Creating a Monthly Draw Schedule & Sources/Uses Statement

Monthly Draw Schedule

Each month of the availability period (deferral of principal payments) will include a draw amount enabling developers to reach critical-path milestones through to completion, commissioning and start of operations. We strive for consistent draw amounts each month, but the exact schedule is built around cashflow requirements. Banks require this to ensure regulatory compliance – to avoid triggering rules-based detection that signal money laundering, fraud or other avoidable problems.

Developers may want to accumulate multiple draws in the SPV account to make larger payments.

Keeping the draws as even as possible (invested capital divided by the number of months, minimum 9 months in any given year), or increasing amounts each month, ensures that the proposed monthly draw schedule will be approved. See example on page 3.

Creating a Uses Statement

When creating an IFRS-compliant, budgetary Uses of Funds Statement, the developer or sponsor should ask what things the company needs in order to design, build and commission a profitable project that performs per financial projections. These items should be listed regardless of whether they will be paid for in cash, credit or contributed by investors. In other words, the **total amount of "uses" listed in the uses statement should be equal to the project's TOTAL costs**, including seed/development and pre-construction costs, *not just* accounting for the loan or equity amounts.

Keep all Uses of funds (costs) separate from Sources. All items on the uses statement should be listed in U.S. dollars at fair market value – including any products, services, property, plant and equipment currently owned by project sponsors that will be directly contributed to the project[1].

Although the level of detail shown in the Uses Statement will vary by project, based on the project size and type, at a minimum, break costs into the categories described in the sample below (see Table 1). Generally, projects with a total cost of $25 million or less should list separately any expense greater than 1% of the project total. For projects with a total cost of more than $25 million, *any expense greater than 3% of the project total* should be displayed individually.

The following are some of the major uses or expense categories:

- **Land Procurement or Lease Costs –** whatever is required to secure the physical site and associated infrastructure (roads, etc.) for at least the life of the project. Property may not be a separate line item if, for example, there exists a plant or facility to be procured and renovated.
- **Facilities and/or Capital Equipment --** capital costs for building(s), machinery and equipment.
- **Engineering/Construction** –include professional service fees (i.e. architecture and engineering fees) and permitting fees related to the construction or development of the project's fixed assets. Uses in this category should be broken down into contractor and non-contractor expenses.
- **Permanent working capital costs** – these costs include operational funds used in the start up of the project (e.g. the first six months to year of the project when the project is not yet generating enough cash to cover its own operating expenses). Typical expenses in this category include office rent, equipment maintenance, initial inventories, salaries, banking fees, and general and administrative costs.

[1] Lender may verify these assessments, including in-kind contributions, later in the financial review process through the services of an independent appraiser or consultant.

- **Project Development costs** – these costs include project design fees and non-building related permitting fees. Typical costs include feasibility study fees, legal fees, and accounting fees. Relevant developmental costs incurred up to 12 months prior to the loan disbursement are generally considered to be included as developmental costs.
- **Project contingency costs** – these costs are estimated to ensure that the investor can pay for any potential cost over-runs[2]. These costs should be as low as possible, typically 2-10% of the subtotal of fixed assets or "hard costs". Fixed assets include items such as buildings and equipment/machinery, NOT liquid costs such as working capital or development costs.
- **Interest and financing fees** – these fees include the interest on the loan, a one-time finance or "finance facility" charge, and any other outstanding loans payable prior to the point the project becomes profitable. These costs will ultimately change depending on the finance terms negotiated between the project sponsors and lender.

Table 1: Sample Uses Statement – if there are two drawdown periods (otherwise just the *Total* column)

USES (in US$ or US$000's)	**Period 1**	**Period 2**	**Total**	**%**
I. Land Procurement or Lease Expense				
II. Facilities (Buildings) and/or Capital Equipment				
III. Engineering & Construction Costs (design, permits, any feasibility studies, management, legal, accounting)				
A. EPC/Construction Contractor Costs				
B. Non-Contractor (or Self-Performing) Costs				
IV. Developer Fee				
V. Interest During Construction				
VI. Financing Costs				
VII. Contingency / Unspecified Working Capital				
TOTAL				100%

Creating a Sources Statement

State how aforementioned costs will be paid for – with senior, subordinated or mezzanine debt, equity carried interest, quasi-equity (convertible debt), or unexpended cash funds from the owners.
Note: to be considered a valid "in-kind" contribution of capital, items must be tangible (such as a machine, a building or land) and currently owned by the project developers, not slated to be purchased with new debt/equity funding.

Table 2: Sample Sources Statement (to match the above; In3's program typically covers 100% of the costs)

SOURCES	**Period 1**	**Period 2**	**Total**	**%**
I. Total Debt				
A. Main Loan, usually Senior Debt (5-25 year)				
B. Other Loans (includes subordinated, mezzanine)				
II. Total Equity				
A. Shareholding as cash (common or preferred)				
B. Non-cash (contributed buildings, equipment, etc.)				
III. Quasi-Equity / Other Convertible Debt, Bridge Notes, etc.				
TOTAL				100%

[2] General experience demonstrates that most projects under budget their expenses, and hence a lender may ultimately ask companies to attain a larger line of credit for contingency equity if there are no contingencies included in original uses statement. Often times, attaining a contingency line of credit is more expensive than simply including these costs in the initial uses statement.

EXAMPLE 1: An organic food processing project in Asia

Funds Raised to Date

$5m invested in development and related costs by founders; $13.5m unexpended funds coming from owners. Developer seeks a total of 74.1% of the total budget, as a combination of debt and equity.

Monthly Draw Schedule

Mo	Amount	%	Purpose of Expenditures
1	$3,200,000	8.3%	Remaining development costs, permits, deposits, finance and legal fees
2	$3,200,000	8.3%	Remaining development and pre-construction costs
3	$3,200,000	8.3%	Balance of financing costs; EPC fee deposit
4	$5,500,000	14.3%	Deposits on equipment; first month of construction
5	$3,200,000	8.3%	Further deposits and procurement
6	$5,500,000	14.3%	Geotechnical study and soil testing costs; road improvements
7	$3,800,000	10.0%	Progress payment to EPC, hardware procurement, facility testing
8	$4,500,000	11.7%	Installation of electrical, plumbing and purchase trucks
9	$3,800,000	10.0%	Forward contracting for subsequent year raw materials
10	$2,643,000	6.9%	Inventory; final EPC payment
11	0	0	
12	0	0	Total draws, equity and debt: **$38,543,000**

Use of Proceeds

Land	US$ 3,800,000	7.3%
Building & Processing Center	16,080,000	30.9%
Breeding center, Rearing pullets cage, Layers cage	9,450,000	18.1%
Facilities installation & GP center, CP center	6,750,000	13.0%
Storage building, Grading & Packing center	3,540,000	6.8%
Delivery equipment vehicles	1,500,000	2.9%
Processing Equipment	3,430,000	6.6%
Prevention facilities	1,340,000	2.6%
Analytical laboratory	1,500,000	2.9%
Project-Related Labor	1,847,000	3.5%
Funding of Debt Service Reserve	1,853,000	3.6%
Interest/Fees During Construction	483,000	0.9%
Contingency	470,000	0.9%
Total Project Costs	$52,043,000	100.0%

Project Sources	**US$**	**%**
Debt:	**$22,000,000**	**42.3%**
Senior or Co-Senior loan (est'd 8 year tenor) from In3 partners	$22,000,000	42.3%
Subordinated Debt:		
Subordinated or Mezzanine loans from developer or third parties		
Equity:	**$30,043,000**	**57.7%**
Owner's Equity (unexpended funds committed from the Owners)	$13,500,000	25.9%
Equity as Shareholding (carried interest) from In3 Group	$16,543,000	31.8%
In kind contribution of capital assets (existing land, equipment)		
Total Project Funding	**$52,043,000**	**100%**

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Additional Examples of Uses of Funds and Monthly Draw Schedules

EXAMPLE 2: 200MW Solar/PV Project (Canada)

Uses of Funds In US$000's	**Period 1**	**Period 2**	**Total**	**%**
PV Modules	29,696	44,544	74,240	28%
Racking	17,601	26,402	44,003	17%
Piling	2,644	3,967	6,611	3%
Construction	6,255	14,594	30,849	12%
BOS	29,190	43,785	72,975	28%
SCADA	-	1,138	1,138	0%
Construction Management	2,459	9,835	12,293	5%
Engineering	5,407	601	6,008	2%
Developer Fees	5,000	5,000	10,000	4%
Interest/Fees During Construction	1,030	2,257	3,287	1%
Contingency	170		170	0.1%
Annual Total	114,452	147,122	187,165	100%
Total Project Cost	**261,575**			
Sources of Funds				
Senior Debt	45,638	58,906	104,544	40%
Other Debt	-	-	-	0%
New Equity Contributions	68,671	88,359	157,031	60%
Annual Total	114,309	147,265	261,575	100%
Total Financing	**261,575**			

EXAMPLE 3: Agriculture Production & Processing Project

Uses of Funds In US$000's	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**%**
Land Purchase	32,000	0	0	0	52%
Planting Cost	4,200	0	7%	0	6%
Seedlings	2,520	0	4%	0	4%
Manufacturing Facility Equipment	2,600	0	12%	5,700	13%
Tissue Culture Lab	500	0	1%	0	1%
Start Up and commissioning	87	0	3%	1,821	3%
Pay off existing debt	1,333	0	2%	0	2%
Interest/Fees During Construction	532	1,595	1,595	1,728	8%
Contingency or Working Capital	6,745				11%
Annual Total	50,517	1,595	1,595	9,248	100%
Total Project Costs	**62,006**				
Sources of Funds					
Senior Debt	31,899	0	0	5,304	60%
Subordinated or Mezzanine Debt	0	0	0	0	
New Equity Contributions	21,266	0	0	3,537	40%
Annual Total	53,165	0	0	8,841	
Total Financing, all sources	**62,006**				