

# REGIONAL FIBER CONSORTIUM

## Annual Financial Statements

For the Years Ended  
June 30, 2016 and 2015



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REGIONAL FIBER CONSORTIUM

**ANNUAL FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2016 and 2015**

Prepared by:

City of Springfield  
Finance Department

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REGIONAL FIBER CONSORTIUM

FINANCIAL STATEMENTS

For the years ended June 30, 2016 and 2015

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# **Introductory Section**

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REGIONAL FIBER CONSORTIUM  
BOARD OF DIRECTORS

Richard Meyers	Chair	City of Cottage Grove 400 East Main Street Cottage Grove, OR 97424
Pam Berrian	Vice Chair	City of Eugene, 61 W. 8 <sup>th</sup> Avenue Eugene, OR 97401
Hon. Faye Stewart	Executive Committee	Lane County Courthouse 125 E. 8 <sup>th</sup> Avenue Eugene, OR 97401
Hon. Carl Patenode	Executive Committee	City of Drain PO Box 158 Drain, OR 97435
Anette Spickard	Executive Committee	City of Springfield 225 Fifth Street Springfield, OR 97477
Petra Schuetz	Executive Committee	City of Coburg PO Box 8316 Coburg, OR 97408

ADMINISTRATION

Fiscal:

Anette Spickard  
Development & Public Works Director  
City of Springfield

Neil Obringer  
Senior Management Analyst  
City of Springfield

Operational:

Milo Mecham  
Program Director  
Lane Council of Governments

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# Financial Section

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# **Independent Accountant's Review Report**

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## GROVE, MUELLER & SWANK, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS  
475 Cottage Street NE, Suite 200, Salem, Oregon 97301  
(503) 581-7788

### ***INDEPENDENT ACCOUNTANT'S REVIEW REPORT***

Board of Directors  
Regional Fiber Consortium  
225 Fifth Street  
Springfield, Oregon 97477

We have reviewed the accompanying financial statements of the Regional Fiber Consortium (the Consortium), as of and for the years ended June 30, 2016 and 2015, which collectively comprise the Consortium's basic financial statements as listed in the table of contents. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

#### ***Management's Responsibility 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

#### ***Accountant's Responsibility***

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

#### ***Accountant's Conclusion***

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.


***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis as listed in the table of contents 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. The information is the representation of management. We have not audited or reviewed such required supplementary information, and, accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on it.

***Supplementary Information***

The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of management. We have reviewed the information and, based on our review, we are not aware of any material modifications that should be made to the information in order for it to be in accordance with accounting principles generally accepted in the United States of America. We have not audited the information and, accordingly, do not express an opinion on such information.

*GROVE, MUELLER & SWANK, P.C.*  
*CERTIFIED PUBLIC ACCOUNTANTS*

By:   
Ryan T. Pasquarella, CPA  
February 3, 2017

# **Management's Discussion and Analysis**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Regional Fiber Consortium (Consortium) was established on August 1, 1999 through an intergovernmental agreement between a group of Oregon cities and counties and subsequently amended as cities and counties joined or left the consortium. As of June 30, 2016, the current membership includes the Cities of Springfield, Lowell, Coburg, Westfir, Oakridge, Klamath Falls, Merrill, Eugene, Florence, Cottage Grove, Drain, Yoncalla, and Creswell, and Lane County.

Our discussion and analysis of the financial performance of the Consortium provides an overview of the Consortium's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the Consortium's financial statements, which begin on Page 27.

### **Mission**

The Consortium was formed for the purpose of taking control of and managing certain fiber optic cable transferred to the Consortium by a number of fiber providers in consideration of right-of-way user fees payable to the cities who are members of the Consortium. It is the intention of the Consortium to develop an appropriate level of communication services for the citizens of the member jurisdictions and to serve the public interest by stimulating economic development in the communities through which the fiber optic cable passes. In February of 2010, the Lane Council of Governments (LCOG) was awarded \$8.4 million in American Recovery and Reinvestment Act funding as part of the national broadband stimulus program sponsored by the National Telecommunications and Information Administration (NTIA). The Consortium played a key role in this stimulus program by providing the bulk of the required \$2.2 million match. That funding has been used to provide "middle mile" connectivity between the Consortium's fiber and local facilities of telecommunications providers, greatly simplifying the task of energizing the network. That project has been completed and over one-hundred anchor institutions have gained connectivity. In the Springfield area, the project financed the construction of fiber to the City's Operations and Emergency Management facility, as well as providing connectivity to the Volunteers in Medicine facility, the HACSA low income housing facility, and to the Walterville School. In the three counties served by the project, thirty-one medical facilities, including two hospitals, were connected, giving them access to the already connected McKenzie-Willamette and Peace Health hospitals. In addition, thirty-nine school buildings were connected in ten different school districts, twenty-six police and fire stations, ten libraries, and thirty-three government buildings, including nine city halls. The fiber constructed during the Broadband Technology Opportunities Program (BTOP) project has led to development of a call center in Veneta and expansion of a call center and other businesses in Cottage Grove.

## **Responsibility and Controls**

The City of Springfield performs all administrative duties for the Consortium in accordance with the provisions of an intergovernmental agreement between the City of Springfield and Regional Fiber Consortium.

The Intergovernmental Agreement between the City of Springfield and the Consortium provides that the City of Springfield may charge a reasonable administrative fee for budgeting and administrative services. For the years ended June 30, 2016 and June 30, 2015, the cost of such services was \$12,000.

## **Financial Highlights**

- The Consortium's total assets at June 30, 2016 increased \$32,012 from \$220,959 to \$252,971, or 14.5% from the prior year. This increase in total assets was primarily due to an increase in cash of \$30,645 and an increase in accounts receivables of \$1,536.
- The Consortium's total liabilities decreased by \$35,457 from \$45,433 to \$9,976. This decrease was primarily due to a decrease in accounts payable.
- The net position of the Consortium (assets less liabilities) at June 30, 2016 increased \$67,469 from \$175,526 to \$242,995, or 38.4% from the prior year.
- The Consortium's total operating revenues increased \$2,369 over the prior year from \$135,202 to \$137,571. This increase in revenue was primarily due to the collection of a full year of lease revenue from a customer acquired mid-year 2015.
- The Consortium's total operating expenses decreased \$52,211 over the prior year from \$123,233 to \$71,022. This decrease was primarily due to the Consortium awarding no funding to current or new customers for fiber optic cable installation during fiscal year as compared to \$60,000 of funding awarded in the prior fiscal year.

## **Overview of Annual Financial Report**

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's examination and analysis of the Consortium's condition and performance.

The financial statements report information about the Consortium using the accrual basis of accounting. As such, revenues are recognized when they are earned and expenses are recognized when they are incurred.

The financial statements include a comparative statement of net position and a comparative statement of revenues, expenses, and changes in net position. The statement of net position

presents the financial position on a full accrual historical cost basis and provides information about the nature and amount of resources and obligations at year-end; the statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year.

The financial statements were prepared by the City of Springfield’s staff from the detailed books and records of the Consortium. The financial statements were reviewed by independent accountants as required by the State of Oregon.

**Financial Analysis**

The Consortium’s overall financial position improved in fiscal year 2016 as compared to 2015. While revenues remained relatively flat in fiscal year 2016, as the Consortium did not acquire any new lease customers, expenditures decreased significantly due to the consortium not awarding connectivity funds to existing or new clients during the current fiscal year. As Consortium and LCOG continue to acquire new lease customers in the future, the expectation is that the growth trend in lease revenues that occurred in 2014 will continue as more providers gain connectivity.

**Regional Fiber Consortium Net Position**

	June 30,		
	2016	2015	2014
Current assets	\$ 252,971	\$ 220,959	\$ 168,233
Current liabilities	9,976	45,433	5,042
Net position:			
Unrestricted	<u>\$ 242,995</u>	<u>\$ 175,526</u>	<u>\$ 163,191</u>

As of June 30, 2016, unrestricted net position was \$242,995, an increase of \$67,469 (38.4%) from the prior year, as compared to an unrestricted net position of \$175,526 as of June 30, 2015, an increase of \$12,335 (8%) from fiscal year 2014. The increase in 2016 can be attributed to a steady stream of fiber lease revenues and a notable decrease in expenses primarily due to the Consortium not awarding connectivity funds to existing or new clients during the current fiscal year.

### Regional Fiber Consortium Change in Net Position

	Year Ended June 30,		
	2016	2015	2014
Operating revenues	\$ 137,571	\$ 135,202	\$ 120,735
Operating expenses	71,022	123,233	43,551
Operating income (loss)	66,549	11,969	77,184
Non-operating revenues	920	366	335
Change in net position	67,469	12,335	77,519
Net position, beginning of year	175,526	163,191	85,672
Net position, end of year	\$ 242,995	\$ 175,526	\$ 163,191

Overall, lease revenues increased by \$2,369 or 1.8% from fiscal 2015 to 2016 as compared to an increase of \$14,467 or 12.0% from fiscal 2014 to 2015. The increase for 2016 was primarily due to the collection of a full year of lease revenue from CASCO, a new lease customer acquired mid-year 2015. In 2016, Consortium expenditures were \$71,022 as compared to \$123,233 in 2015 and \$43,551 in 2014. The 2016 decrease was due to the Consortium not awarding connectivity funds to existing or new clients during the current fiscal year as compared to the prior year's funding of \$60,000.

#### **Budgetary Highlights**

The difference between the original budget and the final amended budget was a net increase of \$12,432. This increase was comprised of the following:

- \$13,932 increase in beginning cash was due to an increase in customer lease revenues and less than budgeted expenditures from FY15.
- \$1,500 increase in operating expenditures.

The differences between the final amended budget and the actual budget basis revenues and expenditures can be summarized as follows:

- Revenues were over budget by \$20,451 (16%).
- Expenditures were under budget by \$58,377 (45.1%).

## **Economic Factors and Next Year's Budget and Rates**

Revenues are expected to increase with the addition of new lease customers as the Consortium continues to negotiate with potential lease customers. Expenditures for the Consortium are projected to remain relatively stable. The awarding of funding to increase connectivity will likely continue in future years. In fiscal year 2015, the Consortium started a grant program to provide members with funds to improve broadband services in their communities. It is expected that this program will be used primarily by small cities and rural communities to connect to the Consortium fiber or to the LCOG fiber installed as a part of the BTOP project. Revenues are projected to continue to increase due to the continued acquisition of new lease customers as well as the reinstated lease payment schedule with the University of Oregon in 2014. In addition, with a new lease with Douglas Fast Net, there is an expected increase in revenue as more fiber is leased by Douglas Fast Net to be used throughout Douglas and Coos Counties. The Consortium is also negotiating leases of additional fiber to providers serving the Salem area. Most of the Consortium's assets have been obtained through twenty year leases. Consortium staff have begun the process of renewing these leases. If they are not renewed, the Consortium's income could decline significantly.

The Consortium will pay the City of Springfield \$12,000 for administrative services in the coming year.

## **Requests for Information**

This financial report is designed to provide our citizens and taxpayers with a general overview of the finances for those funds maintained by the Regional Fiber Consortium and to show the Consortium's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Springfield, Accounting Manager, 225 Fifth Street, Springfield, Oregon 97477.

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# **Basic Financial Statements**

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Regional Fiber Consortium

COMPARATIVE STATEMENTS OF NET POSITION

	June 30,	
	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets:		
Cash and investments	\$ 190,056	\$ 159,411
Receivables:		
Accounts receivable	62,457	60,921
Accrued interest	<u>458</u>	<u>627</u>
Total current assets	252,971	220,959
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	<u>9,976</u>	<u>45,433</u>
<b>NET POSITION</b>		
Unrestricted	<u>\$ 242,995</u>	<u>\$ 175,526</u>

The independent accountant's review report and accompanying notes are an integral part of these statements.

Regional Fiber Consortium

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended June 30,	
	2016	2015
Operating revenues:		
Lease revenue	\$ 137,571	\$ 135,202
Operating expenses:		
Materials and services	71,022	123,233
Operating income (loss)	66,549	11,969
Non-operating revenues:		
Interest on investments	920	366
Change in net position	67,469	12,335
Net position, beginning of year	175,526	163,191
Net position, end of year	\$ 242,995	\$ 175,526

The independent accountant's review report and accompanying notes are an integral part of these statements.

Regional Fiber Consortium  
COMPARATIVE STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Operating receipts	\$ 136,035	\$ 161,473
Cash paid to suppliers for goods and services	(106,479)	(82,842)
Net cash provided by operating activities	29,556	78,631
Cash flows from investing activities:		
Interest received	1,089	270
Net change in cash and investments	30,645	78,901
Cash and investments, beginning of year	159,411	80,510
Cash and investments, end of year	\$ 190,056	\$ 159,411
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 66,549	\$ 11,969
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Accounts receivable	(1,536)	26,271
Accounts payable	(35,457)	40,391
Net cash used by operating activities	\$ 29,556	\$ 78,631

The independent accountant's review report and accompanying notes are an integral part of these statements.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Regional Fiber Consortium (Consortium) was established on August 1, 1999 through an intergovernmental agreement between a group of Oregon cities and counties and subsequently amended as cities and counties joined or left the consortium. As of June 30, 2016, the current membership includes the Cities of Springfield, Lowell, Coburg, Westfir, Oakridge, Klamath Falls, Merrill, Eugene, Florence, Cottage Grove, Drain, Yoncalla, and Creswell, and Lane County. The Consortium was formed for the purpose of taking control of and managing certain fiber optic cable transferred to the Consortium by Pacific Fiber Link, LLC, now 360° Networks, in consideration of right of way use fees payable to the cities who are members of the Consortium.

It is the intention of the Consortium to develop an appropriate level of communication services to citizens of the member jurisdictions to serve the public interest by stimulating economic development in the communities through which the fiber optic cable passes.

The financial operations of the Consortium are reported using enterprise fund accounting. It is the intent of the Consortium that the costs of providing fiber access to users on a continuing basis will be financed or recovered primarily through an equitable fee levied on all users.

The City of Springfield performs all administrative duties for the Consortium in accordance with the provisions of an intergovernmental agreement between the City of Springfield and the Regional Fiber Consortium.

#### 1. Reporting Entity

The Regional Fiber Consortium, under the criteria established by GASB, is considered a primary government and is not a component unit of another entity nor is there any component units for which the Consortium is financially accountable.

#### 2. Basis of Accounting

The financial operations of the Regional Fiber Consortium are accounted for using the full accrual basis of accounting. As such, revenues are recognized when they are earned and expenses are recognized when they are incurred.

All activities of the Consortium are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to a private business enterprise where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

See Independent Accountant's Review Report

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The accounting and financial reporting treatment applied to the Consortium is determined by its measurement focus. The transactions of the Consortium are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) is segregated into two categories: restricted and unrestricted. Currently there is no restricted net position.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Actual results may differ from such estimates.

### 3. Budgetary Accounting

The Consortium adopts an annual budget. The budget is adopted on the modified accrual basis of accounting. All unexpended and unencumbered appropriations in the budget remaining at the end of the fiscal year, lapse. During the year, management is authorized to transfer budgeted amounts between line items within the operating budget.

### 4. Cash and Investments

The Consortium participates in a cash and investment pool maintained by the City of Springfield for all funds under the City's administrative control. The amount reported as cash and investments is the Consortium share of the total City of Springfield cash and investment pool. The Consortium does not maintain bank accounts or investments separate from the City's investment pool. The bank deposits are collateralized pursuant to Oregon Revised Statutes, Chapter 295. The investment in the Oregon State Treasurer's Investment Pool is not required to be categorized by level of risk because this investment is not evidenced by securities.

State statutes authorize the City to invest in obligations of the U. S. Treasury and its agencies, bankers' acceptances, high grade commercial paper, the State of Oregon Local Government Investment Pool and repurchase agreements. Investments are stated at fair value.

For purpose of the statement of cash flows, cash and investments in the City-wide investment pool (including restricted cash and investments) are considered cash and cash equivalents. The pool has the general characteristics of a demand deposit account for the Consortium in that the Consortium may deposit additional cash at any time and may withdraw cash at any time without prior notice or penalty.

### 5. Accounts Receivable

Accounts receivable consist of lease payments receivable of \$62,457 and \$60,921, respectively, as of June 30, 2016 and June 30, 2015. No allowance for doubtful accounts is considered necessary.

See Independent Accountant's Review Report

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Risk Management

The Consortium is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets. The Consortium carries commercial insurance for such risks of loss. There have been no claims resulting from these risks.

**NOTE B – INTERGOVERNMENTAL AGREEMENTS**

The Intergovernmental Agreement between the City of Springfield and the Consortium provides that the City of Springfield may charge a reasonable administrative fee for budgeting and accounting services. For the years ended June 30, 2016 and June 30, 2015, the cost of such services was \$12,000 per year.

See Independent Accountant's Review Report

# **Supplementary Information**

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City of Springfield, Oregon

REGIONAL FIBER CONSORTIUM  
 SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
 (NONGAAP BUDGETARY BASIS) - BUDGET AND ACTUAL

Year Ended June 30, 2016

	Original Budget	Revised Budget	Actual	Variance	Adjustments to Budget Basis Actual	GAAP Basis Actual
<b>Revenues:</b>						
Charges for services	\$ 124,000	\$ 124,000	\$ 143,764	\$ 19,764	\$ (6,193)	\$ 137,571
Investment earnings	400	400	1,086	686	(166)	920
Total revenues	<u>124,400</u>	<u>124,400</u>	<u>144,850</u>	<u>20,450</u>	<u>(6,359)</u>	<u>138,491</u>
<b>Expenses:</b>						
Current operating:						
Development and public works	<u>127,900</u>	<u>129,400</u>	<u>71,022</u>	<u>58,378</u>	<u>-</u>	<u>71,022</u>
Change in net position	(3,500)	(5,000)	73,828	78,828	(6,359)	67,469
Net position, beginning of year	<u>154,978</u>	<u>168,910</u>	<u>168,910</u>	<u>-</u>	<u>6,616</u>	<u>175,526</u>
Net position, end of year	<u>\$ 151,478</u>	<u>\$ 163,910</u>	<u>\$ 242,738</u>	<u>\$ 78,828</u>	<u>\$ 257</u>	<u>\$ 242,995</u>

See Independent Accountant's Review Report

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# Compliance Section

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**Management Representation of Fiscal Affairs**


**Required by Oregon Regulation**


**For the Year Ended June 30, 2016**

The Regional Fiber Consortium (the Consortium) is subject to, and responsible for, compliance with various laws, rules, and regulations relating to its operations and finances. Among such laws, rules, and regulations are the requirements prescribed in Municipal Audit Law (ORS Chapter 297) and the Minimum Standards for Review of Oregon Municipal Corporations (OAR 162, Division 40) including, but not limited to:

- § **Deposit of public funds with financial institutions (ORS Chapter 295).**
- § **Indebtedness limitations, restrictions and repayment.**
- § **Budgets legally required (ORS Chapter 294).**
- § **Insurance and fidelity bonds in force or required by law.**
- § **Programs funded from outside sources.**
- § **Authorized investment of surplus funds (ORS Chapter 294).**
- § **Public contracts and purchasing (ORS Chapters 279A, 279B, 279C).**

The management of the Consortium is aware of the requirements of Oregon laws and administrative rules concerning each of the above requirements and has complied, in all material respects, with such requirements. Further, we are not aware of any violations or possible violations of laws, rules, or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

  
\_\_\_\_\_  
Robert Duey, Finance Director

  
\_\_\_\_\_  
Date

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