



MINUTES

Northwest Open Access Network
Meeting of the Board of Directors
June 10, 2020

Via Video Conference and Conference Telephone Due to Covid-19 Pandemic

The meeting of the Board of Directors of Northwest Open Access Network ("NoaNet") commenced at 9:00 a.m. on June 10, 2020.

Present

The following Board members were in attendance:

Chris Folta	(Benton PUD)
Roger Wright	(Franklin PUD)
Angela Bennink	(Kitsap PUD)
Colin Willenbrock	(Pend Oreille PUD)
Linda Gott	(Mason PUD No. 3)
Ken Collins	(Jefferson PUD)
Dean Kovacs	(Energy Northwest)
Jason Dunsmoor	(Pacific PUD)
Steve Schopfer	(Clallam PUD)
Ron Gadeberg	(Okanogan PUD)

Also present were: Tom Farmer (Mason PUD. No. 3); Annette Creekpaum (Mason PUD No. 3); Ben Hooper (Franklin PUD); Rick Larson (Pend Oreille PUD); Sarah Holderman (Pend Oreille PUD); Jim Civilla (Kitsap PUD); Jeff Hall (Benton PUD); Debbie Oakes (Pacific PUD); Kevin Streett (Jefferson PUD); Will Purser (Energy Northwest); Dave Spencer (NoaNet); Paul Harding (NoaNet); Rob Kopp (NoaNet); John Fryling (NoaNet); Craig Nelsen (NoaNet); John Smith (NoaNet); Mike Henson (NoaNet); Chris Walker (NoaNet); Claire Ward (NoaNet); Cindy Zehnder (NoaNet consultant); Phil Von Buchwaldt (Washington Trust Bank); Chris Skidmore (Moss Adams); Tammy Erickson (Moss Adams); Zak Richardson (Moss Adams); Patrick Anthony (Randall Hurley); Don Cohen (Gordon Thomas Honeywell).

Those present attended by video conference or speaker phone.

Preliminary Remarks

President of the Board Linda Gott welcomed those present. CEO Dave Spencer commented on several of the agenda items.



Approval of Minutes

The minutes of the Board of Directors meeting of May 13, 2020 were presented for approval.

Motion: Chris Folta moved, and Steve Schopfer seconded, approval of the minutes of May 13, 2020. The motion passed.

Approval of Payments for April 2020

NoaNet CFO Paul Harding commented on several items in the April 2020 payment approval form.

Motion: Roger Wright moved, and Ken Collins seconded, approval of the expenses in the Payment Certification form for April 2020, dated April 30, 2020. The motion passed.

Financial Report

Paul Harding stated that cash is up from last year, reflecting the positive trend of 2020 to date. Accounts receivable are 100% current. Accounts payable are up, due to invoice timing. The Pension Plan payable is increased per GASB (Government Accounting Standards Board) calculation requirements. Cash flow is up from last year. Operating income was 64% above last year, and EBITDA was 66% above last year. Both are indicators of NoaNet's financial progress. Budget-to-actual figures were: revenues—100%; expenses—98%. Mr. Harding reviewed NoaNet's payments on loans during the past month and expected over the next few months. Adjusted operating income (net of one-time items) is significantly up from last year, and Pension Plan payments are being accrued. Discussion followed, including comments on NoaNet's strong financial performance.

Paul Harding summarized the report of NoaNet's CPA regarding recommended operating revenues and the surplus cash calculation, both of which are updated annually pursuant to NoaNet's financial policies. The recommended operating reserves are \$5,800,000. Surplus before reserves was \$4,827,487. Consequently, no surplus is available for a potential distribution to NoaNet Members this year. Discussion followed on possible uses of surplus cash when that is achieved in the future, including Member distributions, accumulating additional reserves, funding capital projects, and Pension Plan funding.

Report on 2019 Financial and Pension Plan Audits

Chris Skidmore of Moss Adams reported on the Moss Adams audit. He mentioned that the audit was performed remotely due to the Covid-19 situation. The Moss Adams opinion was a "clean opinion", with no adverse findings. He noted that operating income was up



significantly from 2018 to 2019 and expenses had essentially remained flat, consistent with NoaNet's strong performance to date in 2020.

Mr. Skidmore then commented on NoaNet's depreciation estimates, noting that NoaNet depreciates its assets more aggressively than some of Moss Adams' other telecommunications clients. He continued that that does not, however, necessarily truly represent timing needs for asset replacements. Later in the meeting, it was stated that the depreciation schedule is in large part due to federal requirements related to assets purchased with BTOP grant funds.

Mr. Skidmore noted that NoaNet's debt service ratio covenants were not met in 2019, but that a waiver was obtained from Washington Trust Bank.

He concluded by stating that there were no material errors to report, and nothing significant to report to the Board of an adverse nature or any remedial steps recommended to be taken.

Tammy Erickson of Moss Adams then reported on the 2019 Pension Plan audit. There were no audit issues identified. She commented on the increase in NoaNet's net pension liability, and on the increase in NoaNet's net position attributable to investment earnings since there were no contributions to the Plan the past three years. She noted the contribution made in January 2020 and recommended that NoaNet continue to make contributions annually to fund the future pension liability. She stated that, according to GASB, NoaNet's Plan is 24% funded, compared to most Moss Adams client plans at 60% funded. She then noted the uncertainties in discount rate assumptions, cost-of-living adjustments, mortality tables, and salary increases, commenting that small changes in discount rates can significantly affect the calculation of Pension Plan liability. Ms. Erickson also stated again that there were no issues identified regarding Pension Plan accounting and reporting.

Discussion on the Pension Plan audit followed. This included comments from Annette Creekpaum regarding analogies to the State of Washington's PERS Plan as to uncertainties in inflation rate, salary increases, mortality, and discount rate. She noted the effects of GASB accounting requirements and the very significant dollar differences small changes in assumptions can make.

Dave Spencer complimented Paul Harding and his staff on the positive audit conclusions.

Update on Pension Plan Funding

Patrick Anthony of Randall Hurley, NoaNet's Pension Plan consultant, commented on NoaNet's current strategy of making a \$1.25 million annual contribution to the Pension Plan for 10 years, along with having implemented a 2% mandatory employee contribution beginning January 2020. He noted GASB's requirements for discount rate and stated that the IRS requires for-profit company pension plans to be fully funded within 7 years. Mr. Anthony continued that 100% current funding based on GASB is not a realistic goal for NoaNet, and that the focus should instead be on long-term funding, consistent with the 10-year funding plan. He



summarized key assumptions related to investment earnings, retirement ages, and future salary increases. He also noted that NoaNet's Plan is a young plan—i.e., NoaNet is funding now for retirements primarily a number of years in the future. Mr. Anthony stated that if NoaNet made no more contributions after the 2020 payment, the Plan would remain funded through 2036. Dave Spencer stated that NoaNet planned to make its 2020 payment this year in two installments. There was discussion later in the meeting about making payments more frequently to levelize investment risk.

Mr. Anthony summarized the estimated assets invested in the Plan and the projected funding status over the next 10 years. He stated that the long-term strategy NoaNet has adopted is more sensible than trying to fully fund the Plan immediately. He noted that he would consider the Plan solvent today and as projected in the future, but he recommended reassessing the situation periodically. He stated that, as projected, NoaNet's Plan would be fully funded at the end of its 10-year annual funding program. Annette Creekpauam commented on favorable comparisons to the State's PERS Plan funding.

There was discussion throughout.

Dave Spencer expressed appreciation to Mr. Anthony for the work performed. Linda Gott expressed appreciation for the work of Moss Adams, Randall Hurley, and NoaNet staff on the Pension Plan.

Covid-19 Emergency Declaration Update

CEO Dave Spencer introduced this subject and turned it over to NoaNet COO Craig Nelsen, who provided an update on business and customer impacts of the Covid-19 situation. He stated that active quotes have increased each month, and there have been no further customer requests for forgiveness of invoiced charges.

Chief Security Officer Mike Henson provided an update on the drive-in Wi-Fi initiative, noting that it is close to completion. He also provided an update on potential federal funding NoaNet is continuing to explore and how NoaNet might position itself to be eligible to continue to assist the State in meeting its Broadband Plan goals. Discussion followed. There were expressions of support for NoaNet's continuing to pursue this funding and to participate in submitting, possibly in conjunction with the State of Washington, a letter of intent to bid by the July 2020 deadline. Mr. Henson stated that a letter of intent would not obligate NoaNet to submit a bid, but that the letter is necessary to permit a bid on the reverse auction in October 2020. Mr. Henson said that NoaNet is continuing to analyze this situation. If it proceeds, interested NoaNet Members would have to provide NoaNet, by July 1st, information on specific area blocks to be included in a letter of intent to bid. There was discussion of the federal funding issues and what the financial requirements would be if NoaNet did bid and was selected. Dave Spencer stated that he was not yet making a recommendation on this subject, and that the business analysis for any particular area would need to be completed before the October bidding deadline.



Potential positive impacts on other future NoaNet funding opportunities were also discussed in the context of Mr. Henson's report. Telecommunications Director Chris Walker summarized NoaNet's work in identifying other Broadband funding sources. Information on upcoming Public Works Board meetings will be distributed.

Final Draw on 2019 Member Line of Credit Capital Project

Dave Spencer recommended approval of using the remaining \$895,000 in the 2019 Member Line of Credit to complete one project and assist in funding equipment upgrades necessary for another new large project ("Cameo") along with network upgrades. He described the uses of the funds. Invoices would be issued to the eight Members who are parties to the Member Payment Agreement within 5 business days.

Motion: Angela Bennink moved, and Jason Dunsmoor seconded, approval of the new project ("Cameo") and of the final draw on the 2019 Member Line of Credit in the amount of \$895,000 as presented to the Board.

Discussion followed, including NoaNet's plans if the anticipated project did not come to fruition, and potential bank funding possible in addition to Member financing. Dave Spencer stated that the topic of funding options would be a good one for the August Board meeting, including ideas like converting the Member Line of Credit to a revolving line of credit to assist in financing future projects, bank financing, and issuance of bonds.

The motion passed (with Colin Willenbrock and Ron Gadeberg abstaining because Pend Oreille PUD and Okanogan PUD are not parties to the Member Payment Agreement).

Dave Spencer expressed appreciation for the Board and Member support of the new project and draw.

Operations and Marketing Report

NoaNet Chief Technology Officer John Smith also thanked the Board for its approval of the new project and draw. He then reported that network reliability continues to be outstanding, with NoaNet exceeding all goals. He commented on Covid-19 impacts on maintenance (decreased) and outages (decreased, perhaps because of lower maintenance-related events). He also described extended duration outages the past month, NOC and engineering highlights, and activities regarding Citizens Broadband Radio Service.

Craig Nelsen expressed appreciation for approval of the new project. He stated that May 2020 bookings and revenue projections were very strong. Mr. Nelsen then described business opportunities involving federal and state agencies. After commenting on customer transitions during the past month, he stated that sales and order fulfillment



activity levels are very high, despite the Covid-19 situation. He also mentioned work on potential rebranding and website revisions, which will be discussed further at the August Board meeting.

Other Items for Discussion

Linda Gott expressed appreciation for Annette Creekpaum’s comments on Pension Plan funding based on her experience with the State plan. She also thanked Dave Spencer and NoaNet staff for organizing and distributing the audit and Pension Plan materials for review before the meeting.

Next Meeting

There is no regular meeting scheduled for July. The next meeting of the Board will be at 9:00 a.m. on August 12, 2020. Dave Spencer stated that the NOC conference room in Spokane is not large enough to meet Covid-19 social distancing requirements, so the August meeting will be conducted remotely. Whether subsequent Board meetings this year will be in person or virtual will be decided on a meeting-by-meeting basis.

Adjournment

There being no further business, the meeting of the Board of Directors adjourned at 12:25 p.m.

Respectfully submitted,

David H. Spencer
Chief Executive Officer

Attest:

Linda Gott
President of the Board