

ROCKISLAND

Rock Island Communications
Q1- 2019 Report

May 2019 Meeting

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Executive Summary

We are excited to close the quarter ahead of plan in operating expense, net income (loss), and EBITDA metrics, resulting in a positive margin difference of ~\$30k. The overall health and alignment for the Rock Island business plan is on target for Q1 of 2019. While revenue falls within \$66k of our targeted plan, we are pleased with the outcome given the unforeseen changes in our T-Mobile retail revenue residuals (~\$28K) and the delay in a few major fiber transport agreements with WSDOT (~\$18k). These revenues have returned from T-Mobile in Q2 and will continue as projected in the 2019 business plan. We also expect the WSDOT contract to close in May 2019. Despite these challenges, Rock Island remains strongly in line with its plan and is confident in our ability to maintain that alignment.

With the seasonal influx and increase in general activity, we are eagerly anticipating the increased onboarding for internet and business services. In Q1 of 2018 we came out of the gates ahead of plan and landed 104 new fiber connections. For the same period this year we connected 122 fiber customers. We are well staffed with seasoned people who are executing efficiently in handling the nearly 1,000 potential connections in our pipeline.

As we discussed in the March meeting, we have prioritized our focus to fiber deployment and business services in the UGA with upgrades to our LTE system later this year. The demand and pipelines for these services remain strong.

Q1 2019 Financial Statements

	A.	B.	C.
Balance Sheet	Actual 12/31/2018	Actual 3/31/2019	Change (B-A)
CURRENT ASSETS	\$ 2,273,146	\$ 2,124,282	\$ (148,864)
PROPERTY, PLANT, AND EQUIPMENT	14,044,177	14,814,483	770,306
OTHER NONCURRENT ASSETS	199,368	209,979	10,611
Total assets	<u>\$ 16,516,691</u>	<u>\$ 17,148,744</u>	<u>\$ 632,053</u>
CURRENT LIABILITIES	1,659,672	1,370,372	(289,300)
NONCURRENT LIABILITIES			
CoBank Debt	21,850,000	23,130,000	1,280,000
Other Non-Current Liabilities	2,578,024	2,712,474	134,450
Total Liabilities	<u>26,087,696</u>	<u>27,212,846</u>	<u>1,125,150</u>
EQUITIES AND MARGINS	<u>(9,571,005)</u>	<u>(10,064,102)</u>	<u>(493,097)</u>
Total Liabilities and Equity	<u>\$ 16,516,691</u>	<u>\$ 17,148,744</u>	<u>\$ 632,053</u>

	A.	B.	C.
Income Statement	Business Plan Period End Q1 2019	Actual Period End Q1 2019	Q4 Variance (B - A)
I OPERATING REVENUES	\$ 1,397,512	\$ 1,330,630	\$ 66,882
II OPERATING EXPENSES			
COST OF GOODS SOLD	218,843	236,989	(18,146)
GENERAL AND ADMINISTRATIVE	1,384,424	1,341,046	43,378
SELLING AND MARKETING	16,510	15,533	977
TOTAL OPERATING EXPENSES	<u>1,619,777</u>	<u>1,593,568</u>	<u>26,209</u>
TOTAL NET OPERATING MARGINS	<u>(222,265)</u>	<u>(262,938)</u>	<u>(40,673)</u>
III OTHER INCOME (EXPENSE)	(301,267)	(230,160)	(71,107)
GRAND TOTAL NET (LOSS) MARGIN DETAIL BREAKOUT	<u>\$ (523,532)</u>	<u>\$ (493,098)</u>	<u>\$ 30,434</u>

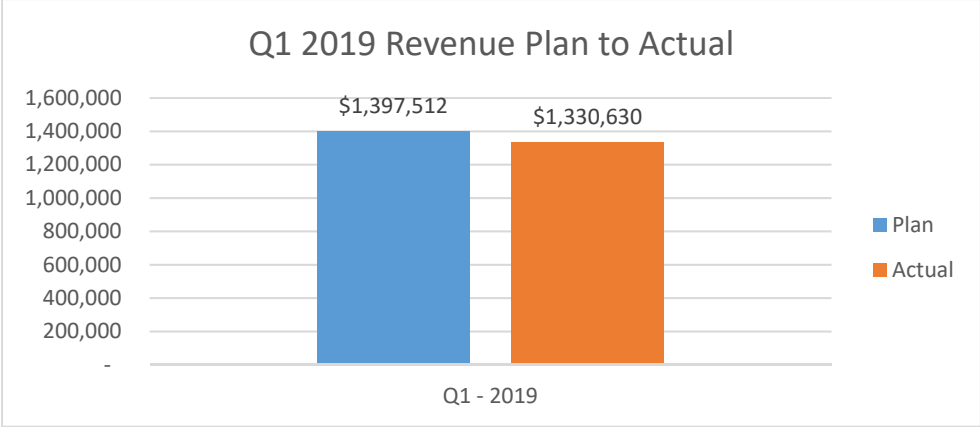
Statement of Cash Flows

YTD Ended
3/31/2019

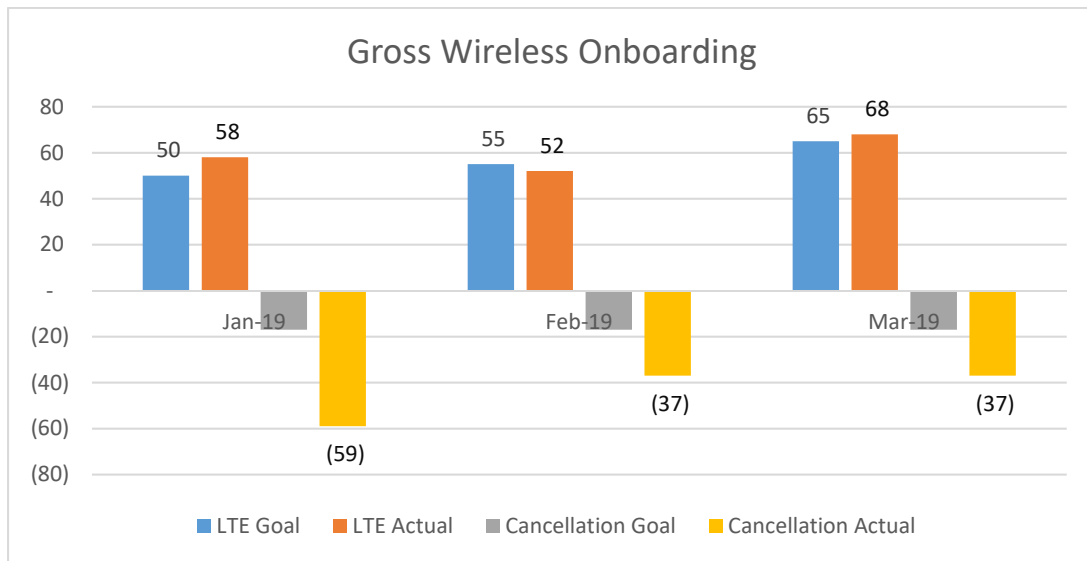
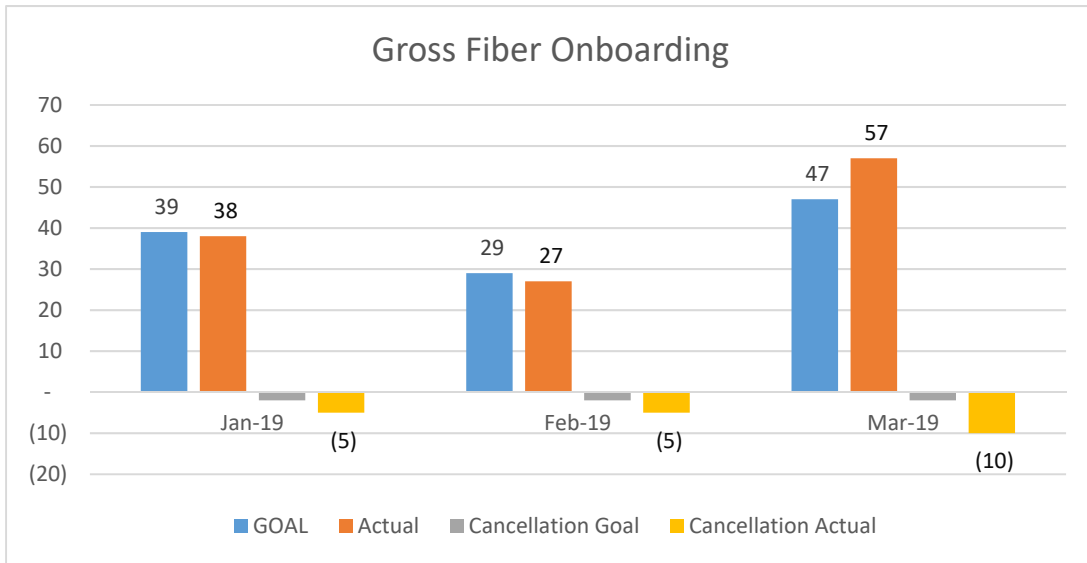
Cash Flows from Operating Activities:	
Net income (loss)	\$ (493,098)
Adjustments to reconcile net income (loss) to net cash	104,162
Net cash provided by (used in) operations:	<u>(388,935)</u>
Cash Flows from Investing Activities:	(1,167,948)
Cash Flows from Financing Activities:	1,461,056
Net change in cash	<u>(95,827)</u>
Cash and cash equivalents, beginning of period	<u>180,455</u>
Cash and cash equivalents, end of period	<u><u>84,628</u></u>
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash paid during the year for interest	<u><u>\$ 218,765</u></u>

2019 Key Performance Indicators

Total Revenue Q1, 2019

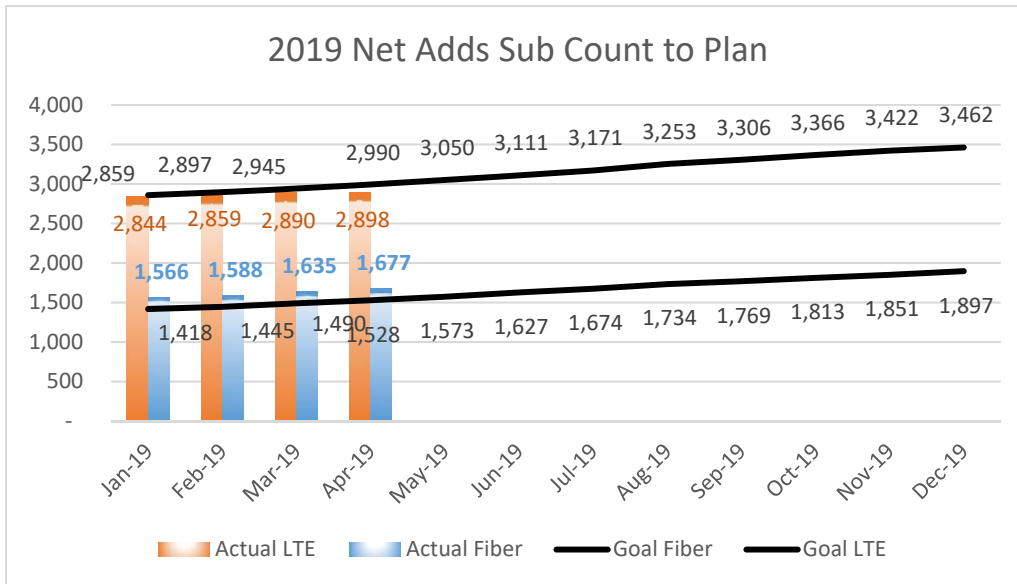


Gross Subscription Adds Q1, 2019



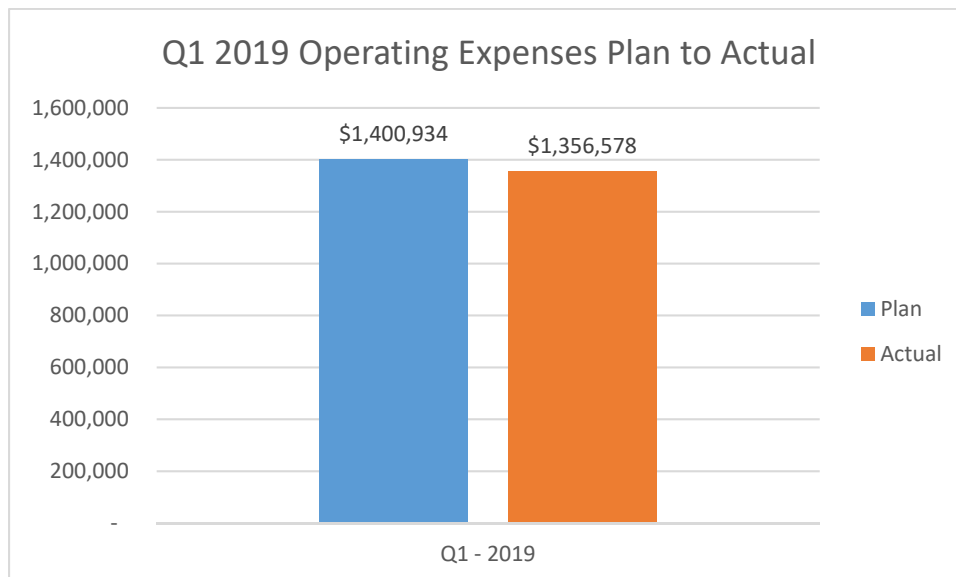
	Gross	Fiber	LTE	Total
Goal Q1 2019		115	170	285
Actual		122	178	300

Total Net Subscriptions Q1, 2019



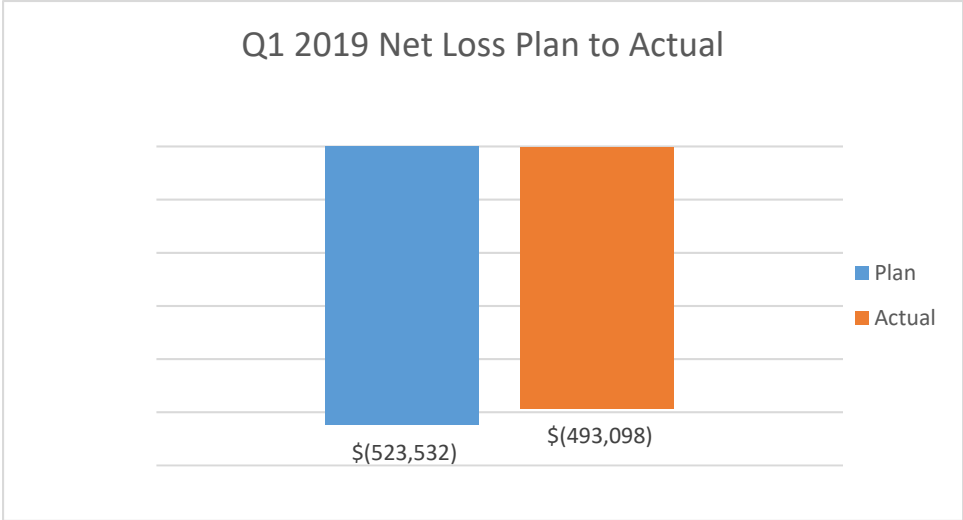
Net Subscribers	Fiber	LTE	Total
Goal Q1 2019	109	119	238
Actual Adds Q1 2019	102	45	147

Operating Expenses Q1, 2019



Operating Expenses came in ~\$45k better than plan.

Net Loss Q1, 2019

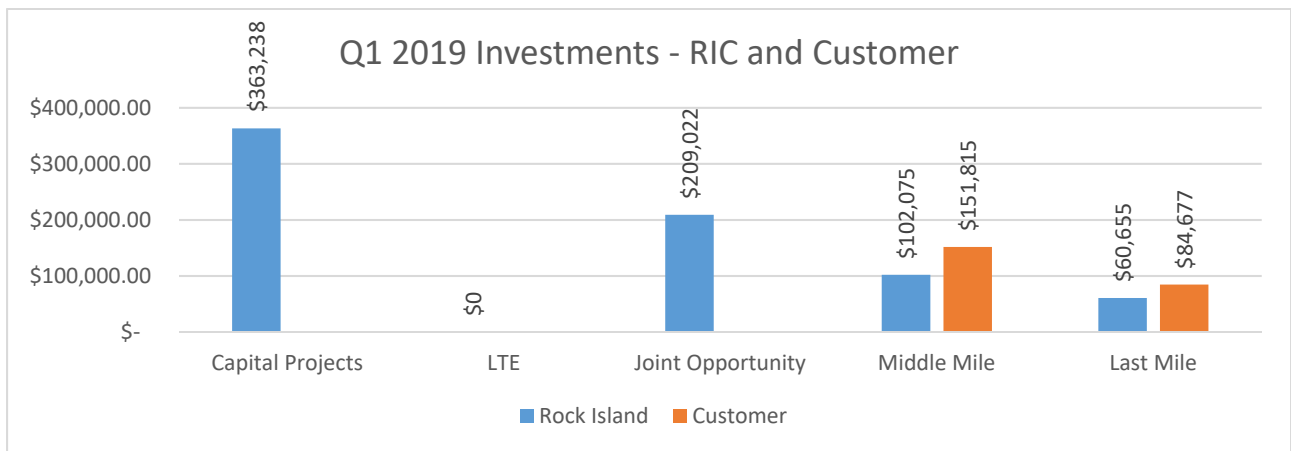


Net Income (loss) was ~\$30k better than plan.

Engineering and Plant

Capital Investments

Total investments for projects closed in Q1 totaled nearly \$1M with customer investments making up 25% of that amount (\$236,492). Rock Island continues to offer the construction incentive of up to \$1500 towards every connection.

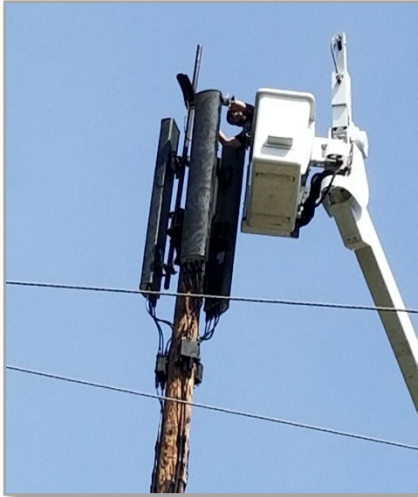


Much of the current spend for capital improvements is being driven towards the Town of Friday Harbor for our Phase 1 fiber deployment. Q2 will reflect a higher investment per customer due to this effort but will fall into a level that demonstrates prudent investments as it relates to the net present value calculation per connection.

We are very proud of our fiber crew staff who battle busy schedules for installs, maintenance of our system and emergency call outs for work in stormy conditions.



LTE



We have received our first six sites of upgrades for our Phase 2 project with T-Mobile. This batch includes four Tower-Bottom to Tower-Top upgrades with 600MHz (Rum Runner, North Blakely, Victorian Valley and Lopez Hilltop) and seven additional 600MHz equipment upgrades for the remaining tower top sites.

The addition of the 600MHz equipment will allow us to go on air with the spectrum as it is released in 2020.

Rock Island will be deploying the first upgrade on Lopez at our Rum Runner location the week of May 20th. Based

on our planned budget, Rock Island will strategically time the rest of these upgrades in conjunction with our investments for fiber in the UGAs.

Small cell equipment is still on track to arrive in June/July for deployment. These upgrades are strategic in handling congested locations and will provide additional capacity to densely populated areas. There are 15 new small cell locations designed, making our network total 17 by year end.



UGA Deployments

Success in the UGA areas for fiber connections continues as we connect MDUs and individuals to our Phase 1 buildout. Crews are having great interactions with folks in these areas as they deploy fiber to new customers. Staff in the field have been very attentive to new opportunities and turn interest into opportunities for scheduling. They also proactively hang opportunity door hangers on homes that qualify for no-cost connections while in the field.



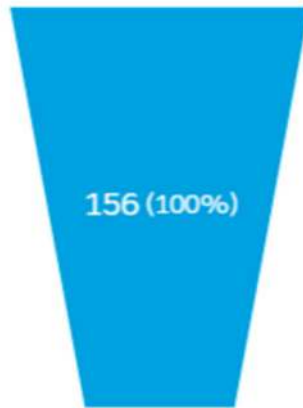
Marketing and the Pipeline

Fiberhoods and the Middle Mile Pipeline

These are indicators of the available Last Mile connections to be made as a result of a groups committing to and funding the Middle Mile.

Closed Won Opportunities – Middle Mile

Sum of Total Potential Connections: 156



Stage
Closed Won

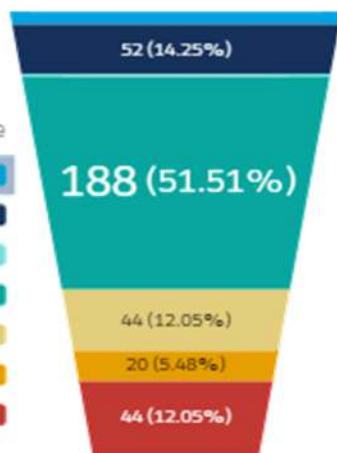
Fiberhood / Middle Mile / MDU Opportunities

Fiberhood MM Pipeline

Sum of Total Potential Connections: 365

Stage

- Initial Discussion
- Desktop Estimate
- Present Design
- Final Design
- Final Design Complete
- Negotiation
- Paperwork In Process

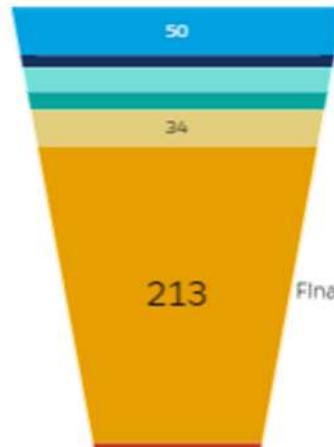


MDU Pipeline

Sum of Total Potential Connections: 354

Stage

- Initial Discussion
- Final Design
- Present Build
- Final Design Request
- Negotiation
- Closed Won
- Other



Individual Connections

There are currently 115 individual connections in the construction process in addition to our pre-construction pipelines. These are won opportunities and therefore committed to service. Coupled with the Middle Mile closed-won projects, our individual and MDU pipelines, there are nearly 1,000 connection opportunities to process as of today. We receive, on average, 5-10 inquiries for fiber a day. Of these inquiries, 50% of those make it into a fiber opportunity and the remaining being checked for LTE status or another available internet option.

