

CERTIFICATION OF CITY OF BROOKINGS MUNICIPAL TELEPHONE DEPARTMENT

Reporting Period January 1 – December 31, 2013

Sec. 54.313(a)(6) Ability to Function in an Emergency Situation

Pursuant to § 54.313(a)(6) for High-cost Recipients, Carrier hereby certifies that it is able to function in emergency situations as set forth in § 54.202(a)(2). Carrier is able to remain functional in an emergency situation through the use of back-up power to ensure functionality without an external power source. Carrier has four (4) hours of backup battery reserve in its central office, supported by an on-site generator which enables it to provide service for a reasonable period of time if external power is lost. Carrier's network is engineered to handle reasonable excess traffic in the event of traffic spikes resulting from emergency situations. Carrier has redundancy in its network for use in re-rerouting traffic when facilities are damaged.

I verify that the foregoing is true and correct. Executed on June 23, 2014.

/s/ Steve Meyer

Steve Meyer, Executive Vice President & General Manager

City of Brookings Municipal Telephone Department

CERTIFICATION OF CITY OF BROOKINGS MUNICIPAL TELEPHONE DEPARTMENT

Reporting Period January 1 – December 31, 2013

47 CFR 54.313(a)(10) - Voice Services Rate Comparability

Pursuant to 47 CFR 54.313(a)(10) for High-cost Recipients, Carrier hereby certifies that the pricing of Carrier's voice services is no more than two standard deviations above the applicable national average urban rate for voice service, as specified in the most recent public notice issued by the Wireline Competition Bureau and Wireless Telecommunications Bureau.

On March 20, 2014, the WCB announced that the average local end-user rate plus state regulated fees of the surveyed incumbent LECs in urban areas is \$20.46. This was also published in the FCC's Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking Adopted April 23, 2014 and Released June 10, 2014. Carrier's voice service rates are less than two standard deviations in relation to the applicable 2014 national average urban rate as established by the WCB.

I verify that the foregoing is true and correct. Executed on June 23, 2014.

/s/ Steve Meyer

Steve Meyer, Executive Vice President & General Manager

City of Brookings Municipal Telephone Department

File Name: 391650SD3026

Financial Statements
December 31, 2013
City of Brookings Municipal Utilities



CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Municipal Utilities Board
City of Brookings Municipal Utilities
Brookings, South Dakota

Report on the Financial Statements

We have audited the accompanying statement of net position of the Electric Fund, Telephone Fund, Water Fund and Wastewater Fund of Brookings Municipal Utilities, enterprise funds of the City of Brookings, South Dakota, as of December 31, 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the fund 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 audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 accounting 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 the Electric Fund, Telephone Fund, Water Fund and Wastewater Fund of Brookings Municipal Utilities, enterprise funds of the City of Brookings, South Dakota, as of December 31, 2013, and the changes in their financial position, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Electric Fund, Telephone Fund, Water Fund and Wastewater Fund of Brookings Municipal Utilities, enterprise funds of the City of Brookings, South Dakota, and so not purport to, and do not, present fairly the financial position of the City of Brookings, South Dakota, as of December 31, 2013, the changes in its financial position, or where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated April 2, 2014 on our consideration of the Electric Fund, Telephone Fund, Water Fund and Wastewater Fund of Brookings Municipal Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Electric Fund, Telephone Fund, Water Fund and Wastewater Fund of Brookings Municipal Utilities' internal control over financial reporting and compliance.

Eide Sallee LLP

Sioux Falls, South Dakota
April 2, 2014

City of Brookings Municipal Utilities
Statement of Net Position
December 31, 2013

REDACTED - FOR PUBLIC INSPECTION

	Electric	Telephone	Water	Wastewater	Combined
Assets					
Current Assets					
Cash and cash equivalents	\$ 8,318,999	\$ 16,792,446	\$ 7,540,008	\$ 2,503,394	\$ 35,154,847
Certificates of deposit	4,721	-	-	-	4,721
Receivables, net of allowances for uncollectibles:					
Accounts	2,044,425	2,131,687	338,136	338,186	4,852,434
Unbilled accounts	1,200,972	666,526	154,695	156,353	2,178,546
Interest	8	-	-	-	8
Due from other funds	131,509	96,849	11,646	31,047	271,051
Current portion of advances to other funds	61,669	-	-	666,528	728,197
Inventories:					
Supplies	983,079	474,651	317,173	56,254	1,831,157
Stores	-	1,503,974	-	-	1,503,974
Prepaid expenses	70,395	571,343	27,290	21,509	690,537
Total current assets	12,815,777	22,237,476	8,388,948	3,773,271	47,215,472
Noncurrent Assets					
Restricted cash and cash equivalents	6,707,537	3,141,887	52,355	90,634	9,992,413
Other investments	-	400,735	609	12,763	414,107
Personal communication services licenses	-	333,825	-	-	333,825
Other assets	-	37,838	-	-	37,838
Total noncurrent assets	6,707,537	3,914,285	52,964	103,397	10,778,183
Capital Assets					
Land	79,699	331,267	203,013	73,604	687,583
Buildings and other improvements	42,024,695	72,316,142	13,407,143	26,247,990	153,995,970
Machinery and equipment	2,127,685	4,393,983	515,979	962,952	8,000,599
Construction in progress	2,293,172	149,921	27,599	7,540,628	10,011,320
Less accumulated depreciation	(17,437,446)	(52,587,211)	(6,147,505)	(14,400,351)	(90,572,513)
Total capital assets	29,087,805	24,604,102	8,006,229	20,424,823	82,122,959
Total assets	\$ 48,611,119	\$ 50,755,863	\$ 16,448,141	\$ 24,301,491	\$ 140,116,614

City of Brookings Municipal Utilities
Statement of Net Position
December 31, 2013

REDACTED - FOR PUBLIC INSPECTION

	Electric	Telephone	Water	Wastewater	Combined
Liabilities and Net Position					
Current Liabilities					
Accounts payable	\$ 2,016,378	\$ 1,469,625	\$ 55,889	\$ 1,353,830	\$ 4,895,722
Due to other funds	6,381	93,592	15,558	202,685	318,216
Accrued interest payable	28,739	83,265	2,596	48,043	162,643
Accrued wages payable	3,851	49,704	1,281	1,634	56,470
Accrued taxes payable	101,119	228,095	112	5	329,331
Accrued leave liability	59,535	163,863	14,060	19,411	256,869
Customer deposits	57,213	37,248	-	-	94,461
Current portion of advances from other funds	-	728,197	-	-	728,197
Current portion of revenue bonds payable	300,100	640,000	-	-	940,100
Current portion of capital lease obligations	291,258	1,809,425	64,524	89,793	2,255,000
Total current liabilities	2,864,574	5,303,014	154,020	1,715,401	10,037,009
Noncurrent Liabilities					
OPEB liability	85,973	247,642	43,369	37,526	414,510
Revenue bonds payable	6,804,915	4,005,000	-	-	10,809,915
State revolving fund loans payable	-	-	-	4,120,364	4,120,364
Capital lease obligations	2,970,671	10,878,758	574,768	635,803	15,060,000
Total long-term liabilities	9,861,559	15,131,400	618,137	4,793,693	30,404,789
Total liabilities	12,726,133	20,434,414	772,157	6,509,094	40,441,798
Deferred Inflows of Resources					
Advanced payments	-	506,130	4,560	-	510,690
Total deferred inflows of resources	-	506,130	4,560	-	510,690
Net Position					
Net investment in capital assets	24,618,203	7,270,919	7,366,937	15,578,863	54,834,922
Restricted for debt service	810,195	3,141,887	52,355	90,634	4,095,071
Unrestricted	10,456,588	19,402,513	8,252,132	2,122,900	40,234,133
Total net position	35,884,986	29,815,319	15,671,424	17,792,397	99,164,126
Total liabilities and net position	\$ 48,611,119	\$ 50,755,863	\$ 16,448,141	\$ 24,301,491	\$ 140,116,614

City of Brookings Municipal Utilities
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2013

REDACTED - FOR PUBLIC INSPECTION

	Electric	Telephone	Water	Wastewater	Combined
Operating Revenues					
Charges for goods and services	\$ 23,198,911	\$ 32,236,826	\$ 3,879,238	\$ 3,326,605	\$ 62,641,580
Miscellaneous	747,783	3,282,900	198,717	92,131	4,321,531
Total operating revenues	<u>23,946,694</u>	<u>35,519,726</u>	<u>4,077,955</u>	<u>3,418,736</u>	<u>66,963,111</u>
Operating Expenses					
Personal services	2,157,272	7,072,119	1,258,893	1,102,697	11,590,981
Other current expenses	16,292,489	17,778,545	1,071,228	858,952	36,001,214
Cost of goods sold	-	3,999,042	-	-	3,999,042
Amortization	9,276	346,198	3,607	3,607	362,688
Depreciation	1,340,043	3,357,206	310,489	618,776	5,626,514
Total operating expenses	<u>19,799,080</u>	<u>32,553,110</u>	<u>2,644,217</u>	<u>2,584,032</u>	<u>57,580,439</u>
Operating Income	<u>4,147,614</u>	<u>2,966,616</u>	<u>1,433,738</u>	<u>834,704</u>	<u>9,382,672</u>
Nonoperating Revenues (Expenses)					
Interest income	39,566	362,967	21,621	47,229	471,383
Miscellaneous income	43,630	6,051	76,149	676	126,506
Gain (loss) on disposition of capital assets	-	(17,356)	-	(54,563)	(71,919)
Interest expense	(426,907)	(1,164,743)	(33,956)	(47,138)	(1,672,744)
Total nonoperating revenues (expenses)	<u>(343,711)</u>	<u>(813,081)</u>	<u>63,814</u>	<u>(53,796)</u>	<u>(1,146,774)</u>
Income Before Contributions and Transfers	<u>3,803,903</u>	<u>2,153,535</u>	<u>1,497,552</u>	<u>780,908</u>	<u>8,235,898</u>
Capital Contributions	-	-	57,494	934,733	992,227
Transfers to General Fund	(1,755,000)	(300,000)	-	-	(2,055,000)
Change in Net Position	<u>2,048,903</u>	<u>1,853,535</u>	<u>1,555,046</u>	<u>1,715,641</u>	<u>7,173,125</u>
Net Position, at Beginning of Year	<u>33,836,083</u>	<u>27,961,784</u>	<u>14,116,378</u>	<u>16,076,756</u>	<u>91,991,001</u>
Net Position, at End of Year	<u>\$ 35,884,986</u>	<u>\$ 29,815,319</u>	<u>\$ 15,671,424</u>	<u>\$ 17,792,397</u>	<u>\$ 99,164,126</u>

City of Brookings Municipal Utilities
Statement of Cash Flows
Year Ended December 31, 2013

REDACTED - FOR PUBLIC INSPECTION

	Electric	Telephone	Water	Wastewater	Combined
Operating Activities					
Cash received from customers	\$ 22,941,378	\$ 28,677,614	\$ 3,986,434	\$ 3,340,396	\$ 58,945,822
Cash received from customers pledged for debt retirement	599,627	7,452,254	-	-	8,051,881
Cash received from other funds for services	1,373,041	1,124,857	168,516	52,290	2,718,704
Cash payments to suppliers for goods and services	(17,367,297)	(24,209,076)	(1,095,506)	(893,777)	(43,565,656)
Cash payments to employees for services	(2,137,868)	(6,992,157)	(1,251,789)	(1,095,028)	(11,476,842)
Net Cash from Operating Activities	5,408,881	6,053,492	1,807,655	1,403,881	14,673,909
Non-Capital Financing Activities					
Operating transfers to General Fund	(1,755,000)	(300,000)	-	-	(2,055,000)
Principal payments on interfund advances	120,401	(165,083)	-	44,682	-
Interest received (paid) on interfund advances	9,104	(44,664)	-	35,560	-
Net Cash (used in) from Non-Capital Financing Activities	(1,625,495)	(509,747)	-	80,242	(2,055,000)
Capital and Related Financing Activities					
Acquisition and construction of capital assets	(4,692,039)	(2,337,610)	(516,872)	(7,531,175)	(15,077,696)
Proceeds from sale of assets	27,375	4,900	-	-	32,275
Proceeds from long-term debt	-	-	-	4,066,198	4,066,198
Principal payments on long-term debt	(574,660)	(2,315,526)	(61,507)	(85,520)	(3,037,213)
Interest paid on long-term debt	(427,080)	(1,130,736)	(34,205)	(40,118)	(1,632,139)
Net Cash used in Capital and Related Financing Activities	(5,666,404)	(5,778,972)	(612,584)	(3,590,615)	(15,648,575)
Investing Activities					
Dividends from investments	-	303,003	-	-	303,003
Sales and maturities of certificates of deposit	1,121,297	5,002,508	-	-	6,123,805
Purchases and renewals of certificates of deposit	(124,764)	-	-	-	(124,764)
Interest received on cash investments	29,912	69,523	21,615	11,659	132,709
Net Cash from Investing Activities	1,026,445	5,375,034	21,615	11,659	6,434,753
Net Change in Cash and Cash Equivalents	(856,573)	5,139,807	1,216,686	(2,094,833)	3,405,087
Cash and Cash Equivalents, Beginning of Year	15,883,109	14,794,526	6,375,677	4,688,861	41,742,173
Cash and Cash Equivalents, at End of Year	\$ 15,026,536	\$ 19,934,333	\$ 7,592,363	\$ 2,594,028	\$ 45,147,260

City of Brookings Municipal Utilities
Statement of Cash Flows
Year Ended December 31, 2013

REDACTED - FOR PUBLIC INSPECTION

	Electric	Telephone	Water	Wastewater	Combined
Reconciliation of Cash and Cash Equivalents to the Balance Sheets					
Cash and cash equivalents in current assets	\$ 8,318,999	\$ 16,792,446	\$ 7,540,008	\$ 2,503,394	\$ 35,154,847
Restricted cash in investments and other assets	6,707,537	3,141,887	52,355	90,634	9,992,413
Total cash and cash equivalents	\$ 15,026,536	\$ 19,934,333	\$ 7,592,363	\$ 2,594,028	\$ 45,147,260
Reconciliation of Operating Income to Net Cash from Operating Activities					
Operating income	\$ 4,147,614	\$ 2,966,616	\$ 1,433,738	\$ 834,704	\$ 9,382,672
Miscellaneous income (loss)	34,268	(10,558)	76,149	674	100,533
Adjustments to reconcile operating income to net cash from operating activities					
Depreciation	1,340,043	3,357,206	310,489	618,776	5,626,514
Amortization	9,276	346,198	3,607	3,607	362,688
Provision for uncollectible accounts	(2,300)	15,700	(400)	500	13,500
Change in operating assets and liabilities					
Accounts receivable	(409,271)	(112,349)	(30,717)	(31,103)	(583,440)
Due from other funds	43,062	11,182	266	(26,516)	27,994
Inventories	55,825	(459,030)	17,873	11,843	(373,489)
Prepaid expenses	(17,451)	(66,292)	(9,309)	(3,013)	(96,065)
Accounts payable	178,677	(52,094)	11,315	(186,165)	(48,267)
Due to other funds	(2,447)	(8,866)	(12,252)	173,046	149,481
Other liabilities	31,585	65,779	6,896	7,528	111,788
Net Cash from Operating Activities	\$ 5,408,881	\$ 6,053,492	\$ 1,807,655	\$ 1,403,881	\$ 14,673,909
Supplemental Schedule of Non-Cash Financing and Investing Activities					
Accounts payable incurred for acquisition of property and equipment	\$ 402,562	\$ 47,821	\$ 18,380	\$ 1,499,841	\$ 1,968,604
Plant additions from contributed capital	\$ -	\$ -	\$ 57,494	\$ 934,733	\$ 992,227