UTAH INFRASTRUCTURE AGENCY

FINANCIAL STATEMENTS

JUNE 30, 2017

UTAH INFRASTRUCTURE AGENCY
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Keddington & Christensen, LLC
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Utah Infrastructure Agency
Murray, Utah

Report on the Financial Statements

We have audited the accompanying financial statements of Utah Infrastructure Agency (UIA) as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Utah Infrastructure Agency as of June 30, 2017, and the respective changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2017 on our consideration of UIA'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* in considering UIA's internal control over financial reporting and compliance.

Keddington & Christensen

November 15, 2017

UTAH INFRASTRUCTURE AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

The following is a discussion and analysis of the Utah Infrastructure Agency (UIA) financial activities for the fiscal year ending June 30, 2017.

Description of Business

The Utah Infrastructure Agency (UIA) is a political subdivision of the State of Utah and was created in June 2010. Nine cities created the agency (Brigham City, Centerville City, Layton City, Lindon City, Midvale City, Murray City, Orem City, Payson City and West Valley City).

The UIA network is a fiber optic network providing high-speed broadband voice, video and data access. This network includes fiber optic lines, transmitters, power sources and backups, switches and access portals. The network operates as a wholesale network, under an open-access model, which is available to all qualified service providers. The open-access aspect means subscribers—both residents and businesses—have real choice for their broadband needs and can choose the provider and options that work best for them.

Eight of the member cities (all except Payson City) pledged franchise tax revenues as partial loan guarantees in order to secure financing for the network. These cities have approved up to $65 million in bonds for the construction of the UIA network.

The UIA network is connected to the UTOPIA fiber optic network pursuant to an Indefeasible Right of Use Agreement (IRU) between UIA and UTOPIA, which grants UIA access to certain facilities of and capacity in the UTOPIA network. The UTOPIA network provides telecommunications services, support and management services as well as crucial infrastructure for the UIA network. The synergy provided by UIA's partnership with UTOPIA allows both organizations to provide their citizens a state-of-the-art broadband network. The project is facilitating economic development throughout UTOPIA member cities. Where the network is completed, residents and businesses have access to the fastest internet in the country.

Twenty five service providers—Including First Digital, SumoFiber, Verracity, Windstream, and XMission,—were actively providing services and a total of 16,479 homes and businesses had subscribed to services at year end on the UTOPIA/UIA network. Future growth of the network will be largely demand-based, bringing the network first to those areas that will bring the best return on investment. UIA continues to make significant progress towards the project's original mission: to build and maintain a fiber network to service all of the businesses and residents in UTOPIA's member cities.

As of the end of June, 2017, more than 3,266 miles of fiber cable have been placed within the boundaries of the eleven members cities. Within footprints serviced by 158 hut sites, there are approximately 87,000 addresses, of which approximately 72,000 are able to receive services. The remaining addresses are located in apartment buildings, condominium developments, or in areas isolated by right-of-way or pole access issues.

Highlights

Financial highlights include:

- Net Position of UIA increased $2,433,466 from the prior year.
- UIA's revenues increased $1,366,246 from the prior year.

Overview of Financial Statements

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

Operating revenues of $7.7 million exceeded budget by about $400,000. Total operating expense (expenses excluding interest and depreciation) was $18,000 below budget. Operating profit (EBITDA) for the year was $617,000 better than budgeted. The net profit for the year was $2.4 Million, which was better than budget by $1.44 million.

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

	2017	2016
Current and other assets	$ 20,851,428	$ 33,436,162
Capital assets	53,105,833	40,629,150
Total Assets	73,957,261	74,065,312
Current and other liabilities	3,962,297	3,310,822
Long-term liabilities outstanding	65,394,455	68,587,447
Total Liabilities	69,356,752	71,898,269
Net investment in capital assets	2,076,379	2,763,232
Restricted	8,373,657	24,837,438
Unrestricted	(5,849,527)	(25,433,627)
Net Position	$ 4,600,509	$ 2,167,043

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

	2017	2016
Revenues:		
Operating revenues	$ 9,055,560	$ 7,689,314
Interest income	491,518	386,958
Other revenues	376,682	247,294
Total Revenues	9,923,760	8,323,566
Expenditures:		
Marketing	323,884	231,039
Professional services	138,352	97,680
Network operations	704,047	420,302
Depreciation	3,549,885	3,002,055
Bond interest and fees	2,774,126	2,993,006
Total Expenditures	7,490,294	6,744,082
Change in net position	2,433,466	1,579,484
Total net position, beginning of year	2,167,043	587,559
Total net position, end of year	$ 4,600,509	$ 2,167,043

Capital Assets and Debt Administration

UIA's capital assets, net of depreciation, were $53.1 million. Types of assets include outside plant (fiber and conduit), inside plant (electronics), customer premise equipment, construction in progress and a capitalized lease (IRU).

As of June 30, 2017, UIA's outstanding debt amounted to $67.7 million. This is comprised of the revenue bonds and the capitalized IRU note payable.

Table 3 - Summary of UIA's Capital Assets at June 30, 2017:

	2017	2016
Construction in progress	$ 749,640	$ 109,706
Land	500,000	-
Building	2,080,773	-
Furniture and equipment	687,599	-
Outside plant	26,305,279	18,780,854
Inside plant	2,468,854	2,048,731
Customer premise equipment	6,379,936	5,081,871
Intangible right	13,933,752	14,607,988
	$ 53,105,833	$ 40,629,150

Table 4 - Summary of UIA's Debt at June 30, 2017:

	2017	2016
Revenue bonds payable	$ 62,236,416	$ 64,007,701
Capital leases	1,652,574	3,428,164
Notes payable	3,835,636	3,417,291
	$ 67,724,626	$ 70,853,156

Contacting UIA's Financial Management

This financial report is designed to provide interested readers with a general overview of UIA's financial position and to demonstrate accountability. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Utah Infrastructure Agency, 5858 S 900 E Murray, UT 84121.

BASIC FINANCIAL STATEMENTS

UTAH INFRASTRUCTURE AGENCY
STATEMENT OF NET POSITION
June 30, 2017

Assets	
Current Assets:	
Cash	$ 6,185,494
Trade receivables, net	1,011,553
Inventory	1,240,161
Prepaid expenses	17,210
Notes receivable	218,007
Restricted cash equivalents	8,970,264
Total Current Assets	17,642,689
Noncurrent assets:	
Notes receivable	3,208,739
Capital Assets:	
Construction in progress	749,640
Land	500,000
Assets, net of accumulated depreciation:	
Building	2,080,773
Furiture and equipment	687,599
Fiber optic network	49,087,821
Total Noncurrent Assets	56,314,572
Total Assets	$ 73,957,261
Liabilities	
Current Liabilities:	
Accounts payable	$ 957,025
Accrued liabilities	68,819
Interest payable from restricted assets	596,607
Capital leases payable	640,171
Revenue bonds payable	1,690,000
Unearned revenue	9,675
Total Current Liabilities	3,962,297
Noncurrent Liabilities:	
Capital leases payable	1,012,403
Note payable	3,835,636
Revenue bonds payable	60,546,416
Total Liabilities	69,356,752
Net Position:	
Net Investment in capital assets	2,076,379
Restricted for:	
Debt service	2,559,705
Future development	5,813,952
Unrestricted	(5,849,527)
Total Net Position	4,600,509
Total Liabilities and Net Position	$ 73,957,261

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

UTAH INFRASTRUCTURE AGENCY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Year Ended June 30, 2017

Operating Revenues:	
Access fees	$ 7,078,457
Installations	123,933
Reconnections	1,813,818
Miscellaneous operating revenue	39,352
Total Operating Revenues	9,055,560
Operating Expenses:	
Marketing	323,884
Professional services	138,352
Network	704,047
Depreciation	3,549,885
Total Operating Expenses	4,716,168
Operating Income	4,339,392
Nonoperating Revenues (Expenses):	
Interest income	491,518
Installation related capital contributions	376,682
Bond interest and fees	(2,774,126)
Total Nonoperating Revenues (Expenses)	(1,905,926)
Change In Net Position	2,433,466
Total Net Position, Beginning of Year	2,167,043
Total Net Position, End of Year	$ 4,600,509

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

UTAH INFRASTRUCTURE AGENCY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

Cash Flows From Operating Activities:		
Cash received from customers and users	$	8,568,981
Payments to suppliers		(3,470,676)
Net cash provided by operating activities		5,098,305
Cash Flows From Capital and Related Financing Activities:		
Purchase of capital assets		(13,507,467)
Proceeds from installations		395,222
Bond interest and fees		(2,867,720)
Proceeds from issuance of new bonds		-
Principal paid on bonds		(1,645,000)
Principal paid on capital leases payable		(1,775,590)
Net cash used by capital and related financing activities		(19,400,555)
Cash Flows From Non-Capital Financing Activities:		
Proceeds from notes payable addition		376,321
Net cash provided by non-capital financing activites		376,321
Cash Flows From Investing Activity:		
Interest income		491,518
Net cash provided by investing activity		491,518
Net Increase in Cash and Cash Equivalents		(13,434,411)
Cash and Cash Equivalents, Beginning of Year		28,590,169
Cash and Cash Equivalents, End of Year	$	15,155,758
Reconciliation of operating loss to net cash from operating activities:		
Operating income	$	4,339,392
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense		3,549,885
(Increase) decrease in assets related to operations		
Trade receivables, net		(519,850)
Prepaid expenses		(17,210)
Inventory		(2,873,854)
Note receivable related to operating revenues		23,596
Increase (decrease) in liabilities related to operations		
Accounts payable		547,038
Accrued liabilities		39,633
Unearned Revenue		9,675
Net Cash Provided by Operating Activities	$	5,098,305

Supplemental Information

Noncash Investing, Capital, and Financing Activities:

Additions to capital assets includes inventory of $2,519,101.
Additions to capital assets include change to discount on lease of $50,810.
Additions to capital assets includes capitalized interest of $18,656.

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

UTAH INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES

Reporting Entity

Utah Infrastructure Agency (UIA), a separate legal entity and political subdivision of the State of Utah, was formed on July 29, 2010, by an Interlocal Cooperative Agreement pursuant to the provisions of the Utah Interlocal Cooperation Act. UIA's Interlocal Cooperative Agreement has a term of five years, and is renewable every year thereafter. UIA consists of 9 member cities (8 pledging and 1 non-pledging) at June 30, 2017. UIA's purpose is to design, finance, build, operate, and maintain an open, wholesale, public telecommunication infrastructure that has the capacity to deliver high-speed connections to every home and business in the member communities.

The following is a summary of the more significant policies.

The Reporting Entity

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

Financial Statement Presentation and Basis of Accounting

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

Restricted Assets

UIA maintains investments held by financial institutions for safekeeping of funds relating to service reserves and to fund capital assets. When both restricted and unrestricted assets are available, it is UIA's policy to use restricted assets first, then unrestricted assets as they are needed.

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Continued)

Property and Equipment

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

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

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

Cash and Cash Equivalents

UIA considers all cash and investments with original maturities of three months or less to be cash and cash equivalents. For purposes of the statement of cash flows, cash and cash equivalents are defined as the cash accounts and the restricted cash equivalent accounts. Investments, in the form of accounts invested with the Utah Public Treasurer's Investment Fund (the State Treasurer's Pool) of UIA are stated at cost, which approximates fair value.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is UIA's best estimate of the amount of probable credit losses in the existing accounts receivable. UIA has reserved $183,285 of accounts receivable.

Inventories

Inventories are stated at cost using the first-in first-out method.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Revenue is generally recorded when the service has been provided, and profit is recognized at that time. Revenues are reported net of bad debt expense. Total bad debt expense related to revenues of the current period is $0.

NOTE 2 CASH AND INVESTMENTS

UIA's deposit and investment policy is to follow the Utah Money Management Act. However, UIA does not have a separate deposit or investment policy that addresses specific types of deposit and investment risks to which UIA is exposed.

Utah State law requires that UIA's funds be deposited with a "qualified depository" as defined by the Utah Money Management Act. "Qualified depository" includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements as defined in Rule 11 of the Utah Money Management Act. Rule 11 establishes the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and defines capital requirements which an institution must maintain to be eligible to accept public funds.

The Utah Money Management Act also governs the scope of securities allowed as appropriate temporary investments for UIA and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

As of June 30, 2017, UIA had the following deposits and investments, stated at carrying amount, which approximates fair value:

Deposit and investment type	Fair Value
Cash on deposit	$ 1,166,296
Investments in Utah Public Treasurer Investment Funds	13,989,462
	$ 15,155,758

Cash on Deposit:
Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, UIA's deposits may not be returned to it. As of June 30, 2017, $1,085,751 of the $1,335,751 balance of deposits was exposed to custodial credit risk because it was uninsured and uncollateralized. UIA has no policy to manage this type of risk.

Investment in Utah Public Treasurer's Investment Funds (PTIF):
Interest rate risk. The risk that changes in the interest rate will have an adverse affect on the fair value of an investment. UIA's investments in PTIF are not subject to interest rate risk.

Credit risk. This is the risk that an issuer or other counter party to an investment will not fulfill its obligations. As of June 30, 2017 the PTIF in which UIA has investments were unrated.

Concentration of credit risk. This is the risk of loss attributable to the magnitude of UIA's investment in a single issuer. UIA's investment in PTIF is not subject to a concentration of credit risk.

Custodial credit risk – investments. This is the risk that, in the event of the failure of the counterparty to a transaction, UIA will not be able to recover the value of its investments that are in the possession of an outside party. UIA's investment in PTIF has no custodial credit risk.

NOTE 2 CASH AND INVESTMENTS (Continued)

UIA categorizes the fair value measurements of its investments based on the hierarchy established by general accepted accounting principles. The fair value hierarchy, which has three levels, is based on valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Fair value measurements of UIA's investments in PTIF at June 30, 2017, or $13,989,463 are based on significant other observable inputs (Level 2 inputs).

NOTE 3 PROPERTY AND EQUIPMENT

The following summarizes UIA's property and equipment as of June 30, 2017:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	$ -	$ 500,000	$ -	$ 500,000
Construction in progress	109,706	639,934	-	749,640
Total capital assets, not being depreciated	109,706	1,139,934	-	1,249,640
Capital assets, being depreciated:				
Building	-	2,122,279	-	2,122,279
Furniture and equipment	-	687,599	-	687,599
Outside plant	22,133,226	8,695,527	-	30,828,753
Inside plant	4,505,789	1,603,194	-	6,108,983
Customer premise equipment	6,425,204	1,727,225	-	8,152,429
Intangible right	18,126,154	50,810	-	18,176,964
Total capital assets, being depreciated	51,190,373	14,886,634	-	66,077,007
Less accumulated depreciation:				
Building	-	(41,506)	-	(41,506)
Furniture and equipment	-	-	-	-
Outside plant	(3,352,372)	(1,171,102)	-	(4,523,474)
Inside plant	(2,457,058)	(1,183,071)	-	(3,640,129)
Customer premise equipment	(1,343,333)	(429,160)	-	(1,772,493)
Intangible right	(3,518,166)	(725,046)	-	(4,243,212)
Total accumulated depreciation	(10,670,929)	(3,549,885)	-	(14,220,814)
Total capital asset, net of accumulated depreciation	40,519,444	11,336,749	-	51,856,193
Property and Equipment, net	$ 40,629,150	$ 12,476,683	$ -	$ 53,105,833

Depreciation expense of $3,549,885 was charged to operating expense for the year ended June 30, 2017.

UTAH INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 LONG-TERM DEBT

The following is a summary of the changes in long-term debt obligations for the year ended June 30, 2017.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds					
Series 2011A	$ 21,095,000	$ -	$ -	$ 21,095,000	$ -
Series 2011B	5,615,000	-	(755,000)	4,860,000	775,000
Original Issue Premium	253,943	-	(12,750)	241,193	-
Series 2013	10,660,000	-	(285,000)	10,375,000	295,000
Original Issue Premium	260,788	-	(11,854)	248,934	-
Series 2015	24,295,000	-	(605,000)	23,690,000	620,000
Original Issue Premium	1,827,970	-	(101,681)	1,726,289	-
Total Revenue Bonds	64,007,701	-	(1,771,285)	62,236,416	1,690,000
Capital Leases					
UTOPIA IRU	3,428,164	-	(1,775,590)	1,652,574	640,171
Total Capital Leases	3,428,164	-	(1,775,590)	1,652,574	640,171
Notes Payable					
Pledging Members	3,315,856	383,582	-	3,699,438	-
Tremonton Note	101,435	34,763	-	136,198	-
Total Notes Payable	3,417,291	418,345	-	3,835,636	-
Total Long-Term Debt	$ 70,853,156	$ 418,345	$ (3,546,875)	$ 67,724,626	$ 2,330,171

UTAH INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 LONG-TERM DEBT (Continued)

Revenue Bonds Tax-exempt Telecommunications and Franchise Revenue Bonds, Series 2011A, original issue of $21,095,000, principal payments due in annual installments beginning October 2022, interest payments due semi-annually at 5.0% to 5.4%, with the final payment due October 2036. The bonds were issued to finance UIA's infrastructure construction and acquisition of the UTOPIA Indefeasible Right of Use.	$ 21,095,000
Taxable Telecommunications and Franchise Revenue Bonds, Series 2011B original issue of $8,405,000, principal payments due in annual installments beginning October 2012, interest payments due semi-annually at 3.2% to 5.45%, with the final payment due October 2022 The bonds were issued to finance UIA's infrastructure construction and acquisition of the UTOPIA Indefeasible Right of Use.	4,860,000
Telecommunications and Franchise Tax Revenue Bonds, Series 2013 original issue of $11,205,000, principal payments due in annual installments beginning October 2014, interest payments due semi-annually at 2.0% to 5.25%, with the final payment due October 2038. The bonds were issued to finance UIA's infrastructure construction.	10,375,000
Telecommunications and Franchise Tax Revenue Bonds, Series 2015, original issue of $24,295,000, principal payments due in annual installments beginning October 2016, interest payments due semi-annually at 1.0% to 5.25%, with the final payment due October 2040. The bonds were issued to finance UIA's infrastructure construction of the fiberoptic network.	23,690,000
Total Revenue Bonds	60,020,000
Less current portion	(1,690,000)
Noncurrent portion	$ 58,330,000

The following summarizes UIA's revenue bonds debt service requirements as of June 30, 2017:

Year	Principal	Interest	Total
2018	$ 1,690,000	$ 2,808,470	$ 4,498,470
2019	1,740,000	2,753,588	4,493,588
2020	1,800,000	2,695,306	4,495,306
2021	1,860,000	2,630,006	4,490,006
2022	1,935,000	2,553,762	4,488,762
2023-2027	11,110,000	11,316,165	22,426,165
2028-2032	14,235,000	8,124,016	22,359,016
2033-2037	18,285,000	4,038,274	22,323,274
2038-2041	7,365,000	562,106	7,927,106
	$ 60,020,000	$ 37,481,693	$ 97,501,693

NOTE 4 LONG-TERM DEBT (Continued)

Capital Lease

Capital leases consist of the following:

UIA is obligated under a lease for the use of a fiber optic network from Utah Telecommunications Open Infrastructure Agency (UTOPIA). Because the terms and options contained in the lease have effectively created a financing arrangement, UIA is required to record this transaction as a capital lease. Terms of the lease were renegotiated in December 2013. Lease payments of $54,583 are paid monthly beginning December 2013 including imputed interest at 1.09%. The capitalized cost of fiber optic network is $18,176,963, with accumulated depreciation of $4,243,211.	$	1,652,574
Total Capital Lease		1,652,574
Less current portion		(640,171)
Noncurrent portion	$	1,012,403

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

2018	$	655,000
2019		655,000
2020		366,502
Total minimum lease payments		1,676,502
Less discount, representing imputed interest		(23,928)
Present value of net minimum lease payments	$	1,652,574

NOTE 5 INTERLOCAL COOPERATIVE AGREEMENT

UIA has entered into an Interlocal Cooperative Agreement with Utah Telecommunication Open Infrastructure Agency (UTOPIA), wherein UIA will pay UTOPIA for network configuration, operation, and maintenance fees. The amount of the fees is determined based on the number of connections, subscribers, and services performed. The term of the amended agreement is for five years starting July 2010 and can be renewed for successive one year periods after the initial five year term. UIA recorded expenditures to UTOPIA of $704,047 for the year ended June 30, 2017.

NOTE 6 PLEDGING MEMBERS LIABILITY AND COMMITTMENTS

The 8 Pledging Members of UIA have pledged energy sales and use tax revenues to ensure that UIA fulfills its revenue requirement from the bond agreements. UIA is required by the Series 2011 A & B bond covenants to have revenue equal to the operations and maintenance expenses and the capital costs in a fiscal year. In the event there is a shortfall, the pledging cities agree to lend its energy sales and use tax revenues in the maximum annual principal allocated to each city as set forth below:

NOTE 6 PLEDGING MEMBERS LIABILITY AND COMMITMENTS (Continued)

Pledging Member	2018 Share of Total Max. Pledge	2018 Maximum Pledge *
Brigham City	0.62%	$ 31,831
Centerville City	3.63%	186,737
Layton City	18.20%	937,272
Lindon City	3.35%	172,516
Midvale City	6.60%	339,988
Murray City	13.40%	690,241
Orem City	23.76%	1,223,786
West Valley City	30.44%	1,568,781
	100.00%	$ 5,151,152

* These amounts are the estimated maximum annual amount of franchise tax revenue payable by each city.

The Second Amended and Restated Interlocal Cooperative Agreement of UIA provides that the UIA Board of Directors may establish Working Capital Assessments to the Member Cities, the payment of which is subject to the appropriations authority of the governing bodies of the Member Cities. UIA has utilized this mechanism to pay certain operating expenses in order to avoid a shortfall under the Communications Services Contracts between UIA and the Member Cities. Under a shortfall scenario, UIA would be obligated to notify the Member Cities of their respective obligations to utilize Energy Sales and Use Taxes to replenish the shortfall. Provided enough cities pay their Working Capital Assessments, no shortfall exists and therefore, no obligation from Energy Sales and Use Taxes. The paid assessments, along with cumulative accrued interest of $85,666 for a total of $3,613,772, have been recorded as notes payable to the

City	2017 OpEx Assessments Paid	Cumulative Paid
Brigham City	$ -	$ 34,824
Centerville City	-	221,373
Layton City	-	623,750
Lindon City	-	118,155
Midvale City	-	307,486
Murray City	-	141,666
Orem City	292,821	1,099,242
Payson	50,000	50,000
West Valley City	-	1,017,276
	$ 342,821	$ 3,613,772

NOTE 7 SUBSEQUENT EVENTS

Subsequent to year-end, the Board approved issuance and sale of up to $79,500,000 of telecommunications revenue and refunding bonds. The anticipated use of the bonds will be to defease (in substance, refund) some or all of the outstanding portions of the Series 2011, 2013, and 2015 bonds as well as provide additional proceeds to continue expanding the fiber-optic network. The bonds are expected be issued in December 2017.

UTAH INFRASTRUCTURE AGENCY

SUPPLEMENTARY REPORTS

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Keddington & Christensen, LLC
Certified Public Accountants

Gary K. Keddington, CPA
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Marcus K. Arbuckle, CPA

INDEPENDENT AUDITOR'S 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*

Board of Directors
Utah Infrastructure Agency
Murray, Utah

We have audited, in accordance with the auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Utah Infrastructure Agency (UIA), as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 15, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered UIA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of UIA's internal control. Accordingly we do not express an opinion on the effectiveness of UIA's internal control.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of UIA's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of 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 that might be material weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether UIA'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 statements 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly this communication is not suitable for any other purpose.

Keddington & Christensen

November 15, 2017

Keddington & Christensen, LLC
Certified Public Accountants

Gary K. Keddington, CPA
Phyl R. Warnock, CPA
Marcus K. Arbuckle, CPA

INDEPENDENT AUDITOR'S REPORT AS REQUIRED BY THE *STATE COMPLIANCE AUDIT GUIDE* ON COMPLIANCE WITH GENERAL STATE COMPLIANCE REQUIREMENTS AND ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors
Utah Infrastructure Agency
Murray, Utah

Report on Compliance with General State Compliance Requirements
We have audited the Utah Infrastructure Agency's (UIA) compliance with the applicable general compliance requirements described in the *State Compliance Audit Guide,* issued by the Office of the Utah State Auditor that could have a direct and material effect on UIA for the year ended June 30, 2017.

General state compliance requirements were tested for the year ended June 30, 2017, in the following areas:

Budgetary Compliance	Open and Public Meetings Act
Fund Balance	Treasurer's Bond

Management's Responsibility
Management is responsible for compliance with the general state requirements referred to above.

Auditor's Responsibility
Our responsibility is to express an opinion on UIA's compliance based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *State Compliance Audit Guide*. Those standards and the *State Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a direct and material effect on UIA occurred. An audit includes examining, on a test basis, evidence about UIA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with general state compliance requirements. However, our audit does not provide a legal determination of UIA's compliance.

Opinion
In our opinion, UIA complied, in all material respects, with the general compliance requirements referred to above that could have a direct and material effect on UIA for the year ended June 30, 2017.

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Report on Internal Control over Compliance

Management of UIA is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered UIA's internal control over compliance with the compliance requirements that could have a direct and material effect on UIA to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with general state compliance requirements and to test and report on internal control over compliance in accordance with the *State Compliance Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of UIA's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a general state compliance requirement on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a general state compliance requirement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a general state compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report is on internal control over compliance is solely to describe the scope of our testing of internal control and compliance and the results of that testing based on requirements of the *State Compliance Audit Guide.* Accordingly, this report is not suitable for any other purpose.

Keddington & Christensen

November 15, 2017