

EASTERN SHORE OF VIRGINIA
BROADBAND AUTHORITY

FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023

EASTERN SHORE OF VIRGINIA BROADBAND AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2023

EASTERN SHORE OF VIRGINIA BROADBAND AUTHORITY

Board Members

John Reiter, Chairperson
Elaine Meil, Vice Chairperson
Mike Mason, Treasurer
Charles Kolakowski
Kelvin Pettit

Management

Robert Bridgham, Executive Director
Jennifer Marble, Office Manager
Leah Hoopes, Board Secretary

EASTERN SHORE OF VIRGINIA BROADBAND AUTHORITY

FINANCIAL REPORT FOR THE YEAR ENDED JUNE 30, 2023

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FINANCIAL SECTION



ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

**To the Honorable Members of the Board of Directors
Eastern Shore of Virginia Broadband Authority
Exmore, Virginia**

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Eastern Shore of Virginia Broadband Authority, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Eastern Shore of Virginia Broadband Authority, as of June 30, 2023, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Eastern Shore of Virginia Broadband Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Eastern Shore of Virginia Broadband Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Authorities, Boards, and Commissions* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Authorities, Boards, and Commissions*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Eastern Shore of Virginia Broadband Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Eastern Shore of Virginia Broadband Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Eastern Shore of Virginia Broadband Authority's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2023, on our consideration of Eastern Shore of Virginia Broadband Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Eastern Shore of Virginia Broadband Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Eastern Shore of Virginia Broadband Authority's internal control over financial reporting and compliance.

Robinson, Fournier, Cox Associates

Richmond, Virginia
November 15, 2023

EASTERN SHORE OF VIRGINIA BROADBAND AUTHORITY
Management's Discussion and Analysis
Year Ended June 30, 2023

The following Management's Discussion and Analysis (MD&A) of the Eastern Shore of Virginia Broadband Authority financial performance provides the reader with an overview of the Authority financial statements for the fiscal year ended June 30, 2023.

Following this MD&A are the basic financial statements of the Authority. These financial statements should be read in conjunction with the notes to the financial statements, as the notes are an integral part of the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority presents three basic financial statements: a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows.

The Authority's financial position is measured in terms of assets owned, liabilities owed on the reporting date, and deferred inflows of revenue. This information is reported on the Statement of Net Position and reflects assets in relation to what was owed to suppliers, employees and other creditors. The excess of assets over our liabilities and deferred inflows of resources represents net position.

The financial results of the Authority's operating activities are reported in the Statement of Revenues, Expenses and Changes in Net Position.

The Statement of Cash Flows describes the flow of cash resources into the Authority from operating activities, capital grants and reimbursements and interest income and the out flows of cash to pay operating expenses, purchase capital equipment and to repay debt.

FINANCIAL SUMMARY

Financial Position: A summary of Authority's Statement of Net Position for the years ended June 30, 2023 and 2022 are presented below:

Statement of Financial Position

	2023	2022
Current assets	\$ 5,641,593	\$ 7,301,825
Capital assets less accumulated depreciation	25,367,733	18,663,481
Total assets	\$ 31,009,326	\$ 25,965,306
Current liabilities	\$ 1,916,368	\$ 3,288,676
Long-term liabilities	3,077,928	3,623,066
Total liabilities	\$ 4,994,296	\$ 6,911,742
Deferred inflows of resources	\$ 168,122	\$ 180,731
Net investment in capital assets	\$ 21,744,667	\$ 14,519,103
Unrestricted	4,102,241	4,353,730
Total net position	\$ 25,846,908	\$ 18,872,833

The net position of the Authority increased \$6,974,075 in 2023 compared to 2022.

Change in Net Position: A summary of the Authority's Statement of Revenues, Expenses and Net Position for the years ended June 30, 2023 and 2022 are presented below:

**Statement of Revenues,
Expenses, and Changes in Net Position**

	<u>2023</u>	<u>2022</u>
Operating revenues	\$ 6,088,365	\$6,308,686
Operating expenses	<u>4,927,916</u>	<u>4,029,050</u>
Operating income (loss)	\$ 1,160,449	\$2,279,636
Nonoperating revenues (expenses)	<u>5,813,626</u>	<u>147,055</u>
Change in net position	<u><u>\$ 6,974,075</u></u>	<u><u>\$2,426,691</u></u>

Operating revenues represent the revenue received by the Authority by providing broadband services. Fee revenue decreased in fiscal year 2023 as compared to fiscal year 2022.

Increased service revenue led to increased operating expenses over the same two year period. The largest factors were increased payroll and depreciation.

Nonoperating revenues (expenses) consist of grants, connections, sale of supplies, interest income and interest expenses. The increase in nonoperating revenues in fiscal year 2023 when compared to fiscal year 2022 is due to the Authority recognizing \$3,241,468 federal grants and \$2,227,760 in local match contributions in 2023.

Cash Flows: A summary of the Authority's Statement of Cash Flows for 2023 and 2022 are presented below:

Statement of Cash Flows

	2023	2022
Cash flows from operating activities	\$ 307,684	\$ 5,765,702
Cash flows from capital and related financing activities	(3,288,405)	(4,485,640)
Cash flows from investing activities	8,159	1,430
Net increase (decrease) in cash and cash equivalents	\$(2,972,562)	\$ 1,281,492
Cash and cash equivalents, beginning of year	5,356,385	4,074,893
Cash and cash equivalents, end of year	<u>\$ 2,383,823</u>	<u>\$ 5,356,385</u>

Cash flows from operating activities decreased by \$5,458,018 in 2023 over 2022. This is primarily the result of decrease in local match grant funds 2023.

Cash flows used for capital and related financing activities increased by \$1,197,235 in 2023 over 2022. This is primarily the result of an increase in network build-out related to the grant funds.

Cash flows used for investing activities increased by \$6,729 in 2023 over 2022.

Capital Assets and Debt Administration

Capital Assets

The Authority had \$25,367,733 in net capital assets at June 30, 2023 as compared to \$18,663,481 at June 30, 2022. Additions and adjustments to capital assets in the amount of \$8,248,413 in fiscal 2023 were more than depreciation in the amount of \$1,544,161 for the same period, thus having a \$6,704,252 on change in net position.

Long-term Obligations

The Authority issued a \$5,000,000 taxable revenue bond in 2018. \$3,261,000 was outstanding at June 30, 2023.

The Authority had two infrastructure leases outstanding at June 30, 2023. \$362,066 was outstanding as of June 30, 2023.

Request for Information

This financial report is designed to provide the citizen, clients and taxpayers a general overview of the financial operations of the Authority. Questions concerning this report or requests for additional financial information should be addressed in writing to the Executive Director, Eastern Shore of Virginia Broadband Authority, 4174 Lankford Highway, Exmore, Virginia 23350.

BASIC FINANCIAL STATEMENTS

Eastern Shore of Virginia Broadband Authority

Statement of Net Position
At June 30, 2023

ASSETS	2023
Current Assets:	
Cash and cash equivalents	\$ 2,383,823
Accounts receivable (net of allowance for uncollectible accounts of \$143,658)	272,643
Due from other governmental units	324,147
Inventory	2,562,920
Prepaid Items	98,060
Total current assets	\$ 5,641,593
Capital Assets:	
Land and land rights	\$ 260,000
Other capital assets, less accumulated depreciation	25,107,733
Total capital assets, net	\$ 25,367,733
Total assets	\$ 31,009,326
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 1,226,372
Interest payable	24,131
Customer overpayments	89,176
Other accrued current liabilities	31,551
Notes payable, current portion	485,000
Leases payable, current portion	60,138
Total current liabilities	\$ 1,916,368
Long-term Liabilities:	
Notes payable, less current portion	\$ 2,776,000
Leases payable, less current portion	301,928
Total long-term liabilities	\$ 3,077,928
Total liabilities	\$ 4,994,296
DEFERRED INFLOWS OF RESOURCES	
Deferred revenue - fiber construction	\$ 168,122
NET POSITION	
Net investment in capital assets	\$ 21,744,667
Unrestricted	4,102,241
Total net position	\$ 25,846,908

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

Eastern Shore of Virginia Broadband Authority

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2023

	<u>2023</u>
Operating revenues:	
Charge for broadband service	\$ 6,067,896
Miscellaneous	<u>20,469</u>
Total operating revenues	\$ <u>6,088,365</u>
Operating expenses:	
Payroll	\$ 1,549,691
Professional fees	16,799
Sales and marketing	57,678
Advertising	2,647
Postage	7,095
Lease	24,100
Telephone	9,562
Hut maintenance and operations	58,519
Internet and third party charges for resale	457,492
Travel, conference, convention, meetings and staff development	18,663
Equipment and tools	7,433
Dues and subscriptions	3,167
Office	174,388
Vehicle	84,875
Insurance	975
Maintenance and repairs	89,965
Noncapital construction related charges	717,326
Bank fees	40,757
Bad debt	62,623
Depreciation	<u>1,544,161</u>
Total operating expenses	\$ <u>4,927,916</u>
Operating income (loss)	\$ <u>1,160,449</u>
Nonoperating revenues (expenses):	
Interest income	\$ 8,159
Federal revenue	3,241,468
Local contributions	2,227,760
Installations and sale of supplies	503,217
Interest expense	<u>(166,978)</u>
Total nonoperating revenues (expenses)	\$ <u>5,813,626</u>
Change in net position	\$ 6,974,075
Net position at beginning of year	<u>18,872,833</u>
Net position at end of year	\$ <u><u>25,846,908</u></u>

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

Eastern Shore of Virginia Broadband Authority

Statement of Cash Flows
For the Year Ended June 30, 2023

	<u>2023</u>
Cash flows from operating activities:	
Cash received from operations	\$ 3,705,456
Cash payments to suppliers	(1,836,888)
Cash payments to and for employees	(1,560,884)
	<u>307,684</u>
Net cash provided by (used for) operating activities	\$ 307,684
Cash flows from capital and related financing activities:	
State and federal government grants	\$ 2,917,321
Local contributions	2,227,760
Installations and sale of supplies	503,217
Principal paid on note payable	(464,000)
Principal paid on lease liability	(57,312)
Interest expense	(166,978)
Acquisition of capital assets	(8,248,413)
	<u>(3,288,405)</u>
Net cash provided by (used for) capital and related financing activities	\$ (3,288,405)
Cash flows from investing activities:	
Interest income	\$ 8,159
	<u>8,159</u>
Net increase (decrease) in cash and cash equivalents	\$ (2,972,562)
Cash and cash equivalents, beginning of year	<u>5,356,385</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,383,823</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ 1,160,449
Adjustments to reconcile net cash provided by (used for) operating activities:	
Depreciation	1,544,161
Changes in assets, liabilities and deferred inflows:	
Accounts receivable	(5,283)
Inventory	(971,707)
Prepaid items	(11,193)
Interest payable	(3,704)
Accounts payable	974,342
Customer overpayments	(27,964)
Deferred inflows of resources	(12,609)
Unearned revenue	(2,337,053)
Other accrued liabilities	(1,755)
Net cash provided by (used for) operating activities	<u><u>\$ 307,684</u></u>

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

Eastern Shore of Virginia Broadband Authority

Notes to Financial Statements As of June 30, 2023

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Description and Purpose of Agency

Eastern Shore of Virginia Broadband Authority is a public body politic and corporate of the Commonwealth of Virginia formed under the Virginia Wireless Service Authorities Act, Chapter 54.1 §15.2-543.1.1 et seq. and by joint resolution of the counties of Accomack and Northampton. It is charged with providing the citizens and businesses of the Eastern Shore with a more efficient broadband telecommunications infrastructure.

The Authority constructed a fiber optic network running from Virginia Beach to the NASA Wallops location by installing a backbone fiber optic cable along the Eastern Shore. In addition, the Authority has also constructed distribution routes for communities on the Eastern Shore. The Authority network is open to qualified service providers of wireless, ISP, and telephone services.

B. Financial Reporting Entity

The Authority has determined that it is a related organization to the Counties of Accomack and Northampton. The Authority is a legally separate organization whose members are appointed by the Board of Supervisors of both localities. Since the Board of Supervisors of either locality cannot impose its will on the Authority and since there is no potential financial benefit or burden in the relationship, neither locality is financially accountable for the Authority. Accordingly, the Authority is not considered a component unit of either County.

C. Individual Component Unit Disclosures

Blended Component Units - The Authority has no blended component units.

Discretely Presented Component Units - The Authority has no discretely presented component units.

D. Basis of Accounting

Eastern Shore of Virginia Broadband 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 accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

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 the Authority's principal ongoing operations. Operating expenses include professional services, administrative expenses and internet access for resale. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of demand deposits.

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

F. Capital Assets

Capital assets are tangible and intangible assets, which include property, plant, equipment, lease, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the financial statements. Capital assets, except for infrastructure assets, are defined by the Authority as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

As the Authority constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost (except for intangible right-to-use lease assets, the measurement of which is discussed in more detail below). The reported value excludes normal maintenance and repairs, which are amounts spent in relation to capital assets that do not increase the asset's capacity or efficiency or increases its estimated useful life. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential on the date of the donation. Intangible assets follow the same capitalization policies as tangible capital assets and are reported with tangible assets in the appropriate capital asset class.

Land and construction in progress are not depreciated. The other tangible and intangible property, plant equipment, lease assets, and infrastructure of the Authority are depreciated/amortized using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Office furniture	7
Software	3-5
Equipment	5
Vehicles	5
Lease infrastructure	5-9
Plant in service	5-20

G. 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.

H. Inventory

Inventory is valued at the lower of cost (first in, first out) or market. Inventory consists of electronics and cable typically used in a broadband system. Costs are recorded as an expense at the time the inventory items are consumed.

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

I. 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.

J. 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.

K. Deferred Outflow/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. The Authority does not have any deferred outflows of resources as of June 30, 2023.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources, represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has \$168,122 of deferred inflows of resources as of June 30, 2023 related to fiber network construction for Charter Communications.

L. Leases

The Authority has various lease assets requiring recognition. A lease is a contract that conveys control of the right to use another entity's nonfinancial asset. Lease recognition does not apply to short-term leases, contracts that transfer ownership, leases of assets that are investments, or certain regulated leases.

Eastern Shore of Virginia Broadband Authority

Notes to Financial Statements (Continued) As of June 30, 2023

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

L. Leases (Continued)

Lessee

The Authority recognizes lease liabilities and intangible right-to-use lease assets (lease assets) with an initial value of \$5,000, individually or in the aggregate in the government-wide financial statements. At the commencement of the lease, the lease liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease liability is reduced by the principal portion of payments made. The lease asset is measured at the initial amount of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. The lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset.

Key Estimates and Judgments

Lease accounting includes estimates and judgments for determining the (1) rate used to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Authority uses the interest rate stated in lease contracts. When the interest rate is not provided or the implicit rate cannot be readily determined, the Authority uses its estimated incremental borrowing rate as the discount rate for leases and subscriptions.
- The lease terms include the noncancellable period of the lease and certain periods covered by options to extend to reflect how long the lease is expected to be in effect, with terms and conditions varying by the type of underlying asset.
- Fixed and certain variable payments as well as lease incentives and certain other payments are included in the measurement of the lease liability.

The Authority monitors changes in circumstances that would require a remeasurement or modification of its leases. The Authority will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease receivable or lease liability.

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% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Eastern Shore of Virginia Broadband Authority

Notes to Financial Statements (Continued)

As of June 30, 2023

NOTE 2-DEPOSITS AND INVESTMENTS (CONTINUED):

Investments

Statutes authorize the Authority 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 that has received at least two of the following ratings: P-1 by Moody’s Investors Service, Inc.; A-1 by Standard & Poor’s; or F1 by Fitch Ratings, Inc. (Section 2.2-4502, banker’s acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP).

The Authority had no investments at June 30, 2023.

NOTE 3-CONTINGENT LIABILITIES:

The grant agreement the Authority entered into with the Economic Development Administration (EDA) for construction of the fiber optic backbone provides for repayment of federal grant funds to the EDA should the network ever be disposed of, encumbered or alienated in any manner, or is no longer used for the authorized purpose of the award during the project’s estimated useful life without written approval of the EDA.

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Eastern Shore of Virginia Broadband Authority

Notes to Financial Statements (Continued) As of June 30, 2023

NOTE 4-CAPITAL ASSETS:

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2023:

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023
Capital assets not subject to depreciation:				
Land and land rights	\$ 260,000	\$ -	\$ -	\$ 260,000
Total capital assets not subject to depreciation	\$ 260,000	\$ -	\$ -	\$ 260,000
Capital assets subject to depreciation:				
Office furniture	\$ 42,728	\$ -	\$ -	\$ 42,728
Software	64,303	-	-	64,303
Equipment	307,721	12,022	-	319,743
Vehicles	521,524	226,971	-	748,495
Lease infrastructure	473,948	-	-	473,948
Plant in service	26,846,714	8,009,420	-	34,856,134
Total capital assets subject to depreciation	\$ 28,256,938	\$ 8,248,413	\$ -	\$ 36,505,351
Accumulated depreciation:				
Office furniture and equipment	\$ 26,865	\$ 3,966	\$ -	\$ 30,831
Software	64,303	-	-	64,303
Other equipment	165,612	50,804	-	216,416
Vehicles	381,137	29,172	-	410,309
Lease infrastructure	55,440	55,440	-	110,880
Plant in service	9,160,100	1,404,779	-	10,564,879
Total accumulated depreciation	\$ 9,853,457	\$ 1,544,161	\$ -	\$ 11,397,618
Total capital assets subject to depreciation, net	\$ 18,403,481	\$ 6,704,252	\$ -	\$ 25,107,733
Net capital assets	\$ 18,663,481	\$ 6,704,252	\$ -	\$ 25,367,733

NOTE 5-LINE OF CREDIT:

The Authority has a line of credit with BB&T in the amount of \$750,000. As of June 30, 2023, amount of unused line of credit was \$750,000. The line of credit expires on May 5, 2024 and accrues interest at the bank's prime rate minus 0.25%.

Eastern Shore of Virginia Broadband Authority

Notes to Financial Statements (Continued) As of June 30, 2023

NOTE 6-LITIGATION:

There were no matters of litigation involving the Authority which would materially affect the Authority's financial position should any court decisions on pending matters not be favorable to the Authority.

NOTE 7-LONG-TERM OBLIGATIONS:

A summary of long-term obligation transactions for the year ended June 30, 2023 is as follows:

	Balance at July 1, 2022	Increases	Decreases	Balance at June 30, 2022	Amounts Due Within One Year
Note payable from direct borrowing	\$ 3,725,000	\$ -	\$ 464,000	\$ 3,261,000	\$ 485,000
Lease liabilities	419,378	-	57,312	362,066	60,138
Total	<u>\$ 4,144,378</u>	<u>\$ -</u>	<u>\$ 521,312</u>	<u>\$ 3,623,066</u>	<u>\$ 545,138</u>

Total Amount Due	Amount Due Within One Year
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Details of long-term obligations:

Note payable from direct borrowing:

\$5,000,000 taxable revenue bond, Series 2018, issued October 29, 2018 due on varying installments of principal plus interest through November 1, 2028, interest at 4.44%.

\$ 3,261,000	\$ 485,000
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Lease liabilities:

\$442,685 CBBT infrastructure lease, due in annual installments of \$62,400 through April 2029, interest at 2.75%.

\$ 340,852	\$ 53,027
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\$31,263 warehouse infrastructure lease, due in variable monthly installments through January 2026, interest at 3.25%.

21,214	7,111
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Total lease liabilities

362,066	60,138
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Total long-term obligations

\$ 3,623,066	\$ 545,138
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Annual requirements to amortize long-term obligations and the related interest are as follows:

Year Ending June 30,	Note Payable from Direct Borrowing		Lease Liabilities	
	Principal	Interest	Principal	Interest
2024	\$ 485,000	\$ 134,021	\$ 60,138	\$ 9,962
2025	507,000	111,999	63,049	8,251
2026	530,000	88,978	61,523	6,477
2027	554,000	64,913	57,523	4,877
2028	579,000	39,760	59,105	3,295
2029	606,000	13,453	60,728	1,670
Total	<u>\$ 3,261,000</u>	<u>\$ 453,124</u>	<u>\$ 362,066</u>	<u>\$ 34,532</u>

Eastern Shore of Virginia Broadband Authority

Notes to Financial Statements (Continued) As of June 30, 2023

NOTE 8-RISK MANAGEMENT:

The Authority participates in the Virginia Association of Counties Group Self Insurance for public official's general liability, property, crime insurance coverage and workers' compensation. Coverage for these items varies from \$5,000 to \$5,000,000.

NOTE 9—UPCOMING PRONOUNCEMENTS:

Statement No. 99, *Omnibus 2023*, enhances the comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The effective dates differ based on the requirements of the Statement, ranging from April 2023 to reporting periods beginning after June 15, 2023.

Statement No. 100, *Accounting Changes and Error Corrections* - an amendment of GASB Statement No. 62, enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2023.

Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences. It aligns the recognition and measurement guidance under a unified model and amends certain previously required disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

Implementation Guide No. 2021-1, *Implementation Guidance Update—2021*, with dates ranging from reporting periods beginning after June 15, 2023 to reporting periods beginning after June 15, 2023.

Implementation Guide No. 2023-1, *Implementation Guidance Update—2023*, effective for fiscal years beginning after June 15, 2023.

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

COMPLIANCE SECTION



ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

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

**To the Honorable Members of the Board of Directors
Eastern Shore of Virginia Broadband Authority
Exmore, 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 Eastern Shore of Virginia Broadband Authority as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise Eastern Shore of Virginia Broadband Authority's basic financial statements and have issued our report thereon dated November 15, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Eastern Shore of Virginia Broadband Authority's internal control over financial reporting (internal control) as a basis for designing 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 Eastern Shore of Virginia Broadband Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Eastern Shore of Virginia 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eastern Shore of Virginia 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 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. 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, Fournier, Cox Associates

Richmond, Virginia
November 15, 2023



ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

**To the Honorable Members of the Board of Directors
Eastern Shore of Virginia Broadband Authority
Exmore, Virginia**

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Eastern Shore of Virginia Broadband Authority's compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of Eastern Shore of Virginia Broadband Authority's major federal programs for the year ended June 30, 2023. Eastern Shore of Virginia Broadband Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Eastern Shore of Virginia Broadband Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance 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 audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Eastern Shore of Virginia Broadband Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Eastern Shore of Virginia Broadband Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Eastern Shore of Virginia Broadband Authority's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Eastern Shore of Virginia Broadband Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Eastern Shore of Virginia Broadband Authority's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Eastern Shore of Virginia Broadband Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Eastern Shore of Virginia Broadband Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Eastern Shore of Virginia Broadband Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Report on Internal Control over Compliance (Continued)

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Robinson, Fennell, Cox Associates

Richmond, Virginia
November 15, 2023

Eastern Shore of Virginia Broadband Authority

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2023

Federal Grantor/ State Pass-Through Grantor/ Program or Cluster Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Department of Treasury: Pass Through Payments: Department of Housing and Community Development: COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	unavailable	\$ <u>3,241,468</u>
Total Expenditures of Federal Awards			\$ <u><u>3,241,468</u></u>

See accompanying notes to schedule of expenditures of federal awards.

Eastern Shore of Virginia Broadband Authority

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2023

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Eastern Shore of Virginia Broadband Authority under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Eastern Shore of Virginia Broadband Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of Eastern Shore of Virginia Broadband Authority.

Note B - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

(3) The Board did not elect to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

Note C - Subrecipients

No awards were passed through to subrecipients.

Eastern Shore of Virginia Broadband Authority

Schedule of Findings and Questioned Costs
Year Ended June 30, 2023

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported

Type of auditors' report issued on compliance for major programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	No
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Identification of major programs:

Assistance Listing #	Name of Federal Program or Cluster
21.027	Coronavirus State and Local Relief Funds

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
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Auditee qualified as low-risk auditee?	No
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Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None