



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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Auditor of State

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NEWS RELEASE

FOR RELEASE

October 12, 2009

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the Iowa Communications Network (ICN) for the year ended June 30, 2008. The ICN is responsible for the management, development and operation of the statewide telecommunications network which carries and switches full motion interactive video, voice and data traffic for Iowa's educational institutions and other authorized users.

The ICN reported revenues of \$34,849,043 for the year ended June 30, 2008, a 1.1% decrease from the prior year. The revenues included sales, rents and services of \$32,437,651, state appropriations of \$2,067,000 and investment income of \$344,392. Expenses for the year ended June 30, 2008 totaled \$38,906,177, a 3.2% decrease from the prior year. Expenses included \$11,756,699 for direct expenses, \$9,768,730 for other operating expenses, \$9,583,989 for general and administrative expenses and \$7,796,759 for depreciation expense.

A copy of the audit report is available for review in the Iowa Communications Network office, in the Office of Auditor of State and on the Auditor of State's website at <http://auditor.iowa.gov/reports/index.html>.

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IOWA COMMUNICATIONS NETWORK
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

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Iowa Communications Network

Officials

State

Honorable Chester J. Culver	Governor
Richard Oshlo	Interim Director, Department of Management
Glen Dickinson	Director, Legislative Services Agency

Iowa Telecommunications and Technology Commission

		<u>Term Expires</u>
Betsy Brandsgard	Chairperson	Apr 2012
Robert R. Hardman	Commission Member	Apr 2014
Pamela A. Duffy	Commission Member	Apr 2010
Timothy L. Lapointe	Commission Member	Apr 2011
Michael W. Mahaffey	Commission Member	Apr 2013
David A. Vaudt, CPA	Non-Voting Ex-Officio Commission Member	Indefinite

Agency

John Gillispie	Executive Director
Kevin Heinzeroth	Chief Financial Officer

Iowa Communications Network



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Independent Auditor's Report

To the Members of the Iowa Telecommunications
and Technology Commission:

We have audited the accompanying basic financial statements of the Iowa Communications Network, as of and for the year ended June 30, 2008, listed in the table of contents. These financial statements are the responsibility of the Iowa Communications Network's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

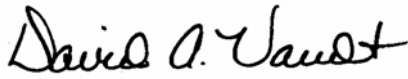
As discussed in Note 1, the financial statements of the Iowa Communications Network are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the financial reporting entity of the State of Iowa attributable to the transactions of the Iowa Communications Network. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Iowa Communications Network at June 30, 2008, and the respective changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

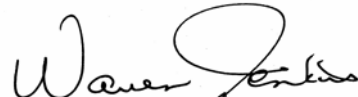
In accordance with Government Auditing Standards, we have also issued our report dated July 27, 2009 on our consideration of the Iowa Communications Network's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 7 through 10 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Iowa Communications Network's basic financial statements. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

July 27, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the Iowa Communications Network (ICN) provides this Management's Discussion and Analysis of the ICN's annual financial statements. This narrative overview and analysis of the financial activities of the ICN is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the ICN's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The ICN continues to provide high quality, reasonably priced video, voice and data services to our authorized educational, judicial, medical and governmental authorized users. Here are some of the key financial highlights from fiscal year 2008.

- ICN operating revenues were approximately \$32.4 million.
- During fiscal year 2008, the ICN received approximately \$2.1 million in appropriations from the State for network equipment upgrades.
- The ICN delivered 217,584 hours of full-motion, interactive video to its authorized users in FY 2008. Since ICN's inception in 1993, it has delivered approximately 3.1 million hours of video to its users.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the ICN's basic financial statements. The ICN's basic financial statements consist of a series of financial statements. The Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Fund Net Assets and the Statement of Cash Flows (on pages 13 through 15) provide information about the activities of the ICN as a whole and present a longer-term view of the ICN's finances. These basic financial statements also include the Notes to Financial Statements that explain some of the information in the statements and provide more detail. Supplementary information is also in schedule form and is displayed on page 24.

REPORTING THE ICN AS A WHOLE

One of the most important questions asked about the ICN's finances is "Why does the ICN look like it loses money?" The ICN was designed to provide low-cost, full-motion interactive video to enhance educational and medical opportunities to rural Iowa. The State made a commitment to fund the capital investment in the ICN through certificates of participation. That investment is not completely recovered through the ICN's rates. As the value of the ICN is depreciated, the ICN does not fully recover the depreciation associated with the State's investment. ICN's Statement of Cash Flows shows a negative cash flow from operations for 2008. An increase in salaries paid of \$635,622 along with an increase in customer accounts receivable at year end resulted in the negative cash flow. Had receivables for fiscal year 2008 remained steady with fiscal year 2007, the Statement of Cash Flows would have been positive. Receivables increased at the end of the year but were collected in the first month of fiscal year 2009.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets report information about the ICN as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The ICN's financial statements include these statements:

The Statement of Net Assets presents all of the ICN's assets and liabilities, with the difference between the two reported as "net assets".

The Statement of Revenues, Expenses and Changes in Fund Net Assets presents information showing how the ICN's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Cash Flows reports the net increase (or decrease) in cash and cash equivalents (highly liquid investments with a maturity of three months or less when purchased) for the fiscal year. This statement includes cash flows from operating activities, cash flows from non-capital financing activities and cash flows from capital and related financing activities. The resulting net increase (or decrease) in cash and cash equivalents is then added to the balance of cash and cash equivalents at the beginning of the year to determine the FY08 ending cash and cash equivalents balance.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements. The Notes to Financial Statements begin on page 16.

The Supplementary Information is displayed on page 24 and provides detailed information about operating revenues and expenses.

FINANCIAL ANALYSIS OF THE NETWORK

The ICN's assets totaled approximately \$45.6 million at the end of 2008, compared to approximately \$51.2 million at the end of the previous year. The decrease is due to the aging of the ICN's capital assets and the resulting increase in the related accumulated depreciation. Net assets invested in capital assets decreased approximately \$5.6 million from fiscal year 2007. Unrestricted net assets represent assets used to meet the ICN's ongoing obligations to vendors and creditors. Unrestricted net assets increased from fiscal year 2007 to fiscal year 2008.

	June 30,	
	2008	2007 (Restated)
Assets		
Current and other assets	\$ 16,961,262	16,916,558
Capital assets	28,631,705	34,239,944
Total assets	45,592,967	51,156,502
Liabilities		
Current liabilities	3,192,032	4,840,357
Noncurrent liabilities	969,399	827,505
Total liabilities	4,161,431	5,667,862
Net Assets		
Invested in capital assets	28,631,705	34,239,944
Unrestricted	12,799,831	11,248,726
Total net assets	\$ 41,431,536	45,488,670

The next schedule helps to highlight the activity for fiscal year 2008 compared to fiscal year 2007.

	Year ended June 30,	
	2008	2007 (Restated)
Operating revenues:		
Sales, rents and services	\$ 32,437,651	32,791,131
Operating expenses:		
Direct expenses	11,756,699	12,388,720
Depreciation expense	7,796,759	8,265,390
Other operating expenses	9,768,730	11,017,844
General and administrative expenses	9,583,989	8,522,741
Total operating expenses	38,906,177	40,194,695
Operating loss	(6,468,526)	(7,403,564)
Non-operating revenues:		
State appropriations from the State of Iowa	2,067,000	1,997,500
Investment income	344,392	455,237
Total non-operating revenues	2,411,392	2,452,737
Decrease in net assets	(4,057,134)	(4,950,827)
Net assets beginning of year, as restated	45,488,670	50,439,497
Net assets end of year	\$ 41,431,536	45,488,670

The ICN's sales for fiscal year 2008 were down 1.1 percent at approximately \$32.4 million compared to approximately \$32.8 million for fiscal year 2007. Data services provided the ICN with approximately \$17 million in sales while voice services provided the ICN with approximately \$9.8 million in sales.

The ICN's largest individual expense is personnel expense, which accounts for 22.7% of all operating expenses. Personnel expense is followed by depreciation expense of 20%, system maintenance costs of 17.7%, data costs of 17.6%, voice costs of 10.1%, network equipment of 2.7%, outside plant costs of 2.7%, video costs of 1.1% and network installation costs of 0.8% of all expenses. Operating expenses are shown in detail on page 24.

CAPITAL ASSETS

The ICN's investment in capital assets at June 30, 2008 was approximately \$134.3 million, with accumulated depreciation of approximately \$105.7 million, leaving a net book value of approximately \$28.6 million. This investment in capital assets includes equipment and fiber optic cable, with 47% of the depreciable assets invested in cable. Cable represents the primary investment in the ICN's backbone, which is used to deliver telecommunication services to our customers. Additional information about ICN's capital assets is presented in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

ICN's management considered many factors when setting the 2009 fiscal year budget. Management anticipates most product sales to remain steady through fiscal year 2009. This forecast should result in little or no change in ICN's revenue for fiscal year 2009.

ICN's forecast for fiscal year 2009 includes funding from the Federal Communications Commission (FCC) Universal Service Fund (USF). Payments from this fund are to be used to ensure the benefits of telecommunications reach students across the country. On September 30, 2004, the FCC began treating funding commitment decision letters (FCDLs) issued for the University Service Schools and Libraries and Rural Health Care Support Mechanisms as budgetary obligations, requiring there be monies on hand to cover a request before granting the funding requests. Universal Service Administrative Company (USAC) began tracking the amount of unobligated USF monies on hand to support new funding commitments. USAC expects that, going forward, at various times, it may have less unobligated cash on hand than the total dollar value of new commitments ready to be issued, requiring approvals for new requests for funding be delayed. For fiscal year 2009, H.R. (United States House Resolution) 2764 has exempted USAC from the budgetary funding requirements. The ICN has been providing video services to schools and libraries who are dependent on this funding to pay ICN for these services. ICN's 2009 revenues from USAC for the support of video services to schools and libraries are estimated at approximately \$1.7 million.

CONTACTING THE IOWA COMMUNICATIONS NETWORK FINANCIAL MANAGEMENT

This financial report is designed to present users with a general overview of the ICN's finances and to demonstrate the ICN's accountability for the funds generated. If you have questions about the report or need additional financial information, please contact the Finance Division, Iowa Communications Network, Hoover Building, Level A, 1305 E. Walnut St., Des Moines, Iowa 50319.

Basic Financial Statements

Iowa Communications Network

Iowa Communications Network

Statement of Net Assets

June 30, 2008

Assets

Current assets:	
Cash and cash equivalents	\$ 10,306,467
Accounts receivable, net	4,976,703
Interest receivable	98,122
Inventory	1,080,900
Prepaid expense	193,714
Total current assets	<u>16,655,906</u>
Noncurrent assets:	
Capital assets, net	28,631,705
Prepaid expense	305,356
Total noncurrent assets	<u>28,937,061</u>
Total assets	<u>45,592,967</u>

Liabilities

Current liabilities:	
Accounts payable	2,281,940
Due to Treasurer of State	250,000
Deferred revenue	38,185
Compensated absences and OPEB	621,907
Total current liabilities	<u>3,192,032</u>
Noncurrent liabilities:	
Due to Treasurer of State	500,000
Compensated absences and OPEB	469,399
Total noncurrent liabilities	<u>969,399</u>
Total liabilities	<u>4,161,431</u>

Net Assets

Invested in capital assets	28,631,705
Unrestricted	12,799,831
Total net assets	<u>\$ 41,431,536</u>

See notes to financial statements.

Exhibit B

Iowa Communications Network
Statement of Revenues, Expenses and
Changes in Fund Net Assets

Year ended June 30, 2008

Operating revenues:	
Sales, rents and services	<u>\$ 32,437,651</u>
Operating expenses:	
Direct expenses	11,756,699
Depreciation expense	7,796,759
Other operating expenses	9,768,730
General and administrative expenses	9,583,989
Total operating expenses	<u>38,906,177</u>
Operating loss	<u>(6,468,526)</u>
Non-operating revenues:	
State appropriations	2,067,000
Investment income	344,392
Total non-operating revenues	<u>2,411,392</u>
Decrease in net assets	(4,057,134)
Net assets beginning of year, as restated	<u>45,488,670</u>
Net assets end of year	<u><u>\$ 41,431,536</u></u>

See notes to financial statements.

Iowa Communications Network

Statement of Cash Flows

Year ended June 30, 2008

Cash flows from operating activities:	
Cash received from customers	\$ 31,391,448
Cash paid for goods and services	(23,572,915)
Cash paid for salaries and benefits	(8,341,160)
Net cash used by operating activities	<u>(522,627)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(2,367,269)
Payment to Treasurer of State	(250,000)
State appropriations	2,067,000
Net cash used by capital and related financing activities	<u>(550,269)</u>
Cash flows from investing activities	
Interest received on investments	<u>384,370</u>
Net decrease in cash and cash equivalents	(688,526)
Cash and cash equivalents beginning of year	<u>10,994,993</u>
Cash and cash equivalents end of year	<u>\$ 10,306,467</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	<u>\$ (6,468,526)</u>
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	7,796,759
Loss on disposal of capital assets and inventory	178,748
(Increase) in accounts receivable	(4,605,561)
Decrease in due from other state agencies	3,583,548
Decrease in inventory	32,232
Decrease in prepaid expense	216,574
(Decrease) in deferred revenue	(24,190)
(Decrease) in accounts payable	(1,633,136)
(Decrease) in due to other state agencies	(106,003)
Increase in compensated absences and OPEB	506,928
Total adjustments	<u>5,945,899</u>
Net cash used by operating activities	<u>\$ (522,627)</u>

See notes to financial statements.

Iowa Communications Network

Notes to Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies

The Iowa Communications Network (ICN) is responsible for the management, development and operation of the statewide telecommunications network. The ICN carries and switches full motion interactive video and voice and data traffic for Iowa's educational institutions and other authorized users.

The financial statements of the ICN have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The more significant of the ICN's accounting policies are described below:

A. Reporting Entity

For financial reporting purposes, the ICN has included all funds, organizations, agencies, boards, commissions and authorities. The ICN has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the ICN are such that exclusion would cause the ICN's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the ICN to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the ICN. The ICN has no component units which meet the Governmental Accounting Standards Board criteria.

B. Fund Accounting

The ICN is reported for accounting purposes as an Enterprise Fund. The operations of the fund are accounted for with self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. Enterprise Funds are used to report activities for which fees are charged to external users for goods or services.

C. Measurement Focus

Enterprise Funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means all assets and liabilities, whether current or non-current, associated with their activity are included in the Statement of Net Assets. Fund equity is reported as net assets. Enterprise Fund operating statements present increases (revenues) and decreases (expenses) in net assets.

In reporting the financial activity of its Enterprise Fund, the ICN applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Enterprise Funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The ICN distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as either non-operating revenues and expenses or other revenues and expenses.

E. Budgets and Budgetary Accounting

Budgetary control is exercised over the ICN through the annual budgetary process prescribed in Chapter 8 of the Code of Iowa.

F. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the basic financial statements:

Cash and Cash Equivalents

The ICN makes deposits with the Treasurer of State and with other specific custodial banks. The cash balance is pooled and invested by the Treasurer of State.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Accounts Receivable/Due from Other State Agencies

Accounts receivable primarily represent unpaid charges for network services provided to authorized users and state agencies.

Inventory

Inventory consists primarily of materials and supplies held for deployment to network locations and is valued at cost which approximates market. The last-in/first-out (LIFO) cost flow method is used.

Capital Assets

All capital assets purchased or constructed are reported at cost. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included in the capitalized value of the asset constructed, net of interest earned on the investment proceeds over the same period.

For capital assets, the ICN's capitalization policy includes any location, equipment, fiber or parts purchased and used to enhance, maintain or expand the functionality, capacity and capability of the ICN's communications network and services valued at \$5,000 and above. When capital assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized as income or loss for the period.

The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized.

Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Equipment	3-7
Fiber optic cable	20

Accounts Payable

Accounts payable consists primarily of outstanding invoices for contractual services.

Due to Treasurer of State

Section 8D.14 of the Code of Iowa requires the ICN to repay \$1,000,000 of start-up funding to the Treasurer of State for credit to the General Fund of the State. ICN paid the Treasurer of State \$250,000 during the year ended June 30, 2008 as required. Another payment of \$250,000 is due during the year ending June 30, 2009. A repayment plan for the remaining \$500,000 is required to be included in a report to the General Assembly to be submitted by January 1, 2010.

Compensated Absences and Other Post Employment Benefits (OPEB)

Employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time hours for subsequent use or for payment of the employer portion of insurance premiums upon termination, death, or retirement. The liabilities for compensated absences are based on rates of pay and current insurance rates in effect at June 30, 2008.

Net Assets

The ICN classifies net assets in the following categories:

Invested in capital assets – Capital assets, net of accumulated depreciation.

Unrestricted – Net assets not subject to externally imposed restrictions which may be used to meet current obligations for any purpose or designated for specific purposes by action of management.

(2) Deposits

The ICN's deposits with the Treasurer of State of \$10,306,467 at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds. All interest on investments in the Treasurer of State's investment pool is retained in the fund holding the cash balance.

(3) Accounts Receivable

Receivables at June 30, 2008 consisted of the following:

Accounts receivable	\$ 5,029,055
Less allowance for doubtful accounts	<u>(52,352)</u>
Accounts receivable, net	<u>\$ 4,976,703</u>

(4) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital assets not being depreciated:				
Construction in progress	\$ -	33,850	-	33,850
Capital assets being depreciated:				
Equipment	71,361,224	2,284,816	2,643,932	71,002,108
Fiber optic cable	63,236,586	27,479	-	63,264,065
Total capital assets being depreciated	<u>134,597,810</u>	<u>2,312,295</u>	<u>2,643,932</u>	<u>134,266,173</u>
Less accumulated depreciation for:				
Equipment	(57,809,558)	4,631,621	2,486,307	(59,954,872)
Fiber optic cable	(42,548,308)	3,165,138	-	(45,713,446)
Total accumulated depreciation	<u>(100,357,866)</u>	<u>7,796,759</u>	<u>2,486,307</u>	<u>(105,668,318)</u>
Total capital assets being depreciated, net	<u>34,239,944</u>	<u>(5,484,464)</u>	<u>157,625</u>	<u>28,597,855</u>
Total capital assets, net	<u>\$ 34,239,944</u>	<u>(5,450,614)</u>	<u>157,625</u>	<u>28,631,705</u>

(5) Pension and Retirement Benefits

The ICN contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the ICN is required to contribute 6.05% of annual covered payroll for the year ended June 30, 2008. Contribution requirements are established by state statute. The ICN's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$381,252, \$340,397 and \$332,433, respectively, equal to the required contributions for each year.

(6) Compensated Absences and Other Postemployment Benefits (OPEB)

Changes in compensated absences and other postemployment benefit obligations for the year ended June 30, 2008 are summarized as follows:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008	Due Within One Year
Compensated absences	\$ 584,378	1,065,183	606,845	1,042,716	621,907
Net OPEB liability	-	48,590	-	48,590	-
Total	\$ 584,378	1,113,773	606,845	1,091,306	621,907

Sick Leave Insurance Program (SLIP) – Included in the compensated absences liability for the year ended June 30, 2008 is the cost of a voluntary termination benefit program entitled Sick Leave Insurance Program (SLIP). The program is an opportunity for employees who are retirement-eligible to use the value of their unused sick leave to pay the employer share of the monthly premium of the State’s group health insurance plan after their retirement.

Upon retirement, employees shall first receive a cash payment for accumulated, unused sick leave converted at the employee’s current regular hourly rate of pay, up to \$2,000, payable with the final payroll warrant that includes the employee’s retirement date. The value of the remaining balance of the accrued sick leave will be converted based upon the original balance (before the cash payment). The remainder of the sick leave value is calculated as follows, based on the number of sick leave hours the employee had before the cash payment:

<u>If the sick leave balance is:</u>	<u>The conversion rate is:</u>
Zero to 750 hours	60% of the value
Over 750 hours to 1,500 hours	80% of the value
Over 1,500 hours	100% of the value

The final calculated dollar value will be credited to the employee’s SLIP account. Each month, the ICN will pay 100 percent of the employer’s share of the selected state group health insurance premium from the retiree’s SLIP account. The retiree is responsible for any additional premiums associated with the employee/retiree share.

The ICN will continue to pay the employer’s share of the health insurance premium each month until the converted value of the employee’s sick leave balance is exhausted, until the employee is eligible for Medicare, the employee waives the benefit or until the employee dies, whichever comes first. The retired employees may stay with the same health insurance program as when employed or switch down at any time without underwriting. The converted value of the sick leave can only be applied to the employer’s share of health insurance premium payments. It has no cash value and is not transferable to another use or to an heir. If a retired employee who has utilized this benefit returns to permanent state employment, all remaining balances in the sick leave insurance program will be forfeited.

All SLIP program benefits are financed on a pay-as-you-go basis. For the year ended June 30, 2008, two employees have retired and received benefits of \$3,636 under the SLIP program.

Other Postemployment Benefits – The ICN implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, during the year ended June 30, 2008. This Statement establishes when other postemployment benefit liabilities are recorded under the accrual basis of accounting.

As a part of the State of Iowa, the ICN participates in the State of Iowa postretirement medical plan (OPEB). The OPEB plan recognizes the implicit rate subsidy as required by GASB Statement No. 45.

The annual valuation of liabilities under the OPEB plan is calculated using the entry age normal cost method. This method requires the calculation of an unfunded actuarial accrued liability, which was approximately \$220,000,000 for the State of Iowa as of June 30, 2008. The ICN portion of the unfunded actuarial accrued liability is not separately determinable.

Details of the OPEB plan are provided on a state-wide basis and are available in the State of Iowa’s Comprehensive Annual Financial Report for the year ended June 30, 2008. The report may be obtained by writing to the Iowa Department of Administrative Services, Hoover State Office Building, Des Moines, Iowa 50319.

The ICN recognized a net OPEB liability of \$48,590 for other postemployment benefits, which represents the ICN’s portion of the State’s net OPEB obligation. The ICN’s portion of the net OPEB obligation was calculated using the ratio of full time equivalent employees of the ICN compared to full time equivalent employees of the State of Iowa.

(7) Due to Treasurer of State

On May 24, 2006, the Governor signed House File 2686 requiring the ICN to repay \$1,000,000 to the State of Iowa for ICN start-up costs. During the year ended June 30, 2008, the ICN repaid \$250,000, leaving a balance owed of \$750,000 at June 30, 2008.

(8) Risk Management

State employee benefits for health, dental, long-term disability and life insurance coverage are insured through commercial insurers. There were no significant reductions in insurance coverage for the prior year and settlements have not exceeded coverage for the past three fiscal years.

The State of Iowa self-insures on behalf of its agencies for losses related to workers’ compensation, its motor vehicle fleet, property damage and torts. A contingent fund exists under Section 29C.20 of the Code of Iowa to provide compensation for loss or damage to state property (casualty losses).

(9) Restatement of Beginning Net Assets

The beginning net asset balance has been restated to correct an error in reporting a prior year liability of \$1,000,000. Recording this previously unrecorded liability resulted in an adjustment to beginning net assets, as follows:

	Net Assets
Balance at June 30, 2007, as previously reported	\$ 46,488,670
Adjustment	(1,000,000)
Balance at July 1, 2007, as restated	\$ 45,488,670

Iowa Communications Network

Supplementary Information

Schedule 1

Iowa Communications Network
Schedule of Operating Revenues and Expenses
Year ended June 30, 2008

Operating revenues:	
Sales, rents and services:	
Data services	\$ 17,016,299
Voice services	9,822,679
Video services	3,967,225
Equipment sales	13,570
Installation fees	1,466,822
Other revenues	176,560
Total operating revenues	<u>32,463,155</u>
Less: bad debt expense	<u>(25,504)</u>
Net operating revenues	<u>32,437,651</u>
Operating expenses:	
Direct expenses:	
Data costs	6,854,575
Video costs	439,418
Voice costs	3,940,583
Installation costs	522,123
Total direct expenses	<u>11,756,699</u>
Depreciation expense	<u>7,796,759</u>
Other operating expenses:	
Network equipment	1,065,629
System maintenance	6,889,124
Outside plant costs	1,042,146
System utility costs	69,317
System repair costs	162,287
Other system costs	54,329
Network installation costs	307,150
Loss on disposal of capital assets and inventory	178,748
Total other operating expenses	<u>9,768,730</u>
General and administrative expenses:	
Personnel	8,848,088
Travel	143,485
Administrative services	143,210
Rent	106,843
Professional fees	233,693
Other general and administrative	108,670
Total general and administrative expenses	<u>9,583,989</u>
Total operating expenses	<u>38,906,177</u>
Operating loss	<u>\$ (6,468,526)</u>

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Members of the Iowa Telecommunications
and Technology Commission:

We have audited the financial statements of the Iowa Communications Network (ICN) as of and for the year ended June 30, 2008, and have issued our report thereon dated July 27, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ICN's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the ICN's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the ICN's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the ICN's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the ICN's financial statements that is more than inconsequential will not be prevented or detected by the ICN's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that result in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the ICN's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (1) and (2) are material weaknesses.

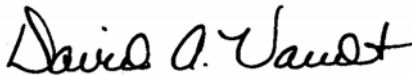
Compliance and Other Matters

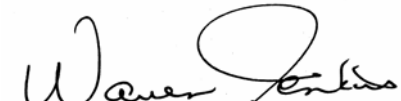
As part of obtaining reasonable assurance about whether the ICN's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Iowa Communication Network's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the ICN's responses, we did not audit the Iowa Communication Network's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Communications Network, citizens of the State of Iowa and other parties to whom the Iowa Communications Network may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Iowa Communications Network during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

July 27, 2009

Iowa Communications Network

Schedule of Findings

Year ended June 30, 2008

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

- 1) Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the ICN's financial statements.

The following procedures or compensating controls have not been implemented at the ICN:

Responsibilities for handling inventory records, performing test counts and adjusting inventory are not segregated.

Recommendation – The ICN should establish adequate segregation of duties to ensure inventory counts are verified by persons independent of those in charge of the inventory records.

Response – The ICN will segregate duties to the extent we can with the limited number of personnel we have. The ICN will take steps to be sure the individual responsible for counting inventory cannot also adjust inventory.

Conclusion – Response accepted.

- 2) Repayment to Treasurer of State – On May 24, 2006, the Governor signed House File 2686 which amended section 8D.14 of the Code of Iowa to require the ICN to repay the State's General Fund \$1,000,000, with the repayment to begin in FY2008. The ICN did not report this liability in its financial statements at June 30, 2006.

Recommendation – The ICN should ensure adequate internal control procedures are in place to ensure all material financial obligations are recorded.

Response – The ICN will ensure there are adequate internal control procedures in place to ensure all material financial obligations are recorded.

Conclusion – Response accepted.

- 3) General Ledger Reconciliation – Monthly reconciliations are not performed between the detailed ledgers and the general ledger. For two accounts, the detailed expenditure ledgers did not agree to the general ledger by a total of \$34,565.

Recommendation – ICN should ensure the detail ledgers agree to the general ledger on a monthly basis. Also, there should be evidence of an independent review of the reconciliation.

Response – The ICN will put into place procedures to indicate an independent review and reconciliation between the detailed ledgers and the general ledger.

Conclusion – Response accepted.

Iowa Communications Network

Schedule of Findings

Year ended June 30, 2008

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Findings Related to Required Statutory Reporting:

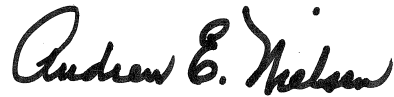
No matters were noted.

Iowa Communications Network

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Manager
Timothy D. Houlette, CPA, Senior Auditor II
Donald J. Lewis, CPA, Senior Auditor
Keith C. Kistenmacher, Staff Auditor
Gelu Sherpa, Staff Auditor
Kurt D. Goldsmith, Assistant Auditor
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Andrew E. Nielsen, CPA
Deputy Auditor of State