

RECIPIENT NAME:GOVNET, INC.

AWARD NUMBER: NT10BIX5570136

DATE: 08/24/2011

OMB CONTROL NUMBER: 0660-0037

EXPIRATION DATE: 12/31/2013

QUARTERLY PERFORMANCE PROGRESS REPORT FOR BROADBAND INFRASTRUCTURE PROJECTS

General Information

| | | |
|---|---|--|
| 1. Federal Agency and Organizational Element to Which Report is Submitted Department of Commerce, National Telecommunications and Information Administration | 2. Award Identification Number NT10BIX5570136 | 3. DUNS Number 831335448 |
| 4. Recipient Organization GOVNET, INC. 10105 E Via Linda, Ste. 386, Scottsdale, AZ 85258-5311 | | |
| 5. Current Reporting Period End Date (MM/DD/YYYY) 06-30-2011 | 6. Is this the last Report of the Award Period? <input type="radio"/> Yes <input checked="" type="radio"/> 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 Karen McCoy Vice President | 7c. Telephone (area code, number and extension) 6023690767 | |
| | 7d. Email Address karen.m@govnet.net | |
| 7b. Signature of Certifying Official Submitted Electronically | 7e. Date Report Submitted (MM/DD/YYYY): 08-24-2011 | |

Project Indicators (This Quarter)

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

Activities this quarter were focused on finalizing the technology requirements for the network, responding to comments on the Environmental Assessment, contracting and performing due diligence on Network Operations Center, submitting a re-budget Award Action Request, meeting with tribal entities, and requesting an extension for the pre-FONSI budget. In May, GovNET submitted a Performance Improvement Plan and in June, GovNET purchased a Network Operations Center (NOC). The NOC includes a warehouse area for equipment assembly needs prior to deployment. GovNET has moved its offices into the Network Operations Center. GovNET is in the process of responding to comments on the Overlap SAC map.

Numerous milestones were accomplished, including hiring of key staff and releasing several RFPs. GovNET staff continued to meet with stakeholders throughout Arizona, including: Gila River Indian Community, Navajo Tribal Utility Authority, Northern Arizona Council of Governments, Western Arizona Council of Governments, AZ Dept. of Emergency Management, County school associations and public safety entities to coordinate and do outreach for the project.

GovNET staff also met with Arizona Congressional Representatives in Washington, D.C. to explain the project and its potential impact to constituents. Activities are still very focused on securing rights of way, obtaining lease agreements from the Community Anchor Institutions (CAIs) and coordinating with Tribes throughout the state.

The following RFPs were released and contracts awarded:

1. RFPs for microwave antennas (5 bids received) and cable and associated hardware (4 bids received) were released; both were awarded to Aviat. The Notice of Award was sent on May 2, 2011.
2. Contract for geotech services (soil sampling, ground drilling/testing - 2 bids received) was awarded to Western Technologies. The Notice of Award was sent on May 3, 2011.
3. A combined RFP for microwave towers and monopoles was released May 3, 2011. Two bids were received and will be awarded next quarter.
4. The RFP for shelters was released May 16, 2011. Eight bids were received and will be awarded in next quarter.
5. RFP for Microwave Path Coordination was released June 6, 2011. Two bids were received and will be awarded in July.

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 | 10 | Behind baseline plan due to lack of EA approval, which restricts construction. Submitted two SF-270s in during this reporting period. |
| 2b. | Environmental Assessment | 78 | Behind baseline plan. Submitted Draft EA 2/28/2011, additional requested items and revisions in progress. |
| 2c. | Network Design | 38 | Actual network design is almost complete; behind baseline plan expenditures for finalizing FCC licensing which starts a construction clock. |
| 2d. | Rights of Way | 22 | Slightly behind baseline plan, due to progress delays in securing federal land leases and annual lease expenses not yet due. |
| 2e. | Construction Permits and Other Approvals | 0 | Slightly behind baseline as directly related to construction timing. |
| 2f. | Site Preparation | 0 | Behind baseline projections. Surveys are in progress. Construction timeline is behind schedule due to delays with EA/FONSI. |
| 2g. | Equipment Procurement | 1 | Behind baseline projections as no delivery yet. Microwave antennas and cable and associated hardware has begun purchase order process. Will begin purchase process of towers and monopoles next quarter. |
| 2h. | Network Build (all components - owned, leased, IRU, etc) | 17 | Ahead of baseline projections for such expenditures, as network hub sites are being obtained/leased. |
| 2i. | Equipment Deployment | 0 | Behind baseline projections. No construction allowed. |

| | Milestone | Percent Complete | Narrative (describe reasons for any variance from baseline plan or subsequent written updates provided to your program officer) |
|-----|------------------------------------|------------------|---|
| 2j. | Network Testing | 1 | Behind baseline. Some network testing has occurred as part of the equipment procurement process. |
| 2k. | Other (please specify): 203 leases | 22 | Slightly behind of baseline projections. We made continued progress toward obtaining 203 in-kind leases. |

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).

The biggest challenges have been centered around 1.) completing the Environmental Assessment with the 321 total network sites, 2.) the multi-agency land ownership/management involvement, and 3.) multiple tribal consultations required in Arizona. Construction cannot begin until the Environmental Assessment is approved by all agencies involved. Each agency has different NEPA concerns and it is taking time to work through these. GovNET requested and received technical assistance from the BTOP grant manager to address these challenges. GovNET postponed hiring a Community Outreach Director and Lead Construction Manager due to delays in receiving the FONSI.

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 | 0 | Behind baseline plan due to delays in getting FONSI. |
| New network miles leased | 0 | No variance from the baseline plan. |
| Existing network miles upgraded | 0 | n/a |
| Existing network miles leased | 0 | n/a |
| Number of miles of new fiber (aerial or underground) | 0 | n/a n/a |
| Number of new wireless links | 0 | No variance from the baseline plan. |
| Number of new towers | 0 | Behind baseline plan due to delays in getting FONSI. |
| Number of new and/or upgraded interconnection points | 0 | Behind baseline plan due to delays in getting FONSI. |

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 | 0 |
| Number of agreements currently being negotiated with broadband wholesalers or last mile providers | 2 |
| Average term of signed agreements (in quarters) | 0 |

5b. Please list the names of the wholesale and last mile providers with whom you have signed agreements (100 words or less). Providers: No agreements with wholesalers have been signed, but two are in process and preliminary discussions have occurred for another.

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:

The project is expected to provide the following wholesale services: Ds1, Ds3, Ethernet Transport and VOIP. Pricing for services has not been determined but will be competitive with current market rates.

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).
 No third-party operators will be used on this project.

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 | No variance from baseline plan. |
| | Providers with signed agreements receiving improved access | 0 | Behind baseline plan due to delays in getting FONSI. |
| | Providers with signed agreements receiving access to dark fiber | 0 | n/a |
| | Please identify the speed tiers that are available and the number of subscribers for each | 0 | 10 Mbps = 45 subscribers; 45 Mbps = 10 subscribers |
| Community Anchor Institutions (including Government institutions) | Total subscribers served | 0 | Behind baseline plan due to delays in getting FONSI. |
| | Subscribers receiving new access | 0 | n/a |
| | Subscribers receiving improved access | 0 | Behind baseline plan due to delays in getting FONSI. |
| | Please identify the speed tiers that are available and the number of subscribers for each | 0 | 5 Mbps = 231 subscribers; 10 Mbps = 40 subscribers; ; 45 Mbps = 10 subscribers |
| 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 | Behind baseline plan due to delays in getting FONSI. |
| | Total subscribers served | 0 | Behind baseline plan due to delays in getting FONSI. |
| | Subscribers receiving new access | 0 | n/a |
| | Subscribers receiving improved access | 0 | Behind baseline plan due to delays in getting FONSI. |
| | Please identify the speed tiers that are available and the number of subscribers for each | 0 | 10 Mbps = 4 subscribers; These are national cellular carriers in multiple markets in AZ. |

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

VoIP, cloud computing, distance learning, video conferencing, secure interoperable public safety channel for all 15 County

Government Emergency Services, including connectivity to all Emergency Operations Centers.

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 institution? (Yes / No) | Narrative description of how anchor institutions are using BTOP-funded infrastructure |
|------------------|-------------------------------|--|--|--|
| n/a | n/a | n/a | n/a | Anticipated start of construction is Sept. 2011, pending approval of Environmental Assessment. |

Project Indicators (Next Quarter)

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

In the next quarter, the Environmental Assessment will be sent to other federal agencies for comment, and to NTIA for final review and approval. We expect to release additional RFPs for equipment and hardware including, concrete, tower materials, shelters and radio equipment. Additional leases for Community Interconnection Points at CAIs are expected to be secured. GovNET staff will continue statewide outreach to stakeholders, including Arizona Association of County School Superintendents, Arizona Department of Administration, Arizona Department of Justice, the Department of Homeland Security, the U.S. Forest Service, BLM, Navajo Tribal Utility (neighboring BTOP grantee), Northern & Western Arizona Council of Governments, and the Department of Emergency Management. We expect to hire a Community Outreach Director and a Lead Construction Manager. We expect to begin modification of the Network Operations Center (NOC). Activities are now focused on securing further rights of way, obtaining additional lease agreements from the Community Anchor Institutions, finalizing technology requirements, and releasing RFPs for equipment and hardware in anticipation of construction beginning in Fall 2011.

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 | 15 | Behind baseline projections due to delay in FONSI and inability to construct. |
| 2b. | Environmental Assessment | 100 | We expect to be slightly over budget on this milestone. |
| 2c. | Network Design | 63 | Slightly behind baseline projections based on actual expenditures for this category. Completion of network node design is dependent upon final FCC licensing, which is on hold until construction is imminent. |
| 2d. | Rights of Way | 31 | Slightly behind expenditures, but ROWs continue to be secured. |
| 2e. | Construction Permits and Other Approvals | 2 | Slightly behind due to correlation with construction timing. |
| 2f. | Site Preparation | 1 | Behind baseline projections due to delay in approval of Environmental Assessment. |
| 2g. | Equipment Procurement | 2 | Behind baseline projections due to delay in Environmental Assessment. |
| 2h. | Network Build (all components - owned, leased, IRU, etc.) | 25 | Ahead of baseline expenditures as major pieces of the network are being secured. |
| 2i. | Equipment Deployment | 1 | Behind baseline projections due to delay in approval of Environmental Assessment and subsequent delayed construction start. |
| 2j. | Network Testing | 1 | Behind baseline plan due to no construction, although some network testing has occurred as part of the equipment procurement process. |

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| | Milestone | Planned Percent Complete | Narrative (describe reasons for any variance from baseline plan or any other relevant information) |
|-----|------------------------------------|--------------------------|---|
| 2k. | Other (please specify): 203 leases | 31 | Slightly behind of baseline plan. We expect continued progress toward obtaining 203 in-kind leases. |

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 are making good progress toward achieving the milestones of our Baseline Plan. The issue with the greatest impact on the project progress has been the delayed approval of the Environmental Assessment/ FONSI. Construction on the project cannot move forward until the FONSI is approved. Since construction has been delayed until the EA is approved, we have made adjustments to the construction schedule. Construction was originally scheduled to begin in April 2011, and will not begin until, at the earliest, September 2011. Looking forward, GovNET will be adapting the construction schedule around uncontrollable seasonal challenges with weather and mountain site variables.

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.

| 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 | | |
|--|-------------------|-----------------------|----------------------|--|----------------|---------------|---|----------------|---------------|
| Cost Classification | 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 | \$1,125,000 | \$0 | \$1,125,000 | \$0 | \$0 | \$0 | \$375,000 | \$0 | \$375,000 |
| b. Land, structures, right-of-ways, appraisals, etc. | \$19,870,647 | \$11,301,200 | \$8,569,447 | \$4,413,898 | \$799,200 | \$3,614,698 | \$6,122,200 | \$2,122,200 | \$4,000,000 |
| c. Relocation expenses and payments | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| d. Architectural and engineering fees | \$1,395,058 | \$863,058 | \$532,000 | \$547,452 | \$547,452 | \$0 | \$890,202 | \$590,202 | \$300,000 |
| e. Other architectural and engineering fees | \$271,066 | \$0 | \$271,066 | \$217,314 | \$0 | \$217,314 | \$290,000 | \$0 | \$290,000 |
| f. Project inspection fees | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| g. Site work | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| h. Demolition and removal | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| i. Construction | \$6,570,942 | \$0 | \$6,570,942 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| j. Equipment | \$21,655,252 | \$500,000 | \$21,155,252 | \$172,851 | \$75,000 | \$97,851 | \$200,000 | \$75,000 | \$125,000 |
| k. Miscellaneous | \$1,051,170 | \$0 | \$1,051,170 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| l. SUBTOTAL (add a through k) | \$51,939,135 | \$12,664,258 | \$39,274,877 | \$5,351,515 | \$1,421,652 | \$3,929,863 | \$7,877,402 | \$2,787,402 | \$5,090,000 |
| m. Contingencies | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| n. TOTALS (sum of l and m) | \$51,939,135 | \$12,664,258 | \$39,274,877 | \$5,351,515 | \$1,421,652 | \$3,929,863 | \$7,877,402 | \$2,787,402 | \$5,090,000 |

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: \$2,762,000 | b. Program Income to Date: \$0 |
|---|--------------------------------|