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Rock Island Communications Monthly Report and 2018 Q4 Review

March 2019

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Executive Summary

With 2019 well underway, Rock Island is building momentum toward our busiest season of the year. Major projects are wrapping up in the UGA areas providing fiber access at no cost to 500 parcels in Friday Harbor alone. Business services continue to gain momentum and align with our revenue goals in that category. We have used our quiet winter months to fill up our pipeline for MDUs and Business Circuits. We have also turned up our first LTE site of 2019 on Decatur Island, providing enhanced service to south Lopez Island around Hunter Bay and Center and Decatur Islands themselves.

Demand for fiber continues to pack the pipeline especially in the UGA areas where connections cost less than our incentive. New mapping features have allowed us to better track this fiber interests and allows us to respond faster to getting them online. Conversations with Middle Mile Fiberhoods have picked up steam as the busy season approaches and a few have already made the schedule for spring deployment.

Key milestones in Q4 for Rock Island business were that we ended the quarter, EBITDA positive \$117k, a first for Rock Island. We were also able to bring our net loss down \$170k from Q3 2018. To follow are the details of the 4th Quarter financials followed by the current year key performance indicators and a report on Rock Island business to date.

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Q4 2018 Financial Statements

Balance Sheet		Actual	Actual
		9/30/2018	12/31/2018
1	CURRENT ASSETS	\$ 2,480,360	\$ 2,273,147
2	PROPERTY, PLANT, AND EQUIPMENT	13,171,623	14,044,177
3	OTHER NONCURRENT ASSETS	207,137	199,368
4	Total assets	<u>\$ 15,859,120</u>	<u>\$ 16,516,692</u>
5			
6	CURRENT LIABILITIES	1,491,975	1,613,277
7	NONCURRENT LIABILITIES		
8	CoBank Debt	20,800,000	21,850,000
9	Other Non-Current Liabilities	2,623,817	2,578,024
10	Total Liabilities	<u>24,915,792</u>	<u>26,041,301</u>
11			
12	EQUITIES AND MARGINS	<u>(9,056,672)</u>	<u>(9,524,609)</u>
13	Total Liabilities and Equity	<u>\$ 15,859,120</u>	<u>\$ 16,516,692</u>

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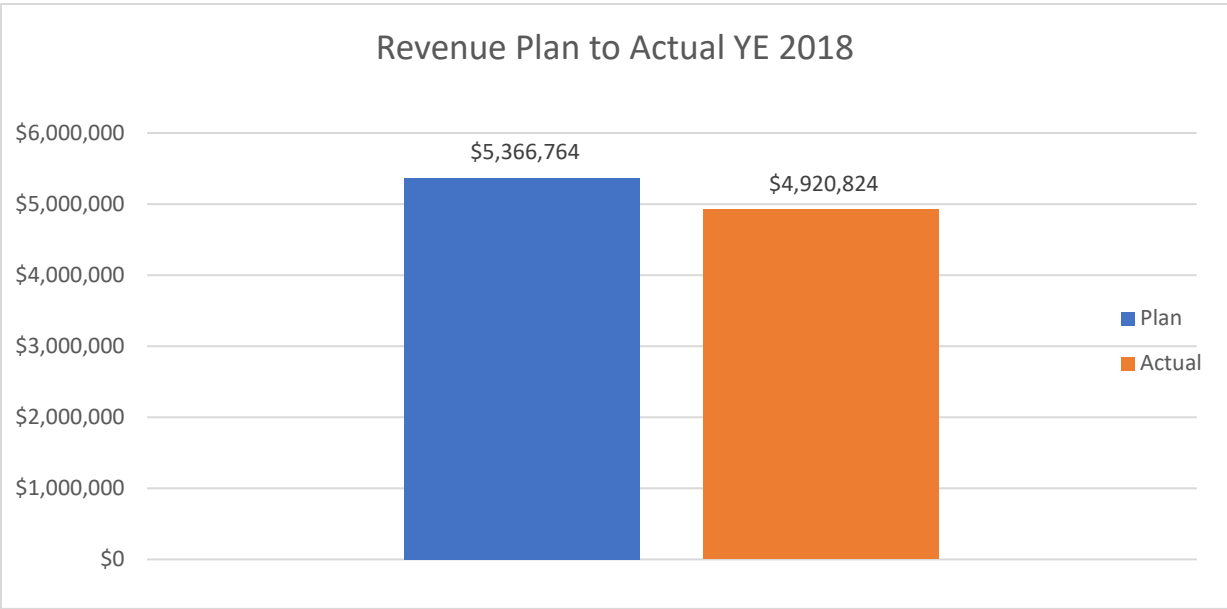
Income Statement

	A.	B.	C.	D.	E.	F.
	Business Plan	Actual	Q4	Business Plan	Actual	YTD '18
	Period End	Period End	Variance	Period End	Period End	Variance
	Q4 2018	Q4 2018	(A - B)	12/31/2018	12/31/2018	(D-E)
1 I OPERATING REVENUES	\$ 1,496,138	\$ 1,309,110	\$ 187,028	\$ 5,366,764	\$ 4,920,824	\$ 445,940
2						
3 II OPERATING EXPENSES						
4 COST OF GOODS SOLD	192,189	169,377	22,812	754,835	969,501	(214,666)
5 GENERAL AND ADMINISTRATIVE	1,269,053	1,330,709	(61,656)	5,317,358	5,357,189	(39,831)
6 SELLING AND MARKETING	15,750	11,485	4,265	60,495	82,135	(21,640)
7 TOTAL OPERATING EXPENSES	<u>1,476,992</u>	<u>1,511,571</u>	<u>(34,579)</u>	<u>6,132,688</u>	<u>6,408,825</u>	<u>(276,137)</u>
8 TOTAL NET OPERATING MARGINS	<u>19,146</u>	<u>(202,461)</u>	<u>(221,607)</u>	<u>(765,924)</u>	<u>(1,488,001)</u>	<u>722,077</u>
9						
10 III OTHER INCOME (EXPENSE)	(201,760)	(265,476)	63,716	(783,338)	(966,655)	183,317
11						
12 GRAND TOTAL NET (LOSS) MARGIN DETAIL BREAKOUT	<u>\$ (182,614)</u>	<u>\$ (467,937)</u>	<u>\$ (285,323)</u>	<u>\$ (1,549,263)</u>	<u>\$ (2,454,656)</u>	<u>\$ 905,393</u>

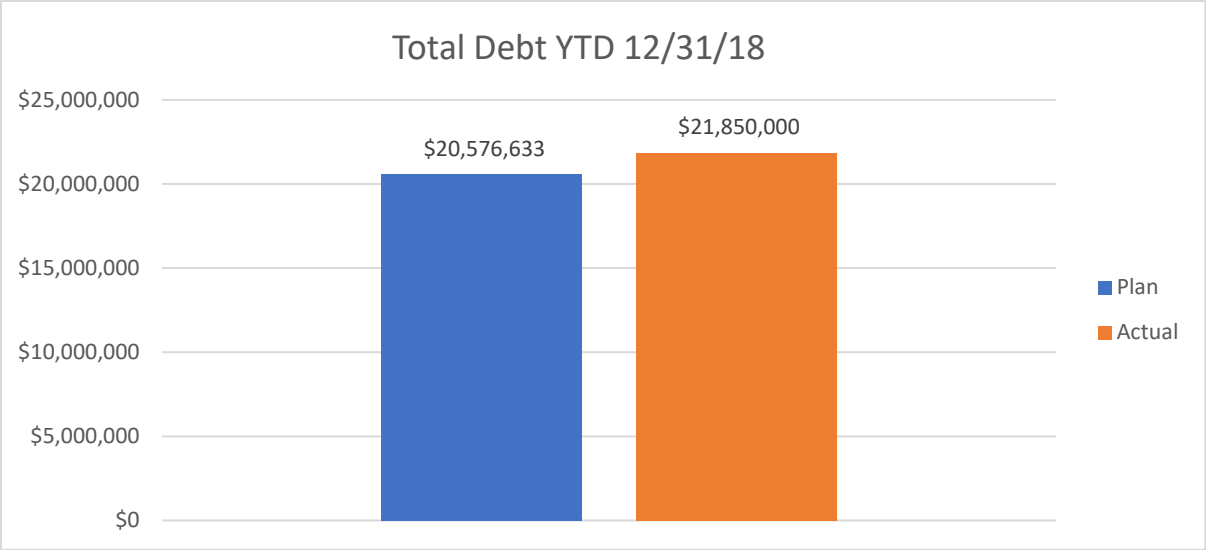
Statement of Cash Flows

YTD Ended
12/31/2018

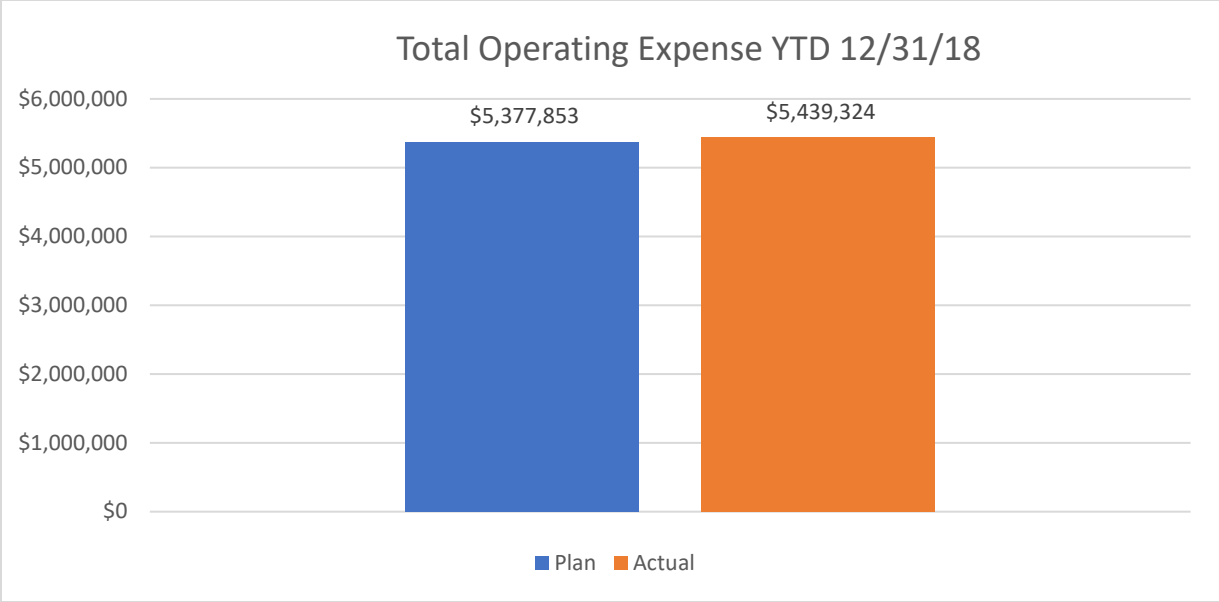
	Cash Flows from Operating Activities:	
1	Net income (loss)	\$ (2,454,656)
2	Adjustments to reconcile net income (loss) to net cash	1,145,486
3	Net cash provided by (used in) operations:	<u>(1,309,170)</u>
4		
5	Cash Flows from Investing Activities:	(4,638,812)
6		
7	Cash Flows from Financing Activities:	6,094,889
8		
9	Net change in cash	<u>146,907</u>
10		
11	Cash and cash equivalents, beginning of period	<u>33,551</u>
12	Cash and cash equivalents, end of period	<u><u>180,458</u></u>
13		
14	SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
15	Cash paid during the year for interest	<u><u>\$ 762,508</u></u>



Revenues for Q4 were behind budget by approximately \$187k or \$445k YTD. These variances stem from a shortfall in fiber revenue of \$50k and a shortfall in LTE revenue of \$176k. The main driver of these variances stems from aggressive budgetary targets set in the 2018 business plan and a delay in LTE onboarding in the year.



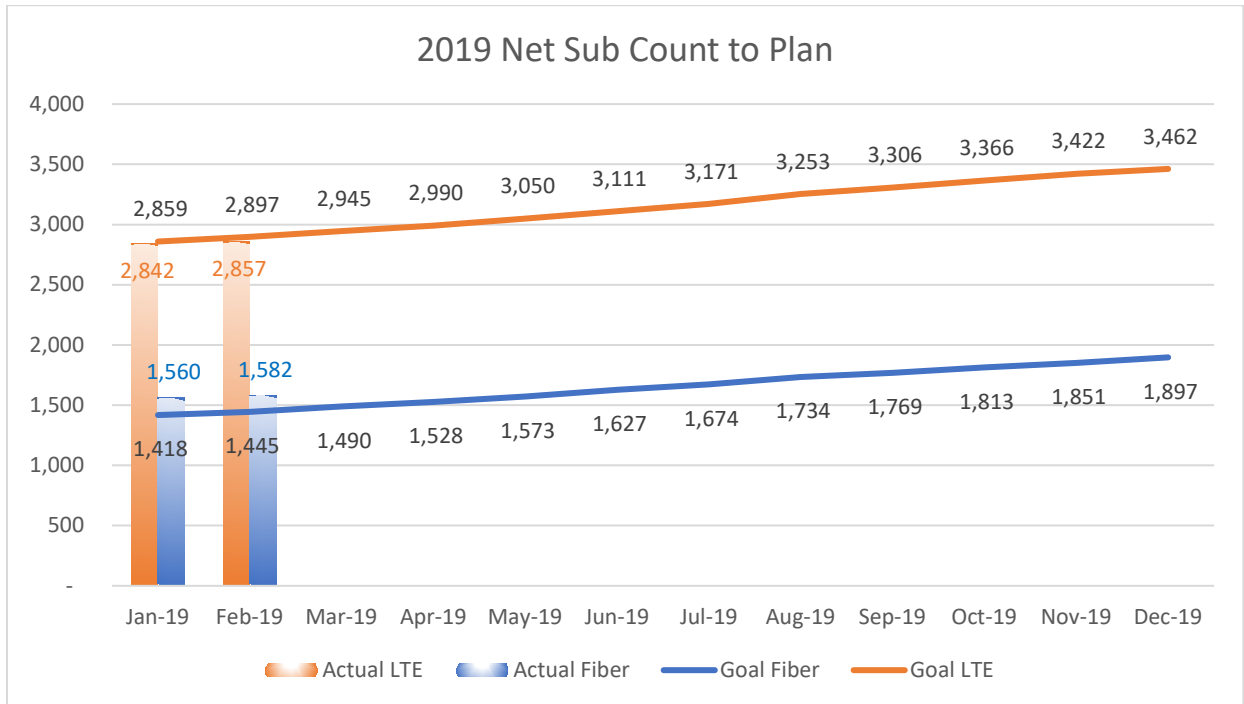
Due to an increase in capital projects with CenturyLink CAF funded projects on Orcas Island there was a need to increase overall debt. As discussed in the November and December Board meetings, Rock Island requested to increase this debt to Co-Bank by an additional \$1M to assist in this unforeseen item.



Operating expenses remained closely in line with budget for Q4 and YTD 2018.

2019 Key Performance Indicators

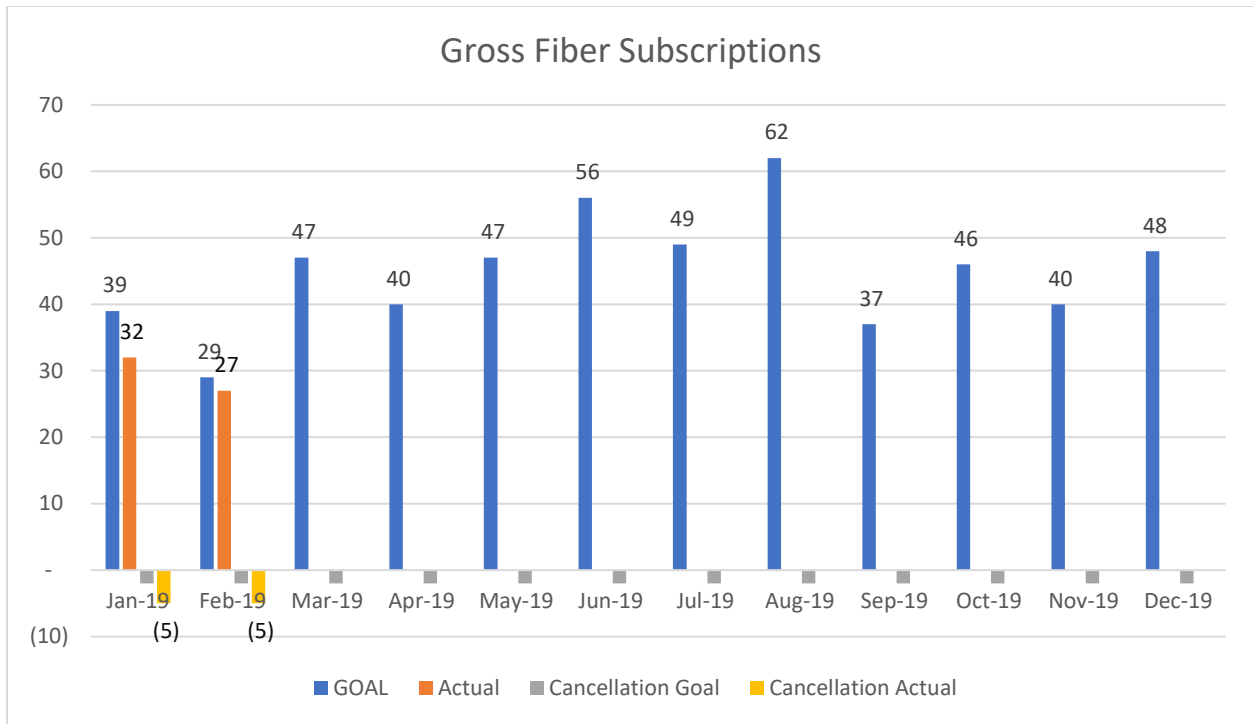
Total Subs



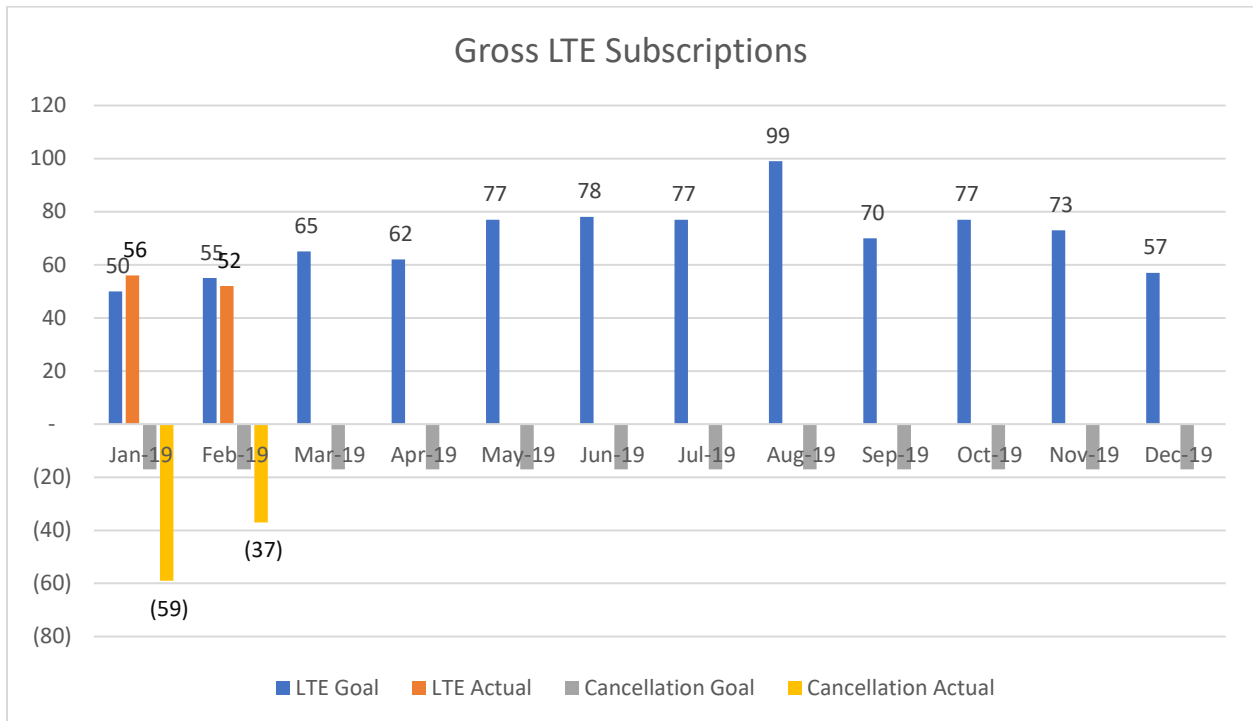
Total subscriber counts for 2018 came in higher than projected for the 2019 business plan, resulting in an increase in net subs thus far despite gross onboarding being slightly under for January and February. In addition to these reported subscriptions, Rock Island delivers fiber service to 29 Wholesale and ISP vendors, as well as Business Circuits to 84 large businesses and estates. We also continue to maintain 451 DSL subscriptions, 316 Add-on services, 590 Email-only services and 355 Hosting service subscriptions.

Rock Island is now the ISP for **5,003 customers** as of March 1, 2019. Our goal at this milestone mark was 4,727 per plan, making us 276 ahead of goal, and right on track for our market share goals in the future.

Gross Monthly Subs 2019



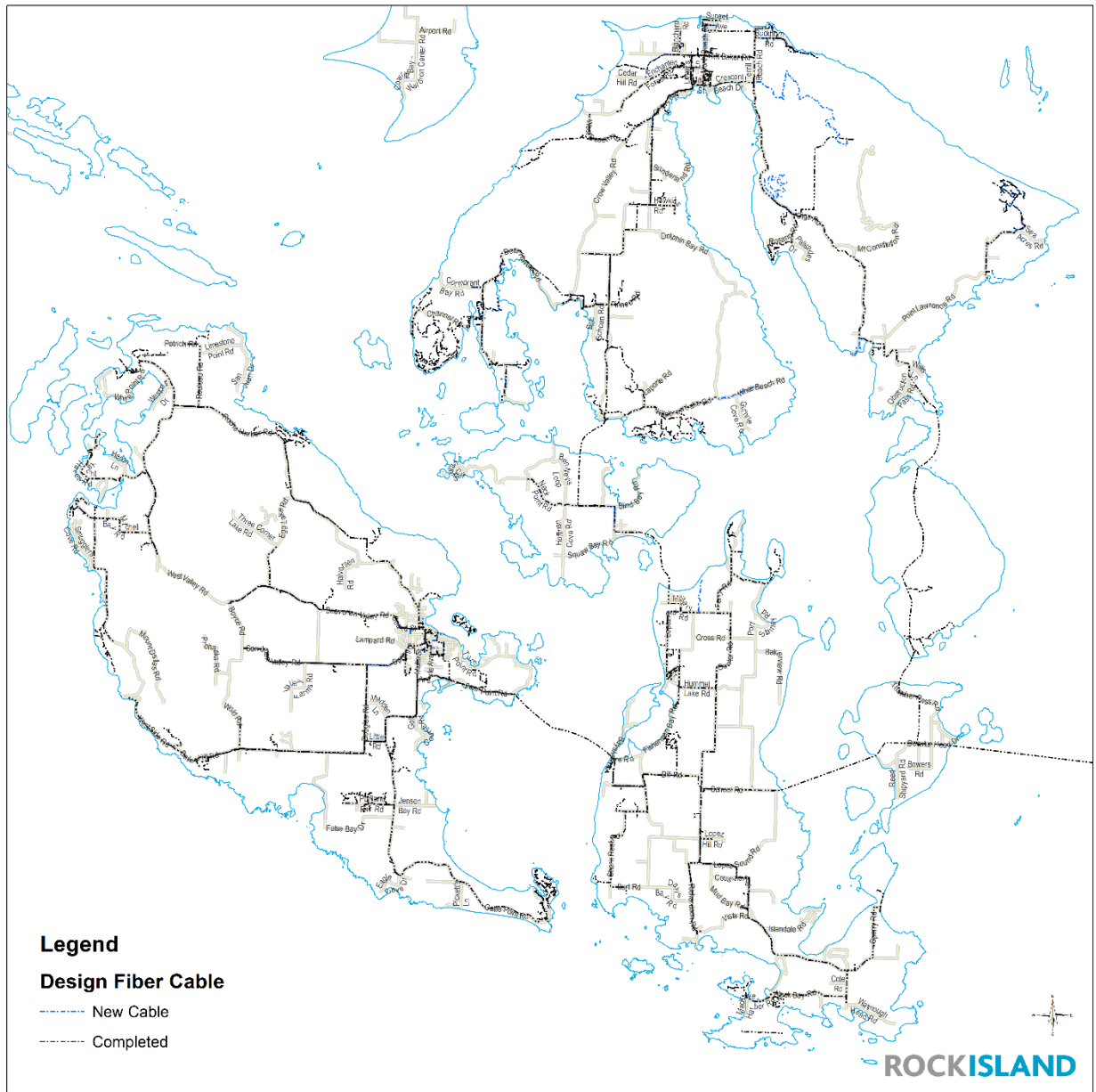
January and February fiber onboarding included large Business Circuits with larger revenue streams but lower sub counts.



Engineering and Plant

Investments

There are now 516 miles of fiber cable installed in our county, with 8 new miles of fiber being constructed on active excavation and overhead projects currently.



LTE

With 37 of the 38 originally designed macro sites online now, our project focus has been directed to what is now being called Phase 2. This phase will rebuild 4 tower bottom sites to tower top sites and install 15 new small cell sites on Orcas, San Juan and Lopez Islands.

UGA Deployments (Last 30 Days)

Major focus has been thrust into the UGA areas for deployment with Town of Friday Harbor receiving most of the recent effort. Phase 1 fiber deployment marketing was well received and nearly 100 customers are in the queue to get connected ahead of the completion of Phase 1 construction. This first phase is on schedule to be completed March 22nd. Crews have installed 3.6 new miles of fiber in TOFH and crews are currently splicing nearly 3,000 strands of glass to make the network turn key ready for connections.

Also, in process is the Olga Hamlet on Orcas. It is currently under fiber construction to make available last miles to 90% of the Olga Hamlet at no cost to the customer under our incentive program.

Marketing and the Pipeline

We highlighted our three main pipelines for inbound fiber connections in our business plan last fall. As a reminder they are:

- Fiberhoods
- MDU Connections
- Individual Connections

Fiberhoods and the Middle Mile Pipeline

36 additional Fiberhoods are working within a variety of stages, representing 435 engaged potential connections out of the over 600 that could be served by these fiber builds.

Business Services

Rock Island is excited about the interest in our business services. Expanding our services to better support local businesses, small and large, has been a huge win for our island residents. Locals now have local options.

We have coordinated with both the San Juan and Orcas Chamber of Commerce offices to send a dedicated email to their member bases on our behalf. We tailored an offer to evaluate their member's networks, giving us an opportunity to provide feedback and create solutions for their business and IT services.