

Bristol Bay
TELEPHONE
COOPERATIVE
INC

June 20, 2012

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
9300 East Hampton Drive
Capitol Heights, MD 20743

Re: WC Docket No. 10-90, Annual 54.313(a)(2) through (6); (f)(2) and (h) Report of High-Cost Recipient

Dear Ms. Dortch:

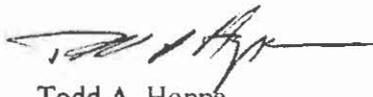
Enclosed herein is the annual report for Bristol Bay Telephone Cooperative, Inc., Study Area Code 613003 pursuant to §54.313 of the Commission's rules.

We are filing this report via the FCC ECFS System.

Please contact me with any questions at:

Phone (907) 246-3403
Email manager@bristolbay.com

Sincerely,



Todd A. Hoppe
General Manager

Enclosures

Copies to:

Karen Majcher
Vice President-High Cost and Low Income Division
Universal Service Administrative Company
2000 L Street NW, Suite 200
Washington, DC 20036

State of Alaska
Regulatory Commission of Alaska
701 W 8th Ave
Anchorage, AK 99501

BRISTOL BAY TELEPHONE COOPERATIVE, INC.
2012 Annual 54.313 Report of High-Cost Recipient

Certifications

In compliance with the following regulations, Bristol Bay Telephone Cooperative, Inc., by Todd A. Hoppe its General Manager hereby certifies, subject to the penalties for false statements imposed under 18 U.S.C. § 1001, that:

54.313(a)

47 CFR § 54.202(a)(1)(i) – It will make reasonable efforts to comply with the service requirements applicable to the support it receives, specifically:

High Cost Loop Support – the services listed and defined in 47 CFR § 54.101(a).

Lifeline Support – the three criteria set forth in 47 CFR § 54.401(a).

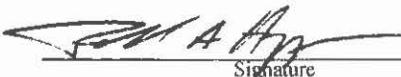
Interstate Common Line Support – the filings required in 47 CFR § 54.903 and the certification required in 47 CFR § 54.

47 CFR § 54.313(a)(5) – It will make reasonable efforts to comply with applicable service quality standards and consumer protection rules as defined in 47 CFR Part 64 Subpart U, Customer Proprietary Network Information and the Federal Trade Commission Red Flag rules to prevent identity theft. It also complies with the service standards of the State of Alaska in accordance with its obligation to the State as an Eligible Telecommunications Carrier (ETC). It also complies with the service standards of the State of Alaska promulgated in Alaska Statutes, Title 3 Commerce, Community, and Economic Development Part 7 Regulatory Commission of Alaska, 3 AAC 52.200-3 AAC 52.340, Telephone Utilities and Alaska Administrative Code 3AAC 53.700 State Telecommunications Modernization. (See also Page 3)

47 CFR § 54.313(a)(6) – It will make reasonable efforts to function in emergency situations as set forth in 47 CFR § 54.202(a)(2). (See also Page 4)

47 CFR § 54.313(g) – It is without access to terrestrial backhaul and is compelled to rely exclusively on satellite backhaul in its study area. No terrestrial backhaul options exist. It will make reasonable efforts to offer broadband service at actual speeds of at least 1 Mbps downstream and 256 kbps upstream within the supported area served by satellite middle-mile facilities.

Certified by:


Signature

Todd A. Hoppe

Printed Name

General Manager

Title

BRISTOL BAY TELEPHONE COOPERATIVE, INC.
2012 Annual 54.313 Report of High-Cost Recipient

54.313(a)(2) Detailed Information on any Outage in 2011

An outage is a significant degradation in the ability of an end user to establish and maintain a channel of communications as a result of failure or degradation in the performance of a communications provider's network of at least 30 minutes in Bristol Bay Telephone Cooperative, Inc.'s service area.

An outage affected at least ten percent of the end users in the service area. No
(Yes or No)

An outage that potentially affects a 911 special facility occurs whenever:

- (1) There is a loss of communications to PSAP(s) potentially affecting at least 900,000 user-minutes and: The failure is neither at the PSAP(s) nor on the premises of the PSAP(s); no reroute for all end users was available; and the outage lasts 30 minutes or more; or
- (2) There is a loss of 911 call processing capabilities in one or more E-911 tandems/selective routers for at least 30 minutes duration; or
- (3) One or more end-office or MSC switches or host/remote clusters is isolated from 911 service for at least 30 minutes and potentially affects at least 900,000 user-minutes; or
- (4) There is a loss of ANI/ALI (associated name and location information) and/or a failure of location determination equipment, including Phase II equipment, for at least 30 minutes and potentially affecting at least 900,000 user-minutes (provided that the ANI/ALI or location determination equipment was then currently deployed and in use, and the failure is neither at the PSAP(s) or on the premises of the PSAP(s)).

An outage affected a 911 special facility in the service area. No
(Yes or No)

BRISTOL BAY TELEPHONE COOPERATIVE, INC.
2012 Annual 54.313 Report of High-Cost Recipient

Miscellaneous Information

54.313(a)(3) The number of requests for service from potential customers within the recipient's service areas that were unfulfilled during the prior calendar year - Zero

54.313(a)(4) The number of complaints per 1,000 connections in 20XX - Zero

54.313(a)(5) Satisfaction of Consumer Protection and Service Quality Standards

Consumer Protection

Bristol Bay Telephone Cooperative, Inc. complies with the requirements of 47 CFR Part 64 Subpart U, Customer Proprietary Network Information and the Federal Trade Commission Red Flag rules to prevent identity theft. A manual for each of those programs is in place and is part of the employees' handbook. Employee training is conducted annually and new hires are instructed on the programs as required by their job functions.

Service Quality Standards

Bristol Bay Telephone Cooperative, Inc. complies with the service standards of the State of Alaska in accordance with its obligation to the State as an Eligible Telecommunications Carrier (ETC). It also complies with the service standards of the State of Alaska promulgated in Alaska Statutes, Title 3 Commerce, Community, and Economic Development Part 7 Regulatory Commission of Alaska, 3 AAC 52.200-3 AAC 52.340, Telephone Utilities and Alaska Administrative Code 3AAC 53.700 State Telecommunications Modernization.

BRISTOL BAY TELEPHONE COOPERATIVE, INC.
2012 Annual 54.313 Report of High-Cost Recipient

54.313(a)(6) Ability to Remain Functional in Emergency Situations

Back-up Power

Bristol Bay Telephone Cooperative, Inc. has the following back-up power capabilities:

Switches – stand alone and/or host

King Salmon Emergency 15KW Diesel Generator with a 54 gallon tank providing a 45 hour backup at full power. 48V battery plant providing 4 hrs emergency backup

Levelock 48V Battery plant providing 8 hrs backup

Igiugig 48V Battery plant providing 12 hrs backup

Koliganek 48V Battery plant providing 8 hrs backup

New Stuyahok 48V Battery plant providing 8 hrs backup

Ekwok 48V Battery plant providing 8 hrs backup

Remote Central Offices

N/A

Subscriber carrier

KSC 48V battery plant providing 12 hrs backup

Mile 8 Emergency 15KW Diesel Generator with a 54 gallon tank providing 45 hours of backup at full power. 48V battery backup providing 8 hrs backup

LRD 48V battery plant providing 12hrs backup

Naknek 48V battery plant providing 12hrs backup

STNAK 48V battery plant providing 12hrs backup

BRISTOL BAY TELEPHONE COOPERATIVE, INC.
2012 Annual 54.313 Report of High-Cost Recipient

Network Interface Devices (NIDs)

Bristol Bay Telephone Cooperative, Inc. has 1,491 customers with metallic (copper) connections to the Central Office and their NIDs are powered from the Central Office.

Ability to reroute traffic around damaged facilities:

Bristol Bay Telephone Cooperative, Inc. has stand-alone locations connected solely by Satellite. All locations except one provide equal access using 2 carriers which allows for toll redundancy.

Capability to manage traffic spikes resulting from emergency situations:

Bristol Bay Telephone Cooperative, Inc. has 1,491 customers, switching capacity of 2,986 simultaneous calls, and transport capacity for 480 simultaneous calls. Bristol Bay Telephone Cooperative, Inc. takes no responsibility for the capabilities of interconnected networks to manage traffic spikes resulting from emergency situations, but will continue its best efforts for its networks during such events.

54.313(f)(2) Audited Financial Report

Annual Report of Companies Financial Condition:

Bristol Bay Telephone Cooperative, Inc. is audited annually by an independent certified public accountant. Attachment A is the 2011 annual audit for Bristol Bay Telephone Cooperative, Inc. certified by Erickson and Brooks, a certified public accounting firm from Fremont, Nebraska.

BRISTOL BAY TELEPHONE COOPERATIVE, INC.
2012 Annual 54.313 Report of High-Cost Recipient

54.313(h) Additional Residential Voice Rate Data
As of June 1, 2012

Rates and lines ABOVE the local urban rate floor of \$10.00

| <u>Voice rate data</u> | <u>Rate</u> |
|----------------------------------|---------------|
| Residential Local Service Rate - | \$18.15 |
| State Subscriber Line Charges | \$3.75 |
| State Universal Service Fee | <u>\$2.08</u> |
| Total | \$23.98 |

Rates and lines BELOW the local urban rate floor of \$10.00

None

**BRISTOL BAY TELEPHONE COOPERATIVE, INC.
AND SUBSIDIARIES**

KING SALMON, ALASKA

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

ERICKSON & BROOKS

Certified Public Accountants

FREMONT, NEBRASKA

BRISTOL BAY TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
KING SALMON, ALASKA
DECEMBER 31, 2011 AND 2010

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Erickson & Brooks

CERTIFIED PUBLIC ACCOUNTANTS

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DANIEL J. WIESEN
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Bristol Bay Telephone Cooperative, Inc.
King Salmon, Alaska

We have audited the accompanying consolidated balance sheets of Bristol Bay Telephone Cooperative, Inc. (an Alaska corporation) and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, patronage and other equities, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bristol Bay Telephone Cooperative, Inc. and subsidiaries as of December 31, 2011 and 2010, and the consolidated results of its operations and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2012, on our consideration of Bristol Bay Telephone Cooperative, Inc.'s and subsidiaries' internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

ERICKSON & BROOKS

Erickson & Brooks

Fremont, Nebraska
March 9, 2012

BRISTOL BAY TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
KING SALMON, ALASKA
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

ASSETS (NOTES 1 AND 2)

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| Current assets: | | |
| Cash | \$ 1,203,487 | \$ 2,054,393 |
| Accounts receivable (net of reserve of \$11,409 and \$11,180 in 2011 and 2010, respectively) | 355,862 | 287,958 |
| Accounts receivable - affiliate (Note 15) | 8,928 | - |
| Other accounts receivable | 44,775 | 8,041 |
| Materials and supplies | 33,787 | 38,336 |
| Prepayments | 149,671 | 198,012 |
| Prepaid income taxes | 65,023 | 56,395 |
| Deferred tax assets (Note 10) | 3,361 | 3,216 |
| | <u>1,864,894</u> | <u>2,646,351</u> |
| Noncurrent assets: | | |
| Investments: | | |
| Investment in affiliates (Note 6) | 2,081,313 | 2,047,828 |
| Other investments (Note 4) | 54,012 | 63,878 |
| | <u>2,135,325</u> | <u>2,111,706</u> |
| Property, plant and equipment: (Note 3) | | |
| Telecommunications plant under construction | 337,657 | 115,426 |
| Telecommunications plant in service | 10,636,262 | 10,175,520 |
| Cable television plant in service | 878,104 | 864,997 |
| | <u>11,852,023</u> | <u>11,155,943</u> |
| Accumulated provision for depreciation | 9,526,722 | 8,888,432 |
| | <u>2,325,301</u> | <u>2,267,511</u> |
| | <u>\$ 6,325,520</u> | <u>\$ 7,025,568</u> |

The accompanying notes are an integral part of these financial statements.

BRISTOL BAY TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
KING SALMON, ALASKA
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

LIABILITIES AND EQUITIES

| | <u>2011</u> | <u>2010</u> |
|--|---------------------|---------------------|
| Current liabilities: | | |
| Bank overdraft | \$ 1,495 | \$ - |
| Accounts payable | 38,717 | 57,759 |
| Accounts payable - affiliate (Note 15) | - | 203,981 |
| Customer deposits | 9,673 | 10,423 |
| Advance billings and payments | 3,411 | 3,612 |
| Current portion of long-term debt (Note 7) | 226,242 | 171,677 |
| Accrued payroll | 107,766 | 49,888 |
| Accrued taxes | 68,508 | 82,011 |
| NAF credit liability - current (Note 5) | <u>26,800</u> | <u>28,000</u> |
| | <u>482,612</u> | <u>607,351</u> |
| Long-term debt (less current portion): | | |
| Long-term debt (Note 7) | <u>1,368,036</u> | <u>1,638,770</u> |
| Other liabilities and deferred credits: | | |
| Deferred tax liability (Note 10) | 300,923 | 275,886 |
| Deferred compensation (Note 13) | 103,025 | 108,174 |
| NAF credit liability (Note 5) | <u>63,853</u> | <u>85,482</u> |
| | <u>467,801</u> | <u>469,542</u> |
| Stockholders' equity: | | |
| Memberships | 5,800 | 5,720 |
| Patronage and other equities | <u>4,001,271</u> | <u>4,304,185</u> |
| | <u>4,007,071</u> | <u>4,309,905</u> |
| | <u>\$ 6,325,520</u> | <u>\$ 7,025,568</u> |

The accompanying notes are an integral part of these financial statements.

BRISTOL BAY TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
KING SALMON, ALASKA
CONSOLIDATED STATEMENTS OF INCOME, PATRONAGE AND OTHER EQUITIES
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|---|---------------------|---------------------|
| Operating revenues: | | |
| Basic local network services | \$ 710,358 | \$ 735,248 |
| Network access services | 2,507,209 | 2,545,164 |
| Miscellaneous | 23,122 | 31,232 |
| Cable television services | <u>186,835</u> | <u>210,574</u> |
| | <u>3,427,524</u> | <u>3,522,218</u> |
| Operating expenses: | | |
| Plant specific operations | 1,319,540 | 1,294,868 |
| Plant nonspecific operations | 401,046 | 357,867 |
| Depreciation | 759,811 | 696,400 |
| Customer operations | 211,460 | 205,796 |
| Corporate operations | 843,930 | 777,587 |
| Cable TV programming | 73,764 | 69,238 |
| Other taxes | <u>66,000</u> | <u>66,000</u> |
| | <u>3,675,551</u> | <u>3,467,756</u> |
| Operating income (loss) | <u>(248,027)</u> | <u>54,462</u> |
| Other income (expense): | | |
| Interest and dividend income | 3,051 | 11,792 |
| Interest expense (Note 14) | (80,309) | (91,838) |
| Nonregulated income - net (Note 8) | 25,049 | 42,461 |
| Profit from partnership (Note 6) | 33,485 | 489,744 |
| Miscellaneous income | <u>101</u> | <u>1,780</u> |
| | <u>(18,623)</u> | <u>453,939</u> |
| Income (loss) before income taxes | <u>(266,650)</u> | <u>508,401</u> |
| Income taxes: | | |
| Current | 11,372 | 68,605 |
| Deferred | <u>24,892</u> | <u>135,363</u> |
| | <u>36,264</u> | <u>203,968</u> |
| Net income (loss) | (302,914) | 304,433 |
| Patronage and other equities, beginning of year | <u>4,304,185</u> | <u>3,999,752</u> |
| Patronage and other equities, end of year | <u>\$ 4,001,271</u> | <u>\$ 4,304,185</u> |

The accompanying notes are an integral part of these financial statements.

BRISTOL BAY TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
KING SALMON, ALASKA
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Cash received from consumers | \$ 3,335,714 | \$ 3,708,857 |
| Interest and dividends received | 3,051 | 11,792 |
| Cash paid to suppliers | (3,057,309) | (2,904,974) |
| Interest paid | (81,033) | (93,021) |
| Income taxes paid | <u>(20,000)</u> | <u>(120,247)</u> |
| Net cash provided by operating activities | <u>180,423</u> | <u>602,407</u> |
| Cash flows from investing activities: | | |
| Construction and acquisition of plant | (859,728) | (424,490) |
| Proceeds from sale of plant | 36,773 | - |
| Return on nonaffiliated investment | 9,866 | 540 |
| Distributions from partnership | <u>-</u> | <u>300,000</u> |
| Net cash used by investing activities | <u>(813,089)</u> | <u>(123,950)</u> |
| Cash flows from financing activities: | | |
| Net change in customer deposits and advance payments | (951) | (12,000) |
| Net change in memberships | 80 | (860) |
| Payments on long-term debt | <u>(217,369)</u> | <u>(205,827)</u> |
| Net cash used by financing activities | <u>(218,240)</u> | <u>(218,687)</u> |
| Net increase (decrease) in cash | (850,906) | 259,770 |
| Cash - beginning of year | <u>2,054,393</u> | <u>1,794,623</u> |
| Cash - end of year | <u>\$ 1,203,487</u> | <u>\$ 2,054,393</u> |

The accompanying notes are an integral part of these financial statements.

BRISTOL BAY TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
 KING SALMON, ALASKA
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
 (continued)

| | <u>2011</u> | <u>2010</u> |
|---|-------------------|-------------------|
| Reconciliation of net income (loss) to net cash provided by operating activities: | | |
| Net income (loss) | \$ (302,914) | \$ 304,433 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation | 759,811 | 696,400 |
| Partnership income | (33,485) | (489,744) |
| Allowance for funds used during construction | (724) | (1,183) |
| Deferred income taxes | 24,892 | 135,363 |
| Deferred compensation | (5,149) | (5,751) |
| Deferred credit | (21,629) | (23,161) |
| Write-off of investment | - | 60,193 |
| (Increase) decrease in: | | |
| Accounts receivable | (104,637) | (107,440) |
| Materials and supplies | 4,549 | - |
| Prepaid income taxes | (8,628) | (56,395) |
| Prepaid expenses | 48,341 | (7,913) |
| Increase (decrease) in: | | |
| Accounts payable | (17,028) | (3,683) |
| Accrued payroll | 57,878 | (14,344) |
| Accrued taxes | (13,503) | 12,412 |
| Accounts payable - affiliates | <u>(207,351)</u> | <u>103,220</u> |
| Net cash provided by operating activities | <u>\$ 180,423</u> | <u>\$ 602,407</u> |

The accompanying notes are an integral part of these financial statements.

BRISTOL BAY TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
KING SALMON, ALASKA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 1 - Summary of Significant Accounting Policies

Nature of Operations

Bristol Bay Telephone Cooperative, Inc. and subsidiaries provide telephone and cable television services. Operations are conducted in several exchanges in the Bristol Bay area. Approximate operating revenues by activity are as follows: telephone services 95% and cable television services 5%.

Principles of Consolidation

The consolidated financial statements include the accounts of Bristol Bay Telephone Cooperative, Inc. and its wholly-owned subsidiaries, Bay Cablevision, Inc. and Aleutian Telcom, Inc. All material intercompany accounts and transactions have been eliminated.

System of Accounts

The accounting policies of the Company conform to accounting principles generally accepted in the United States of America and reflect practices appropriate to the telephone industry. The accounting records of the Company are maintained in accordance with the Uniform System of Accounts for Class A and B Telephone Utilities as prescribed by the Federal Communications Commission (FCC) and the Regulatory Commission of Alaska.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

Cash consists of checking and savings accounts, which may be liquidated in a period of less than 90 days.

Accounts Receivable

Provision for uncollectible accounts receivable is provided for based on an analysis of age group and probability of collection. The Company grants credit to local residents and others who work in the various fishing industries during the summer months.

The Company's policy is to accrue interest on trade receivables 30 days after invoice date. Accounts continue to accrue interest until either paid-off, written-off or service is terminated. Accounts that continued to accrue interest and were more than 90 days past due totaled \$5,347 and \$12,857 at December 31, 2011 and 2010, respectively.

Materials and Supplies

Inventories are stated at the lower of cost or market. Cost is determined principally by the average cost method. Inventories consist of finished goods such as cable and pedestals.

Investment in Nonaffiliated Companies

Investment in nonaffiliated companies consists primarily of minority interest in various nonpublicly traded companies. These investments are stated at cost, as market values are not available.

BRISTOL BAY TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
KING SALMON, ALASKA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(continued)

Investment in Affiliated Company

The Company's investment in an affiliated company is reported on the equity method of accounting.

Property, Plant and Equipment

Telephone and cable television plant are capitalized at original cost, including the capitalized cost of salaries and wages, materials, certain payroll taxes and employee benefits and an allowance for funds used during construction (AFUDC).

Renewals and betterments of units of property are charged to plant in service. When plant is retired, its cost is removed from the asset account and charged against accumulated depreciation, together with removal costs less any salvage realized. No gains or losses are recognized in connection with routine retirements of depreciable property. Substantial early retirements of assets are charged to deferred charges and amortized in accordance with the rules of the Regulatory Commission of Alaska. Repairs and renewals of minor items of property are included in plant specific operations expense.

AFUDC represents the borrowing costs and a reasonable return on equity of funds used to finance construction. AFUDC is capitalized as a component of additions to property, plant and equipment and is credited to interest on long-term debt.

Depreciation

The Company provides for depreciation for financial reporting purposes on the straight-line method by the application of rates based on the estimated service lives of the various classes of depreciable property.

Patronage Capital

Bristol Bay Telephone Cooperative, Inc. is a cooperative of which the subscribers are members. Each subscriber becomes a member and receives a membership certificate which will allow the subscriber to vote at the annual meeting. Each subscriber is allocated a portion of patronage income based on usage.

Revenue Recognition

Toll, access, local service and miscellaneous revenues are recognized when earned regardless of the period in which they are billed.

Network access revenue related to interlata and intralata toll service is received under a system of access charges. Access charges represent a methodology by which local telephone companies, including the Company, charge the long distance carrier for access and interconnection to local facilities. The Company follows an access tariff filed with the Regulatory Commission of Alaska for intrastate charges and the Federal Communications Commission for interstate charges.

When network access service revenues have been received pursuant to the settlement and access agreements above, they are divided into traffic sensitive, nontraffic sensitive and billing and collecting portions. The revenues are then either placed into a common pooling arrangement with other exchange carriers for redistribution or kept by the Company. The redistributions are made according to formulas established by the governing boards of the pools and are generally based upon expenses incurred and investment maintained. The Company participates in a pooling arrangement with the National Exchange Carrier Association.

BRISTOL BAY TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

KING SALMON, ALASKA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(continued)

Interstate settlement, access, and pool distribution revenues are recorded when the amounts become determinable. Related expenses are recorded when incurred. Subsequent true-ups and retroactive adjustments, which are generally allowed for a period of 24 months after the close of the related calendar year, are recorded in the year in which such adjustments become determinable. Retroactive adjustments increased net income by \$7,879 in 2011 and decreased net income by \$26,662 in 2010.

Intrastate access revenues are received from access charges through the Alaska Exchange Carriers Association and are based on projections submitted at the beginning of the year. There are no subsequent adjustments.

In addition to recoveries from NECA, the Company also receives revenue from the Universal Service High Cost Loop Fund administered by the Universal Service Administrative Company (USAC). The amount of support received from USAC is based on the number of customers served and the cost of providing services in that area being in excess of the national average, as determined by the FCC. The Company received \$641,832 and \$715,248, respectively, for the years ended December 31, 2011 and 2010.

The ability of NECA and USAC to provide these revenues to organizations similar to the Company is contingent upon regulatory and legislative rules which provide for the continuance of rate of return regulation and universal service support as currently enacted. Any regulatory or legislative changes that reduce the rate of return or universal support mechanism and the amount of revenues may have a material impact on the Company.

Income Taxes

Deferred taxes are provided for certain timing differences. The tax provision differs from the expense of applying statutory rates due to permanent differences such as tax-exempt interest and dividends, dividend exclusion and allocation of patronage credits to subscribers.

In accordance with Financial Accounting Standards Board's Accounting Standard's Codification No. 740, the Company is required to inventory, evaluate, and measure all uncertain tax positions taken or to be taken in tax returns, and to record liabilities for the amount of such positions that may not be sustained, or may only partially be sustained, upon examination by relevant taxing authorities. The Company's income tax filings are subject to audit by various taxing authorities. The Company's open audit periods are 2008-2011. In evaluating the Company's tax provisions and accruals, future taxable income, and the reversal of temporary differences, interpretations, and tax planning strategies are considered. The Company believes their estimates are appropriate based on current facts and circumstances.

Interest and penalties associated with the Company's tax positions are recorded as part of income tax expense.

Sales Tax

The Company excludes from its sales all sales taxes assessed to its customers. Sales taxes assessed are recorded as accrued liabilities on the balance sheet until remitted to the state agencies.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expense as incurred. Advertising expense for the years ended December 31, 2011 and 2010 was \$6,448 and \$10,081, respectively.

Note 2 - Assets Pledged

Substantially all assets are pledged as security for the long-term debt to the Federal Financing Bank and Wells Fargo Bank.

BRISTOL BAY TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

KING SALMON, ALASKA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(continued)

Note 3 - Investment in Property, Plant and Equipment

Telephone plant in service and under construction is stated at cost. Listed below are the major classes of telephone plant in service and the associated depreciation reserves as of December 31, 2011 and 2010.

| | <u>2011</u> | | <u>2010</u> | |
|--|----------------------|---------------------|----------------------|---------------------|
| | <u>Plant</u> | <u>Reserve</u> | <u>Plant</u> | <u>Reserve</u> |
| Bristol Bay Telephone Cooperative, Inc. | | | | |
| Land | \$ 24,850 | \$ - | \$ 24,850 | \$ - |
| Vehicles and work equipment | 1,255,627 | 989,727 | 1,084,660 | 975,364 |
| Buildings | 1,116,669 | 1,116,669 | 1,116,669 | 1,116,669 |
| Furniture and office equipment | 696,656 | 688,175 | 673,423 | 660,630 |
| Central office equipment: | | | | |
| Switching | 1,220,511 | 896,671 | 1,220,511 | 745,474 |
| Circuit | 2,383,033 | 1,759,305 | 2,196,381 | 1,475,323 |
| Buried plant | 3,938,916 | 3,220,993 | 3,859,026 | 3,066,632 |
| | <u>\$ 10,636,262</u> | <u>\$ 8,671,540</u> | <u>\$ 10,175,520</u> | <u>\$ 8,040,092</u> |

The Company provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life. Such provision as a percentage of the average balance of telephone plant in service was 7.32 percent in 2011 and 6.98 percent in 2010. Individual plant depreciation rates are as follows:

| | <u>Percent</u> |
|--------------------------------------|----------------|
| Vehicles and work equipment | 20.0 |
| Buildings | 5.0 |
| Furniture and office equipment | 10.0 - 33.3 |
| Central office equipment - switching | 10.0 |
| Central office equipment - circuit | 10.0 |
| Buried plant | 4.0 |

Cable television plant is stated at cost. The major classes of cable television plant and the associated depreciation reserves as of December 31, 2011 and 2010, are as follows:

| | <u>2011</u> | | <u>2010</u> | |
|---|-------------------|-------------------|-------------------|-------------------|
| | <u>Plant</u> | <u>Reserve</u> | <u>Plant</u> | <u>Reserve</u> |
| Bay Cablevision, Inc. | | | | |
| Headend equipment and satellite equipment | \$ 321,069 | \$ 298,147 | \$ 307,962 | \$ 291,305 |
| Outside plant | 534,020 | 534,020 | 534,020 | 534,020 |
| Test equipment and furniture | 23,015 | 23,015 | 23,015 | 23,015 |
| | <u>\$ 878,104</u> | <u>\$ 855,182</u> | <u>\$ 864,997</u> | <u>\$ 848,340</u> |

BRISTOL BAY TELEPHONE COÖPERATIVE, INC. AND SUBSIDIARIES

KING SALMON, ALASKA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(continued)

The Company provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life. Individual cable television plant depreciation rates are as follows:

| | <u>Percent</u> |
|------------------------------|----------------|
| Headend equipment | 10.0 |
| Outside plant | 5.0 |
| Test equipment and furniture | 20.0 |

Note 4 - Investment in Nonaffiliated Companies

A breakdown of the investment in nonaffiliated companies at December 31 is as follows:

| | <u>2011</u> | <u>2010</u> |
|-------------------------------|-------------|-------------|
| Other investments: | | |
| National Bank of Cooperatives | | |
| B stock | \$ 54,012 | \$ 63,878 |

Aleutian Telcom, Inc. was required to purchase stock of the National Bank of Cooperatives as part of the loan agreement. Dividends are paid on this stock in cash and in the form of additional shares.

Note 5 - NAF Credit Liability

As reported in previous years, the Company received funds from the Rural Telephone Bank (RTB) as a result of the liquidation and dissolution of the Bank. The Company recognized a gain of \$1,262,459 on the funds received.

During the year ended December 31, 2008, the Regulatory Commission of Alaska (RCA) opened a docket related to refunding a portion of the RTB gain to its customers. The Company has agreed to refund the intrastate access portion of the RTB gain in the amount of \$173,468 over a six year period. In addition to the refund amount, interest at the rate of 3.90% will be added to the liability amount on an annual basis. Payment of the refund to the customer will be completed by issuing a monthly NAF credit of \$1.40 on their telephone bill.

Since the liability will be paid over a number of years, the liability has current and long-term components. As of December 31, the liability has been classified as follows:

| | <u>2011</u> | <u>2010</u> |
|-----------|------------------|-------------------|
| Current | \$ 26,800 | \$ 28,000 |
| Long-term | <u>63,853</u> | <u>85,482</u> |
| | <u>\$ 90,653</u> | <u>\$ 113,482</u> |

BRISTOL BAY TELEPHONE COÖPERATIVE, INC. AND SUBSIDIARIES

KING SALMON, ALASKA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(continued)

Note 6 - Investment in Affiliated Company

Aleutian Telcom, Inc., a wholly-owned subsidiary of the Company, has a 50 percent ownership interest in Bristol Bay Cellular partnership. The remaining ownership interest is held by AWACS, Inc., an indirect wholly-owned subsidiary of SBC Communications, Inc. Aleutian Telcom, Inc. accounts for the investment using the equity method.

The Bristol Bay Cellular Partnership was formed to establish and provide cellular service in the Bristol Bay and other areas. The following is a summary of Bristol Bay Cellular Partnership's financial position as of December 31, 2011 and 2010, and the results of its operations for the years then ended:

| | <u>2011</u> | <u>2010</u> |
|-------------------------------------|---------------------|---------------------|
| Current assets | \$ 1,164,617 | \$ 1,494,830 |
| Property, plant and equipment (net) | 2,887,255 | 2,470,844 |
| Other assets | <u>256,611</u> | <u>256,611</u> |
| | <u>\$ 4,308,483</u> | <u>\$ 4,222,285</u> |
| Current liabilities | \$ 145,858 | \$ 126,630 |
| Partners' equity | <u>4,162,625</u> | <u>4,095,655</u> |
| | <u>\$ 4,308,483</u> | <u>\$ 4,222,285</u> |
| Revenues | \$ 2,112,246 | \$ 2,643,513 |
| Operating expenses | (1,140,533) | (1,044,140) |
| Depreciation and amortization | <u>(904,743)</u> | <u>(619,885)</u> |
| Net income | <u>\$ 66,970</u> | <u>\$ 979,488</u> |

Bristol Bay Cellular Partnership provides cellular telephone service to subscribers in the King Salmon and Dillingham areas. Cellular service revenues consist of activation fees, monthly access fees, and airtime charges, and high cost support from USAC. Toll service is purchased from interexchange carriers and resold to cellular subscribers. Receivables arise primarily from subscribers involved in the commercial fishing and tourism industries with the majority of airtime billed during the summer months.

The Partnership is designated as an eligible telecommunication carrier (ETC), which entitles the Partnership to receive high cost support from the Universal Service Administration Co. (USAC). The amount of support received from USAC is based on the high cost support received by the incumbent local exchange carrier (ILEC). The ILEC's support is based on the number of customers served and the cost of providing services in that area being in excess of the national average, as determined by the FCC. For the years ended December 31, 2011 and 2010, support received from USAC totaled \$1,534,933 and \$2,013,569, respectively.

BRISTOL BAY TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
KING SALMON, ALASKA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(continued)

Note 7 - Long-term Debt Obligations

Following is a summary of outstanding long-term debt:

| | <u>Current Annual Installments on Principal</u> | <u>Principal Total at December 31,</u> | |
|--|---|--|---------------------|
| | | <u>2011</u> | <u>2010</u> |
| Bristol Bay Telephone Cooperative, Inc. | | | |
| Mortgage note payable to the Federal Financing Bank 4.125% note due in 2018, quarterly payments of \$64,775, including principal and interest. | \$ 194,949 | \$ 1,549,526 | \$ 1,736,747 |
| 7.4% note payable to Wells Fargo Equipment Finance, Inc. in 60 monthly installments of \$2,781, including principal and interest, secured by a Ditch Witch tractor. | <u>31,293</u> | <u>44,752</u> | <u>73,700</u> |
| | <u>\$ 226,242</u> | 1,594,278 | 1,810,447 |
| Less principal installments on long-term debt due within one year | | <u>226,242</u> | <u>171,677</u> |
| Total long-term debt | | <u>\$ 1,368,036</u> | <u>\$ 1,638,770</u> |

The maturities of long-term debt for each of the next five years succeeding the balance sheet date are as follows:

| | |
|------|------------|
| 2012 | \$ 226,242 |
| 2013 | 216,610 |
| 2014 | 211,675 |
| 2015 | 220,540 |
| 2016 | 171,475 |

The long-term debt agreement contains restrictions on the payment of dividends and the redemption of capital stock. The terms of the mortgage agreement require the maintenance of defined amounts of patronage capital and working capital after the payment of dividends.

Note 8 - Nonregulated Equipment

| Nonregulated equipment consists of: | <u>2011</u> | <u>2010</u> |
|-------------------------------------|---------------|---------------|
| Voice mail equipment | \$ 14,831 | \$ 14,831 |
| Less accumulated depreciation | <u>14,831</u> | <u>14,831</u> |
| Net nonregulated equipment | <u>\$ -</u> | <u>\$ -</u> |

Nonregulated equipment is stated at cost. The Company provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life of ten years.

BRISTOL BAY TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
KING SALMON, ALASKA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(continued)

Following is a summary of net income from nonregulated equipment in service:

| | <u>2011</u> | <u>2010</u> |
|------------|------------------|------------------|
| Revenues | 213,635 | \$ 200,847 |
| Expenses | <u>(188,586)</u> | <u>(158,386)</u> |
| Net income | <u>\$ 25,049</u> | <u>\$ 42,461</u> |

Note 9 - Operating Leases

The Company has entered into several operating lease agreements with others for various parcels of land. The agreements are noncancelable with terms ranging from 1 to 10 years. Renewal options are included in all material leases. Lease expense amounted to \$26,517 in 2011 and \$31,218 in 2010.

At December 31, 2011, future minimum lease payments under such leases for the next five years were as follows:

| | | |
|------|----|--------|
| 2012 | \$ | 25,050 |
| 2013 | | 22,890 |
| 2014 | | 22,390 |
| 2015 | | 22,390 |
| 2016 | | 14,660 |

Note 10 - Deferred Income Taxes

The Company follows the provisions of Financial Accounting Standards Board's Accounting Standards Codification No. 740. The provisions require the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statement or tax returns. Deferred tax assets and liabilities are determined based on the differences between the financial and tax bases using enacted tax rates in effect for the year in which the differences are expected to reverse.

The net deferred tax obligation in the accompanying balance sheets includes the following components:

| | <u>2011</u> | | <u>2010</u> | |
|-----------------------------|-----------------|---------------------|-----------------|---------------------|
| | <u>Current</u> | <u>Noncurrent</u> | <u>Current</u> | <u>Noncurrent</u> |
| Deferred tax liability | \$ - | \$ (480,114) | \$ - | \$ (288,394) |
| Deferred tax asset | <u>3,361</u> | <u>179,191</u> | <u>3,216</u> | <u>12,508</u> |
| Net deferred tax obligation | <u>\$ 3,361</u> | <u>\$ (300,923)</u> | <u>\$ 3,216</u> | <u>\$ (275,886)</u> |

The deferred tax liability results from the use of accelerated methods of depreciation of property and equipment for tax purposes on the wholly-owned subsidiaries, Bay Cablevision, Inc. and Aleutian Telcom, Inc., and through its investment in Bristol Bay Cellular Partnership.

BRISTOL BAY TELEPHONE COÖPERATIVE, INC. AND SUBSIDIARIES
KING SALMON, ALASKA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(continued)

The deferred tax asset results from timing differences on deducting the allowance for doubtful accounts and a net operating loss carryover of \$318,450 which expires in 2031. A deferred tax asset valuation allowance was not deemed necessary as it appears the Cooperative and its subsidiaries will generate sufficient taxable income to deduct the timing differences on future returns.

The expected income tax provision that would result from applying statutory tax rates to income before income taxes differs from current expense for the following reasons:

1. Permanent differences for expenses which are not deductible for income tax purposes.
2. Patronage income or losses allocated to members during the year. Patronage losses may not be deducted to offset non-patronage income. Patronage losses incurred for the years ended December 31, 2011 and 2010 were \$336,343 and \$46,369, respectively.

Note 11 - Profit-Sharing Plan

The Cooperative has a defined contribution profit-sharing plan in effect for all employees who meet certain age and length of service requirements. Contributions to the plan are based on a percentage of wages. The expense for the years ended December 31, 2011 and 2010 was \$154,034 and \$123,792, respectively.

Note 12 - Concentration of Credit Risk

The Cooperative maintains its cash balances at one financial institution located in Anchorage, Alaska. At times, these balances may exceed amounts secured by the Federal Deposit Insurance Corporation. At December 31, 2011, combined uninsured amounts held at this financial institution totaled \$387,662.

Note 13 - Deferred Compensation

The Company has agreed to make certain payments to the former manager of the company upon death, disability or retirement. Terms of the agreement include monthly payments of \$1,000 with payments that commenced on July 1, 2002. The liability was determined by computing the present value at the above retirement date and it was accrued over the period of the manger's active employment. The amount charged to operations was \$6,851 and \$7,249 for the years ended December 31, 2011 and 2010, respectively.

Note 14 - Capitalized Interest

Interest costs charged to operations consist of the following:

| | <u>2011</u> | <u>2010</u> |
|--|------------------|------------------|
| Interest cost incurred | \$ 81,033 | \$ 93,021 |
| Decrease as a result of an allowance for funds used during construction | <u>(724)</u> | <u>(1,183)</u> |
| Interest charged to operations | <u>\$ 80,309</u> | <u>\$ 91,838</u> |

BRISTOL BAY TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES

KING SALMON, ALASKA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(continued)

Note 15 - Related Party Transactions

The Company incurred transactions with Bristol Bay Cellular Partnership (BBCP) for the distribution of payroll and related costs and the allocation of operating expenses and capital expenditures. Aleutian Telcom, Inc. (ATI), general partner of the partnership, is a wholly-owned subsidiary of the Company.

Related party transactions include the following:

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|---------------------|
| <u>Bristol Bay Cellular Partnership (BBCP)</u> | | |
| Allocation of payroll, benefits, overhead clearings and other operating expenses | \$ 500,680 | \$ 452,231 |
| Funds advanced to BBCP | 400,000 | 200,000 |
| Funds received from BBCP | <u>(687,771)</u> | <u>(749,764)</u> |
| | <u>\$ 212,909</u> | <u>\$ (97,533)</u> |
| Receivable (payable) BBCP at December 31 | <u>\$ 8,928</u> | <u>\$ (203,981)</u> |

Note 16 - Subsequent Events

The Company has evaluated all subsequent events through March 9, 2012, the date the financial statements were available to be issued. The Company received a \$200,000 distribution from its investment in Bristol Bay Cellular Partnership in January 2012.

Erickson & Brooks
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

Board of Directors
Bristol Bay Telephone Cooperative, Inc.
King Salmon, Alaska

We have audited the consolidated financial statements of Bristol Bay Telephone Cooperative, Inc. and subsidiaries as of and for the year ended December 31, 2011, and our report thereon dated March 9, 2012, which expressed an unqualified opinion on those financial statements, appears on page one. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules I, II, and III is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

ERICKSON & BROOKS

Erickson & Brooks

Fremont, Nebraska
March 9, 2012

BRISTOL BAY TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
KING SALMON, ALASKA
SCHEDULE I - CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2011

ASSETS

| | <u>Bristol Bay Telephone Cooperative, Inc.</u> | <u>Bay Cablevision, Inc.</u> | <u>Aleutian Telcom, Inc.</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|---|--|--------------------------------------|--------------------------------------|-----------------------|---------------------|
| Current assets: | | | | | |
| Cash | \$ 1,151,071 | \$ - | \$ 52,416 | \$ - | \$ 1,203,487 |
| Accounts receivable, net | 353,947 | 1,915 | - | - | 355,862 |
| Accounts receivable - affiliates | 8,928 | 40,461 | 1,859 | (42,320) | 8,928 |
| Other accounts receivable | 44,775 | - | - | - | 44,775 |
| Materials and supplies | 33,787 | - | - | - | 33,787 |
| Prepayments | 149,621 | 50 | - | - | 149,671 |
| Prepaid income taxes | 65,023 | - | - | - | 65,023 |
| Deferred tax assets | - | - | 3,361 | - | 3,361 |
| | <u>1,807,152</u> | <u>42,426</u> | <u>57,636</u> | <u>(42,320)</u> | <u>1,864,894</u> |
| Noncurrent assets: | | | | | |
| Investments: | | | | | |
| Investment in affiliates | 1,943,991 | - | 2,081,313 | (1,943,991) | 2,081,313 |
| Other investments | - | - | 54,012 | - | 54,012 |
| Deferred tax assets | 9,153 | - | - | (9,153) | - |
| | <u>1,953,144</u> | <u>-</u> | <u>2,135,325</u> | <u>(1,953,144)</u> | <u>2,135,325</u> |
| Property, plant and equipment: | | | | | |
| Telecommunications plant under construction | 337,657 | - | - | - | 337,657 |
| Telecommunications plant in service | 10,636,262 | - | - | - | 10,636,262 |
| Cable television plant in service | - | 878,104 | - | - | 878,104 |
| | <u>10,973,919</u> | <u>878,104</u> | <u>-</u> | <u>-</u> | <u>11,852,023</u> |
| Accumulated provision for depreciation | 8,671,540 | 855,182 | - | - | 9,526,722 |
| | <u>2,302,379</u> | <u>22,922</u> | <u>-</u> | <u>-</u> | <u>2,325,301</u> |
| | <u>\$ 6,062,675</u> | <u>\$ 65,348</u> | <u>\$ 2,192,961</u> | <u>\$ (1,995,464)</u> | <u>\$ 6,325,520</u> |

See Independent Auditors' Report on Consolidating Information

BRISTOL BAY TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
KING SALMON, ALASKA
SCHEDULE I - CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2011

LIABILITIES AND EQUITIES

| | <u>Bristol Bay Telephone Cooperative, Inc.</u> | <u>Bay Cablevision, Inc.</u> | <u>Aleutian Telcom, Inc.</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|--|--------------------------------------|--------------------------------------|-----------------------|---------------------|
| Current liabilities: | | | | | |
| Bank overdraft | \$ - | \$ 1,495 | \$ - | \$ - | \$ 1,495 |
| Accounts payable | 36,943 | 1,774 | - | - | 38,717 |
| Accounts payable - affiliates | 42,320 | - | - | (42,320) | - |
| Customer deposits | 9,673 | - | - | - | 9,673 |
| Advance billings and payments | 3,411 | - | - | - | 3,411 |
| Current portion of long-term debt | 226,242 | - | - | - | 226,242 |
| Accrued taxes | 68,508 | - | - | - | 68,508 |
| Accrued payroll | 106,793 | 973 | - | - | 107,766 |
| NAF credit liability - current | 26,800 | - | - | - | 26,800 |
| | <u>520,690</u> | <u>4,242</u> | <u>-</u> | <u>(42,320)</u> | <u>482,612</u> |
| Long-term debt (less current portion): | | | | | |
| FFB mortgage notes | 1,354,577 | - | - | - | 1,354,577 |
| Other notes payable | 13,459 | - | - | - | 13,459 |
| | <u>1,368,036</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,368,036</u> |
| Other liabilities and deferred credits: | | | | | |
| Deferred tax liability | - | 3,592 | 306,484 | (9,153) | 300,923 |
| Deferred compensation | 103,025 | - | - | - | 103,025 |
| NAF credit liability | 63,853 | - | - | - | 63,853 |
| | <u>166,878</u> | <u>3,592</u> | <u>306,484</u> | <u>(9,153)</u> | <u>467,801</u> |
| Members' equity: | | | | | |
| Memberships | 5,800 | - | - | - | 5,800 |
| Additional paid in capital | - | - | 2,113,500 | (2,113,500) | - |
| Patronage and other equities | 4,001,271 | - | - | - | 4,001,271 |
| Retained earnings (accumulated deficit) | - | 57,514 | (227,023) | 169,509 | - |
| | <u>4,007,071</u> | <u>57,514</u> | <u>1,886,477</u> | <u>(1,943,991)</u> | <u>4,007,071</u> |
| | <u>\$ 6,062,675</u> | <u>\$ 65,348</u> | <u>\$ 2,192,961</u> | <u>\$ (1,995,464)</u> | <u>\$ 6,325,520</u> |

See Independent Auditors' Report on Consolidating Information

BRISTOL BAY TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
KING SALMON, ALASKA
SCHEDULE II - CONSOLIDATING STATEMENT OF INCOME, PATRONAGE AND OTHER EQUITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

| | <u>Bristol Bay Telephone Cooperative, Inc.</u> | <u>Bay Cablevision, Inc.</u> | <u>Aleutian Telcom, Inc.</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|------------------------------|--|--------------------------------------|--------------------------------------|---------------------|---------------------|
| Operating revenues: | | | | | |
| Basic local network services | \$ 710,358 | \$ - | \$ - | \$ - | \$ 710,358 |
| Network access services | 2,507,209 | - | - | - | 2,507,209 |
| Miscellaneous | 23,122 | - | - | - | 23,122 |
| Cable television services | - | 186,835 | - | - | 186,835 |
| | <u>3,240,689</u> | <u>186,835</u> | <u>-</u> | <u>-</u> | <u>3,427,524</u> |
| Operating expenses: | | | | | |
| Plant specific operations | 1,297,504 | 22,036 | - | - | 1,319,540 |
| Plant nonspecific operations | 368,034 | 33,012 | - | - | 401,046 |
| Depreciation | 752,276 | 7,535 | - | - | 759,811 |
| Customer operations | 197,059 | 14,401 | - | - | 211,460 |
| Corporate operations | 826,411 | 17,519 | - | - | 843,930 |
| Cable TV programming | - | 73,764 | - | - | 73,764 |
| Other taxes | 66,000 | - | - | - | 66,000 |
| | <u>3,507,284</u> | <u>168,267</u> | <u>-</u> | <u>-</u> | <u>3,675,551</u> |
| Operating income (loss) | <u>(266,595)</u> | <u>18,568</u> | <u>-</u> | <u>-</u> | <u>(248,027)</u> |

See Independent Auditors' Report on Consolidating Information

BRISTOL BAY TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
KING SALMON, ALASKA
SCHEDULE II - CONSOLIDATING STATEMENT OF INCOME, PATRONAGE AND OTHER EQUITIES
FOR THE YEAR ENDED DECEMBER 31, 2011
 (continued)

| | <u>Bristol Bay Telephone Cooperative, Inc.</u> | <u>Bay Cablevision, Inc.</u> | <u>Aleutian Telcom, Inc.</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|---|--|--------------------------------------|--------------------------------------|---------------------|---------------------|
| Other income (expense): | | | | | |
| Interest and dividend income | 2,914 | - | 137 | - | 3,051 |
| Interest expense | (80,309) | - | - | - | (80,309) |
| Nonregulated income - net | 25,049 | - | - | - | 25,049 |
| Profit from partnership | - | - | 33,485 | - | 33,485 |
| Miscellaneous income | 101 | - | - | - | 101 |
| Income from affiliates | 29,157 | - | - | (29,157) | - |
| | <u>(23,088)</u> | <u>-</u> | <u>33,622</u> | <u>(29,157)</u> | <u>(18,623)</u> |
| Income (loss) before income taxes | <u>(289,683)</u> | <u>18,568</u> | <u>33,622</u> | <u>(29,157)</u> | <u>(266,650)</u> |
| Income taxes: | | | | | |
| Current | 13,231 | - | (1,859) | - | 11,372 |
| Deferred | - | 6,947 | 17,945 | - | 24,892 |
| | <u>13,231</u> | <u>6,947</u> | <u>16,086</u> | <u>-</u> | <u>36,264</u> |
| Net income (loss) | (302,914) | 11,621 | 17,536 | (29,157) | (302,914) |
| Beginning balance: | | | | | |
| Patronage and other equities | 4,304,185 | - | - | - | 4,304,185 |
| Retained earnings (accumulated deficit) | - | 65,893 | (44,559) | (21,334) | - |
| Dividend distributions | - | (20,000) | (200,000) | 220,000 | - |
| Ending balance | <u>\$ 4,001,271</u> | <u>\$ 57,514</u> | <u>\$ (227,023)</u> | <u>\$ 169,509</u> | <u>\$ 4,001,271</u> |

See Independent Auditors' Report on Consolidating Information

BRISTOL BAY TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
KING SALMON, ALASKA
SCHEDULE III - CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

| | <u>Bristol Bay Telephone Cooperative, Inc.</u> | <u>Bay Cablevision, Inc.</u> | <u>Aleutian Telcom, Inc.</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|---|--|--------------------------------------|--------------------------------------|---------------------|---------------------|
| Cash flows from operating activities: | | | | | |
| Cash received from consumers | \$ 3,149,959 | \$ 185,755 | \$ - | \$ - | \$ 3,335,714 |
| Interest and dividends received | 2,914 | - | 137 | - | 3,051 |
| Cash paid to suppliers and employees | (2,894,614) | (162,695) | - | - | (3,057,309) |
| Interest paid | (81,033) | - | - | - | (81,033) |
| Income taxes paid | (20,000) | - | - | - | (20,000) |
| Net cash provided by operating activities | <u>157,226</u> | <u>23,060</u> | <u>137</u> | <u>-</u> | <u>180,423</u> |
| Cash flows from investing activities: | | | | | |
| Construction and acquisition of plant | (846,621) | (13,107) | - | - | (859,728) |
| Proceeds from sale of plant | 36,773 | - | - | - | 36,773 |
| Return on nonaffiliated investment | - | - | 9,866 | - | 9,866 |
| Advances from affiliates | 146,038 | - | - | (146,038) | - |
| Advances to affiliates | - | (35,507) | (110,531) | 146,038 | - |
| Net cash used by investing activities | <u>(663,810)</u> | <u>(48,614)</u> | <u>(100,665)</u> | <u>-</u> | <u>(813,089)</u> |
| Cash flows from financing activities: | | | | | |
| Net change in customer deposits and advance payments | (951) | - | - | - | (951) |
| Net change in memberships | 80 | - | - | - | 80 |
| Payments on long-term debt | (217,369) | - | - | - | (217,369) |
| Dividend distributions | 220,000 | (20,000) | (200,000) | - | - |
| Net cash provided (used) by financing activities | <u>1,760</u> | <u>(20,000)</u> | <u>(200,000)</u> | <u>-</u> | <u>(218,240)</u> |
| Net decrease in cash | (504,824) | (45,554) | (300,528) | - | (850,906) |
| Cash - beginning of year | <u>1,655,895</u> | <u>45,554</u> | <u>352,944</u> | <u>-</u> | <u>2,054,393</u> |
| Cash - end of year | <u>\$ 1,151,071</u> | <u>\$ -</u> | <u>\$ 52,416</u> | <u>\$ -</u> | <u>\$ 1,203,487</u> |

See Independent Auditors' Report on Consolidating Information

BRISTOL BAY TELEPHONE COOPERATIVE, INC. AND SUBSIDIARIES
KING SALMON, ALASKA
SCHEDULE III - CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
 (continued)

| | <u>Bristol Bay Telephone Cooperative, Inc.</u> | <u>Bay Cablevision, Inc.</u> | <u>Aleutian Telcom, Inc.</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|--|--------------------------------------|--------------------------------------|---------------------|---------------------|
| Reconciliation of net income to net cash provided by operating activities | | | | | |
| Net income (loss) | \$ (302,914) | \$ 11,621 | \$ 17,536 | \$ (29,157) | \$ (302,914) |
| Adjustments to reconcile net income (loss) to cash provided by operating activities | | | | | |
| Income from subsidiaries | (29,157) | - | - | 29,157 | - |
| Depreciation | 752,276 | 7,535 | - | - | 759,811 |
| Partnership income | - | - | (33,485) | - | (33,485) |
| Allowance for funds used during construction | (724) | - | - | - | (724) |
| Deferred income taxes | - | 6,947 | 17,945 | - | 24,892 |
| Deferred compensation | (5,149) | - | - | - | (5,149) |
| Deferred credit | (21,629) | - | - | - | (21,629) |
| (Increase) decrease in: | | | | | |
| Accounts receivable | (103,557) | (1,080) | - | - | (104,637) |
| Accounts receivable-affiliate | 1,859 | - | (1,859) | - | - |
| Materials and supplies | 4,549 | - | - | - | 4,549 |
| Prepaid income taxes | (8,628) | - | - | - | (8,628) |
| Prepaid expenses | 48,291 | 50 | - | - | 48,341 |
| Increase (decrease) in: | | | | | |
| Accounts payable | (14,042) | (2,986) | - | - | (17,028) |
| Accrued payroll | 56,905 | 973 | - | - | 57,878 |
| Accrued taxes | (13,503) | - | - | - | (13,503) |
| Accounts payable-affiliates | (207,351) | - | - | - | (207,351) |
| Net cash provided by operating activities | \$ <u>157,226</u> | \$ <u>23,060</u> | \$ <u>137</u> | \$ <u>-</u> | \$ <u>180,423</u> |

See Independent Auditors' Report on Consolidating Information

Erickson & Brooks

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Bristol Bay Telephone Cooperative, Inc.
King Salmon, Alaska

We have audited the consolidated financial statements of Bristol Bay Telephone Cooperative, Inc. and subsidiaries as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated March 9, 2012. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Bristol Bay Telephone Cooperative, Inc. and subsidiaries' internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Improve Segregation of Duties

Although the small size of the Company's office staff limits the extent of separation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

As noted in last year's audit, our review of the Company's procedures indicated that there is a lack of segregation of duties in the receiving, depositing and recording of cash receipts. To provide effective control it would be necessary to separate each of these duties, as well as the reconciling of the bank accounts. Since your office has informed us that it would not be practicable to separate each of these duties, it would appear advisable to at least set up some form of control on cash receipts, such as a list of remittances received to be prepared at the time the mail is opened, and the use of prenumbered receipts by all employees receiving cash.

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At present, the Company's accountant is responsible for all accounting functions. She is responsible for cash disbursements, payroll, accruals, all journal entries and financial statement preparation. Additionally, all bank statements are received by the accountant. We recommend that all journal entries and monthly financial statement balances should be reviewed by someone who can determine whether balances are reasonable. Additionally, management should continue to review monthly bank statements and canceled checks for any unusual items.

Occasionally, a signature stamp is used to sign checks when management is not available for this function. We recommend that access to this signature stamp be restricted and its use be limited. With the signature stamp, its use stresses the importance of management's monthly review of bank statements and canceled checks.

Management Oversight and Journal Entry Review

As mentioned last year and again this year, the Company does not maintain effective controls over the authority of general journal entries. Specifically, the Company has a general ledger system in which journal entries can be processed without appropriate approval. We recommend the adoption of a policy whereby all journal entries proposed by the accountant will be approved by management. General journal entries should be reviewed on a monthly basis. All entries should be initialed by the preparer and the individual approving them in order to assign responsibility to the appropriate individuals. Management should review appropriate documentation to support the entries, if deemed necessary.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bristol Bay Telephone Cooperative, Inc. and subsidiary's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In response to the findings identified in our audit, the Company has determined that it would not be cost effective to implement additional procedures or add additional personnel to address these findings. The Company's position is that current policies and procedures are sufficient to mitigate associated risk to an acceptable level. We did not audit the Company's response and, accordingly we express no opinion on it.

We noted certain matters that we reported to management of Bristol Bay Telephone Cooperative, Inc. in a separate letter dated March 9, 2012.

This report is intended solely for the information and use of the board of directors, management, the Rural Utilities Service and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties.

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Fremont, Nebraska
March 9, 2012