

UTAH INFRASTRUCTURE AGENCY

FINANCIAL STATEMENTS

JUNE 30, 2020

**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, 2020, 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, 2020, 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 January 12, 2021 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

January 12, 2021

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, 2020.

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, SumoFiber, Beehive, and First Digital. - were actively providing services and a total of 30,993 homes and businesses had subscribed to services at year end on the combined UTOPIA/UIA network. This represents 27% of addresses passed by the network. Current plans of UTOPIA/UIA include completion of the network within the eleven pledging UTOPIA member cities by 2022. Seven of the eleven pledging cities are substantially built out. 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 2020, more than 3,500 miles of fiber cable have been placed within the boundaries of the eleven members cities. Within footprints serviced by 175 hut sites, there are approximately 135,000 addresses which could immediately subscribe for services on the UTOPIA/UIA network. Once the network is completely built out within the pledging UTOPIA cities, approximately 150,000 addresses will be able to subscribe for services.

Highlights

Financial highlights include:

- UIA's recurring operating revenues (Access fees and Connection fees) increased 25%, or \$3.4 M from the prior year.
- The number of subscribers to the UTOPIA/UIA network grew from 24,217 to 30,993, a 28% increase.

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

- UIA has now issued revenue bonds for three non-UIA partner cities willing to pledge franchise and/or sales tax revenues as a payment backstop for the bonds. Morgan City was the first, with bonds issued in April of 2019. The buildout is complete and the City is enjoying a subscriber “take rate” of 50%. In September of 2019 West Point City became the second partner city, and subsequent to year end, in August of 2020 Clearfield City became the third partner city.
- UIA added \$42.7M of additions and improvements to its fiberoptic network in fiscal year 2020.
- UIA currently has \$11.7M of additions and improvements in progress.
- Cash reserves are adequate to cover one year of operating expenses.

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 \$17.2 million exceeded budget by about \$177,000. Total operating expenses (expenses excluding interest and depreciation) were \$157,000 above budget, mostly due to increased marketing expenses which were reimbursed from a UIA member city, and construction costs which were also reimbursed. Operating profit (EBITDA) for the year was \$20,000 better than budgeted. The net loss for the year (change in net position) was \$3.7 M, including depreciation expense of \$9 M.

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

	2020	2019
Current and other assets	\$ 63,367,767	\$ 49,643,664
Capital assets	136,137,488	93,742,641
Total Assets	199,505,255	143,386,305
Deferred outflows of resources	4,694,157	4,925,018
Total Assets	204,199,412	148,311,323
Current and other liabilities	13,868,381	9,186,764
Long-term liabilities outstanding	191,320,943	136,351,600
Total Liabilities	205,189,324	145,538,364
Net investment in capital assets	(19,109,531)	(8,049,857)
Restricted	4,620,189	29,085,990
Unrestricted	13,499,431	(18,263,174)
Net Position	\$ (989,912)	\$ 2,772,959

**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

	2020	2019
Revenues:		
Operating revenues	\$ 17,183,183	\$ 15,367,172
Interest income	1,418,679	1,420,334
Other revenues	152,848	300,494
Total Revenues	18,754,710	17,088,000
Expenditures:		
Marketing	769,906	634,749
Professional services	178,222	172,597
Network operations	4,445,694	3,209,354
Construction contract costs	93,297	2,191,574
Depreciation	8,990,683	6,301,884
Bond interest and fees	8,039,778	6,577,988
Total Expenditures	22,517,580	19,088,146
Change in net position	(3,762,870)	(2,000,146)
Total net position, beginning of year	2,772,958	4,773,105
Total net position, end of year	\$ (989,912)	\$ 2,772,959

Capital Assets and Debt Administration

UIA's capital assets, net of depreciation, were \$136.1 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, 2020, UIA's outstanding debt amounted to \$195.6 million. This is comprised of the revenue bonds and notes payable to member cities.

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

Table 3 - Summary of UIA's Capital Assets at June 30, 2020:

	<u>2020</u>	<u>2019</u>
Construction in progress	\$ 11,765,028	\$ 5,339,558
Land	959,272	555,872
Building	3,557,763	1,951,133
Furniture and equipment	190,722	201,444
Outside plant	72,989,251	45,514,342
Inside plant	6,524,567	6,862,309
Customer premise equipment	28,398,370	20,838,389
Intangible right	11,752,515	12,479,594
	<u>136,137,488</u>	<u>\$ 93,742,641</u>

Table 4 - Summary of UIA's Debt at June 30, 2020:

	<u>2020</u>	<u>2019</u>
Revenue bonds payable	\$ 192,842,489	\$ 136,418,927
Notes payable from direct borrowings	2,760,954	3,507,673
	<u>\$ 195,603,443</u>	<u>\$ 139,926,600</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, 2020**

Assets

Current Assets:

Cash	\$ 13,916,081
Trade receivables, net	2,255,120
Investments	3,066,532
Inventory	3,485,054
Prepaid expenses	10,226
Notes receivable	243,644
Restricted cash equivalents	<u>26,525,999</u>
Total Current Assets	<u>49,502,656</u>

Noncurrent assets:

Restricted cash equivalents	11,307,505
Trade receivables, net	197,014
Notes receivable	2,360,592
Capital Assets:	
Construction in progress	11,765,028
Land	959,272
Assets, net of accumulated depreciation:	
Building	3,557,762
Furniture and equipment	181,205
Fiber optic network	<u>119,674,221</u>
Total Noncurrent Assets	<u>150,002,599</u>
Total Assets	<u>199,505,255</u>

Deferred Outflows of Resources

Deferred charge on refunding	<u>4,694,157</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 204,199,412</u></u>

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

**UTAH INFRASTRUCTURE AGENCY
STATEMENT OF NET POSITION (Continued)
June 30, 2020**

Liabilities

Current Liabilities:

Accounts payable	\$ 7,722,781
Accrued liabilities	16,800
Interest payable from restricted assets	1,720,374
Notes payable	1,452,500
Revenue bonds payable	2,830,000
Unearned revenue	125,926

Total Current Liabilities	<u>13,868,381</u>
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Noncurrent Liabilities:

Notes payable	1,308,454
Revenue bonds payable	190,012,489

Total Noncurrent Liabilities	<u>191,320,943</u>
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Total Liabilities	<u>205,189,324</u>
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Net Position

Net Investment in capital assets	(19,109,531)
Restricted for:	
Debt service	4,620,189
Unrestricted	13,499,431

Total Net Position	<u>(989,912)</u>
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Total Liabilities and Net Position	<u>\$ 204,199,412</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, 2020

Operating Revenues:	
Access fees	\$ 11,665,097
Installations	104,592
Connection fees	5,088,104
Miscellaneous operating revenue	159,990
Construction contract revenue	<u>165,400</u>
Total Operating Revenues	<u>17,183,183</u>
Operating Expenses:	
Marketing	769,906
Professional services	178,222
Network Operations	4,445,694
Construction contract costs	93,297
Depreciation	<u>8,990,683</u>
Total Operating Expenses	<u>14,477,802</u>
Operating Income	<u>2,705,381</u>
Nonoperating Revenues (Expenses):	
Interest income	1,418,679
Installation related capital contributions	152,848
Bond interest and fees	<u>(8,039,778)</u>
Total Nonoperating Revenues (Expenses)	<u>(6,468,251)</u>
Change In Net Position	<u>(3,762,870)</u>
Total Net Position, Beginning of Year	<u>2,772,958</u>
Total Net Position, End of Year	<u><u>\$ (989,912)</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, 2020**

Cash Flows From Operating Activities:	
Cash received from customers and users	\$ 17,289,064
Cash received from long-term contracts	165,400
Payments to suppliers	<u>(14,782,643)</u>
Net cash provided by operating activities	<u>2,671,821</u>
Cash Flows From Capital and Related Financing Activities:	
Purchase of capital assets	(39,899,127)
Proceeds from installations	427,826
Bond interest and fees	(7,867,468)
Proceeds from issuance of new bonds	59,814,297
Principal paid on bonds	<u>(2,745,000)</u>
Net cash provided by capital and related financing activities	<u>9,730,528</u>
Cash Flows From Non-Capital Financing Activity:	
Payment of note payable	<u>(833,802)</u>
Net cash used by non-capital financing activity	<u>(833,802)</u>
Cash Flows From Investing Activities:	
Purchase of investments	(3,000,000)
Interest income	<u>1,352,147</u>
Net cash used by investing activities	<u>(1,647,853)</u>
Net Increase in Cash and Cash Equivalents	9,920,694
Cash and Cash Equivalents, Beginning of Year	<u>41,828,891</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 51,749,585</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, 2020**

Reconciliation of operating loss to net cash from operating activities:

Operating income	\$ 2,705,381
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation expense	8,990,683
Bad debt expense	279,533
(Increase) decrease in assets related to operations	
Trade receivables, net	(307,633)
Prepaid expenses	(2,836)
Inventory	(9,415,908)
Costs of completed contracts in excess of related billings	-
Note receivable related to operating revenues	217,461
Increase (decrease) in liabilities related to operations	
Accounts payable	217,438
Accrued liabilities	(94,218)
Unearned Revenue	81,920
Net Cash Provided by Operating Activities	<u><u>\$ 2,671,821</u></u>

Supplemental Information

Noncash Investing, Capital, and Financing Activities:

Inventory additions to capital assets	\$ 8,645,455
Accrued interest addition to notes payable	87,083

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, 2020. 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 debt 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
Buildings	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 \$275,000 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 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 \$279,533.

NOTE 2 CASH AND INVESTMENTS

Deposits

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.

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, 2020, \$11,104,235 of the \$11,354,235 balance of deposits was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the Agency and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Statutes authorize the Agency to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes and other evidence of indebtedness of political subdivision of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund (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. The PTIF is not registered with the SEC as an investment company.

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

NOTE 2 CASH AND INVESTMENTS (Continued)

Components of cash and investments at June 30, 2020, are as follows:

	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Credit Rating</u>	<u>Weighted Average Maturity</u>
Cash on deposit	\$ 9,991,789	\$ 9,991,789	N/A	N/A
Investments:				
Utah State Public Treasurer's Investment Fund	\$ 41,860,038	\$ 41,757,796	unrated	3 mos. or less
Corporate bonds	1,659,154	1,659,154	A- to A+	< 2 years
Certificates of deposit	1,391,296	1,391,296	BBB- to A+	< 3 years
Money Market Fund	16,082	16,082	AAA	N/A
Total Investments	<u>\$ 44,926,570</u>	<u>\$ 44,824,328</u>		

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 written policy for managing interest rate risk is to comply with the Utah Money Management Act which requires that the term to maturity of an investment may not exceed the period of availability of the funds to be invested.

Credit risk. This is the risk that an issuer or other counter party to an investment will not fulfill its obligations. UIA follows the Money Management Act, which only allows for investments of the highest quality, as measured by the bond rating. UIA also invests in the PTIF, which, as of June 30, 2020, was 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 policy for reducing the concentration of credit risk is to follow the Utah Money Management Councils Rules, specifically Rule 17, which limits the amount of money that can be invested 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 policy for managing custodial credit risk is to follow the Utah Money Management Act's list of certified investment advisors. UIA's investment in PTIF has no custodial credit risk.

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the 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.

UTAH INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 CASH AND INVESTMENTS (Continued)

The fair value measurements for investments are as follows at June 30, 2020:

	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Utah State Public Treasurer's Investment Fund	\$ 41,860,038	\$ -	\$ 41,860,038	\$ -
Corporate bonds	1,659,154	-	1,659,154	-
Certificates of deposit	1,391,296	-	1,391,296	-
Money Market Fund	16,082	16,082	-	-
Total	\$ 44,926,570	\$ 16,082	\$ 44,910,488	\$ -

NOTE 3 PROPERTY AND EQUIPMENT

The following summarizes UIA's property and equipment as of June 30, 2020:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 555,872	\$ 403,400	\$ -	\$ 959,272
Construction in progress	5,339,558	9,357,597	(2,932,127)	11,765,028
Total capital assets, not being depreciated	5,895,430	9,760,997	(2,932,127)	12,724,300
Capital assets, being depreciated:				
Building	2,142,421	1,738,184	-	3,880,605
Furniture and equipment	337,122	81,353	-	418,475
Outside plant	53,396,677	30,191,678	-	83,588,355
Inside plant	14,346,056	3,136,369	-	17,482,425
Customer premise equipment	23,835,217	9,409,076	-	33,244,293
Intangible right	18,176,964	-	-	18,176,964
Total capital assets, being depreciated	\$ 112,234,457	\$ 44,556,660	\$ -	\$ 156,791,117
Less accumulated depreciation:				
Building	\$ (191,288)	\$ (131,554)	\$ -	\$ (322,842)
Furniture and equipment	(135,678)	(101,591)	-	(237,269)
Outside plant	(7,882,335)	(2,716,769)	-	(10,599,104)
Inside plant	(7,483,747)	(3,464,595)	-	(10,948,342)
Customer premise equipment	(2,996,828)	(1,849,095)	-	(4,845,923)
Intangible right	(5,697,370)	(727,079)	-	(6,424,449)
Total accumulated depreciation	(24,387,246)	(8,990,683)	-	(33,377,929)
Total capital asset, net of accumulated depreciation	87,847,211	35,565,977	-	123,413,188
Property and Equipment, net	\$ 93,742,641	\$ 45,326,974	\$ (2,932,127)	\$ 136,137,488

Depreciation expense of \$8,990,693 was charged to operating expense for the year ended June 30, 2020.

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, 2020.

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds					
Series 2017A	\$ 71,760,000	\$ -	\$ (1,625,000)	\$ 70,135,000	\$ 1,660,000
Series 2017B	3,050,000	-	(570,000)	2,480,000	590,000
Series 2018A	21,810,000	-	(550,000)	21,260,000	580,000
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	-
Series 2019 - West Point	-	7,220,000	-	7,220,000	-
Series 2019	-	48,365,000	-	48,365,000	-
Plus: Unamortized Premiums	11,443,927	4,229,297	(645,735)	15,027,489	-
Total Revenue Bonds	136,418,927	59,814,297	(3,390,735)	192,842,489	2,830,000
Notes Payable from Direct Borrowings					
Pledging Members	3,359,263	83,392	(800,040)	2,642,615	1,393,686
Tremonton Note	148,410	3,691	(33,762)	118,339	58,814
Total Notes Payable from Direct Borrowings	3,507,673	87,083	(833,802)	2,760,954	1,452,500
Total Long-Term Debt	\$ 139,926,600	\$ 59,901,380	\$ (4,224,537)	\$ 195,603,443	\$ 4,282,500

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. \$ 70,135,000

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. 2,480,000

**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. \$ 21,260,000

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

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

NOTE 4 LONG-TERM DEBT (Continued)

Revenue Bonds (Continued)

Telecommunications, Franchise, and Sales Tax Revenue Bonds (West Point City Project), Series 2019, original issue of \$7,220,000 plus a premium of 595,011, principal payments due in annual installments beginning October 2022, interest payments due semi-annually at 3.0% to 4.0%, with the final payment due October 2046. The bonds were issued to finance the construction of UIA's infrastructure within West Point City. There are no significant events of default or termination events with finance-related consequences and no subjective acceleration clauses. \$ 7,220,000

Telecommunications Revenue Bonds, Series 2019, original issue of \$48,365,000 plus a premium of 3,634,287, principal payments due in annual installments beginning October 2021, interest payments due semi-annually at 4.0% to 5.0%, with the final payment due October 2042. The bonds were issued to finance improvements of UIA's infrastructure. There are no significant events of default or termination events with finance-related consequences and no subjective acceleration clauses. 48,365,000

Total Revenue Bonds	177,815,000
Less current portion	<u>(2,830,000)</u>
Noncurrent portion	<u><u>\$ 174,985,000</u></u>

The following summarizes UIA's revenue bonds debt service requirements as of June 30, 2020:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 2,830,000	\$ 8,141,381	\$ 10,971,381
2022	4,420,000	7,993,956	12,413,956
2023	5,260,000	7,782,006	13,042,006
2024	5,590,000	7,546,956	13,136,956
2025	5,635,000	7,296,856	12,931,856
2026-2030	32,640,000	31,971,619	64,611,619
2031-2035	41,425,000	23,075,069	64,500,069
2036-2040	52,100,000	12,236,344	64,336,344
2041-2045	27,075,000	1,910,766	28,985,766
2046-2047	840,000	18,975	858,975
	<u>\$ 177,815,000</u>	<u>\$ 107,973,928</u>	<u>\$ 285,788,928</u>

UTAH INFRASTRUCTURE AGENCY
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 LONG-TERM DEBT (Continued)

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, 2020, \$54,790,000 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, 2020.

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 \$2,212,400 for administration, accounting/finance, marketing, customer service and outside plant performed on behalf of UIA. Since UIA's inception in 2011, UIA has paid a total of approximately \$4,700,000 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, 2020.

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, 2020.

As of June 30, 2020, UIA has \$577,484 in accounts receivable from 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 \$2,233,294 for the year ended June 30, 2020. Since UIA's inception in 2010, UIA has paid a total of approximately \$6,500,000 to UTOPIA for services related to the Interlocal Cooperative Agreement.

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

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	2020 Share of Total Max. Pledge	2020 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.

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 \$25,371 for a total of \$2,642,615, have been recorded as notes payable to the cities. For the year ended June 30, 2020, UIA paid a total of \$800,040 back to the cities that were current on their assessments, which included outstanding accrued interest.

Payment was made to Brigham City more than the City's cumulative payments to UIA. The excess constitutes a dividend to the city in the amount of \$23,692.

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

NOTE 6 PLEDGING MEMBERS LIABILITY AND COMMITMENTS (Continued)

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

<u>City</u>	<u>2020 OpEx Assessments Paid</u>	<u>Cumulative Paid</u>	<u>2020 Payments to Cities</u>	<u>Cumulative Payments</u>	<u>Cumulative Remaining</u>
Brigham City	\$ -	\$ 34,824	\$ (8,692)	\$ (34,824)	\$ -
Centerville City	-	221,373	-	-	221,373
Layton City	-	623,750	(147,518)	(247,322)	376,428
Lindon City	-	118,155	-	-	118,155
Midvale City	-	307,486	(54,031)	(90,634)	216,852
Murray City	-	141,666	-	-	141,666
Orem City	-	1,099,242	(193,297)	(328,345)	770,897
Payson City	-	242,945	(42,671)	(71,662)	171,283
West Valley City	-	1,017,276	(247,848)	(416,686)	600,590
	<u>\$ -</u>	<u>\$ 3,806,717</u>	<u>\$ (694,057)</u>	<u>\$ (1,189,473)</u>	<u>\$ 2,617,244</u>

NOTE 7 SUBSEQUENT EVENTS

On August 6, 2020, UIA issued \$12,645,000 of Telecommunications and Franchise Tax Revenue Bonds, Series 2020 to fund the acquisition, construction, and installation of a fiber optic network in Clearfield City. Principal payments on the bonds are due in annual installments of \$275,000 to \$720,000 beginning in 2022 through 2047, with interest at 2.75% to 5% due semiannually beginning in fiscal year 2021.