

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORTS
Years ended December 31, 2013 and 2012**

**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, 2013 and 2012, and the related statements of operations, 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, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kiesling Associates LLP

Emmetsburg, Iowa
March 12, 2014

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

**BALANCE SHEETS
December 31, 2013 and 2012**

	2013	2012
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 120,587	\$ 66,068
Accounts receivable:		
Due from customers		
Less allowance of \$100 and \$3,000, respectively	10,692	14,030
Members	12,194	1,866
Other	20,574	23,993
Inventory	5,475	-
Prepayments	1,646	1,264
	<u>171,168</u>	<u>107,221</u>
INTANGIBLES	<u>55,118</u>	<u>55,118</u>
PROPERTY, PLANT AND EQUIPMENT		
Wireless plant in service	738,717	503,347
Less accumulated depreciation	339,816	241,482
	<u>398,901</u>	<u>261,865</u>
Plant under construction	-	80,077
	<u>398,901</u>	<u>341,942</u>
TOTAL ASSETS	<u>\$ 625,187</u>	<u>\$ 504,281</u>

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

AMU-SKYLINK, L.C.
HAVELOCK, IOWA

BALANCE SHEETS
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable:		
Members	\$ 46,823	\$ 47,104
Other	21,056	17,896
Unearned revenues	7,557	8,207
Customer deposits	1,475	1,935
Accrued taxes	1,974	566
	<u>78,885</u>	<u>75,708</u>
MEMBERS' EQUITY	<u>546,302</u>	<u>428,573</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 625,187</u>	<u>\$ 504,281</u>

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

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

**STATEMENTS OF OPERATIONS
Years ended December 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Wireless services	\$ 207,952	\$ 226,320
Roaming	95,035	130,054
Miscellaneous	3,248	89
	<u>306,235</u>	<u>356,463</u>
OPERATING EXPENSES		
Cost of wireless services	154,410	132,476
Depreciation	103,896	82,548
Customer operations	100,507	99,552
Corporate operations	27,082	33,584
General taxes	2,678	555
	<u>388,573</u>	<u>348,715</u>
OPERATING INCOME (LOSS)	<u>(82,338)</u>	<u>7,748</u>
INTEREST INCOME	<u>67</u>	<u>33</u>
NET INCOME (LOSS)	<u>\$ (82,271)</u>	<u>\$ 7,781</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, 2013 and 2012**

	<u>SkyLink, L.C.</u>	<u>Algona Municipal Utilities</u>	<u>Total Members' Equity</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	214,286	214,287	420,792
Capital contributions	100,000	100,000	200,000
Net loss	<u>(41,135)</u>	<u>(41,136)</u>	<u>(82,271)</u>
Balance at December 31, 2013	<u>\$ 273,151</u>	<u>\$ 273,151</u>	<u>\$ 546,302</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, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (82,271)	\$ 7,781
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	103,896	82,548
Changes in assets and liabilities:		
(Increase) Decrease in:		
Receivables	(3,571)	5,015
Inventory	(5,475)	-
Prepayments	(382)	6,034
Increase (Decrease) in:		
Accounts payable	2,879	(13,651)
Accrued taxes	1,408	(22)
Other	(1,110)	(976)
Net cash provided by operating activities	<u>15,374</u>	<u>86,729</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(160,855)	(78,142)
Purchase of intangibles	<u>-</u>	<u>(28,815)</u>
Net cash used in investing activities	<u>(160,855)</u>	<u>(106,957)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital contributions	<u>200,000</u>	<u>-</u>
Net cash provided by financing activities	<u>200,000</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	54,519	(20,228)
Cash and Cash Equivalents at Beginning of Year	<u>66,068</u>	<u>86,296</u>
Cash and Cash Equivalents at End of Year	<u>\$ 120,587</u>	<u>\$ 66,068</u>

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

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

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

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 12, 2014, 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.

Inventory

Inventory is stated at the lower of cost or market with cost determined by the first-in, first-out (FIFO) method. Inventory consists of wireless mobile telephone equipment that is purchased by the Company primarily for sale to customers.

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

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 operating expense. A gain or loss is recognized when other 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, 2013 and 2012.

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.

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

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Under provisions of the Internal Revenue Code, the members include their respective shares of Company 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 2010 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, 2013.

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).

Equipment sales consist principally of revenues from the sale of wireless handsets to new and existing customers. The revenue and related expenses associated with the sale of wireless handsets through our indirect sales channels are recognized when the products are delivered to customers.

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

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

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2012 financial statements to conform with the 2013 presentation.

NOTE 3. INTANGIBLES

Intangible assets at December 31 consist of the following:

	<u>2013</u>	<u>2012</u>
<u>Unamortized Intangibles</u>		
PCS licenses	\$ 26,303	\$ 26,303
AWS licenses	<u>28,815</u>	<u>28,815</u>
	<u>\$ 55,118</u>	<u>\$ 55,118</u>

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, 2013 and 2012.

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

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes the following:

	2013	2012
Wireless plant in service:		
Antennas	\$ 358,963	\$ 169,012
Wireless equipment	379,754	334,335
Subtotal	738,717	503,347
Total property, plant and equipment	\$ 738,717	\$ 503,347

Depreciation on depreciable property resulted in composite rates of 16.73% and 17.77% for 2013 and 2012, 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, 2013 and 2012, were \$25,992 and \$25,742, respectively.

Minimum payments for operating leases, including leases expected to renew during 2014, having initial or remaining non-cancelable terms in excess of one year are as follows:

Year Ending December 31,	Amount
2014	\$ 27,691
2015	27,691
2016	28,066
2017	29,526
2018	30,460

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.

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

**NOTES TO FINANCIAL STATEMENTS
December 31, 2013 and 2012**

NOTE 6. CONCENTRATIONS OF CREDIT RISK (Continued)

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 23% and 36% of its operating revenues from AT&T and T-Mobile for non-customer roaming on its cellular towers in 2013 and 2012, respectively.

NOTE 7. INVENTORY COMMITMENTS

The Company has entered into purchase commitments for certain phone inventory over a period of three years. The Company is required to purchase a minimum of 178 phones scheduled to be 54 in year 1, 59 in year 2, and 65 in year 3. The Company has purchased 10 of the phones by December 31, 2013. The unit cost of the various models of phones ranges from \$550 to \$650.

NOTE 8. RELATED PARTY TRANSACTIONS

The Company pays commissions to its member companies. These commissions in aggregate totaled \$18,710 and \$55,358 for 2013 and 2012, respectively. Commissions are paid on a monthly basis.

The Company also leases facilities from its members. Facility fees totaled \$41,422 and \$37,334 for 2013 and 2012, 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 \$8,367 and \$7,725 and for postage and marketing was \$655 and \$212 for 2013 and 2012, respectively.

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.

SUPPLEMENTARY INFORMATION



**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTARY INFORMATION**

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

We have audited the financial statements of AMU-SkyLink, L.C. as of and for the years ended December 31, 2013, and 2012, and have issued our report thereon dated March 12, 2014, which contained an unmodified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Kiesling Associates LLP

Emmetsburg, Iowa
March 12, 2014

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

**SCHEDULE OF FINDINGS
Year ended December 31, 2013**

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.