

SOUTHSIDE NETWORK AUTHORITY
FINANCIAL AND COMPLIANCE REPORTS
13-MONTH PERIOD ENDED JUNE 30, 2021



ASSURANCE, TAX & ADVISORY SERVICES

SOUTHSIDE NETWORK AUTHORITY

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Directors
Southside Network Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Southside Network Authority (Authority) as of and for the 13 months 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 financial position of the Authority, as of and for the 13 months ended June 30, 2021, and the respective changes in financial position and cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis on pages 3-6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 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
October 28, 2021

Southside Network Authority

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) of the Southside Network Authority (Authority) activities and financial performance provides the reader with an introduction and overview to the financial statements of the Authority for the thirteen-month period ended June 30, 2021. The information contained in this MD&A should be considered in conjunction with the financial statements included in this audit.

The Southside Network Authority (SNA) is a political subdivision of the Commonwealth of Virginia formed by five cities in south Hampton Roads: Chesapeake, Norfolk, Portsmouth, Suffolk, and Virginia Beach. Collectively, the five cities have over 1.1 million citizens and cover approximately 1,400 square miles. The five cities are part of the larger, 17-locality Hampton Roads region, the population of which approaches 2 million.

The port of Virginia, located in Hampton Roads is the largest seaport on the east coast of the United States. In recent years, Hampton Roads has also become a large digital port with the construction of a number of undersea fiberoptic cables beginning in Virginia Beach and connecting to locations in South America and Europe. The transatlantic cables provide unprecedented internet speeds to the region and provide an enormous internet hub opportunity. The region is the only digital port between New York and Miami and is able to handle more data than the older infrastructure serving those regions. This capacity will facilitate smart community development and accelerate equitable economic growth. Additionally, the combination of undersea cables and the regional connectivity ring being developed by the Authority will facilitate the growth of data centers within the region. For example, once completed, the Globalinx Carrier Hotel in Corporate Landing will provide high capacity, reliable connectivity options to carriers, data center, and colocation facility operators.

In 2018 and 2019, the five Authority-member cities, working with the Hampton Roads Planning District Commission (HRPDC), formed a regional broadband working group to consider the best methods of moving forward with a regional solution to the Cities' broadband issues. These issues included a need for more and more affordable internal connectivity for governmental operations, equity and affordability concerns in general as compared to similar metropolitan areas, a perceived lack of responsiveness by incumbent providers to the needs of the business community and economic development prospects, a relative lack of broadband infrastructure by comparison to comparable metropolitan areas, and concerns about the security and scalability of existing, privately-owned, regional networks.

Initially, the working group retained Broadband Telecom–CAS Severn, a broadband consultant, to assist in a needs analysis, feasibility analysis, and initial scoping. A report entitled *Hampton Roads Regional Connectivity Ring Master Plan*, dated December 31, 2018 (the "30% Design Plan"), describes background information, important considerations, and a 30% conceptual design for a 104-mile regional fiber ring. That year, the working group also retained a law firm to assist in assessing options and forming a regional governance and collective decision-making mechanism. After careful analysis of several options and the limitations presented by state and federal law, the Cities decided on a public service authority under the Virginia Wireless Service Authorities Act as the appropriate vehicle for regional decision-making on behalf of the Cities.

The Southside Network Authority was created effective November 15, 2019. In 2020, it hired its first Executive Director, Steven DeBerry, to spearhead administration of the regional fiber ring project. In summer 2020, it released a request for proposals for a design professional to provide engineering expertise as the plan for the fiber ring project matured. The engineering firm has provided a 60% design, feasibility analysis, and a predicted price for the regional connectivity ring (the “60% Design”) as well as several business case analysis strategies for funding, designing, constructing, operating, and managing the regional connectivity ring. This design slightly extended the length of the ring to approximately 120 miles, to provide connections to regional anchor institutions. The firm has been retained for potential scopes of work that include either being the A/E on traditional delivery of the project or providing as design oversight and project management expertise on a public-private partnership. The firm is anticipated to be the project manager and ongoing design professional for the Authority on this project.

Ultimately, the Authority envisions its work encompassing the entire 17-locality HRPDC region. After the initial fiber ring, future build-out to the Hampton Roads Peninsula localities and the inland Southside localities will follow. While yet undetermined, some of these localities may wish to join the Authority as members, while others may work collaboratively with it to achieve mutual goals without taking on full membership commitments.

FINANCIAL HIGHLIGHTS

The five cities that formed the Authority contributed \$200,000 per city to provide for the first year operating costs.

The net position of the Authority at June 30, 2021 was \$376,597.

OVERVIEW OF THE FINANCIAL STATEMENTS

The report consists of three basic financial statements, which include comparative Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows.

The Statement of Net Position presents information on the Authority's current assets, current liabilities and net position.

**Statement of Net Position
June 30, 2021**

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Assets:		
	Current assets	\$ 397,095
	Total assets	<u>397,095</u>
Liabilities:		
	Current liabilities	20,498
	Total liabilities	<u>20,498</u>
Net position:		
	Unrestricted	376,597
	Total net position	<u>\$ 376,597</u>

The Statement of Revenues, Expenses, and Change in Net Position contains all of the year's revenues and expenses and shows how the Authority's net position changed during the fiscal year.

**Summary Statement of Revenues, Expenses, and
Changes in Net Position
Period Ended June 30, 2021**

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REVENUES		
	Local Contributions	\$ 1,000,000
	Total operating revenues	<u>1,000,000</u>
EXPENSES		
	Wages and benefits	145,776
	Contracted services	473,618
	Administrative expenses	2,481
	Insurance	1,528
	Total operating expenses	<u>623,403</u>
	Operating income	<u>376,597</u>
	Change in net position	<u>\$ 376,597</u>

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Steven DeBerry, Executive Director, Southside Network Authority, 723 Woodlake Drive, Chesapeake, Virginia 23320, or by e-mail to stevenhdeberry@gmail.com.

BASIC FINANCIAL STATEMENTS

SOUTHSIDE NETWORK AUTHORITY

STATEMENT OF NET POSITION

June 30, 2021

ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 395,825
Prepaid expenses	<u>1,270</u>
Total current assets	<u>397,095</u>
Total assets	<u>397,095</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	<u>20,498</u>
Total current liabilities	<u>20,498</u>
Total liabilities	<u>20,498</u>
NET POSITION	
Net Position:	
Unrestricted	<u>376,597</u>
Total net position	<u>376,597</u>
Total liabilities and net position	<u><u>\$ 397,095</u></u>

SOUTHSIDE NETWORK AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION Thirteen Month Period Ended June 30, 2021

Public Support and Revenues:	
Income from localities	\$ 1,000,000
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Total public support and revenues	1,000,000
	<hr/>
Expenses:	
Wages and benefits	145,776
Contracted services	473,618
Administrative expenses	2,481
Insurance	1,528
	<hr/>
Total expenses	623,403
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Change in net position	376,597
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Net Position, beginning of period	-
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Net Position, end of period	\$ 376,597
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SOUTHSIDE NETWORK AUTHORITY

STATEMENT OF CASH FLOWS

Thirteen Month Period Ended June 30, 2021

Operating Activities:	
Receipts of public support and revenues	\$ 1,000,000
Payments to suppliers	(458,399)
Payments to employees	(145,776)
	<hr/>
Net cash provided by operating activities	395,825
	<hr/>
Increase in cash and cash equivalents	395,825
Cash and Cash Equivalents, beginning of period	-
	<hr/>
Cash and Cash Equivalents, end of period	\$ 395,825
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Reconciliation of Operating Income to Net Cash Provided By	
Operating Activities:	
Change in net position	\$ 376,597
Adjustments to reconcile operating income to net cash provided by	
operating activities:	
Changes in operating assets and liabilities:	
Prepaid expenses	(1,270)
Accounts payable	20,498
	<hr/>
Net cash provided by operating activities	\$ 395,825
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SOUTHSIDE NETWORK AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Purpose

The Southside Network Authority (the Authority) was created as an authority pursuant to the Virginia Wireless Service Authorities Act, Chapter 54.1, Title 15.2 of the *Code of Virginia 1950*, as amended. The governing bodies of the Cities of Chesapeake, Norfolk, Portsmouth, Suffolk, and Virginia Beach established the Authority for the purposes of providing broadband services and related services to individuals and organizations within the boundaries of the aforementioned participating jurisdictions. The powers of the Authority shall be exercised by a board of directors composed of five voting members and five alternate members, with one voting member and one alternate appointed by the governing bodies of each of the member localities.

Note 2. Summary of Significant Accounting Policies

Basis of accounting

The Authority's financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") as specified by the Governmental Accounting Standards Board (GASB).

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, amounts in demand deposits, as well as all highly liquid debt instruments purchased with a maturity of three months or less from the date acquired.

Estimates and assumptions

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

In preparing these financial statements, the Authority has evaluated events and transactions for potential recognition or disclosure through October 28, 2021, the date the financial statements were available to be issued.

SOUTHSIDE NETWORK AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 3. Deposits

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 (SPDA), 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.

Custodial Credit Risk (Deposits)

There is the risk that in the event of a bank failure, the Authority's deposits may not be returned to the Authority. The Authority requires all deposits to comply with the Act. At June 30, 2021, none of the Authority's deposits was exposed to custodial credit risk.

Note 4. Concentrations of Funding

For the period ended June 30, 2021, the Authority received all of its revenue in the current period from participant contributions and expects additional contributions will be necessary until a customer base sufficient to cover projected operating and capital costs is established.

Note 5. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from Virginia Risk Sharing Association Insurance Programs, a group insurance pool in the Commonwealth of Virginia.

Note 6. Income from Localities

Revenues consist of billings to the five Southside cities to provide for the first year operating costs. Revenues for the fiscal year ended June 30, 2021 were as follows:

Chesapeake	\$	200,000
Norfolk		200,000
Portsmouth		200,000
Suffolk		200,000
Virginia Beach		<u>200,000</u>
Total	\$	<u><u>1,000,000</u></u>

SOUTHSIDE NETWORK AUTHORITY

NOTES TO FINANCIAL STATEMENTS

Note 7. 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:

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. 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. 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.

The Authority has not yet determined the effect these statements will have on its financial statements.

COMPLIANCE SECTION



**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 Board of Directors
Southside Network Authority

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 Southside Network Authority (Authority) as of and for the period 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 October 28, 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.

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 a material misstatement of the Authority’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 we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 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
October 28, 2021