ORANGE COUNTY BROADBAND AUTHORITY (FIBERLYNC)

FINANCIAL AND COMPLIANCE REPORTS

YEAR ENDED JUNE 30, 2021

PBMares

ASSURANCE, TAX & ADVISORY SERVICES

ORANGE COUNTY BROADBAND AUTHORITY (FIBERLYNC)

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INTRODUCTORY SECTION

ORANGE COUNTY BROADBAND AUTHORITY (FIBERLYNC)

June 30, 2021

Board of Directors

James “Jim” White, Chairman
R. Mark Johnson, Vice Chairman

Keith F. Marshall	James “Jim” Crozier	Lee H. Frame

FINANCIAL SECTION

PBMares

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Board of Directors
Orange County Broadband Authority (FyberLync)

Report on the Financial Statements

We have audited the accompanying financial statements of the Orange County Broadband Authority (FiberLync), (Authority), as of and for the year ended June 30, 2021, 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.

Auditor's 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 and specifications require 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 auditor's 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 Authority'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 Authority'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 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 respective financial position of the Authority, as of June 30, 2021, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2021 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 Authority's internal control over financial reporting and compliance.

PBMares, LLP

Harrisonburg, Virginia
December 10, 2021

BASIC FINANCIAL STATEMENTS

ORANGE COUNTY BROADBAND AUTHORITY (FIBERLYNC)

EXHIBIT 1

STATEMENT OF NET POSITION
June 30, 2021

ASSETS	
Current assets:	
Cash and cash equivalents	$ 437,672
Restricted cash and cash equivalents	14,257,978
Accounts receivable	347,269
Prepaid items	43,026
Other current assets	5,242
Total current assets	15,091,187
Noncurrent assets:	
Capital assets:	
Furniture, equipment, and vehicles	189,559
Construction in progress	9,739,675
Less accumulated depreciation and amortization	(6,959)
Total capital assets, net of accumulated depreciation and amortization	9,922,275
Total noncurrent assets	9,922,275
Total assets	25,013,462
LIABILITIES	
Current Liabilities:	
Accounts payable	281,896
Accrued payroll and payroll taxes	3,809
Unearned revenue	72,738
Accrued interest payable	50,328
Due to primary government - line of credit	2,000,000
Total current liabilities	2,408,771
Noncurrent Liabilities:	
Due within one year:	
Compensated absences	18,419
Due in more than one year:	
Bonds payable, net	15,820,915
Compensated absences	21,621
Total noncurrent liabilities	15,860,955
Total liabilities	18,269,726
NET POSITION	
Net investment in capital assets	8,810,388
Restricted	1,869,865
Unrestricted (deficit)	(3,936,517)
Total net position	$ 6,743,736

ORANGE COUNTY BROADBAND AUTHORITY (FIBERLYNC)

EXHIBIT 2

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
Year Ended June 30, 2021

Operating revenues:	
Charges for services	$ 462,131
Total operating revenues	462,131
Operating expenses:	
Professional fees	52,004
Insurance	10,887
Lease	2,796
Office	163,350
Salaries and payroll taxes	357,693
Fringe benefits	60,835
Repairs and maintenance	26,127
Depreciation and amortization	6,959
Internet service costs	438,460
Total operating expenses	1,119,111
Operating loss	(656,980)
Nonoperating revenues (expenses):	
Contributions from primary government	2,155,172
Interest income	13
Interest and bond issuance costs	(418,866)
Total nonoperating revenues, net	1,736,319
Income before capital contributions	1,079,339
Capital contributions	5,571,513
Change in net position	6,650,852
Net position, beginning	92,884
Net position, ending	$ 6,743,736

ORANGE COUNTY BROADBAND AUTHORITY (FIBERLYNC)

EXHIBIT 3

STATEMENT OF CASH FLOWS
Year Ended June 30, 2021

Cash flows from operating activities:	
Receipts from customers	$ 187,600
Payments to suppliers for goods and services	(675,252)
Payments to employees for services	(389,167)
Net cash used in operating activities	(876,819)
Cash flows from capital and related financing activities:	
Contributions from primary government	1,900,709
Acquisition and construction of capital assets	(6,001,174)
Proceeds from line of credit	2,000,000
Proceeds from issuance of debt	15,820,915
Issuance costs	(368,538)
Net cash provided by capital and related financing activities	13,351,912
Cash flows from noncapital financing activities	
Contributions from primary government	2,155,172
Net cash provided by noncapital financing activities	2,155,172
Cash flows from investing activities:	
Interest from investments	13
Net cash provided by investing activities	13
Net change in cash and cash equivalents	14,630,278
Cash and cash equivalents:	
Beginning	65,372
Ending	$ 14,695,650
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (656,980)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization	6,959
Changes in assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	(347,269)
Prepaid items	(43,026)
Other current assets	(5,242)
Increase in:	
Accounts payable and accrued expenses	96,001
Unearned revenue	72,738
Net cash used in operating activities	$ (876,819)
Schedule of noncash capital and related financing activities	
Capital assets acquired through incurrence of accounts payable	$ 197,113
Capital contributions	3,670,804

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Orange County Broadband Authority (FiberLync) (the Authority) is a municipal corporation governed by an elected five-member Board of Supervisors. The Authority was created for the purpose of facilitating the provision of affordable broadband service to businesses, governmental agencies, and the public.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Authority prepares its financial statements using economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The activities of the Authority are similar to those of proprietary funds of local jurisdictions. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority is a discretely presented component unit of Orange County.

C. Assets, Liabilities, and Net Position

1. Deposits and Investments

Cash and Cash Equivalents

For purposes of reporting cash flows, the Authority considers all cash accounts, including cash on hand, demand deposits, and all short-term investments with a maturity of three months or less to be cash equivalents.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consists of unspent bond proceeds and required debt service reserves.

2. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements using the consumption method.

3. Capital Assets

Capital assets include property, furniture, equipment, and vehicles. Capital assets are defined as assets with an initial, individual cost of more than $500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized. There were no impaired capital assets at June 30, 2021.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Note 1. Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities, and Net Position (Continued)

3. Capital Assets (Continued)

Most capital assets are depreciated using the straight line method over the following estimated useful lives:

Furniture, equipment and vehicles	3-10 years

4. Compensated Absences

The Authority has policies to allow the accumulation and vesting of limited amounts of paid leave and sick leave until termination or retirement. Amounts of such absences are accrued when incurred. A liability for these amounts is reported in the accompanying financial statements.

5. Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from actual debt proceeds, are expensed.

6. Pension

Authority employees are included in the Virginia Retirement System (VRS) Orange County Retirement Plan, which is a multiple employer, agent plan. The net pension liability, deferred outflows of resources and deferred inflows of resource related to pensions, and pension expense are reported as part of the County until the Authority forms their own separate VRS Retirement Plan.

7. Other Postemployment Benefits

Authority employees are included in the Orange County Medical Insurance Program, a single employer plan, and VRS Group Life Insurance Program, a multiple-employer, cost sharing plan. The total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense are reported as part of the County until the Authority forms their own separate Medical Insurance Program and VRS Group Life Insurance Program.

8. Net Position

Net position is the difference between assets and liabilities. Net investment in capital assets represent capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Restricted net position consists of restricted assets reduced by liabilities. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.

Note 1. Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities, and Net Position (Continued)

8. Net Position (Continued)

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.

D. Operating and Nonoperating Revenues and Expenses

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

E. 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. Actual results could differ from those estimates.

F. Subsequent Events

The Authority has evaluated subsequent events through December 10, 2021, the date on which the financial statements were available to be issued.

Note 2. Deposits and Investments

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

Custodial Credit Risk (Deposits): This is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's investment policy requires all deposits comply with the Act. At year end, the Authority's deposits were exposed to custodial credit risk because they had not been identified as public deposits by the Authority's financial institution.

Note 2. Deposits and Investments (Continued)

Investments: State statutes authorize local governments and other public bodies to invest in obligations of the United States or its 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, bankers' acceptances, repurchase agreements, the State Treasurer's Local Government Investment Pool (LGIP), the Virginia Investment Pool (VIP), and the State Non-Arbitrage Program (SNAP).

Investment Policy: The Authority has adopted a formal investment policy. The primary investment goals of the Authority are the safeguarding of principal, the investment portfolio be managed at all times with sufficient liquidity to meet all daily and seasonal needs, as well as special projects and other operations requirements either known or which might be reasonably anticipated and with the objective of obtaining no worse than a market rate of return over the course of budgetary and economic cycles, taking into account the constraints contained herein and the cash flow patterns of the Authority.

As of June 30, 2021, the Authority's investment policy establishes investment types and quality levels for use by the Authority in the investment of its public funds:

Permitted Investment	Sector Limit	Issuer Limit
U.S. Treasury Obligations	100%	100%
Federal Agency Obligations	100%	100%
Municipal Obligations	100%	100%
Repurchase Agreements	100%	100%
Certificates of Deposit	100%	100%
Bankers' Acceptances	40%	100%
Commercial Paper	35%	5%
Corporate Notes and Bonds	100%	100%
Money Market Mutual Funds	100%	100%

Credit Risk: Credit risk is the risk that the Authority funds will not recover their investments due to the ability of the counterparty to fulfill its obligation. The Authority's policy requires commercial paper must be issued by an entity incorporated in the U.S. and rates at least A-1 by S&P or P-1 by Moody's. Corporate notes and bonds have a rating of at least AA by S&P or Aa by Moody's. Municipal obligations must have a rating of at least AA (or its equivalent) by Standard & Poor's or Moody's Investors Service. Bankers' Acceptances issued by a domestic bank or a foreign bank with an agency domiciled in the U.S., must be rated by Thomson Bankwatch at least "B/C" (issuing bank) and "I" (Authority of origin). Money market mutual funds must trade on a constant net asset value and invest solely in securities otherwise eligible for investment under these guidelines.

Custodial Credit Risk (Investments): This is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of items investments or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk: Concentration of credit risk is defined as the risk of loss attributed to the magnitude of a government's investment in a single issuer. If certain investments in any one issuer represent five percent of total investments, there must be a disclosure for the amount and issuer. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

Note 2. Deposits and Investments (Continued)

Interest Rate Risk: Interest rate risk is defined as the risk that changes of interest rates will adversely affect the fair value of an investment. The Authority does not have policies related to interest rate risk.

It is recognized that, prior to maturity, the market value of securities in the Authority's portfolio may fluctuate due to changes in market conditions. In view of this and the Authority's primary investment objectives of liquidity and preservation of principal, every effort shall be made to manage investment maturities to precede or coincide with the expected needs for funds. Accordingly, a minimum of 10 percent of the portfolio must be invested in securities maturing within 30 days and a minimum of 50 percent of the portfolio funds must be invested in securities maturing within 12 months.

The Authority categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Authority has the following recurring fair value measurement as of June 30, 2021:

- Money market mutual funds totaling $14,257,978 is valued using quoted market prices (Level 1 inputs)

Note 3. Receivables

The Authority's receivables are considered fully collectible and, therefore, an allowance for uncollectible accounts is not applicable for those receivables.

Note 4. Capital Assets

Capital asset activity for the Broadband Authority for the year consists of the following:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets not being depreciated:					
Construction in progress	$ 60,143	$ 9,679,532	$ -	$ -	$ 9,739,675
Capital assets being depreciated or amortized:					
Furniture, equipment and vehicles	21,405	189,559	(21,405)	-	189,559
Less accumulated depreciation and amortization:					
Furniture, equipment and vehicles	21,405	6,959	(21,405)	-	6,959
Total capital assets being depreciated or amortized, net	-	182,600	-	-	182,600
Broadband Authority capital assets, net	$ 60,143	$ 9,862,132	$ -	$ -	$ 9,922,275

Note 5. Due to Primary Government

The Authority has a revolving line of credit with Orange County in the amount of $2,000,000. As of June 30, 2021, the line of credit had a 2% interest rate and $2,000,000 was outstanding on the loan. On July 1, 2021, the loan was forgiven by Orange County. See Note 10. Subsequent Events.

Note 6. Long-Term Liabilities

Changes in long-term liabilities consist of the following:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
VRA revenue bond	$ -	$ 15,830,000	$ -	$ 15,830,000	$ -
Discount on bond	-	(9,085)	-	(9,085)	-
Compensated absences	-	40,040	-	40,040	18,419
	$ -	$ 15,860,955	$ -	$ 15,860,955	$ 18,419

Details of long-term obligations are as follows:

Revenue Bond:	
$15,830,000 VRA bond, issued May 2021, due in annual installments of $1,020,000 to $1,295,000 commencing October 2023 through October 2036, plus semi-annual interest at 0.698% to 2.596%. The bond was issued at a discount of $9,085 which will be amortized over the life of the bond.	$ 15,830,000

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

Year(s) Ending June 30,	VRA Bonds Principal	VRA Bonds Interest
2022	$ -	$ 271,935
2023	-	292,229
2024	1,020,000	288,667
2025	1,030,000	280,744
2026	1,040,000	270,784
2027-2031	5,430,000	1,118,416
2032-2036	6,015,000	532,403
2037	1,295,000	16,807
	$ 15,830,000	$ 3,071,985

Note 7. Commitments and Contingencies

Federal Grants

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

Leases

The Authority has operating leases for facilities and equipment. However, total future minimum lease commitments are considered insignificant.

Construction Commitments

Project	Spent-to-date	Remaining Commitment
Fiber	$ 3,551,659	$ 306,555
	$ 3,551,659	$ 306,555

Note 8. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the government carries insurances.

The Authority is a member of the Virginia Association of Counties Group Self Insurance Association (Association) for workers' compensation, property and liability coverage. Each Association member jointly and severally agrees to assume, pay, and discharge any liability. Association contributions and assessments are based upon classifications and rates into a designated cash reserve fund out of which expenses of the Association and claims awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Association may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The Authority carries commercial insurance for all other risks of losses. Settled claims from these risks have not exceeded commercial coverage in any of the last three fiscal years.

Note 9. Pending GASB Statements

At June 30, 2021, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the Authority. The statements which might impact the Authority are as follows:

GASB Statement No. 87, *Leases*, will increase the usefulness of the Authority's financial statements by requiring reporting of certain lease assets and liabilities and deferred inflows of resources for leases that previously were classified as operating leases. Statement No. 87 will be effective for fiscal years beginning after June 15, 2021.

GASB Statement No. 91, *Conduit Debt Obligations*, will provide a single method of reporting conduit debt obligations by issuer and eliminate diversity in practice associate with (1) commitments extended by issuer, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. Statement No. 91 will be effective for fiscal years beginning after December 15, 2021.

GASB Statement No. 92, *Omnibus 2020,* will improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics, including intra-entity transfers, the effective date of No. 87, *Leases*, the applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits, the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition, reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers, reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature, terminology used to refer to derivative instruments. Statement No. 92 will be effective for fiscal years beginning after June 15, 2021.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, will address accounting and financial reporting implications that result from the replacement of an interbank offered rate-most notably, the London Interbank Offered Rate (LIBOR), which is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. Portions of Statement No. 93 will be effective for fiscal years beginning after June 15, 2020, June 15, 2021, and December 31, 2021.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* will improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. Statement No. 94 will be effective for fiscal years beginning after June 15, 2022.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, will provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). Statement No. 96 will be effective for fiscal years beginning after June 15, 2022.

Note 9. Pending GASB Statements (Continued)

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32,* will (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Statement No. 97 will be effective for fiscal years beginning after June 15, 2021.

Management has not determined the effects of these new Statements may have on prospective financial statements.

Note 10. Subsequent Events

On July 1, 2021, the $2 million outstanding line of credit was forgiven by the County of Orange.

On July 20, 2021, the Board of Directors awarded contracts to two firms, Advantage Engineering and Source One Corporation, to provide Fiber to the Premise (FTTP) engineering design and construction management services.

On October 26, 2021, the Board of Directors awarded contracts to two firms, Electricom and Utility Service Contractors, for fiber construction services.

COMPLIANCE SECTION

PBMares

**INDEPENDENT AUDITOR'S 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 Honorable Members of the Board of Directors
Orange County Broadband Authority (FiberLync)

We have audited, 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, the financial statements of the Orange County Broadband Authority (Authority), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 10, 2021.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2021-001 to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item 2021-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 financial statements. 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. We did identify an instance of noncompliance, described in the accompanying Schedule of Findings and Responses as item 2021-003.

The Authority's Responses to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PBMares, LLP

Harrisonburg, Virginia
December 10, 2021

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2021

Section I. FINANCIAL STATEMENT FINDINGS

A. Material Weakness in Internal Control

2021-001: Material Weakness Due to Lack of Segregation of Duties

Criteria: There should be adequate segregation of duties relating to journal entries. The authorization of journal entries should not be carried out by the same person who posts journal entries.

Condition: Upon obtaining an understanding of the internal controls of the Authority, it was noted that there was no formal journal entry approval process.

Context: The Financial Controller is the only person who makes journal entries and codes revenues and expenses in the general ledger. There is no approval process for the Financial Controller's duties. There are also no formal policies and procedures in place to help ensure segregation of duties for the authorization and approval of journal entries.

Cause: There is a lack of formal policies and procedures in place including segregation of duties for journal entries.

Effect: Lack of segregation of duties increases the risk that fraud or error may occur undetected.

Recommendation: We recommend the Authority implement formal policies and procedures to ensure proper segregation of duties for journal entries.

Views of Responsible Officials: The auditee agrees with these recommendations and has taken the necessary steps to prevent a recurrence.

B. Significant Deficiency in Internal Control

2021-002: Significant Deficiency Due to Significant Audit Adjustments

Criteria: The year-end financial statements obtained from the Broadband Authority should be free of significant misstatements.

Condition: Upon auditing the year-end balances of the Broadband Authority, there were instances of significant adjustments identified.

Context: Audit entries were required to properly record contributions of assets under construction from Orange County, interest expense, prepaid items and accounts receivable.

Cause: There was a lack of sufficient review to ensure items noted above were accurately recorded.

Effect: As noted above, the effect of these transactions was to misstate year-end general ledger balances of the Authority. The necessary entries above were significant to the financial statements and were included as adjustments in order to more accurately represent the financial position of each of the above. Failure to record the items noted above is a departure from accounting principles generally accepted in the United States of America.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2021

Section I. FINANCIAL STATEMENT FINDINGS (Continued)

B. Significant Deficiency in Internal Control (Continued)

Recommendation: The Authority's financial statements are included in the County's financial reporting as a discretely presented component unit. We recommend the Authority work together with the County to perform a thorough review of the general ledger and supporting schedules prior to the audit.

Views of Responsible Officials: The auditee agrees with these recommendations and has taken the necessary steps to prevent a recurrence.

C. Compliance Finding

2021-003: Compliance with Security for Public Deposits

Criteria: The Security for Public Deposits Act, contained in the Code of Virginia, Sections 2.2-4400 to 2.2-4411, governs security for Virginia public deposits held in financial institutions. In Virginia, all public deposits must be identified as such to ensure the safety of the deposit.

Condition: Upon auditing cash balances, it was noted that the Authority's checking account is not identified as a public deposit.

Recommendation: We recommend the Authority contact the bank to ensure it is properly reported as a public deposit.

Views of Responsible Officials: The auditee agrees with these recommendations and has taken the necessary steps to prevent a recurrence.