

REGIONAL FIBER CONSORTIUM

Annual Financial Statements

For the Years Ended
June 30, 2017 and 2016



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REGIONAL FIBER CONSORTIUM

ANNUAL FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

Prepared by:

City of Springfield
Finance Department

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REGIONAL FIBER CONSORTIUM

FINANCIAL STATEMENTS

For the years ended June 30, 2017 and 2016

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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 th Avenue Eugene, OR 97401
Ric Ingham	Executive Committee	City of Veneta 88184 8 th Street Veneta, OR 97487
Kelli Weese	Executive Committee	City of Florence 250 Highway 101 Florence, OR 97439
Anette Spickard	Executive Committee	City of Springfield 225 Fifth Street Springfield, OR 97477
Nathan Cherpeski	Executive Committee	City of Klamath Falls 500 Klamath Avenue Klamath Avenue, OR 97601

ADMINISTRATION

Fiscal:

Anette Spickard
Development & Public Works Director
City of Springfield

Neil Obringer
Senior Management Analyst
City of Springfield

Operational:

Jacob Callister
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, 2017 and 2016, 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 issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no 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

Our review was made for the purpose of expressing limited assurance that there were no material modifications that should be made to the basic financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. 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 has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements and we are not aware of any material modifications that should be made thereto.

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

By: 
Ryan T. Pasquarella, CPA
January 29, 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, 2017, the current membership includes the Cities of Springfield, Lowell, Coburg, Westfir, Oakridge, Klamath Falls, Merrill, Eugene, Florence, Cottage Grove, Drain, Yoncalla, Central Point, 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, 2017. 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, 2017 and June 30, 2016, the cost of such services was \$12,000.

Financial Highlights

- The Consortium's total assets at June 30, 2017 increased \$15,969 from \$252,971 to \$268,940, or 6.3% from the prior year. This increase in total assets was primarily due to an increase in cash of \$14,112 and an increase in accounts receivables of \$1,433.
- The Consortium's total liabilities increased by \$38,865 from \$9,976 to \$48,841. This increase was primarily due to an increase in accounts payable.
- The net position of the Consortium (assets less liabilities) at June 30, 2017 decreased \$22,896 from \$242,995 to \$220,099, or 9.4% from the prior year.
- The Consortium's total operating revenues increased \$1,870 over the prior year from \$137,571 to \$139,441. 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 increased \$92,965 over the prior year from \$71,022 to \$163,987. This increase was primarily due to the Consortium awarding grant funding of \$45,000 for fiber optic cable installation during the current fiscal year as well as an increase of \$43,743 in contractual service payments to Lane Council of Governments due to a transition of operations staffing resulting from a retirement and an increase 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 decreased in fiscal year 2017 as compared to 2016. While revenues remained relatively flat, expenditures increased significantly due to the consortium awarding connectivity funds to existing and new clients during the current fiscal year as well as an increase 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,		
	2017	2016	2015
Current assets	\$ 268,940	\$ 252,971	\$ 220,959
Current liabilities	48,841	9,976	45,433
Net position:			
Unrestricted	<u>\$ 220,099</u>	<u>\$ 242,995</u>	<u>\$ 175,526</u>

As of June 30, 2017, unrestricted net position was \$220,099, a decrease of \$22,896 (9.4%) from the prior year, as compared to an unrestricted net position of \$242,995 as of June 30, 2016, an increase of \$67,469 (38.4%) from fiscal year 2015. The decrease in 2017 can be primarily attributed to a significant increase in expenses as explained earlier.

Regional Fiber Consortium Change in Net Position

	Year Ended June 30,		
	2017	2016	2015
Operating revenues	\$ 139,441	\$ 137,571	\$ 135,202
Operating expenses	163,987	71,022	123,233
Operating income (loss)	(24,546)	66,549	11,969
Non-operating revenues	1,650	920	366
Change in net position	(22,896)	67,469	12,335
Net position, beginning of year	242,995	175,526	163,191
Net position, end of year	\$ 220,099	\$ 242,995	\$ 175,526

Overall, lease revenues increased by \$1,870 or 1.4% from fiscal 2016 to 2017 as compared to an increase of \$2,369 or 1.8% from fiscal 2015 to 2016. Both years experienced a modest increase resulting from an increase to the fiber lease rates for larger customers. In 2017, Consortium expenditures were \$163,987 as compared to \$71,022 in 2016 and \$123,233 in 2015. Both 2015 and 2017 included awards of connectivity grants which resulted in a decrease in expenses from 2015 to 2016 and an increase in expenses from 2016 to 2017. Additionally, there was a significant increase in contractual services in 2017 due to an increase in operations staffing time spent on Consortium activities.

Budgetary Highlights

The difference between the original budget and the final amended budget was a net increase of \$60,000. This increase was comprised of the following:

- \$78,228 increase in beginning cash resulting from an increase in customer lease revenues as well as expenditures coming in under budget in the prior year.
- \$60,000 increase in operating expenditures for connectivity grants and contractual services.
- \$18,228 increase in ending net position

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 \$9,836 (7.5%).
- Expenditures were under budget by \$25,463 (13.4%).

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 leases. Consortium staff has 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>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash and investments	\$ 204,168	\$ 190,056
Receivables:		
Accounts receivable	63,890	62,457
Accrued interest	<u>882</u>	<u>458</u>
Total current assets	268,940	252,971
LIABILITIES		
Current liabilities:		
Accounts payable	<u>48,841</u>	<u>9,976</u>
NET POSITION		
Unrestricted	<u><u>\$ 220,099</u></u>	<u><u>\$ 242,995</u></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,	
	2017	2016
Operating revenues:		
Lease revenue	\$ 139,441	\$ 137,571
Operating expenses:		
Materials and services	<u>163,987</u>	<u>71,022</u>
Operating income (loss)	(24,546)	66,549
Non-operating revenues:		
Interest on investments	<u>1,650</u>	<u>920</u>
Change in net position	(22,896)	67,469
Net position, beginning of year	<u>242,995</u>	<u>175,526</u>
Net position, end of year	<u>\$ 220,099</u>	<u>\$ 242,995</u>

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,	
	2017	2016
Cash flows from operating activities:		
Operating receipts	\$ 138,008	\$ 136,035
Cash paid to suppliers for goods and services	(125,122)	(106,479)
Net cash provided by operating activities	12,886	29,556
Cash flows from investing activities:		
Interest received	1,226	1,089
Net change in cash and investments	14,112	30,645
Cash and investments, beginning of year	190,056	159,411
Cash and investments, end of year	\$ 204,168	\$ 190,056
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (24,546)	\$ 66,549
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Accounts receivable	(1,433)	(1,536)
Accounts payable	38,865	(35,457)
Net cash used by operating activities	\$ 12,886	\$ 29,556

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

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, 2017, the current membership includes the Cities of Springfield, Lowell, Coburg, Westfir, Oakridge, Klamath Falls, Merrill, Eugene, Florence, Cottage Grove, Drain, Yoncalla, Central Point, 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 \$63,890 and \$62,457, respectively, as of June 30, 2017 and June 30, 2016. 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, 2017 and June 30, 2016, 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, 2017

	Original Budget	Revised Budget	Actual	Variance	Adjustments to Budget Basis Actual	GAAP Basis Actual
Revenues:						
Charges for services	\$ 130,000	\$ 130,000	\$ 139,441	\$ 9,441	\$ -	\$ 139,441
Investment earnings	1,000	1,000	1,395	395	255	1,650
Total revenues	131,000	131,000	140,836	9,836	255	141,091
Expenses:						
Current operating:						
Development and public works	129,450	189,450	163,987	25,463	-	163,987
Change in net position	1,550	(58,450)	(23,151)	35,299	255	(22,896)
Net position, beginning of year	164,510	242,738	242,738	-	257	242,995
Net position, end of year	<u>\$ 166,060</u>	<u>\$ 184,288</u>	<u>\$ 219,587</u>	<u>\$ 35,299</u>	<u>\$ 512</u>	<u>\$ 220,099</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, 2017

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

1-29-2018

Date

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