

**ROCKISLAND**

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Rock Island Communications  
Monthly Report & Q1 Financials

May 2018

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## YTD Update

Our fiber to the home product continues to see significant demand. We've had a tremendous onboarding effort with our LTE Fixed Wireless product and are now fine-tuning the network. Some of this fine-tuning will require us to offload our higher usage LTE customers onto our fiber-optic network.

Last year was all about LTE and rapid on-boarding of customers as we introduce the service to more areas around the county. Fiber was sluggish in the early part of 2017, but towards the end of the year it moved up a number of gears with an increased rate of connections on a monthly basis that has continued into 2018. We have learned a lot over the past few months of how we can be victims of our own success. Onboarding, capacity planning and data management on LTE sectors is a critical balance we have to strike to maintain quality of service.

We have always known LTE is a shared infrastructure, however given the nascent use of Fixed Wireless service nationally, it was not clear just how far we could push the technology. During Q1 we found the line. We have determined that the ideal number of users per megahertz of frequency is 2 connections. So given we have 20Mhz of Band 4 and 5Mhz of Band 12 on all sites that is a total of 50 locations per sector or 150 per site. We are working with T-Mobile to add additional capacity of 10Mhz of band two that will allow for another 20 connections per sector or 210 locations per site.

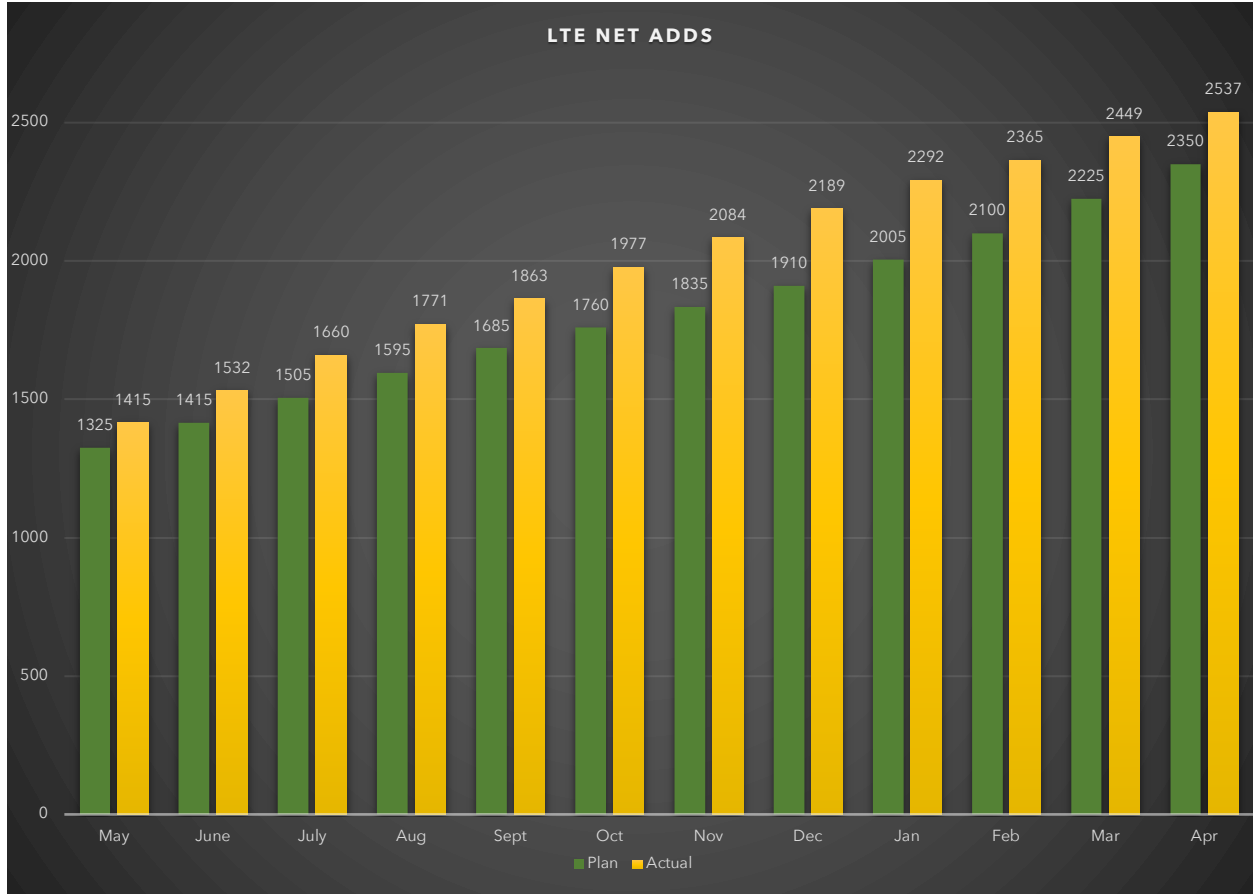
Current data on the LTE network is as follows for context:

- All sectors Average (#96) - 22 connected locations, 78.4GB per day average or 109GB per month per connection
- Top 20 sectors Average - 51 connected locations, 186GB per day average or 111GB per month per connection
- Top 10 sectors Average - 63 connected locations, 239GB per day average or 114GB per month per connection

Within our standard configuration of Band 4 and Band 12 we are oversubscribed on our top 20 sectors in the network; adding Band 2 is critical. Proactively managing usage is also a critical step we are addressing. Virus issues and gaming are the two biggest contributors to usage.

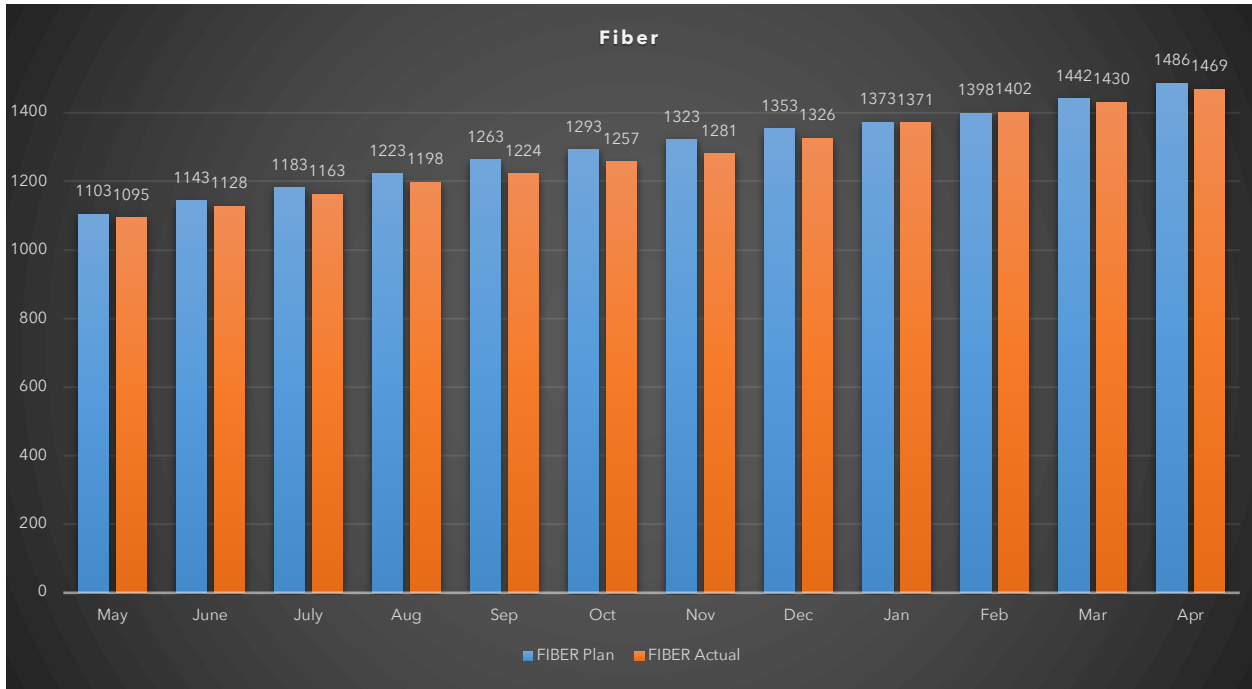
Net adds for LTE is slower than we wanted for the quarter putting us 55 connections behind our goal in Q1. While our 12-month rolling average is still ahead of our long-term plan (see

graph below). However we had to curtail onboarding activity in key areas as we adjusted our sales approach and worked on adding capacity.

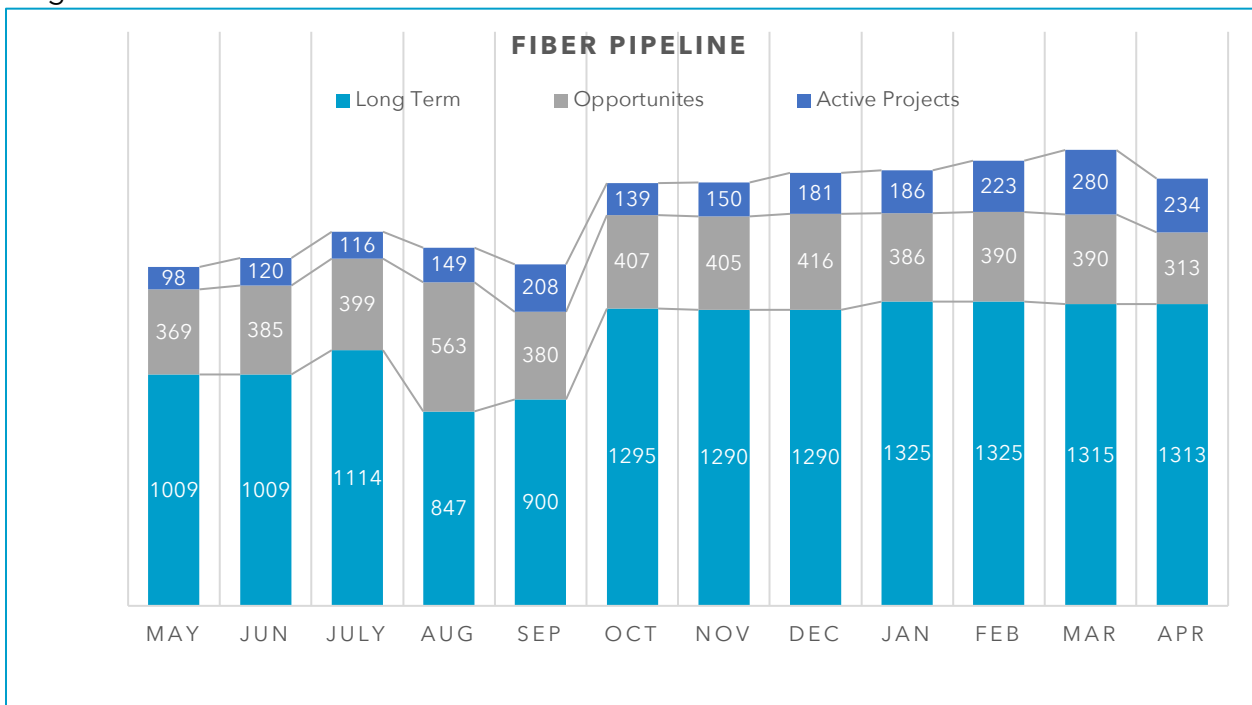


The other side of the coin is a very different story. Fiber onboarding and the construction pipeline has not let up since late last year. We on-boarded 104 new customers in the first quarter which is 15 ahead of our goal. The pipeline of work continues at a consistent pace with an average of 230 active construction projects underway during the quarter. This is up from 157 in the last quarter of 2017.

As mentioned in prior monthly reports, we introduced Gig service during Q1 alongside service level increases across all residential fiber offerings. We also introduced a variety of in-home services to complement our fiber products.



The Fiber pipeline remains strong. The decrease that occurred in March and April is due to our normal quarterly close cycle and fully expect it to rebound in Q2 as we engage more neighborhoods and individuals.



## LTE Network

<b>By Island</b>	<b>Planned</b>	<b>Online**</b>	<b>In Process</b>
Blakely/Decatur	2	2	0
Lopez	8	8	0
Orcas	13	11	2
San Juan	11	10	0
Shaw	2	2	0
Unassigned	2	0	3
<b>TOTAL</b>	<b>38</b>	<b>33</b>	<b>5</b>

\*\*Excludes three legacy sites (Mt. Constitution, Town of FH, RH Store) and New Lummi Site

Regarding the ongoing build projects, we are under way on our Orcas West location with all the ground and pole work complete. We have also completed the majority of work on the Orcas ferry site. Each site is waiting on equipment from T-Mobile to finish them. Over the past few weeks T-Mobile has stopped the shipment of all hardware due to a major system change inside their national warehouse. This block is due to be lifted on May 21<sup>st</sup>.

## YTD Financial Update

### **Revenues:**

Gross revenues for Q1 2018 ended up slightly behind plan (2% or approximately \$23k). The primary driver for these shortfalls stems from slower than expected LTE onboarding. Looking ahead to April, plan to actual gross revenues continue to trend downward but are anticipated to rebound due to the several larger fiber installations to institutional customers scheduled for May and June. Additionally due to continued robust demand within our fiber pipeline we anticipate beating our planned onboarding targets when we close out the second quarter.

### **Expenses:**

Our overall expenses for the Q1 2018 were consistent with business plan targets. In totality, we closed the quarter with a surplus of approximately \$54k. As we move into Q2 we have not noted any significant changes in our overall expenses beyond our planned targets. However, given the current interest rate environment, we may see some deviations from our business plan estimations with regard to interest expense.

### **Debt**

We are pleased to report as of May 8th, 2018 we are on track with our planned debt draw schedule as approved in our 2018 Business Plan. Borrowed funds used for construction and operations by the company thus far in 2<sup>nd</sup> Quarter are \$570k leaving the Company with \$1.03 million left to borrow through the end of June. At present, we believe this borrowing capacity will be sufficient to carry us through to year-end as planned. As of the end of Q1 2018 our weighted average interest rate was approximately 3.77%.

### **Bottom Line:**

Rock Island is performing in line with expectations. On a quarter-to-date basis the Company's overall Net Loss when comparing plan vs. actual performance is approximately \$11k ahead of our targets.

## YTD Financial Statements

<b>Balance Sheet</b>		Actual <u>12/31/2017</u>	Actual <u>3/31/2018</u>
1	CURRENT ASSETS	\$ 2,622,954	\$ 2,338,132
2	PROPERTY, PLANT, AND EQUIPMENT	10,237,739	11,343,589
3	OTHER NONCURRENT ASSETS	<u>226,571</u>	<u>222,674</u>
4	Total assets	<u>\$ 13,087,264</u>	<u>\$ 13,904,395</u>
5			
6	CURRENT LIABILITIES	1,709,068	1,049,496
7	NONCURRENT LIABILITIES		
8	CoBank Debt	15,900,000	17,700,000
9	Other Non-Current Liabilities	<u>2,548,148</u>	<u>2,912,403</u>
10	Total Liabilities	<u>20,157,216</u>	<u>21,661,899</u>
11			
12	EQUITIES AND MARGINS	<u>(7,069,952)</u>	<u>(7,757,504)</u>
13	Total Liabilities and Equity	<u>\$ 13,087,264</u>	<u>\$ 13,904,395</u>



## Income Statement

	A.	B.	C.
	Business Plan	Actual	
	Period End	Period End	Variance
	YTD Q1 2018	YTD Q1 2018	(A - B)
1 I OPERATING REVENUES	\$ 1,122,573	\$ 1,098,924	\$ 23,649
2			
3 II OPERATING EXPENSES			
4 COST OF GOODS SOLD	189,849	199,580	(9,731)
5 GENERAL AND ADMINISTRATIVE	1,419,239	1,363,813	55,426
6 SELLING AND MARKETING	15,750	18,255	(2,505)
7 TOTAL OPERATING EXPENSES	<u>1,624,838</u>	<u>1,581,648</u>	<u>43,190</u>
8 TOTAL NET OPERATING MARGINS	<u>(502,265)</u>	<u>(482,724)</u>	<u>19,541</u>
9			
10 III OTHER INCOME (EXPENSE)	(196,150)	(204,828)	8,679
11			
12 GRAND TOTAL NET (LOSS) MARGIN DETAIL BREAKOUT	<u>\$ (698,415)</u>	<u>\$ (687,552)</u>	<u>\$ 10,863</u>

		YTD Ended 3/31/2018
<b>Statement of Cash Flows</b>		
Cash Flows from Operating Activities:		
1	Net income (loss)	\$ (687,552)
2	Adjustments to reconcile net income (loss) to net cash	274,161
3	Net cash provided by (used in) operations:	<u>(413,391)</u>
4		
5	Cash Flows from Investing Activities:	(1,399,350)
6		
7	Cash Flows from Financing Activities:	1,759,867
8		
9	Net change in cash	<u>(52,874)</u>
10		
11	Cash and cash equivalents, beginning of period	<u>33,551</u>
12	Cash and cash equivalents, end of period	<u><u>(19,323)</u></u>
13		
14	<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>	
15	Cash paid during the year for interest	<u><u>\$ 176,633</u></u>