UTAH INFRASTRUCTURE AGENCY

FINANCIAL STATEMENTS

JUNE 30, 2011

UTAH INFRASTRUCTURE AGENCY
TABLE OF CONTENTS

Jensen & Keddington, P.C.
Certified Public Accountants
Jeffery B. Jensen, CPA
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Jeffrey B. Hill, CPA
Gregory B. White, CPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Utah Infrastructure Agency
West Valley City, Utah

We have audited the accompanying basic financial statements of Utah Infrastructure Agency (UIA), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of UIA'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 UIA, 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 UIA'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 the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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.

Jensen & Keddington

December 29, 2011

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UTAH INFRASTRUCTURE AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

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

Description of Business

The Utah Infrastructure Agency (UIA) is a political subdivision of the State of Utah and was created in June 2010. Nine cities created the agency (Brigham City, Centerville City, Layton City, Lindon City, Midvale City, Murray City, Orem City, Payson City and West Valley City).

The UIA network is a fiber optic network providing high-speed broadband voice, video and data access. This network includes fiber optic lines, transmitters, power sources and backups, switches and access portals. The network operates as a wholesale network, under an open access model, which is available to all qualified service providers.

Eight of the member cities (all except Payson City) pledged franchise tax revenues as partial loan guarantees in order to secure financing for the network. These cities approved up to $65 million in bonds for the construction of the UIA network.

Highlights

The UIA network is connected to the UTOPIA fiber optic network pursuant to an Indefeasible Right of Use Agreement (IRU) between UIA and UTOPIA, which grants UIA access to certain facilities of and capacity in the UTOPIA network. The UTOPIA network will provide telecommunications services, support and management services as well as crucial infrastructure for the UIA network.

In May 2011, UIA secured the initial bonding in the amount of $29,500,000. Construction commenced upon completion of the financing. As of June 30, 2011, UIA was ready to begin new customer installations, and had secured approximately 400 "pre-commits." As of the middle of December 2011, over 1,300 customers have signed up for new customer installations.

Future growth of the network will follow a similar pattern to that of Brigham City; deployment will be largely demand-based, bringing the network first to those areas that will make the best utilization. Additionally, funding for future growth will be released incrementally, to ensure the most fiscally responsible use of money, reducing interest payments required over time and financial risk.

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 UIA's accounting policies, significant account balances, obligations, commitments, contingencies and subsequent events.

As mentioned, the bonds closed in May, 2011. Because of that timing, construction activities were just beginning at year end. UIA's budget assumed it would be at break even for the fiscal year. Due to the timing of the financing, UIA incurred some start-up costs that were not offset by system revenues, resulting in a net loss before interest of $684,949. Interest expense amounted to $231,287.

UTAH INFRASTRUCTURE AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

		2011
Current and other assets	$	26,758,310
Capital assets		18,958,033
Total Assets	$	45,716,343
Current and other liabilities	$	5,328,623
Long-term liabilities outstanding		41,303,956
Total Liabilities	$	46,632,579
Invested in net capital assets, Net of related debt	$	(6,083)
Unrestricted		(910,153)
Net Assets	$	(916,236)

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

		2011
Revenues:		
Operating revenues	$	368,452
Interest income		2,831
Total Revenues		371,283
Expenditures:		
General and administrative		1,050,149
Depreciation		6,083
Bond interest and fees		231,287
Total Expenditures		1,287,519
Change in net assets		(916,236)
Total net assets, beginning of year		-
Total net assets, end of year	$	(916,236)

Capital Assets and Debt Administration

UIA's investment in capital assets, net of depreciation, was $18.96 million. Types of assets include outside plant (design and engineering, fiber and conduit, etc.), and a capitalized lease (IRU).

As of June 30, 2011, UIA's outstanding debt amounted to $46 million. This is comprised of the revenue bonds and the capitalized IRU note payable.

Table 3 - Summary of UIA's Capital Assets at June 30, 2011:

Construction in progress	$	93,475
Outside plant		1,424,301
Customer premise equipment		30,414
Intangible right		17,409,843
	$	18,958,033

Table 4 - Summary of UIA's Debt at June 30, 2011:

Revenue bonds payable	$	29,817,693
Capital leases		16,186,728
	$	46,004,421

Final Comment

UIA member cities launched the wholesale network project to continue the fiber optic project initiated by UTOPIA. The desire is 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 to date has not done so. UIA's first priority is the long-term needs of their constituents. UIA expects that it can build and maintain the infrastructure that private companies have, thus far, been unwilling to do. This infrastructure, coupled with the UTOPIA network will provide the "pipe" through which private companies can provide the latest, most competitive services to consumers.

Comparative analysis will be provided in future years when prior year information is available.

BASIC FINANCIAL STATEMENTS

UTAH INFRASTRUCTURE AGENCY
STATEMENT OF NET ASSETS
June 30, 2011

Assets	
Current Assets:	
Cash	$ 63,836
Restricted investments	25,058,051
Trade receivables, net	56,009
Inventory	75,842
Prepaid expenses	159,590
Total Current Assets	25,413,328
Noncurrent assets:	
Capital Assets:	
Construction in progress	93,475
Property and equipment, net:	
Fiber optic network	18,864,558
Total Capital Assets	18,958,033
Other Assets:	
Deferred charges	1,344,982
Total Other Assets	1,344,982
Total Assets	$ 45,716,343
Liabilities	
Current Liabilities:	
Liabilities payable from restricted assets	$ 437,681
Accrued liabilities	14,797
Deferred revenue	27,750
Interest payable	147,930
Capital leases payable	4,700,465
Total Current Liabilities	5,328,623
Noncurrent Liabilities:	
Capital leases payable	11,486,263
Revenue bonds payable	29,817,693
Total Liabilities	46,632,579
Net Assets:	
Invested in capital assets, net of related debt	(6,083)
Unrestricted deficit	(910,153)
Total Net Assets	(916,236)
Total Liabilities and Net Assets	$ 45,716,343

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

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

Operating Revenues	$ 368,452
Operating Expenses:	
Professional services	1,050,149
Depreciation	6,083
Total Operating Expenses	1,056,232
Operating Loss	(687,780)
Nonoperating Revenues (Expenses):	
Interest income	2,831
Bond interest and fees	(231,287)
Total Nonoperating Revenues (Expenses)	(228,456)
Change In Net Assets	(916,236)
Total Net Assets, Beginning of Year	-
Total Net Assets, End of Year	$ (916,236)

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

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

Cash Flows From Operating Activities:		
Cash received from customers and users	$	340,193
Payments to suppliers		(889,837)
Net cash used by operating activities		(549,644)
Cash Flows From Capital and Related Financing Activities:		
Purchase of capital assets		(1,497,539)
Proceeds from issuance of bonds		28,468,213
Bond interest and fees		(78,859)
Principal paid on capital leases payable		(1,223,115)
Restricted cash - net increase		(25,058,051)
Net cash provided from capital and related financing activities		610,649
Cash Flows From Investing Activity:		
Interest income		2,831
Net cash provided by investing activity		2,831
Net Increase in Cash and Cash Equivalents		63,836
Cash and Cash Equivalents, Beginning of Year		-
Cash and Cash Equivalents, End of Year	$	63,836

Reconciliation of operating loss to net cash from operating activities:		
Operating loss	$	(687,780)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense		6,083
(Increase) decrease in current assets		
Accounts receivable		(56,009)
Inventory		(132,576)
Prepaid expense		(159,590)
Increase (decrease) in current liabilities		
Accounts payable		437,681
Accrued liabilities		14,797
Deferred Revenue		27,750
Net Cash Used by Operating Activities	$	(549,644)

Supplemental Information

Noncash Investing, Capital, and Financing Activities:

Additions to capital assets includes financing lease of $17,409,843.
Additions to capital assets includes inventory of $56,734.

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

UTAH INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES

Reporting Entity

Utah Infrastructure Agency (UIA), a separate legal entity and political subdivision of the State of Utah, was formed on July 29, 2010, by an Interlocal Cooperative Agreement pursuant to the provisions of the Utah Interlocal Cooperation Act. UIA's Interlocal Cooperative Agreement has a term of five years, and is renewable every year thereafter. UIA consisted of 9 member cities at June 30, 2011. UIA'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 UIA conform to accounting principles generally accepted in the United States of America as applicable to government entities. UIA applies all the pronouncements of the *Government Accounting Standards Board* (GASB), and in accordance with GASB Statement No. 20, UIA 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. UIA has the option to apply FASB pronouncements issued after that date and UIA has chosen to do so.

The following is a summary of the more significant policies.

The Reporting Entity

In evaluating how to define UIA 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 UIA is able to exercise oversight responsibilities. UIA does not have any component units, nor is it a component unit of any primary government.

Financial Statement Presentation and Basis of Accounting

UIA 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.

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Continued)

Restricted Assets

UIA maintains investments held by Zion's Bank for safekeeping of funds relating to service reserves and costs of issuance. When both restricted and unrestricted assets are available, it is UIA'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

Cash and Cash Equivalents

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

Inventories

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

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.

Revenue Recognition

Revenue is generally recorded when the service has been provided, and profit is recognized at that time. The majority of UIA's revenues in the current period came from the member cities in the form of membership dues and assessments.

NOTE 2 CASH AND INVESTMENTS

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

Utah State law requires that UIA'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 UIA and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

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

Deposit and investment type	Fair Value
Cash on deposit	$ 63,836
Investments in money market funds	25,058,051
	$ 25,121,887

Cash on Deposit:
Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, UIA's deposits may not be returned to it. As of June 30, 2011, $0 of the $63,836 balance of deposits was exposed to custodial credit risk because it was uninsured and uncollateralized. UIA 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 affect on the fair value of an investment. UIA's investment UPTIF are 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 UIA has investments were unrated.

Concentration of credit risk. This is the risk of loss attributable to the magnitude of UIA's investment in a single issuer. UIA'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, UIA will not be able to recover the value of its investments that are in the possession of an outside party**.** UIA's investment in UPTIF has no custodial credit risk.

UTAH INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 RESTRICTED INVESTMENTS

Restricted investments consist of the following:

Construction costs	$ 23,751,106
Debt service	1,306,945
	25,058,051
Restricted investments - current	(25,058,051)
Noncurrent portion of restricted investments	$ -

NOTE 4 PROPERTY AND EQUIPMENT

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

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	$ -	$ 93,475	$ -	$ 93,475
Total capital assets, not being depreciated	-	93,475	-	93,475
Capital assets, being depreciated:				
Outside plant	-	1,430,384	-	1,430,384
Customer premise equipment	-	30,414	-	30,414
Intangible right	-	17,409,843	-	17,409,843
Total capital assets, being depreciated	-	18,870,641	-	18,870,641
Less accumulated depreciation:				
Outside plant	-	(6,083)	-	(6,083)
Total accumulated depreciation	-	(6,083)	-	(6,083)
Total capital asset, net of accumulated depreciation	-	18,864,558	-	18,864,558
Property and Equipment, net	$ -	$ 18,958,033	$ -	$ 18,958,033

Depreciation expense of $6,083 was charged to operating expense for the year ended June 30, 2011.

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					
Series 2011A	$ -	$ 21,095,000	$ -	$ 21,095,000	$ -
Series 2011B	-	8,405,000	-	8,405,000	-
Original Issue Premium	-	318,756	(1,063)	317,693	-
Total Revenue Bonds	-	29,818,756	(1,063)	29,817,693	-
Capital leases					
UTOPIA IRU	-	17,409,843	(1,223,115)	16,186,728	4,700,465
Total Long-Term Debt	$ -	$ 47,228,599	$ (1,224,178)	$ 46,004,421	$ 4,700,465

Revenue Bonds

Tax-exempt Telecommunications and Franchise Revenue Bonds, Series 2011A, original issue of $21,095,000, principal payments due in annual installments beginning October 2022, interest payments due semi-annually at 5.0% to 5.4%, with the final payment due October 2036. The bonds were issued to finance UIA's infrastructure construction and acquisition of the UTOPIA IRU.	$ 21,095,000
Taxable Telecommunications and Franchise Revenue Bonds, Series 2011B original issue of $8,405,000, principal payments due in annual installments beginning October 2012, interest payments due semi-annually at 3.2% to 5.45%, with the final payment due October 2022 The bonds were issued to finance UIA's infrastructure construction and acquisition of the UTOPIA IRU.	8,405,000
Total Revenue Bonds	29,500,000
Less current portion	-
Noncurrent portion	$ 29,500,000

NOTE 5 LONG-TERM DEBT (Continued)

The following summarizes UIA's revenue bonds debt service requirements as of June 30, 2011:

Year	Principal	Interest	Total
2012	$ -	$ 1,306,811	$ 1,306,811
2013	665,000	1,459,522	2,124,522
2014	685,000	1,437,922	2,122,922
2015	710,000	1,415,602	2,125,602
2016	730,000	1,392,562	2,122,562
2017-2021	4,080,000	6,502,435	10,582,435
2022-2026	5,190,000	5,355,369	10,545,369
2027-2031	6,670,000	3,823,025	10,493,025
2032-2036	8,745,000	1,760,911	10,505,911
2037	2,025,000	54,675	2,079,675
	$ 29,500,000	$ 24,508,834	$ 54,008,834

Capital Leases

Capital leases consist of the following:

UIA is obligated under a lease for the use of a fiber optic network from Utah Telecommunications Open Infrastructure Agency. Because the terms and options contained in the lease have effectively created a financing arrangement, UIA is required to record this transaction as a capital lease. Lease payments are paid quarterly beginning June 2011 including imputed interest at 5.5%. The payments are $1,462,500 for four quarters, $1,100,000 for four quarters, $800,000 for eight quarters, and $750,000 for four quarters. The capitalized cost of leasing the indefeasible right of use of a portion of UTOPIA's network was $17,409,843.	$ 16,186,728
	16,186,728
Less current portion	(4,700,465)
Noncurrent portion	$ 11,486,263

NOTE 5 LONG-TERM DEBT (Continued)

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

UTOPIA IRU		
2012	$	5,487,500
2013		4,100,000
2014		3,200,000
2015		3,150,000
2016		2,250,000
Total minimum lease payments		18,187,500
Less amount representing interest		(2,000,772)
Present value of net minimum lease payments	$	16,186,728

NOTE 6 INTERLOCAL COOPERATIVE AGREEMENT

UIA has entered into an interlocal cooperative agreement with Utah Telecommunication Open Infrastructure Agency (UTOPIA), 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.

NOTE 7 PLEDGING MEMBERS LIABILITY

The 8 Pledging Members of UIA have pledged franchise tax revenues to ensure that UIA fulfills its revenue requirement from the bond agreements. UIA is required to have revenue equal to the operations and maintenance expenses and the capital costs in a fiscal year. Operation and maintenance expense are defined as “all expenses reasonably incurred by UIA in connection with the operation and maintenance of the improvements, whether incurred by UIA or paid to any other entity pursuant to contract or otherwise, necessary to keep the improvements in efficient operating condition, including cost of audits required, payment of promotional and marketing expenses and real estate brokerage fees, payment of premiums for insurance, and, generally all expenses, exclusive of depreciation (including depreciation related expenses of any joint venture) which under generally accepted accounting practices are properly allocable to operation and maintenance; however, only such expenses as are reasonably and properly necessary to the efficient operation and maintenance of the improvements shall be included.” Capital costs are defined as “all capital costs related to the improvements incurred by UIA in any particular Fiscal Year or period to which said term is applicable or charges made therefor during such Fiscal Year or period, including amounts set aside in reserves for the payment of Capital Costs. Capital Costs include, without duplication, (a) the payment of any obligations incurred by UIA to finance or refinance the costs of the improvements, (b) amounts required to be deposited from time to time into required reserves, and (c) all other capital costs (determined in accordance with generally accepted accounting principles) of the Improvements.”

UTAH INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 PLEDGING MEMBERS LIABILITY (Continued)

In the event there is a shortfall, the pledging cities agree to lend its franchise tax revenues in the maximum annual principal allocated to each city as set forth below:

Pledging Member	Share of Total Pledge	Maximum Pledge *
Brigham City	0.62%	$ 31,831
Centerville City	3.63%	186,737
Layton City	18.20%	937,272
Lindon City	3.35%	172,516
Midvale City	6.60%	339,988
Murray City	13.40%	690,241
Orem City	23.76%	1,223,786
West Valley City	30.44%	1,568,781
	100.00%	$ 5,151,152

* These amounts are the estimated maximum annual amount of franchise tax revenue payable by each city.

UTAH INFRASTRUCTURE AGENCY

SUPPLEMENTARY REPORTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

Jensen & Keddington, P.C.
Certified Public Accountants

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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*

Board of Directors
Utah Infrastructure Agency
West Valley City, Utah

We have audited the financial statements of Utah Infrastructure Agency (UIA), 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 UIA'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 UIA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of UIA'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 UIA'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 UIA 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

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Certified Public Accountants

Jeffrey B. Jensen, CPA
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**INDEPENDENT AUDITOR'S REPORT
ON STATE OF UTAH
LEGAL COMPLIANCE AUDIT GUIDE**

Board of Directors
Utah Infrastructure Agency
West Valley City, Utah

We have audited the Utah Infrastructure Agency's (UIA) 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 UIA are as follows:

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

UIA 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 UIA'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 major assistance programs or general compliance requirements identified above. An audit includes examining, on a test basis, evidence about UIA'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 UIA's compliance with those requirements.

In our opinion, UIA 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 UIA 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

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UTAH 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

UIA had deficit net assets in the amount of $916,236. The Utah State Code 10-6-117 requires UIA to maintain positive net assets.

Recommendation

We recommend that UIA 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

State of Utah Legal Compliance Finding:

Finding

UIA had deficit net assets in the amount of $916,236. The Utah State Code 10-6-117 requires UIA to maintain positive net assets.

Recommendation

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

Response

UIA 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. In May 2011, UIA secured the initial bonding in the amount of $29,500,000. Construction commenced upon completion of the financing. As of June 30, 2011, UIA was ready to begin new customer installations, and had secured approximately 400 "pre-commits." Since that time, hundreds of customers have committed to join the network, many of which have now been installed and connected. As these and additional customers commit to and are connected to the network, the deficit in net assets will be reversed.