

PREMIER SERVICE. LOCAL EXPERTS.

“ THIS IS  
SRT’S STORY ”



2017 ANNUAL REPORT

**Teal / Public Relations Manager**

**My Expertise /  
Creating Opportunity**

My name is Teal. Growing up in Minot and going to Minot High, I was considered the “big city” in our area. And I loved it! Now, as a mom, I live in rural Sawyer and my family takes any opportunity we can to “get off the grid.” We explore our state parks, camp in the middle of nowhere, fish like we mean it, and simply enjoy the outdoor beauty our area and North Dakota have to offer. With that, I also want my kids to understand technology as I know how important it is to their education. We build robots, we make projects with junk in a box, and I use technology to prepare them for their futures.



S C H E D U L E   O F   E V E N T S

4:30 - 7:00 PM	Doors Open Registration & Voting Begin  Entertainment Jerry Schlag and the JMB Band  Kids Zone with Inflatables, Minot Public Library Makerspace Activities and Games
5:00 - 7:00 PM	Complimentary Meal <i>Catered by Homesteaders</i>
5:55 - 6:55 PM	<b>DAKOTA DRIFTERS</b> plays a variety of country, gospel, and some rock-a-billy old time music.
7:05 PM	Business Meeting

## The Employee Story

Nearly two hundred people spend their day working for the telecommunications cooperative. These employees do things such as answer customer questions, order the latest equipment, connect service at one of SRT's central offices that then deliver service to a customer's home, plow fiber in the ground, complete the billing process, and much, much more. It is extremely important to keeping the network running, and the people behind those jobs are at the heart of the cooperative. While you may know someone who works at SRT, we want to show you not only who the people are, but what makes up their core. For some, they love technology so they knew they wanted to work in the ever changing telco industry that rooted in technology; for others, they wanted to work for a cooperative knowing what a great company SRT is to work for; some people simply enjoy talking to customers and have a love for service. Despite the many reasons someone chooses to work at SRT, the reason for all 200 being here is you, the customer. Thank you for allowing us to serve you.

# General Manager's Report / Steve D. Lysne General Manager/ CEO

**Wireless: SRT is proud of its 20 years of Wireless Service** / SRT is proud of our 20 years of providing wireless service in the local SRT service Area. True to our cooperative roots, we provided wireless coverage to many rural locations that the larger carriers were unwilling to serve. SRT has had up to more than twice as many rural wireless sites than our nearest competitor.

**Wireless Mission** / SRT entered the wireless business with the mission to provide wireless service to our local customer/member/owners, and not to be a national wireless competitor. We marketed our service as “Community Cordless” which meant we offered only a local calling scope (the SRT service area) with a large bucket of minutes at an affordable price – 2,000 minutes for \$19.95. Even back then, if you wanted a national plan, we would often refer you to a national provider, coincidentally that being Verizon.

The wireless network SRT built was the first digital wireless service in our area, and accommodated local voice and text applications very well. Our long-time customers will remember that as long as you used the phone within the SRT network there were no additional charges. If you roamed, however, onto another wireless provider network (that meant anywhere else in the US or Canada), then you, the customer, paid for those roaming services. At times that could get very expensive, and customers were very careful about when they would roam.

**Wireless Evolution** / More recently the wireless phone landscape has changed from being primarily a voice and text service to a data service. SRT introduced local 3G (third generation) data service which could accommodate basic data applications and web-browsing within the SRT network very well.

Today iPhone and Android devices dominate the smartphone market. Smartphones are actually

mini-computers, which require a robust data network to perform the many functions the phone can handle all at one time. Facetime, Facebook, video-streaming, Pandora, and other applications are in constant use by smartphones. For that reason, the service offerings for data on smartphones are based on the amount of data you use (for example a 1 GB plan), as opposed to what network you are using.

**Current Wireless Environment** / A smartphone plan is based on the amount of data you use, as opposed to what network you are on. When your SRT smartphone is using another provider's network, it's now a cost to SRT for that network usage. With SRT's introduction of national plans for smartphones back in 2011, our roaming expense went from virtually zero (because the customer paid for roaming under voice plans) to \$2.5 million in 2016. This is simply an expense increase that is unsustainable for a wireless operation of our size. Slide showing roaming expense

Other Financial factors that played into our decision include the recent introduction of “unlimited” data plans by the major carriers, and the announced loss of Universal Service Funds (USF) which helped support the rural tower sites that did not produce enough traffic to pay for themselves. This resulted in us projecting future losses for the SRT wireless subsidiary going forward.

Finally, due to the age of our network, the electronics we use are no longer supported by the manufacturer, and the national providers are removing this equipment from their networks. As a result of having an incompatible network, we lose the ability to roam outside the SRT network. We have already lost roaming



## General Manager's Report /

capabilities in certain parts of Canada this year, and starting in 2018, we will lose roaming capabilities in parts of the U.S. To upgrade the SRT network to a compatible LTE network would carry a price tag of around \$10 - \$15 million.

**Decision to Partner with Verizon** / While exiting any service line is a difficult decision, it became clear that the cooperative was not in a position to effectively operate a wireless network as a small independent operator. We would have basically become an island, with our customers having limited or no service outside our network.

Our decision to choose Verizon as our partner became easier when they signed a master lease agreement with SRT to go on several of our rural tower sites. This will fill in many of the coverage gaps that have existed in the past with Verizon service. Verizon clearly has the best nationwide LTE network, and now will have the best SRT service area coverage due to the favorable arrangements we have with them. SRT is still supporting the wireless business providing tower space and the fiber connection to those sites for backhauling wireless traffic.

Ultimately, we view our entrance into the wireless market as a huge success for our service area. There are rural tower sites that would have never existed, even today, had SRT not built them. Today we have national carriers on several of those sites, with many more to come thanks to the agreements we have entered into with Verizon. As more of these sites come on line with national providers, our service area should have amongst the best rural coverage in the nation. A robust wireless network with service choices, in large part because your local cooperative built towers fed with fiber throughout its service area, is quite an accomplishment.

### SRT is a Broadband Company

**Mission** / SRT has been in the process of transitioning from a local exchange company to a broadband company for a number of years now.

This requires communications networks, like SRT, to become "Broadband companies" in order to be able to effectively handle that traffic. Whether you are the sender or the receiver of any form of communication, you will need a broadband connection.

SRT adopted an aggressive plan to replace the old copper cable with fiber optics. No other technology can deliver as much bandwidth to the customer as fiber-to-the-home. This bandwidth is required to deliver quality data and video services to your home or business.

**Fiber Optics Construction** / In the past year, we completed the fiber build-out in rural Landa, Newburg, Westhope and Upham. The final Customers are being cut over to fiber in rural Carpio, Martin, Maxbass and Tolley. Construction is well under way in rural Granville, Logan and rural Minot.

The Board of Directors has also reviewed and approved plans to build out all the cities in the SRT Service area. A \$30 million RUS Loan application has been completed and is under review for competing all the rural exchanges

**Paul / Billing Supervisor**

**My Expertise /  
Ensuring Accuracy**

My name is Paul. Northwest North Dakota is where my cooperative roots began. My family was a member of both NCC Communications and Burke-Divide Electric Cooperative, of which my father in law served as a Board of Director for many years. My wife and I have lived in Minot for almost 30 years now and we're about to learn what the term empty nest truly means. I have a daughter in college and a son heading into his senior year in high school. That's a little daunting so I've been trying to prepare for the day when I walk to the basement and don't see my son with his gaming headset on. And even though the technology took some getting used to, I communicate with my college daughter daily – not through a phone call or even text messaging, but through snapchat. So my wife and I don't get left behind, we're taking recommendations from our kids and friends on what TV series we should start binge watching on Netflix.



## President's Report / Stanley Vangsness

SRT Board President

It has been an honor to serve another year as your SRT board president. As we continue to write SRT's story in the history books, at the heart of every decision made is the goal of doing what's best for the general membership. Difficult decisions come into play often but we do not take that responsibility lightly. Year after year, SRT continues to address major technology changes. Whether that be in the equipment running the networks, regulatory changes mandated by the Federal Communications Commission or changes in service offerings, this past year has been no different. As you heard from our General Manager/CEO, our wireless product was not sustainable and therefore the decision was made to exit the retail side of the operation. All those involved will wholeheartedly admit this was an extremely difficult decision, but the reality of an outdated network could not compare to the financial burden it would have placed on the cooperative to continue to operate it.

Another major change is that the SRT board of directors voted to change the bylaws. Referenced in Section 1.1 of the SRT bylaws, broadband only subscribers officially became cooperative members as of June 1, 2017. As such, customers who have landline service, and now those who have broadband only service, will not only be eligible to vote for the board of directors but also will receive capital credit allocations. We are not the first company to adopt broadband only customers into membership and we are certainly not the last. And while this is a major change, it continues to support SRT's mission that we are now a broadband company.

As Mr. Lysne informed you, we continue to increase our fiber optic footprint throughout our territory. When the board announced the fiber plan back in 2011, the goal was to outfit 6,500 rural subscribers with fiber optics, which allows for the fastest data speeds possible and clearer voice communications. With our rural areas

near completion, those rural customers will have equal, and often better, broadband service than many cities across the United States. Next, we will bring fiber to the towns and get rid of the copper plant that is serving those customers. As we continue to stay true to our cooperative roots, our goal is to eventually deliver fiber to every customer.

Due to the progress we have made with our fiber build and the ability to deliver gigabit internet speeds in certain areas, SRT was recognized as a Certified Gig-Capable Provider. The recognition came from NTCA-The Rural Broadband Association, which represents nearly 900 telecommunications companies across America. This is a feather in SRT's cap as no other provider in our service area can offer gigabit internet at this time. And once again, it is a capability that didn't exist 5 years ago, but due to innovation and investment, one that SRT is extremely proud to offer.

In closing, thank you for coming tonight and for your continued support of the cooperative. We could not do this without members like you who continue to realize that while things can change quickly, the board operates with the goal of doing what's best for the membership and the long term health of the cooperative. We look forward to leading SRT by staying on top of technological changes and facing challenges head on. Thank you again for your support.



# 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**  
*Vice President*  
Sherwood • District 1



**Dennis Erber**  
Glenburn • District 2



**Gerald Henry**  
Newburg • District 3



**Stacey Diehl**  
Minot • District 4



**Ardel Rice**  
Mohall • District 1



**Kristi Miller**  
Newburg • District 2



**John Marshall**  
*Secretary/Treasurer*  
Towner • District 3



**Deanna Klein**  
*Assistant Secretary/  
Treasurer*  
Minot • District 4



**Stanley Vangsness**  
*President*  
Berthold/Carpio • District 1



**Jim Newman**  
Sawyer • District 2



**Dennis Schott**  
Butte • District 3



**Tom Wentz, Jr.**  
Minot • District 4

**2017 Board Members up for Re-election:** Stan Vangsness, Kristi Miller, John Marshall, and Deanna Klein

# Scholarship /

Every year, a scholarship committee made up of members of the SRT Board of Directors and employees review scholarship applications from area students. And every year, our local students continue to impress. Students are judged on their academic accomplishments, community involvement, school involvement and an essay.

This year we had applications submitted from nearly every school in the SRT territory. While only five total winners are chosen, each student should be proud of all they have done throughout their high school careers. SRT awards four \$1000 scholarships, and one \$1500 SRT Technical Scholarship.



**Thea Bonebrake**  
Minot High School

*Daughter of  
Jeff & Marla Bonebrake  
Minot*



**Travis Huber**  
Surrey High School

*Son of  
Troy & Ardyce Huber  
Minot*



**Hannah Lemer**  
Drake-Anamoose High School

*Daughter of  
Mitchell & Candice Lemer  
Drake*



**Samantha Nordmark**  
Rolla High School

*Daughter of  
Jason & Audrey Nordmark  
Rolla*

# Youth Tour /

Congratulations to Britney Rice from Westhope High School & Micah Winburn from Minot High School. These students were selected by their schools to represent SRT and North Dakota at the 2017 NTCA - The Rural Broadband Association's Foundation for Rural Service Youth Tour in Washington, D.C.

Rice & Winburn will join students from around the country, where they will have the opportunity to learn more about the

telecommunications industry, witness the legislative process, and visit famous historical sites.



## SRT Technical Scholarship

**Caitlyn Bachmeier**  
Surrey High School

*Daughter of  
Lynell Bachmeier  
Surrey*



**Britney Rice**  
Westhope High School

*Daughter of  
Leroy Rice  
Westhope*



**Micah Winburn**  
Minot High School

*Daughter of  
Naomi & Ryan Winburn  
Minot*

**Mollie** / Network Provisioning Specialist

**My Expertise /**  
Supplying Data

Hi I'm Mollie and I am an avid quilter. Who would have thought that this hobby for the ages actually ties in quite nicely to technology. I utilize technology to set up my computerized sewing machine and search Pinterest for new quilting design ideas. My sister and I use my Roku stick to watch Netflix movies while we quilt. Hopefully my one daughter, who coincidentally married a nice young man who happens to work at SRT, also takes on my hobby. While quilting fulfills my down time, my husband and I take any chance we can to go to our vacation home in Florida. No need to worry because our home is a smart home so if something needs our attention, we are alerted – and we especially enjoy checking our cameras and looking at the stormy winter weather while we're basking in the sun. Pretty handy use of technology in my opinion.



# Consolidated Balance Sheet / DECEMBER 31, 2016

<b>Assets</b>	<b>2016</b>
<b>Current Assets</b>	
Cash and temporary cash investments	\$ 630,947
Accounts, notes and interest receivable	5,919,659
Materials and supplies	1,856,450
Prepaid expenses	857,050
Total Current Assets	<u>9,264,106</u>
<b>Investments and Noncurrent Assets</b>	
Investment in securities	1,405,215
Other investments	8,535,226
Nonregulated investments - net	609,871
Deferred charges	145,461
Total Investments and Noncurrent Assets	<u>10,695,773</u>
<b>Telecommunications Plant</b>	
Total investment in plant	296,695,735
Less: accumulated depreciation	163,620,865
Net Investment in Plant	<u>133,074,870</u>
Total Assets	<u>153,034,749</u>
<b>Liabilities and Equities</b>	
<b>Current Liabilities</b>	
Current portion of long-term debt	3,054,780
Notes payable - line of credit	2,500,000
Accounts payable	4,016,742
Accrued taxes	387,961
Advance payments and billings	48,815
Other current liabilities	912,758
Total Current Liabilities	<u>10,921,056</u>
<b>Long Term Debt, Less Current Maturities</b>	<u>39,418,750</u>
<b>Other Liabilities</b>	<u>5,999,115</u>
<b>Equities</b>	
Patronage Capital	89,302,149
Other Capital	7,393,679
Total Equities	<u>96,695,828</u>
Total Liabilities and Equities	<u>\$153,034,749</u>

# Consolidated Statement of Operations /

YEAR ENDED DECEMBER 31, 2016

<b>Operating Revenues</b>	<b>2016</b>
Local network services	\$ 7,042,429
Network access services	18,948,767
Long distance network services	1,347,802
Miscellaneous	1,679,130
Total telephone revenue	29,018,128
PCS network services	9,997,141
Internet revenue	8,752,033
Cable television revenue	2,296,672
Nonregulated revenue	1,435,585
Total Operating Revenues	51,499,559
<b>Operating Expenses</b>	
Plant operations	17,449,560
Depreciation	8,708,119
Customer operations	2,921,592
Corporate operations	4,088,723
Operating taxes - other	276,973
Total telephone operating expenses	33,444,967
PCS operating expenses	8,076,308
Internet operating expenses	4,139,831
Cable television operating expenses	2,834,258
Nonregulated expenses	1,803,972
Total Operating Expenses	50,299,336
<b>Net Operating Margin</b>	1,200,223
<b>Nonoperating Income (Expense)</b>	
Interest and dividend income	3,287,585
Amortization of intangibles	(290,477)
Income from equity investments	802,307
Miscellaneous	(98,799)
Total Nonoperating Income	3,700,616
<b>Net Margin Before Interest and Income Taxes</b>	4,900,839
<b>Interest and Related Items</b>	1,209,485
<b>Net Margin Before Income Taxes</b>	3,691,354
<b>Provision for Income Taxes</b>	33,085
<b>Net Margin</b>	\$ 3,658,269

# Minutes of the 2016 Annual Meeting /

The 65th 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 16, 2016, pursuant to due notice to all members. SRT President, Stanley Vangsness, presided.

**NATIONAL ANTHEM/FLAG PRESENTATION:** President Vangsness 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. Stephen Ellingson from Sherwood played the National Anthem.

**WELCOME:** President Vangsness welcomed everyone to SRT's 65th Annual Meeting.

**INVOCATION:** Pastor Larry Marschner from St. Martin Lutheran Church in Anamoose delivered the invocation.

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

**INTRODUCTION OF GUESTS & READING OF LETTERS:** President Vangsness read the names of special guests and letters of dignitaries, including: U.S. Senator John Hoeven, U.S. Senator Heidi Heitkamp, and State Tax Commissioner Ryan Rauschenberger.

**CALL TO ORDER:** The meeting was called to order by President Vangsness at 7:00 p.m. The President declared the presence of a quorum. President Vangsness appointed Attorney David Hogue as recording secretary and parliamentarian.

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

**READING OF 2015 ANNUAL MEETING MINUTES:** It was moved, seconded, and carried to approve the minutes of the 2015 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: Allan Engh of Sherwood (District 1), James Newman of Sawyer (District 2), Gerald Henry of Newburg (District 3) and Tom Wentz, Jr. of Minot (District 4).

**CREDENTIALS AND ELECTION COMMITTEE:** President Stanley Vangsness announced that members Terry Miller from Sherwood, Patti Syverson from Sawyer, Melanie Gessner from Upham, and Duane Brekke from Minot were appointed as the Credentials and Election Committee.

**SCHOLARSHIP RECIPIENTS:** President Vangsness explained SRT's scholarship program and named the 2016 recipients. They are: Emily Hamel, Minot High School; Bethany Kolschefski, Velva High School; Emily Odland, Velva High School; and Allison Voigt, MLS- Mohall High School.

President Vangsness also announced a new SRT Technical Scholarship which is awarded to a student working toward a degree in telecommunications or other technical field. The 2016 recipient is Madison Tiedman who plans to attend Minot State University.

**YOUTH TOUR RECIPIENTS:** President Vangsness also announced the students chosen to represent SRT at the 2016 Foundation for Rural Service Youth Tour Program held in Washington, D.C. AJ Conti from Glenburn High School and Macy Feland from Mohall were this year's representatives.

**PRIZE WINNERS:** President Vangsness introduced Cassidy Kersten Hjelmstad, Director of Corporate Communications, to announce various prize winners.

# Minutes of the 2016 Annual Meeting /

**FINANCIAL REPORT:** President Vangsness 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 operating revenues of \$50.8 million. SRT’s “net margin,” the rough equivalent of net profit, was \$5.1million for the 2015 fiscal year. SRT’s assets stand at \$147.5 million, while liabilities are \$56.2 million.

**GENERAL MANAGER’S REPORT:** General Manager Steve Lysne presented the General Manager’s Report. SRT’s roots are providing communications services. Mr. Lysne described SRT’s transition from a traditional phone company to a “broadband internet” company. He noted that SRT’s traditional service offering of landline telephone is declining as SRT’s core business. Mr. Lysne also described SRT’s efforts to deploy fiber, replacing old copper lines, for all cities served by SRT. The deployment of fiber will take several years and requires a significant capital expenditure for SRT.

**PRESIDENT’S MESSAGE:** President Stanley Vangsness discussed the annual meeting theme of “Premier Service. Local Experts.” Mr. Vangsness described the benefits of doing business locally and the expertise possessed by SRT.

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

<b>DISTRICT 1</b>	
Allan Engh.....	36
Spoiled ballots .....	0
<b>DISTRICT 2</b>	
Jim Newman.....	55
Spoiled ballots .....	1

<b>DISTRICT 3</b>	
Gerald Henry.....	43
Spoiled ballots .....	0

<b>DISTRICT 4</b>	
Tom Wentz, Jr.....	360
Spoiled ballots .....	-5

There was a total of 500 ballots cast. 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:** Door prizes were awarded to registered members.

  
 \_\_\_\_\_  
 David J. Hogue, Recording Secretary

  
 \_\_\_\_\_  
 John Marshall, Secretary

**ATTEST:**  
  
 \_\_\_\_\_  
 Stanley Vangsness, President

**Brady / Combination Technician**

**My Expertise /  
Connecting Homes**

When it came time to pick a career, I had had decent exposure to the co-op world. Having a dad who has been at SRT for 12 years and a mom who has been with Verendrye Electric Cooperative 19 years, I knew a thing or two about cooperatives. What attracted me to studying electronics and telecommunications in college was knowing I could get a good, steady job in North Dakota, and continue to do the things I enjoy. The outdoors is my playground – I love spending summers at a lake, playing softball, driving four wheelers, and racing Autocross. When I do take time to relax at home, I enjoy watching TV and movies, but I'm a cord cutter. All my shows are streamed through the Internet and rented through places like Hulu or Amazon. I own a smart TV and mirror my movies on my big screen with my phone acting as my remote control. I think it's pretty slick, and I love using the technology that I install in people's homes every day.





# Love SRT



**SRT Headquarters** / 3615 North Broadway / P.O. Box 2027 / Minot, ND 58702-2027  
**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.