

# Rural Broadband Access Loan and Loan Guarantee Program

Application Guide—RUS Bulletin 1738-1



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## **Rural Development (RD) Telecommunications Program Rural Broadband Access Loan and Loan Guarantee Program**

The Rural Broadband Access Loan and Loan Guarantee Program furnishes loans and loan guarantees to provide funds for the costs of construction, improvement, or acquisition of facilities and equipment needed to provide service at the broadband lending speed in eligible rural areas.

### **!! BEFORE GETTING STARTED !!**

*The applicant must read:*

- ◆ *The **latest** Notice of Funds Availability (NOFA) published in the Federal Register; and*
- ◆ *The latest version of 7 CFR 1738 – Rural Broadband Access Loans and Loan Guarantees.*

These documents **MUST** be utilized in conjunction with this Application Guide. Should any differences result in the interpretation of this Application Guide and the Regulation, the Regulation takes precedence over information contained in this Application Guide.

In addition, all construction financed with RD Telecommunications Program loan funds must be done in accordance with **RUS Bulletin 1738-2**, Rural Broadband Access Loan and Loan Guarantee Program, Advance and Construction Procedures Guide.

The above documents can be retrieved from our web site or from any of RD's General Field Representatives (GFRs) for the Telecommunications Program.

<http://www.usda.gov/rus/telecom/broadband-app.htm>

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## General Information

### ➤ *1. Broadband Service and Broadband Lending Speed*

The goal of the Rural Broadband Access Loan and Loan Guarantee Program is to ensure that rural consumers enjoy the same quality and range of services that are available in urban and suburban communities. The Program aims to lend to entities capable of repaying its loans and that plan to offer service at a level that keeps pace with technological innovations while meeting the demands of customers in rural America. Applicants are strongly encouraged to ensure they understand the terminology below, which seeks to make this distinction.

Broadband service means any technology identified by the Administrator as having the capacity to provide transmission facilities that enable the subscriber to the service to originate and receive high-quality voice, data, graphics, and video. RD will publish, in a notice in the Federal Register, the minimum rate of data transmission that will qualify as broadband service. This rate of data transmission is used to determine the availability of broadband service when qualifying a service area. The minimum rate of data transmission that defines broadband service may be different than the broadband lending speed. If a new minimum rate of data transmission for broadband service is published in the Federal Register while an application is pending, broadband service for the purpose of reviewing the application will be defined by the minimum rate of data transmission that was required at the time the application was received.

The broadband lending speed is the minimum bandwidth requirement, as published in the latest notice in the Federal Register, that an applicant must propose to deliver to the customer in order for RD to approve a broadband loan. As noted above, the broadband lending speed may be different from the minimum rate of data transmission required to determine the availability of broadband service when qualifying a service area.

When RD evaluates a service area's eligibility to receive funding, it takes into account the following principles.

- RD will not make a loan in an area for which there is a current RD broadband or telecommunications loan and the service provided by such loan meets the current broadband lending speed.
- It will not make a loan in an area that was considered as a part of the financial feasibility analysis for a current RD broadband or telecommunications loan and the service provided by such loan meets the current broadband lending speed.
- It will not make a loan in an area that is expected to be included in the feasibility analysis for a pending application for a loan (such an area may be part of another applicant's feasibility analysis as long as RD financing is not sought for that area).

- After the publication of a new broadband lending speed in the Federal Register, all areas that have an open RD broadband or telecommunications loan, and all areas that were considered part of the financial feasibility analysis for such a loan, are protected for 24 months from the date on which the new broadband lending speed was published.
- For borrowers that are in the build-out period when a new broadband lending speed is published, the 24 month protection period will begin at the end of the build-out period.
- After the 24 month period of protection, RD may consider a loan in an area for which there is a current RD broadband or telecommunications loan, or an area which was part of the financial feasibility analysis for such a loan, if the service provided by such loans is below the new broadband lending speed.
- For borrowers that fail to upgrade their services during the protection period, publication of a subsequent broadband lending speed does not trigger a new 24 month period in which to upgrade.

### Sample Usage of Terms

Suppose a new broadband lending speed is published today in the Federal Register. Assume Acme, Inc. holds a current RD broadband loan with the following services:

- In Main County, providing service using RD loan funds *above* the new broadband lending speed.
- In Star County, providing service using RD loan funds *below* the new broadband lending speed.
- In Sun County, which was part of the financial feasibility analysis but did not receive RD loan funds, providing service *above* the new broadband lending speed.
- In Moon County, which was part of the financial feasibility analysis but did not receive RD loan funds, providing service *below* the new broadband lending speed.

RD will not provide RD funding to another applicant to provide service in any of the above areas for a period of 24 months from the publication date of the new broadband lending speed in the Federal Register. However, after this period:

- RD will continue to *not* provide funding to another applicant in Main and Sun Counties as long as Acme, Inc. maintains service above the broadband lending speed and the loan is open.
- If Star or Moon Counties continue to provide service *below* the broadband lending speed, RD may make a loan to another applicant to provide service at the broadband lending speed to these areas.
- If Star or Moon Counties upgrade their network to provide service *at* or *above* the broadband lending speed, RD will *not* provide RD funding in these areas while the RD loan remains open.

### End of Sample Usage of Terms

## ➤ ***2. Eligible Purposes of the Loan***

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RD makes broadband loans and loan guarantees to:

- ◆ Finance the construction, improvement, and acquisition of all facilities required to provide service at the broadband lending speed in eligible service areas;
- ◆ Finance the cost of leasing facilities that are required to provide service at the broadband lending speed (lease must qualify as a capital lease under Generally Accepted Accounting Principles, and the financing of such a lease will be limited to the first 5 years of the loan amortization period);
- ◆ Finance the acquisition of facilities, portions of an existing system and/or another company by an eligible entity, where acquisition is used in the applicant's business plan for furnishing or improving service at the broadband lending speed (please note that the acquired service area, if any, must meet the requirements for RD funding, that acquisition costs cannot exceed 50% of the broadband loan amount, and that the purchase must provide the applicant with a controlling majority interest in the equity acquired);
- ◆ Refinance an outstanding obligation on another telecommunications loan made under the Rural Electrification Act of 1936 (please note that the refinancing must support the construction, improvement, or acquisition of facilities and equipment for the provision of service at the broadband lending speed in rural areas, no more than 40% of the broadband loan amount will be used to refinance the outstanding telecommunications loan, the applicant must be current with payments on the loan(s) to be refinanced, and the amortization period for that portion of the broadband loan that will be needed for refinancing will not exceed the remaining amortization period for the telecommunications loan(s) to be refinanced; if multiple notes are being refinanced, an average remaining amortization period will be calculated based on the weighted dollar average of those notes); and
- ◆ Finance pre-loan expenses, i.e. any expenses associated with the preparation of a loan application, such as obtaining market surveys, accountant/consultant costs for preparing the application and supporting information, conducting due diligence, etc., up to 5% of the amount of the loan excluding any amount requested to refinance outstanding telecommunication loans. (please note that pre-loan expenses may be reimbursed only if they are incurred prior to the date on which notification of a complete application is issued).

## ➤ ***3. Ineligible Purposes of the Loan***

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RD will not make a broadband loan or loan guarantee for the following purposes:

- ◆ To fund operating expenses of the project;

- ◆ To fund construction and other project-related costs incurred prior to issuance of an application complete status (with the exception of eligible pre-loan expenses);
- ◆ To finance the acquisition of any stock of an affiliate of the applicant;
- ◆ To finance the purchase or acquisition of any facilities or equipment of an affiliate, unless approved by RD in writing (such a purchase or acquisition may be approved if the applicant demonstrates that the purchase or acquisition will involve an arms-length transaction, as defined in 7 CFR 1738, and that the cost is advantageous for the applicant);
- ◆ To finance the purchase of Customer Premises Equipment (CPE) and the installation of associated inside wiring unless that CPE is (a) owned by the applicant throughout its economic life; or (b) backed by acceptable collateral that is not currently owned by the applicant and that has a value at least equal to the purchase price of the CPE (such collateral may not be purchased with RD loan funds); or (c) paid for through a revolving fund whereby the proceeds from CPE sold to the customer (at least the applicant's cost of the equipment) is returned to the fund and used to purchase additional CPE.
- ◆ To fund the purchase or lease of any vehicles not used primarily in construction or system improvements;
- ◆ To fund the cost of systems or facilities that have not been designed and constructed in accordance with the loan contract and other applicable requirements;
- ◆ To fund facilities leased under the terms of an operating lease; and
- ◆ To fund merger or consolidation of entities.

#### ➤ ***4. Applicant Eligibility***

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RD makes broadband loans and loan guarantees to legally organized entities providing, or proposing to provide, services in eligible rural areas.

Eligible entities may be either a nonprofit or for-profit organization, and must take one of the following forms: corporation; limited liability company (LLC); cooperative or mutual organization; Indian tribe or tribal organization as defined in 25 U.S.C. 450b; or State or local government, including any agency, subdivision or instrumentality thereof. Individuals or partnerships are not eligible entities.

To be eligible to receive a loan under this program, the entity must:

- ◆ Have sufficient authority to enter into a contract with RD;
- ◆ Submit a loan application which meets the requirements published in 7 CFR 1738 and any additional requirements published in the Federal Register;

- ◆ Agree to complete the build-out of the broadband system described in the loan application within three years from the date the borrower is notified that loan funds are available (build-out is considered complete when the network design has been fully implemented, the service operations and management systems infrastructure is operational, and the borrower is ready to support the activation and commissioning of individual customers to the new system);
- ◆ Agree to complete the construction in accordance with the requirements contained in 7 CFR part 1788, 7 CFR part 1794, **RUS Bulletin 1738-2**, **RUS Bulletin 20-15**, **RUS Bulletin 320-15**;
- ◆ Demonstrate an ability to furnish, improve, or extend service at the broadband lending speed in rural areas; and
- ◆ Demonstrate an equity position equal to at least 10% of the amount of the loan requested in the application (see section on Equity Requirement).

## ➤ ***5. Eligible Service Area***

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Applications to the Broadband Loan Program must include at least one service area that is eligible for RD funding, i.e. a funded service area. By regulatory definition, a “funded service area” is a geographic area within which an applicant proposes to offer service at the broadband lending speed using broadband loan funds. A “service area” is a geographic area within which a service provider offers telecommunications service.

Non-contiguous areas must be treated as separate service areas for the purpose of determining service area eligibility for funding. An applicant may offer service to ineligible areas to achieve overall project financial feasibility, however it must use non-RD funding for those areas.

Only a service area completely contained within a “rural” area, or composed of multiple rural areas, is eligible for a broadband loan. At least 25% of the households in each funded service area must be an “underserved household.” In addition, the area must meet specific criteria regarding the number of current service providers. Finally, the area must avoid certain kinds of overlaps with areas that have been targeted by other RD borrowers and/or applicants. These terms and criteria are explained in detail in this Guide in the instructions for Schedule F in the section “Instructions for Preparing Schedules A Through S.”

Please note that some of the information required to make a final eligibility determination for a service area is collected (or confirmed) after the application is submitted, as this information must be collected through a Public Notice process (see details under Pre-application Stage in the section “General Information” and in the instructions for Public Notice Schedules G-1 and G-2 in the section “Instructions for Preparing Schedules A Through S”). Applicants must therefore thoroughly research the area(s) in which they propose to provide service and carefully account for each of the area eligibility criteria to the extent possible.

## ➤ **6. Pre-application Stage**

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Initial prospective applicants and their attorneys should review the terms and conditions set forth in the standard RD broadband loan documents. Please note that additional terms and conditions may apply once financial and technical feasibility has been determined (see Application Review and Notification Process). Copies of these documents can be obtained from the RD web site at <http://www.usda.gov/rus/telecom/broadband>.

RD recommends that applicants identify and contact the appropriate GFR as early as possible when preparing a loan application (see contact information available online at [http://www.usda.gov/rus/telecom/staff/index\\_staff.htm](http://www.usda.gov/rus/telecom/staff/index_staff.htm)). The GFR can explain the regulations and requirements that govern the Broadband Program and offer guidance on preparing an application.

RD will make information available to prospective applicants to allow a preliminary assessment of the eligibility of a service area. At a minimum, the prospective applicant will be able to obtain:

- (1) Whether the proposed service area is located in a rural area;
- (2) Whether the proposed service area overlaps with any part of a borrower's service area; and
- (3) Whether the proposed service area overlaps with any part of a proposed service area specified in a pending application for a loan.

A preliminary assessment of service area eligibility does not account for all eligibility factors, such as the presence and number of incumbent service providers. Furthermore, the eligibility factors within a proposed service area may change between the preliminary assessment and application submission. A preliminary assessment indicating that a service area may be eligible for funding does not guarantee that the area will be eligible at the time of application, nor does it mean that RD will approve a loan for the applicant.

## ➤ **7. Types of Broadband Loans**

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1. **Direct Cost-of-Money Loan** – This loan will bear interest at a rate (the “Cost-of-Money Interest Rate”) equal to the cost of borrowing to the Department of Treasury for obligations of comparable maturity. The applicable interest rate will be set at the time of each advance. Department of Treasury interest rates are released daily and can be found in Release H.15 at <http://www.federalreserve.gov/releases/h15/update/>. The applicable interest rate is found below the heading “U.S. government securities” under the sub-heading “Treasury constant maturities.”
2. **Direct 4-Percent Loan** – Direct 4-Percent Loans shall bear interest at 4% on each advance made to the borrower. Such loans may be used by RD, at its discretion, to

assist applicants in meeting financial feasibility requirements for applications serving underserved areas. Additional eligibility requirements for Direct 4-Percent Loans may be published in the Federal Register. Direct 4-Percent Loans may be made simultaneously with a Direct Cost-of-Money Loan.

3. **Private Loan Guarantee** – This loan is a third party loan (not funded by RD). This loan shall bear interest at a rate set by the lender consistent with the current applicable market rate for a loan of comparable maturity. RD will guarantee up to 80% of the principal amount of the loan, excluding any and all charges and fees. Applicants interested in a loan guarantee should contact the Washington Broadband Office or the applicant’s GFR (for the most current contact information please see [http://www.usda.gov/rus/telecom/staff/index\\_staff.htm](http://www.usda.gov/rus/telecom/staff/index_staff.htm)).

In general, the broadband loan term will be equal to or less than the expected composite economic life of the assets to be financed by the loan, rounded to the nearest whole year. The expected composite economic life of the assets will be based upon acceptable depreciation rates. Applicants may request a repayment period that is shorter; such requests will be granted only if RD determines that the loan would remain feasible. RD may, at its discretion, extend the loan term up to 35 years for loans to provide service to underserved areas, i.e. areas that are not offered broadband service at all or are offered broadband service by only one incumbent service provider.

## ➤ ***8. Minimum and Maximum Loan Amounts***

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The amount of funds available for each loan type in each Federal fiscal year, as well as the minimum and maximum loan amounts for each type of loan, will be published in the Federal Register.

An applicant that provides telecommunications or broadband service to at least 20% of the households in the United States is limited to a loan amount that is no more than 15% of the funds available to the Broadband Loan Program for the Federal fiscal year.

## ➤ ***9. Equity Requirement***

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As a condition to financing, an applicant must have equity in an amount equal to 10% of the requested loan amount. As defined in 7 CFR 1738, equity means total assets minus total liabilities, as determined by Generally Accepted Accounting Principles (GAAP). The applicant’s capacity to meet the minimum equity requirement will be apparent by reviewing the applicant’s Balance Sheet.

If an applicant cannot meet the equity requirement at the time the application is submitted, the applicant must submit an investor’s unconditional legal commitment in the application indicating how the equity requirement will be met before loan closing. There are particular requirements for the commitment (see instructions for Schedule J-1) and RD may reject the application if it does not meet these requirements.

State and local government applicants can satisfy the equity requirement with a general obligation bond (see instructions for Schedule J-2). Revenue bonds supported by the operations to be funded cannot be used to satisfy the equity requirement.

In addition, if RD projects, based on the applicant's financial information, that the applicant will have a negative cash balance at any fiscal year-end date during the five-year forecast period, the applicant will be required to obtain additional cash infusions (for details on Additional Cash requirements, see the instructions for Schedule M-5 below, and 7 CFR 1738.208). An applicant may obtain a Letter of Credit (LOC) to satisfy an additional cash requirement. An LOC is not considered equity and cannot be used to meet the 10% equity requirement. Furthermore, an LOC must meet specific requirements, as explained in the instructions for Schedule M-5.

## ➤ ***10. Priority Consideration***

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The Food, Conservation and Energy Act of 2008 (Farm Bill) requires that in making and guaranteeing loans under this section, priority must be given to applicants that offer to provide broadband service to the greatest proportion of households that, prior to the provision of the broadband service, had no incumbent service provider.

To implement this requirement in a transparent and reasonable way, RD will process applications for funding in the following order:

- (1) Applications in which no broadband service is available in any funded service area.
- (2) Applications in which at least 75% of households in the funded service area have no incumbent service provider. For applications with multiple funded service areas, the 75% calculation is based on all funded service areas combined.
- (3) All other applications.

Upon receipt, an application will be prioritized according to the above criteria in relation to all other applications received to date. The applications will be processed on a first-in, first-out basis within each priority category. As applications are processed on this basis, RD may expedite applications proposing to provide service where none is available.

## ➤ ***11. Application Submission***

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Applications can be submitted throughout the year and will be reviewed and processed on a first-come, first-served basis according to the time the application is received at the Washington Broadband Office listed below. Submit an original and one copy of the completed application along with an electronic version (including electronic versions of service area maps, network diagrams and any other maps or diagrams) to the applicant's

Rural Development General Field Representative (GFR) for the Telecommunications Program or directly to the Washington Broadband Office at the following address:

KENNETH KUCHNO  
BROADBAND DIVISION  
RURAL DEVELOPMENT TELECOMMUNICATIONS PROGRAM  
U.S. DEPARTMENT OF AGRICULTURE  
STOP 1599, ROOM 2868-S  
1400 INDEPENDENCE AVENUE, SW  
WASHINGTON, DC 20250-1599

Applications delivered by hand to the Washington Broadband Office will be accepted daily between 8:00 a.m. and 4:30 p.m. (Eastern Time), except Saturdays, Sundays and Federal holidays. Individuals delivering applications must provide proper identification (with picture ID) to enter the building. ***All applications are stamped as received only upon receipt in the Washington Broadband Office.***

A current listing of GFR contact information can be found at:  
[http://www.usda.gov/rus/telecom/staff/index\\_staff.htm](http://www.usda.gov/rus/telecom/staff/index_staff.htm).

## ➤ ***12. Application Review and Notification Process***

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Once an application has been received in the Washington Broadband Office and categorized according to the prioritization criteria, the application will be reviewed for eligibility, completeness and quality as follows:

1. RD will determine through a Public Notice process whether the service area(s) in the application are eligible for funding. See details in the instructions for Public Notice Schedules G-1 and G-2 in the section “Instructions for Preparing Schedules A through S.” The information submitted by existing service provider(s) will be considered proprietary and confidential.
  - If RD determines that all service area(s) are eligible, program staff will proceed to review the application for completeness.
  - If RD determines that one or more service area(s) are not eligible for funding, program staff will notify the applicant of all ineligible areas. Broadband service in ineligible areas cannot be financed with RD loan funds; however, the ineligible areas may remain as part of the application to support financial feasibility.
2. The completeness review will include an assessment of whether all required documents and information have been submitted, and whether the information provided is of adequate quality to allow for further analysis.
  - If the application is complete and of adequate quality, program staff will notify the applicant in writing that the application is complete. RD may

still request additional information to complete the financial and technical feasibility evaluations.

- If the application is of adequate quality but incomplete, program staff will notify the applicant in writing that the application is incomplete. The notification of incompleteness will include a list of items that the applicant must address by a specified date.
  - If the applicant fails to respond by the specified date, the application will be rejected.
  - If the applicant responds by the specified date but does not satisfactorily address the issues identified, program staff will assess the applicant's progress toward submission of a complete application. If the applicant has made acceptable progress, a second notification of incompleteness will be provided. If the applicant's progress is not acceptable, the application will be rejected.
- If the application is not of adequate quality, program staff will notify the applicant in writing that the application has been rejected. The rejection letter will include an explanation of the reasons for the rejection.

After an applicant is notified that the application is complete, RD will evaluate the application's financial and technical feasibility, as well as its compliance with statutory and regulatory requirements, as follows:

1. RD will only make a broadband loan if the applicant's financial operations, taking into account the impact of the facilities financed with the proceeds of the loan and the associated debt, are financially and technically feasible, as determined by RD.
2. Financial feasibility will be determined by evaluating the applicant's equity, market survey (if required), competitive analysis, financial information, and other relevant information in the application.
3. Technical feasibility will be determined by evaluating the applicant's network design in conjunction with other relevant information in the application.
4. If the application meets all statutory and regulatory requirements and the feasibility study demonstrates that the TIER requirement can be satisfied (see the section on Financial Position), the application will be submitted to RD's credit committees for consideration. Submission of the application to the credit committees does not guarantee that a loan will be approved.

The applicant will be notified of RD's decision in writing as follows:

1. If the loan is approved, a loan offer will be extended. The applicant will typically have 10 working days to accept the offer.
2. If the loan is not approved, a rejection letter will be sent to the applicant and the application will be returned with an explanation of the reasons for the rejection.

### ➤ ***13. Contact Information***

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For additional information concerning this loan program, please contact the General Field Representative (GFR) for the Telecommunications Program in the respective state and/or any member of the Broadband Team. The contact information for the Broadband Team and the GFRs can be found at the following address:

[http://www.usda.gov/rus/telecom/staff/index\\_staff.htm](http://www.usda.gov/rus/telecom/staff/index_staff.htm)

Information about the RD Telecommunications Program and this application guide can also be found at:

<http://www.usda.gov/rus/telecom/broadband-app.htm>

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## **Instructions for Completing the RUS Form 532**

The RUS Form 532, Application for Broadband Loan or Loan Guarantee, is a three-page form that must be completed and certified by an authorized official of the entity applying for the loan. The applicant's name should be inserted in the footers for identification purposes.

1. **NAME & ADDRESS OF APPLICANT** – Enter the legal name and address of the entity requesting the loan.
2. **REGISTERED AGENT (Address, Telephone and Fax)** – Enter the name, address, phone and fax numbers of the registered agent of the applicant.
3. **PHONE NUMBER** – Enter the phone number of the applicant.
4. **FAX NUMBER** – Enter the fax number of the applicant.
5. **E-MAIL ADDRESS** – Enter the e-mail address of the person responsible for answering questions about this application.
6. **CONTACT PERSON** – Enter the name of the person responsible for answering questions about this application.
7. **TYPE OF ORGANIZATION** - Check the appropriate box that describes the legal structure of the applicant.
8. **TYPE OF LOAN** – Check the type of loan requested. (See Types of Loans under the “General Information” section for additional information on each type of loan). For applicants that select Direct Loan, please note that RD may choose to offer a cost-of-money loan or a 4% loan, or a combination thereof, at its discretion.
9. **REFINANCING/ACQUISITION** – Check appropriate box(es) if loan funds are requested for refinancing and/or acquisition; otherwise check Not Applicable.
10. **PURPOSE OF LOAN** - Briefly explain the purposes for which loan funds are requested and the respective amount. (See Loan Purposes under the “General Information” section of this guide for additional information on eligible/ineligible purposes of the loan.)
11. **LOAN MATURITY REQUESTED** – Check the appropriate box to select the loan maturity requested. (See Types of Broadband Loans under the “General Information” section of this guide for a discussion of the Program’s requirements for loan maturity.)
12. **AMOUNT OF LOAN APPLIED FOR** – The total amount of loan funds requested from RD in this loan application. (Please note the minimum and maximum amount restrictions discussed under the “General Information” section of this guide.)

13. IDENTIFICATION INFORMATION – Enter the applicant’s Tax Identification Number (TIN) or the Federal Employer Identification Number (FEIN) in the spaces provided. Enter the applicant’s Dun & Bradstreet DUNS number in the space provided.
14. ORGANIZATIONAL NUMBER – Enter the organizational number of the applicant issued by the state in which the corporation was formed or the LLC was organized. Refer to state registration approval for the type of entity:  
[http://www.uccdirect.com/resource\\_chart.htm](http://www.uccdirect.com/resource_chart.htm)
15. TYPE OF BORROWER – Indicate whether the applicant has an outstanding broadband or telecommunications loan made or guaranteed by RD.
16. UPGRADE OR EXPANSION OF NETWORK – Indicate whether this application is seeking funding to upgrade or expand an existing network, and/or build a new network.
17. CONGRESSIONAL DISTRICTS – Include the information required on the congressional districts as Schedule A.
18. EXECUTIVE SUMMARY – Include the information required on the Executive Summary as Schedule B.
19. LEGAL OPINION AND PROPERTY SCHEDULES – Include the legal opinion and the real property schedule. The legal opinion and the real property schedule should be included in the application as Schedules C-1 and C-2, respectively.
20. CORPORATE STRUCTURE – Include information on the legal structure of the applicant, its by-laws or operating agreements, its Board of Directors or Managing Members, the management team’s experience and compensation, its organizational chart, and its parent/subsidiary relationships, as Schedules D-1 through D-6.
21. BOARD RESOLUTION – Include the Board of Director’s resolution authorizing the funding request as Schedule E.
22. SERVICE AREA – [EXISTING or NEW; FUNDED or NON-FUNDED](#) – Include the tables on the existing and new service areas and funded and non-funded service areas as Schedule F.
23. PUBLIC NOTICE – Include the electronic submission of service area maps and required demographic data for each funded service area as Schedules G-1 and G-2.
24. COMPLIANCE CERTIFICATES – Include certified copies of these forms in the application as Schedules H-1 to H-6.
25. OUTSTANDING FEDERAL DEBT – Check appropriate box on Form 532. Use Schedule I to list all outstanding Federal debt and, for each loan, indicate whether the loan documents are attached to the application.
26. EQUITY – If the equity requirement is being met by the Applicant’s Equity, this should be evident on Schedule M-4a (under Financial Position). If not, include (a) Schedule J-1, an the Investor Proposal and supporting documentation

indicating that the investor has the capacity to perform; and/or (b) Schedule J-2, documentation of a State or local government's authority and capacity to issue a State/Local Government Bond.

27. RESEARCH DATA & MARKET ANALYSIS– Include the information required as part of the Research Data as Schedule K-1 and for the Market Analysis as Schedule K-2.
28. COMPETITIVE ANALYSIS – Include as Schedule L-1 the analysis of existing providers who are competitors. Include the strategic plan as Schedule L-2.
29. FINANCIAL POSITION – Include the information required on the Financial Position of the applicant. These schedules cover six major areas: complete financial statements, preferably audited, for the preceding three years (Schedule M-1); detailed information on all existing indebtedness (Schedule M-2); the projected subscriber base for each type of service to be offered (Schedule M-3); the projected financial statements for each of the five years of the forecast period (Schedule M-4); estimate of whether additional cash is needed and documentation to support the capacity to make the cash investment (Schedule M-5), and depreciation schedule for the assets proposed for purchase with the loan funds (Schedule M-6).
30. NETWORK DESIGN – Include the information required for the Network Design and Network Design Certification as Schedules N-1 and N-2, respectively.
31. BUILD-OUT SCHEDULE – Include the Annual Build-out Schedule, the Quarterly Build-out Schedule, and the Description of Workforce as Schedules O-1, O-2, and O-3, respectively.
32. NETWORK DIAGRAMS – Include the Existing and Proposed Network Diagrams as Schedules P-1 and P-2, respectively.
33. PROJECT COSTS – Enter the respective dollar amounts for each budget category on the form in the spaces provided. Attach the corresponding Schedules Q-1 through Q-3.
34. ENVIRONMENTAL REPORT – Include the Environmental Report for the proposed project as Schedule R.
35. LICENSES AND AGREEMENTS – Include copies of FCC and CLEC licenses; franchise agreements; interconnection agreements; tower, equipment and ing leases; management/service agreements; and other major agreements as Schedules S-1 through S-7.

## Overview to Preparing Schedules A through S

When preparing an application, RD encourages applicants to think of the entire application as a business plan that is being presented for consideration. It should present the project's goals and activities with a convincing argument to demonstrate that the applicant has sufficient management experience and capacity, financial wherewithal, a sound technical approach with the experience and skills to implement the plan, and the marketing plan and knowledge to ensure the project's success.

In addition to demonstrating the financial and technical feasibility of the applicant's plan, the applicant also must demonstrate that the project will help RD achieve the goals of the Rural Broadband Loan Program and that the project can meet the program's regulatory requirements.

RD conducts a rigorous financial and technical 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 that will benefit from broadband access. Applicants are urged to develop and submit applications that meet or exceed these standards.

RD generally obtains a first lien on all assets owned by the applicant and purchased with the loan funds as well as all revenues. RD will consider sharing a first lien position with another lender on a *pari passu*, prorated basis. RD will not consider being subordinate to another lender.

## **Instructions for Preparing Schedules A & B**

### **CONGRESSIONAL DISTRICTS (Schedule A)**

Schedule A shall contain information on the congressional district where the applicant's headquarters are located and the congressional districts that cover the service area(s) included in this project.

### **EXECUTIVE SUMMARY (Schedule B)**

The executive summary should be a brief description of the proposed project. It should state the reason why the system is needed and the qualifications of the applicant that demonstrate the ability to construct and operate a broadband system. It should also state the number and names of the rural areas to be served, the proposed type of broadband system that will be deployed and the overall cost of the broadband system. A sample Executive Summary illustrating the type of information to include is provided below.

#### **Sample Executive Summary (Schedule B)**

Acme, Inc. plans to build and operate a next generation wireless/fiber to the home/ broadband network that will enable fast, reliable, simple, mobile, and affordable broadband communication at the broadband lending speed in X communities in X states. Acme Inc was founded in XXXX and received its FCC licenses in XXXX. Our license footprint includes XX licenses in XXX cities across the country and cover approximately X million people. Our target market includes smaller cities and towns in rural areas that lack the broadband choices of urban and suburban communities:

Iowa: County X, County Y, County Z, Town A, Town B  
Nebraska: County L, County M, Town C, Town D  
Missouri: Town, E, Town F, Town, G, Town H

The loan will be used to fund design, construction, and implementation in the target markets as well as the purchase of base stations, antennas, network equipment and other necessary hardware for deploying this solution.

**End of Sample Executive Summary (Schedule B)**

## Instructions for Preparing Schedule C

### LEGAL OPINION AND PROPERTY SCHEDULE (Schedules C-1 and C-2)

- A. Legal Opinion – A legal opinion shall be prepared in accordance with the following sample format and attached as Schedule C-1:

#### Sample Legal Opinion (Schedule C-1)

[Date]

Administrator  
Broadband Division  
Rural Development Telecommunications Program  
U.S. Department Of Agriculture  
Stop 1599, Room 2868-S  
1400 Independence Avenue, SW  
Washington, DC 20250-1599

Subject: [Company Name]

Ladies and Gentlemen:

We are counsel to \_\_\_\_\_ (the “Company”) in connection with the Company’s application (Application) for a loan from the Rural Development, Telecommunications Program (Rural Development), to provide broadband service at the broadband lending speed. We have examined or caused to be examined by competent and trustworthy persons such corporate records and files and such other records, indexes, and files as we have deemed necessary to permit us to render the opinions expressed herein. We are of the opinion that:

1. The Company is a (corporation, cooperative, limited liability company, etc.) duly formed, validly existing and in good standing under the laws of the State of \_\_\_\_\_.
2. The Company operates in the States of \_\_\_\_\_ and is duly licensed and qualified and in good standing as a foreign \_\_\_\_\_, authorized to do business and own property in such States.
3. The Company has full legal right, power and authority to own its property and carry on its business as now conducted.

**Sample Legal Opinion (Schedule C-1)**  
**(continued)**

4. The execution, delivery and performance by the Company of the Application and the consummation of the transactions contemplated thereby are within the powers of the Company.
5. The Application has been duly executed by the Company.
6. The Company owns the real property described on Schedule C-2 attached hereto and has the power to grant a security interest in such property and all other property owned by the Company to the Rural Development as collateral for the loan described in the Application.
7. The real property leases, tower leases and equipment leases (Leases) identified in Schedules C-2 and S are in full force and effect and constitute the legal, valid and binding obligations of the Company and the other parties thereto. (List leases in appropriate categories on Schedule C-2.)
8. The Company has such rights under the Leases as are necessary to operate its business as described in the Application and may pledge and assign its interests in the Leases to Rural Development as security for the loans described in the Application.
9. The property descriptions set forth on Schedule C-2 are sufficient for purposes of financing statements creating a lien on such collateral under Article 9 of the Uniform Commercial Code in effect in the State of \_\_\_\_\_, where the financing statement must be filed.
10. Schedule C-2 contains complete and accurate descriptions of all the real property owned or leased by the Company, including easements and rights-of-way, which are sufficient, in form and substance, for inclusion in the granting clause of a mortgage creating a lien on such property.
11. A security interest in the Leases can be perfected by filing a \_\_\_\_\_ in the Office of \_\_\_\_\_ in the State of \_\_\_\_\_.
12. For purposes of Article 9 of the Uniform Commercial Code in the State of \_\_\_\_\_, the Company is a “transmitting utility.”
13. The Company’s organizational number is \_\_\_\_\_.
14. The exact true and correct legal name of the Company, as stated in its organization documents, is \_\_\_\_\_.
15. The Company’s corporate debt limit is \_\_\_\_\_.

**Sample Legal Opinion (Schedule C-1)**  
**(continued)**

16. The Company's estimated tax liability for filing a mortgage in the appropriate counties for the proposed loan is estimated to be \_\_\_\_\_.
17. The execution, delivery and performance by the Company of the loan documents would not (would) require the consent, permission or authorization of (any) governmental authority.
18. The Company's taxpayer identification number is \_\_\_\_\_.
19. The pending claims or litigation against the Company are described in an attachment to this legal opinion. There are no pending claims or litigation against the Company.
20. The Company has the following subsidiaries or parent: [*List and describe all*] \_\_\_\_\_.
21. The titles of the Company officials with the proper authority to execute all loan documents on behalf of the Company, and attest to the execution where required, are \_\_\_\_\_.

Very Truly Yours,

[*Signature*]

**End of Sample Legal Opinion (Schedule C-1)**

- B. Real Property Schedule - Schedule C-2 shall include the legal descriptions of all the real property owned by the applicant. It should be categorized into real property, leased-property, easements, and rights-of-way, as shown in the following example:

**Sample Real Property Schedule (Schedule C-2)**

1. Real Property Owned:  
    [*Legal Description(s)*]
2. Real Property Leases that are part of the Telecommunications System (indicate record owner of property):  
    [*Legal Description(s)*]
1. Easements and Rights-of-Way:  
    [*Legal Description(s)*]

**End of Sample Real Property Schedule (Schedule C-2)**

## Instructions for Preparing Schedules D & E

### CORPORATE STRUCTURE (Schedules D-1 through D-6)

- A. Articles of Incorporation or Organization Agreement – Include a registered copy of the Articles of Incorporation or Organization Agreement of the applicant as Schedule D-1.
- B. Bylaws or Operating Agreements -- Attach as Schedule D-2 a copy of the Bylaws or Operating Agreements. If the applicant is an LLC, or any of the applicant's members are LLCs, the applicant must submit either of the following:
- 1) LLC agreements for all members of the applicant's LLC; or
  - 2) An opinion of counsel which certifies that the applicant's agreement does not conflict with any of the LLC agreements of the applicant's members.
- C. Board of Directors or Managing Members – Schedule D-3 shall include a list of the applicant's board members and a brief biography to highlight their experience within the applicant's industry and community.
- D. Management Experience and Compensation – Schedule D-4 shall include information on the key personnel who manage or will manage the company and this project. At a minimum, the following information shall be provided for each member of the management team:
- Duties and responsibilities related to this project and to any other project
  - Detailed description of qualifications, focusing on how each person's previous ten years of work experience directly relates to his or her ability to perform the duties and responsibilities described above
  - Resume for each team member detailing positions held for the 10 years previous to the date on which the application is submitted
  - Salaries
  - Stock Ownership
  - Bonus Plans
  - Individual Equity Investments

In addition, the following two items should also be addressed in this Schedule:

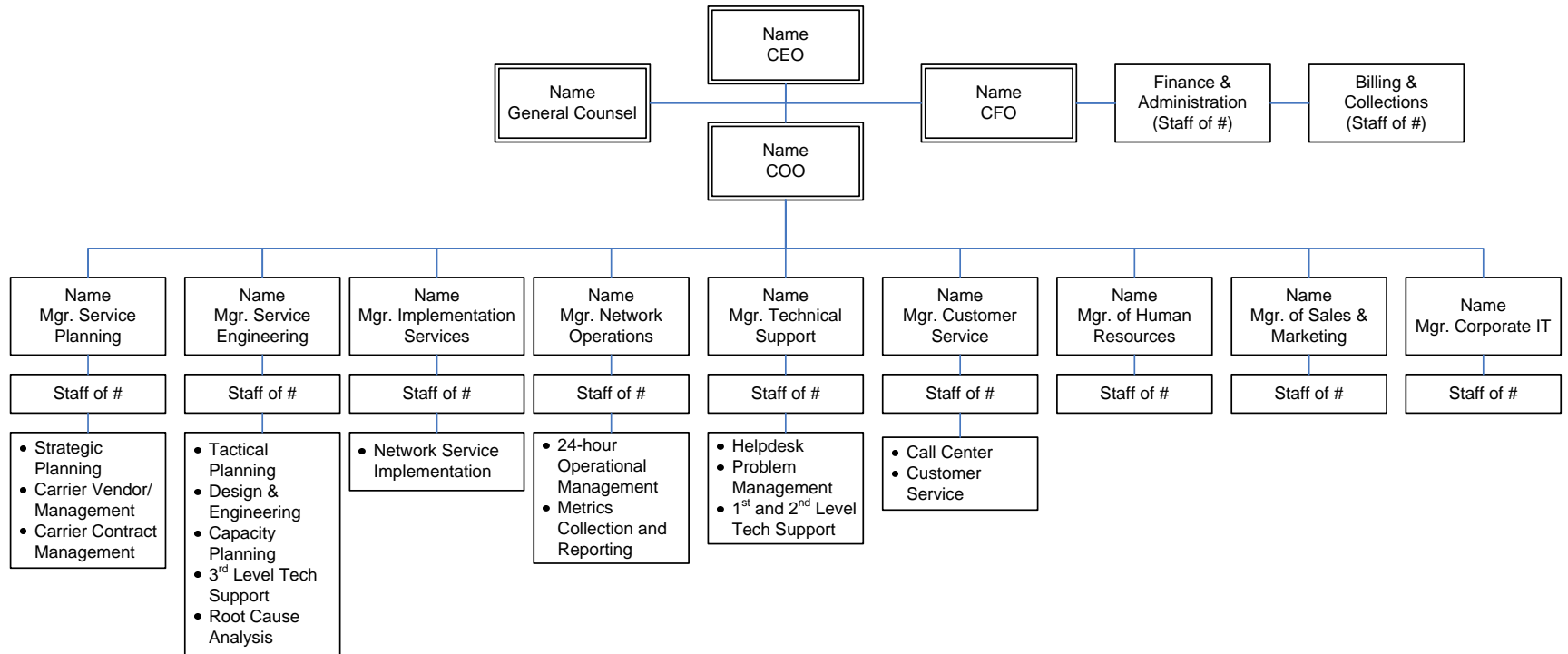
- Describe the extent to which this management team has worked together previously, and name particular initiatives or projects, if any, that the team has previously undertaken together.
  - How do the management team's skills complement each other?
- E. Organizational Chart - Schedule D-5 shall include an organizational chart showing the key personnel who manage or will manage the company and/or this

project, and the number of employees in each division or department managed by those personnel. A sample organizational chart is provided on the next page. This is only a sample and must be tailored to reflect the applicant's organization. An applicant's organizational chart(s) should reflect both company structure and key staff, whether this is achieved using one or more charts.

**Sample Organizational Chart (Schedule D-5)**

# Company Name

Sample Company Organizational Chart

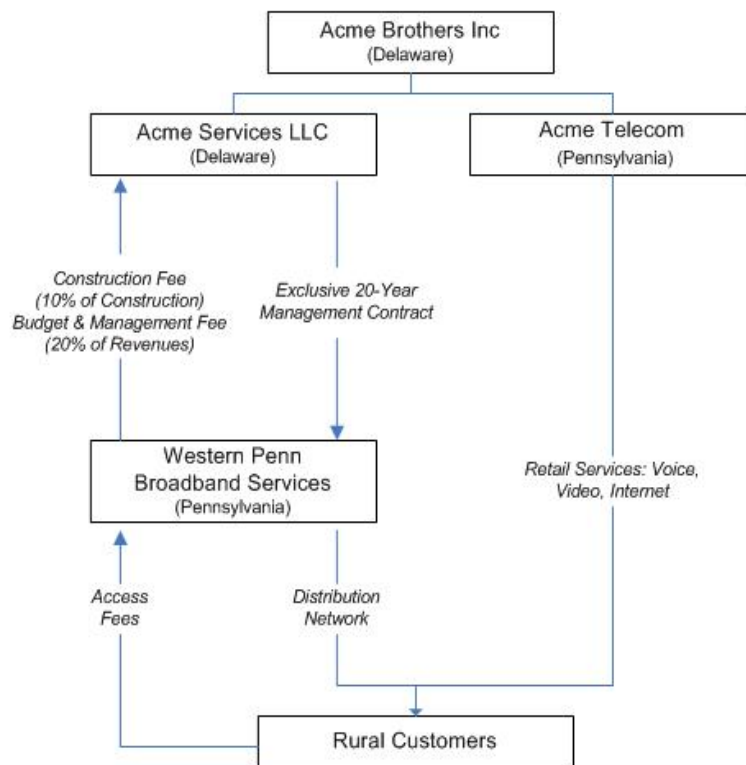


**End of Sample Organizational Chart (Schedule D-5)**

- F. Parent and Subsidiaries – Schedule D-6 shall include an organizational chart illustrating all the other entities (parent/subsidiaries) that are affiliated with the applicant and clearly indicating the relationships between these entities and the applicant. An accompanying narrative should briefly indicate any services that the affiliate will be providing to the applicant or that the applicant will be providing to the affiliate. See the sample organizational chart below. This is only a sample and must be tailored to reflect the actual structure of the applicant’s organization.

**Sample Parent and Subsidiaries Chart (Schedule D-6)**

**Company Name**  
Parent / Subsidiary Organizational Chart and Services



Acme Services, LLC: A subsidiary of Acme Brothers, Inc. Provides management services, including backend customer service and billing. Operates the network operating center.

Western Penn Broadband Services: The local entity which would own and operate the local distribution infrastructure (not RD-funded) for its service territory. The distribution network will be open-access.

Acme Telecom: A subsidiary of Acme Brothers, Inc. Provides retail internet, voice, and video services over the distribution network. Acme Telecom will not be an RD borrower.

**End of Sample Parent and Subsidiaries Chart (Schedule D-6)**

**BOARD RESOLUTION (Schedule E)**

A Board of Directors' resolution or other document authorizing the funding request should be included as Schedule E.

## Instructions for Preparing Schedule F

### SERVICE AREAS - NEW or EXISTING; FUNDED or NON-FUNDED (Schedule F)

Schedule F must be completed for all existing service areas (if any) served by the applicant as well as all new service area(s). For each service area, the applicant must indicate whether RD loan funds will be used.

Applicants should list each of their service areas in accordance with the following categories:

- New or Existing:
  - New -- Designate a service area as “New” if the applicant does not provide broadband service to this area.
  - Existing -- Designate a service area as “Existing” if the applicant currently provides broadband service to this area.
- Funded or Non-Funded:
  - Funded -- Designate a service area as “Funded” if the applicant proposes to use RD broadband loan funds received under this application in this service area to provide broadband service at the broadband lending speed.
  - Non-Funded -- Designate a service area as “Non-Funded” if RD funds will not be used in the service area.

Indicate the County (or Counties) and the State(s) covered by each service area; the area’s population; the number of Households (HH) in the area; and the number of Businesses (Bus) in the area. These statistics should start with the most recent available data provided by the U. S. Census Bureau (see <http://www.census.gov/>) and can be supplemented with more current information. Applicants should provide such data for each area they serve or plan to serve, regardless of whether the area qualifies for RD funding.

An entity applying to the Broadband Loan Program must plan to use RD funding to provide service to at least one eligible service area (“funded service area”). Non-contiguous areas must be treated as separate service areas for the purpose of determining service area eligibility. Please note that an applicant may offer broadband service to ineligible areas to achieve overall project financial feasibility, however it must use non-RD funding for those areas. The eligibility criteria and a detailed example are provided below:

#### A. Rural Areas

Only a service area completely contained within a rural area, or composed of multiple rural areas, is eligible for a broadband loan. Under this Program, a rural area is any area located in the United States, its territories and insular possessions (including any area within the Federated States of Micronesia, the Republic of the

Marshall Islands, and the Republic of Palau), which according to the latest decennial census of the Bureau of the Census:

1. is not located within a city, town, or incorporated area that has a population of greater than 20,000 inhabitants; and
2. is not located within an urbanized area<sup>1</sup> contiguous and adjacent to a city or town that has a population of greater than 50,000 inhabitants.

#### B. Other Eligibility Criteria

In addition to being located entirely within a rural area, a service area must meet the following criteria to be eligible for a broadband loan:

1. At least 25% of the households are underserved households, meaning they are offered broadband service by no more than one “incumbent service provider”. Incumbent service providers are broadband providers that RD identifies as directly providing broadband service to at least 5% of the households within a service area.
2. No part of the funded service area has three or more “incumbent service providers.”
3. No part of the applicant’s funded service area(s) overlaps with an area that was included in RD’s feasibility analysis of a current borrower’s broadband or telecommunications loan.<sup>2</sup> (Please note that the applicant may include such overlapping areas in the project to support its financial feasibility as long as RD financing is not used in those areas.)
4. No part of the funded service area falls within an area that is expected to be included in RD’s feasibility analysis of a pending broadband or telecommunications loan application. (As above, please note that such overlapping areas may be included in the application to support the project’s financial feasibility as long as RD financing is not used in those areas.)

#### C. Exceptions

There are two exceptions to the service area eligibility criteria listed above:

1. If a current broadband borrower applies to upgrade existing facilities, the upgrade area is exempt from the requirement concerning the number of underserved households.
2. Incumbent service providers, including borrowers, that apply to upgrade existing broadband facilities in existing service areas, generally are exempt

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<sup>1</sup> An urbanized area is a densely populated territory as defined in the latest decennial census of the U.S. Census Bureau.

<sup>2</sup> This eligibility requirement does not apply if the current borrower’s services fail to meet the currently-applicable broadband lending speed and it has been more than 24 months since the applicable broadband lending speed was first published in the Federal Register. Borrowers that are in the build-out period when a new broadband lending speed is published in the Federal Register will have 24 months from the end of the build-out period to upgrade their services to achieve the new standard before overlapping will be permitted.

from the requirement concerning the number of incumbent service providers unless they are eligible for funding under Titles II and III of the RE Act.

Applicants whose proposed project qualifies for either of the above exceptions must include the upgrade area as a separate service area. Therefore, if an applicant requiring an exemption for an upgrade also wishes to expand its services, it may apply for expansion funding under the same application, but the upgrade area and the expansion area must be included as two separate service areas, and the expansion area must meet all the standard eligibility requirements for RD funding. This requirement applies even if the upgrade and expansion areas are contiguous.

Please note that some of the information required to make a final eligibility determination for a service area is collected via a Public Notice process after the application is submitted (see details in the instructions for Public Notice Schedules G-1 and G-2). Applicants must thoroughly research the area in which they propose to provide service and account for each of the area eligibility criteria to the extent possible.

### **Service Area Eligibility Example**

The Board of Directors at Acme Rural Telco, a telecommunications company operating in several states, thinks it might be profitable to begin offering broadband service in a state where it currently does not operate. A Broadband Loan from RD will make the expansion possible, so Acme must establish a service area that is eligible under the Broadband Loan Program rules.

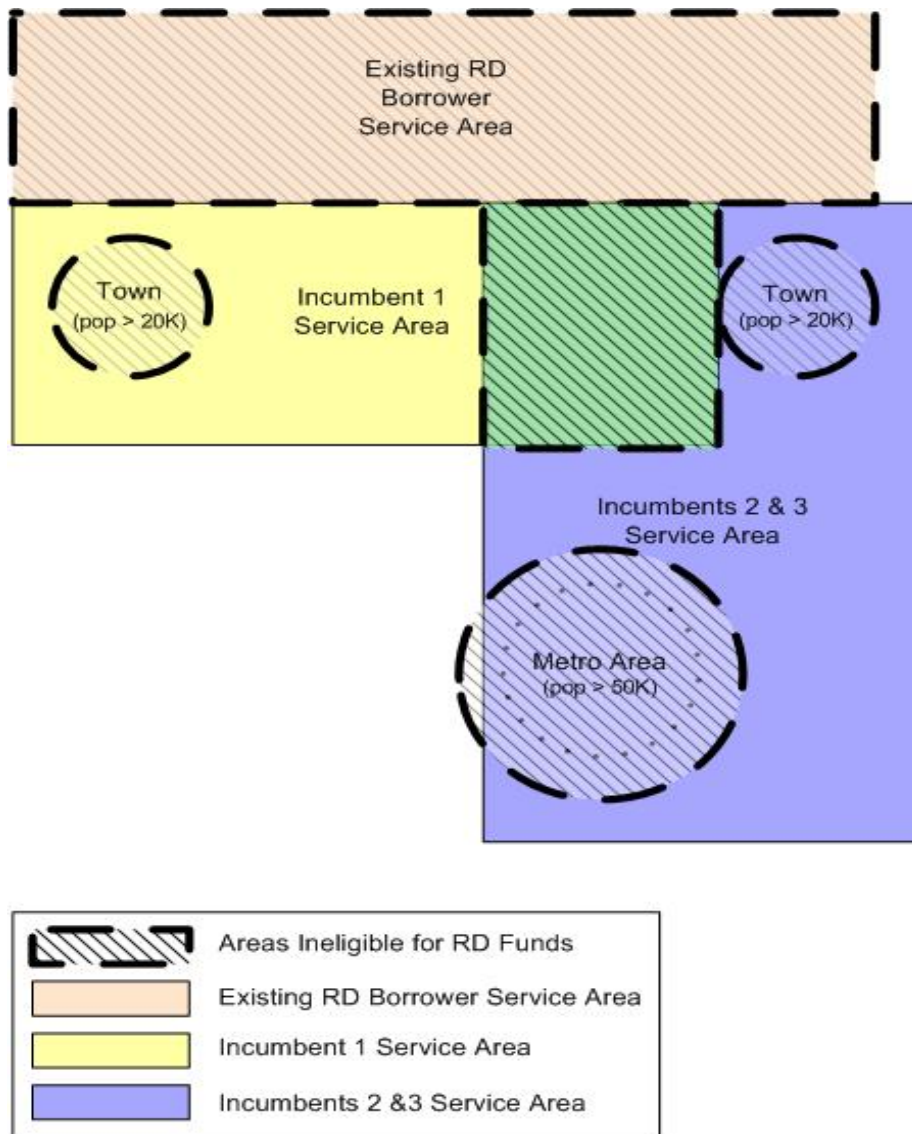
Acme considers the existing service providers in the target area. There are four providers operating within the state, one of which is a small RD borrower that is already offering services at the current broadband lending speed. Acme knows that it cannot obtain RD funding for providing services within the service area of the small RD borrower, nor in any areas where three or more incumbent service providers operate, as determined by RD. Aside from the small RD borrower, each of the other existing service providers is a fairly large company that tends to garner high take-up rates. Acme assumes that RD will classify each as an incumbent, and that RD funding therefore likely cannot be used in any area that is served by all three of the large providers.

The Acme Board also notes that within the general target region, there is one metropolitan area and two towns, each with a population in excess of 20,000 residents. The Board knows they cannot obtain RD funding for providing services in any of these areas, nor anywhere that is adjacent to the metropolitan area.

Based on these findings, Acme staff created a rough map of the area they are considering to include in their Broadband Loan Program application. This map, presented as Figure 1 below, highlighted areas ineligible for funding from the Broadband Loan Program. The hatched areas (i.e. the areas with the diagonal lines across them) are all ineligible areas. Such areas include the two towns, the metropolitan and adjacent areas, the area served by the existing RD borrower, and the area shaded in green which is served by both Incumbent 1 (whose service area is shaded in blue) and Incumbents 2 and 3 (whose service areas are shaded in yellow).

## Service Area Eligibility Example (continued)

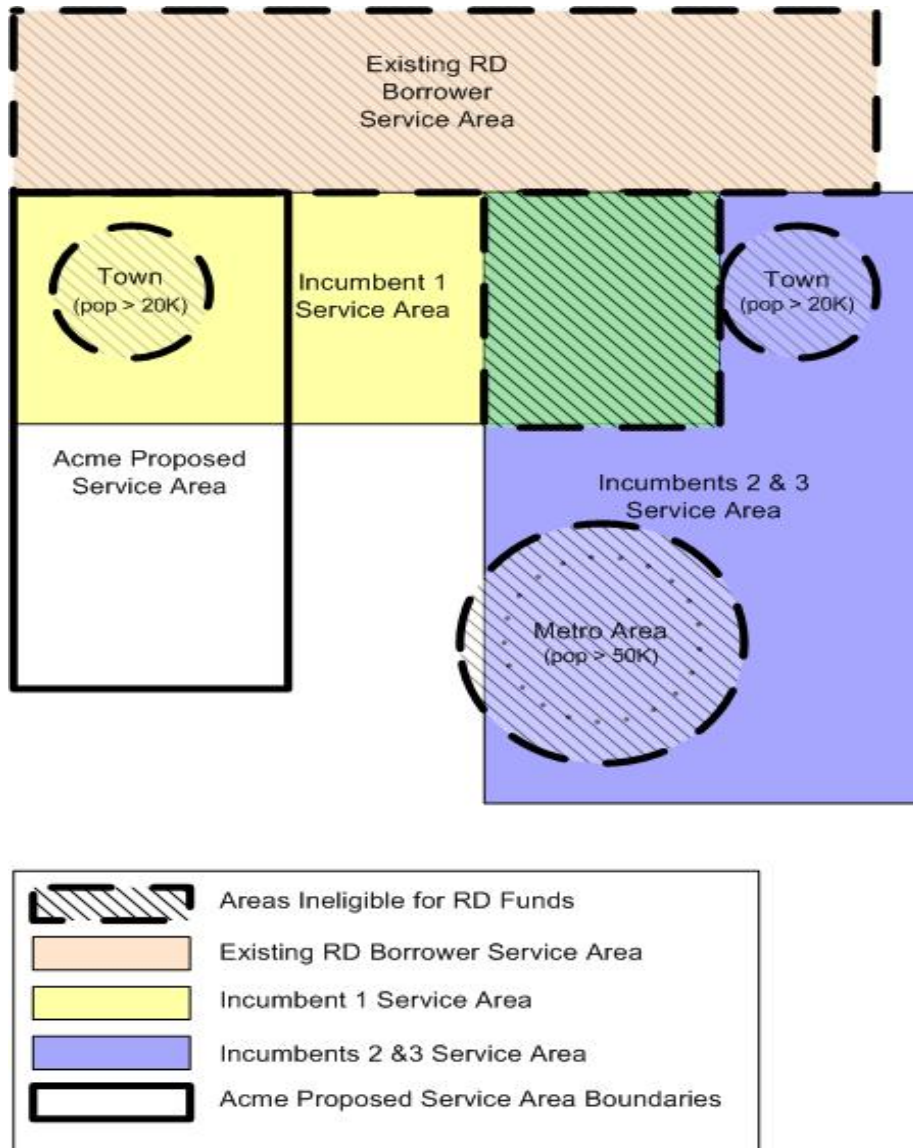
Figure 1. Areas Ineligible for Broadband Loan Program Funding



After noting the ineligible areas within the service area they were considering, Acme then had to determine if they could meet the criteria that at least 25% of the households are underserved, meaning households that are offered broadband service by no more than one provider. After analyzing population data, Acme found that they could easily meet this requirement by serving households in the western portion of the area they are considering, as no broadband service provider serves this area. With this in mind, Acme staff added to the map their service area (Figure 2).

## Service Area Eligibility Example (continued)

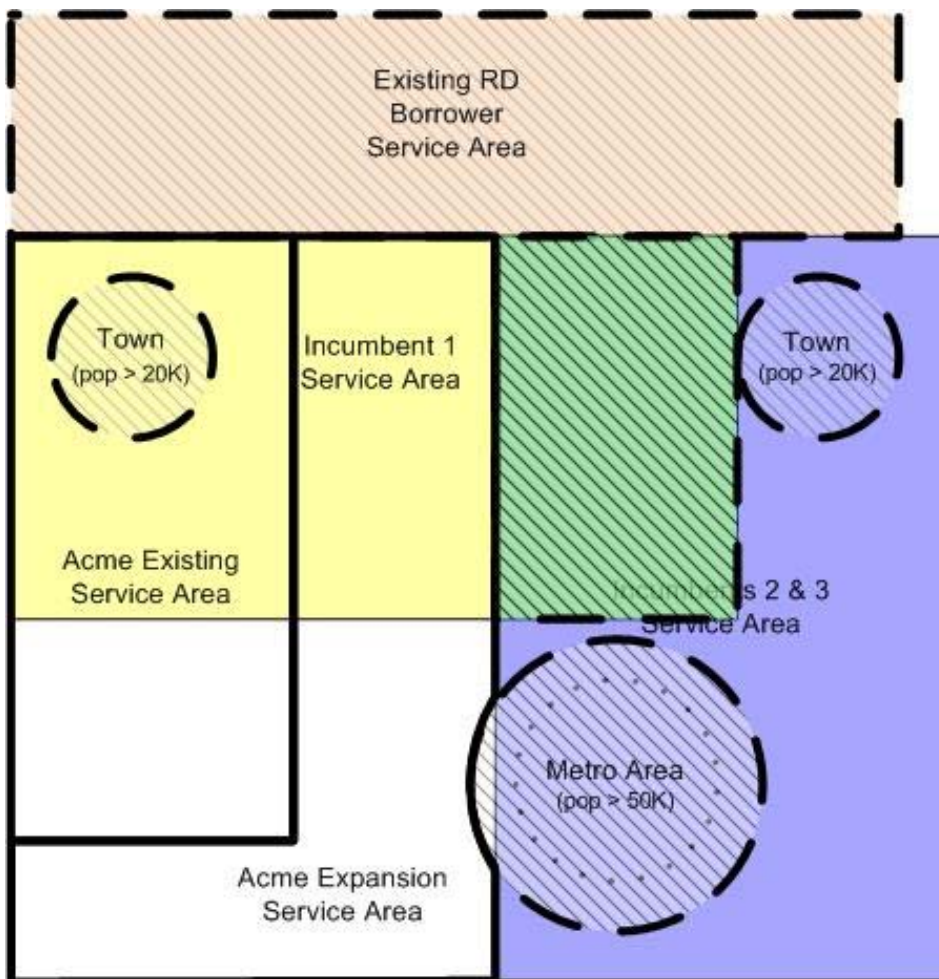
Figure 2. Acme's Service Area for Initial Funding



Note that Acme's service area includes a portion of Incumbent 1's service area (shaded in yellow). It also includes a town with a population greater than 20,000 inhabitants. Acme knows that they will not be able to use Broadband Loan funds to finance construction of facilities within this town. However, the inclusion of this town in the loan application as a non-RD-funded new service area is allowable under the RD Broadband Loan Program to support the financial feasibility of the project as a whole. Acme submits a successful application for its service area and receives a Broadband Loan.

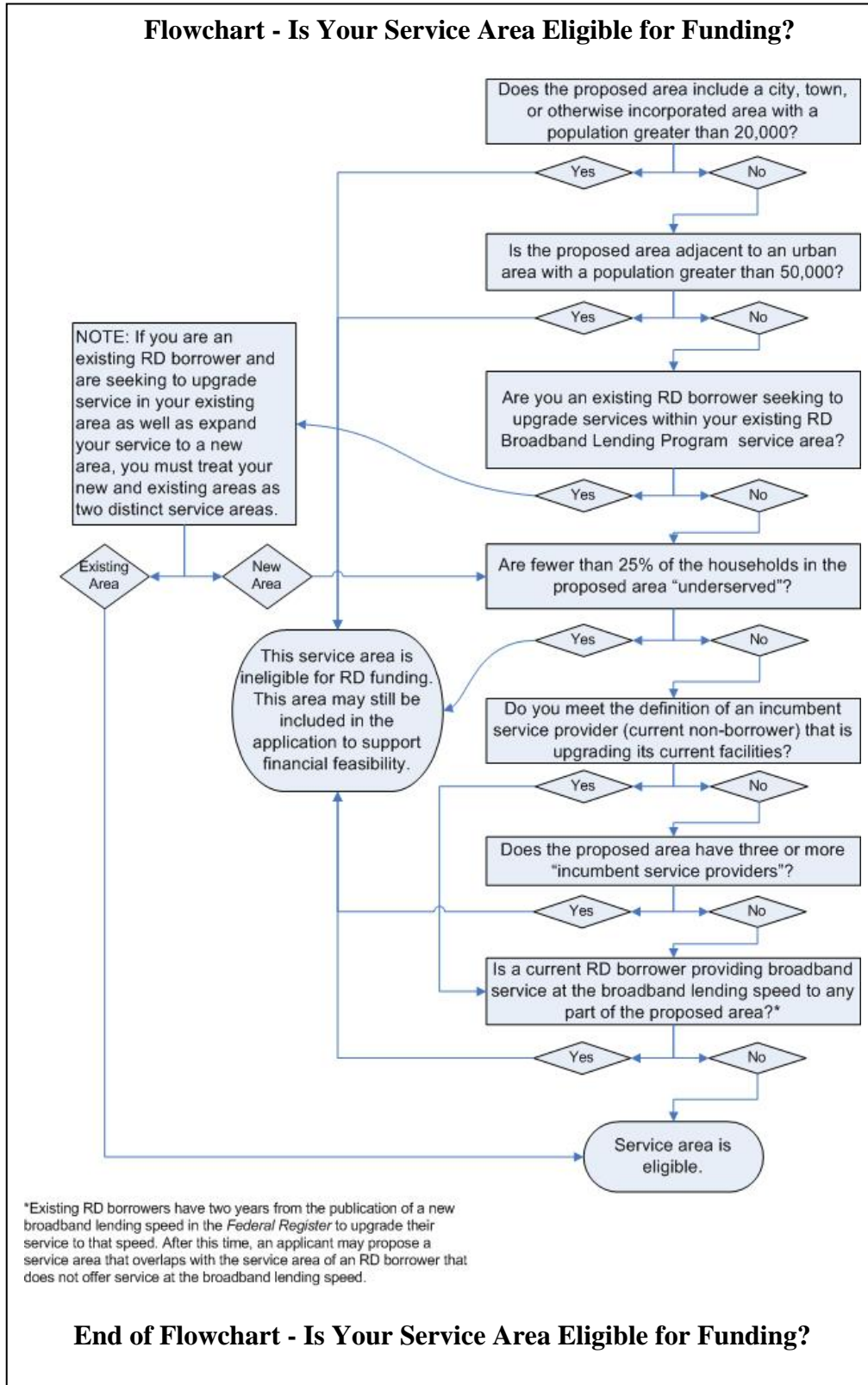
### Service Area Eligibility Example (continued)

Figure 3. Acme's Upgraded and Expanded Service Areas



**End of Service Area Eligibility Example**

In addition to the detailed example provided above, the following flowchart is provided to assist applicants in evaluating the likely eligibility of a service area that is being considered for inclusion in a Broadband Loan Program application. However, please note that the diagram may not capture all possible scenarios. In addition, as stated above, please note that final eligibility determinations for service areas can only be made based on information collected during the application review process.



## Instructions for Preparing Schedule G

### PUBLIC NOTICE (Schedules G-1 and G-2)

All applicants must provide information necessary for RD to post a public notice on its website announcing an applicant's intention to offer service at the broadband lending speed in the service area(s). The public notice requests that any existing service provider submit within 30 days, the following information:

- The number of residential and business customers currently offered broadband service by that provider in the applicant's service area(s);
- The number of residential and business customers within the applicant's service area currently purchasing the existing service provider's broadband service, the rates of data transmission being offered, and the cost of each level of broadband service charged by the existing service provider;
- The number of residential and business customers within the applicant's service area receiving the existing service provider's non-broadband services and the associated rates for these other services; and
- A map showing where the existing service provider's services coincide with the applicant's service area.

The response form to be used by the existing service provider is available on RD's web site at <http://www.broadbandsearch.sc.egov.usda.gov>. The information submitted by an existing service provider will be treated as proprietary and confidential to the extent permitted under applicable law. RD will use the information to determine whether the existing service provider will be classified as an incumbent service provider, which in turn will impact the determination of eligibility for the applicant's service area(s). If an existing service provider does not submit a response within the specified timeframe, it will not be considered an incumbent service provider. However, all existing service providers will be considered in RD's feasibility study and lending decision.

The information provided by the applicant for the public notice must include:

- 1) Service Area Map(s) - Schedule G-1 shall include a map of each service area. Each map must identify the rural area boundaries and the underserved areas, and show the location of the underserved households in the service area. (Underserved households are households not offered broadband service, or offered broadband service by only one incumbent service provider.) Applicants must submit their service area maps using the web-based mapping tool available at the following address:  
<http://www.broadbandsearch.sc.egov.usda.gov>.

- 2) Demographic Data - Schedule G-2 shall provide the following information for each service area:
- i. The service area reference code, which will be provided when using the web-based mapping tool under Schedule G-1.
  - ii. The total number of households that lie within the service area.
  - iii. The estimated number of underserved households in the service area.
  - iv. The estimated number of households without terrestrial-based broadband service in the service area.
  - v. A description of all the types of services to be provided in the service area.

<b>Sample Demographic Data (Schedule G-2)</b>						
	<b>Service Area</b>	<b>Service Area Reference Code</b>	<b>Total Number of Households</b>	<b>Number of Underserved Households (0 or 1 Incumbent)</b>	<b>Number of Unserved Households (0 Providers)</b>	<b>Type of Services to be Provided</b>
<b>1</b>	Moon County	XXXX	75,245	16,000	9,500	Data, Video and Voice
<b>2</b>	Sun County	XXXX	25,223	9,500	2,000	Data and Voice
Note 1: Underserved household means a household that is not offered broadband service, or is offered broadband service by only one incumbent service provider.						
Note 2: The number of unserved households means the estimated number of households without terrestrial-based broadband service in each service area.						
<b>End of Sample Demographic Data (Schedule G-2)</b>						

## **Instructions for Preparing Schedules H, I & J**

### **COMPLIANCE CERTIFICATES (Schedules H-1 through H-6)**

Schedules H-1 through H-6 are forms that need to be certified by the applicant to ensure compliance with Federal statutes and regulations. All forms should be certified with original signatures. Using the forms “as-is” will expedite application processing.

- A. Equal Opportunity and Nondiscrimination Certification (Schedule H-1)
- B. Certification Regarding Architectural Barriers (Schedule H-2)
- C. Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 Certification (Schedule H-3)
- D. Certification Regarding Debarment, Suspension, and other Responsibility Matters – Primary Covered Transactions (Schedule H-4)
- E. Certification Regarding Lobbying for Contracts, Grants, Loans, and Cooperative Agreements (Schedule H-5)
- F. Certification Regarding Flood Hazard Area Precautions (Schedule H-6)

### **OUTSTANDING FEDERAL DEBT (Schedule I)**

Check the appropriate box (yes or no) on Form 532. Attach as Schedule I a list of all outstanding Federal debt and, for each loan, indicate whether the loan documents are attached to the application. The sample below illustrates how to create Schedule I.

<b>Sample Outstanding Federal Debt (Schedule I)</b>			
	<b>Issuing Agency</b>	<b>Amount of Loan (Principal)</b>	<b>Loan Documents Attached? (Y/N)</b>
<b>1</b>		\$	
<b>2</b>		\$	
<b>End of Sample Outstanding Federal Debt (Schedule I)</b>			

### **EQUITY (Schedules J-1 and J-2, Schedule M-4a)**

To be eligible for a loan, and as a condition to RD financing, an applicant must have equity in an amount equal to 10% of the requested loan amount at the time of application. That equity must remain available at loan closing. As defined in 7 CFR 1738, equity means total assets minus total liabilities, as determined by GAAP. The applicant’s capacity to meet the minimum equity requirement will be determined by reviewing the applicant’s balance sheet.

- A. Equity. If an applicant's balance sheet can demonstrate fulfillment of the equity requirement at the time the application is submitted, this should be evident on Schedule M-1 submitted under Financial Position. Schedule M-1 does not need to be attached again here.
- B. Investor Proposal. If an applicant's balance sheet cannot demonstrate fulfillment of the equity requirement at the time the application is submitted, the applicant must submit, as Schedule J-1 in the application, an investor's unconditional legal commitment to cover the shortfall by providing additional equity. The additional equity must be transferred to the applicant prior to loan closing. Schedule J-1 must include, at a minimum:
1. A letter from the investor indicating the investor's unconditional legal commitment, the timing for providing the investment, the amount of investment, and all terms and conditions associated with the investment (RD may reject investments that do not prohibit redemption of the investment until such time as stated requirements and financial thresholds are achieved by the applicant); and
  2. Bank or financial statements from the investor that demonstrate the investor's ability to meet its commitment to the applicant.

If this option is selected and the support information is not included, the application will be rejected.

- C. State or Local Government Bond. Schedule J-2 is to be used by State and Local Governments who wish to satisfy the equity requirement with a general obligation bond that is not senior to the broadband loan (in practice, this generally means that the bond is *pari passu* with the broadband loan).
1. The applicant must submit an opinion from its legal counsel, acceptable to RD, that the applicant has the authority and capacity to issue a general obligation bond in an amount sufficient to meet the minimum equity requirement.
  2. With receipt of an acceptable opinion, RD can proceed with its review of the application.
  3. If RD extends a loan offer to the applicant, the general obligation bond must be issued and the applicant must have the cash deposited in its bank account before the loan closing can occur.
  4. Revenue bonds supported by the operations to be funded cannot be used to satisfy the equity requirement.

## **Instructions for Preparing Schedule K**

### **RESEARCH DATA AND MARKET ANALYSIS (Schedules K-1 and K-2)**

Market research is critical in determining the interest and demands of the targeted rural areas for the services offered. This research provides the applicant with knowledge of market potential and knowledge of the needs/demands of the potential customer base. But most importantly, market research supports feasibility studies and strategic planning goals.

Therefore, a market survey, satisfactory to RD, shall be conducted by the applicant in *each* service area where the applicant proposes to provide service at the broadband lending speed. The market survey will collect data from potential subscribers (both residential and business) on the service offerings and the respective rates to determine the level of interest in the services and rate plans to be offered by the applicant.

The market survey must demonstrate the need for services at the broadband lending speed as well as any other service being offered, support the projected penetration rates and price points for the services to be offered, and support the feasibility analysis. The market survey must address all services (i.e. voice, data, video, etc.) that will be funded with the broadband loan or loan guarantee except as follows:

- The applicant is *not* required to complete a market survey for any service offering for which the applicant is projecting less than a 20% penetration rate in each service area by the end of the five-year forecast period. For example, if the applicant is projecting a penetration rate of 30% for data services and 15% for video services in a particular service area, a market survey must be completed only for the data services in that service area. It is recommended that if a market survey is required for any service offering that the survey includes all service offerings.

RD may reject any application in which the financial projections are not supported by the market survey. If the demographics of the proposed service area have significantly changed since the survey was completed, an updated market survey may be required.

**Market surveys will only be accepted if they were conducted within six months preceding the date of submission of the application to RD.**

Market surveys can be conducted through the following media:

1. Direct mail;
2. Telephone;
3. Door-to-door interviews; and
4. Town Meetings

- i) Coordination with local government officials
- ii) Coordination with local Chamber of Commerce
- iii) Announcements by local TV, radio, and newspapers

The applicant must capture a representative sample of both the residential and business sectors of each service area included in the application regardless of whether the areas are being funded by RD loan funds or other sources.

The survey questionnaire used for conducting the market survey should, at a minimum, capture the following information:

1. Ownership of computers and Internet usage (including time online);
2. Existing service provider, types of services offered, rate plans (both price and transmission rates), satisfaction with current provider;
3. Proposed services offered by applicant, the respective rate plans (including any one-time fees), and the timeline for providing those services;
4. Incentive/introductory packages offered by the applicant;
5. Interest in switching service providers and reasons for switching (price, service level, customer service/local presence); and
6. Economic and social demographics including age, income level, and family/household members.
7. Types of broadband services desired by the customer, including data (internet access), voice services, streaming video, interactive video, peer-to-peer, on-line gaming, and other (please specify).

#### A. Research Data (Schedule K-1)

Schedule K-1 shall contain the methodology for conducting the market survey, the tabulated results for each service area, and a copy of the questionnaire used in the market survey. The presentation of survey results shall include:

1. Total number of surveys sent;
2. Total number of respondents;
3. Number and percent of responses to each question; and
4. Cross-tabulations for income levels, computer ownership, Internet usage.

A sample of the tabulated survey results is presented on the next page. Please note that this is only a sample of how the survey results might be presented; also please note that, in addition to the tabulated results, Schedule K-1 must include the methodology and a copy of the questionnaire used in the market survey.

**Sample Tabulated Survey Results (Schedule K-1)**

Service Area: Moon County (all to be RD funded)  
 Population: 75,245 (27,750 households and 1,000 businesses)  
 Surveys Initiated:<sup>1</sup> 10,000 (of which: 9,500 residential and 500 business)  
 Surveys Completed: 2,472 (of which: 2,141 residential and 331 business)  
 Response Rate: 25% (residential response rate: 23%; business response rate: 66%)

Q#	Abbreviated Question <sup>2</sup>	# Responses N=2,472	<\$20K/yr N=370	\$20-\$40K/yr N=495	[...]	Own Computer N=1900	Don't Own Computer N=572	Never Online N=312	Online 1-5h/wk N=450	[...]
1	Own at least 1 computer?	Yes: 1900 (77%) No: 572 (23%)	Yes: 185 (50%) No: 185 (50%)	Yes: 371 (75%) No: 124 (25%)		NA	NA	Yes: 103 (33%) No: 209 (67%)	Yes: 180 (40%) No: 270 (60%)	
2	Online how much per week? (Select one)	Never: 312 (13%) 1-5h/wk: 450 (18%) 6-10h/wk: 485 (20%) 11-20h/wk: 705 (29%) >20h/wk: 520 (21%)	Never: ____ 1-5h/wk: ____ 6-10h/wk: ____ 11-20h/wk: ____ >20h/wk: ____	Never: ____ 1-5h/wk: ____ 6-10h/wk: ____ 11-20h/wk: ____ >20h/wk: ____		Never: ____ 1-5h/wk: ____ 6-10h/wk: ____ 11-20h/wk: ____ >20h/wk: ____	Never: ____ 1-5h/wk: ____ 6-10h/wk: ____ 11-20h/wk: ____ >20h/wk: ____	NA	NA	
3	Current provider? (Select one)	X Corp: 1000 (40%) Y Telco.: 800 (32%) None: 672 (27%)	X Corp: ____ Y Telco.: ____ None: ____	X Corp: ____ Y Telco.: ____ None: ____		X Corp: ____ Y Telco.: ____ None: ____	X Corp: ____ Y Telco.: ____ None: ____	X Corp: ____ Y Telco.: ____ None: ____	X Corp: ____ Y Telco.: ____ None: ____	
4	Satisfied with current provider?	Yes: 750 (30%) No: 1,050 (43%) NA: 672 (27%)	Yes: ____ No: ____ NA: ____	Yes: ____ No: ____ NA: ____		Yes: ____ No: ____ NA: ____	Yes: ____ No: ____ NA: ____	NA	Yes: ____ No: ____ NA: ____	
[...]										

<sup>1</sup> Includes all surveys mailed, plus all phone calls placed that resulted in contact with a non-redundant respondent.

<sup>2</sup> For the full text of each question, please refer to the survey instrument submitted as part of Schedule K-1.

**End of Sample Tabulated Survey Results (Schedule K-1)**

## B. Market Analysis (Schedule K-2)

Schedule K-2 shall contain an analysis of the research data as follows:

1. The applicant will draw conclusions regarding projected subscriber levels across the different service levels/rates for each service area for each year of the financial forecast. The results will clearly differentiate business subscribers from residential subscribers. The results will be based on the tabulated data from the market survey, as well as other market data gathered with respect to existing and potential competition, and demographics of each service area.
2. The results shall be for each service area taking into account each service area's individual circumstances and shall be based on the number of households/businesses in each service area and not the population of the service area.
3. The applicant must clearly explain the methodology behind the final subscriber projections. Subscriber projections based on population numbers and national/state statistics are not acceptable on their own. Projections must be supported from the research data provided in this section.

## Instructions for Preparing Schedule L

### COMPETITIVE ANALYSIS (Schedules L-1 and L-2)

The applicant must submit a competitive market analysis for each service area that will be included in the feasibility analysis, regardless of projected penetration rates.

- A. Schedule L-1 shall contain the following information:
  1. A list of all existing service providers and all resellers competing in the applicant's service areas (and the broader market area, if applicable), including cable TV operators, regardless of the provider's market share, for each type of service the applicant proposes to provide.
  2. Information on each competitor's service offerings and pricing, the area that is being covered, and to the extent possible, a description of the quality of services being provided.
- B. Strategic Plan - Schedule L-2 shall be a narrative that describes the applicant's strategic approach for how it intends to successfully compete against existing service providers. This analysis should compare the applicant's offering with their competition's and describe how the applicant will successfully win new customers, including those of its competitors. The narrative shall describe any incentives, marketing and pricing strategies, as well as strategies the applicant will use to counteract any advantages or strategies used by the competition.

Unless addressed in the Market Analysis in Schedule K, the Strategic Plan should also include:

1. A description of the applicant's primary market:
  - a. Geographic area to be served should agree with the service areas detailed in Schedule G-1.
  - b. Factors affecting market growth should be described including how they will impact applicant plans, and how the applicant will mitigate risks and penetrate the current markets.
2. The current status, prospects, and trends influencing the industry in the applicant's target areas.
3. A description of targeted customers including the key factors that influence their service selection decisions. This should be substantiated from a market analysis, if required.
4. A description of the applicant's pricing strategy and pricing goals for the short- and long-term, including ramp-up and market share.

5. A description of the applicant's approach to advertisement and promotion of services, i.e. how the applicant will reach the most customers and deter competitors. Include a description of the advertisement and promotions strategy, marketing plan, the cost to execute the marketing plan, and the messages the applicant will provide to the target markets. It should compare the marketing approach to the current marketing programs competitors are pursuing or are likely to pursue.

If broadband service is proposed to be offered in an area where there are no households ("green field" area), the application must include information that justifies the subscriber penetration rates since no market information is available. This information might include:

- Subscriber penetration rates from comparable rural areas
- Census data on income levels compared to other rural areas
- Census data on age levels compared to other rural areas
- Census data on computer ownership compared to other rural areas
- Permits, plans, plats, or other documentation submitted to or approved by local authorities that supports the applicant's projections of population growth in the area to be served
- Subscriber penetration by satellite service providers
- Letters of support from residents and community leaders in the rural area
- Minutes of "town hall" meetings held in the rural area
- And any other information that supports your projections.

Informal or casual knowledge about existing service providers is generally inadequate to develop an effective strategy for an applicant to successfully compete in a market. The competitive analysis should demonstrate that the applicant has detailed knowledge of its competitors, an understanding of its competitor's strategies, investments and capabilities, and presents its own strategy for successfully competing against these competitors.

## Instructions for Preparing Schedule M

### FINANCIAL POSITION (Schedules M-1 through M-6)

RD will approve a loan only if, in RD's sole judgment, the loan will be repaid according to its terms and within the time agreed upon. It is the applicant's responsibility to provide sufficient financial information and supporting justification to determine that the loan request meets all of RD's requirements, will be feasible and adequately secured. Long-term forecast analysis should be based on knowledge of the external and internal factors that affect a company's operations. Historical financial statements (audited, if available) and the projections (subscriber estimates and pro forma financial statements) should be prepared by a financial consultant, accountant or individual qualified to prepare these types of financial statements and supporting schedules. The applicant must submit evidence of the preparer's qualifications.

#### A. Historical Financial Statements (Schedule M-1)

1. What to Include: Financial statements of the applicant for the last three (3) years, or for as long as the applicant has been in business if less than three (3) years, must be provided. The financial statements must include the balance sheet, income statement and statement of cash flow, as well as any accountant's letter and the notes to the financial statements. Audited financial statements are preferred.
2. Alternatives to Audited Financial Statements: If audited statements are not available for the last three (3) years, the applicant must submit un-audited financial statements and tax returns for those years. Applications from start-up entities must at a minimum provide an opening balance sheet dated within 30 days of the application submission date.
3. Parent Companies, Subsidiaries, Affiliates and Others: If the applicant has a parent company or subsidiary company(s), the historical financial statements for the preceding fiscal year of those entities are also required. If another affiliated or unaffiliated company is providing operations and management services to the applicant, that company's historical financial statements should also be included. Audited financial statements are preferred, however see item above for acceptable alternatives if audited financial statements are not available.

#### B. Total Outstanding Indebtedness (Schedule M-2)

1. Existing RD Indebtedness: Include a listing of all outstanding RD indebtedness, including loan maturity, security, interest rates and all loan agreement conditions.

2. Existing Non-RD Indebtedness: Include a listing of outstanding non-RD indebtedness, including loan maturity, interest rates, security and all loan agreement conditions. Also, include as part of this schedule a copy of all loan documents related to non-RD indebtedness (notes, loan agreements, mortgages, security agreements, etc.).

C. Subscriber Projection Tables (Schedule M-3A to M-3D)

1. Subscriber projections shall be provided on a yearly basis for five (5) years. The subscriber projections must be developed separately for each service area and by the type of services offered. **THE PROJECTIONS MUST BE SUPPORTED BY THE RESULTS OBTAINED FROM THE MARKET AND/OR COMPETITIVE ANALYSES.**
2. The tables in the Application serve as a guide for the type of information that is required. The applicant must add additional rows, columns, etc., as needed, to tailor the projections to the applicant's loan request. A separate table shall be included in Schedule M-3 for each type of service proposed (data, voice, and video), as well as a table for bundled services.

D. Pro Forma 5-Year Financial Forecast (Schedule M-4A to M-4F)

Applicants are to submit a complete financial model of the pro forma five year forecast period. For example, the applicant is expected to provide the:

- Subscriber penetration rates and service prices that link to detailed revenue projections that link to "Revenue" on the Income Statement
  - Expenses by line item that link to summary categories (such as Plant Specific, Plant Non-Specific, Corporate Operations, Customer Operations, Other Operating Expenses) that link to "Expenses" on the Income Statement
  - Net income after tax on the Income Statement that links to the Statement of Cash Flows
1. What to Include: This forecast must cover at least five years and be inclusive of **ALL** operations of the applicant, existing and new. This is the forecast that the RD staff use to determine whether the loan can be repaid on its terms. The staff must understand and be comfortable with the assumptions that the applicant used to project all revenues and expenses. The clearer the applicant presents the information, the easier and quicker it is for the RD staff to complete their evaluation. Applicants that submit pro forma financial information that is not fully supported may experience a higher decline rate and increased application processing time.

For applicants with existing operations, it is not sufficient to project only new operations; the projection must include all operations. The projections should be detailed, taking into account the applicant's best estimates for start-up costs (if any), revenues, expenses, ability to make a profit and all financial data

related to any subsidiaries. The financial forecast must include a balance sheet, income statement, statement of cash flow and detailed assumptions. Blank formats for each statement have been provided in the Application.

2. Preferred Accounting Format: The account categories shown on the samples were based on the Uniform System of Accounts (USOA) which is the format RD requires for its borrowers. At the time of application it is not required for applicants to follow the USOA; however, it will facilitate the review process if the historical and projected financial information is presented in this fashion. See [Bulletin 1770B-1](#) for detailed USOA requirements (available online at [www.insertURL.gov](#)). Please also see the Attachment to this Guide for additional USOA account subcategories. If a loan is approved, the applicant will be required to follow the USOA. RD will assist applicants to transition their accounting systems to this format when they have become approved RD borrowers.
3. Financial Feasibility Determination: In order to determine feasibility, the applicant must achieve a projected TIER of at least 1.25 by the end of the forecast period. TIER is defined in the regulation (see 7 CFR 1738) and means Times Interest Earned Ratio. TIER is the ratio of an applicant's net income (after taxes) plus interest expense, all divided by interest expense. For the purpose of this calculation, all amounts will be annual figures and interest expense will include only interest on debt with a maturity greater than one year.
4. Detailed Financial Narrative Assumptions: A detailed narrative must give RD a clear picture of exactly how the projections were derived and how other decisions were evaluated. Specifically, the following items are to be addressed in the narrative:
  - Revenues (describe each line of service)
  - Expenses (describe each expense line item)
  - Working Capital (show how it was estimated and will be met)
  - Investments (justify the proposed investments both the components and cost)
  - Refinancing (describe and explain benefits to extending service at the broadband lending speed)
  - Acquisitions (describe and explain necessity and benefit to providing service)
  - Current Operations (describe and explain how it will be impacted by new loan; not applicable to startups)

Detailed guidance is provided for Schedule M-4A and Schedules M-4C through M-4F on the next pages. Please be sure to note the discussion thereafter on Additional Cash Requirement and Depreciation.

## Guidance for Annual Balance Sheets (Schedule M-4A)

**NOTE: These account titles and descriptions are intended to guide the applicant in preparing their financial projections. The applicant must use its complete chart of accounts and provide descriptions that allow the RD analyst to fully and completely understand how the projections are derived.**

- Current Assets
  - Cash – provide total cash balance with a description of cash management practices and disclosure of any cash amounts pledged or otherwise unavailable for operations.
  - Marketable Securities – provide narrative of the applicant’s cash management practices and a description of all marketable securities, including if held in certificates or by investment broker and discussion of liquidity (e.g., are the securities immediately convertible to cash), and both cost and market value.
  - Accounts Receivable – provide assumptions that support the A/R balance including number of days to collect accounts. Identify personal and business accounts separately.
  - Inventory – identify type of inventory, detail inventory balance and assumptions for how many days inventory will be maintained. If there is more than one type of inventory, provide the inventory balance and assumptions for each type.
  - Prepayments – identify each expense line item that is prepaid (generally for the year) and the rate at which the expense will be realized.
  - Notes Receivable – include the portion of note(s) that are due within twelve months. Provide description of obligor of the note(s), note terms (including required payments, interest rate, and maturity date), description of any security pledged for the note(s), any guarantor(s) for the note(s), whether the note(s) are in default or are performing, and the applicant’s assessment of collectability.
  - Income Tax Receivable – include any amounts due from income tax refunds from both the state and federal governments. Provide a copy of the tax return(s) that shows that the refund(s) are due.
  - Other Current Assets – provide line by line detail on all other current assets with a description of its source and how it will be consumed in the operations during the year.
- Long Term Assets (or Fixed Assets or Non-Current Assets)
  - Property, Plant and Equipment – detail this in as many line items as are consistent with the applicant’s chart of accounts (for example, there may be a line item for Real Estate and a separate line item for Equipment). These items are recorded at cost less accumulated depreciation for a net asset value and will reconcile with the Depreciation Schedule provided in the applicant’s package. If any of the assets are pledged or are used to secure existing debt, describe such arrangements in detail.

## **Guidance for Annual Balance Sheets (Schedule M-4A) (continued)**

- Long Term Assets (or Fixed Assets or Non-Current Assets) (continued)
  - Notes Receivable – include the portion of note(s) that are due in months thirteen through maturity (see the description in Current Assets).
  - Long Term Investments – provide a description of each such investment, including any investment in subsidiaries, affiliates, or other operating companies. Include the amount of the original investment, the market value and the applicant’s support for that valuation, and the applicant’s assessment of liquidity (e.g., are the investments immediately convertible to cash).
  - Other – provide line by line detail on all other long term assets (not consumed within the year) with a description of its source and on what timeframe it will be consumed in the operations. If the item is being amortized, describe the amortization schedule, the amount amortized each year, and the total amortization to date.
  
- Current Liabilities
  - Accounts Payable – provide a schedule of projected accounts payable and payment terms. The projections should assume accounts will be maintained according to their terms.
  - Current Portion of Long Term Debt – identify the principal amount of long term loans that is due in the coming year. This will reconcile with the principal payments identified in the Cash Flow Statement.
  - Other - provide line by line detail on all other short term liabilities (those due within twelve months) with a description of the payee, purpose, and on what timeframe it will be paid.
  
- Long Term Liabilities
  - Deferred Income Taxes – provide a description of how deferred taxes were calculated and when it will be realized through the Income Statement as an expense.
  - Long Term Debt – identify each loan, security, guarantors, recourse/ non-recourse, and payment terms. This will reconcile with the Loan Funds Acquired on the Cash Flow Statement.
  - Subordinated Debentures – provide a description of the terms of any debentures (these will be subordinated to the Broadband loan), including original amount, current amount, rate of interest, payment terms, maturity, any guarantors, and any security pledged.
  - Other - provide line by line detail on all other long term liabilities (those not paid within the year) with a description of the payee, purpose, and on what timeframe it will be paid.
  
- Equity (or Net Worth or Stockholder’s Equity)
  - Common Stock, Preferred Stock, Paid In Capital, Member’s Equity – identify all sources of equity contributed to the company and resulting ownership of the company.

**Guidance for Annual Balance Sheets (Schedule M-4A) (continued)**

- Equity (or Net Worth or Stockholder's Equity) (continued)
  - Dividends or Member's Distributions – capital returned to owners; detail all agreements to pay certain dividends or make distributions to members.
  - Retained Earnings or Net Income after Tax – represents after tax profits in the company. The changes from year to year will reconcile with the Net Income after Tax shown on the Income Statement.

**End of Guidance for Annual Balance Sheets (Schedule M-4A)**

## Guidance for Annual Revenue Projections (Schedule M-4C)

**NOTE: These account titles and descriptions are intended to guide the applicant in preparing their financial projections. The applicant must use its complete chart of accounts and provide descriptions that allow the RD analyst to fully and completely understand how the projections are derived. RD must be able to use the applicant's assumptions and recreate its projected revenues through the 5-year forecast period.**

- Voice – Local Revenues
  - Residential – the average number of subscribers (total subscribers from end of previous year plus total subscribers at end of current year, divided by 2) multiplied by the applicable service rate times 12 months.
  - Single Line Business – the average number of subscribers multiplied by the applicable service rate times 12 months.
  - Multi-Line Business - the average number of subscribers multiplied by the applicable service rate, times the number of lines assumed per business, times 12 months.
  - Optional Features – take the percentage of voice subscribers projected to take the optional features and multiply by the applicable service rate times 12 months.
  
- Network Access Service Revenue – derived from the provision of exchange service to an interexchange carrier beyond the exchange carrier's network. These revenues are generated based on the interexchange carrier's Access Minutes of Use (AMOU) with the company's access tariff rates applied to these minutes. Provide an explanation justifying this revenue calculation.
  
- Universal Service Funds – based on a per line basis. Provide an explanation justifying the company's basis for receiving funds.
  
- Toll Service/Long Distance – based on charges per minute, projected minutes per subscriber, and percentage of voice customers using the service.
  
- Internet Services
  - Residential Broadband - the average number of subscribers multiplied by the applicable service rate for each service level times 12 months. Provide the calculation for each service level if more than one.
  - Business Broadband – the average number of subscribers multiplied by the applicable service rate for each service level times 12 months. Provide the calculation for each service level if more than one.
  - Customer Premise Equipment (CPE) Rental – the average number of customers projected to rent CPE multiplied by the applicable rental fee times 12 months. Alternatively, take the percentage of customers that are assumed will rent CPE and multiply by the rental fee. Provide the calculation for each rental service level if more than one.

**Guidance for Annual Revenue Projections (Schedule M-4C)**  
**(continued)**

- Video Revenues
  - Basic, Expanded Basic, and Digital – the average number of subscribers multiplied by the applicable service rate times 12 months. Provide the calculation for each service level if more than one.
  - Set-top Box Revenue – the average number of subscribers projected to require set-top boxes multiplied by the applicable fee times 12 months.
  - Premium Channel Packs and Video on Demand – the percentage of video customers projected to take the additional channels or on demand feature, multiplied by the applicable service rate, times 12 months. Provide the calculation for each service level if more than one.
  
- Bundled Revenues
  - Bundled Revenues – the average number of subscribers multiplied by the applicable service rate times 12 months.
  
- Installation, Other, & Uncollectible Revenues
  - Residential Installation Revenues – the number of new subscribers that will require installation multiplied by the installation fee.
  - Business Installation Revenues - the number of new subscribers that will require installation multiplied by the installation fee.
  - Other Operating Revenues – all other applicable operating revenues with detailed, complete justification to support the projected revenues.
  - Other Revenues – all other revenues with detailed, complete justification to support the projected revenues.
  - Uncollectible Revenues – the percentage of projected uncollectible revenues with justification for that projection.

**End of Guidance for Annual Revenue Projections (Schedule M-4C)**

## Guidance for Annual Expense Projections (Schedule M-4D)

**NOTE: These account titles and descriptions are intended to guide the applicant in preparing their financial projections. The applicant must use its complete chart of accounts and provide descriptions that allow the RD analyst to fully and completely understand how the projections are derived. RD must be able to use the applicant's assumptions and recreate its projected revenues through the 5-year forecast period.**

- Plant Specific – used to record costs related to specific kinds of telecommunications plant, the costs of inspecting, testing and reporting on the condition of telecommunications plant, and the costs of personnel whose principal job is the operations of plant equipment. For example,
  - Tower Lease Expense – the number of required towers multiplied by the tower lease expense times 12 months.
  - Residential Installations – the cost per installation multiplied by the number of new subscribers who will require installation.
  - Business Installations - the cost per installation multiplied by the number of new subscribers who will require installation.
  - Service Technicians – the number of service technicians multiplied by the annual salary and benefit costs. Employee salaries should be apportioned as necessary depending on what percentage of their time is spent on the related activities (include assumptions for allocating salaries among various activities).
  - Plant Supervisors - the number of plant supervisors multiplied by their annual salary and their benefit costs. Employee salaries should be apportioned as necessary depending on what percentage of their time is spent on the related activities (include assumptions for allocating salaries among various activities).
  - Leased Local Loops – the number of loops multiplied by the leasing cost times 12 months.
  - Pole Expense – the number of poles multiplied by their cost times 12 months.
  - Repair and Maintenance of plant and equipment – can be based on a percentage of the Total Plant balance or another reasonable method (please describe method used).
  - Vehicle Expense (used for plant related functions) – the number of vehicles multiplied by their monthly cost times 12 months.
  
- Plant Non-Specific – used to record costs related to property held for future telecommunications use, provisioning expense, network operations expense, and the costs of supervision and office support for these activities. For example,
  - Backhaul/ Transport Expense – the number of megabytes per second (Mbps) required times the rate being charged times 12 months.
  - Access Expense – the number of Mbps required times the rate being charged times 12 months.

**Guidance for Annual Expense Projections (Schedule M-4D)**  
**(continued)**

- Plant Non-Specific (continued)
  - Backhaul/ Transport Expense – the number of megabytes per second (Mbps) required times the rate being charged times 12 months.
  - Access Expense – the number of Mbps required times the rate being charged times 12 months.
  - Video Programming Expense – the number of video subscribers by the rate being charged times 12 months.
  - Voice over Internet Protocol (VOIP) Expense – the number of VOIP customers time the rate being charged times 12 months.
  
- Corporate Operations – used to record costs of performing executive and planning activities and general and administrative activities in addition to the costs for supervision, office support and training. For example,
  - Salaries and Benefits - the number of corporate office employees multiplied by their annual salary and benefit costs. Employee salaries should be apportioned as necessary depending on what percentage of their time is spent on the related activities (include assumptions for allocating salaries among various activities).
  - Office Lease – the monthly leasing fee times 12 months or the per footage cost times the number of square feet of office space times 12 months.
  - Insurance – the monthly insurance cost times 12 months.
  - Office Supplies – the monthly cost for office supplies times 12 months.
  - Professional Expense – the monthly cost for professional fees (e.g., accountants, lawyers, and consultants) times 12 months.
  - Utilities – the monthly utility costs times 12 months.
  
- Customer Operations – used to record costs of performing customer related marketing and services activities in addition to the costs for supervision, office support and training. (May be calculated in terms of staff salaries, a per-customer rate, etc.)
  - Billing – the number of employees multiplied by their annual salary and benefit costs. Employee salaries should be apportioned as necessary depending on what percentage of their time is spent on the related activities (include assumptions for allocating salaries among various activities).
  - Marketing – the monthly marketing expense times 12 months. Can also be based on the salaries of marketing employees. In which case the cost should be determined by taking the number of employees multiplied by their annual salary and benefit costs. Employee salaries should be apportioned as necessary depending on what percentage of their time is spent on the related activities (include assumptions for allocating salaries among various activities).

**Guidance for Annual Expense Projections (Schedule M-4D)**  
**(continued)**

- Customer Operations – used to record costs of performing customer related marketing and services activities in addition to the costs for supervision, office support and training. (May be calculated in terms of staff salaries, a per-customer rate, etc.)
  - Customer Service Representatives - the number of employees multiplied by their annual salary and benefit costs. Employee salaries should be apportioned as necessary depending on what percentage of their time is spent on the related activities (include assumptions for allocating salaries among various activities).
- Other Operating Expense – detail each line item of other operating expenses, identify amount and describe how it was calculated.

**End of Guidance for Annual Expense Projections (Schedule M-4D)**

## Guidance for Annual Cash Flow Projections (Schedule M-4E)

**NOTE: These account titles and descriptions are intended to guide the applicant in preparing their financial projections. The applicant must use its complete chart of accounts and provide descriptions that allow the RD analyst to fully and completely understand how the projections are derived.**

- Cash, Beginning of Period – the cash balance at the beginning of the period (in year two and later, the beginning cash balance is the same as the prior year’s ending cash balance).
- Cash Flows from Operating Activities – describe each line item projected to be sources or uses of funds during the reporting period and provide supporting schedules as necessary. These line items provide or use cash but do not appear as revenues or expenses on the Income Statement. For example,
  - Net Income – this would match the net income projected on the Income Statement.
  - Depreciation – this is a “non-cash” expense and should be accompanied by a description (equipment, real estate, etc.) and the depreciation method used.
  - Amortization – this is also a “non-cash” expense and should be accompanied by a description of the assets being amortized (licenses, goodwill from business purchase, etc.) and the methodology used
  - Changes in Operating Assets and Liabilities – the change from end of year to end of year in successive years in each account either acts as a source or use of funds. If the current asset balance increased, that is a use of funds, and likewise, if the current asset balance decreased, that is a source of funds. The opposite is true for current liabilities; an increase is a source of funds and a decrease is a use of funds. In the sample format,
    - Marketable Securities, Accounts Receivable, Inventory, Prepayments, and Other Current Assets, are all current asset accounts and the changes from year to year must be recorded as either a source (addition to) or use (subtraction from) of funds.
    - Accounts Payable and Other Current Liabilities are all current liability accounts and changes from year to year must be recorded as either a source (subtraction from) or use (addition to) of funds.
- Cash Flows from Financing Activities – these are sources and uses of funds that result from activities outside of the company operations (such as debt and equity). The applicant should provide supporting schedules or narrative to describe the changes in these accounts:
  - Notes Receivable – the sources of funds would be reflected as a reduction from one year to the next (for example, as the Notes Receivable were repaid). The uses of funds would appear as an increase and would result from a Note Receivable being created.

**Guidance for Annual Cash Flow Projections  
(Schedule M-4E continued)**

- Notes Payable – the sources of funds would be obtaining new debt (other than the loan being requested which is reflected in the New Borrowing account) and this account would increase. The uses of funds would be a decrease in the account, for example reflecting the principal portion of loan repayments (the interest expense would be reflected on the Income Statement).
  - Principal Payments – this would only be a use of funds and should be used as the principal portion of the new loan request (New Borrowing) proposed for repayment each year.
  - New Borrowing – the applicant should include the amount of the new RD loan request here; this is a source of funds.
  - Additional Paid-In Capital – record additional capital received from new or existing investors here; this is a source of funds.
  - Additions to Patronage Capital Credits – record additional credits received here; this is also a source of funds.
  - Payment of Dividends – dividends paid to shareholders are recorded in this line item and it is a use of funds.
- Cash Flows from Investing Activities – these are increases (or decreases) to the long term asset accounts, such as the purchase of equipment and facilities. The applicant should include supporting schedules or narrative to describe changes to these accounts:
    - Capital Expenditures (Net of Depreciation) – all purchases of long-term assets would be uses of funds and sales of long-term assets would be sources of funds.
    - Amortizable Asset (Net of Amortization) – all purchases of assets for a price in excess of its book value create goodwill; and other intangible assets such as licenses/permits also create assets that are amortized. Additions to this account are uses of funds and decreases are a source of funds.
    - Long-Term Investments – These are long term assets that are not planned for conversion to cash within the coming year. Such items as long-term cash investments (such as certificates of deposits maturing in more than one year) and the book value of investments made in other companies are recorded on this line item. Additions to this account are uses of funds and decreases are a source of funds.
  - Cash, End of Period – the cash balance at the end of the period (in year one and later, the ending cash balance is the same as the next year’s beginning cash balance).

**End of Guidance for Annual Cash Flow Projections (Schedule M-4E)**

**Guidance for Detailed Narrative of Financial Information  
(Schedule M-4F)**

**NOTE: These account titles and descriptions are intended to guide the applicant in preparing their financial projections. The applicant must use its complete chart of accounts and provide descriptions that allow the RD analyst to fully and completely understand how the projections are derived. The subsections on Refinancing and Acquisitions are only applicable if the proposed loan funds will be used to refinance existing debt or acquire existing operations.**

- **Overview:** Provide one or more paragraph that provides an introduction to the company; its base of operations, service areas, and types of services provided.
- **Assumptions:** Identify any other assumptions, caveats, or information not provided to describe specific account line items that will assist the RD analyst in reviewing, understanding, and accepting the basis for the financial projections.
- **Working Capital:** Detail the working capital requirements of the business throughout the five-year project period and the source of these funds. The discussion should clearly articulate the working capital needs of the business; the expectations for collection of revenues and uses of other funding sources and the required timeframes for payment of expenses.
- **Investments:** Describe the investments made for the proposed project and the business justification for these investments. The capital investment in the project must support the total capital required including the investments in the project, working capital, and the complete financial needs of the proposed project.

In the event the applicant proposes to use loan funds for the purchase of Customer Premise Equipment (CPE) and associated wiring, address whichever one of the following is applicable:

- **Pledge Additional Collateral:** Provide a complete description and supporting information, sufficient for RD to determine the value and to prepare documentation to secure RD's collateral interest. This collateral cannot be assets purchased with the loan funds and it must have a value at least equal to the amount being used for the CPE and associated wiring. OR
- **Describe Revolving Fund:** Provide a description of how the applicant will administer a revolving fund for the purchase of the CPE and sale to the customer. The description should provide a quarterly estimate of advances used for purchases, sales/ collections used for paydowns, and the resulting balance on a quarterly basis.

**Guidance for Detailed Narrative of Financial Information  
(Schedule M-4F) (continued)**

- **Refinancing:** For broadband loans that include proceeds to refinance an outstanding telecommunications loan made under the Rural Electrification Act of 1936, provide satisfactory evidence for RD to determine that the benefits realized from the refinancing will further enhance services at the broadband lending speed in rural areas. The amount requested for refinancing cannot exceed 40% of the requested loan amount. The applicant should also include the details of the notes that are being proposed to be refinanced.
  
- **Acquisitions:** For broadband loans that include proceeds to acquire facilities, provide satisfactory evidence for RD to determine that the acquisition is necessary and incidental to furnishing or improving service at the broadband lending speed in rural areas. Applicants must submit an appraisal, for the facilities to be acquired, from a qualified entity to determine the reasonableness of the acquisition price. This appraisal should be attached to Schedule P-1, Summary of Project Costs.
  
- **Current Operations:** Describe any current operations including services being provided, areas being served, rate structure, and penetration rates, and how those operations will be impacted by the services proposed through the funding of the broadband loan.

**End of Guidance for Detailed Narrative of Financial Information  
(Schedule M-4F)**

## E. Additional Cash Requirement (Schedule M-5)

In addition to the minimum equity requirement, additional cash infusions may be required. RD will analyze the applicant's financial information for the applicant's entire operation (existing operations and new operations combined) and determine the applicant's projected cash balance at the end of each fiscal year during the five-year forecast period. If RD projects that the applicant will have a negative cash balance during any of those fiscal year-end dates, the applicant will be required to obtain additional cash infusions necessary to maintain a positive cash balance throughout the five-year forecast period (see 7 CFR 1738.208), and to submit as Schedule M-5 the evidence described below.

To facilitate the timely processing of the application, applicants should conduct their own analysis to identify projected cash shortfalls and provide the resources to cover those amounts. When preparing financial projections, applicants are to consider RD's regulatory requirements for how projected revenues will be calculated for start-up firms or for companies that have not had positive cash flow for the two years prior to application submission, and for existing companies with positive cash flow.

Specifically,

- If an applicant is a start-up company or has not had positive cash flow for the two previous fiscal years, calculate the cash position when assuming 50% of projected revenues for each year of the five-year forecast period (no comparable adjustment is made to projected expenses).
- If an applicant can demonstrate positive cash flow for the two previous fiscal years, calculate the cash position when assuming 100% of projected revenues for each year of the five-year forecast period.

Applicants that are required per the above regulatory requirements to adjust their projected revenues must submit a Pro Forma Income Statement and a Pro Forma Statement of Cash Flows that show both the initial financial projections that are required to demonstrate financial feasibility, and the adjusted financial projections using the reduced projected revenues, which identify the amount of additional cash that will be required. In all cases, projections must be fully supported with assumptions acceptable to RD.

The following example is intended to demonstrate RD's regulatory requirements for determining whether it will condition loan approval on an Additional Cash Requirement.

### **Example of Estimating Additional Cash Requirement**

In this simplified example, the applicant, a start-up firm, adjusted its projected revenues every year of the five year forecast period by 50 percent, as required. Note that no comparable adjustment is to be made to the projected expenses. The results for the five year period are shown on the Pro Forma Income and Cash Flow statements:

- On the Pro Forma Income Statement
  - Revenues are reduced by 50 percent of applicant's projection in each of the five years. Applicant's forecast of \$72,000,000 is reduced to \$36,000,000.
  - Expenses are not revised.
  - Net Income is reduced from the applicant's forecast of \$8,330,000 to a Net Loss of \$27,670,000 (a difference of \$36,000,000; the amount of the revenue adjustment).
  
- On the Pro Forma Statement of Cash Flows
  - The example assumes the applicant started with \$10,000,000 in cash.
  - The adjustments to the revenue forecasts, which resulted in projected losses in each of the five years, led to a change in cash at the end of five years from \$30,830,000 to a negative \$5,170,000 (a difference of \$36,000,000; the amount of the revenue adjustment).
  - In year four, an additional cash infusion of \$975,000 is projected and in year five, another \$4,195,000, for a total of \$5,170,000, to bring the ending cash balance back to zero.
  - The applicant needs to demonstrate in its application how the Additional Cash Requirement of \$975,000 (year four) and \$4,195,000 (year five) will be met.

**Example of Estimating Additional Cash Requirement (continued)**

Pro Forma Income Statement

	Year 1		Year 2		Year 3		Year 4		Year 5		Total	
	Forecast	Revised	Forecast	Revised	Forecast	Revised	Forecast	Revised	Forecast	Revised	Forecast	Revised
Total Revenues	\$10,000,000	5,000,000	12,000,000	6,000,000	15,000,000	7,500,000	16,000,000	8,000,000	19,000,000	9,500,000	\$72,000,000	\$36,000,000
Total Operating Expenses	- 6,000,000	- 6,000,000	- 7,200,000	- 7,200,000	- 9,000,000	-9,000,000	- 9,600,000	-9,600,000	- 11,400,000	-11,400,000	-43,200,000	-43,200,000
<b>Earnings Before Interest, Taxes, Depreciation and Amortization</b>	<b>4,000,000</b>	<b>- 1,000,000</b>	<b>4,800,000</b>	<b>-1,200,000</b>	6,000,000	-1,500,000	<b>6,400,000</b>	<b>-1,600,000</b>	<b>7,600,000</b>	<b>-1,900,000</b>	<b>28,800,000</b>	<b>-7,200,000</b>
Depreciation	- 2,000,000	- 2,000,000	- 2,000,000	- 2,000,000	- 2,000,000	- 2,000,000	- 2,000,000	- 2,000,000	- 2,000,000	- 2,000,000	-10,000,000	-10,000,000
Amortization	- 1,000,000	- 1,000,000	- 1,000,000	- 1,000,000	- 1,000,000	- 1,000,000	- 1,000,000	- 1,000,000	- 1,000,000	- 1,000,000	-5,000,000	-5,000,000
<b>Earnings Before Interest and Taxes</b>	<b>1,000,000</b>	<b>- 4,000,000</b>	<b>1,800,000</b>	<b>- 4,200,000</b>	<b>3,000,000</b>	<b>-4,500,000</b>	<b>3,400,000</b>	<b>-4,600,000</b>	<b>4,600,000</b>	<b>-4,900,000</b>	<b>13,800,000</b>	<b>-22,200,000</b>
Interest Expense – New RD Debt	- 250,000	- 250,000	- 240,000	- 240,000	-230,000	-230,000	-220,000	-220,000	-210,000	-210,000	-1,150,000	-1,150,000
Interest Expense – Existing RD Debt	0	0	0	0	0	0	0	0	0	0	0	0
Interest Expense – Other	0	0	0	0	0	0	0	0	0	0	0	0
<b>Income Before Taxes</b>	<b>750,000</b>	<b>- 4,250,000</b>	<b>1,560,000</b>	<b>- 4,440,000</b>	<b>2,770,000</b>	<b>-4,730,000</b>	<b>3,180,000</b>	<b>-4,820,000</b>	<b>4,390,000</b>	<b>-5,110,000</b>	<b>12,650,000</b>	<b>-23,350,000</b>
Property Tax	- 50,000	- 50,000	- 50,000	- 50,000	-55,000	-55,000	-55,000	-55,000	-60,000	-60,000	-270,000	-270,000
Income Taxes	-250,000	-250,000	- 500,000	- 500,000	-900,000	-900,000	-1,000,000	-1,000,000	-1,400,000	-1,400,000	-4,050,000	-4,050,000
<b>Net Income</b>	<b>\$ 450,000</b>	<b>\$- 4,550,000</b>	<b>\$ 1,010,000</b>	<b>\$- 4,990,000</b>	<b>\$1,815,000</b>	<b>\$-5,685,000</b>	<b>\$2,125,000</b>	<b>\$-5,875,000</b>	<b>\$2,930,000</b>	<b>\$-6,570,000</b>	<b>\$8,330,000</b>	<b>\$-27,670,000</b>

**Example of Estimating Additional Cash Requirement (continued)**

Pro Forma Cash Flow Statement

	Year 1		Year 2		Year 3		Year 4		Year 5	
	Forecast	Revised	Forecast	Revised	Forecast	Revised	Forecast	Revised	Forecast	Revised
<b>Beginning Cash</b>	<b>\$10,000,000</b>	<b>10,000,000</b>	<b>\$13,450,000</b>	<b>\$8,450,000</b>	<b>\$16,835,000</b>	<b>\$5,835,000</b>	<b>\$21,025,000</b>	<b>\$2,525,000</b>	<b>\$25,525,000</b>	<b>\$0</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>										
Net Income	450,000	-4,550,000	1,010,000	-4,990,000	1,815,000	-5,685,000	2,125,000	-5,875,000	2,930,000	-6,570,000
Add: Depreciation	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Add: Amortization	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Changes in Operating Assets and Liabilities:	0	0	0	0	0	0	0	0	0	0
<b>Net Cash Provided (Used) by Operations</b>	<b>\$3,450,000</b>	<b>\$-1,550,000</b>	<b>\$4,010,000</b>	<b>\$-1,990,000</b>	<b>\$4,815,000</b>	<b>\$-2,685,000</b>	<b>\$5,125,000</b>	<b>\$-2,875,000</b>	<b>\$5,930,000</b>	<b>\$-3,570,000</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>										
Notes Payable	6,250,000	6,250,000	0	0	0	0	0	0	0	0
Principal Payments	0	0	-625,000	-625,000	-625,000	-625,000	-625,000	-625,000	-625,000	-625,000
Additional Paid-in Capital	0	0	0	0	0	0	0	975,000	0	4,195,000
<b>Net Cash Provided by Financing Activities</b>	<b>\$6,250,000</b>	<b>\$6,250,000</b>	<b>\$-625,000</b>	<b>\$-625,000</b>	<b>\$-625,000</b>	<b>\$-625,000</b>	<b>\$-625,000</b>	<b>\$350,000</b>	<b>\$-625,000</b>	<b>\$3,570,000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>										
Capital Expenditures	-6,250,000	-6,250,000	0	0	0	0	0	0	0	0
<b>Net Cash Used by Investing Activities</b>	<b>\$-6,250,000</b>	<b>\$-6,250,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Increase (Decrease) In Cash</b>	<b>3,450,000</b>	<b>-1,550,000</b>	<b>3,385,000</b>	<b>-2,615,000</b>	<b>4,190,000</b>	<b>-3,310,000</b>	<b>4,500,000</b>	<b>-2,525,000</b>	<b>5,305,000</b>	<b>0</b>
<b>Ending Cash</b>	<b>\$13,450,000</b>	<b>\$8,450,000</b>	<b>\$16,835,000</b>	<b>\$5,835,000</b>	<b>\$21,025,000</b>	<b>\$2,525,000</b>	<b>\$25,525,000</b>	<b>\$0</b>	<b>\$30,830,000</b>	<b>\$0</b>

**End of Example of Estimating Additional Cash Requirement**

The applicant that meets the requirements for adjusting revenues would complete the projections, like the example above, for all five years of the forecast period. Only the projected revenue is adjusted; there is no comparable adjustment to projected expenses.

An applicant may obtain a Letter of Credit (LOC) to satisfy an additional cash requirement. If an applicant obtains an LOC, it must be in place prior to closing and it must meet the following terms:

Terms for the Bank

- Investor to enter into LOC to benefit the applicant and the Government. The LOC cannot be an obligation of the applicant, cannot be secured by the applicant's assets and the LOC fees and charges cannot be paid by the applicant.
- LOC to be irrevocable permitting unconditional draws by the applicant and the Government.

Terms for the Applicant (Will be included as a condition to the Loan Agreement)

- LOC must be in effect throughout the forecast period.
- The applicant cannot secure the LOC with its assets and cannot pay for any LOC charges or fees with its funds.
- Applicant agrees to draw on the LOC if the quarterly financial reports show a negative cash balance, in an amount sufficient to cover the shortfall. Note that the need for the Additional Cash Requirement is determined by a review of the **annual** financial projections but the requirement to meet the Additional Cash Requirement is determined by a review of the **quarterly** actual financial statements..
- Applicant agrees to draw on LOC when directed by RD.
- Failure to maintain the LOC will be an Event of Default.

When additional cash is required to cover a projected cash shortfall, the applicant must ensure that the additional cash infusion required in the first two years is deposited into its regular operating bank account within 120 days from the date the applicant signs the loan offer letter. Prior to closing, the applicant also must enter into any other legal arrangements necessary to cover further projected operating deficits to RD's satisfaction (or in the case of the LOC, provide an acceptable LOC to the Agency). If debt is incurred to satisfy the additional cash requirement, this debt must take a subordinate lien position to the Agency debt and must be at terms acceptable to the Agency.

F. Depreciation Schedule (Schedule M-6)

A projected depreciation schedule should be provided as Schedule M-6. This schedule is to include all the different categories of equipment and facilities that are proposed for purchase in the "Total Project Cost" column on schedule Q-1, Summary of Project Costs, and the expected useful life.

The useful life should be based on the manufacturers' recommended useful life (the applicant may be asked to provide supporting documentation). The loan

maturity for Broadband loans will be based on the estimated useful life of only those items to be purchased with the requested loan funds. The Depreciation Schedule should be prepared in the following recommended format for depreciable assets to be purchased with the loan funds and non-loan funds (the depreciation method may be straight-line or accelerated, at the applicant's discretion):

<b>Sample Depreciation Schedule (Schedule M-6)</b>		
	<b>Depreciation Rate</b>	<b>Depreciable Life</b>
<b>NETWORK AND ACCESS EQUIPMENT</b>		
Switching Equipment		
Routing Equipment		
Transport Equipment		
Wireless Equipment		
Video Equipment		
Satellite Equipment		
FTTP Equipment		
Other		
<b>OUTSIDE PLANT</b>		
Copper-Aerial		
Copper-Buried		
Coaxial-Aerial		
Coaxial-Buried		
Fiber-Aerial		
Fiber-Buried		
Conduit Systems		
Drops		
Other		
<b>BUILDINGS</b>		
New Construction		
Pre-Fab Huts		
Improvements		
Renovation		
Power Equipment (Generators/Batteries)		
Other		
<b>TOWERS</b>		
Guyed Tower		
Lattice Tower		
Monopole Tower		
Site Preparation		
Other		
<b>CUSTOMER PREMISES EQUIPMENT</b>		
Video Set-Top Boxes		
VoIP Adapters		
Cable/DSL Routers		
Other		
<b>End of Sample Depreciation Schedule (Schedule M-6)</b>		

## Instructions for Preparing Schedule N

### NETWORK DESIGN (Schedules N-1 and N-2)

The Network Design of the application shall include all the technical information on the applicant's existing and proposed systems. The following information shall be included in this schedule:

- A. Schedule N-1 shall present a Network Design with the following information:
1. A detailed description of the existing network. Provide a synopsis of the current network infrastructure, including:
    - a. The current service area(s)
    - b. The types of services offered
    - c. The total number of establishments served:
      - i. Wireline establishments passed
      - ii. Wireless establishments covered
    - d. The number of subscribers per service offered (voice, data, video etc.)
    - e. The types of technologies utilized in the infrastructure (standards-based vs. proprietary)
    - f. A narrative describing current connectivity to the applicant's ISPs, video providers, telephony providers.
    - g. A description of the current agreements and licenses in place that are required to operate the network.
  2. A detailed description of the proposed network services. Provide a synopsis of the proposed network infrastructure, describing the types of technology to be deployed in the funded service area and how the technology will facilitate the offering of service at the broadband lending speed. The synopsis should include:
    - a. The entire service area(s)
    - b. The types of services to be offered
    - c. The estimated number of establishments to be served (provide detailed information showing that all households within the funded service area will be offered broadband service at the broadband lending speed when the system is complete):
      - i. Wireline establishments to be passed
      - ii. Wireless establishments to be covered
    - d. The estimated number of subscribers per service offered (voice, data, video etc.)
    - e. The types of technologies to be employed in the infrastructure (standards-based vs. proprietary)
    - f. A narrative describing proposed connectivity to ISP's, video providers, telephony providers, and other content providers.
    - g. A description of the proposed agreements and licenses that will be required to operate the network.

3. A detailed description of the proposed Build-out of Services for the proposed network services. The description should include the approach taken to phasing in, testing and commissioning the following elements of the infrastructure:
  - a. The Core Network – the backbone infrastructure that will deliver the aggregate services across the service area(s).
  - b. The Distribution Network – the next layer of infrastructure that will extend the Core Network to concentration points within geographically proximate groups of subscribers.
  - c. The Access Network – how individual subscribers gain access to the network infrastructure. This should include detail on how oversubscription techniques (if applicable) will be used to maximize the utilization of the Distribution Network.
  - d. The Aggregation Node Points. In this context, the Aggregation Node Points are those components of the network architecture that provides connectivity to other service or content providers used to deliver the proposed services. This may include, but is not limited to, high-capacity diverse and resilient access to:
    - i. One or more Internet Service Providers (ISPs)
    - ii. VOIP and PSTN Telephony Service Providers
    - iii. Video Services (if applicable)
4. If the applicant is to include Customer Premises Equipment (CPE) as part of their service offering to customers, please provide a description of the proposed CPE, and the method of acquisition by the customer (e.g. this could include rental as part of the service offering, or a one-time purchase by the customer).
5. A description of target service level objectives (SLOs) that will be provided to the customer and measurable service metrics that will be gathered and how they will be utilized on an ongoing basis to respond to unmet SLOs and ensure customer expectations of network service availability, reliability and quality.

B. Schedule N-2 shall present a Network Design Certification as follows:

1. The Network Design may be prepared by qualified personnel on the applicant's staff or by consultants.
2. If the applicant chooses a consultant that is not a registered engineer licensed in the state in which the facilities will be constructed, the applicant will need to have a registered engineer, licensed in the state, certify that the proposed Network Design will be capable of delivering service at the broadband lending speed.
3. Consulting services shall be obtained only from persons or firms who are not affiliated with, and have not represented, a contractor, vendor or manufacturer

who may provide labor, materials, or equipment to the applicant for projects included in the loan application.

4. If the applicant has qualified personnel on staff to complete the pre-loan services, copies of the staff's qualifications must be included here in Schedule N-2 as part of the application and must clearly demonstrate the staff's ability to complete the Network Design. To be considered qualified, staff must have at least three years of experience in designing the type of broadband system proposed in the application.

## Instructions for Preparing Schedule O

### BUILD-OUT (Schedules O-1 through O-3)

The following information should be provided in Schedules O-1 through O-3:

- A. Annual Build-out (Schedule O-1): List each service area in which the applicant intends to provide service. For each quarter during which build-out will occur for a service area, shade the appropriate table cell and indicate the cumulative percentage of build-out completed for that service area.

**Please note that the borrower must begin construction within six months from the day they are notified that loan funds are available. If the borrower fails to begin construction within the required timeframe, RD may cancel the loan. The build-out must be complete within three years from the date the borrower is notified that loan funds are available. Build-out is considered complete when the network design has been fully implemented, the service operations and management systems infrastructure is operational, and the borrower is ready to support the activation and commissioning of individual customers to the new system.**

<b>Sample Annual Build-out (Schedule O-1)</b>												
<b>SERVICE AREA</b>	<b>YEAR 1</b>				<b>YEAR 2</b>				<b>YEAR 3</b>			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Moon County	5%	10%	20%	30%	45%	65%	80%	100%				
Sun County		10%	20%	35%	45%	55%	70%	80%	90%	100%		
<b>End of Sample Annual Build-out (Schedule O-1)</b>												

- B. Quarterly Build-out (Schedule O-2): This schedule should include detail as to the timeframes for placing service area(s) into service, projected cumulative number of establishments passed, and subscriber projections. For the projected data, video and voice subscribers, provide both the amount of “new” subscribers each quarter as well as the cumulative total. This should support and correlate with the information found in Schedule P-2.
- C. Description of Workforce (Schedule O-3): Provide a description of the workforce that is required to construct the system. This description must agree with the Build-out Schedules O-1 and O-2. In addition, provide a description of the staffing requirements to operate the proposed system.

**Sample Quarterly Build-out (Schedule O-2)**

	YEAR 1				YEAR 2				YEAR 3				YEAR 4				YEAR 5			
	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Service areas	0	0	1	1	2	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4
Establishments Passed	0	0	1000	2000	4000	5000	8000	10000	12000	14000	15000	20000	20000	20000	20000	20000	20000	20000	20000	20000
Subscriber connections	0	0	100	200	400	500	800	1000	1200	1400	1500	2000	2200	2300	2400	2500	2600	2700	2800	3000
<b>Subscribers:</b>																				
<i><b>Data Subscribers</b></i>																				
Net add-ons	0	0	100	100	200	100	300	200	200	200	100	500	200	100	100	100	100	100	100	200
Cumulative subscribers	0	0	100	200	400	500	800	1000	1200	1400	1500	2000	2200	2300	2400	2500	2600	2700	2800	3000
<i><b>Video Subscribers</b></i>																				
Net add-ons	0	0	10	10	20	10	30	20	20	20	10	50	20	10	10	10	10	10	10	20
Cumulative subscribers	0	0	10	20	40	50	80	100	120	140	150	200	220	230	240	250	260	270	280	300
<i><b>Voice Subscribers</b></i>																				
Net add-ons	0	0	15	15	30	15	45	30	30	30	15	75	30	15	15	15	15	15	15	15
Cumulative subscribers	0	0	15	30	60	75	120	150	180	210	225	300	330	345	360	375	390	405	420	435

**End of Sample Quarterly Build-out (Schedule O-2)**

## Instructions for Preparing Schedule P

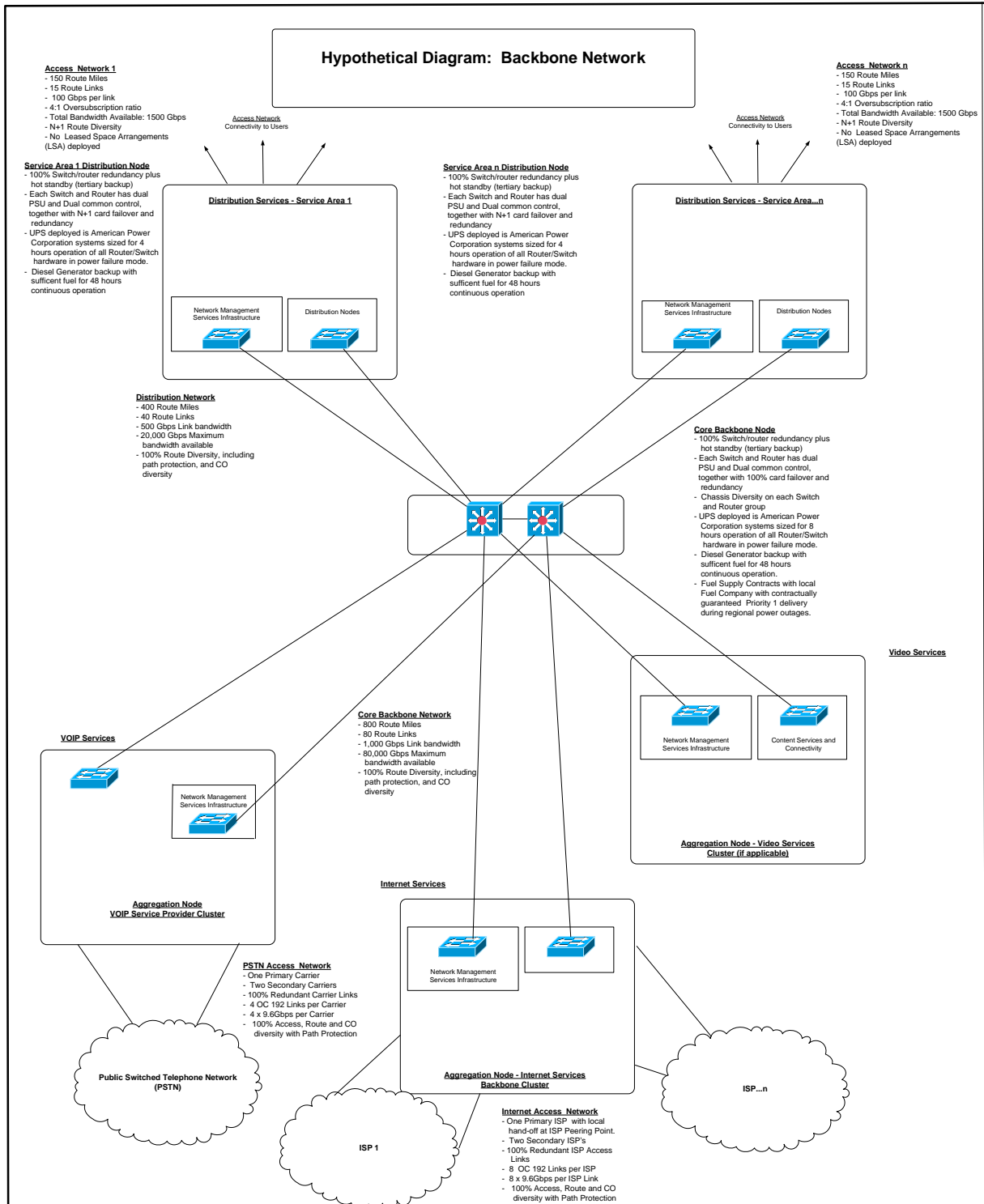
### NETWORK DIAGRAMS (Schedules P-1 and P-2)

Network diagrams for the applicant's existing network shall be included in the application as Schedule P-1 and for the proposed network as Schedule P-2. The network diagrams shall be block diagrams that clearly show how the traffic flows through the network from the interconnection points with the backbone service providers to the end user. The lender is familiar with the technologies associated with "last mile" connectivity options to the customer premises; therefore, in developing diagrams for the proposed network, focus should be on the core network (common network facilities) components.

The diagrams must clearly show all the physical locations where the major network elements are or will be located, the route miles between each network element, the bandwidth capacity between the network elements, and the types of facilities (fiber, copper, microwave, etc.) that are or will be used for establishing the connection between the network elements and the points-of-connection with the backbone service providers. Describe any connection redundancy and resilience, as applicable. The network diagrams should also illustrate the proposed Aggregation Node facilities that will provide the egress point(s) from the broadband backbone network to the networks of the selected VOIP telephony provider(s) and the selected ISP(s) and any other value-added services that may be provided in the new infrastructure. If any of the facilities are leased, this should be indicated on the diagram along with the location of the leased facilities and the providers from which the facilities are being leased.

The sample network diagram provided on the next page is for illustrative purposes only, and is not to construe or imply any design characteristics or requirements for the proposed service at the broadband lending speed. ***This "hypothetical diagram" does, however, depict the level of detail required in the applicant's submittal.***

# Sample High-Level Network Topology Diagram (Schedule P-2)



## End of Sample High-Level Network Topology Diagram (Schedule P-2)

## Instructions for Preparing Schedule Q

### PROJECT COSTS (Schedules Q-1 through Q-3)

1. Schedule Q-1 shall be a summary of the total cost of the project. Section A of this summary, Service Area and Common Network Facility Costs, shall be based on the amounts from Schedule Q-2.
2. Schedule Q-2 shall provide the total project cost for each service area. Complete a separate schedule for each service area (e.g. Schedule Q-2a, Q-2b, Q-2c, etc.) and a schedule for common network facility costs. For Schedules Q-2 and Q-3, include a detailed breakdown of the following line items:
  - a. Network & Access Equipment Costs. Include, for example, next-generation switches, video headends, optical equipment, digital line concentrators, digital subscriber line access multiplexers, middleware, video-on-demand equipment, radio equipment, data routing equipment, etc.
  - b. Outside Plant Costs. Examples of the items to be included are cable (aerial, buried, underground, and submarine), conduit systems, poles, network interface devices (NIDs), miscellaneous construction units, make-ready costs for aerial plant, etc.
  - c. Tower Costs. Include the cost for the construction of new towers and any costs involved with structural changes to existing towers. Site engineering and project management costs should not be included in this schedule; they should be included under Engineering Costs.
  - d. Building and Land Costs. Include the cost of constructing new buildings, renovating existing buildings, and any site preparation cost involved with installing pad-mounted equipment. Include only those sites that will be purchased by the applicant.
  - e. Customer Premises Equipment. Include, for example, wireless subscriber units, modems, set-top boxes, etc.
  - f. Engineering Costs. This includes site engineering, radio frequency engineering, network engineering, project management, and any other engineering costs involved in designing and constructing the proposed project.
3. Schedule Q-3 shall provide the total project cost for each service area broken down on an annual basis. Complete a separate schedule for each service area (e.g. Schedule Q-3a, Q-3b, Q-3c, etc.) and a schedule for common network facility costs. The sum of the annual data in Schedule Q-3 must match the total costs provided in Schedule Q-2.

Samples of Schedules Q-1, Q-2 and Q-3 are provided on the following pages.

<b>Sample Summary of Project Costs (Schedule Q-1)</b>			
UNITED STATES DEPARTMENT OF AGRICULTURE  RURAL DEVELOPMENT		NAME OF APPLICANT  Acme Inc., Anywhere, USA	
<b>PROJECT COST SUMMARY</b>			
<b>SERVICE AREA AND COMMON NETWORK FACILITY COSTS</b>			
	<b>TOTAL</b>	<b>LOAN FUNDS</b>	<b>NON-LOAN FUNDS</b>
<b>Service Area</b>			
1. Sun County	\$3,000,000	\$2,700,000	\$300,000
2. Moon City	\$2,500,000	\$2,250,000	\$250,000
3. Star County	\$2,750,000	\$2,750,000	0
4. Main City	\$3,500,000	\$3,000,000	\$500,000
<b>Common Network Facilities</b>			
	\$5,000,000	\$2,000,000	\$3,000,000
<b>A. TOTAL SERVICE AREA &amp; COMMON NETWORK FACILITIES COSTS (Sum of all service area and common network facility costs)</b>			
	\$16,750,000	\$12,700,000	\$4,050,000
<b>OTHER EXPENDITURES</b>			
1. PRELOAN EXPENSES (attach breakdown)	\$30,000	\$15,000	\$15,000
2. REFINANCING	\$0	\$0	\$0
3. ACQUISITIONS	\$0	\$0	\$0
<b>B. TOTAL OTHER EXPENDITURES</b>			
	\$30,000	\$15,000	\$15,000
<b>SUPPORT ASSETS</b>			
1. OFFICE EQUIPMENT	\$75,000	\$75,000	\$0
2. OFFICE FURNITURE	\$50,000	\$50,000	\$0
3. CONSTRUCTION VEHICLES	\$30,000	\$30,000	\$0
4. WORK AND TEST EQUIPMENT	\$150,000	\$150,000	\$0
5. BACK OFFICE SYSTEMS	\$0	\$0	\$0
<b>C. TOTAL SUPPORT ASSETS</b>			
	\$305,000	\$305,000	\$0
<b>TOTAL PROPOSED CAPITAL EXPENDITURES (A+B+C)</b>			
	\$17,085,000	\$13,020,000	\$4,065,000
<b>End of Sample Summary of Project Costs (Schedule Q-1)</b>			

<b>Sample Detail of Project Costs (Schedule Q-2)</b>					
<b>(This sample only shows a table for one service area, Sun County. A separate table for each service area is required as well as for Common Network Facilities. Line items are for illustration purposes only. Use line item categories appropriate to the applicant's project)</b>					
<b>SERVICE AREA or COMMON NETWORK FACILITIES:</b> <u>Sun County</u>	<b>Loan Funds</b>			<b>Non-loan Funds</b>	
	<b>Unit Cost</b>	<b>No. of Units</b>	<b>Total Cost</b>	<b>No. of units</b>	<b>Total Cost</b>
<b>NETWORK &amp; ACCESS EQUIPMENT</b>					
Base Station	\$25,000	3	\$75,000		
3-sector Antenna	\$1,500	3	\$4,500		
Base station and antenna installation	\$15,000	3	\$45,000		
Mast head amplifier	\$1,200	3	\$3,600		
PowerHopper MW Radion	\$12,500	8	\$100,000		
Microwave Installation	\$2,500	14	\$35,000		
Radio Routers	\$8,000	6	\$42,000		
<b>Sub-total</b>			305,100		\$0
<b>OUTSIDE PLANT</b>					
Cable/drop/duct	\$20,000	14	\$280,000		
<b>Sub-total</b>			\$280,000		\$0
<b>TOWERS</b>					
Site acquisition and construction	\$54,000	3	\$162,000		
<b>Sub-total</b>			\$162,000		\$0
<b>LAND &amp; BUILDINGS</b>					
CO Site	\$20,400			1	\$20,400
<b>Sub-total</b>			\$0		\$20,400

Sample Detail of Project Costs (Schedule Q-2) (continued)					
SERVICE AREA or COMMON NETWORK FACILITIES: Sun County	Unit Cost	Loan Funds		Non-loan Funds	
		No. of Units	Total Cost	No. of units	Total Cost
<b>CUSTOMER PREMISES EQUIPMENT</b>					
ONT	\$75	900	\$67,500		
ONT Install	\$400	900	\$360,000		
Set Top Box	\$600			466	\$279,600
Wireless CPE	\$300	100	\$30,000		
<i>Connectivity to Core Network*</i>					
Network Node CPE Router	\$12,000	5	\$60,000		
Network Node CPE Switch	\$10,000	5	\$50,000		
Network Node Wireless CPE	\$5,000	3	\$15,000		
<b>Sub-total</b>			\$582,500		\$279,600
<b>ENGINEERING</b>					
Project Management	\$497,400	1	\$497,400		
RAN Planning	\$423,000	1	\$423,000		
Device Testing	\$50,000	1	\$50,000		
Transmission Planning	\$400,000	1	\$400,000		
<b>Sub-total</b>			\$1,370,400		\$0
<b>TOTAL PROJECT COST</b>			\$2,700,000		\$300,000
<p><b>NOTE: Complete a separate schedule for each service area that supports the service area totals on Schedule Q-1 Summary of Project Costs. Also include a separate schedule for common network facilities costs that support more than one service area.</b></p> <p><b>*Connectivity to Core Network costs may be reflected by service area, or may be absorbed by the common network facilities and reflected in the table showing those costs.</b></p>					
<b>End of Sample Detail of Project Costs (Schedule Q-2)</b>					

**Sample Detail of Project Costs – Annual Breakdown  
(Schedule Q-3)**

**(This sample only shows a table for one service area. A separate table for each service area is required as well as for Common Network Facilities. Line items are for illustration purposes only. Use line item categories appropriate to the applicant’s project)**

SERVICE AREA or COMMON NETWORK FACILITIES: Sun County	YEAR 1		YEAR 2		YEAR 3		YEAR 4		YEAR 5		Totals	
	Loan Funds	Non-loan Funds	Loan Funds	Non-loan Funds	Loan Funds	Non-loan Funds	Loan Funds	Non-loan Funds	Loan Funds	Non-loan Funds	Loan Funds	Non-loan Funds
<b>NETWORK &amp; ACCESS EQUIPMENT</b>												
Base Station	\$50,000		\$25,000								\$75,000	
3-sector Antenna	\$3,000		\$1,500								\$4,500	
Base station and antenna installation	\$30,000		\$15,000								\$45,000	
Mast head amplifier	\$2,400		\$1,200								\$3,600	
PowerHopper MW Radion	\$75,000		\$25,000								\$100,000	
Microwave Installation	\$25,000		\$10,000								\$35,000	
Radio Routers	\$30,000		\$12,000								\$42,000	
<b>Sub-total</b>	\$215,400	\$0	\$89,700	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$305,100	
<b>OUTSIDE PLANT</b>												
Cable/drop/duct	\$200,000		\$80,000								\$280,000	
<b>Sub-total</b>	\$200,000	\$0	\$80,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$280,000	
<b>TOWERS</b>												
Site acquisition and construction	\$108,000		\$54,000								\$162,000	
<b>Sub-total</b>	\$108,000	\$0	\$54,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$162,000	
<b>LAND &amp; BUILDINGS</b>												
CO Site		\$20,400										\$20,400
<b>Sub-total</b>	\$0	\$20,400	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$20,400	

**Sample Detail of Project Costs – Annual Breakdown (Schedule Q-3)  
(continued)**

SERVICE AREA or COMMON NETWORK FACILITIES: Sun County	YEAR 1		YEAR 2		YEAR 3		YEAR 4		YEAR 5		Totals	
	Loan Funds	Non-loan Funds	Loan Funds	Non-loan Funds	Loan Funds	Non-loan Funds	Loan Funds	Non-loan Funds	Loan Funds	Non-loan Funds	Loan Funds	Non-loan Funds
<b>CUSTOMER PREMISES EQUIPMENT</b>												
ONT	\$7,500		\$15,000		\$20,000		\$15,000		\$10,000		\$67,500	
ONT Install	\$40,000		\$80,000		\$90,000		\$90,000		\$60,000		\$360,000	
Set Top Box		\$30,000		\$60,000		\$80,000		\$70,000		\$39,600		\$279,600
Wireless CPE	\$3,000		\$5,000		\$10,000		\$8,000		\$4,000		\$30,000	
<i>Connectivity to Core Network*</i>												
Network Node CPE Router	\$30,000		\$30,000								\$60,000	
Network Node CPE Switch	\$25,000		\$25,000								\$50,000	
Network Node Wireless CPE	\$5,000		\$10,000								\$15,000	
<b>Sub-total</b>	\$50,500	\$30,000	\$100,000	\$60,000	\$130,000	\$80,000	\$126,000	\$70,000	\$74,750	\$39,600	\$ 582,500	\$279,600
<b>ENGINEERING</b>												
Project Management	\$150,000		\$125,000		\$75,000		\$75,000		\$72,400		\$497,400	
RAN Planning	\$250,000		\$173,000								\$423,000	
Device Testing	\$25,000		\$10,000		\$10,000		\$5,000				\$50,000	
Transmission Planning	\$300,000		\$100,000								\$400,000	
<b>Sub-total</b>	\$775,000	\$0	\$408,000	\$0	\$110,000	\$0	\$105,000	\$0	\$73,650	\$0	\$1,370,400	
<b>TOTAL PROJECT COST</b>	\$1,348,900	\$50,400	\$731,700	\$60,000	\$240,000	\$0	\$231,000	\$0	\$148,400	\$0	\$2,700,000	\$300,000

NOTE: Complete a separate schedule for each service area that supports the service area totals on Schedule Q-1, Summary of Project Costs and on Schedule Q-2, Detail of Project Costs. Also include a separate schedule for common network facilities costs that support more than one service area.  
\*Connectivity to Core Network costs may be absorbed by the common network facilities and reflected in the table showing those costs.

**End of Sample Detail of Project Costs – Annual Breakdown (Schedule Q-3)**

## **Instructions for Preparing Schedules R & S**

### **ENVIRONMENTAL REPORT (Schedule R)**

RD is responsible for implementing the requirements of the National Environmental Policy Act of 1969 (NEPA), as amended; the Council on Environmental Quality Regulations for Implementing the Procedural Provisions of NEPA and certain related Federal environmental laws, statutes, regulations, and Executive Orders (EO) that apply to RD programs. The policies and procedures set forth in 7 CFR Part 1794 – Environmental Policies and Procedures, assist RD with making decisions that are based on an understanding of environmental consequences, and taking action that protects, restores and enhances the environment.

Applicants are responsible for ensuring that proposed actions are in compliance with all appropriate RD requirements. Therefore, applicants must prepare an environmental report in accordance with 7 CFR Part 1794, for any facilities that will be constructed with RD broadband loan funds. A copy of 7 CFR Part 1794 can be retrieved from RD's web site.

The link for this regulation is <http://www.usda.gov/rus/water/ees/pdf/1794.pdf> . In addition, applicants can also retrieve the *Guide for Preparing an Environmental Report for Categorically Excluded Projects* to assist in the preparation of the Environmental Report. The link for this guide is [http://www.usda.gov/rus/telecom/publications/word\\_files/1794a600.doc](http://www.usda.gov/rus/telecom/publications/word_files/1794a600.doc).

### **LICENSES AND AGREEMENTS (Schedules S-1 through S-7)**

Include copies of the major agreements listed below as Schedules S-1 through S-7:

1. FCC LICENSES: (Attach as Schedule S-1)
2. CLEC LICENSES: (Attach as Schedule S-2)
3. FRANCHISE AGREEMENTS: (Attach as Schedule S-3)
4. INTERCONNECTION AGREEMENTS: (Attach as Schedule S-4)
5. TOWER, EQUIPMENT AND BUILDING LEASES: (Attach as Schedule S-5)
6. MANAGEMENT / SERVICE AGREEMENTS: (Attach as Schedule S-6)
7. OTHER MAJOR AGREEMENTS: (Attach as Schedule S-7)

# **ATTACHMENT:**

## USOA ADDITIONAL ACCOUNT SUBCATEGORIES FOR BROADBAND SERVICE PROVIDERS

Accounting requirements for RD Broadband Program borrowers parallel the accounting requirements for traditional telecommunications borrowers. This Uniform System of Accounts, based on the Federal Communications Commission's 47 CFR Part 32, Uniform System of Accounts, contains all of the accounts needed to account for Broadband Operations. The general instructions found in Subpart B are applicable to borrowers under the RD Rural Broadband Access Loan and Loan Guarantee Program, regardless of whether they are traditional telecommunications borrowers or borrowers for the purpose of providing broadband services only. Broadband borrowers must understand that while not every account shown in **Bulletin 1770B-1** is necessary based on the size and complexity of the company, the underlying account structure is the same.

Asset accounts, other than fixed assets, are numbered from 1130 to 1500. These accounts include both current and noncurrent assets. Fixed assets, both tangible and intangible, which ordinarily have a service life of more than one year, are found in Accounts 2001 through 2007, with the detailed Telecommunications Plant in Service balances found in Accounts 2100 through 2690. Accounts 3100 through 3600 contain Accumulated Depreciation and Amortization related to the fixed assets found in Accounts 2100 through 2690 along with the Retirement work in progress (RWIP). Accounts 4000 through 4199 contain Current Liability balances while Accounts 4200 through 4299 include Long-Term Debt. Accounts 4300 through 4399 are used to account for Other Long-Term Liabilities and Deferred Credits. Stockholders' Equity balances are found in Accounts 4500 through 4599. Operating revenue accounts are found in Accounts 5000 through 5302. These accounts are intended to record the results of the company's major or central operations during the accounting period. These accounts contain both regulated and non-regulated revenues. Accounts 6000 through 6790 shall be used to record the expenses associated with the company's major or central operations. Again, these accounts contain both regulated and non-regulated expenses. Accounts 7000 through 7990 are designed to reflect both operating and nonoperating income items include taxes, extraordinary items and other income and expense items not associated with the major or central operations.

Expenses within this system of accounts are accounted for on a functional basis, that is, expenses are recorded based on the function they support regardless of the type of expense. See Subpart E, Instructions for Expense Accounts, for the detailed instructions for classifying expenses. The expense accounts shall be maintained by subsidiary record categories, as appropriate to each account. The expense matrix is provided to allow a company to capture this information for management purposes.

In addition to those items described in **Bulletin 1770B-1**, this Attachment outlines those additional items to be included in these same accounts for other telecom companies such as Internet Service Providers, Cable TV companies, wireless companies, and any other type of entity providing broadband services. This attachment is to be used in conjunction

with 47 CFR Part 32, as supplemented by 7 CFR Part 1770, in setting up and maintaining accounts of RD Telecommunications Program borrowers.

### **32.2112, Motor Vehicles**

Examples of items to be recorded in this account include:

- Automobiles
- Tractor Trailers
- Trucks
- Vans
- Buses

### **32.2113, Special Purpose Vehicles**

Examples of items to be recorded in this account include:

- Boats and barges
- Motor scooters
- Snowmobiles

### **32.2114, Tools and other work equipment**

Examples of items to be recorded in this account include:

- Air compressors
- Backhoes
- Bulldozers
- Cable lashers
- Cable plows
- Car hoists
- Carts-cable splicers
- Concrete mixers
- Derricks
- Duct rodders
- Earth moving machines
- Fork lifts
- Garage jacks
- Gasoline pumps
- Heaters
- Hydraulic lubricated equipment
- Ladders
- Lubricating racks
- Machine tools
- Metal bins
- Oil pumps
- Paint spraying equipment
- Pole-treating apparatus - chemical
- Portable motors
- Portable test equipment
- Power blowers, hammers, drills, loaders and winches
- Power take-offs
- Power tools
- Pumps (except fuel and oil)
- Storage tanks (e.g., fuel oil)

- Tamping and back-filling machines
- Tents – cable splicers
- Tire changers
- Tire racks
- Tool boxes
- Torches
- Tractors
- Trailers, special purpose
- Trenching machines
- Welding equipment
- Wheel alignment equipment
- Work benches

### **32.2122, Furniture**

Examples of items to be recorded in this account include:

- Antiques
- Artwork (Paintings, prints, photographs, sculptures, wall hangings, tapestry, etc.)
- Beds, cots & couches
- Bookcases
- Cabinets and filing cases
- Chairs
- Credenzas
- Desks
- Drapes, blinds, and shades
- Lamps
- Lockers and wardrobes – movable
- Modular furniture units
- Partitions – movable
- Refrigerators
- Rugs
- Sofas
- Tables

### **32.2123.1, Office Support Equipment**

Examples of items to be recorded in this account include:

- Addressing machines
- Air conditioners – portable
- Audio/visual equipment
- Billing/posting machines
- CAD systems
- Calculators
- Cameras
- Check registers
- Cash registers
- Copy machines
- Humidifiers/Dehumidifiers – portable
- Display and lecture demonstrating kits
- Electric fans – portable
- Fire extinguishing equipment – portable

- Floor scrubbing and polishing machines
- Medical equipment
- Microfilm equipment
- Postage meter machines
- Radios and television sets
- Typewriters
- Vacuum cleaners
- Vending machines
- Water coolers – portable

### **32.2123.2, Company Communications Equipment**

Examples of items that can be recorded in this account are:

- Data communications terminal equipment
- Distributing frames
- Fax Machines
- Fiber optic distribution systems
- Operators' headset and transmitters
- Telephone sets
- Mobile Phones
- Private Branch exchange
- Switching equipment at switching or relay centers of teletypewriter systems
- Teletypewriter systems

\*Includes common equipment (power equipment, switching equipment, etc.), station equipment (usually telephones or key telephone systems), and wires connecting the common equipment and the station equipment plus the terminal boxes or cross connector points, and the cable or wires that connect that connect the private branch exchange with the network interface.

### **32.2124, General Purpose Computers**

Examples of items that can be recorded in this account are:

- Desktop and Laptop computers
- Tape drives
- Uninterrupted power supply
- Printers
- Optical scanners
- Memory units
- External drives
- Modems
- Monitors
- Keyboards
- Mouse
- Microphones
- Speakers

### **RUS 2210.21, Central office switching – digital**

Examples of items to be recorded in this account are:

- Digital central office switches

- Remote switches
- Next-generation switches including soft switches and IP switches
- Mobile switching offices
- Base station controllers
- Asynchronous Transfer Mode switches
- Automatic message recording equipment
- Call store equipment
- Central control and processing equipment including initial operating system software for computers classified to this account
- Controllers
- Direct memory access units
- Main distribution frames, arrestors, and protectors
- Furniture designed specifically for equipment included in this account
- Input/output devices including disk and tape drives, display and alarm units
- Plug-in units (line cards, circuit pack, line cards, etc.)
- Trunks
- Permits, privileges, and rights-of-way for installation of externally-mounted central office equipment
- Test equipment, hardwired or specifically designed and dedicated for use with a particular major switching system or component
- Power equipment (chargers, batteries, generators, etc)
- Timing equipment
- Automated Line Assignment equipment

**RUS 2230.11, Central office transmission – radio systems-satellite and earth station facilities**

Examples of equipment that can be recorded in this account are:

- Antenna systems
- Base band equipment
- Converters
- High power amplifiers
- Low power amplifiers
- Satellite receivers
- Satellites
- Satellite launch insurance premiums
- Special cost incurred in procuring launch insurance
- Transceivers
- Transmitters
- Digital or analog video headend equipment
- Test equipment hardwired or specifically designed and dedicated to be used with a particular major operator system or component

**RUS 2230.12, Central office transmission – radio systems – other**

Examples of equipment that can be recorded in this account are:

- Base station equipment
- Microwave equipment
- Radio equipment that uses licensed or unlicensed frequencies
- Antennae
- Amplifiers

Combiners  
Radio dispatch system with GPS  
Radio frequency amplifiers  
Receivers  
Transmitters  
Repeaters  
Waveguides  
Power equipment  
Permits, privileges, and rights-of-way for installation of externally-mounted radio facilities  
Test equipment hardwired or specifically designed and dedicated to be used with a particular major operator system or component

**RUS 2230.21, Central office transmission – circuit equipment**

Examples of equipment that can be recorded in this category are:

Digital line concentrators  
Subscriber loop carrier equipment  
Channel banks  
Cabinets  
Digital access cross-connect system  
Channel bank equipment  
SS7 signaling equipment  
Signal Transfer points  
Signal Control points  
Signal processors and distributors  
Analog to digital converters  
Echo cancellers  
Echo suppressors  
Equalizers  
Optical transmission equipment  
Optical splitter and couplers  
Digital subscriber line (DSL) cards  
Line repeaters  
Regeneration equipment  
Multiplexing equipment including Digital Subscriber Line Access Multiplexers  
Range or loop extenders  
T1 transmission equipment  
Gigabit Ethernet transmission equipment  
Power equipment including chargers, batteries, etc  
Voice grade amplifiers

**32.2311, Station Apparatus**

Examples of equipment that can be recorded in this category are:

DSL, cable and wireless modems  
Video set-top boxes

**32.2362, Other terminal equipment**

Examples of equipment that can be recorded in this category are:

Routers

Optical line terminators  
Optical/coaxial network units placed on the subscriber's premises  
ADSL and VDSL gateways  
Cable modem termination system  
Middleware

### **32.2411, Poles**

Examples of equipment that can be recorded in this category are:

A and H fixtures  
Anchors  
Arms – cable, extension, guard and crossarms  
Auxiliary framework for towers  
Bolts, braces, and brackets  
Guy clamps, shields, wire or strand  
Path surveys  
Bridge fixtures  
Permits, privileges, and rights-of-way for construction  
Pins  
Pole and pole steps  
Strain insulators  
Stubs – guy or pole  
Supports – radio antennae, such as wood poles or wood pole towers  
Treating and marking poles  
Towers – aluminum, wood, or steel; guyed or free standing

### **5000, Local Network Service Revenues**

Examples of revenues that can be recorded in this account include:

Dial-Up Internet Service Revenue  
Voice-Over-IP Revenue  
xDSL Service Revenue \*\*  
Cable Modem Service Revenue  
Cable TV Service Revenue  
Wireless Internet Service Revenue  
Customer Premises Equipment (CPE) Leasing Revenue  
Any Other Internet/Data/Phone/TV Service Revenue

\*\*xDSL Revenue will only be included in this category for those entities who do not choose to participate in the NECA tariff for this service. Those entities who offer xDSL at NECA's tariffed rates will account for this revenue under Account 32.5081, End User Revenue, under Network Access Service Revenues.

### **5081, End User Revenue**

Examples of revenues that can be recorded in this account include:

xDSL Service Revenue (If company participates in NECA tariff for this service)

### **5200, Miscellaneous Revenues**

Examples of revenues that can be recorded in this account include:

Fiber Leasing Revenue

Leasing of Local Loops Revenue (CLEC/UNE-P/Resale)  
Installation Revenue  
Equipment Sales Revenue  
Software Sales Revenue  
Miscellaneous Sales Revenue  
Network Revenue  
Mobile Radio Revenue  
Educational/Training/Help Desk Revenue  
Internet Solutions Revenue (Web Hosting, Email Accounts, Graphic Design, etc.)  
Interactive Television (ITV) Revenue  
Consulting Services Revenue  
Repair Services Revenue  
Other Miscellaneous Revenue  
Any Other Revenue Source Not Regulated by Other Accounts or Listed in the Other Accounts

**6121, Land and building expense**

Examples of expenses that can be recorded in this account include:

Tower lease payments if included as a part of a building

**6231, Radio systems expense**

Examples of expenses that can be recorded in this account include:

Expenses related to transmitters and receivers in the provision of wireless broadband service, both long haul and local transmission.

**6411, Poles expense**

Examples of expenses that can be recorded in this account include:

Tower lease payments

**6540, Access expense**

Examples of expenses that can be recorded in this account include:

T-1 access costs

Back haul/transport costs

Video programming expenses