

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

**FINANCIAL STATEMENTS**

**AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITOR'S REPORTS  
Years ended December 31, 2015 and 2014**

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

**Contents**

	<u>Page</u>
Independent Auditor's Report.....	1 - 2
Financial Statements:	
Balance Sheets.....	3 - 4
Statements of Operations .....	5
Statements of Members' Equity.....	6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8 - 15
Supplementary Information:	
Schedule of Findings.....	17



## 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, 2015 and 2014, 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 presentation of the financial statements.

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, 2015 and 2014, 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.

### Other Matters

Other supplementary information including the Schedule of Findings required by Iowa Code Chapter 28E is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### Emphasis of a Matter

The accompanying financial statements have been prepared assuming AMU-SkyLink, L.C. will continue as a going concern. As discussed in Note 11 to the financial statements, the Company's operating losses raise substantial doubt about the ability of AMU-SkyLink, L.C. to continue as a going concern at December 31, 2015. Management's plans in regard to this matter are described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*Kiesling Associates LLP*

Emmetsburg, Iowa  
August 25, 2016

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

**BALANCE SHEETS  
December 31, 2015 and 2014**

	2015	2014
<u>ASSETS</u>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 67,430	\$ 99,743
Accounts receivable:		
Due from customers		
Less allowance of \$2,100 and \$1,100, respectively	10,815	14,781
Members	1,225	27,446
Other	16,809	11,838
Inventory	-	8,868
Prepayments	1,479	1,249
	97,758	163,925
<b>OTHER NONCURRENT ASSETS</b>		
Intangibles	-	55,118
Long term receivables	-	4,088
	-	59,206
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Wireless plant in service	586,348	667,661
Less accumulated depreciation	586,348	416,443
	-	251,218
<b>TOTAL ASSETS</b>	<b>\$ 97,758</b>	<b>\$ 474,349</b>

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

AMU-SKYLINK, L.C.  
HAVELOCK, IOWA

BALANCE SHEETS  
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable:		
Members	\$ 16,374	\$ 57,318
Other	68,034	13,560
Unearned revenues	4,973	5,776
Customer deposits	1,035	1,404
Accrued taxes	1,033	1,058
	<u>91,449</u>	<u>79,116</u>
MEMBERS' EQUITY	<u>6,309</u>	<u>395,233</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 97,758</u>	<u>\$ 474,349</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, 2015 and 2014**

	2015	2014
<b>OPERATING REVENUES</b>		
Wireless services	\$ 137,829	\$ 171,665
Roaming	52,598	60,637
Miscellaneous	798	1,048
	191,225	233,350
<b>OPERATING EXPENSES</b>		
Cost of wireless services	167,811	121,991
Depreciation	169,903	105,975
Impairment	150,371	-
Customer operations	62,918	86,608
Corporate operations	28,138	27,587
General taxes	1,058	600
	580,199	342,761
<b>OPERATING LOSS</b>	(388,974)	(109,411)
<b>OTHER INCOME (EXPENSE)</b>		
Interest income	50	50
Loss on retirement of assets	-	(41,708)
	50	(41,658)
<b>NET LOSS</b>	\$ (388,924)	\$ (151,069)

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, 2015 and 2014

	<u>SkyLink, L.C.</u>	<u>Algona Municipal Utilities</u>	<u>Total Members' Equity</u>
Balance at December 31, 2013	\$ 273,151	\$ 273,151	\$ 546,302
Net loss	<u>(75,534)</u>	<u>(75,535)</u>	<u>(151,069)</u>
Balance at December 31, 2014	197,617	197,616	395,233
Net loss	<u>(194,462)</u>	<u>(194,462)</u>	<u>(388,924)</u>
Balance at December 31, 2015	<u>\$ 3,155</u>	<u>\$ 3,154</u>	<u>\$ 6,309</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, 2015 and 2014**

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (388,924)	\$ (151,069)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	169,903	105,975
Loss on retirement of assets	-	41,708
Impairments	150,371	-
Changes in assets and liabilities:		
(Increase) Decrease in:		
Receivables	29,304	(14,693)
Inventory	2,202	(3,393)
Prepayments	(230)	397
Increase (Decrease) in:		
Accounts payable	13,530	2,999
Accrued taxes	(25)	(916)
Other	(1,172)	(1,852)
Net cash used in operating activities	(25,041)	(20,844)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(7,272)	-
Net cash used in investing activities	(7,272)	-
 Net Decrease in Cash and Cash Equivalents	 (32,313)	 (20,844)
Cash and Cash Equivalents at Beginning of Year	99,743	120,587
Cash and Cash Equivalents at End of Year	\$ 67,430	\$ 99,743

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

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

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014**

**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.

**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 August 25, 2016, 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.

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.

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

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014**

**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 operating expense. A gain or loss is recognized when property is sold or retired.

Asset Retirement Obligations

The Company has constructed wireless plant on leased property, including base transceiver stations, antennas, power protection cabinets, and microwave equipment. As of the date of installation, the Company became legally obligated to dismantle and remove the wireless plant at the termination of the lease terms. Accordingly, a liability has been established equal to the present value of the obligation. The asset retirement obligations of \$39,629 and \$0 accrued at December 31, 2015 and 2014, respectively is included in other accounts payable on the balance sheet.

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. In 2015, the Company recorded an impairment loss of \$150,371 against its wireless plant in service, inventory and licenses.

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 2012 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, 2015.

Revenue Recognition

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

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

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenue Recognition (Continued)

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 and accessories to new and existing customers. The revenue and related expenses associated with the sale of wireless handsets and accessories 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, 2015 and 2014**

**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 2014 financial statements to conform with the 2015 presentation.

**NOTE 3. INTANGIBLES**

Intangible assets at December 31 consist of the following:

	2015	2014
<u>Unamortized Intangibles</u>		
PCS licenses	\$ 26,303	\$ 26,303
AWS licenses	28,815	28,815
Impairment	(55,118)	-
	\$ -	\$ 55,118

The Company annually assesses its recorded balances of indefinite lived intangible assets for impairment. As a result, the Company determined an impairment of \$55,118 related to wireless licenses existed as of December 31, 2015. The impairment occurred as a result of the impending company liquidation. Accordingly, the fair value of the asset was determined to be less than the asset's carrying value. Fair value was determined using Level 3 in the fair value hierarchy. The impairment loss of \$55,118 is presented in the statement of operations as an operating expense.

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

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014**

**NOTE 4. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment includes the following:

	2015	2014
Wireless plant in service:		
Antennas	\$ 313,981	\$ 313,981
Wireless equipment	360,954	353,680
Impairment	(88,587)	-
Total property, plant and equipment	\$ 586,348	\$ 667,661

Depreciation on depreciable property resulted in composite rates of 27.10% and 15.07% for 2015 and 2014, respectively.

Beginning in January 2015 the Company's depreciation rates on wireless assets were increased to more accurately reflect the estimated remaining service life of this equipment. This change resulted in approximately \$65,000 additional depreciation expense in 2015 compared to 2014 on these assets.

Due to negative cash flow the Company's antennas and wireless assets were determined to be impaired as of December 31, 2015. The impairment loss of \$88,857 is presented in the statement of operations as an operations expense.

**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, 2015 and 2014, were \$22,992 and \$23,742, respectively.

Management does not intend to exercise the renewal term option upon completion of the current five year term. Minimum payments for operating leases having initial or remaining non-cancelable terms in excess of one year are as follows:

Year Ending December 31,	Amount
2016	\$ 21,691
2017	9,346

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

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014**

**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 29% and 24% of its operating revenues from AT&T and T-Mobile for non-customer roaming on its cellular towers in 2015 and 2014, respectively.

**NOTE 7. WIRELESS ROAMING REVENUES**

In 2015, it was discovered that at a third party biller and collector had overcharged a nationwide wireless carrier for roaming on the Company's network. Accordingly, the Company's roaming revenues were reduced in 2015 and the Company is in process of paying back this national carrier.

Roaming revenues were decreased by \$458 in 2015 and the Company currently has a payable related to this issue of \$18,830 recorded at December 31, 2015. The Company continues to work on a long-term roaming agreement with this national carrier, but future reductions in roaming revenues seems likely.

**NOTE 8. INVENTORY COMMITMENTS**

The Company has entered into purchase commitments for certain phone inventory over a period of three years starting in 2014. 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 53 of the phones by December 31, 2015. The unit cost of the various models of phones ranges from \$550 to \$650.

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

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014**

**NOTE 9. RELATED PARTY TRANSACTIONS**

The Company pays commissions to its member companies. These commissions in aggregate totaled \$7,490 and \$14,860 for December 31, 2015 and 2014, respectively. Commissions are paid on a monthly basis.

The Company also leases facilities from its members. Facility fees totaled \$39,570 and \$47,673 for 2015 and 2014, 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 \$11,841 and \$9,767 and for postage and marketing was \$360 and \$225 for 2015 and 2014, respectively.

**NOTE 10. 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 11. GOING CONCERN**

As shown in the accompanying financial statements, the Company incurred a net loss of \$388,924 and \$151,069 for the years ended December 31, 2015 and 2014, respectively. The Company has experienced a decrease in customers and expects that decrease to continue due to limited wireless coverage in the surrounding area. Due to this the Company's revenues and cash flows have continued to decrease. The financial statements include impairment adjustments to existing wireless plant, inventory and licenses. In March of 2016 management has made the determination to liquidate the assets of the partnership.

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

**NOTES TO FINANCIAL STATEMENTS  
December 31, 2015 and 2014**

**NOTE 12. ADJUSTMENTS OF ESTIMATED VALUES**

Effective March 1, 2016, the members voted to liquidate because of continuing losses and changes in the market that make a return to profitable operations unlikely. Management believes that disposal of the Company's assets in an orderly liquidation will yield enough cash to pay all of its liabilities. The members will fund any deficiency. Negotiations with creditors have been successful and management believes that bankruptcy proceedings will be avoided. The statement of changes in net assets in liquidation is presented for the current year below:

	2015
<b>SOURCES OF ADDITIONAL CASH</b>	
Wireless revenues	\$ 137,829
Roaming revenues	52,598
Miscellaneous	848
	191,275
<b>ADDITIONAL USES OF CASH</b>	
Capital expenditures	(7,272)
Cost of wireless services	(167,811)
Customer operations	(62,918)
Corporate operations	(28,138)
General taxes	(1,058)
	(267,197)
<b>DECREASE IN NET ASSETS (LIABILITIES) IN LIQUIDATION BEFORE ADJUSTMENTS</b>	(75,922)
<b>ADJUSTMENTS OF ESTIMATED VALUES</b>	(313,002)
<b>DECREASE IN NET ASSETS (LIABILITIES) IN LIQUIDATION</b>	(388,924)
<b>BEGINNING NET ASSETS IN LIQUIDATION</b>	395,233
<b>ENDING NET ASSETS IN LIQUIDATION</b>	\$ 6,309

It is at least reasonably possible that the amounts expected to be realized in the liquidation process will change in the near term.

In accordance with management's plans, substantially all of the adjustments relate to the impairment of fixed assets and the accrual of costs for asset retirement.

**SUPPLEMENTARY INFORMATION**

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

**SCHEDULE OF FINDINGS  
Year ended December 31, 2015**

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.