

ROANOKE VALLEY BROADBAND AUTHORITY

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2015

Roanoke Valley Broadband Authority
Financial Report
Year Ended June 30, 2015

Table of Contents

FINANCIAL SECTION	Exhibit	Page(s)
Independent Auditors' Report		1-2
Basic Financial Statements:		
Statement of Net Position	1	3
Statement of Revenues, Expenses, and Changes in Net Position	2	4
Statement of Cash Flows	3	5
Notes to the Financial Statements		6-12
COMPLIANCE SECTION		Page(s)
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		13-14

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, 2015, 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, 2015, 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 July 30, 2015, 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
July 30, 2015

Statement of Net Position
As of June 30, 2015

Assets:

Current Assets:

Cash and cash equivalents	\$	<u>244,644</u>
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Total current assets	\$	<u>244,644</u>
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Noncurrent Assets:

Restricted cash and cash equivalents	\$	5,460,640
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Capital Assets:

Purchased easements	\$	73,893
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Construction in progress		<u>223,508</u>
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Total net capital assets	\$	<u>297,401</u>
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Total noncurrent assets	\$	<u>5,758,041</u>
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Total assets	\$	<u>6,002,685</u>
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Liabilities:

Current Liabilities:

Accounts payable	\$	12,430
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Accrued interest payable		<u>11,415</u>
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Total current liabilities	\$	<u>23,845</u>
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Noncurrent Liabilities:

Notes payable - net of current portion	\$	5,000
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Revenue bonds - net of current portion		<u>5,780,000</u>
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Total noncurrent liabilities	\$	<u>5,785,000</u>
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Total liabilities	\$	<u>5,808,845</u>
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Net Position:

Net investment in capital assets	\$	(21,959)
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Unrestricted		<u>215,799</u>
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Total net position	\$	<u><u>193,840</u></u>
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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, 2015

Operating expenses:		
Accounting	\$	225
Advertising		1,511
Computer expenses		84
Professional fees		39,491
Insurance		1,052
Supplies - office		374
Training expenses		400
		<hr/>
Total operating expenses	\$	<u>43,137</u>
Operating income (loss)	\$	<u>(43,137)</u>
Nonoperating revenues (Expenses):		
Bond issuance costs	\$	(106,927)
Contributions - local sources		340,837
		<hr/>
Total nonoperating revenues (expenses)	\$	<u>233,910</u>
Change in net position	\$	190,773
Net position, beginning of year		<u>3,067</u>
Net position, end of year	\$	<u><u>193,840</u></u>

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

Statement of Cash Flows
Year Ended June 30, 2015

Cash flows from operating activities:	
Payments to suppliers	\$ <u>(50,833)</u>
Net cash provided by (used for) operating activities	\$ <u>(50,833)</u>
Cash flows from noncapital financing activities:	
Intergovernmental revenues/appropriations	\$ <u>340,837</u>
Net cash provided by (used for) noncapital financing activities	\$ <u>340,837</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	\$ (275,236)
Issuance of debt	5,780,000
Cost of debt issuance	<u>(106,927)</u>
Net cash provided by (used for) capital and related financing activities	\$ <u>5,397,837</u>
Increase (decrease) in cash and cash equivalents	\$ 5,687,841
Cash and cash equivalents, at beginning of year	<u>17,443</u>
Cash and cash equivalents, including restricted cash and cash equivalents, at end of year	<u><u>\$ 5,705,284</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (43,137)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Changes in operating assets and liabilities:	
(Increase) decrease in prepaid expenses	\$ 837
Increase (decrease) in operating payables	<u>(8,533)</u>
Net cash provided by (used for) operating activities	<u><u>\$ (50,833)</u></u>

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

Interest payable at year end totaling \$11,415 was capitalized.

Roanoke Valley Broadband Authority
Notes to the Financial Statements
As of June 30, 2015

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 activity 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.

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

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, 2015

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, 2015.

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, 2015.

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 \$5,460,640 were comprised of debt service reserves of \$670,039 and funds restricted for capital items of \$4,790,601.

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, 2015

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

G. Capital Assets (Continued)

Donated capital assets are recorded at estimated fair market 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. Accrued interest of \$11,415 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	15-20
Machinery and equipment	5-10
Easements	Term of easement

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.

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, 2015

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, 2015 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, 2015 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	\$ 5,460,640

Roanoke Valley Broadband Authority
Notes to the Financial Statements (Continued)
As of June 30, 2015

Note 3-Capital Assets:

A summary of changes in capital assets for the year ended June 30, 2015 follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Easements	\$ -	\$ 73,893	\$ -	\$ 73,893
Construction in progress	-	223,508	-	223,508
Total capital assets not being depreciated, net	\$ -	\$ 297,401	\$ -	\$ 297,401
Capital assets, net	\$ -	\$ 297,401	\$ -	\$ 297,401

Accrued interest of \$11,415 has been included in construction in progress above as capitalized interest.

Note 4-Long-term Obligations:

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2015:

	Balance July 1, 2014	Issuances	Retirements	Balance June 30, 2015
Revenue bonds	\$ -	\$ 5,780,000	\$ -	\$ 5,780,000
Note payable	5,000	-	-	5,000
Total	\$ 5,000	\$ 5,780,000	\$ -	\$ 5,785,000

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Roanoke Valley Broadband Authority
Notes to the Financial Statements (Continued)
As of June 30, 2015

Note 4-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
2016	\$ -	\$ 135,512	\$ -	\$ -
2017	525,000	144,140	-	-
2018	530,000	138,304	-	-
2019	540,000	129,985	5,000	-
2020	550,000	119,134	-	-
2021-2025	2,980,000	360,944	-	-
2026	655,000	11,516	-	-
Totals	<u>\$ 5,780,000</u>	<u>\$ 1,039,535</u>	<u>\$ 5,000</u>	<u>\$ -</u>

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	\$ -
<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	<u>\$ 5,785,000</u>	<u>\$ -</u>

Roanoke Valley Broadband Authority
Notes to the Financial Statements (Continued)
As of June 30, 2015

Note 5-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 6-Concentration of Funding:

The Authority received 100% 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 7-Construction Commitments:

On June 23, 2015, the Authority awarded a contract totaling \$3,468,111 for construction of a fiber optics network. Construction is scheduled to begin in the 2015/2016 fiscal year, with an estimated completion date of December 9, 2015. The revenue bonds issued on May 28, 2015 will be the source of funding for this project.

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 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 Virginia, the financial statements of the business-type activities of the Roanoke Valley Broadband Authority, as of and for the year ended June 30, 2015, 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 July 30, 2015.

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 opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described below to be a material weakness.

Condition: The audit identified year end adjusting entries that were required for the financial statements to be presented in accordance with current reporting standards.

Recommendation: Commission staff should review the audit adjustments for the current year and update future financial reports, as necessary, to comply with reporting standards.

Managements' Response: Staff will review the audit adjustments in the current year in relation to future financial statements and will prepare the financial statements in accordance with applicable reporting standards.

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*.

The Roanoke Valley Broadband Authority's response to the finding identified in our audit is presented above. The Roanoke Valley Broadband Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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, Fauser, Co. Associates

Blacksburg, Virginia
July 30, 2015