Roanoke Valley Broadband Authority

Financial Report

Year Ended June 30, 2017

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Table of Contents

FINANCIAL SECTION

Independent Auditors' Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Roanoke Valley Broadband Authority, as of June 30, 2017, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

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

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
September 18, 2017

Management's Discussion and Analysis FY 2016/2017

Roanoke Valley Broadband Authority

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

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Virginia General Assembly Activities for Fiscal Year 2016/17

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

Financial Analysis

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

Summary Statement of Net Position

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

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

Summary Statement of Revenues, Expenditures & Changes in Net Position

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

Economic Factors and Future Outlook

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

Contacting the Authority's Financial Management Staff

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

Basic Financial Statements

Roanoke Valley Broadband Authority **Exhibit 1**

Statement of Net Position
As of June 30, 2017

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

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

Roanoke Valley Broadband Authority **Exhibit 2**

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

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

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

Statement of Cash Flows
Year Ended June 30, 2017

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

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

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

Note 1–Summary of Significant Accounting Policies:

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

A. Financial Reporting Entity

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

B. Basis of Accounting

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

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

C. Cash and Cash Equivalents

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

D. Basic Financial Statements

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

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

D. Basic Financial Statements (Continued)

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

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

E. Deferred Outflows/Inflows of Resources

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

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

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

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

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

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

F. Restricted Assets

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

G. Capital Assets

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

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

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

Asset	Years
Infrastructure	10-30
Easements	30

H. Prepaid Items

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

I. Other Significant Accounting Policies

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

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

J. Use of Estimates

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

K. Compensated Absences

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

L. Net Position

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

M. Net Position Flow Assumption

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

Note 2-Deposits and Investments:

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

Note 2-Deposits and Investments: (Continued)

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

Custodial Credit Risk (Investments)

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

Credit Risk of Debt Securities

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

Authority's Rated Debt Investments' Values

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

Note 3-Fair Value Measurement:

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

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

Note 3-Fair Value Measurement: (Continued)

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

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

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

Note 4-Capital Assets:

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

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

Note 5-Long-term Obligations:

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

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

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

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

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Note 5-Long-term Obligations: (Continued)

Details of long-term obligations:

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

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Note 6-Pension Plan:

Plan Description

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

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

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

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS (CONTINUED)</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr><td>Calculating the Benefit (Cont.)
An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</td><td>Calculating the Benefit (Cont.)</td><td>Calculating the Benefit (Cont.)
<u>Defined Contribution Component:</u>
The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</td></tr>
<tr><td>Average Final Compensation
A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</td><td>Average Final Compensation
A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</td><td>Average Final Compensation
Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</td></tr>
<tr><td>Service Retirement Multiplier
VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.

Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.

Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</td><td>Service Retirement Multiplier
VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.

Sheriffs and regional jail superintendents: Same as Plan 1.

Political subdivision hazardous duty employees: Same as Plan 1.</td><td>Service Retirement Multiplier
<u>Defined Benefit Component:</u>
VRS: The retirement multiplier for the defined benefit component is 1.00%.

For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Sheriffs and regional jail superintendents: Not applicable.

Political subdivision hazardous duty employees: Not applicable.

Defined Contribution Component:
Not applicable.</td></tr>
</table>

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 6-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 6-Pension Plan: (Continued)

Pension Plan Data

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

Contributions

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

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

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

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

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

Actuarial Assumptions – General Employees

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

Note 6-Pension Plan: (Continued)

Actuarial Assumptions – General Employees (Continued)

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

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Note 6-Pension Plan: (Continued)

Actuarial Assumptions – General Employees (Continued)

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

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

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Note 6-Pension Plan: (Continued)

Long-Term Expected Rate of Return

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

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

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

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Note 6-Pension Plan: (Continued)

Discount Rate

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

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

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

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

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Note 6-Pension Plan: (Continued)

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

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

At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,595
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	5,793	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,418	-
Employer contributions subsequent to the measurement date	6,873	-
Total	$ 14,084	$ 2,595

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Note 6-Pension Plan: (Continued)

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

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

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

Note 7-Risk Management:

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

Note 8-Concentration of Funding:

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

Note 9-Upcoming Pronouncements:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of the Roanoke Valley Broadband Authority, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Roanoke Valley Broadband Authority's basic financial statements, and have issued our report thereon dated September 18, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
September 18, 2017