In³ Group

Creating a Sources and Uses Statement

Creating a Uses Statement

When creating a uses statement, a sponsor should ask what things the company needs in order to create a profitable and sustainable business/project. These items should be listed regardless of whether they will be paid for in cash, credit or contributed by the project sponsors/investors. In other words, the total amount of "uses" listed in the uses statement should be equal to the project's total start up cost, not to the loan amount. 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 the uses statement should provide costs broken down into the categories described below and marked in bold in the first column of the sample uses statement (see Table 1). Beyond this level of detail, for projects with a total cost of US$2.5 million or less, any expense greater than 5% of the project total should be displayed individually. For projects with a total cost of more than $2.5 million, *any expense greater than 10% of the project total* should be displayed individually.

The following are examples of the major uses of proceeds (expense categories):

- **Major Capital Expenditures ("CapEx")** – these costs include property, plant (buildings or other facilities), and equipment.
- **Project development & construction costs --** Relevant develop costs incurred up to 12 months prior to the loan disbursement are generally considered to be included here. Include permitting fees related to the construction or development of the project's fixed assets.
- **EPC contractor (Engineering, Procurement & Construction)** or other professional services fees –includes project design and feasibility study fees. Most projects include a feasibility study by an experienced EPC firm, with the study is completed before seeking financing. Also include other professional service fees (i.e. architecture, interconnection studies, technology due diligence, engineering). 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, inventory, general and administrative costs.
- **Project contingency costs** – these costs are estimated to ensure that the investor can pay for any potential cost over-runs[2]. Estimate at or below 5% of the subtotal of fixed assets or "hard

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

[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 (backup funds that serve as a buffer or insurance policy) if there are no contingencies included in the original uses statement. Often times, attaining a contingency line of credit is more expensive than simply including these costs in the initial uses statement.

costs". Fixed assets include items such as buildings and 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 "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 – scenario to illustrate the above; actual categories will reflect the individual project.

USES	Period 1	Period 2	Total	%
I. Capital Expenditures ("CapEx" Costs) Add a line for each major category over 5% of total budget – buildings, land, equipment, vehicles, etc.				
II. Permits & Construction Costs				
III. Contract Developer or EPC Costs				
IV. Permanent Working Capital, if any (minimize)				
V. Project Contingency Costs				
VI. Legal & Accounting (if applicable)				
VII. Interest (during construction) **& Financing Fees**				
TOTAL				100%

Creating a Sources Statement

To create a bankable Sources Statement, simply state how the aforementioned costs will be paid for – with senior debt, other loans (e.g., subordinated debt), quasi-equity, cash, and in-kind contributions. For costs that will be paid for with equity (i.e. with investor cash, non-senior debt, grants, subordinated or other debt), if OPIC is involved, it is necessary to list the amounts of cash and in-kind contributions U.S. versus non-U.S. investors will contribute. Other lenders don't make this distinction. Costs that are covered via an in-kind contribution of capital (i.e. a machine or piece of land) must be currently owned by the project investors and not purchased with loan funds. The total amount of sources listed in the "Period 1" column should equal the total amount of uses listed in the "Period 1" column of the uses statement – likewise for the "Period 2" and "Total" columns.

Table 2. Sample Sources Statement (include any or all that apply)

SOURCES	Period 1	Period 2	Total	%
I. Senior Debt				
A. Term of Loan (3-20 years)				
B. Other loans (includes subordinated, convertible…)				
II. Equity contributions to the project:				
A. Cash (from what country?)				
B. Non-cash Assets (buildings, land, equipment, etc.)				
C. Subordinated Debt or Mezzanine Debt				
D. Convertible Debt or Quasi-Equity				
E. Grants or forgivable loans				
F. In-kind Contributions (limited to cash or contribution of material goods, real property or capital)				
TOTAL				100%