

MAKING Important Connections



2015 ANNUAL REPORT

OTZ Telephone Cooperative, Inc.

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LETTER TO MEMBERS

May 1, 2016

Dear OTZ Members:

First, we'd like to wish you and your family the very best — and to thank you for being a member of the cooperative. You are, and always will be, our most important connection.

2015 was a really exciting year for OTZ. We made significant progress on a number of fronts, played a key role in making President Obama's visit a success and more. As you can imagine, preparing for the President's visit took a great deal of planning and preparation. We'd like to personally thank OTZ Telephone's front office and technical staff who worked tirelessly with the U.S. Secret Service to provide the telecommunications services necessary for the President to visit Kotzebue.

We are also proud of the plant upgrades that we made this year. In Ambler, OTZ installed new telecommunications cable as part of airport upgrade. In Kotzebue, we ran our first fiber-optic cable from our central office out to the GCI earth station.

Regionwide, the OTZ team also made several moves in 2015 that will make a major impact in the near future.

We're very excited to have started doing the work in both our central office and our outside plant to interconnect with Quintillion's undersea fiber-optic cable network. When completed, it should allow us to provide faster Internet speeds in Kotzebue. Quintillion will locate its telecommunications equipment in the OTZ central office and both companies did a substantial amount of planning and other work in 2015 in preparation.

Also in 2015, we refinanced eight million dollars of long-term debt — giving us the funds to finance multiple projects around the region. In 2016, we will continue to build out our fiber-optic cable ring in Kotzebue, installing and turning up 4G LTE cell service in the villages, and upgrading central office switches throughout the region.

These are exciting times for OTZ and we thank you for being a part of it. We appreciate your trust over the years, and look forward to serving you for many more!

Sincerely,

Doug Neal, CEO

Gordon Newlin, President

2015 Achievements

- Helped paved the way for President Obama's visit by working with U.S. Secret Service to ensure the necessary telecommunication needs.
- Completed installation of new telecommunications cable as part of airport upgrade in Ambler.
- Initiated extensive planning work for link to new undersea fiber-optic cable now under construction off the Arctic coast.
- Laid first fiber-optic cable in Kotzebue — from our central office to the GCI earth station.
- Refinanced 8 million dollars of long-term debt to fund several projects.
- Hired two new employees: Sadie Ferguson and Kris McKay. Also hired student intern, Leilani Jones.

On the Horizon

- Installing fiber-optic cable throughout Kotzebue.
- Upgrading central office switches.
- Installing and turning up 4G cellular service in Kotzebue — and all the villages.

IN THE COMMUNITY

Zonna Lie-Ito OTZ Scholarship Winners

Congratulations to our 2015 scholarship recipients! Each will receive \$1,500/year as a full-time college student as long as he or she maintains a GPA of 2.0 or higher. And the winners are...

Spencer G. Adams from Kotzebue
Majoring in Electrical & Computer Engineering
Carnegie Mellon University • Pittsburgh, PA

Niketa J. Fleming from Deering
Majoring in Justice
University of Alaska • Fairbanks, AK

China L. Kantner from Kotzebue
Majoring in Biology/Environmental Science
Stanford University • Stanford, CA

Daphne Jean-Marie Stein from Kotzebue
Majoring in Anthropology
University of Alaska • Anchorage, AK

DONATIONS & SPONSORSHIPS

OTZ Telecom is proud to support and connect with members of OTZ and the community, both personally and financially by helping these great organizations:

- Arctic Circle Search & Rescue
- City of Kotzebue Spring Clean Up
- KEA New Years Fireworks
- KOTZ Broadcasting Fundraising
- Midnight Sun Color Run
- NANA Regional Corporation
- Native Village of Selawik
- Noorvik IRA
- Noorvik Search & Rescue
- Qatnut Celebration
- Ravn Alaska

THE MOST IMPORTANT CONNECTION...

We made a lot of great connections in 2015. One of the big highlights of the year for OTZ and the entire community was the chance to connect with the President of the United States.

OTZ was honored to play a part in making his visit even possible. Our front office and technical staff worked for hours on end to make sure the U.S. Secret Service and the White House had all the telecommunications services they needed to keep President Obama safe and connected to the world.

Those connections also helped OTZ members share their experiences of the visit with friends and family around the world. Who will ever forget our young ones teaching President Obama a dance...or OTZ member Cheryl Edenshaw honoring him with an Eskimo kiss?!



*Pictured:
Top - President Obama
Middle L - Jia Ballot
Middle R - Adrian Wilson
Bottom right -
Bish Gallahorn & Grace Franklin
Bottom left -
Mary Wesley & Grace Norton*

Speaking of connecting to the world, we're really excited about tapping into a new undersea fiber-optic cable — the Quintillion Network— being built off the Arctic coast. Phase I is underway and includes a main line from Prudhoe Bay to Nome with spurs to Barrow, Wainwright, Pt. Hope, and Kotzebue for direct high-speed access to Fairbanks, Anchorage and the Pacific Northwest. In 2015, OTZ began extensive planning and other work necessary to house the Quintillion telecommunications equipment within the OTZ central office.

With fiber-optic connectivity, OTZ will be able to purchase bandwidth at about half the cost of what we are currently paying for satellite transport. This will allow us to offer better Internet pricing to our members. In addition, the fiber-optic cable will reduce or eliminate latency (time delays) on calls between Kotzebue and Anchorage.



Of course, some of the most important connections are right here in the region. One event that brought the community together in 2015 was the first annual Midnight Sun Color Run to benefit IFOPA.* OTZ was proud to sponsor and help organize the very colorful event...and help support a great cause.



When you think about it, we all connect with each other on many levels and in many different ways. It makes life rich! Here at OTZ, we're in the business of making connections. We link cables, wires, satellites, cell towers and whatnot...but our most important connection is with you.

Pictured at left: Grace Norton & Donna McConnell

*International Fibrodysplasia Ossificans Progressiva Association (FOPS is an extremely debilitating genetic condition that causes soft connective tissues to progressively turn to bone.)

Accessibility for All

OTZ is happy to comply with the spirit and intent of the Communications and Video Accessibility Act of 2010 (CVAA), FCC regulations and the Telecommunications Act of 1996, by offering the following and more:

- Single line local service on a flat rate basis.
- Local emergency service reached by dialing "911."
- Long distance, operator service and directory assistance (through interexchange carriers).
- Toll restriction services at customer's request.
- Lifeline and Linkup programs to qualifying low-income residential customers.
- Hearing aid compatible phones.

Meet the OTZ Telecommunications Staff

Stephanie Sampson
Customer Service Representative

Sadie Ferguson
Billing Clerk

Leilani Jones
2015 Student Intern

Meet the OTZ Telephone Cooperative, Inc. Staff



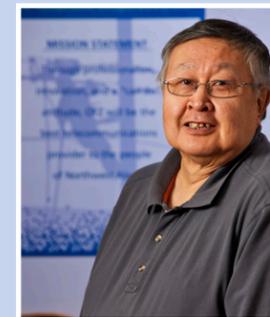
Doug Neal, CEO

- | | |
|-----------------------------|------------------------|
| Chandra Abeyratne | Mark Iten |
| Harry Baldwin | Gary Jackson (Selawik) |
| Skyler Baldwin | Wilbur Karmun, Jr. |
| Bruce Barr (Deering) | Harold Lambert |
| Kris McKay (Kobuk) | Donna McConnell |
| Melford Booth (Noatak) | Lucy Mae McConnell |
| Alfred Cleveland (Shungnak) | Grace Norton |
| Brian Cleveland (Ambler) | LeAnn Schaeffer |
| Verne Cleveland (Noorvik) | Don Smith |
| Cindy Fields | Gary Swan (Kivalina) |
| Sean Hoffman (Noorvik) | Rudy Thomas, Sr. |
| Ann Howarth | Richard Wells, Sr. |

Meet the OTZ Telephone Cooperative, Inc. Board of Directors



Gordon Newlin
President
Dist. 2: Kiana, Noorvik,
Selawik



Larry D. Jones
Vice President
Dist. 4: Kivalina,
Noatak, Red Dog



Eunice Hadley
Secretary/Treasurer
Dist. 3: Buckland,
Deering



Chester L. Ballot
Director
Dist. 6: Kotzebue



Jane Cleveland
Director
Dist. 1: Ambler, Kobuk,
Shungnak



Marie N. Greene
Director
Dist. 5: Kotzebue



Charlie Gregg
Director
Dist. 7: Kotzebue



In Memory

Shawn Curtis of Kiana passed away in September of 2015. He was with OTZ for three years of Service. Our hearts go out to his friends and family.

OTZ TELEPHONE COOPERATIVE, INC. and SUBSIDIARY

Consolidated Balance Sheets

December 31, 2015 and 2014

<u>Assets</u>	<u>2015</u>	<u>2014</u>
Current assets:		
Cash	\$ 2,464,678	\$ 1,024,904
Accounts receivable, less allowance for doubtful accounts of zero	963,445	923,142
Materials and supplies	426,794	475,014
Income tax receivable	128,719	-
Prepaid income taxes	-	36,723
Prepaid expenses	144,635	171,654
Total current assets	<u>4,128,271</u>	<u>2,631,437</u>
Other assets and investments:		
Miscellaneous physical property	-	-
Other investments	510,670	586,033
Deferred income taxes, net	-	-
Restricted cash	26,270	25,476
Total other assets and investm	<u>536,940</u>	<u>611,509</u>
Property, plant, and equipment:		
In service	32,957,926	32,072,557
Under construction	136,154	296,034
	33,094,080	32,368,591
Less accumulated depreciation	<u>22,423,991</u>	<u>20,867,530</u>
Property, plant, and equipment	<u>10,670,089</u>	<u>11,501,061</u>
Total Assets	<u>\$ 15,335,300</u>	<u>\$ 14,744,007</u>
<u>Liabilities and Members' Equity</u>		
Current liabilities:		
Current portion of long-term de	\$ 750,000	\$ 1,796,400
Accounts payable and accrued expenses	739,836	631,542
Customer deposits	93,367	87,957
Advanced billing	59,808	62,498
Patronage capital payable	-	-
Total current liabilities	<u>1,643,011</u>	<u>2,578,397</u>
Long-term debt, net of current portion	<u>7,250,000</u>	<u>6,210,251</u>
Deferred credits	<u>26,270</u>	<u>25,476</u>

OTZ TELEPHONE COOPERATIVE, INC. and SUBSIDIARY

Consolidated Statements of Operations

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Local network	\$ 868,847	\$ 851,911
Network access	7,544,464	7,604,764
Billing and collection, directory, and other	31,843	23,463
Equipment sales and leases	248,754	318,736
Long distance	97,961	111,049
Cellular	460,354	560,432
Internet	588,232	608,447
Total operating revenues	<u>9,840,455</u>	<u>10,078,802</u>
Operating expenses:		
Plant specific	2,394,568	2,618,687
Plant nonspecific	566,212	629,158
Depreciation	1,644,447	1,738,033
Customer	428,809	329,043
Corporate	1,253,586	1,121,841
Operating taxes	126,510	105,227
Equipment sales and leases	270,180	396,933
OTZ Telecommunications	1,558,908	1,765,403
General and administrative	760,459	880,492
Total operating expenses	<u>9,003,679</u>	<u>9,584,817</u>
Operating margin	<u>836,776</u>	<u>493,985</u>
Other income (expense):		
Interest and dividend income	7,931	2,566
Interest expense	(326,587)	(373,053)
Allowance for funds used during construc	11,000	15,000
Income tax expense	3,767	(1,973)
Other losses, net	(46,506)	(54,997)
Total other income (expense)	<u>(350,395)</u>	<u>(412,457)</u>
Net margin	<u>\$ 486,381</u>	<u>\$ 81,528</u>

I. Call to Order
Board President, Gordon Newlin, called to order the 40th Annual Meeting of Members of OTZ Telephone Cooperative, Inc. at 7:00 p.m. on May 11, 2015. He reminded the members that the meeting was on the air with KOTZ radio.

II. Invocation
After Gordon welcomed everyone to the meeting, Flora Greene gave the invocation in Inupiaq.

III. Determination of Quorum
A quorum was established, since more than 50 members were in attendance.

IV. Early Bird Drawing
After an explanation about how the raffle was going to be run, Ann Sieh and Stephanie Sampson conducted the early bird drawing. The first draw was made by attendee Ann Sieh, who picked the Ugly Stik Fishing Pole; the mail-in winners were Aurora & John Iyatunguk of Kotzebue. The second draw was made by attendee Chad Nordlum who picked the Fisherman's kit; the mail-in winner was Holly Lazarus of Kotzebue.

Gordon introduced himself, Chester L. Ballot, Jane Cleveland, Eunice Hadley and Larry D. Jones and announced that Marie N. Greene was out of town on business. He thanked Lucy S. Nelson for her years of service. She was elected to the board of directors in 2005 and served on the finance committee plus as vice-president of the board.

V. Approval of Annual Meeting Minutes of May 15, 2014
Queen Davis moved to approve the minutes of the Annual Meeting of May 15, 2014, seconded by Sheila Stein. The motion passed unanimously.

VI. Election of Two Directors – from District 1 (Ambler, Kobuk, Shungnak); and District 5 (Kotzebue)

Chester read the section of the bylaws that pertains to the process of nominating members to the board of directors. He thanked Ann and the nominating committee for all their hard work. The nominating committee consisted of Jimmie Evak of Kotzebue, Rosie Garoutte of Kotzebue and Lydia Douglas of Ambler. Chester then read the list of nominees for the three board seats:

District 1 (Ambler, Kobuk, Shungnak) – Jane Cleveland, Incumbent, (Ambler); Harry Douglas (Ambler); Lois L. Douglas (Ambler); Anthony Tickett (Ambler); Agnes Bernhardt (Kobuk), Wanda Custer (Kobuk); and Billy A. Lee (Shungnak).

District 5 (Kotzebue) – Marie N. Greene, Incumbent; Elizabeth "Kookie" Ito; Allen Jessup Sr.; and Carol "Bunny" Schaeffer

Chester notified the members that as per the bylaws, he was required to request nominations from the floor, and after a minute, hearing none, he noted that the nominations were closed.

Chester requested and received eight volunteers from the membership to help Ann Sieh with counting the ballots. He then asked if there were any more ballots to be collected from the floor.

VII. New Business
There was no new business.

VIII. Reports

A. Board
Chester turned the meeting over to Chief Executive Officer, Doug Neal.

B. Management
Doug greeted everyone present and welcomed them to the meeting. He then thanked the board and staff for all their hard work. Doug thanked Ann for all the hard work she had done to make our annual meeting a success. He then recognized three former employees for their many years of dedicated service. He thanked Phyllis Ferguson for her 24 years of service, Brenda Schaeffer for her 19 years of service, and Margie Ubben for her 19 years of service.

He then reported that due to uncertainty expressed by the Federal Communications Commission (FCC) regarding Universal Service Fund support for small, rural carriers, OTZ had to refuse a draw-down on a loan from Rural Utilities Service (RUS). The loan would have been used to build-out our wireless network in the villages. He said that he, and others representing small carriers in Alaska, had gone back to Washington, DC, to meet with our delegation and key personnel at the FCC with the message that small, rural carriers need predictable and sufficient support to expand their networks.

He talked briefly about the two middle mile projects. He said that GCI would probably turn up a terrestrial microwave project in 2015, and that Quintillion Networks was working towards bringing an undersea fiber optic cable to Kotzebue sometime over the next few years.

Doug introduced the accounting staff, Lucy Mae McConnell and Donna McConnell. He said that both women are doing a great job at OTZ and that he was especially proud of Lucy Mae who has recently earned her bachelor's degree in Business Administration.

Doug presented the audited financial statements for calendar-year 2014. Following the presentation of the audited financial statements, he introduced Ben Phillips, Outside Plant Manager.

Ben greeted everyone and introduced Don Smith, purchasing agent; Harold Lambert, warehouseman; Wilbur Karmun, Chandra Abeyratne, and

Dan Schultz, all of whom work in the central office; and John Baker and Rick Wells, both of whom do outside plant work. He recognized our village representatives Brian Cleveland of Ambler; Rudy Thomas of Buckland; Bruce Barr of Deering; Shaun Curtis of Kiana; Billy Bernhardt of Kobuk; Melford Booth of Noatak; Verne Cleveland and Sean Hoffman of Noorvik; Gary Jackson of Selawik; Alfred Cleveland of Shungnak; and Andrew Baldwin in Kivalina. He also recognized our engineers, Gerald Gardner, Jeff Simpson, and Frank Simpson.

Ben reported that, during the previous year, we had installed new central office switches in Ambler, Kobuk, Shungnak and Kotzebue. We replaced aerial cable along Turf Street, and, in Buckland, we installed new cable line to five new homes. He reported that the long-distance carriers have been having problems with phone calls being terminated to landline phones. We have been working with the carriers to resolve this problem.

Ben reported that we will conduct a number of aerial cable projects in Kotzebue in the villages over the next year. He closed by introducing Carl Weisner, OTZ Telecommunications Operations Manager.

Carl welcomed everyone and introduced himself and his staff: Malinda Reich, billing clerk; Caleb Crossan, customer service representative; and Stephanie Sampson who will start work with us soon. He also introduced the Internet Department crew: Mark Iten, Data/Network Administrator; Jason Nantelle, Internet Systems Administrator; and Harry Baldwin, Network Systems Technician.

Carl reported that, in 2014 we added faster download speeds on rate plans, updated our OTZ Telecom logo, and that we are in the process of transitioning from paper to electronic filing. He reported that we have new cell phones and rate plans. He noted that DSL service from OTZ is unlimited and that it can be bundled with your cell service. He also noted that we have free Wi-Fi service throughout Kotzebue. Carl then introduced Caleb Crossan.

Caleb welcomed everyone to the meeting and then introduced the front office staff: Cindy Fields, Billing Clerk; LeAnn Schaeffer, Assistant Billing Clerk; and Grace Norton, Customer Service Representative. He encouraged members of the Cooperative to sign up for online bill pay. He discussed the Lifeline and Linkup program for both wireline and wireless service. He closed by talking about some of the other innovative technology that OTZ is moving towards to make it easier for customers to do business with us.

Caleb thanked everyone for their time, and then turned the meeting back over to board president, Gordon Newlin.

IX. Unfinished Business
There was no unfinished business.

Gordon gave the membership an opportunity to ask the board and staff questions.

Mary Ann Wilson said that she was having a problem calling out to the villages. Ben replied that he would have one of our guys work with her the next day to resolve the problem.

At this time it was decided to take a break until the election results were finalized.

X. Election Results

Gordon thanked: Sandra Moto; Joanne Harris; Mary Jane Pungalik; Judith N. Stein; Barbara Jordan Smith; Ashley Stickman; Michelle Kubalack; and Arthur Douglas Jr. for helping with the election results.

Ashley Stickman presented the election results, as follows:

District 1 (Ambler, Kobuk, Shungnak) – Jane Cleveland, Incumbent, (Ambler) 135 votes; Harry Douglas (Ambler) 22 votes; Lois L. Douglas (Ambler) 27 votes; Anthony Tickett (Ambler) 12 votes; Agnes Bernhardt (Kobuk) 41 votes; Wanda Custer (Kobuk) 12 votes; and Billy A. Lee (Shungnak) 80 votes. Winner Jane Cleveland of Ambler with 135 votes.

District 5 (Kotzebue) – Marie N. Greene, Incumbent, 169 votes; Elizabeth "Kookie" Ito 62 votes; Allen Jessup Sr. 68 votes; and Carol "Bunny" Schaeffer 65 votes. Winner Marie N. Greene with 169 votes.

Gordon again thanked all the people who had helped with the election.

XI. Drawing of Door Prizes
Ann and Stephanie volunteered to help with the final drawing. The drawing of door prizes was held and the following winners were announced:

The Grand Prize Drawing: attendee Jonathan Duckworth had a choice of the drum of gas or stove oil; and drew mail-in winner: City of Deering. Attendee Stella Atoruk picked the Cabela's tent and drew mail-in winner Maria K Berg.

Gordon thanked Ann and her staff for handing out the door prizes. Gordon thanked the board of directors for all their work.

XII. Adjournment
Judith N. Stein moved to adjourn, seconded by Barbara Jordan Smith. The meeting adjourned at 8:08 p.m. Gordon closed by thanking KOTZ Radio and the meeting was adjourned.



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