Net Position | <u>\$ 515,378</u> | <u>\$ 193,840</u> |

The Summary of Net Position shows an increase of \$321,538.

Summary Statement of Revenues, Expenditures & Changes in Net Position

| | 2016 | 2015 |
|----------------------------------|---------------------|--------------------|
| Operating Revenues | \$ 10,048 | \$ - |
| Operating Expenditures | 308,510 | 43,137 |
| Operating Income (Loss) | <u>\$ (298,462)</u> | <u>\$ (43,137)</u> |
| Nonoperating Revenues (Expenses) | \$ 620,000 | \$ 233,910 |
| Change in Net Position | 321,538 | 190,773 |
| Net Position, Beginning of Year | 193,840 | 3,067 |
| Net Position, End of Year | <u>\$ 515,378</u> | <u>\$ 193,840</u> |

Economic Factors and Future Outlook

On May 24, 2016, the Roanoke County Board of Supervisors approved a \$183 million budget and 10-year capital improvement plan that allocated \$3.4 million to expand RVBA's network into the county with an additional twenty-five miles of fiber. Construction costs to expand the broadband network should amount to about \$3.4 million and the county is budgeting to spend about \$325,000 per year for six years on operating costs or until the network breaks even. Next year, Roanoke County will spend about \$348,000 on broadband in operating costs and an interest-only bond payment to the Virginia Resources Authority. The start of full payments of about \$340,000 a year to the Resources Authority will start in fiscal year 2018 and continue for

ten years. At the request of the County, the Roanoke Valley Broadband Authority submitted a Virginia Resources Authority application for the summer pool April 29, 2016, in the amount of three million dollars.

Contacting the Commission'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 Director of Finance at 313 Luck Avenue SW in Roanoke, Virginia 24016-5013, telephone 540-343-4417, or at odooley@highspeedroanoke.net.

Basic Financial Statements

Statement of Net Position
As of June 30, 2016

| | |
|---|---------------------|
| Assets: | |
| Current Assets: | |
| Cash and cash equivalents | \$ 146,127 |
| Contributions receivable | 422,504 |
| Accounts receivable (net of allowance for uncollectibles) | 10,048 |
| Prepaid items | <u>10,392</u> |
| Total current assets | <u>\$ 589,071</u> |
| Noncurrent Assets: | |
| Restricted cash and cash equivalents | \$ 681,949 |
| Capital Assets: | |
| Purchased easements | 73,893 |
| Infrastructure | 5,434,853 |
| Accumulated depreciation | <u>(37,179)</u> |
| Total net capital assets | <u>\$ 5,471,567</u> |
| Total noncurrent assets | <u>\$ 6,153,516</u> |
| Total assets | <u>\$ 6,742,587</u> |
| Liabilities: | |
| Current Liabilities: | |
| Accounts payable | \$ 46,210 |
| Construction related payables | 65,410 |
| Retainage payable | 293,557 |
| Accrued interest payable | 37,032 |
| Revenue bonds-current portion | <u>525,000</u> |
| Total current liabilities | <u>\$ 967,209</u> |
| Noncurrent Liabilities: | |
| Notes payable - net of current portion | \$ 5,000 |
| Revenue bonds - net of current portion | <u>5,255,000</u> |
| Total noncurrent liabilities | <u>\$ 5,260,000</u> |
| Total liabilities | <u>\$ 6,227,209</u> |
| Net Position: | |
| Net investment in capital assets | \$ 14,549 |
| Unrestricted | <u>500,829</u> |
| Total net position | <u>\$ 515,378</u> |

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, 2016

| | |
|--|--------------------------|
| Operating Revenues: | |
| Charges for services | \$ 10,048 |
| Total operating revenues | <u>\$ 10,048</u> |
| Operating expenses: | |
| Accounting | \$ 300 |
| Advertising | 3,442 |
| Computer expenses | 479 |
| Professional fees | 65,512 |
| Insurance | 1,626 |
| Supplies - office | 4,245 |
| Carrier service | 12,711 |
| Telephone | 1,880 |
| Travel | 1,756 |
| Utilities | 311 |
| Postage | 297 |
| Dues and publications | 185 |
| Rent | 9,205 |
| Training expenses | 299 |
| Wages and benefits | 143,808 |
| Depreciation | 37,179 |
| Miscellaneous | 25,275 |
| Total operating expenses | <u>\$ 308,510</u> |
| Operating income (loss) | <u>\$ (298,462)</u> |
| Nonoperating revenues (Expenses): | |
| Interest income | \$ 30 |
| Interest expense | (21,161) |
| Bond issuance costs | (7,246) |
| Contributions - operating | 135,512 |
| Contributions in aid of construction | 512,865 |
| Total nonoperating revenues (expenses) | <u>\$ 620,000</u> |
| Change in net position | \$ 321,538 |
| Net position, beginning of year | <u>193,840</u> |
| Net position, end of year | <u><u>\$ 515,378</u></u> |

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

Statement of Cash Flows
Year Ended June 30, 2016

| | |
|---|-------------------------|
| Cash flows from operating activities: | |
| Payments to suppliers | \$ (116,197) |
| Payments to employees | (120,996) |
| | <u>(237,193)</u> |
| Net cash provided by (used for) operating activities | \$ (237,193) |
| Cash flows from noncapital financing activities: | |
| Intergovernmental revenues/appropriations | \$ 135,512 |
| | <u>135,512</u> |
| Net cash provided by (used for) noncapital financing activities | \$ 135,512 |
| Cash flows from capital and related financing activities: | |
| Purchase of capital assets | \$ (4,723,160) |
| Cost of debt issuance | (7,246) |
| Contributions in aid of construction | 90,361 |
| Interest payments | (135,512) |
| | <u>(4,775,557)</u> |
| Net cash provided by (used for) capital and related financing activities | \$ (4,775,557) |
| Cash flows from investing activities: | |
| Interest received | \$ 30 |
| | <u>30</u> |
| Net cash provided by (used for) investing activities | \$ 30 |
| Increase (decrease) in cash and cash equivalents | \$ (4,877,208) |
| Cash and cash equivalents, including restricted cash and cash equivalents, at beginning of year | <u>5,705,284</u> |
| Cash and cash equivalents, including restricted cash and cash equivalents, at end of year | <u><u>828,076</u></u> |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | |
| Operating income (loss) | \$ (298,462) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | |
| Depreciation | 37,179 |
| Changes in operating assets and liabilities: | |
| (Increase) decrease in accounts receivable | (10,048) |
| (Increase) decrease in prepaid expenses | (10,392) |
| Increase (decrease) in operating payables | 44,530 |
| | <u>44,530</u> |
| Net cash provided by (used for) operating activities | <u><u>(237,193)</u></u> |

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

Interest expense of \$139,968 was capitalized during the fiscal year.

Roanoke Valley Broadband Authority
Notes to the Financial Statements
As of June 30, 2016

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*.

Roanoke Valley Broadband Authority
Notes to the Financial Statements (Continued)
As of June 30, 2016

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

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 Authority does not have any deferred outflows of resources as of June 30, 2016.

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 does not have any deferred inflows of resources as of June 30, 2016.

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 \$681,949 were comprised of debt service reserves of \$670,045, funds restricted for capital of \$1,902 and escrow funds totaling \$10,002 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 \$1,500 (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.

Roanoke Valley Broadband Authority
Notes to the Financial Statements (Continued)
As of June 30, 2016

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

G. Capital Assets (Continued)

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 \$161,129 of which \$139,968 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:

| <u>Asset</u> | <u>Years</u> |
|----------------|--------------|
| 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.

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. 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.

Roanoke Valley Broadband Authority
Notes to the Financial Statements (Continued)
As of June 30, 2016

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

L. 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).

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, 2016 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, 2016 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 | \$ 671,947 |

Roanoke Valley Broadband Authority
Notes to the Financial Statements (Continued)
As of June 30, 2016

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 established 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, 2016:

| | | 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 | 6/30/2016 | \$ 671,947 | \$ - | \$ - |

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Roanoke Valley Broadband Authority
Notes to the Financial Statements (Continued)
As of June 30, 2016

Note 4-Capital Assets:

A summary of changes in capital assets for the year ended June 30, 2016 follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|--------------|--------------|-------------------|
| Capital assets, not being depreciated: | | | | |
| Construction in progress | \$ 223,508 | \$ 5,211,345 | \$ 5,434,853 | \$ - |
| Total capital assets not being depreciated, net | \$ 223,508 | \$ 5,211,345 | \$ 5,434,853 | \$ - |
| Capital assets, being depreciated: | | | | |
| Easements | \$ - | \$ 5,434,853 | \$ - | \$ 5,434,853 |
| Infrastructure | 73,893 | - | - | 73,893 |
| Total capital assets being depreciated | \$ 73,893 | \$ 5,434,853 | \$ - | \$ 5,508,746 |
| Accumulated depreciation: | | | | |
| Easements | \$ - | \$ (411) | \$ - | \$ (411) |
| Infrastructure | - | (36,768) | - | (36,768) |
| Total accumulated depreciation | \$ - | \$ (37,179) | \$ - | \$ (37,179) |
| Total capital assets being depreciated, net | \$ 73,893 | \$ 5,397,674 | \$ - | \$ 5,471,567 |

Note 5-Long-term Obligations:

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2016:

| | Balance July 1, 2015 | Issuances | Retirements | Balance June 30, 2016 |
|---------------|-------------------------|-----------|-------------|--------------------------|
| Revenue bonds | \$ 5,780,000 | \$ - | \$ - | \$ 5,780,000 |
| Note payable | 5,000 | - | - | 5,000 |
| Total | \$ 5,785,000 | \$ - | \$ - | \$ 5,785,000 |

Roanoke Valley Broadband Authority
Notes to the Financial Statements (Continued)
As of June 30, 2016

Note 5-Long-term Obligations: (Continued)

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

| Year Ending December 31, | Revenue Bonds | | Notes Payable | |
|-----------------------------|---------------|------------|---------------|----------|
| | Principal | Interest | Principal | Interest |
| 2017 | \$ 525,000 | \$ 144,140 | \$ - | \$ - |
| 2018 | 530,000 | 138,304 | - | - |
| 2019 | 540,000 | 129,985 | 5,000 | - |
| 2020 | 550,000 | 119,134 | - | - |
| 2021 | 560,000 | 106,311 | - | - |
| 2022-2026 | 3,075,000 | 266,149 | - | - |
| Totals | \$ 5,780,000 | \$ 904,023 | \$ 5,000 | \$ - |

Details of long-term obligations:

| | Total Amount Due | Amount Due Within One Year |
|--|---------------------|-------------------------------|
| <u>Revenue Bonds</u> | | |
| \$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. | \$ 5,780,000 | \$ 525,000 |
| <u>Note Payable</u> | | |
| \$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 | - |
| Total long-term obligations | \$ 5,785,000 | \$ 525,000 |

Roanoke Valley Broadband Authority
Notes to the Financial Statements (Continued)
As of June 30, 2016

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; 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 7-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 8-Subsequent Events:

The Commission is expected to issue revenue bonds of approximately \$3.4 million (through the Virginia Resources Authority) in August of 2016 to finance the construction of approximately 25 miles of fiber optic telecommunications network. Construction is expected to begin during the 2016/2017 fiscal year.

Note 9-Adoption of Accounting Principles:

Governmental Accounting Standards Board Statement No. 72 Fair Value Measurement and Application

The Authority implemented the above statement during the fiscal year ended June 30, 2016. The Statement generally requires investments to be measured at fair value. The Statement requires the Authority to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. The Statement establishes a hierarchy of inputs used to measure fair value. There was no material impact on the Authority's financial statement as a result of the implementation of Statement No. 72. All required disclosures are added to Note 3.

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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
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, 2016, 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 August 1, 2016.

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, Fauner, Co. Associates

Blacksburg, Virginia
August 1, 2016