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
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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

Management's Discussion and Analysis FY 2018/2019

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.

Roanoke Valley Broadband Authority **Exhibit 2**

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. 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 $1,070,933 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

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