

# GENERAL MANAGER'S REPORT

Good Evening and Welcome to the 64th Annual Business Meeting of SRT Communications Inc. Thank you for joining us this evening.

## Technology

Technology is used in many different settings and contexts. Some technology references appear appropriate, while others use the term more as a buzzword to convince you that their product has been improved somehow. A disposable razor developed with the latest technology is still just a disposable razor.

The dictionary defines technology as "the use of science in industry, engineering, etc., to invent useful things or to solve problems."

For SRT and its customers, technology has strong ties to the internet and internet-protocol (IP) networks and services.

In its infancy, the internet basically involved surfing the Web and checking email. Today, most digital communication utilizes IP networks. This includes the transmission of data, voice, video and security services in addition to the traditional email and web surfing applications.

SRT's mission to provide high quality communications services (useful things) which are responsive to the needs (solves problems) of our customers, is true to the definition of technology.

## Technology Tour

Technology can be intimidating if you don't work with it daily...but it doesn't have to be. SRT is touring our territory throughout the year to show people how technology integrates with our products and services. Our 2015 Tech Tour is meant to educate customers and encourage one on one conversations with some of our product experts. Topics include useful apps for your smartphone, Internet safety and why strong passwords are important, and finally, Smart home gadgets and how those devices work on your home network. Our goal is to be a reliable resource for people on topics they may not work in or deal with on a daily basis.

## Fiber Optics

Our technology has improved vastly through the deployment of fiber optics. We continue to make progress on the rural fiber plan to replace the older copper cable throughout our service area that the Board of Directors adopted in 2012.

In the past year, we completed the fiber build-out in rural Towner, Karlsruhe, South Prairie, Donnybrook and Surrey. Construction is well underway in rural Des Lacs, Sherwood, Glenburn, Butte and Antler.

New construction contracts have been approved to start construction in rural Landa, Newburg, Westhope and Upham.

Also in 2015 we have begun the construction contract bidding process for rural Carpio, Martin, Maxbass and Tolley. An additional loan application has been submitted to USDA Rural Utilities Service (RUS) to complete the rural build out in Granville and Logan.

The build-out costs to place fiber, and to rollout advanced services throughout the SRT service area are high, and it requires us to commit all of our internal cash resources, along with our RUS-approved loans, to accomplish this goal.

The rural fiber project started in 2012 and we now believe that the project could be completed by the end of 2016, a year ahead of our original goal.

## Advanced Services

SRT's network can meet everyone's communications needs. We are the only company in the region offering a complete suite of communications products which includes:

- Internet and Data Service
- Wireless Voice and Data
- Landline Voice and Long Distance
- A Variety of Video Products
- Residential and Business Security Systems
- Communications Systems Sales, Installation and Maintenance

## New Regulation: FCC Net Neutrality Order

SRT, just like most everyone, supports the general concept of Net Neutrality as it relates to "protecting and promoting an open internet".

The concept of Net Neutrality, however, seems to mean something different depending upon who you ask. Some of the basic concepts include:

**Open Internet:** The basic premise here is that Internet Service Providers (ISPs) should not interfere with a consumer's access to internet content or data of his or her choosing. The implication somehow here is that ISPs are doing this today.

While SRT cannot speak on behalf of other ISPs, we do not engage in the blocking or throttling of internet content on our network as defined in the FCC Order. We generally support the definition of an Open Internet. The FCC order appears to be more about preventing what it perceives to be a potential problem that does not necessarily exist today.

Therefore, SRT customers should not experience any change in their service as a result of the order because SRT operates under the Open Internet guidelines today (and did so prior to the FCC Order).

**Interconnection of Networks:** No one company totally defines your internet experience. The internet is made up a complicated interconnection of many networks, servers and computers.

At SRT, we only manage the network within our boundaries, and we rely on reasonable interconnection terms and quality of service from other carriers when traffic has to travel outside the SRT network.

The FCC Order requires just and reasonable interconnection, but lacks specifics as to what this means. The Order needs to address rules that allow for these networks to interconnect seamlessly, at a reasonable cost, and the FCC needs to step in when they don't.

Today SRT has the highest quality network along with redundant interconnection to ensure our customers get the best internet experience possible.

**Network Management:** Finally, the order reclassifies broadband as a Title II Telecommunications service which allows it to adopt rules for both wireline and mobile wireless broadband service providers.

There are, however, many complex questions that were left unanswered related to allowing for reasonable management of broadband networks. Rules and regulations need to be established to allow network operators (like SRT) to prioritize traffic if requested by the customer, and to address general public safety concerns.

The FCC Order has set forth a debate on how to best achieve a continuing open internet in the future, as well as who is going to pay for it. A free internet is most certainly not cost-free, as networks are expensive to build. However, SRT will continue to provide the best Internet experience for our customers and will monitor any regulatory changes that affect how we serve you.

Thank you Members, Board of Directors, and employees for your support of SRT's Technology-driven mission. Be sure to visit our website, stop by the store, or attend the Tech Tour when it is in your area to see all the technology services we have to offer you.

Good evening and have a safe journey home.



STEVE D. Lysne  
General Manager/  
CEO

# PRESIDENT'S REPORT



TOM Wentz, Jr.  
Board President

Hello, and welcome to your annual meeting. My name is Tom Wentz and it is my pleasure to serve as the Board President of your company. I have served in this position for the past several years working not only with the other dedicated and talented members of the board of directors introduced here this evening, but also the staff at SRT which is perhaps the best in the business. This year's annual meeting theme is "Your Digital Lifestyle". Just think about most people's typical day and the number of times we encounter digital technology not only for entertainment and fun, but also as a vital part of our health, safety and work. From high definition television to GPS navigation to remote monitoring sensors for fire, water or dangerous chemical leaks or spills to our always "by our side" mobile phone, we utilize digital technology on an ever increasing basis.

As your locally owned technology and communications company, not only does SRT see firsthand the changes being brought about by the digital revolution, but it is our mission to deliver this digital technology to our customers in a timely and cost effective manner. Whether it be through the significant investment of your company's capital to install fiber optics to not only local businesses, but also your homes and farms, new offerings for how to watch TV in your home, but also to access your cable channels over your computer or smartphone no matter where you are in the world, or providing the fastest possible wireless networks with the best ever expanding coverage. To provide a great experience for you is what the SRT staff focuses on every day.

Over the last several years we have seen tremendous changes in both our community as well as with technology. These changes have also brought about a lot of new challenges at SRT as we work to provide you with the most current tools and best services available

to allow you to keep up with the fast-paced demands of our digital world. No place has this change been more pronounced than when it comes to the Internet. The amount of information traveling over the Internet is expanding at an incredible pace as it has become the central location for almost everything from plain old phone calls to movies to business cloud computing. As a result, we need to provide faster and larger capacity internet service in order to deliver what you the customer not only want for entertainment, but need for business, health and safety.

*"The capability to deliver gigabit Internet speed is now a reality for SRT and other companies across the country. This milestone of being able to offer speeds approximately 100 times faster than the current average Internet connection in the U.S. shows the progress that has been made in the industry as well as SRT."*

To meet this demand, SRT has dedicated resources to answer the Gigabit Challenge. What is the Gigabit Challenge? In 2013, the Chairman of the FCC issued a call for communities to invest the resources and technology necessary to make the Internet 100 times faster. At gigabit speeds, connections can handle multiple streams of large-format, high-definition content like online video calls, movies, and immersive educational experiences. Networks cease to be hurdles to applications, so it no longer matters whether medical data, high-definition video, or online services are in the same building or miles away across the state.

The capability to deliver gigabit Internet speed is now a reality for SRT and other companies across the country. This milestone of being able to offer speeds approximately 100 times faster than the current average Internet connection in the U.S. shows the progress that has been made in the industry as well as SRT. Even though there is a lot more work to be done to get this enhanced service to everyone right away, you can be confident that SRT will continue to be a leader in providing the things necessary to make your digital lifestyle better, including gigabit Internet service.

# SCHEDULE OF EVENTS

4:00	Pre-show Entertainment Jerry Schlag and the JMB Band	5:30 - 5:50	SRT Tech Talks
4:30	Doors Open Registration & Voting Begin	5:55 - 6:55	Tin Star <i>Come listen for your favorites from every genre – country, polkas, oldies and more!</i>
4:30 - 7:00	Kids Zone with Inflatables, and Games	7:05	Business Meeting
5:00 - 7:00	Complimentary Meal Catered by Homesteaders		

# Community GIVING

SRT presents the check to Gooseneck (from L to R) Jamie Melgaard, Gooseneck Implement CEO & GM, Kevin Borud, Gooseneck Implement CEO & GM, Tom Wentz Jr., SRT Board President • Steve Lysne, SRT CEO & GM, Dennis Erber, SRT Board Member • Rod Loken, Velve Store Manager

SRT is pleased to have the opportunity to help organizations throughout our area. Year after year, SRT continues to make investments in our community through financial donations, in kind donations, employee volunteerism or through donations of SRT services. Areas of focus include a range of programs such as youth and leadership, vital needs, health, safety, the arts, recreation and community development. Over 150 organizations received support from SRT in 2014.

local businesses with projects that will create and retain employment in rural areas. SRT previously received RUS funding for telecommunications projects and is able to serve as the lending agent for this zero interest loan. The \$1 million loan is being used to partially fund Gooseneck Implement's Velve Store, which opened in April and created 7 additional jobs. This is the 2nd REDLG project SRT has administered, and the largest to date.

SRT Communications recently presented Moure Equipment, dba Gooseneck Implement, with a check for \$1 million from the U.S. Department of Agriculture's Rural Utilities Service program (RUS). The RUS Rural Economic Development Loan and Grant program (REDLG) allows utilities to serve as a pass through to

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SRT Connections | Retail Store 1400 20th Avenue SW • P.O. Box 2027 • Minot, ND 58702-2027

This institution is an equal opportunity provider and employer.

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Annual REPORT

Your DIGITAL lifestyle





# BOARD OF DIRECTORS

**SRT'S VISION STATEMENT:** "To be recognized by our customers, employees and the communities we serve as an innovative company, dedicated to making the lives of those we serve better by virtue of the services that we offer them."



**ALLAN Engh**  
Secretary/Treasurer  
Sherwood • District 1



**DENNIS Erber**  
Glenburn • District 2



**GERALD Henry**  
Newburg • District 3



**DEANNA Klein**  
Minot • District 4



**ARDEL Rice**  
Mohall • District 1



**JIM Newman**  
Sawyer • District 2



**JOHN Marshall**  
Towner • District 3



**TOM Seymour**  
Minot • District 4



**STANLEY Vangness**  
Vice President  
Berthold/Carpio • District 1



**RONALD Schepp**  
Asst. Secretary/Treasurer  
Westhope • District 2



**DENNIS Schott**  
Butte • District 3



**TOM Wentz, Jr.**  
President  
Minot • District 4

**2015 Board Members up for Re-election:** Ardel Rice, Dennis Erber, Dennis Schott, Tom Seymour

## SRT Communications, Inc. and Subsidiaries Consolidated Statement of Operations Year Ended December 31, 2014

Operating Revenues	
Local network services	\$ 8,383,358
Network access services	18,248,398
Long distance network services	1,721,642
Miscellaneous	1,752,727
Total telephone revenue	30,106,125
PCS network services	9,566,865
Internet revenue	7,871,337
Cable television revenue	1,784,022
Nonregulated revenue	1,396,169
Total Operating Revenues	50,724,518
Operating Expenses	
Plant operations	16,798,148
Depreciation	9,415,309
Customer operations	2,640,672
Corporate operations	4,793,547
Operating taxes - other	199,085
Total telephone operating expenses	33,846,761
PCS operating expenses	7,663,960
Internet operating expenses	4,947,840
Cable television operating expenses	2,728,645
Nonregulated expenses	1,828,481
Total Operating Expenses	51,015,687
<b>Net Operating Margin (Deficit)</b>	(291,169)
Nonoperating Income (Expense)	
Interest and dividend income	4,428,965
Amortization of intangibles	(618,398)
Income from equity investments	913,156
Miscellaneous	(74,670)
Total Nonoperating Income	4,649,053
<b>Net Margin Before Interest and Income Taxes</b>	4,357,884
<b>Interest and Related Items</b>	933,556
<b>Net Margin Before Income Taxes</b>	3,424,328
<b>Provision for Income Taxes</b>	(292,851)
<b>Net Margin</b>	\$ 3,717,179

# SCHOLARSHIP

**80** APPLICANTS

**Judged on**

1. Volunteerism
2. Community involvement
3. Scholastic performance
4. An essay

**\$1000** COLLEGE SCHOLARSHIP

for **4** OUTSTANDING AREA STUDENTS



**Isaac EFFERTZ**  
Velva HS  
Son of Chad Effertz



**Dustin FOSTER**  
Minot HS  
Son of Brenda & Wayne Foster



**McKensie POPINGA**  
Our Redeemers  
Christian School, Minot  
Daughter of Kimberly & Eric Poppinga



**Shelby ZAHN**  
TGU - Towner  
Daughter of Jenny & Jason Zahn

# YOUTH TOUR

Congratulations to **Ashley Libert** from TGU - Granville High School & **Cassidy Limke** from Berthold High School. These students were selected to represent SRT at the 2015 National Telecommunications Cooperative Association's Foundation for Rural Service Youth Tour in Washington, D.C.



**Ashley LIBERT**



**Cassidy LIMKE**

## MINUTES OF THE 2014 ANNUAL MEETING OF THE MEMBERS OF SRT COMMUNICATIONS, INC.

The 63rd Annual Meeting of the members of SRT Communications, Inc. (SRT) was held at the North Dakota State Fair Center in Minot, North Dakota, on Thursday, June 19, 2014, pursuant to due notice to all members. President Tom Wentz, Jr., presided.

**NATIONAL ANTHEM/FLAG PRESENTATION:** President Tom Wentz, Jr., asked all members to rise for the National Anthem. Presentation of the flags was done by Boy Scouts of America Troop 411, sponsored by the Moose Lodge. Lexi Wyman sang the National Anthem.

**WELCOME:** President Tom Wentz, Jr., welcomed everyone to SRT's 63rd Annual Meeting.

**INVOCATION:** Pastor Nathan Mugaas from Zion Lutheran Church in Minot provided an invocation.

**INTRODUCTION OF SRT BOARD MEMBERS:** President Wentz introduced SRT's current board members and the districts they serve.

**INTRODUCTION OF GUESTS & READING OF LETTERS:** President Wentz read the names of special guests and letters of dignitaries, including: Senator John Hoeven, Senator Heidi Heitkamp, Representative Kevin Cramer, and Governor Jack Dalrymple.

**CALL TO ORDER:** The meeting was called to order by President Wentz at 7:05 p.m. The President declared the presence of a quorum. President Wentz appointed Attorney David Hogue as recording secretary and parliamentarian.

**READING OF ANNUAL MEETING NOTICE:** SRT Secretary Allan Engh read the official notice of meeting and proof of mailing.

**READING OF 2013 ANNUAL MEETING MINUTES:** It was moved, seconded, and carried to approve the minutes of the 2013 annual meeting of members as printed in the annual meeting booklet, and to dispense with oral reading of the minutes.

**NOMINATIONS PROCEDURE & INTRODUCTION OF CANDIDATES:** Attorney David Hogue, from Pringle & Herigstad, PC, explained the procedure for nomination and election of directors of SRT. Attorney Hogue introduced the candidates from each district: Stanley Vangness of Carpio (District 1), Ronald Schepp of Westhope (District 2), John Marshall of Towner (District 3) and Deanna Klein of Minot (District 4).

**CREDENTIALS AND ELECTION COMMITTEE:** President Tom Wentz, Jr., announced that members Virginia Erickson from Berthold, Darwin Lee from Westhope, Erna Garnant from Towner, and Kim Rossian from Minot were appointed as the Credentials and Election Committee.

**SCHOLARSHIP RECIPIENTS:** President Wentz explained SRT's scholarship program and named the 2014 recipients. They are: Jess Asheim, Mohall Lansford Sherwood High School; Shelbi Bahl, Mohall Lansford Sherwood High School; Kolton Larson, Minot High School; and Bryjett Nordmark, Rolla High School.

**YOUTH TOUR RECIPIENTS:** President Wentz also announced the student chosen to represent SRT at the 2014 Foundation for Rural Service Youth Tour Program held in Washington, D.C. Miranda Dyke, a junior from Surrey High School, was this year's representative.

**FINANCIAL REPORT:** President Wentz introduced Perry Erdmann, the Chief Financial Officer of SRT. Mr. Erdmann described the financial results for the past fiscal year and the results of an independent audit of SRT's consolidated operations. Mr. Erdmann reported SRT earned revenues of \$48.0 million and incurred \$48.4 million of operating expenses. SRT's "net margin," the rough equivalent of net profit was \$2.99 million for the 2013 fiscal year, before a one-time write off of a good will of \$12.7 million. Three million dollars was allocated to patronage capital. Mr. Erdmann explained that the write off of good will is associated with the purchase of the Minot telephone exchange. SRT has fully paid the loan related to purchase of the Minot exchange.

**MESSAGE TO OUR MEMBERS REPORT:** General Manager Steve Lysne presented the Cooperative's "Message to Our Members" report. Mr. Lysne discussed rapid technology changes and providing broadband internet network that allows SRT to provide the latest advanced services. Mr. Lysne described the fiber optic deployment project that was adopted by the board of directors in 2012. The board adopted an aggressive construction build out. Mr. Lysne also reported on

## SRT Communications, Inc. and Subsidiaries Consolidated Balance Sheet December 31, 2014

Assets	
Current Assets	
Cash and temporary cash investments	\$ 2,180,633
Accounts, notes and interest receivable	4,708,157
Materials and supplies	2,166,325
Prepaid expenses	838,962
Total Current Assets	9,894,077
Investments and Noncurrent Assets	
Investment in securities	1,741,317
Other investments	7,128,306
Nonregulated investments - net	417,905
Deferred charges	202,679
Total Investments and Noncurrent Assets	9,490,207
Telecommunications Plant	
Total investment in plant	266,723,980
Less: accumulated depreciation	152,208,606
Net Investment in Plant	114,515,374
Total Assets	\$133,899,658
Liabilities and Equities	
Current Liabilities	
Current portion of long-term debt	\$ 3,521,000
Notes payable	1,000,000
Accounts payable	7,151,573
Accrued taxes	496,171
Advance payments and billings	77,965
Other current liabilities	804,647
Total Current Liabilities	13,051,356
Long Term Debt, Less Current Maturities	
	25,751,438
Other Liabilities	
	6,121,270
Equities	
Patronage capital	87,484,138
Other capital	1,491,456
Total Equities	88,975,594
Total Liabilities and Equities	\$133,899,658

# 2014

FiberNet, high speed internet and the latest Smartphone technology available to SRT customers.

Mr. Lysne discussed regulatory changes imposed by the FCC. Mr. Lysne described the shortcomings of the FCC order for rural telephone companies and customers. Mr. Lysne also described the challenges SRT is experiencing due to the rapidly expanding economy in SRT's service area. Mr. Lysne explained SRT has reinvested \$120 million into plant improvements to maintain its high quality network since 2007.

**PRESIDENT'S MESSAGE:** President Tom Wentz, Jr., discussed nonstop construction, which has placed unprecedented demands on SRT, while at the same time maintaining high service standards at a reasonable price. He reported on investments of over \$20MM in new equipment to serve SRT's members. Mr. Wentz reported there are over 16,000 internet customers, nearly 12,000 wireless phone customers, almost 2000 cable television subscribers and approximately 10,000 fiber optic connections.

**ELECTIONS COMMITTEE REPORT:** Attorney David Hogue announced the report of the Elections Committee on the elections for the following directorships, who cast ballots as follows:

**DISTRICT 1**  
Stanley Vangness - 39  
Spoiled ballots - 2

**DISTRICT 3**  
John Marshall - 44  
Spoiled ballots - 1

**DISTRICT 2**  
Ronald Schepp - 76  
Spoiled ballots - 1

**DISTRICT 4**  
Deanna Klein - 463  
Spoiled ballots - 13

Attorney Hogue declared that all four candidates were elected for a three year term.

**OTHER BUSINESS:** The President called for old and new business. [None presented.]

**ADJOURNMENT:** The President called for a motion to adjourn and the meeting was so adjourned at 7:45 p.m.

**DOOR PRIZES:** Following formal adjournment of the meeting, several door prizes were awarded.

David Hogue, Recording Secretary

Allan Engh, Secretary

ATTEST:

Tom Wentz, Jr., President