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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON-PROCEDURES

Advisory Board and Management
Utah Governor's Office of Economic Development
c/o Val Hale, Executive Director
60 East South Temple, 3rd Floor
Salt Lake City, Utah 84111

Ladies/Gentlemen:

We have performed the procedures enumerated below, which were agreed to by Management of the Utah Governor's Office of Economic Development (GOED), with respect to the Economic Development Tax Increment Financing (EDTIF) post-performance tax-credit program (the Program) solely to assist you in assessing the validity of the following items as of the specified dates and/or for the periods outlined in the procedures below:

- EDTIF incentives (tax credits and rebates) issued.
- The number of jobs created in aggregate and reported in GOED's Annual Report.
- The outstanding cash rebate and tax credit commitments reported by GOED in the State of Utah Comprehensive Annual Financial Report (CAFR) Notes (i.e., notes to the financial statements).
- GOED's adherence to relevant ethical, statutory, contractual, and procedural requirements in administering the Program.

As a result of applying these procedures we noted the following four exceptions, as further described in sections 1C, 2, and 3:

- A $2,000 data entry error was made on an issued tax credit certificate in favor of the State of Utah.
- 89 jobs (0.75% of the total jobs reported) were underreported by GOED in the 2013 Annual Report.
- $46,989 (.007% of the total commitments) in outstanding commitments were underreported by GOED in the CAFR.
- The outstanding commitment balance for General Fund cash rebates in the CAFR was understated by $661,997 (0.1% of the total commitment (cash rebates and tax credits)).

Except as noted above, we did not encounter any instances of non-compliance with relevant ethical, statutory, contractual, or procedural requirements.

GOED management is responsible for the administration of the Program and the related accounting records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of GOED management. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and associated findings are as follows:

EDTIF Incentive Disbursements Issued:

1. We inspected documentation for a sample of 60 incentive disbursements issued (cash rebates and tax credits) selected by us. The 60 disbursements selected comprised 29 unique companies and represented 64% of the total incentive disbursements earned from the Program's inception through December 31, 2012, to determine whether GOED issued the incentive disbursements in accordance with relevant statutory, contractual, and procedural requirements. Specifically, to make this determination on each sample, we gathered information and performed procedures relating to the wage requirement, headcount requirement, and incentive calculation, as explained in further detail below. For purposes of our procedures, we rounded numbers to the nearest whole dollar. Rounding differences as a result of this were not considered a finding.

   a. *Wage Requirement*
   We gathered the following information from company contracts, Utah Department of Workforce Services (DWS) data on individual companies and DWS county level data or company-provided data:

      ► Commencement date
      ► Project-based or company-wide incentive
      ► Period of the contract pertaining to the incentive issued
      ► Wage multiplier
      ► Whether or not the wage calculation may include benefits
      ► County the company resides in
      ► Wage multiple basis (median vs. average)
      ► Relevant county wage for the specified period
      ► DWS or company-provided reports (for project-based incentives) showing headcount and wage data

   We calculated the following:

      ► Sum total of wages reported for the period
      ► Average employee count for the period
      ► Company's average wage for the period
      ► Minimum wage requirement

   Based on this information, we determined whether:

      ► Each company met the minimum wage requirement per the contractual requirements
      ► Tanner's sum total wage and average employee calculated amounts agreed to GOED's calculated amounts

   No exceptions were found as a result of applying these procedures. However, we observed the following:

      ► Company A, 2007: Using 2014 DWS data for 2007, we recalculated the average wage and found that current DWS data had been slightly adjusted from the 2007 DWS data used by GOED. Thus, we were unable to match GOED's 2007 average wage calculation exactly. GOED represented to us that DWS periodically updates and revises its data. We consider the $175 to be an insignificant difference. This adjustment by DWS to the wage data did not have an impact on whether Company A had met the minimum requirement for 2007.

      ► Company B, 2007 and Company C, 2010: GOED issued a partial rebate/credit to Company B, 2007 and Company C, 2010 in accordance with the companies' partial achievement of their contractual requirements. Company B added jobs and incremental state tax revenue. However, because GOED did not deem the minimum wage criteria to be met (albeit by a relatively small amount), it did not pay a rebate on the corporate tax, use tax, and payroll tax withholding. GOED did pay a rebate on the incremental sales tax paid by Company B to its Utah vendors. Company C had a contractual requirement to add 44 new jobs in 2010. It hired 62 employees, but only 20 of those employees (32%) qualified as exceeding the wage level requirement. The office made a decision to reduce the tax credit amount to 32% of the targeted credit, and issue the credit.

The allowance of a partial credit was not provided for in the contracts of these companies. However, the statute grants GOED management the authority to make such decisions. Specifically, as outlined in 63M-1-2404 (3)(b)(ii), "*In determining whether to authorize a tax credit…, the office shall authorize the tax credit in a manner that the office determines will result in providing the most effective incentive for the new commercial project.*" GOED management concluded that offering these companies a partial credit in proportion to their achievements provided the most effective incentive for this commercial project.

- Wages + Benefits: "*High paying jobs*" as defined in Utah state statute 63M-1-2403, means "*with respect to a business entity, the annual wages of employment positions in a business entity that compare favorably against the average wage of a community in which the employment positions will exist*." The statute does not quantify or define "favorable" annual wages. The current threshold used by GOED in new contracts is 125% of the county average wage for urban counties (Salt Lake, Utah, Davis, and Weber) and 100% for rural counties. For some companies, GOED also contractually allows for the use of benefits (health insurance premiums) in the wage measurement. In light of the Affordable Care Act, GOED seeks to incentivize the creation of jobs that provide health insurance benefits for employees and also pay a salary in excess of the average county wage. At the 125% threshold for qualifying jobs, GOED believes that even without the inclusion of benefits, the base average wage for those jobs compares "favorably" (equal to or greater than) against the county average wage, which meets the statutory requirement.

  In our sample of 29 companies, 9 of the contracts allowed companies to include benefits (health insurance premiums) in the wage calculation, if needed. However, GOED explained that it is rare for incentivized companies to need to factor in benefits to meet the required 125% wage threshold. We found this to be true in our sample. Out of our sample of 60 incentive disbursements issued, we noted one instance where a company needed to include benefits, which was allowed by the contract, in order to meet the wage requirement of 125%. Without the inclusion of benefits, the wages of the incented jobs totaled 119% of the county average wage, which GOED management believes "compares favorably" with the average county wage, as required by the statute, The other companies in our sample surpassed the 125% threshold using base wage data only. GOED's use of the 125% (or higher) threshold, with benefits where needed, does not appear to be a violation of the statute or the contractual requirements.

- Disqualification: When processing a request for an incentive disbursement, GOED sometimes employs a process called "disqualification." Disqualification is the practice of analyzing a subset of the total employee and wage data provided by companies to identify the qualifying pool of individuals that meet the required wage criterion. In this way, some employees on the list are disqualified, or excluded, from the analysis. When the company-wide average wage (computed using either DWS or company-provided data) does not meet the required wage threshold, GOED analyzes the data to see if companies have met the required wage threshold for the number of required incremental jobs. The parameters for applying disqualification are not formally defined, but it usually entails sorting a list of employees by wage (highest to lowest) and identifying the total number of employees whose collective average salary is above the threshold. If the number of employees meeting the threshold is in accordance with the headcount criterion, then GOED approves the incentive. There is a risk that using the disqualification methodology could result in companies being issued incentives that did not qualify.

Nevertheless, in our samples where GOED applied the disqualification methodology, we did not note any instances of improper incentive disbursements. Specifically, out of our sample of 60 incentive disbursements issued, we noted GOED applied the disqualification methodology in 5 instances. We reviewed the job data for these five disbursements in detail and, without using the disqualification methodology, found that each of the five disbursements met the new jobs and wage criteria without using the disqualification methodology.

b. *Headcount Requirement*

We gathered the following information from company contracts, DWS data, or company-provided data:

- Headcount % criteria (% of projected headcount) for the period
- Projected headcount for the period
- Baseline headcount
- Total period-ending headcount

We calculated the following:

- Number of incremental jobs above the baseline headcount
- Minimum headcount requirement (above the baseline) for the period

Based on this information, we determined whether:

- Each company met the job-growth requirement per contractual requirements

No exceptions were found as a result of applying these procedures.

Note: Where applicable, GOED includes individuals from professional employment organizations (PEOs) working at incentivized companies in the calculation of the headcount requirement.

c. *Incentive Calculation*

We gathered the following information from company contracts, company-provided data, or GOED-provided data:

- Contract life
- Program award (maximum award/incentive cap)
- Incentive rate for the period
- Annual baseline tax (employee withholding, sales and use taxes (line 4 from TC-62 form), corporate income tax)
- Prorated baseline tax (if necessary in first period only)
- Actual total tax for the period
- Incremental tax for the period

We calculated the following:

- Incremental tax for the period
- Incentive amount
- Total incentives paid/issued through and including the current period
- Total incentive remaining

Based on this information we:

- Agreed our incentive calculation to the amount paid
- Determined that the incentive issued did not exceed 50% of the incremental state tax revenues from the new commercial project in any given year, in accordance with Section 63M-1-2404
- Determined that the cumulative payouts through the selected period did not exceed the company's award cap
- Determined that the period in which the company received the incentive was not outside of its contract life

The following exception was found as a result of applying these procedures:

- Company D, 2010: The tax credit certificate issued by GOED was $2,000 less than what was actually earned in 2010. This was a data entry oversight with a manually generated certificate. GOED no longer prepares the certificates manually. They are now generated automatically in Salesforce.com to mitigate risks of data entry errors. GOED management stated that they will adjust the credit amount for 2013.

No other exceptions were found as a result of applying these procedures.

Jobs Reported in GOED’s Annual Report:

2. We inspected documentation for a randomly selected sample of 27 companies participating in the Program, which represented approximately 46% of the total companies actively participating in the Program from its inception through December 31, 2012. This was done to determine whether GOED accurately recorded the number of incremental jobs for each selected company as part of its overall calculation of the total number of jobs created by incentivized companies, as reported in GOED’s 2013 Annual Report. The total number of jobs created as reported by GOED was 11,933. We performed the following procedures:

   We gathered the following information from DWS data, company-provided data, or GOED-provided data:

   - Total baseline headcount
   - Total period-ending headcount as of December 31, 2012
   - GOED’s schedule used to calculate total incremental jobs over each company’s baseline

   We calculated the following:

   - Total number of incremental jobs added beyond each selected Company’s baseline headcount
   - Total number of incremental jobs recorded in GOED’s schedule

   Based on this information, we determined whether:

   - Tanner’s calculation of the number of incremental jobs created beyond the baseline for each company selected, as of December 31, 2012, agreed to GOED’s calculations recorded in the schedule supporting the calculation of the 11,933 jobs reported in the Annual Report
   - Tanner’s recalculation of the total number of incremental jobs added beyond selected company baselines and recorded in GOED’s schedule agreed to GOED’s calculation of 11,933

The following exception was found as a result of applying these procedures:

- Out of our sample of 27 companies, we noted a difference in the headcount calculation in 9 of the selected companies, resulting in a net difference of 89 jobs (0.75% of the total jobs reported) being underreported by GOED. In addition, the job count calculated by GOED does not include third-party contractors working at certain incentivized companies.

No other exceptions were found as a result of applying these procedures.

Outstanding cash rebate and tax credit commitments reported by GOED in the CAFR:

3. We inspected documentation for a randomly selected sample of 27 companies actively participating in the Program, which represented approximately 32% of the total companies participating in the Program (including those companies that were approved by the Advisory Board, but not yet contracted) from its inception through June 30, 2013. This sample size also represented approximately 55% of the total outstanding cash rebate and tax credit commitment amounts recorded by GOED in its June 30, 2013 outstanding commitment schedule (which was used as the basis for the calculation of the balances recorded in the CAFR Report). We inspected documentation to determine whether GOED accurately recorded the outstanding cash rebate or tax credit commitment amount, as of June 30, 2013, for each selected company as part of its overall calculation of the total outstanding cash rebate and tax credit commitment amounts by incentivized companies, as subsequently reported in the State of Utah's Fiscal Year 2013 CAFR. Specifically, to make this determination on each sample, we performed the procedures outlined below. For purposes of our procedures, any difference under $10 was not considered a finding.

We gathered the following information from company contracts and GOED-provided data:

- Total incentive cap (approved award amount)
- Incentives disbursed through June 30, 2013

We then calculated the following:

- Outstanding commitment amounts as of June 30, 2013
- Sum of the total outstanding cash rebate and tax credit amounts recorded in GOED's schedule

Based on this information, we determined whether:

- Tanner's calculation of the outstanding commitment amount for each sample selection, as of June 30, 2013, was equal to GOED's calculations recorded in the schedule supporting the calculation of the cash rebate and tax credit commitment amounts reported in the CAFR
- Tanner's calculation of the total outstanding cash rebate and tax credit amounts recorded in GOED's schedule was equal to GOED's calculation of $95,410,849 and $560,739,737, respectively

The following exceptions were found as a result of applying these procedures:

- Out of our sample of 27 companies, we noted a difference in the outstanding commitment calculation in 5 of the samples, resulting in a net difference of $46,989 (.007% of the total commitment) in outstanding commitments being underreported by GOED.

  GOED's outstanding commitment calculations include companies that have been approved by the Advisory Board, but have not yet entered into a contract. Since there is no contract, it would appear this methodology results in the outstanding commitment amount being overstated. Some of these companies may not end up in a formal contract even though they were approved. Also, as noted in the CAFR, the cash rebates and tax credits are contingent on participating companies meeting certain criteria. Thus, it is unlikely that 100% of these outstanding commitments will be required.

- In the 2013 CAFR, the State of Utah reported, "At June 30, 2013, EDTIF had outstanding long-term contract commitments for General Fund cash rebates of $94.749 million and Education Fund tax credits of $560.739 million. These cash rebates and tax credits are contingent on participating companies meeting certain economic development performance criteria." In GOED's schedule, the General Fund cash rebate total outstanding amount was $95.410 million and the Education Fund tax credit total outstanding amount was $560.739 million. The difference in the General Fund of $661,997 (0.1% of the total commitment) is due to an undefined year-end cutoff, and the fact that cash rebates paid out to one company after the FY ended June 30, 2013 were deducted from the total commitment amount reported in the CAFR, thus understating the outstanding commitment as of June 30, 2013.

No other exceptions were found as a result of applying these procedures.

GOED's adherence to any ethical, statutory, contractual, and procedural requirements:

4. Through our performance of the aforementioned procedures, we did not encounter any instances of non-compliance with relevant ethical, statutory, contractual, or procedural requirements, except as noted above.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the Program or related accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Advisory Board and Management of GOED, and is not intended to be and should not be used by anyone other than these specified parties.

Tanner LLC

October 7, 2014