

**UTAH TELECOMMUNICATION OPEN
INFRASTRUCTURE AGENCY**

FINANCIAL STATEMENTS

JUNE 30, 2013

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Utah Telecommunication Open Infrastructure Agency, Utah (UTOPIA), as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Utah Telecommunication Open Infrastructure Agency, Utah, as of June 30, 2013, and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2013 on our consideration of UTOPIA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UTOPIA's internal control over financial reporting and compliance.

Keddington & Christensen

November 27, 2013

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, 2013.

Description of Business

UTOPIA is a consortium of 15 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, inner ducts, 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, 2013, more than 2,100 miles of fiber cable have been placed within the boundaries of the eleven members cities. Within the 84 production footprints there are approximately 65,000 addresses, of which approximately 43,700 are able to receive services. The remaining addresses are located in apartment buildings, condominium developments, or in areas isolated by right-of-way or pole access issues. Nineteen service providers—Beehive Communications, Brigham.net, Centracom, Fibernet, First Digital, Infowest, Integra Telecom, OneWire, SenaWave, SkyWire, SumoFiber, Syringa, Telesphere, Veracity, Voonami, WebWave, Windstream, XMission, and YipTel—were actively providing services and a total of 11,120 homes and businesses had subscribed to services at fiscal yearend on the UTOPIA/UIA network.

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.

This “stimulus” project has made the following possible:

- Fiber optic backbone cables have been placed throughout UTOPIA member cities.
- Fifty-nine communication huts (Points of Interconnection) have been placed to better serve the residents throughout the UTOPIA/UIA network.
- Perry city offices now have a fiber connection supporting their office along with one of the schools in the city.
- More than 122 Community Anchor Institutions have been connected reducing the cost of their broadband data costs. More important; of those 122 community anchor institutions 40 of them are receiving new broadband service, only possible because of the network.
- There has been an additional 123 community anchor institutions end points such as water wells, sewer lift stations and traffic lights that are now connected.

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

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 has been and will continue to 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 position 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.

Operating revenues for the fiscal year were about \$298,000 below budgeted levels. Operating expenses (expenses excluding interest and depreciation) were below budget by \$594,000. Operating profit (EBITDA) was higher than projected. Depreciation and amortization expense were below projected levels, as was interest expense. Net income was also better than budget.

Table 1 - Summary of the Agency's Statement of Net Position:

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 6,827,341	\$ 5,731,003
Capital assets	<u>83,608,698</u>	<u>81,091,747</u>
Total Assets	<u>90,436,039</u>	<u>86,822,750</u>
Deferred outflow of resources	<u>74,446,652</u>	<u>109,976,054</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 164,882,691</u>	<u>\$ 196,798,804</u>
Current and other Liabilities	\$ 2,694,697	\$ 3,099,029
Long-term liabilities outstanding	<u>308,091,217</u>	<u>326,351,683</u>
Total Liabilities	<u>310,785,914</u>	<u>329,450,712</u>
Net investment in capital assets	(42,922,882)	(38,094,141)
Restricted	105,358	-
Unrestricted	<u>(103,085,699)</u>	<u>(94,557,767)</u>
Net Position	<u>(145,903,223)</u>	<u>(132,651,908)</u>
Total Liabilities & Net Position	<u>\$ 164,882,691</u>	<u>\$ 196,798,804</u>

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

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

	<u>2013</u>	<u>2012</u>
Revenues:		
Operating revenues	\$ 5,581,355	\$ 5,192,863
Interest income	8,487	6,553
Other revenues	7,109,047	6,544,643
	<u>12,698,889</u>	<u>11,744,059</u>
Expenditures:		
General and administrative	6,253,959	5,730,661
Network	1,737,776	1,935,636
Depreciation	4,828,741	4,752,106
Bond interest and fees	13,129,728	11,859,002
	<u>25,950,204</u>	<u>24,277,405</u>
Change in net position	(13,251,315)	(12,533,346)
Total net position, beginning of year	<u>(132,651,908)</u>	<u>(120,118,562)</u>
Total net position, end of year	<u>\$ (145,903,223)</u>	<u>\$ (132,651,908)</u>

Capital Assets and Debt Administration

UTOPIA's capital assets, net of depreciation, were \$83.6 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, 2013, UTOPIA's outstanding debt amounted to \$227.9 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>2013</u>	<u>2012</u>
Construction in progress	\$ 6,018,236	\$ 9,448,551
Outside plant	68,710,072	61,988,228
Inside plant	913,558	1,259,475
Customer premise equipment	6,555,304	6,797,856
Intangible right	1,183,675	1,248,611
Office furniture and equipment	188,850	278,178
Vehicles	39,003	70,848
	<u>\$ 83,608,698</u>	<u>\$ 81,091,747</u>

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

Table 4 - Summary of the Agency's Debt

	2013	2012
Revenue bonds payable	\$ 184,996,270	\$ 185,000,000
Capital leases	58,076	85,450
Notes payable	42,828,783	29,739,831
	<u>\$ 227,883,129</u>	<u>\$ 214,825,281</u>

Final Comment

UTOPIA began as a visionary effort by 15 Utah cities to provide their citizens a state-of-the-art broadband network. The cities are continuously striving to make the original vision a reality. The project is facilitating economic development and improving the quality of life of residents throughout UTOPIA member cities.

Launched in 2004, UTOPIA has been a pioneer of municipal broadband efforts in the United States. From its inception this project has faced fierce opposition from the incumbent telecoms but the cities followed the leadership of Franklin D. Roosevelt's:

"I therefore lay down the following principle: That where a community a city or county or a district is not satisfied with the service rendered or the rates charged by the private utility, it has the undeniable basic right, as one of its functions of Government, one of its functions of home rule, to set up, after a fair referendum to its voters has been had, its own governmentally owned and operated service. That right has been recognized in a good many of the States of the Union. Its general recognition by every State will hasten the day of better service and lower rates. It is perfectly clear to me, and to every thinking citizen, that no community which is sure that it is now being served well, and at reasonable rates by a private utility company, will seek to build or operate its own plant. But on the other hand the very fact that a community can, by vote of the electorate, create a yardstick of its own, will, in most cases, guarantee good service and low rates to its population."

FDR's principles are starting to resonate in the U.S. and as of 2013; there are 89 communities with a publicly owned fiber-to-the-home networks.

There is a tremendous need for faster broadband speeds because of the explosion of connected devices, streaming HD video, cloud computing in both the business and residential sector. UTOPIA's network is ready for these demands by being one of the first gigabit capable networks. This means that UTOPIA can provide speeds that are 100x faster than the U.S. average of 8.7 Mbps. These efforts by UTOPIA and others have helped Utah claim the title of the "Fastest in the West" and the 5th fastest state in the country for broadband speeds. This also has helped Utah to be named the "Best State for Business" by Forbes magazine for the third straight year because of its availability to low cost connectivity.

From its inception, there has been political fodder about UTOPIA, but throughout it all, the cities vision remains steadfast: to provide connectivity for their residents and businesses.

BASIC FINANCIAL STATEMENTS

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
STATEMENT OF NET POSITION
June 30, 2013

Assets and Deferred Outflows

Current Assets:

Cash		\$ 258,282
Restricted cash equivalents		1,196,746
Trade receivables, net		817,921
Inventory		1,458,151
Prepaid expenses		<u>123,657</u>

Total Current Assets 3,854,757

Noncurrent assets:

Capital Assets:

Construction in progress		6,018,236
Property and equipment, net:		
Fiber optic network	\$ 77,362,609	
Office furniture and equipment	188,850	
Vehicles	<u>39,003</u>	

Total Property and Equipment, net 77,590,462

Total Capital Assets 83,608,698

Other Assets:

Deposits		10,686
Deferred charge on refunding		2,046,177
Deferred charge of costs of issuance on bonds		<u>915,721</u>

Total Other Assets 2,972,584

Total Assets 90,436,039

Deferred Outflows:

Deferred interest rate swaps		<u>74,446,652</u>
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Total Deferred Outflows 74,446,652

Total Assets and Deferred Outflows \$ 164,882,691

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

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
STATEMENT OF NET POSITION (Continued)
June 30, 2013

Liabilities

Current Liabilities:

Accounts payable	\$	624,530
Accrued liabilities		106,490
Compensated absences		153,806
Interest payable from restricted assets		1,091,388
Capital leases payable		28,471
Note payable		8,950
Deferred revenue		655,000
Revenue bonds payable		26,062

Total Current Liabilities		2,694,697
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Noncurrent Liabilities:

Compensated absences		123,575
Capital leases payable		29,605
Note payable		42,819,833
Deferred revenue		5,701,344
Revenue bonds payable		184,970,208
Interest rate swaps liability		74,446,652

Total Liabilities		310,785,914
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Net Position:

Net investment in capital assets		(42,922,882)
Restricted for:		
Debt service		105,358
Unrestricted		(103,085,699)

Total Net Position		(145,903,223)
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Total Liabilities and Net Position		\$ 164,882,691
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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 POSITION
For The Year Ended June 30, 2013

Operating Revenues:	
Access fees	\$ 4,541,498
Fiber lease revenue	655,000
Installation revenue	99,209
Miscellaneous operating revenue	<u>285,648</u>
Total Operating Revenues	<u>5,581,355</u>
Operating Expenses:	
Payroll	4,452,649
Material and supplies	736,759
Professional services	1,064,551
Network	1,737,776
Depreciation	<u>4,828,741</u>
Total Operating Expenses	<u>12,820,476</u>
Operating Loss	<u>(7,239,121)</u>
Nonoperating Revenues (Expenses):	
Interest income	8,487
Federal stimulus grant revenue	7,109,047
Bond interest and fees	<u>(13,129,728)</u>
Total Nonoperating Revenues (Expenses)	<u>(6,012,194)</u>
Change In Net Position	(13,251,315)
Total Net Position, Beginning of Year	<u>(132,651,908)</u>
Total Net Position, End of Year	<u><u>\$ (145,903,223)</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, 2013

Cash Flows From Operating Activities:	
Cash received from customers and users	\$ 8,413,326
Payments to suppliers	(4,529,989)
Payments to employees	<u>(4,671,599)</u>
Net cash used by operating activities	<u>(788,262)</u>
Cash Flows From Capital and Related Financing Activities:	
Purchase of property and equipment	(6,110,024)
Proceeds from sale of inventory to outside parties	7,975
Proceeds from federal stimulus grant	6,973,592
Proceeds from note payable	12,865,931
Bond interest and fees	(12,766,944)
Principal paid on capital leases, notes payable, and bonds payable	<u>(39,964)</u>
Net cash provided by capital and related financing activities	<u>930,566</u>
Cash Flows From Investing Activity:	
Interest income	<u>8,487</u>
Net cash provided by investing activity	<u>8,487</u>
Net Increase in Cash and Cash Equivalents	150,791
Cash and Cash Equivalents, Beginning of Year	<u>1,304,237</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,455,028</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, 2013

Reconciliation of operating loss to net cash from operating activities:

Operating loss	\$ (7,239,121)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization expense	4,828,741
(Increase) decrease in assets	
Trade receivables, net	1,666,044
Inventory	(766,817)
Prepaid expenses	8,935
Increase (decrease) in liabilities	
Accounts payable	(233,021)
Accrued liabilities	(178,295)
Compensated absences	(40,655)
Deferred Revenue	1,165,927
Net Cash Used by Operating Activities	\$ (788,262)

Supplemental Information

Noncash Investing, Capital, and Financing Activities:

Additions to capital assets includes inventory of \$1,243,644.

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, 2013. 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.

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.

Restricted Assets

UTOPIA maintains investments held by financial institutions for safekeeping of funds relating to service reserves. 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.

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

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Continued)

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

UTOPIA considers all cash and investments with original maturities of three months or less to be cash and cash equivalents. For purposes of the statement of cash flows, cash and cash equivalents are defined as the cash accounts and the restricted cash equivalent accounts. Investments, in the form of accounts invested with the Utah Public Treasurer's Investment Fund (the State Treasurer's Pool) of UTOPIA are stated at cost, which approximates fair value.

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 \$36,339 of accounts receivable.

Revenue Recognition

Revenue is generally recorded when the service has been provided, and profit is recognized at that time. Revenues are reported net of bad debt expense. Total bad debt expense related to revenues of the current period is \$36,339.

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.

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

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Continued)

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 Position.

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, 2013, UTOPIA had the following deposits and investments:

<u>Deposit and investment type</u>	<u>Fair Value</u>
Cash on deposit	\$ 258,282
Investments in Utah Public Treasurer's Investment Funds	1,196,746
	<u>\$ 1,455,028</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, 2013, \$86,129 of the \$340,301 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, 2013 the UPTIF in which UTOPIA has investments were unrated.

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.

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

NOTE 2 CASH AND INVESTMENTS (Continued)

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 CASH EQUIVALENTS

Restricted cash equivalents consist of the following:

Debt service	\$ 1,196,746
Restricted cash equivalents - current	(1,196,746)
Noncurrent portion of restricted cash equivalents	\$ -

NOTE 4 PROPERTY AND EQUIPMENT

The following summarizes UTOPIA's property and equipment as of June 30, 2013:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Capital assets, not being depreciated:					
Construction in progress	\$ 9,448,551	\$ -	\$ -	\$ (3,430,315)	\$ 6,018,236
Total capital assets, not being depreciated	9,448,551	-	-	(3,430,315)	6,018,236
Capital assets, being depreciated:					
Outside plant	79,038,601	6,645,139	-	3,430,315	89,114,055
Inside plant	14,388,140	435,920	-	-	14,824,060
Customer premise equipment	13,032,295	245,189	-	-	13,277,484
Intangible right	1,624,040	-	-	-	1,624,040
Office furniture and equipment	1,192,660	19,444	-	-	1,212,104
Vehicles	461,601	-	-	-	461,601
Total capital assets, being depreciated	109,737,337	7,345,692	-	3,430,315	120,513,344
Less accumulated depreciation:					
Outside plant	(17,050,373)	(3,353,610)	-	-	(20,403,983)
Inside plant	(13,128,665)	(781,837)	-	-	(13,910,502)
Customer premise equipment	(6,234,439)	(487,741)	-	-	(6,722,180)
Intangible right	(375,429)	(64,936)	-	-	(440,365)
Office furniture and equipment	(914,482)	(108,772)	-	-	(1,023,254)
Vehicles	(390,753)	(31,845)	-	-	(422,598)
Total accumulated depreciation	(38,094,141)	(4,828,741)	-	-	(42,922,882)
Total capital asset, net of accumulated depreciation	71,643,196	2,516,951	-	3,430,315	77,590,462
Property and Equipment, net	\$ 81,091,747	\$ 2,516,951	\$ -	\$ -	\$ 83,608,698

Depreciation and amortization expense of \$4,828,741 was charged to operating expense for the year ended June 30, 2013.

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, 2013.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue bonds					
2011A tax exempt bonds	\$ 110,000,000	\$ -	\$ (3,730)	\$ 109,996,270	\$ 24,035
2011B taxable bonds	75,000,000	-	-	75,000,000	2,027
Total revenue bonds	<u>185,000,000</u>	<u>-</u>	<u>(3,730)</u>	<u>184,996,270</u>	<u>26,062</u>
Capital leases					
Payson City	85,450	-	(27,374)	58,076	28,471
Total capital leases	<u>85,450</u>	<u>-</u>	<u>(27,374)</u>	<u>58,076</u>	<u>28,471</u>
Notes payable					
Pledging members	29,490,195	13,097,812	-	42,588,007	-
Non-pledging members	135,750	-	-	135,750	-
Layton RDA	113,886	-	(8,860)	105,026	8,950
Total notes payable	<u>29,739,831</u>	<u>13,097,812</u>	<u>(8,860)</u>	<u>42,828,783</u>	<u>8,950</u>
Compensated absences	<u>318,036</u>	<u>-</u>	<u>(40,655)</u>	<u>277,381</u>	<u>153,805</u>
Total Long-Term Debt	<u>\$ 215,143,317</u>	<u>\$ 13,097,812</u>	<u>\$ (80,619)</u>	<u>\$ 228,160,510</u>	<u>\$ 217,288</u>

Revenue Bonds

Tax-Exempt Adjustable Rate Telecommunications and Sales Tax Revenue Refunding Bonds, Series 2011A, original issue of \$110,000,000, mandatory sinking fund amounts due in quarterly installments beginning June 2013, interest payments due quarterly at 1-month LIBOR times 67%, which was .19465% at June 30, 2013, plus a spread which varies from .67% to 2.67%, with the final payment due June 2040. The bonds were issued to refund the Series 2008 revenue bonds which were issued to finance UTOPIA's infrastructure construction and retire the Series 2007, 2006, and 2004 Revenue Bonds.

\$ 109,996,270

Tax-Exempt Adjustable Rate Telecommunications and Sales Tax Revenue Refunding Bonds, Series 2011A, original issue of \$75,000,000, mandatory sinking fund amounts due in quarterly installments beginning December 2013, interest payments due monthly at 3-month LIBOR, which was .2731% at June 30, 2013, plus a spread which varies from .01% to 15%, with the final payment due June 2040. The bonds were issued to refund the Series 2008 revenue bonds which were issued to finance UTOPIA's infrastructure construction and retire the Series 2007, 2006, and 2004 Revenue Bonds.

75,000,000

Total Revenue Bonds

184,996,270

Less current portion

(26,062)

Noncurrent portion

\$ 184,970,208

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

NOTE 5 LONG-TERM DEBT (Continued)

Revenue Bonds (Continued)

UTOPIA is required by the Series 2011 A & B bond covenants to charge users rates, including connection fees, for all services supplied by UTOPIA sufficient to pay the operation and maintenance expenses of the network. Should UTOPIA not have sufficient net revenues as described, UTOPIA is obligated to the fullest extent possible and as market forces permit to modify user rates to meet the covenant requirement.

UTOPIA is also required by the Series 2011 A & B bond covenants to build up a reserve of \$535,140 for the 2011 A debt service reserve requirement and \$364,860 for the 2011 B debt service reserve requirement. The reserves are to be funded, over time, to the extent that there are net revenues remaining after all operation and maintenance costs, bond interest payments, and required sinking fund payments have been made. The amount actually on reserve at June 30, 2013 for the 2011 A and 2011 B debt service is \$51,317 and \$27,254, respectively and is included in restricted cash equivalents.

At June 30, 2013, 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>
2014	\$ 26,062	\$ 3,641,969	\$ 9,344,380	\$ 13,012,411
2015	167,143	3,778,842	9,340,465	13,286,450
2016	401,886	3,801,304	9,327,809	13,530,999
2017	702,005	3,803,109	9,301,832	13,806,946
2018	996,501	3,812,082	9,260,637	14,069,220
2019-2023	10,433,076	19,126,238	45,102,417	74,661,731
2024-2028	23,018,748	18,056,177	41,034,492	82,109,417
2029-2033	41,142,711	15,244,392	33,220,449	89,607,552
2034-2038	69,553,342	9,876,923	19,657,362	99,087,627
2039-2040	38,554,796	1,646,673	2,242,883	42,444,352
	<u>\$ 184,996,270</u>	<u>\$ 82,787,709</u>	<u>\$ 187,832,726</u>	<u>\$ 455,616,705</u>

Capital Leases

Capital leases consist of the following:

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 \$78,788.

	<u>\$ 58,076</u>
	58,076
Less current portion	<u>(28,471)</u>
Noncurrent portion	<u>\$ 29,605</u>

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

NOTE 5 LONG-TERM DEBT (Continued)

Capital Leases (Continued)

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

<u>Year</u>	<u>Payments</u>
2014	\$ 30,792
2015	30,792
Total minimum lease payments	61,584
Less amount representing interest	(3,508)
Present value of net minimum lease payments	<u>\$ 58,076</u>

Note Payable

The notes payable consist 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 0.5% at June 30, 2013. These debts are subordinate to the Series 2011 A & B Telecommunications Special Revenue and Refunding Bonds and therefore will not be required to be paid back until that obligation is fulfilled.	\$ 42,588,008
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>105,025</u>
Total Note Payable	42,828,783
Less current portion	(8,950)
Noncurrent portion	<u>\$ 42,819,833</u>

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>
2014	\$ 8,950	\$ 1,050	\$ 10,000
2015	9,039	961	10,000
2016	9,130	870	10,000
2017	9,221	779	10,000
2018	9,313	687	10,000
2019-2023	47,981	2,020	50,001
2024-2025	11,392	129	11,521
	<u>\$ 105,026</u>	<u>\$ 6,496</u>	<u>\$ 111,522</u>

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

NOTE 6 RETIREMENT PLANS

Plan Description

UTOPIA contributes to the Local Governmental Noncontributory Tier 1 Retirement System (Noncontributory System) and the Local Government Contributory Tier 2 Retirement System (Contributory System) which are cost sharing multiple-employer defined benefit pension plans 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 16.04% of the covered salary to the Noncontributory System and 12.74% to the Contributory 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, 2013, 2012, and 2011 were \$394,802, \$326,552, and \$182,201, respectively. UTOPIA's contribution to the Contributory System for the year ending June 30, 2013 and 2012 was 45,759 and \$22,017. 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, 2013, 2012, and 2011, were \$24,963, \$24,957, and \$25,945, respectively.

UTOPIA contributes to a defined contribution deferred compensation plan administered by the Utah Retirement Systems under the Internal Revenue Code Section 401(k) for some employees covered by the State's contributory retirement plans. The plan, available to all permanent full-time employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. UTOPIA's contributions for each employee (and interest allocated to the employee's account) are fully vested in the employee's account from the date of contribution. UTOPIA participates at 2.41% of eligible salary. The rate of participation is determined by URS. During the year ended June 30, 2013 and 2012, contributions totaling \$25,188 and \$6,991, respectively were made to the plan by UTOPIA.

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, 2013, 2012, and 2011 were \$38, \$23,710, and \$87,700, respectively.

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

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 \$489,473. These leases range from 3 years to 20 years. Total remaining minimum lease payments at June 30, 2013 are as follows:

2014	\$	427,276
2015		203,302
2016		182,945
2017		162,202
2018		147,202
2019-2023		151,010
2024-2026		27,455
		<u>1,301,392</u>
	\$	<u>1,301,392</u>

NOTE 8 COMMITMENTS AND CONTRACTS

Interlocal Cooperative Agreement

UTOPIA has entered into an Interlocal Cooperative Agreement with Utah Infrastructure Agency (UIA), wherein UIA will pay UTOPIA for network configuration, operation, and maintenance fees. The amount of the fees is determined based on the number of connections, subscribers, and services performed. The term of the amended agreement is for five years starting July 2010. UTOPIA received recorded revenue from UIA of \$260,568 for the year ended June, 30, 2013. Amounts receivable from UIA at June 30, 2013 relating to the before mentioned revenue totaled \$111,834.

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. Beginning December 2012, UTOPIA's management signed a good-faith agreement with UIA where-in the payments on the IRU will be postponed until the payment schedule can be renegotiated. Interest continues to accrue during the waiver period. Negotiations are expected to be finalized no later than December 31, 2013. The unpaid balance of the Interlocal Cooperative Indefeasible Right to use Agreement at June 30, 2013 was \$10,873,272.

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 December of 2011, UTOPIA issued Series 2011 A & B revenue bonds with total principal of \$185,000,000. The debt service payments will be met by the 11 Pledging Members. The Pledging Member's annual pledge is listed below for fiscal year 2013. Any amounts paid by Pledging Members to UTOPIA will be a loan to be repaid by UTOPIA.

Pledging Member	2013 Pledged & Paid	2014 Share of Total Max. Pledge	2014 Maximum Pledge *	Yearly Increase
Brigham City	\$ 430,756	3.35%	\$ 438,640	2%
Centerville City	428,410	3.33%	436,251	2%
Layton City	2,150,176	16.71%	2,189,530	2%
Lindon City	395,785	3.08%	403,029	2%
Midvale City	779,998	6.06%	794,274	2%
Murray City	1,583,543	12.30%	1,612,526	2%
Orem City	2,807,596	21.81%	2,858,983	2%
Payson City	259,920	2.05%	259,920	-
Perry City	105,670	0.82%	107,604	2%
Tremonton City	325,000	2.53%	330,948	2%
West Valley City	3,599,079	27.96%	3,664,952	2%
	<u>\$12,865,933</u>	<u>100.00%</u>	<u>\$ 13,096,657</u>	

* These amounts are the fiscal year 2014 maximum debt service that can be required of the Pledging Members for the months July 2013 through June 2014.

NOTE 10 DERIVATIVE ARRANGEMENTS

UTOPIA has two derivative contracts, in the form of interest rate swaps, that hedge against variable interest rate volatility by matching the cash flows provided by the Cities' pledges to the cash flows required for the debt service on the Series 2011 A & B bonds and the associated swap contracts.

The terms, fair values, and credit ratings of counterparties for the various swap agreements at June 30, 2013 are summarized in the following table:

Fixed Rate Paid by UTOPIA	Variable Rate Received by Counterparty	Outstanding Notional Amount	Fair Value	Changes in Fair Value		Swap Termination Date
				Classification	Amount	
4.984%	LIBOR x 67% ¹	\$ 110,000,000	\$ (46,907,847)	Deferred Outflow	\$ 17,545,044	June 1, 2040
5.665%	LIBOR + .05% ²	75,000,000	(27,538,805)	Deferred Outflow	14,912,527	June 1, 2040

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

² Three month U.S. Dollar London Interbank Offered Rate.

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

NOTE 10 DERIVATIVE ARRANGEMENTS (Continued)

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.

Hedge effectiveness

UTOPIA used the variability-reduction cash flow method to evaluate the hedge effectiveness of the derivative contracts. This method compares the ratio of the net debt service (principal and interest on the bond less the Cities' pledge payment) for the year divided by interest paid on the swap for the year. The critical value for determining how large a reduction in variability is sufficient to demonstrate hedge effectiveness was 90 to 111 percent. At June 30, 2013, the actual critical value was 102 percent.

Fair Value

At June 30, 2013 the swaps had a combined negative fair value of \$74,446,652, 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, 2013, the counterparty with notional amount of \$110,000,000 was rated A3 by Moody's Investor Services, A- by S&P, and A- by Fitch. At June 30, 2013, the counterparty with notional amount of \$75,000,000 was rated Baa2 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**

SUPPLEMENTARY REPORTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
 SUPPLEMENTARY REPORTS
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Keddington & Christensen
Certified Public Accountants, LLC

Gary K. Keddington, CPA
Brent E. Christensen, CPA
Phyl R. Warnock, CPA

**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 Telecommunication Open Infrastructure Agency
West Valley City, Utah

We have audited, in accordance with the auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Utah Telecommunication Open Infrastructure Agency, Utah (UTOPIA), as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated November 27, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered UTOPIA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the effectiveness of UTOPIA's internal control. Accordingly we do not express an opinion on the effectiveness of UTOPIA's internal control.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of UTOPIA's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 that might be material weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 statements 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly this communication is not suitable for any other purpose.

Keddington & Christensen

November 27, 2013



Keddington & Christensen
Certified Public Accountants, LLC

Gary K. Keddington, CPA
Brent E. Christensen, CPA
Phyl R. Warnock, CPA

**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**

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

Report on Compliance for Each Major Federal Program

We have audited Utah Telecommunications Open Infrastructure Agency, Utah's (UTOPIA) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of UTOPIA's major federal programs for the year ended June 30, 2013. UTOPIA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of UTOPIA's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of UTOPIA's compliance.

Opinion on Each Major Federal Program

In our opinion, UTOPIA, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of UTOPIA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered UTOPIA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of UTOPIA as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise UTOPIA's basic financial statements. We issued our report thereon dated November 27, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. 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 basic 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Keddington & Christensen

November 27, 2013

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Fiscal Year Ended June 30, 2013**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Disbursements Expenditures
U.S. Department of Commerce		
Direct Programs:		
ARRA Broadband Technology Opportunities Program	11.557	<u>\$ 7,109,047</u>
Total Federal Financial Assistance		<u><u>\$ 7,109,047</u></u>

**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, 2013**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified 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 unmodified 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 program was tested as major program:

CFDA No. 11.577 ARRA Broadband Technology Opportunities Program
7. The threshold for distinguishing Types A and B programs was \$300,000.
8. UTOPIA qualifies as a low-risk auditee.

FINANCIAL AUDIT AND GOVERNMENT AUDITING STANDARDS FINDINGS

None

MAJOR FEDERAL AWARD PROGRAMS AUDIT FINDINGS

None



Keddington & Christensen
Certified Public Accountants, LLC

Gary K. Keddington, CPA
Brent E. Christensen, CPA
Phyl R. Warnock, CPA

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

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, 2013. The general compliance requirements applicable to UTOPIA are identified as follows:

- Cash Management
- Fund Balance
- Utah Retirement Systems Compliance
- Government Records Access Management Act (GRAMA)
- Conflicts of Interest

UTOPIA did not receive any major assistance programs from the State of Utah during the year ended June 30, 2013.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of UTOPIA's management.

Auditor's Responsibility

Our responsibility is to express an opinion on UTOPIA's compliance 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 and the *State of Utah Legal Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on UTOPIA and its major programs 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.

Opinion

In our opinion, UTOPIA complied, in all material respects, with the general compliance requirements identified above for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 and recommendations as items 2013-1.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of UTOPIA is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered UTOPIA's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the UTOPIA's internal control over compliance.

A *deficiency in internal control over compliance* 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, noncompliance 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 compliance requirement will not be prevented, or detected and corrected, on a timely basis.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Keddington & Christensen

November 27, 2013

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
SCHEDULE OF FINDING & RECOMMENDATION
For the Fiscal Year Ended June 30, 2013**

State of Utah Legal Compliance Finding:

2013-1 Net Position Deficit

Finding

UTOPIA had deficit net position in the amount of \$145,903,223. The Utah State Code 10-6-117 requires UTOPIA to maintain positive net position. A similar finding was noted in the prior year's audit.

Recommendation

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



RESPONSE TO SCHEDULE OF FINDING & RECOMMENDATION For the Fiscal Year Ended June 30, 2013

Finding

UTOPIA had deficit net position in the amount of \$145,903,223. The Utah State Code 10-6-117 requires UTOPIA to maintain positive net position.

Recommendation

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

Response

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

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 has been and will continue to be able to generate additional revenue.

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.

This “stimulus” project has made the following possible:

- Fiber optic backbone cables have been placed throughout UTOPIA member cities.
- Fifty-nine communication huts(Points of Interconnection) have been placed to better serve the residents throughout the UTOPIA/UIA network.
- Perry city offices now have a fiber connection supporting their office along with one of the schools in the city.
- More than 122 Community Anchor Institutions have been connected reducing the cost of their broadband data costs. More important; of those 122 community anchor institutions 40 of them are receiving new broadband service, only possible because of the network.
- There has been an additional 123 community anchor institutions end points such as water wells, sewer lift stations and traffic lights that are now connected.

In addition, UTOPIA continues to look for other opportunities that will enhance revenues or reduce operating expenses to help reverse the deficit.