

Instructions for Preparing Schedules P & S

FINANCIAL POSITION

RUS conducts a financial evaluation of each complete application in an effort to make loan decisions that are in the best interest of the Federal Government and the rural communities to be served. It is the Applicant's responsibility to provide sufficient financial information and supporting justification to determine that the loan request meets all of RUS's requirements, will be feasible, and is adequately secured. Long-term forecast analysis should be based on knowledge of the external and internal factors that affect a company's operations. Historical and pro forma financial statements (Schedules P thru P-2) and supporting schedules (S thru S-4) are required to be submitted, must be in the **RUS Data Collection System (DCS) Operating Report** format, and should be prepared by a financial consultant, accountant, or individual qualified to prepare these types of financial statements. A hard copy of all pro-formas, schedules, and any other supporting information must be included in the application. An electronic copy of this information in an editable spreadsheet must also be submitted.

Required templates for the above financial statements and schedules are provided and consist of:

1. Income Statement – Schedule P
2. Balance Sheet – Schedule - P-1
3. Statement of Cash Flows – Schedule P-2
4. Network Access Revenues – Schedule S
5. Network Access Certification (Cost Settlements) - Schedule S-a
6. Network Access Certification (Average Settlements) Schedule S-b
7. Existing & Proposed Long-Term Debt – Schedule S-1
8. Deployment & Depreciation – Schedule S-2
9. Non-Operating Revenue & Expense – Schedule S-3
10. Non-Regulated Revenue & Expense – Schedule S-4
11. Account Numbers & Guidance for Schedule P (Income Statement) – Schedule S-5
12. Account Numbers & Guidance for Schedule P-1 (Balance Sheet) – Schedule S-5a
13. Account Numbers & Guidance for Schedule P-2 (Statement of Cash Flows) – Schedule S-5b

Historical and Pro-forma Financial Data (Schedules P thru P-2) & Audits

1. **What to Include:** Income statement, balance sheet, and statement of cash flow must be included.
 - Historical data of the Applicant for the last 4 years, or for as long as the Applicant has been in business, if less than 4 years, must be entered into the templates and also submitted into the **RUS DCS Operating Report System**.
 - Pro-forma data of the Applicant for 5 years must be entered into the templates.
 - *In addition to the above, the last 3 fiscal year ending audited financial statements must be submitted. If audited statements are not available, the Applicant must submit unaudited financial statements reports for those years.*
 - *If the Applicant has a parent company and/or one or more subsidiaries, the historical financials for the preceding fiscal year of those entities are also*

required. Audited financial statements are preferred; however, see the preceding item for unaudited alternatives if audited financial statements are not available. These statements do not have to be entered into DCS.

- Applicants are required to submit a detailed written narrative that documents the various assumptions and reasons used to prepare the pro-forma statements.
 - **Every category or line in the historical and pro forma statements must be explained with clear details so that RUS may review and understand the financial projections. The assumptions and reasons must allow an RUS financial analyst to re-create the pro forma statements. If the financial forecast is not fully supported by a detailed narrative for every category or line, it may affect the final decision on the application. If there are any gaps or discrepancies between the information entered into the templates and the audits provided, the Applicant must provide detailed explanations in the assumptions and reasons write-up.**
2. **Income Statement (Schedule P) Guidance:** Please refer to Schedule S-5 for guidance regarding the account numbers that make up each line in the Income Statement template (Schedule P). Line 2 of this Schedule, yearly Network Access Services Revenue, entered into Schedule P for the 4 historical years and the 5-year pro forma years must tie to the numbers entered into the Network Access Revenue Schedule S. Also, amounts entered into Line 27, Non-operating Income and Line 30, Non-regulated Net Income, must tie to the numbers entered into Schedules S-3 and S-4 respectively.
 3. **Balance Sheet (Schedule P-1) Guidance:** Please refer to Schedule S-5a for guidance regarding the account numbers that make up each line in the Balance Sheet template (Schedule P-1). Yearly data entered for Lines 18 through 23 into the 5-year pro forma must reflect the Applicant’s best estimate of the plant to be deployed in each forecast year. The data entered into these lines must coordinate and tie to the numbers entered into the Deployment & Depreciation Schedule S-2. In addition, all debt numbers entered into this schedule must coordinate and agree with those given in the Debt Schedule (Schedule S-1).
 4. **Additional information for Schedules P and P-1 regarding the accounting requirements for RUS Telecommunications Applicants and supplemental accounts in 7 CFR 1770 and RUS Bulletin 1770B-1 can be found at:**

http://www.rurdev.usda.gov/UPA_AccountingRegs.html
And
http://www.rurdev.usda.gov/SupportDocuments/UTP_Bulletins_1770B-1.pdf
 5. **Statement of Cash Flows (Schedule P-2) Guidance:** This schedule is derived from the entries the Applicant puts on Schedule P, “Income Statement,” and Schedule P-1 “Balance Sheet,” or as a result of manual calculations to enter data on lines 5, 22, and 27, as necessary. Please refer to Schedule S-5b for guidance. *Please note that all inputs into lines 5, 22, and 27 require explanation.* Upon completion of this schedule, Line 30,

“Ending Cash,” should equal the total of lines 1 and 2, End of Period, from Schedule P1, “Balance Sheet.”

Supporting Schedules (Schedules S thru S-5b)

The supporting schedules are provided to document the basis for certain lines of data entered into the Historical & Pro forma schedules (Schedules P thru P-2). All assumptions and reasons used in the completion of these forms must be explained.

As mentioned prior, required templates for the above schedules are provided and consist of:

- Network Access Revenue – Schedule S
- Network Access Certification (Cost Settlements) - Schedule S-a
- Network Access Certification (Average Settlements) - Schedule S-b
- Existing & Proposed Long-Term Debt – Schedule S-1
- Deployment & Depreciation – Schedule S-2
- Non-Operating Revenue & Expense – Schedule S-3
- Non-Regulated Revenue & Expense – Schedule S-4
- Account Numbers & Guidance for Schedule P (Income Statement) – Schedule S-5
- Account Numbers & Guidance for Schedule P-1 (Balance Sheet) – Schedule S-5a
- Account Numbers & Guidance for Schedule P-2 (Statement of Cash Flows) – Schedule S-5b

1. **Network Access Revenue – Schedule S Guidance:** Applicants must submit the RUS provided Schedule with a narrative and any supporting documentation to provide detail for all historical and pro forma amounts entered into Schedule P, line 2. If the Applicant is a cost settlement company or proposes to become a cost settlement company for interstate purposes, *this schedule must be completed, and Schedule S-a signed by the Applicant’s Cost Consultant.* The information is to be separated by study area, interstate, intrastate, or any other relevant sub-categories. The following accounts are to be used in the completion of this schedule:

- 5080 Network Access Revenue
- 5081 End User Revenue
- 5082 Switched Access Revenue
- 5083 Special Access
- 5084 State Access Revenue

All subaccounts contributing to the accounts shown should be included along with the calculations and formulas used to create *all* numbers (add lines and modify as needed). It is expected that the Applicant will modify the schedule as necessary to provide this information. The narrative support for this schedule needs to be comprehensive and must address the impacts of the FCC’s USF and ICC Reform Order and FNPRM released November 18, 2011, as well as any subsequent orders, Federal Register filings, court decisions, or other actions that affect the revenue the Applicant expects to receive. Detailed explanations of how the order and other relevant actions affected the projected revenue are essential. The Cost Consultant must sign this supporting narrative, sign

Schedule S-a, and provide contact information so that RUS can direct any questions to the person who prepared the schedule.

If the Applicant is an Average Schedule company for interstate purposes and intends to remain so, it is not required that Schedule S is prepared by a Cost Consultant, although it is still recommended. If the preparer is not a Cost Consultant, Schedule S-b should be signed by the preparer and the narrative should explain why the preparer is qualified to complete the schedule. Contact information and a detailed discussion of the FCC's order and other actions are still required, as discussed above.

2. **Existing & Proposed Long-Term Debt – Schedule S-1 Guidance:** Applicants must submit the provided Schedule S-1 showing year-ending current and proposed long-term debt. With respect to current RUS debt, the Applicant must take into account contemplated future advances, and numbers given must tie into those provided in Schedule P-1 (Balance Sheet) and Schedule S-2 (Deployment & Depreciation). All non-RUS debt must be shown and detailed according to the schedule and must also tie to Schedule P-1 (Balance Sheet) and Schedule S-2 (Deployment & Depreciation). In addition, the Applicant must submit supporting documentation to provide detail for all current and contemplated non-RUS debt and capital leases. To provide evidence of existing non-RUS debt and leases, copies of existing notes, loan and security agreements, guarantees, and capital leases should be provided.
3. **Deployment & Depreciation Schedule – Schedule S-2 Guidance:** Schedule S-2 consists of a single table. Applicants may add rows or otherwise provide additional information in this Schedule, though the Applicant must fully explain any and all modifications. The data entered must reflect the Applicant's best estimate of the specific amount to be deployed, retirements, and accumulated depreciation in each forecast year. All numbers must tie in with the amounts entered into Schedule P-1 (Balance Sheet).
4. **Non-Operating Revenue & Expense – Schedule S-3 Guidance:** Schedule S-3 consists of a single table. A detailed breakdown of the number entered into line 27 of Schedule P (Income Statement) is required. Reasons and assumptions for the numbers given are required. Applicants may add rows or otherwise provide additional information in this Schedule, though the Applicant must fully explain any and all modifications.
5. **Non-Regulated Revenue & Expense – Schedule S-4 Guidance:** Schedule S-4 consists of a single table. A detailed breakdown of the number entered into line 30 of Schedule P (Income Statement) is required. Reasons and assumptions for the numbers given are required. Applicants may add rows or otherwise provide additional information in this Schedule, though the Applicant must fully explain any and all modifications.

Note: Please be aware that the foregoing items and information are not exhaustive. Additional information may be required as the review of your loan continues.