

**MAPLETON COMMUNICATIONS MANAGEMENT
AGENCY
MAPLETON, IOWA**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORTS
Years ended June 30, 2016 and 2015**

**MAPLETON COMMUNICATIONS MANAGEMENT AGENCY
MAPLETON, IOWA**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mapleton Communications Management Agency
Mapleton, Iowa

Report on the Financial Statements

We have audited the accompanying balance sheets of Mapleton Communications Management Agency (an Iowa partnership) as of June 30, 2016 and 2015, and the related statements of income, partners' capital 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 Mapleton Communications Management Agency as of June 30, 2016 and 2015, 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 financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Kiesling Associates LLP

Emmetsburg, Iowa
November 3, 2016

**MAPLETON COMMUNICATIONS MANAGEMENT AGENCY
MAPLETON, IOWA**

**BALANCE SHEETS
June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 56,353	\$ 53,586
Accounts receivable:		
Due from customers		
Less allowance of \$3,007 and \$679, respectively	13,215	11,745
Interexchange carriers		
Less allowance of \$256 and \$6,880, respectively	3,134	4,723
Related parties	23,306	-
Other	-	132
Prepayments	642	-
	<u>96,650</u>	<u>70,186</u>
 INTANGIBLES, net of amortization	 <u>55,542</u>	 <u>98,542</u>
 PROPERTY, PLANT AND EQUIPMENT		
Telephone plant in service	1,308,008	1,308,008
Video plant in service	131,811	110,763
Internet plant in service	100,155	92,973
	<u>1,539,974</u>	<u>1,511,744</u>
Less accumulated depreciation	1,309,710	1,261,559
	<u>230,264</u>	<u>250,185</u>
Plant under construction	4,357	-
	<u>234,621</u>	<u>250,185</u>
 TOTAL ASSETS	 <u>\$ 386,813</u>	 <u>\$ 418,913</u>

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

**MAPLETON COMMUNICATIONS MANAGEMENT AGENCY
MAPLETON, IOWA**

**BALANCE SHEETS
June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<u>LIABILITIES AND PARTNERS' CAPITAL</u>		
CURRENT LIABILITIES		
Accounts payable:		
Related parties	\$ -	\$ 28,418
Other	22,687	14,667
Accrued taxes	<u>12,174</u>	<u>15,735</u>
	<u>34,861</u>	<u>58,820</u>
PARTNERS' CAPITAL	<u>351,952</u>	<u>360,093</u>
TOTAL LIABILITIES AND PARTNERS' CAPITAL	<u>\$ 386,813</u>	<u>\$ 418,913</u>

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

**MAPLETON COMMUNICATIONS MANAGEMENT AGENCY
MAPLETON, IOWA**

**STATEMENTS OF INCOME
Years ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Local network services	\$ 125,375	\$ 134,961
Network access services	70,806	103,922
Long distance services	15,205	19,878
Video services	246,432	230,057
Internet services	254,347	230,475
Miscellaneous	454	1,021
Service discounts	<u>-</u>	<u>(7,157)</u>
	<u>712,619</u>	<u>713,157</u>
OPERATING EXPENSES		
Plant specific operations	146,163	125,039
Plant nonspecific operations	-	7,910
Cost of long distance services	15,723	19,064
Cost of video programming	236,735	213,661
Cost of internet services	70,918	70,652
Depreciation and amortization	91,150	89,428
Customer operations	23,611	35,631
Corporate operations	77,200	82,780
General taxes	9,260	15,928
	<u>670,760</u>	<u>660,093</u>
OPERATING INCOME	<u>41,859</u>	<u>53,064</u>
OTHER INCOME (EXPENSES)		
Interest and dividend income	<u>-</u>	<u>9</u>
NET INCOME	<u>\$ 41,859</u>	<u>\$ 53,073</u>

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

**MAPLETON COMMUNICATIONS MANAGEMENT AGENCY
MAPLETON, IOWA**

**STATEMENTS OF PARTNERS' CAPITAL
Years Ended June 30, 2016 and 2015**

	<u>Partners' Capital</u>
Balance at June 30, 2014	\$ 357,020
Net income	53,073
Distributions	<u>(50,000)</u>
Balance at June 30, 2015	360,093
Net income	41,859
Distributions	<u>(50,000)</u>
Balance at June 30, 2016	<u>\$ 351,952</u>

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

**MAPLETON COMMUNICATIONS MANAGEMENT AGENCY
MAPLETON, IOWA**

**STATEMENTS OF CASH FLOWS
Years ended June 30, 2016 and 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 41,859	\$ 53,073
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	91,150	89,428
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	(23,055)	11,756
Prepayments	(642)	920
Increase (Decrease) in:		
Accounts payable	(20,398)	(142,460)
Accrued taxes	(3,561)	(16)
Net cash provided by operating activities	85,353	12,701
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(32,586)	(40,901)
Net cash used in investing activities	(32,586)	(40,901)
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions to partners	(50,000)	(50,000)
Net cash used in financing activities	(50,000)	(50,000)
Net Increase (Decrease) in Cash and Cash Equivalents	2,767	(78,200)
Cash and Cash Equivalents at Beginning of Year	53,586	131,786
Cash and Cash Equivalents at End of Year	\$ 56,353	\$ 53,586

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

**MAPLETON COMMUNICATIONS MANAGEMENT AGENCY
MAPLETON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 1. ORGANIZATION

Mapleton Communications Management Agency was formed in accordance with Iowa Code Chapter 28E between Mapleton Communications Utility, a municipal utility established by the City of Mapleton, IA, and Long Lines, L.L.C. All profits and losses are shared in proportion to ownership interest. The agreement also stipulates that the Company shall terminate no later than December 31, 2027, unless renewed for a reasonable period as the parties may agree.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Mapleton Communications Management Agency (herein referred to as "the Company") is a provider of local telephone access, long distance telephone services, video services and internet services in a service area Mapleton, Iowa.

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 November 3, 2016, the date the financial statements were available for issue. Telephone operations reflect practices appropriate to the telephone industry. The accounting records of the telephone company are maintained in accordance with the Uniform System of Accounts for Class A and B Telephone Companies prescribed by the Federal Communications Commission (FCC) as modified by the state regulatory authority.

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. Receivables are considered past due when the amount has been outstanding thirty days or more.

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.

**MAPLETON COMMUNICATIONS MANAGEMENT AGENCY
MAPLETON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

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 salaries and wages, materials, certain payroll taxes, and employee benefits.

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 telephone property are charged to telephone plant in service. When telephone plant is retired, its cost is removed from the asset account and charged against accumulated depreciation less any salvage realized. No gains or losses are recognized in connection with routine retirements of depreciable telephone property. Repairs and renewals of minor items of telephone property are included in plant specific operations expense.

Repairs of video and internet property, as well as renewals of minor items, are charged to plant specific operations expense. A gain or loss is recognized when video and internet 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 June 30, 2016 and 2015.

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 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.

**MAPLETON COMMUNICATIONS MANAGEMENT AGENCY
MAPLETON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

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 as June 30, 2016.

Revenue Recognition

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

Local network service, video and internet revenues are recognized over the period a subscriber is connected to the network.

Network access and long distance service revenues are derived from charges for access to the Company's local exchange network. The interstate and intrastate access revenues are based upon the Company's tariffs for access charges filed with the relevant regulatory agencies. Network access and long distance revenues are recognized at the time a call is placed based on the minutes of traffic processed at tariffed or contracted rates.

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 2015 financial statements to conform with the 2016 presentation.

**MAPLETON COMMUNICATIONS MANAGEMENT AGENCY
MAPLETON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 3. INTANGIBLES

Intangible assets at June 30 consist of the following:

	2016		2015	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
<u>Amortized Intangibles</u>				
Customer lists	\$ 645,000	\$ 589,458	\$ 645,000	\$ 546,458

Amortization expense was \$43,000 for both years ended June 30, 2016 and 2015.

Estimated amortization expense for the remaining two years is:

2017	\$ 43,000
2018	12,542

The Company's future cash flows are not materially impacted by its ability to extend or renew agreements related to its amortizable intangible assets.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment includes the following:

	2016	2015
Telephone plant in service:		
General support assets	\$ 4,061	\$ 30,810
Central office equipment	317,908	321,969
Cable and wire facilities	986,039	955,229
Subtotal	1,308,008	1,308,008
Video plant in service:		
Headend and customer premise equipment	131,811	110,763
Internet plant in service:		
Internet equipment	100,155	92,973
Total property, plant and equipment	\$ 1,539,974	\$ 1,511,744

Depreciation on depreciable property resulted in composite rates of 3.16% and 3.10% for 2016 and 2015, respectively.

Depreciation expense was \$48,150 and \$46,428 for the years ending June 30, 2016 and 2015, respectively.

**MAPLETON COMMUNICATIONS MANAGEMENT AGENCY
MAPLETON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 5. LEASES

The Company is leasing various fiber optic routes on a monthly basis under an operating lease agreement. Total lease expense was \$44,000 and \$42,000 for the years ended June 30, 2016 and 2015, respectively. The entire expense for the year ended June 30, 2016 and 2015 was paid to a related party.

NOTE 6. RELATED PARTY TRANSACTIONS

The Company regularly conducts business with a variety of entities related through common ownership. The following is a summary of transactions and balances with related parties as of June 30, 2016 and 2015 and for the years then ended:

	<u>2014</u>	<u>2013</u>
Plant specific operations	\$ <u>86,845</u>	\$ <u>92,415</u>
Cost of internet services	\$ <u>70,917</u>	\$ <u>70,652</u>
Customer operations	\$ <u>31,939</u>	\$ <u>31,944</u>
Corporate operations	\$ <u>60,000</u>	\$ <u>60,000</u>
Property and equipment expenditures	\$ <u>20,343</u>	\$ <u>25,314</u>
Accounts receivable (payable)	\$ <u>23,306</u>	\$ <u>(28,418)</u>

NOTE 7. RELATED PARTY COMMITMENTS

The Company has maintenance agreements with Long Lines, L.L.C and the City of Mapleton. The Company has agreed to pay Long Lines, L.L.C. \$5,000 per month and the City of Mapleton approximately \$3,900 per month to operate the utility plant, and to provide customer service, management and accounting services. The agreement specified an initial term of three years, beginning in 2002, and is automatically renewable for additional twelve month periods, unless either party provides written notice prior to expiration.

The Company has entered into a long-term agreement with Pioneer Internet (an affiliate of Long Lines, L.L.C.) for the provision of wholesale internet services. Services agreed to include access to wholesale internet service and the related transport and connectivity. The expenses for services provided under the agreement were \$70,917 and \$70,652 in 2016 and 2015, respectively. The agreement specified an initial term of sixty months, beginning in 2003, and is automatically renewable for additional twelve month periods, unless either party provides written notice prior to expiration.

**MAPLETON COMMUNICATIONS MANAGEMENT AGENCY
MAPLETON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015**

NOTE 8. CONCENTRATIONS OF CREDIT RISK

The Company grants credit to customers, all of whom are located in the franchised service area, and telecommunications intrastate and interstate long distance carriers.

The Company is subject to competition for telecommunications services including telecommunications exchange services offered by other providers in the service area.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents.

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.

SUPPLEMENTARY INFORMATION

**MAPLETON COMMUNICATIONS MANAGEMENT AGENCY
MAPLETON, IOWA**

**SCHEDULE OF FINDINGS
Year ended June 30, 2016**

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.