

Association of Communication Engineers/USDA Rural Development Seminar

Broadband Loans: Bringing it All Together with a Financial Forecast

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Requirements:

- Market Survey & Research
- Business Plan
- Financial Analysis
 - Historical Financial Statements;
 - 5-Year Subscriber Penetration Forecast
(Includes Rate Schedule);
 - Pro Forma 5-Year Financial Forecast;
 - Detailed Assumptions

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What do we do:

- Validate financial forecast;
- Determine reasonableness of assumptions based on submitted data;
- Reconcile with system design, construction schedule, and budget;
- Assess feasibility and risk.



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What problems are we seeing:

- Projections do not include entire borrower operation;
- Projections do not reconcile with system design;
- Assumptions not supported by market survey or other data;
- Assumptions do not reconcile with financial statements;
- Assumptions too general or only cover the financed project.

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Back to the Basics

- 5 year subscriber forecast covering each proposed community **and** each type of service
- 5-year income statement, balance sheet, statement of cash flows
- Detailed assumptions describing how each line item was calculated and basis for underlying numbers.

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Subscriber Forecast

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Subscriber Forecast (Schedules N-2A, B, C)

- Provides the basis for the majority of revenues;
- 5-year forecast for each community for each type of service

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SCHEDULE N-2A
SUBSCRIBER PROJECTION TABLE
DATA SERVICES

	Community	Year 1			Year 2			Year 3			Year 4			Year 5		
		Plan 1	Plan 2	Plan 3	Plan 1	Plan 2	Plan 3	Plan 1	Plan 2	Plan 3	Plan 1	Plan 2	Plan 3	Plan 1	Plan 2	Plan 3
1																
2																
3																
4																
5																
6																
7																
8																
9																
10																
TOTAL																

Bandwidth Levels &
Rates

- Plan 1
- Plan 2
- Plan 3

Note: Column headings should be changed to reflect the name of the plan to be offered. Additional columns may be added for each year if more than three plans are offered.



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SCHEDULE N-2B
SUBSCRIBER PROJECTION TABLE
VOICE SERVICES

	Community	Year 1			Year 2			Year 3			Year 4			Year 5		
		Res	Bus	Other	Res	Bus	Other	Res	Bus	Other	Res	Bus	Other	Res	Bus	Other
1																
2																
3																
4																
5																
6																
7																
8																
9																
10																
TOTAL																

Rates:
Residential Service
Business Service
Other (Specify):



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SCHEDULE N-2C
SUBSCRIBER PROJECTION TABLE
VIDEO SERVICES

+

	Community	Year 1			Year 2			Year 3			Year 4			Year 5		
		Pkg 1	Pkg 2	Other	Pkg1	Pkg 2	Other	Pkg 1	Pkg 2	Other	Pkg 1	Pkg 2	Other	Pkg 1	Pkg 2	Other
1																
2																
3																
4																
5																
6																
7																
8																
9																
10																
TOTAL																

Rates:
 Package 1:
 Package 2:
 Other (Specify):



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Income Statement

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SCHEDULE N-3B INCOME STATEMENT PRO FORMA FIVE-YEAR FINANCIAL FORECAST									
	HISTORICAL			FORECASTED					
	Year End	Year End	Year End	Current	Year 1	Year 2	Year 3	Year 4	Year 5
	1	2	3						
OPERATING REVENUES									
Local Network Service									
Network Access Services									
CATV Revenue									
Data Revenues									
Miscellaneous									
Uncollectibles									
Total Operating Revenues									
OPERATING EXPENSES									
Plant Specific Operations									
Plant Non-Specific Operations									
Customer Operations									
Corporate Operations									
Cost of Goods Sold									
Depreciation									
Amortization									
State and Local Tax									
Federal Income Tax									
Other Taxes									
Interest Expense									
Total Operating Expense									
Other Income									
Interest and Dividend Income									
Other Expenses									
Net Income									



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Income Statement: Revenues

- Voice, Data, and Video revenues should reconcile with subscriber numbers and prices;
 - Additional services should also be included: voice mail, pay-per-view, etc.
- Other Revenues
 - Fully explain source of revenues and basis for projection;
- Uncollectibles

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Income Statement: Expenses

- Include each item in the appropriate category;
 - Plant specific; plant non-specific; customer operations; corporate operations
- Detail how each line item was derived and basis for projection
 - Number of employees and salaries; programming costs; backhaul/connections costs; cost of shared services with parent or other affiliate;
- Other Expenses
 - Fully explain expense and basis for projection;

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Income Statement: Other Items

- Depreciation/Amortization;
 - Include existing plant and financed plant separately
- Taxes;
- Interest Expense;
 - Separate line item for each debt obligation

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Balance Sheet

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SCHEDULE N-3A BALANCE SHEET PRO FORMA FIVE-YEAR FINANCIAL FORECAST										
	HISTORICAL			FORECASTED						
	Year End	Year End	Year End	Current	Year 1	Year 2	Year 3	Year 4	Year 5	
	1	2	3							
ASSETS										
CURRENT										
Cash and Cash Equivalents										
Accounts Receivable										
Materials and Supplies										
Other Current										
Total Current Assets										
LONG TERM										
Property, Plant and Equipment										
Licenses & Intangibles										
Accumulated Depreciation										
Accumulated Amortization										
Deferred Charges										
Prepays/Accruals										
Other Assets										
Total Long Term Assets										
TOTAL ASSETS										

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Balance Sheet: Assets

- Notes Receivable
 - Source and schedule for repayment
- Accounts Receivable
- Plant
 - Include loan and non-loan funded plant;
 - Must reconcile with system design and Schedules Q

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SCHEDULE N-3A (CONTINUED)	
BALANCE SHEET	
LIABILITIES	
CURRENT	
Accounts Payable	
Notes Payable-Short Term	
Current Portion of Long Term Debt	
Other Current	
Total Current Liabilities	_____
LONG TERM	
Long Term Debt – Current	
New Proposed Long Term Debt (Rural Development)	
Capital Lease	
Other Long Term	
Total Long Term Liabilities	_____
TOTAL LIABILITIES	_____
CAPITAL & EQUITY	
Common Stock	
Preferred Stock	
Paid-in-Capital	
Retained Earnings	
TOTAL CAPITAL & EQUITY	_____
TOTAL LIABILITIES, CAPITAL & EQUITY	_____

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Balance Sheet: Liabilities

- Other Debt
 - Lender, terms and schedule for repayment
- Accounts Payable

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Balance Sheet: Equity

- Capital Investments
 - Source – Must have commitment
 - Preferred? – Terms of investment
- Dividends/Patronage

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Statement of Cash Flows

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SCHEDULE N-3C STATEMENT OF CASH FLOWS PRO FORMA FIVE-YEAR FINANCIAL FORECAST									
	HISTORICAL			FORECASTED					
	Year End	Year End	Year End	Current	Year 1	Year 2	Year 3	Year 4	Year 5
	1	2	3	Current	Year 1	Year 2	Year 3	Year 4	Year 5
CASH FLOWS FROM OPERATING ACTIVITIES:									
Net Income (Loss) After Income Taxes									
Cash Flows from existing operating activities									
Adjustments To Reconcile Net Income To									
Net Cash Provided By Operating Activities:									
Depreciation/Amortization									
Changes in Operating Assets and Liabilities:									
(Increase) Decrease in Accounts Receivable									
(Increase) Decrease in Deferred Charges - Other									
Increase (Decrease) in Accounts Payable									
Net Cash Provided (Used) By Operating Activities-Cash Flow									
CASH FLOWS FROM INVESTING ACTIVITIES:									
Cash flows from existing investing activities									
Purchase of Plant									
Net Cash Used by Investing Activities:									
CASH FLOWS FROM FINANCING ACTIVITIES:									
Cash flows from existing financing activities									
Proceeds From Equipment Financing Debt									
Proceeds From Subordinated Debentures									
Proceeds From Operations Financing Debt									
Proceeds From Capital Contributions									
Payment Of Equipment Financing Debt Principal									
Payment Of Subordinated Debentures									
Payment Of Operations Financing Debt Principal									
Payment Of Capital Distributions									
Net Cash Provided (Used) By Financing Activities:									
NET INCREASE (DECREASE) IN CASH									
CASH - Beginning Of Year									
CASH - End Of Year									

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Statement of Cash Flows

- Demonstrates ability of borrower to meet its obligations
- Investment in Plant
 - Reconciles with construction schedule for both funded and non-funded construction;
- Capital Investments
- Cash shortfalls?
 - What mechanism is in place?

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Narrative Assumptions

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Narrative Assumptions:

- Details each line item;
- Supports trends;
- Supported by data
 - Market survey and research
 - Existing agreements
- Consistent with business plan and system design

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Post loan monitoring:

- At a minimum, quarterly financial reports are required;
 - Advances may be withheld;
- Compare actual results to projections:
 - Not meeting projections
 - Require explanation;
 - May require updated forecast;
 - Advances may be withheld

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Questions