

**UTAH TELECOMMUNICATION OPEN  
INFRASTRUCTURE AGENCY**

**FINANCIAL STATEMENTS**

**JUNE 30, 2014**

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

Independent Auditor’s Report ..... 1

Management Discussion and Analysis ..... 3

Financial Statements:

Statement of Net Position ..... 7

Statement of Revenues, Expenses, and Changes in Fund Net Position ..... 9

Statement of Cash Flows ..... 10

Notes to Financial Statements ..... 11



**Keddington & Christensen, LLC**  
Certified Public Accountants

---

Gary K. Keddington, CPA  
Phyl R. Warnock, CPA  
Marcus K. Arbuckle, CPA  
Tyson C. Beck, CPA

**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, 2014, 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, 2014, 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 25, 2014 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*

Keddington & Christensen, LLC

November 25, 2014

# **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, 2014.

## **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.

## **Highlights**

As of the end of June, 2014, more than 2,283 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 73,000 addresses, of which approximately 46,000 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. Twenty service providers—Beehive Communications, Brigham.net, Centracom, Fibernet, First Digital, Infowest, Integra Telecom, OneWire, Rigidtech, SenaWave, SumoFiber, Syringa, Telesphere, Utah Broadband, Veracity, Voonami, WebWave, Windstream, XMission, and YipTel—were actively providing services and a total of 11,860 homes and businesses had subscribed to services at year end on the UTOPIA/UIA network.

Last year UTOPIA completed a project that was funded with \$16 million in Broadband Technology Opportunity Program funds under the American Reinvestment and Recovery Act (ARRA), and supplementing funds from UIA. UTOPIA/UIA has been able to leverage that investment and has focused on building the last mile in the commercial areas of its cities in order to support the business communities, government agencies, schools and other important institutions This work has made the following possible:

- An overall lowering of the cost to provide services going forward.
- New connections to 694 business within its member cities
- Connections (up to a Gigabyte) to 42 schools.
- Improved monitoring and management of critical city infrastructure such as water wells, sewer lift stations and traffic lights, and public safety.
- Public access via WIFI at many of the parks and public buildings in several member cities.

**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 \$400,000 below budgeted levels. Operating expenses (expenses excluding interest and depreciation) were below budget by \$455,000. Operating profit (EBITDA) was \$55,000 better than projected. Depreciation and amortization expense were below projected levels. Net income was also better than budget.

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

	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 11,384,997	\$ 5,911,620
Capital assets	<u>80,171,149</u>	<u>83,608,698</u>
Total Assets	<u>91,556,146</u>	<u>89,520,318</u>
Deferred outflow of resources	<u>78,239,908</u>	<u>74,446,652</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 169,796,054</u>	<u>\$ 163,966,970</u>
Current and other Liabilities	\$ 2,755,843	\$ 2,694,697
Long-term liabilities outstanding	<u>333,701,682</u>	<u>308,091,217</u>
Total Liabilities	<u>336,457,525</u>	<u>310,785,914</u>
Net investment in capital assets	(44,200,848)	(43,838,603)
Restricted	111,472	105,358
Unrestricted	<u>(122,572,095)</u>	<u>(103,085,699)</u>
Net Position, restated	<u>(166,661,471)</u>	<u>(146,818,944)</u>
Total Liabilities & Net Position	<u>\$ 169,796,054</u>	<u>\$ 163,966,970</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

	2014	2013
Revenues:		
Operating revenues	\$ 5,308,942	\$ 5,581,355
Interest income	6,353	8,487
Other revenues	1,622,033	7,109,047
Total Revenues	6,937,328	12,698,889
Expenditures:		
General and administrative	6,623,960	6,253,959
Network	1,999,273	1,737,776
Depreciation	4,739,039	4,828,741
Bond interest and fees	13,417,583	13,129,728
Total Expenditures	26,779,855	25,950,204
Change in net position	(19,842,527)	(13,251,315)
Total net position, beginning of year	(146,818,944)	(133,567,629)
Total net position, end of year	\$ (166,661,471)	\$ (146,818,944)

**Capital Assets and Debt Administration**

UTOPIA's capital assets, net of depreciation, were \$80.1 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, 2014, UTOPIA's outstanding debt amounted to \$241.2 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

	2014	2013
Construction in progress	\$ 4,512,609	\$ 6,018,236
Outside plant	67,673,112	68,710,072
Inside plant	457,822	913,558
Customer premise equipment	6,284,852	6,555,304
Intangible right	1,118,741	1,183,675
Office furniture and equipment	102,749	188,850
Vehicles	21,264	39,003
	\$ 80,171,149	\$ 83,608,698

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

Table 4 - Summary of the Agency's Debt

	2014	2013
Revenue bonds payable	\$ 184,970,208	\$ 184,996,270
Capital leases	29,607	58,076
Notes payable	56,184,711	42,828,783
	<u>\$ 241,184,526</u>	<u>\$ 227,883,129</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:

*“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.”*

In a blog written by the new FCC Chairman Tom Wheeler, a former cable company CEO he stated: “If the people , acting through their elected local government, want to pursue competitive community broadband, they shouldn’t be stopped by state laws promoted by cable and telephone companies that don’t want the competition.” FDR’s principles are starting to resonate in the U.S. It was reported this year by Community Broadband Networks, that nearly 400 municipalities across the country have recognized the need for their involvement in improving broadband infrastructure.

The US continues to lag significantly behind much of the world in terms of Internet access and throughput. According to the recent Ookla Net Index, the US ranked 27th in the world. In the US, we also pay significantly more than most countries for those services. In almost all of the countries that are ranked in the top 10 there has been a focus by their governments to invest and build a state of the art network. They see it as critical infrastructure and an absolute necessity to compete in today’s world economy. Back in 2004 the UTOPIA member cities recognized the need to develop a state of the art fiber network in order to compete in tomorrows economy and provide these services for their citizens that are becoming so dependent on real-time access to information. In many ways they were pioneering in that effort. At the very least the result of public involvement has forced the Telco Incumbents to up their game by improving their services and lowering their prices to the benefit of all.

From its inception, there has been political fodder about UTOPIA. As one of the first municipal projects in the country lessons have been learned 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, 2014**

**Assets and Deferred Outflows**

**Current Assets:**

Cash		\$ 20,272
Restricted cash equivalents		1,224,261
Trade receivables, net		343,714
Inventory		1,484,077
Prepaid expenses		106,385
Notes receivable, current portion		<u>655,000</u>
<b>Total Current Assets</b>		<u><b>3,833,709</b></u>

**Noncurrent assets:**

**Capital Assets:**

Construction in progress		4,512,609
Property and equipment, net:		
Fiber optic network	\$ 75,534,527	
Office furniture and equipment	102,749	
Vehicles	<u>21,264</u>	
<b>Total Property and Equipment, net</b>		<u><b>75,658,540</b></u>
<b>Total Capital Assets</b>		<u><b>80,171,149</b></u>

**Other Assets:**

Deposits		10,686
Notes receivable, net of current portion		<u>7,540,602</u>
<b>Total Other Assets</b>		<u><b>7,551,288</b></u>
<b>Total Assets</b>		<u><b>91,556,146</b></u>

**Deferred Outflows:**

Deferred charge on refunding		1,970,393
Deferred interest rate swaps		<u>76,269,515</u>
<b>Total Deferred Outflows</b>		<u><b>78,239,908</b></u>
<b>Total Assets and Deferred Outflows</b>		<u><u><b>\$ 169,796,054</b></u></u>

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

**UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY**  
**STATEMENT OF NET POSITION (Continued)**  
**June 30, 2014**

**Liabilities**

**Current Liabilities:**

Accounts payable	\$ 562,586
Accrued liabilities	79,713
Compensated absences	139,966
Interest payable from restricted assets	1,112,789
Capital leases payable	29,607
Note payable	9,039
Unearned revenue, current portion	655,000
Revenue bonds payable	167,143

<b>Total Current Liabilities</b>	<b>2,755,843</b>
----------------------------------	------------------

**Noncurrent Liabilities:**

Compensated absences	97,917
Note payable	56,175,672
Unearned revenue, net of current portion	16,355,513
Revenue bonds payable	184,803,065
Interest rate swaps liability	76,269,515

<b>Total Liabilities</b>	<b>336,457,525</b>
--------------------------	--------------------

**Net Position:**

Net investment in capital assets	(44,200,848)
Restricted for:	
Debt service	111,472
Unrestricted	(122,572,095)

<b>Total Net Position</b>	<b>(166,661,471)</b>
---------------------------	----------------------

<b>Total Liabilities and Net Position</b>	<b>\$ 169,796,054</b>
---	-----------------------

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, 2014**

<b>Operating Revenues:</b>	
Access fees	\$ 4,261,844
Fiber lease revenue	655,000
Installation revenue	60,603
Miscellaneous operating revenue	331,495
	<hr/>
<b>Total Operating Revenues</b>	<b>5,308,942</b>
<b>Operating Expenses:</b>	
Payroll	4,050,698
Material and supplies	779,751
Professional services	1,793,511
Network	1,999,273
Depreciation	4,739,039
	<hr/>
<b>Total Operating Expenses</b>	<b>13,362,272</b>
	<hr/>
<b>Operating Loss</b>	<b>(8,053,330)</b>
<b>Nonoperating Revenues (Expenses):</b>	
Interest income	6,353
Federal stimulus grant revenue	1,609,901
Miscellaneous nonoperating revenue	3,582
Bond interest and fees	(13,417,583)
Gain on disposal of assets	8,550
	<hr/>
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(11,789,197)</b>
	<hr/>
<b>Change In Net Position</b>	<b>(19,842,527)</b>
	<hr/>
<b>Total Net Position, Beginning of Year, Restated</b>	<b>(146,818,944)</b>
	<hr/>
<b>Total Net Position, End of Year</b>	<b>\$ (166,661,471)</b>
	<hr/> <hr/>

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, 2014**

<b>Cash Flows From Operating Activities:</b>	
Cash received from customers and users	\$ 8,241,716
Payments to suppliers	(5,348,334)
Payments to employees	(4,116,973)
	<u>(1,223,591)</u>
<b>Net cash used by operating activities</b>	
<b>Cash Flows From Capital and Related Financing Activities:</b>	
Purchase of property and equipment	(600,641)
Proceeds from sale of inventory to outside parties	4,352
Proceeds from sale of capital assets	8,550
Proceeds from federal stimulus grant	1,609,901
Proceeds from note payable	13,118,051
Bond interest and fees	(13,073,571)
Principal paid on capital leases, notes payable, and bonds payable	(63,481)
	<u>1,003,161</u>
<b>Net cash provided by capital and related financing activities</b>	
<b>Cash Flows From Investing Activity:</b>	
Interest income	9,935
	<u>9,935</u>
<b>Net cash provided by investing activity</b>	
<b>Net Increase in Cash and Cash Equivalents</b>	(210,495)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,455,028</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 1,244,533</u></u>
<b>Reconciliation of operating loss to net cash from operating activities:</b>	
Operating loss	\$ (8,053,330)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization expense	4,739,039
(Increase) decrease in assets related to operations	
Trade receivables, net	474,207
Inventory	(71,753)
Prepaid expenses	17,272
Increase (decrease) in liabilities related to operations	
Accounts payable	(721,318)
Accrued liabilities	(26,777)
Compensated absences	(39,498)
Deferred Revenue	2,458,567
	<u>2,458,567</u>
<b>Net Cash Used by Operating Activities</b>	<u><u>\$ (1,223,591)</u></u>

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, 2014. 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 \$34,906 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 \$0.

Inventories

Inventories are stated at cost 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, 2014, 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	\$ 20,272
Investments in Utah Public Treasurer's Investment Funds	1,224,261
	\$ 1,244,533

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, 2014, \$0 of the \$112,227 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, 2014 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.

**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 PTIF has no custodial credit risk.

**NOTE 3 RESTRICTED CASH EQUIVALENTS**

Restricted cash equivalents consist of the following:

Debt service	\$ 1,224,261
Restricted cash equivalents - current	(1,224,261)
Noncurrent portion of restricted cash equivalents	\$ -

**NOTE 4 PROPERTY AND EQUIPMENT**

The following summarizes UTOPIA's property and equipment as of June 30, 2014:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Capital assets, not being depreciated:				
Construction in progress	\$ 6,018,236	\$ 591,539	\$ (2,097,166)	\$ 4,512,609
Total capital assets, not being depreciated	6,018,236	591,539	(2,097,166)	4,512,609
Capital assets, being depreciated:				
Outside plant	89,114,055	2,575,849	-	91,689,904
Inside plant	14,824,060	81,094	-	14,905,154
Customer premise equipment	13,277,484	141,767	-	13,419,251
Intangible right	1,624,040	-	-	1,624,040
Office furniture and equipment	1,212,104	8,407	(120,572)	1,099,939
Vehicles	461,601	-	-	461,601
Total capital assets, being depreciated	120,513,344	2,807,117	(120,572)	123,199,889
Less accumulated depreciation:				
Outside plant	(20,403,983)	(3,612,809)	-	(24,016,792)
Inside plant	(13,910,502)	(536,830)	-	(14,447,332)
Customer premise equipment	(6,722,180)	(412,219)	-	(7,134,399)
Intangible right	(440,365)	(64,934)	-	(505,299)
Office furniture and equipment	(1,023,254)	(94,508)	120,572	(997,190)
Vehicles	(422,598)	(17,739)	-	(440,337)
Total accumulated depreciation	(42,922,882)	(4,739,039)	120,572	(47,541,349)
Total capital asset, net of accumulated depreciation	77,590,462	(1,931,922)	-	75,658,540
Property and Equipment, net	\$ 83,608,698	\$ (1,340,383)	\$ (2,097,166)	\$ 80,171,149

Depreciation and amortization expense of \$4,739,039 was charged to operating expense for the year ended June 30, 2014.

**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, 2014.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Revenue bonds</b>					
2011A tax exempt bonds	\$ 109,996,270	\$ -	\$ (24,035)	\$ 109,972,235	\$ 82,008
2011B taxable bonds	75,000,000	-	(2,027)	74,997,973	85,135
<b>Total revenue bonds</b>	<u>184,996,270</u>	<u>-</u>	<u>(26,062)</u>	<u>184,970,208</u>	<u>167,143</u>
<b>Capital leases</b>					
Payson City	58,076	-	(28,469)	29,607	29,607
<b>Total capital leases</b>	<u>58,076</u>	<u>-</u>	<u>(28,469)</u>	<u>29,607</u>	<u>29,607</u>
<b>Notes payable</b>					
Pledging members	42,588,007	13,364,878	-	55,952,885	-
Non-pledging members	135,750	-	-	135,750	-
Layton RDA	105,026	-	(8,950)	96,076	9,039
<b>Total notes payable</b>	<u>42,828,783</u>	<u>13,364,878</u>	<u>(8,950)</u>	<u>56,184,711</u>	<u>9,039</u>
<b>Compensated absences</b>	<u>277,381</u>	<u>-</u>	<u>(39,498)</u>	<u>237,883</u>	<u>139,966</u>
<b>Total Long-Term Debt</b>	<u>\$ 228,160,510</u>	<u>\$ 13,364,878</u>	<u>\$ (102,979)</u>	<u>\$ 241,422,409</u>	<u>\$ 345,755</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 .1552% at June 30, 2014, 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.

\$ 109,972,235

Taxable Adjustable Rate Telecommunications and Sales Tax Revenue Refunding Bonds, Series 2011B, 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 .2307% at June 30, 2014, 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.

74,997,973

Total revenue bonds

184,970,208

Less current portion

(167,143)

Noncurrent portion

\$ 184,803,065

**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, 2014 for the 2011 A and 2011 B debt service is \$55,678 and \$29,007, respectively and is included in restricted cash equivalents.

At June 30, 2014, 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>
2015	\$ 167,143	\$ 3,720,680	\$ 9,398,660	\$ 13,286,483
2016	401,886	3,740,577	9,388,572	13,531,035
2017	702,005	3,742,555	9,362,419	13,806,979
2018	996,501	3,751,800	9,320,951	14,069,252
2019	1,290,771	3,763,041	9,264,985	14,318,797
2020-2024	12,586,145	18,728,170	44,823,141	76,137,456
2025-2029	26,046,044	17,413,814	40,073,015	83,532,873
2030-2034	45,946,734	14,218,669	31,254,086	91,419,489
2035-2039	76,693,866	8,280,298	16,116,337	101,090,501
2040	20,139,113	628,064	644,880	21,412,057
	<u>\$ 184,970,208</u>	<u>\$ 77,987,668</u>	<u>\$ 179,647,046</u>	<u>\$ 442,604,922</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 \$89,169.

	\$ 29,607
Total capital leases	29,607
Less current portion	(29,607)
Noncurrent portion	\$ -

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

**NOTE 5 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 0.47% at June 30, 2014. 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. \$ 55,952,885

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. Principle and interest payments of \$10,000 due annually beginning January 1, 2012 until January 2025. Interest at 1.0%. 96,076

Total Note Payable	56,184,711
Less current portion	<u>(9,039)</u>
Noncurrent portion	<u><u>\$ 56,175,672</u></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>
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	9,406	594	10,000
2020-2024	48,461	1,540	50,001
2025	1,506	15	1,521
	<u>\$ 96,076</u>	<u>\$ 5,446</u>	<u>\$ 101,522</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 17.29% of the covered salary to the Noncontributory System and 13.99% 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, 2014, 2013, and 2012 were \$357,218, \$394,802, and \$326,552, respectively. UTOPIA's contribution to the Contributory System for the year ending June 30, 2014, 2013, and 2012 were \$38,597, \$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, 2014, 2013, and 2012, were \$14,419, \$24,963, and \$24,957, 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, 2014, 2013 and 2012, contributions totaling \$37,636, \$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, 2014, 2013, and 2012 were \$0, \$38, and \$23,710, 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 \$483,638. These leases range from 3 years to 20 years. Total remaining minimum lease payments at June 30, 2014 are as follows:

<u>Year</u>	<u>Payments</u>
2015	\$ 453,918
2016	204,406
2017	162,202
2018	147,202
2019	102,202
2020-2024	61,010
2025-2026	15,253
	<u>\$ 1,146,193</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 \$331,495 for the year ended June, 30, 2014.

**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. 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. In December 2013, UTOPIA's management renegotiated the payment schedule with UIA where-in the 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 to use Agreement at June 30, 2014 was \$8,815,506 (\$655,000 of which is current) and has been recorded as a note receivable. The net present value of the future lease payments on the note of \$8,195,602 (discounted at a rate of 1.09%) plus payments received for which revenue has not yet been recognized of \$8,814,911, a total of \$17,010,513 (\$655,000 of which is current), is reported as unearned revenue and will be recognized evenly over the life of the 30 year contract.

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

**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 2014. Any amounts paid by Pledging Members to UTOPIA will be a loan to be repaid by UTOPIA.

<u>Pledging Member</u>	<u>2014 Pledged &amp; Paid</u>	<u>2015 Share of Total Max. Pledge</u>	<u>2015 Maximum Pledge *</u>	<u>Yearly Increase</u>
Brigham City	\$ 439,371	3.35%	\$ 447,413	2%
Centerville City	436,978	3.33%	444,976	2%
Layton City	2,193,179	16.72%	2,233,320	2%
Lindon City	403,700	3.08%	411,089	2%
Midvale City	795,598	6.07%	810,159	2%
Murray City	1,615,214	12.32%	1,644,777	2%
Orem City	2,863,747	21.84%	2,916,162	2%
Payson City	259,920	1.95%	259,920	-
Perry City	107,783	0.82%	109,756	2%
Tremonton City	331,499	2.53%	337,567	2%
West Valley City	3,671,061	27.99%	3,738,252	2%
	<u>\$13,118,050</u>	<u>100.00%</u>	<u>\$ 13,353,391</u>	

**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, 2014 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>	\$ 109,972,235	\$ (47,674,146)	Deferred Outflow	\$ (766,299)	June 1, 2040	BBB+	Baa1	A-
5.665%	LIBOR + .05% <sup>2</sup>	74,997,973	(28,595,369)	Deferred Outflow	(1,056,564)	June 1, 2040	A-	Baa2	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.

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

**NOTE 11 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, 2014, the actual critical value was 102 percent.

Fair Value

At June 30, 2014 the swaps had a combined negative fair value of \$76,269,515. 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.

**NOTE 12 PRIOR PERIOD ADJUSTMENT**

During the year, UTOPIA implemented GASB Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position. This statement provides financial reporting guidelines to standardize the presentation of deferred outflows of resources and deferred inflows of resources, and their effects on a government's net position. As required by the provisions of the statement, the provisions of the standard have been applied retroactively, resulting in an adjustment to previously reported net position of \$915,721.