

NEK Broadband

Financial Statements and Single Audit Report  
(With Independent Auditors' Report Thereon)

December 31, 2021 and 2020

**NEK Broadband**  
December 31, 2021 and 2020

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Independent Auditors' Report

To the Governing Board of  
NEK Broadband  
Hardwick, Vermont

**Opinion**

We have audited the accompanying financial statements of NEK Broadband (a Vermont municipality) (the "District" or "CUD"), which comprise the statements of net position as of December 31, 2021 and 2020 and the related statements of revenues, expenses and changes in net position and cash flows for the year ended December 31, 2021 and the period from June 30, 2020 (inception) through December 31, 2020, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the District as of December 31, 2021 and 2020, and the respective changes in financial position, for the periods then ended, in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 the District and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 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.

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 the District's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we perform an audit 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 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, including omissions, 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, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 the District'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 the District'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 audits.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 – 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.

*Single Audit*

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2022, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*McSoley McCoy & Co.*

South Burlington, Vermont  
March 3, 2022  
VT Reg. No. 92-349



## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Overview of the Financial Statements:

This report consists of three sections:

- Management's Discussion and Analysis
- Required Financial Statements
- Notes to the Financial Statements

Management's Discussion and Analysis (this section) provides a narrative overview of the statements and comments on significant developments during the reporting period, which includes the 18 months since the legal inception of NEK Broadband (the "District") on June 30, 2020.

**NEK Broadband Executive Director Christa Shute** herein sets forth this financial overview and analysis of its financial operations for the fiscal years 2020 and 2021 ending to be reviewed and considered in conjunction with the more detailed statements, schedules, exhibits and notes to the financial statements of this report. NEK Broadband is a Vermont Communications Union District, a municipal body created by Vermont Statute (30 VSA Ch 82) empowered to offer broadband service within and adjacent to its member towns. As of January 31, 2022, NEK Broadband's district includes 51 members representing 56 towns in the state's northeastern corner, including all of the municipalities of Caledonia, Essex and Orleans county plus the town of Wolcott in Lamoille County.

NEK Broadband offers internet connectivity through fiber to the premises at speeds from 50 Mbps to 1G symmetrical upload and download speeds. The organization has been able to become an internet service provider in a matter of months by engaging with Waitsfield Champlain Valley Telecom to provide both the network operations (using their existing network operating centers) and retail internet services using their customer service, billing, and technical support infrastructure. Using unprecedented federal funding, NEK Broadband is embarking on a mission to ensure every address with electric service has access to high speed internet services by building 2400 miles over the next 5-6 years. In 2021 the district built 21 miles of fiber optic network and acquired 170 miles. In 2022 the district anticipates building an additional 200 miles of fiber optic network.

### Financial Highlights:

#### 2020

NEK Broadband's founding year was supported by \$130,000 in grant revenue. Many of the operating functions were conducted outside of the organization in conjunction with the Northeast Vermont Development Association. The year ended with \$95,559 in cash on hand, of which \$37,838 was advanced (restricted) grant funds. The non-grant liabilities totaled \$53,609. This resulted in a net position at the end of the year of \$14,112.

## 2021

In 2021, NEK Broadband's net position grew to \$2,736,490. Funded entirely by grants, the operating revenues for the year were \$2,908,736. Assets exceed non-grant liabilities by \$3,583,767. "Non-grant liabilities" are all liabilities that are not grant restricted funds. At the end of 2021 the District's grant restricted funds totaled \$1,637,058 and the District had \$36,477 in unrestricted cash on hand. Accounts Payable exceeded Accounts Receivable by \$112,024 due to the fact that the District was not able to invoice the state for expenses incurred in December prior to the end of the year. The District's capital assets increased to \$2,777,274 with the build out and acquisition of fiber optic broadband infrastructure.

### Financial Statements

The statement of net position presents the financial position of NEK Broadband by showing the assets owned by the District and how those assets are financed. Over time, increases and decreases in net assets serve as a useful indicator of whether or not the financial position of the District is improving.

The statement of activities presents information showing how the net assets changed during the most recent fiscal year. All changes in net assets are reported on an *accrual* basis.

The NEK Broadband Governing Board adopts an annual budget for its operations and for capital projects. Operational income and expenses include administrative salaries and benefits, plant maintenance and fees and customer-related expenses and income. The latter is not relevant for the financial statements being considered here as customer revenue will not begin until FY 2022.

The statement of cash flows shows the revenue, expenses, and the capital investments made during the year. The results of the operations are the change in net assets. This change added to the prior year's net assets is the new net assets.

### Results and Analysis

2021 was a year of rapid growth for NEK Broadband, with our total net assets increasing more than 85-fold.

This was due to three factors: (1) the availability of CARES funds that we translated into the successful completion of a 21-mile pilot broadband network in and around Concord, VT, which allowed us to develop the operating and construction partnerships and protocols necessary for success on a much larger scale; (2) the transfer of the 170 mile NEK Dark Fiber Network from the State of Vermont to the District (originally constructed and leased by the Vermont Telecommunications Authority a quasi-state entity); (3) the decision by the Governor and Legislative leaders in Vermont to entrust pandemic grant dollars for improving rural broadband to Communication Union Districts, including NEK Broadband. We received the first tranche of \$6,670,000 in pre-construction grant funds in December.

The final portion of the net position statement reflects NEK Broadband's investment in broadband infrastructure in order to fulfill its mission of connecting every grid-tied E-911 address within its member municipalities. That investment is expected to increase to approximately \$20 million in FY 2022.

NEK Broadband began offering a small number of customers internet connectivity on December 27, 2021 (50/50 Mbps and 250/250 Mbps). NEK Broadband intends to increase its service territory and the range of its broadband offerings through the construction of a planned 200-250 miles of lit fiber in FY 2022.

### **Economic Factors/Outlook**

NEK Broadband plans significant capital investment in fiber to the premise broadband infrastructure over the next five to seven years. Modeling suggests that achieving our mission to make affordable high-speed broadband service available to every grid-tied address in our member municipalities will cost roughly \$150 million.

Grant Funding: The organization has \$6,614,994 in preconstruction grant funds available. The Vermont Community Broadband Board Construction Grants Request for Proposal has allocated \$31,006,329 to NEK Broadband, with an additional \$4,961,013 allocated as match to NEK Broadband district members.

Anticipated Grant Funding: The Vermont Community Broadband Board (VCBB)'s Executive Director Christine Hallquist has directed all Communication Union Districts to prepare their business plans based on the total further capital allocation proposed by the Governor as detailed in his budget address to the state legislature on January 18, 2022: \$195 million. This means that NEK Broadband anticipates an additional \$60,462,341 in VCBB Construction Grant Funding over the course of the next several years. If the Governor's budget allocation is approved by the Vermont legislature, we will be 68% towards our needed investment. As a result, the District continues to apply for other state, federal and private grant opportunities.

Increasing Costs and Expenses: With increases in inflation, supply chain constraints, and ever increasing demand, we anticipate increased prices in both labor, construction materials and network materials of the capital asset development. NEK Broadband continues to look for operational efficiencies in conjunction with our operating and construction partners and other communication union districts in the state.

Revenue and Affordable Rates: NEK Broadband has established an initial rate structure that will ensure the overall financial health and viability of the organization while positioning itself in the middle of the price points from surrounding providers. Initial service offerings are \$79.95 for 50/50 Mbps and \$102.95 for 250/250 Mbps. As more infrastructure is put in place we will increase our service offerings to include 100/100 Mbps; 500/500 Mbps and 1G/1G. NEK Broadband will prioritize the financial strength and stability of the District while also striving to increase affordability and access over time. The organization has applied for participation in the federal Affordable Connectivity Program. The average premises per mile in the areas NEK Broadband is trying to serve is just around 11 premises per mile. The District's take rate projections in unserved areas is set at 43%.

Debt Service: Due to grant funds, NEK Broadband is in a position to limit the amount of debt service that it needs to incur. The organization anticipates engaging in some debt activities during the second half of 2022 and into 2023 in order to cover expenses not eligible for grant funding and to supplement the available grant funds.

### **Requests for Information**

This financial report is designed to provide a general overview of the District's financial position for all those with an interest in the finances. Questions concerning any of the information contained in this report or requests for additional information should be addressed to the Executive Director at [director@nekbroadband.org](mailto:director@nekbroadband.org).



**NEK BROADBAND**  
Statements of Net Position  
December 31, 2021 and 2020

<b>Assets</b>	<u>2021</u>	<u>2020</u>
Current assets:		
Cash	\$ 1,673,535	\$ 95,559
Grants receivable	655,253	10,000
Prepaid expenses	1,850	-
Materials and supplies	<u>112,913</u>	<u>-</u>
Total current assets	2,443,551	105,559
Telecom Network, net	<u>2,777,274</u>	<u>-</u>
Total assets	<u>\$ 5,220,825</u>	<u>\$ 105,559</u>
<b>Liabilities and Net Position</b>		
Liabilities:		
Accounts payable	\$ 767,277	\$ 53,609
Short-term note payable	80,000	-
Deferred revenue	<u>1,637,058</u>	<u>37,838</u>
Total liabilities	2,484,335	91,447
Net Position:		
Net investment in telecom network	<u>2,736,490</u>	<u>14,112</u>
Total liabilities and net position	<u>\$ 5,220,825</u>	<u>\$ 105,559</u>

See accompanying notes to the financial statements.

**NEK BROADBAND**Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Operating Revenues</b>		
Grants - plant	\$ 423	\$ -
Grants - administrative	143,412	72,390
Grants - special projects	10,800	29,772
Grants - capital investment	959,093	-
Capital asset contribution	<u>1,795,008</u>	<u>-</u>
 Total operating revenues	 <u>2,908,736</u>	 <u>102,162</u>
<b>Operating Expenses</b>		
Projects	32,515	29,509
Grant program	10,800	28,200
General and administrative	<u>143,043</u>	<u>30,341</u>
 Total expenses	 <u>186,358</u>	 <u>88,050</u>
 Change in net position	 2,722,378	 14,112
 Net position at beginning of year	 <u>14,112</u>	 <u>-</u>
 Net position at end of year	 <u>\$ 2,736,490</u>	 <u>\$ 14,112</u>

See accompanying notes to the financial statements.

**NEK BROADBAND**  
**Statements of Cash Flows**  
For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Operating activities:</b>		
Cash received from grant activity	\$ 2,067,695	\$ 130,000
Cash payments to suppliers for goods and services, net	<u>438,167</u>	<u>(34,441)</u>
Net cash provided by operating activities	<u>2,505,862</u>	<u>95,559</u>
<b>Cash flows from capital and related financing activities:</b>		
Purchases of telecom network assets	(1,007,886)	-
Proceeds from short-term debt	<u>80,000</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(927,886)</u>	<u>-</u>
Net increase in cash	1,577,976	95,559
Cash at the beginning of year	<u>95,559</u>	<u>-</u>
Cash at the end of year	<u><u>\$ 1,673,535</u></u>	<u><u>\$ 95,559</u></u>
<b>Reconciliation of net operating gain to net cash provided by operating activities:</b>		
Net operating income	<u>\$ 2,722,378</u>	<u>\$ 14,112</u>
Adjustments to reconcile net operating gain to net cash provided by operating activities		
Depreciation	25,620	-
Telecom network asset contribution	(1,795,008)	-
Increase in grants receivable	(645,253)	(10,000)
Increase in prepaids	(1,850)	-
Increase in materials and supplies	(112,913)	-
Increase in accounts payable	713,668	53,609
Increase in deferred revenue	<u>1,599,220</u>	<u>37,838</u>
Total adjustments	<u>(216,516)</u>	<u>81,447</u>
Net cash provided by operating activities	<u><u>\$ 2,505,862</u></u>	<u><u>\$ 95,559</u></u>

See accompanying notes to the financial statements.

**NEK Broadband**  
Notes to Financial Statements  
December 31, 2021 and 2020

**(1) Description of the Entity**

NEK Community Broadband is commonly referred to as NEK Broadband (the “District”) and was formally formed on June 30, 2020 as a municipality under Vermont Statute (30 V.S.A. Chapter 82). There are 51 members representing 56 towns of NEK Broadband. The accompanying financial statements and notes disclosures are for the period of inception (June 30, 2020) through December 31, 2020 and January 1, 2021 through December 31, 2021.

A Communications Union District (CUD) consists of two or more towns joined for the purpose of building communication infrastructure. Each town in the CUD has a seat on a governing board which will plan, contract, build, and manage infrastructure that will provide high speed internet.

The goal of the District is to ensure that every residential and business address with electric utility service in the Northeast Kingdom of Vermont and Wolcott, Vermont have access to reliable and affordable high-speed internet options. NEK Broadband is responsible for raising funds to build and operate the network through grants, loans, and bonds. Over the past year, there have been grants available to improve rural infrastructure through COVID relief funds.

**(2) Summary of Significant Accounting Policies**

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to governmental units (hereinafter referred to as generally accepted accounting principles (U.S. “GAAP”). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

***(a) Basis of Accounting***

The accompanying financial statements are prepared on the accrual basis of accounting. The District’s revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

***(b) Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

***(c) Cash***

For the purpose of reporting cash flows, cash includes all cash on hand and deposits in banks.

***(d) Materials and Supplies***

Materials and supplies inventory is valued at the lower of cost or market using the average cost basis, which approximates actual cost.

**NEK Broadband**  
Notes to Financial Statements  
December 31, 2021 and 2020

**Summary of Significant Accounting Policies (continued)**

***(e) Telecom Network***

Telecom Network consists of a fiber optic network located in the Northeast Kingdom of Vermont. Telecom Network is stated at cost which includes applicable general and administrative costs, labor and direct project costs. Depreciation is computed using the straight-line method over the assets estimated useful lives. Depreciation for the Telecom Network once placed in service is 24 years.

As of December 31, 2021 and 2020, the District did not have a formal capitalization policy. Effective in 2022, expenses for computers may be capitalized if their cost is greater than \$500 and for tools and test equipment if their cost is \$2,000.

***(f) Revenues and Expenses***

For the years ended December 31, 2021 and 2020, all revenues and expenses are related to grant income and expenses to place the fiber optic network into service. Beginning in 2022, the District will begin to have service revenue related to hookups and internet services being provided to residences for which the District will receive revenue.

Fiber optic revenue will be recognized on the accrual basis of accounting at the time the services are provided. Operating revenues will include service sales net of bad debt expense and miscellaneous revenue related to fiber optics operations. Operating expenses will include expenses that result from the ongoing operation of the fiber optic system once placed in service.

***(g) Grants Receivable***

The District periodically reviews grants receivable for amounts it considers as uncollectible. As of December 31, 2021 and 2020, management believes that all balances are considered collectible.

***(h) Deferred revenue***

The District has collected funds from grantors that have not yet been earned or expensed and are therefore classified as deferred revenue in the accompanying statements of net position.

***(i) Subsequent Events***

The District evaluated subsequent events through March 3, 2022, the date the financial statements were available to be used.

**NEK Broadband**  
Notes to Financial Statements  
December 31, 2021 and 2020

**(3) Cash and Categories of Risk**

There are three categories of credit risk that apply to the District's balances:

1. Insured by the FDIC, SPIC or collateralized with securities held by the District or by the District's agent in the District's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
3. Uncollateralized.

The District's bank balances are categorized below to give an indication of the level of risk assumed by the District at December 31, 2021 and 2020 are as follows, respectively.

	<u>2021</u>	
	<u>Book Balance</u>	<u>Bank Balance</u>
Insured deposits	\$ 250,000	\$ 250,000
Uninsured deposits	<u>1,423,535</u>	<u>1,652,042</u>
 Total cash deposits	 <u>\$ 1,673,535</u>	 <u>\$ 1,902,042</u>

  

	<u>2020</u>	
	<u>Book Balance</u>	<u>Bank Balance</u>
Insured deposits	\$ 95,559	\$ 95,559
Uninsured deposits	<u>-</u>	<u>-</u>
 Total cash deposits	 <u>\$ 95,559</u>	 <u>\$ 95,559</u>

**(4) Note Payable**

The District received a promissory note from Northern Enterprises dated November 10, 2021, where the District agrees to pay back \$80,000 of borrowed funds by November 1, 2022. There is the option to extend the loan for subsequent one-year terms, up to three years. Interest will not be charged.

**(5) Letter of Credit**

On December 7, 2021, the District entered into a secured letter of credit with Community National Bank with a maximum borrowing of \$3,500,000. All assets are considered collateral until the fiber optic cable is in hand, at which point the collateral shifts to the 1,000 miles of fiber optic cable. The interest rate applicable to any amount outstanding from time-to-time will be a variable rate of interest, which shall reflect the floating rate of interest equal to the Wall Street Journal Prime Rate plus two percent, adjusted monthly. The letter of credit matures June 6, 2023. As of December 31, 2021, the District has no outstanding borrowings on the letter of credit.

**NEK Broadband**  
Notes to Financial Statements  
December 31, 2021 and 2020

**(6) Telecom Network**

There was no telecom network as of December 31, 2020. The telecom network assets are summarized as of December 31, 2021 by major classification below:

	<u>As of December 31, 2021</u>			
	Beginning Balance	Additions	Deletions	Ending Balance
Concord CARES Network	\$ -	\$ 816,131	\$ -	\$ 816,131
Telecom Under Construction	-	105,541	-	105,541
Telecom Network Equipment	-	86,214	-	86,214
NEK Dark Fiber Network	-	1,795,008	-	1,795,008
	-	2,802,894	-	2,802,894
Total Telecom Network	-	2,802,894	-	2,802,894
Less: accumulated depreciation	-	(25,620)	-	(25,620)
Telecom Network, net	<u>\$ -</u>	<u>\$ 2,777,274</u>	<u>\$ -</u>	<u>\$ 2,777,274</u>

Telecom asset was placed into service in September 2021 and Concord CARES Network was placed into service on December 30, 2021. Depreciation expense for the periods ended December 31, 2021 and 2020 was \$25,620 and \$0, respectively.

Additionally, the District also has inventory assets (materials and supplies) that have not been placed into use. These assets will not be considered as telecom under construction until they are attached to network materials that can be placed into service. At that time they are considered construction in process. Materials and supplies totaled \$112,913 and \$0 as of December 31, 2021 and 2020, respectively.

**(7) Operating Grants**

NEK Broadband received grants from several grantors, including state and federal governments, during the years ended December 31, 2021 and 2020. Entitlements to the resources are generally based on compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditures of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowance as a result of these audits becomes a liability to the District. As of December 31, 2021 and 2020, management believes that no material liabilities will result from such audits.

**NEK Broadband**  
Notes to Financial Statements  
December 31, 2021 and 2020

**Operating Grants (continued)**

A list of the grants the District has been granted and their purposes are listed below:

VT Connected Communities (Round 1) is used for administrative support, project mapping, sub-grant for fiber to the home installation by Kingdom Fiber in Albany, Craftsbury, Hardwick, and Greensboro. The value of the grant is \$100,000.

Vermont Community Foundation is for general operational support. The agreement amount is \$30,000.

VT H315 Preconstruction and Capacity Grant is to cover administrative costs, legal fees, software subscriptions, insurance, rent, business planning for an executable project plan, and electric pole inventory. The agreement amount is \$276,250.

VT Act 71 Preconstruction Grant used for administrative support, design and engineering of fiber broadband network, and pole attachment and make ready expenses. The agreement amount is \$6,670,000.

USDA RBG grant is for expansion of a fiber optic network to service business growth in eligible parts of Concord and Waterford, Vermont. The grant agreement value is \$190,380.

CARES NEK Infrastructure Grant (Concord/Waterford) is for the construction of a fiber optic broadband network to service specific addresses in Concord, Lunenburg and Waterford, Vermont. The agreement amount is \$460,000.

Northern Enterprise grants cover general operation support, legal fees, and support for fees associated with pre-purchase of 1,000 miles of fiber optic cable. The value of the Northern Enterprise grants total \$42,000.

CARES Lamoille FiberNet Infrastructure Sub-Grant is for construction of a fiber optic broadband network to serve specific addresses in Concord, Lunenburg, and Waterford towns in Vermont. The agreement amount totals \$399,999. An additional amount of \$19,159 was approved at close-out, bringing the total to \$418,158.

The District plans to fund projects with federal and state funding in the future. In January 2022, the Vermont Community Broadband Board released a Construction grant RFP that would distribute \$100,000,000 across the state of Vermont, primarily to nine existing CUDs. Grants are made based on road miles to reach currently unserved or underserved grid-tied addresses. Based on that statistic over NEK Broadband's member, the District expects to receive at least \$31,000,000.

NEK Broadband is in the process of applying for other grants that have the possibility of being granted during 2022, but amounts are unknown as of the date of the financial statements.



**NEK BROADBAND**  
Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2021

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor Number	Expenditures
<b>U.S. Department of Treasury:</b>			
<i>Passed through the Vermont Department of Public Services</i>			
Coronavirus Relief Fund	21.019	02240-FY21-CARESCUD-004	\$ 37,838
Coronavirus Relief Fund	21.019	02240-FY21-CUD-Infra-003	460,000
Coronavirus Relief Fund	21.019	02240-FY21-CUD-Infra-004	<u>418,323</u>
			916,161
<b>U.S. Department of Treasury:</b>			
<i>Passed through the Vermont Department of Public Services</i>			
Coronavirus Recovery Fund	21.027	02240-FY21-CUDH315PreC-04	121,745
<i>Passed through the Vermont Community Broadband Board</i>			
Coronavirus Recovery Fund	21.027	02240-FY21-Act71PreC-07	<u>55,005</u>
<b>Total U.S. Department of Treasury</b>			1,092,911
<b>U.S. Department of Agriculture</b>			
Rural Business Development Grant (RBDG)	10.351	N/A	<u>43,584</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,136,495</u>

See notes to schedule of expenditures of federal awards.

NEK Broadband  
Notes to Schedule of Expenditures of Federal Awards  
December 31, 2021

**(1) Basis of Presentation**

The schedule of expenditures of Federal awards (the “Schedule”) includes the federal award activity of NEK Broadband under programs of the federal government for the year ended December 31, 2021. 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, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of NEK Broadband, it is not intended to and does not present the net position, changes in net position, or cash flows of NEK Broadband.

**(2) Basis of Accounting**

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, where in certain types of expenditures are not allowable or limited as to reimbursement.

NEK Broadband has elected not to use the 10% de minimis indirect cost rate as covered in 200.414 Indirect (F&A) costs.

**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 Governing Board of  
NEK Broadband  
Hardwick, Vermont

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the NEK Broadband (the "District"), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 3, 2022.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 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. Material weaknesses may exist that have not been identified. However, as described below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

**Approval of Expenditures (Finding No. 2021-01)**

In certain instances, we noted that there was not documented approval of expenditures. While the governing body and others within the District may be approving expenditures, without formal documentation of this occurring, there was not sufficient audit evidence for us to determine the control was in place.

**Approval of General Journal Entries (Finding No. 2021-02)**

A risk associated with internal controls is management override, the risk that management would manipulate the financial statements to commit fraud or misstate financial information. General journal entries are an area that is susceptible to management override. Therefore, we recommend the District implement a process for reviewing and approving general journal entries made in the accounting system.

**Reconciliations and Financial Reporting (Finding No. 2021-03)**

During our audit procedures, we noted that reconciliations as of year end had not been performed. As a startup, it is common for period closes to be cumbersome and difficult the first few years. As auditors, we look for reconciliations of all net position accounts, to ensure there is back up that bridges the gap between the financial statements and underlying support. In some instances this was not readily available. We also noted that there was no formal close date for financial reporting. Additionally, for best practices and compliance reporting, we recommend that the District on a quarterly basis, reconcile earned revenue and incurred expenditures to the grant listing that tracks receipts and expenditures. This will assist in ensuring all activity is captured in the proper period and recorded in income and expenses as incurred.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether NEK Broadband's financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*McSoley McCoy & Co.*

South Burlington, Vermont  
March 3, 2022  
VT Reg. No. 92-349

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

To the Governing Board of  
NEK Broadband  
Hardwick, Vermont

**Report on Compliance for the Major Federal Program**

We have audited NEK Broadband's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended December 31, 2021. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NEK Broadband's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of NEK Broadband's compliance.

### **Opinion on Major Federal Program**

In our opinion, NEK Broadband complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2021.

### **Other Matters**

The results of our auditing procedures disclosed no instance of noncompliance.

### **Report on Internal Control Over Compliance**

Management of NEK Broadband is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 the District's internal control over compliance. Accordingly we do not express an opinion on the effectiveness of 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. Material weaknesses may exist that have not been identified. We identified deficiencies in internal control over compliance that we consider to be significant deficiencies. The accompanying schedule of findings identifies the deficiencies identified (2021-01-03)

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.

*McSoley McCoy & Co.*

South Burlington, Vermont  
March 3, 2022  
VT Reg. No 92-349

**NEK Broadband**  
Schedule of Findings and Questioned Costs  
December 31, 2021

**1) Summary of Auditors' Results**

***Financial Statements***

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes   X   no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?   X   yes \_\_\_\_\_ no

Noncompliance material to the financial statements noted? \_\_\_\_\_ yes   X   no

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes   X   no
- Significant deficiency(ies) identified that are not considered to be material weaknesses?   X   yes \_\_\_\_\_ no

Type of auditors' report issued on compliance for the major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with §200.516(a)(vii)? \_\_\_\_\_ yes   X   no

***Identification of Major Program***

Name of federal program or cluster	CFDA #
Coronavirus Relief Fund	21.019

Dollar threshold used to distinguish between type A and type B programs, as those terms are defined in the OMB Uniform Guidance: \$750,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes   X   No

**NEK Broadband**  
Schedule of Findings and Questioned Costs  
December 31, 2021

**2) Finding Relating to the Financial Statements Required to be Reported in Accordance with  
*Government Auditing Standards***

Findings relate to internal controls. See findings 2021-01 through 2021-03 on pages 23 – 24.

**3) Findings and Questioned Costs for Federal Awards**

There were no findings or questioned costs for federal awards. Findings on pages 23 – 24 relate to internal control deficiencies, however do not result in questioned costs.



**NEK Broadband**  
Schedule of Findings and Questioned Costs  
December 31, 2021

**Finding No.: 2021-01**

***Criteria***

Approval of invoices should be documented before being paid.

***Conditions Found***

During our audit, we noted the District lacked documentation of approvals of invoices paid.

***Effect***

Without proper documentation of approvals, there is the risk that an unapproved amount could be paid by the District, whether due to fraud or error.

***Cause***

The District is in the startup phase, therefore, there are limited employees and approvals were not always maintained in a way that could be provided as audit support.

***Repeat Finding***

First year single audit, not a repeat finding.

***Recommendation***

We recommend all invoices be stamped for approval by appropriate personnel prior to being paid. The documentation should be maintained in a way that others can see the approval and ensure proper approval if an expenditure was ever questioned.

***Views of Responsible Officials***

See the corrective action plan for reviews of responsible officials. Management's responses have not been subject to audit procedures

**Finding No.: 2021-02**

***Criteria***

Approval of general journal entries by appropriate personnel should be documented.

***Conditions Found***

During our audit, we noted the District lacked documentation of approvals on general journal entries made.

***Effect***

Without proper approval of general journal entries, there is the risk that an unapproved entry could be paid by the District, whether due to fraud or error.

**NEK Broadband**  
**Schedule of Findings and Questioned Costs**  
**December 31, 2021**

***Cause***

The District is in the startup phase, therefore, there are limited employees and they did not have a process in place for approving such entries.

***Repeat Finding***

First year single audit, not a repeat finding.

***Recommendation***

We recommend general journal entry reports be run and approved on a monthly basis. These approvals should be formally documented on the report and retained.

***Views of Responsible Officials***

See the corrective action plan for reviews of responsible officials. Management's responses have not been subject to audit procedures

**Finding No.: 2021-03**

***Criteria***

Reconciliations of financial statement accounts should be performed on a monthly basis.

***Conditions Found***

During our audit, we noted that reconciliations were not formally performed.

***Effect***

Without reconciliations being performed regularly, management was not able to provide support for accounts timely and accurately. This resulted in adjusting journal entries by the auditor.

***Cause***

The District is in the startup phase, therefore, there are limited employees and there is no specific personnel in the accounting function who regularly reconciles accounts. Also, the timeline of the audit resulted in limited time for accounts to be closed out properly at the end of the year.

***Repeat Finding***

First year single audit, not a repeat finding.

***Recommendation***

We recommend a formal close process be formalized and followed for each month end.

***Views of Responsible Officials***

See the corrective action plan for reviews of responsible officials. Management's responses have not been subject to audit procedures

**NEK Broadband**  
Summary Schedule of Prior Audit Findings  
December 31, 2021

- 1) This was the first required single audit of NEK Broadband. As such, no prior audit findings are applicable.



## **Management's Corrective Action Plan**

The management of NEK Broadband acknowledges the findings of several significant deficiencies in internal controls noted by our auditors.

We submit the following new procedures that are already being implemented to address these deficiencies. Folders refer to the architecture of NEK Broadband's Shared Google Drive. They have been approved by our Executive Committee and will be presented to our Governing Board at our next monthly meeting in March:

### *Finding No. 2021-01/ Approval of Expenditures*

#### *Approval of Expenditures Updated Procedures/*

While each expense and invoice was approved by management, those approvals were not always captured in writing. The following process provides a detailed description of the steps to be followed moving forward to ensure that there is appropriate documentation of approvals.

#### *Procedure for Non-recurring Expenses (Invoice or Purchase Order)*

- 1) Bookkeeper or other recipient will file a new invoice in "Vendor/Active Invoices" with file name "XXXXXX\_VendorName" where XXXXXX is either the date received or the date on the invoice, whichever is earlier (Year/Month/Day format 210130).
- 2) For non-recurring expenses, Executive Director or ED's designated representative will review and place his or her signature on a PDF of the invoice received by Monday EOD to show approval. Designees will be identified by type of invoice to approve and designations will be tracked in a separate spreadsheet.
- 3) Treasurer will review invoices on Tuesday morning. Unapproved invoices will go in a "Vendor/For Approval" folder, which will be shared as a reminder with ED or designee. ED will email approved documents to Treasurer and Bookkeeper. Once approved, invoices should be moved into the "Active Invoices/Approved" folder.
- 4) Treasurer will review Approved invoices to ensure restricted funds or unrestricted cash reserve is available for payment. Treasurer will also review expenditure in light of the approved procurement policy. If sufficient funds are available, and procurement was appropriate, Treasurer will move one copy of the approved invoices to the "Vendor/Invoices Approved for Payment" folder. If sufficient funds are not available, or the procurement needs review or amendment, the approved invoice will go into the "Vendor/ON HOLD" folder.

*Finding No. 2021-01/ Approval of Expenditures (continued)*

- 5) Bookkeeper will prepare checks for payment. Treasurer will use the Credit Card where appropriate according to approved policy, retaining receipts for reconciliation. Checks for signing will be left in the office by Wednesday at noon. Paid invoices will then be moved to the appropriate Vendor file, with a copy added to the appropriate month in the “Accounting Files/Reconciliations” folder. Another copy should be made and put in the “Grant/Active Reimbursement Request” sub-folder.
- 6) Ideally simultaneous to, but at minimum within 24 hours of preparing payment, Bookkeeper will input paid invoices into Quickbooks ensuring that the vendor has a “Bill Due Within” period (14,30,45 days) identified. Leave Class (Distribution Area) empty if unsure of the designation. New “On Hold” invoices should also be entered into QB so that the due date can be tracked.
- 7) The Treasurer or Grants Manager will prepare Reimbursement Requests for the previous month’s bills before the 15th of the following month, except for bills larger than 50% of our unrestricted cash reserve at the time, which will be submitted immediately. Requests will be submitted as invoiced expenses using QB forms and reports.

*Recurring Expenses (Debit/Credit Card)*

- 1) A recurring credit card charge will be approved for the first time using the non-recurring procedure. The monthly charge will be annualized for procurement purposes. Once approved, the payment method will be put into place and entered into the “Recurring Debit/Credit Card Charges” spreadsheet within the “Vendors/Approved Invoices” folder.
- 2) Any proposed changes to the subscription will be approved using the “non-recurring” procedure before being implemented.
- 3) The Treasurer and bookkeeper will refer to the spreadsheet as part of the reconciliation process.

*Finding No. 2021-02/ Approval of General Journal Entries*

While General Journal entries were reviewed and approved by management, those approvals were not captured in writing. The following process provides a detailed description of the steps to be followed moving forward to ensure that there is appropriate documentation of approvals.

*General Journal entries approval and documentation procedure/*

General Journal entries are made in our accounting for a variety of reasons, but most typically for the following three: (1) move restricted grant funds from the statement of position (balance sheet) to the appropriate income account (statement of activities); (2) capitalize expenses by moving Work in Progress expenses from the statement of revenues, expenses and changes in net position to the statement to the position statement or (3) to make adjustments as suggested by NEK Broadband’s accountant or auditor.

*Finding No. 2021-02/ Approval of General Journal Entries (continued)*

A report of General Journal entries for the previous month will be prepared by the NEK Broadband Treasurer by the end of the week following end of the month for review and approval by the Executive Director. They are expected to come at the following intervals:

- (1) Monthly or Quarterly
- (2) Quarterly
- (3) Quarterly or Annually

The report will be presented by the Treasurer with clarity as to which kind of GJ entry they represent and whether they are proposed by the Treasurer, Accountant or Auditor. Drafts of the other monthly financial reports will accompany the GJ Report. The Executive Director will seek whatever clarification is necessary for approval. Upon approval, the report of General Journal entries will be signed by the Executive Director.

Once signed and approved, the signed GJ report will be filed in the “Accounting Files/Reconciliations/Adjustments” folder.

*Finding No. 2021-03/ Reconciliations and Financial Reporting*

*Monthly Closing Process/*

1) Bookkeeper should perform bank account and credit card reconciliations as soon as possible after the end of the previous month, at the latest within one week of the end of month, or the first business day after one week.

2) Grant Manager should perform “Expenditures by Grant” reports and invoices for reimbursement as soon as possible after reconciliations are complete, at the latest by 10th day of the month or first business day after the 10th.

3) On or before the 15th of the month, Bookkeeper and Grant Manager should work together to collect copies of necessary Backup Material in “Accounting Files/Reconciliations”, a new folder for every month, entitled Jan22, for example. When the end of the month is also the end of the quarter the file should be entitled Q1Mar22, for example. The required backup materials are:

- a) Bank Statements; Credit Card Statements
- b) QB reports: Reconciliation Report; General Ledger Transaction List; Expenditures by Grant; Monthly Journal Entry Report (Approved); P&L; Balance Sheet
- c) copies of all paid bills and invoices issued are in the corresponding monthly Reconciliation folder.

*Finding No. 2021-03/ Reconciliations and Financial Reporting (continued)*

4) These materials will be reviewed by the Treasurer. Once complete, they will be presented to the Executive Director and the members of the Finance Committee. Once the monthly reports are accepted by a vote of the Finance Committee, the month will be considered closed. Any changes to recorded entries must be reviewed and approved by the Finance Committee at a subsequent meeting.

*Quarterly Closing Process/*

The same process as above will be followed. In addition, on or before the 15th of the following month, or the first business day after the 15th,:

- 1) The Treasurer will receive an updated inventory list from construction partners.
- 2) The Treasurer will work with the contracted accountant to ensure that all non-material expenses are appropriately categorized for capitalization.
- 3) The Treasurer will include capitalization General Journal entries in the Monthly Journal Entry Report for approval.

*Annual Pre-Audit Closing/*

The same process as above will be followed. In addition, on or before January 20th, or the first business day following the 20th:

- 1) A password will be added to the transactions following the Finance Committee acceptance of the December reports.
- 2) The Treasurer will review monthly and quarterly reports to ensure that no bills or invoices have been missed or repeated.

*Annual Post-Audit Closing/*

Following the completion of a final audit report, entries for the previous year will be closed and no further entries or adjustments will be possible.