

**UTAH TELECOMMUNICATION OPEN  
INFRASTRUCTURE AGENCY**

**FINANCIAL STATEMENTS**

**JUNE 30, 2016**

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

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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 (UTOPIA), as of and for the year ended June 30, 2016, 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 as of June 30, 2016, 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, the schedule of proportionate share of net pension liability, and the schedule of contributions, 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.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016, 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, LLC*

November 30, 2016

## **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, 2016.

### **Description of Business**

UTOPIA is a consortium of 15 Utah cities, created to provide construction and operations for a wholesale state-of-the-art 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, and wireless or satellite systems. Fiber has become accepted as the only infrastructure capable of delivering the capacity and speed needed to meet today's telecommunications and broadband requirements. It is currently used for the backbone of the Internet and other high-demand applications, and recently has begun to be implemented over "the last mile" into homes and businesses. The member cities of UTOPIA were early to recognize this trend and have been laying the fiber-optic cable necessary to connect each member city and the homes and businesses within each city. UTOPIA established an open access network, which allows private sector service providers to use the network to deliver services. The open access concept results in more competition and has resulted in more choice and increased value for the residents and businesses of its member cities.

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

Twenty service providers—Beehive Communications, Brigham.net, Centracom, Fibernet, First Digital, Infowest, Integra Telecom, OneWire, Rigidtech, SenaWave, SumoFiber, Syringa, Telesphere, Utah Broadband, Veracity, Voonami, Windstream, XMission, Yondoo, and YipTel—were actively providing services and a total of 14,132 homes and businesses had subscribed to services at year end on the UTOPIA/UIA network. Future growth of the network will be largely demand-based, bringing the network first to those areas that will bring the best return on investment. UIA continues to make significant progress towards the project's original mission: to build and maintain a fiber network to service all of the businesses and residents in UTOPIA's member cities.

As of the end of June, 2016, more than 2,478 miles of fiber cable have been placed within the boundaries of the eleven members cities. Within footprints serviced by 158 hut sites, there are approximately 80,000 addresses, of which approximately 64,000 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.

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

**Highlights**

Additional financial highlights include:

- Recurring revenues increased by \$402,293 from the prior year.
- General, Administrative and Network expenses decreased from the prior year by \$738,438.

**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.

Recurring operating revenues for the fiscal year were about \$552,000 above budgeted levels. Operating expenses (expenses excluding interest and depreciation) were below budget by \$1.18 Million. Operating profit (EBITDA) was nearly \$1.84 Million better than projected. Depreciation and amortization expense were below projected levels. As a result, net income was about \$3.39 Million better than budget.

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

	2016	2015
Current and other assets	\$ 7,348,336	\$ 16,600,134
Capital assets	80,955,734	78,121,229
Total Assets	88,304,070	94,721,363
Deferred outflows of resources	114,845,199	85,899,541
Current and other Liabilities	3,778,015	3,307,267
Long-term liabilities outstanding	396,874,116	355,046,155
Total Liabilities	400,652,131	358,353,422
Deferred inflows of resources	220,660	134,800
Net investment in capital assets	(40,576,930)	(48,578,918)
Restricted	126,092	118,070
Unrestricted	(157,272,684)	(129,406,470)
Net Position, restated	\$ (197,723,522)	\$ (177,867,318)

**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

	2016	2015
Revenues:		
Operating revenues	\$ 6,062,162	\$ 15,761,478
Interest income	38,448	11,420
Other revenues	4,639	135,750
Total Revenues	6,105,249	15,908,648
Expenditures:		
General and administrative	5,352,088	5,532,095
Network	1,791,719	2,350,150
Depreciation	4,937,743	4,549,860
Bond interest and fees	13,879,903	13,605,789
Total Expenditures	25,961,453	26,037,894
Change in net position	(19,856,204)	(10,129,246)
Total net position, beginning of year	(177,867,318)	(167,738,072)
Total net position, end of year	\$ (197,723,522)	\$ (177,867,318)

**Capital Assets and Debt Administration**

UTOPIA's capital assets, net of depreciation, were \$80.9 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, 2016, UTOPIA's outstanding debt amounted to \$268.3 million. The majority of this debt (revenue bonds payable) is secured by the 11 pledging members' sales tax pledges.

Table 3 - Summary of the Agency's Capital Assets

	2016	2015
Construction in progress	\$ 2,689,420	\$ 5,375,537
Outside plant	69,813,110	64,746,867
Inside plant	718,701	902,189
Customer premise equipment	6,104,657	5,979,258
Intangible right	988,691	1,053,805
Office furniture and equipment	525,041	49,710
Vehicles	116,114	13,863
	\$ 80,955,734	\$ 78,121,229

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

Table 4 - Summary of the Agency's Debt

	2016	2015
Revenue bonds payable	\$ 184,401,178	\$ 184,803,065
Capital leases	-	-
Notes payable	83,930,929	69,734,924
	\$ 268,332,107	\$ 254,537,989

**Contacting UTOPIA's Financial Management**

This financial report is designed to provide interested readers with a general overview of UTOPIA's financial position and to demonstrate accountability. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Utah Telecommunication Open Infrastructure Agency, 2175 S. Redwood Road, West Valley City, Utah, 84119.

## **BASIC FINANCIAL STATEMENTS**

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY**  
**STATEMENT OF NET POSITION**  
**June 30, 2016**

**Assets**

**Current Assets:**

Cash	\$	1,370,750
Trade receivables, net		411,348
Inventory		765,849
Prepaid expenses		78,264
Notes receivable, current portion		655,000
Restricted cash equivalents		1,282,956
		1,282,956
<b>Total Current Assets</b>		4,564,167

**Noncurrent assets:**

**Capital Assets:**

Construction in progress		2,689,420
Property and equipment, net:		
Fiber optic network		77,625,159
Office furniture and equipment		525,041
Vehicles		116,114
		116,114
Total Property and Equipment, net		78,266,314
<b>Total Capital Assets</b>		80,955,734

**Other Assets:**

Deposits		10,686
Notes receivable, net of current portion		2,773,164
Net pension asset		319
		319
<b>Total Other Assets</b>		2,784,169
<b>Total Assets</b>		88,304,070

**Deferred Outflows of Resources**

Deferred outflow of resources for interest rate swaps		112,377,533
Deferred charge on refunding		1,818,824
Deferred outflow of resources relating to pensions		648,842
		648,842
<b>Total Deferred Outflows of Resources</b>	\$	114,845,199

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

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY**  
**STATEMENT OF NET POSITION (Continued)**  
**June 30, 2016**

**Liabilities**

**Current Liabilities:**

Accounts payable	\$	692,114
Accrued liabilities		399,565
Compensated absences		163,246
Interest payable from restricted assets		1,156,864
Note payable		9,221
Unearned revenue, current portion		655,000
Revenue bonds payable		702,005
		<u>3,778,015</u>

**Noncurrent Liabilities:**

Compensated absences		117,558
Note payable		83,921,708
Unearned revenue, net of current portion		15,562,079
Revenue bonds payable		183,699,173
Net pension liability		1,196,065
Interest rate swaps liability		112,377,533
		<u>400,652,131</u>

**Deferred Inflows of Resources**

Deferred inflow of resources relating to pensions		220,660
		<u>220,660</u>

**Net Position**

Net investment in capital assets		(40,415,525)
Restricted for:		
Debt service		126,092
Unrestricted		(157,434,089)
		<u>(197,723,522)</u>

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, 2016**

<b>Operating Revenues:</b>	
Access fees	\$ 4,858,406
Fiber lease revenue	655,000
Installation revenue	107,463
Miscellaneous operating revenue	<u>441,293</u>
<b>Total Operating Revenues</b>	<u>6,062,162</u>
<b>Operating Expenses:</b>	
Payroll	4,063,978
Material and supplies	920,852
Professional services	367,258
Network	1,791,719
Depreciation	<u>4,937,743</u>
<b>Total Operating Expenses</b>	<u>12,081,550</u>
<b>Operating Income (Loss)</b>	<u>(6,019,388)</u>
<b>Nonoperating Revenues (Expenses):</b>	
Interest income	38,448
Bond interest and fees	(13,879,903)
Gain on disposal of assets	<u>4,639</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(13,836,816)</u>
<b>Change In Net Position</b>	(19,856,204)
<b>Total Net Position, Beginning of Year</b>	<u>(177,867,318)</u>
<b>Total Net Position, End of Year</b>	<u><u>\$ (197,723,522)</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, 2016**

<b>Cash Flows From Operating Activities:</b>	
Cash received from customers and users	\$ 7,918,381
Payments to suppliers	(3,735,410)
Payments to employees	<u>(3,775,489)</u>
<b>Net cash used by operating activities</b>	<u>407,482</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>	
Purchase of property and equipment	(6,917,299)
Proceeds from sale of capital assets	4,639
Proceeds from note payable	13,637,519
Bond interest and fees	(13,214,245)
Principal paid on capital leases, notes payable, and bonds payable	<u>(411,016)</u>
<b>Net cash provided by capital and related financing activities</b>	<u>(6,900,402)</u>
<b>Cash Flows From Non-Capital Financing Activity:</b>	
Payments on long-term pension obligation	<u>(148,919)</u>
<b>Net cash provided by non-capital financing activity</b>	(148,919)
<b>Cash Flows From Investing Activity:</b>	
Interest income	<u>38,448</u>
<b>Net cash provided by investing activity</b>	<u>38,448</u>
<b>Net Increase in Cash and Cash Equivalents</b>	(6,603,391)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>9,257,097</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 2,653,706</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, 2016**

**Reconciliation of operating loss to net cash from operating activities:**

Operating income (loss)	\$ (6,019,388)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization expense	4,937,743
(Increase) decrease in assets related to operations	
Trade receivables, net	(18,781)
Inventory	(529,097)
Notes receivable	2,335,006
Prepaid expenses	3,213
Increase (decrease) in liabilities related to operations	
Accounts payable	(129,697)
Accrued liabilities	274,004
Compensated absences	14,485
Unearned revenue	(460,006)
<b>Net Cash Used by Operating Activities</b>	<b>\$ 407,482</b>

**Supplemental Information**

**Noncash Investing, Capital, and Financing Activities:**

Additions to capital assets includes inventory of \$854,949.

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 inter-local 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, 2016. 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.

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

**NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Continued)**

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.

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

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

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.

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 \$0.

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 \$33,742 of accounts receivable.

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)**

Inventories

Inventories are stated at cost using the first-in first-out method.

Deferred Outflows and Deferred Inflows of Resources

The statement of net position reports a separate section from assets for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. UTOPIA reports deferred charges on bond refundings, deferred outflows for interest rate swaps (hedging activities), and deferred outflows of resources relating to pensions. In addition, the statement of net position reports a separate section from liabilities for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. UTOPIA reports deferred inflows of resources relating to pensions.

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.

Pensions

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

**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.

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

**NOTE 2 CASH AND INVESTMENTS (Continued)**

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, 2016, UTOPIA had the following deposits and investments stated at carrying amount, which approximates fair value:

<u>Deposit and investment type</u>	<u>Fair Value</u>
Cash on deposit	\$ 435,794
Investments in Utah Public Treasurer's Investment Funds	2,217,912
	\$ 2,653,706

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, 2016, \$744,058 of the \$994,058 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 (PTIF):

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 PTIF 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, 2016, the PTIF 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 PTIF is not subject to a concentration of credit risk.

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

UTOPIA categorizes the fair value measurements of its investments based on the hierarchy established by general accepted accounting principles. The fair value hierarchy, which has three levels, is based on valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Fair value measurements of UTOPIA's investments in PTIF at June 30, 2016, or \$2,217,912 are based on significant other observable inputs (Level 2 inputs).

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

**NOTE 3 PROPERTY AND EQUIPMENT**

The following summarizes UTOPIA's property and equipment as of June 30, 2016:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:				
Construction in progress	\$ 5,375,537	\$ -	\$ (2,686,117)	\$ 2,689,420
Total capital assets, not being depreciated	<u>5,375,537</u>	<u>-</u>	<u>(2,686,117)</u>	<u>2,689,420</u>
Capital assets, being depreciated:				
Outside plant	92,443,046	8,946,040	-	101,389,086
Inside plant	15,722,994	272,138	(9,400,598)	6,594,534
Customer premise equipment	13,485,284	502,352	(2,669,221)	11,318,415
Intangible right	1,624,040	-	-	1,624,040
Office furniture and equipment	1,099,939	601,311	(739,759)	961,491
Vehicles	461,601	136,524	(102,798)	495,327
Total capital assets, being depreciated	<u>124,836,904</u>	<u>10,458,365</u>	<u>(12,912,376)</u>	<u>122,382,893</u>
Less accumulated depreciation:				
Outside plant	(27,696,179)	(3,879,797)	-	(31,575,976)
Inside plant	(14,820,805)	(455,626)	9,400,598	(5,875,833)
Customer premise equipment	(7,506,026)	(376,953)	2,669,221	(5,213,758)
Intangible right	(570,235)	(65,114)	-	(635,349)
Office furniture and equipment	(1,050,229)	(125,980)	739,759	(436,450)
Vehicles	(447,738)	(34,273)	102,798	(379,213)
Total accumulated depreciation	<u>(52,091,212)</u>	<u>(4,937,743)</u>	<u>12,912,376</u>	<u>(44,116,579)</u>
Total capital asset, net of accumulated depreciation	<u>72,745,692</u>	<u>5,520,622</u>	<u>-</u>	<u>78,266,314</u>
Property and Equipment, net	<u>\$ 78,121,229</u>	<u>\$ 5,520,622</u>	<u>\$ (2,686,117)</u>	<u>\$ 80,955,734</u>

Depreciation and amortization expense of \$4,937,743 was charged to operating expense for the year ended June 30, 2016.

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

**NOTE 4 LONG-TERM DEBT**

The following is a summary of the changes in long-term debt obligations for the year ended June 30, 2016.

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Revenue bonds</b>					
2011A tax exempt bonds	\$ 109,890,227	\$ -	\$ (215,400)	\$ 109,674,827	\$ 385,789
2011B taxable bonds	74,912,838	-	(186,487)	74,726,351	316,216
<b>Total revenue bonds</b>	<b>184,803,065</b>	<b>-</b>	<b>(401,887)</b>	<b>184,401,178</b>	<b>702,005</b>
<b>Notes payable</b>					
Pledging members	69,647,888	14,205,135	-	83,853,023	-
Non-pledging members	-	-	-	-	-
Layton RDA	87,036	-	(9,130)	77,906	9,221
<b>Total notes payable</b>	<b>69,734,924</b>	<b>14,205,135</b>	<b>(9,130)</b>	<b>83,930,929</b>	<b>9,221</b>
<b>Compensated absences</b>	<b>266,319</b>	<b>14,485</b>	<b>-</b>	<b>280,804</b>	<b>163,246</b>
<b>Total Long-Term Debt</b>	<b>\$ 254,804,308</b>	<b>\$ 14,219,620</b>	<b>\$ (411,017)</b>	<b>\$ 268,612,911</b>	<b>\$ 874,472</b>

**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, which was .4666% at June 30, 2016, times 67% 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.

\$ 109,674,827

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 .6461% at June 30, 2016, 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.

74,726,351

Total revenue bonds

184,401,178

Less current portion

(702,005)

Noncurrent portion

\$ 183,699,173

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

**NOTE 4 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, 2016 for the 2011 A and 2011 B debt service is \$66,586 and \$32,719, respectively and is included in restricted cash equivalents.

At June 30, 2016, 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>
2017	\$ 702,005	\$ 4,280,990	\$ 8,824,015	\$ 13,807,010
2018	996,500	4,287,797	8,784,988	14,069,285
2019	1,290,771	4,295,747	8,732,307	14,318,825
2020	1,650,430	4,347,675	8,663,423	14,661,528
2021	2,050,300	4,308,106	8,576,897	14,935,303
2022-2026	17,496,246	20,846,045	40,839,766	79,182,057
2027-2031	32,846,039	18,485,887	34,999,221	86,331,147
2032-2036	56,826,488	13,748,130	24,616,110	95,190,728
2037-2040	70,542,399	5,160,033	7,589,648	83,292,080
	<u>\$ 184,401,178</u>	<u>\$ 79,760,410</u>	<u>\$ 151,626,375</u>	<u>\$ 415,787,963</u>

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

**NOTE 4 LONG-TERM DEBT (Continued)**

**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 0.90% at June 30, 2016. 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.

\$ 83,853,023

Amount owing to Layton City Redevelopment Agency for the development of certain fiber optic infrastructure improvements. Principle and interest payments of \$10,000 due annually beginning January 1, 2012 until January 2025. Interest at 1.0%.

77,906

Total Note Payable

83,930,929

Less current portion

(9,221)

Noncurrent portion

\$ 83,921,708

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>
2017	\$ 9,221	\$ 779	\$ 10,000
2018	9,313	687	10,000
2019	9,406	594	10,000
2020	9,501	500	10,000
2021	9,595	405	10,000
2022-2025	<u>30,870</u>	<u>650</u>	<u>31,520</u>
	<u>\$ 77,906</u>	<u>\$ 3,615</u>	<u>\$ 81,520</u>

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

**NOTE 5 PENSIONS**

Plan Description

Eligible plan participants are provided with pensions through the Utah Retirement Systems. The Utah Retirement Systems are comprised of the following pension trust funds:

- Public Employees Noncontributory Retirement System (Noncontributory System) is a multiple employer, cost sharing, public employee retirement system.
- Tier 2 Public Employees Contributory Retirement System (Tier 2 Public Employees System) is a multiple employer, cost sharing, public employee retirement system.

The Tier 2 Public Employees System became effective July 1, 2011. All eligible employees beginning on or after July 1, 2011, who have no previous service credit with any of the Utah Retirement Systems, are members of the Tier 2 Retirement System.

The Utah Retirement Systems (Systems) are established and governed by the respective sections of Title 49 of the Utah Code Annotated 1953, as amended. The System's defined benefit plans are amended statutorily by the State Legislature. The Utah State Retirement Office Act in Title 49 provides for the administration of the Systems under the direction of the Board, whose members are appointed by the Governor. The Systems are fiduciary funds defined as pension (and other employee benefit) trust funds. URS is a component unit of the State of Utah. Title 49 of the Utah Code grants the authority to establish and amend the benefit terms.

URS issues a publicly available financial report that can be obtained by writing Utah Retirement Systems, 560 E. 200 S. Salt Lake City, Utah 84102 or visiting the website: [www.urs.org](http://www.urs.org).

Benefits Provided

URS provides retirement, disability, and death benefits. Retirement benefits are as follows:

**Summary of Benefits by System**

System	Final Average Salary	Years of Service required and/or age eligible for benefit	Benefit percent per year of service	COLA**
Noncontributory System	Highest 3 years	30 years any age 25 years any age* 20 years age 60* 10 years age 62* 4 years age 65	2.0% per year all years	Up to 4%
Tier 2 Public Employees System	Highest 5 years	35 years any age 20 years age 60* 10 years age 62* 4 years age 65	1.5% per year all years	Up to 2.5%

\* With actuarial reductions

\*\* All post-retirement cost-of-living adjustments are non-compounding and are based on the original benefit except Judges, which is a compounding benefit. The cost-of-living adjustments are also limited to the actual Consumer Price Index (CPI) increase for the year, although unused CPI increases not met may be carried forward to subsequent years.

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

**NOTE 5 PENSIONS (Continued)**

Contributions

As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the Utah State Retirement Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable) is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Contribution rates are as follows:

<b>Utah Retirement System</b>	<u>Employee Paid</u>	<u>Paid by Employer for Employee</u>	<u>Employer Contribution Rates</u>	<u>Employer Rate for 401(k) Plan</u>
Contributory System				
111 - Local Governmental Division Tier 2	N/A	N/A	16.67%	1.78%
Noncontributory System				
15 - Local Governmental Division Tier 1	N/A	N/A	18.47%	N/A
Tier 2 DC Only				
211 Local Government	N/A	N/A	6.69%	10.00%

Tier 2 rates include a statutory required contribution to finance the unfunded actuarial accrued liability of the Tier 1 plans.

For fiscal year ended June 30, 2016, the employer and employee contributions to the Systems were as follows:

<u>System</u>	<u>Employer Contributions</u>	<u>Employee Contributions</u>
Noncontributory System	\$ 264,948	N/A
Tier 2 Public Employees System	162,226	\$ -
Tier 2 DC Only System	24,363	N/A
Total Contributions	<u>\$ 451,537</u>	<u>\$ -</u>

Contributions reported are the URS Board approved required contributions by System. Contributions in the Tier 2 Systems are used to finance the unfunded liabilities in the Tier 1 Systems.

***Pension Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2016, we reported a net pension asset of \$319 and a net pension liability of \$1,196,065.

	<u>Proportionate Share</u>	<u>Net Pension Asset</u>	<u>Net Pension Liability</u>
Noncontributory System	0.2113754%	\$ -	\$ 1,196,065
Tier 2 Public Employees System	0.1462471%	319	-
Total Net Pension Asset / Liability		<u>\$ 319</u>	<u>\$ 1,196,065</u>

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

**NOTE 5 PENSIONS (Continued)**

The net pension asset and liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2015 and rolled-forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability is equal to the ratio of the employer's actual contributions to the Systems during the plan year over the total of all employer contributions to the System during the plan year.

For the year ended December 30, 2016, we recognized pension expense of \$302,478.

At June 30, 2016, we reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 64,960
Changes in assumptions	-	68,381
Net difference between projected and actual earnings on pension plan	412,188	-
Changes in proportion and differences between contributions and proportionate share of contributions	6,009	87,319
Contributions subsequent to the measurement date	230,645	-
Total	\$ 648,842	\$ 220,660

\$230,645 was reported as deferred outflows of resources related to pensions results from contributions made by us prior to our fiscal year end, but subsequent to the measurement date of December 31, 2015.

These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of Resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended December 31,</b>	<b>Deferred Outflows (inflows) of Resources</b>
2016	\$ 40,995
2017	40,995
2018	42,171
2019	77,857
2020	(836)
Thereafter	(3,646)

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

**NOTE 5 PENSIONS (Continued)**

Actuarial Assumptions

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

Inflation	2.75 Percent
Salary increases	3.50 – 10.50 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Mortality rates were developed from actual experience and mortality tables, based on gender, occupations and age, as appropriate, with adjustments for future improvement in mortality based on Scale AA, a model developed by the Society of Actuaries.

The actuarial assumptions used in the January 1, 2015, valuation were based on the results of an actuarial experience study for the five year period ending December 31, 2013.

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

Asset Class	Expected Return Arithmetic Basis		
	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term expected portfolio real rate of return
Equity securities	40%	7.06%	2.82%
Debt securities	20%	0.80%	0.16%
Real Assets	13%	5.10%	0.66%
Private equity	9%	11.30%	1.02%
Absolute return	18%	3.15%	0.57%
Cash and cash equivalents	0%	0.00%	0.00%
<b>Totals</b>	<b>100%</b>		<b>5.23%</b>
	Inflation		2.75%
	Expected arithmetic nominal return		7.98%

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

**NOTE 5 PENSIONS (Continued)**

The 7.50% assumed investment rate of return is comprised of an inflation rate of 2.75%, a real return of 4.75% that is net of investment expense.

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the URS Board. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Proportionate Share of the Net Pension Asset and Liability to Changes in the Discount Rate

The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.50 percent as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
<b>System</b>			
Noncontributory System	\$ 2,527,166	\$ 1,196,065	\$ 84,862
Tier 2 Public Employees System	58,546	(319)	(44,934)
<b>Total</b>	<b>\$ 2,585,712</b>	<b>\$ 1,195,746</b>	<b>\$ 39,928</b>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued URS financial report.

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

**NOTE 6 DEFERRED COMPENSATION PLANS**

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, 2016, 2015, and 2014, were \$19,340, \$22,803, and \$14,419, 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.

Employee and employer contributions to the Utah Retirement Defined Contribution Savings Plans for fiscal year ended June 30, were as follows:

<b>401(k) Plan</b>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Employer Contributions	\$ 55,785	\$ 46,676	\$ 37,636
Employee Contributions	-	-	-

**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 \$767,288. These leases range from 3 years to 20 years. Total remaining minimum lease payments at June 30, 2016, are as follows:

<u>Year</u>	<u>Payments</u>
2017	\$ 560,512
2018	462,202
2019	102,202
2020	102,202
2021	102,202
2022-2026	498,808
2027-2028	183,051
	<u>\$ 2,011,179</u>

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

**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 agreement is renewed annually. UTOPIA recorded revenue from UIA of \$420,302 for the year ended June, 30, 2016.

**NOTE 9 UNEARNED REVENUE**

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. 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. Initially, the payments from UIA were scheduled to be quarterly for five years, with payments at \$1,462,500 for the first four quarters, \$1,100,000 for the next four quarters, \$800,000 for the next eight quarters, and \$750,000 for the final four quarters. In December 2013, management renegotiated the payment schedule with UIA. The new payments on the IRU are due monthly in the amount of \$54,583.33. Prior accrued interest was forgiven. The unpaid balance of the Interlocal Cooperative Indefeasible Right of Use Agreement at June 30, 2016 was \$3,531,502. The net present value of the future lease payments on the note of \$3,428,164 (discounted at a rate of 1.09%) has been recorded as a note receivable from UIA. The receivable portion, plus payments received for which revenue has not yet been recognized of \$12,788,915, a total of \$16,217,079 (\$655,000 of which is current), is reported as unearned revenue and will be recognized evenly over the life of the 30 year contract.

**NOTE 10 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 2016. Any amounts paid by Pledging Members to UTOPIA will be a loan to be repaid by UTOPIA.

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

**NOTE 10 PLEDGING MEMBERS LIABILITY (Continued)**

<u>Pledging Member</u>	<u>2016 Pledged &amp; Paid</u>	<u>2017 Share of Total Max. Pledge</u>	<u>2017 Maximum Pledge *</u>	<u>Yearly Increase</u>
Brigham City	\$ 448,158	3.35%	\$ 465,489	2%
Centerville City	445,718	3.33%	462,953	2%
Layton City	2,237,043	16.74%	2,323,547	2%
Lindon City	411,774	3.08%	427,697	2%
Midvale City	811,510	6.07%	842,890	2%
Murray City	1,647,518	12.33%	1,711,226	2%
Orem City	2,921,022	21.85%	3,033,975	2%
Payson City	259,920	1.87%	259,920	-
Perry City	109,939	0.82%	114,190	2%
Tremonton City	338,130	2.53%	351,204	2%
West Valley City	3,744,482	28.02%	3,889,277	2%
	<u>\$ 13,375,214</u>	<u>100.00%</u>	<u>\$ 13,882,368</u>	

\* These amounts are the fiscal year 2017 maximum debt service that can be required of the Pledging Members for the months July 2016 through June 2017.

**NOTE 11 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, 2016, 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	Counterparty Credit Rating		
				Classification	Amount		S&P	Moody's	Fitch
4.984%	LIBOR x 67% <sup>1</sup>	\$ 109,674,827	\$ (67,401,147)	Deferred Outflow	(15,414,566)	June 1, 2040	BBB+	Baa1	A-
5.665%	LIBOR + .05% <sup>2</sup>	74,726,351	(44,976,386)	Deferred Outflow	(13,186,920)	June 1, 2040	BBB+	Baa1	A

<sup>1</sup> One month U.S. Dollar London Interbank Offered Rate.

<sup>2</sup> Three month U.S. Dollar London Interbank Offered Rate.

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

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

**NOTE 11 DERIVATIVE ARRANGEMENTS (Continued)**

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, 2016, the actual critical value was 100%.

Fair Value

At June 30, 2016, the swaps had a combined negative fair value of \$112,377,533. 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.

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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY**  
**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**December 31, 2015**  
**Last 10 Fiscal Years \***

	Year Ended 12/31	Noncontributory System	Tier 2 Public Employees System
Proportion of the net pension liability (asset)	2014	0.2335214%	0.1133770%
	2015	0.2113754%	0.1462471%
Proportionate share of the net pension liability (asset)	2014	\$ 1,014,005	\$ (3,436)
	2015	\$ 1,196,065	\$ (319)
Covered employee payroll	2014	\$ 1,734,933	\$ 557,276
	2015	\$ 1,438,880	\$ 944,950
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	2014	58.4%	-0.6%
	2015	83.12%	-0.03%
Plan fiduciary net position as a percentage of its covered-employee payroll	2014	90.2%	103.5%
	2015	87.8%	100.2%

*\* In accordance with paragraph 81.a of GASB 68, employers will need to disclose a 10-year history of their proportionate share of the Net Pension Liability (Asset). The 10-year schedule will need to be built prospectively.*

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY  
SCHEDULE OF CONTRIBUTIONS  
December 31, 2015  
Last 10 Fiscal Years \***

	As of fiscal year ended June 30,	Actuarial Determined Contributions	Contributions in relation to the contractually required Contributions	Contribution deficiency (excess)	Covered employee payroll	Contributions as a percentage of covered employee payroll
Noncontributory System	2014	\$ 315,590	\$ 315,590	\$ -	\$ 1,825,271	17.29%
	2015	299,318	299,318	-	1,620,561	18.47%
	2016	264,948	264,948	-	1,434,475	18.47%
Tier 2 Public Employees System**	2014	63,526	63,526	-	454,084	13.99%
	2015	113,880	113,880	-	762,246	14.94%
	2016	162,226	162,226	-	1,088,035	14.91%
Tier 2 Public Employees DC Only System**	2014	16,972	16,972	-	304,162	5.58%
	2015	22,248	22,248	-	331,080	6.72%
	2016	24,363	24,363	-	364,176	6.69%

\* Paragraph 81.b of GASB 68 requires employers to disclose a 10 year history of contributions in RSI. Contributions as a percentage of covered-payroll may be different than the board certified rate due to rounding and other administrative issues.

\*\* Contributions in Tier 2 include an amortization rate to help fund the unfunded liabilities in the Tier 1 systems.

Tier 2 systems were created effective July 1, 2011.

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**For The Year Ended June 30, 2016**

**NOTE 1 CHANGES IN ASSUMPTIONS**

The following assumption changes were adopted from the most recent actuarial experience study. There was a decrease in the wage inflation assumption for all employee groups from 3.75% to 3.50%. Also there was a modification to the rate of salary increases for most groups. The payroll growth assumption was decreased from 3.5% to 3.25%. there was an improvement in the post retirement mortality assumption for female educators and minor adjustments to the pre retirement mortality assumption.

There were additional changes to certain demographic assumptions that generally resulted in: (1) more members are anticipated to terminate employment prior to retirement, (2) slightly fewer members are expected to become disabled, and (3) members are expected to retire at a slightly later age.

**UTAH TELECOMMUNICATION OPEN  
INFRASTRUCTURE AGENCY**

**SUPPLEMENTARY REPORTS**

**JUNE 30, 2016**

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

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Gary K. Keddington, CPA  
Phyl R. Warnock, CPA  
Marcus K. Arbuckle, CPA

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
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 (UTOPIA) as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2016.

**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 30, 2016



**INDEPENDENT AUDITOR'S REPORT AS  
REQUIRED BY THE STATE COMPLIANCE  
AUDIT GUIDE ON COMPLIANCE WITH GENERAL  
STATE COMPLIANCE REQUIREMENTS AND ON  
INTERNAL CONTROL OVER COMPLIANCE**

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

**Report on Compliance with General State Compliance Requirements**

We have audited the Utah Telecommunications Open Infrastructure Agency's (UTOPIA) compliance with the applicable general compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor that could have a direct and material effect on UTOPIA for the year ended June 30, 2016.

General state compliance requirements were tested for the year ended June 30, 2016 in the following areas:

Budgetary Compliance	Open and Public Meetings Act
Fund Balance	Treasurer's Bond
Utah Retirement Systems	State Finance Website

**Management's Responsibility**

Management is responsible for compliance with the general state requirements referred to above.

**Auditor's Responsibility**

Our responsibility is to express an opinion on UTOPIA's compliance based on our audit of the 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 the *State Compliance Audit Guide*. Those standards and the *State 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 could have a direct and material effect on UTOPIA 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 with general state compliance requirements. However, our audit does not provide a legal determination of UTOPIA's compliance.

**Opinion**

In our opinion, UTOPIA complied, in all material respects, with the general compliance requirements referred to above that could have a direct and material effect on UTOPIA for the year ended June 30, 2016.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the *State Compliance Audit Guide* and which is described in the accompanying *Schedule of Findings and Recommendations* as item 2016-1. Our opinion on compliance is not modified with respect to this matter.

UTOPIA's response to the noncompliance finding identified in our audit is described in the accompanying *Schedule of Findings and Recommendations*. UTOPIA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **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 of compliance, we considered UTOPIA's internal control over compliance with the compliance requirements that could have a direct and material effect on UTOPIA to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with general state compliance requirements and to test and report on internal control over compliance in accordance with the *State Compliance Audit Guide*, 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 general state compliance requirement 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 general state compliance requirement 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 general state compliance requirement 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 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. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying *Schedule of Findings and Recommendations* as item 2016-1 that we consider to be a significant deficiency.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control and compliance and the results of that testing based on requirements of the *State Compliance Audit Guide*. Accordingly, this report is not suitable for any other purpose.

*Keddington & Christensen*

November 30, 2016

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY  
SCHEDULE OF FINDING & RECOMMENDATION  
For the Fiscal Year Ended June 30, 2016**

**State of Utah Compliance Finding:**

**2016-1 Open and Public Meetings Act Training**

**Finding**

UTOPIA did not hold a training for the public body covering the requirements of the Open and Public Meetings Act during the fiscal year ended June 30, 2016. The Utah State Code 52-4-104 requires UTOPIA to ensure that the members of the public body are provided with annual training on these requirements.

**Recommendation**

We recommend that UTOPIA implements a control to ensure that the required training is performed annually as required by State statute.



**RESPONSE TO SCHEDULE OF FINDING & RECOMMENDATION  
For the Fiscal Year Ended June 30, 2016**

**State of Utah Compliance Finding:**

**2016-1 Open and Public Meetings Act Training**

**Finding**

UTOPIA did not hold a training for the public body covering the requirements of the Open and Public Meetings Act during the fiscal year ended June 30, 2016. The Utah State Code 52-4-104 requires UTOPIA to ensure that the members of the public body are provided with annual training on these requirements.

**Recommendation**

We recommend that UTOPIA implements a control to ensure that the required training is performed annually as required by State statute.

**Response**

Due to some scheduling issues, UTOPIA missed the training for FY16, but did hold the training in its August 2016 board meeting. We have placed the training on our annual calendar to ensure it occurs each fiscal year.