



new growth

2016 ANNUAL REPORT
OTZ Telephone Cooperative, Inc.



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achievements

- Secured stable federal funding support with FCC approval of the Alaska Plan, a culmination of many years of advocacy.
- Facilitated Quintillion Networks' Arctic undersea fiber optic cable project by making room for, installing, and hosting their telecommunications equipment in our central office. All, with uninterrupted telecommunications services to our members.
- Installed cellular switches and antennas in most villages in preparation for 4G LTE service.
- Significant progress in building fiber-optic ring around Kotzebue.
- Completed a substantial number of central office and outside-plant upgrades.

on the horizon

- New cellular antenna and switch to be installed and service offered in Ambler in 2017.
- Active cellular service in the villages.
- Continue buildout a fiber ring around Kotzebue in 2017 with anticipated completion soon thereafter.
- Fiber-optic connectivity to the world via underwater cable along the Chukchi coast from Prudhoe Bay. Offshore trenching continues this summer; connection to Kotzebue anticipated in late 2018.

letter to members

May 1, 2017

Dear OTZ Members:

We first want to wish you and your family the very best — and to thank you for being a member. At your service is a dedicated team of board of directors and staff members, all doing everything that we can possibly do to meet your telecommunications needs.

2016 was a great year for us. We're excited to share with you the highlights of the year and how they have opened opportunities for new growth — and a bright new future:

Approval of Alaska Plan Expands Possibilities

After years of educating the Federal Communications Commission and other agencies back in Washington, D.C., on the challenges of providing telecommunications services to rural Alaska, the FCC approved the Alaska Plan, which ended funding declines and secured predictable funding support for years into the future. Along with support from across the state, the advocacy efforts of our Alaska Congressional delegation also played a key role in the approval of the Alaska Plan by the FCC. We are really excited about the approval of the Alaska Plan as this funding will allow OTZ to take on and complete some really exciting and essential wireless and wireline services.

Fiber Connection to World Gets Closer

During the course of 2016, Quintillion Networks installed all of its telecommunications equipment in our central office. To facilitate this, OTZ had to move most of our telecommunications equipment, install new equipment, and at the same time, keep OTZ telecommunications services up and running. Our team did a great job, and it all worked out really well. To give us the fiber-optic connectivity to the rest of the world that we are looking for, Quintillion still has some trenching working to do offshore from Prudhoe Bay, which they plan on doing this summer.

Cell Infrastructure Spreads to Villages

During the summer, we installed new 4G LTE cellular switches and antennas in every village except Ambler. We are currently turning up 4G LTE service throughout the region and will install Ambler infrastructure this summer (2017).

Kotzebue's Ring of Fiber Heats Up

We made great strides toward building out a fiber ring around Kotzebue during the construction season. To meet your demands for faster broadband speeds, OTZ continues to expand and enhance the network.

Along with the above projects, OTZ completed a substantial number of central office and outside-plant upgrades to keep everything working smoothly.

2017 promises to be another busy and productive year for us and we want to thank you for being a member — and being part of it all!

Sincerely,

Doug Neal, CEO

Gordon Newlin, President

new plan. new growth. new opportunities.



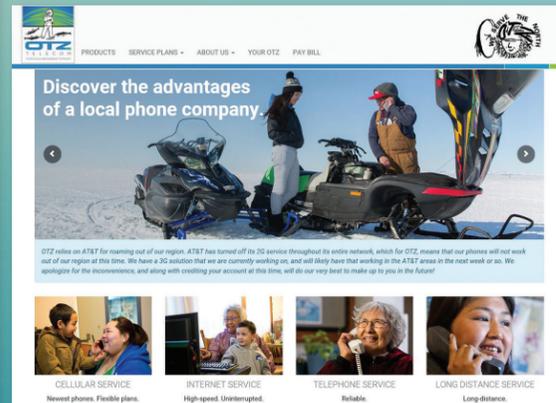
Great things happened this year, including the birth of a new era in Alaska rural communications.

With the passage of the FCC's "Alaska Plan" in August of 2016, OTZ will have stable federal funding for the next decade, enabling us to expand and enhance communication services to our members. Not only does this ensure success in our mission to bring cellular service to every village, it also means a strong foundation to continue expanding broadband internet services, increase internet speeds, support landline service and keep it all up and running.

There's a whole lot of growing going on!



OTZ moved and installed new equipment at our Central Office in support of the undersea fiber optic cable project that will bring lightning fast internet speeds. We installed new 4G LTE cellular switches and new antennas in all villages except Ambler, which we'll complete in 2017. We made progress on building out a fiber optic ring around Kotzebue. We upgraded many central office switches and outside plants. We even redesigned our website.



Best yet, there's new life for 2017 and beyond.



With steady funding, fiber optic connections and your ongoing support as a loyal member, OTZ will continue to do more and more for you — and our entire region.

We're excited about the possibilities of telemedicine capabilities, education opportunities and supporting the many communities of OTZ.



growing our communities

As a member of our cooperative, you are supporting the many people, businesses and communities of the Northwest Arctic. Together we grow and thrive and protect our way of life up here.

Zonna Lie-Ito OTZ Scholarship Winners

Congratulations to our 2016 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.

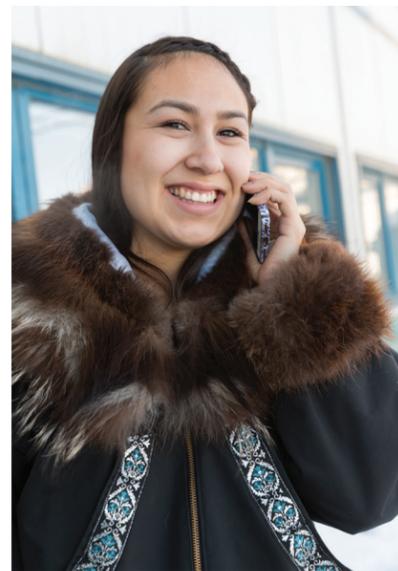
And the winners are...

- Jeremy A. Barr (Kiana HS) to Study Computer at Science at UAF
- Brandi L. Reich (Kotzebue HS) to Study Business Administration at UAF
- Lloyd R. Walker (Kotzebue HS) to Study Diesel/Heavy Equipment at UAF

Donations & Sponsorship Recipients

- Arctic Circle Search & Rescue
- KEA New Years Fireworks
- KOTZ Broadcasting Fundraising
- Midnight Sun Color Run
- Native Village of Kotzebue

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.

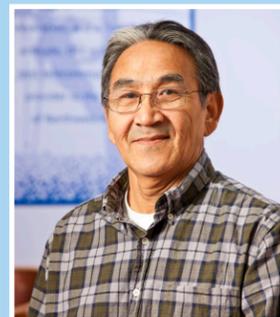
Local emergency service reached by dialing "911."

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.



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

Your OTZ Telephone Cooperative, Inc. Board of Directors



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



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



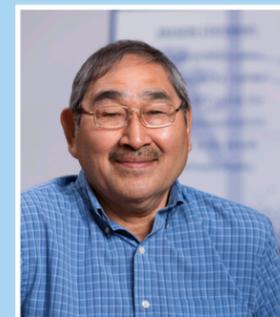
Jane Cleveland
Dist. 1: Ambler, Kobuk, Shungnak



Marie N. Greene
Dist. 5: Kotzebue



Chester L. Ballot
Dist. 6: Kotzebue



Charlie Gregg
Dist. 7: Kotzebue

Your OTZ Telecommunications Staff

Stephanie Sampson
Customer Service Representative

Sadie Ferguson
Billing Clerk

Elvina Pete & Kristen Williamson
2016 Student Interns

Your OTZ Telephone Cooperative, Inc. Staff

Doug Neal, CEO

Chandra Abeyratne

Harry Baldwin

Skyler Baldwin

Cindy Fields

Adam Greene

Ann Howarth

Mark Iten

Wilbur Karmun, Jr.

Harold Lambert

Donna McConnell

Lucy Mae McConnell

Grace Norton

LeAnn Schaeffer

Don Smith

Richard Wells, Sr.

Village Representatives

Bruce Barr (Deering)

Melford Booth (Noatak)

Alfred Cleveland (Shungnak)

Brian Cleveland (Ambler)

Verne Cleveland (Noorvik)

Gary Jackson (Selawik)

Kris McKay (Kobuk)

Gary Swan (Kivalina)

Rudy Thomas, Sr. (Buckland)

OTZ TELEPHONE COOPERATIVE, INC. and SUBSIDIARY

Consolidated Balance Sheets

December 31, 2016 and 2015

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Current assets:		
Cash	\$ 1,538,952	\$ 2,464,678
Accounts receivable, less allowance for doubtful accounts of zero	1,270,874	963,445
Materials and supplies	489,358	426,794
Income tax receivable	7,219	128,719
Prepaid expenses	39,925	144,635
Total current assets	<u>3,346,328</u>	<u>4,128,271</u>
Other assets and investments:		
Other investments	448,657	510,670
Restricted cash	27,046	26,270
Total other assets and investments	<u>475,703</u>	<u>536,940</u>
Property, plant, and equipment:		
In service	35,487,147	32,957,926
Under construction	368,734	136,154
	35,855,881	33,094,080
Less accumulated depreciation	24,183,196	22,423,991
Property, plant, and equipment, net	<u>11,672,685</u>	<u>10,670,089</u>
Total Assets	<u>\$ 15,494,716</u>	<u>\$ 15,335,300</u>
<u>Liabilities and Members' Equity</u>		
Current liabilities:		
Current portion of long-term debt	\$ 1,000,000	\$ 750,000
Accounts payable and accrued expenses	842,973	739,836
Deferred revenue	60,000	-
Customer deposits	46,035	93,367
Advanced billing	57,705	59,808
Total current liabilities	<u>2,006,713</u>	<u>1,643,011</u>
Long-term debt, net of current portion	<u>6,250,000</u>	<u>7,250,000</u>
Deferred credits	<u>27,046</u>	<u>26,270</u>
Unclaimed capital credits	<u>296,233</u>	<u>296,233</u>
Members' equity:		
Memberships	6,130	6,610
Patronage capital	6,908,594	6,113,176
Total members' equity	<u>6,914,724</u>	<u>6,119,786</u>
Total Liabilities and Members' Equity	<u>\$ 15,494,716</u>	<u>\$ 15,335,300</u>

OTZ TELEPHONE COOPERATIVE, INC. and SUBSIDIARY

Consolidated Statements of Operations

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Local network	\$ 845,062	\$ 868,847
Network access	8,461,832	7,544,464
Billing and collection, directory, and other	94,232	31,843
Equipment sales and leases	160,598	248,754
Long distance	64,970	97,961
Cellular	362,580	460,354
Internet	558,981	588,232
Total operating revenues	<u>10,548,255</u>	<u>9,840,455</u>
Operating expenses:		
Plant specific	2,892,328	2,394,568
Plant nonspecific	590,618	566,212
Depreciation	1,759,204	1,644,447
Customer	384,209	428,809
Corporate	1,099,583	1,253,586
Operating taxes	107,726	126,510
Equipment sales and leases	197,229	270,180
OTZ Telecommunications	1,700,287	1,558,908
General and administrative	755,093	760,459
Total operating expenses	<u>9,486,277</u>	<u>9,003,679</u>
Operating margin	<u>1,061,978</u>	<u>836,776</u>
Other income (expense):		
Interest and dividend income	7,837	7,931
Interest expense	(300,107)	(326,587)
Allowance for funds used during construction	34,000	11,000
Other losses, net	(8,290)	(42,739)
Total other income (expense)	<u>(266,560)</u>	<u>(350,395)</u>
Net margin	<u>\$ 795,418</u>	<u>\$ 486,381</u>

ANNUAL MEETING MINUTES OTZ TELEPHONE COOPERATIVE, INC. May 17, 2016

I.Call to Order

At 7:00 p.m. on May 17, 2016, Board President Gordon Newlin called to order the Annual Meeting of Members of OTZ Telephone Cooperative, Inc. He reminded the members that we were on the air with KOTZ radio.

II. Invocation

Gordon welcomed everyone to the meeting and Mary Ann Wilson gave the invocation.

III. Determination of Quorum

It was determined that with more than 50 members in attendance; a quorum was established.

IV. Early Bird Drawing

After an explanation of how the raffle was going to be run, Harold Lambert and Stephanie Sampson conducted the early bird drawing. The first draw was made by attendee Mary Ann Wilson who picked the Coleman Cold Weather Sleeping Bag, the mail-in winner was Pauline Vestal of Noatak. The second draw was made by attendee Annette Richards who picked the 100-Quart Coleman Cooler and the mail-in winner from Deering IRA.

V. Approval of Annual Meeting Minutes of May 11, 2015

Claude Wilson Jr. moved to approve the minutes of the Annual Meeting of May 11, 2015. Judy Stein seconded the motion, which passed unanimously.

VI. Election of Two Directors – from District 2 (Kiana, Noorvik, Selawik); and District 3 (Buckland, Deering)

Chester read the letter that was sent to all members notifying them of the annual meeting. He then thanked the nominating committee, which consisted of Pierre Lonewolf, Jimmie Evak, and Rosie Garoutte all of Kotzebue. Chester then read the section of the bylaws that pertains to the process of nominating members to the board of directors, and the list of nominees for the two board seats:

District 2 (Kiana, Noorvik, Selawik) – Gordon Newlin, Incumbent, Noorvik; Thomas Outwater, Noorvik; and Maureen C. Ticket, Selawik.

District 3 (Buckland, Deering) – Percy Ballot, Buckland; Eunice Hadley, Incumbent, Buckland; Nathan Hadley Jr., Buckland; Mona Washington, Buckland; and Fletcher Gregg Jr., Deering.

Chester notified the members that, 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 six volunteers from the membership to help Lucy Mae McConnell count the ballots. He then asked if there were any ballots on the floor to be collected.

VII. New Business

There was no new business.

VIII. Reports

A. Board

Gordon introduced the board of directors:

District 1 Ambler, Kobuk, Shungnak: Jane Cleveland

District 2 Kiana, Noorvik, Selawik: Gordon Newlin, President

District 3 Buckland, Deering: Eunice Hadley, Secretary/Treasurer

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

District 5 Kotzebue: Marie N. Greene

District 6 Kotzebue: Chester L. Ballot and

District 7 Kotzebue: Charlie R. Gregg

Gordon then turned the meeting over to Ann Howarth.

B. Management

Ann Howarth greeted the membership and welcomed them to the 41st Annual Meeting of the Members. She thanked them all for attending the meeting, both in person and via KOTZ Radio. Unfortunately, our CEO, Doug Neal, was not able to at the meeting, so Ann Howarth, Community Outreach Coordinator, delivered Doug’s report:

Ann first thanked the OTZ Crew for all the hard work they did during the past year and went on to say that 41 years is a long time to be in business, especially with all the changes in telecommunications,. Much of our success, especially given all the changes, is due to the hard work of community-minded people like the Board of Directors, many of whom have, through both good and difficult times, kept an eye on the future and looked for ways for the Cooperative to do a better job of serving its members. The staff at OTZ has demonstrated the same commitment. From the first telephone switches that were installed back in the late 1970s, through providing Long Distance, Internet and Cellular service since the 1990s, the board and staff at OTZ worked hard to provide members with the best possible telecommunications services. While changes in the ways which we now communicate are mind boggling, the one constant thing over the past 41 years is that OTZ has been represented by family members and neighbors, people who live and work in the region: people who do their best to take care of members and all their telecommunication needs.

Ann announced that, Quintillion Networks CEO Elizabeth Pierce was, unfortunately, unable to attend the Annual Meeting. Instead, Ann welcomed Kristina Woolston, VP of External Relations for Quintillion, who would be giving an update on the undersea fiber-optic cable project, later in the meeting. Ann noted that the project will be a huge game changer for everyone living in Kotzebue and along the western coast of Alaska.

Ann detailed how OTZ will provide space and power for Quintillion’s equipment in their central office. OTZ has worked closely with Elizabeth Pierce, CEO of Quintillion, and her team regarding all the details and schedules that go into a project of this magnitude. Elizabeth and her team have been great to work with and we are appreciative of all her efforts on this huge project.

Ann went on to explain that much of the work that OTZ have been doing in Kotzebue over the past few years has been laying fiber optic cable that will ultimately connect with Quintillion’s undersea cable. This will give Kotzebue fiber optic internet connectivity for the first time ever. This past summer, OTZ installed a long run of fiber-optic cable into our network — the first leg that will eventually create a fiber-optic ring around Kotzebue. Ann noted that with construction season just starting up, OTZ will soon install the 2nd leg in the ring.

Ann also reported on wireless services. In 2015, OTZ continued its focus on rolling out Long Term Evolution (LTE) wireless service in Kotzebue and throughout the region. LTE is the most current wireless technology on the global market. Our first LTE switch has been installed in Kotzebue and is currently being used to provide camp-phone services. By the end of this summer, we are planning on turning up cellular service in the villages of Noatak, Kiana and Kivalina. For the rest of the villages, it should be just a short time thereafter. Last summer, as part of the airport infrastructure upgrade, we installed new cable plant in Ambler.

We refinanced eight million dollars in debt, which has provided us with additional cash flow. This money has and will continue to be used to build out our cellular network for the people of the region.

Over the past year, almost all the telecommunications providers in the state have worked toward getting the Federal Communications Commission (FCC) to adopt the Alaska Infrastructure Plan. At this time, we believe that the FCC will adopt the plan. On another note, the Alaska Consensus Plan has been well received by the FCC and by our Congressional delegation. We expect the FCC to act on the plan by the end of the year. Just in this brief recap of 2015, you can see that it was a busy and exciting year for us and we look forward to 2016 being equally busy.

I would like to introduce our staff: in our Accounting department, Donna McConnell, Accounting Lead and Lucy Mae McConnell Accounting Clerk. Our Front Office crew: Cindy Fields, Billing Clerk, LeAnn Schaeffer, Billing Assistant, and Grace Norton, CSR. Our Outside Plant Crew: Don Smith, Purchasing Agent/Building Coordinator, Wilbur Karmun, CO Technician, Chandra Abeyratne, COE Admin., Harold Lambert, Warehouseman/Expeditor, Ricky Wells, Construction Foreman/Journey Lineman, Skylar Baldwin, OSP Technician. Our Telecommunications crew: Sadie Ferguson Wilson, Billing Clerk, and Stephanie Sampson, Telcom CSR. Our IT department: Mark Iten, Data Network Admin, and Harry Baldwin, IP/Phone Network Admin. We also had two student Interns for 2015, Leilani Jones and 2016 Nyla Ivanoff, both recent graduates of KMHS.

Following this report, Ann shared that we lost one of our employees, Shaun Curtis, in 2015. Shaun was our Kiana Village Representative and served OTZ for three years, from November 9th, 2012 until September 11th, 2015.

Ann also recognized some additional people. Engineers and consultants: Gerald Gardner, Jeff Simpson, Justin Holt, Mike Walls, Helen Schwertz, Susan Hardenberg, Cherissa Wieland, Brenda Schaeffer, and Digital Communications Consultants LLC. Our village reps: Brian Cleveland in Ambler; Rudy Thomas in Buckland; Bruce Barr in Deering; Gary Swan in Kivalina; Kris McKay in Kobuk; Melford Booth in Noatak; Vern Cleveland in Noorvik; Shaun Hoffman in Noorvik; Gary Jackson in Selawik; and Alfred Cleveland in Shungnak.

Ann then gave the financial report, which was a summary from the Consolidated Financials and included activities of the Cooperative and its Telcom subsidiary. Ann noted that this information can also be found in the annual report, and that detailed financial statements are available during our office hours. The Financial Statements were audited by BDO, which issued a “clean opinion.” This means that the statements were accurate in accordance with generally accepted accounting principals. Ann presented charts that represented balance sheets years ended 2014 and 2015, including the Cooperative’s total assets, liabilities and members’ equity.

Ann then introduced Kristina Woolston, VP of External Relations with Quintillion Network, who had a slide presentation to share with the members. Kristina thanked Ann and gave a short history of who she is and her work history. She then thanked the Chairman and the Board as well as the community of Kotzebue for the warm welcome Quintillion received. She explained that Quintillion is based in Anchorage, and is an Alaskan Company that is entirely privately funded. No public funds are being used for this project. Quintillion is excited about this because they are a wholesale provider and partner with companies such as OTZ and local providers that sell services to you. Kristina shared that Reggie Joule is the Kotzebue Liaison and members can contact either Kristina or Reggie with any questions they may have. She then thanked Ann. Gordon then thanked Kristina her for her report.

IX. Unfinished Business

There was no unfinished business.

Gordon gave the membership an opportunity to ask the Board or staff questions.

Sally McClellan asked about breakage in the fiber optic. Kristina replied that Quintillion did studies before they started the project which indicated the cable is not likely to break. She added that human activity such as dredging (most likely near Nome) could potentially cause damage but otherwise studies showed the cable to be pretty durable.

Johnson Greene commented that when he is making calls out, it sounds like someone is plugging in or out and asked if anyone else is experiencing that. Mark replied that we don’t have anyone monitoring lines, but members can call our office and we will have someone check your line.

Wilbur Karmun asked Quintillion when the fiber would be in service. Kristine replied that they will be testing it this fall (2016) and that in the 1st quarter of 2017 the system will be in service.

Sally McClellan asked when the new service would come in and if this is something available to everybody or will members have to pay more for it. Mark replied that it will be available to everybody and that prices have not been set.

Chester thanked the Chair and introduced Elizabeth “Kookie” Ito to give the election results.

X. Election Results

Kookie presented the election results:

District 2: (Kiana, Noorvik, Selawik) – Gordon Newlin, Incumbent, (Noorvik) 127 votes; Thomas Outwater (Noorvik) 70 votes; Maureen C. Ticket (Selawik) 98 votes. Winner was Gordon Newlin of Noorvik with 127 votes.

District 3: (Buckland, Deering) – Percy Ballot (Buckland) 45 votes; Eunice Hadley, Incumbent (Buckland) 120 votes; Nathan Hadley Jr. (Buckland) 41 votes; Mona Washington (Buckland) 50 votes; and Fletcher Gregg Jr. (Deering) 43 votes. Winner was Eunice Hadley of Buckland with 120 votes.

Chester thanked Arthur Douglas Jr., Elizabeth “Kookie” Ito, Alice Sheldon, Suzan Howarth, Joanne Harris, and Ellen Booth for assisting Lucy Mae.

XI. Drawing of Door Prizes

Harold and Stephanie volunteered to help with the final drawing of door prizes. The following winners were announced: attendee Teresa Foster picked 20-pc Flatware, the mail-in winner was Ann Howarth of Kotzebue; attendee Lucy Henry picked 12-pc Outdoor Portable Butcher Kit, the mail-in winner was Pierre Lonewolf of Kotzebue; attendee Joanne Harris picked Stanley Classic 1.1 Thermos, the mail-in winner was Gary & Johanna Tickett of Shungnak; attendee Lucy Shroyer picked 3-pc Non-Stick Skillet Set, the mail-in winner was Lorraine Hunnicutt of Kotzebue; attendee Stella Atoruk picked Shakespeare Ugly Stik Fishing Rod, the mail-in winner was Kiki Kenworthy of Kotzebue; attendee Rachel Adams picked 6-pc Glass Mixing Bowls, the mail-in winner was Ernest K. Thomas of Buckland; attendee Minnie Savetilik picked SOL Survival Kit & tools; the mail-in winner was Leo Greene of Kotzebue; and attendee Jane Cleveland of Ambler picked Deluxe Air Chair, mail-in winner was Ron Hogan of Kotzebue.

The Grand Prize Drawing: attendee Della Reich picked 1 Drum of gas or stove oil, the mail-in winner was Douglas & Cynthia Fields of Kotzebue; attendee Beverly P. Hensley picked iPhone 6 Plus, the mail-in winner was Terrance McCall; and Stella Atoruk picked the 8x10 Tent, mail-in winner was Stan & Doris VanAmburg of Noatak.

Gordon thanked Harold and all the volunteers.

XII. Adjournment

Lucy Shroyer moved to adjourn and was seconded by Brad Reich. Gordon closed by thanking the members and the meeting was adjourned 8:14 p.m.



OTZ Telephone Cooperative, Inc.

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