UTAH INFRASTRUCTURE AGENCY

FINANCIAL STATEMENTS

JUNE 30, 2018

UTAH INFRASTRUCTURE AGENCY
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Utah Infrastructure Agency
Murray, Utah

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Utah Infrastructure Agency (UIA) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise UIA's basic 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 UIA as of June 30, 2018, 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 December 3, 2018 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

Salt Lake City, Utah
December 3, 2018

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, 2018.

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.

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, Veracity, Windstream, and XMission,—were actively providing services and a total of 19,905 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, 2018, more than 3,413 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 98,000 addresses, of which approximately 81,000 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:

- UIA's recurring operating revenues increased $1,586,000 from the prior year.
- Operating profit (EBITDA) for the year was $634,000 higher than 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 $10.6 million exceeded budget by about $52,000. Total operating expense (expenses excluding interest and depreciation) was $7,000 below budget. Operating profit (EBITDA) for the year was $157,000 better than budgeted. The net profit for the year was $173,000, which was better than budget by $1.0 million.

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

	2018	2017
Current and other assets	$ 22,969,122	$ 20,851,428
Capital assets	69,146,758	53,105,833
Total Assets	92,115,880	73,957,261
Deferred outflows of resources	5,155,878	-
Total Assets	97,271,758	73,957,261
Current and other liabilities	6,101,569	3,962,297
Long-term liabilities outstanding	86,397,084	65,394,455
Total Liabilities	92,498,653	69,356,752
Net investment in capital assets	(5,540,482)	2,076,379
Restricted	9,745,717	8,373,657
Unrestricted	567,870	(5,849,527)
Net Position	$ 4,773,105	$ 4,600,509

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

	2018	2017
Revenues:		
Operating revenues	$ 10,641,815	$ 9,055,560
Interest income	528,398	491,518
Other revenues	999,424	376,682
Total Revenues	12,169,637	9,923,760
Expenditures:		
Marketing	509,695	323,884
Professional services	716,775	138,352
Network operations	1,404,954	704,047
Depreciation	4,469,316	3,549,885
Bond interest and fees	4,506,128	2,774,126
Loss on disposal of assets	390,173	-
Total Expenditures	11,997,041	7,490,294
Change in net position	172,596	2,433,466
Total net position, beginning of year	4,600,509	2,167,043
Total net position, end of year	$ 4,773,105	$ 4,600,509

Capital Assets and Debt Administration

UIA's capital assets, net of depreciation, were $69.1 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, 2018, UIA's outstanding debt amounted to $89.6 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, 2018:

	2018	2017
Construction in progress	$ 3,246,486	$ 749,640
Land	500,000	500,000
Building	2,005,882	2,080,773
Furniture and equipment	281,272	687,599
Outside plant	36,789,870	26,305,279
Inside plant	2,611,468	2,468,854
Customer premise equipment	10,505,107	6,379,936
Intangible right	13,206,673	13,933,752
	$ 69,146,758	$ 53,105,833

Table 4 - Summary of UIA's Debt at June 30, 2018:

	2018	2017
Revenue bonds payable	$ 84,908,232	$ 62,236,416
Capital leases	1,012,403	1,652,574
Notes payable	3,718,636	3,835,636
	$ 89,639,271	$ 67,724,626

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, 2018

Assets	
Current Assets:	
Cash	$ 5,447,838
Trade receivables, net	1,100,484
Inventory	2,579,451
Prepaid expenses	5,553
Notes receivable	236,173
Restricted cash equivalents	4,504,137
Total Current Assets	13,873,636
Noncurrent assets:	
Restricted cash equivalents	6,004,053
Notes receivable	3,091,433
Capital Assets:	
Construction in progress	3,246,486
Land	500,000
Assets, net of accumulated depreciation:	
Building	1,975,882
Furniture and equipment	286,030
Fiber optic network	63,138,360
Total Noncurrent Assets	78,242,244
Total Assets	92,115,880
Deferred Outflows of Resources	
Deferred charge on refunding	5,155,878
Total Assets and Deferred Outflows of Resources	$ 97,271,758

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

UTAH INFRASTRUCTURE AGENCY
STATEMENT OF NET POSITION (Continued)
June 30, 2018

Liabilities	
Current Liabilities:	
Accounts payable	$ 1,931,760
Accrued liabilities	140,074
Interest payable from restricted assets	762,473
Capital leases payable	647,187
Revenue bonds payable	2,595,000
Unearned revenue	25,075
Total Current Liabilities	6,101,569
Noncurrent Liabilities:	
Capital leases payable	365,216
Note payable	3,718,636
Revenue bonds payable	82,313,232
Total Noncurrent Liabilities	86,397,084
Total Liabilities	92,498,653
Net Position	
Net Investment in capital assets	(5,540,482)
Restricted for:	
Debt service	9,672,253
Future development	73,464
Unrestricted	567,870
Total Net Position	4,773,105
Total Liabilities and Net Position	$ 97,271,758

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, 2018

Operating Revenues:	
Access fees	$ 8,111,854
Installations	14,699
Reconnections	2,373,662
Miscellaneous operating revenue	141,600
Total Operating Revenues	10,641,815
Operating Expenses:	
Marketing	509,695
Professional services	716,775
Network	1,404,954
Depreciation	4,469,316
Total Operating Expenses	7,100,740
Operating Income	3,541,075
Nonoperating Revenues (Expenses):	
Interest income	528,398
Installation related capital contributions	452,541
Donated services from UTOPIA	546,883
Bond interest and fees	(4,506,128)
Loss on disposal of assets	(390,173)
Total Nonoperating Revenues (Expenses)	(3,368,479)
Change In Net Position	172,596
Total Net Position, Beginning of Year	4,600,509
Total Net Position, End of Year	$ 4,773,105

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

UTAH INFRASTRUCTURE AGENCY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018

Cash Flows From Operating Activities:	
Cash received from customers and users	$ 10,609,922
Payments to suppliers	(6,106,017)
Net cash provided by operating activities	4,503,905
Cash Flows From Capital and Related Financing Activities:	
Purchase of capital assets	(16,535,931)
Proceeds from installations	510,042
Bond interest and fees	(4,472,843)
Proceeds from issuance of new bonds	85,084,614
Principal paid on bonds	(1,690,000)
Deposit into escrow for debt refunding	(66,288,255)
Payment of note payable	(218,129)
Principal paid on capital leases payable	(655,000)
Net cash used by capital and related financing activities	(4,265,502)
Cash Flows From Non-Capital Financing Activity:	
Proceeds from notes payable addition	33,469
Net cash provided by non-capital financing activity	33,469
Cash Flows From Investing Activity:	
Interest income	528,398
Net cash provided by investing activity	528,398
Net Increase in Cash and Cash Equivalents	800,270
Cash and Cash Equivalents, Beginning of Year	15,155,758
Cash and Cash Equivalents, End of Year	$ 15,956,028

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

UTAH INFRASTRUCTURE AGENCY
STATEMENT OF CASH FLOWS (Continued)
For the Year Ended June 30, 2018

Reconciliation of operating loss to net cash from operating activities:

Operating income	$	3,541,075
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense		4,469,316
Donated services from UTOPIA		546,883
(Increase) decrease in assets related to operations		
Trade receivables, net		(88,931)
Prepaid expenses		11,657
Inventory		(4,367,683)
Note receivable related to operating revenues		41,639
Increase (decrease) in liabilities related to operations		
Accounts payable		263,295
Accrued liabilities		71,255
Unearned Revenue		15,399
Net Cash Provided by Operating Activities	$	4,503,905

Supplemental Information

Noncash Investing, Capital, and Financing Activities:

Inventory additions to capital assets	$	2,734,504
Capitalized interest addition to capital assets		92,734
Accrued interest addition to notes payable		67,660

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 nine member-cities (eight pledging and one non-pledging) at June 30, 2018. 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.

In evaluating how to define UIA for financial reporting purposes, management has considered all potential component units. The decision as to whether or not to include a potential component unit in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Board (GASB). 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.

The following is a summary of the more significant policies.

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. Enterprise 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 UIA's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating.

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)

Deferred Outflows of Resources

In addition to assets, financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and will not be recognized as an outflow of resources (expense) until then. UIA reports a deferred charge on refunding in this category.

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 six-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 $188,502 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.

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Continued)

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, 2018, UIA had the following deposits and investments, stated at carrying amount, which approximates fair value:

Deposit and investment type	Fair Value
Cash on deposit	$ 831,690
Investments in Utah Public Treasurer Investment Funds	15,124,338
	$ 15,956,028

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, 2018, $1,736,761 of the $1,986,761 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):
The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated*, *1953*, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

NOTE 2 CASH AND INVESTMENTS (Continued)

Interest rate risk. The risk that changes in the interest rate will have an adverse effect 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, 2018 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.

UIA categorizes the fair value measurements of its investments based on the hierarchy established by generally 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, 2018, or $15,181,628 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, 2018:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	$ 500,000	$ -	$ -	$ 500,000
Construction in progress	749,640	2,496,846	-	3,246,486
Total capital assets, not being depreciated	1,249,640	2,496,846	-	3,746,486
Capital assets, being depreciated:				
Building	2,122,279	-	-	2,122,279
Furniture and equipment	687,599	234,783	(585,260)	337,122
Outside plant	30,828,753	11,947,211	-	42,775,964
Inside plant	6,108,983	1,503,940	-	7,612,923
Customer premise equipment	8,152,429	4,717,634	(409,681)	12,460,382
Intangible right	18,176,964	-	-	18,176,964
Total capital assets, being depreciated	$ 66,077,007	$ 18,403,568	$ (994,941)	$ 83,485,634

NOTE 3 PROPERTY AND EQUIPMENT (Continued)

	Beginning Balance	Additions	Deletions	Ending Balance
Less accumulated depreciation:				
Building	$ (41,506)	$ (74,891)	$ -	$ (116,397)
Furniture and equipment	-	(250,937)	195,087	(55,850)
Outside plant	(4,523,474)	(1,462,620)	-	(5,986,094)
Inside plant	(3,640,129)	(1,361,326)	-	(5,001,455)
Customer premise equipment	(1,772,493)	(592,463)	409,681	(1,955,275)
Intangible right	(4,243,212)	(727,079)	-	(4,970,291)
Total accumulated depreciation	(14,220,814)	(4,469,316)	604,768	(18,085,362)
Total capital asset, net of accumulated depreciation	51,856,193	13,934,252	(390,173)	65,400,272
Property and Equipment, net	$ 53,105,833	$ 16,431,098	$ (390,173)	$ 69,146,758

Depreciation expense of $4,469,316 was charged to operating expense for the year ended June 30, 2018.

NOTE 4 LONG-TERM DEBT

The following is a summary of the changes in long-term debt obligations for the year ended June 30, 2018.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds					
Series 2017A	$ -	$ 73,905,000	$ -	$ 73,905,000	$ 2,145,000
Series 2017B	-	3,500,000	-	3,500,000	450,000
Series 2011A	21,095,000	-	(21,095,000)	-	-
Series 2011B	4,860,000	-	(4,860,000)	-	-
Series 2013	10,375,000	-	(10,375,000)	-	-
Series 2015	23,690,000	-	(23,690,000)	-	-
Plus: Unamortized Premiums	2,216,416	7,679,614	(2,392,798)	7,503,232	-
Total Revenue Bonds	62,236,416	85,084,614	(62,412,798)	84,908,232	2,595,000
Capital Leases					
UTOPIA IRU	1,652,574	-	(640,171)	1,012,403	647,187
Total Capital Leases	1,652,574	-	(640,171)	1,012,403	647,187
Notes Payable					
Pledging Members	3,699,438	67,660	(211,105)	3,555,993	-
Tremonton Note	136,198	33,469	(7,024)	162,643	-
Total Notes Payable	3,835,636	101,129	(218,129)	3,718,636	-
Total Long-Term Debt	$ 67,724,626	$ 85,185,743	$ (63,271,098)	$ 89,639,271	$ 3,242,187

NOTE 4 LONG-TERM DEBT (Continued)

Revenue Bonds

Tax-exempt Telecommunications Revenue and Refunding Bonds, Series 2017A, original issue of $73,905,000, principal payments due in annual installments beginning October 15, 2018, interest payments due semi-annually at 2.0% to 5.0%, with the final payment due October 15, 2040. The bonds were issued to refund the Series 2011A, 2013, and 2015 Bonds and obtain additional funding for infrastructure.	$ 73,905,000
Taxable Telecommunication Revenue Refunding Bonds, Series 2017B, original issue of $3,500,000, principal payments due in annual installments beginning October 15, 2018, interest payments due semi-annually at 3.50% with the final payment due October 15, 2023. The bonds were issued to refund the Series 2011B Bonds.	3,500,000
Total Revenue Bonds	77,405,000
Less current portion	(2,595,000)
Noncurrent portion	$ 74,810,000

The following summarizes UIA's revenue bonds debt service requirements as of June 30, 2018:

Year	Principal	Interest	Total
2019	$ 2,595,000	$ 3,642,125	$ 6,237,125
2020	2,195,000	3,586,575	5,781,575
2021	2,250,000	3,525,125	5,775,125
2022	2,315,000	3,436,600	5,751,600
2023	2,425,000	3,327,400	5,752,400
2024-2028	13,050,000	14,812,625	27,862,625
2029-2033	16,405,000	11,172,625	27,577,625
2034-2038	20,925,000	6,528,375	27,453,375
2039-2041	15,245,000	1,168,125	16,413,125
	$ 77,405,000	$ 51,199,575	$ 128,604,575

NOTE 4 LONG-TERM DEBT (Continued)

Revenue Bonds (Continued)

Advanced Refunding/Defeasance of Debt in the Current Year
As noted above, a portion of the Series 2017A Bonds were used to advance refund the Series 2011A, Series 2013, and Series 2015 Bonds and the Series 2017B Bonds were used to advance refund the Series 2011B Bonds. The refunding increased UIA's total debt service by $12,919,685 and resulted in an economic loss (difference between the present value of the debt service on the old and new bonds) of $3,892,766. The net proceeds from the Series 2017A and Series 2017B Bonds (collectively, the Series 2017 Bonds) used for the refunding totaled $64,802,106 and together with an equity contribution from UIA in the amount of $1,486,149 were placed in a trust account with Zions Bank, the escrow agent for the defeasance. Accordingly, the trust account assets and the liability for the defeased bonds are not included in UIA's financial statements. At June 30, 2018, $58,330,000 of the bonds remained outstanding and are considered defeased.

The escrow agent is authorized to purchase direct non-callable obligations of, or obligations guaranteed by the full faith and credit of the United States of America (Government Securities) and establish a beginning cash balance for future debt service payments on the refunded bonds. The escrow agent is not authorized to sell, transfer, or otherwise dispose of or make substitutions of the Government Securities without UIA's authorization. No substitutions were requested as of June 30, 2018.

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), a related party. The terms and options contained in the lease have effectively created a financing arrangement, so 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 $4,970,291.	$ 1,012,403
Total Capital Lease	1,012,403
Less current portion	(647,187)
Noncurrent portion	$ 365,216

NOTE 4 LONG-TERM DEBT (Continued)

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

2019	$	655,000
2020		366,502
Total minimum lease payments		1,021,502
Less discount, representing imputed interest		(9,099)
Present value of net minimum lease payments	$	1,012,403

NOTE 5 RELATED PARTY AND COMMITMENTS AND CONTRACTS

Related Party

Management has determined that UIA and UTOPIA are related parties. During the year UTOPIA charged UIA a management fee of $539,945 for administration, accounting/finance, marketing, customer service and outside plant performed on behalf of UIA. Management estimated the actual value of those services to be $1,086,828. The donated services are recorded on the income statement. Since UIA's inception in 2011, UTOPIA has donated management services to UIA valued at approximately $4,100,000.

UIA also leases a building to UTOPIA under an operating lease agreement entered into on May 1, 2017. The term of the lease is five years with a one-year auto renewal. Payments received from UTOPIA for rent totaled $141,600 for the year ended June 30, 2018.

Interlocal Cooperative Agreement

UIA has entered into an Interlocal Cooperative Agreement with 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 agreement is renewed annually. UIA recorded expenditures to UTOPIA of $862,823 for the year ended June 30, 2018. Since UIA's inception in 2011, UIA has paid a total of approximately $3,100,000 to UTOPIA for services related to the Interlocal Cooperative Agreement.

NOTE 6 PLEDGING MEMBERS LIABILITY AND COMMITTMENTS

The eight 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 2017 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:

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 $153,326 for a total of $3,555,993, have been recorded as notes payable to the cities. For the year ended June 30, 2018, UIA paid a total of $211,105 back to the cities that were current on their assessments.

NOTE 6 PLEDGING MEMBERS LIABILITY AND COMMITMENTS (Continued)

The schedule below summarizes the cumulative totals paid by the cities:

City	2018 OpEx Assessments Paid	Cumulative Paid	2018 Payments to Cities	Cumulative Remaining
Brigham City	$ -	$ 34,824	$ (9,310)	$ 25,514
Centerville City	-	221,373	-	221,373
Layton City	-	623,750	(46,471)	577,279
Lindon City	-	118,155	-	118,155
Midvale City	-	307,486	(16,858)	290,628
Murray City	-	141,666	-	141,666
Orem City	-	1,099,242	(60,680)	1,038,562
Payson	-	50,000	-	50,000
West Valley City	-	1,017,276	(77,786)	939,490
	$ -	$ 3,613,772	$ (211,105)	$ 3,402,667

NOTE 7 SUBSEQUENT EVENTS

On July 11, 2018, UIA issued $21,810,000 of Telecommunications Revenue Bonds, Series 2018A to fund the acquisition, construction, and installation of the fiber-optic network. Principal payments on the bonds are due in annual installments of $550,000 to $1,635,000 beginning in 2020 through 2041, with interest at 5 to 5.375% due semi-annually beginning in 2019.

On August 15, 2018, UIA issued $22,285,000 of Layton City Telecommunications and Franchise Tax Revenue Bonds, Series 2018 to fund the acquisition, construction, and installation of the fiber-optic network in Layton City. Principal payments on the bonds are due in annual installments of $150,000 to $1,515,000 beginning in 2022 through 2045, with interest at 3 to 5% due semi-annually beginning in 2019.

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Steven M. Rowley, 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*

To the 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 the business-type activities of Utah Infrastructure Agency (UIA), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise UIA's basic financial statements, and have issued our report thereon dated December 3, 2018.

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 a 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

Salt Lake City, Utah
December 3, 2018

KEDDINGTON & CHRISTENSEN, CPAS
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY THE *STATE COMPLIANCE AUDIT GUIDE*

To the Board of Directors
Utah Infrastructure Agency
Murray, Utah

Report on Compliance

We have audited the Utah Infrastructure Agency's (UIA) compliance with the applicable state 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, 2018.

State compliance requirements were tested for the year ended June 30, 2018, in the following areas:

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

Management's Responsibility

Management is responsible for compliance with the 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 state 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 state compliance requirements referred to above could have a direct and material effect on a state compliance requirement 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 for each state compliance requirement referred to above. However, our audit does not provide a legal determination of UIA's compliance with those requirements.

Opinion on Compliance

In our opinion, UIA complied, in all material respects, with the state compliance requirements referred to above for the year ended June 30, 2018.

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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 state compliance requirements referred to above. In planning and performing our audit of compliance, we considered UIA's internal control over compliance with the state compliance requirements referred to above to determine the audit procedures that are appropriate in the circumstances for the purpose of expression an opinion on compliance with those 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 to detect and correct, noncompliance with a 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 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 material 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

Salt Lake City, Utah
December 3, 2018