UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY

FINANCIAL STATEMENTS

JUNE 30, 2007

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of Utah Telecommunication Open Infrastructure Agency (UTOPIA), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of UTOPIA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of UTOPIA, as of June 30, 2007, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated January 25, 2008 on our consideration of UTOPIA's internal control over financial reporting and on our tests of compliance with certain provisions of laws and regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Jensen & Keddington

January 25, 2008

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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, 2007.

Description of Business
Fourteen Utah cities created UTOPIA to promote economic development and to improve the quality of life for their residents through the construction and operation of a wholesale, all fiber telecommunications infrastructure. The system is an open access network over which private providers of retail digital services reach customers in UTOPIA member cities.

Eleven of the current UTOPIA member cities provided sales tax pledges as partial loan guarantees to secure financing for the network. Phase I involved a total of 52 footprints (neighborhood service areas) and interconnecting rings in Midvale, Murray, Lindon, Orem, Payson, and West Valley City. Phase II added new construction in Payson and Lindon and expands the network to Centerville, Layton, Brigham City, Perry and Tremonton. Phase II construction is under way. As of the end of June, 2007, 7.4 million feet (1,418 miles) of fiber access cable have been placed in the eleven cities. Within the 57 production footprints there are a total of 47,000 addresses. Future phases will complete the network. When completed, the network will pass in excess of 180,000 prospective subscribers.

Highlights
At June 30, 2007, of the addresses passed, 37,160 are marketable (able to receive services at the decision of the household or business). The remaining addresses are located in apartment buildings, condominium developments, or in areas isolated by right of way or pole access issues. Five service providers—AT&T, MStar, Nuvont, XMission, and Veracity—were actively marketing at least some of their services and a total of 6,161 homes and businesses had subscribed to services by fiscal year end. These subscribers selected services as indicated in Figure 1:

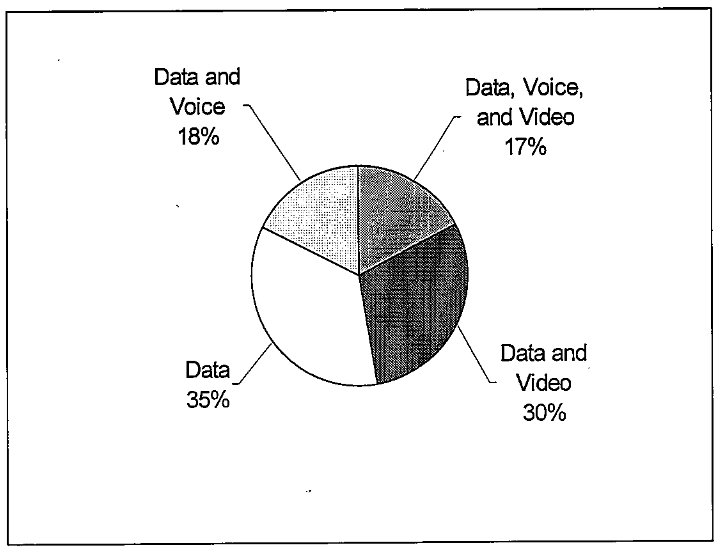

Figure 1

Chart showing breakdown of subscribers at June 30, 2007 by type of service selected.

Securing continuity of financing to continue network build out through Phase II has proved to be a major challenge for the Agency. The original business plan anticipated that a second round of bonding would have been completed in the first quarter of calendar year 2006. This did not happen.

The Agency applied for a loan from the U.S. Department of Agriculture, Rural Utility Service (RUS) Broadband Loan Program designed to help communities with populations under 20,000. Six UTOPIA members—Brigham City, Centerville, Lindon, Payson, Perry, and Tremonton—qualify for loans under this program. The loan provided the funding necessary to build out these RUS-eligible cities. Notice of loan approval was given on July 18, 2006, however, preparation of documents to execute this complex transaction was not completed until July 5, 2007, shortly after the end of the fiscal year.

With approval of the RUS financing, the Board of Directors authorized an additional $30 million dollars in financing secured by city pledges that had not been activated in Phase I. This action reflected the confidence, desire, and commitment of the cities to continue with the project. These funds were provided for new construction in non RUS eligible cities, and to cover expenses until operating break even is reached.

In July and October of 2006 UTOPIA entered into two ISDA to BMA basis swap contracts, with notional amounts of $85 million and $30 million respectively designed to reduce UTOPIA interest cost and result in a lower cost of borrowing. In entering into the first of the two basis swaps UTOPIA elected to take one-half of the anticipated cash flow benefit up front and the remaining benefit will be received over time as the periodic payments are made from July 2006 until 2026. The payments on the second basis swap will be periodic payments received from October 2006 until 2026.

The Agency also determined that cost savings could be achieved by internalizing the curb to home installation process. Hiring and equipping its own crews allowed the Agency to control installation cost and quality, and in addition, network repair and maintenance work could be managed more efficiently and economically.

Costs, to date, have been within business case expectations. Construction expenses were at, or below projections and agency and network operation costs were also held within budget. The unanticipated delay in release of RUS funding led to an interruption in construction, in the release of new inventory of marketable addresses, and in the roll-out of service provider marketing plans. Consequently, the actual number of subscribers at year end fell below expectations.

Overview of Financial Statements

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

As expected, the financial statements reflect conditions typical of a capital-intensive start-up enterprise in the first years of its existence. Revenue volume increased 50% over the prior fiscal year but did not cover operating expenses. Marketing efforts of UTOPIA service providers continuously add new subscribers to the network and increase the Agency's gross revenues. As originally anticipated, an operating deficit is projected to continue for another year. As explained below, there is sufficient cash to sustain operations over this period of time even though the Agency's negative net assets will grow until operational break-even has been achieved.

Operating revenues for the fiscal year met anticipated results ($2,318,607 actual vs. $2,338,808 budget). In addition, operating expenses (expenses excluding interest and depreciation) were also at budgeted levels ($5,917,992 actual vs. $5,902,567). Depreciation expense exceeded budget, principally due to the adoption of an accelerated depreciation method for inside plant (electronics) and the capitalization of additional footprints.

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

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

	2007	2006
Current and other assets	$ 12,817,092	$ 9,450,354
Capital Assets	80,069,992	69,524,376
Total Assets	92,887,084	78,974,730
Long-term liabilities outstanding	121,154,966	86,218,248
Other Liabilities	9,666,047	11,181,444
Total Liabilities	130,821,013	97,399,692
Invested in net capital assets, Net of related debt	(10,395,179)	(3,155,785)
Restricted	-	-
Unrestricted	(27,538,750)	(15,269,177)
Net Assets	$ (37,933,929)	$ (18,424,962)

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

	2007	2006
Revenues:		
Operating revenues	$ 2,318,607	$ 1,550,426
Non-operating revenues	246,807	228,233
Interest income	761,557	922,583
Total Revenues	3,326,971	2,701,242
Expenditures:		
General and administrative	1,456,243	1,534,231
Network	4,461,749	4,630,652
Depreciation	7,239,393	2,643,074
Bond interest and fees	7,654,923	4,248,038
Total Expenditures	20,812,308	13,055,995
Change in net assets	(17,485,337)	(10,354,753)
Total net assets, beginning of year	(18,424,962)	(8,070,209)
Prior period adjustments	(2,023,630)	-
Total net assets, end of year	$ (37,933,929)	$ (18,424,962)

Capital Assets and Debt Administration

UTOPIA's investment in capital assets, net of depreciation was $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 misc. assets.

As of June 30, 2007, UTOPIA's outstanding debt amounted to $115.8 million. The majority of this debt (revenue bonds payable) is secured by the 11 pledging members' sales tax pledges.

UTOPIA's Capital Assets
(Net of Depreciation)

	2007	2006
Construction in progress	$ 17,297,058	$ 10,081,326
Outside plant	48,498,835	45,537,103
Inside plant	7,167,610	10,623,906
Customer premise equipment	5,690,352	4,404,607
Intangible right	828,926	864,296
Office furniture and equipment	365,583	13,036
Vehicles	221,628	-
	$ 80,069,992	$ 71,524,274

UTOPIA's Outstanding Debt

	2007	2006
Revenue bonds payable	$ 114,300,000	$ 85,000,000
Capital leases	366,571	1,334,370
Notes payable	1,175,515	1,807,685
	$ 115,842,086	$ 88,142,055

Final Comment

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

BASIC FINANCIAL STATEMENTS

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
STATEMENT OF NET ASSETS
June 30, 2007

Assets		
Current Assets:		
Cash		$ 351,241
Restricted investments		5,269,997
Receivables:		
Trade receivables, net	$ 1,437,565	
Miscellaneous receivables	246,807	
Interest receivable - restricted investments	28,926	
Total Receivables		1,713,298
Prepaid expenses		347,094
Deferred charges		274,970
Total Current Assets		7,956,600
Noncurrent assets:		
Capital Assets:		
Construction in progress		17,297,058
Property and equipment, net		
Fiber optic network	62,185,723	
Office furniture and equipment	365,583	
Vehicles	221,628	
Total Property and Equipment, net		62,772,934
Total Capital Assets		80,069,992
Other Assets:		
Restricted investments	1,608,382	
Deposits	175,227	
Deferred charges	2,756,715	
Swap asset	320,168	
Total Other Assets		4,860,492
Total Assets		$ 92,887,084

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

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
STATEMENT OF NET ASSETS (Continued)
June 30, 2007

Liabilities	
Current Liabilities:	
Accounts payable	$ 3,827,977
Accrued liabilities	51,533
Compensated absences	32,667
Interest payable from restricted assets	555,859
Other liabilities payable from restricted assets	2,951,787
Notes payable	523,723
Capital leases payable	22,501
Revenue bonds payable	1,700,000
Total Current Liabilities	9,666,047
Noncurrent Liabilities:	
Compensated absences	43,302
Notes payable	651,792
Capital leases payable	344,070
Revenue bonds payable	112,600,000
Swaps liability	7,515,802
Total Liabilities	130,821,013
Net Assets:	
Invested in capital assets, net of related debt:	(10,395,179)
Unrestricted deficit	(27,538,750)
Total Net Assets	(37,933,929)
Total Liabilities and Net Assets	$ 92,887,084

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

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For The Year Ended June 30, 2007

Operating Revenues:	
Customer access fees	$ 2,101,444
Service provider fees	217,163
Total Operating Revenues	2,318,607
Operating Expenses:	
Payroll	853,832
Material and supplies	137,963
Professional services	464,448
Network	4,461,749
Depreciation	7,239,393
Total Operating Expenses	13,157,385
Operating Loss	(10,838,778)
Nonoperating Revenues (Expense):	
Interest income	761,557
Bond interest and fees	(7,654,923)
Grant revenue	246,807
Total Nonoperating Revenues (Expense)	(6,646,559)
Change In Net Assets	(17,485,337)
Total Net Assets, Beginning of Year	(18,424,962)
Prior Period Adjustment	(2,023,630)
Total Net Assets, End of Year	$ (37,933,929)

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, 2007

Cash Flows From Operating Activities:	
Cash received from customers and users	$ 1,639,246
Payments to suppliers	(7,866,610)
Payments to employees	(786,935)
Net cash used by operating activities	(7,014,299)
Cash Flows From Capital and Related Financing Activities:	
Purchase of property and equipment	(17,327,831)
Proceeds from issuance of bonds payable	30,000,000
Principal paid on bonds payable	(700,000)
Principal paid on notes payable	(662,809)
Bond interest and fees	(6,994,504)
Cash paid for bond issuance costs	(1,310,375)
Principal paid on capital leases payable	(1,127,056)
Deposits on leases	(10,727)
Restricted cash - net increase	66,512
Cash received on swap transactions	4,618,000
Net cash provided from capital and related financing activities	6,551,210
Cash Flows From Investing Activity:	
Interest income	761,243
Net cash provided by investing activity	761,243
Net Increase in Cash and Cash Equivalents	298,154
Cash and Cash Equivalents, Beginning of Year	53,087
Cash and Cash Equivalents, End of Year	$ 351,241

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, 2007

Reconciliation of operating loss to net cash from operating activities:

Operating loss	$	(10,838,778)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense		7,239,393
(Increase) decrease in current assets		
Accounts receivable		(679,361)
Prepaid expense		(283,143)
Increase (decrease) in current liabilities		
Accounts payable		(2,315,309)
Accrued liabilities		66,897
Liabilities payable from restricted assets		(203,998)
Net Cash Used by Operating Activities	$	(7,014,299)

Supplemental Information

Noncash Investing, Capital, and Financing Activities:

Deferred bonds costs of $259,214 were amortized to bond interest expense.

Interest expense of $30,639 was added to the balance of notes payable.

Additions to outside plant includes $159,257 financed by a capital lease and $297,921 of capitalized interest.

Swap asset was increased by $320,168.

Interest expense of $874,172 was added to the balance of swap liability.

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 3 non-pledging members in UTOPIA at June 30, 2007. UTOPIA's purpose is to design, finance, build, operate, and maintain an open, wholesale, public telecommunication infrastructure that has the capacity to deliver high-speed connections to every home and business in the member communities.

Summary of Significant Accounting Policies

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

The following is a summary of the more significant policies.

The Reporting Entity

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

Financial Statement Presentation and Basis of Accounting

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

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Continued)

Financial Statement Presentation and Basis of Accounting (Continued)
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 Wells Fargo for safekeeping of funds relating to future construction, debt service reserves and a contract with a supplier. When both restricted and unrestricted assets are available, it is UTOPIA's policy to use restricted assets first, then unrestricted assets as they are needed.

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

Depreciation of property and equipment was computed using the straight-line method over the following estimated useful lives

Outside plant	5-25 years
Customer premise equipment	5-25 years
Office furniture and equipment	3-5 years
Vehicles	5 years

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

Depreciation of the intangible right was computed over the life of the contract of 25 years.

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

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

Allowance for Doubtful Accounts
Management has estimated the allowance for doubtful accounts to be $23,770, which is estimated based on current collectibility of certain 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 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, 2007, UTOPIA had the following deposits and investments:

Deposit and investment type	Fair Value
Cash on deposit	$ 350,941
Investments in money market funds	6,878,379
	$ 7,229,320

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, 2007, $350,941 of the $350,941 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 money market funds:
Interest rate risk. The risk that changes in the interest rate will have an adverse affect on the fair value of an investment. UTOPIA's investment in money market funds are not subject to interest rate risk.

Credit risk. This is the risk that an issuer or other counter party to an investment will not fulfill its obligations. As of June 30, 2007 the money market funds 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 money market funds 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 money market funds has no custodial credit risk.

NOTE 3 RESTRICTED INVESTMENTS

Restricted investments consist of the following:

Construction costs	$ 2,951,787
Future interest payments on bonds	1,787,375
Required debt reserves	1,608,382
Restricted by contract with supplier	530,835
	6,878,379
Restricted investments - current	(5,269,997)
Noncurrent portion of restricted investments	$ 1,608,382

NOTE 4 PROPERTY AND EQUIPMENT

The following summarizes UTOPIA's property and equipment as of June 30, 2007:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	$ 10,081,326	$ 9,877,442	$ (2,661,710)	$ 17,297,058
Total capital assets, not being depreciated	10,081,326	9,877,442	(2,661,710)	17,297,058
Capital assets, being depreciated:				
Outside plant	44,575,335	6,871,841	-	51,447,176
Inside plant	12,111,992	403,254	-	12,515,246
Customer premise equipment	5,002,161	2,576,364	-	7,578,525
Intangible right	884,341	-	-	884,341
Office furniture and equipment	24,905	440,885	-	465,790
Vehicles	-	277,035	-	277,035
Total capital assets, being depreciated	62,598,734	10,569,379	-	73,168,113
Less accumulated depreciation:				
Outside plant	(1,038,232)	(1,910,109)	-	(2,948,341)
Inside plant	(1,488,086)	(3,859,550)	-	(5,347,636)
Customer premise equipment	(597,554)	(1,290,619)	-	(1,888,173)
Intangible right	(20,045)	(35,370)	-	(55,415)
Office furniture and equipment	(11,869)	(88,338)	-	(100,207)
Vehicles	-	(55,407)	-	(55,407)
Total accumulated depreciation	(3,155,786)	(7,239,393)	-	(10,395,179)
Total capital asset, net of accumulated depreciation	59,442,948	3,329,986	-	62,772,934
Property and Equipment, net	$ 69,524,274	$ 13,207,428	$ (2,661,710)	$ 80,069,992

Depreciation expense of $7,239,393 was charged to operating expense for the year ended June 30, 2007. During the year, UTOPIA incurred interest expense of $7,952,844 of which $297,921 was capitalized.

NOTE 5 LONG-TERM DEBT

The following is a summary of the changes in long-term debt obligations for the year ended June 30, 2007.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds					
2004 revenue bonds	$ 85,000,000	$ -	$ (700,000)	$ 84,300,000	$ 1,700,000
2006 revenue bonds	-	30,000,000	-	30,000,000	-
Total Revenue Bonds	85,000,000	30,000,000	(700,000)	114,300,000	1,700,000
Capital leases					
Murray	1,105,423	-	(1,105,423)	-	-
Payson	228,947	-	(21,633)	207,314	22,501
Developer	-	159,257	-	159,257	-
Notes payable					
Members	135,750	-	-	135,750	-
DynamicCity	579,603	30,639	-	610,242	94,200
Tetra Tech	1,092,332	-	(662,809)	429,523	429,523
Compensated absences	60,605	15,364	-	75,969	32,667
Total Long-Term Debt	$ 88,202,660	$ 30,205,260	$ (2,489,865)	$ 115,918,055	$ 2,278,891

Revenue Bonds

Taxable Adjustable Rate Telecommunications Revenue Bonds, Series 2004, original issue of $85,000,000, principal payments due in quarterly installments beginning April 2007, interest payments due monthly at LIBOR, which was 5.35% at June 30, 2007, with the final payment due July 2026. The bonds were issued to finance UTOPIA's infrastructure construction.	$ 84,300,000
Taxable Adjustable Rate Telecommunications Revenue Bonds, Series 2006, original issue of $30,000,000, principal payments due in annual installments beginning July 2008, interest payments due monthly at LIBOR, which was 5.35% at June 30, 2007, with the final payment due July 2026. The bonds were issued to finance UTOPIA's infrastructure construction.	30,000,000
Total Revenue Bonds	$ 114,300,000

The following summarizes UTOPIA's revenue bonds debt service requirements as of June 30, 2007:

Year	Principal	Interest	Total
2008	$ 1,700,000	$ 4,444,513	$ 6,144,513
2009	2,325,000	5,941,175	8,266,175
2010	3,425,000	5,768,638	9,193,638
2011	3,975,000	5,561,325	9,536,325
2012	4,800,000	5,323,250	10,123,250
2013-2017	26,845,000	22,472,943	49,317,943
2018-2022	35,145,000	14,131,624	49,276,624
2023-2027	36,085,000	3,966,356	40,051,356
	$ 114,300,000	$ 67,609,823	$ 181,909,823

NOTE 5 LONG-TERM DEBT (Continued)

Capital Leases

Capital leases consist of the following:

UTOPIA is obligated to pay a developer for outside plant construction. Because the terms and options contained in the lease have effectively created a financing arrangement, UTOPIA is required to record this transaction as a capital lease. Lease payments are $20 a month for each unit built in subdivision. Interest is charged at 7.00% annual rate. The capitalized cost of outside plant construction was $159,257 with accumulated depreciation of $0.	$	159,257
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 $16,442.		207,314
		366,571
Less current portion		(22,501)
Noncurrent portion	$	344,070

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

Developer Capital Lease		
2008	$	932
2009		18,278
2010		26,310
2011		28,212
2012		30,252
2013-2014		55,273
Total minimum lease payments	$	159,257

Payson City Capital Lease		
2008	$	30,792
2009		30,792
2010		30,792
2011		30,792
2012		30,792
2013-2015		92,375
Total minimum lease payments		246,335
Less amount representing interest		(39,021)
Present value of net minimum lease payments	$	207,314

NOTE 5 LONG-TERM DEBT (Continued)

Notes Payable

The notes payable consists of the following:

Note payable to Tetra Tech, balance due in quarterly installments of $250,000 starting September 30, 2006 through June 30, 2007 with the remaining balance due September 30, 2007, including interest at 8% annual rate.	$	429,523
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
Note payable due to Dynamic City. Payment by UTOPIA is contingent upon UTOPIA having paid all the other then current debts due to DynamicCity. The balance includes accrued interest at 7.25%. Management does not anticipate making any payments in the next fiscal year.		453,242
Amounts due to Dynamic City for services rendered prior to UTOPIA issuing bonds. By contract, DynamicCity agreed to defer payment on 30% and 20% of the original balance of $314,000 until UTOPIA issues its 2nd and 3rd bonds respectively. UTOPIA issued its 2nd bond in October 2006, therefore, $94,200 of this balance is considered current.		157,000
		1,175,515
Less current portion		(523,723)
Noncurrent portion	$	651,792

NOTE 6 RETIREMENT PLANS

Plan Description

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

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

NOTE 6 RETIREMENT PLANS (Continued)

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 11.59% of the covered salary to the Noncontributory System. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

UTOPIA's contribution to the Noncontributory System for the years ending June 30, 2007, 2006 and 2005 were $32,000, $20,541, and $14,817, respectively. The contributions were equal to the required contributions for each year.

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

UTOPIA contributes to a non-contributory defined contribution retirement benefit plan covering substantially all employees. Currently all of the assets and income of the 457 Plan are held in trust by the plan administrator for the exclusive benefit of the participants or their beneficiaries rather than as assets of UTOPIA. Employer contributions under this plan during the years ended June 30, 2007, 2006 and 2005, were $49,418, $55,328 and $32,132, respectively.

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, 2007 was $132,225.

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 $685,452. These leases range from 3 years to 20 years, with renewal options up to 23 years. Total remaining minimum lease payments at June 30, 2007 are as follows:

2008	$	522,063
2009		397,501
2010		407,107
2011		408,331
2012		417,800
2013-2017		1,160,541
2018-2022		121,010
2023-2026		39,657
	$	3,474,011

NOTE 8 COMMITMENTS AND CONTRACTS

UTOPIA entered into various contracts with contractors, vendors and suppliers to provide the construction and equipment needed for the network.

In conjunction with the revenue bonds issued, UTOPIA was required to obtain letters of credit. UTOPIA pays an annual fee for these lines of credit. The unused lines of credit are $126,414,924 at June 30, 2007.

Contract with Dynamic City

During 2002 UTOPIA entered into a contract with Dynamic City to manage the construction of the fiber optic network. Dynamic City has agreed to defer certain portions of the payments owed to them from UTOPIA.

Dynamic City has agreed to pay UTOPIA a royalty based on Dynamic City's gross revenues from intellectual property developed while designing UTOPIA's fiber optic network. Each year Dynamic City will pay 1% of their gross revenues to UTOPIA until UTOPIA has received $1,000,000 during that year. At that point, Dynamic City will pay UTOPIA 2% of gross revenues until UTOPIA has received $12,000,000 during that year. During the year ending June 30, 2007 Dynamic City did not have any of this type of gross revenues. As a result, UTOPIA did not receive any royalty payments.

UTOPIA has agreed to pay Dynamic City 10% of UTOPIA's Adjusted Net Income for 20 years beginning July 2004. If Dynamic City meets certain performance criteria, UTOPIA agreed to pay Dynamic City an additional 10% of UTOPIA's Adjusted Net Income for 20 years beginning July 2004.

If Dynamic City does not meet the performance criteria for a given year or month, UTOPIA is not obligated to pay the additional 10% of Adjusted Net Income for that year or month. Dynamic City has agreed to defer receipt of these payments of Adjusted Net Income, if the payment would cause UTOPIA to fail to meet any debt service requirements related to building the network. If UTOPIA needs to defer these payments, Dynamic City can net them against payment of royalties to UTOPIA. For the year ending June 30, 2007, UTOPIA did not have Adjusted Net Income, as described in the contract.

Dynamic City has also agreed to make an operating loan in the amount of $350,000 available to UTOPIA.

NOTE 9 PLEDGING MEMBERS LIABILITY

The 11 Pledging Member's 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 July 2004 UTOPIA issued an $85,000,000 revenue bond. The first four years of bond payments will be made from a debt reserve fund, funded by the debt. From that point on, until the bonds are due in July 2026, net revenues from UTOPIA will reimburse the debt service fund for payments on the bond debt. To the extent that there are insufficient net revenues to pay the debt service, the 11 Pledging Members are required to reimburse the UTOPIA debt service fund of any shortfall by their respective percentages of ownership up to a specific dollar amount. The Pledging Member's percentage of the Debt Service Reserve shortfall is listed below, with a corresponding annual maximum liability. Any amounts paid by Pledging Members to UTOPIA to reimburse the debt service fund will be a loan to be repaid by UTOPIA.

On July 1, 2007, the Pledging Member's will be required to deposit the amounts specified below into the UTOPIA Series 2004 Bond Debt Service Reserve Fund. These funds will remain on deposit until the sooner of the bonds being retired or 20 years from July 1, 2007. To the extent that the initial projects operate profitably, UTOPIA has plans on issuing a total of $181,166,000 in bonds. Any bonds or debt issued or incurred by UTOPIA will not constitute debt of the Pledging Members.

NOTE 9 PLEDGING MEMBERS LIABILITY (Continued)

Pledging Member	Share of Total Pledge	Due On July 1, 2007 On Phase I Financing	Due On July 1, 2007 On Subsequent Financing	Maximum Pledge *
Brigham City	3.33%	$ 67,191	$ 268,765	$ 335,956
Centerville	3.31%	66,825	267,301	334,126
Layton	16.62%	335,394	1,341,574	1,676,968
Lindon	3.06%	308,681	-	308,681
Midvale	6.03%	608,337	-	608,337
Murray	12.24%	1,235,039	-	1,235,039
Orem	21.70%	2,189,704	-	2,189,704
Payson	2.58%	259,920	-	259,920
Perry	0.82%	16,483	65,931	82,414
Tremonton	2.51%	50,695	202,779	253,474
West Valley City	27.82%	2,806,999	-	2,806,999
	100.00%	$ 7,945,268	$ 2,146,350	$ 10,091,618

* = These amounts are also the annual maximum debt service that can be required of the Pledging Members.

Subsequent to year end on July 1, 2007, the pledging member's deposited the amounts specified above into the UTOPIA Series 2004 Bond Debt Service Reserve Fund.

NOTE 10 DERIVATIVE ARRANGEMENTS

The terms, fair values, and credit ratings of counterparties for the various swap agreements at June 30, 2007 are summarized in the following table:

Interest Rate Swaps

Outstanding Notional Amount	Fixed Rate Paid by UTOPIA	Variable Rate[1] Received by Counterparty	Fair Value	Swap Termination Date	S&P	Counterparty Credit Rating Moody's	Fitch
$ 84,300,000	4.945%-6.960%	LIBOR	$ (3,059,141)	July 1, 2026	AA+	Aaa	AA
30,000,000	5.470%	LIBOR	320,168	July 1, 2026	AA+	Aaa	AA

Basis Swaps

Outstanding Notional Amount	Variable Rate[1] Paid by UTOPIA	Variable Rate[1] Received by Counterparty	Fair Value	Swap Termination Date	S&P	Counterparty Credit Rating Moody's	Fitch
$ 84,300,000	120% of BMA	71.6% of ISDA	$ (3,248,872)	July 1, 2026	AA+	Aaa	AA
30,000,000	120% of BMA	73.2% of ISDA	(1,207,789)	July 1, 2026	AA+	Aaa	AA

[1] One month U.S. Dollar London Interbank Offered Rate, Bond Market Association Municipal Swap Index, or U.S. Dollar International Swap and Derivatives Association Swap 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.

NOTE 11 SUBSEQUENT EVENTS

Subsequent to year end, UTOPIA entered into various contracts with contractors, vendors and suppliers to provide the construction and equipment needed for the network.

Subsequent to year end, UTOPIA sold a portion of the Taxable Telecommunications Revenue Priority Bonds, Series 2007 to the RUS (Rural Utilities Service, an agency of the United States Department of Agriculture) in the amount of $21,354,000 at 5.18%.

Subsequent to year end, UTOPIA entered into a capital lease for certain vehicles, machinery & equipment in the amount of approximately $491,000.

NOTE 12 PRIOR PERIOD ADJUSTMENT

During the current year, management determined that it would be appropriate to recognize several interest rate swap arrangements, which resulted in a net adjustment to swap liability and net assets of $2,023,630.

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY

FINANCIAL STATEMENTS

JUNE 30, 2008

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
TABLE OF CONTENTS

Jensen & Keddington, P.C.
Certified Public Accountants

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of Utah Telecommunication Open Infrastructure Agency (UTOPIA), as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of UTOPIA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of UTOPIA, as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated December 30, 2008 on our consideration of UTOPIA's internal control over financial reporting and on our tests of compliance with certain provisions of laws and regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Jensen & Keddington

December 30, 2008

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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, 2008.

Description of Business

Fourteen Utah cities created UTOPIA to promote economic development and to improve the quality of life for their residents through the construction and operation of a wholesale fiber telecommunications infrastructure. The system is an open access network over which private providers of retail digital services reach customers in UTOPIA member cities. Two additional cities (Washington City and the town of Vineyard) joined UTOPIA in December, 2007.

Eleven of the current UTOPIA member cities provided sales tax pledges as partial loan guarantees to secure financing for the network. Phase I involved a total of 52 footprints (neighborhood service areas) and interconnecting rings in Midvale, Murray, Lindon, Orem, Payson, and West Valley City. Phase II added new construction in Payson and Lindon and expands the network to Centerville, Layton, Brigham City, Perry and Tremonton. Phase II construction is under way and envisions the completion of an additional 31 footprints, 8 of which have been completed. Within the 60 production footprints there are a total of 48,850 addresses. Future phases will complete the network. When completed, the network will pass in excess of 180,000 prospective subscribers.

Highlights

On June 30, 2008, of the addresses passed, 42,800 are marketable (able to receive services at the decision of the household or business). The remaining addresses are located in apartment buildings, condominium developments, or in areas isolated by right of way or pole access issues. Four service providers—MStar, Nuvont, XMission, and Veracity—were actively marketing at least some of their services and a total of 7,209 homes and businesses had subscribed to services by fiscal year end. These subscribers selected services as indicated in Figure 1:

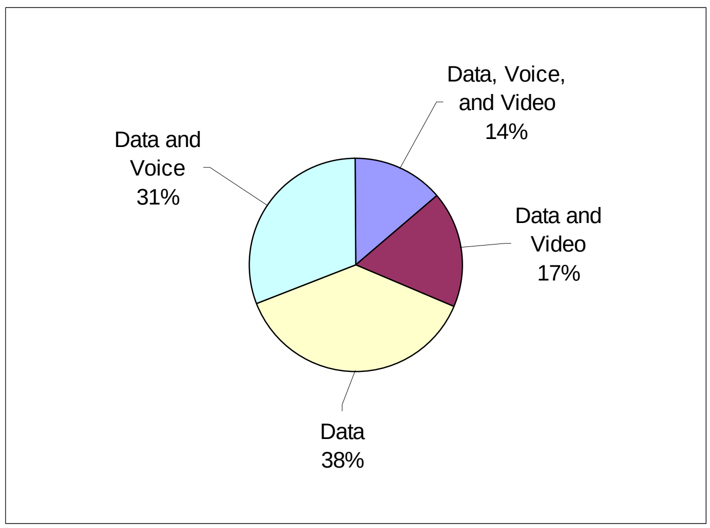

Figure 1

Chart showing breakdown of subscribers at June 30, 2008 by type of service selected.

Securing continuity of financing to continue network build out through Phase II has proved to be a major challenge for the Agency. The Agency applied for a loan from the U.S. Department of Agriculture, Rural Utility Service (RUS) Broadband Loan Program designed to help communities with populations under 20,000. Six UTOPIA members—Brigham City, Centerville, Lindon, Payson, Perry, and Tremonton—qualified for loans under this program. The loan provided the funding necessary to build out these RUS-eligible cities. Notice of loan approval was given on July 18, 2006, but the loan was not funded until July 5, 2007.

Shortly after the completion of the RUS transaction, RUS advanced the first bond in the series in the amount of $21 million, instead of $31 million as provided in the loan design. Several months after RUS advanced the first modified bond amount, unilateral modifications to the transaction and other actions by RUS demonstrated that the RUS funding was not going to be a workable solution. Delays in releasing funds to contractors, in approving contracts and finally in failing to approve the next bond in the series of funding forced the agency to begin looking for alternative funding.

On June 2, 2008, UTOPIA entered into a new financing transaction (Series 2008 Bonds). The transaction was designed to provide funds to *(i)* pay and cancel the outstanding bonds; *(ii)* pay and cancel the debt obligation to RUS, but not release any claims for damages as a result; *(iii)* pay outstanding construction contracts that had been approved by RUS but remained unfunded due to unilateral transaction modifications by RUS; *(iv)* provide two years of capitalized interest and LOC payments *(v)* provide operational and construction funds, and *(vi)* pay the costs of issuing the Series 2008 Bonds.

On or prior to April 28, 2008, ten of the eleven pledging member cities approved an Amended and Restated Pledge Agreement to provide a means of credit support to enable the financing to be completed at the lowest attainable market rates of interest. Payson City did not approve the Amended and Restated Pledge Agreement. Payson's original pledge will remain in effect through the termination of the agreement.

UTOPIA was required by the LOC Banks to enter into floating to fixed rate swaps for the duration of the bond transaction. The swaps were structured to take into account the costs to break the swaps that existed on the refunded transaction and restructured to match the principal reduction schedule related to the Series 2008 bonds.

In conjunction with the refinancing, UTOPIA determined that operational changes were necessary. Contracts with external parties to manage the network and oversee construction were cancelled, and resources were hired to bring functions in house. This will enable the agency to better manage priorities, control expenses and move the project forward. In addition, the agency has recognized the need to better market the network and the benefits of fiber to the premise connections. Marketing efforts are currently underway to increase customer awareness of the network.

Costs to date have been within business case expectations. Construction expenses were at or below projections and agency and network operation costs were also held within budget. The unanticipated delay in the release of RUS funding led to delays in construction, in the release of new inventory of marketable addresses, and in the roll-out of service provider marketing plans. Consequently, revenues and the actual number of subscribers at year end fell below expectations.

<u>Overview of Financial Statements</u>

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

As expected, the financial statements reflect conditions typical of a capital-intensive start-up enterprise in the first years of its existence. Revenue increased 38% over the prior fiscal year but did not cover operating expenses. Marketing efforts of UTOPIA service providers continuously add new subscribers to the network and increase the Agency's gross revenues. As originally anticipated, an operating deficit is projected to continue for another year. As explained below, there is sufficient cash to sustain operations over this period of time even though the Agency's negative net assets will grow until operational break-even has been achieved.

Operating revenues for the fiscal year fell short of anticipated results ($3,201,987 actual vs. $4,700,000 budget) due to financing delays and the associated reduced construction activity. Operating expenses (expenses excluding interest and depreciation) were also below budgeted levels ($4,670,395 actual vs. $6,158,000 budget). Depreciation and amortization expense exceeded budget due to the retirement of the initial bonds and the accelerated write-off of the associated issuance costs.

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

	2008	2007
Current and other assets	$ 48,397,197	$ 20,285,093
Capital assets	87,921,279	72,601,991
Total Assets	136,318,476	92,887,084
Long-term liabilities outstanding	208,787,445	121,154,966
Other Liabilities	2,741,878	9,666,047
Total Liabilities	211,529,323	130,821,013
Invested in net capital assets, Net of related debt	(15,797,814)	(10,395,179)
Unrestricted	(59,413,033)	(27,538,750)
Net Assets	$ (75,210,847)	$ (37,933,929)

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

	2008	2007
Revenues:		
Operating revenues	$ 3,201,987	$ 2,318,607
Non-operating revenues	980,854	246,807
Interest income	405,788	761,557
Total Revenues	4,588,629	3,326,971
Expenditures:		
General and administrative	1,510,207	1,456,243
Network	3,163,284	4,461,749
Depreciation	5,402,635	7,239,393
Bond interest and fees	28,626,401	7,654,923
Other expenses	3,163,020	-
Total Expenditures	41,865,547	20,812,308
Change in net assets	(37,276,918)	(17,485,337)
Total net assets, beginning of year	(37,933,929)	(20,448,592)
Total net assets, end of year	$ (75,210,847)	$ (37,933,929)

Capital Assets and Debt Administration

UTOPIA's investment in capital assets, net of depreciation was $87.9 million at year end. Types of assets include outside plant (fiber and conduit), inside plant (electronics), customer premise equipment, construction in progress and other misc. assets.

As of June 30, 2008, UTOPIA's outstanding debt amounted to $185.9 million. The majority of this debt (revenue bonds payable) is secured by the 11 pledging members' sales tax pledges.

UTOPIA's Capital Assets
(Net of Depreciation)

	2008	2007
Construction in progress	$ 18,575,158	$ 13,003,394
Outside plant	57,877,849	48,489,277
Inside plant	2,461,804	3,746,943
Customer premise equipment	7,111,727	5,946,241
Intangible right	1,508,533	828,926
Office furniture and equipment	253,231	365,583
Vehicles	132,977	221,628
	$ 87,921,279	$ 72,601,992

UTOPIA's Outstanding Debt

	2008	2007
Revenue bonds payable	$ 185,000,000	$ 114,300,000
Capital leases	750,797	366,571
Notes payable	135,750	1,251,484
	$ 185,886,547	$ 115,918,055

Final Comment

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

BASIC FINANCIAL STATEMENTS

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
STATEMENT OF NET ASSETS
June 30, 2008

Assets		
Current Assets:		
Cash		$ 255,054
Restricted investments		22,504,367
Receivables:		
Trade receivables, net	$ 1,541,132	
Interest receivable - restricted investments	70,329	
Total Receivables		1,611,461
Inventory		7,051,881
Prepaid expenses		2,213,289
Deferred charges		72,783
Total Current Assets		33,708,835
Noncurrent assets:		
Capital Assets:		
Construction in progress		18,575,158
Property and equipment, net		
Fiber optic network	68,959,913	
Office furniture and equipment	253,231	
Vehicles	132,977	
Total Property and Equipment, net		69,346,121
Total Capital Assets		87,921,279
Other Assets:		
Restricted investments	12,536,865	
Deposits	22,686	
Deferred charges	2,128,811	
Total Other Assets		14,688,362
Total Assets		$ 136,318,476

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

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
STATEMENT OF NET ASSETS (Continued)
June 30, 2008

Liabilities	
Current Liabilities:	
Accounts payable from restricted assets	$ 1,539,352
Accrued liabilities	181,354
Compensated absences	8,362
Interest payable from restricted assets	889,821
Capital leases payable	122,989
Total Current Liabilities	2,741,878
Noncurrent Liabilities:	
Compensated absences	10,949
Note payable	135,750
Capital leases payable	627,808
Revenue bonds payable	185,000,000
Swaps liability	23,012,938
Total Liabilities	211,529,323
Net Assets:	
Invested in capital assets, net of related debt	(15,797,814)
Unrestricted deficit	(59,413,033)
Total Net Assets	(75,210,847)
Total Liabilities and Net Assets	$ 136,318,476

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

UTAH TELECOMMUNICATION OPEN INFRASTRUCTURE AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For The Year Ended June 30, 2008

Operating Revenues	$ 3,201,987
Operating Expenses:	
Payroll	650,010
Material and supplies	375,180
Professional services	485,017
Network	3,163,284
Depreciation	5,402,635
Total Operating Expenses	10,076,126
Operating Loss	(6,874,139)
Nonoperating Revenues (Expenses):	
Interest income	405,788
Bond interest and fees	(28,626,401)
Miscellaneous income	980,854
Miscellaneous expense	(2,192,395)
Loss on disposal of capital assets	(970,625)
Total Nonoperating Revenues (Expenses)	(30,402,779)
Change In Net Assets	(37,276,918)
Total Net Assets, Beginning of Year	(37,933,929)
Total Net Assets, End of Year	$ (75,210,847)

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, 2008

Cash Flows From Operating Activities:	
Cash received from customers and users	$ 3,345,227
Payments to suppliers	(12,652,952)
Payments to employees	(576,847)
Net cash used by operating activities	(9,884,572)
Cash Flows From Capital and Related Financing Activities:	
Purchase of property and equipment	(21,197,640)
Proceeds from issuance of bonds payable	206,354,052
Principal paid on bonds payable	(135,654,052)
Principal paid on notes payable	(523,723)
Bond interest and fees	(9,299,966)
Cash paid for bond issuance costs	(2,666,211)
Proceeds from issuance of capital leases payable	490,623
Principal paid on capital leases payable	(106,397)
Settlement on contract	(250,000)
Restricted cash - net increase	(28,162,853)
Cash contributions received from pledging members	440,167
Net cash provided from capital and related financing activities	9,424,000
Cash Flows From Investing Activity:	
Interest income	364,385
Net cash provided by investing activity	364,385
Net Increase in Cash and Cash Equivalents	(96,187)
Cash and Cash Equivalents, Beginning of Year	351,241
Cash and Cash Equivalents, End of Year	$ 255,054

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, 2008

Reconciliation of operating loss to net cash from operating activities:

Operating loss	$	(6,874,139)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense		5,402,635
(Increase) decrease in current assets		
Accounts receivable		143,240
Inventory		(1,525,405)
Prepaid expense		(1,863,654)
Increase (decrease) in current liabilities		
Accounts payable		(2,288,625)
Accrued liabilities		73,163
Liabilities payable from restricted assets		(2,951,787)
Net Cash Used by Operating Activities	$	(9,884,572)

Supplemental Information

Noncash Investing, Capital, and Financing Activities:

Deferred bonds costs of $3,496,302 were amortized to bond interest expense.

Interest expense of $24,645 was added to the balance of notes payable.

Additions to outside plant includes an application of a deposit of $150,000 and $345,778 of capitalized interest.

Interest expense of $15,817,304 was added to the balance of swap liability.

Notes payable was reduced by $540,687 due to a contract settlement.

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, 2008. UTOPIA's purpose is to design, finance, build, operate, and maintain an open, wholesale, public telecommunication infrastructure that has the capacity to deliver high-speed connections to every home and business in the member communities.

Summary of Significant Accounting Policies

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

The following is a summary of the more significant policies.

The Reporting Entity

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

Financial Statement Presentation and Basis of Accounting

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

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Continued)

Financial Statement Presentation and Basis of Accounting (Continued)
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 Wells Fargo for safekeeping of funds relating to future construction, debt service reserves and costs of issuance. When both restricted and unrestricted assets are available, it is UTOPIA's policy to use restricted assets first, then unrestricted assets as they are needed.

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

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

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

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

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

Allowance for Doubtful Accounts
The allowance for doubtful accounts is UTOPIA's best estimate of the amount of probable credit losses in the existing accounts receivable. UTOPIA has determined that no allowance for doubtful accounts is necessary for current accounts receivable.

Inventories
Inventories are stated at the lower of cost or market using the first-in first-out method. UTOPIA wrote down inventory to reflect cost of $1,941,525, which is recorded in miscellaneous expense.

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.

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, 2008, UTOPIA had the following deposits and investments:

Deposit and investment type	**Fair Value**
Cash on deposit	$ 255,054
Investments in money market funds	35,041,232
	$ 35,296,286

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, 2008, $326,297 of the $326,297 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 money market funds:
Interest rate risk. The risk that changes in the interest rate will have an adverse affect on the fair value of an investment. UTOPIA's investment in money market funds are not subject to interest rate risk.

Credit risk. This is the risk that an issuer or other counter party to an investment will not fulfill its obligations. As of June 30, 2008 the money market funds 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 money market funds 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 money market funds has no custodial credit risk.

NOTE 3 RESTRICTED INVESTMENTS

Restricted investments consist of the following:

Construction costs	$ 9,872,105
Future interest payments on bonds	23,480,595
Required debt reserves	1,566,956
Restricted for costs related to issuance	121,576
	35,041,232
Restricted investments - current	(22,504,367)
Noncurrent portion of restricted investments	$ 12,536,865

NOTE 4 PROPERTY AND EQUIPMENT

The following summarizes UTOPIA's property and equipment as of June 30, 2008:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Construction in progress	$ 13,003,394	$ 17,334,478	$ (11,762,714)	$ 18,575,158
Total capital assets, not being depreciated	13,003,394	17,334,478	(11,762,714)	18,575,158
Capital assets, being depreciated:				
Outside plant	51,447,176	11,788,730	-	63,235,906
Inside plant	9,363,650	288,175	-	9,651,825
Customer premise equipment	7,555,785	2,298,806	-	9,854,591
Intangible right	884,341	739,699	-	1,624,040
Office furniture and equipment	465,790	34,748	-	500,538
Vehicles	277,035	0	-	277,035
Total capital assets, being depreciated	69,993,777	15,150,158	-	85,143,935
Less accumulated depreciation:				
Outside plant	(2,957,899)	(2,400,158)	-	(5,358,057)
Inside plant	(5,616,707)	(1,573,314)	-	(7,190,021)
Customer premise equipment	(1,609,544)	(1,133,320)	-	(2,742,864)
Intangible right	(55,415)	(60,092)	-	(115,507)
Office furniture and equipment	(100,207)	(147,100)	-	(247,307)
Vehicles	(55,407)	(88,651)	-	(144,058)
Total accumulated depreciation	(10,395,179)	(5,402,635)	-	(15,797,814)
Total capital asset, net of accumulated depreciation	59,598,598	9,747,523	-	69,346,121
Property and Equipment, net	$ 72,601,992	$ 27,082,001	$ (11,762,714)	$ 87,921,279

Depreciation expense of $5,402,635 was charged to operating expense for the year ended June 30, 2008. During the year, UTOPIA incurred interest expense of which $345,778 was capitalized.

NOTE 5 LONG-TERM DEBT

The following is a summary of the changes in long-term debt obligations for the year ended June 30, 2008.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds					
2008 revenue bonds	$ -	$ 185,000,000	$ -	$ 185,000,000	$ -
2007 revenue bonds	-	21,354,052	(21,354,052)	-	-
2006 revenue bonds	30,000,000	-	(30,000,000)	-	-
2004 revenue Bonds	84,300,000	-	(84,300,000)	-	-
Total Revenue Bonds	114,300,000	206,354,052	(135,654,052)	185,000,000	-
Capital leases					
Equipment	-	490,623	(83,524)	407,099	90,259
Payson	207,314	-	(22,499)	184,815	23,399
Developer	159,257	-	(374)	158,883	9,331
Notes payable					
Members	135,750	-	-	135,750	-
DynamicCity	610,242	24,645	(634,887)	-	-
Tetra Tech	429,523	-	(429,523)	-	-
Compensated absences	75,969	-	(56,658)	19,311	8,362
Total Long-Term Debt	$ 115,918,055	$ 206,869,320	$ (136,881,517)	$ 185,905,858	$ 131,351

Revenue Bonds

Taxable Adjustable Rate Advanced Communications Special Revenue and Refunding Bonds, Series 2008, original issue of $185,000,000, principal payments due in quarterly installments beginning December 2013, interest payments due monthly at LIBOR, which was 2.53% at June 30, 2008, with the final payment due June 2040. The bonds were issued to finance UTOPIA's infrastructure construction and retire the Series 2007, 2006, and 2004 Revenue Bonds.	$ 185,000,000
Taxable Telecommunications Revenue Priority Bonds, Series 2007, original issue of $21,354,052. The Series 2008 Taxable Adjustable Rate Advanced Communications Special Revenue and Refunding Bonds were used to retire this bond during the year.	-
Taxable Adjustable Rate Telecommunications Revenue Bonds, Series 2006, original issue of $30,000,000. The Series 2008 Taxable Adjustable Rate Advanced Communications Special Revenue and Refunding Bonds were used to retire this bond during the year.	-
Taxable Adjustable Rate Telecommunications Revenue Bonds, Series 2004, original issue of $85,000,000. The Series 2008 Taxable Adjustable Rate Advanced Communications Special Revenue and Refunding Bonds were used to retire this bond during the year.	-
Total Revenue Bonds	$ 185,000,000

NOTE 5 LONG-TERM DEBT (Continued)

The following summarizes UTOPIA's revenue bonds debt service requirements as of June 30, 2008:

Year	Principal	Interest	Total
2009	$ -	$ 10,568,186	$ 10,568,186
2010	-	10,614,190	10,614,190
2011	-	10,614,190	10,614,190
2012	-	10,631,193	10,631,193
2013	-	10,597,187	10,597,187
2014-2018	2,530,000	52,882,756	55,412,756
2019-2023	11,055,000	51,083,041	62,138,041
2024-2028	23,655,000	46,296,914	69,951,914
2029-2033	41,395,000	37,259,187	78,654,187
2034-2038	68,705,000	21,922,381	90,627,381
2039-2040	37,660,000	2,487,898	40,147,898
	$ 185,000,000	$ 264,957,123	$ 449,957,123

Capital Leases

Capital leases consist of the following:

UTOPIA is obligated under a lease for the purchase of vehicles and equipment from a financing institution. Because the terms and options contained in the lease have effectively created a financing arrangement, UTOPIA is required to record this transaction as a capital lease. Lease payments are $9,897 each each including imputed interest at 7.78%. The capitalized cost of vehicles and equipment was $661,783 with accumulated depreciation of $344,127.	$ 407,099
UTOPIA is obligated to pay a developer for outside plant construction. Because the terms and options contained in the lease have effectively created a financing arrangement, UTOPIA is required to record this transaction as a capital lease. Lease payments are $20 a month for each unit built in subdivision. Interest is charged at 7.00% annual rate. The capitalized cost of outside plant construction was $159,257 with accumulated depreciation of $6,383.	158,883
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 $26,852.	184,815
	750,797
Less current portion	(122,989)
Noncurrent portion	$ 627,808

NOTE 5 LONG-TERM DEBT (Continued)

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

2009	$	159,813
2010		184,830
2011		184,830
2012		184,830
2013		75,969
2014-2015		98,445
Total minimum lease payments		888,717
Less amount representing interest		(137,920)
Present value of net minimum lease payments	$	750,797

Note Payable

The note payable consists of the following:

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
Note payable to Tetra Tech, balance was due in quarterly installments of $250,000 starting September 30, 2006 through September 30, 2007, including interest at 8% annual rate. Amount was paid off in current year.		-
Note payable due to Dynamic City. Payment by UTOPIA was contingent upon UTOPIA having paid all the other then current debts due to DynamicCity. The balance includes accrued interest at 7.25%. Amount was retired in current year through a settlement agreement.		-
Amounts due to Dynamic City for services rendered prior to UTOPIA issuing bonds. By contract, DynamicCity agreed to defer payment on 30% and 20% of the original balance of $314,000 until UTOPIA issues its 2nd and 3rd bonds respectively. Amount was retired in current year through a settlement agreement.		-
		135,750
Less current portion		-
Noncurrent portion	$	135,750

NOTE 6 RETIREMENT PLANS

Plan Description

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

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

Funding Policy

Plan members are required to contribute a percent of their covered salary (all or part may be paid by the employer) to the respective systems to which they belong. UTOPIA is required to contribute 11.62% of the covered salary to the Noncontributory System. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

UTOPIA's contribution to the Noncontributory System for the years ending June 30, 2008, 2007 and 2006 were $35,267, $32,000, and $20,541, respectively. The contributions were equal to the required contributions for each year.

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

UTOPIA contributes to a non-contributory defined contribution retirement benefit plan covering substantially all employees. Currently all of the assets and income of the 457 Plan are held in trust by the plan administrator for the exclusive benefit of the participants or their beneficiaries rather than as assets of UTOPIA. Employer contributions under this plan during the years ended June 30, 2008, 2007 and 2006, were $23,484, $49,418 and $55,328, respectively.

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, 2008 and 2007 was $248,937 and $132,225, respectively.

NOTE 7 OPERATING LEASE

UTOPIA has entered into various operating leases to secure network operations facilities, office space and equipment. The current year's expense related to operating leases was $637,395. These leases range from 3 years to 20 years, with renewal options up to 23 years. Total remaining minimum lease payments at June 30, 2008 are as follows:

2009	$	504,901
2010		514,507
2011		408,331
2012		417,800
2013		428,404
2014-2018		774,339
2019-2023		91,010
2024-2026		27,455
	$	3,166,747

NOTE 8 COMMITMENTS AND CONTRACTS

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

NOTE 9 PLEDGING MEMBERS LIABILITY

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

NOTE 9 PLEDGING MEMBERS LIABILITY (Continued)

At June 30, 2008, the Pledging Member's had on deposit with the UTOPIA 2008 Debt Service Reserve Account the amounts specified below. These funds will remain on deposit until the bonds are retired. The debt service fund is required to increase June 1st of each year by 1.82% compounded annually until it reaches approximately $23,300,000.

Pledging Member	Share of Total Pledge	Amount on Deposit	Maximum Pledge *
Brigham City	3.34%	$ 335,956	$ 389,500
Centerville City	3.32%	334,126	387,378
Layton City	16.68%	1,676,968	1,944,240
Lindon City	3.07%	308,681	357,878
Midvale City	6.05%	608,337	705,293
Murray City	12.28%	1,235,039	1,431,877
Orem City	21.78%	2,189,704	2,538,695
Payson City	2.23%	259,920	259,920
Perry City	0.82%	82,414	95,549
Tremonton City	2.52%	253,474	293,872
West Valley City	27.91%	2,806,999	3,254,373
	100.00%	$ 10,091,618	$ 11,658,575

* = These amounts are the fiscal year 2009 maximum debt service that can be required of the Pledging Members.

NOTE 10 DERIVATIVE ARRANGEMENTS

The terms, fair values, and credit ratings of counterparties for the various swap agreements at June 30, 2008 are summarized in the following table:

Interest Rate Swaps

Outstanding Notional Amount	Fixed Rate Paid by UTOPIA	Variable Rate[1] Received by Counterparty	Fair Value	Swap Termination Date	Counterparty Credit Rating S&P	Moody's	Fitch
$ 110,000,000	5.787%	LIBOR-.05%	$ (14,456,244)	July 1, 2040	A	A1	A
75,000,000	5.665%	LIBOR-.05%	(8,556,394)	July 1, 2040	AA+	Aaa	AA-

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

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

During the year, UTOPIA issued Taxable Adjustable Rate Advanced Communications Special Revenue and Refunding Bonds, Series 2008. These bonds retired the previous Series 2007, 2006, and 2004 Revenue Bonds. UTOPIA entered into four swap contracts on the 2006 and 2004 Revenue Bonds. The swap contracts required a settlement, which required a 53 basis point increase in the fixed rate paid by UTOPIA on the new swap contracts.