



NORTH STAR ELECTRIC COOPERATIVE

Annual Report

Annual Meeting
Oct. 6, 2017



North Star
ELECTRIC COOPERATIVE

Your Touchstone Energy® Cooperative



BOARD OF *Directors*

Serving since:

Julian Brzoznowski 1983
 Steve Arnesen 1986
 Michael Hanson 1994
 Randy Bergan 1999
 Mike Trueman 2002
 Lorraine Nygaard 2007
 Tom Smith 2016



Steve Arnesen
District 1



Mike Trueman
District 2



Randy Bergan
District 3



Michael Hanson
District 4

North Star ELECTRIC COOPERATIVE Your Touchless Energy Cooperative **Enlightener**

SEPTEMBER 2017

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OFFICERS AND DIRECTORS

President Steve Arnesen
Vice President Michael Hanson
Secretary-Treasurer Lorraine Nygaard
Directors Julian Brzoznowski, Randy Bergan, Mike Trueman, Tom Smith
General Manager Ann Ellis
Editor Robyn Sonstegard

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Monday through Friday

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 1-888-6OUTAGE (1-888-668-8243) or 634-2603
 e-mail us at nsec@wiktel.com
 Visit our website at www.northstarelectric.coop



Tom Smith
District 5



Lorraine Nygaard
District 6



Julian Brzoznowski
District 7

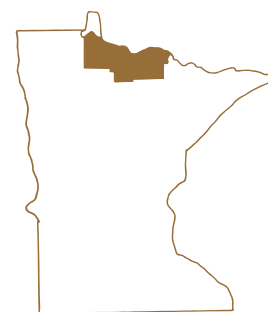
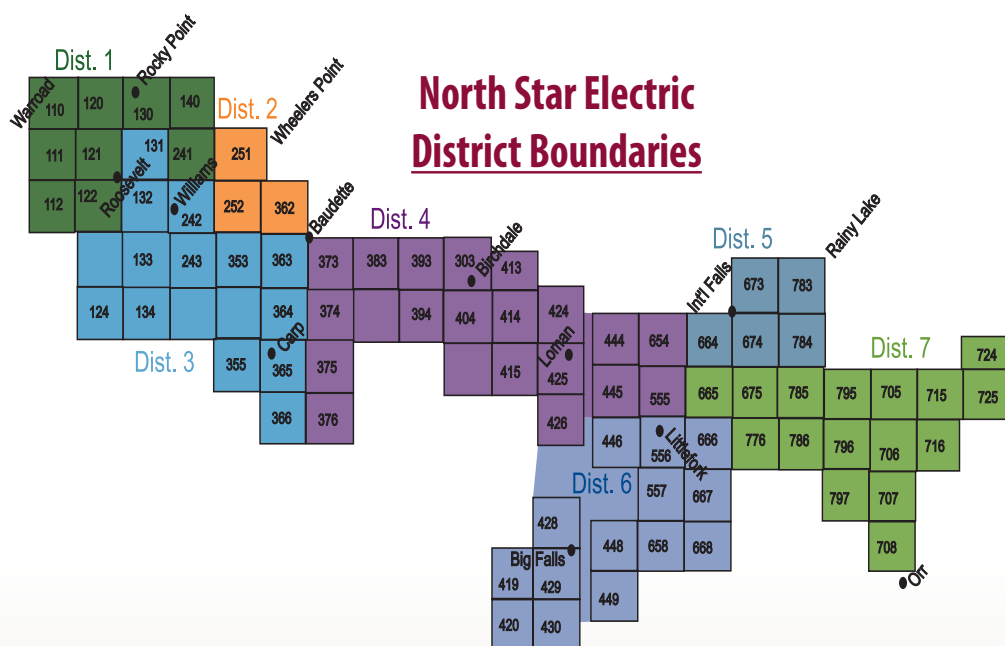
MISSION *Statement*

To improve the lives of our member-owners and community by responsibly providing clean, affordable electric energy and other beneficial services while maintaining the very highest standards of performance and member satisfaction.

An annual meeting is a meeting of the member-owners of the cooperative. It provides the opportunity to vote for the director of your choice and to express your opinions about the operations of your cooperative. It also provides you with the opportunity to become better informed through the reports of officers and employees. This will be a successful meeting if all who attend gain some knowledge of their cooperative. A well-informed membership is the basis of a strong cooperative.

On the cover: (Top) Nick Horne, apprentice lineman with some of the players on the T-ball team he coaches; (Bottom) Glen Marcotte, line sub-foreman, coaches the local Broncos baseball team.

DIRECTOR *Candidates*



The first three numbers of your account number correspond to the township number included on this map.

Director Candidate District 5 - Tom Smith



Tom Smith and his wife, Barb, have been property owners in Koochiching County since 1999, and after retiring from Xcel Energy in 2012, Tom became a year-round resident at his home on Rainy Lake.

Tom has worked in the electrical industry for more than 33 years and has experience in all aspects of the electric system, from generation to distribution. Tom holds a Bachelor of Science-Mechanical Engineering degree from the University of Minnesota and a Master of Business Administration degree from the University of St. Thomas.

Tom started his electrical career with Northern States Power and from 1979-1990, he worked as an Engineer, Engineering Superintendent and Production Engineer. In 1990, Tom continued his career in electric

management at NRG Energy Inc., where he served in various management capacities until 2003 and worked in three locations. While at NRG Energy Inc., Tom was Plant Manager at the Ramsey Washington Resource Recovery, Executive Director of Operations in Minneapolis and Vice President of European Operations in Amsterdam. His latest project was Director of Argentina Operations for Xcel Energy, 2003 – 2004 and then as Plant Director at the Black Dog Generation Plant and the Allen S. King Plant, 2004-2012.

Tom currently serves on the board of Rainy Lake Property Owners Association and on the board of a corporation developing a large local economic development project. He has served on six boards of electrical generation companies on five continents.

Since elected to the North Star Board in October 2016, he has attended training seminars for new directors, strategic planning, district meeting and the Minnkota and Square Butte annual meetings. Tom has also attended several seminars enabling him to become a credentialed board member for the electric cooperative.

Since Tom retired from Xcel Energy, he has been looking for ways to give back to the community. With a lifetime of successful energy leadership experience, he feels that he is an effective candidate to fill the position as board member for newly created District 5.

DIRECTOR *Candidates*

Director Candidate District 6 - Lorraine Nygaard



Lorraine Nygaard has lived in Big Falls for many years. She has three grown children, four grandchildren and three great grandchildren. Some of her hobbies include gardening, traveling, baking, decorating and visiting family and friends.

Lorraine worked as the city clerk in Big Falls for 30 years and retired 14 years ago. As city clerk, part of her duties included working

with other government offices, including the county and state. Some of the projects she was involved in were getting the medical clinic, dental office and bank (now the credit union) to move into Big Falls.

In February 2007 she was appointed to the North Star Board to fill the vacancy for District 6. She was elected to the North Star Board by the members of District 6 at the annual meeting in October 2007.

She has served on several other boards, including the Koochiching County HUD Board for 13 years and

Northern Itasca Hospital Board for 15 years. She has also been a member of the Big Falls Community Education and Recreation organization for 29 years and the Legion Auxiliary for 65 years.

Since elected to the North Star Board in October of 2007, she has attended training seminars for new directors, strategic planning, district meeting and the Minnkota and Square Butte annual meetings. Lorraine has also attended several seminars enabling her to become a credentialed board member for the electric cooperative.

Lorraine would like to remain on the board because of her commitment to community and knowing that she can make a difference. Being active in the community, she feels that she is there to listen to concerns of the members and is willing to work with them to find a solution to the problem.

She says that her priorities for the future include keeping the members informed, holding the line on electric rates and helping North Star achieve the goals that have been set for the future growth and prosperity of the cooperative. She feels that her business knowledge of being city clerk for 30 years would help her to accomplish this.

Annual Meeting Speaker

Mac McLennan, *president & CEO, Minnkota Power Cooperative*



Robert "Mac" McLennan is the president & CEO of Minnkota Power Cooperative, Inc., a generation and transmission cooperative based in Grand Forks, N.D.

Minnkota Power, which serves 11 electric distribution cooperatives in eastern North Dakota and northwestern Minnesota, has about 390 employees, 135,000 customers and

revenues of nearly \$400 million annually.

McLennan has spent his career serving the rural

electric cooperative industry. Prior to joining Minnkota in 2011, he was employed by Tri-State Generation & Transmission Association, an electric cooperative based in Colorado, as senior vice president of external affairs & member relations.

McLennan has also worked for the National Rural Electric Cooperative Association (NRECA) as director of environmental affairs. He is currently on the boards of the following organizations: Lignite Energy Council and BNI Coal, Ltd., the Grand Forks Region Economic Development Corporation, the UND College of Engineering and Mines and the Quentin Burdick Center for Cooperatives.

A Wyoming native, McLennan earned his bachelor's degree from the University of Jamestown. He and his wife, Debbie, reside in Grand Forks.

ANNUAL MEETING *Information*

Organization voting form

If you plan to cast the vote of a membership held by an organization, the form shown below will need to be completed and presented before we can issue a ballot. The form must be fully completed.

The

(Name of Organization) has, at an official meeting,
authorized

to represent us at the 2017 annual meeting of
North Star Electric Cooperative, Incorporated

Attest _____
(Mayor, Chairperson)

Attest _____
(Clerk, Secretary)

Assistance offered to handicapped for attending annual meeting

Any member with a handicap who needs assistance to attend our annual meeting is requested to notify Member Service Manager Wayne Haukaas of his/her needs for assistance at least two weeks prior to the meeting. We will do our best to accommodate your needs so that you may take part in the annual meeting of your cooperative.

Free Bus Service to Annual Meeting

Call or send us a note to confirm
your seat on the bus.

The bus is free, but this year we are asking that you give us a call or drop a note to let us know that you plan to ride. Also, it would be helpful to know where you plan to board. With your help, we can make sure everyone finds a seat.

Call us to confirm your seat on the bus

634-2202 (Baudette)
or 278-6658 (Littlefork)
or toll-free (888) 634-2202

Bus schedule for Annual Meeting *Friday, Oct. 6, 2017*

EAST ROUTE 1

| | | |
|---------------------|---|-----------|
| Kabetogama | Gateway Store | 3:50 p.m. |
| Ray | Woodland Inn (park at north end by Highway 11) | 4 p.m. |
| Roger's Corner | Voyageur's Charter Bus Garage | 4:10 p.m. |
| International Falls | Menards | 4:25 p.m. |
| Pelland Junction | Y-Knot Quick Stop | 4:45 p.m. |

EAST ROUTE 2

| | | |
|-----------|--------------------|-----------|
| Big Falls | Community Building | 4:40 p.m. |
|-----------|--------------------|-----------|

WEST ROUTE

| | | |
|-----------|--|-----------|
| Roosevelt | Percy's Place | 3:30 p.m. |
| Williams | Williams Liquor Store (park at north end by Highway 11) | 3:40 p.m. |
| Baudette | North Star Electric Office | 4 p.m. |
| Birchdale | Church | 4:25 p.m. |
| Loman | Church | 4:45 p.m. |

Destination – Littlefork/Big Falls School

| | |
|-------------------------|-------------|
| Registration and Supper | 5 to 6 p.m. |
| Business Meeting | 6 p.m. |

PRESIDENT & MANAGER'S *Report*

The Cooperative Difference

As one of the nation's 750+ Touchstone Energy® Cooperatives, our values are **Integrity, Accountability, Innovation, and Commitment to Community**. We do our best every day to exceed your expectations in the "cooperative way."

So, how is North Star Electric Cooperative

different from any other type of utility? What probably jumps into your mind first is that North Star is owned by everyone who buys electricity from the co-op. When was the last time you thought about being an owner of a business with \$34 million in assets and annual revenue in excess of \$14 million? Well, you ARE. Your utility is also nonprofit. Think

about the capital credits returned to you on your September electric bill. And on Oct. 6, all of you member-owners are encouraged to attend the annual meeting where districts of about 800 members each elect their board member to govern your utility.

Never been to North Star's annual meeting?

Make this year your first! A year ago we embarked on a mission to bring more voices to the table. We reached out to younger members so they would know that their cooperative is so much more than just a utility. We hope that the special drawing at this year's annual meeting for a \$500 college savings fund will encourage members to bring their children (future college/tech school students must be present to win). We need your help too. Have you ever talked to your kids to tell them about your nonprofit, locally-controlled rural electric cooperative?



Board President Steve Arnesen and General Manager Ann Ellis



North Star members listen to a presentation during the annual meeting.

Local Democracy

Along those lines, during the 2017 legislative session, your state senators and representatives were very responsive to a local democracy bill that we, along with the other 43 Minnesota rural electric cooperatives, sought as our top legislative priority. The governor signed the bill into law, and now we are taking the steps to formally adopt this dispute resolution authority on Oct. 4. If you have questions or comments about this, please let us know before the Oct. 4 board meeting so your inputs are part of the decision-making process.

Commitment to Community

Let's think about North Star's participation in the communities we serve. We support dozens of groups that do great work making our communities stronger, healthier and caring.

The pictures in this *Enlightener* represent some of the organizations our employees are involved with.

Our next generation of leaders is still going to school, and we've stepped up our involvement with them over this past year. They need to understand why we are here. Their great-grandparents may remember how they needed to form a rural electric cooperative because traditional electric utilities would not extend services to the sparsely populated areas, but our kiddoes probably don't know this. For those of you who are bringing our future leaders to this year's annual meeting, THANK YOU for helping to keep the legacy alive and well. And don't forget to sign up your wee-ones (or strapping teenagers) for the \$500 College Savings Account that will grow tax-free until



the lucky winner goes to trade school or college.

Along the scholarship train of thought, we provided \$5,000 of scholarships to students last year because we know that education is an investment. We also want to make sure that our youth attending trade schools don't forget to look our way for scholarships. One of those ways is for high school seniors to take our Cooperative Knowledge Scholarship Test in the spring where the prizes are \$3,400 in scholarships. Most of the answers are provided in the short study guide found in the "LINKS" section of our website. Students scoring at least 60 percent correct have a chance at winning random drawings, and the top scholarship for \$1,000 is based on the best score.

Accountability and Innovation

Let's focus on two other Touchstone Energy Values – Accountability and Innovation. You expect reliable, affordable and safe electricity, and we accept that responsibility to do more than just meet your expectations.

Beneficial electrification is a term you may have heard, and if you're wondering what it is, it is replacing burning fossil fuels with the electric energy from excess renewable and other electricity generated at times when we now put it on the market for a very low, and sometimes negative, price. We would like OUR members to be able to put excess wind energy to good use, rather than someone from far away. Applications that top the list are space heating, water heating and electric vehicles. We've been doing the space heating and water heating with our off-peak program for years. Electric vehicles are on the horizon as the next application. They will charge in our garages at a much-reduced rate while we sleep (low demand=low price, plus there is higher wind production at night).

Integrity

As we strive to be your trusted energy partner, honesty and honor top the list. We are doing what is good for the members, which often means doing our best to sell you less of our product. Go figure.

Board vacancies

We will be losing two veteran board members later this fall. Julian Brzoznowski, after 34 years of truly dedicated service on the board, will be moving out of his district. Mike Trueman will be spending more time out of the district, so we will be losing his 15 years of keen business and cooperative expertise also. Both of these gentlemen bring a great balance to board discussions, asking tough questions and representing their districts very well. With



Mike Trueman
District 2



Julian Brzoznowski
District 7

heartfelt appreciation, we thank them both for their many contributions. They truly exemplify our Touchstone Energy values, and they will be missed.

To fill these vacancies, the bylaws require the remaining directors appoint their successors, and the successors shall serve until the next annual meeting when the members in that district will elect their director for the balance of the term. The board will be accepting applications from members who live in Districts 2 and 7 (check your electric bill to find your district number). If our Touchstone Energy values match yours, please consider this opportunity and contact our office for more information.

I am so proud of our employees and board members. They work hard for you on and off the job. You can find them in the baseball dugout with the T-ball team, at the board table of organizations, fighting fires and more.

We are not just an electric bill. We are you, and together we empower people to succeed.

Thank you for being an involved member-owner.

Steve and Ann

President Arnesen and Manager Ellis

College Savings Fund Prize Drawing at Annual Meeting

Do you have a future college or tech school student in your home? Bring them with you to the annual meeting, and they will be entered into our prize drawing for a \$500 College Savings Account that will grow tax-free until they need it.

Rules: Entrant must be birth to age 22, parents/guardians must be North Star Electric Co-op members and the future/current student must be present to win.

P.S. We provide child care during the annual meeting.

NORTH STAR *Employees*



Ann Ellis



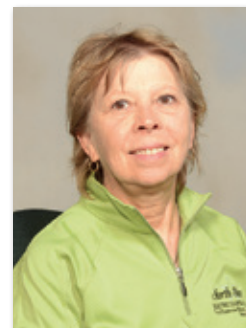
Wayne Haukaas



Marty Mollberg



Robyn Sonstegard



Patsy Olson



Todd Thydean



Susan Williams



Tim Pelach



Kevin Holen



Glen Marcotte



Todd Higgins



Jim Kuehl



Tessa Strohl



Jesse Huot



Darren Koschak



Preston Kennedy



Brittany Hanson



Nick Horne



Nathan Zortman



Cody Stuhau

NORTH STAR *Employees*



Jessica Groll



Kyle Wolters



Cameron Vinar

| | <u>Position</u> | <u>Years of service</u> |
|------------------|---|-------------------------|
| Ann Ellis | General Manager | 40 |
| STAFF | | |
| Wayne Haukaas | Manager of Compliance & Member Services | 29 |
| Marty Mollberg | Manager of Operations | 29 |
| Robyn Sonstegard | Manager of Finance & Administration | 10 |
| EMPLOYEES | | |
| Patsy Olson | Billing Coordinator | 41 |
| Todd Thydean | Line Foreman | 29 |
| Susan Williams | Supervisor, District Office Services | 29 |
| Tim Pelach | Line Foreman | 26 |
| Kevin Holen | Member Service Electrician | 21 |
| Glen Marcotte | Line Sub-Foreman | 15 |
| Todd Higgins | Line Sub-Foreman | 14 |

| | <u>Position</u> | <u>Years of service</u> |
|-----------------|---|-------------------------|
| Jim Kuehl | Part-time Handyman/Groundskeeper | 14 |
| Tessa Strohl | Bookkeeping Coordinator | 8 |
| Jesse Huot | Journeyman Lineman | 4 |
| Darren Koschak | Lead Lineman | 4 |
| Preston Kennedy | Lead Lineman | 4 |
| Brittany Hanson | Work Order Clerk | 3 |
| Nick Horne | Apprentice Lineman | 3 |
| Nathan Zortman | Journeyman Lineman | 2 |
| Cody Stuhau | Apprentice Lineman | 1 |
| Jessica Groll | Billing Clerk/Administrative Assistant | |
| Kyle Wolters | Part-time Summer Apprentice Lineman | |
| Cameron Vinar | Part-time Summer Apprentice Lineman | |
| | Purchasing Agent/CAD Draftsman (*open as of 8/12) | |

Statement of nondiscrimination

North Star Electric Cooperative, Inc. is an equal opportunity provider and employer and does not discriminate on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.)

If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form, found online at http://www.ascr.usda.gov/complaint_filing_cust.html, or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, by fax (202) 690-7442 or email at program.intake@usda.gov.



Littlefork Fire Department



- Voluntary and Open Membership
- Democratic Member Control
- Members' Economic Participation
- Autonomy and Independence
- Education, Training and Information
- Cooperation Among Cooperatives
- Concern for Community

POWER SUPPLY *Report*



By Mac McLennan
President & CEO
Minnkota Power Cooperative, Inc.

It's been an interesting year at Minnkota Power Cooperative and in the electric cooperative world.

We have spent a lot of time and effort in 2017 working to research new technologies, improve the reliability of our power delivery system and speak with regulators and public officials on issues important to our industry.

First, let me explain Minnkota's connection to North Star Electric Cooperative. Minnkota is a wholesale generation and transmission cooperative that provides all of the electricity needs of North Star and 10 other electric cooperatives in eastern North Dakota and northwestern Minnesota. To accomplish that goal, we use a diverse mix of coal, wind and hydro generation resources.

Recently, our coal generation fleet has been threatened by adverse regulation, specifically the Clean Power Plan, which aimed to regulate carbon dioxide (CO₂) emissions from existing power plants. Following the change in administration, it appears that the Clean Power

Plan will not be implemented in its current form, with the Environmental Protection Agency (EPA) working on a new version of CO₂ regulation.

Minnkota has been a proactive

voice in the development of new EPA rules. I have had the opportunity to meet with new EPA Administrator Scott Pruitt three times since his confirmation in February. The discussions have been productive, and we continue to encourage the Agency to be mindful of the impact of regulations on electric reliability and affordability.

Despite uncertainty in the regulatory arena, Minnkota continues to evaluate the feasibility of cutting-edge technologies that aim to reduce the CO₂ output from our facilities.

Along with ALLETE, our partner from Duluth, Minn., we are pursuing what's known as Project Tundra. Modeled after the successful Petra Nova initiative in Texas, the vision for Project Tundra is to retrofit Unit 2 at our lignite coal-based Milton R. Young Station, located near Center, N.D., with technology that could capture



Minnkota's lignite coal-based Milton R. Young Station located near Center, N.D.

up to 90 percent of its CO₂ emissions. The CO₂ would then be used for enhanced oil recovery (EOR) or permanent geologic storage. In the EOR application, the CO₂ would be transported through a pipeline to be used on conventional oil wells. CO₂ has the ability to substantially increase each well's production.

The technology is very exciting, and we plan to continue researching its application over the next few years. We will continue to work with lawmakers and others to gain support for these projects and advocate for a true all-of-the-above national energy policy.

On the power delivery side of our business, crews have been working safely and efficiently installing equipment to reduce the impact of blink outages – those 1-3 second losses of power caused by a lightning strike or other power line contact. Stretching from the North Dakota prairies to the northwoods of Minnesota, this 2,100-mile network of 69-kV lines is the focus of



Mac McLennan (fourth from bottom right), Minnkota president & CEO, meets with Scott Pruitt (third from bottom left), EPA administrator, to discuss industry issues important to North Dakota's electric cooperatives.

an accelerated effort to improve system reliability.

From 2015 to 2018, blink outage mitigation equipment will be installed on about 770 miles of this system, specifically focused on the most vulnerable sections as identified by a comprehensive 2015 study.

Elsewhere, we are nearing completion of a new headquarters building on 32nd Avenue South in Grand Forks. It is the first headquarters complex that the cooperative has built since the early 1940s.

Minnkota currently operates out of a set of facilities that were not designed to accommodate the unique and evolving demands of the electric utility industry. A new facility will meet our current and long-term needs in the areas of security, workplace efficiency and large equipment storage.

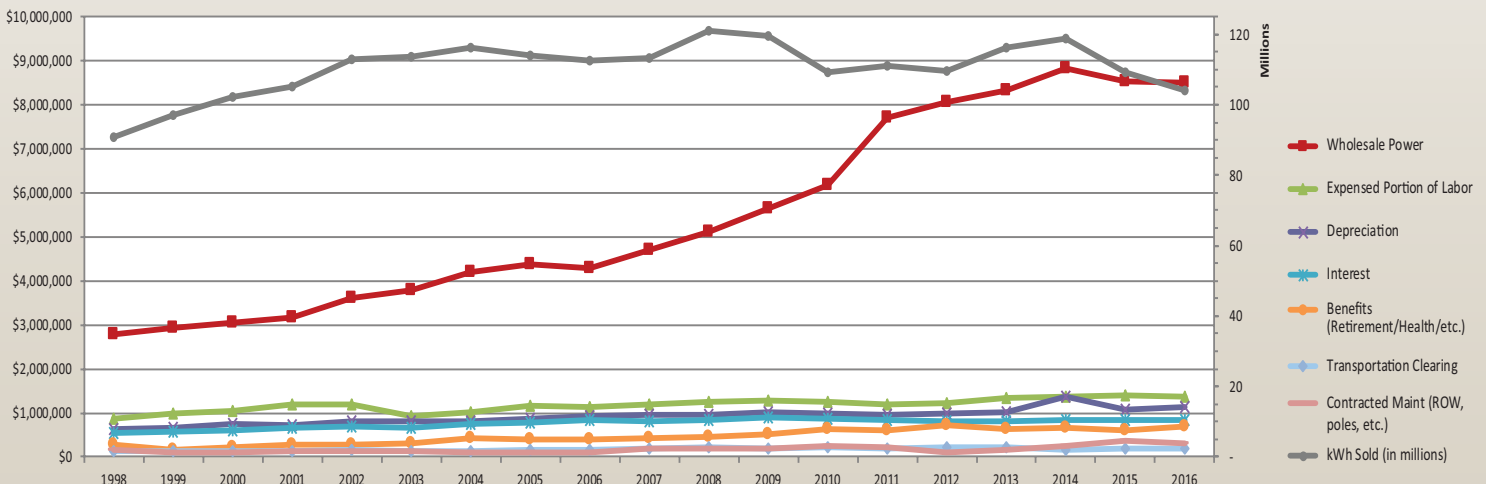
Lastly, even with the challenges of regulations and legislative mandates, it's our pledge to do everything possible to help North Star keep its electricity as the best energy value in the region.



An insulated fiberglass hot stick is used to safely install blink outage mitigation equipment on energized lines.

HIGHEST COST *Expenses* (compared to kWh sold)

These lines represent our largest expenses for the last 19 years. Cost of Power is the quickly climbing line, in spite of the fact that the number of kWh sold were rather unchanged since 2002. Wholesale power, per kWh, has stabilized in 2013 and 2014. The lines along the bottom include labor, depreciation, interest, benefits and transportation.



YOUR 2016 *Dollar*

WHERE IT CAME FROM:

| | |
|---|----------------------|
| Farms and Homes | \$ 9,364,248 |
| Small Commercial | 3,752,150 |
| Large Commercial | 311,805 |
| Seasonal | 501,596 |
| Street Lighting | 32,394 |
| Consumer Penalties & Misc. Electric Revenue | 127,267 |
| Rent from Electric Property | 56,078 |
| Total Revenue | \$ 14,145,538 |

WHERE IT WENT:

| | |
|--|--------------|
| Operation Expense: | |
| Purchased Power | \$ 8,502,552 |
| Operations | 616,599 |
| <i>(includes supervision, safety, mapping, cable locating, etc.)</i> | |
| Consumer Accounts | 320,621 |
| Consumer Services and Information | 293,824 |
| Sales | 93,612 |
| Administrative and General | 1,240,165 |

Maintenance Expense:

| | |
|--|------------|
| Maintenance of Distribution Plant | \$ 813,836 |
| <i>(includes right-of-way maintenance, outage costs, etc.)</i> | |
| Depreciation | 1,126,580 |
| Interest | 843,285 |
| Taxes | 600 |

Total Expense \$ 13,851,674

| | |
|---|------------|
| Electric Operation Margin for Year | \$ 293,864 |
| <i>(Revenue less expense)</i> | |
| Interest and Dividend Income | 238,944 |
| Misc. Nonoperating Margins | 11,434 |
| Generation and Transmission Capital Credits | - |
| <i>(Minnkota Power Cooperative)</i> | |
| Other Capital Credits and Patronage Dividends | 57,580 |

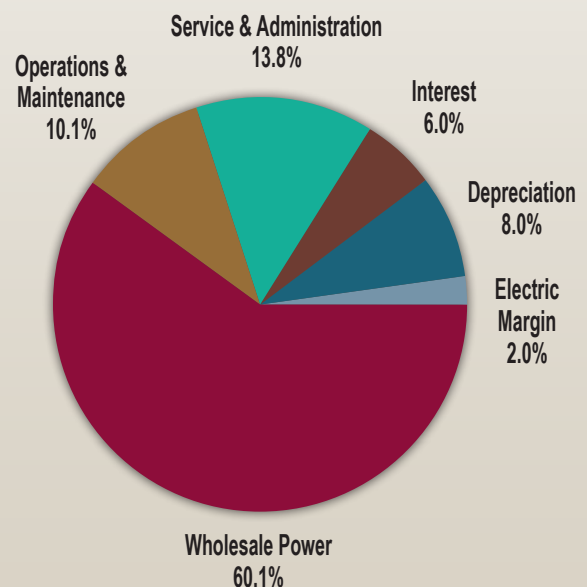
Net Patronage Capital Assigned \$ 601,822

HOW YOUR 2016 *Dollar* was spent

Revenue from the sale of our service amounted to
\$14,145,538 as of the year ending December 31, 2016.



Glen Marcotte, line sub-foreman, coaches a local hockey team.



STATEMENT OF FINANCIAL *Condition*

WHAT WE OWN:

| | |
|----------------------------------|---------------|
| Lines and General Equipment | \$ 44,002,455 |
| Less: Provision for Depreciation | 16,252,687 |
| | \$ 27,749,768 |

Cash:

| | |
|--|------------|
| General Funds | \$ 492,915 |
| Special Funds | 20 |
| Investments | 1,556,725 |
| Temporary Investments | 1,222,292 |
| Notes Receivable Net | 264,699 |
| Receivables | 1,694,071 |
| Material and Supplies | 530,565 |
| Prepaid Expenses <i>(includes insurance)</i> | 73,429 |
| Other Current and Accrued Assets <i>(accrued revenue)</i> | 37,900 |
| Deferred Debits <i>(includes prepayments for engineering studies and benefits)</i> | 607,612 |

Total what we own

\$ 34,229,996

WHAT WE OWE:

| | |
|--|---------------|
| Long-Term Obligations | \$ 17,119,415 |
| Current and Accrued Liabilities <i>(includes accounts payable, taxes, interest, deposits, etc.)</i> | 2,716,613 |
| Deferred Credits <i>(includes member prepayments)</i> | 513,102 |

Our Equity in Above Assets:

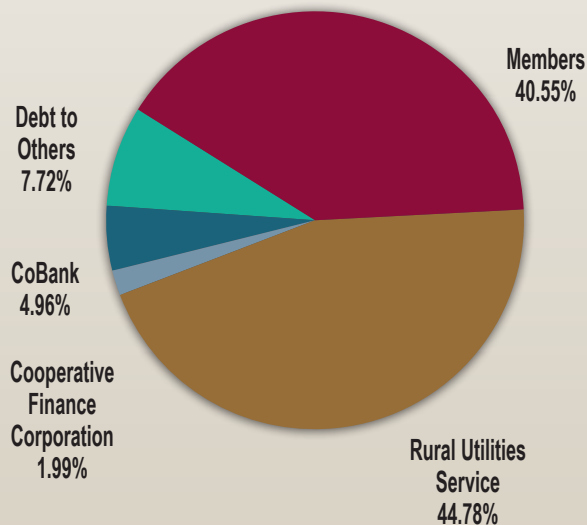
| | |
|--------------------------------------|------------|
| Membership Fees | \$ 26,790 |
| Patronage Capital and Other Equities | 13,854,076 |

Total what we owe

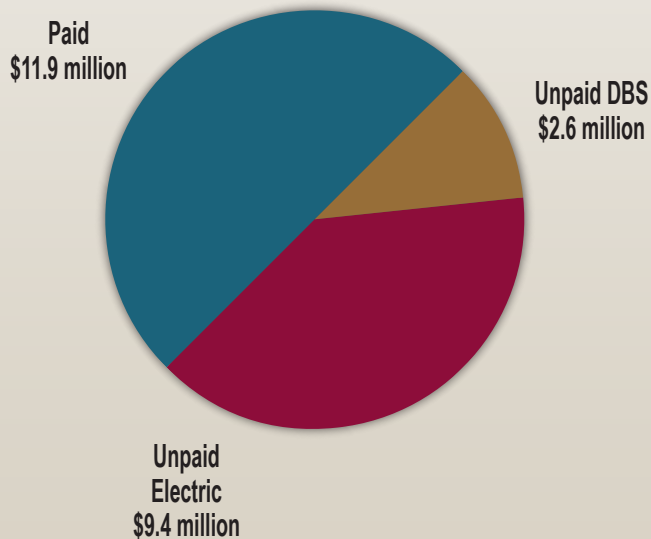
\$ 34,229,996

**Balance
Sheet as of
December 31,
2016**

WHO OWNS WHAT



CAPITAL CREDITS *(as of Aug. 2017)*

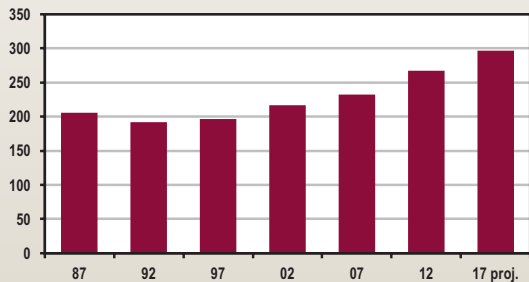


COMPARATIVE OPERATING *Statistics*

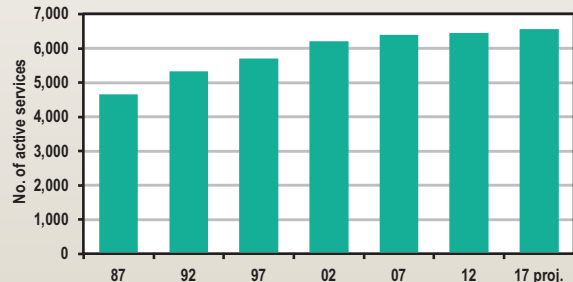
| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 proj. |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Revenues | \$13,577,072 | \$13,998,026 | \$14,485,503 | \$14,091,142 | \$14,145,538 | \$14,214,145 |
| Cost of Wholesale Power | 8,071,602 | 8,333,789 | 8,818,213 | 8,521,268 | 8,502,552 | 8,510,612 |
| Operating Expenses | 3,070,497 | 3,238,302 | 3,293,903 | 3,408,478 | 3,378,657 | 3,325,964 |
| Depreciation | 975,257 | 1,001,813 | 1,383,399 | 1,067,702 | 1,126,580 | 1,197,615 |
| Taxes | 0 | 0 | 75,000 | 62,600 | 600 | 78,484 |
| Interest | 805,454 | 808,073 | 826,668 | 841,986 | 843,285 | 834,666 |
| TOTAL EXPENSES | \$12,922,810 | \$13,381,977 | \$14,397,183 | \$13,902,034 | \$13,851,674 | \$13,947,341 |
| OPERATING MARGIN | \$654,262 | \$616,049 | \$88,320 | \$189,108 | \$293,864 | \$266,804 |
| kWh Purchased | 117,772,420 | 124,125,276 | 127,426,696 | 116,772,002 | 111,114,871 | 107,161,510 |
| kWh Sold | 109,678,468 | 116,394,570 | 118,864,025 | 109,268,707 | 104,003,534 | 100,053,416 |
| Miles of Line | 1,426 | 1,431 | 1,434 | 1,437 | 1,437 | 1,437 |
| Connected Members | 6,404 | 6,396 | 6,388 | 6,427 | 6,457 | 6,509 |
| Average Residential Usage* | 1,273 | 1,349 | 1,376 | 1,207 | 1,127 | 1,098 |
| Average Residential Bill* | 157.28 | 161.17 | 164.99 | 155.49 | 153.95 | 153.73 |
| Average Residential Rate/kWh* (excludes seasonals) | 0.124 | 0.119 | 0.12 | 0.129 | 0.137 | 0.140 |
| Average Wholesale Cost to North Star per kWh Sold | 0.0736 | 0.0716 | 0.0742 | 0.0780 | 0.0818 | 0.0851 |

* Monthly billed residential accounts

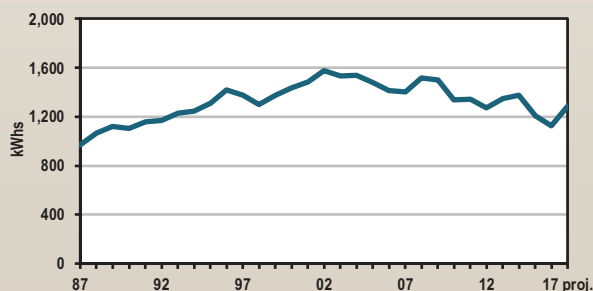
ACCOUNTS PER EMPLOYEE



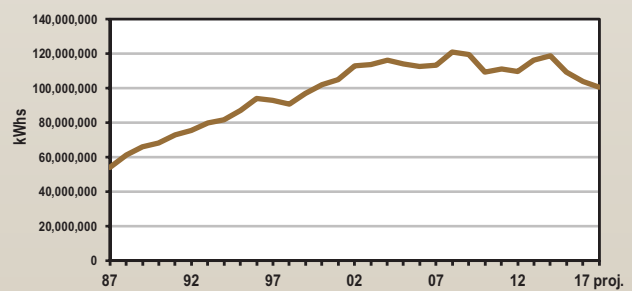
TOTAL ELECTRICAL ACCOUNTS



ELECTRICITY CONSUMED PER RESIDENCE



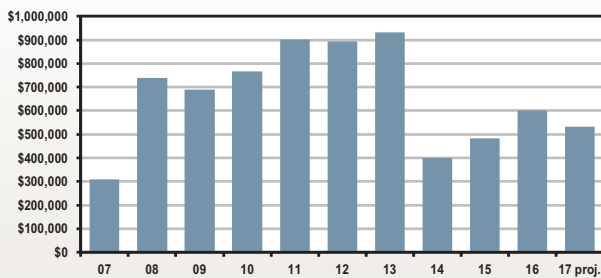
ELECTRICITY CONSUMED CO-OP TOTAL



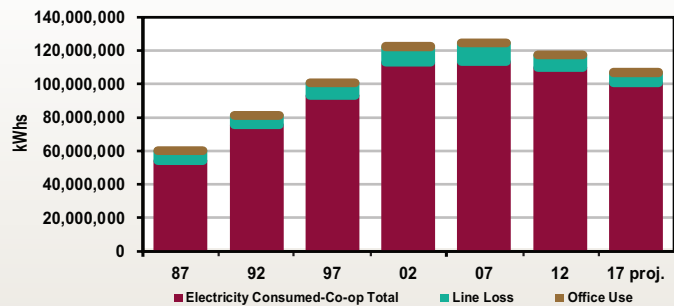
OPERATING *Comparisons*

| | New Services | Retired Services | Connects | Disconnects | Net Gain | Sec. Lights Installed | Sec. Lights Removed |
|------|--------------|------------------|----------|-------------|----------|-----------------------|---------------------|
| 2001 | 117 | 17 | 82 | 103 | 96 | 64 | 44 |
| 2002 | 113 | 16 | 84 | 120 | 77 | 58 | 47 |
| 2003 | 127 | 17 | 74 | 133 | 68 | 51 | 50 |
| 2004 | 111 | 27 | 92 | 132 | 71 | 66 | 50 |
| 2005 | 87 | 17 | 80 | 137 | 30 | 43 | 34 |
| 2006 | 106 | 28 | 85 | 158 | 33 | 122 | 125 |
| 2007 | 69 | 27 | 112 | 189 | -8 | 35 | 49 |
| 2008 | 62 | 52 | 126 | 188 | 0 | 33 | 45 |
| 2009 | 57 | 34 | 119 | 171 | 5 | 35 | 43 |
| 2010 | 44 | 70 | 130 | 153 | 21 | 24 | 50 |
| 2011 | 41 | 25 | 93 | 133 | 1 | 17 | 48 |
| 2012 | 63 | 30 | 97 | 137 | 23 | 21 | 40 |
| 2013 | 38 | 20 | 92 | 133 | -3 | 18 | 26 |
| 2014 | 46 | 26 | 109 | 134 | 21 | 15 | 40 |
| 2015 | 65 | 36 | 80 | 112 | 33 | 22 | 32 |
| 2016 | 58 | 37 | 87 | 104 | 41 | 17 | 23 |

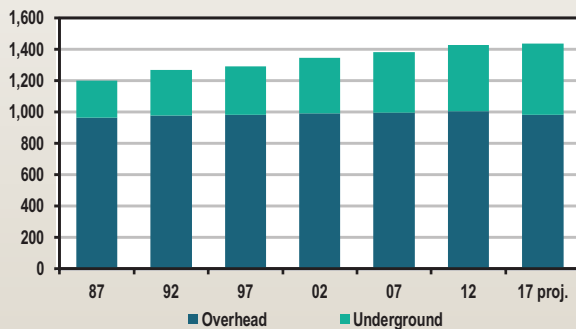
MARGINS



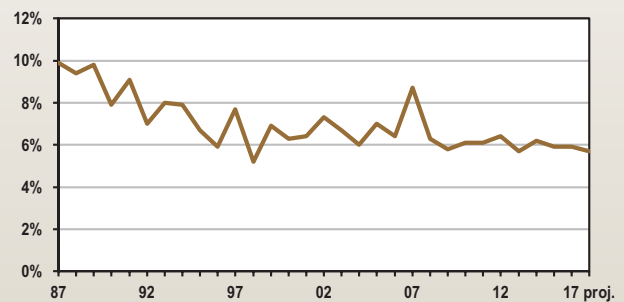
KWH SOLD, OFFICE USE AND LOSSES



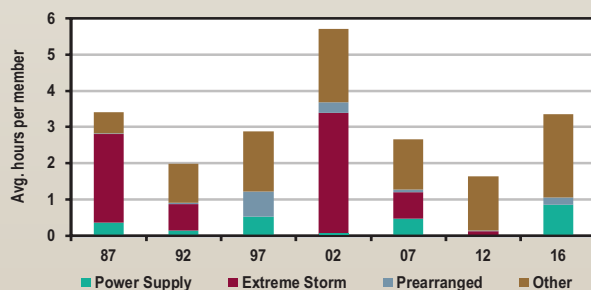
MILES OF LINE



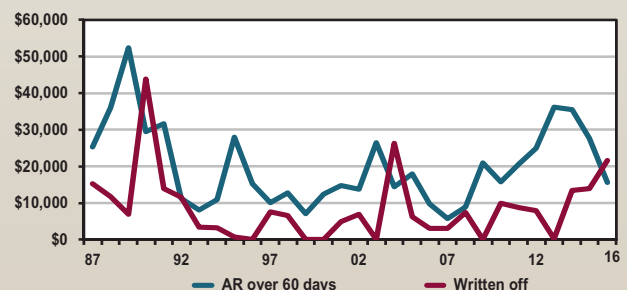
LINE LOSS



OUTAGE TYPES



BAD DEBTS AND WRITE-OFFS



ANNUAL MEETING *Minutes*

Annual meeting of the members of North Star Electric Cooperative, Inc., Oct. 7, 2016

The annual meeting of the members of North Star Electric Cooperative, Inc., was held at the Lake of the Woods School in Baudette, Minn., on Friday, Oct. 7, 2016, pursuant to the notice of the meeting published in the cooperative's newsletter.

The meeting was preceded by the registration of the members. A delicious turkey dinner was served by the Lake of the Woods School kitchen staff. Entertainment was provided by the "Sloughgrass Band" from Birchdale, Minn.

General Manager Ann Ellis welcomed the members to their 76th annual meeting and invited all veterans to stand so they could be recognized for their years of service to our country. The Colors were presented and the national anthem was sung by the "Sloughgrass Band."

She then introduced President Steve Arnesen who called the meeting to order at 6:21 p.m. and gave the invocation. He then introduced the board of directors.

President Arnesen recognized the guests in the audience. Visiting distinguished guests included Larry Salmela and Wes Waller of North Itasca Electric Cooperative; Jim Hallan, Curt Hukee and Dale Moser of Roseau Electric Cooperative; Murl Nord and Rick Coe of Beltrami Electric Cooperative; Sen. Leroy Stumpf, State Rep. Rob Ecklund, Koochiching County Commissioner Wayne Skoe, and Mac McLennan, Gerad Paul and

Karen Thingelstad from Minnkota Power Cooperative.

President Arnesen reported the number of registered members as 126, which exceeded the minimum requirements of 50 for a quorum.

Secretary-Treasurer Lorraine Nygaard read the Notice of the 2016 Annual Meeting. A motion was made by Monty Saeland, seconded by Jack Stanhope and unanimously carried to approve the 2016 notice and agenda as presented.

Secretary-Treasurer Nygaard reported that the minutes of the 2015



annual meeting of the members were printed in the annual report handed out during registration. A motion was made by Jody Horntvedt, seconded by Mary Boomgaarden and unanimously carried to approve the minutes of the 2015 annual meeting as presented.

Secretary-Treasurer Nygaard gave the treasurer's report and also reported on the favorable results of the annual audit, conducted by Eide Bailly.

President Arnesen introduced Attorney Gerad Paul to conduct the election for the directors in Districts 1, 4 and 5. Attorney Paul introduced the two unopposed candidates, Steve Arnesen, as the only candidate for District 1, and Michael Hanson, as the only candidate for District 4.

Attorney Paul explained that if a motion was made to cast a unanimous ballot for the re-election of the candidates in Districts 1 and 4, there

would be no need to conduct an election.

A motion was made by Daniel Crompton, seconded by Lowell Anderson and unanimously carried to cast a unanimous ballot for District 1 candidate Steve Arnesen.

A motion was made by Larry Dobbs, seconded by Richard Corle and unanimously carried to cast a unanimous ballot for District 4 candidate Michael Hanson.

Attorney Paul proceeded with the election for District 5 and introduced the candidates. Kevin Adee and

Thomas Smith addressed the members. Members Harvey Lehman and Julie Lepisto were appointed and Lori Peppel and Joe Johnson volunteered to assist the office staff in collecting and counting the ballots.

President Arnesen introduced Manager of Finance and Administration Robyn Sonstegard, who provided an informative presentation on costs to the cooperative, current rates and

capital credits.

President Arnesen introduced Mac McLennan, president & CEO of Minnkota Power Cooperative, to the audience. Mr. McLennan spoke to the audience about government regulations, cyber security and Minnkota's aging assets.

President Arnesen then introduced General Manager Ellis, who gave a brief report on rates and the importance of voting in rural America. She asked the members if they felt it was important to engage the cooperative's younger members. With most hands raised, she reported that North Star is beginning the process of starting a young members group to encourage the younger generation to become involved with their cooperative.

General Manager Ellis recognized the following employees for their years of service: Patsy Olson – 40 years,

ANNUAL MEETING *Minutes*

Tim Pelach – 25 years, Kevin Holen – 20 years, Nathan Zortman – 1 year and introduced new employee Cody Stuhauhaug to the audience. She also recognized the following directors for their years of service: Steve Arnesen – 30 years and Michael Hanson – 22 years.

Prizes drawn throughout the evening totaled \$2,000 in energy credits. The winners of the energy credit prizes were:

- \$50 Tom Dinndorf of Baudette
- \$50 Monty Saeland of International Falls
- \$50 Merle Powell of Orr
- \$50 Lynn Belanger of International Falls
- \$50 Glen Thompson of Baudette
- \$100 Lester Boomgaarden of Baudette
- \$100 Audrey Horne of Littlefork
- \$100 Chris Sunne of Richfield

- \$100 Larry Bangle of Baudette
- \$100 Diane Carlson of Roosevelt
- \$100 Matt Albrecht of Williams
- \$100 Andrew Hauner of Littlefork
- \$100 Ronald Dally of Baudette
- \$100 Leland Hendrickson of Roosevelt
- \$100 Erine Dvergsten of International Falls
- \$250 Soren Olesen of Birchdale
- \$500 Roger Knutson of Williams

President Arnesen thanked the membership for the opportunity to serve as director for District 1.

President Arnesen asked the members for any old business. There was no old business. President Arnesen asked the members for any new business. There was no new business.

President Arnesen thanked the Lake of the Woods kitchen staff for preparing the delicious dinner, and

the special guests and the members for coming to their annual meeting to show their concern and support for the cooperative.

While the membership waited for the election results, Mac McLennan addressed a member's question regarding biomass alternative energy.

The election results were read by Attorney Paul indicating the following:

District #5:

Kevin Adey - 93 votes

Tom Smith - 187 votes

There being no further business, a motion was made by Mary Boomgaarden, seconded and unanimously carried, to adjourn the meeting at 7:37 p.m.

Board of Directors to act on local democracy authority regarding Minnesota statute 216B.164

The board is accepting member input regarding adopting a resolution and rules that comply with the federal and state laws and ensures decisions that impact member-owners are made by your elected board of directors. We have been locally regulated in most areas for decades; however, this change provides clarification regarding distributed generation dispute resolution. If you have any questions or comments, or would like more information, please email us at nsec@wiktel.com, call toll free 888-634-2202 or mail to PO Box 719, Baudette, MN 56623 in advance of the Oct. 4 board meeting.

Board vacancies to fill

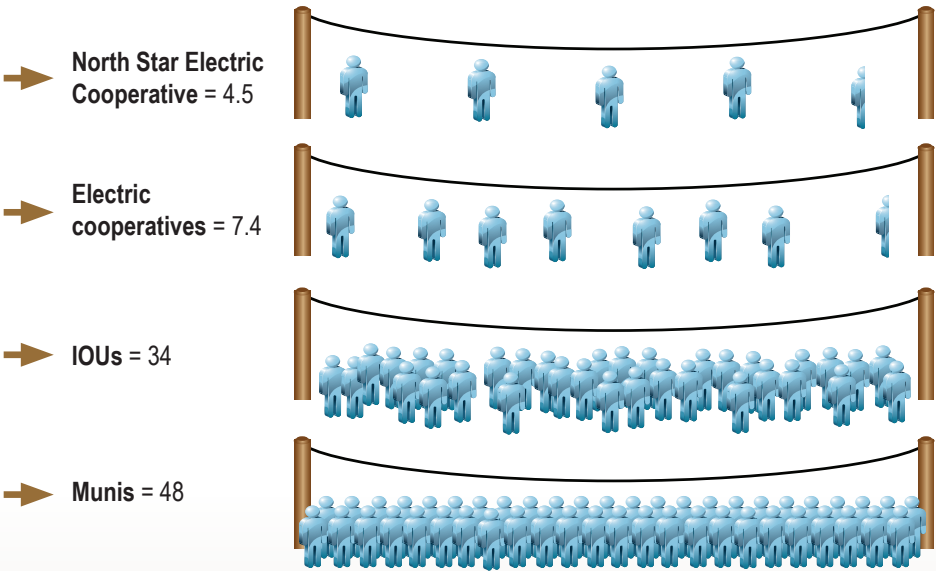
Are you in District 2 or 7 (Wheeler's Point and Kabetogama areas) and interested in being a board member?

Ironically, it's a position no one seems to want to commit to, yet once they are elected, they do not want to give it up. It is interesting, professional and purposeful. The board is seeking applications from interested members. The application is basically a certification of eligibility and a resume. **The deadline to apply is Oct. 24**, and applications can be delivered to North Star Electric Cooperative at PO Box 719, Baudette, MN 56623. The board will invite all applicants to their Nov. 1 board meeting and then select the two new directors. Please contact the office for the application form.

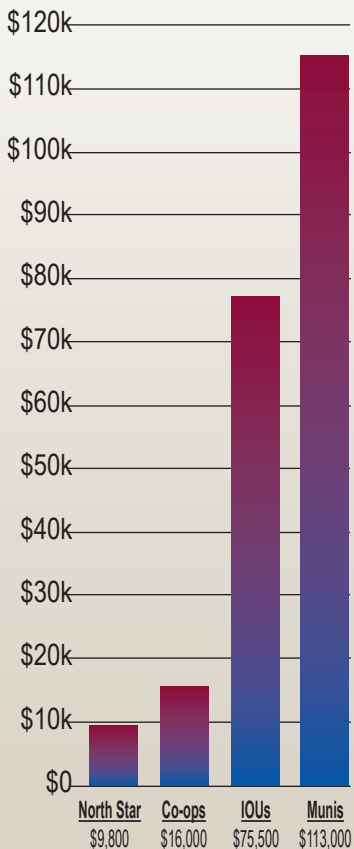
BY THE NUMBERS: *Electric utility comparisons*

Three types of electric utilities serve Minnesotans: consumer-owned cooperatives, investor-owned utilities (IOUs) and municipal-owned utilities (munis). Here's a comparison of North Star Electric to the three different types using numbers for the nation.

Average number of consumers per mile of line



Annual revenue per mile of line



(Sources: NRECA, EIA and Electric Consumers)

Comparative characteristics

| TRAIT | CO-OPS | IOUS | MUNIS |
|------------------------------|----------------------------------|-------------------|------------------------------|
| Owned by | Consumers | Stockholders | City/town |
| Number in MN | 48 | 5 | 125 |
| % of landmass served | 80% | 10% | 10% |
| % of consumers served | 12% | 73% | 15% |
| Tax status | Not-for-profit | For-profit | Not-for-profit |
| Earnings from operations? | Not allowed, returned to members | Paid to investors | Can be used for general fund |
| Pays income tax? | No | Yes | No |
| Pays property tax? | Yes | Yes | No |
| Number in U.S. | 897 | 200 | 2,000 |
| % of total distribution line | 42% | 50% | 7% |
| Number of consumers (U.S.) | 19 million | 107 million | 22 million |
| Total assets (U.S.) | \$169 billion | \$1,025 billion | \$280 billion |

ABOUT CO-OPS

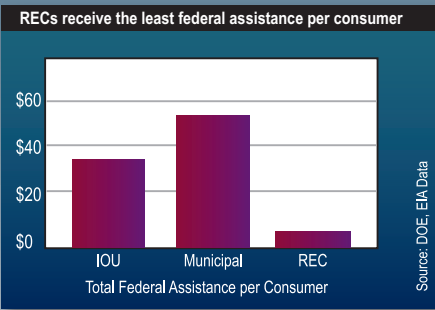
Electric cooperatives are private, independent electric utilities owned by the members they serve. Democratically governed businesses, electric cooperatives are organized under the Cooperative or Rochdale Principles, anchoring them firmly in the communities they serve and ensuring that they are closely regulated by their consumers.

Electric cooperatives began to spread across rural America after President Franklin D. Roosevelt created the Rural Electrification Administration (REA) in 1935. The Executive Order establishing the REA and the passage of the REA Act a year later marked the first steps in a public-private partnership. It has over the last 75 years bridged the vast expanse of rural America to bring electric power to businesses and communities willing to organize cooperatively and accept responsibility for the provision of safe, affordable and reliable electric power.

Today more than 900 electric cooperatives power Alaskan fishing villages, dairy farms in Vermont and the suburbs and exurbs in between. They provide reliable and technologically advanced service to 42 million Americans while maintaining a unique consumer-focused approach to business.

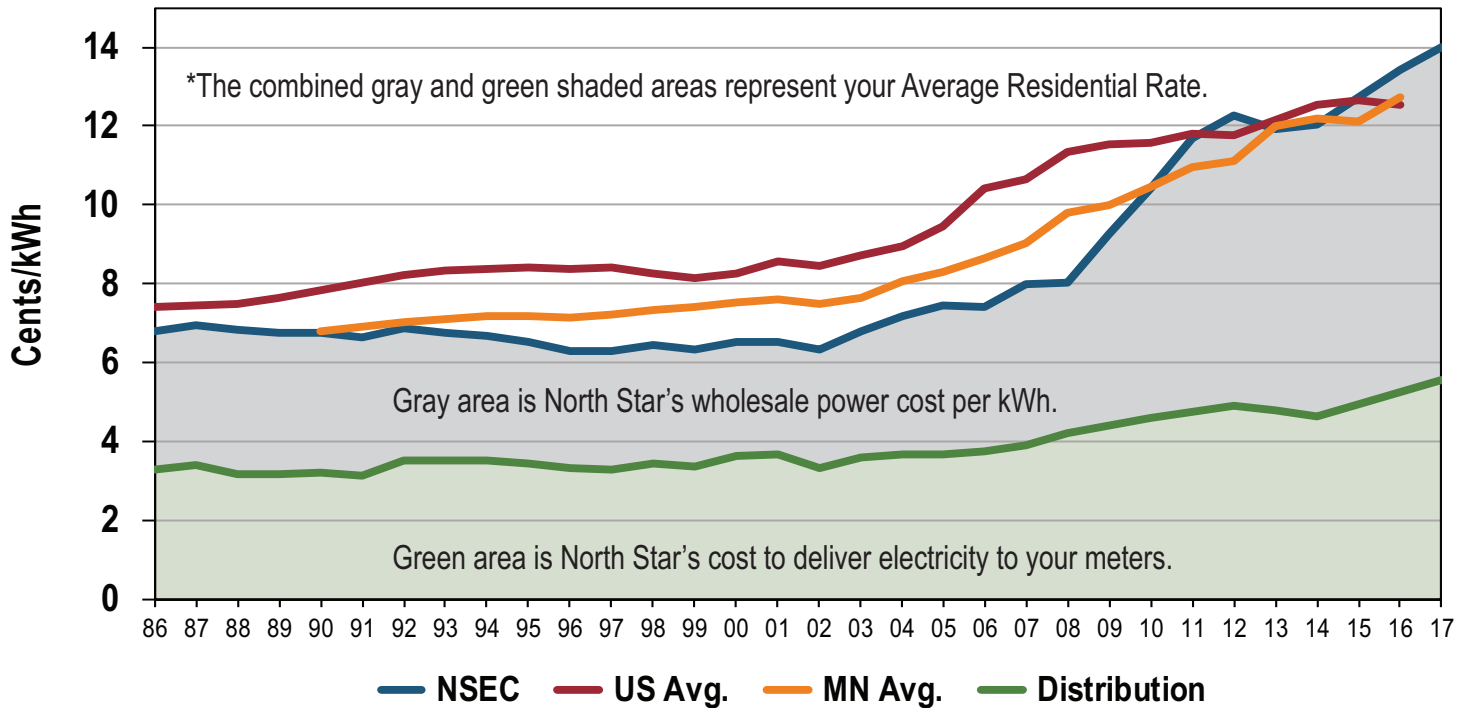
Federal assistance to electric utilities

According to Nobel Laureate economics professor Lawrence R. Klein of the University of Pennsylvania all types of utilities (investor-owned utilities (IOUs), municipal-owned utilities and electric cooperatives enjoy some form of subsidy. **You may be surprised to learn that electric cooperatives receive the least amount of subsidy per customer.**



All electric utilities receive federal subsidies in one form or another. Calculations based on federal government financial reports show that rural electric cooperatives receive the least federal amount of subsidy per consumer. This is in spite of the fact that rural electric cooperatives (RECs) serve only eight consumers per mile of line compared to 34 for investor-owned (such as Minnesota Power) and 48 for city-owned utilities.

AVERAGE RESIDENTIAL ELECTRIC Rates



As members purchase fewer kWh, the rate PER kWh goes up because all of the costs to build and maintain lines are recovered over fewer kWh.

2016 Average Residential Electric Rates

(cents per kilowatt-hour; data shows year-to-date rates as of December 2016)

**North Star
Electric Rate
13.42¢**

| | | | | | | | |
|---------------------------|--------------|------------------------------|--------------|---------------------------|--------------|---------------------------|--------------|
| West North Central | 11.73 | East North Central | 12.91 | New England | 18.85 | Middle Atlantic | 15.76 |
| Iowa | 12.25 | Illinois | 12.23 | Connecticut | 20.00 | New Jersey | 15.75 |
| Kansas | 12.95 | Indiana | 11.39 | Maine | 15.80 | New York | 17.59 |
| Minnesota | 12.73 | Michigan | 15.30 | Massachusetts | 19.11 | Pennsylvania | 14.03 |
| Missouri | 10.89 | Ohio | 12.28 | New Hampshire | 18.43 | | |
| Nebraska | 10.87 | Wisconsin | 14.38 | Rhode Island | 18.63 | South Atlantic | 11.64 |
| North Dakota | 10.24 | | | Vermont | 17.33 | Delaware | 13.47 |
| South Dakota | 11.43 | | | | | District of Columbia | 12.87 |
| | | | | | | Florida | 11.24 |
| Mountain | 11.68 | | | | | Georgia | 11.41 |
| Arizona | 12.21 | | | | | Maryland | 14.23 |
| Colorado | 12.02 | | | | | North Carolina | 11.14 |
| Idaho | 10.00 | | | | | South Carolina | 12.44 |
| Montana | 11.04 | | | | | Virginia | 11.42 |
| Nevada | 11.42 | | | | | West Virginia | 11.22 |
| New Mexico | 12.08 | | | | | | |
| Utah | 11.08 | | | | | East South Central | 10.82 |
| Wyoming | 11.18 | | | | | Alabama | 12.04 |
| | | | | | | Kentucky | 10.29 |
| Pacific Contiguous | 14.56 | | | West South Central | 10.56 | Mississippi | 10.54 |
| California | 17.40 | | | Arkansas | 9.90 | Tennessee | 10.33 |
| Oregon | 10.63 | Pacific Noncontiguous | 24.48 | Louisiana | 9.11 | | |
| Washington | 9.38 | Alaska | 20.61 | Oklahoma | 10.07 | | |
| | | Hawaii | 27.46 | Texas | 11.02 | | |

Source: Energy Information Administration



North Star annual meeting door prize for all members – cutting board

ANNUAL MEETING PRIZES

GRAND PRIZE
\$500 Energy Credit
(must be present to win)

1 – \$100 Energy Credit
1 – \$500 529 College Savings Plan



2017 ANNUAL MEETING *Agenda*

Littlefork/Big Falls School • Littlefork, Minnesota • Oct. 6, 2017

5-6 p.m. Dinner and Registration

5 p.m. Entertainment

Littlefork/Big Falls High School Band
Littlefork Pom-Pom Girls

5:30 p.m. Free Child Care Until Meeting Adjournment

6 p.m. Presentation of Colors and National Anthem

Welcome

President Steve Arnesen

Call to Order

President Steve Arnesen

Invocation

President Steve Arnesen

Welcome Guests

President Steve Arnesen

Notice of 2017 Meeting

Secretary Lorraine Nygaard

Minutes of 2016 Meeting

Secretary Lorraine Nygaard

Treasurer's Report of Audit

Secretary Lorraine Nygaard

Introduction of Board Candidates

Election of Directors

Districts 5 and 6

Financial Report

Finance Manager Robyn Sonstegard

Guest Speaker

Mac McLennan, President & CEO,
Minnkota Power Cooperative

Manager's Report

General Manager Ann Ellis

President's Report

President Steve Arnesen

Old and New Business

Members

Prize Drawing

Adjournment

Thank you for attending your annual meeting!