

**AMU-SKYLINK, L.C.
HAVELOCK, IOWA**

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
Years ended December 31, 2011 and 2010**

**AMU SKYLINK
HAVELOCK, IOWA**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
AMU-SkyLink, L.C.
Havelock, Iowa

We have audited the accompanying balance sheets of AMU-SkyLink, L.C. (an Iowa limited liability 28E entity) as of December 31, 2011 and 2010, and the related statements of operations, members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AMU-SkyLink, L.C. as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Kiesling Associates LLP

Emmetsburg, Iowa
March 5, 2012

**AMU-SKYLINK, L.C.
HAVELOCK, IOWA**

**BALANCE SHEETS
December 31, 2011 and 2010**

	2011	2010
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 86,296	\$ 152,667
Accounts receivable:		
Due from customers		
Less allowance of \$514 and \$1,200, respectively	14,078	17,723
Members	-	1,575
Other	30,826	9,234
Prepayments	7,298	1,129
	<u>138,498</u>	<u>182,328</u>
INTANGIBLES	<u>26,303</u>	<u>-</u>
PROPERTY, PLANT AND EQUIPMENT		
Wireless plant in service	425,645	251,569
Less accumulated depreciation	181,540	125,749
	<u>244,105</u>	<u>125,820</u>
Plant under construction	102,243	14,149
	<u>346,348</u>	<u>139,969</u>
TOTAL ASSETS	<u>\$ 511,149</u>	<u>\$ 322,297</u>

The accompanying notes are an integral part of these financial statements.

AMU-SKYLINK, L.C.
HAVELOCK, IOWA

BALANCE SHEETS
December 31, 2011 and 2010

	2011	2010
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable:		
Members	\$ 48,953	\$ 12,381
Other	29,698	17,879
Unearned revenues	8,793	8,868
Customer deposits	2,325	3,075
Accrued taxes	588	596
	90,357	42,799
MEMBERS' EQUITY	420,792	279,498
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 511,149	\$ 322,297

The accompanying notes are an integral part of these financial statements.

AMU-SKYLINK, L.C.
HAVELOCK, IOWA

STATEMENTS OF OPERATIONS
Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Wireless services	\$ 330,452	\$ 246,286
Miscellaneous	<u>3,222</u>	<u>1,201</u>
	<u>333,674</u>	<u>247,487</u>
OPERATING EXPENSES		
Cost of wireless services	106,487	90,785
Depreciation	55,791	39,753
Customer operations	104,510	111,772
Corporate operations	25,043	11,016
General taxes	<u>584</u>	<u>457</u>
	<u>292,415</u>	<u>253,783</u>
OPERATING INCOME (LOSS)	<u>41,259</u>	<u>(6,296)</u>
INTEREST INCOME	<u>35</u>	<u>104</u>
NET INCOME (LOSS)	<u>\$ 41,294</u>	<u>\$ (6,192)</u>

The accompanying notes are an integral part of these financial statements.

**AMU-SKYLINK, L.C.
HAVELOCK, IOWA**

**STATEMENTS OF MEMBERS' EQUITY
Years Ended December 31, 2011 and 2010**

	<u>SkyLink, L.C.</u>	<u>Algona Municipal Utilities</u>	<u>Total Members' Equity</u>
Balance at December 31, 2009	\$ 92,845	\$ 92,845	\$ 185,690
Capital contributions	50,000	50,000	100,000
Net loss	<u>(3,096)</u>	<u>(3,096)</u>	<u>(6,192)</u>
Balance at December 31, 2010	139,749	139,749	279,498
Capital contributions	50,000	50,000	100,000
Net income	<u>20,647</u>	<u>20,647</u>	<u>41,294</u>
Balance at December 31, 2011	<u>\$ 210,396</u>	<u>\$ 210,396</u>	<u>\$ 420,792</u>

The accompanying notes are an integral part of these financial statements.

**AMU-SKYLINK, L.C.
HAVELOCK, IOWA**

**STATEMENTS OF CASH FLOWS
Years ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 41,294	\$ (6,192)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	55,791	39,753
Changes in assets and liabilities:		
(Increase) Decrease in:		
Receivables	(16,372)	(1,537)
Prepayments	(6,169)	(559)
Increase (Decrease) in:		
Accounts payable	22,088	(14,951)
Accrued taxes	(8)	(278)
Other	(825)	2,781
Net cash provided by operating activities	<u>95,799</u>	<u>19,017</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(262,170)</u>	<u>(14,149)</u>
Net cash used in investing activities	<u>(262,170)</u>	<u>(14,149)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contributions	<u>100,000</u>	<u>100,000</u>
Net cash provided by financing activities	<u>100,000</u>	<u>100,000</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(66,371)	104,868
Cash and Cash Equivalents at Beginning of Year	<u>152,667</u>	<u>47,799</u>
Cash and Cash Equivalents at End of Year	<u>\$ 86,296</u>	<u>\$ 152,667</u>

The accompanying notes are an integral part of these financial statements.

**AMU-SKYLINK, L.C.
HAVELOCK, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 1. ORGANIZATION

AMU-SkyLink, L.C. (an Iowa limited liability 28E entity, herein referred to as "the Company") was formed to own and operate a wireless telecommunications business. The Company began providing services in 2008 and is a provider of wireless services and wireless equipment within the service area of Algona Municipal Utilities in northwest Iowa.

The Company was formed in accordance with Iowa Code Chapter 28E between Algona Municipal Utilities and SkyLink, L.C. and operates as a limited liability company under Iowa state law. Algona Municipal Utilities and SkyLink, L.C. participate in the partnership with each owning equal interests. Members' liability is limited to their capital contributions. The agreement also stipulates the Company shall terminate on the 17th day of July 2017, but may be extended by mutual agreement for additional five year terms.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America. Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management has evaluated subsequent events through March 5, 2012, the date the financial statements were available for issue.

Cash Equivalents

All highly liquid investments with a maturity of three months or less at the time of purchase are considered cash equivalents.

Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected.

Intangibles

Intangible assets deemed to have indefinite lives are stated at the lower of cost or fair value. These assets are subject to periodic impairment tests. Intangible assets with definite lives are amortized.

**AMU-SKYLINK, L.C.
HAVELOCK, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment

Property, plant and equipment is capitalized at original cost including the capitalized cost of materials and interest incurred during the construction period.

The Company provides for depreciation for financial reporting purposes on the straight-line method by the application of rates based on the estimated service lives of the various classes of depreciable property . These estimates are subject to change in the near term.

Renewals and betterments of units of property, as well as renewals of minor items, are charged to plant in service. Repairs of property, as well as renewals of minor items, are charged to operating expense. A gain or loss is recognized when property is sold or retired.

Asset Retirement Obligations

Generally accepted accounting principles require entities to record the fair value of a liability for legal obligations associated with an asset retirement in the period in which the obligations are incurred. When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset.

The Company has determined it does not have a material legal obligation to remove long-lived assets, and accordingly, there have been no liabilities recorded for the years ended December 31, 2011 and 2010.

Long-Lived Assets

The Company would provide for impairment losses on long-lived assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Based on current conditions, management does not believe any of its long-lived assets are impaired.

Income Taxes

Under provisions of the Internal Revenue Code, the partners include their respective shares of member income or loss on their individual tax returns. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Company's federal and state tax returns for years 2008 to present remain subject to examination.

**AMU-SKYLINK, L.C.
HAVELOCK, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Company recognizes revenues when earned regardless of the period in which they are billed.

The Company earns wireless service revenues by providing access to its wireless network (access revenue) and for usage of its wireless system (airtime revenue). Access revenue from postpaid customers is billed either in advance or arrears and recognized ratably over the service period. Airtime revenue, including roaming revenue and long distance revenue, is billed in arrears based on minutes of use and is recognized when the service is rendered. Prepaid airtime sold to customers and revenue collected from pay-in-advance customers is recorded as deferred revenue prior to the commencement of services, and revenue is recognized when airtime is used or expires. Access and airtime services provided are billed throughout the month according to the bill cycle in which a particular subscriber is placed.

The Company recognizes taxes charged to customers on a net basis in the statements of operations.

Fair Value Measurements

The Company determined the fair value of its financial assets and liabilities based on the fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three levels of inputs may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform with the 2011 presentation.

**AMU-SKYLINK, L.C.
HAVELOCK, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 3. INTANGIBLES

At December 31, 2011, the company has recorded certain PCS licenses as intangible assets. These intangibles have been deemed to have indefinite lives and are stated at the lower of cost or fair value.

The Company annually assesses its recorded balances of indefinite lived intangible assets for impairment. As a result, the Company determined no impairment needed to be recorded for the year ended December 31, 2011.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes the following:

	2011	2010
Wireless plant in service:		
Antennas	\$ 117,384	\$ 65,569
Wireless equipment	308,261	186,000
Total property, plant and equipment	\$ 425,645	\$ 251,569

Depreciation on depreciable property resulted in composite rates of 16.48% and 15.80% for 2011 and 2010, respectively.

NOTE 5. LEASE COMMITMENTS

The Company is obligated under certain non-cancelable operating leases. Assets held under these leases include property on which the Company's cell site equipment is located. All leases provide for renewal periods. Lease costs for the years ended December 31, 2011 and 2010, were \$19,092 and \$16,992, respectively.

Minimum payments for operating leases, including leases expected to renew during 2012, having initial or remaining non-cancelable terms in excess of one year are as follows:

Year Ending December 31,	Amount
2012	\$ 26,810
2013	27,691
2014	27,691
2015	27,691
2016	27,691

**AMU-SKYLINK, L.C.
HAVELOCK, IOWA**

**NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010**

NOTE 6. CONCENTRATIONS OF CREDIT RISK

The Company grants credit to customers, all of whom are located in the licensed service area.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. The Company places its cash and cash equivalents in several financial institutions which limits the amount of credit exposure in any one financial institution.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Company received 30% of its revenues from AT&T and T-Mobile for non-customer roaming on its cellular towers.

NOTE 7. RELATED PARTY TRANSACTIONS

The Company pays commissions to its member companies. These commissions in aggregate totaled \$34,358 and \$50,420 for 2011 and 2010, respectively. Commissions are paid on a monthly basis.

The Company also leases facilities from its members. Facility fees totaled \$30,613 and \$28,994 for 2011 and 2010, respectively.

In addition, the Company has an agreement with Northwest Telephone Cooperative Association (Northwest), a member of SkyLink, L.C, for administrative services. The amount paid to Northwest for accounting fees was \$5,153 and \$4,274, and for postage and marketing was \$3,256 and \$2,912 for 2011 and 2010, respectively.

NOTE 8. PARTICIPATION AGREEMENT

The Company entered into an agreement with Iowa Wireless Services, L.P. (IWS), to provide personal communications services (PCS) switching, billing, marketing and other operational support services. All wireless traffic is routed through the IWS network.

NOTE 9. NONCASH INVESTING ACTIVITIES

Noncash investing activities included \$26,303 during the year ended December 31, 2011, relating to the transfer of PCS licenses during 2011, which is reflected in member accounts payable at year end.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
AMU-SkyLink, L.C.
Havelock, Iowa

We have audited the accompanying financial statements of AMU-SkyLink, L.C. as of and for the year ended December 31, 2011, and have issued our report thereon dated March 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 AMU-SkyLink, L.C.'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 an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AMU-SkyLink, L.C.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the board of directors, management of the Company, and federal and state regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Kiesling Associates LLP

Emmetsburg, Iowa
March 5, 2012

**AMU SKYLINK
HAVELOCK, IOWA**

**SCHEDULE OF FINDINGS
Year ended December 31, 2011**

Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

Telecommunications Services: No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.