



A Touchstone Energy® Cooperative 

Energy that Powers Our Lives

2016 Annual Report

April 2017 Newsline Special Edition

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Managing resources to be responsive, responsible, resourceful and reliable

Despite a storm-filled year in 2016, I'm pleased to report members did not see a change to their basic energy rates as we turned the calendar to 2017. I'm also pleased the co-op was able to retire \$2.5 million in capital credits to past and present members.



By Greg Randa,
General Manager

Members did not see a rate change because the long-term rate philosophy, as adopted by Lake Country Power's board of directors in 2012 is doing what it was intended to do. And that is to recover enough of the co-op's fixed costs so there's stability when energy sales fluctuate or unexpected expenses occur.

Last year was busy for the 12 employees who primarily answer the phones. LCP's call center received 63,000 phone calls, with 21,000 of the calls taken during the July storm alone. Our member service staff answered another 20,000-plus calls about off-peak and dual-fuel heating programs. I commend each one of them who strive to give the answers members need.

I also commend our 45 linemen who answer the call of duty when storm winds howl, trees fall and you lose service. Line crews work in challenging and dangerous conditions. My thanks to all LCP employees for their day-in and day-out service and commitment to serve you.

We are doing everything we can to control rising costs and manage member resources wisely. The cooperative business model is authentic, down-to-earth and local. It's a business model that has, and will, serve members well into the future.



A long-term rate philosophy is the responsible thing to do so we can manage around the challenges of severe weather to provide reliable service at

the lowest possible cost, and still make investments in the electric system.

Lake Country Power sure saw its fair share of costly storms and outages last year. More than any other year prior, nine major weather events swept across our service area. Two of the major storms in 2016 cost \$3 million for power restoration – \$2.5 million in July, and another half-million in November.

The Co-op Difference

Whether we're responding to outages or providing service by phone or in person, our employees work with members to resolve issues, help our communities prosper and offer energy solutions so members can save money on electric bills.

Time to connect at the Annual Meeting

More than 500 Lake Country Power members turned out to connect with their electric co-op at nine district meetings earlier this year. Once again, it's time to connect at this year's annual meeting – your opportunity to 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 Wednesday, April 19, at the Reif Center in Grand Rapids, MN.

- Registration and dinner begins 4:45 p.m. (choice of baked chicken or ham)
- Entertainment in Reif Auditorium 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 Second Harvest North Central Food Bank will receive up to two energy-efficient lights.





Board members: minding the “store,” and investing in safety and reliability

By Sherman Liimatainen, Board Vice President

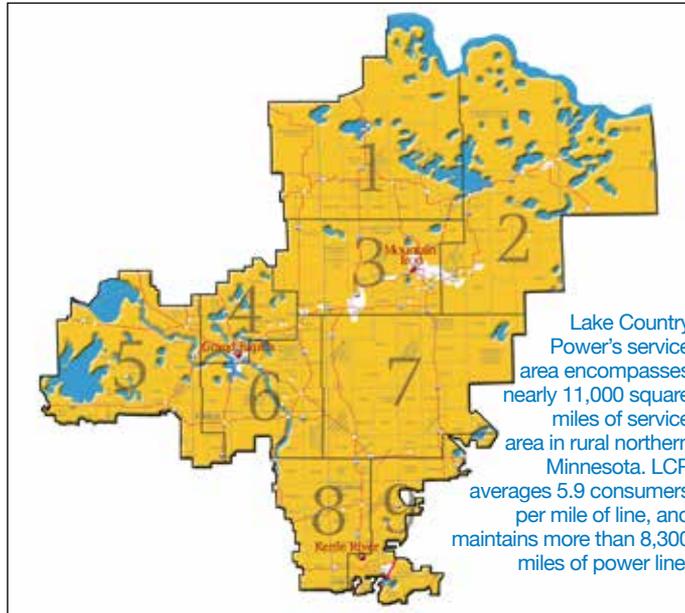
Many people put their investments into stocks, bonds and mutual funds to plan for the future. It’s a wise thing to do. Here at Lake Country Power, your board of directors thinks of investments in a different way. We review and approve management recommendations to make investments in crew safety, public safety, electrical infrastructure and service reliability – something much different than stocks, bonds and mutual funds.

The investments your board approves each fall during budget season is part of our primary role to have fiduciary oversight of the co-op. Once elected by the members in our districts, we are charged with the responsibility to govern the co-op with a duty of care, concern and loyalty.

The board’s long-term rate philosophy is helping build a stronger electrical distribution system, and ultimately, a stronger and more stable cooperative. Our rates are set to cover the cost of doing business, but not generate a profit as other types of utilities do for their stockholders.

Last year, the board approved to invest more than \$14.3 million for various construction projects. In total, the engineering department reports 25 miles

were done to address electric load, outages and low voltage concerns. One underground substation was built near Big Sandy Lake.



of aged lines and poles were replaced on the system. Another 20 miles of underground cable were replaced. Due to county road projects, 2.5 miles of line were moved. Another 11 miles of system improvements

Another investment the board approved was \$4 million for right-of-way clearing and member tree clearing requests in 2016.

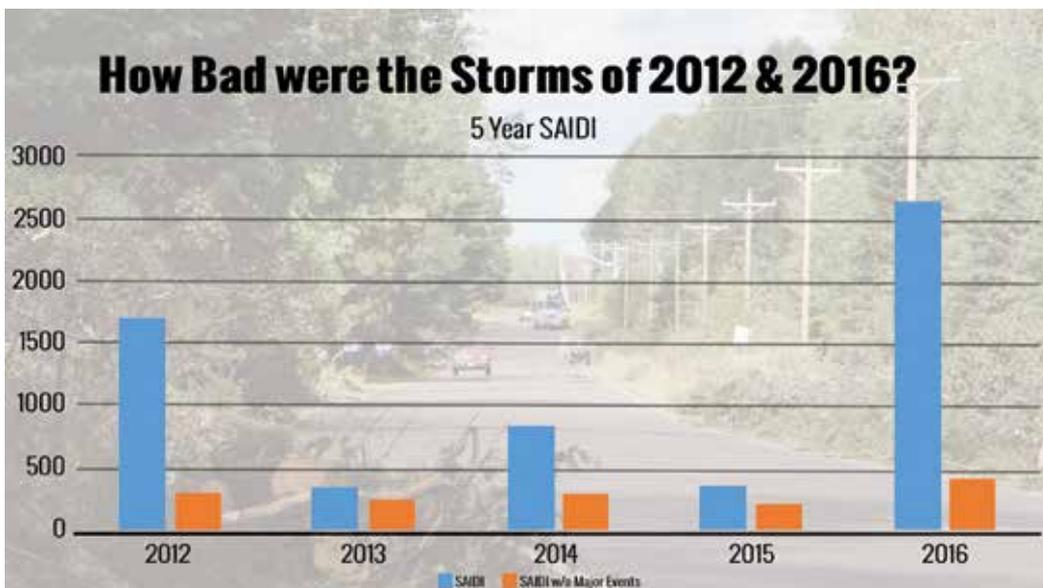
It takes seven years before

LCP is able to fully complete its right-of-way work throughout the nearly 11,000 square miles of service area.

As a not-for-profit organization, Lake Country Power gives money back to its members when revenues exceed costs, which was the case with the \$2.5 million capital credit retirement in December.

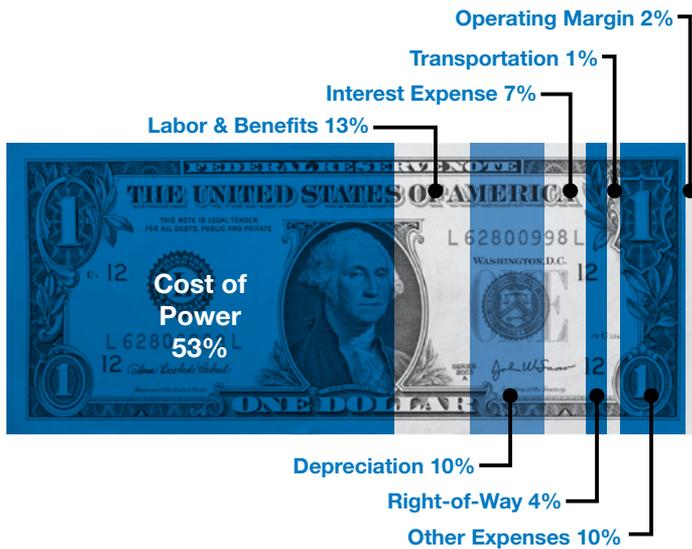
Lake Country Power exists to serve member-owners like you and me, and meet your needs for safe and reliable electricity. Management works hard to control costs so the board can keep rates as affordable as we possibly can. Member control means Lake Country Power is accountable to those it serves and its communities. Your money – and our money – stays at work close to home and is used to build and maintain the lines and substations that provides us with the energy that powers our lives.

Sherman Liimatainen was elected by members in Lake Country Power District 9. He can be reached at 218-879-3135 or sgliimatainen@gmail.com.



The storms of 2016 and 2012 took a whack at LCP’s reliability record. SAIDI represents the System Average Interruption Duration Index, which is a measure of the number of minutes a member is out of power. SAIDI is calculated by adding the outage minutes for a year and dividing by the total number of people on the system. “SAIDI without major events” is calculated by subtracting all major event minutes from the total, and then dividing by LCP’s total number of members.

Breakdown of Total Cooperative Expenses



LCP Subsidiaries: Core services that complement co-op operations

Lake Country Power is a not-for-profit electric cooperative and we own two for-profit subsidiaries. Those businesses are Lake States Tree Service and Lake States Construction. Both companies are managed and governed independently from LCP – through the LCP Holding Co.



By George Harvey, LCPH Holding Co. President

Lake States Tree Service clears trees and brush along power line corridors and Lake States Construction builds overhead utility lines and plows underground cable and fiber for utilities and broadband installers.

It helps when the seasonal businesses earn a profit, but it hasn't been easy competing in highly-

The Tree Service and Construction companies combined to earn a small profit for the Lake Country Power Holding Co. in 2016. The board also recognizes value in other ways – through core support services that complement LCP's needs and assistance in outage restoration when big storms hit.

The biggest challenges with the subsidiaries is the seasonality of the businesses. When the cold weather hits and snow piles up, the work slows down.

On the other hand, when Mother Nature throws a fit (as she did several times last year), the two companies stand ready and available to help LCP crews and members with outage restoration.

The two companies provide more than 150 jobs for local workers during peak construction seasons. Each operation supplements Lake Country Power and other utilities during peak-season work.

competitive markets. The Tree Service bids for most of its work – including most of LCP's contract work.

Ownership isn't easy. The seasonality of the businesses is challenging and the board has very little tolerance when the subs struggle financially.

We continue to monitor results and invest in equipment that makes the work of the subsidiaries more mechanized, faster and less-reliant on hand-labor.

With all this in mind, the bottom line continues to blend with the value line – and the work the subsidiaries provide complements LCP operations and the service the co-op provides members.

Lake Country Power Board Expenses

	2016	2015	2014
Per Diem	\$124,000	\$119,775	\$114,200
Other Reimbursable Expenses	54,975	48,569	45,579
Other Board Expenses	9,460	6,999	8,721
Total	\$188,435	\$175,343	\$168,500

Subsidiary overview

Lake States Tree Service is a commercial tree service that contracts with electric utilities, pipelines, private landowners for tree maintenance and right of way clearing. The business averages between 100–120 employees and is headquartered in Grand Rapids, Minn.

Lake States Construction is a utility construction company specializing in underground and overhead power line construction for fiber, electric utilities and cooperatives. The business averages between 30–55 employees and is headquartered in Grand Rapids, Minn.

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

2016: \$33,470.16

2015: \$40,718.56

2014: \$31,623.24

All Holding Company board expenses paid by subsidiaries.



Innovation, collaboration and leadership to competitively power the future

Great River Energy was created because its owners – the 28 cooperatives it serves – needed reliable, affordable wholesale power in harmony with a sustainable environment.

While the cooperative's objective has not changed, the way it serves members is evolving. Great River Energy adopted a new company vision in 2016 to reflect this change: Innovate, collaborate and lead to competitively power the future.

300 megawatts of wind energy, which will bring its total renewable energy capacity to more than 1,000 megawatts by 2021, including 200 megawatts of hydropower.

Great River Energy engineers and operators modified its largest power plant, Coal Creek Station, to adjust its output in response to market signals – a rare and increasingly valuable trait for a coal-based plant. Operational changes and

which allows electric vehicle drivers to charge their cars entirely with wind energy at no added cost. The cooperative also works with members to attract economic development in co-op communities through financial support and unique energy solutions.

Investing in the region's grid

With the late-September completion of a 345-kilovolt transmission line between Hampton, Minn., and La Crosse, Wis., the largest Midwest transmission buildout in 30 years was complete. Great River Energy was one of 11

to provide data and tools to empower their membership. Great River Energy and its member-owner cooperatives are upgrading infrastructure to build a foundation for smarter energy and deliver much-desired solutions and services to members.

Advanced electric meters allow cooperatives to better manage the electric grid of the future and integrate renewables and distributed generation. Timely and accurate energy data is helping cooperatives better serve their members through customized energy programs,



CapX2020, the largest Midwest transmission expansion in 30 years, was completed Sept. 2016.



Serving members with sound finances

Great River Energy recorded a very strong margin in 2016 while returning revenue to its member cooperatives through a power cost adjustment. Great River Energy's wholesale rates are competitive and stable, as the cooperative's 10-year rate forecast projects modest increases, below the expected rate of inflation.

An important component of Great River Energy's financial strength is a company-wide emphasis on cost reductions, known as business improvement. Since its inception 2002, the business improvement program has saved the company – and its membership – \$250 million.

Market forces driving change

Ten years ago, the Midwest energy market included 1,000 megawatts of wind generation. Today, there are 15,000 megawatts. Great River Energy has plans for an additional

minor modifications will enable the 1,146-megawatt Coal Creek Station power plant to incrementally ramp down to as little as 300 megawatts when wind energy production is high.

Expertise presents opportunities

Waste-to-energy power plants are a critical component of Minnesota's waste management plans, and Great River Energy has emerged as a leader in the field. In April, Great River Energy's Elk River Resource Processing Plant processed its 10 millionth ton of garbage, nearly all of which has been used to generate renewable energy.

Electrifying the economy

Great River Energy continues to offer its RevoltSM program,

utilities that invested 12 years and \$1.85 billion to fortify the Midwest electric grid and enable renewable development with the CapX2020 grid expansion.

The largest transmission refurbishment project in Great River Energy's history is underway. Converter stations at both ends of a 436-mile high-voltage, direct-current transmission line, will ensure the continued reliable delivery of electricity from Great River Energy's largest power plant to its members in Minnesota.

Developing the grid of the future

More consumers are generating their own electricity. There is growing demand for detailed energy data. Renewed interest in energy is leading cooperatives

reliability improvements and rapid resolution of billing questions.

A union of cooperatives

Great River Energy's greatest strength is the enduring success of its 28 member-owner cooperatives and the loyalty and involvement of the people they serve. Cooperatives were started by individuals in order to foster thriving communities. Together with its member cooperatives, Great River Energy is crafting an electric system that will serve homes, farms and businesses well into the future.



Convenient payment options; less hassle, more time



Get a \$5.00 bill credit!

Go paperless using your Lake Country Power SmartHub account during the months of

April, May, and June

and get a one-time bill credit.

New paperless enrollment only.

Giving back to community

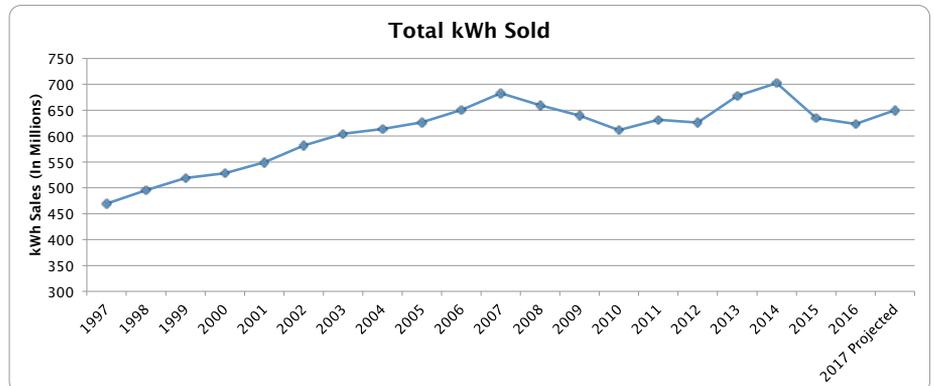
Lake Country Power's mission is to help our communities prosper. Your co-op is pleased to report more than \$1.1 million was contributed to the local communities of northern Minnesota in one way, shape or form. Here's a snapshot:

- \$183,394 through Operation Round Up® in 2016, and more than \$1.8 million overall since 2004
- \$519,969 in rebates given back to members for making energy-efficient upgrades
- \$370,000 in Revolving Loan Funds and a pass-through loan from the United States Department of Agriculture to spur economic development and support local business growth
- \$100,000 in scholarships – 25 qualifying students received the Les Beach Memorial Scholarship, a \$4,000 renewable scholarship

Lake Country Power offers at least seven different payment options for its 43,000 co-op members, not counting walk-in payments or the outside drop boxes. The seven include SmartHub, LCP Easy Pay, Budget Billing, credit card payments, ACH conversions, MoneyGram payments, and pay by phone.

Of these, the most popular payment option is SmartHub. When you join the more than 12,000 members currently using SmartHub, you'll discover it's more than just a way to pay your bill. It's the best, and smartest, way you can manage your electric account, receive the notifications you want and easily stay on top of things. More information at lakecountrypower.coop.

When members opt into paperless billing, it saves your cooperative money. Currently, 1,930 LCP members have requested paperless billing, which saves LCP more than \$18,000 in annual administrative costs. When you enroll in paperless billing in April, May or June, LCP will give a \$5 credit on your bill. Call 800-421-9959, press #5 to enroll.



Above: Weather plays a big role in Lake Country Power's sales. Electricity usage was up in 2013 and 2014, mostly because of long, cold winters. LCP's long-term rate philosophy and cost-based rate provides members with rate stability despite storms, outages, weather uncertainty and variability.

Solar capacity for 2016 on the low end

After collecting and reviewing solar data from Great River Energy's 20 KW solar array in Grand Rapids, the capacity factor for 2016 averaged 12.2 percent. The array generated 21,500 kilowatt-hours of solar energy last year, which offset LCP's overall energy use at the Grand Rapids Service Center.

A 20 KW solar array is much larger than most residential-sized homes would need, however for a residential homeowner, a solar array of this size would have offset \$2,111 on their annual electric bill. Sound impressive? Keep in mind Great River Energy's investment was \$150,000. The member payback is more than 60 years for a system of equal size. Visit lakecountrypower.coop or call 800-421-9959, press #6, for more information.

LCP's Average Retail Cooperative Energy Rate (ARCER) for solar residential energy is 9.82 cents per kWh.



2016 Annual Report – Statement of Operations and Changes in Equity for the years ended
December 31, 2016, 2015 and 2014 (Numbers in Thousands)

	2016	2015	2014
Revenue (In Thousands)			
Sales of electric energy to members	\$86,245	\$82,660	\$87,755
Miscellaneous other operating revenue	819	912	763
Total Revenues	\$87,064	\$83,572	\$88,518
Expenses			
Wholesale power (Great River Energy)	46,178	45,001	48,969
Operating expenses (maintenance, operations, administration, member support)	24,454	22,819	22,364
Depreciation of utility plant	8,824	9,221	8,732
Interest expense on long-term debt	5,993	5,941	6,082
Total Operating Expenses	85,449	82,982	86,147
Income from Electric Operations	1,615	590	2,371
Patronage capital from Great River Energy and Others	3,002	856	3,608
Non-operating and other income, net	600	655	655
Subsidiary Income or (Loss)	124	(188)	525
Net Margins	\$5,341	\$1,913	\$7,159
Accumulated patronage capital-beginning of year	\$100,988	\$101,641	\$97,032
Net other changes in equities	793	1,073	580
Retirement of patronage capital	(3,543)	(3,639)	(3,130)
Accumulated Capital at Year End	\$103,579	\$100,988	\$101,641

Financial Highlights

	2016	2015	2014
Kilowatt Hours Sold (In Thousands)			
Rural Residential	461,202	468,009	521,097
Commercial /Industrial	124,064	129,670	144,826
Public Street Light	629	600	596
Resale	37,617	36,692	36,082
Total kWh Sold	623,512	634,971	702,601

	2016	2015	2014
Revenue (In Thousands)			
Rural Residential	\$68,228	\$65,451	\$69,922
Commercial /Industrial	15,478	15,043	15,749
Public Street Light	121	110	108
Resale	2,418	2,056	1,976
Total Revenue	\$86,245	\$82,660	\$87,755

	2016	2015	2014
Comparative Operating Statistics			
Number of accounts at year end	48,952	48,757	48,542
Miles of line energized	8,306	8,278	8,249
Accounts per mile of line	5.9	5.9	5.9
Average residential kWhs used per month	848	863	962
Average residential monthly bill	\$125	\$121	\$129
Plant investment per Account	\$4,426	\$4,316	\$4,258

A complete consolidated audited financial statement is available upon request.

2016 Annual Report – Statement of Operations and Changes in Equity for the years ended
December 31, 2016, 2015 and 2014 (Numbers in Thousands)

Balance Sheet

Assets

What we own

	2016	2015	2014
Cost of Our Utility System	\$316,413	\$303,533	\$294,508
Depreciated Plant	(99,775)	(93,082)	(87,810)
This gives our system a book value of:	<u>\$216,638</u>	<u>\$210,451</u>	<u>\$206,698</u>

We Have Other Property and Investments

Investments in Associated Organizations	\$42,948	\$40,727	\$40,185
Other Investments	6,635	6,413	6,645
Total other property and investments	<u>\$49,583</u>	<u>\$47,140</u>	<u>\$46,830</u>

We Have These Current Assets

Cash and cash Equivalents	\$6,048	\$3,144	\$3,852
Members and others owe us for our services	9,800	8,885	9,640
Materials and supplies for line construction	4,117	3,767	3,272
Other current assets	196	151	158
Total Current Assets	<u>\$20,161</u>	<u>\$15,947</u>	<u>\$16,922</u>

We Have Deferred Debits

	\$1,762	\$2,042	\$2,406
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TOTAL ASSETS

\$288,144 \$275,580 \$272,856

Liabilities

What we owe

Long Term Debt

We owe Rural Utility Service	\$78,926	\$66,400	\$127,625
We owe NRUCFC	17,398	18,888	20,351
We owe CoBank	71,410	74,115	8,542
We owe Great River Energy	313	391	470
Other long-term liabilities	-	-	-
	<u>\$168,047</u>	<u>\$159,794</u>	<u>\$156,988</u>
Less payments due in the next year	(5,930)	(5,409)	(5,017)
Total Long Term Debt	\$162,117	\$154,385	\$151,971

Other Noncurrent Liabilities

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

Power, materials, etc.	\$10,446	\$9,475	\$9,632
Payments on long-term debt due in the next year	5,930	5,409	5,017
Notes Payable	-	-	-
Capital Lease - current portion	57	57	-
Other current liabilities	5,945	5,131	4,368
Total Current Liabilities	<u>\$22,378</u>	<u>\$20,072</u>	<u>\$19,017</u>
We have deferred credits	13	21	227
TOTAL WE OWE	\$184,565	\$174,592	\$171,215

Net Worth

Members' Equity in the Cooperative

Your accumulated patronage capital	\$83,542	\$81,557	\$83,837
Other capital	20,037	19,431	17,804
Members' Equity in the Cooperative	<u>\$103,579</u>	<u>\$100,988</u>	<u>\$101,641</u>
TOTAL LIABILITIES	\$288,144	\$275,580	\$272,856

A complete consolidated audited financial statement is available upon request.

2016 Annual Meeting – Condensed Minutes

The twentieth Annual Membership Meeting of Lake Country Power was held at the Merritt Elementary School, Mountain Iron, MN on April 28, 2016. President Dale Long called the meeting to order at 6:00 p.m. Secretary, George Harvey, presented the meeting notice and announced a quorum with 247 registered members.

President Long called for a motion to approve the condensed minutes of the April 30, 2015 Annual Membership Meeting. Motion carried. The polls closed for director elections at 6:04 p.m.

President Long addressed the membership about the key principles of the board, their role and responsibility. The Board's primary role is to ensure the co-op is financially healthy and viable. They support maintenance and investments in the electric system and approve budgets for tree clearing, bucket trucks, poles, transformers, technology, etc. The Board adopts policies that guide management and focus on the best interest of the membership as a whole – not for individual gain or benefit. The Board hires a General Manager to manage the co-op. It's the Board's responsibility to promote the well-being of the co-op and the members served.

General Manager Randa spoke about his great respect for the hard work, creativity and ingenuity of the co-op employees from

previous generations and complimented today's workforce. He commented about the long-term rate philosophy that recovers costs fairly across the system. The current rate structure helps LCP sustain affordability and reliability through regular line maintenance and system upgrades, equipment replacement, etc. without sacrificing safety while energy sales decline and government regulations expend on utilities.

Director of Finance and Administration Bakk reported about the 2015 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.

Director of Engineering Howe reported about LCP's work plan. The investments into the distribution system will have a direct impact on reliability, public safety, power quality, asset management and outage frequency, etc. The greatest number of outages are tree related or due to deterioration.

Danny Smith, President of the Holding Company, provided an update on Lake Country Power's two subsidiaries – Lake States Tree Service and Lake States Construction.

Rick Lancaster, Great River Energy's Vice President of Generation, reviewed the 10-year rate forecast, statewide solar capacity factors and performance. He spoke about legal challenges GRE is facing from EPA regulations.

Attorney Carlisle presided over Old and New Business. Several members asked questions or made comments.

The meeting adjourned at 8:01 p.m.

Editor's Note: A complete copy of the 2016 annual meeting minutes will be distributed at the annual meeting and will also be available online at www.lakecountrypower.coop.

2016 Director Elections

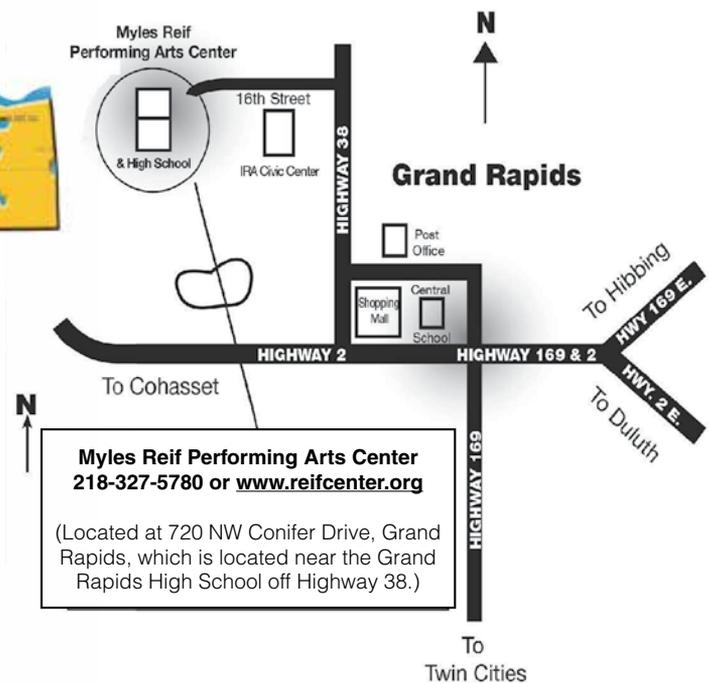
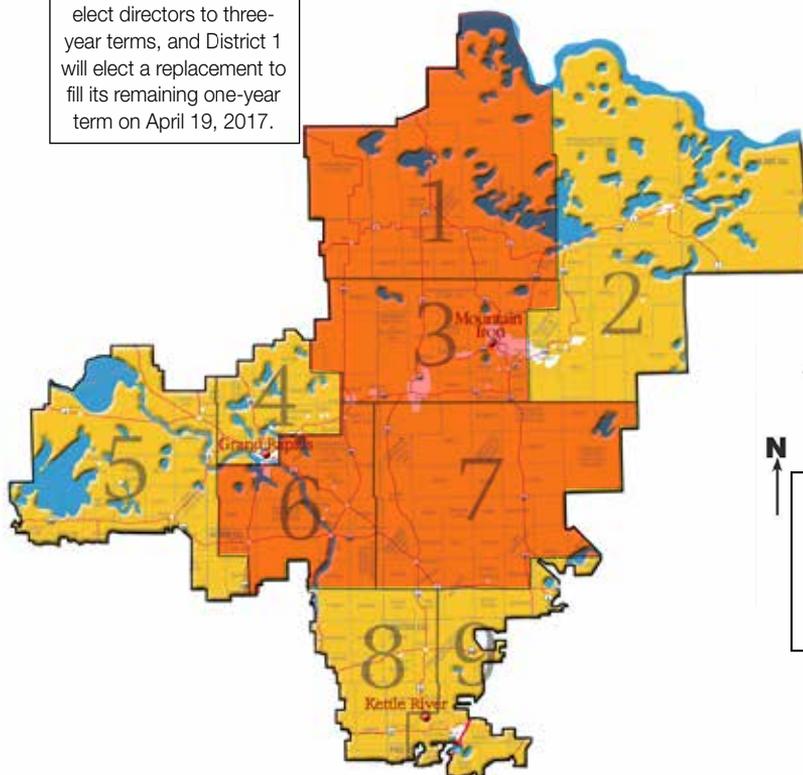
District 2:	
Michael Dale Forsman	554
District 4:	
Craig Carlson*	374
District 8:	
Danny G. Smith*	242
Marvin E. Ketola	173
Jim Huhta	371

*Denotes current LCP director

Annual Meeting Location Map

Districts Voting – 2017

Districts 3, 6 and 7 will elect directors to three-year terms, and District 1 will elect a replacement to fill its remaining one-year term on April 19, 2017.



Myles Reif Performing Arts Center
218-327-5780 or www.reifcenter.org
 (Located at 720 NW Conifer Drive, Grand Rapids, which is located near the Grand Rapids High School off Highway 38.)