QUARTERLY PERFORMANCE PROGRESS REPORT FOR BROADBAND INFRASTRUCTURE PROJECTS

General Information

1. Federal Agency and Organizational Element to Which Report is Submitted	2. Award Identification Number	3. DUNS Number
Department of Commerce, National Telecommunications and Information Administration	NT10BIX5570009	615121324

4. Recipient Organization

Merit Network Inc. 1000 Oakbrook Drive
Suite 200, Ann Arbor, MI 48104-6815

5. Current Reporting Period End Date (MM/DD/YYYY)	6. Is this the last Report of the Award Period?
12-31-2011	◯ Yes ◉ No

7. Certification: I certify to the best of my knowledge and belief that this report is correct and complete for performance of activities for the purposes set forth in the award documents.

7a. Typed or Printed Name and Title of Certifying Official	7c. Telephone (area code, number and extension)
Jamie Nielson	X
	7d. Email Address jamien@merit.edu

7b. Signature of Certifying Official	7e. Date Report Submitted (MM/DD/YYYY):
Submitted Electronically	02-27-2012

Project Indicators (This Quarter)

1. Please describe significant project accomplishments completed during this quarter (600 words or less).

Merit worked closely with the NTIA to prepare an addendum to Merit's Environmental Assessment (EA), classifying route changes by potential impact in terms of geography and the nature of the changes. This included work with the State Historic Preservation Office (SHPO) and United States Fish and Wildlife Service (USFWS) to obtain departmental approval of proposed route changes, and correspondence with tribes who had inquiries after the Tower Construction Notification System (TCNS) broadcast went out. The EA amendment and required Award Action Request (AAR) was approved by the Grants Office. Merit continued to work with BTOP recipient Bloomingdale Communications on overlapping route segments, and began to lay conduit. Merit continues to work with Allband, a BIP recipient with overlapping segments in Northeast Michigan; an agreement was signed. Merit submitted an AAR request for our new Network Operations Director to replace our former Network Operations Director, who was listed as a key person on Merit's grant application. Merit completed our A-133 audit, which revealed no instances of noncompliance and no Federal Program findings. Merit's Engineering and Compliance teams reviewed the Route/Switch RFP responses. Our project manager met with a large utility that was non-responsive to permit applications, and was able to obtain approvals for outstanding permit requests. Merit completed the Key Project Indicator (KPI) report requested by the NTIA.

2. Please provide the percent complete for the following key milestones in your project. Write "0" in the Percent Complete column and "N/A" in the Narrative column if your project does not include this activity. If you provided additional milestones in your baseline plan, please insert them at the bottom of the table. Unless otherwise indicated in the instructions, figures should be reported cumulatively from award inception to the end of the most recent reporting quarter. Please provide a narrative description if the percent complete is different from the target provided in your baseline plan (300 words or less).

	Milestone	Percent Complete	Narrative (describe reasons for any variance from baseline plan or subsequent written updates provided to your program officer)
2a.	Overall Project	36	Permitting (both construction and environmental) delays have resulted in less spending than originally projected. Multiple construction deployments have commenced this quarter, but have not yet been invoiced, so we anticipate closing the gap between our current status and the Baseline Plan in subsequent quarters.
2b.	Environmental Assessment	100	The Environmental Assessment is at 435% of budget. After our Finding of No Significant Impact was issued, we continued to need to work with our environmental consulting firm and the Michigan Department of Environmental Quality (MDEQ) on ways to minimize our project's impact in sensitive areas and remain in compliance. We also needed to do additional work to obtain environmental approval from the NTIA for route changes. Despite the overrun, we do not anticipate revising the budget as reported on Form 424C; the Environmental Assessment is a component of the Engineering budget, and we are significantly under budget in that category at this time. We are confident that the Engineering budget will be able to absorb the current overrun. There will continue to be minimal charges in this category as we work with agencies on environmental permitting and mitigation.
2c.	Network Design	24	Engineering has so far cost far less than anticipated, and we have had significant delays in getting our environmental clearances. The current percent complete does not accurately reflect that network design for fiber optic backbone is complete. Final CADs cannot be produced until construction is complete, so we anticipate seeing a significant portion of the budget funds expended in the third and fourth quarters of 2012.
2d.	Rights of Way	100	We have exceeded our budget for rights-of-way permitting (266%), however, some work still remains to be done. We estimate the percentage at completion will be 300%, which will be absorbed by the construction budget. In addition, we may need to submit additional permit applications for community anchor institution builds and route changes necessitated by schedule or engineering.
2e.	Construction Permits and Other Approvals	100	We have exceeded our budget for construction permitting (266%), and some work still remains to be done. We estimate the percentage at completion will be 300%, which will be absorbed by the construction budget. In addition, we may need to submit additional permit applications for community anchor institution builds and route changes necessitated by schedule or engineering.

	Milestone	Percent Complete	Narrative (describe reasons for any variance from baseline plan or subsequent written updates provided to your program officer)
2f.	Site Preparation	0	We have almost completed the process of finalizing central office and community anchor institution routes. Last quarter we selected a contractor to perform site preparation work and they are diligently conducting site visits. Some work has been completed this quarter, but Merit was not invoiced during the reporting period. Our strategy includes prepping each site prior to the arrival of the backbone fiber to the anchor, which allows Merit to complete site preparation more efficiently and in a timely manner.
2g.	Equipment Procurement	20	Most of the dense wave division multiplex (DWDM) equipment was ordered this quarter. It arrived in December, and we anticipate being invoiced next quarter. The procurement process for routers and switches was nearly completed, with contracts being in the final stages of negotiation at the close of the reporting period. Merit anticipates being at budget by project completion.
2h.	Network Build (all components - owned, leased, IRU, etc)	36	Merit has contracts with seven construction firms, each with multiple construction crews, and has begun aerial construction and underground construction across the funded network. Merit anticipates a significant increase in the spending rate in this budget category, and will be at budget by project completion.
2i.	Equipment Deployment	0	Merit has not incurred expense for equipment deployment at this time, because not enough construction has been completed to warrant ordering and placing equipment in the field. However, with construction actively underway, spending in this category will increase, and Merit will be at or close to budget by completion.
2j.	Network Testing	52	Test equipment has been purchased; once more construction is complete, testing will be performed, and the percent complete is projected to be at budget by project completion.
2k.	Other (please specify):	81	Spending in this category has evened out, and is only 1% above the Baseline Projection, largely due to unforeseen legal expenses. We anticipate being at budget by project completion.

3. To the extent not covered above, please describe any challenges or issues faced during this past quarter in achieving planned progress against the project milestones listed above. In particular, please identify any areas or issues where technical assistance from the BTOP program may be useful (600 words or less).

Merit was required to re-engineer portions of our route due to excessive permitting costs, uncooperative municipalities and pole owners, and physical impediments. Merit worked extensively with our Federal Program Officer and creating supporting documentation and obtaining formal approval. Re-engineering sometimes requires re-submission of permits or results in delays in permit issuance; in addition, obtaining the required environmental permits from state agencies has required several full-time staff members and multiple re-submissions. All other challenges and issues are referenced in the above variance narrative.

4. Please report the following information regarding network build progress. Write "0" in the Total column and "N/A" in the Narrative column if your project does not include this activity. Unless otherwise indicated in the instructions, figures should be reported cumulatively from award inception to the end of the most recent reporting quarter. Please provide a narrative description if the total is different from the target provided in your baseline plan (600 words or less).

Indicator	Total	Narrative (describe your reasons for any variance from the baseline plan or any other relevant information)
New network miles deployed	85	Merit anticipates completing most of the fiber construction during the next two quarters. We currently have 15 crews in the field.
New network miles leased	0	No variance
Existing network miles upgraded	0	No variance
Existing network miles leased	0	No variance
Number of miles of new fiber (aerial or underground)	85	Merit anticipates completing most of the fiber construction during the next two quarters. We currently have 15 crews in the field.

Indicator	Total	Narrative (describe your reasons for any variance from the baseline plan or any other relevant information)
Number of new wireless links	0	N/A
Number of new towers	0	N/A
Number of new and/or upgraded interconnection points	0	While some infrastructure has been installed, there are not enough contiguous segments constructed to bring in testing and splicing crews. We anticipate interconnection points will be added and/or upgraded next quarter.

For questions 5 and 6 please include information relating to agreements that you are negotiating or have entered into, or that your sub recipient, contractor or subcontractor is negotiating or entered into.

5a. If applicable, please provide the following information with regard to agreements with broadband wholesalers and/or last mile providers as a result of your project.

Indicators	
Number of signed agreements with broadband wholesalers or last mile providers	3
Number of agreements currently being negotiated with broadband wholesalers or last mile providers	0
Average term of signed agreements (in quarters)	80

5b. Please list the names of the wholesale and last mile providers with whom you have signed agreements (100 words or less). Providers:
We originally projected having 4 agreements, but only 3 parties chose to sign the agreement.

LYNX Network Group, LLC (fiber strands on all segments)

KEPS Technologies, Inc. d.b.a. ACD.net (fiber strands on all segments)

The Computer Care Company, Inc. d.b.a. TC3Net (fiber strands from Monroe, MI to Benton Harbor, MI)

5c. What wholesale services are being provided by this project? Please describe below. As an attachment to this report, please provide pricing plans (in $ per month) associated with each wholesale service provided by your product (100 words or less). Wholesale services description:
None at this time.

5d. If you have designated a third party to operate all or a portion of your network, please provide the name and contact information for this third party, indicate if this entity is a sub recipient, contractor, and/or subcontractor, and describe with specificity the portion of your network this this third party operates (600 words or less).
We anticipate 3 subrecipients will participate in this infrastructure project. Each subrecipient will own strands in the network depending on the segment and location of the build.

LYNX Network Group, LLC (fiber strands on all segments)
Chris Barber, PO Box 237 Kalamazoo, MI 49004, Phone: 877.585.5969

KEPS Technologies, Inc. d.b.a. ACD.net (fiber strands on all segments)
Kevin Schoen, 1800 N Grand River Ave Lansing, MI 48906, Phone: 877.422.3638

The Computer Care Company, Inc. d.b.a. TC3Net (fiber strands from Monroe, MI to Benton Harbor, MI)
Joe Mattausch, President, 247 S. Main St. Adrian, MI 49221, Phone: 517-266-0402

6. Please provide the data according to the type of subscriber. Write "0" in the Total column and "N/A" in the Narrative column if your project does not pass or serve a particular subscriber type. Unless otherwise indicated in the instructions, figures should be reported cumulatively from award inception to the end of the most recent reporting quarter. Please provide a narrative description if the total is different from the target provided in your baseline plan (300 words or less).

Subscriber Type	Access Type	Total	Narrative (describe your reasons for any variance from the baseline plan or any other relevant information)
Broadband Wholesalers or Last Mile Providers	**Providers with signed agreements receiving new access**	0	We have not lit fiber at this time.
	Providers with signed agreements receiving improved access	0	We have not lit fiber at this time.

Subscriber Type	Access Type	Total	Narrative (describe your reasons for any variance from the baseline plan or any other relevant information)
	Providers with signed agreements receiving access to dark fiber	0	We have not lit fiber at this time.
	Please identify the speed tiers that are available and the number of subscribers for each	0	We have not lit fiber at this time.
Community Anchor Institutions (including Government institutions)	Total subscribers served	0	We have not lit fiber at this time.
	Subscribers receiving new access	0	We have not lit fiber at this time.
	Subscribers receiving improved access	0	We have not lit fiber at this time.
	Please identify the speed tiers that are available and the number or subscribers for each	0	We have not lit fiber at this time.
Residential / Households	Entities passed	0	N/A
	Total subscribers served	0	N/A
	Subscribers receiving new access	0	N/A
	Subscribers receiving improved access	0	N/A
	Please identify the speed tiers that are available and the number of subscribers for each	0	N/A
Businesses	Entities passed	0	N/A
	Total subscribers served	0	N/A
	Subscribers receiving new access	0	N/A
	Subscribers receiving improved access	0	N/A
	Please identify the speed tiers that are available and the number of subscribers for each	0	N/A

7. Please describe any special offerings you may provide (600 words or less).

No additional special service offerings are planned, at this time, to deviate from the original application Attachment B -- Proposed Middle Mile Service Offerings.

8a. Have your network management practices changed over the last quarter? ◯ **Yes** ◉ **No**

8b. If so, please describe the changes (300 words or less).
N/A

9. Community Anchor Institutions:
Using the table below, please provide a list by service area of the community anchor institutions (including Government institutions) connected to your network as a result of BTOP funds. Figures should be reported for the most recent reporting quarter only (NOT cumulatively). Also indicate whether your organization is currently providing broadband service to the anchor institution. Finally, provide a short narrative description with examples of how institutions are using BTOP-funded infrastructure (300 words or less).

Institution Name	Service Area (town or county)	Type of Anchor Institution (as defined in your baseline)	Are you also the broadband service provider for this	Narrative description of how anchor institutions are using BTOP-funded infrastructure

			institution? (Yes / No)	
N/A	**N/A**	**N/A**	**N/A**	**N/A**

Project Indicators (Next Quarter)				

1. Please describe significant project accomplishments planned for completion during the next quarter (600 words or less).

We anticipate construction and environmental permitting will be complete for the approved route. Merit plans to complete additional middle mile fiber installation, and start testing and lighting fiber. Merit will deploy optical equipment and purchase route/switch equipment. Our engineers will be working all over Michigan to complete a significant number of inside plant work and connect anchor institutions to the outside plant fiber as it is constructed. Merit will be working with our subrecipients to connect to central office facilities, including general installation, wiring, and connecting project-funded central office equipment. Merit projects that next quarter there will be:

- 125 new network miles deployed;

- 25 new network miles leased;

- 2 community anchor institution subscribers served; and

- 3 signed agreements with wholesalers and/or last mile providers.

2. Please provide the percent complete for the following key milestones in your project. Write "0" in the Planned Percent Complete column and "N/A" in the Narrative column if your project does not include this activity. If you provided additional milestones in your baseline plan, please insert them at the bottom of the table. Unless otherwise indicated in the instructions, figures should be reported cumulatively from award inception to the end of the next reporting quarter. Please provide a narrative description if the percent complete is different from the target provided in your baseline plan (300 words or less).

	Milestone	Planned Percent Complete	Narrative (describe reasons for any variance from baseline plan or any other relevant information)
2a.	**Overall Project**	63	Permitting (both construction and environmental) delays have resulted in less spending than originally projected for this quarter. While the overall project completion in terms of spending is still behind, significant progress will be made this quarter in eliminating the variance between the percent complete and the baseline plan. Construction crews will be working at capacity, so we anticipate closing the gap between our current status and the Baseline Plan in subsequent quarters.
2b.	**Environmental Assessment**	100	The Environmental Assessment is at 440% of budget. After our Finding of No Significant Impact was issued, we continued to need to work with our environmental consulting firm and the Michigan Department of Environmental Quality (MDEQ) on ways to minimize our project's impact in sensitive areas and remain in compliance. Despite the overrun, we do not anticipate revising the budget as reported on Form 424C; the Environmental Assessment is a component of the Engineering budget, and we are significantly under budget in that category at this time. We are confident that the Engineering budget will be able to absorb the current overrun. There will continue to be minimal charges in this category as we work with agencies on environmental permitting and mitigation.
2c.	**Network Design**	50	Engineering has so far cost far less than anticipated, and we have had significant delays in getting our environmental clearances. The current percent complete does not accurately reflect that network design for fiber optic backbone is complete. The Engineering teams will continued to work on the route and incorporate redlines. Final CADs cannot be produced until construction is complete, so we anticipate seeing a significant portion of the budget funds expended in the third and fourth quarters of 2012.
2d.	**Rights of Way**	100	We have exceeded our budget for rights-of-way permitting (273%), however, some work still remains to be done. We estimate the percentage at completion will be 300%, which will be absorbed by the construction budget. In addition, we may need to submit additional permit applications for community anchor institution builds and route changes necessitated by schedule or engineering.
2e.	**Construction Permits and Other Approvals**	100	We have exceeded our budget for rights-of-way permitting (273%), however, some work still remains to be done. We estimate the percentage at completion will be 300%, which will be absorbed by the construction budget. In addition, we may need to submit additional permit applications for community anchor institution builds and route changes necessitated by schedule or engineering.
2f.	**Site Preparation**	33	Merit anticipates being invoiced for site preparation work performed in the previous quarter. We will have increased the number of staff working on site preparation from one individual to four individuals. Our strategy includes

	Milestone	Planned Percent Complete	Narrative (describe reasons for any variance from baseline plan or any other relevant information)
			prepping each site prior to the arrival of the backbone fiber to the anchor, which allows Merit to complete site preparation more efficiently and in a timely manner.
2g.	Equipment Procurement	30	Most of the dense wave division multiplex (DWDM) equipment will be invoiced this quarter. The procurement process for routers and switches will be completed, and equipment will be ordered. Merit anticipates being at budget by project completion.
2h.	Network Build (all components - owned, leased, IRU, etc.)	68	Merit has contracts with seven construction firms, each with multiple construction crews, and has begun aerial construction and underground construction across the funded network. Merit anticipates a significant increase in the spending rate in this budget category, and will be at budget by project completion.
2i.	Equipment Deployment	50	Merit has been behind our baseline due to delays in starting from construction. However, with construction actively underway, our engineers will be out in the field deploying equipment, and spending in this category will increase. Merit will be at or close to budget by completion.
2j.	Network Testing	52	Test equipment has been purchased; once more construction is complete, testing will be performed, and the percent complete is projected to be at budget by project completion.
2k.	Other (please specify):	94	Spending in this category has evened out, and is now below the Baseline Projection. We anticipate being over budget (114%) by project completion, because we will continue to require administrative staff and incur miscellaneous expenses as long as construction and deployment are underway.

3. Please describe any challenges or issues anticipated during the next quarter that may impact planned progress against the project milestones listed above. In particular, please identify any areas or issues where technical assistance from the BTOP program may be useful (600 words or less).

We believe we will have overcome most of the major challenges and issues that could impact progress against our project milestones with the exception of weather. Although this winter has been mild, it is still possible that conditions may delay some installation in some areas of the state.

Infrastructure Budget Execution Details

Activity Based Expenditures (Infrastructure)

1. Please provide details below on your total budget, cumulative actual expenditures (for the period ending the current quarter), and cumulative anticipated expenditures (for the period ending next quarter) for each line item, including detailed disbursements of both matching funds and federal funds from project inception through end of this quarter (actual) or next quarter (anticipated). Actual and anticipated figures should be reported cumulatively from award inception to the end of the applicable reporting quarter.

Cost Classification	Budget for Entire Project			Actuals from Project Inception through End of Current Reporting Period			Anticipated Actuals from Project Inception through End of Next Reporting Period		
	Total Cost (plan)	Matching Funds (plan)	Federal Funds (plan)	Total Cost	Matching Funds	Federal Funds	Total Costs	Matching Funds	Federal Funds
a. Administrative and legal expenses	$422,027	$84,405	$337,622	$264,893	$52,978	$211,915	$296,480	$59,296	$237,184
b. Land, structures, right-of-ways, appraisals, etc.	$676,199	$135,240	$540,959	$1,797,399	$359,480	$1,437,919	$1,847,338	$369,468	$1,477,870
c. Relocation expenses and payments	$0	$0	$0	$0	$0	$0	$0	$0	$0
d. Architectural and engineering fees	$4,703,356	$940,671	$3,762,685	$1,323,164	$264,633	$1,058,531	$2,463,347	$492,669	$1,970,678
e. Other architectural and engineering fees	$1,424,305	$284,861	$1,139,444	$298,273	$59,655	$238,618	$615,837	$123,167	$492,670
f. Project inspection fees	$1,690,497	$338,100	$1,352,398	$0	$0	$0	$0	$0	$0
g. Site work	$1,696,897	$339,380	$1,357,518	$1,545	$309	$1,236	$96,208	$19,242	$76,966
h. Demolition and removal	$0	$0	$0	$0	$0	$0	$0	$0	$0
i. Construction	$25,357,463	$5,071,492	$20,285,971	$9,744,308	$1,948,862	$7,795,446	$18,864,952	$3,772,990	$15,091,961
j. Equipment	$5,485,955	$1,097,192	$4,388,763	$1,123,892	$224,778	$899,114	$1,712,867	$342,573	$1,370,294
k. Miscellaneous	$154,827	$30,965	$123,862	$244,426	$48,885	$195,541	$247,653	$49,531	$198,122
l. SUBTOTAL (add a through k)	$41,611,526	$8,322,306	$33,289,222	$14,797,900	$2,959,580	$11,838,320	$26,144,682	$5,228,936	$20,915,745
m. Contingencies	$0	$0	$0	$0	$0	$0	$0	$0	$0
n. TOTALS (sum of l and m)	$41,611,526	$8,322,306	$33,289,222	$14,797,900	$2,959,580	$11,838,320	$26,144,682	$5,228,936	$20,915,745

2. Program Income: Please provide the program income you listed in your application budget and actuals to date through the end of the reporting period.

a. Application Budget Program Income: $0	b. Program Income to Date: $0