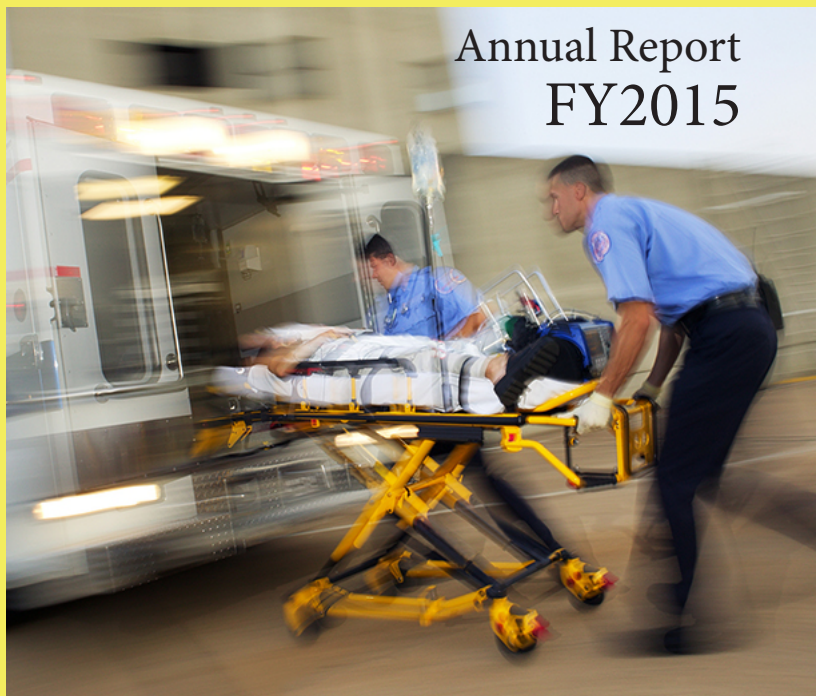


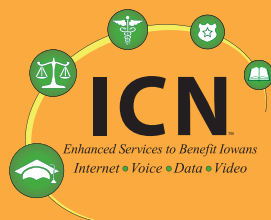
Annual Report
FY2015



BECAUSE

BROADBAND

MATTERS



IOWA CONNECTIONS THAT MATTER

www.icn.iowa.gov

Iowa Communications Network



Contents

Annual Report FY2015

Page
2

| | |
|--|----|
| Letter to the Governor | 3 |
| Legislative Session Recap | 4 |
| Contracts Exceeding \$1 Million | 4 |
| Agency Overview | 5 |
| Services Update | 6 |
| Broadband Education Stories | 7 |
| ICN Launches Broadband Matters | 8 |
| Iowa Rural Health Telecommunications Program Completes 200th Location Connection | 9 |
| State Technology Directors Gathered for 2015 Midwest Region Seminar | 10 |
| Looking Ahead to FY 2016 | 11 |
| Financial Information | |
| Charts | 12 |
| Statement of Net Assets | 13 |
| Statement of Revenues, Expenses & Changes in Equity | 14 |
| Statement of Cash Flows | 15 |
| Operating Budget Proposal | 16 |
| Lead Schedule Budget to Actual | 17 |



IOWA TELECOMMUNICATIONS AND TECHNOLOGY COMMISSION

Richard L. Bruner
CHAIR

Kathleen Kohorst
Kelly Dolan Lange

Timothy L. Lapointe
Mary Sellers

Mary Mosiman
Robert von Wolffrad

RIC LUMBARD, EXECUTIVE DIRECTOR

GOVERNOR TERRY E. BRANSTAD LIEUTENANT GOVERNOR KIM REYNOLDS

The Honorable Terry E. Branstad
Governor, State of Iowa
State Capitol
Des Moines, Iowa 50319

Dear Governor Branstad:

On behalf of the Iowa Telecommunications and Technology Commission (ITTC) overseeing the Iowa Communications Network (ICN), I am pleased to submit our Fiscal Year 2015 Annual Report for your review, and trust you will agree that the ICN remains a valuable asset to Iowans. Throughout the report you will find information explaining how network services (broadband, voice, and video) have evolved and continue to provide exceptional value to our authorized users. Highlights from the annual report include.

- On January 1, 2015, ICN began a new public/private partnership with Fiberutilities Group, an Iowa based company who manages ICN's Network Operations Center and related field services.
- In FY 2015, 42 new healthcare sites were connected to the Iowa Rural Health Telecommunications Program's fiber optic network managed by the ICN, which now joins over 200 healthcare locations.
- ICN serves as a technical management support partner to the Iowa Statewide Interoperable Communications System Board, by gathering required FirstNet asset and profile data.
- The Broadband Matters awareness campaign was initiated and advocates broadband discussions within education, healthcare, public safety, and government entities.

The ICN continues to collaborate and work with partners throughout the state to increase the broadband conversations in Iowa. The leadership team encourages and supports Iowa's private telecommunications providers and their innovative ways of delivering broadband services to all Iowans.

In Fiscal Year 2016, the Commission and ICN have a number of positive initiatives that will benefit the users of the ICN including:

- The announcement of CenturyLink's fully managed voice service for education, government, and public safety users. With this new service, ICN users will avoid the substantial capital outlay and the ongoing costs of operating a unified communications system on their own.
- Continuing the partnership with the Office of Chief Information Officer. The two agencies will continue to bring synergy into broadband conversations statewide.
- ICN's Cyber Bureau will actively establish action and strategy to align ourselves with the Cybersecurity framework for the State of Iowa.

As we look to the future, ICN will stay true to its mission of providing strong, flexible, and fast broadband to its users. On behalf of the Commission and all ICN employees, we appreciate the opportunity to be of service.

Sincerely,

Richard L. Bruner
Chair
Iowa Telecommunications and Technology Commission

IOWA COMMUNICATIONS NETWORK

Grimes State Office Building, 400 E. 14th Street, Des Moines, IA 50319 Phone: 515-725-4692 Fax: 515-725-4727 www.icn.iowa.gov

Iowa Communications Network

Annual Report FY15

Page
4

The Iowa Communications Network (ICN) is the country's premier distance learning and state government broadband carrier network, committed to providing Iowa strong broadband solutions for the education, government, and healthcare sectors of Iowa.

Mission

Through Iowa's broadband infrastructure and partnerships, broker access for Iowans to acquire the highest quality education, medical, judicial, and governmental telecommunications services.

Iowa Telecommunications and Technology Commission Members

Richard Bruner, Chair

Kelly Dolan Lange | Kathleen Kohorst | Timothy Lapointe | Mary Sellers

Mary Mosiman, Ex-Officio | Robert Von Wolfradt, Ex-Officio

2015 Legislative Session Recap

The Legislature adjourned on June 5, 2015. Legislation enacted of interest to ICN includes:

HF 655 - Signed by Governor Branstad on June 22. The act encourages the expansion of high-speed broadband Internet. The act also appoints the State of Iowa Chief Information Officer to the ITTC as an ex-officio, non-voting member.

HF 650 – Signed by Governor Branstad on July 2. The act includes appropriations from the Rebuild Iowa Infrastructure Fund.

- \$2.7 million to the Department of Education for Part III lease payments.
- \$2.2 million to the ITTC for equipment replacement, and state agency telecommunications.

ICN contracts exceeding \$1 million during FY 2015, as required by the Code of Iowa, Section 8D.3(3)(f).

14-000 CenturyLink – Managed Voice Services

14-001 Fiber Network Services – Managed Network Services

14-025 CenturyLink – MPLS Services

14-088 USIC Locating Services, LLC – Locate Services



Agency Overview

Finance Bureau

Responsible for financial reporting, and analyzing the financial health of the agency. This bureau conducts billing, collections, audits, and pays invoices on behalf of the ICN. Finance ensures resources are available to carry out the operational and strategic goals of the organization, and that the agency follows applicable federal and state accounting rules and policies.

Business Services Bureau

Provides telecom consulting to customers, revenue and gross margin generation, project and order management, as well as customer service. Responsibilities include: Account Consultants (Sales), Project Management, and Customer Support.

Operations Bureau

Ensures voice, video, and data services are available for customer use. The bureau focuses on production operations, the Network Operations Center, Broadband Information Center, and managed service contracts related to the Network. The bureau's goal is high availability with minimal disruption, while performing various move/add/changes and maintenance related tasks.

Engineering Bureau

Focuses on presales design, transport design, and the Technical Assistance Center (TAC). The TAC delivers technical support and technical staffing to customers. Network Maintenance Engineers' functions include: handling physical issues with a site including security/access; heating, ventilation, and air conditioning (HVAC); AC and DC power; both on-line and backup power systems such as uninterruptible power systems (UPS); battery plant; generators and switches. The TAC Specialists handle the voice platform services including: voice calls, voicemail, automated call distribution (ACD), and integrated voice response (IVR) services, down to the basic telephone. TAC's Capitol Complex Technicians provide inside cabling/wiring installation and maintenance within state government buildings.

Cyber Bureau

Established on April 1, 2015, the Cyber Bureau actively plans strategies to align the agency with the Cybersecurity framework for the State of Iowa. In collaboration with the State's Chief Information Security Officer, the ICN will be able to effectively respond to cyber incidents, increase preventive measures, provide technical assistance to customers, and collaborate with the Office of the Chief Information Officer to provide a safe cyber landscape.



ICN Services Update

Internet, Voice, Video

Page
6

Internet

- In FY15, 214 MAC (move, add, & change) data/Internet orders were received from education users.
- ICN Internet services are used by:
 - 284 school districts
 - 75 government users (State, Federal, City of Des Moines)
 - 88 healthcare entities
 - 26 public safety users
- 85% of the Internet provided by the ICN is being used by educational entities (29.5 Gb education, 5.1 Gb non-education).
- The amount of Internet purchased by authorized users has increased 38% over the past two years (25.1 Gb to 34.6 Gb).

Voice

ICN is collaborating with CenturyLink to provide unified communications as a managed service. ICN will add CenturyLink's unified communications-as-a-service (UCaaS) solutions to its product portfolio. Service will be deployed in FY 2016.

Features Include:

- *Remote Office:* Work remotely with access to features as if you are in the office.
- *Simultaneous/Sequential Ring:* Route calls to multiple phones all at once or in a particular order.
- *Unified Messaging:* Receive voice messages to your inbox providing instant access whether in the office or on the road.
- *User Toolbar:* Access and manage phone features from your computer.

Video

ICN produced 32,054 full motion video hours and 49,493 IP video hours in FY 15. There are a total of 79 Video@LightSpeed subscriptions being used by ICN users.

Phasing out MPEG Video by 2018

For over 20 years, ICN users have relied on the ICN's full motion MPEG2 videoconferencing service to enable their distance learning, telemedicine, training, and administrative applications. This service has been an integral part of our customer's daily operations to deliver their programs, content, and services. MPEG videoconferencing has generated well over 4 million hours of usage over the last two decades.

As with any technology, advancements are made to improve the efficiency, lower costs, and make it easier for people to use. Videoconferencing is no different. Advancements in IP videoconferencing services and applications allow for mobility, space flexibility, lower operational costs, and simpler and easy-to-use interfaces. With these advancements in mind, the ICN is announcing the MPEG videoconferencing service will be end-of-life on June 30, 2018.

After this date, MPEG2 videoconferencing will no longer be offered or supported by the ICN. The ICN offers Video@Lightspeed, an IP videoconference service, as a bridge and replacement for the MPEG2 platform.

Broadband Education Stories

How Broadband is Used at Sidney and South Page Community School Districts

Page
7

Students at Sidney CSD and South Page CSD are participating in the ‘Corner Conference,’ which has a mission to share courses and staff through 1-to-1 implementation and IP videoconferencing.

The Corner Conference has a total of about 2,200 students from seven (7) high schools [East Mills, Fremont-Mills, Sidney, Nishnabotna, Essex, South Page, and Stanton], and gives the opportunity for neighboring school districts to share staff resources, such as Spanish, Language Arts, Social Studies, and Calculus teachers. Each instructor has a creative way to engage their students with technology.



Gregg Cruickshank, shared Superintendent explains, “without high-speed Internet the participating schools wouldn’t have bandwidth for two vitally important pieces that connect the collaboration: 1-to-1 computing program and IP video conferencing. These are necessary elements in our everyday curriculum and are cornerstone pieces for our schools. The startling fact is if broadband wasn’t available, none of the schools would be able to provide their students with these types of courses due to class size and/or teacher experience.”

Innovation, Imagination, & Creativity at Howard-Winneshiek Community School District

With robust and reliable broadband Internet, students at Howard-Winneshiek CSD are getting a chance to work with technology, which is the future of manufacturing in rural Northeast Iowa. Howard-Winneshiek CSD’s mission is to prepare and empower students to think creatively, serve, contribute, and succeed locally and globally. In order to ensure students can compete on a global level, John Carver, Superintendent, recognizes that one vital component of the school district’s mission entails the need to install better broadband infrastructure, especially in the more rural areas of the district.

Carver explained the goal is for the community and state to have instruction no longer limited by zip codes, and to do that, broadband can’t degrade when the students go home.

Technology transforms learning, and Howard-Winneshiek CSD is in its second year of supplying all students (K-12) with portable computers or tablets (1 to 1 program). At school, students are able to incorporate the cutting edge technologies in the classroom.

Carver encourages the concept that learning doesn’t have to stop just because school is not in session. Not all students have reliable Internet access outside of school, which happens to be a problem for which Carver is actively pursuing a solution.



ICN Launches **BROADBAND MATTERS.COM**

Page
8

In December 2014, ICN launched an awareness initiative called 'Broadband Matters' to showcase the importance of delivering broadband to all corners of the State. ICN's mission with this initiative is to advocate for true high speed broadband. As part of the campaign, ICN launched www.broadbandmatters.com.

Broadband Matters shows the importance of broadband access for education, public safety, healthcare, and government, along with focusing on economic development and residential aspects. Ric Lumbard, ICN Executive Director explained statewide network connectivity, "Broadband will be the vehicle that will empower economic development. It's the next wave of commerce. But it won't just be for one sector, it will be for every aspect of our lives including education, government, public safety, and healthcare."

Iowa Law Enforcement Hold Forum to Discuss Need for Enhanced Broadband Capability in Iowa

As part of ICN's 'Broadband Matters' campaign, members of Iowa's law enforcement community gathered in Des Moines on January 20, 2015 to discuss with lawmakers the need for enhanced broadband throughout the State. The legislative forum focused on the need for law enforcement to have uninterrupted broadband capabilities especially in times of emergency. Lawmakers in attendance were briefed on an initiative known as FirstNet. The future first responder network will ensure uninterrupted broadband access for all first responders throughout the State.

Iowa State Patrol Trooper Korey Reule gave an overview of the TraumaHawk cell phone application that connects first responders at the scene of motor vehicle collisions to a trauma team at the hospital.



Iowa State Patrol Sergeant Scott Bright shared about the future benefits of FirstNet during a disaster, such as a tornado or other crisis at a large event such as RAGBRAI. "If you've ridden RAGBRAI before you know there are tents everywhere. If we have a major event in one of those overnight towns where you have a population that goes from 5,000 to 35,000, how are we going to get out on the system?"

Discussion of Broadband Impact on Education

Representatives of Iowa's educators met in April 2015 to discuss challenges they face in implementing broadband statewide to support 21st century education. The panel discussion was shared statewide and answered questions about broadband and education.

Mark White, Executive Director of the Iowa Community College Online Consortium explained that additional growth is necessary to keep up with current demands. "The growth of online education only occurred because Internet bandwidth increased. We've now hit this magical point in education where the technology can really have a profound impact on the learning that is going on. But there are things that need to move forward to be able to better educate and provide those educational opportunities online for all citizens."

Iowa Rural Health Telecommunications Program Completes 200th Location Connection

Page
9

CHI Health Mercy Corning Hospital's satellite Alegent Clinics in Bedford, IA and in Lenox, IA were the 199th and 200th healthcare locations added to the healthcare broadband network owned by a consortium of Iowa and South Dakota hospitals. The development of electronic medical records (EMRs) and the need to quickly transmit clinical and administrative information between hospitals and physicians fueled the development and growth of the Iowa Rural Health Telecommunications Program's (IRHTP) healthcare broadband network.

IRHTP is a joint effort consisting of a consortium of 86 Iowa rural and urban hospitals, two South Dakota hospitals, and the ICN with the purpose to connect willing Iowa hospitals and hospitals in surrounding states to a dedicated broadband fiber network using existing ICN infrastructure.

Bedford and Lenox are two communities that do not have hospitals. Mercy Corning Regional Hospital has been in those communities providing primary care for many years, and is now looking at expanding the services by using telemedicine and other technologies. "The IRHTP connections will allow us to increase the use of telemedicine and increase the speed of sending x-rays to be read by radiologists. It will serve two fold, improve the efficiency of our current technology and allow additional use of telemedicine," said Debra Goldsmith, President at CHI Health Mercy in Corning.

Utilization of the IRHTP network includes clinical image and data transmission, administrative data transmission, system administrative services and Internet connectivity.

Broadband Increases Quality and Patient Care at Buchanan County Health Center

Buchanan County Health Center (BCHC) in Independence, Iowa terminated using x-ray film and entered into the digital technology world of Radiology in December 2005. With broadband connections, BCHC partners with Radiology Consultants of Iowa (RCI) which provides Independence patients with the peace of mind knowing they will receive high-quality radiology service.

RCI, located in Cedar Rapids, is one of the top 100 Radiology Groups in the United States, providing professional (radiology interpretations) and technical (image storage, management, display, and distribution) services.

Julie Till, Radiology Manager at BCHC said, "We had a patient come through the emergency department with leg pain. The ER provider ordered a CT scan on the patient, and within minutes after the exam an RCI radiologist was calling a critical finding to the ER provider of the patient's leg. The patient was then transferred to a larger facility immediately. If BCHC didn't have the high-speed broadband, the patient could have lost his leg!"



Buchanan County Health Center
Radiology Team

State Technology Directors Gathered for 2015 Midwest Region Seminar

Page
10

The National Association of State Technology Directors (NASTD), which represents information technology professionals from the 50 states, through four regions, and the private sector, held their 2015 Midwest Region Seminar at the Embassy Suites Downtown in Des Moines on April 13-16.

Midwest region state members discussed information technology projects and plans for their respective states. Corporate affiliate members also contributed on presentations and panel discussions. States represented included Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio, and Wisconsin.



“NASTD has existed for over 40 years. If you look at the pace of the technology change... it is phenomenal,” said Robert von Wolfradt, State of Iowa’s Chief Information Officer. “It is important that state technology leaders learn from each other through NASTD, because people make the difference,” Wolfradt added.

This year’s seminar featured presentations on security, communications services, and cloud computing. There was a panel discussion on PSAPs (public safety answering point) and FirstNet (the federal initiative creating a nationwide wireless network dedicated to first responders/public safety) which provided perspectives from the local, State, and National levels with: Judy Flores, Administrative Supervisor for Black Hawk County and Ric Lumbard, Executive Director of the ICN. In August of 2009 Black Hawk County became the first PSAP in the nation to successfully implement three digit, 9-1-1 text messaging capability. ICN also presented the State of Iowa report and a presentation on “Solutions to Increased Remote Broadband Demand.”

Public Private Partnerships

Network Managed Services Contract: In October 2014, ICN selected Fiberutilities Group, an Iowa based company, to provide technical staff for the operation and maintenance of the ICN. The managed services included: management systems, on-site technicians to staff ICN’s Network Operations Center located in Johnston, IA, and field support staff located around the state. Fiberutilities Group’s contract began on January 1, 2015.

Windstream was ICN’s previous network services provider. There were no further renewal periods available under the Windstream contract, which was set to expire on December 31, 2014, and necessitated the release of the RFP.

FirstNet Public Private Partnership Summit: Representatives of Iowa’s emergency first responders and private telecommunications industry leaders gathered twice in 2015 (March and August) for a summit to advance everyone’s understanding of issues related to FirstNet (First Responder Network Authority). FirstNet is a federal initiative to create a nationwide public safety communications network and is the last remaining recommendation of the 9/11 Commission. The Iowa Statewide Interoperable Communications System Board (ISICSB) and the ICN hosted the two summits.

Looking Ahead to FY 2016

Managed Voice Service

ICN plans to announce the addition of CenturyLink's fully managed voice service for education, government, and public safety users. Users will be able to purchase a managed services package that includes managed data networking; feature-rich, managed Voice over Internet Protocol (VoIP) phone service; and collaboration applications such as instant messaging and presence.

By working with CenturyLink to offer managed voice services, ICN is helping users avoid the substantial capital outlay and the ongoing, unpredictable operating costs of operating a unified communications system on their own.

Partnership with Office of Chief Information Officer (OCIO)

This relationship brings synergy into the Broadband conversation statewide. The ICN focuses our statewide Broadband efforts within the government, education, healthcare and public safety sectors; while the OCIO will carry the broadband conversation into the private sectors including residential and business users.

Cybersecurity

In the State of Iowa and around the world, the Cybersecurity landscape is rapidly changing shape. The ICN plays a key role as a transport provider in securing the State's network cyber ecosystem. In collaboration with the OCIO, the ICN's Cyber Bureau will establish action and strategy to align the Cybersecurity framework for the State of Iowa. Users rely on the ICN for a vast array of networks to communicate. It is imperative that the ICN, not only be prepared, but engage fully in the prevention and mitigation of the attacks from the world of electronic terrorism.

Broadband Strong

ICN's mission statement for Fiscal Year 2016. Users today expect strong broadband, which is the overarching goal for the activities of the ICN. The state-wide network is rich in broadband potential, which includes Internet capacity that isn't developed, but can be established on short notice. Broadband Strong will assist in defining current and future services, managing customer experiences, and ensuring a secure network environment. The words Broadband Strong serve as the central focus to delivering powerful and valuable broadband to the users of the ICN over the next fiscal year.



Statewide Youth Broadband Advisory Council

Eleven Iowa high school students have been selected to serve on the inaugural Statewide Youth Broadband Advisory Council (SYBAC). The SYBAC has been established by the ICN specifically to engage students on a variety of broadband related topics. Throughout the school year, the students will meet with ICN Executive Director Ric Lumbard to discuss the importance of true high-speed broadband to the next generation. Members of the student advisory council will talk about various technology issues like rural connectivity, wireless access, infrastructure, and cyber security.



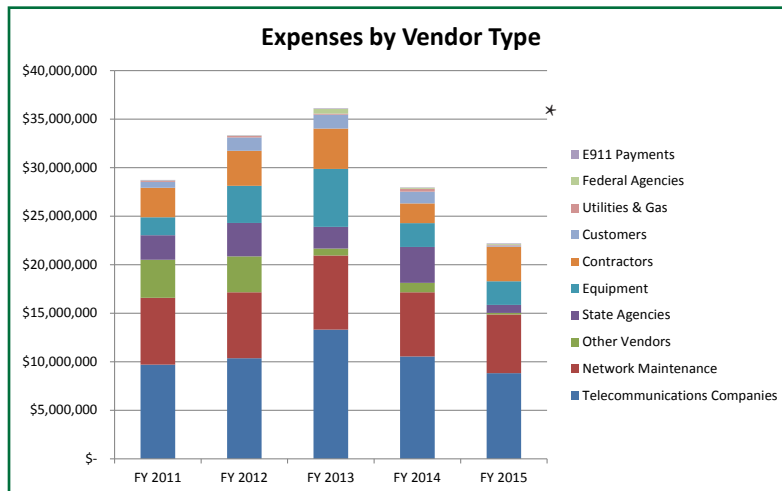
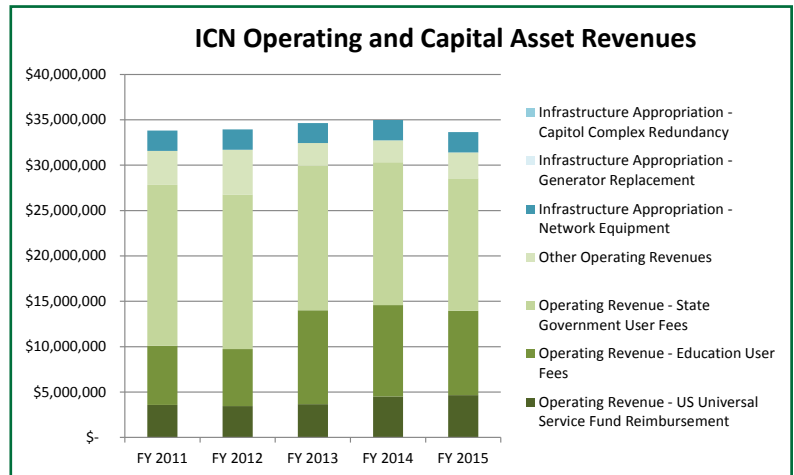
Iowa Communications Network

FY15 Financial Information

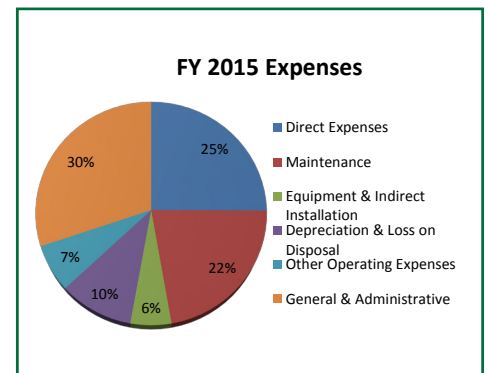
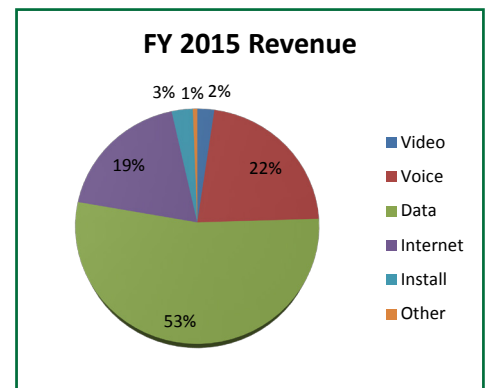
Page
12

The ICN generated over \$31M in revenues from billed services to authorized users. Approximately \$2 M is appropriated from the state, half of which is the required state investment that allows the state to receive Universal Service Fund reimbursements on behalf of K-12 schools and libraries. The remaining amount is state agency telecommunications.

The “Expenses by Vendor Type” graph shows how the revenue generated is used in supporting the network. The largest ICN expense is related to the cost of the “last-mile” connections that are leased from telecommunications companies.



* Expenses to outside vendors only - excludes payroll and employee reimbursements



ICN's financial statements are shown using Generally Accepted Accounting Principles (GAAP). As a government entity in a fee-for-service environment, ICN uses accrual accounting with a measurement focus emphasizing the matching of revenues with costs of services including depreciation of assets such as network equipment and fiber. Most other State of Iowa agencies use the modified accrual accounting method with a measurement focus emphasizing control and accountability over the raising and spending of public monies.

Iowa Communications Network

Statement of Net Assets

As of June 30, 2015

(Unaudited)

Page
13

ASSETS

| | |
|---|------------------|
| Cash & Cash Equivalents | \$12,349,026 |
| Accounts Receivable | 4,804,994 |
| Interest Receivable | 23,106 |
| <u>Inventory</u> | <u>2,505,478</u> |
| Total Current Assets | 19,682,604 |
| | |
| Unexpended Appropriations | 6,598,811 |
| Unexpended BTOP Cash | 2,918,404 |
| Fixed Assets(Net) | 16,266,017 |
| Prepaid Expenses | 439,135 |
| <u>Total Deferred outflows of resources</u> | <u>1,006,938</u> |
| TOTAL ASSETS | \$46,911,909 |

LIABILITIES

| | |
|--|------------------|
| Accounts Payable & Accruals | 4,284,962 |
| Sick Leave Incentive Program - Retirees | 22,281 |
| Unearned Revenue | 2,175,722 |
| Short-Term Compensated Absences | 748,389 |
| Sick Leave Incentive Program - Employees | 84,903 |
| <u>State Employee Retirement Incentive Program</u> | <u>0</u> |
| Total Current Liabilities | 7,316,257 |
| | |
| LT Sick Leave Incentive Program - Retirees | 5,292 |
| Long-Term Compensated Absences | 0 |
| LT Sick Leave Incentive Program - Employees | 558,776 |
| Accrued Sick Leave | 69,511 |
| Other Post-Employment Benefits | 443,118 |
| Net Pension Liabilities | 3,811,506 |
| <u>Total deferred inflows of resources</u> | <u>2,015,190</u> |
| Total Long-Term Liabilities | 6,903,393 |
| Total Liabilities | 14,219,650 |

FUND EQUITY

| | |
|---------------------------------|-------------------|
| <u>Retained Earnings</u> | <u>32,692,259</u> |
| Total Fund Equity | 32,692,259 |
| TOTAL LIABILITIES & FUND EQUITY | \$46,911,909 |

Iowa Communications Network

Statement of Revenues, Expenses & Changes in Equity

For the Fiscal Year Ended June 30, 2015
(Unaudited)

Page
14

REVENUES

Operating Revenues:

| | |
|------------------------|-------------|
| Voice Services | \$6,983,014 |
| Data Services | 22,652,701 |
| Video Services(Billed) | 731,464 |
| Installation Services | 909,814 |
| Equipment Sales | 3,548 |
| Other Revenues | 119,818 |
| Bad Debt Expense | 66,113 |

Total Operating Revenues **31,466,472**

EXPENSES

Direct Expenses:

| | |
|-------------------------------------|------------------|
| Voice Costs | 2,242,773 |
| Data Costs | 5,036,159 |
| Video Costs | 211,594 |
| <u>Installation Costs</u> | <u>825,963</u> |
| <i>Total Direct Expenses</i> | 8,316,489 |

Gross Operating Gain (Loss) **23,149,983**

Operating Expenses:

| | |
|---|-------------------|
| Network Equipment | 1,052,955 |
| System Maintenance | 7,364,969 |
| System Utilities Costs | 142,678 |
| Outside Plant Costs | 1,626,323 |
| System Repair Maintenance | 157,981 |
| Other System Costs | 335,577 |
| Network Installation Costs | 792,647 |
| Loss on Inventory & Fixed Asset Disposal | 126,952 |
| <u>Depreciation Expense</u> | <u>3,241,393</u> |
| <i>Total Operating Expenses</i> | 14,841,477 |

Net Operating Gain (Loss) **8,308,507**

General & Administrative Expenses:

| | |
|---|-------------------|
| Personnel | 8,662,344 |
| Travel | 114,660 |
| Administrative Services | 299,742 |
| Rent | 128,216 |
| Professional Fees | 664,730 |
| <u>Other General & Administrative Expenses</u> | <u>156,748</u> |
| <i>Total General & Administrative Expenses</i> | 10,026,441 |

***Net Operating Gain (Loss) Before
Non-Operating Income & Transfers*** **(1,717,934)**

NON-OPERATING

REVENUES (EXPENSES)

| | |
|--|-----------|
| Transfer from State of Iowa for Capital appropriation | 2,251,842 |
| Federal Grant - BTOP | 0 |
| Investment Income | 69,126 |
| <u>Other Non-Operating Expenses (net)</u> | <u>0</u> |

Net Non-Operating Revenues **2,320,968**

***Net Gain (Loss) Before Contributions
and Transfers*** **603,033**

Change in Contributed Capital **(64,031)**

Change in Net Assets **603,033**

Beginning Net Assets **32,089,226**

Total Net Assets **\$32,692,259**

Iowa Communications Network

Statement of Cash Flows (Unaudited)

For the Fiscal Year Ended June 30, 2015

Page
15

Cash flows from operating activities:

| | |
|--|------------------|
| Cash received from customers | \$31,521,284 |
| Cash paid for goods and services | (21,576,404) |
| Cash paid for salaries and benefits | (8,894,208) |
| <i>Net cash provided by operating activities</i> | <i>1,050,671</i> |

Cash flows from non-capital financing activities:

| | |
|--|------------------|
| Transfer from State of Iowa general fund | 6,189 |
| Transfer from State of Iowa for capital appropriation | 2,245,653 |
| Transfer to other state funds for grant contribution | 0 |
| Federal Grant-BTOP for capital grant | 0 |
| <i>Net cash provided by non-capital financing activities</i> | <i>2,251,842</i> |

Cash flows from capital and related financing activities:

| | |
|--|--------------------|
| <u>Acquisition and construction of capital assets</u> | <u>(1,219,664)</u> |
| <i>Net cash provided by (used in) capital and related financing activities</i> | <i>(1,219,664)</i> |

Cash flows from investing activities:

| | |
|--|---------------|
| <u>Interest received on investments</u> | <u>51,667</u> |
| <i>Net cash provided by (used in) investing activities</i> | <i>51,667</i> |

Net increase (decrease) in cash & cash equivalents 2,134,517

Cash & cash equivalents at June 30, 2013

Cash & cash equivalents at June 30, 2014 19,731,724

Total cash and cash equivalents end of period *\$21,866,241*

Unexpended funds for BTOP Match 6,598,811

Current cash and cash equivalents end of period *15,267,430*

Reconciliation of operating loss to net cash provided by operating activities:

Operating loss (\$1,717,934)

Adjustments to reconcile operating loss to net cash provided by operating activities:

| | |
|--|------------------|
| Depreciation Expense | 3,241,393 |
| Loss on disposal of capital assets and inventory | 126,952 |
| PPA Asset Relife | 55,230 |
| (Increase) decrease in accounts receivable | 60,225 |
| (Increase) decrease in due from other state agencies | 320,079 |
| (Increase) decrease in inventory | (216,683) |
| (Increase) decrease in prepaid expense | (248,282) |
| (Increase) decrease in deferred revenue | (325,493) |
| Increase (decrease) in other grant contributions | 0 |
| Increase (decrease) in accounts payable | (286,246) |
| Increase (decrease) in due to other state agencies | 273,295 |
| Increase (decrease) in compensated absences | 146,644 |
| Increase (decrease) in pension expense | (378,508) |
| <i>Total adjustments</i> | <i>2,768,606</i> |

Net cash provided by operating activities *\$1,050,671*

Iowa Communications Network

Operating Budget Proposal

For the Fiscal Years Ending June 30, 2016 and June 30, 2017

Page
16

| | FY 2015 Actual | FY 2016 | FY 2017 |
|--|-------------------------------|----------------------|------------------------|
| | <u>Revenue & Expenses</u> | <u>Budget</u> | <u>Budget Proposal</u> |
| <u>REVENUES</u> | | | |
| Voice Revenues | \$6,983,014 | \$6,086,644 | \$6,379,199 |
| Data Revenues | 22,451,221 | 21,901,140 | 22,294,819 |
| Video Revenues | 731,463 | 711,230 | 511,902 |
| Installation Charges | 909,814 | 1,055,561 | 927,151 |
| Other Revenues | 173,752 | 180,071 | 191,108 |
| <u>Gross Revenues</u> | \$31,249,264 | \$29,934,646 | \$30,304,179 |
| <u>DIRECT EXPENSES</u> | | | |
| Toll | 1,272,432 | 1,077,776 | 971,642 |
| Switched Access | 712,268 | 561,163 | 469,824 |
| Other Voice Direct Expenses | 333,544 | 267,548 | 2,627,675 |
| Data Circuit Expenses | 5,036,125 | 5,774,440 | 5,659,184 |
| Video Direct Expenses/Other expenses | 211,594 | 9,708 | 9,708 |
| Installation Expenses | 796,067 | 834,547 | 855,411 |
| <u>Total Direct Expenses</u> | \$8,362,030 | \$8,525,182 | \$10,593,444 |
| <u>Gross Margin</u> | \$22,887,234 | \$21,409,464 | \$19,710,735 |
| <u>OPERATING EXPENSES</u> | | | |
| System Maintenance and Technical Support | 7,364,019 | 7,216,316 | 8,095,002 |
| Outside Plant Expenses | 1,626,323 | 1,402,812 | 1,480,978 |
| Other Operating Expenses | 1,302,450 | 949,885 | 934,740 |
| <u>Total Operating Expenses</u> | \$10,292,792 | \$9,569,013 | \$10,510,720 |
| <u>Net Margin</u> | \$12,594,442 | \$11,840,451 | \$9,200,015 |
| <u>GENERAL AND ADMINISTRATIVE</u> | | | |
| Personnel Services | 8,894,208 | 9,743,172 | 9,592,993 |
| Travel | 114,660 | 140,165 | 116,387 |
| Data Processing, ITE | 93,532 | 150,000 | 153,150 |
| Other Administrative Expenses | 490,536 | 635,603 | 630,603 |
| Professional Fees | 664,730 | 1,094,765 | 717,415 |
| <u>Total G, S, and A Expenses</u> | \$10,257,666 | \$11,763,705 | \$11,210,548 |
| <u>Net Cash (Deficit) from Operations</u> | \$2,336,776 | \$76,746 | \$(2,010,533) |
| <u>EQUIPMENT PURCHASES</u> | | | |
| Network (net) | 432,831 | 1,845,000 | 795,000 |
| <u>Net Equipment Purchases</u> | \$432,831 | \$1,845,000 | \$795,000 |
| <u>Net Cash (Deficit)</u> | \$1,903,945 | \$(1,768,254) | \$(2,805,533) |

The FY16 budget deficit is the result of the following combination of assumptions. First, revenues will drop \$1.3 million from FY15 due to decreased rates for internet and broadband and reduced revenues due to conversion to a voice managed service which will save customers and tax payers money. Second, capital expenditures are projected based on favorable operational climates to complete all projects deemed beneficial to ICN operations. Rarely do ideal conditions prevail creating under-budget expenses in capital spending.

The FY17 budget proposal is submitted in the previous year's fall budget period. Progress on the voice managed services conversion will make the revenue and expense projections related to voices services more clear and likely raise the margin in the spring budgeting period.

Iowa Communications Network

Lead Schedule Budget to Actual

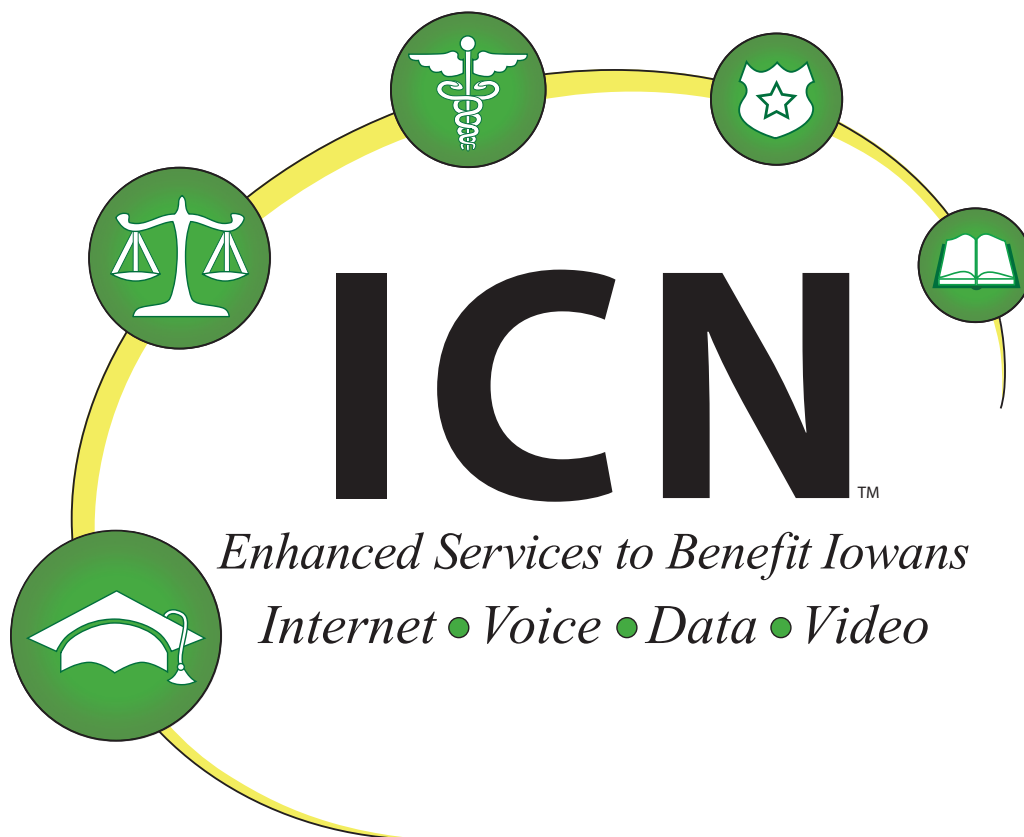
For the Fiscal Year Ended June 30, 2015

Page
17

| <u>Operating Revenues</u> | <u>YTD Actual</u> | <u>YTD Budget</u> |
|---|-----------------------|-------------------------|
| Video | \$731,463.76 | \$1,196,781.00 |
| Voice Services | 6,983,014.39 | 6,429,880.00 |
| Data Services | 22,442,857.40 | 22,147,370.00 |
| Installation Charges | 909,813.73 | 1,314,050.00 |
| Other | 123,366.34 | 162,002.00 |
| Interest Income | 69,125.56 | 31,593.00 |
| <u>Gross Revenues</u> | <u>31,259,641.18</u> | <u>31,281,676.00</u> |
| <u>Direct Expenses</u> | | |
| Video Direct Expenses | 211,594.49 | 243,977.00 |
| Voice Expenses (Toll/Switched Access) | 2,242,772.56 | 2,318,244.00 |
| Data Direct Expenses | 5,036,239.17 | 5,805,255.00 |
| Installation Expenses | 796,066.76 | 2,773,059.00 |
| <u>Total Direct Expenses</u> | <u>8,286,672.98</u> | <u>11,140,535.00</u> |
| <u>GROSS MARGIN</u> | <u>22,972,968.20</u> | <u>20,141,141.00</u> |
| <u>Indirect Expenses</u> | | |
| System Maintenance, Support & License | 7,183,009.39 | 7,257,964.00 |
| Outside Plant Expenses | 1,626,323.42 | 1,673,863.00 |
| Other Operating Expenses | 1,315,216.06 | 884,506.00 |
| <u>Total Indirect Expenses</u> | <u>10,124,548.87</u> | <u>9,816,333.00</u> |
| <u>NET OPERATING INCOME/(LOSS)</u> | <u>12,848,419.33</u> | <u>10,324,808.00</u> |
| <u>General & Administrative Expenses</u> | | |
| Personnel Services | 8,894,208.14 | 8,799,670.00 |
| Travel Expenses | 166,862.41 | 207,195.00 |
| Other Administrative Expenses | 584,706.13 | 503,114.00 |
| Professional Fees | 664,730.34 | 865,628.00 |
| <u>Total General & Administrative Expenses</u> | <u>10,310,507.02</u> | <u>10,375,607.00</u> |
| <u>NET CASH(DEFICIT) FROM OPERATIONS</u> | <u>2,537,912.31</u> | <u>(50,799.00)</u> |
| <u>Equipment Expenditures</u> | | |
| Network Equipment | 430,584.05 | 1,676,614.00 |
| <u>Net Equipment Purchases</u> | <u>430,584.05</u> | <u>1,676,614.00</u> |
| <u>NET CASH(DEFICIT) FROM OPERATIONS & EQUIPMENT GROWTH</u> | <u>\$2,107,328.26</u> | <u>(\$1,727,413.00)</u> |

This report is used as an internal cash management tool and is not based on full accrual accounting. It includes only revenues from operating activities plus some revenue from non-operating activities that are deposited in operating cash such as interest income. It does not contain any non-cash expenses such as depreciation. All revenues and expenses from appropriated monies and grant awards have been excluded.

Annual Report FY2015



Iowa Communications Network
Grimes State Office Building
400 East 14th Street, Des Moines, Iowa 50319
Phone: 515-725-4692
Toll Free: 877-426-4692
Email: icn.info@iowa.gov

www.icn.iowa.gov

