

REGIONAL FIBER CONSORTIUM

Annual Financial Statements

For the Years Ended
June 30, 2018 and 2017



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REGIONAL FIBER CONSORTIUM

ANNUAL FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

Prepared by:

City of Springfield
Finance Department

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REGIONAL FIBER CONSORTIUM

FINANCIAL STATEMENTS

For the years ended June 30, 2018 and 2017

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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
Kelli Weese	Vice Chair	City of Florence 250 Highway 101 Florence, OR 97439
Pam Berrian	Executive Committee	City of Eugene 61 W. 8 th Avenue Eugene, OR 97401
Ric Ingham	Executive Committee	City of Veneta 88184 8 th Street Veneta, OR 97487
Tom Boyatt	Executive Committee	City of Springfield 225 Fifth Street Springfield, OR 97477
Nathan Cherpeski	Executive Committee	City of Klamath Falls 500 Klamath Avenue Klamath Falls, OR 97601

ADMINISTRATION

Fiscal:

Nathan Bell
Accounting Manager
City of Springfield

Neil Obringer
Senior Management Analyst
City of Springfield

Operational:

Jacob Callister
Program Director
Lane Council of Governments

Anne Davies
Principal Attorney
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, 2018 and 2017, and the related notes to the financial statements, 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 engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. 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. Such information is the responsibility of management. We have not audited, reviewed, or compiled the required supplementary information, and, accordingly, we do not express an opinion, a conclusion, nor provide any 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. 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 supplementary information has been subjected to the review procedures applied in our review of the basic financial statements. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion on such information.

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

By: 

Ryan T. Pasquarella, CPA
December 21, 2018

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, 2018, the current membership includes the Cities of Springfield, Lowell, Coburg, Westfir, Oakridge, Klamath Falls, Merrill, Eugene, Florence, Cottage Grove, Drain, Yoncalla, Veneta, 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, 2018. 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, 2018 and June 30, 2017, the cost of such services was \$12,000.

Financial Highlights

- The Consortium's total assets at June 30, 2018 increased \$23,407 from \$268,940 to \$292,347, or 8.7% from the prior year. This increase in total assets was primarily due to an increase in cash of \$30,352 and a decrease in accounts receivables of \$6,830.
- The Consortium's total liabilities decreased by \$36,849 from \$48,841 to \$11,992. This decrease was primarily due to a decrease in accounts payable.
- The net position of the Consortium (assets less liabilities) at June 30, 2018 increased \$60,256 from \$220,099 to \$280,355, or 27.4% from the prior year.
- The Consortium's total operating revenues increased \$2,083 over the prior year from \$139,441 to \$141,524. This increase in revenue was primarily due to an increase in the fiber lease rates for some larger customers.
- The Consortium's total operating expenses decreased \$79,851 over the prior year from \$163,987 to \$84,136. This decrease was primarily due to the Consortium awarding grant funding of \$45,000 for fiber optic cable installation in the prior fiscal year, and no grant funding was awarded in the current fiscal year, as well as a decrease of \$32,442 in contractual service payments to Lane Council of Governments due to lower administration costs in the current fiscal year, as prior fiscal year expenses were elevated due to the transition of operations staffing resulting from a retirement and increased administration time related to the renewal of a number of fiber lease contracts.

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 increased in fiscal year 2018 as compared to 2017. While revenues remained relatively flat, expenditures decreased significantly due to no consortium awards being granted during the current fiscal year, as well as a decrease in payments to Lane Council of Governments for contractual services. As the 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 the past will continue as more providers gain connectivity.

Regional Fiber Consortium Net Position

	June 30,		
	2018	2017	2016
Current assets	\$ 292,347	\$ 268,940	\$ 252,971
Current liabilities	11,992	48,841	9,976
Net position:			
Unrestricted	\$ 280,355	\$ 220,099	\$ 242,995

As of June 30, 2018, unrestricted net position was \$280,355, an increase of \$60,256 (27.4%) from the prior year, as compared to an unrestricted net position of \$220,099 as of June 30, 2017, a decrease of \$22,896 (9.4%) from fiscal year 2016. The increase in 2018 can be primarily attributed to a significant decrease in expenses as explained earlier.

Regional Fiber Consortium Change in Net Position

	Year Ended June 30,		
	2018	2017	2016
Operating revenues	\$ 141,524	\$ 139,441	\$ 137,571
Operating expenses	84,136	163,987	71,022
Operating income (loss)	57,388	(24,546)	66,549
Non-operating revenues	2,868	1,650	920
Change in net position	60,256	(22,896)	67,469
Net position, beginning of year	220,099	242,995	175,526
Net position, end of year	\$ 280,355	\$ 220,099	\$ 242,995

Overall, lease revenues increased by \$2,083 or 1.5% from fiscal 2017 to 2018 as compared to an increase of \$1,870 or 1.4% from fiscal 2016 to 2017. Both years experienced a modest increase resulting from an increase to the fiber lease rates for larger customers. In 2018, Consortium expenditures were \$84,136 as compared to \$163,987 in 2017 and \$71,022 in 2016. In 2017 expenditures included awards of connectivity grants which resulted in a decrease in expenses from 2017 to 2018. Additionally, there was a significant decrease in contractual services in 2018 due to a decrease in operations staffing time spent on Consortium activities.

Budgetary Highlights

The difference between the original budget and the final amended budget was a net decrease of \$40,701. This decrease was comprised of the following:

- \$40,701 decrease in beginning cash resulting from an increase in expenditures due to the issuance of Consortium grant awards in the prior fiscal year.

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

- Revenues were under budget by \$4,571 (3.1%).
- Expenditures were under budget by \$92,814 (52.5%).

Economic Factors and Next Year's Budget and Rates

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. 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 Indefeasible Rights of Use (IRUs). Consortium staff has begun the process of renewing these IRUs. If they are not renewed, or renewed on different terms, the Consortium's income could decline, potentially significantly. If the IRUs are not renewed, or renewed with unfavorable terms, the Consortium has contemplated leveraging reserves to address transitional costs or longer term solutions to service gaps.

The Consortium will pay the City of Springfield \$14,500 for administrative services in the coming year. This is a \$2,500 increase from prior years, which was approved by the Regional Fiber Consortium Board of Directors, to cover the direct costs associated with the annual audit.

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>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash and investments	\$ 234,520	\$ 204,168
Receivables:		
Accounts receivable	57,060	63,890
Accrued interest	<u>767</u>	<u>882</u>
Total current assets	292,347	268,940
LIABILITIES		
Current liabilities:		
Accounts payable	<u>11,992</u>	<u>48,841</u>
NET POSITION		
Unrestricted	<u>\$ 280,355</u>	<u>\$ 220,099</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,	
	2018	2017
Operating revenues:		
Lease revenue	\$ 141,524	\$ 139,441
Operating expenses:		
Materials and services	84,136	163,987
Operating income (loss)	57,388	(24,546)
Non-operating revenues:		
Interest on investments	2,868	1,650
Change in net position	60,256	(22,896)
Net position, beginning of year	220,099	242,995
Net position, end of year	\$ 280,355	\$ 220,099

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,	
	2018	2017
Cash flows from operating activities:		
Operating receipts	\$ 148,354	\$ 138,008
Cash paid to suppliers for goods and services	(120,985)	(125,122)
Net cash provided by operating activities	27,369	12,886
Cash flows from investing activities:		
Interest received	2,983	1,226
Net change in cash and investments	30,352	14,112
Cash and investments, beginning of year	204,168	190,056
Cash and investments, end of year	\$ 234,520	\$ 204,168
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 57,388	\$ (24,546)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Accounts receivable	6,830	(1,433)
Accounts payable	(36,849)	38,865
Net cash provided by operating activities	\$ 27,369	\$ 12,886

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

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, 2018, the current membership includes the Cities of Springfield, Lowell, Coburg, Westfir, Oakridge, Klamath Falls, Merrill, Eugene, Florence, Cottage Grove, Drain, Yoncalla, Veneta, 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, which became known as 360° Networks, and was subsequently, acquired by Zayo Group, LLC, 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.

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 \$57,060 and \$63,890, respectively, as of June 30, 2018 and June 30, 2017. 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, 2018 and June 30, 2017, 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, 2018

	Original Budget	Revised Budget	Actual	Variance	Adjustments to Budget Basis Actual	GAAP Basis Actual
Revenues:						
Charges for services	\$ 145,000	\$ 145,000	\$ 140,049	\$ (4,951)	\$ 1,475	\$ 141,524
Investment earnings	2,450	2,450	2,830	380	38	2,868
Total revenues	<u>147,450</u>	<u>147,450</u>	<u>142,879</u>	<u>(4,571)</u>	<u>1,513</u>	<u>144,392</u>
Expenses:						
Current operating:						
Development and public works	<u>176,950</u>	<u>176,950</u>	<u>84,136</u>	<u>92,814</u>	<u>-</u>	<u>84,136</u>
Change in net position	(29,500)	(29,500)	58,743	88,243	1,513	60,256
Net position, beginning of year	<u>260,288</u>	<u>219,587</u>	<u>219,587</u>	<u>-</u>	<u>512</u>	<u>220,099</u>
Net position, end of year	<u>\$ 230,788</u>	<u>\$ 190,087</u>	<u>\$ 278,330</u>	<u>\$ 88,243</u>	<u>\$ 2,025</u>	<u>\$ 280,355</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, 2018

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.



Nathan Bell, Finance Director

12-21-18

Date