



Office of the Washington State Auditor
Pat McCarthy

March 30, 2017

Board of Directors
Northwest Open Access Network
Gig Harbor, Washington

Contracted CPA Firm's Audit Report on Financial Statements

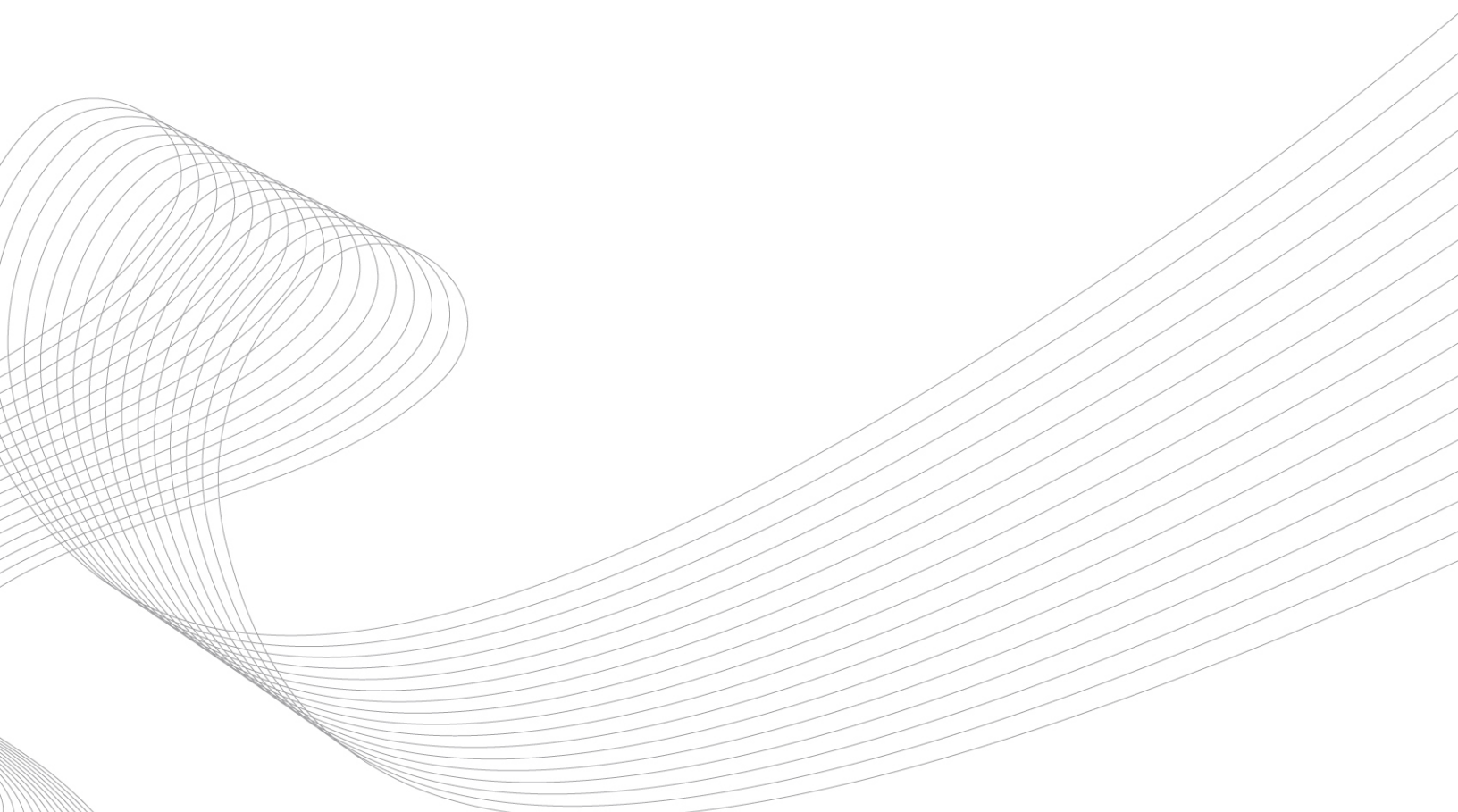
We have reviewed the audit report issued by a certified public accounting (CPA) firm on Northwest Open Access Network's financial statements for the fiscal year ended December 31, 2015. The District contracted with the CPA firm for this audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The State Auditor's Office did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the State Auditor's Office website as a matter of public record.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA



Report of Independent Auditors
and Financial Statements
With Supplementary Information for

Northwest Open Access Network

December 31, 2015 and 2014

MOSS-ADAMS_{LLP}

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Northwest Open Access Network

Report on the Financial Statements

We have audited the accompanying financial statements of Northwest Open Access Network (NoaNet), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which comprise NoaNet's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

REPORT OF INDEPENDENT AUDITORS
(continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above do present fairly, in all material respects, the financial position of Northwest Open Access Network, as of December 31, 2015 and 2014, and the respective changes in its net financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 9, the schedule of changes in net pension liability and related ratios on page 35, and the schedule of contributions on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Moss Adams LLP

Spokane, Washington
June 7, 2016

NORTHWEST OPEN ACCESS NETWORK MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis is designed to provide an overview of NoaNet's financial activities for the years ended December 31, 2015, 2014, and 2013. This supplementary information should be read in conjunction with NoaNet's financial statements and notes to financial statements.

NoaNet is a nonprofit mutual corporation, incorporated on February 7, 2000, in the state of Washington. Its members include nine public utility districts and a joint operating agency, all of which are municipal corporations of the state of Washington. NoaNet is a registered Competitive Local Exchange Carrier (CLEC) in Washington and Oregon.

NoaNet is a wholesaler of communication transport services and provides open access, cost-based, high-speed broadband to underserved areas over its fiber optic network.

NoaNet's 10 members are committed both philosophically and financially to support NoaNet as an ongoing wholesale telecommunications service provider. Pursuant to a repayment agreement, the members and several former members are responsible for debt service payments on NoaNets' Revenue Bonds to the extent NoaNet does not have sufficient funds to make those payments after paying or providing for the cost of maintenance and operations. The members also provide operating assessments approved by the Board. There were no members' debt service payments or assessments in 2015 or 2014. There are no such payments expected in 2016.

NoaNet believes it is favorably positioned considering the nature of the markets it serves and its member's continuing support and commitment to providing broadband to underserved regions of the State.

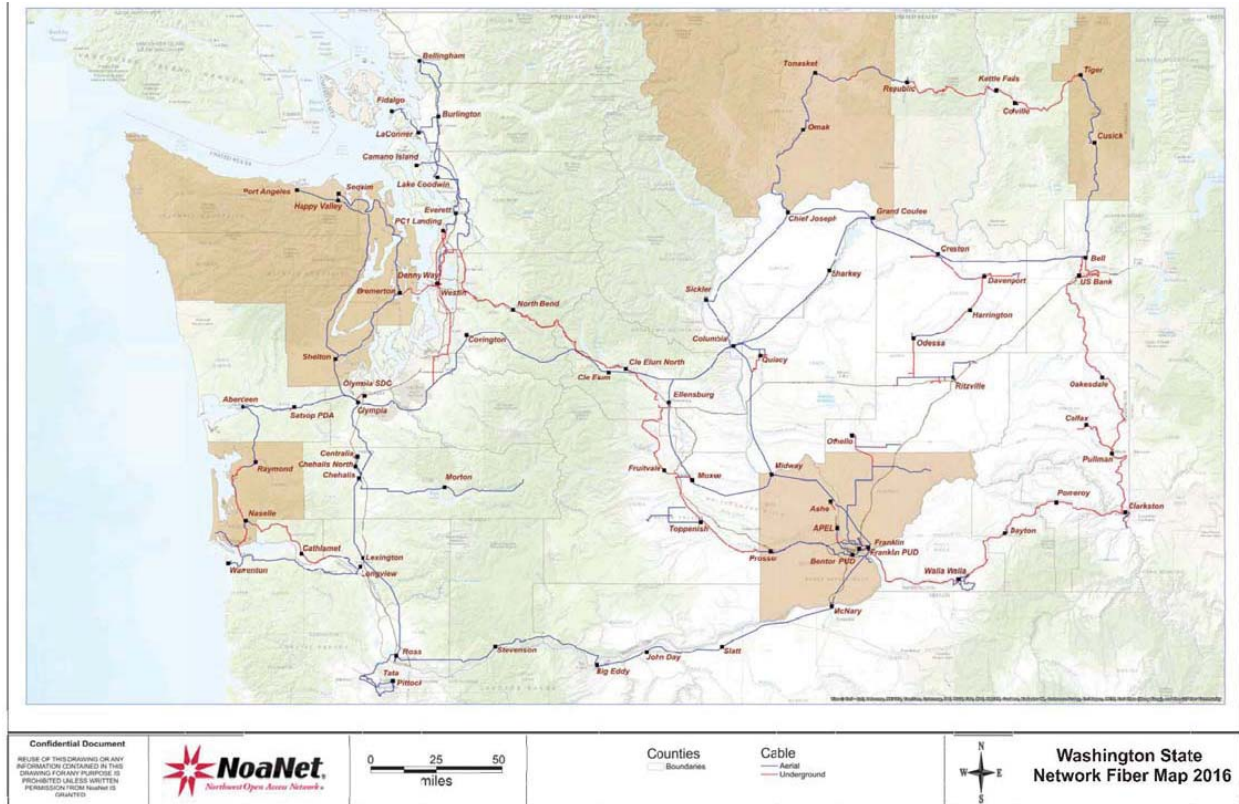
The Network

NoaNets' fiber optic network reaches all counties in the state of Washington. The network travels over its own facilities and those of the Bonneville Power Administration (BPA). In addition to the network facilities in Washington, NoaNet has nodes in Oregon, with an undersea connection to Alaska and Asia. During 2010, NoaNet was awarded two federal grants to expand their network into unserved and underserved areas of Washington. The expansion was successfully completed in 2014, resulting in the statewide network shown in Figure 1.

NORTHWEST OPEN ACCESS NETWORK MANAGEMENT'S DISCUSSION AND ANALYSIS

The Network (continued)

Figure 1



Financial Summary and Analysis

During 2015 and 2014, NoaNets operating revenues increased approximately 7% and 3%, respectively, and EBITDA decreased approximately 32% and 38%, respectively. The 2015 net position decreased compared to 2014. Continued increases in sales are projected (but not guaranteed) as a result of ongoing and expanded marketing and sales activities, some in coordination with NoaNet members and others.

In 2006, NoaNet established the High Capacity Network (HCN) System in connection with an Indefeasible Right of Use (IRU) agreement to provide communication transport capacity entered into with a specific customer. This agreement resulted in unearned revenues of \$1.9 and \$3.9 million at December 31, 2015 and 2014, respectively.

**NORTHWEST OPEN ACCESS NETWORK
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Selected Financial Data

Summary statements of revenues, expenses, and changes in net position

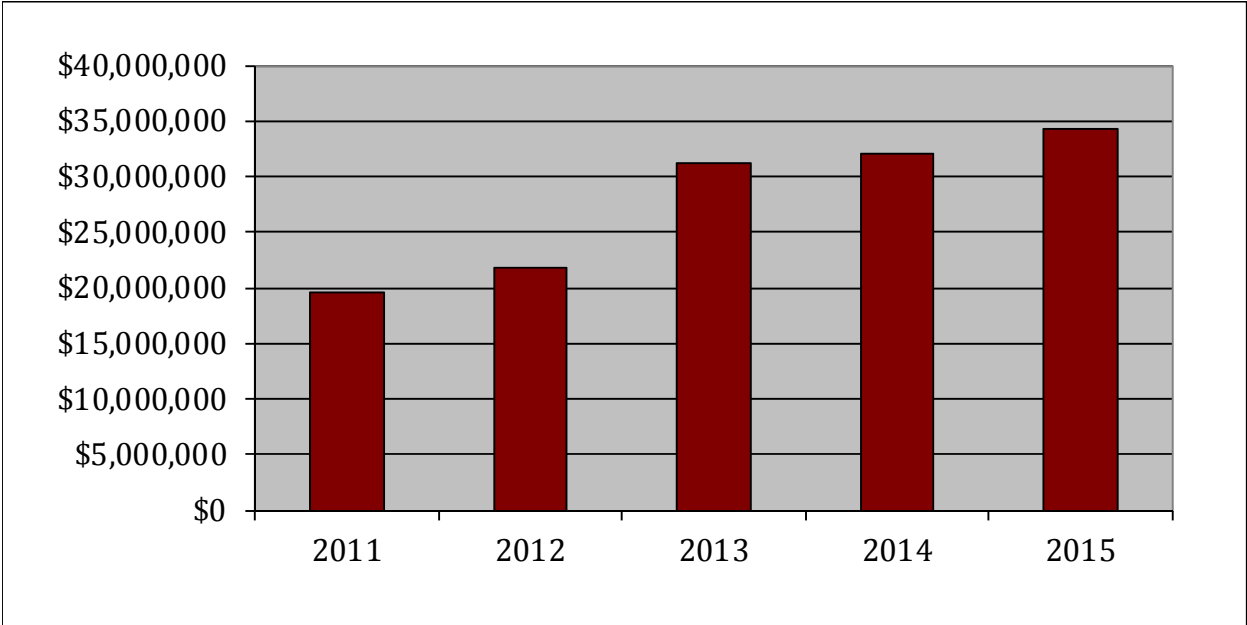
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 34,226,085	\$ 32,111,188	\$ 31,259,819
Operating expenses	(39,462,199)	(36,224,521)	(29,960,788)
Other expense	<u>(153,998)</u>	<u>974,165</u>	<u>(1,526,602)</u>
Decrease in net position before capital grants and related items	(5,390,112)	(3,139,168)	(227,571)
BTOP grant revenue	-	1,924,694	15,696,621
Contributions for capital assets	<u>-</u>	<u>-</u>	<u>1,045,400</u>
Change in net position	<u>\$ (5,390,112)</u>	<u>\$ (1,214,474)</u>	<u>\$ 16,514,450</u>

Summary Statements of Net Position

Net property and equipment	\$ 94,039,521	\$ 97,911,233	\$ 102,637,899
Other assets	10,053,298	13,225,887	17,734,802
Deferred outflows of resources	<u>4,157,031</u>	<u>1,101,476</u>	<u>-</u>
Total assets	<u>\$ 108,249,850</u>	<u>\$ 112,238,596</u>	<u>\$ 120,372,701</u>
Long-term liabilities, net of current portion	\$ 16,423,134	\$ 16,679,554	\$ 16,401,851
Other liabilities	<u>9,774,942</u>	<u>8,117,156</u>	<u>13,503,492</u>
Total liabilities	<u>26,198,076</u>	<u>24,796,710</u>	<u>29,905,343</u>
Net investment in capital assets	84,387,857	88,630,039	91,730,603
Restricted	1,436,850	1,436,902	1,443,527
Unrestricted	<u>(3,772,933)</u>	<u>(2,625,055)</u>	<u>(2,706,772)</u>
Total net position	<u>82,051,774</u>	<u>87,441,886</u>	<u>90,467,358</u>
Total liabilities and net position	<u>\$ 108,249,850</u>	<u>\$ 112,238,596</u>	<u>\$ 120,372,701</u>

**NORTHWEST OPEN ACCESS NETWORK
MANAGEMENT’S DISCUSSION AND ANALYSIS**

Operating Revenues



Operating revenue in 2015 increased 7% over 2014 as a result of growth in monthly revenue generation. Revenue growth in 2014 and 2013 included significant one-time contributions from customers. Many of these contributions were aid in construction of fiber optic cable to cell towers. In 2015, the one-time contributions decreased compared to prior years as a result of fewer new tower contracts. However, as fiber to the tower construction in 2014 and early 2015 was completed, growth in monthly recurring revenue was realized as the new services turned up around the state. In addition, NoaNet continued to experience growth in regional transport and access throughout 2015.

Operating expenses increased 9% in 2015 compared to 2014. As a result of monthly revenue growth and one-time capital contributions from customers, NoaNet experienced a related rise in monthly and one-time expenses to members and other network providers. Monthly recurring expenses are due to circuits purchased by NoaNet to gain access to specific locations. One-time expenses are paid to members and other network providers in the form of contributions in aid of construction. Many of the nonrecurring fees from customers were collected in 2014 but due to long construction timelines corresponding expenses were paid in 2015. As a result, these related expenses increased by 25% in 2015 over 2014 and both EBITDA and operating income decreased in 2015 compared to 2014. NoaNet drew on the \$13,000,000 line of credit established in December 2014 to help pay for these fiber to the tower builds. While there has been a rise in these expenses as a result of revenue growth, other NoaNet expenses have stabilized or decreased.

NORTHWEST OPEN ACCESS NETWORK MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Activity

At December 31, 2015 and 2014, NoaNet had \$138.6 and \$134.6 million, respectively, invested in the network infrastructure, an increase from the prior year of 3% and 2%, respectively. The network book value, net of depreciation, amounted to \$94.0 million at December 31, 2015, and \$97.9 million at December 31, 2014. Capital expenditures included normal renewals and replacements, network expansion for new transport agreements, and network upgrades. See Note 5 for further information.

At December 31, 2015 and 2014, NoaNet had \$9.1 and \$11.3 million in debt outstanding, respectively, that included line of credit debt and revenue bond debt. In 2015 and 2014, NoaNet made debt principal payments totaling \$4.2 and \$4.1 million, respectively. In June 2011, NoaNet refinanced their 2001 Revenue Bonds realizing savings of approximately \$1,659,000 through the end of 2016. In June 2015, NoaNet made a bond interest payment of \$97,227 and in December 2015 made a bond principal and interest payment of \$2,794,490. The revenue bonds will retire on December 1, 2016. See Notes 6 and 7 for further information.

NoaNet has secured new business in the last three years related to wireless carrier transport. These contracts require significant capital construction. To secure this new business, NoaNet was required to capitalize portions of the projects up front, with a return over the contract term. In December 2014, NoaNet secured a \$13,000,000 revolving line of credit (LOC) without member guarantees and retired prior LOC requiring member guarantees from 2012 and 2014. During 2014, NoaNet drew \$5,771,729 from the revolving LOC to retire the prior LOC. In 2015, NoaNet drew \$2,000,000 on the revolving LOC to fund capital projects and expects to draw more on the LOC through 2016 in response to capital financing requirements related to the various service contracts.

Summary

During 2015 and 2014, the general economic climate for broadband in the underserved areas of the state of Washington was favorable resulting in increasing demand for broadband access and improvements in NoaNet's financial position. Broadband access has been a contributor to help diversify and enhance local economies. Agreements with major telecommunication providers resulted in awards of significant contracts. These agreements have extended high-speed broadband into the underserved areas of the state for distance learning, e-government, telemedicine, and other public benefit purposes. It has also led to advanced cellular communications in many areas in the state. Implementation and expansion of new services to more communities through these contracts continues the growth of the network footprint throughout the state of Washington.

NORTHWEST OPEN ACCESS NETWORK MANAGEMENT'S DISCUSSION AND ANALYSIS

Outlook

In 2014, NoaNet successfully completed a four-year \$180,000,000 federal broadband technology opportunities program (BTOP) grant to expand high-speed broadband throughout the state of Washington. NoaNet now has a point of presence in every county in the state, which has lowered barriers for Internet providers to invest and bring fast broadband service to unserved and underserved communities. High-speed Internet access is now available to community anchor institutions across the state – including community colleges, libraries, healthcare facilities, and government agencies – and lays the groundwork for bringing affordable broadband service to thousands of homes and businesses where broadband was not previously available.

With statewide access now available at virtually any broadband capacity, NoaNet is better able to meet our wholesale customers' connectivity needs as they expand. These customers include cellular providers, wireline carriers, cable companies, and Internet service providers, and the outlook for regional transport remains strong. In addition to purchasing telecom capacity to interconnect their properties, customers also purchase high-speed access to specific locations including schools, businesses, hospitals, public safety businesses, and government facilities. NoaNet's access network continues to grow as overall bandwidth demand increases.

In late 2014, NoaNet was notified by a large customer that a long-standing contract connecting over 170 schools in the state was awarded to other firms. While NoaNet expects to still provide service to some of the schools, the access network component of the business incurred a 14% decline in revenue in late 2015. Since NoaNet had purchased tail circuits from members and third party providers to connect the schools, expenses related to the access network have declined also. The loss of access network revenue and expense will be most noticeable in the first half of 2016. After that, new sales are expected to fill in the loss.

In late 2015, NoaNet signed a long-term contract with a high capacity bandwidth customer whose original ten-year contract was expiring in 2016. Another customer with an expiring ten-year contract chose not to renew their capacity agreement. NoaNet is planning to mitigate this revenue loss with continued growth in new sales in 2016. While NoaNet is forecasting overall revenue growth in 2016, it is expected to be slower as a result of the contract terminations. Overall the outlook is for NoaNet to continue to grow traditional business lines, albeit at a slower pace.

NORTHWEST OPEN ACCESS NETWORK MANAGEMENT'S DISCUSSION AND ANALYSIS

Outlook (continued)

Lastly, in 2015, new products and services under development in 2014 were released in response to demand for hosted services such as voice over Internet protocol, network storage and processing, physical access control, surveillance, cyber security, and high speed Internet. NoaNet is offering these new products on a localized, highly available, and low latency Internet platform aimed at specific vertical markets that include both agriculture and utilities. These over-the-top (OTT) applications require granular control to assist in quickly meeting customer demands by using advanced networking technology already deployed on the network. In addition, NoaNet is exploring the benefits of implementing Network Functions Virtualization (NFV) to lower costs and further improve speed and flexibility in service offerings. This will be done as the technology matures and customer requirements justify the investment. Modest revenue growth in the platform product set is forecast for early 2016, with more significant growth targeted for late 2016 and 2017.

**NORTHWEST OPEN ACCESS NETWORK
STATEMENTS OF NET POSITION**

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	December 31,	
	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,022,022	\$ 3,580,123
Accounts receivable, net	5,208,871	4,288,445
HCN cash and cash equivalents – restricted - current	1,507,000	1,507,000
Bond reserve restricted investments - cash equivalents	1,436,850	-
Prepaid and deferred expenses	630,685	436,973
Total current assets	<u>9,805,428</u>	<u>9,812,541</u>
OTHER NONCURRENT ASSETS		
Prepaid HCN IRU agreement	12,875	64,375
Prepaid IRU agreement	234,995	343,454
Performance bonds and retainage, BTOP grant - cash equivalents	-	61,667
Bond reserve restricted investments - cash equivalents	-	1,436,850
HCN cash and cash equivalents – restricted - noncurrent	-	1,507,000
	<u>247,870</u>	<u>3,413,346</u>
NET CAPITAL ASSETS		
Capital assets not being depreciated		
Land	13,785	13,785
Construction in progress	1,576,706	59,956
Capital assets being depreciated		
Equipment	129,752,174	127,299,307
Structures	7,230,668	7,230,668
Accumulated depreciation	<u>(44,533,812)</u>	<u>(36,692,483)</u>
Net capital assets being depreciated	<u>92,449,030</u>	<u>97,837,492</u>
Total net capital assets	<u>94,039,521</u>	<u>97,911,233</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pension	<u>4,157,031</u>	<u>1,101,476</u>
Total assets and deferred outflows of resources	<u><u>\$ 108,249,850</u></u>	<u><u>\$ 112,238,596</u></u>

**NORTHWEST OPEN ACCESS NETWORK
STATEMENTS OF NET POSITION**

LIABILITIES AND NET POSITION

	December 31,	
	2015	2014
CURRENT LIABILITIES		
Accounts payable	\$ 3,297,616	\$ 1,904,492
Salaries and wages payable	297,526	254,854
Accrued compensated absences	1,182,342	978,813
Accrued interest payable	6,975	12,415
Performance bonds and retainage payable, BTOP grant	-	61,615
Unearned revenue and other accrued liabilities	248,986	233,865
Current portion of HCN unearned revenue	1,938,089	1,938,089
Current portion of notes payable	13,408	13,013
Current portion of revenue bonds	2,790,000	2,720,000
Total current liabilities	9,774,942	8,117,156
LONG-TERM LIABILITIES, net of current portion		
Notes payable	6,295,837	5,826,147
Revenue bonds	-	2,790,000
Unearned revenue	495,760	124,152
HCN deferred revenue	-	1,938,089
Net pension liability	9,631,537	6,001,166
Total long-term liabilities	16,423,134	16,679,554
Total liabilities	26,198,076	24,796,710
NET POSITION		
Net investment in capital assets	84,387,857	88,630,039
Restricted	1,436,850	1,436,902
Unrestricted	(3,772,933)	(2,625,055)
Total net position	82,051,774	87,441,886
Total liabilities and net position	\$ 108,249,850	\$ 112,238,596

NORTHWEST OPEN ACCESS NETWORK
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Years Ended December 31,	
	2015	2014
OPERATING REVENUES		
Regional service providers	\$ 18,256,617	\$ 16,098,081
Local service providers	826,681	673,670
Access revenues	8,058,369	7,399,654
Network coordinated services	2,898,988	2,807,670
Nonrecurring charges	4,185,430	5,132,113
Total operating revenues	34,226,085	32,111,188
OPERATING EXPENSES	39,462,199	36,224,521
OPERATING LOSS	(5,236,114)	(4,113,333)
OTHER INCOME (EXPENSE)		
BTOP grant revenue	-	233,078
BTOP subrecipient expenses	-	(233,078)
Interest income	8,725	7,414
Interest expense and related amortization	(306,633)	(318,554)
Other income	143,910	1,285,305
Total nonoperating revenue (loss)	(153,998)	974,165
Decrease in net assets before capital grants and related items	(5,390,112)	(3,139,168)
CAPITAL CONTRIBUTIONS		
BTOP grant revenue	-	1,924,694
Decrease in net position	(5,390,112)	(1,214,474)
NET POSITION, beginning of year	87,441,886	88,656,360
NET POSITION, end of year	\$ 82,051,774	\$ 87,441,886

**NORTHWEST OPEN ACCESS NETWORK
STATEMENTS OF CASH FLOWS**

	Years Ended December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash from customers	\$ 31,735,104	\$ 29,990,866
Cash paid to suppliers	(23,509,297)	(24,790,860)
Cash paid to employees	(5,684,197)	(5,107,899)
Taxes paid	(289,408)	(527,494)
Net cash from operating activities	<u>2,252,202</u>	<u>(435,387)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Other income	143,910	1,285,305
Interest received	8,725	7,414
Net cash from investing activities	<u>152,635</u>	<u>1,292,719</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Borrowings on line of credit, net	2,000,000	2,021,730
Payments on notes payable	(13,012)	(1,429,298)
Payments on line of credit	(1,516,903)	-
Payments on bonds	(2,720,000)	(2,675,000)
Interest paid	(312,073)	(332,226)
Cash received from state and federal grants	-	2,157,772
Cash paid to state and federal grant subrecipients	-	(233,078)
Purchase of property and equipment	(3,969,617)	(5,126,695)
Net cash from capital and related financing activities	<u>(6,531,605)</u>	<u>(5,616,795)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(4,126,768)	(4,759,463)
CASH AND CASH EQUIVALENTS, beginning of year	<u>8,092,640</u>	<u>12,852,103</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 3,965,872</u>	<u>\$ 8,092,640</u>

NORTHWEST OPEN ACCESS NETWORK
STATEMENTS OF CASH FLOWS

	<u>Years Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	\$ (5,236,114)	\$ (4,113,333)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation and amortization	7,841,329	7,846,463
Change in assets and liabilities		
Accounts receivable	(920,427)	177,717
Prepaid expenses	(33,753)	(428,266)
Accounts payable	1,393,125	(2,062,938)
Unearned revenue and other accrued liabilities	4,201,686	1,184,535
HCN unearned revenue	(1,938,089)	(1,938,089)
Deferred outflows of resources	(3,055,555)	(1,101,476)
Net cash from operating activities	<u>\$ 2,252,202</u>	<u>\$ (435,387)</u>

NORTHWEST OPEN ACCESS NETWORK NOTES TO FINANCIAL STATEMENTS

Note 1 - Nature of Organization and Operations

Northwest Open Access Network (NoaNet), a Washington nonprofit mutual corporation, was incorporated in February 2000. NoaNet consists of the Telecommunications System and beginning in 2006, the High Capacity Network (HCN) system.

The Telecommunications System provides a broadband communication backbone, primarily over public benefit fibers licensed from Bonneville Power Administration (BPA) (see Note 8) throughout Washington State (State) for assisting its members in providing high speed telecommunication services to customers and in the efficient management of load, conservation, and acquisition of electric energy, as well as other purposes. In addition, the Telecommunications System conducts business on a wholesale basis with unrelated commercial and government entities. The fiber optic network began commercial operation in January 2001.

The HCN System was formed in connection with an IRU agreement to provide communication transport capacity entered into with a specific customer (see Note 11). As of December 31, 2015 and 2014, the assets, liabilities, operations, and cash flows of HCN System are included for financial reporting purposes with the Telecommunications System.

NoaNet is governed by a Board of Directors consisting of 10 individuals selected from the 10 members. NoaNet's members consist of Washington Public Utility Districts and Energy Northwest, a joint operating agency.

Note 2 - Summary of Significant Accounting Policies

Reporting entity – The financial reporting entity consists of NoaNet and component units. Component units are legally separate organizations for which NoaNet is financially accountable and other organizations for which NoaNet is not accountable, but for which the nature and significance of their relationship with NoaNet are such the exclusion would cause NoaNet's financial statements to be misleading or incomplete. Based upon this criterion, NoaNet has no component units.

Basis of accounting and presentation – The accounting policies of NoaNet conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to proprietary funds of governments. NoaNet uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred.

NORTHWEST OPEN ACCESS NETWORK

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Basis of accounting and presentation (continued) – NoaNet distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with NoaNet’s principal ongoing operations. The principal operating revenues of NoaNet are charges to customers for telecommunications services. Operating expenses for NoaNet include costs to operate and maintain the telecommunications systems, customer service, marketing, administration, depreciation, and business taxes. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

New accounting standard – In 2014, NoaNet adopted Government Auditing Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement established new accounting and financial reporting standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources and expenditures. This standard requires that the liability of employers to employees for defined benefit pension plans be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees, less the amount of the pension plan’s fiduciary net position. The requirements of GASB Statement No. 68 are effective for financial statements beginning after June 15, 2014, with early adoption encouraged, and were adopted by NoaNet effective January 1, 2014, with retroactive application to the years shown in the MD & A and the basic financial statements.

Cash equivalents – NoaNet considers all highly liquid investment securities with a maturity of three months or less to be cash equivalents.

Accounts receivable – Accounts receivable are recorded when invoices are issued and written off when they are determined to be uncollectible. Credit is extended to customers generally without collateral requirements. The allowance for doubtful accounts is estimated based on NoaNet’s historical losses, review of specific problem accounts, existing economic conditions, and the financial stability of its customers. Generally, NoaNet considers accounts receivable past due after 30 days. The allowance for doubtful accounts was \$150,000 at December 31, 2015 and 2014.

Property and equipment – Property and equipment are stated at cost. Cost includes contracted services, direct labor and materials, interest capitalized during construction and indirect charges for engineering, supervision, and other similar overhead items. Expenditures for normal repairs and maintenance are charged to operations as incurred; renewals, replacements, and betterments are capitalized (\$1,000 capitalization threshold). NoaNet has provided for depreciation using the straight-line method over the estimated useful lives of the assets ranging from three to twenty years.

Fiber optic network assets include rights of way, conduit, fiber, shelters, and point of presence racks. Operating equipment includes network equipment and other equipment necessary to operate the network.

NORTHWEST OPEN ACCESS NETWORK NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Property and equipment (continued) – NoaNet’s policy is to depreciate and amortize its long-lived assets over their remaining useful life and to write down such assets if the net carrying value is not recoverable from future cash flows. The assessment as to whether a write-down is required is based on NoaNet’s estimates of future cash flows and NoaNet’s assumptions about the use of assets. There were no write-downs in 2015 or 2014.

Prepaid IRU – In 2007, NoaNet’s HCN System entered into a ten-year IRU agreement with a third party that is being amortized to expense on a straight-line basis over the term of the agreement.

Compensated absences – NoaNet accrues accumulated unpaid vacation benefits as the obligation is incurred. The accrued liability for unpaid vacation leave at December 31, 2015 and 2014, was \$1,182,342 and \$978,813, respectively.

Unearned revenue – Unearned revenue represents unearned prepayments received from IRU or other long-term service agreements. These prepayments are amortized to operating revenue in equal monthly installments over the term of the agreements as the services are provided.

Revenue recognition – Revenue is recognized in the period the service is provided based upon port readings of traffic (megabytes of data) and billed at the 95th percentile to account for anomalies or by contractual agreements. Nonrecurring charges consist of connection fees and project management services and are recognized when the service is established.

IRU agreements are accounted for as operating leases or service arrangements depending on whether the customer has the exclusive right to use the assets. Revenue is recognized on both operating leases and service arrangements on a straight-line basis over the term of the contract.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of NoaNet’s Pension Plan (NPP) and additions to/deductions from NPP’s fiduciary net position have been determined on the same basis as they are reported by NPP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported a fair value.

NORTHWEST OPEN ACCESS NETWORK

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

BTOP grant revenue – During 2010, NoaNet was awarded two grants of approximately \$84.3 million and \$54.5 million by the U.S. Department of Commerce under the BTOP of the American Recovery and Reinvestment Act. The grants were awarded for the construction of fiber optic cable to provide advanced broadband connections to anchor institutions in certain unserved and underserved areas of Washington State. During the year ended December 31, 2014, NoaNet had received approximately \$2.2 million, of the grant proceeds and had disbursed \$0.2 million to subrecipients. NoaNet completed the construction project and received the remainder of the grant proceeds during 2014. NoaNet was required to record the proceeds received for construction related to this grant as grant revenue.

Net position – Net position consist of the following components:

- **Net investment in capital assets** – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds and notes that are attributable to the acquisition, construction, or improvement of those assets. Capital assets include \$93.1 million of assets constructed with BTOP grant funds on which restrictions have been placed on use and ability to sell.
- **Restricted** – This component of net position consists of net assets on which constraints are placed as to their use.
- **Unrestricted** – This component of net position consists primarily of cumulative operating activity, member payments and bonds used to finance operating activities.

Marketing expense – Marketing costs are expensed as incurred. Total marketing expense was \$1,351,202 and \$2,018,083 for the years ended December 31, 2015 and 2014, respectively.

Income taxes – NoaNet is a nonprofit mutual corporation exempt from federal income taxes. Any income accrues to the members, which are political subdivisions of the state of Washington.

Use of estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

**NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS**

Note 3 – Cash and Investments

NoaNet maintains cash and investments in fund accounts in accordance with bond resolutions and Board authorization and reports at cost, which approximates fair market value. Descriptions of these fund account types are as follows:

Revenue fund – Used to account for cash and investments set aside for short-term investments as designated by the Board.

Bond reserve fund – Used to account for restricted cash and investments required under the Bond Indenture of Trust for future payment of principal and interest on debt.

HCN fund – Used to account for restricted cash and investments required under the HCN contract.

Performance bonds and retainage, BTOP grant – Used to account for restricted cash and investments held in connection with BTOP projects.

As of December 31, 2015, NoaNet held the following cash and investments:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Weighted-Average Maturity (Years)</u>	<u>% of Portfolio</u>
Cash	\$ 688,717	-	17.4%
Local government investment pool	<u>3,277,155</u>	-	<u>82.6%</u>
Total cash and cash equivalents and bond reserve investments	<u>\$ 3,965,872</u>		<u>100.0%</u>

As of December 31, 2014, NaoNet held the following cash investments:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Weighted-Average Maturity (Years)</u>	<u>% of Portfolio</u>
Cash	\$ 3,396,923	-	42.0%
Local government investment pool	<u>4,695,717</u>	-	<u>58.0%</u>
Total cash and cash equivalents and bond reserve investments	<u>\$ 8,092,640</u>		<u>100.0%</u>

NORTHWEST OPEN ACCESS NETWORK

NOTES TO FINANCIAL STATEMENTS

Note 3 – Cash and Investments (continued)

The “weighted-average maturity in years” calculation assumes that all investments are held until maturity.

Interest rate risk – NoaNet does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from rising interest rates. However, investment maturities are generally limited to less than two years and the State Treasurer’s Local Government Investment Pool (LGIP) has a weighted average portfolio maturity of less than 90 days.

Custodial risk – Custodial risk is that, in the event of the failure of the counterparty, NoaNet will not be able to recover the value of its investments that are in possession of an outside party.

In accordance with the Revised Code of Washington, NoaNet bond resolution, and NoaNet internal investment policies, all investments are direct obligations of the U.S. government or its agencies, deposits in the LGIP, or deposits with financial institutions recognized as qualified public depositories of the state of Washington.

NoaNet’s cash deposits are entirely covered by Federal Depository Insurance Corporation (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). NoaNet intends to hold time deposits and securities until maturity.

Credit risk – The Office of the State Treasurer administers the LGIP, a \$10.1 billion dollar fund that invests in money on behalf of approximately 538 participants, including cities, counties, and special taxing districts. The LGIP is a voluntary pool that provides its participants the opportunity to benefit from the economies of scale inherent in pooling in order to achieve a higher investment yield than might otherwise be available to them. The LGIP is designed to be a conservatively managed, highly liquid money market fund. The LGIP is restricted to investments with maturities of 762 days or less, and the average life typically is less than 90 days. Permissible investments include U.S. government and agency securities, bankers’ acceptances, high quality commercial paper, repurchase and reverse repurchase agreements, and certificates of deposit issued by qualified state depositories.

NORTHWEST OPEN ACCESS NETWORK NOTES TO FINANCIAL STATEMENTS

Note 3 – Cash and Investments (continued)

Concentration risk – Concentration risk is the risk that, when investments are concentrated in one issuer, this concentration presents a heightened risk of potential loss. NoaNet has not experienced any losses in such accounts and believes it is not exposed to any significant concentration risk on cash and investments. NoaNet policies allow the entire portfolio to be invested in direct United States government guaranteed obligations, in the LGIP, or Washington State depositories. The LGIP, a 2a7-like pool as defined by GASB Statement No. 31 and the Securities and Exchange Commission, invests in high quality, short-term investments; all LGIP money market securities must be rated A-1 by Standard & Poors Corporation or P1 by Moody’s Investor Services, Inc. The LGIP weighted-average maturity must not exceed 90 days and no single investment may exceed 762 days in maturity. Withdrawals in excess of \$10 million are available on a one-day notice. The LGIP Annual Report is available on the State Treasurer’s website at <http://tre.wa.gov/LGIP/lgip.htm>.

Note 4 – Status of Operations

In 2000, NoaNet was organized to serve a unique niche in the telecommunications industry focusing on delivery of fiber optic based broadband access to underserved areas of Washington State. Today, member networks have been built such that NoaNet’s footprint extends into many counties in the State. The operating platform is open access and services reflect cost-based pricing as NoaNet is organized as a nonprofit entity. NoaNet has continued to expand its offerings to include network coordinated services to its members such as network element monitoring, operations, sales, and administrative services.

NORTHWEST OPEN ACCESS NETWORK

NOTES TO FINANCIAL STATEMENTS

Note 5 – Property and Equipment

A summary of the balances and changes in property and equipment are as follows:

	2014	Additions	Close-outs/ Other	2015
Capital assets not being depreciated				
Land	\$ 13,785	\$ -	\$ -	\$ 13,785
Construction WIP - Core	59,956	3,969,617	(2,452,867)	1,576,706
Total capital assets not being depreciated	73,741	3,969,617	(2,452,867)	1,590,491
Capital assets being depreciated				
Equipment	127,299,307	2,452,867		129,752,174
Structures	7,230,668	-	-	7,230,668
Total capital assets being depreciated	134,529,975	2,452,867	-	136,982,842
Accumulated depreciation	36,692,483	7,841,329	-	44,533,812
Total capital assets being depreciated, net	97,837,492			92,449,030
Net property and equipment	\$ 97,911,233			\$ 94,039,521
	2013	Additions	Retirements/ Other	2014
Capital assets not being depreciated				
Land	\$ 13,785	\$ -	\$ -	\$ 13,785
Construction WIP - Core	692,481	2,780,408	(3,412,933)	59,956
Construction WIP - BTOP 1	-	54,188	(54,188)	-
Construction WIP - BTOP 2	-	285,201	(285,201)	-
Total capital assets not being depreciated	706,266	3,119,797	(3,752,322)	73,741
Capital assets being depreciated				
Equipment	123,546,985	3,752,322	-	127,299,307
Structures	7,230,668	-	-	7,230,668
Total capital assets being depreciated	130,777,653	3,752,322	-	134,529,975
Accumulated depreciation	28,846,020	7,846,463	-	36,692,483
Total capital assets being depreciated, net	101,931,633			97,837,492
Net property and equipment	\$ 102,637,899			\$ 97,911,233

NORTHWEST OPEN ACCESS NETWORK NOTES TO FINANCIAL STATEMENTS

Note 5 - Property and Equipment (continued)

Indefeasible right of use agreement – Certain of NoaNet’s assets support an IRU agreement accounted for as an operating lease (see Note 11). These assets amounted to approximately \$6.5 million at December 31, 2015 and 2014.

Note 6 - Line of Credit

In December 2014, NoaNet secured a \$13,000,000 revolving line of credit (LOC) without member guarantees and retired both the 2012 and 2014 lines on December 31, 2014. NoaNet drew \$5,771,729 from the revolving LOC to retire the prior LOC’s and no additional funds were drawn on the new LOC in 2014. NoaNet drew \$2,000,000 on the LOC during 2015 for capital expenditures and anticipates drawing on the revolving LOC throughout 2016 in response to capital financing requirements related to the various service contracts. The maximum principal amount available under the note will be reduced automatically \$500,000 on each January 1, April 1, July 1, and October 1, commencing April 1, 2015. Any outstanding principal amount in excess of the new maximum principal shall be due on the relative date. The note bears interest either at the fluctuating rate per annum determined by the bank to be 2.25% above the Daily One Month LIBOR Rate in effect from time to time or at a fixed rate per annum determined by the bank to be 2.25% above LIBOR in effect the first day of the applicable LIBOR period. Rate options are determined by NoaNet. At December 31, 2015, NoaNet has selected the fluctuating Daily One Month LIBOR Rate plus 2.25%. The line matures April 2021, is collateralized by NoaNet’s net revenues, and is in a junior lien position to the Telecommunications Network Revenue Bonds (see Note 7). The interest rate at December 31, 2015, was 2.68%.

In July 2014, NoaNet secured an \$8,000,000 nonrevolving LOC with a commercial lender in order to finance capital expenditures and network upgrades predominantly related to wireless carrier transport. Through the fourth quarter of 2014, NoaNet had drawn \$2,000,000 on this LOC. This LOC was retired in December 2014 with the balance transferred to the December 2014 LOC.

In 2013, NoaNet financed, at an interest rate of 2.99%, the purchase of two vehicles. The principal amount outstanding was \$67,433 and \$80,061 at December 31, 2015 and 2014, respectively. The balance is due in 72 equal monthly payments that commenced November 24, 2013.

NoaNet has established covenants that it shall assess its members for their percentage share of principal and interest on the notes to the extent that NoaNet does not have sufficient funds to pay the notes after paying or providing for cost of maintenance and operations of NoaNet and after providing for the payment of principal and interest on NoaNet’s outstanding Telecommunications Network Revenue Bonds (2001). NoaNet is also subject to certain financial and nonfinancial covenants.

NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS

Note 6 – Line of Credit (continued)

Scheduled debt service payments on principal are as follows:

2016	\$ 13,408
2017	13,815
2018	769,060
2019	2,012,962
2020	2,000,000
Thereafter	<u>1,500,000</u>
	<u><u>\$ 6,309,245</u></u>

Note 7 – Telecommunications Network Revenue Bonds

2011 Revenue Refunding Bonds – In July 2011, NoaNet issued \$13,165,000 in Telecommunications Network Revenue Refunding Bonds. Proceeds from the bonds were used to refund all of NoaNet's outstanding 2001 Telecommunications Network Revenue Bonds and to pay costs of issuance of the bonds. Interest on the bonds is payable semi-annually each June 1 and December 1. Principal of the bonds is payable annually on December 1; from December 1, 2012, through December 1, 2016. This advance refunding was undertaken to reduce total debt service payments by approximately \$1,659,000. The total principal and interest remaining to be paid on the bonds at December 31, 2015, is \$2,873,700.

The members and several former members have entered into a repayment agreement under which they are responsible for debt payments to the extent NoaNet does not have sufficient funds to make those payments after paying or providing for cost of maintenance and operations.

	<u>2015</u>	<u>2014</u>
2011 Bonds - Serial bonds due 2012-2016 (interest rate 2.40% to 3.00%)	\$ 2,790,000	\$ 5,510,000
Less current portion of revenue bonds	<u>2,790,000</u>	<u>2,720,000</u>
Long-term portion of revenue bonds	<u><u>\$ -</u></u>	<u><u>\$ 2,790,000</u></u>

NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS

Note 7 - Telecommunications Network Revenue Bonds (continued)

Scheduled debt service payments for principal, interest, and principal maturities of the 2011 Telecommunications Network Revenue Refundable Bonds are as follows:

	Interest	Principal	Total
2016	\$ 83,700	\$ 2,790,000	\$ 2,873,700

The bond resolution requires the establishment and maintenance of bond proceeds, interest, and reserve fund accounts, the purpose of which are to provide additional security as well as scheduled debt service payments. The reserve fund is to be maintained throughout the term of the bonds, in investments as permitted by the resolution.

During the year ended December 31, 2015, the following changes occurred in bonds principal payable:

	2014	Additions	Payments	2015	Due Within One Year
2011 Revenue bonds	\$ 5,510,000	\$ -	\$ 2,720,000	\$ 2,790,000	\$ 2,790,000

The bonds are secured by revenues and guaranteed by its members.

Note 8 - Operating Leases and License

NoaNet maintains a long-term operating lease agreement with BPA to lease property for the placement of regenerator huts and appurtenant cables, vaults, and devices. NoaNet also maintains a long-term license agreement with BPA to access public benefit fibers and commercial fibers along a 1,279 mile route in the Pacific Northwest. This license includes annual fiber fees and maintenance charges. The BPA agreements will expire in 2019 unless extended by mutual agreement. Expenses incurred under these agreements were \$1,943,154 and \$1,927,990 for the years ended December 31, 2015 and 2014, respectively.

In addition, NoaNet maintains several agreements with telecommunication providers for connectivity, dark fiber, equipment rooms, and transport services that require payment of monthly charges based upon usage or fixed fee arrangements. Certain leases, including renewal options and additional monthly charges, may be incurred for the use of capacity above the amounts contracted in the agreements. Expenses incurred under these agreements were \$15,397,850 and \$13,276,406 for the years ended December 31, 2015 and 2014, respectively.

NORTHWEST OPEN ACCESS NETWORK

NOTES TO FINANCIAL STATEMENTS

Note 8 – Operating Leases and License (continued)

Future minimum payments for the above leases and license are as follows:

2016	\$ 2,173,318
2017	2,176,054
2018	2,182,282
2019	1,676,376
2020	-
	<hr/>
	\$ 8,208,030
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Note 9 – Retirement Plans

DEFINED BENEFIT PLAN

General information about the Pension Plan

Plan description – NoaNet maintains a single-employer defined benefit pension plan (Plan) covering all eligible employees. An eligible employee must have attained the age of 21 and completed one year of eligible service. Benefits are fully vested at six years of vesting service.

Benefits provided – NoaNet provides retirement, disability, and death benefits. Retirement benefits for the eligible employees are calculated as two percent of average monthly compensation for each year of credited service after May 1, 2004, plus benefits accrued prior to May 1, 2004. Eligible employees with five years of participation are eligible for normal retirement at age 65. Post May 1, 2004, benefit terms provide for a three percent annual cost-of-living adjustment to each employee’s retirement allowance subsequent to the employee’s retirement date. In January 2003, certain employees were transferred to NoaNet Oregon, a prior affiliate of NoaNet. The Plan was amended to freeze the benefits for these employees of NoaNet Oregon with additional years of service considered in the calculation of vesting as applicable.

Employees covered by benefit terms – At December 31, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	14
Active employees	36
	<hr/>
	52
	<hr/> <hr/>

**NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS**

Note 9 – Retirement Plans (continued)

Contributions – All contributions are paid by NoaNet. For the year ended December 31, 2015, NoaNet’s average contribution rate was a percent of annual payroll. Annual contributions are based upon actuarial calculations performed by an independent actuary. The actuarial cost method used is the entry age normal cost method that determines a current year’s cost or “normal cost” as the total of each participant’s annual amount necessary to fund the projected benefit over a level percentage of compensation from the date of hire to the date of anticipated retirement. Under this method, the initial liability and subsequent changes or actuarial gains and losses are amortized over a specified period. For the year ended December 31, 2015, NoaNet’s average contribution rate was 23% of covered payroll.

Net pension liability – NoaNet’s net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions – The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	4.00%, average, including inflation
Investment rate of return	6.42%

Mortality rates were based on the RP-2014 Male/Female Annuitant Mortality Tables Post-Retirement only.

NORTHWEST OPEN ACCESS NETWORK

NOTES TO FINANCIAL STATEMENTS

Note 9 - Retirement Plans (continued)

Actuarial assumptions (continued) - The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of returns (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Domestic equity	38%	7.4%
International equity	15%	7.2%
Fixed income	37%	4.8%
Real estate	10%	7.6%
	<u>100%</u>	

Discount rate - The discount rate used to measure the total pension liability was 3.75 percent. The projection of cash flows used to determine the discount rate assumed that NoaNet contributions will be made at rates equal to the actuarially determined contribution rates. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS**

Note 9 - Retirement Plans (continued)

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as December 31, 2014	\$ 9,873,273	\$ 3,872,107	\$ 6,001,166
Changes for the year			
Service cost	1,100,957	-	1,100,957
Interest	445,626	-	445,626
Differences between expected and actual experience	63,774	-	63,774
Changes of assumptions	3,004,689	-	3,004,689
Contributions - employer	-	956,200	(956,200)
Net investment income	-	96,892	(96,892)
Benefit payments	(67,171)	(67,171)	-
Administrative expense	-	-	-
Other changes	-	(68,417)	68,417
Net changes	4,547,875	917,504	3,630,371
Balances at December 31, 2015	\$ 14,421,148	\$ 4,789,611	\$ 9,631,537

Sensitivity of the net pension liability to changes in the discount rate - The following presents the net pension liability of NoaNet, calculated using the discount rate of 3.75 percent, as well as what NoaNet's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.75 percent) or 1 percentage point higher (4.75 percent) than the current rate:

	1% Decrease (2.75%)	Discount Rate (3.75%)	1% Increase (4.75%)
NoaNet's net pension liability	\$ 12,918,765	\$ 9,631,537	\$ 7,783,924

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued pension financial report. A copy of this report can be obtained by writing to Northwest Open Access Network, 7195 Wagner Way, Suite 104, Gig Harbor, WA 98335. The pension plan's fiduciary fund financial statements are not required to be included along with these financial statements.

NORTHWEST OPEN ACCESS NETWORK
NOTES TO FINANCIAL STATEMENTS

Note 9 – Retirement Plans (continued)

Pension expense and deferred outflows of resources related to pensions – For the years ended December 31, 2015 and 2014, NoaNet recognized pension expense of \$1,531,016 and \$1,112,768, respectively. At December 31, NoaNet reported deferred outflows of resources related to pensions from the following sources:

	<u>2015</u>	<u>2014</u>
Differences between expected and actual experience	\$ 974,132	\$ 961,628
Changes of assumptions	2,854,455	-
Net difference between projected and actual earnings on pension plan investments	<u>328,444</u>	<u>139,848</u>
Total	<u>\$ 4,157,031</u>	<u>\$ 1,101,476</u>

Amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended December 31,	
2016	\$ 283,616
2017	283,616
2018	283,616
2019	283,616
2020	201,507
Thereafter	2,821,060

Payable to the pension plan – At December 31, 2015, NoaNet reported a payable of \$9,631,537 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2015.

In January 2003, certain employees were transferred to NoaNet Oregon, a prior affiliate of NoaNet. The Plan was amended to freeze the benefits for these employees of NoaNet Oregon with additional years of service considered in the calculation of vesting as applicable.

Defined contribution plan – NoaNet sponsors a deferred compensation plan (Internal Revenue Code Section 457) for all eligible employees. The Plan is entirely funded by voluntary employee contributions. All Plan assets are held in trust for the exclusive benefit of participants and their beneficiaries. In 2008, NoaNet started a program of matching contributions. The match is capped annually at \$2,400 per eligible employee. NoaNet made matching contributions of \$5,959 and \$5,490 for the years ended December 31, 2015 and 2014, respectively.

NORTHWEST OPEN ACCESS NETWORK NOTES TO FINANCIAL STATEMENTS

Note 10 – Self-Insurance

NoaNet is a member of the Public Utility Risk Management Services Self-Insurance Fund (PURMS). RCW Chapter 48.62 authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of RCW Chapter 54.16. The liability pool was formed on December 31, 1976, when certain PUDs in the state of Washington joined together by signing the Self Insurance Agreement (SIA) to pool their self-insured losses and jointly purchase insurance and administrative services. Currently 19 members belong to PURMS.

Additional pools for property and health and welfare coverage were added in March 1997 and April 2000, respectively, under the same SIA and with the same membership. Each member elects the pools in which they participate. NoaNet has elected to participate in all three pools.

Members of each pool are assessed to maintain the designated self-insured retention. After termination, a member is still responsible for their share of contributions to the pools for any unresolved, unreported, and in-process claims for the period they were a signatory to the agreement. The pools are fully funded by its current and former members. Claims are filed by members with the Administrator, Pacific Underwriters, Seattle, Washington, which has been contracted to perform claims adjustment and loss prevention services.

The pools are governed by a Board of Directors, which is comprised of one designated representative from each participating member. The Administrator and an elected Administrative Committee are responsible for conducting the business affairs of the pools.

Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

A description of each pool follows:

Liability pool – The liability pool has a \$1 million self-insured retention with \$3 million of reserves. The fund purchases \$35 million of excess general liability insurance over the \$1 million retention.

Property pool – The majority of the property in the property pool has a \$250,000 self-insured retention. Certain classes of property have higher retention requirements up to \$500,000. Reserves for the property pool are set at \$750,000. In addition, the fund purchases \$200 million of excess insurance over the \$250,000 (or higher) retention level.

Health & welfare risk pool – The health & welfare risk pool (H&W Pool) provides health and welfare insurance for NoaNet employees and dependents in accordance with the terms of SIA and the terms of each member's respective coverage booklet, provided to employees.

NORTHWEST OPEN ACCESS NETWORK

NOTES TO FINANCIAL STATEMENTS

Note 10 – Self-Insurance (continued)

Health & welfare risk pool (continued) – The H&W Pool maintains reserves approximately equal to the sum of three times the amount of each member’s historical average monthly H&W claims. The H&W Pool’s ongoing operations are financed through monthly assessments of its participating members. Under such assessments, each member of the H&W Pool pays the Pool the cost the Pool incurred during the preceding month for H&W claims for member employee coverage as well as the member’s share, determined under the H&W Pool general assessment formula, of shared H&W costs.

Shared H&W costs include administrative expenses incurred by the Pool, premiums for stop-loss insurance, PPO charges, and shared H&W claims. H&W claims become a “shared” expense when and to the extent the cost of the claims exceeds the stop-loss point applicable to a particular member’s employee or when the cost of the claim makes the total amount a particular member has paid towards the claims of its employees exceed the stop-loss point applicable to that member.

All stop-loss points are determined for each member and its employees pursuant to the H&W Pool general assessment formula. During 2015 and 2014, PURMS maintained stop-loss insurance with a commercial carrier in the aggregate amount of \$250,000, respectively, per insured with an aggregate stop-loss of approximately \$17 million for the insured of all members.

Note 11 – Regional Service Provider Transport Services

Primary transport services – NoaNet serves as the primary transport provider for a major telecommunications company in the state of Washington under multiple contracts. Rates are based upon the level of traffic and terms of the various contracts. Revenue for the years ended December 31, 2015 and 2014, was \$3,295,811 and \$3,451,345, respectively.

Advanced transport services – NoaNet serves as the backbone transport provider for another major telecommunications company in the state of Washington to carry advanced services for a number of schools and public agencies to several sites in rural areas of the State. This program was implemented in 2004 and is extending and expanding beyond the original terms and duration of the agreement. Rates are based upon the level of traffic. Revenue for the years ended December 31, 2015 and 2014, was \$5,303,373 and \$5,606,759, respectively.

Warrenton-Westin project – In 2004, NoaNet contracted with a major telecommunications company in the state of Alaska to construct, maintain, and operate a network extending from Warrenton, Oregon, to the Westin Building in Seattle, Washington. The contract was renewed in 2015 for another five years. The equipment is owned by the telecommunications company and at the end of five years the equipment can be purchased by NoaNet for a nominal amount. Over the course of the contract, NoaNet maintains and operates the network. Revenue for the years ended December 31, 2015 and 2014, was \$1,506,887 and \$1,376,644, respectively.

NORTHWEST OPEN ACCESS NETWORK NOTES TO FINANCIAL STATEMENTS

Note 11 – Regional Service Provider Transport Services (continued)

CTC project – In 2006, NoaNet contracted with a major customer as a primary transport provider. The contract has a term of ten years. Revenue for the years ended December 31, 2015 and 2014, was \$1,641,368 and \$1,801,416, respectively.

High Capacity Network project – In 2006, NoaNet entered into a ten-year IRU agreement with a major customer to provide communication transport capacity. Amounts received under the IRU agreement are to be placed in a special fund (High Capacity Network Fund) and drawn in accordance with an established schedule and as otherwise permitted under the IRU agreement. The IRU agreement is being accounted for as an operating lease and is reflected in the accompanying statements of net position as a contract receivable and deferred revenue. Revenue is being recognized on a straight-line basis over the ten year term of the agreement beginning in 2007 (\$1.9 million annually).

Note 12 – Related Party Transactions

NoaNet provides communication transport and related services to its members. Accounts receivable from members at December 31, 2015 and 2014, were approximately \$91,000 and \$62,000, respectively, and revenue for the years ended December 31, 2015 and 2014, was approximately \$1,600,000 and \$1,300,000, respectively.

Note 13 – Subsequent Events

NoaNet has evaluated subsequent events through June 7, 2016, the date the financial statements were available to be issued.

NORTHWEST OPEN ACCESS NETWORK

NOTES TO FINANCIAL STATEMENTS

Note 14 - Operating Expenses

Operating expenses were as follows for the years ended December 31:

	<u>Years Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Fiber optic and related licenses and leases	\$ 17,361,904	\$ 15,204,396
Network support and operations center	6,869,143	5,587,895
Depreciation and amortization	7,841,329	7,846,463
Marketing and member services	1,644,404	2,018,083
General and administrative	3,535,187	2,521,084
Taxes and licenses	289,408	527,494
Administrative salaries	1,733,719	2,109,069
Professional fees	187,105	323,178
Bad debt expense	-	86,859
	<u>\$ 39,462,199</u>	<u>\$ 36,224,521</u>

REQUIRED SUPPLEMENTARY INFORMATION

NORTHWEST OPEN ACCESS NETWORK
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

	Last Ten Fiscal Years*	
	2015	2014
Total pension liability		
Service cost	\$ 1,100,957	\$ 934,011
Interest	445,626	386,108
Differences between expected and actual experience	63,774	961,628
Changes of assumptions	3,004,689	-
Benefits payments	(67,171)	(54,037)
Net change in total pension liability	4,547,875	2,227,710
Total pension liability - beginning	9,873,273	7,645,563
Total pension liability - ending (a)	14,421,148	9,873,273
Plan fiduciary net position		
Contributions - employer	956,200	929,875
Net investment income	28,475	67,503
Benefit payments	(67,171)	(54,037)
Net change in plan fiduciary net position	917,504	943,341
Plan fiduciary net position - beginning	3,872,107	2,928,766
Plan fiduciary net position - ending (b)	4,789,611	3,872,107
Net pension liability - ending (a) - (b)	\$ 9,631,537	\$ 6,001,166
Plan fiduciary net position as a percentage of the total pension liability	33.2%	39.2%
Covered-employee payroll	4,164,744	3,460,402
Net pension liability as a percentage of covered employee payroll	231.3%	173.4%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, NoaNet will present information for those years for which information is available.

**NORTHWEST OPEN ACCESS NETWORK
SCHEDULE OF CONTRIBUTIONS***

	Last Ten Fiscal Years*	
	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 950,843	\$ 924,749
Contributions in relation to the actuarially determined contribution	<u>956,200</u>	<u>929,875</u>
Contribution excess	<u>\$ (5,357)</u>	<u>\$ (5,126)</u>
Covered employee payroll	<u>\$ 4,164,744</u>	<u>\$ 3,460,402</u>
Contributions as a percentage of covered employee payroll	23.0%	26.9%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, NoaNet will present information for those years for which information is available.

Notes to Schedule

Valuation date	12/31/2015	12/31/2014
Methods and assumptions used to determine contribution rates		
Actuarial cost method	Entry age normal cost	
Amortization method	Shortfall amortization charge	
Remaining amortization period	7 years	
Asset valuation method	Market value	
Inflation	3.00%	
Salary increases	4.00%	
Investment rate of return	6.42%	
Retirement age	65	
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP2014 Male/Female Annuitant Mortality Tables Post-Retirement Only. In prior years, those assumptions were based on the RP2000 Combined Healthy Unisex Mortality Table Post-Retirement Only.	