

**IOWA TELECOMMUNICATIONS AND TECHNOLOGY
COMMISSION**

IOWA COMMUNICATIONS NETWORK

Five Year Financial Plan

**Actual Results as of and for the years ended June 30, 1998 and 1999
and
Budgets and Forecasts as of and for the years ending June 30, 2000 through 2005**

Respectively Prepared and Submitted By:

Richard H. Opie, Chair

Harold M. Thompson

Chief Operating Officer

Richard J. Heil

Finance Director

Table of Contents

	Page
Table of Contents.....	2
Introduction.....	3
Discussion of Assumptions Used.....	4
Budgeted/Forecasted Income Statement.....	7
Budgeted/Forecasted Balance Sheet.....	8
Budgeted/Forecasted Statement of Cash Flows.....	9
Budgeted/Forecasted ICN Appropriations.....	10

Introduction

Code of Iowa, Chapter 8D, Section 3f, requires the Iowa Communications Network (ICN) to prepare a five-year financial plan, for legislative presentation on or before January 15 of each year. The five-year plan presented in this package incorporates: (a) the actual financial condition and results of operations as of and for the years ended June 30, 1998 and 1999; (b) the costs associated with the implementation of Part III, as approved by the 1995 Iowa General Assembly, House File 578; and (c) video revenue projections in accordance with the Iowa Telecommunications and Technology Commission ("ITTC") approved rates.

Attached is the final five-year financial plan, which projects financial condition, as of June 30, 2000 through June 30, 2005, and the forecasted results of operations and projected cash flows for each of the years then ending. In addition, a projection/forecast of general fund appropriations for video subsidization, infrastructure costs and debt service, and infrastructure fund appropriations for Part III for each of the fiscal years ending June 30, 2001 through June 30, 2005, is included.

If there are any questions regarding the attached financial plan, they should be directed to Harold M. Thompson, Chief Operating Officer, or Richard J. Heil, Finance Director.

Assumptions

Assets

1. Operating cash will maintain a minimum balance of \$1,500,000. This balance is comprised of two items: (1) the FY 1996 revolving fund appropriation for a cash floor in the amount of \$1,000,000, as approved by the 1995 Iowa General Assembly; and (2) \$500,000 for capitol complex voice switch replacement contingency.
2. Trust cash and cash equivalents, and the related income, will maintain current levels, and will produce interest income of approximately \$863,000 annually.
3. Trust cash is also higher in FY 2000 through FY 2002 as a result of the proposed migration to ATM technology. It is assumed that this project will take approximately three (3) years, with a start date in FY 2000. Accordingly, appropriation utilization is assumed to be ratable over the migration period.
4. Fixed assets additions are projected as a result of: (1) Part III completion; (2) ATM migration of the backbone; (3) anticipated network growth and electronic element upgrades; and (4) investments in operating support systems.
5. Depreciation periods are: (1) three-year life for administrative computer equipment; (2) five-year life for other administrative use equipment and OSS; (3) seven-year life on electronic equipment used in the production of services; and (4) twenty-year life on dark fiber.
6. Accounts receivable assume a 60-day collection period, based on billable revenues.
7. Other assets and prepaid expenses are being amortized over the assets determined useful life, or terms of contractual arrangements, as applicable.

Liabilities

8. Accounts payable assume a 35-day payment period, based on monthly expenditures.
9. Other financing arrangements and the related interest expense are predetermined by the 1992A and 1993A Certificates of Participation (COP's) indentures.
10. During FY 1997, ICN entered into two lease purchase arrangements for capital expenditures. These obligations are included in other financing arrangements. Each of the obligations have a five year repayment term.
11. Other liabilities reflect an estimate of compensated absence obligations at the end of each fiscal year.

Fund Equity and Appropriations

12. All State General Fund appropriations, relating to principal portion of debt service are assumed to be contributions of capital, while the interest portion is treated as other revenues.
13. All State General Fund appropriations for video usage subsidization are assumed to be video revenues.
14. All Rebuild Iowa Infrastructure Fund (RIIF) appropriations relating to Part III and ATM migration equipment additions are assumed to be contributions of capital, while appropriations related to installation expenses, fiber lease, and other expenses are treated as other revenues.

Revenues

15. Voice revenues are projected based on historical minutes produced. Growth rates are very conservative due to saturation of the authorized user base revenue potential, approximating 1% annually.
16. Data revenues are comprised of transmission revenues earned through the provision of data circuits. The projections are based on an estimation of revenue producing circuits with a conservative estimate for growth.

17. Video revenues are determined using the ITTC approved rates, as determined during September of each calendar year. The State General Fund video subsidization appropriation is shown with projected video revenues, as it is assumed that the revenue is recognizable only as a result of production.
18. Other sales and services include revenue projections associated with: (1) Internet gateway services; (2) enterprise messaging; (3) compressed video services; (4) installations of new services; (5) transmitter service fees; and (5) router subscription services.

Expenses

19. Direct costs of producing revenues are predominantly payments made to local telephone providers and inter-exchange carriers throughout the state of Iowa. On the average, 75% and 55% of gross revenues from voice and data services, respectively, are remitted to such providers of service.
20. System maintenance is projected in accordance with: (1) the annual projection of the fixed fee contract with McLeod USA; (2) the annual projection of maintenance and operations for the capitol complex switching devices; and (3) historical trends related to the cost. The ICN projects a 3% annual increase in system maintenance expense.
21. General and administrative costs include personnel, data processing, professional fees, and other administrative related expenses. Comprehensive detail of this expense line is available upon request.
22. Operating costs include utility costs, network element repair costs, and other operating related expenses. Additionally, operating costs include rental expenses relative to the implementation of Part III, specifically, rental expenses related to the lease of fiber, commonly known as "recurring" lease costs.
23. Depreciation expense is projected to decline substantially in FY 2001. This is due to the full depreciable status of the electronic equipment originally put into place during the construction of Parts I and II of the ICN. These assets were put into place during calendar year 1993 and 1994. Accordingly, they are projected to be fully depreciated in FY 2001.

Other Revenues and Expenses

24. Refer to the section entitled Fund Equity and Appropriations for information on the line labeled "Other Revenues".
25. The interest portion of debt service is recognized as an expense of the ICN.
26. The amortization of deferred bond costs is recognized as an expense of the ICN.

Supplementary Schedules

Unaudited, for Discussion Purposes Only

Iowa Communications Network Consolidated Financial Statements

	Actual FY 1998	Actual FY 1999	Budgeted FY 2000	Budgeted FY 2001	Forecasted FY 2002	Forecasted FY 2003	Forecasted FY 2004	Forecasted FY 2005
Income Statement								
Operating Revenue								
Voice	\$10,707,730	\$11,285,320	\$12,395,502	\$12,523,605	\$12,648,842	\$12,775,330	\$12,903,083	\$13,032,114
Video	4,895,522	5,643,518	5,985,712	6,458,861	6,826,610	7,226,916	7,658,930	8,136,003
Data	6,120,683	6,839,885	6,860,935	7,300,136	7,446,139	7,595,061	7,746,963	7,901,902
Other Services and Installations	5,037,260	5,018,013	5,088,457	5,425,723	4,926,246	5,027,460	5,132,930	5,242,855
Gross Revenues	26,761,195	28,786,736	30,330,606	31,708,325	31,847,837	32,624,767	33,441,905	34,312,874
Direct Expenses:								
Toll Cost	6,294,900	6,528,578	6,825,467	6,897,794	6,966,772	7,036,439	7,106,804	7,177,872
LEC Costs	3,859,175	4,273,489	3,958,040	4,315,292	4,401,598	4,489,630	4,579,423	4,671,011
Installation Expenses	11,983,935	12,103,039	6,727,531	4,878,574	4,915,382	1,453,294	1,492,343	1,532,564
Other Direct Expenses	1,607,042	2,025,623	2,263,817	2,373,617	2,153,528	1,987,834	1,602,923	963,896
Total Direct Expenses	23,745,052	24,930,729	19,774,855	18,465,277	18,437,279	14,967,198	14,781,493	14,345,344
Gross Margin	3,016,143	3,856,007	10,555,751	13,243,049	13,410,557	17,657,569	18,660,412	19,967,531
Indirect Expenses								
System Maintenance	4,769,054	5,307,425	5,269,628	5,498,988	5,652,915	5,812,230	5,977,121	6,147,783
General and Administrative Expenses (net)	5,454,045	5,931,557	6,685,333	6,952,549	7,334,939	7,738,361	8,163,971	8,612,989
Outside Plant Costs	1,530,457	1,586,378	1,884,040	1,934,400	1,992,432	2,052,205	2,113,771	2,177,184
Other Operating Expenses	769,010	1,062,836	1,486,175	1,615,575	3,618,358	3,799,276	3,989,239	4,188,701
Total Indirect Expenses (Cash Basis)	12,522,566	13,888,196	15,325,176	16,001,512	18,598,645	19,402,072	20,244,102	21,126,658
Net Operating Income / (Loss) (Cash Basis)	(\$9,506,423)	(\$10,032,189)	(\$4,769,425)	(\$2,758,464)	(\$5,188,087)	(\$1,744,503)	(\$1,583,690)	(\$1,159,127)
Depreciation Expense	\$13,266,554	\$14,506,164	\$14,458,530	\$9,055,031	\$9,077,759	\$9,233,517	\$9,450,978	\$9,450,978
Net Operating Income / (Loss)	(\$22,772,977)	(\$24,538,353)	(\$19,227,954)	(\$11,813,495)	(\$14,265,846)	(\$10,978,019)	(\$11,034,668)	(\$10,610,105)
Other Revenue								
Original State Appropriations	22,566,744	23,292,155	6,502,685	13,027,004	12,462,004	4,536,946	3,262,751	1,141,204
Interest Income	985,410	930,749	863,258	863,258	863,258	863,258	863,258	863,258
Other Revenue	23,552,154	24,222,904	7,365,943	13,890,262	13,325,262	5,400,204	4,126,009	2,004,462
Other Expenses								
Interest Expense	5,759,551	5,305,737	4,770,355	4,244,917	3,679,523	3,066,151	2,390,745	1,671,145
Amortization Expense	218,521	218,521	218,718	218,718	218,718	218,718	218,718	218,718
Other Expenses	5,978,072	5,524,258	4,989,073	4,463,635	3,898,241	3,284,869	2,609,463	1,889,863
Net Other Revenues (Expenses)	17,574,082	18,698,646	2,376,869	9,426,626	9,427,020	2,115,334	1,516,545	114,598
Net Income (Loss)	(\$5,198,895)	(\$5,839,707)	(\$16,851,085)	(\$2,386,869)	(\$4,838,826)	(\$8,862,685)	(\$9,518,122)	(\$10,495,506)

Unaudited, for Discussion Purposes Only

Iowa Communications Network Consolidated Financial Statements

	Actual FY 1998	Actual FY 1999	Budgeted FY 2000	Budgeted FY 2001	Forecasted FY 2002	Forecasted FY 2003	Forecasted FY 2004	Forecasted FY 2005
Balance Sheet Statement								
Assets								
Excess Cash	\$0	\$0	\$0	\$0	\$0	\$3,099,387	\$3,916,655	\$3,782,225
Operating Cash	1,206,893	1,430,876	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Trust Cash & Cash Equivalents	32,620,791	30,877,531	30,500,000	29,500,000	29,500,000	22,500,000	22,500,000	22,500,000
Accounts Receivable & Due From Other Funds	4,485,250	17,666,436	5,055,101	5,284,721	5,307,973	5,437,461	5,573,651	5,718,812
Interest Receivable	9,086	11,688	84,441	80,728	80,000	80,000	80,000	80,000
Fixed Assets:								
Original Cost	137,006,487	146,313,929	158,970,932	169,545,798	179,645,798	182,845,798	186,045,798	189,245,798
Accumulated Depreciation	(51,258,117)	(65,743,022)	(80,844,408)	(91,685,154)	(103,548,628)	(116,067,859)	(128,804,551)	(141,541,243)
Net Fixed Assets	85,748,370	80,570,906	78,126,524	77,860,644	76,097,170	66,777,939	57,241,247	47,704,555
Inventory	3,483,944	4,279,966	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Prepaid Expense	1,492,016	1,255,209	1,103,564	951,919	800,274	648,629	496,984	345,339
Long Term Investments	1,825,000	0	0	0	0	0	0	0
Other Assets	2,673,603	1,714,951	1,496,232	1,277,513	1,058,794	840,075	621,356	402,637
Total Assets	133,544,953	137,807,564	120,865,861	119,455,525	117,344,211	103,883,491	94,929,894	85,033,569
Liabilities								
Revolver - Short Term Debt	0	0	1,282,607	1,999,677	4,466,309	0	0	0
Accounts Payable & Accruals	5,629,864	9,463,782	3,784,738	3,695,031	4,081,719	3,544,790	3,685,128	3,832,221
Due to Other Funds	776,572	198,865	250,000	250,000	250,000	250,000	250,000	250,000
Interest Payable	2,823,647	2,597,777	2,341,983	2,079,264	1,796,567	1,489,881	1,152,178	792,378
Other Financing Arrangements Payable	92,746,267	84,436,687	75,401,665	66,448,054	56,974,444	46,935,833	36,277,222	24,948,611
Other Liabilities	815,077	899,628	905,128	910,628	416,128	421,628	427,128	432,628
Total Liabilities	102,791,427	97,596,739	83,966,122	75,382,654	67,985,166	52,642,131	41,791,656	30,255,838
Fund Equity								
Contributed Capital:								
Intergovernmental Capital Contributions	9,234,591	10,354,858	10,354,858	10,354,858	10,354,858	10,354,858	10,354,858	10,354,858
State GF Contributions (Working Capital)	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
State GF Contributions (Debt Service)	28,700,000	37,240,000	46,280,000	55,840,000	65,965,000	76,710,000	88,125,000	100,260,000
RIIF Contributions (Part 3)& ATM Migration	17,578,379	17,967,516	22,467,516	25,967,516	29,467,516	29,467,516	29,467,516	29,467,516
Retained Earnings	(25,759,444)	(26,351,549)	(43,202,634)	(49,089,503)	(57,428,329)	(66,291,014)	(75,809,136)	(86,304,642)
Total Fund Equity	30,753,526	40,210,825	36,899,740	44,072,871	49,359,045	51,241,360	53,138,238	54,777,732
Total Liabilities & Fund Equity	\$133,544,953	\$137,807,564	\$120,865,861	\$119,455,525	\$117,344,211	\$103,883,491	\$94,929,894	\$85,033,569

Unaudited, for Discussion Purposes Only

Iowa Communications Network Consolidated Financial Statements

	Actual FY 1998	Actual FY 1999	Budgeted FY 2000	Budgeted FY 2001	Forecasted FY 2002	Forecasted FY 2003	Forecasted FY 2004	Forecasted FY 2005
Statement of Cash Flows								
Cash Flows From Operating Activities:								
Net Income	(\$5,198,895)	(\$5,839,707)	(\$16,851,085)	(\$5,886,869)	(\$8,338,826)	(\$8,862,685)	(\$9,518,122)	(\$10,495,506)
Depreciation Expense	13,266,554	14,506,165	14,458,530	9,055,031	9,077,759	9,233,517	9,450,978	9,450,978
TRF Consolidation Effect (net)	0	0	0	0	0	0	0	0
(Increase) Decrease in Operating Cash	(365,160)	(223,983)	(69,124)	0	0	0	0	0
(Increase) Decrease in Trust Cash & Equiv.	(6,566,587)	1,743,260	377,531	1,000,000	0	7,000,000	0	0
(Increase) Decrease in Accounts Receivable	681,222	(13,181,186)	12,611,335	(229,620)	(23,252)	(129,488)	(136,190)	(145,162)
(Increase) Decrease in Interest Receivable	348,424	(2,602)	(72,753)	3,713	728	0	0	0
(Increase) Decrease in Inventory	(1,550,008)	(796,022)	1,279,966	0	0	0	0	0
Decrease in Prepaid Expenses	(542,287)	236,807	151,645	151,645	151,645	151,645	151,645	151,645
Decrease in Other Assets	(707,280)	958,652	218,719	218,719	218,719	218,719	218,719	218,719
Increase (Decrease) in Accounts Payable	(1,639,723)	3,833,917	(5,679,044)	(89,707)	386,688	(536,929)	140,338	147,093
Decrease in Interest Payable	(205,616)	(225,870)	(255,794)	(262,719)	(282,697)	(306,686)	(337,703)	(359,800)
Increase (Decrease) in Other Liabilities	599,635	84,551	5,500	5,500	(494,500)	5,500	5,500	5,500
Net Cash Used In Operating Activities	(1,879,722)	1,093,982	6,175,426	3,965,693	696,264	6,773,593	(24,835)	(1,026,533)
Cash Flows From Noncapital Financing Activities:								
Increase (Decrease) in Amounts Due To Other Funds	(301,733)	(577,707)	51,135	0	0	0	0	0
Net Cash Provided by Noncapital Financing Activities	(301,733)	(577,707)	51,135	0	0	0	0	0
Cash Flows From Capital Activities:								
Payments on Other Financing Arrangements (nc Capital Contributions for Equip	(7,672,126)	(8,309,580)	(9,035,022)	(8,953,611)	(9,473,611)	(10,038,611)	(10,658,611)	(11,328,611)
State General Fund Contributions (Debt Service State RIIF Contributions (Part 3)&ATM Migrat:	900,606	1,120,267	0	0	0	0	0	0
	8,095,000	8,540,000	9,040,000	9,560,000	10,125,000	10,745,000	11,415,000	12,135,000
	4,518,149	389,137	4,500,000	3,500,000	3,500,000	0	0	0
Net Cash Provided by Capital and Related Financing Activities	5,841,629	1,739,824	4,504,978	4,106,389	4,151,389	706,389	756,389	806,389
Cash Flows From Investing Activities:								
(Increase) Decrease in LT Investments	2,595,755	1,825,000	0	0	0	0	0	0
(Increase) Decrease in Fixed Asset Cost	(6,009,806)	(9,307,443)	(12,607,003)	(10,574,866)	(9,950,000)	(3,200,000)	(3,200,000)	(3,200,000)
Net Cash Used In Investing Activities	(3,414,051)	(7,482,443)	(12,607,003)	(10,574,866)	(9,950,000)	(3,200,000)	(3,200,000)	(3,200,000)
Increase (Decrease) In Net Cash Flows	246,124	(5,226,345)	(1,875,464)	(2,502,784)	(5,102,346)	4,279,982	(2,468,446)	(3,420,144)
Beginning Excess Cash (Revolver)	(195,812)	50,312	(5,176,033)	(7,051,496)	(9,554,280)	(14,656,627)	(10,376,645)	(12,845,091)
Ending Excess Cash (Revolver)	\$50,312	(\$5,176,033)	(\$7,051,496)	(\$9,554,280)	(\$14,656,627)	(\$10,376,645)	(\$12,845,091)	(\$16,265,235)

UNAUDITED, FOR DISCUSSION PURPOSES ONLY

Iowa Communications Network
Consolidated Financial Statements

	Budgeted FY 2000	Budgeted FY 2001	Forecasted FY 2002	Forecasted FY 2003	Forecasted FY 2004	Forecasted FY 2005
Projected General Fund Appropriations						
Net Operating Income / (Loss) (Cash Basis)	(\$1,672,630)	(\$2,758,464)	(\$5,188,087)	(\$1,744,503)	(\$1,583,690)	(\$1,159,127)
Video Subsidization (included in video revenues)	(3,435,000)	(3,435,000)	(3,435,000)	(3,435,000)	(3,435,000)	(3,435,000)
Part III related costs:						
Installation Expense	-	-	-	-	-	-
Maintenance Expense	1,101,068	1,101,068	1,101,068	1,101,068	704,199	451,277
Rental Expense	1,580,617	1,580,617	1,580,617	1,320,878	1,113,552	684,927
Non-Cash Expenses:						
Rental Expense	151,645	151,645	151,645	151,645	151,645	151,645
Equipment and OSS Upgrades (voice, data and other services) (net)	(1,191,764)	(1,700,000)	(1,400,000)	(1,000,000)	(700,000)	(700,000)
Projected Operating Deficit	\$ (3,466,064)	\$ (5,060,134)	(\$7,189,757)	\$ (3,605,912)	\$ (3,749,294)	\$ (4,006,278)
FORECASTED GENERAL FUND APPROPRIATIONS FOR VIDEO SUBSIDIZATION	\$ 3,435,000	\$ 3,435,000	\$ 3,435,000	\$ 3,435,000	\$ 3,435,000	\$ 3,435,000
Net Debt Service Requirements:						
Principal	\$ (9,040,000)	\$ (9,560,000)	\$ (10,125,000)	\$ (10,745,000)	\$ (11,415,000)	\$ (12,135,000)
Interest	(4,683,966)	(4,158,528)	(3,593,132)	(2,979,762)	(2,304,356)	(1,584,756)
Gross Debt Service Requirements:	(13,723,966)	(13,718,528)	(13,718,132)	(13,724,762)	(13,719,356)	(13,719,756)
Interest Income	863,258	863,258	863,258	863,258	863,258	863,258
Net Debt Service Requirements:	\$ (12,860,708)	\$ (12,855,271)	\$ (12,854,875)	\$ (12,861,505)	\$ (12,856,099)	\$ (12,856,499)
FORECASTED GENERAL FUND APPROPRIATIONS FOR DEBT SERVICE	\$ 12,861,000	\$ 12,860,000	\$ 12,860,000	\$ 12,860,000	\$ 12,860,000	\$ 12,140,000
FORECASTED RIF APPROPRIATIONS FOR PART III	\$ 2,681,685	\$ 9,727,004	\$ 9,727,004	\$ 2,421,946	\$ 1,817,751	\$ 1,136,204
TOTAL FORECASTED ICN APPROPRIATIONS	\$ 18,977,685	\$ 26,022,004	\$ 26,022,004	\$ 18,716,946	\$ 18,112,751	\$ 16,711,204

STATE LIBRARY OF IOWA



3 1723 02046 1083