

UTAH INFRASTRUCTURE AGENCY

FINANCIAL STATEMENTS

JUNE 30, 2019

**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, 2019, 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, 2019, 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.

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 30, 2019 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 30, 2019

**UTAH INFRASTRUCTURE AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

Introduction

The following is a discussion and analysis of the Utah Infrastructure Agency (UIA) financial activities for the fiscal year ending June 30, 2019.

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 XMission, Veracity, Windstream, SumoFiber, and First Digital - were actively providing services and a total of 2,4217 homes and businesses had subscribed to services at year end on the UTOPIA/UIA network. Current plans include completion of the network within the eleven pledging UTOPIA member cities by 2022. Future growth of the network outside of the UTOPIA cities 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, 2019, more than 3,500 miles of fiber cable have been placed within the boundaries of the eleven members cities. Within footprints serviced by 166 hut sites, there are approximately 94,000 addresses which could immediately subscribe for services. Once the network is completely built out within the pledging UTOPIA cities, approximately 150,000 addresses will be able to subscribe. 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 \$2.9 M from the prior year.
- Operating profit (EBITDA) for the year was \$1.1 M higher than the prior year.

**UTAH INFRASTRUCTURE AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

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 \$15.4 million exceeded budget by about \$2.5 M, largely due to construction contract revenue. Total operating expense (expenses excluding interest and depreciation) was \$2.1 M above budget, again due to construction contract expenditures. The Agency contracted with the cities of Woodland Hills, Utah and Idaho Falls, Idaho to build out a fiber optic system within their city boundaries, which they would own. The UIA Board was aware of the contracts but the budget reflected the net expenditure instead of the gross revenue and gross expenditure. Operating profit (EBITDA) for the year was \$391,000 better than budgeted. The net loss for the year (change in net position) was \$2 M, which was better than budget by \$926,200.

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

	<u>2019</u>	<u>2018</u>
Current and other assets	\$ 49,643,664	\$ 22,969,122
Capital assets	93,742,641	69,146,758
Total Assets	<u>143,386,305</u>	<u>92,115,880</u>
Deferred outflows of resources	4,925,018	5,155,878
Total Assets	<u>148,311,323</u>	<u>97,271,758</u>
Current and other liabilities	9,186,764	6,101,569
Long-term liabilities outstanding	136,351,600	86,397,084
Total Liabilities	<u>145,538,364</u>	<u>92,498,653</u>
Net investment in capital assets	(8,049,857)	(5,540,482)
Restricted	29,085,990	9,745,717
Unrestricted	<u>(18,263,174)</u>	<u>567,870</u>
Net Position	<u>\$ 2,772,959</u>	<u>\$ 4,773,105</u>

**UTAH INFRASTRUCTURE AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

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

	<u>2019</u>	<u>2018</u>
Revenues:		
Operating revenues	\$ 15,367,172	\$ 10,641,815
Interest income	1,420,334	528,398
Other revenues	<u>300,494</u>	<u>999,424</u>
Total Revenues	<u>17,088,000</u>	<u>12,169,637</u>
Expenditures:		
Marketing	634,749	509,695
Professional services	172,597	716,775
Network operations	3,209,354	1,404,954
Construction contract costs	2,191,574	-
Depreciation	6,301,884	4,469,316
Bond interest and fees	6,577,988	4,506,128
Loss on disposal of assets	<u>-</u>	<u>390,173</u>
Total Expenditures	<u>19,088,146</u>	<u>11,997,041</u>
Change in net position	(2,000,146)	172,596
Total net position, beginning of year	<u>4,773,105</u>	<u>4,600,509</u>
Total net position, end of year	<u>\$ 2,772,959</u>	<u>\$ 4,773,105</u>

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, 2019, UIA's outstanding debt amounted to \$139.9 million. This is comprised of the revenue bonds and the capitalized IRU note payable.

**UTAH INFRASTRUCTURE AGENCY
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

Table 3 - Summary of UIA's Capital Assets at June 30, 2019:

	<u>2019</u>	<u>2018</u>
Construction in progress	\$ 5,339,558	\$ 3,246,486
Land	555,872	500,000
Building	1,951,133	2,005,882
Furniture and equipment	201,444	281,272
Outside plant	45,514,342	36,789,870
Inside plant	6,862,309	2,611,468
Customer premise equipment	20,838,389	10,505,107
Intangible right	12,479,594	13,206,673
	<u>\$ 93,742,641</u>	<u>\$ 69,146,758</u>

Table 4 - Summary of UIA's Debt at June 30, 2019:

	<u>2019</u>	<u>2018</u>
Revenue bonds payable	\$ 136,418,927	\$ 84,908,232
Capital leases	-	1,012,403
Notes payable from direct borrowings	<u>3,507,673</u>	<u>3,718,636</u>
	<u>\$ 139,926,600</u>	<u>\$ 89,639,271</u>

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, 2019

Assets

Current Assets:

Cash	\$ 8,777,628
Trade receivables, net	1,567,017
Inventory	2,802,295
Prepaid expenses	7,390
Notes receivable	248,023
Costs of uncompleted contracts in excess of related billings	341,396
Restricted cash equivalents	<u>24,798,724</u>
Total Current Assets	<u>38,542,473</u>

Noncurrent assets:

Restricted cash equivalents	8,252,539
Notes receivable	2,848,652
Capital Assets:	
Construction in progress	5,339,558
Land	555,872
Assets, net of accumulated depreciation:	
Building	1,951,133
Furniture and equipment	201,444
Fiber optic network	<u>85,694,634</u>
Total Noncurrent Assets	<u>104,843,832</u>

Total Assets	<u>143,386,305</u>
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Deferred Outflows of Resources

Deferred charge on refunding	<u>4,925,018</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 148,311,323</u></u>

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

UTAH INFRASTRUCTURE AGENCY
STATEMENT OF NET POSITION (Continued)
June 30, 2019

Liabilities

Current Liabilities:

Accounts payable	\$ 4,236,467
Accrued liabilities	111,018
Interest payable from restricted assets	1,220,273
Notes payable	830,000
Revenue bonds payable	2,745,000
Unearned revenue	44,006

Total Current Liabilities	<u>9,186,764</u>
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Noncurrent Liabilities:

Notes payable	2,677,673
Revenue bonds payable	133,673,927

Total Noncurrent Liabilities	<u>136,351,600</u>
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Total Liabilities	<u>145,538,364</u>
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Net Position

Net Investment in capital assets	(8,049,857)
Restricted for:	
Debt service	10,828,506
Future development	18,257,484
Unrestricted	(18,263,174)

Total Net Position	<u>2,772,959</u>
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Total Liabilities and Net Position	<u><u>\$ 148,311,323</u></u>
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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, 2019

Operating Revenues:	
Access fees	\$ 9,762,852
Installations	29,624
Reconnections	3,582,149
Miscellaneous operating revenue	140,851
Construction contract revenue	<u>1,851,696</u>
Total Operating Revenues	<u>15,367,172</u>
Operating Expenses:	
Marketing	634,749
Professional services	172,597
Network	3,209,354
Construction contract costs	2,191,574
Depreciation	<u>6,301,884</u>
Total Operating Expenses	<u>12,510,158</u>
Operating Income	<u>2,857,014</u>
Nonoperating Revenues (Expenses):	
Interest income	1,420,334
Installation related capital contributions	300,494
Bond interest and fees	<u>(6,577,988)</u>
Total Nonoperating Revenues (Expenses)	<u>(4,857,160)</u>
Change In Net Position	(2,000,146)
Total Net Position, Beginning of Year	<u>4,773,105</u>
Total Net Position, End of Year	<u><u>\$ 2,772,959</u></u>

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

**UTAH INFRASTRUCTURE AGENCY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019**

Cash Flows From Operating Activities:	
Cash received from customers and users	\$ 13,163,318
Cash received from long-term contracts	2,235,940
Payments to suppliers	<u>(9,034,083)</u>
Net cash provided by operating activities	<u>6,365,175</u>
Cash Flows From Capital and Related Financing Activities:	
Purchase of capital assets	(26,746,628)
Proceeds from installations	435,981
Bond interest and fees	(6,299,290)
Proceeds from issuance of new bonds	54,617,368
Principal paid on bonds	(2,595,000)
Principal paid on capital leases payable	<u>(1,012,403)</u>
Net cash used by capital and related financing activities	<u>18,400,028</u>
Cash Flows From Non-Capital Financing Activity:	
Proceeds from notes payable addition	192,945
Payment of note payable	<u>(505,619)</u>
Net cash provided by non-capital financing activity	<u>(312,674)</u>
Cash Flows From Investing Activity:	
Interest income	<u>1,420,334</u>
Net cash provided by investing activity	<u>1,420,334</u>
Net Increase in Cash and Cash Equivalents	25,872,863
Cash and Cash Equivalents, Beginning of Year	<u>15,956,028</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 41,828,891</u></u>

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, 2019**

Reconciliation of operating loss to net cash from operating activities:

Operating income	\$ 2,857,014
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation expense	6,301,884
(Increase) decrease in assets related to operations	
Trade receivables, net	(466,533)
Prepaid expenses	(1,837)
Inventory	(4,373,983)
Costs of completed contracts in excess of related billings	(341,396)
Note receivable related to operating revenues	95,444
Increase (decrease) in liabilities related to operations	
Accounts payable	2,304,707
Accrued liabilities	(29,056)
Unearned Revenue	18,931
Net Cash Provided by Operating Activities	<u>\$ 6,365,175</u>

Supplemental Information

Noncash Investing, Capital, and Financing Activities:

Inventory additions to capital assets	\$ 4,151,139
Accrued interest addition to notes payable	101,711

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, 2019. 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.

UTAH INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)

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 \$72,426 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.

**UTAH INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (Continued)

Revenue and Cost 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 \$65,103.

UIA recognizes revenue from construction contracts on the completed-contract method where revenues and expenses are recognized when contracts are substantially completed. This method is used because management lacks dependable estimates on the progress of the contracts.

UIA acts as the contractor and subcontracts out the required infrastructure improvements. Contract costs include all direct costs billed by the subcontractor, which includes direct materials and labor. Provisions for estimated losses on uncompleted contracts are made in the period in which the losses are determined. Management determined that provisions for losses were unnecessary for the year ended June 30, 2019.

The asset costs of uncompleted contracts in excess of related billings represents the amount of contract costs incurred in excess of amounts billed.

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, 2019, UIA had the following deposits and investments, stated at carrying amount, which approximates fair value:

<u>Deposit and investment type</u>	<u>Fair Value</u>
Cash on deposit	\$ 2,651,736
Investments in Utah Public Treasurer Investment Funds	<u>39,177,155</u>
	<u>\$ 41,828,891</u>

UTAH INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 CASH AND INVESTMENTS (Continued)

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, 2019, \$3,463,955 of the \$3,713,955 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.

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, 2019, 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, 2019, or \$39,338,871 are based on significant other observable inputs (Level 2 inputs).

UTAH INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 PROPERTY AND EQUIPMENT

The following summarizes UIA's property and equipment as of June 30, 2019:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 500,000	\$ 55,872	\$ -	\$ 555,872
Construction in progress	3,246,486	2,093,072	-	5,339,558
Total capital assets, not being depreciated	3,746,486	2,148,944	-	5,895,430
Capital assets, being depreciated:				
Building	2,122,279	20,142	-	2,142,421
Furniture and equipment	337,122	-	-	337,122
Outside plant	42,775,964	10,620,713	-	53,396,677
Inside plant	7,612,923	6,733,133	-	14,346,056
Customer premise equipment	12,460,382	11,374,835	-	23,835,217
Intangible right	18,176,964	-	-	18,176,964
Total capital assets, being depreciated	\$ 83,485,634	\$ 28,748,823	\$ -	\$ 112,234,457
Less accumulated depreciation:				
Building	\$ (116,397)	\$ (74,891)	\$ -	\$ (191,288)
Furniture and equipment	(55,850)	(79,828)	-	(135,678)
Outside plant	(5,986,094)	(1,896,241)	-	(7,882,335)
Inside plant	(5,001,455)	(2,482,292)	-	(7,483,747)
Customer premise equipment	(1,955,275)	(1,041,553)	-	(2,996,828)
Intangible right	(4,970,291)	(727,079)	-	(5,697,370)
Total accumulated depreciation	(18,085,362)	(6,301,884)	-	(24,387,246)
Total capital asset, net of accumulated depreciation	65,400,272	22,446,939	-	87,847,211
Property and Equipment, net	\$ 69,146,758	\$ 24,595,883	\$ -	\$ 93,742,641

Depreciation expense of \$6,301,884 was charged to operating expense for the year ended June 30, 2019.

**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, 2019.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds					
Series 2017A	\$ 73,905,000	\$ -	\$ (2,145,000)	\$ 71,760,000	\$ 1,625,000
Series 2017B	3,500,000	-	(450,000)	3,050,000	570,000
Series 2018A	-	21,810,000	-	21,810,000	550,000
Series 2018 - Layton	-	22,285,000	-	22,285,000	-
Series 2019 - Morgan	-	2,550,000	-	2,550,000	-
Series 2019 - Payson	-	3,520,000	-	3,520,000	-
Plus: Unamortized Premiums	7,503,232	4,452,368	(511,673)	11,443,927	-
Total Revenue Bonds	84,908,232	54,617,368	(3,106,673)	136,418,927	2,745,000
Capital Leases					
UTOPIA IRU	1,012,403	-	(1,012,403)	-	-
Total Capital Leases	1,012,403	-	(1,012,403)	-	-
Notes Payable from Direct Borrowings					
Pledging Members	3,555,993	287,177	(483,907)	3,359,263	794,359
Tremonton Note	162,643	7,479	(21,712)	148,410	35,641
Total Notes Payable	3,718,636	294,656	(505,619)	3,507,673	830,000
Total Long-Term Debt	\$ 89,639,271	\$ 54,912,024	\$ (4,624,695)	\$ 139,926,600	\$ 3,575,000

Revenue Bonds

Tax-exempt Telecommunications Revenue and Refunding Bonds, Series 2017A, original issue of \$73,905,000 plus a premium of \$7,784,509, 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. There are no significant events of default or termination events with finance-related consequences and no subjective acceleration clauses.

\$ 71,760,000

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 3.5% with the final payment due October 15, 2023. The bonds were issued to refund the Series 2011B Bonds. There are no significant events of default or termination events with finance-related consequences and no subjective acceleration clauses.

3,050,000

**UTAH INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 4 LONG-TERM DEBT (Continued)

Revenue Bonds (Continued)

Tax-exempt Telecommunications Revenue Bonds, Series 2018A, original issue of \$21,810,000 plus a premium of \$2,323,343, principal payments due in annual installments beginning October 2019, interest payments due semi-annually at 5.0% to 5.375%, with the final payment due October 2040. The bonds were issued to finance the expansion of UIA's infrastructure. There are no significant events of default or termination events with finance-related consequences and no subjective acceleration clauses. \$ 21,810,000

Layton City Telecommunications and Franchise Tax Revenue Bonds, Series 2018, original issue of \$22,285,000 plus a premium of \$1,863,184, principal payments due in annual installments beginning October 2021, interest payments due semi-annually at 3.0% to 5.0%, with the final payment due October 2044. The bonds were issued to finance the expansion of UIA's infrastructure within Layton City. There are no significant events of default or termination events with finance-related consequences and no subjective acceleration clauses. 22,285,000

Telecommunications, Electric Utility, and Sales Tax Revenue Bonds (Morgan City Project), Series 2019, original issue of \$2,550,000 plus a premium of 67,549, principal payments due in annual installments beginning October 2022, interest payments due semi-annually at 3.375% to 5.0%, with the final payment due October 2044. The bonds were issued to finance the construction of UIA's infrastructure within Morgan City. There are no significant events of default or termination events with finance-related consequences and no subjective acceleration clauses. 2,550,000

Telecommunications and Franchise Tax Revenue Bonds (Payson City Project), Series 2019, original issue of \$3,520,000 plus a premium of 198,292, principal payments due in annual installments beginning October 2022, interest payments due semi-annually at 3.0% to 5.0%, with the final payment due October 2044. The bonds were issued to finance the expansion of UIA's infrastructure within Payson City. There are no significant events of default or termination events with finance-related consequences and no subjective acceleration clauses. 3,520,000

Total Revenue Bonds	124,975,000
Less current portion	<u>(2,745,000)</u>
Noncurrent portion	<u><u>\$ 122,230,000</u></u>

**UTAH INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 4 LONG-TERM DEBT (Continued)

Revenue Bonds (Continued)

The following summarizes UIA's revenue bonds debt service requirements as of June 30, 2019:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 2,745,000	\$ 5,914,658	\$ 8,659,658
2021	2,830,000	5,857,381	8,687,381
2022	3,075,000	5,736,856	8,811,856
2023	3,685,000	5,583,306	9,268,306
2024	3,955,000	5,412,456	9,367,456
2025-2029	21,705,000	24,064,581	45,769,581
2030-2034	27,740,000	17,919,891	45,659,891
2035-2039	35,335,000	10,179,981	45,514,981
2040-2044	22,005,000	1,946,916	23,951,916
2045	1,900,000	35,884	1,935,884
	<u>\$ 124,975,000</u>	<u>\$ 82,651,912</u>	<u>\$ 207,626,912</u>

Advanced Refunding/Defeasance of Debt

The net proceeds from the Series 2017A and Series 2017B Bonds (collectively, the Series 2017 Bonds) used for the advanced refunding of the Series 2011A, Series 2011B, Series 2013, and Series 2015 Bonds 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, 2019, \$56,590,000 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, 2019.

NOTE 5 RELATED PARTY 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 \$2,000,000 for administration, accounting/finance, marketing, customer service and outside plant performed on behalf of UIA. The unpaid portion of this fee totaled \$1,039,730 at June 30, 2019 and is included with accounts payable. Since UIA's inception in 2011, UIA has paid a total of approximately \$2,500,000 to UTOPIA for management services and UTOPIA has donated management services to UIA valued at approximately \$4,100,000. UTOPIA did not donate management services to UIA during the year ended June 30, 2019.

**UTAH INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 5 RELATED PARTY AND COMMITMENTS AND CONTRACTS (Continued)

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, 2019.

As of June 30, 2019, UIA has \$110,988 in accrued liabilities payable to UTOPIA.

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 \$1,209,354 for the year ended June 30, 2019. Since UIA's inception in 2011, UIA has paid a total of approximately \$4,300,000 to UTOPIA for services related to the Interlocal Cooperative Agreement.

NOTE 6 PLEDGING MEMBERS LIABILITY AND COMMITMENTS

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	2019 Share of Total Max. Pledge	2019 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
	<u>100.00%</u>	<u>\$ 5,151,152</u>

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

**UTAH INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 6 PLEDGING MEMBERS LIABILITY AND COMMITMENTS (Continued)

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 \$47,962 for a total of \$3,359,263, have been recorded as notes payable to the cities. For the year ended June 30, 2019, UIA paid a total of \$483,907 back to the cities that were current on their assessments.

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

<u>City</u>	<u>2019 OpEx Assessments Paid</u>	<u>Cumulative Paid</u>	<u>2019 Payments to Cities</u>	<u>Cumulative Payments</u>	<u>Cumulative Remaining</u>
Brigham City	\$ -	\$ 34,824	\$ (17,956)	\$ (26,132)	\$ 8,692
Centerville City	-	221,373	-	-	221,373
Layton City	-	623,750	(74,727)	(99,804)	523,946
Lindon City	-	118,155	-	-	118,155
Midvale City	-	307,486	(30,277)	(36,603)	270,883
Murray City	-	141,666	-	-	141,666
Orem City	-	1,099,242	(108,367)	(135,048)	964,194
Payson City	192,945	242,945	(28,991)	(28,991)	213,954
West Valley City	-	1,017,276	(125,969)	(168,838)	848,438
	<u>\$ 192,945</u>	<u>\$ 3,806,717</u>	<u>\$ (386,287)</u>	<u>\$ (495,416)</u>	<u>\$ 3,311,301</u>

NOTE 7 SUBSEQUENT EVENTS

On September 5, 2019, UIA issued \$7,220,000 of Telecommunications, Franchise and Sales Tax Revenue Bonds, Series 2019 to fund the acquisition, construction, and installation of a fiber optic network in West Point City. Principal payments on the bonds are due in annual installments of \$175,000 to \$425,000 beginning in 2022 through 2046, with interest at 3% to 4% due semiannually beginning in 2020.

On November 13, 2019, UIA issued \$48,365,000 of Telecommunications Revenue Bonds, Series 2019 to fund the acquisition, construction, and installation of a fiber optic network within the boundaries of the UIA/UTOPIA member cities. Principal payments on the bonds are due in annual installments of \$1,345,000 to \$3,275,000 beginning in 2021 through 2042, with interest at 4% to 5% due semiannually beginning in 2020.