

**UTAH TELECOMMUNICATION OPEN
INFRASTRUCTURE AGENCY**

FINANCIAL STATEMENTS

JUNE 30, 2011

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
TABLE OF CONTENTS**

Independent Auditor’s Report 1

Management Discussion and Analysis 2

Financial Statements:

Statement of Net Assets 6

Statement of Revenues, Expenses, and Changes in Fund Net Assets 8

Statement of Cash Flows 9

Notes to Financial Statements 11



Jensen & Keddington, P.C.

Certified Public Accountants

Jeffrey B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA
Gregory B. White, CPA**INDEPENDENT AUDITOR'S REPORT**Board of Directors
Utah Telecommunication Open Infrastructure Agency
West Valley City, Utah

We have audited the accompanying basic financial statements of Utah Telecommunication Open Infrastructure Agency (UTOPIA), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of UTOPIA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of UTOPIA, as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated December 29, 2011 on our consideration of UTOPIA's internal control over financial reporting and on our tests of compliance with certain provisions of laws and regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 2 through 5 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 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.

December 29, 2011

Telephone (801) 262-4554
Fax (801) 265-94055292 So. College Dr., Suite 101
Salt Lake City, Utah 84123

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

The following is a discussion and analysis of the Utah Telecommunication Open Infrastructure Agency (UTOPIA) financial activities for the fiscal year ending June 30, 2011.

Description of Business

UTOPIA is a consortium of sixteen Utah cities, created to provide construction and operations for a wholesale fiber optic telecommunications infrastructure. This effort on the part of the municipalities will promote economic development and improve the quality of life for their residents. UTOPIA provides an open access network, allowing private service providers to use the infrastructure to offer retail digital services to customers in UTOPIA member cities.

Eleven of the current UTOPIA member cities pledged sales tax revenues as partial loan guarantees in order to secure financing for the network. UTOPIA has been constructing a wholesale advanced communications network within its member cities. The network is being built with fiber-to-the-premises technology, which transmits information at the speed of light, significantly faster than existing copper, cable, wireless or satellite systems. Fiber is currently used for the backbone of the Internet and other high-demand applications, but has not been widely implemented over “the last mile” into homes and businesses. UTOPIA is laying the fiber-optic cable necessary to connect each member city and the homes and businesses within each city. UTOPIA’s fiber-optic cable is laid both underground and above ground, according to existing utilities infrastructure. Other elements of the network include conduits, innerducts, fiber strands, splices, switches, transmitters, terminals, internal power sources and all other items necessary to operate the network.

Highlights

As of the end of June, 2011, more than 1,700 miles of fiber cable (and associated duct) have been placed within the boundaries of the eleven members cities. Within the 73 production footprints there are a total of 62,000 addresses, of which 56,000 are able to receive services at the decision of the household or business (marketable). The remaining addresses are located in apartment buildings, condominium developments, or in areas isolated by right-of-way or pole access issues. Twelve service providers—1Wire, Brigham.net, Connected Lyfe, Fibernet, Infowest, Integra Telecom, PAETEC, Sumo Fiber, Telesphere, Veracity, Voonami, and XMission—were actively providing services and a total of 8,572 homes and businesses had subscribed to services by fiscal year end.

Since 2008, UTOPIA has been focusing on improving and growing network operations through a six-phase strategy:

- Refinance (June 2008)
- Create a baseline
- Operational Readiness
- Operation Prime
- Alternative Funding
- Full Deployment

The first three phases were completed rather quickly, and in October 2008, Operation Prime was launched in Tremonton. Over the past couple of years, Operation Prime was completed using new fiber awareness techniques to improve awareness of the open service provider model and the benefits of a truly fiber-optic network. In particular, the UTOPIA model provides consumers with the power of choice, a key differentiator emphasized in messaging to UTOPIA markets. UTOPIA’s fiber awareness efforts are highly targeted, ensuring the most effective tactics and messaging is used only in those areas that need it.

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Operation Prime continued forward with rollouts in portions of Layton and West Valley and culminated in a complete city build-out in Brigham City. Over 30% of the residents signed up for the power of choice provided on the UTOPIA network, through a shared-build-cost model – each resident pays a portion of the total infrastructure cost to bring the fiber technology to their community. UTOPIA is now engaged in the final two phases of the strategy.

In August of 2010, UTOPIA was awarded \$16 million in funding from the American Reinvestment and Recovery Act (ARRA). The grant was awarded to connect nearly 400 Community Anchor Institutions (CAI) consisting of schools, libraries, medical and healthcare providers, public safety entities, community college locations, government offices, and other important community institutions in sections of Perry, Payson, Midvale, Murray, Centerville, Layton, Orem, and West Valley City. The goal of the project is to provide new or significantly improved broadband services to these CAIs' and facilitate the interconnection of these entities into one community owned network. These connections will require nearly 250 miles of new fiber optic cable to be constructed, 16 miles of which have now been placed and are the result of a significant amount of coordination between various departments, 30 of the CAIs' have already been connected with another 35 in progress.

Centerville is especially excited about these connections, allowing them to communicate on one common network between their various facilities. For example, all of the wells, parks, irrigation controls, city offices, and traffic signals will be interconnected through the network. In addition to data communication, live video feeds will also be possible to help improve monitoring and public safety. Emergency responders will have high-speed broadband connections in close proximity throughout the city as well.

There are also great benefits to the community beyond the CAI connections. These backbone lines will kick start the last mile connections to thousands of businesses, multi-dwelling units, and residents. Some new businesses have already been connected using portions of the infrastructure funded by the grant.

The grant will produce new jobs, complete an additional 20% of the needed network infrastructure, and provide growth in eight of UTOPIA's 16 cities.

To help facilitate growth, several cities formed another inter-local entity, called the Utah Infrastructure Agency (UIA). UTOPIA has entered into an agreement to provide network services and access to UIA. Through this arrangement, UTOPIA will be able to generate additional revenue.

Overview of Financial Statements

The financial statements included in this report have been prepared in compliance with generally accepted accounting principles. The balance sheet provides information about the Agency's resources and obligations at year-end. The statement of revenues, expenses, and changes in net assets presents the results of business activities during the course of the year. The statement of cash flows presents changes in cash and cash equivalents, resulting from operational and investing activities. Notes to the financial statements provide required disclosures and other information that are essential to the full understanding of material data provided in the statements. The notes present information about the Agency's accounting policies, significant account balances, obligations, commitments, contingencies and subsequent events.

As expected, the financial statements reflect conditions typical of a capital-intensive start-up enterprise in the first years of its existence. Operating revenue increased 83% over the prior fiscal year but did not cover operating expenses. UTOPIA's fiber awareness efforts continuously add new subscribers to the network and increase the Agency's gross revenues.

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

Operating revenues for the fiscal year exceeded budget by \$92,000. Operating expenses (expenses excluding interest and depreciation) exceeded budget by \$1,796,000. This was mainly due to a service provider that filed for bankruptcy protection. Operating profit (EBITDA) was less than budgeted. Depreciation and amortization expense were below projected levels. Interest expense was about \$500,000 below budget. Net income was about \$1.4 million better than budget.

Table 1 - Summary of the Agency's Statement of Net Assets.

	2011	2010
Current and other assets	\$ 5,779,961	\$ 9,981,588
Capital assets	79,565,929	82,903,617
Total Assets	<u>85,345,890</u>	<u>92,885,205</u>
Deferred outflow of resources	52,415,487	65,062,156
Total Assets and Deferred Outflow of Resources	<u>\$ 137,761,377</u>	<u>\$ 157,947,361</u>
Current and other Liabilities	\$ 3,484,924	\$ 1,971,347
Long-term liabilities outstanding	254,395,015	257,334,927
Total Liabilities	<u>\$ 257,879,939</u>	<u>\$ 259,306,274</u>
Invested in net capital assets, Net of related debt	\$ (33,561,260)	\$ (28,255,400)
Unrestricted	<u>(86,557,302)</u>	<u>(73,103,513)</u>
Net Assets	<u>\$ (120,118,562)</u>	<u>\$ (101,358,913)</u>

Table 2 - Summary of the Agency's Statement of Revenues, Expenses and Changes in Fund Net Assets

	2011	2010
Revenues:		
Operating revenues	\$ 5,235,876	\$ 2,855,985
Interest income	21,066	69,400
Other revenues	938,613	191,644
Total Revenues	<u>6,195,555</u>	<u>3,117,029</u>
Expenditures:		
General and administrative	4,623,234	4,492,509
Network	1,487,114	1,465,729
Depreciation	5,305,860	6,419,454
Bond interest and fees	13,326,289	14,498,508
Other expenses	212,707	-
Total Expenditures	<u>24,955,204</u>	<u>26,876,200</u>
Change in net assets	(18,759,649)	(23,759,171)
Total net assets, beginning of year	<u>(101,358,913)</u>	<u>(77,599,742)</u>
Total net assets, end of year	<u>\$ (120,118,562)</u>	<u>\$ (101,358,913)</u>

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

Capital Assets and Debt Administration

UTOPIA’s investment in capital assets, net of depreciation, was \$79.6 million at year-end. Types of assets include outside plant (fiber and conduit), inside plant (electronics), customer premise equipment, construction in progress and other miscellaneous assets.

As of June 30, 2011, UTOPIA’s outstanding debt amounted to \$201.3 million. The majority of this debt (revenue bonds payable) is secured by the 11 pledging members’ sales tax pledges.

Table 3 - Summary of the Agency’s Capital Assets

	<u>2011</u>	<u>2010</u>
Construction in progress	\$ 8,104,141	\$ 6,926,003
Outside plant	61,366,803	64,171,388
Inside plant	1,470,374	2,429,865
Customer premise equipment	7,030,910	7,592,473
Intangible right	1,313,725	1,378,661
Office furniture and equipment	228,127	297,665
Vehicles	51,849	107,562
	<u>\$ 79,565,929</u>	<u>\$ 82,903,617</u>

Table 4 - Summary of the Agency’s Debt

	<u>2011</u>	<u>2010</u>
Revenue bonds payable	\$ 185,000,000	\$ 185,000,000
Capital leases	330,112	484,115
Notes payable	15,956,317	6,849,903
	<u>\$ 201,286,429</u>	<u>\$ 192,334,018</u>

Final Comment

UTOPIA member cities launched the wholesale network project to facilitate economic development and to improve the quality of life for their residents. The telecommunication industry could replace its current copper wire and coaxial cable networks with a virtually unlimited-capacity fiber optic infrastructure, but business imperatives keep them from doing so. UTOPIA believes that the long-term return on such an investment would not meet investors’ short-term profit demands. As a municipality, on the other hand, UTOPIA believes that the long-term needs of their constituents are their first priority. UTOPIA expects that it can build and maintain the infrastructure that private companies have, thus far, been unwilling to do. This will provide the “pipe” through which private companies can provide the latest, most competitive services to consumers.

Since construction of the network has begun, there is evidence that these objectives are being served. Business location and expansion decisions have been influenced for the benefit of UTOPIA cities by the imminent availability of world-class connectivity. Competition for customers has prompted heavy marketing from incumbent providers and reductions in overall subscription rates for consumers. Market acceptance of the services that are available over the network is very positive.

BASIC FINANCIAL STATEMENTS

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
STATEMENT OF NET ASSETS
June 30, 2011

Assets and Deferred Outflows

Current Assets:

Cash		\$ 161,526
Restricted investments		328,943
Trade receivables, net		967,545
Inventory		1,982,938
Prepaid expenses		130,527
Deferred charges		<u>76,005</u>

Total Current Assets 3,647,484

Noncurrent assets:

Capital Assets:

Construction in progress		8,104,141
Property and equipment, net:		
Fiber optic network	\$ 71,181,812	
Office furniture and equipment	228,127	
Vehicles	<u>51,849</u>	

Total Property and Equipment, net 71,461,788

Total Capital Assets 79,565,929

Other Assets:

Deposits		10,686
Deferred charges	<u>2,121,791</u>	

Total Other Assets 2,132,477

Total Assets 85,345,890

Deferred Outflows:

Deferred outflow of resources		<u>52,415,487</u>
-------------------------------	--	-------------------

Total Assets and Deferred Outflows \$ 137,761,377

The accompanying notes are an integral part of these financial statements.

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
STATEMENT OF NET ASSETS (Continued)
June 30, 2011

Liabilities

Current Liabilities:

Accounts payable	\$ 1,018,239
Accrued liabilities	293,446
Compensated absences	106,671
Interest payable	885,750
Capital leases payable	167,045
Note payable	8,773
Deferred revenue	1,005,000

Total Current Liabilities	3,484,924
----------------------------------	------------------

Noncurrent Liabilities:

Compensated absences	116,000
Capital leases payable	163,067
Note payable	15,947,544
Deferred revenue	752,917
Revenue bonds payable	185,000,000
Interest rate swaps liability	52,415,487

Total Liabilities	257,879,939
--------------------------	--------------------

Net Assets:

Invested in capital assets, net of related debt	(33,561,260)
Unrestricted deficit	(86,557,302)

Total Net Assets	(120,118,562)
-------------------------	----------------------

Total Liabilities and Net Assets	\$ 137,761,377
---	-----------------------

The accompanying notes are an integral part of these financial statements.

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For The Year Ended June 30, 2011

Operating Revenues	<u>\$ 5,235,876</u>
Operating Expenses:	
Payroll	2,500,985
Material and supplies	733,380
Professional services	1,388,869
Network	1,487,114
Depreciation	<u>5,305,860</u>
Total Operating Expenses	<u>11,416,208</u>
Operating Loss	<u>(6,180,332)</u>
Nonoperating Revenues (Expenses):	
Interest income	21,066
Miscellaneous income	784,113
Gain on disposal of assets	154,500
Bond interest and fees	(13,326,289)
Miscellaneous expense	<u>(212,707)</u>
Total Nonoperating Revenues (Expenses)	<u>(12,579,317)</u>
Change In Net Assets	(18,759,649)
Total Net Assets, Beginning of Year	<u>(101,358,913)</u>
Total Net Assets, End of Year	<u><u>\$ (120,118,562)</u></u>

The accompanying notes are an integral part of these financial statements.

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
STATEMENT OF CASH FLOWS
For The Year Ended June 30, 2011

Cash Flows From Operating Activities:	
Cash received from customers and users	\$ 7,057,634
Payments to suppliers	(1,930,504)
Payments to employees	<u>(2,287,255)</u>
Net cash provided by operating activities	<u>2,839,875</u>
Cash Flows From Capital and Related Financing Activities:	
Purchase of property and equipment	(1,087,155)
Proceeds from sale of property and equipment	144,772
Proceeds from federal grant	591,689
Proceeds from note payable	9,106,414
Bond interest and fees	(13,234,884)
Principal paid on capital leases payable	(154,003)
Restricted cash - net increase	<u>1,648,440</u>
Net cash used by capital and related financing activities	<u>(2,984,727)</u>
Cash Flows From Investing Activities:	
Interest income	<u>21,756</u>
Net cash provided by investing activities	<u>21,756</u>
Net Decrease in Cash and Cash Equivalents	(123,096)
Cash and Cash Equivalents, Beginning of Year	<u>284,622</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 161,526</u></u>

The accompanying notes are an integral part of these financial statements.

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
STATEMENT OF CASH FLOWS (Continued)
For The Year Ended June 30, 2011

Reconciliation of operating loss to net cash from operating activities:

Operating loss	\$ (6,180,332)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation expense	5,305,860
(Increase) decrease in current assets	
Accounts receivable	137,447
Inventory	(852,769)
Prepaid expense	2,177,146
Increase (decrease) in current liabilities	
Accounts payable	354,482
Accrued liabilities	213,730
Deferred Revenue	1,684,311
Net Cash Provided by Operating Activities	<u>\$ 2,839,875</u>

Supplemental Information

Noncash Investing, Capital, and Financing Activities:

Additions to capital assets includes inventory of \$823,290.

The accompanying notes are an integral part of these financial statements.

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES

Reporting Entity

Utah Telecommunication Open Infrastructure Agency (UTOPIA), a separate legal entity and political subdivision of the State of Utah, was formed on March 5, 2002, by an Interlocal Cooperative Agreement pursuant to the provisions of the Utah Interlocal Cooperation Act. UTOPIA's Interlocal Cooperative Agreement has a term of fifty years. During June 2004, the Board of Directors voted to amend the interlocal agreement with the member cities to allow pledging and non-pledging members. The pledging members were required to pledge sales tax revenue from their cities to partially guarantee payment of the bonds, and in return for the pledge, they would be the first to receive UTOPIA's services. The non-pledging cities did not pledge their sales tax revenue but their cities' network will be built when financing can be arranged that does not require a loan guarantee. There were 11 pledging members and 5 non-pledging members in UTOPIA at June 30, 2011. UTOPIA's purpose is to design, finance, build, operate, and maintain an open, wholesale, public telecommunication infrastructure that has the capacity to deliver high-speed connections to every home and business in the member communities.

Summary of Significant Accounting Policies

The accounting policies of UTOPIA conform to accounting principles generally accepted in the United States of America as applicable to government entities. UTOPIA applies all the pronouncements of the *Government Accounting Standards Board (GASB)*, and in accordance with GASB Statement No. 20, UTOPIA applies all *Financial Accounting Standards Board Statements and Interpretations* issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements. UTOPIA has the option to apply FASB pronouncements issued after that date and UTOPIA has chosen to do so.

The following is a summary of the more significant policies.

The Reporting Entity

In evaluating how to define UTOPIA for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the related GASB pronouncement. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability of fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether UTOPIA is able to exercise oversight responsibilities. UTOPIA does not have any component units, nor is it a component unit of any primary government.

Financial Statement Presentation and Basis of Accounting

UTOPIA prepares its financial statements on an enterprise fund basis, using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private businesses, where the intent is that all costs of providing certain goods and services to the general public be financed or recovered primarily through user charges, or where it has been deemed that periodic determination of net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Continued)

Restricted Assets

UTOPIA maintains investments held by Wells Fargo for safekeeping of funds relating to service reserves and costs of issuance. When both restricted and unrestricted assets are available, it is UTOPIA's policy to use restricted assets first, then unrestricted assets as they are needed.

Property and Equipment

Property and equipment are stated at cost, which includes capitalization of interest costs incurred during construction. Normal maintenance and repair expenses that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed asset. The net book value of property sold or otherwise disposed of is removed from the property and accumulated depreciation accounts and the resulting gain or loss is included as nonoperating revenues or expenses. Depreciation of property and equipment was computed using the straight-line method over the following estimated useful lives

Outside plant and certain customer premise equipment	25 years
Office furniture and equipment and vehicles	3-5 years
Intangible rights	25 years

Depreciation of inside plant and certain customer premise equipment was computed using an accelerated method over a 6 year life.

Retirement Plans

UTOPIA participates in three retirement plans. UTOPIA participates in a defined contribution plan, in the Utah Retirement System, and a union pension plan. Retirement plan costs are combined with employee benefits and are recorded on an accrual basis. It is UTOPIA's policy to fund the retirement plan costs as they are incurred.

Cash and Cash Equivalents

All non-restricted cash accounts are considered to be cash and cash equivalents for cash flow statement purposes.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is UTOPIA's best estimate of the amount of probable credit losses in the existing accounts receivable. UTOPIA has reserved \$1,265,873 of accounts receivable during the fiscal year. The revenue on these accounts has not been recognized and will be accounted for using the cost recovery method as described below.

Revenue Recognition

Revenue is generally recorded when the service has been provided, and profit is recognized at that time. In connection with certain sales, however, the related receivables are collected over extended periods of time and the collectability is uncertain. These sales are accounted for using the cost recovery method. Equal amounts of revenue and expense are recorded as these receivables are collected, and profit is only recognized after all costs have been recovered. Revenues are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are \$1,621,721.

Inventories

Inventories are stated at the lower of cost or market using the first-in first-out method.

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Continued)

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Hedging Activities

UTOPIA accounts for hedging activities in accordance with GASB statement No. 53 *Accounting for Financial Reporting for Derivative Instruments*. This standard requires that derivative instruments be reported at fair value, and that the changes in the fair value of instruments that are considered to be hedging derivative instruments and found to be effective, be reported as either deferred inflows or deferred outflows in the statement of net assets.

NOTE 2 CASH AND INVESTMENTS

UTOPIA's deposit and investment policy is to follow the Utah Money Management Act. However, UTOPIA does not have a separate deposit or investment policy that addresses specific types of deposit and investment risks to which UTOPIA is exposed.

Utah State law requires that UTOPIA's funds be deposited with a "qualified depository" as defined by the Utah Money Management Act. "Qualified depository" includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements as defined in Rule 11 of the Utah Money Management Act. Rule 11 establishes the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and defines capital requirements which an institution must maintain to be eligible to accept public funds.

The Utah Money Management Act also governs the scope of securities allowed as appropriate temporary investments for UTOPIA and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

As of June 30, 2011, UTOPIA had the following deposits and investments:

<u>Deposit and investment type</u>	<u>Fair Value</u>
Cash on deposit	\$ 161,526
Investments in money market funds	328,943
	<u>\$ 490,469</u>

Cash on Deposit:

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, UTOPIA's deposits may not be returned to it. As of June 30, 2011, \$221,083 of the \$721,083 balance of deposits was exposed to custodial credit risk because it was uninsured and uncollateralized. UTOPIA has no policy to manage this type of risk.

Investment in Utah Public Treasurer's Investment Funds (UPTIF):

Interest rate risk. The risk that changes in the interest rate will have an adverse effect on the fair value of an investment. UTOPIA's investment UPTIF is not subject to interest rate risk.

Credit risk. This is the risk that an issuer or other counter party to an investment will not fulfill its obligations. As of June 30, 2011 the UPTIF in which UTOPIA has investments were unrated.

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 CASH AND INVESTMENTS (Continued)

Concentration of credit risk. This is the risk of loss attributable to the magnitude of UTOPIA's investment in a single issuer. UTOPIA's investment in UPTIF is not subject to a concentration of credit risk.

Custodial credit risk – investments. This is the risk that, in the event of the failure of the counterparty to a transaction, UTOPIA will not be able to recover the value of its investments that are in the possession of an outside party. UTOPIA's investment in UPTIF has no custodial credit risk.

NOTE 3 RESTRICTED INVESTMENTS

Restricted investments consist of the following:

Debt service	\$ 328,943
Restricted investments - current	(328,943)
Noncurrent portion of restricted investments	\$ -

NOTE 4 PROPERTY AND EQUIPMENT

The following summarizes UTOPIA's property and equipment as of June 30, 2011:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	\$ 6,926,003	\$ 1,234,024.00	\$ (55,886)	\$ 8,104,141
Total capital assets, not being depreciated	6,926,003	1,234,024	(55,886)	8,104,141
Capital assets, being depreciated:				
Outside plant	75,156,866	199,455	-	75,356,321
Inside plant	13,734,962	246,467	(219,225)	13,762,204
Customer premise equipment	12,434,992	242,959	-	12,677,951
Intangible right	1,624,040	-	-	1,624,040
Office furniture and equipment	880,880	101,153	-	982,033
Vehicles	401,274	-	-	401,274
Total capital assets, being depreciated	104,233,014	790,034	(219,225)	104,803,823
Less accumulated depreciation:				
Outside plant	(10,985,478)	(3,004,040)	-	(13,989,518)
Inside plant	(11,305,097)	(1,205,958)	219,225	(12,291,830)
Customer premise equipment	(4,842,519)	(804,522)	-	(5,647,041)
Intangible right	(245,379)	(64,936)	-	(310,315)
Office furniture and equipment	(583,215)	(170,691)	-	(753,906)
Vehicles	(293,712)	(55,713)	-	(349,425)
Total accumulated depreciation	(28,255,400)	(5,305,860)	219,225	(33,342,035)
Total capital asset, net of accumulated depreciation	75,977,614	(4,515,826)	-	71,461,788
Property and Equipment, net	\$ 82,903,617	\$ (3,281,802)	\$ (55,886)	\$ 79,565,929

Depreciation and amortization expense of \$5,305,860 was charged to operating expense for the year ended June 30, 2011.

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 LONG-TERM DEBT

The following is a summary of the changes in long-term debt obligations for the year ended June 30, 2011.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds					
2008 revenue bonds	\$ 185,000,000	\$ -	\$ -	\$ 185,000,000	\$ -
Total Revenue Bonds	185,000,000	-	-	185,000,000	-
Capital leases					
Equipment	219,302	-	(105,402)	113,900	113,900
Payson	137,081	-	(25,309)	111,772	26,323
Developer	127,732	-	(23,292)	104,440	26,822
Notes payable					
Pledging Members	6,714,153	8,983,755	-	15,697,908	-
Non-pledging members	135,750	-	-	135,750	-
Layton RDA	-	122,659	-	122,659	8,773
Compensated absences	186,868	35,803	-	222,671	106,671
Total Long-Term Debt	\$ 192,520,886	\$ 9,142,217	\$ (154,003)	\$ 201,509,100	\$ 282,489

Revenue Bonds

Taxable Adjustable Rate Advanced Communications Special Revenue and Refunding Bonds, Series 2008, original issue of \$185,000,000, principal payments due in quarterly installments beginning December 2013, interest payments due monthly at LIBOR, which was 0.2% at June 30, 2011, with the final payment due June 2040. The bonds were issued to finance UTOPIA's infrastructure construction and retire the Series 2007, 2006, and 2004 Revenue Bonds.

	<u>\$ 185,000,000</u>
Total Revenue Bonds	185,000,000
Less current portion	<u>-</u>
Noncurrent portion	<u>\$ 185,000,000</u>

UTOPIA is required by the Letter of Credit and Reimbursement Agreement (the Agreement) relating to the above Revenue Bonds to maintain a Debt Service Coverage Ratio (the ratio of net income to the maximum total annual debt service) of at least 1 to 1, measured at the end of each fiscal year. This financial covenant was not maintained at June 30, 2011. However, subsequent to year end the debt was refinanced, therefore covenant resolved.

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 LONG-TERM DEBT (Continued)

At June 30, 2011, the aggregate debt service requirements of UTOPIA's debt and net receipts/payments on associated hedging derivative instruments are presented below. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for the term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on derivative instruments will vary. The hedging derivative, net column reflects only net receipts/payments on derivative instruments that qualify for hedge accounting.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Hedging Derivative, net</u>	<u>Total</u>
2012	\$ -	\$ 377,050	\$ 10,237,147	\$ 10,614,197
2013	-	377,050	10,237,147	10,614,197
2014	5,000.00	377,044	10,236,986	10,619,030
2015	210,000	376,851	10,231,752	10,818,603
2016	460,000	376,192	10,213,860	11,050,052
2017-2021	7,220,000	1,849,450	50,213,736	59,283,186
2022-2026	18,165,000	1,724,843	46,830,590	66,720,433
2027-2031	33,300,000	1,467,830	39,852,522	74,620,352
2032-2036	56,515,000	1,020,632	27,710,804	85,246,436
2037-2040	69,125,000	303,996	8,253,676	77,682,672
	<u>\$ 185,000,000</u>	<u>\$ 8,250,938</u>	<u>\$ 224,018,220</u>	<u>\$ 417,269,158</u>

Capital Leases

Capital leases consist of the following:

UTOPIA is obligated under a lease for the purchase of vehicles and equipment from a financing institution. Because the terms and options contained in the lease have effectively created a financing arrangement, UTOPIA is required to record this transaction as a capital lease. Lease payments are \$9,897 each including imputed interest at 7.78%. The capitalized cost of vehicles and equipment was \$661,783 with accumulated depreciation of \$623,400. \$ 113,900

UTOPIA is obligated to pay a developer for outside plant construction. Because the terms and options contained in the lease have effectively created a financing arrangement, UTOPIA is required to record this transaction as a capital lease. Lease payments are \$20 a month for each unit built in the subdivision. Interest is charged at 7.00% annual rate. The capitalized cost of outside plant construction was \$159,257 with accumulated depreciation of \$25,479. 104,440

UTOPIA is obligated under a lease for the use of a fiber optic network from Payson City. Because the terms and options contained in the lease have effectively created a financing arrangement, UTOPIA is required to record this transaction as a capital lease. Lease payments are \$30,792 each year including imputed interest at 4%. The capitalized cost of fiber optic network was \$259,739 with accumulated depreciation of \$57,997. 111,772

	330,112
Less current portion	<u>(167,045)</u>
Noncurrent portion	<u>\$ 163,067</u>

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 5 LONG-TERM DEBT (Continued)

Minimum lease payments for the years ending June 30 are as follows:

Capital Leases	
2012	\$ 182,669
2013	63,912
2014	63,912
2015	<u>47,672</u>
Total minimum lease payments	358,164
Less amount representing interest	<u>(28,052)</u>
Present value of net minimum lease payments	<u><u>\$ 330,112</u></u>

Note Payable

The note payable consists of the following:

Amounts owed to pledging members. These amounts reflect the use of pledging members contributions to trustee for payments as required by Taxable Adjustable Rate Advanced Communications Special Revenue and Refunding Bonds, Series 2008. Interest is accrued at the current PTIF rate which was 0.54% at June 30, 2011. These debts are subordinate to the Taxable Adjustable Rate Advanced Communications Special Revenue and Refunding Bonds, Series 2008 and therefore will not be required to be paid back until that obligation is fulfilled.	\$ 15,697,908
Amounts owed to non-pledging members. These amounts will be paid when UTOPIA begins to build the network in the respective member's city. Management does not anticipate making any payments in the next fiscal year.	135,750
Amount owing to Layton City Redevelopment Agency for the development of certain fiber optic infrastructure improvements. Principal and interest payments of \$10,000 due annually beginning January 1, 2012 until January 2025. Interest at 1.0%.	<u>122,659</u>
Total Note Payable	15,956,317
Less current portion	<u>(8,773)</u>
Noncurrent portion	<u><u>\$ 15,947,544</u></u>

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 5 LONG-TERM DEBT (Continued)

Future payments on the Layton City RDA notes payable for the years ending June 30 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 8,773	\$ 1,127	\$ 9,900
2013	8,861	1,139	10,000
2014	8,950	1,050	10,000
2015	9,039	961	10,000
2016	9,130	870	10,000
2017-2021	47,036	2,965	50,001
2022-2025	30,870	650	31,520
	<u>\$ 122,659</u>	<u>\$ 8,762</u>	<u>\$ 131,421</u>

NOTE 6 RETIREMENT PLANS

Plan Description

UTOPIA contributes to the Local Governmental Noncontributory Retirement System which is a cost sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). The Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the State and School Contributory Retirement System and State and School Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Funding Policy

Plan members are required to contribute a percent of their covered salary (all or part may be paid by the employer) to the respective systems to which they belong. UTOPIA is required to contribute 13.37% of the covered salary to the Noncontributory System. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

UTOPIA's contribution to the Noncontributory System for the years ending June 30, 2011, 2010, and 2009 were \$182,201, \$165,365, and \$147,985, respectively. The contributions were equal to the required contributions for each year.

UTOPIA is legally obligated to contribute to the retirement systems as long as they have employees meeting membership requirements.

UTOPIA contributes to a non-contributory defined contribution retirement benefit plan covering substantially all employees. Currently all of the assets and income of the 457 Plan are held in trust by the plan administrator for the exclusive benefit of the participants or their beneficiaries rather than as assets of UTOPIA. Employer contributions under this plan during the years ended June 30, 2011, 2010, and 2009, were \$25,945, \$22,420, and \$97,613, respectively.

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 6 RETIREMENT PLANS (Continued)

UTOPIA contributes to a union pension plan. Contributions are based upon hours worked by employees covered under an agreement and are funded on a current basis. Employer contributions to the plan during the year ended June 30, 2011, 2010, and 2009 was \$87,700, \$109,395, and \$163,324, respectively.

NOTE 7 OPERATING LEASE

UTOPIA has entered into various operating leases to secure network operations facilities, office space and equipment. The current year's expense related to operating leases was \$545,558. These leases range from 3 years to 20 years. Total remaining minimum lease payments at June 30, 2011 are as follows:

2012	\$	371,388
2013		340,194
2014		347,314
2015		162,202
2016		162,202
2017-2021		436,010
2022-2026		51,859
		51,859
	\$	1,871,169

NOTE 8 COMMITMENTS AND CONTRACTS

Letter of Credit

In conjunction with the 2008 Special Revenue and Refunding Bonds issued, UTOPIA was required to obtain a letter of credit. UTOPIA pays an annual fee for this letter of credit, which is 1.25% of the outstanding principal of the 2008 Special Revenue and Refunding Bonds. The unused letter of credit is \$186,773,973 at June 30, 2011.

Interlocal Cooperative Agreement

UTOPIA has entered into an Interlocal Cooperative Agreement with Utah Infrastructure Agency (UIA), wherein UIA will pay UTOPIA \$166,485 per month for construction management, project management, network engineering, marketing, legal and other professional services. UIA will also pay UTOPIA \$29,060 per month for finance, accounting and administration support services. The term of the agreement is for five years starting July 2010.

Lease of Indefeasible Right of Use

UTOPIA has entered into an Interlocal Cooperative Indefeasible Right of Use Agreement with UIA, wherein UTOPIA grants UIA an indefeasible right of use of the UTOPIA fiber optic network, specifically the UIA routes. This will be paid to UTOPIA quarterly for five years beginning June 2011. The first four payments are \$1,462,500, the next four payments are \$1,100,000, the next eight payments are \$800,000, the last four payments are \$750,000. UIA will have this indefeasible right of use until April 30, 2041. UTOPIA has agreed to ensure that UIA route is properly maintained and perform repairs as necessary.

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 9 PLEDGING MEMBERS LIABILITY

The 11 Pledging Members of UTOPIA have pledged sales and use tax revenues to partially guarantee payment of UTOPIA's Revenue bonds. In return for the pledge, these members will be among the first cities to receive UTOPIA's services. In June of 2008, UTOPIA issued an \$185,000,000 revenue bond. The first two years of bond payments were made from a debt service reserve fund, funded by the debt. From that point on, until the bonds are due in June 2040, net revenues from UTOPIA will reimburse the debt service reserve fund for payments on the bond debt. To the extent that there are insufficient net revenues to pay the debt service, 10 Pledging Members are required to reimburse the UTOPIA debt service reserve fund of any shortfall by their respective percentages of ownership up to a specific dollar amount and one Pledging Member is required to reimburse the UTOPIA debt service reserve fund a specific amount. The Pledging Member's percentage of the debt service reserve shortfall is listed below, with a corresponding annual maximum liability. Any amounts paid by Pledging Members to UTOPIA to reimburse the debt service reserve fund will be a loan to be repaid by UTOPIA.

At June 30, 2011, the Pledging Member's had on deposit with the UTOPIA 2008 Debt Service Reserve Account the amounts specified below. These funds will remain on deposit until the bonds are retired. The debt service fund is required to increase June 1st of each year by 1.8275% compounded annually until it reaches approximately \$20,300,000.

Pledging Member	Share of Total Pledge	Amount on Deposit	Maximum Pledge *
Brigham City	3.33%	\$ 110,759	\$ 413,341
Centerville City	3.31%	110,156	411,089
Layton City	16.61%	552,870	2,063,243
Lindon City	3.06%	101,767	379,783
Midvale City	6.03%	200,559	748,462
Murray City	12.23%	407,173	1,519,519
Orem City	21.70%	721,910	2,747,965
Payson City	2.58%	85,691	259,920
Perry City	0.82%	27,171	101,397
Tremonton City	2.51%	83,566	311,860
West Valley City	27.82%	925,423	3,453,567
	<u>100.00%</u>	<u>\$ 3,327,045</u>	<u>\$ 12,410,146</u>

* These amounts are the fiscal year 2011 maximum debt service that can be required of the Pledging Members.

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 10 DERIVATIVE ARRANGEMENTS

UTOPIA has two derivative contracts that attempt to fix the interest rate so that an interest rate payment is known.

The terms, fair values, and credit ratings of counterparties for the various swap agreements at June 30, 2011 are summarized in the following table:

Fixed Rate Paid by UTOPIA	Variable Rate ¹ Received by Counterparty	Outstanding Notional Amount	Fair Value	Changes in Fair Value		Swap Termination Date
				Classification	Amount	
5.787%	LIBOR-.046%	\$ 110,000,000	\$ (31,830,280)	Deferred Outflow	\$ 4,901,969	July 1, 2040
5.665%	LIBOR-.044%	75,000,000	(20,585,207)	Deferred Outflow	7,744,700	July 1, 2040

¹ One month U.S. Dollar London Interbank Offered Rate.

The notional amounts of the swaps match the principal amounts of the associated debt. The swap agreements contain scheduled reduction in notional amounts that follow scheduled amortization of the associated debt.

Fair Value

At June 30, 2011 the swaps had a combined negative fair value of \$52,415,487, because interest rates have declined since the swaps were executed. Because interest on the variable rate bonds adjusts to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was calculated under the terms of and conditions of the agreement. The swap provider is the calculation agent.

Credit Risk

Credit risk is the risk that the counterparty will not fulfill its obligations to UTOPIA. Should a swap be terminated when there is a positive value to UTOPIA, UTOPIA has the risk that the counterparty will not make the termination payment. Also, during the life of the swap, UTOPIA has the risk that the counterparty will not make the monthly swap payments and be exposed to variable interest rates. This risk has been mitigated by the highly rated counterparties in these transactions. At June 30, 2011, the counterparty with notional amount of \$110,000,000 was rated A2 by Moody's Investor Services, A+ by S&P, and A+ by Fitch. At June 30, 2011, the counterparty with notional amount of \$75,000,000 was rated A3 by Moody's Investor Services, A- by S&P, and A- by Fitch.

Termination Risk

UTOPIA or the counterparty may terminate the swap if either party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond will no longer carry a synthetic interest rate. Also, if at the time of the termination, the swap have a negative fair value, UTOPIA would be liable to the counterparty for an amount equal to the swap's fair value.

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 11 SUBSEQUENT EVENTS

On December 1, 2011, UTOPIA refinanced the Taxable Adjustable Rate Advanced Communications Special Revenue and Refunding Bonds, Series 2008, original issue of \$185,000,000 by issuing Tax-Exempt Adjustable Rate Telecommunications and Sales Tax Revenue Refunding Bonds, Series 2011A for \$110,000,000 and Taxable Adjustable Rate Telecommunications and Sales Tax Revenue Refunding Bonds, Series 2011B for \$75,000,000. Each of these bonds was purchased by two separate banks. The swap contracts were adjusted as necessary to effectively fix the interest rate paid by UTOPIA. The remarketing fee and line of credit fee were eliminated as part of this transaction. Based on refinance of debt, the pledging member's maximum pledges are below:

<u>Pledging Member</u>	<u>Share of Total Pledge</u>	<u>2012 Maximum Pledge *</u>	<u>2013 Maximum Pledge **</u>	<u>Yearly Increase</u>
Brigham City	3.35%	\$ 192,551	\$ 430,039	2%
Centerville City	3.33%	191,502	427,697	2%
Layton City	16.71%	961,142	2,146,598	2%
Lindon City	3.08%	176,918	395,126	2%
Midvale City	6.06%	348,664	778,700	2%
Murray City	12.30%	707,853	1,580,908	2%
Orem City	21.81%	1,255,013	2,802,924	2%
Payson City	2.05%	118,205	259,920	-
Perry City	0.82%	47,235	105,494	2%
Tremonton City	2.53%	145,278	324,459	2%
West Valley City	27.96%	1,608,812	3,593,091	2%
	<u>100.00%</u>	<u>\$ 5,753,173</u>	<u>\$ 12,844,956</u>	

* These amounts are the fiscal year 2012 maximum debt service that can be required of the Pledging Members for the months January through June 2012.

* These amounts are the fiscal year 2013 maximum debt service that can be required of the Pledging Members for the months July 2012 through June 2013.

**UTAH TELECOMMUNICATION OPEN
INFRASTRUCTURE AGENCY**

SUPPLEMENTARY REPORTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
SUPPLEMENTARY REPORTS
TABLE OF CONTENTS
For The Fiscal Year Ended June 30, 2011**

	<u>Page</u>
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	2
Schedule of Expenditures of Federal Awards.....	4
Notes to the Schedule of Expenditures of Federal Awards	5
Schedule of Findings and Questioned Costs	6
Independent Auditor’s Report on State of Utah Legal Compliance	7
Schedule of Finding & Recommendation.....	8
Response to Schedule of Finding & Recommendation	9



**INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Jensen & Keddington, P.C.

Certified Public Accountants

Jeffrey B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA
Gregory B. White, CPA

Board of Directors
Utah Telecommunication Open Infrastructure Agency
West Valley City, Utah

We have audited the financial statements of Utah Telecommunication Open Infrastructure Agency (UTOPIA), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered UTOPIA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of UTOPIA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of UTOPIA's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether UTOPIA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of finding and recommendation.

This report is intended for the information and use of the Board of Directors and management of UTOPIA and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Jensen & Keddington

December 29, 2011

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**



Jensen & Keddington, P.C.

Certified Public Accountants

Jeffrey B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA
Gregory B. White, CPA

Board of Directors
Utah Telecommunication Open Infrastructure Agency
West Valley City, Utah

Compliance

We have audited the compliance of Utah Telecommunications Open Infrastructure Agency (UTOPIA) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of UTOPIA's major federal program for the year ended June 30, 2011. UTOPIA's major federal program is identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of UTOPIA's management. Our responsibility is to express an opinion on the UTOPIA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about UTOPIA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of UTOPIA's compliance with those requirements.

In our opinion, UTOPIA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

Management of UTOPIA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered UTOPIA's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of UTOPIA's internal control over compliance.

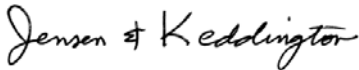
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of UTOPIA as of and for the year ended June 30, 2011, and have issued our report thereon dated December 29, 2011 which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements as a whole. The accompanying *Schedule of Expenditures of Federal Awards* is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



December 29, 2011

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Fiscal Year Ended June 30, 2011**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Disbursements Expenditures
<hr/>		
U.S. Department of Commerce		
Direct Programs:		
ARRA Broadband Technology Opportunities Program	11.557	\$ 591,689
Total Direct Programs		<hr/> 591,689
Total U.S. Department of Commerce		<hr/> 591,689
Total Federal Financial Assistance		<hr/> <hr/> \$ 591,689

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The following are the notes to the supplementary schedule of expenditures of federal awards:

NOTE A GENERAL

The accompanying *Schedule of Expenditures of Federal Awards* presents the activity of all federal awards programs of Utah Telecommunications Open Infrastructure Agency (UTOPIA). UTOPIA's reporting entity is defined in Note 1 to UTOPIA's financial statements. All federal awards received directly from federal agencies are included on the schedule. UTOPIA provided no federal awards to subrecipients.

NOTE B BASIS OF PRESENTATION AND ACCOUNTING

The accompanying *Schedule of Expenditures of Federal Awards* includes federal grant activity of UTOPIA presented using the accrual basis of accounting, the same basis as used by UTOPIA as described in Note 1 to UTOPIA's financial statements. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2011**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements.
2. No instances of noncompliance material to the financial statements, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
3. No significant deficiencies in internal control over the major federal award programs were reported in this schedule.
4. The auditor's report on compliance for the major federal award program for the Agency expressed an unqualified opinion on the major federal program.
5. There are no audit findings that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133.
6. The following programs were tested as major programs:
 - CFDA No. 11.577 ARRA Broadband Technology Opportunities Program
7. The threshold for distinguishing Types A and B programs was \$300,000.
8. UTOPIA did not qualify as a low-risk auditee.

FINANCIAL AUDIT AND GOVERNMENT AUDITING STANDARDS FINDINGS

None

MAJOR FEDERAL AWARD PROGRAMS AUDIT FINDINGS

None



**INDEPENDENT AUDITOR'S REPORT
ON STATE OF UTAH
LEGAL COMPLIANCE**

Jensen & Keddington, P.C.

Certified Public Accountants

Jeffrey B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA
Gregory B. White, CPA

Board of Directors
Utah Telecommunication Open Infrastructure Agency
West Valley City, Utah

We have audited the Utah Telecommunication Open Infrastructure Agency's (UTOPIA) compliance with general and major state program compliance requirements described in the *State of Utah Legal Compliance Audit Guide* for the year ended June 30, 2011. The general compliance requirements applicable to UTOPIA are as follows:

- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Other General Compliance Issues
- Utah Retirement System Compliance

UTOPIA did not receive any major or nonmajor State grants during the year ended June 30, 2011.

Compliance with the requirements referred to above is the responsibility of UTOPIA's management. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State of Utah Legal Compliance Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the requirements referred to above could have a material effect on the general compliance requirements identified above. An audit includes examining, on a test basis, evidence about UTOPIA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of UTOPIA's compliance with those requirements.

In our opinion, UTOPIA complied, in all material respects, with the general compliance requirements identified above for the year ended June 30, 2011. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with the State of Utah Legal Compliance Audit Guide and which are described in the accompanying *Schedule of Findings & Recommendations* as item 2011-1.

This report is intended for the information and use of the Board of Directors and management of UTOPIA and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.

Jensen & Keddington

December 29, 2011

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
SCHEDULE OF FINDING & RECOMMENDATION
For the Fiscal Year Ended June 30, 2011**

State of Utah Legal Compliance Finding:

2011-1 Net Assets Deficit

Finding

UTOPIA had deficit net assets in the amount of \$120,118,562. The Utah State Code 10-6-117 requires UTOPIA to maintain positive net assets. A similar finding was noted in the prior year's audit.

Recommendation

We recommend that UTOPIA work to reverse this net asset deficit and comply with Utah State Code 10-6-117 on positive net assets.



RESPONSE TO SCHEDULE OF FINDING & RECOMMENDATION For the Fiscal Year Ended June 30, 2011

Finding

UTOPIA had deficit net assets in the amount of \$120,118,562. The Utah State Code 10-6-117 requires UTOPIA to maintain positive net assets.

Recommendation

We recommend that UTOPIA work to reverse this net asset deficit and comply with Utah State Code 10-6-117 on positive net assets.

Response

UTOPIA does have a net asset deficit as stated above. The financial statements reflect conditions typical of a capital-intensive start-up enterprise in the first years of its existence. Operating revenues increased significantly over the prior fiscal year and steps are being taken to reverse the deficit. Some of those efforts are described below.

Since 2008, UTOPIA has been focusing on improving and growing network operations through a six-phase strategy:

- Refinance (June 2008)
- Create a baseline
- Operational Readiness
- Operation Prime
- Alternative Funding
- Full Deployment

The first three phases were completed rather quickly, and in October, 2008, Operation Prime was launched in Tremonton. Over the next couple of years, Operation Prime was completed using new fiber awareness techniques to improve awareness of the open service provider model and the benefits of a truly fiber-optic network. In particular, the UTOPIA model provides consumers with the power of choice, a key differentiator emphasized in messaging to UTOPIA markets. UTOPIA's fiber awareness efforts are highly targeted, ensuring the most effective tactics and messaging are used only in those areas that need it.

Operation Prime continued forward with rollouts in portions of Layton and West Valley and culminated in a complete city build-out in Brigham City. UTOPIA continues to be engaged in the final two phases of the strategy.

In August of 2010, UTOPIA was awarded \$16 million in funding from the American Reinvestment and Recovery Act (ARRA). The grant was awarded to connect nearly 400 Community Anchor Institutions (CAI) consisting of schools, libraries, medical and healthcare providers, public safety entities, community college locations, government offices, and other important community institutions in sections of Perry, Payson, Midvale, Murray, Centerville, Layton, Orem, and West Valley City. The goal of the project is to provide new or significantly improved broadband services to these CAIs' and facilitate the interconnection of these entities into one community owned network. This grant will also facilitate the continued build out in each of these communities, allowing the network to reach thousands of additional addresses, drastically increasing UTOPIA's revenue potential.

In addition, UTOPIA continues to add quality service providers to the network, which will also help reverse the deficit.