



Financial Statements
December 31, 2011 and 2010

City of Brookings Municipal Utilities Telephone Fund

City of Brookings Municipal Utilities Telephone Fund

Table of Contents

December 31, 2011 and 2010

Independent Auditor's Report.....	1
Financial Statements	
Balance Sheets	2
Statements of Revenues, Expenses and Changes in Fund Equity.....	3
Statements of Cash Flows	4
Notes to Financial Statements.....	6
Independent Auditor's Report on Supplementary Information	23
Supplementary Information	
Municipal Utilities Board and General Manager	24
Schedule of Plant and Accumulated Depreciation.....	25
Statistical and Analytical Information	27
Report on Compliance and Other Matters and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	28



Independent Auditor's Report

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

We have audited the accompanying balance sheets of the City of Brookings Municipal Utilities Telephone Fund (an enterprise fund of the City of Brookings), as of December 31, 2011 and 2010 and the related statements of revenues, expenses and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the City of Brookings Municipal Utilities Telephone Fund, and do not purport to, and do not, present fairly the financial position of the City of Brookings, South Dakota as of December 31, 2011 and 2010, the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Brookings Municipal Utilities Telephone Fund, as of December 31, 2011 and 2010, and the results of its operations, changes in fund equity and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 3, 2012 on our consideration of City of Brookings Municipal Utilities Telephone Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Sioux Falls, South Dakota
May 3, 2012

(This page left blank intentionally.)

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,570,292	\$ 3,996,704
Certificates of deposit	10,504,652	9,503,746
Trade receivables, less allowance for uncollectibles of \$669,825 and \$664,650 as of December 31, 2011 and 2010, respectively	2,445,059	1,919,910
Receivable from other funds	18,187	18,569
Accrued revenue	656,114	616,902
Inventory	1,060,916	992,765
Other current assets	563,336	633,024
Total current assets	<u>19,818,556</u>	<u>17,681,620</u>
Investments and Other Assets		
Restricted cash	3,142,185	3,142,222
Certificates of deposit	1,000,000	-
Other investments	371,513	367,936
Deferred charges, net	667,794	769,021
Total investments and other assets	<u>5,181,492</u>	<u>4,279,179</u>
Property, Plant and Equipment, Net		
Land	331,267	331,267
Depreciable property, plant and equipment, net	27,161,025	28,941,138
Total property, plant and equipment	<u>27,492,292</u>	<u>29,272,405</u>
Total assets	<u>\$ 52,492,340</u>	<u>\$ 51,233,204</u>

See Notes to Financial Statements

City of Brookings Municipal Utilities Telephone Fund

Balance Sheets

December 31, 2011 and 2010

	2011	2010
Liabilities and Fund Equity		
Current Liabilities		
Current portion of interfund advances	\$ 218,891	\$ 331,805
Current portion of long-term debt	2,195,171	2,084,121
Accounts payable - trade	1,480,344	1,480,854
Payable to other funds	13,420	13,775
Other current liabilities	927,560	879,893
Total current liabilities	4,835,386	4,790,448
Long-Term Liabilities		
Interfund advances	893,280	1,112,171
Long-term debt	19,648,709	21,843,880
Total long-term liabilities	20,541,989	22,956,051
Fund Equity		
Invested in capital assets, net of related debt	5,648,412	5,344,404
Restricted net assets	3,142,185	3,142,222
Unrestricted net assets	18,324,368	15,000,079
Total fund equity	27,114,965	23,486,705
Total liabilities and fund equity	\$ 52,492,340	\$ 51,233,204

City of Brookings Municipal Utilities Telephone Fund
 Statements of Revenues, Expenses and Changes in Fund Equity
 Years Ended December 31, 2011 and 2010

	2011	2010
Telephone Operating Revenues		
Local network	\$ 2,489,893	\$ 2,559,493
Network access	4,338,217	3,962,213
Long-distance network	119,455	133,079
Billing and collection	39,015	44,769
Miscellaneous	1,410,760	1,465,607
Uncollectibles	(27,477)	(6,774)
Total telephone operating revenues	8,369,863	8,158,387
Telephone Operating Expenses		
Plant specific	1,925,723	1,913,035
Depreciation and amortization	1,582,458	1,608,738
Plant support	764,032	694,358
Customer	973,020	1,073,844
General and administrative	1,256,540	1,261,982
Total telephone operating expenses	6,501,773	6,551,957
Telephone Operating Income	1,868,090	1,606,430
PCS Operations		
Operating revenue	20,440,542	19,722,647
Operating expenses	(17,745,500)	(17,461,584)
Total PCS operating income	2,695,042	2,261,063
Nonregulated Activities		
Operating revenue	2,377,008	2,517,507
Operating expenses	(2,843,928)	(2,684,936)
Total nonregulated operating loss	(466,920)	(167,429)
Operating Income	4,096,212	3,700,064
Other Income (Expense)		
Investment income	264,126	163,071
Interest expense	(1,434,326)	(1,555,383)
Miscellaneous	1,202,248	(31,846)
Net other income (expense)	32,048	(1,424,158)
Income Before Transfers	4,128,260	2,275,906
Transfers to Other Funds	(500,000)	(500,000)
Increase in Fund Equity	3,628,260	1,775,906
Fund Equity, at Beginning of Year	23,486,705	21,710,799
Fund Equity, at End of Year	\$ 27,114,965	\$ 23,486,705

City of Brookings Municipal Utilities Telephone Fund

Statements of Cash Flows

Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Cash received from customers	\$ 32,229,710	\$ 32,361,369
Cash received from other funds for services	976,065	913,824
Cash received from claim settlement	1,218,115	-
Cash payments to suppliers for goods and services	(19,379,758)	(20,029,302)
Cash payments to employees for services	(6,538,236)	(6,337,918)
	<u>8,505,896</u>	<u>6,907,973</u>
Net Cash from Operating Activities		
Non-Capital Financing Activities		
Operating transfers to other funds	(500,000)	(500,000)
Principal payments on interfund advances	(331,805)	(316,005)
Interest paid on interfund advances	(72,199)	(87,999)
	<u>(904,004)</u>	<u>(904,004)</u>
Net Cash used in Non-Capital Financing Activities		
Capital and Related Financing Activities		
Plant additions	(1,864,326)	(2,600,437)
Salvage	1,875	536
Principal payments on long-term debt	(2,084,121)	(1,973,071)
Interest paid on long-term debt	(1,371,520)	(1,475,677)
	<u>(5,318,092)</u>	<u>(6,048,649)</u>
Net Cash used in Capital and Related Financing Activities		
Investing Activities		
Dividends from investments	147,330	-
Sales and maturities of certificates of deposit	10,503,746	7,500,000
Purchases and renewals of certificates of deposit	(12,504,652)	(9,503,746)
Interest received on cash investments	143,327	218,440
	<u>(1,710,249)</u>	<u>(1,785,306)</u>
Net Cash used in Investing Activities		
Net Change in Cash and Cash Equivalents	573,551	(1,829,986)
Cash and Cash Equivalents, Beginning of Year	<u>7,138,926</u>	<u>8,968,912</u>
Cash and Cash Equivalents, at End of Year	<u>\$ 7,712,477</u>	<u>\$ 7,138,926</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 4,570,292	\$ 3,996,704
Restricted cash in investments and other assets	3,142,185	3,142,222
	<u>7,712,477</u>	<u>7,138,926</u>
Total cash and cash equivalents	<u>\$ 7,712,477</u>	<u>\$ 7,138,926</u>

City of Brookings Municipal Utilities Telephone Fund

Statements of Cash Flows

Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 4,096,212	\$ 3,700,064
Miscellaneous income from claim settlement	1,218,115	-
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	3,791,896	3,862,167
Provision for uncollectible accounts	5,175	(37,600)
Other	(6,501)	4,402
Change in assets and liabilities		
Trade receivables and accrued revenue	(569,536)	(410,995)
Receivable from other funds	(3,491)	319
Inventory	(68,151)	(111,456)
Other current assets	39,240	38,399
Accounts payable	(67,754)	(213,725)
Payable to other funds	5,428	1,461
Other current liabilities	65,263	74,937
Net Cash from Operating Activities	\$ 8,505,896	\$ 6,907,973
 Supplemental Schedule of Non-Cash Financing and Investing Activities		
Accounts payable incurred for acquisition of property and equipment	\$ 266,260	\$ 208,791

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Telephone Fund is an enterprise fund of the City of Brookings, South Dakota. The Telephone Fund provides telephone service to the City of Brookings and surrounding area and is governed by the Brookings Municipal Utilities Board. The Utilities Board also governs the Water, Electric, and Waste Water Funds which are not included as part of these financial statements.

Nature of Operations

The Telephone Fund's principal line of business is providing local telephone services and access to long-distance telephone service through its local exchange network and providing Personal Communication Services (PCS). The revenues reported on the statement of operations reflect the relative importance of each type of service and are classified in a manner which is consistent with the statement of cash flows. The principal market for these telecommunications services are local residential and business customers residing in the exchange the Telephone Fund serves. The Fund is operating its business under the trade name of Swiftel Communications.

Basis of Accounting

The Telephone Fund uses enterprise fund accounting. Based on Governmental Accounting Standards Board (GASB) Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Organization has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), issued after November 30, 1989.

The financial statements have been presented in conformity with accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board (GASB). These principles include certain accounting practices prescribed by the Federal Communications Commission (FCC), which have no significant effect on the financial statements under GASB.

These principles also require management to make estimates and assumptions that 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less. Cash and cash equivalents also includes funds that the Telephone Fund is holding in the City's cash and investment pool.

Restricted Resources

When the Telephone Fund has both restricted and unrestricted resources available to finance a particular program, it's the Telephone Fund's practice to use restricted resources before unrestricted resources.

City of Brookings Municipal Utilities Telephone Fund

Notes to Financial Statements

December 31, 2011 and 2010

Receivables

Receivables are stated at the amounts the Telephone Fund expects to collect from outstanding balances. The Telephone Fund provides for probable uncollectible amounts through charges to earnings and credits to the valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after the Telephone Fund has used reasonable collection efforts are written off through charges to the valuation allowance and credits to receivable accounts. Changes in the valuation allowance have not been material to the financial statements.

Inventory

Inventories for resale consist primarily of wireless phones and accessories and telephone systems held for resale with cost determined using average unit cost. Losses on sales of wireless phones are recognized in the period in which sales are made as a cost of acquiring subscribers. Materials and supplies to be used for future construction are recorded at average unit cost.

Investments

All certificates of deposit and other investments are stated at cost.

Deferred Charges

The cost of debt issuance and the microwave tower relocation project have been capitalized and are being amortized over 20 and 16 years, respectively.

Property and Depreciation

Property and equipment are recorded at original cost. Capital leases are recorded at cost. Additions, improvements or major renewals are capitalized using a threshold of \$2,000. If the assets are sold, retired or otherwise disposed of during the ordinary course of business, the cost plus removal costs less salvage, is charged to operations. Repairs and the replacement of items determined to be less than units of property are charged to maintenance expense. Any gains or losses on property and equipment retirements are reflected in the current year operations.

The Telephone Fund includes in its telecommunications plant accounts an average cost of debt used for the construction of plant. There was no interest expense capitalized in 2011 and 2010.

Depreciation is computed using the straight-line method based on the estimated useful service lives of the various assets. Composite depreciation rates based on average plant in service are:

	<u>2011</u>	<u>2010</u>
Telecommunications plant	3.66%	3.77%
Personal communication system	6.13%	6.71%
Customer premise equipment	9.02%	8.41%

PCS License

The license agreement for Personal Communication Services (PCS) in Sioux Falls, Watertown and Sioux City costing \$3,551,203 expires in June 2015 and is being amortized equally over an estimated economic useful life of 15 years. Amortization expense was \$227,351 for each of the years ended December 31, 2011 and 2010, and is expected to be \$227,351 in 2012 through 2014 and \$106,475 in 2015. Accumulated amortization was \$2,762,675 and \$2,535,323 as of December 31, 2011 and 2010, respectively.

Revenue Recognition

Revenues are recognized when earned. Telephone network access, PCS and long-distance services are furnished jointly with other companies. Compensation for interstate access services is based on tariffed access charges to interstate long-distance carriers as filed by the National Exchange Carrier Association with the FCC.

Compensation for intrastate toll and access services with long-distance carriers is based on tariffed access charges to long-distance carriers.

Compensated Absences

Liabilities for accumulated vacation pay benefits are accrued and recorded as compensation in the year earned.

Post-Employment Benefits

The Telephone Fund provides post employment health insurance benefits. The Telephone Fund provides access to its health insurance program for certain retired employees that meet participation requirements based on age and employment tenure. Benefits are provided until the retiree reaches age 65. The benefit plan provides access to health benefits, but the premium payments are the responsibility of the retiree. In accordance with GASB No. 45, an actuarial determined net post-employment benefit obligation liability has been recorded to account for the implicit subsidy provided under the benefit plan (Note 12).

Credit Risk

As of December 31, 2011, the Telephone Fund had no significant concentrations of credit risk with respect to consumer accounts receivable due to the large number of customers and their dispersion across many different residential and industrial customers. The Telephone Fund has not experienced any material losses in such accounts.

A significant portion of the Telephone Fund's revenues are from long-distance carriers in the telephone industry and Sprint PCS, and consequently, the Telephone Fund is directly affected by the financial well-being of that industry. However, the credit risk associated with other accounts receivable is minimized due to the large number of long distance carriers, and historically, credit losses have not been significant.

Subsequent Events

The Telephone Fund has evaluated subsequent events through May 3, 2012, the date which the financial statements were available to be issued.

City of Brookings Municipal Utilities Telephone Fund

Notes to Financial Statements

December 31, 2011 and 2010

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the presentation in 2011. These reclassifications had no change in previously reported changes in net assets or fund equity but were changed to agree with the classifications used in the 2011 financial statements.

Note 2 - Cash, Temporary Cash Investments, and Restricted Cash

The City of Brookings follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes.

A summary of cash and cash equivalents, including any restrictions, is as follows:

	2011	2010
Cash on hand	\$ 2,825	\$ 2,825
Cash in banks	4,541,900	3,961,953
Cash internally assigned for customer deposits	25,567	31,926
Total cash and cash equivalents	4,570,292	3,996,704
Cash restricted reserve for capital lease	3,142,185	3,142,222
Total restricted cash	3,142,185	3,142,222
Total cash	\$ 7,712,477	\$ 7,138,926

Cash internally assigned for customer deposits is offset by a liability for customer deposits, included with other current liabilities in current liabilities. Cash restricted reserve for capital lease is restricted by covenant and is presented as restricted net assets in fund equity.

Deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 7-20-1, 7-20-1.1 and 9-22-6.2, and may be in the form of demand or time deposits.

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to or at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost, plus interest, if the account is of the add-on type.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from deposits and investments to the fund making the investment.

City of Brookings Municipal Utilities Telephone Fund

Notes to Financial Statements

December 31, 2011 and 2010

Investments - In general, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government, provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities deposited in (a) and meeting the requirements of SDCL 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the municipality's deposits may not be returned to it. The municipality does not have a deposit policy for custodial credit risk. As of December 31, 2011, the Telephone Fund's share of deposits was fully insured or collateralized and was not exposed to custodial credit risk.

Interest Rate Risk - The Municipality has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk - Investments - State law limits eligible investments for the City, as discussed above. The Municipality has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Municipality places no limit on the amount that may be invested in any one issuer. As of December 31, 2011, the Telephone Fund had no investments in excess of 5% of the total investment portfolio.

Note 3 - Interfund Receivables, Payables and Advances

Receivable from other funds as of December 31, 2011 and 2010, were as follows:

	2011	2010
Receivable from other funds		
Electric fund	\$ 1,746	\$ 1,705
General fund	8,363	9,348
Other funds	8,078	7,516
Total receivable from other funds	\$ 18,187	\$ 18,569

City of Brookings Municipal Utilities Telephone Fund

Notes to Financial Statements

December 31, 2011 and 2010

Payable to other funds as of December 31, 2011 and 2010, were as follows:

	2011	2010
Payable from other funds		
Electric fund	\$ 12,738	\$ 13,113
General fund	105	45
Other funds	577	617
Total payable to other funds	\$ 13,420	\$ 13,775

Interfund receivables and payables result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund advances from other funds as of December 31, 2011, were as follows:

	Total Principal	Estimated Principal Due in 2012
Interfund advances - City of Brookings Municipal Utilities:		
Electric fund 5% interest due in 2012	\$ 61,669	\$ 61,669
Electric fund 5% interest due in 2013	120,401	58,732
Electric fund 5% interest due in 2014	176,336	55,936
Wastewater fund 5% interest due in 2014	753,765	42,554
	1,112,171	\$ 218,891
Less amount due within one year	(218,891)	
Long-term interfund advances	\$ 893,280	

Interfund advances are properly authorized loans with specified repayment requirements. The change in the interfund advances is as follows for the year ended December 31, 2011:

	Beginning	Payments	Advances	Ending
Interfund advances - City of Brookings Municipal Utilities:				
Electric fund 5% interest due in 2011	\$ 123,338	\$ 123,338	\$ -	\$ -
Electric fund 5% interest due in 2012	120,401	58,732	-	61,669
Electric fund 5% interest due in 2013	176,336	55,935	-	120,401
Electric fund 5% interest due in 2014	229,608	53,272	-	176,336
Wastewater fund 5% interest due in 2014	794,293	40,528	-	753,765
	\$ 1,443,976	\$ 331,805	\$ -	\$ 1,112,171

City of Brookings Municipal Utilities Telephone Fund
Notes to Financial Statements
December 31, 2011 and 2010

The annual amounts due for principal and future interest on interfund advances are as follows:

	Principal	Interest	Principal and Interest
2012	\$ 218,891	\$ 55,609	\$ 274,500
2013	165,083	44,664	209,747
2014	728,197	36,410	764,607
	\$ 1,112,171	\$ 136,683	\$ 1,248,854

Note 4 - Transfers to (from) Other Funds

The Telephone Fund made (received) operating transfers to (from) the following:

	2011	2010
City General Fund	\$ 600,000	\$ 600,000
Water Fund	(50,000)	(50,000)
Wastewater Fund	(50,000)	(50,000)
	\$ 500,000	\$ 500,000

The amounts of funds to be transferred to other governmental funds are determined by the Municipal Utilities Board annually.

Note 5 - Other Investments

Other investments held in the Telephone Fund's name consist of the following:

	2011	2010
South Dakota Network, LLC (at cost)	\$ 330,357	\$ 330,357
Express Communications, Inc. (at cost)	11,895	11,895
Patronage capital allocations from cooperatives	29,261	25,684
Total other investments	\$ 371,513	\$ 367,936

There is an operating agreement between all of the members of South Dakota Network, LLC, (SDN) including the Telephone Fund, which requires a selling member to first offer to other members any units available for sale. The Telephone Fund owns 7.84% of this company.

There is a buy-sell agreement between all of the shareholders of Express Communications, Inc. including the Telephone Fund, which requires a selling shareholder to first offer to other shareholders any stock available for sale. The Telephone Fund owns 11,368 shares or 10.14% of Express Communications, Inc.

Note 6 - Deferred Charges

The deferred charges consist of:

	Cost	Accumulated Amortization	2011 Net	2010 Net
Debt issue cost 1998 Series (20 years)	\$ 832,512	\$ 544,603	\$ 287,909	\$ 329,535
Debt issue cost 1999 Series (20 years)	296,984	185,615	111,369	126,218
Debt issue cost 2000 Series (20 years)	338,046	197,193	140,853	157,755
Debt issue cost 2006 Series (20 years)	52,500	13,125	39,375	42,000
Third party tower relocation (16 years)	403,600	315,312	88,288	113,513
Total deferred charges	\$ 1,923,642	\$ 1,255,848	\$ 667,794	\$ 769,021

Amortization of deferred charges is expected to be approximately \$101,000 in 2012 through 2014, \$89,000 in 2015, \$76,000 in 2016, and \$199,000 thereafter.

City of Brookings Municipal Utilities Telephone Fund

Notes to Financial Statements

December 31, 2011 and 2010

Note 7 - Property, Plant and Equipment

	2011			
	Beginning Balance	Additions	Retirements	Ending Balance
Regulated telecommunications				
Land	\$ 133,245	\$ -	\$ -	\$ 133,245
Plant in service				
General support	5,405,266	77,234	(36,677)	5,445,823
Central office	17,639,901	529,933	-	18,169,834
Cable and wire facilities	18,777,653	324,553	(16,078)	19,086,128
Amortizable assets	896,129	-	-	896,129
	<u>42,718,949</u>	<u>931,720</u>	<u>(52,755)</u>	<u>43,597,914</u>
Less accumulated depreciation and amortization				
General support	(3,329,729)	(231,896)	30,978	(3,530,647)
Central office	(14,850,677)	(400,130)	-	(15,250,807)
Cable and wire facilities	(8,969,070)	(856,349)	9,111	(9,816,308)
Amortizable assets	(149,355)	(89,613)	-	(238,968)
	<u>(27,298,831)</u>	<u>(1,577,988)</u>	<u>40,089</u>	<u>(28,836,730)</u>
	<u>15,553,363</u>			<u>14,894,429</u>
Nonregulated equipment	2,619,116	485,713	(78,089)	3,026,740
Less accumulated depreciation	(1,207,929)	(254,555)	53,242	(1,409,242)
	<u>1,411,187</u>			<u>1,617,498</u>
PCS				
Land	198,022	-	-	198,022
Plant in service				
General support	2,854,355	60,554	(32,498)	2,882,411
PCS site work and tower	6,672,098	26,437	(5,786)	6,692,749
Base and switching equipment	17,037,998	376,358	(32,578)	17,381,778
PCS licenses	3,551,203	-	-	3,551,203
	<u>30,115,654</u>	<u>463,349</u>	<u>(70,862)</u>	<u>30,508,141</u>
Less accumulated depreciation and amortization				
General support	(1,464,012)	(104,577)	26,298	(1,542,291)
PCS site and tower	(3,372,805)	(324,015)	3,592	(3,693,228)
Base and switching equipment	(10,675,335)	(1,202,184)	32,578	(11,844,941)
PCS licenses	(2,535,324)	(227,351)	-	(2,762,675)
	<u>(18,047,476)</u>	<u>(1,858,127)</u>	<u>62,468</u>	<u>(19,843,135)</u>
	<u>12,266,200</u>			<u>10,863,028</u>
Plant under construction	41,655	75,682	-	117,337
	<u>\$ 29,272,405</u>			<u>\$ 27,492,292</u>

City of Brookings Municipal Utilities Telephone Fund

Notes to Financial Statements

December 31, 2011 and 2010

	2010			Ending Balance
	Beginning Balance	Additions	Retirement	
Regulated telecommunications				
Land	\$ 133,245	\$ -	\$ -	\$ 133,245
Plant in service				
General support	5,227,902	396,260	(218,896)	5,405,266
Central office	17,739,183	444,200	(543,482)	17,639,901
Cable and wire facilities	18,431,670	421,107	(75,124)	18,777,653
Amortizable assets	896,129	-	-	896,129
	<u>42,294,884</u>	<u>1,261,567</u>	<u>(837,502)</u>	<u>42,718,949</u>
Less accumulated depreciation and amortization				
General support	(3,316,900)	(221,024)	208,195	(3,329,729)
Central office	(15,020,377)	(373,783)	543,483	(14,850,677)
Cable and wire facilities	(8,090,479)	(918,546)	39,955	(8,969,070)
Amortizable assets	(59,742)	(89,613)	-	(149,355)
	<u>(26,487,498)</u>	<u>(1,602,966)</u>	<u>791,633</u>	<u>(27,298,831)</u>
	<u>15,940,631</u>			<u>15,553,363</u>
Nonregulated equipment	1,387,613	1,389,827	(158,324)	2,619,116
Less accumulated depreciation	(1,197,242)	(168,493)	157,806	(1,207,929)
	<u>190,371</u>			<u>1,411,187</u>
PCS				
Land	198,022	-	-	198,022
Plant in service				
General	2,782,610	212,600	(140,855)	2,854,355
PCS site and tower	6,508,678	163,420	-	6,672,098
Base and switching equipment	16,342,693	739,546	(44,241)	17,037,998
PCS licenses	3,551,203	-	-	3,551,203
	<u>29,185,184</u>	<u>1,115,566</u>	<u>(185,096)</u>	<u>30,115,654</u>
Less accumulated depreciation and amortization				
General	(1,483,612)	(114,953)	134,553	(1,464,012)
PCS site and tower	(3,048,559)	(324,246)	-	(3,372,805)
Base and switching equipment	(9,352,404)	(1,322,931)	-	(10,675,335)
PCS licenses	(2,307,973)	(227,351)	-	(2,535,324)
	<u>(16,192,548)</u>	<u>(1,989,481)</u>	<u>134,553</u>	<u>(18,047,476)</u>
	<u>13,190,658</u>			<u>12,266,200</u>
Plant under construction	1,598,349	(1,556,694)	-	41,655
	<u>\$ 30,920,009</u>			<u>\$ 29,272,405</u>

City of Brookings Municipal Utilities Telephone Fund

Notes to Financial Statements

December 31, 2011 and 2010

Note 8 - Long-Term Debt

	Total Principal	Estimated Principal Due in 2012
Lease purchase agreements		
2006 issue; fixed interest rate 4.75% due December 1, 2026	\$ 3,325,000	\$ 157,500
1999 issue; fixed interest rates 4.15-5.25% due December 1, 2019	4,236,948	440,643
1998 issue; fixed interest rates 3.9-5.1% due December 1, 2018	8,486,932	1,042,028
Utility Revenue Bonds		
2000 issue; interest rates 6.50-7.75% due December 1, 2019	5,795,000	555,000
Total	21,843,880	\$ 2,195,171
Less amount due within one year	2,195,171	
Long-term debt	\$ 19,648,709	

The lease-purchase agreements represent the portion of the agreement between the City of Brookings (as lessee) and First Bank and Trust of Brookings (as lessor) that relates to telephone and PCS plant. The Bank has issued certificates of participation, series 1998, 1999, and 2006, evidencing the Bank's interests in a lease-purchase agreement with the City equal to the lease obligation. The City may draw funds from the construction account to pay for the cost of construction of the plant assets to be leased. Payment of the certificates by the Bank will be solely from the lease payments from the City and other moneys held in trust for the holders of the Certificates of Participation. The capital lease terms to the City mirror the terms of the certificates of participation. The City made debt service payments as scheduled for the 1998, 1999, and 2006 issues.

The Utility Revenue Bonds were issued by the City of Brookings, South Dakota. The proceeds were used to provide financing for the costs of acquisition and construction of PCS facilities in the Sioux City basic trade area. The Bonds are payable solely from Gross Revenues of the Sioux City PCS operations and are not a general obligation of the City of Brookings, South Dakota, the City of Beresford, South Dakota or any other political subdivision. The gross revenues of the Sioux City PCS operations for the years ended December 31, 2011 and 2010 were \$6,635,612 and \$6,418,269, respectively. Interest is payable on June 1 and December 1 of each year. The Bonds began to mature on December 1, 2003. Bonds are secured by all real and personal property comprising of the Sioux City PCS System and by amounts on deposit in the Reserve Fund.

The change in the long-term debt is as follows:

	Beginning	Payments	Advances	Ending
Lease purchase agreements				
2006 issue	\$ 3,475,000	\$ 150,000	\$ -	\$ 3,325,000
1999 issue	4,656,406	419,458	-	4,236,948
1998 issue	9,481,595	994,663	-	8,486,932
Utility Revenue Bonds				
2000 issue	6,315,000	520,000	-	5,795,000
Total	\$ 23,928,001	\$ 2,084,121	\$ -	\$ 21,843,880

City of Brookings Municipal Utilities Telephone Fund

Notes to Financial Statements

December 31, 2011 and 2010

The annual amounts due for principal and future interest on long-term debt are as follows:

	Principal	Interest	Principal and Interest
2012	\$ 2,195,171	\$ 1,255,066	\$ 3,450,237
2013	2,315,526	1,131,069	3,446,595
2014	2,449,425	999,176	3,448,601
2015	2,583,323	859,570	3,442,893
2016	2,734,027	709,529	3,443,556
2017-2021	8,193,908	1,298,225	9,492,133
2022-2026	1,372,500	201,519	1,574,019
	\$ 21,843,880	\$ 6,454,154	\$ 28,298,034

Note 9 - Nonregulated Activities

Nonregulated activities consist of:

	2011	2010
Operating revenues		
ISP service revenue	\$ 1,353,295	\$ 1,337,504
Video service revenue	252,458	-
Customer premise equipment lease	127,705	135,308
Equipment sales	265,362	514,564
Installation and repair	351,756	501,772
Other	26,432	28,359
Total operating revenues	2,377,008	2,517,507
Operating expenses		
Depreciation	270,161	182,798
Cost of goods sold	153,811	365,082
Installation and repair	1,681,287	1,505,114
Administration	342,605	275,019
Sales	379,148	334,714
Other	16,916	22,209
Total operating expenses	2,843,928	2,684,936
Net operating loss	(466,920)	(167,429)
Other income (expense)		
Miscellaneous	(11,628)	(395)
Net loss	\$ (478,548)	\$ (167,824)

City of Brookings Municipal Utilities Telephone Fund

Notes to Financial Statements

December 31, 2011 and 2010

Note 10 - PCS Activities

The Telephone Fund has FCC licenses to operate a PCS network in Eastern South Dakota and Northwestern Iowa which includes the cities of Watertown, Brookings, Sioux Falls and Sioux City. The income related to the PCS system consisted of the following:

	2011	2010
Operating revenues		
PCS service and activation	\$ 20,082,000	\$ 19,381,147
Handsets and accessories	546,062	457,854
Tower sublease	387,016	343,045
Uncollectibles	(574,536)	(459,399)
Total operating revenues	20,440,542	19,722,647
Operating expenses		
Plant specific	3,333,860	3,278,041
Customer	7,216,099	7,320,214
Administrative and general	533,548	548,278
Sales	2,852,226	2,612,484
Cost of goods sold	1,870,490	1,631,936
Depreciation	1,630,776	1,762,130
Amortization	308,501	308,501
Total operating expenses	17,745,500	17,461,584
Net operating income	2,695,042	2,261,063
Other income (expense)		
Investment income	265	305
Interest expense	(971,381)	(1,049,790)
Miscellaneous	1,221,323	239
Total other expense	250,207	(1,049,246)
Net income	\$ 2,945,249	\$ 1,211,817

The Telephone Fund is operating under an agreement with Sprint PCS through June 8, 2018. Under the agreement, Sprint provides the Telephone Fund significant support services such as billing, collections, long-distance, customer care and national advertising. Additionally, the Telephone Fund derives substantial roaming and travel revenues and expenses when Sprint and Sprint's network partners' wireless subscribers incur minutes of use in the Telephone Fund's territories.

The Telephone Fund is also required to make affiliation fee payments based on estimated annual revenues. The actual cost for each of the years ended December 31, 2011 and 2010 was \$1,154,976.

The Telephone Fund received a bankruptcy distribution in the amount of \$1,218,115 to a claim against Crossroads Wireless, Inc. for damages incurred in not completing a June 2008 asset purchase agreement. The amount is included in miscellaneous other income above and on the statements of revenues, expenses and changes in fund equity.

Note 11 - Retirement Plan

All employees, except for part-time employees, participate in the South Dakota Retirement system (SDRS), a cost-sharing, multiple employer, defined contribution, public employee retirement system established to provide retirement benefits for employees for the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, South Dakota, 57501-1098 or by calling 605-773-3731.

General employees are required by state statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute 8% and 9%, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. The Telephone Fund's share of contributions to the SDRS for the fiscal years ended December 31, 2011, 2010 and 2009, was \$310,348, \$308,997, and \$311,139, respectively, which is equal to the required contributions for each year.

Note 12 - Post-Employment Health Care Benefit Liability

The Telephone Fund adopted Governmental Accounting Standards Board (GASB) Codification Section P50 (formerly GASB Statement No. 45), *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*. The Telephone Fund engaged an actuary to determine the Telephone Fund's liability for post employment health care benefits other than pensions and the actuary determined the obligation the Telephone Fund has to record is the implied subsidy portion as described in the standard.

Plan Description – All employees of the Telephone Fund are allowed upon meeting eligibility requirements to participate in the Brookings Municipal Utilities health insurance plan after retirement. This plan covers active and retired employees. Benefit provisions for employees represented by a collective bargaining agreement are established and amended through collective bargaining with the recognized bargaining agent for each group. Benefits and eligibility for administrators, and those not covered by a collective bargaining agreement are established and amended by the governing body. The Brookings Municipal Utilities plan is a self-funded plan reported as an internal service fund of the City of Brookings.

Plan Administration and Reporting – Brookings Municipal Utilities administers the plan through an internal service fund of the City of Brookings. No separate financial reporting is done by the plan.

Authority for Establishment of Benefit Provisions - Under the authority of SDCL 6-1-16, the Telephone Fund, as a component of Brookings Municipal Utilities and through the Authority of the City of Brookings as a South Dakota municipality, may provide for health insurance for retiring employees as the governing body deems appropriate subject to the limitations as described in SDCL 9-14-35.

Obligations of Plan Members and Sponsoring Organization – The governing board of the Telephone Fund determines the contribution amounts for the plan, which currently require participating members to pay 100% of the group rate premium. The plan also allows an early retiree 50% of the premium up to the maximum of \$100 per month provided the employee has been employed by the Utility for ten years, is 62 years of age, and begins to draw SDRS retirement benefits. Future amendments to the funding mechanism of the plan are determined by the governing board.

City of Brookings Municipal Utilities Telephone Fund

Notes to Financial Statements

December 31, 2011 and 2010

Funding Policy – The Telephone Fund has elected to fund the plan on a pay-as-you-go method.

Annual OPEB Cost and Net OPEB Obligation – The Telephone Fund annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the Telephone Fund, an amount actuarially determined in accordance with the parameters of GASB Codification Section P50. The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years.

The following table shows the components of the Telephone Funds annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the Telephone Fund’s net OPEB obligation:

	2011	2010
Present value of employer normal costs	\$ 34,753	\$ 32,748
Amortization of unfunded actuarial liability	13,524	15,292
Annual required contribution and annual OPEB cost	48,277	48,040
Contributions made	(8,348)	(5,235)
Increase in OPEB obligation	39,929	42,805
Net OPEB obligation, beginning of year	110,527	67,722
Net OPEB obligation, end of year	\$ 150,456	\$ 110,527

The Telephone Fund’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2011 and 2010, are as follows:

Fiscal Year Ended	Annual OPEB Cost	Contributed	OPEB Obligation
12/31/2011	\$ 48,277	17.29%	\$ 150,456
12/31/2010	\$ 48,040	10.90%	\$ 110,527

Funded Status and Funding Progress – As of January 1, 2010, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$447,492, and the actuarial value of assets was \$0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$447,492. As noted above, unfunded actuarial liabilities are being amortized over a period of thirty years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to the continual revision as actual results are compared with past expectations and new estimates are made about the future.

City of Brookings Municipal Utilities Telephone Fund

Notes to Financial Statements

December 31, 2011 and 2010

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 5.0 percent investment rate of return (net of administrative expense), which is a blended rate of the expected long-term investment returns on the employer’s own investments, and an annual healthcare cost trend rate of 7.8 percent initially, reduced by decrements to an ultimate rate of 4.4 percent after 10 years. Both rates include an inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis over 30 years. The remaining amortization period at December 31, 2011, was 26 years.

Note 13 - Lease Commitments

The Telephone Fund has various leases relating to the Sioux Falls and Watertown stores. In addition to rent, the Fund also pays real estate taxes, repairs and maintenance and insurance above normal premium on leased property.

Rent expense and future minimum rental commitments for the leases are as follows:

	2011	2010
Expense	\$ 235,001	\$ 235,711
Commitments		
2012	\$ 117,253	
2013	106,901	
2014	103,450	
2015	50,282	
2016	14,438	
Thereafter	-	
Total commitments	\$ 392,324	

Note 14 - Risk Management

The Telephone Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended December 31, 2011, the Telephone Fund managed its risks as follows:

Liability and Automobile Insurance and Property, Boiler and Machine, Crime and Workers Compensation Insurance

The Telephone Fund is a member of the South Dakota Public Assurance Alliance and the public entity risk pools currently operating as common risk management and insurance programs for South Dakota local government entities. The Telephone Fund pays an annual premium to the pool to provide coverage for general liability, automobiles, government officials' liability, risks related to theft and workers compensation insurance.

Insurance for property and boiler is purchased from a commercial insurance carrier.

Unemployment Benefits

The Telephone Fund has elected to self-insure all risk for liabilities resulting from claims for unemployment benefits. During the years ended December 31, 2011 and 2010, the Telephone Fund paid claims of \$3,997 and \$3,380, respectively.

Note 15 - Commitments and Other

The Telephone Fund's total capital budget approved for 2012 is approximately \$5,656,000.



Supplementary Information
December 31, 2011 and 2010

City of Brookings Municipal Utilities Telephone Fund

Independent Auditor's Report on Supplementary Information

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

We have audited the financial statements of City of Brookings Municipal Utilities Telephone Fund (an enterprise fund of the City of Brookings) as of and for the years ended December 31, 2011 and 2010 and our report thereon dated May 3, 2012, which contained an unqualified opinion on those financial statements, appears on page 1. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information on pages 25 and 26 as of and for the years ended December 31, 2011 and 2010 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the 2011 and 2010 financial statements. The information on pages 25 and 26 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 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 on pages 25 and 26 is fairly stated in all material respect in relation to the financial statements as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of City of Brookings Municipal Utilities Telephone Fund as of and for the years ended December 31, 2009, 2008, and 2007, none of which is presented herein, and we expressed unqualified opinions on those financial statements. In our opinion, the December 31, 2009, 2008, and 2007 information is fairly stated in all material respects in relation to the basic financial statements from which it has been derived.

The list of Municipal Utilities Board and General Manager on page 24 and the information in the statistical and analytical section on page 27 relative to the number of access lines was taken directly from the Telephone Fund's accounting records without verification. We do not, therefore, express an opinion on such quantities, or the results of any computations based thereon.



Sioux Falls, South Dakota
May 3, 2012

City of Brookings Municipal Utilities Telephone Fund
Municipal Utilities Board and General Manager
December 31, 2011

Steven Myers	President
David Peterson	Vice President
Gail Robertson	Secretary
Tim Harvey	Member
Carol Pitts	Member
Steve Meyer	Executive Vice President and General Manager

City of Brookings Municipal Utilities Telephone Fund
Schedule of Plant and Accumulated Depreciation
Year Ended December 31, 2011

	Depreciation Rate	Plant			Accumulated Depreciation		
		Balance 1/1/2011	Additions	Retirements	Balance 12/31/2011	Balance 12/31/2011	Percent of Plant
Regulated Telecommunications							
Land		\$ 133,245	\$ -	\$ -	\$ 133,245	\$ -	
Plant in service							
General support							
Motor vehicles	20.0%	698,788	52,460	(36,677)	714,571	605,587	84.7%
Garage work equipment	12.5%	293,674	-	-	293,674	257,945	87.8%
Other work equipment	10.0%	403,393	-	-	403,393	288,845	71.6%
Buildings	3.0%	3,135,736	6,811	-	3,142,547	1,611,595	51.3%
Furniture	6.6%	190,334	3,732	-	194,066	160,649	82.8%
Office equipment	17.6%	139,247	10,125	-	149,372	134,331	89.9%
General purpose computer	20.0%	501,797	4,106	-	505,903	429,398	84.9%
Miscellaneous computer equipment	20.0%	42,297	-	-	42,297	42,297	100.0%
Central office							
Switching	10.0%	11,169,015	51,996	-	11,221,011	10,390,761	92.6%
Transmission	10.0-33.0%	6,452,513	477,937	-	6,930,450	4,841,673	69.9%
Radio systems	14.28%	18,373	-	-	18,373	18,373	100.0%
Cable and wire facilities							
Buried cable	7.0%	4,644,695	-	(6,927)	4,637,768	3,916,085	84.4%
Underground cable	7.0%	2,595,139	-	-	2,595,139	2,595,138	100.0%
Fiber cable	4.0%	9,023,122	292,775	(9,151)	9,306,746	2,187,295	23.5%
Fiber distribution cabinets	4.0%	511,524	16,216	-	527,740	73,014	13.8%
Conduit systems	2.5%	2,003,173	15,562	-	2,018,735	1,044,776	51.8%
Amortizable assets							
Software license	10.0%	896,129	-	-	896,129	238,968	26.7%
Total regulated telecommunications plant		42,852,194	931,720	(52,755)	43,731,159	28,836,730	65.9%

City of Brookings Municipal Utilities Telephone Fund
Schedule of Plant and Accumulated Depreciation
Year Ended December 31, 2011

	Depreciation Rate	Plant			Accumulated Depreciation		Percent of Plant
		Balance 1/1/2011	Additions	Retirements	Balance 12/31/2011	Balance 12/31/2011	
Nonregulated Equipment	Various	2,619,116	485,713	(78,089)	3,026,740	1,409,242	46.6%
PCS Plant							
Land		198,022	-	-	198,022	-	
Plant in service							
General support							
Motor vehicles	20.0%	85,941	25,596	(32,498)	79,039	56,149	71.0%
Garage work equipment	12.6%	102,687	28,705	-	131,392	78,321	59.6%
Buildings	3.0%	1,792,125	-	-	1,792,125	627,702	35.0%
Furniture	6.6%	208,166	-	-	208,166	139,896	67.2%
Office equipment	17.6%	128,370	-	-	128,370	117,603	91.6%
Computer	20.0%	537,066	6,253	-	543,319	522,620	96.2%
PCS site work and tower							
PCS tower structures	5.0%	5,075,611	26,437	(5,786)	5,096,262	2,672,400	52.4%
PCS site work	5.0%	1,386,862	-	-	1,386,862	811,203	58.5%
Interworking function	10.0%	209,625	-	-	209,625	209,625	100.0%
Base and switching equipment							
Base equipment	10.0%	15,322,435	373,614	(32,578)	15,663,471	10,960,031	70.0%
Switching equipment	10.0%	1,715,563	2,744	-	1,718,307	884,910	51.5%
PCS licenses	6.25-6.67%	3,551,203	-	-	3,551,203	2,762,675	77.8%
Total PCS plant		30,313,676	463,349	(70,862)	30,706,163	19,843,135	64.6%
Plant Under Construction		41,655	75,682	-	117,337	-	
Total Property, Plant and Equipment		\$ 75,826,641	\$ 1,956,464	\$ (201,706)	\$ 77,581,399	\$ 50,089,107	64.6%

City of Brookings Municipal Utilities Telephone Fund
Statistical and Analytical Information
Years Ended December 31

	2011	2010	2009	2008	2007
Access Lines					
Residence	3,397	3,549	3,898	4,275	4,559
Business	5,951	6,045	6,493	7,370	7,789
Total	<u>9,348</u>	<u>9,594</u>	<u>10,391</u>	<u>11,645</u>	<u>12,348</u>
Regulated Telephone Plant Statistics					
In service (thousands)	\$ 43,598	\$ 42,719	\$ 42,428	\$ 39,977	\$ 38,008
Per access line	\$ 4,664	\$ 4,453	\$ 4,083	\$ 3,433	\$ 3,078
Per dollar of operating revenue	\$ 5.21	\$ 5.24	\$ 5.59	\$ 4.91	\$ 4.30
Additions to plant (thousands)	\$ 932	\$ 1,262	\$ 2,877	\$ 2,213	\$ 7,480
Percent depreciated to date	66.1	63.9	62.4	63.6	63.5
Composite depreciation rate	3.7	3.8	3.7	3.8	3.7
Financial Statistics					
Telephone operating revenues per access line	\$ 895	\$ 850	\$ 730	\$ 700	\$ 716
Net income before operating transfers per access line	\$ 442	\$ 237	\$ 66	\$ 265	\$ 358
Return on rate base	11.7	9.7	5.4	8.5	21.6
Net income before operating transfers (thousands)	\$ 4,128	\$ 2,276	\$ 690	\$ 3,084	\$ 4,425
Equity to total assets	51.7	45.8	41.5	38.8	34.6
Long-term debt to total assets	37.4	42.6	45.7	46.6	50.2
Cost of long-term debt	6.8	6.7	6.5	6.5	6.6
Current ratio	4.1	3.7	3.2	3.0	3.6
Summary of Statement of Revenues, Expenses and Changes in Fund Equity (Thousands)					
Local network revenue	\$ 2,490	\$ 2,559	\$ 2,677	\$ 2,702	\$ 2,764
Toll and access revenue	4,338	3,962	3,661	3,606	4,341
Long distance network	119	133	159	170	180
Billing and collection	39	45	54	53	59
Other revenue	1,383	1,459	1,036	1,614	1,493
Total telephone operating revenues	<u>8,370</u>	<u>8,158</u>	<u>7,587</u>	<u>8,145</u>	<u>8,837</u>
PCS operations income	2,695	2,261	1,006	2,490	2,118
Nonregulated activities, net	(467)	(167)	119	343	388
Total telephone operating expenses	<u>6,502</u>	<u>6,552</u>	<u>6,720</u>	<u>6,867</u>	<u>6,230</u>
Operating income	4,096	3,700	1,992	4,111	5,113
Other income, net	1,466	131	391	794	1,154
Interest expense	1,434	1,555	1,693	1,822	1,842
Net income before operating transfers	<u>4,128</u>	<u>2,276</u>	<u>690</u>	<u>3,083</u>	<u>4,425</u>
Transfers	(500)	(500)	(575)	(625)	(3,207)
Increase in fund equity	<u>\$ 3,628</u>	<u>\$ 1,776</u>	<u>\$ 115</u>	<u>\$ 2,458</u>	<u>\$ 1,218</u>



Report on Compliance and Other Matters and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of the City of Brookings Municipal Utilities Telephone Fund (an enterprise fund of the City of Brookings), as of and for the year ended December 31, 2011, and have issued our report thereon dated May 3, 2012. 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.

Compliance

As part of obtaining reasonable assurance about whether the City of Brookings Municipal Utilities Telephone Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of 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 or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Brookings Municipal Utilities Telephone Fund's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 Telephone Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Telephone Fund's internal control.

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.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

We noted certain matters that we reported to management of the City of Brookings Municipal Utilities Telephone Fund in a separate letter dated May 3, 2012.

This report is intended for the information of the Municipal Utilities Board, audit committee, management and the South Dakota Auditor General 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.

Eide Bailly LLP

Sioux Falls, South Dakota
May 3, 2012