



Rock Island Communications

Monthly Report

August 2017

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1. Q2 2017 Financial Summary

Revenues:

In the second quarter, gross revenues for all services were ahead of plan (by approximately 1%). This surplus was driven primarily by healthy revenues derived from the sales activity at our recently opened Friday Harbor T-Mobile Store (approximately \$41k). With the addition of our new revenue stream from the Friday Harbor T-Mobile Store we anticipate total operating revenues will exceed our targets set forth in our original revenue projection for fiscal year 2017. Revenues from our core business remain solid and on target with planned amounts. In fact, our LTE service revenue is starting to show breakout success and is ahead of our business plan targets by approximately 4% on a year-to-date basis through Q2.

Expenses:

Regarding expenses, three areas of our business impacted our overall net loss for the quarter:

Depreciation

- As reported in our last quarterly financial report additional depreciation expense above planned levels stemming from plant adjustments made at the end of 2016. In totality, our variance above planned levels was approximately \$104k.

Please note, depreciation expense is a non-cash expense and will not impact future loan draws.

Labor

- Contractor costs were higher than planned for the quarter due to use of an independent contractor in support major projects within the network operations department (approximately \$8k). Additional expense variance within contract labor stems from a business plan assumption of converting one of our long-time contractors into an FTE which did not occur.
- Staffing necessary to adequately staff the T-Mobile store increased our overall labor costs in Q2.

Please note that a portion of the labor variances noted above will end up being capitalized during the second quarter of this year as construction projects that were in process as of the first and second quarter are closed out and capitalized.

Software

- As noted previously, the Company made several large purchases of software in Q1 necessary to transition the administration of our network infrastructure from an outside consultant to our own in-house staff. As our new CTO was not present during the 2017 business plan cycle last November, these costs could not be estimated or foreseen for inclusion into our budgetary process. Thus, although we are approximately \$57k behind our business plan on a year-to-date basis through Q2 2017, at the same point last year the Company spent approximately \$138k in consulting expenses for the same purpose.

Bottom Line:

When factoring the information above in our overall Net Loss variance of \$186k concerning plan to actual performance for Rock Island for the second quarter, over 95% of this shortfall was caused by items that were not estimable at the time our business plan for 2017 was drafted. Furthermore, in consideration of construction projects started but not closed during the first and second quarters of 2017, we have identified approximately \$50k of overhead, labor, and materials that will be capitalized into plant assets following their completion and closeout in the third and fourth quarters of this year which further reduces our overall income statement variance. In summary, although we did not meet our overall net loss target for Q2 '17, our revenues and expenses, are essentially on target when factoring in one-time events and transactions discussed above.



2. Summary Financial Statements

		A.	B.	C.
		Business Plan Period End YTD Q2	Actual Period End YTD Q2	Variance (B-A)
Income Statement				
1	I OPERATING REVENUES	\$ 1,629,186	\$ 1,597,607	\$ (31,579)
2				
3	II OPERATING EXPENSES			
4	COST OF GOODS SOLD	398,837	375,860	(22,977)
5	GENERAL AND ADMINISTRATIVE	1,974,446	2,327,848	353,402
6	SELLING AND MARKETING	30,000	41,142	11,142
7	TOTAL OPERATING EXPENSES	<u>2,403,283</u>	<u>2,744,850</u>	<u>341,567</u>
8	TOTAL NET OPERATING MARGINS	<u>(774,097)</u>	<u>(1,147,243)</u>	<u>(373,146)</u>
9				
10	III OTHER INCOME (EXPENSE)	(291,686)	(290,197)	1,489
11				
12	TOTAL NET (LOSS) MARGIN DETAIL BREAKOUT	<u>\$ (1,065,783)</u>	<u>\$ (1,437,440)</u>	<u>\$ (371,657)</u>

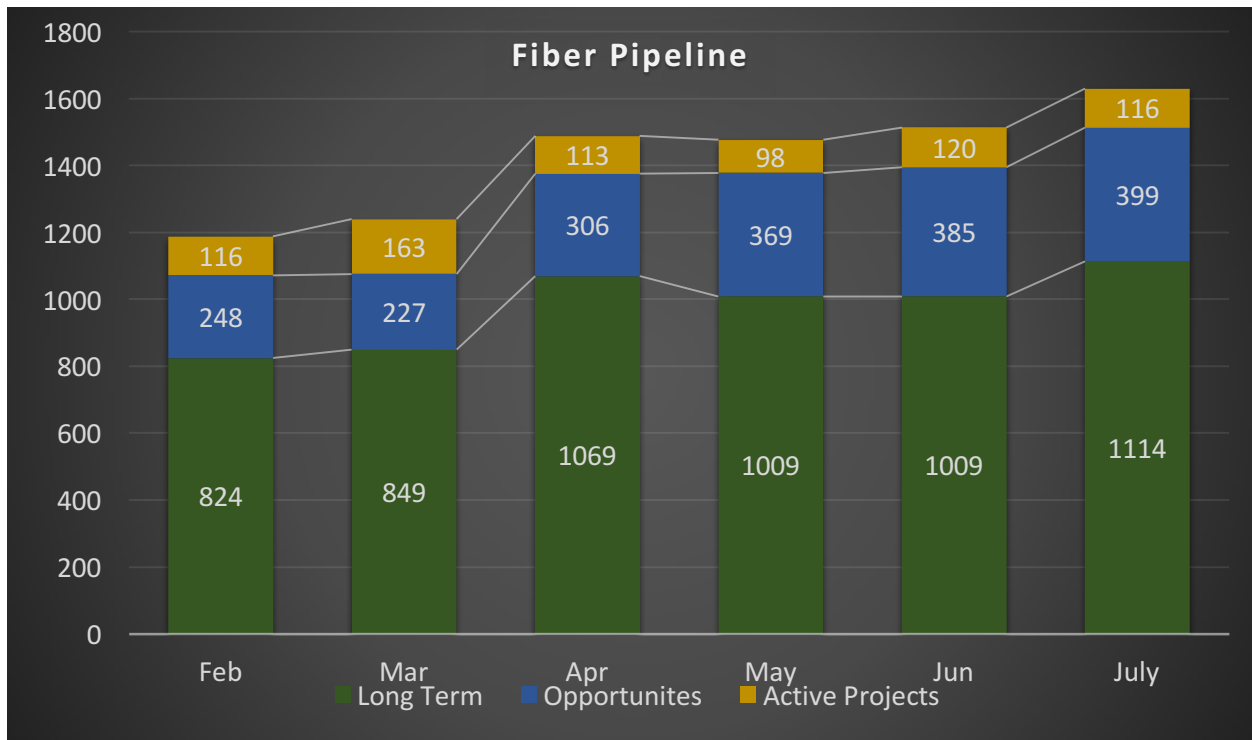
	A.	B.
	Actual	Actual
	<u>3/31/2017</u>	<u>6/30/2017</u>
Balance Sheet		
1 CURRENT ASSETS	\$ 1,483,084	\$ 2,435,750
2 PROPERTY, PLANT, AND EQUIPMENT	8,178,792	8,820,259
3 OTHER NONCURRENT ASSETS	<u>249,877</u>	<u>242,108</u>
4 Total assets	<u><u>\$ 9,911,753</u></u>	<u><u>\$ 11,498,117</u></u>
5		
6 CURRENT LIABILITIES	913,486	1,176,935
7 NONCURRENT LIABILITIES	<u>14,348,404</u>	<u>16,276,569</u>
8 Total Liabilities	<u>15,261,890</u>	<u>17,453,504</u>
9		
10 EQUITIES AND MARGINS	<u>(5,350,137)</u>	<u>(5,955,387)</u>
11 Total Liabilities and Equity	<u><u>\$ 9,911,753</u></u>	<u><u>\$ 11,498,117</u></u>

	YTD Ended
	<u>6/30/2017</u>
Statement of Cash Flows	
Cash Flows from Operating Activities:	
1 Net income (loss)	\$ (1,437,440)
2 Adjustments to reconcile net income (loss) to net cash	157,166
3 Net cash provided by (used in) operations:	<u>(1,280,274)</u>
4	
5 Cash Flows from Investing Activities:	(2,004,920)
6	
7 Cash Flows from Financing Activities:	3,206,808
8	
9 Net change in cash	<u>(78,386)</u>
10	
11 Cash and cash equivalents, beginning of period	<u>94,424</u>
12 Cash and cash equivalents, end of period	<u><u>16,038</u></u>
13	
14 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
15 Cash paid during the year for interest	<u><u>\$ 238,196</u></u>

3. YTD Update

We continue to see persistent demand for our core services with little abatement in daily activations through July and into August. LTE continues to outperform beyond our expectations set forth in the business plan for 2017 while Fiber is maintaining its consistent on-boarding pace.

The Fiber pipeline continues to move along with a wide variety of fiber-hoods and individuals throughout the county. Our opportunities and active projects have seen a pick-up month over month. Work continues in several fixed priced fiber-hoods (Rosario, Viewhaven, Yacht Haven etc.) that will allow us to keep a continued stream of new connections through the balance of the year. These are groups that are benefiting from their relative proximity to existing backbone fiber or LTE sites and allow us to deliver a fixed priced last mile.





LTE Network Build

By Island	Planned	Online**	In Process
Blakely/Decatur	2	2	0
Lopez	8	8	0
Orcas	13	10	3
San Juan	11	6	5
Shaw	2	2	0
Unassigned	2	0	2
TOTAL	38	28	10

**Excludes two legacy sites (Mt. Constitution and Town of FH)