

REGIONAL FIBER CONSORTIUM

Annual Financial Statements

For the Years Ended
June 30, 2014 and 2013



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REGIONAL FIBER CONSORTIUM

ANNUAL FINANCIAL STATEMENTS

For the Years Ended June 30, 2014 and 2013

Prepared by:

City of Springfield
Finance Department

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REGIONAL FIBER CONSORTIUM

FINANCIAL STATEMENTS

For the years ended June 30, 2014 and 2013

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Introductory Section

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REGIONAL FIBER CONSORTIUM
BOARD OF DIRECTORS

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

ADMINISTRATION

Fiscal:

Len Goodwin
Development & Public Works Director
City of Springfield

Rhonda Rice
Senior Management Analyst
City of Springfield

Operational:

Milo Mecham
Program Director
Lane Council of Governments

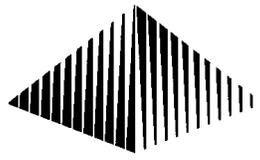
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Financial Section

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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, 2014 and 2013, 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 the management of the Consortium. 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.

The management of the Consortium 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 and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

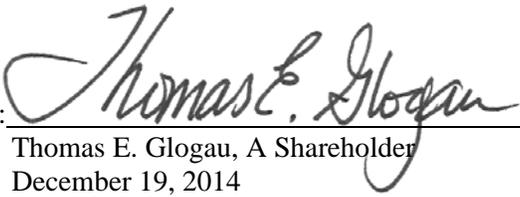
Our responsibility is to conduct the reviews in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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 conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on page 3 through page 7 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information was not audited, reviewed, or compiled by us, and we do not express an opinion or provide any assurance on it.

Our reviews were 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 conformity with generally accepted accounting principles. The supplementary information is presented for purposes of additional analysis and is not a required part of the 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: 
Thomas E. Glogau, A Shareholder
December 19, 2014

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 the Cities of Springfield, Lowell, Coburg, Westfir, Oakridge, Klamath Falls, and Merrill, and Lane and Klamath counties. In February of 2009, the Consortium merged with Fiber South Consortium and the intergovernmental agreement was expanded to include the Cities of Eugene, Bandon, Roseburg, Florence, Coos Bay, North Bend, Cottage Grove, Drain, and Yoncalla, and Creswell, Coos, and Lincoln Counties. Most of the entities have ceased to be active members of the Consortium, but the core membership remains committed to the Consortium.

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, 2014. Please read it in conjunction with the Consortium's financial statements, which begin on Page 8.

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. Over the past three years, that project has been completed and a number of 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.

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, 2014 and June 30, 2013, the cost of such services was \$12,000.

Financial Highlights

- The Consortium's total assets at June 30, 2014 increased \$81,005 from \$87,228 to \$168,233, or 92.9% from the prior year. This increase in total assets was primarily due to an increase in cash of \$17,513 and an increase in accounts receivable of \$63,192.
- The Consortium's total liabilities increased by \$3,486 from \$1,556 to \$5,042. This increase was primarily due to an increase in accounts payable.
- The net position of the Consortium (assets less liabilities) at June 30, 2014 increased \$77,519 from \$85,672 to \$163,191, or 90.5% from the prior year.
- The Consortium's total operating revenues increased \$45,636 over the prior year from \$75,099 to \$120,735. This increase in revenue was primarily due to an increase in lease revenues that resulted from a new fiber lease customer.
- The Consortium's total operating expenses increased \$2,941 over the prior year from \$40,610 to \$43,551. This increase was primarily related to an increase in contractual service payments to LCOG.

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 results improved significantly for the fiscal year 2014 as compared to 2013. During 2014, the Consortium acquired a new lease customer that resulted in a substantial increase in lease revenue while maintaining a relatively stable expense base. In 2012, revenue and expenses remained relatively flat due to an unplanned delay in the acquisition of new lease customers. As the Consortium and LCOG continue to negotiate and acquire new lease customers, the expectation is that the growth trend in lease revenues that occurred in 2014 will continue as more providers gain connectivity.

Overall, lease revenues increased by \$45,636 or 60.8% from 2013 as compared to a slight decrease of \$2,830 or 4.6% from 2012. The increase for 2014 was primarily due to a new lease acquisition with the University of Oregon in the amount of \$45,000. Revenues from current lease customers remained relatively flat at \$75,700. In 2014, Consortium expenditures increased by \$2,941 from 2013 as compared to \$327 from 2012. The 2014 increase was the result of an increase in contractual services with LCOG.

The net position of the Consortium (assets less liabilities) improved 90.5% and 67.8%, respectively, for 2014 and 2013. At June 30, 2014, the Consortium's assets exceeded liabilities by \$163,191. This increase in net position was primarily due to an increase in cash of \$17,513, an increase in lease receivables of \$77,519, and a small increase in accounts payable of \$3,486. The growth in the receivable can be attributed to the new lease with the University of Oregon as well as the timing of the year-end receipts for current lease customers. Furthermore, expenditures increased only slightly, by \$2,941, over the prior year. The majority of the increased expense was the result of an increase in contractual service costs paid to LCOG. The ability of the Consortium to keep expenses relatively steady has assisted in this continued improvement of net position.

Regional Fiber Consortium Net Position

	Year Ended June 30,		
	2014	2013	2012
Current assets	\$ 168,233	\$ 87,228	\$ 55,039
Current liabilities	5,042	1,556	3,998
Net position:			
Unrestricted	<u>\$ 163,191</u>	<u>\$ 85,672</u>	<u>\$ 51,041</u>

As of June 30, 2014, unrestricted net position was \$163,161, an increase of \$77,519 (90%) from the prior year, as compared to an unrestricted net position of \$85,672 as of June 30,

2013, an increase of \$34,631 (68%) from fiscal year 2012. The increase in 2014 can be attributed to growth in fiber lease revenues while expenditures are remaining relatively stable.

Regional Fiber Consortium Change in Net Position

	Year Ended June 30,		
	2014	2013	2012
Operating revenues	\$ 120,735	\$ 75,099	\$ 77,929
Operating expenses	43,551	40,610	40,937
Operating income (loss)	77,184	34,489	36,992
Non-operating revenues	335	142	92
Change in net position	77,519	34,631	37,084
Net position, beginning of year	85,672	51,041	13,957
Net position, end of year	<u>\$ 163,191</u>	<u>\$ 85,672</u>	<u>\$ 51,041</u>

Operating revenues increased by \$45,636 over the prior year primarily due to a lease signed with the University of Oregon in the amount of \$45,000, while expenditures remained relatively stable with only a small increase from the prior year due to increased contractual service payments to LCOG. For fiscal year 2013, operating revenues decreased \$2,830 from the prior year.

Budgetary Highlights

The difference between the original budget and the final amended budget was a net decrease of \$43,588. This increase was comprised of the following:

- \$43,588 decrease in beginning cash was due to an unanticipated delay in customer lease revenues from FY13.
- \$43,588 decrease in operating reserves.

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 \$1,727 (2%).
- Expenditures were under budget by \$2,549 (5.5%).

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 Consortium has begun 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 be higher than in the past due to the University of Oregon's lease payment schedule, which was reinstated in 2014. In addition, due to a new lease with Douglas Fast Net, there is also an expected increase in revenue as more fibers are 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 Junction City, Veneta, the Gimble Hill area, Albany, and Salem.

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,	
	2014	2013
ASSETS		
Current assets:		
Cash and investments	\$ 80,510	\$ 62,997
Receivables:		
Accounts receivable	87,192	24,000
Accrued interest	531	231
	<u>168,233</u>	<u>87,228</u>
Total current assets		
LIABILITIES		
Current liabilities:		
Accounts payable	<u>5,042</u>	<u>1,556</u>
NET POSITION		
Unrestricted	<u><u>\$ 163,191</u></u>	<u><u>\$ 85,672</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,	
	2014	2013
Operating revenues:		
Lease revenue	\$ 120,735	\$ 75,099
Operating expenses:		
Materials and services	43,551	40,610
Operating income (loss)	77,184	34,489
Non-operating revenues:		
Interest on investments	335	142
Change in net position	77,519	34,631
Net position, beginning of year	85,672	51,041
Net position, end of year	<u>\$ 163,191</u>	<u>\$ 85,672</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,	
	2014	2013
Cash flows from operating activities:		
Operating receipts	\$ 57,543	\$ 57,699
Cash paid to suppliers for goods and services	(40,065)	(43,052)
Net cash provided by operating activities	17,478	14,647
Cash flows from investing activities:		
Interest received	35	(55)
Net change in cash and investments	17,513	14,592
Cash and investments, beginning of year	62,997	48,405
Cash and investments, end of year	\$ 80,510	\$ 62,997
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 77,184	\$ 34,489
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Changes in assets and liabilities:		
Accounts receivable	(63,192)	(17,400)
Accounts payable	3,486	(2,442)
Net cash used by operating activities	\$ 17,478	\$ 14,647

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

NOTES TO FINANCIAL STATEMENTS
(See Independent Accountant's Review Report)
June 30, 2014 and 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Regional Fiber Consortium (Consortium) was established on August 1, 1999 through an intergovernmental agreement between the Cities of Springfield, Lowell, Westfir, Oakridge, Chiloquin, Klamath Falls, and Merrill, and Lane and Klamath counties. It 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.

In February of 2009, the Consortium merged with Fiber South Consortium and the intergovernmental agreement was expanded to include the Cities of Bandon, Roseburg, Florence, Coos Bay, North Bend, Cottage Grove, and Creswell, and Douglas, Coos and Lincoln Counties.

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 enterprises 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 \$87,192 as of June 30, 2014. No allowance for doubtful accounts is considered necessary.

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, 2014 and June 30, 2013, the cost of such services was \$12,000 per year.

NOTE C – NEW PRONOUNCEMENTS

The Consortium implemented the following pronouncements during the fiscal year:

GASB Statement No. 65 “Items Previously Reported as Assets and Liabilities.” The statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

The Consortium will implement new GASB pronouncements no later than the required fiscal year. Management has not determined the effect on the financial statements from implementing any of the following pronouncements.

GASB Statement No. 68, “Accounting and Financial Reporting for Pensions; an amendment of *GASB Statement No. 27*,” replaces the requirements of *Statements No. 27* and *No. 50* related to pension plans that are administered through trusts or equivalent arrangements. The statement is effective for fiscal years beginning after June 15, 2014.

GASB Statement No. 69, “Government Combinations and Disposals of Government Operations,” establishes accounting and financial reporting standards for mergers, acquisitions, and transfers of government operations, and provides guidance for determining the gain or loss on a disposal of government operations. The statement is effective for fiscal years beginning after December 15, 2013.

NOTE D – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 19, 2014, the date on which the financial statements were available to be issued. Management is not aware of any subsequent events that require recognition or disclosure in the financial statements.

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, 2014

	Original Budget	Revised Budget	Actual	Variance	Adjustments to Budget Basis Actual	GAAP Basis Actual
Revenues:						
Use of money & property	\$ 200	\$ 200	\$ 192	\$ (8)	\$ 143	\$ 335
Charges for services	<u>74,000</u>	<u>74,000</u>	<u>75,735</u>	<u>1,735</u>	<u>45,000</u>	<u>120,735</u>
Total revenues	<u>74,200</u>	<u>74,200</u>	<u>75,927</u>	<u>1,727</u>	<u>45,143</u>	<u>121,070</u>
Expenses:						
Current operating:						
Development & public works	<u>46,100</u>	<u>46,100</u>	<u>43,551</u>	<u>2,549</u>	<u>-</u>	<u>43,551</u>
Change in net position	28,100	28,100	32,376	4,276	45,143	77,519
Net position, beginning of year	<u>129,148</u>	<u>85,560</u>	<u>85,559</u>	<u>(1)</u>	<u>113</u>	<u>85,672</u>
Net position, end of year	<u>\$ 157,248</u>	<u>\$ 113,660</u>	<u>\$ 117,935</u>	<u>\$ 4,275</u>	<u>\$ 45,256</u>	<u>\$ 163,191</u>

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Compliance Section

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Management Representation of Fiscal Affairs

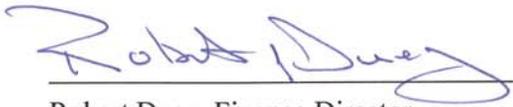
Required by Oregon Regulation

For the Year Ended June 30, 2014

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

12-19-2014
Date

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