USDA ReConnect Webinar
Financial Overview

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Q&A Speakers:
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Transcript

Slide 1
Emma Benjamin: Welcome to the Financial Overview webinar. My name is Emma Benjamin, and I am a member of the USDA RUS ReConnect Support Team. For the next hour, I will provide an overview of the financial requirements for the ReConnect Program.

Slide 2 - Agenda
Emma Benjamin: The first half of this webinar will provide applicants with a broad-stroke overview of the financial components and considerations of the ReConnect Program, including a summary of the components within the financials section, key changes from the fiscal year 2019 Funding Opportunity Announcement (or FOA), the FOA requirements as they pertain to financials, key considerations for the financials section within the ReConnect application, including an overview of the eligible and ineligible project costs, and a list of post award requirements.

In the second half of this webinar, I will walk through screen shots of each subsection within the financials section so that applicants can successfully complete a pro forma projection in the RUS Application system, which opens on January 31st.

We will have a few minutes at the end of this presentation for Q&A as well. And finally, please keep in mind that all information provided during today's presentation is informed by the FY2020 FOA, which was published on December 12, 2019.

Slide 3 - Financial Overview Introduction
Emma Benjamin: To start, USDA will use the information inputted in this section to determine if the project is financially feasible. An eligible project must demonstrate a positive ending cash balance as reflected on the cash flow statement for each year and in year five of the forecast period.

In this section, applicants will need to provide information related to historical, and forecast performance, and submit pro forma projections within the application portal which will include an income statement, balance sheet, and statement of cash flows.

Slide 4 - Financial Overview Introduction (Cont.)
Emma Benjamin: There are a few things applicants should keep in mind when completing this section: the financial structure of the project (100 percent grant, grant-loan combination, or 100

percent loan) will impact the payment structure and the required documents the applicant will need to submit, applicants must only include eligible project costs in the project plan, and finally applicants should keep in mind that the project, service area, and network tabs of the application should be completed before beginning the financials tab, as the financial section is heavily reliant on the information entered on those tabs.

Slide 5: FOA Changes from the FY19 Funding Opportunity Announcement (FOA)
Emma Benjamin: There are several changes between the FY2019 FOA and the FY2020 FOA that I want to highlight. Some of the changes are programmatic, and some reclarify requirements from last year. The changes include . . . The requirement for two years of unqualified, comparative, audited financial statements has changed to unqualified, comparative, audited financial statements for the previous year from the date the application has been submitted. If you do not have your audit completed for 2019 prior to the application window deadline, it is acceptable to submit the previous two years' audits, and if you do not have two previous years, it is acceptable to submit your 2018 audit as long as you also include a letter of engagement for the 2019 audit. Additionally, clarification added to the FY2020 FOA states that under certain conditions, a subsidiary can use the unqualified, comparative, audited statements of its parent company to meet certain eligibility requirements. The applicant can use the consolidated financials of the parent as long as the parent fully guarantees the loan, or in the case of a grant, guarantees that construction will be completed.

Slide 6 - FOA Changes from the FY19 FOA (Cont.)
Emma Benjamin: In regard to the 50 percent loan component, applicants may propose substituting cash for the loan component at the time of the application and funds must be deposited into the construction fund account at the closing of the award. And for all applications - all matching funds must be deposited into the construction fund account at the closing of the award. If the matching funds are provided by a third party, a serious commitment from the third party must be submitted indicating that the funds will be available at the closing of the award if approved. Pre-application expenses that were incurred in round one but benefit an application for round two, may be funded up to five percent of the total award in round two.

The FY2020 FOA also adds a new ineligible cost: that is ReConnect funds may not be used to fund facilities not required to provide broadband service.

Slide 7 - FOA 2 Requirements for Financials
Emma Benjamin: I just reviewed some of the changes between FOA 1 and FOA 2, but I want to quickly review all of the FOA requirements that applicants must adhere to in this funding round. I will quickly go over this, since some of these were just mentioned in the previous two slides. First, as I already mentioned, applicants must submit an unqualified, comparative, audited financial statement for the previous year from the date the application is submitted. Additionally, all project costs must be fully funded or accounted for in the application. To demonstrate this, applications must include evidence of all funding, other than the RUS award, necessary to support the project, such as bank account statements, firm letters of commitment from equity participants, or outside loans, which must provide evidence of the timely availability of funds.

Slide 8 - FOA 2 Requirements for Financials (Cont.)
Emma Benjamin: If outside loans are used, they may only be secured by assets other than those used for collateral under this FOA. If the application states that other funds are required for the project in addition to the ReConnect funding requested, evidence must be included in the application identifying the source of funds and when the funds will be available.

Projects must also be financially feasible and sustainable, and must demonstrate to the satisfaction of RUS that it will be able to 1) generate sufficient revenues to cover expenses; 2) will have sufficient cash flow to service all debts and obligations as they come due; 3) will have a positive ending cash balance as reflected on the cash flow statement for each year of the forecast period; and, 4) by the end of the forecast period, will meet at least two of the following requirements:

- A minimum Times Interest Earned Ratio (TIER) requirement of 1.2,
- A minimum Debt Service Coverage Ratio (DSCR) requirement of 1.2, and
- A minimum current ratio of 1.2.

Slide 9 - Key Financial Considerations – Eligible Costs
Emma Benjamin: Now, I will talk through a few key considerations applicants should keep in mind when completing the financials section of the ReConnect application. Specifically, I will walk through the eligible and ineligible project costs and the structure of the RUS loan products. Starting with the eligible costs as you can see listed on this slide here:

It’s important that the application only includes eligible costs, as outlined in the FY2020 FOA. Eligible costs must be consistent with the cost principles identified in 2 CFR 200, subpart E, cost principles, and all costs must be reasonable, allocable, and necessary. Award funds may be used to pay for the following costs: The construction or improvement of facilities, including buildings and land, required to provide broadband service; To fund reasonable pre-application expenses, which are not to exceed 5 percent of the total award. As previously stated, these costs must be incurred after the publication date of the FOA (December 12, 2019) and be documented. An exception to this requirement is in the case that the applicant applied for funding in round one, those pre-application expenses may be eligible for reimbursement under this round of funding if these expenses support the round two application (i.e., engineering design, market survey, subscriber projections, etc.). However, RUS reserves the right to accept or reject expenses associated with round one. Additionally, in the current FOA, for 100 percent loans only: the acquisition of an existing system that does not currently provide sufficient access to broadband (10/1 Mbps) is eligible and is limited to 40 percent of the total loan amount. Any application that proposes to use any portion of the award or matching funds for any ineligible costs may be rejected.

Slide 10 - Key Financial Considerations – Ineligible Costs
Emma Benjamin: Ineligible project costs include:

- Operating expenses of the awardee;
- Costs incurred prior to the date on which the application was submitted, except for eligible pre-application expenses incurred prior to the publication date of the FOA;
- Costs associated with an acquisition of an affiliate, or the purchase or acquisition of any facilities or equipment of an affiliate; and
- Costs of an acquisition of a system previously funded by RUS;

- The purchase or lease of any vehicles other than those used primarily in construction or system improvements;
- Costs associated with operating leases of broadband facilities including Indefeasible Rights of Use Agreements (IRUs;
- To fund the merger or consolidation of entities;
- Costs associated with the purchase of spectrum, not part of an eligible acquisition;
- To fund mobile service facilities;
- Acquisition of a system that provides sufficient access to broadband (10/1 Mbps or greater);
- To refinance any outstanding debt;
- And, to fund facilities not required to provide broadband service.

Slide 11 - Key Financial Considerations – Structure of the Loan Products
Emma Benjamin: Additionally, this slide provides a few considerations about the financing products offered under the ReConnect program:

- In terms of the structure of the loan products:
  - The loan amortization profile is level debt and repaid on a monthly basis;
  - The amortization period is set to the composite economic life of project assets to be financed, rounded to the nearest whole year plus three years;
  - There is a three-year principal and interest deferral that starts at the time funds are made available;
  - The interest rate on the RUS loans vary depending on the product:
    - The 100 percent loan is fixed at two percent interest;
    - The 50/50 combination is set at the U.S. Treasury rate for the remaining amortization period at the time of each advance;
  - The interest will be capitalized at the end of the deferral period, so this should be reflected appropriately in the pro forma projections.
- Finally, loan proceeds or “other” funds pledged to finance the project (as applicable) must be expended before grant proceeds if an applicant receives both.

Slide 12 - Post Award Requirements
Emma Benjamin:

- Pursuant to the FOA, USDA will require applicants to adopt and adhere to the following financial reporting requirements and guidelines:
  - Awardees must adopt a system of accounts for maintaining financial records acceptable to the Agency, as described in 7 CFR part 1770, subpart B;
  - Awardees must submit quarterly, and annual comparable audited financial statements prepared by a CPA along with a report on compliance and on internal control over financial reporting, and a management letter in accordance with the requirements of 7 CFR part 1773;
    - The Certified Public Accountant (CPA) conducting the annual audit is selected by the borrower and must be satisfactory to RUS as set forth in 7 CFR 1773 subpart B—RUS Audit Requirements;
- In addition, USDA may conduct a Management Analysis Profile (MAP) and site visits to ensure that the awardee is set up to comply with award terms and conditions.

Slide 13 - Application Screen Shots Walk Through
Emma Benjamin: In the second half of this presentation, I will walk through screenshots of some of the subsections within the Financials Section.

Slide 14 - Financial Subsections
Emma Benjamin: As previously mentioned, applicants will be required to include pro forma projections in the RUS Application system that includes an income statement, balance sheet, and statement of cash flows. To successfully prepare these financial statements, applicants must first complete and populate underlying schedules/subsections (as applicable given the characteristics of the project and entity).

The first nine (9) subsections listed on the screen serve as inputs to both the historical and forecasted information and will populate some of the fields in the pro forma financial statements, which will be included in the final four (4) subsections listed on the screen. Information requested by the application system includes: local network services revenue, competitor service offerings, depreciation schedule, long-term debt schedule, capital contributions, amortization schedule, non-operating net income, plant-in-service schedule, network service and area revenue. Once those sections are completed, applicants will complete the financial statements, which includes income statement, balance sheet, and statement of cash flow.

Finally, we'll discuss additional financial documents that may be submitted in this section. Before we get started walking through screenshots of the application system, I want to stress the importance of following the sequencing of the sections within the application. Whenever the input to the financial statements is adjusted, all downstream pages that rely on the data inputs must be saved.

Otherwise, the user may encounter errors when running a validation on the summary submit page. For example, if the loan amount is adjusted in the CIW summary, the user must re-calculate payments for the new RUS debt in the amortization schedule section. Or, if an edit is made to the local network service revenues generated by service offerings or subscriber projects, the local network service revenue summary must be re-saved in order for the data to flow into the income statement. This will make more sense as we walk through the application. Time to dive into the financials section.

Slide 15 - Financial Tab Introduction
Emma Benjamin: The purpose of this slide is to orient everyone to the list of subsections that are included in the financial tab. I will run through this presentation from top to bottom starting with local network service revenue.

Slide 16 - Local Network Services Revenue
Emma Benjamin: The local network services revenue section is where applicants provide information related to projected revenues from local network services derived from the proposed project. The applicants must include the following in this section:

The service offerings that will be offered in PFSAs and NFSAs:
- It is important to include projected revenues from NFSAs (in addition to PFSAs) so the Agency can have a clear picture of *all* of the operations of the applicant.

- In completing this section, applicants should only select the applicable service areas for each service offering identified.

Next, applicants must identify subscriber projections for all PFSAs and NFSAs. Enter the price, new subscriber number, and the number of cancellations for all the applicable years for all PFSAs and NFSAs to calculate the operating revenue. Applicants only need to include services that they are offering in a PFSA.

Slide 17 - Local Network Services Revenue (Cont.)
Emma Benjamin:
Next, applicants will need to identify other projected or historical revenues earned that are not a direct result from providing service, for example, installation fees, monthly cable rentals, or broadcast network fees. Then, applicants must identify the subscriber breakdown by service area including residential and business subscribers and total households in the service area. When completed, users can view a summary of the local services revenue based on how this section was populated. If applicable, there is a section for applications to upload supporting documents related to alternative household data as it applies to the subscriber breakdown.

Slide 18 - Competitor Service Offerings
Emma Benjamin: The Competitor Service Offerings section asks applicants to enter information regarding competitor service offerings for each PFSA and NFSA recorded in the service mapping tool. Applicants will be prompted to include the following regarding each competitor service offering: name of service provider, service offerings, service package description, broadband download speed, broadband upload speed, customer type, price, and service areas.

Please note, upload and download speeds will be required for data service offerings. If unknown, select N/A. Repeat as necessary to input all competitor service offerings.

Slide 19 - Depreciation Schedule
Emma Benjamin: Applicants must indicate depreciation rate assumptions for all asset types identified in the Capital Investment Workbook (referred to as the CIW) and any other depreciation expenses expected to be incurred during the forecast period on an annual basis. The depreciation schedule pulls inputs from the CIW and the Capital Investment Schedule (referred to as the CIS). Therefore, this section should be completed after the network section has been finalized.

The four main components of the depreciation schedule include the following:

- Depreciation Rates for all project asset types should align to the deployment and retirement of the plant and must be consistent with guidance offered in the ReConnect Program Construction Procedures. If an applicant is regulated by a Public Utility Commission, they should adopt those depreciation rate assumptions.

- After depreciation rates are provided, the application system will calculate the Composite Economic Life or the weighted average economic life of all classes of facilities in the Award. RUS uses the composite economic life to determine the service obligation of awards and the maximum tenor of the loans.

- The third component to the depreciation schedule is the Annual Depreciation Expense which is the annual depreciation expense for assets included in the PFSA, NFSA, and UPLF CIWs across the five-year build out period. This is calculated based on the CIS and the depreciation rate assumptions provided by the applicant.
- Finally, the Depreciation Expense Summary is the fourth component.

Slide 20 - Depreciation Schedule (Cont.)
Emma Benjamin: The Depreciation Expense Summary provides a breakdown of annual depreciation expenses for the existing plant, property, and equipment (PPE) and non-telecommunications plant planned to be added during the forecast period. The total depreciation expense calculated by the application system from the bridge year to the end of the forecast period will be automatically populated in the income statement.

In addition, applicants will provide estimates for annual depreciation expense for grant-funded plant if applicable. Please note, this is a new feature in the application.

Slide 21 - Long-term Debt Schedule
Emma Benjamin: Applicants must provide information related to long-term debt and equivalents that are currently outstanding or planned during the forecast period. This information is used to calculate the amortization schedules, so this section should be completed before moving onto the balance sheet.

In addition, if edits are made to the long-term debt instruments created in the long-term debt schedule, the funded debt summary tables must be updated and re-saved in order for the adjustment to be realized in the applicable current maturities line items for each applicable source of debt on the balance sheet.

The ReConnect application includes five categories of long-term debt:
- Funded Debt RUS RTB FFB – this section is intended to capture all existing RUS notes, including all Telecom and Electric loans.
- Funded Debt – Other – this is intended to capture all non-RUS, -RTB, and –FFB debt, made up of fixed-maturity types of borrowings that are funded by interest payments.
- Funded Debt – Rural Development (RD) – this section should capture any debt from USDA RD that is not from RUS.
- Other Long-Term Debt – this section is used for all long-term debt that is not includable in the other long-term debt items. For example, regularly scheduled principal and interest payments.
- And, the last category includes all obligations under capital lease.

It is important to note that applicants must upload documents for each long-term debt instrument and capital lease that is identified.

Slide 22 - Capital Contributions
Emma Benjamin: Applicants must provide documentation to support any sources of capital used for the project. This includes identifying the source, timing, and volume of investment during the bridge year and 5-year forecast. Some examples include:
- If the applicant is proposing to provide any owner/member capital, evidence of equity infusion must be uploaded.

- If the applicant is proposing to provide investor capital, a letter of commitment or term sheet must be uploaded.
- If the applicant is proposing to contribute through a state grant, grant documents must be uploaded.
- If the applicant is applying for a 100% grant, users must identify the match source on the schedule and upload evidence documentation.

Slide 23 - Amortization Schedule
Emma Benjamin: The application system calculates an amortization schedule based on the applicant's loan information, which means the CIW, CIS, and the Annual Capital Investment schedule must be completed before amortizing the New RUS Debt (ReConnect Loan).

In addition, the depreciation rate assumptions and composite economic life of project assets must be entered before applicants calculate the new RUS debt principal and interest schedule. There are three (3) components of the amortization schedule:

New RUS debt includes loan information, which enables the system to calculate an amortization schedule. A pre-populated table will show the total loan amount, loan term, deferral period, start date, and interest rate. For 100 percent loans, the interest rate will be fixed at 2 percent. For the loan component of the 50/50 loan/grant combination, the user should input the US Treasury rate with a comparable maturity to that of the composite economic life calculated by the system.

- The interest rate will be a fixed rate set separately for each advance. The interest rate will be set equal to the Treasury rate of the nearest maturity greater or equal to the maturity of the advance.
- As mentioned earlier, if the loan amount is adjusted in the CIW Summary, the user must recalculate payments for the New RUS debt in the amortization schedule section.

Slide 24 - Amortization Schedule (Cont.)
Emma Benjamin: RUS Debt Summary – This section is used for any debt from USDA RD that is not from RUS. Applicants must provide the forecast payment information including interest paid, principal paid, and long-term portion.

And finally, Other Debt Summary – based on the amount of debt items added in the specific Long-Term Debt Schedule section of the application, a certain number of tables display for each debt item added, as well as a summary table if there are more than one debt items. Applicants must provide the appropriate information for new borrowing, interest paid, and principal paid. Please also note that for the second round of funding, the application no longer amortizes UPLF debt as it did during the first funding round. New borrowings, interest, and principal on an annual basis for UPLF debt that occurs in the bridge year and five-year forecast period must be provided by applicants in the appropriate funded debt summary table.

Slide 25 - Non-Operating Net Income
Emma Benjamin: Non-operating net income includes gains and losses on sales of equipment and capital gains. Applicants must input data for any non-operating net income before moving onto the income statement. Importantly, assumptions will need to be completed and reviewed by USDA as part of the application.

This slide lists the information the applicant will need to include such as a description of the item and the dollar amount for the historical, bridge, and forecast years.

Slide 26 - Plant-in-Service Schedule
Emma Benjamin: Applicants should enter information related to existing plants and non-telecommunications plants in this section, as well as grant-funded expenses, and grant-funded assets which will be reflected in the balance sheet.

In the plant-in-service, beginning of year section, enter the appropriate dollar amount into the bridge year field. Applicants are only able to enter the dollar amount for the bridge year. Plant additions for PFSA, NFSA, and UPLF will be auto-calculated from the CIS. In non-telecommunications plant Additions, enter the appropriate dollar amounts into the bridge year and forecast years. In less plant retirements, enter the appropriate dollar amounts into the bridge Year and forecast years. In less grant-funded expenses, enter the appropriate dollar amounts into the bridge year and forecast years. And finally, in less grant-funded assets, enter the appropriate dollar amounts into the bridge year and forecast years as well. Applicants must also report revenue from network access services and include statement sub-type, historical years, bridge year, forecast years, and assumptions.

Slide 27 - Financial Statements – Income Statement
Emma Benjamin: Once you have completed the supporting financial schedules, you may complete the pro forma financial statements. I'll begin with the income statement. The application system requires applicants to submit an income statement for each period in the pro forma time horizon.

The income statements demonstrate financial performance and the net position of the applicant, via recorded revenues, expenses, gains, and losses over the historical and forecast periods. The income statement will be reviewed by USDA in order to evaluate an applicant's historical financial performance and anticipated financial performance over the build out period of their project. Specifically, the income statement will help convey to USDA anticipated top line (revenue) growth given various assumptions including, increases and decreases in future expenditures, depreciation, amortization, and taxes; growth rates and trends in expenses; profitability, as measured by net income; and data necessary to perform a valuation of the applicant entity.

The income statement now includes a few new line items under this FOA. Another operating revenue line item, "amortized grant revenue" has been added pursuant to RUS grant-accounting policies. And another fixed charge line item, "Interest on Line(s) of Credit" has been added to account for this interest expense independently from other fixed charges. Aggregate line items such as net income will be automatically calculated by the application system. Additionally, the agency will use the income statement in conjunction with other components of the pro forma to evaluate the FOA-required compliance with DSCR and TIER ratios.

Slide 28 - Financial Statements – Income Statement (Cont.)
Emma Benjamin: This is a screenshot of a section of the income statement within the application that applicants will need to complete. Applicants will need to prepare assumptions for each line item. USDA will consider the reasonableness of assumptions as part of the application review. Therefore, assumptions should be as detailed as possible. This is one area

where we see problems with assumptions not aligning with projections. If the assumptions do not fully support the projected revenues and expenses, the application may be rejected.

Slide 29 - Financial Statements – Balance Sheet
Emma Benjamin: Next, I'll discuss the balance sheet. Applicants' balance sheets demonstrate the assets, liabilities, and capital structure of the entity in a given time period. The balance sheet will be reviewed by USDA in order to evaluate historical trends in the corporate and capital structures, and provide snapshots on how they are expected to change over the course of the build out period. Additionally, the agency will use the balance sheet in conjunction with other components of the pro forma to evaluate the FOA-required compliance with the current ratio. Applicants must prepare and identify the assumptions underlying the balance sheet projections in: current assets, non-current assets, PPE, current liabilities, long-term debt, other liabilities, and equity. The balance sheet also now includes a new line item under this FOA. Applicants will now record "deferred grant revenue" under "other liabilities and deferred credits" in accordance with RUS grant-accounting policies.

Slide 30 - Financial Statements – Balance Sheet (Cont.)
Emma Benjamin: This is a screenshot of a section of the balance sheet within the application that applicants will need to complete. Long-term debt and current liabilities will be auto-populated on the balance sheet based off of the data provided in the long-term debt schedule and capital contributions workbook

Slide 31 - Financial Statements – Statement of Cash Flow
Emma Benjamin: Finally, the application requires applicants to submit a statement of cash flow. The applicant's statement of cash flow demonstrates whether or not the applicant is generating or using cash on an annual basis. Because the Income statement is developed on an accrual basis, timing differences between when income is earned (or costs are incurred) and the money is received (or paid) can result in differences between cash flow and net income. In addition, non-cash items like depreciation, which eventually require maintenance expenses, also create differences. For cash flow from investing activities, applicants will need to manually enter the "CAPEX" [CAP-Ex] and "plant constructed using grant proceeds" line items. For cash flows from financing activities, applicants will need to manually enter "proceeds from grants." Applicants must identify the assumptions underlying their cash flows.

Slide 32 - Financial Statements – Statement of Cash Flow (Cont.)
Emma Benjamin: Only projects that RUS determines to be financially feasible and sustainable will be eligible for an award under this Program. A project is financially feasible when the applicant demonstrates to the satisfaction of RUS that it will be able to satisfy the following conditions:

- Sufficient revenue to cover expenses over the life of the award
- Sufficient cash flow to cover all debt service obligations as they come due (including subordinated, non-project debt)
- And, positive ending cash balance for each year in the forecast period. The ending cash balance may be less than the starting balance at the beginning of the forecast period, so long as cash flow is positive.

Slide 33 - Supplemental Application Materials: Financial Information
Emma Benjamin: In addition to financial statements, the application requires various workbooks and schedules to be filled out that provide more detail on the network, market, and economic assumptions that went into building the pro forma. In addition, supporting financial documents may be required depending on each applicant. This is a list of some of them: evidence of equity infusion, federal/state grant documents, letters of commitments and term sheets, lines of credit, competitive analysis, and bank account statements, to name just a few.

If applicants have lines of credit, applicants are required explain the credit in the application. Applicants should upload any and all support documents to substantiate their revenue projections. USDA will evaluate different revenue streams independently from one another. Make sure to use descriptive naming conventions for all documents. This will help you identify what has or has not been uploaded. The application document manager will let you see all of the documents you've uploaded to the application, and it's easier to sort through them when they are named well.

Slide 34 - Available Resources – Transition Slide
Emma Benjamin: Finally, I will discuss some available resources for you to learn more about the ReConnect program and get started on your application when the window opens on January 31st.

Slide 35 - Available Resources
Emma Benjamin: USDA Rural Development is providing resources and technical assistance to applicants as they prepare to apply for the ReConnect Program. RD also plans to continue facilitating webinars addressing frequently asked questions and specific aspects of the application. Past webinar materials are available on the ReConnect website. The ReConnect website is also a great resource for additional information. It contains program details, fact sheets, and technical assistance materials that can be used when developing applications. Please note, resources and information on the site will be continuously updated and added to as we approach the application window. Please be sure to check back often. Finally, I would like to mention that USDA is maintaining a Help Desk to respond to questions submitted via the ReConnect website.

Slide 36 - Q&A
Emma Benjamin: This concludes the Financial Overview webinar and we will now take a few minutes to answer live questions from the audience. If we do not get to your question during today's presentation, please submit it on the contact us form on the ReConnect website, and we will follow up accordingly.

Chris Colberg (Q & A) : Rebecca, this is Chirs Colberg. There are two questions out there that need to be answered, and I just wanted to provide a little bit of detail and then we're going to get them an official answer later on. The financial viability, that question from James Reinard at Pioneer Connect. He asks if the financial viability is based on the company's overall results or the just the incremental revenue cost.

And my answer to him on the company's overall results are just the incremental revenue cost. And my answer to him is both. In the end, at the beginning of the organization, and through the project, we are looking for viability of the company and then the project itself has to also be viable. But, those liabilities are projections out into the future, and they have to meet those criteria as they go along. I would say they are both. I need to give him a little bit more further detail. I don't believe at the time there's any waiting, but they're looking for the criteria to be met at both the company level and project level.

Let me go to the second question.

This is Kirsten Holland from Interval, which is in my home state of Montana I believe. Kristin [Indiscernible]. Pre-application definition for this app or risk of allowable speeds? I believe that and I will get more research into this, but as we look in the FOA and those documents, they didn't provide a comprehensive list because they didn't want it to be either constraining or allowing people to throw stuff in there that may not be related to the application itself. As the FOA says, pre-application expenses are directly to support the design, the forecast, the preparation of the application itself.

The further caveat that would be is that any cost must be under the .200 cost principles, reasonable, allocable ,and necessary. From a reasonable stand point, I would point out that any cost that will have to be determined as like a third party, there's a lot of criteria that goes through it, and it does say that you know for example, a person cannot include that would normally be procured at one price at a significantly inflated price. So all costs have to be reasonable and the criteria at .200 will provide that information.

Secondly, pre-application expenses have to be allocable. As I just mentioned before, in the FOA they talk about support of the application, so anything that has to be generated or determined through the application process can be included as a cost. So if that is engineering time, engineering labor and engineering contract, financial people doing forecasting of that nature, administrative assistants, application writers, those kinds of things could be included, but they have to be specifically allocable which has to be a identified through contemporaneous evidence. A timesheet of an engineer, a timesheet of an accountant, has to have a pre-application preparation related to forecast or design or system requirements, things of that nature. And lastly, it has to be necessary. The necessary topic when we say pre-application expense, if you took away that cost, the application would not be complete and would not have been completed. Those are just the kind of the overviews of those two questions. And I will try to follow them up with a little more detail. If I can provide that, I don't believe we have a full comprehensive list.

Rebecca Fairchild-Lewis: Thank you, Chris.

Chris Colberg: I think I just answered number seven as well. Yes. Again, I will get back to them in more detail on that.

Rebecca Fairchild-Lewis(A): I would say, one thing we want to add is the pre-application expenses cannot exceed 5% of the total project cost.

Chris Colberg (A): Right. Regardless of whether they meet the criteria of pre-application expense in support of that and reasonable criteria of pre-application expense, they will be limited.

Rebecca Fairchild-Lewis (Q): Chris, we have another question here. Should potential grant proceeds be included in the statement of cash flow? I may have jumped a little bit far for you on that list.

Chris Colberg (A): Let me see. Ultimately, it is a part of the cash flow process. Someone said yes. We will just go with yes. I was going to say, normally that would be put in there, so I would also say yes but it is not. Because it is an actual cash flow and the source of cash, it is part of the financing process. It is how you are going to build the asset if you are going to invest. So you know it's not part of operating cash but part of the financing and investment. So, is that my last question?

Rebecca Fairchild-Lewis (Q): We have had a number of questions that have come in about whether or not the webinar will be posting the materials from the webinar in a couple of days. Additionally, it will be repeated again in the month of February. If you are subscribed to the ReConnect website, you will get announcements about when the webinar is scheduled. Give us a second, we are getting a couple of questions in. Here is one. Is the required pro forma submission specific to the project to which the application pertain or is it for the application in general, including the service areas that maybe aren't part of the application?

Chris Colberg: I am not sure on the pro forma question. I am not part of the application process so I would have to defer to somebody else. We could get back to them on that.

Rebecca Fairchild-Lewis (Q/A): We will get back to you on that. We have one more question on the pre-application expenses, whether that includes pre-application expenses, whether that includes costs up to the commission date of March 16th. The answer is yes.

Chris Colberg (A): So once they submit up until the time or up until the time they submit the application on that deadline, they should be aware if they submit it early, it would not include those costs because we are only advancing on the first FRS or pre-application expenses. So, it's only up until the time they submit the application or this date, whichever is sooner. It should be noted that they should then make sure on the date they submit the application expense, they need to have those application costs tied down.

Rebecca Fairchild-Lewis (Q): We have a question about the 100% grant product. Is the match 25% of the total project cost?

Chris Colberg (A): I don't know off the top of my head. I can't remember. Do you happen to know? I thought it was 25% of the total project cost as well. I think when we do matching, it's always part of the total project, but under which program were they doing? Was this 50/50 or 100% grant?

Rebecca Fairchild-Lewis (A): 100% grant.

Chris Colberg (A): Yes, then it would be 25% of the total project costs. Do you have a different question?

Rebecca Fairchild-Lewis (Q & A): We have a question about the deadline. The deadline for all three products is March 16th at 6:00 PM Eastern Time. It is March 16, 2020 at 6 PM. We are getting a couple of more questions in. One second. While we are sorting through those, I do want to let everybody know that we will be having a webinar on the environmental component of the application on Monday the 27th at 1:00 PM Eastern Time. During that webinar we will be going over the components of the environmental components of the application you have to complete. The registration for that is up on the ReConnect website. I think that we actually hit most of the questions. We will give everyone another minute or two to submit any last minute questions.

I will confirm that it is 25% of the total project cost. You are right on that. I was pulling that up, so we did not misspeak. If you have a question that was not answered during the webinar, I encourage you to use the contact us page on the website. That is the Help Desk. We are responding to those questions and can either answer questions there or connect you with someone who could give you more information. We will follow up on the questions that we needed to get more information for you today. With that, thank you, and have a good day.