UPSTATE TELECOMMUNICATIONS CORPORATION

Financial Statements as of
December 31, 2011 and 2010
Together with
Independent Auditors' Report

Bonadio & Co., LLP
Certified Public Accountants

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

March 12, 2012

To the Board of Directors of
Upstate Telecommunications Corporation:

We have audited the accompanying balance sheets of Upstate Telecommunications Corporation (a New York not-for-profit corporation) (UTC) as of December 31, 2011 and 2010, and the related statements of activities and change in net assets and cash flows for the years then ended. These financial statements are the responsibility of UTC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UTC as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2012 on our consideration of UTC'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* and should be considered in assessing the results of our audit.

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UPSTATE TELECOMMUNICATIONS CORPORATION

BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash	$ 1,879,222	$ 1,502,371
Prepaid expenses and other current assets	175,264	246,247
Current portion of investment in direct-financing lease	601,047	573,727
Total current assets	2,655,533	2,322,345
NONCURRENT ASSETS:		
Fixed assets, net	884,266	1,145,842
Investment in direct-financing lease, net of current portion	5,515,974	6,117,021
Debt issuance costs, net	497,465	558,431
Limited use assets	6,573,595	6,733,680
Total noncurrent assets	13,471,300	14,554,974
Total assets	$ 16,126,833	$ 16,877,319
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 420,276	$ 172,149
Current portion of capital lease obligation	262,999	251,241
Current portion of bonds payable	2,200,000	2,100,000
Total current liabilities	2,883,275	2,523,390
INTEREST RATE SWAP LIABILITY	2,241,687	1,900,669
CAPITAL LEASE OBLIGATION, net of current portion	1,596,585	1,859,584
BONDS PAYABLE, net of current portion	20,190,000	22,390,000
Total liabilities	26,911,547	28,673,643
NET ASSETS	(10,784,714)	(11,796,324)
Total liabilities and net assets	$ 16,126,833	$ 16,877,319

The accompanying notes are an integral part of these statements.

UPSTATE TELECOMMUNICATIONS CORPORATION

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
REVENUES:		
Maintenance and support services	$ 6,198,661	$ 6,418,370
Leasing revenue	925,628	925,017
Interest on investment in direct-financing lease	232,447	254,248
Investment loss, net	(3,259)	(3,821)
Other	34,828	12,959
Total revenues	7,388,305	7,606,773
EXPENSES:		
Project costs -		
Hosting, training, and implementation	2,762,491	1,575,617
Interest, amortization and fees	1,261,543	1,454,866
Network management and maintenance	718,928	824,041
Management services	453,363	445,216
Copier maintenance	263,285	263,555
Copier amortization	261,576	260,932
Other	147,811	118,232
Total project costs	5,868,997	4,942,459
Administration -		
Professional fees	165,842	166,548
Other	838	780
Total administration	166,680	167,328
Total expenses	6,035,677	5,109,787
CHANGE IN NET ASSETS FROM OPERATIONS	1,352,628	2,496,986
OTHER:		
Loss on interest rate swap agreement	(341,018)	(274,032)
CHANGE IN NET ASSETS	1,011,610	2,222,954
NET ASSETS - beginning of year	(11,796,324)	(14,019,278)
NET ASSETS - end of year	$ (10,784,714)	$ (11,796,324)

The accompanying notes are an integral part of these statements.

UPSTATE TELECOMMUNICATIONS CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	$ 1,011,610	$ 2,222,954
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Amortization expense	261,576	260,932
Amortization of debt issuance costs	60,966	60,966
Loss on interest rate swap agreement	341,018	274,032
Changes in:		
Prepaid expenses and other current assets	70,983	(145,419)
Accounts payable and accrued expenses	248,127	(27,904)
Net cash flow from operating activities	1,994,280	2,645,561
CASH FLOW FROM INVESTING ACTIVITIES:		
Payments under direct-financing lease	573,727	560,067
Purchases of fixed assets	-	(9,011)
Purchases of limited use assets	(14,973,498)	(18,627,056)
Proceeds from sale of limited use assets	15,133,583	17,982,451
Net cash flow from investing activities	733,812	(93,549)
CASH FLOW FROM FINANCING ACTIVITIES:		
Repayment on capital lease obligation	(251,241)	(240,009)
Repayment on bonds payable	(2,100,000)	(2,050,000)
Net cash flow from financing activities	(2,351,241)	(2,290,009)
CHANGE IN CASH	376,851	262,003
CASH - beginning of year	1,502,371	1,240,368
CASH - end of year	$ 1,879,222	$ 1,502,371

The accompanying notes are an integral part of these statements.

1. THE ORGANIZATION

Upstate Telecommunications Corporation (UTC) is a New York not-for-profit corporation organized in March 2005 to provide technology and telecommunications services to Monroe County (the County). UTC was formed as a local development corporation of the County. All service revenue derived by UTC is currently received solely from the County and as such UTC's existence is dependent upon this continuing relationship. Although the County is not financially accountable for UTC, it does appoint a voting majority of the board and as such is considered a related party to UTC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting
UTC's financial statements have been prepared in conformity with accounting principles generally accepted in the United States.

Financial Reporting
All of UTC's net assets were unrestricted at December 31, 2011 and 2010.

Cash
Cash consists of bank demand deposit accounts. At times, the balances in these accounts may exceed federally insured limits. The Corporation has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk with respect to cash.

Fixed Assets
Fixed assets are recorded at cost, if purchased, or fair value at the date of donation. UTC capitalizes equipment purchases with a cost greater than $1,000, which have useful lives greater than one year. Fixed assets consist of photocopying equipment used by its primary customer. Amortization is provided using the straight-line method over the assets' estimated useful lives, or seven (7) years, or the lease term which ever is shorter.

Investment in Direct-Financing Lease
The cost of telecommunications equipment purchased by UTC and leased to the County is recorded as a direct-financing lease. Unearned income is calculated using the interest rate in place on the bonds that were issued to facilitate the purchase of the underlying equipment. Lease principal payments are recognized concurrent with the repayment schedule on the outstanding bonds. Investment in direct-financing lease is stated at unpaid principal balances, less an allowance for losses, if applicable. Management periodically evaluates the lease for collectability based on inherent collection risks and adverse situations that may affect the borrower's ability to repay. If no contractual payments have been received for a period of time the lease would be considered delinquent. After all collection efforts are exhausted, any amounts deemed uncollectible based upon an assessment of the debtor's financial condition are written off. As of December 31, 2011, management determined that an allowance is not necessary.

Debt Issuance Costs
Costs incurred in connection with bond and debt issuances have been capitalized and are being amortized on the straight-line method over the 15-year term of the bonds or the 12-year term of the capital lease obligation, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Limited Use Assets
Limited use assets consist of funds required by the bond agreement and are invested in money market funds or U.S. government obligations and are recorded at fair market value based on quoted market prices. Interest, dividends and gains (losses) on limited use assets are shown as investment income (loss), net in the accompanying financial statements.

Fair Value Measurement - Definition and Hierarchy
Accounting Standards Codification (ASC) 820, *Fair Value Measurements,* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

UTC uses various valuation techniques in determining fair value. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability, developed based on market data obtained from sources independent of UTC. Unobservable inputs are inputs that reflect UTC's assumptions about the assumptions market participants would use in pricing the liability, developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that UTC has the ability to access. Valuation adjustments are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

  UTC's U.S. government money market funds utilize Level 1 inputs.

- Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

  UTC's mortgage-backed securities utilize Level 2 inputs.

- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

  UTC's interest rate swap contract is valued utilizing Level 3 inputs.

The availability of observable inputs can vary and is affected by a wide variety of factors. To the extent that a valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by UTC in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement - Definition and Hierarchy (Continued)
Fair value of UTC's interest rate swap contract is derived using the difference between the average value of the SIFMA Index over all possible future interest rate environments, discounted to the present time as calculated by the bank and the fixed rate interest at the stated rate in the swap agreement.

Fair value of UTC's mortgage-backed securities is valued at the quoted price of the underlying assets of the pool.

Financial Interests Measured at Fair Value
UTC has financial instruments which are recorded at fair value in the accompanying balance sheets. UTC made estimates regarding the valuation of the liability associated with the interest rate swap contract measured at fair value in the financial statements.

The fair values of long-term debt are based on quoted market prices for the same or similar issues or on the current rates offered to UTC for debt of the same remaining maturities.

Income Taxes
UTC is a not-for-profit corporation organized pursuant to sections 402 and 1411 of the New York State Not-for-Profit Corporation law and is, therefore, exempt from income taxes. UTC is also exempt from Federal reporting requirements under Internal Revenue Service Revenue Procedure 95-48, 1995-2 C.B. 418 as a governmental unit or affiliate of a governmental unit described in the procedure.

For tax exempt entities, their tax-exempt status itself is deemed to be an uncertainty, since events could potentially occur to jeopardize their tax-exempt status. As of December 31, 2011 and 2010, UTC does not have a liability for unrecognized tax benefits, nor does it file federal or New York State income tax returns.

Revenue Recognition

- Interest on investment in direct-financing lease - The interest imputed over the term of the direct-financing lease is recorded in this financial category.

- Maintenance and Support Services - Under UTC's agreement with the County, annual payments received are also intended to cover operating costs incurred in connection with the agreement such as maintenance of equipment, technology upgrades, license fees, and technology support. The portion of the County's annual payment not allocated to interest or payment of principal is recorded as maintenance and support revenue.

- Leasing Revenue - Leasing revenue is recognized in accordance with the operating lease agreement with the County (See Note 11). Amounts recorded are intended to cover UTC's costs for maintenance, insurance, management fees, and other costs associated with servicing the installed equipment.

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. FIXED ASSETS

Fixed assets consisted of the following at December 31:

	2011	2010
Assets under capital lease:		
Copier equipment	$ 1,831,029	$ 1,831,029
Less: Accumulated amortization	(946,763)	(685,187)
	$ 884,266	$ 1,145,842

4. INVESTMENT IN DIRECT-FINANCING LEASE

UTC has leased its telecommunications equipment to Monroe County under the terms of a direct-financing lease agreement that states that UTC will be paid average annual payments of approximately $6,200,000 per year by Monroe County commencing February 7, 2005 and terminating February 2, 2021. The annual lease payments also cover certain operating costs such as maintenance, technology upgrades and license fees. The annual continuation of this agreement is solely dependent upon appropriations granted by Monroe County under the annual budgetary process and therefore is not guaranteed. The portion of the annual lease payments relating to the operating costs and future equipment upgrades have not been included in the investment in direct-financing lease on the accompanying balance sheet. The following table summarizes the components of the direct-financing lease at December 31:

	2011	2010
Future lease payments - gross	$ 7,084,805	$ 7,890,978
Less: Unearned income (3.8% interest)	(967,784)	(1,200,230)
	$ 6,117,021	$ 6,690,748

Future scheduled payments under this agreement are as follows for the years ending December 31:

2012	$ 601,047
2013	611,975
2014	640,662
2015	670,714
2016	703,498
Thereafter	2,889,125
	$ 6,117,021

Revenue Concentration

The revenue that UTC recognized during 2011 and 2010 is composed almost exclusively of the long-term and operating leases of its equipment to the County.

5. DEBT ISSUANCE COSTS

The debt issuance costs capitalized as of December 31, 2011 and 2010 were $906,982, and amortization expense for each of the years 2011 and 2010 was $60,966. Accumulated amortization at December 31, 2011 and 2010 was $409,517 and $348,551, respectively.

6. LIMITED USE ASSETS

Limited use assets consist of investments held by UTC as follows at December 31:

	2011	2010
U.S. Government money market funds	$ 6,573,595	$ 6,153,732
Mortgage-backed securities	-	579,948
	$ 6,573,595	$ 6,733,680

At December 31, 2011 and 2010, $2,462,999 and $2,358,174, respectively, of the investments are designated for debt service payments. The remaining investments are designated for funding future capital or operating costs of UTC.

Net investment income (loss) consisted of the following for the years ended December 31:

	2011	2010
Interest and dividend income	$ 2,441	$ 6,088
Investment management fees	(5,700)	(9,909)
	$ (3,259)	$ (3,821)

7. BONDS PAYABLE

UTC issued Series 2005 Variable Rate Demand Information Technology Revenue Bonds (the Bonds) in order to fund a telecommunications and technology project. The Bonds were issued on March 30, 2005 in the amount of $32,465,000 and mature on March 1, 2020. The bondholders are paid interest monthly on the bonds at a variable rate (0.15% at December 31, 2011) as determined by the bank semi-annually on January 1 and July 1 of each year. The Bonds are subject to redemption, prior to maturity, at the option of the bank. The Bonds are collateralized under the terms of the bond agreement. The collateral on the bonds is an interest in UTC's management contract with Navitech Services Corporation (see Note 12) and an interest in UTC's lease with the County (see Note 4). UTC pays interest to the bank monthly at a variable rate as determined by the bank. Cash paid for interest was $963,403 and $1,053,870 in 2011 and 2010, respectively. Interest expense was $956,200 and $1,130,293 in 2011 and 2010, respectively.

The bond agreement requires a letter of credit to be maintained with the bank in the amount of $22,696,713, of which $22,390,000 is available to pay the principal on the bonds and $306,713 is available to pay interest on the bonds. The letter of credit may be reduced as the outstanding principal is reduced. The letter of credit expires on March 31, 2017 at which time the Bonds will be callable unless an extension on the letter of credit is approved. The bonds are subject to mandatory sinking fund installments on March 1 of each year which commenced on March 1, 2007, and are used to repay the outstanding bonds and will continue annually each year until the outstanding principal amount of the bonds has been paid.

7. BONDS PAYABLE (Continued)

The schedule of sinking fund repayments is as follows:

Payment Date	Installment
March 1, 2012	$ 2,200,000
March 1, 2013	2,240,000
March 1, 2014	2,345,000
March 1, 2015	2,455,000
March 1, 2016	2,575,000
March 1, 2017	2,650,000
March 1, 2018	2,670,000
March 1, 2019	2,685,000
March 1, 2020	2,570,000
	$ 22,390,000

The Bonds contain a remarketing feature that permits the bonds to be remarketed on a weekly basis for purposes of resetting interest rates on the outstanding bonds. Failure of the Bonds to be remarketed would require the use of UTC's letter of credit to purchase any un-marketed bonds. In the event a tender advance is made on the letter of credit, UTC would be required to repay the bank subject to the terms of the agreement on demand.

Letter of Credit Covenants
In connection with the letter of credit agreement, UTC is required to meet certain financial and operational covenants. As of December 31, 2011 and 2010, UTC was in compliance with these covenants. UTC's original maturity for the letter of credit agreement was March 2010. The letter of credit agreement was extended to 2017.

8. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

UTC has an interest rate swap which is qualified as a hedge under generally accepted accounting principles. As a result, the swap was recorded on the balance sheet at fair value. UTC had assumed no ineffectiveness in the swap due to the fact that, among other things, the notional amount of the swap was equal to the principal amount of the bonds and the variable rate that the UTC received under the swap matched the variable rate of the bonds. Changes in fair value of the swap have been accounted for in the statement of activities and change in net assets as a "loss on interest rate swap agreement." The effective fixed interest rate of the swap was 3.8% during 2011 and 2010.

The fair value of the swap contract at December 31, 2011 and 2010 was a liability of $2,241,687 and $1,900,669, respectively. UTC is exposed to credit loss in the event of nonperformance by the other party to the interest rate swap contract. However, UTC does not anticipate nonperformance by the counterparty.

8. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

Fair value of UTC's derivative instrument at December 31 is as follows:

Derivative Instruments Designated as Hedging Instruments	Liability Derivatives		
	Balance Sheet Location	Fair Value	
		2011	2010
Interest rate swap	Long-term liability	$ 2,241,687	$ 1,900,669

The effect of derivative instruments on the statement of activities and change in net assets for the years ended December 31 consist of the following:

Derivatives in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Change in Net Assets	Amount of Loss Recognized in Change in Net Assets	
		2011	2010
Interest rate swap	Other	$ (341,018)	$ (274,032)

9. FAIR VALUE MEASUREMENTS

The following are measured at fair value on a recurring basis at December 31, 2011:

Description	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. government money market funds	$ 6,573,595	$ -	$ -
Interest rate swap contract	$ -	$ -	$ (2,241,687)

The following are measured at fair value on a recurring basis at December 31, 2010:

Description	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
U.S. government money market funds	$ 6,153,732	$ -	$ -
Mortgage-backed securities	-	579,948	-
	$ 6,153,732	$ 579,948	$ -
Interest rate swap contract	$ -	$ -	$ (1,900,669)

9. FAIR VALUE MEASUREMENTS (Continued)

The following is a reconciliation of the beginning and ending balances for UTC's interest rate swap contract measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	2011	2010
Balance at January 1	$ (1,900,669)	$ (1,626,637)
Unrealized loss	(341,018)	(274,032)
Balance at December 31	$ (2,241,687)	$ (1,900,669)

10. CAPITAL LEASE OBLIGATION

UTC has entered into a note payable agreement with a bank requiring quarterly payments of $86,012, including interest at 4.6%, through January 2018. The related equipment collateralizes the capital lease obligation. This agreement allows UTC to purchase the leased equipment at the end of the lease term for $1.

Future scheduled payments under this agreement are as follows for the years ending December 31:

2012	$ 344,046
2013	344,046
2014	344,046
2015	344,046
2016	344,046
Thereafter	430,058
	2,150,288
Less: Amounts representing interest	(290,704)
Less: Current portion	(262,999)
	$ 1,596,585

11. OPERATING LEASE AGREEMENT

UTC has leased copier equipment to Monroe County under the terms of an operating lease agreement commencing December 18, 2007 and terminating December 17, 2019. The annual lease payment also covers certain operating costs such as maintenance, technology upgrades, insurance, and management fees. The annual continuation of this agreement is solely dependent upon appropriations granted by Monroe County under the annual budgeting process and therefore is not guaranteed.

11. OPERATING LEASE AGREEMENT (Continued)

Future payments expected under this agreement are as follows for the years ending December 31:

2012	$ 926,760
2013	927,916
2014	924,095
2015	925,297
2016	926,523
Thereafter	2,750,215
	$ 7,380,806

12. COMMITMENTS

Information Technology Services Agreement

UTC previously entered into a long-term contract with Siemens Building Technologies (SBT) for management services related to technology and equipment management. On January 1, 2009 SBT assigned this contract with UTC to Navitech Services Corporation (Navitech), an unrelated third party. The agreement commenced on February 7, 2005 and terminates on February 7, 2013 with two consecutive automatic four-year renewal options. UTC is required to pay Navitech an annual fee in two installments each year on February 15 and August 15. The management fee was $396,713 and 389,676 in 2011 and 2010, respectively. The annual management fee increase is based on the lower of 2% or the Consumer Price Index – U, Northeast Region (CPI). The 2009-2010 CPI was 1.97%. Future payments under this agreement are as follows for the years ending December 31:

2012	$ 405,180
2013	413,162
2014	421,301
2015	429,601
2016	438,064
Thereafter	1,840,272
	$ 3,947,580

Copier Services Agreement

In December 2007, as an addendum to the long-term contract originally with SBT, UTC had contracted with SBT to provide services to coordinate the management, provision and installation of copier equipment and software. The agreement commenced on December 19, 2007 and terminated on December 18, 2010, but was renewed for another three years. This agreement has two additional consecutive three-year renewal options. The management fee recognized was $56,650 and $55,539 in 2011 and 2010, respectively. As of January 1, 2009 SBT assigned this contract with UTC to Navitech. All terms of the contract remain unchanged over the remaining contract period. UTC will pay Navitech an annual fee in two installments each year on January 15 and July 15. Future payments under this agreement are as follows for the years ending December 31:

2012	$ 57,783
2013	58,938
	$ 116,721

13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 12, 2012, which is the date the financial statements were issued.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

March 12, 2012

To the Board of Directors of
Upstate Telecommunications Corporation:

We have audited the financial statements of Upstate Telecommunications Corporation (UTC), a New York nonprofit organization, as of and for the year ended December 31, 2011, and have issued our report thereon dated March 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of UTC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered UTC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of UTC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of UTC's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

(Continued)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Compliance and Other Matters
As part of obtaining reasonable assurance about whether UTC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Bonadio & Co., LLP