



# Board Governance and Understanding of Financial Statements

March 26, 2024

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## Agenda

- Financial Roles and Responsibilities of a Board
- Historic and Current Board Benchmarks
- Operational Trends and Budgeting for the Future



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## Financial Roles and Responsibilities of a Board

- The Board is elected by owners to operate in the best interest of the owners that elected them
  - Not in any individual's best interest
  - Protect the assets, cash flow and profitability of the organization (the financial statements)
  - Must self monitor their performance and the decisions made
    - “The Buck Stops” with the Board

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## Financial Roles and Responsibilities of a Board

- Roles and responsibilities don't stop at just the annual financial statements
  - Establishing and maintaining sound internal controls
    - Will vary based on the size of the organization and the current life cycle of the entity
  - Setting compensation for top level executives
  - Monitoring and managing monthly financial information
  - Communicating financial results with other owners
  - Interacting regularly with top executives

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## Financial Roles and Responsibilities of a Board

- Roles and responsibilities don't stop at just the annual financial statements (con't)
  - Assuring the correct amount of financial resources are going to each stakeholder
    - Owners, employees and customers
  - Approving professional service providers that are knowledgeable, protect the best interest of the entity and have reasonable fees
  - Approving major financial decisions – large purchases, borrowing funds, mergers & acquisitions, etc.

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## Internal Controls Responsibilities

- Mid to Large Entities
  - Expenditure approvals above set amount (example \$20,000)
  - Prior month disbursement registers checks and ACH
  - Financial statements
  - Loan compliance
  - Executive expense reimbursements

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## Internal Controls Responsibilities

- Small Entities
  - Expenditure approvals above set amount (example \$5,000)
  - Prior month disbursement registers checks and ACH
  - Bank reconciliations and statements review
  - Financial statements
  - Loan compliance
  - Employee expense reimbursements
  - Credit card statements

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## Monitoring and Reporting

- Periods to Show
  - Current Month
  - Prior 3 Months
  - Prior Month Prior Year
  - Month-to-Date
  - Prior Year Month-to-Date
- Annualized Projection
- Prior Year Actual Year-to-Date
- Budgeted/Benchmark
- Percentage Variances

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## Budget Key Metrics

- Revenue growth
- Operating margins
- Payroll to total revenues and expenses ratios
- Benefits to payroll ratio
- Average revenue per customer
- Direct margin per customer per service line
- Current ratio

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## Budget Key Metrics

- Return on fixed assets/equity
- Cash and liquid investment reserves

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## Cash Considerations

- Benchmark is 9% of total assets
- Keep a current ratio (current assets/current liabilities) of 1.0 or greater
- Discretionary base decided by board such as \$500,000 or greater
- Maintain cash reserves of 6 months or greater for cash-based expenses (depreciation excluded)

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## Use of Budgets

- Short and long-term forecasts
- Historical comparisons
- Regular review for check-up on expectations and achievements
- Set goals for where you need to be 1-5-10 years in the future

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# Calculations

- $TIER = (\text{Net Income} + \text{Interest Expense}) / \text{Interest Expense}$
- $DSC = (\text{Net Income} + \text{Depreciation} + \text{Interest Expense}) / (\text{Current portion of debt} + \text{interest expense} + \text{distributions})$

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# Key Metrics for Lenders

Metric	RUS/Benchmark
TIER	>1.0/9.87
DSCR	>1.5/5.11
Equity to Assets	Range/82%

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## Key Metrics for Broadband

Metric	Benchmark
Revenue growth	2.6%
Broadband growth	8.9%
Payroll to total expense	21.8%
Overheads to payroll	41.8%
Revenue per employee	\$386k
Broadband per connection	\$767
Operating margin	15.6%
OIBDA to revenue	36.1%
Broadband to total revenue	26%

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## Trends for Budgeting

	2032 (Trend)	2027 (Trend)	2022 (Actual)	2016 (Actual)	2012 (Actual)
Local Telephone Service as a % of Operating Revenue	3.3%	4.6%	6.4%	10.7%	11.1%
Internet Service as a % of Operating Revenue	60.9%	39.8%	26.0%	14.5%	13.1%
Video Service as a % of Operating Revenue	?	?	10.7%	7.8%	6.8%
Payroll as a % of Operating Expense	23.6%	22.3%	21.8%	19.6%	18.9%
Revenue per Employee	\$508k	\$446k	\$386k	\$331k	\$306k
Benefits as a % of Payroll	41.0%	42.1%	42.8%	44.6%	45.4%
Inflation Rate			3.0%	1.23%	2.1%

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## Iowa Population Trends 2010 to 2020

- 7 of every 10 of the state's 923 towns with fewer than 5,000 people lost population or made no gains
- 67 counties in rural areas lost population

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## Payroll Data

- Projecting 3.9% for 2024
- Nation increase for 2023 was 4.2%
- National increase for 2022 was 5.1%
- National increase for 2021 was 4.2%

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## Tax Impacts

- Federal corporate tax rate is 21%
- Iowa corporate tax rate effective January 1, 2024 is 7.1% with legislation in place to potentially go to 5.5%
- Bonus depreciation is reducing from 80% in 2023 and decreases 20% each subsequent year

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## National Competitor Results

- Lumen Technologies (Centurylink) 10-K
  - Fiber broadband increased 5%
  - Other broadband (copper) decreased 36%
  - Voice declined 40%
- AT&T broadband ARPU at \$62 per month up from \$57
- Comcast 10K - Video customers decreased by 2.0m (12%)
- Comcast went from 18m in 2021 to 14m in 2023
- Peacock added 10 million subscribers to 31 million in 2023

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## Major Expenses

- 1) Programming
- 2) Depreciation
- 3) Payroll
- 4) Fiber and transport
- 5) Employee benefits
- 6) Technology

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## Employee Benefit Savings

- Employee contribution changes for
  - Health insurance
  - Pension
- Incentive based component to wages
  - Growth goals
  - Expense reduction goals
- Overtime controls
- Comparisons to industry benchmarks
- Cashflow impact by using deferred comp for manager level instead of payroll

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## Employee Benefit Savings

- Sharing of staff with other companies or outsourcing on-call responsibilities
- Offering early retirement and incentive to do so
  - Lump sum cash payment
  - Health insurance payments until Medicare
  - Combination of items or other incentives
- Replacing full-time employees that leave with part-time ones

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## Course Corrections

- Payroll
  - Allowing for part-time
  - Early retirement packages
  - Staff sharing with other neighboring companies
  - Overtime controls
- Revenue Growth
  - Training on upselling
  - Better bundling
- Gain Share Programs
  - Based on new customer growth
  - Profitability

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# Thank you!

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