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“Whether we’re meeting decision makers in Washington or listening to your concerns, it’s all a part of delivering reasonable rates and reliable service from a rural-focused company — *that’s yours!*”

LETTER to Members

May 5, 2012

Dear OTZ Members:

First, we want to thank all our members for trusting your telecommunications services to us here at OTZ. We’re proud to serve you! I want to thank the staff at OTZ for all of their hard work. One thing that I really appreciate about the staff at OTZ is that they all really do have that “can do” attitude.

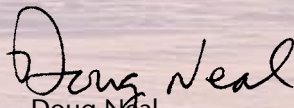
This past summer, we completed the first phase of an outside plant rebuild in Ambler and, providing that funding is available, plan to finish the project this summer. This past year, we also installed central office switches in Kotzebue and Ambler. We also completed the buildout of a WIFI network in Kotzebue, which allows anyone with a wireless device to access the Internet from just about anywhere in Kotzebue.

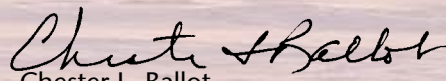
With the closeout of a loan through Rural Utilities Services, we will be building out cellular phone service to the rest of the region. While we continue to work to update services and infrastructure, we’re also working hard in Washington, D.C. — trying to educate the folks at the FCC about the realities of providing service to communities in rural Alaska. We are now ramping up our efforts to amend the reformation act and to protect rural Alaskans.

Whether we’re meeting decision makers in Washington or listening to your concerns, it’s all a part of delivering reasonable rates and reliable service from a rural-focused company — *that’s yours!*

We look forward to serving you for many years to come.

Sincerely,


Doug Neal
CEO


Chester L. Ballot
President



**Chester L. Ballot,
OTZ President**



**Doug Neal,
OTZ CEO**

Highlights

Major 2012 Achievements

- Increased Kotzebue DSL upload speeds and doubled monthly data transfer amounts.
- Installed and turned up new landline switch in Kotzebue and Ambler.
- Upgraded aerial cable plant in Kotzebue's Turf Street area.
- Built WIFI network covering Kotzebue.

On the Horizon for 2013

- Four cell switch installations (Kiana, Noatak, Kivalina, Buckland), including towers.
- Ambler plant rebuild.
- Upgrades to our central offices.
- Various upgrades to cable plant throughout each site.



Suzan Howarth texts her kids to see if they are doing their homework.

Office of Native Affairs Policy

- OTZ participated in regional Tribal Council meetings, where we listened to members, shared OTZ Wireless build out plans, and explored ways to work together.

2012 Zonna Lie-Ito OTZ Scholarships

Total: \$1,500 per year

Many congratulations to our 2012 scholarship recipients! Each of these scholars will receive \$1,500 per year as a full-time student as long as he or she maintains a GPA of 2.0 or higher. The winners are...

- **Christina D. Fields, Kotzebue High School** (Highline Community College, Des Moines, WA)
- **Colton T. Jessup, Kotzebue High School** (University of Alaska Anchorage, AK)
- **Grant M. Magdanz, Kotzebue High School** (University of Washington, Seattle, WA)
- **Jerome T. McCall, Kotzebue High School** (University of Alaska Anchorage, AK)

Donations and Sponsorship

During 2012, OTZ provided courtesy cell phones to local organizations. OTZ Telecommunications donated to Kotzebue's Youth League. Finally, throughout the year we sent goodie bags filled with useful give a ways to all the surrounding communities for Spring Clean Up and Fourth of July Celebrations.



Barbara Viglione gets assistance from Grace Norton filling out an online application on OTZ's website.



Theodore III lets his mom Yvonne Kingeak talk to her mom.



Reliable

OTZ is constantly upgrading our technology so that our services are fast and reliable. We have expanded our coverage and we provide high speed DSL service. In 2013, we will perform cable maintenance upgrades to all villages. We will also install aerial cable in Ambler and install and turn up Taqua Softswitches in Kobuk and Shungnak.



Easter & Dan Henry Sr. call long distance on a regular landline to their grandchildren living in Palmer.



LeAnn Schaeffer shows Margaret Hadley her new apps on her Samsung Galaxy SIII.

Rural

The Northwest Arctic is home to rugged, resourceful individuals who need a telecommunications company that understands and can meet their unique needs. Our technological infrastructure allows us to provide a full range of telecommunications services to our customers in remote rural communities. We have recruited a local team of customer service reps, based in Kotzebue, who regularly travel to the villages. We hire these great people so when you contact us you talk to folks who understand your lifestyle, know your community and are familiar with your needs.



Margie Ubben shares a laugh with longtime OTZ member Judith N. Stein.

**ANNUAL MEETING MINUTES
OTZ TELEPHONE COOPERATIVE, INC.
May 16, 2012**

I. Call to Order

At 7:00 p.m. on May 16, 2012, Board President, Chester L. Ballot, called to order the 37th Annual Meeting of the OTZ Telephone Cooperative, Inc.

He commented that members should have a copy of the agenda and annual report, and informed the members that we were live on KOTZ Radio.

II. Invocation

Chester requested that Jane Cleveland give the invocation. Jane led a moment of silence and the prayer.

III. Determination of Quorum

It was determined that with more than 50 members in attendance a quorum was established. At that time Grace Norton, Cindy Fields and Margie Ubben yelled, "Yes we do!"

IV. Early Bird Drawing

After an explanation of how the raffle was going to be run, Ann Sieh, Brenda Schaeffer and Carl Weisner conducted the early bird drawing. The first draw was attendee Grace Downey who picked a digital answering system with a base keypad and drew mail-in winner Douglas & Cynthia Fields of Kotzebue. Telcom attendee, Warren J. Karmun, picked a Stanley Stainless Steel Thermos. The second draw was attendee Frank Luther who picked a fishing rod and drew mail-in winner Nelda Swan of Kivalina. Telcom attendee Joe Bia picked a three-piece non-stick skillet set.

V. Approval of Annual Meeting Minutes of May 16, 2011

Judith Stein moved to waive the reading of the minutes of the Annual Meeting of May 16, 2011, seconded by Rodney Snyder. Motion passed unanimously.

Alice Sheldon moved to approve the minutes of the Annual Meeting of May 16, 2011, seconded by Pierre Lonewolf. Motion passed unanimously.

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

Chester shared that members should have received a letter in January giving notice of the seats that are open for this year. Chester requested that Ann Sieh come up to the podium to explain the nominating committee process.

Ann informed the membership that in January they should have received a letter in the mail notifying them of the board seats

**OTZ TELEPHONE COOPERATIVE, INC. and SUBSIDIARY
Consolidated Statements of Operations
December 31, 2012 and 2011**

	2012	2011
Operating revenues:		
Local network	\$ 913,157	1,009,772
Network access	7,748,903	7,297,628
Billing and collection, directory, and other	58,905	38,785
Equipment sales and leases	312,767	356,490
OTZ Telecommunications	1,398,556	1,715,396
Total operating revenues	10,432,288	10,418,071
Operating expenses:		
Plant specific	2,636,357	2,457,279
Plant nonspecific	580,941	569,250
Depreciation	1,575,468	1,475,952
Customer	306,959	346,639
Corporate	1,577,313	1,519,906
Operating taxes	107,805	126,942
Equipment sales and leases	417,411	383,912
OTZ Telecommunications	1,725,261	1,755,772
General and administrative	488,076	458,452
Total operating expenses	9,415,591	9,094,104
Operating margin	1,016,697	1,323,967
Other income (expense):		
Interest and dividend income	5,971	6,255
Interest expense	(465,418)	(500,640)
Income tax expense	(185,554)	(340,000)
Other gains, net	56,832	77,634
Total other income (expense)	(588,169)	(756,751)
Net margin	\$ 428,528	567,216

A complete copy of the consolidated financial statements audited by Mikunda, Cottrell & Co., Inc. may be seen during regular office hours at: OTZ Telephone Cooperative, Inc., Kotzebue, Alaska.