



Energy that Powers Our Lives

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2017 Annual Report

April 2018 *Newsline* Special Edition

Co-op difference is alive as LCP serves members

As I reflect over the past year, I want all members to know the co-op difference is alive and well here at Lake Country Power.



By Greg Randa,
General Manager

How we treat members, how we collaborate, and how we serve our communities is at the core of our co-op business model. Lake Country Power is in good hands and is moving in the right direction.

Between the employees who run the daily

operations of the co-op, to the board of directors who govern, and to the members who make Lake Country Power possible – thank you. You’re the co-op difference. You’re living the “co-op life,” where life is better. It’s a life that can only be lived in rural America – away from the big city lights, somewhere off the beaten path.

I can tell you that every decision made at Lake Country Power is done to serve members with their best interests in mind. Just a few examples...

Managing member resources wisely

LCP’s board retired \$3 million in capital credits to members last December.

Before returning margins back to members, electric cooperatives use the capital to help offset the cost of debt for equipment and materials used for the construction and maintenance of the electric distribution system. This helps lower financing needs. It’s one way we manage member resources responsibly and wisely.

Between Lake Country Power and its three predecessor cooperatives, more than \$44 million in capital credits has been returned

to members through the years.

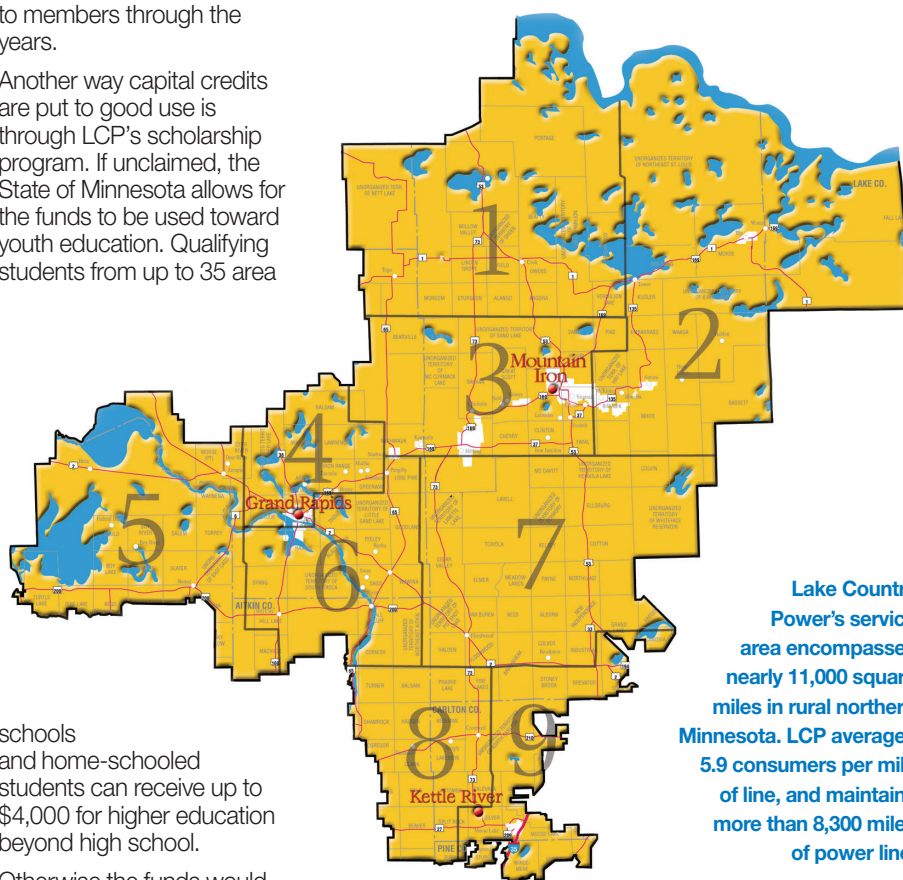
Another way capital credits are put to good use is through LCP’s scholarship program. If unclaimed, the State of Minnesota allows for the funds to be used toward youth education. Qualifying students from up to 35 area

schools and home-schooled students can receive up to \$4,000 for higher education beyond high school.

Otherwise the funds would leave LCP’s service area and be sent to the state’s general fund. We believe it’s best to keep the unclaimed capital credit funds here, and invest in the sons and daughters of co-op members.

Helping communities prosper

In December, Lake Country Power’s charitable giving program reached the \$2 million mark in supporting local community projects and programs. The program’s success is attributed to the more than 68 percent of co-op members who allow their bill to be rounded up to the next nearest dollar.



Lake Country Power’s service area encompasses nearly 11,000 square miles in rural northern Minnesota. LCP averages 5.9 consumers per mile of line, and maintains more than 8,300 miles of power line.

When it comes to employees volunteering their time in the community, we’re seeing a rise in their engagement level. In 2017, LCP employees volunteered more than 590 hours for various community service projects.

Last year, two business members received a combined \$200,000 through our Revolving Loan Fund, a federal program available to

Continued on p.4



How effective boards work together

By Craig Olson, LCP Board President

An effective board of directors is a priceless ingredient in the overall operations of an electric cooperative like Lake Country Power. It's critical that each elected board member understands his or her role as a director, and exactly what a director's role should be on the board as a whole.

As board president and your director since 2011, my goal is to see that our board abides by the governance policies we establish. These policies outline director duties, standards of conduct and responsibilities – all of which we take very seriously.

Nine elected Lake Country Power members serve on the board. Each of us comes to the board with our own ways of thinking on certain issues, so sometimes we don't always agree. Healthy debate is good. In fact, we encourage it to ensure all perspectives are discussed and considered.

Debates aside, the most important quality of an effective board is a unified voice. Once a majority of the board makes a decision on an issue, effective

board members will leave the meeting with a unified voice as they go back into their respective districts.

Directors carry out their duties and responsibilities during board meetings, membership meetings and on their own. It's important we all have an in-depth understanding of the cooperative business model, and our responsibility to ensure LCP is financially sound while we oversee investments in reliability and safety.

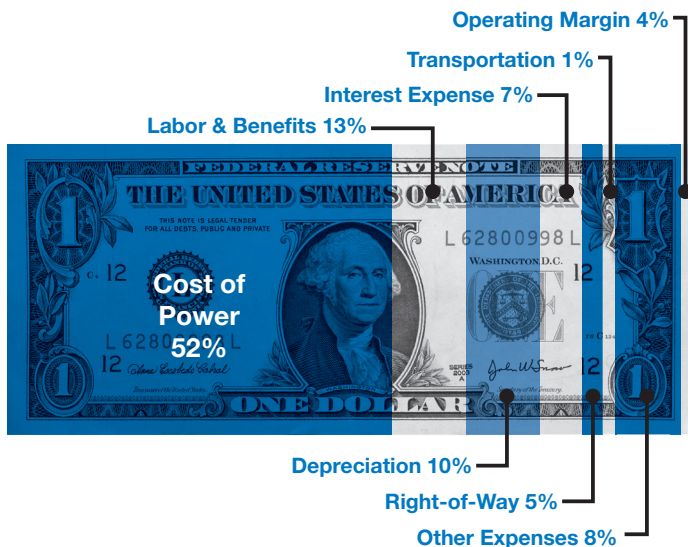
Lake Country Power's directors must have a duty of care and loyalty. For example, directors are required to exercise the care that an ordinarily prudent person would exercise under similar circumstances. We do that through additional training and education to stay on top of, and ahead, of the changing energy environment.

Being a director has its responsibilities. If you're thinking about running for a seat on the board someday, feel free to contact myself or any other director on the board for more information.



Back left to right: Craig Carlson, District 4; Jason Long, District 1; Bob Bruckbauer, District 5; Dan Kingsley, District 6; and Jim Huhta, District 8. Front row, left to right: Sherman Liimatainen, District 9; Craig Olson, District 7; and Mike Forsman, District 2.

Breakdown of Total Cooperative Expenses



7 Responsibilities for Directors

James Baarda in *The Circle of Responsibilities of Co-op Boards* (CIR 61, published by USDA Cooperative Programs), describes seven major responsibilities for directors:

1. Represent members
2. Establish cooperative policies
3. Hire and supervise management
4. Oversee acquisition and preservation of cooperative assets
5. Preserve the cooperative character of the organization
6. Assess the cooperative's performance
7. Inform members

Craig Olson was elected by members in Lake Country Power District 7. He can be reached at 218-393-2276 or colson@iupat82.org.

Lake Country Power Board Expenses

	2017	2016	2015
Per Diem	\$ 125,100	\$124,000	\$119,775
Other Reimbursable Expenses	46,663	54,975	48,569
Other Board Expenses	10,119	9,460	6,999
Total	\$181,882	\$188,435	\$175,343

Understanding the governance structure

It's been a while since we've informed members how Lake Country Power's two subsidiaries – Lake States Tree Service and Lake States Construction – are structured and governed, so at this time I'd like to explain.

First, there's the Lake Country Power board of directors. This body of elected members governs your cooperative, and there are nine of us who sit on the board. The Holding Company board and subsidiaries are accountable to the LCP board as a whole, and ultimately the co-op's membership.

The Holding Company board currently consists of all nine LCP directors. Three of the LCP directors are elected by the board to hold leadership positions on the Holding Company board.



By George Harvey, LCPH Holding Co. President

Currently, I'm the president of the Holding Company board. Craig Olson, from District 7, and current LCP board president, is the vice president of the Holding Company board. And Mike Forsman, from District 2, is secretary/treasurer of the Holding Company board. We meet on a quarterly basis.

From the Holding Company board, two separate subsidiary boards exist – one board to oversee Lake States Tree Service, and the other board to oversee Lake States Construction. There are three LCP board members on each subsidiary board. They are:

- LSTS: Jim Huhta, District 8, president; Bob Bruckbauer, District 5; and Dan Kingsley, District 6
- LSC: Sherman Liimatainen, District 9, president; George Harvey, District 3; and Jason Long, District 1



Left to right: Lake States Tree Service crews, and Lake States Construction crews working on the electric system.

Said another way, Lake Country Power's subsidiaries are operated independent of Lake Country Power but governed by co-op board members. The subsidiary boards report to the Holding Company board through a governance structure that is accountable to the LCP board.

The purpose of this structure is to help shape positive operating results as we continue to work through the challenges of a competitive environment.



Lake Country Power Board of Directors

LCP Holding Company

LSTS Board

Jim Huhta, District 8, president
Bob Bruckbauer, District 5
Dan Kingsley, District 6

LSC Board

Sherman Liimatainen, District 9, president
George Harvey, District 3
Jason Long, District 1

Subsidiary overview

Lake States Tree Service is a commercial tree service contractor working with electric utilities, pipelines, private landowners specializing in vegetation management. The business averages between 100–120 employees and is headquartered in Grand Rapids, Minn.

Lake States Construction is a utility construction contractor specializing in underground and overhead power line construction for fiber, electric utilities and cooperatives. The business averages between 35–55 employees and is headquartered in Grand Rapids, Minn.

Lake Country Power Holdings, Inc. Board Per Diem & Expenses

2017: \$23,432.43

2016: \$33,470.16

2015: \$40,718.56

All Holding Company board expenses paid by subsidiaries.

Co-op difference

Continued from p. 1

cooperatives. These economic development loans are good for northern Minnesota businesses to help them grow, create jobs and be competitive in our region.

Innovation to serve members

Last October, the newest electric vehicle fast-charger, the charger that completes Minnesota's all-electric highway from the Twin Cities to the North Shore, was unveiled in Sturgeon Lake at Doc's Sports Bar & Grill, a member of Lake Country Power.

It's the first fast-charger to be placed within LCP's service area. As more LCP members switch to electric or hybrid vehicles, you'll find the most economical way to charge your vehicle is on our off-peak program during overnight hours.

SmartHub continues to grow by leaps and bounds. You can sign up for a free SmartHub account, too, at www.lakecountrypower.coop, and use it to report outages, make payments, and customize your account information. Nearly 15,000 LCP members already use SmartHub.

Teamwork to serve members

Co-op members will soon receive new meters for improved performance. Starting with a pilot project in the Cloquet area, nearly 1,200 meters will be changed out this year. Eventually, all 68,000 meters will be replaced over the next few years.

Over the course of at least a year, 14 employees serving on the AMI Selection Committee studied several metering systems. They even met with other cooperatives for a first-hand look and comparisons on-site. I commend how the entire process unfolded for them to eventually make a unanimous decision that was recently approved by LCP's board of directors this year.

New overhead. New underground. Better reliability.

In order to meet Lake Country Power's mission to deliver safe and reliable electric service, investments must be made in the co-op's electrical infrastructure. Last year proved to be a busy and successful construction season.

More than \$15 million was invested into the system for a variety of construction projects in 2017 alone. By year-end, the 2015 – 2017 construction work plan invested more than \$43.3 million to help meet Lake Country Power's mission.

Here's a brief recap of the work done in 2017:

- New electronic feeder reclosures were installed at 28 LCP-owned substations
- 30 miles of overhead line were replaced due to age and capacity
- More than six miles of line was converted to new underground cable
- 20 miles of aged underground cable was replaced with new jacketed underground cable
- 5 miles of dedicated system improvements

Trees and lines don't mix

Just like oil and water do not mix, trees and lines don't mix either.

Keeping power lines and right-of-way clearances clear of trees and brush is another critical step toward safe and reliable electric service. In fact, the number-one cause of power outages for Lake Country Power members is tree contact with lines.

That's why Lake Country Power invested \$4.6 million in right-of-way work last year. Nearly 932 miles of line were cleared and maintained.

The co-op uses a variety of methods – mechanical trimming, aerial bucket trimming, herbicides, and mowing machines. LCP is on a seven-year cycle and clears areas by substation and circuits.



Safety and quality

Aside from meters, LCP finished construction of the new Ely Outpost, which provides efficient space for line workers to store trucks and equipment and respond to outages faster.

Two linemen and one dispatcher went above and beyond the call of duty when they responded to a house explosion last year, and provided life-saving assistance to another co-op member. We recently honored them with the Award of Excellence and a Good Neighbor Award.

In an effort to provide a higher level of service to members while also controlling costs, we'll be hiring four individuals this year. Their primary focus will be on member tree requests.

We also expect to begin construction this year on a new headquarters building that will be built in the Cohasset Industrial Park, just off Highway 2. The new headquarters will replace the outdated, outmoded and overcrowded Grand Rapids Service Center that's nearly 50 years old.

The most important decisions we make in life is through safe practices. I want to see each employee go home safely to their families. Safety is the most important ingredient of Lake Country Power's mission and vision – to be a highly reliable, top-tier performing system and the provider of choice for our members.

Partners in community: Lake Country Power is committed

Lake Country Power's mission is to deliver safe, reliable electric service; manage member resources wisely, and serve to help our communities prosper. These are just some of the ways your co-op supports its local communities:

- Scholarships
- Operation Round Up®
- Economic development loans and rebates
- Employees volunteering more than 590 hours of their time
- Touchstone Energy Community Award
- Electric safety demonstrations
- Community sponsorships and event participation
- Rural Electric Youth Tour to Washington, D.C.
- Co-op Connections® Card program
- Rachel's Challenge

Lake Country Power also offers \$1,000 scholarships to five area community college foundations and three Minnesota lineworker schools to support students in trade schools and community/technical college programs.



Team LCP took first place to win \$2,900 for Great Minds Learning Center of Grand Rapids, MN. The co-op was one of 10 businesses to sponsor a team competing in a series of games for the Kiwanis Noon Club fundraiser. The funds will be used toward the organization's scholarship program, which serves individuals diagnosed with dyslexia.



28 High school seniors received the Les Beach Memorial Scholarship from Lake Country Power in 2017 – valued at \$112,000. Scholarship recipients can qualify for up to \$4,000 over four years to help pay for college or technical school. Qualified students must be co-op members through their parents or legal guardians who receive electric service from Lake Country Power. The Les Beach Memorial Scholarship is made possible through unclaimed capital credits.



LCP provided economic development loans to two business members in 2017, valued at \$200,000. The Revolving Loan Fund that LCP administers came about from previous economic development grants received through the United States Department of Agriculture. USDA provides loans and grants to non-profit rural electric cooperatives like Lake Country Power to spur economic development in rural America.



Lake Country Power celebrated a milestone with its Operation Round Up® program in December. The cooperative's member-driven charitable giving program surpassed \$2 Million in contributions. The success of Operation Round Up® is credited to the 71 percent of Lake Country Power members who participate in the program by lending a helping hand to the communities and residents of northern Minnesota.



Partners in power: Great River Energy and its members

Cooperatives formed Great River Energy to supply the energy they need to power their members' lives. Great River Energy does that by remaining financially sound, keeping rates stable and competitive, and continually evaluating its generation and transmission system to make sure it meets members' needs.

Sharing financial success

Great River Energy recorded impressive financial results in 2017, so the cooperative decided to share its success with its members. At the end of the year, Great River Energy issued a refund of \$6 million to its member-owners, which included Lake Country Power and 27 other electric cooperatives in Minnesota.

Although 2017 was successful, Great River Energy's member

cooperatives continue to see flat or declining energy sales. Great River Energy has positioned its generation portfolio and deployed other cost-saving measures to ensure stable wholesale electricity rates and a strong financial position.

Great River Energy estimates wholesale rates will increase by less than 1.0 percent annually over the next 10 years, slower than the anticipated pace of inflation.

A modern generation portfolio

The Midwest's most efficient coal and nuclear power plants remain critical to reliable energy, but several new types of power generation have emerged.

"The rise of renewable energy has added up over time and now represents a significant portion of the energy serving

our membership," said Great River Energy Chief Power Supply Officer Jon Brekke. "In fact, Great River Energy met the state of Minnesota's renewable energy standard of 25 percent renewable energy in 2017 – eight years ahead of the requirement."

After 50 years serving Minnesota cooperatives, Great River Energy retired the Stanton Station power plant in central North Dakota in May. The coal-based power plant was no longer economical to operate in the Midwest energy market.

Putting energy to good use

Great River Energy, through its member cooperatives, continued its offering of the Revolt program, which allows members to charge their electric cars with 100 percent wind energy at no extra cost.

Together, the cooperatives sponsored the Electric Room at the Twin Cities Auto Show to promote the adoption of electric vehicles in Minnesota as well.

GRE also worked with its member cooperatives to improve electric vehicle charging options between the Twin Cities and North Shore, making it easier to take a classic Minnesota road trip with an electric car. A charging station is available at Doc's Sports Bar & Grill in Sturgeon Lake, Minn.

Great River Energy's member cooperatives – including Lake Country Power – also incentivize homeowners to make efficient electric investments, such as heat pumps and storage water heaters. Similar programs are available for commercial and industrial members for major installations, such as efficient motors and lighting.

2017 Annual Report – Statement of Operations and Changes in Equity for the years ended
December 31, 2017, 2016 and 2015 (Numbers in Thousands)

Revenue (In Thousands)	2017	2016	2015
Sales of electric energy to members	\$89,189	\$86,245	\$82,660
Miscellaneous other operating revenue	798	819	912
Total Revenues	\$89,987	\$87,064	\$83,572
Expenses			
Wholesale power (Great River Energy)	47,774	46,178	45,001
Operating expenses (maintenance, operations, administration, member support)	23,748	24,454	22,819
Depreciation of utility plant	9,025	8,824	9,221
Interest expense on long-term debt	6,026	5,993	5,941
Total Operating Expenses	86,573	85,449	82,982
Income from Electric Operations	3,414	1,615	590
Patronage capital from Great River Energy and Others	2,959	3,002	856
Non-operating and other income, net	579	600	655
Subsidiary Income or (Loss)	592	124	(188)
Net Margins	\$7,544	\$5,341	\$1,913
Accumulated patronage capital-beginning of year	\$103,579	\$100,988	\$101,641
Net other changes in equities	924	793	1,073
Retirement of patronage capital	(4,087)	(3,543)	(3,639)
Accumulated Capital at Year End	\$107,960	\$103,579	\$100,988

Financial Highlights

	2017	2016	2015
Kilowatt Hours Sold (In Thousands)			
Rural Residential	472,150	461,202	468,009
Commercial /Industrial	127,281	124,064	129,670
Public Street Light	616	629	600
Resale	37,051	37,617	36,692
Total kWh Sold	637,098	623,512	634,971
Revenue (In Thousands)			
Rural Residential	\$70,249	\$68,228	\$65,451
Commercial /Industrial	16,120	15,478	15,043
Public Street Light	123	121	110
Resale	2,697	2,418	2,056
Total Revenue	\$89,189	\$86,245	\$82,660

Comparative Operating Statistics

Number of accounts at year end	49,199	48,952	48,757
Miles of line energized	8,319	8,306	8,278
Accounts per mile of line	5.9	5.9	5.9
Average residential kWhs used per month	866	848	863
Average residential monthly bill	\$129	\$125	\$121
Plant investment per Account	\$4,527	\$4,426	\$4,316

A complete consolidated audited financial statement is available upon request.

2017 Annual Report – Statement of Operations and Changes in Equity for the years ended
December 31, 2017, 2016 and 2015 (Numbers in Thousands)

Balance Sheet

Assets

What we own

	2017	2016	2015
Cost of Our Utility System	\$328,789	\$316,413	\$303,533
Depreciated Plant	(106,074)	(99,775)	(93,082)
This gives our system a book value of:	\$222,715	\$216,638	\$210,451

We Have Other Property and Investments

Investments in Associated Organizations	\$44,951	\$42,948	\$40,727
Other Investments	7,127	6,635	6,413
Total other property and investments	\$52,078	\$49,583	\$47,140

We Have These Current Assets

Cash and cash Equivalents	\$4,495	\$6,048	\$3,144
Members and others owe us for our services	10,608	9,800	8,885
Materials and supplies for line construction	4,635	4,117	3,767
Other current assets	85	196	151
Total Current Assets	\$19,823	\$20,161	\$15,947

We Have Deferred Debits

	\$1,495	\$1,762	\$2,042
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TOTAL ASSETS

\$296,111 \$288,144 \$275,580

Liabilities

What we owe

Long Term Debt

We owe Rural Utility Service	\$85,988	\$78,926	\$66,400
We owe NRUCFC	16,099	17,398	18,888
We owe CoBank	68,590	71,410	74,115
We owe Great River Energy	235	313	391
Other long-term liabilities	-	-	-

\$170,912 \$168,047 \$159,794

Less payments due in the next year

(6,842) (5,930) (5,409)

Total Long Term Debt

\$164,070 \$162,117 \$154,385

Other Noncurrent Liabilities

Capital Lease - noncurrent portion	\$ -	\$57	\$114
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We Owe Current Liabilities

Power, materials, etc.	\$11,033	\$10,446	\$9,475
Payments on long-term debt due in the next year	6,842	5,930	5,409
Notes Payable	-	-	-
Capital Lease - current portion	57	57	57
Other current liabilities	6,140	5,945	5,131

\$24,072 \$22,378 \$20,072

We have deferred credits

9 13 21

TOTAL WE OWE

\$188,151 \$184,565 \$174,592

Net Worth

Members' Equity in the Cooperative

Your accumulated patronage capital	\$86,875	\$83,542	\$81,557
Other capital	21,085	20,037	19,431

\$107,960 \$103,579 \$100,988

TOTAL LIABILITIES

\$296,111 \$288,144 \$275,580

A complete consolidated audited financial statement is available upon request.

2017 Annual Meeting – Condensed Minutes

The twenty-first Annual Membership Meeting of Lake Country Power was held at the Myles Reif Performing Arts Center, Grand Rapids, MN on April 19, 2017. President Craig Olson called the meeting to order at 6:05 p.m. Board Vice President, Sherman Liimatainen, presented the meeting notice and announced a quorum with 232 registered members.

President Olson called for a motion to approve the condensed minutes of the April 28, 2016 Annual Membership Meeting. Motion carried. The polls closed for director elections at 6:10 p.m.

President Olson focused on the benefits of the co-op business model. Members elect their district representative to the board of directors where decisions are made at the local board level. He encouraged members to stay informed – know the facts, ask questions, be engaged and involved. Monthly board meetings are open to members.

General Manager Randa provided a preview of the work and investments LCP will make – replacement of distribution lines each year, new outpost in Ely, new headquarters to be built in the Grand Rapids area, new metering system for

co-op members, etc. LCP will continue to look for ways to be more responsive, resourceful, environmentally friendly and reliable.

Director of Finance and Administration Bakk reported about the 2016 year-end audit, and that it provided a clean opinion of LCP's accounting controls. LCP is in full compliance with the financial requirements set by its lender, the federal government's Rural Utilities Service.

Deb Frazier, President of the Operation Round Up Trust Board, was interviewed for a video that was shown about the charitable giving program.

Rick Lancaster, Great River Energy's Vice President and Chief Generation Officer, reported on highlights from 2016 – rates, power cost adjustment, business improvements, flexible operations at Coal Creek Station, permanent retirement of Stanton Station, the Revolt™ electric vehicle program, and generation and transmission reliability. He also reported on GRE's rate forecast.

President Olson presided over Old and New Business. There was none.

The meeting adjourned at 6:55 p.m.

Editor's Note: A complete copy of the 2017 annual meeting minutes will be distributed at the annual meeting and will also be available online at www.lakecountrypower.coop.

2017 Director Elections

District 1:**

Steve Peterson, Jr. 334
Jason Dale Long 465

District 3:

George Harvey* 472

District 6:

Daniel Kingsley 299
Perry Jarva 273
Mark Langanki 109

District 7:

Craig Olson* 433

*Denotes current LCP director

**Special election to fill an open seat

Connect at the 2018 Annual Meeting

More than 500 Lake Country Power members turned out for this year's district member meetings. Next up is the annual meeting – your opportunity to connect with your co-op, and hear firsthand about the ways LCP is focused on providing reliable, safe and valuable service for its 43,000 members.

- The annual meeting will be held Thursday, April 19, at the Cromwell-Wright School in Cromwell, MN.
- Registration and dinner begins 4:45 p.m. (choice of chicken or beef)
- Entertainment in gymnasium begins 5:00 p.m.
- Introductions and welcome at 5:50 p.m. with business meeting beginning 6:00 p.m.

Members who bring a cash donation or non-perishable food for Tri-Community Food Shelf will receive up to two energy-efficient lights.

Annual Meeting Location Map

Districts Voting – 2018

Districts 1, 5 and 9 will elect directors to three-year terms.

Cromwell-Wright School

(Located at the intersection of Highway 73 and Highway 210)

