

Iowa Communications Network
Annual Report FY2017

BROADBAND STRONG
STRONG FLEXIBLE FAST



Annual Report FY2017

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Agency Goals

AGENCY WIDE

GOAL 1: Move the ICN culture into an orchestrated and automated environment by repurposing our intellectual talents.

CARRIER SERVICES

GOAL 2: DEVELOPMENT: To efficiently develop, design, install, and construct all network infrastructure and systems that enable revenue and network growth.

GOAL 3: PRODUCTION: Protect the integrity of the network and services by providing cutting edge technology, automation, monitoring, and in-depth knowledge that stabilizes and secures the production environment.

SECURITY SERVICES

GOAL 4: Identify security threats and risks to create a proactive, intel-driven carrier network environment.

GOAL 5: Identify and evaluate opportunities to enhance capabilities and/or reduce costs for managed security services.

SECURITY SERVICES

GOAL 6: Support carrier and agency technology initiatives while implementing cloud application-based technologies.

FIELD SERVICES

GOAL 7: Design and begin building JFHQ field services with innovative communications and data center technologies.

BUSINESS SERVICES

GOAL 8: Enhance processes for service delivery and project closure to fast track revenue.

GOAL 9: Utilize proven sales methodology to promote services and provide solutions for revenue growth.

FINANCIAL SERVICES

GOAL 10: Implement a new financial system and integrate with ServiceNow.

GOAL 11: Utilize systems to better implement the "matching principle" methodology of revenues and expenses.



IOWA TELECOMMUNICATIONS AND TECHNOLOGY COMMISSION

Richard L. Bruner
CHAIR

Kathleen Kohorst
Kelly Dolan Lange

Timothy L. Lapointe
Robert F. Holz

Mary Mosiman
Robert von Wolfradt

Ric Lumbard, Executive Director

Governor Kim Reynolds

Lt. Governor Adam Gregg

November 9, 2017

The Honorable Governor Kim Reynolds
Governor, State of Iowa
State Capitol
Des Moines, Iowa 50319

Dear Governor Reynolds:

On behalf of the Iowa Telecommunications and Technology Commission overseeing the Iowa Communications Network (ICN), I am pleased to submit our Fiscal Year 2017 Annual Report for your review. Throughout the report you will find information explaining how strong high speed Internet, voice, and video services continue to provide exceptional value to our authorized users. Highlights include:

- Establishing a carrier-grade telecommunications lab. The lab addresses testing of services, protocol enhancements, and scalability in the network infrastructure.
- Continued support to the Iowa Statewide Interoperable Communications System Board by providing leadership for Iowa's FirstNet Broadband Committee.
- Launching a managed firewall service (AramidFW), which incorporates Application Control, Intrusion Prevention, Web Filtering, Anti-Malware, and more.

In Fiscal Year 2017, ICN continued its vision of being "Broadband Strong". The statement represents the ICN's ability to deliver STRONG, FLEXIBLE broadband and FAST experiences to meet the growing broadband needs for education, government, public safety, and healthcare users.

That vision continues to guide the ICN in Fiscal Year 2018. The Commission and ICN are implementing a new culture for ICN and its customers. The culture, Jekard, will enable:

- Strong virtual service suites with diverse broadband and security services.
- Flexible customer experiences by putting control of their services at their fingertips.
- Fast operational management that supports efficient operations and lowers operating costs.
- A dynamic core capable of providing 100Gb to 400Gb of core transport while being supported by strong public and private partnerships.

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

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BROADBAND STRONG
STRONG FLEXIBLE FAST

Iowa Communications Network

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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, public safety, and healthcare sectors of Iowa.

Vision

BROADBAND STRONG
STRONG FLEXIBLE FAST

Iowa Telecommunications and Technology Commission Members

Richard Bruner, Chair

Kelly Dolan Lange | Kathleen Kohorst | Timothy Lapointe | Robert F. Holz

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

2017 Legislative Session Recap

The legislature adjourned on April 22, 2017. Commissioner Tim Lapointe's fourth term appointment (through 2023) was approved by the Senate on April 6. He has served on the ITTC since 1999.

Session Highlights Included:

- House File 467 - Effective July 1, ICN will be able to provide law enforcement communication system services to authorized users.
- Senate File 500 - Effective July 1, HSEMD will direct a portion of 911 funds to begin the consolidation of the e911 & NG911 networks.
- House File 601 - Effective July 1, information and records regarding cybersecurity and physical/critical infrastructure will be considered confidential, and not subject to Iowa's open records statute.
- Senate File 431 - Effective July 1, wireless companies will be free to mount micro-cells on certain city structures in order to build future 5G infrastructure.

Holz Appointed to Commission

Robert F. Holz was appointed to serve on the ITTC (Iowa Telecommunications and Technology Commission), the governing body of the ICN. Holz's membership became effective on May 22, 2017. Holz's appointment is subject to Senate confirmation. His term will expire in April 2022. The vacancy was due to the departure of Mary Sellers who resigned in April.

ICN contracts exceeding \$1 million during FY 2017, as required by the Code of Iowa, Section 8D.3(3)(f).

- None

Agency Overview

Finance Bureau

Responsible for financial reporting, and analyzing the financial health of the agency. 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 network 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 group receives and processes customer requests for services and is responsible for capacity planning, which includes determining and managing the bandwidth of all segments.

Security Bureau

As part of its mission to serve Public Safety in Iowa, the ICN has a dedicated Security Bureau serving both Public Safety and Cybersecurity initiatives. ICN responds to cyber incidents, provides technical assistance, and collaborates with the Office of the Chief Information Officer.

Governor Branstad Visits the ICN

On March 24, 2017, Governor Branstad greeted ICN's leadership and staff. A plaque was presented to the Governor to honor him for his vision and foresight in the establishment of the state-of-art broadband legacy for the State of Iowa. The initial legislation for the formation of the ICN was signed on June 5, 1989, by Governor Branstad.

Leadership provided a tour of ICN's Broadband Information Center after a Distributed Denial of Service (DDoS) attack had occurred to a customer. Governor Branstad was able to observe the bandwidth results and how ICN scrubs the malicious activity and returns the clean data to the customer.



ICN Services Update

Internet, Voice, Video

Internet

In FY 17, education users received 102 direct Internet connection increases & 28 Ethernet increases.

ICN Internet and Ethernet service used by sector:

- 311 education facilities (Public and Private K-12, AEA's, and Community, Private and State Colleges)
- 75 government users (State, Federal, City of Des Moines)
- 356 healthcare locations (hospitals, clinics, & other providers)
- 185 public safety locations

88% of the Internet provided by the ICN is being used by educational entities (90.02 Gb education, 11.72 Gb non-education).

Video

ICN produced 55,466.01 Internet Protocol (IP) video hours; 10,493.90 full motion video hours in FY17. As of June 30, 2018, ICN will sunset the MPEG (full motion video) platform. Those customers wishing to continue video service are being upgraded to the IP video platform.

Voice

The managed voice service is an IP platform that is hosted from a cloud environment. This advanced managed voice system includes ICN provided hardware and licenses while offering premium and professional support for service management and technical configurations.

- **Basic Plan:** Designed for lobby, break room, and cafeteria areas.
- **Standard Plan:** Designed for general business and support personnel.
- **Premium Plan:** Designed for employees with advanced IP needs.

Service Options

- Voicemail Only
- Virtual Seat
- Receptionist Portal
- Conference Room Seat
- Analog Integration
- Automated Call Distribution
- Auto Phone Tree Attendant

New Managed Firewall Service

- In March 2017, ICN launched a managed firewall service (AramidFW).
- Provides 24/7 protection to prevent unauthorized virtual access.
- AramidFW is an advanced-feature firewall service that incorporates Application Control, Intrusion Prevention, Web Filtering, Anti-Malware, and more.
- Made possible through the launch of a new public/private partnership with LightEdge Solutions, which is headquartered in Des Moines, IA. Visit ICN's website for more information <https://icn.iowa.gov/services/AramidFW>.



ICN Opens Flexible Carrier-Grade Lab

Located at the Capitol Complex in Des Moines, IA, ICN launched its flexible carrier-grade testing Lab in June 2017. The Lab allows ICN to operate efficiently as a carrier and establish a standards-based approach to evaluate future technology.

The testing facility is an innovative, critical piece of operations for the security and protection of the ICN's production environment. The focus is on enhancements to network stability, integration of new services, and research and development of emerging technologies.

The ICN Carrier-Grade Lab Offers:

Automated Operations

Today's customers have an 'always-on' connectivity expectation. As a result, ICN is moving away from traditional network management tools and approaches. Technology integration provides the ability to maintain service integrity in virtualized network environments, and keep pace with the demands of digital business.

Faster Customer Controls

The telecom landscape is shifting towards an increasing need to move broadband faster. ICN's business model is changing from delivering basic conduits for connectivity to providing customer automation. The ICN Lab will leverage network modeling technologies to tackle key business challenges and support the delivery of virtualized services.

Simulation of Production Network

The Lab consists of a series of racks that duplicate an environment representative of the production network.

Data Center Environment

The space is a controlled area similar to a data center environment. The Lab is furnished with network equipment, racks, supporting servers, storage, and infrastructure space for cable plant and power distribution systems.

Technology Validation

Addressing production related testing as it pertains to new product introductions, protocol enhancements, service improvements/changes, and scalability in the network infrastructure.



A New SYBAC Season with Strong, Fast Broadband Discussions

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Eleven students across Iowa interacted in the second year of ICN's Statewide Youth Broadband Advisory Council (SYBAC). Throughout the school year, the students met with ICN Executive Director Ric Lumbard. The students discussed a range of topics including fingerprint technology, SunCube FemtoSat satellite, driverless cars, lack of strong reliable broadband in some Iowa schools, and wireless communication technology.

The following students were selected to ICN's SYBAC for the 2016-2017 school year:

Zachary Mass, Treynor Community High School
Eryn Perry, Southeast Polk High School
Trent Gilbert, Valley High School
Ryan Wehrman, Southeast Polk High School
Gabe Golberg, Mount Vernon High School
Hunter Werner, Louisa-Muscatine Jr./Sr. Schools
Hunter Dorhout, Hartley-Melvin-Sanborn High School
Kaleb Haeffner, Danville High School
Zachary Wolff, Norwalk High School
Aaron Mark, Burlington Community High School
Beau Lapointe, Mason City High School

SYBAC Students Meet with State Lawmakers and Lt. Governor

ICN's SYBAC students experienced the opportunity on February 14, 2017 to meet with elected officials at the State Capitol to discuss the importance of strong reliable broadband. Members interacted with legislators at a forum where they shared perspectives relating to cybersecurity, encryption technology, two-factor authentication, and bandwidth in schools.

SYBAC students had a special visitor to their monthly meeting at ICN headquarters. Lt. Governor Kim Reynolds participated in a table discussion with the students on a range of topics including cybersecurity, the Internet of Things (IoT), expanding broadband availability in rural areas, and future internship opportunities for students in Iowa.



Strong Broadband Progress for First Responders

Iowa has been paving the way with FirstNet initiatives for several years. Governor Reynolds officially determined to opt-in to FirstNet on July 18, 2017. There were several initiatives that led to the State of Iowa making the recommendation to opt-in.

Iowa's FirstNet Broadband Committee

The FirstNet Broadband Committee (committee) was created in 2013. ICN Director Ric Lumbard and Robert von Wolfradt, the Chief Information Officer (CIO) co-chaired the committee as a subcommittee of the Iowa Statewide Interoperable Communications Systems Board (ISICSB).

Data Collection

Iowa was one of the first states to complete the initial data collection phase for FirstNet. Information was gathered on Iowa's assets, public safety usage, coverage profiles and overall available telecommunications infrastructure.

Private Sector Outreach

Private sector outreach was achieved with five Iowa Public-Private Partnership Summits starting in April 2015 with panelists from private telecommunication entities, public agencies, public safety, and FirstNet.

In an effort to show the cohesiveness of the telecommunications community in Iowa, the committee bundled a list of 123 vendors interested in partnering with FirstNet for the deployment, maintenance and operation of the network. Iowa was the only state to coordinate and bundle a FirstNet Teaming List submission.

FirstNet Partners with AT&T to Build \$46.5 Billion Wireless Broadband Network

On March 30, the Department of Commerce and First Responder Network Authority (FirstNet) announced the selection of AT&T to build the first nationwide wireless broadband network dedicated to America's first responders.

State Plan

Iowa's State Plan was released to the Iowa Department of Public Safety (DPS) in June 2017. To review the state plan, the Committee broke into three key subject areas: Coverage, Network Architecture, and Products and Services. The committee voted and decided unanimously to recommend that the ISICSB advance the state plan for Iowa. ISICSB approved the recommendation on July 13, 2017.

Governor Opt-In Decision

Governor Reynolds and Lt. Governor Gregg held a press conference on July 18, 2017 announcing the decision to opt-in to FirstNet. Iowa was the 5th State to opt-in following Wyoming, Arkansas, Kentucky, and Virginia. The deployment process will begin over the next five years.

Outreach and Partnerships

First InterConNEXT Broadband Event

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On August 2, 2016, ICN held a customer interactive experience; InterConNEXT 2016 outlined exciting developments in the Internet landscape in Iowa.

At InterConNEXT 2016, ICN announced a major upgrade to Iowa's broadband network core. Currently, ICN operates a core capable of 40 Gigabit (Gb). Over the course of the next several months



that core will be increased 5X to a total capacity of 200 Gb with network virtualization. This increase will dramatically upgrade the current untapped potential in the ICN's infrastructure enabling faster delivery of broadband services to areas of key importance including education, healthcare, public safety and government services.

Pilot Project Assisted Public Safety Officials in Iowa Schools

On July 25, 2016, Gov. Branstad highlighted the creation of a pilot project named WISE (Wi-Fi Internet for School Emergencies).

The WISE School pilot project was implemented for testing by the end of the summer at Marshalltown Community School District, Norwalk Community School District and Martensdale Community School District. The ICN assisted in the project by working with three Wi-Fi vendors: Aruba, Cisco and Fortinet for this project.

The WISE School system allowed first responders to connect to an access point to view internal systems. There was no cost to schools assisting with this pilot.

Branstad, Reynolds and State Leaders Announce Iowa Cybersecurity Strategy

On August 8, 2016, the first Iowa Cybersecurity Strategy was announced. The Office of the Chief Information Officer was the lead agency in this effort and was assisted by the Department of Public Safety, Department of Homeland Security and Emergency Management, the Iowa Communications Network, and the Iowa National Guard.

The State of Iowa Cybersecurity Strategy details the steps the State of Iowa needs to take to increase our resilience to cyberattacks. The strategy primarily focuses on lifeline critical infrastructure sectors, such as energy, transportation, and communication, and state government as it relates to the protection of digital government services and citizens.

Looking Ahead to Fiscal Year 2018

Redesigning ICN's Structure

ICN has a unique structure which is comprised of two distinct operations.

- **Carrier Operations** means those activities engaged in under the sole authority of the commission to supervise the management, development, and operation of the network, and which are provided under the network's status as a telecommunications carrier (common carrier) under federal law.
- **Agency Operations** means those general operations practices and procedures which are generally applicable to other state agencies, as well as the commission.

A New ICN World of Virtual Services

A new initiative for ICN and its customers will be launched in FY18. Jekard, will enable:

- Strong virtual service suites with diverse broadband and security services to our customers.
- Flexible customer control by putting service and feature controls at their fingertips.
- Fast operational management that supports efficient operations and lowers operating costs.
- A dynamic core capable of providing 100Gb to 400Gb of core transport while being supported by strong public and private partnerships.
- ICN will utilize Software Defined Networking (SDN) and Network Function Virtualization (NFV) to provide services.
- ICN will move from 48 software systems to less than 10 systems; allowing for virtual customer services rather than hardware-based services.



Self-Service Customer Portal

A new self-service portal will be available for all ICN customers. Customers will notice some great advantages and features. For example:

- Searching will be easy—Search will be the customer's starting point in the Services Portal.
- Ticket status will be available—Easy access to your open help tickets, with more information about the resolution status and a direct way to provide additional information to the specialist working to resolve your issue.
- Information—Users will access searchable content using this self-service tool. It features commonly requested content such as product guides, but as time goes on we'll be adding more documents to enhance the self-service function.

Security Services

A top priority is creating new cybersecurity products and services for our end users, to assist them in protecting their networks. Customers will be able to call upon ICN's advanced technical monitoring to respond to outages, cyber threats, & intrusions.

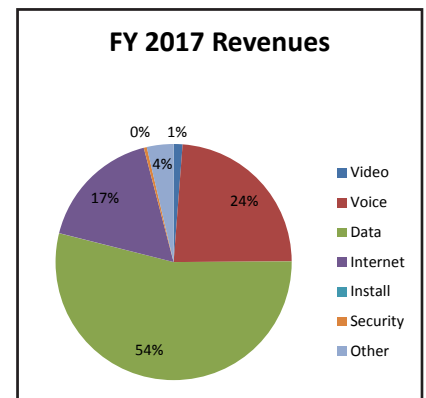
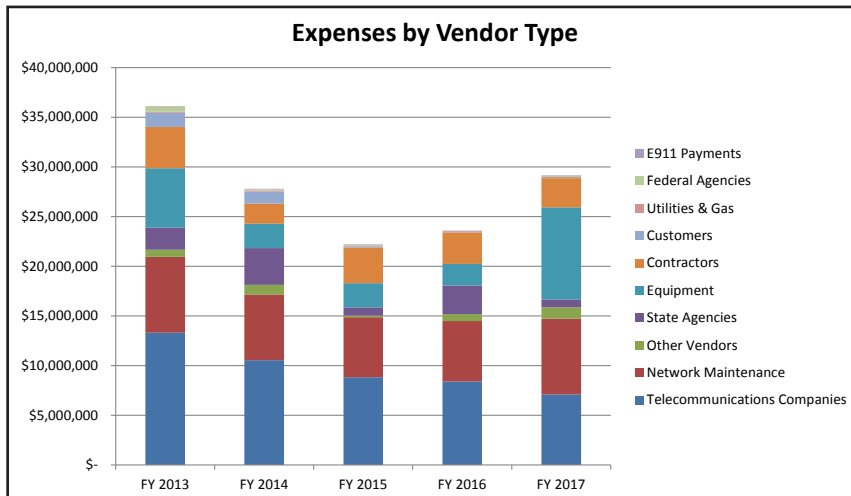
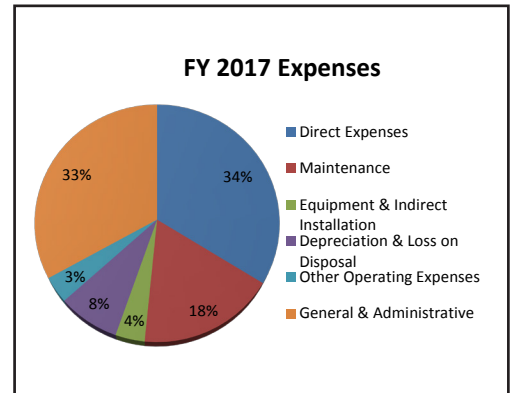
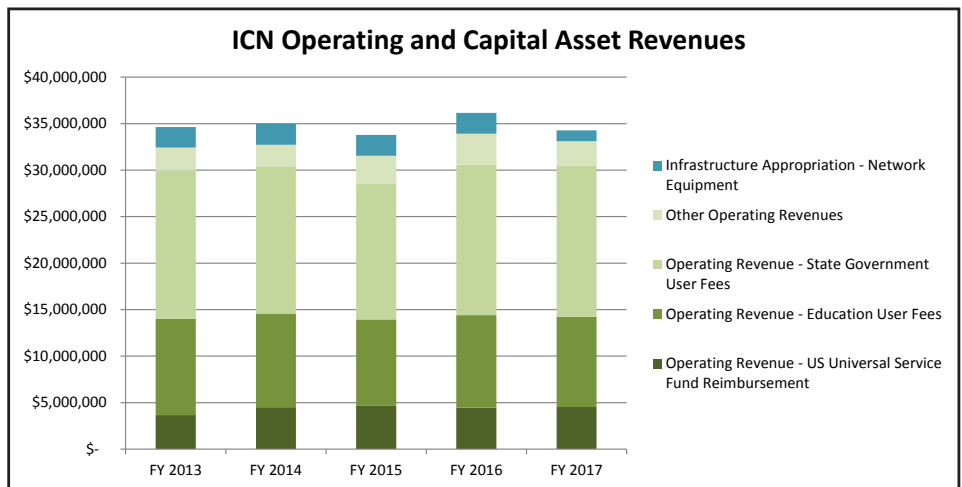
FY17 Financial Information

Iowa Communications Network

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The ICN generated over \$33M in revenues from billed services to authorized users. Approximately \$1.15M was appropriated from the state for network equipment upgrades.

The “Expenses by Vendor Type” graph shows how the revenue generated is used in supporting the network. The largest ICN expense in FY17 was the network core equipment upgrade and the associated maintenance agreements. Payment for the cost of the “last-mile” connections that are leased from telecommunications companies is directed back to Iowa’s private sector providers.



* 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.

FY17 Financial Information

Balance Sheet (Statement of Net Assets)

As of June 30, 2017

(Unaudited)

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ASSETS

Cash & Cash Equivalents	\$17,616,826
Accounts Receivable	\$3,687,436
Due From Federal Agencies	\$19,017
Interest Receivable	\$15,675
<u>Inventory</u>	<u>\$2,114,642</u>
Total Current Assets	\$23,453,595
Unexpended Appropriations	\$5,994,080
Fixed Assets(Net)	\$19,547,945
Prepaid Expenses	\$1,658,252
Other Assets	\$0
<u>Total Deferred outflows of resources</u>	<u>\$2,033,481</u>
TOTAL ASSETS	<u><u>\$52,687,353</u></u>

LIABILITIES

Accounts Payable & Accruals	\$10,047,899
Sick Leave Incentive Program - Retirees	\$39,684
Unearned Revenue	\$2,495,706
Short-Term Compensated Absences	\$914,437
<u>Sick Leave Incentive Program - Employees</u>	<u>\$99,963</u>
Total Current Liabilities	\$13,597,689
LT Sick Leave Incentive Program - Retirees	\$46,949
Long-Term Compensated Absences	\$0
LT Sick Leave Incentive Program - Employees	\$646,927
Accrued Sick Leave	\$81,301
Other Post-Employment Benefits	\$586,090
Net Pension Liabilities	\$6,212,231
<u>Total deferred inflows of resources</u>	<u>\$1,037,334</u>
<u>Total Long-Term Liabilities</u>	<u>\$8,610,833</u>
TOTAL LIABILITIES	<u><u>\$22,208,521</u></u>

FUND EQUITY

<u>Retained Earnings</u>	<u>\$30,478,832</u>
<u>Total Fund Equity</u>	<u>\$30,478,832</u>
TOTAL LIABILITIES & FUND EQUITY	<u><u>\$52,687,353</u></u>

FY17 Financial Information

Statement of Revenues, Expenses & Changes in Equity For the Fiscal Year Ended June 30, 2017 (Unaudited)

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EXPENSES

Direct Expenses:

Voice Costs	\$3,816,019
Transport Costs	\$6,188,107
Video Costs	\$111,582
Internet	\$344,643
Security	\$58,625
Outside Plant	\$2,068,105
Professional Services	\$201,352
<u>Total Direct Expenses</u>	<u>\$12,788,432</u>
Gross Operating Gain (Loss)	\$20,297,966

Operating Expenses:

Network Equipment	\$1,423,254
System Maintenance	\$6,480,845
System Utilities Costs	\$122,504
System Repair Maintenance	\$108,235
Other System Costs	\$1,141,877
Network Costs	\$221,622
Loss on Inventory & Fixed Asset Disposal	\$1,047
<u>Total Operating Expenses</u>	<u>\$9,499,383</u>
Net Operating Gain (Loss)	\$10,798,583

General & Administrative Expenses:

Personnel	\$10,973,433
Travel	\$161,266
Administrative Services	\$76,145
Professional Fees	\$538,816
Other General & Administrative Expenses	\$754,322
Depreciation Expense	\$3,016,762
<u>Total General & Administrative Expenses</u>	<u>\$15,520,744</u>
Net Operating Gain (Loss) Before Non-Operating Income & Transfers	-\$4,722,161

REVENUES

Operating Revenues:

Voice Services	\$7,834,851
Transport Services	\$17,878,409
Internet	\$5,621,554
Video Services	\$403,960
Security	\$139,588
Outside Plant	\$1,104,739
Professional Services	\$108,170
Other Revenues	\$27,504
Bad Debt Expense	-\$32,378
<u>Total Operating Revenues</u>	<u>\$33,086,398</u>

NON-OPERATING REVENUES (EXPENSES)

Transfer from State of Iowa for capital appropriation	\$1,150,030
Investment Income	\$115,382
<u>Net Non-Operating Revenues</u>	<u>\$1,265,412</u>
Net Gain (Loss) Before Contributions and Transfers	-\$3,456,749
<u>Change in Contributed Capital</u>	<u>-\$52,304</u>
Prior Period Adjustment to RE	\$17,495
Depreciation Add-back	\$52,304
<u>Change in Net Assets</u>	<u>-\$3,439,254</u>

Total Net Assets \$30,478,832

* Operating Loss does not include Non-Operating Revenues, see page 15.

FY17 Financial Information

Statement of Cash Flows (Unaudited) For the Fiscal Year Ended June 30, 2017

Cash flows from operating activities:	
Cash received from customers	\$34,300,571
Cash paid for goods and services	-\$17,458,997
<u>Cash paid for salaries and benefits</u>	<u>-\$10,236,600</u>
Net cash provided by operating activities	\$6,604,974
Cash flows from non-capital financing activities:	
Transfer from State of Iowa general fund	\$30
<u>Transfer from State of Iowa for capital appropriation</u>	<u>\$1,150,000</u>
Net cash provided by non-capital financing activities	\$1,150,030
Cash flows from capital and related financing activities:	
<u>Acquisition and construction of capital assets</u>	<u>-\$8,283,280</u>
Net cash provided by (used in) capital and related financing activities	-\$8,283,280
Cash flows from investing activities:	
<u>Interest received on investments</u>	<u>\$128,392</u>
<u>Net cash provided by (used in) investing activities</u>	<u>\$128,392</u>
Net increase (decrease) in cash & cash equivalents	-\$399,884
<u>Cash & cash equivalents at June 30, 2016</u>	<u>\$24,010,790</u>
Total cash and cash equivalents end of period	<u><u>\$23,610,906</u></u>
Unexpended funds from State of Iowa capital appropriations	\$5,994,080
<u>Unexpended funds for BTOP Match</u>	<u>\$2,918,404</u>
Current cash and cash equivalents end of period	<u><u>14,698,422</u></u>
Reconciliation of operating loss to net cash provided by operating activities:	
<u>Operating loss</u>	<u>-\$4,722,161</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation Expense	\$3,016,762
Loss on Inventory Adjustment	\$31,540
(Increase) decrease in accounts receivable	\$779,556
(Increase) decrease in due from other state agencies	-\$34,821
(Increase) decrease in inventory	\$169,077
(Increase) decrease in prepaid expense	-\$1,130,797
(Increase) decrease in deferred revenue	\$320,300
Increase (decrease) in accounts payable	\$7,235,593
Increase (decrease) in due to other state agencies	\$1,740
Increase (decrease) in compensated absences	\$230,182
<u>Increase (decrease) in pension expense</u>	<u>\$708,003</u>
Total adjustments	\$11,327,135
Net cash provided by operating activities	<u><u>\$6,604,974</u></u>

FY17 Financial Information

REVENUE	FY 2017 Actual	FY 2018	FY 2019
Voice Revenue	\$7,834,851	\$7,791,276	\$6,670,492
Video Revenue	403,960	344,340	223,018
Transport Revenue	18,209,022	17,526,513	17,413,653
Internet Revenue	5,621,554	5,617,924	5,702,049
Security Revenue	139,588	298,588	444,088
Outside Plant Revenue	1,100,932	909,544	987,798
Network Professional Revenue	108,170	102,600	123,600
Interest Revenue	115,382	65,800	65,800
Non-Operating Revenue	28,174	18,803	18,815
<u>Gross Revenues</u>	\$33,561,633	\$32,675,388	\$31,649,313
DIRECT & APPLIED EXPENSES			
Toll	1,971,761	1,346,525	948,943
Switched Access	518,625	280,181	48,307
Managed Voice Service	383,788	2,195,000	2,925,600
Other Voice Direct Expenses	419,523	288,203	49,388
Video Direct Expenses	111,582	238,203	205,802
Transport Expenses	7,613,196	5,474,150	5,328,960
Internet Expense	207,302	312,930	312,930
Security Expense	106,784	153,050	273,269
Outside Plant Expense	1,956,384	2,042,255	2,086,942
Network Professional Expense	201,352	192,000	187,000
<u>Total Direct Expenses</u>	\$13,490,297	\$12,522,672	\$12,367,141
<u>GROSS MARGIN</u>	\$20,071,336	\$20,152,716	\$19,282,172
OPERATING EXPENSES			
System Maint. & Technical Support	\$6,222,243	\$7,101,482	\$7,190,584
Other Operating Expenses	1,944,109	\$1,319,143	1,303,695
<u>Total Operating Expenses</u>	\$8,166,352	\$8,420,625	\$8,494,279
<u>NET MARGIN</u>	\$11,904,984	\$11,732,091	\$10,787,893
GENERAL & ADMINISTRATIVE			
Personnel Services	\$9,832,384	\$9,938,275	\$10,088,748
Travel	188,818	139,725	121,334
Data Processing, ITE	107,138	170,000	170,000
Other Administrative Expenses	745,771	902,525	730,942
Professional Fees	87,696	1,035,000	1,035,050
<u>Total G, S, and A Expenses</u>	\$10,961,807	\$12,185,525	\$12,146,074
<u>Net Cash (Deficit) from Operations</u>	\$943,177	(\$453,434)	(\$1,358,181)
CAPITAL BUDGET			
Capital Expenditures	\$7,574,525	\$3,300,804	\$3,750,000
<u>Net Equipment Purchases</u>	\$7,574,525	\$3,300,804	\$3,750,000
REINVESTMENT OF EQUITY			
<u>(DRAW FROM)</u>	\$6,631,348	(\$3,754,238)	(\$3,108,181)

Operating Budget Proposal

**For the Fiscal
Years Ending
June 30, 2017
(Budget)
June 29, 2018
June 28, 2019
(Proposed Budgets)**

The FY17 drop from equity is the result of spending on network core upgrades that are necessary to maintain a strong, fast and flexible network. The funding for the expected costs for this phase of the core network upgrade will be mostly provided by re-investment of equity realized in prior fiscal years.

The FY18 & FY19 budget proposals reflect a new reporting methodology adopted in FY18 in which install revenues and expenses are not reported independently of monthly recurring or one-time revenues and charges, respectively. The new methodology applies more operating expenses directly to the applicable service increasing the amount of direct expenses reported and decreasing the amount of operating expenses reported. The FY17 actual revenues and expenses have been modified from the old methodology to reflect the new methodology.

FY17 Financial Information

Lead Schedule Budget to Actual For the Fiscal Year Ended June 30, 2017

<u>Operating Revenues</u>	<u>YTD Actual</u>	<u>YTD Budget</u>
Voice Services	\$7,834,851	\$6,142,900
Video Services	\$403,960	\$461,204
Transport Services	\$18,209,022	\$17,753,493
Internet Services	\$5,621,553	\$5,007,125
Security Services	\$139,587	\$114,718
Outside Plant Services	\$1,100,931	\$859,236
Network Professional Services	\$108,170	\$325,846
Other Revenue	\$143,555	\$82,050
<u>Gross Revenues</u>	<u>\$33,561,632</u>	<u>\$30,746,572</u>
<u>Direct Expenses</u>		
Voice Direct Expenses	\$3,293,697	\$2,289,888
Video Direct Expenses	\$111,581	\$118,958
Transport Direct Expenses	\$7,613,195	\$6,219,026
Internet Direct Expenses	\$207,302	\$435,246
Security Expenses	\$106,783	\$0
Outside Plant Direct Expenses	\$1,956,383	\$1,735,778
Network Professional Direct Expenses	\$201,351	\$0
<u>Total Direct Expenses</u>	<u>13,490,296</u>	<u>10,798,896</u>
<u>GROSS MARGIN</u>	<u>\$20,071,336</u>	<u>\$19,947,676</u>
<u>Allocated Indirect Expenses</u>		
Operating Expenses	\$ 8,166,352	\$ 7,918,502
General & Administrative Expenses	\$ 940,605	\$ 1,059,784
Payroll & Travel Expenses	\$ 10,021,201	\$ 10,081,764
<u>Total Indirect Expenses</u>	<u>\$19,128,159</u>	<u>\$ 19,060,050</u>
<u>NET OPERATING INCOME/(LOSS)</u>	<u>\$943,177</u>	<u>\$ 887,626</u>
<u>Equipment Expenditures</u>		
Network Equipment	\$7,574,524	\$ 5,957,000
<u>Net Equipment Purchases</u>	<u>\$ 7,574,524</u>	<u>\$ 5,957,000</u>
<u>NET CASH (DEFICIT) FROM OPERATIONS & EQUIPMENT GROWTH</u>	<u>\$(6,631,347)</u>	<u>\$(5,069,374)</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
FY2017



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