

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

**FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
Years ended December 31, 2012 and 2011**

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying balance sheets of AMU-SkyLink, L.C. (an Iowa limited liability 28E entity) as of December 31, 2012 and 2011, and the related statements of income, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment; including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, 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 20, 2013

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

**BALANCE SHEETS
December 31, 2012 and 2011**

	2012	2011
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 66,068	\$ 86,296
Accounts receivable:		
Due from customers	14,030	14,078
Less allowance of \$3,000 and \$514, respectively	1,866	-
Members	23,993	30,826
Other	1,264	7,298
Prepayments	107,221	138,498
INTANGIBLES	55,118	26,303
PROPERTY, PLANT AND EQUIPMENT		
Wireless plant in service	503,347	425,645
Less accumulated depreciation	241,482	181,540
	261,865	244,105
Plant under construction	80,077	102,243
	341,942	346,348
TOTAL ASSETS	\$ 504,281	\$ 511,149

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

AMU-SKYLINK, L.C.
HAVELOCK, IOWA

BALANCE SHEETS
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable:		
Members	\$ 47,104	\$ 48,953
Other	17,896	29,698
Unearned revenues	8,207	8,793
Customer deposits	1,935	2,325
Accrued taxes	566	588
	<u>75,708</u>	<u>90,357</u>
MEMBERS' EQUITY	<u>428,573</u>	<u>420,792</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 504,281</u>	<u>\$ 511,149</u>

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

AMU-SKYLINK, L.C.
HAVELOCK, IOWA

STATEMENTS OF INCOME
Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Wireless services	\$ 356,374	\$ 330,452
Miscellaneous	<u>89</u>	<u>3,222</u>
	<u>356,463</u>	<u>333,674</u>
OPERATING EXPENSES		
Cost of wireless services	132,476	106,487
Depreciation	82,548	55,791
Customer operations	99,552	104,510
Corporate operations	33,584	25,043
General taxes	<u>555</u>	<u>584</u>
	<u>348,715</u>	<u>292,415</u>
OPERATING INCOME	<u>7,748</u>	<u>41,259</u>
INTEREST INCOME	<u>33</u>	<u>35</u>
NET INCOME	<u>\$ 7,781</u>	<u>\$ 41,294</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, 2012 and 2011**

	<u>SkyLink, L.C.</u>	<u>Algona Municipal Utilities</u>	<u>Total Members' Equity</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	210,396	210,396	420,792
Net income	<u>3,890</u>	<u>3,891</u>	<u>7,781</u>
Balance at December 31, 2012	<u><u>\$ 214,286</u></u>	<u><u>\$ 214,287</u></u>	<u><u>\$ 428,573</u></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, 2012 and 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 7,781	\$ 41,294
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	82,548	55,791
Changes in assets and liabilities:		
(Increase) Decrease in:		
Receivables	5,015	(16,372)
Prepayments	6,034	(6,169)
Increase (Decrease) in:		
Accounts payable	(13,651)	22,088
Accrued taxes	(22)	(8)
Other	(976)	(825)
Net cash provided by operating activities	86,729	95,799
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(78,142)	(262,170)
Purchase of intangibles	(28,815)	-
Net cash used in investing activities	(106,957)	(262,170)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contributions	-	100,000
Net cash provided by financing activities	-	100,000
Net Decrease in Cash and Cash Equivalents	(20,228)	(66,371)
Cash and Cash Equivalents at Beginning of Year	86,296	152,667
Cash and Cash Equivalents at End of Year	\$ 66,068	\$ 86,296

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

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

**NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

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 20, 2013, 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, 2012 and 2011**

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.

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 are charged to plant in service. Repairs of property, as well as renewals of minor items, are charged to operationing 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, 2012 and 2011.

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 2009 to present remain subject to examination.

The Company has evaluated its income tax positions and has determined that there are no uncertain income tax positions that need to be recorded or reported in the financial statements at December 31, 2012.

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

**NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

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.

Wireless service revenues include revenues from other wireless carriers for roaming by their customers on the Company's network. Wireless service revenues also include revenues received from the Federal Universal Service Fund as a result of the Company's designation as an Eligible Telecommunications Carrier (ETC).

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

Fair Value Measurements

The Company determines 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 2011 financial statements to conform with the 2013 presentation.

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

**NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 3. INTANGIBLES

Intangible assets at December 31 consist of the following:

	2012	2011
<u>Unamortized Intangibles</u>		
PCS licenses	\$ 26,303	\$ 26,303
AWS licenses	28,815	-
	\$ 55,118	\$ 26,303

The Company annually assesses its recorded balances of indefinite lived intangible assets for impairment. The fair value of indefinite lived intangibles is based on level 3 inputs of the fair value hierarchy. The estimated fair value is derived from various valuation techniques, including market capitalization, comparable sales, and discounted cash flows. As a result, the Company determined no impairment needed to be recorded for the years ended December 31, 2012 and 2011.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes the following:

	2012	2011
Wireless plant in service:		
Antennas	169,012	117,384
Wireless equipment	334,335	308,261
Total property, plant and equipment	\$ 503,347	\$ 425,645

Depreciation on depreciable property resulted in composite rates of 17.77% and 16.48% for 2012 and 2011, respectively.

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

**NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

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, 2012 and 2011, were \$25,742 and \$19,092, respectively.

Minimum payments for operating leases, including leases expected to renew during 2013, having initial or remaining non-cancelable terms in excess of one year are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2013	\$ 27,691
2014	27,691
2015	27,691
2016	27,691
2017	27,691

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 36% and 30% of its operating revenues from AT&T and T-Mobile for non-customer roaming on its cellular towers in 2012 and 2011, respectively.

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

**NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 7. RELATED PARTY TRANSACTIONS

The Company pays commissions to its member companies. These commissions in aggregate totaled \$55,289 and \$34,358 for 2012 and 2011, respectively. Commissions are paid on a monthly basis.

The Company also leases facilities from its members. Facility fees totaled \$37,334 and \$30,613 for 2012 and 2011, 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 \$7,725 and \$5,153, and for postage and marketing was \$212 and \$3,256 for 2012 and 2011, respectively.

NOTE 8. COMMITMENTS AND CONTINGENCIES

The Company has entered into purchase commitments totaling \$167,294 for plant to be placed into service during 2013.

NOTE 9. 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.

**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, 2012, and have issued our report thereon dated March 20, 2013. 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

Management of AMU-SkyLink, L.C. is responsible for establishing and maintaining effective 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 that are appropriate in the circumstances 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 material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies 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 consider the following deficiencies in the Company's internal control to be material weaknesses:

- **Comment:** The Company has an inherent problem it shares with other entities of its size in that it has a limited number of personnel performing accounting and administrative functions; therefore, complete segregation of duties and responsibilities may not be practical from a cost benefit standpoint.

Potential Effects: Due to the lack of segregation of duties, there is potential for an employee to perpetrate and conceal a theft of assets from the Company.

- **Comment:** Given the limited number of personnel, the Company has utilized accounting assistance from another party to draft financial statements and assist with preparation of certain normal annual closing entries. The Company reviews and approves the results of these activities and they believe this approach provides a cost effective solution in light of their limited resources.

Potential Effects: Lack of knowledge and experience in preparing financial statements and normal closing entries could result in incomplete disclosures and/or incorrect presentation of information which could have an adverse impact to investors relying on the financial statements.

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 consolidated 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 and 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 20, 2013

**AMU-SKYLINK, LC
HAVELOCK, IOWA**

**SCHEDULE OF FINDINGS
Year ended December 31, 2012**

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.