

2018 NORTH STAR ANNUAL REPORT

LOCAL PEOPLE SERVING YOU



North Star
ELECTRIC COOPERATIVE
Your Touchstone Energy® Cooperative 

Annual Meeting
Oct. 5, 2018

BOARD OF DIRECTORS



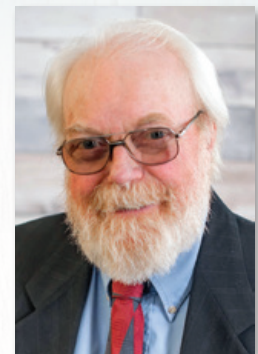
Steve Arnesen
District 1



Shelley Spears
District 2



Randy Bergan
District 3



Michael Hanson
District 4

Serving since:

Steve Arnesen	1986
Michael Hanson	1994
Randy Bergan	1999
Lorraine Nygaard	2007
Tom Smith	2016
Shelley Spears	2017
Bruce Sampson	2017



Tom Smith
District 5



Lorraine Nygaard
District 6



Bruce Sampson
District 7



SEPTEMBER 2018

The Enlightener (USPS 024959), Vol. 63, No. 9 is published monthly by North Star Electric Cooperative, Inc., 441 St. Hwy 172 N.W., Baudette, MN 56623-0719. Subscription price \$1/year. Periodicals postage paid at Baudette, MN 56623. POSTMASTER: Send address corrections to The Enlightener, North Star Electric Cooperative, Inc., P.O. Box 719, Baudette, MN 56623-0719.

OFFICERS AND DIRECTORS

President	Steve Arnesen
Vice President	Michael Hanson
Secretary-Treasurer	Lorraine Nygaard
Directors	Shelley Spears, Randy Bergan, Tom Smith, Bruce Sampson
General Manager	Ann Ellis
Editor	Robyn Sonstegard

Office hours: 7:30 a.m. to 4 p.m.
Monday through Friday

Baudette	218-634-2202 or 888-634-2202
Littlefork	218-278-6658 or 888-258-2008

For credit card payment, call 855-874-5354.
Online billing information available via SmartHub app.

Electrical after-hours emergencies
1-888-6OUTAGE (1-888-668-8243)

e-mail us at nsec@wiktel.com

Visit our website at www.northstarelectric.coop

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.

This institution is an equal opportunity provider and employer.

DIRECTOR CANDIDATES

Director Candidate District 2 - Shelley Spears



Shelley was born and raised in Red Lake Falls, Minn. She graduated college from UMD, Duluth. Shelley has a son, a daughter, and four grandsons. Some of her hobbies include gardening, fishing, and visiting with family and friends. In 1979, Shelley and husband Kent moved to Baudette. They owned and operated Trail's End Resort, and a little later, Wigwam Resort,

until 1997. At that time, she went to Madden's Resort on Gull Lake by Brainerd and worked there for nine years. Shelley commented "there were many life lessons in these years, and I've learned from them." She then returned to Baudette and has worked the past nine years at Border State Bank. Her current position is Human Resource Assistant.

In November 2017, she was appointed to the North Star board to fill the vacancy when District 2 Director Mike Trueman moved from the area. Since appointed she has attended North Star's monthly meetings, Strategic Planning meeting, the Energy Issues Summit, and the Minnkota Power information meeting. Shelley remembers her mom talking about how rural electrification changed their lives. The year her mom graduated from high school they received electricity on their farm. Today, it is easy to take electricity for granted because with the flip of the switch the lights will be on 99.95 percent of the time. She says her priorities for the future include keeping the members informed so we aren't taking our energy for granted. Reliable and affordable energy will remain a priority. She will be there to listen to the concerns of the members and is willing to work with them to find a solution.

Shelley would like to continue serving on the board because she enjoys being involved in the community. In the past, Shelley served on the Chamber of Commerce board and the Thrivent Chapter board of directors. She feels that her business experience gives her the tools needed to help North Star achieve the goals that have been set for the future growth and prosperity of the cooperative.

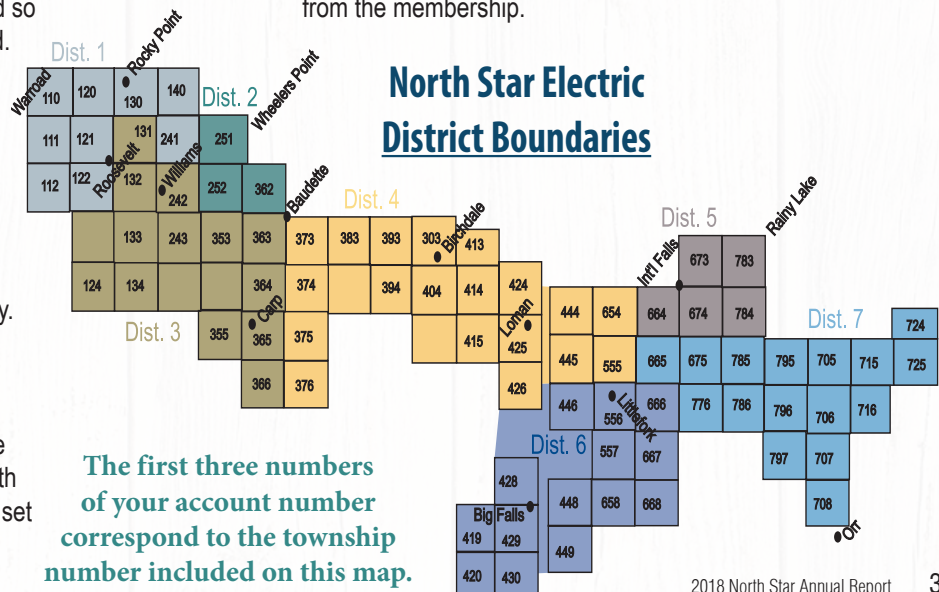
Director Candidate District 2 - Sandra Johnson



Sandra (Sandy) was born and raised in Chicago, Ill. After finishing high school, she attended college in Chicago, where she earned her business degree. It was there she met Philip, her husband of 35 years. They have three sons and three grandsons. Some of her hobbies include quilting, gardening, working with senior citizens and visiting her family and friends.

In 1992 Sandy and Phil moved to the Upper Peninsula of Michigan, bought a resort, and ran it for eight years. In 2000, they sold the resort and moved to Baudette and purchased the Lake Road Lodge, running the business until 2005. After selling the Lake Road Lodge in 2005, Sandy has utilized her accounting background by working at several locations around Baudette, including the City of Baudette, Dodd's Lumber, and Bosch. She has also been the Baudette Lutheran Parish treasurer and LOW County Fair board treasurer.

Currently, she is a board member for the LOW Salvation Army, the Baudette Library, and the VFW Women Auxiliary. Previously, she served on the boards for the LOW Food Shelf and the County Fair. She would like to serve on the North Star Electric board out of her commitment to community service. She would like to see more members involved at North Star, increase the number of members that attend the annual meeting and Member Appreciation Days, and get more input from the membership.



DIRECTOR CANDIDATES

Director Candidate

District 3 - Randy Bergan



Randy Bergan is a lifelong resident of Lake of the Woods County. He and his wife, Treva, have two grown children, Gordon and Kendra, and a grandson, Samuel.

After he farmed all his life, Randy and Treva sold their farm and semi-retired. While farming he also worked 11 winters at GSI, which provides support services for the Bosch

Testing Facility in Baudette. Randy was appointed to the North Star board in 1992 to finish the term for Wilton Anderson. Then, in 1999, when Lee Tisdale moved from the area, he was again appointed to finish the four-year term. Randy has now served on the North Star board for 22½ years and also served on the Square Butte board for 11 years. He has served on several other boards as well: Northern Farmer's board for 12 years, Soil and Water Conservation District board for 12 years, and the Williams Pilgrim Congregational Church board for 54 years. During his term as a director, Bergan has attended several seminars, enabling him to be a credentialed board member for North Star. He has also attended the annual meeting for Minnkota Power, Square Butte, and the Minnesota Rural Electrical Association. Randy would like to continue to serve on the board out of his commitment to community service.

Assistance offered to handicapped for attending North Star 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.

Director Candidate

District 3 - Al Thomas



Al was born and raised in Minneapolis, Minn. After attending high school, he went to college at Bemidji State University and received his bachelor of science degree in Biology-Teaching. Later, he attended the North Hennepin Community College in Minneapolis and received his associate in arts degree in Accounting. Al has one son,

one daughter, and two grandsons. Some of his hobbies are hunting, fishing, traveling, and attending small town events such as the Fourth of July and county fairs.

A good part of Al's career has been spent in the business world. He has over 30 years experience in financial products sales, insurance sales, marketing, and customer service. He also has law enforcement experience. He worked at Optum Inc. as Senior Clinical Administration Coordinator. At Wells Fargo Bank, he had various positions: Business Specialist, Personal Banker/Business Advocate, Commercial Insurance Agent, Business Specialist/Sales NBBC, and Business Customer Service NBBC. He has also worked at Merrill Lynch, Dean Witter, and Primevest Financial as an Investment Broker. Other positions were Executive Director at Turn in Poachers, Inc., and Director of Development for the Minnesota Waterfowl Association. He has since retired but does work part time at the Duty Free Americas in Baudette. Additionally, he is a part-time mail carrier for the Williams and Roosevelt area.

Currently Al is not on any boards, but in the past he was on the Minnetonka City Council (1996-2008), Planning Commission (2008-2011), and Charter Commission (2011-2018). He also served as a city of Eden Prairie Police Reserve Officer (2013-2017).

Al has been a member of North Star for about 2½ years and enjoys the area and people who he has met since moving here. Al would like to serve on the North Star Electric board as a way for him to give back to his new community and would strive to provide affordable energy to our members. He would also like North Star to start new programs and services for the membership.

ANNUAL MEETING INFORMATION

Director Candidate District 7 - Bruce Sampson



Bruce was born and lived in Effie, Minn. until he was 16 years old and then moved to Grand Rapids, Minn., where he graduated from high school.

After high school, he went to college in Coleraine for one year. After college, he enlisted in the U.S. Navy for six years as an Electronic Technician/Communications

and Special Cryptograph/Communication.

Bruce and wife Beverly have been married 52 years and have two sons, one daughter, two grandsons, three granddaughters, and one great granddaughter. Some of his hobbies are woodworking, hunting, fishing, bird watching, being the neighborhood handyman, repairing old wood sleighs and buggies, and building a wooden boat. He also enjoys remodeling the family cabin on the Big Fork River by Effie that his father built in 1964.

In November 2017, he was appointed to the North Star board to fill the vacancy when District 7 Director Julian Broznowski moved from the area. Since being appointed, he has attended North Star's monthly meetings, Strategic Planning meeting, Energy Issues Summit, Minnkota Power's information meeting, and the Minnkota/Square Butte annual meeting.

Bruce is no stranger to the electric industries. He worked for Minnesota Power for more than 34 years until his retirement in 2008. At Minnesota Power, he held positions of Auxiliary Operator, Senior Auxiliary Operator, Control Room Operator, Large Power Meter Man, Residential/Large Power Meter Man, Customer Service Representative, and Supervisor for the line crews in Grand Rapids, Ely and International Falls.

Bruce has been a member for more than 28 years and likes the way that North Star operates. He feels with his 34 years of experience in the electrical industries he can help with the difficult decisions that must be made now and into the future. Bruce feels that being on the board is very interesting and would like to continue to serve out of his commitment to community service.

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. 5, 2018*

EAST ROUTE 1

Kabetogama	Gateway Store	3:15 p.m.
Ray	Woodland Inn (park at north end by Highway 11)	3:25 p.m.
Roger's Corner	Store	3:35 p.m.
International Falls	Menards	3:50 p.m.
Pelland Junction	Y-Knot Quick Stop	4:00 p.m.

EAST ROUTE 2

Big Falls	Community Building	3:20 p.m.
Littlefork	Restaurant	3:45 p.m.
Pelland Junction	Y-Knot Quick Stop	4:00 p.m.
Loman	Church	4:10 p.m.
Birchdale	Church	4:30 p.m.

Destination – Lake of the Woods School

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

PRESIDENT & MANAGER'S REPORT

"Local People Serving You," our theme for this year's annual meeting, drives home one of the many benefits of receiving your electricity from your nonprofit electric cooperative, governed by your neighbors whom you elect and operated by employees right here in your communities.

Never been to an annual meeting?

Make this year your first!

- \$500/\$100 bill-credit prizes
- Minnesota-shaped cutting board for members
- \$500 College Savings Account drawing
- Dinner before the 6 p.m. meeting
- Free childcare
- Elect your voice on the board
- Done by 7 p.m.

Do you like being controlled? Heck no!

The bedrock of a rural electric cooperative is that it's controlled by the people who use it – everyone who buys electricity from it. Co-op members in Districts 2, 3, and 7 will be electing their fellow member-owner to represent them on the board of directors. With challengers in Districts 2 and 3, we sent ballots in the mail, along with candidate profiles, to everyone eligible to vote. Those ballots will be opened during the annual meeting and tallied with any votes that are cast that night.

Along the same lines, co-op members have been historically diligent voters in the November elections. Our rural voices need to be heard in St. Paul and Washington, D.C., so be sure to vote in November and be counted when the census is taken.

Our state legislators are very supportive of your rural electric cooperative. Recently Rep. Rob Ecklund was recognized by the Lignite Energy Council and Secure Energy Future, along with another state representative and two state senators. All six of our area state legislators are amazing friends of the cooperative. They are Rep. Rob Ecklund, Rep. Dan Fabian, and Rep. Matt Grossell, and our state senators Sen. Tom Bakk, Sen. Mark



Steve Arnesen
Board President



Ann Ellis
General Manager

Johnson, and Sen. Paul Utke. On a federal level, Congressman Peterson is always accessible to us, and Sen. Klobuchar is a frequent visitor to our neck of the woods.

These legislators all support cooperative initiatives and appreciate the input from any of us back home. We feel they believe that solutions to challenges are largely homegrown, thanks to the ingenuity, self-reliance and determination of their constituents. The Rural Electrification Movement, which started in 1935, is a prime example of this.

Strategic goals

We don't want to waste any time, which translates into money and impacts your electric bill. As a result, we plan strategically to efficiently accomplish the most important priorities.

Looking back, our 2016-2018 strategic plan included initiatives that could relieve some pressure on your electric rates. We corrected off-peak loads that were not shedding during critical billing peaks, which saved us well over \$100,000 in wholesale power costs. We began ramping up promotion of super-efficient air-source heat pumps, and although we are not selling the equipment, there is great opportunity for win-win situations for the member-owners and the cooperative

Have a question about North Star or Minnkota Power Cooperative?

Submit it to nsec@wktel.com or to PO Box 719, Baudette, MN 56623, and the annual meeting panel will answer the most frequently asked questions.

overall. We expanded our member engagement outside the way we had 'always done it.' We extended our engagement with elected officials beyond our service territory and 'adopted' two metro legislators, one of whom is now running for the U.S. Senate, Karin Housley. The board spent considerable time developing policies and a new director orientation/training objectives plan to ensure they govern the best they can.

Looking forward we will be seeking new rate strategies that will give members the opportunity to change usage behavior in exchange for a lower electric bill. Our focus

**THE FRUITS OF
OUR LABOR
PROVIDED
FOR NO RATE
INCREASE IN
2018.**

will also be on cybersecurity, technology, communications to engage more members, safety for all, and political involvement to communicate

how proposed legislation and regulations could impact our member-owners.

While we do all that, we'll also keep the lights on. We are reviewing the four-year construction work plan recently prepared by our engineers. The gathered data identified more projects and certainly more capital investment than we normally see. It would be easy to kick the can down the road and deal with it later, but we think you would agree that reliability is certainly a priority.

We will also be losing our Manager of Member Services and Compliance in about a year when he retires, so with the luxury of time, we are taking a proactive approach to evaluate current job descriptions for all employees and potentially shifting tasks to pair strengths of various employees to the tasks.

As for electric rates this next year, we do not anticipate any big surprises. Rates did not increase in 2018, and if we have growth in our kWh sales, that could translate into another year of no retail electric rate increase. You've heard us say this before – if you have a choice, please choose electric.

In closing, we are guided by the seven cooperative principles – and we do it with the four Touchstone Energy® values.

- Integrity
- Accountability
- Innovation
- Commitment to Community



We thank you for your engagement and support of your electric cooperative, and we are all honored to serve you.

Steve and Ann

President Arnesen and Manager Ellis

DREAM BIG!

**Do you have a child somewhere
in the birth to age 18 range?**

**Bring them to the annual meeting to
register for a special door prize ... a**

**\$500 COLLEGE
SAVINGS ACCOUNT!**

(must be present to win)



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 Stuhaug



Dan Fish



Rachel Krohn



Cole Stiles



	<u>Position</u>	<u>Years of service</u>
STAFF		
Ann Ellis	General Manager	41
Wayne Haukaas	Manager of Compliance & Member Services	30
Marty Mollberg	Manager of Operations	30
Robyn Sonstegard	Manager of Finance & Administration	11
EMPLOYEES		
Patsy Olson	Billing Coordinator	42
Todd Thydean	Line Foreman	30
Susan Williams	Supervisor, District Office Services	30
Tim Pelach	Line Foreman	27
Kevin Holen	Member Service Electrician	22
Glen Marcotte	Line Sub-Foreman	16
Todd Higgins	Line Sub-Foreman	15

<u>Position</u>	<u>Years of service</u>
Part-time Handyman/Groundskeeper	15
Bookkeeping Coordinator	9
Journeyman Lineman	5
Lead Lineman	5
Lead Lineman	5
Work Order Clerk	4
Journeyman Lineman	4
Journeyman Lineman	3
Journeyman Lineman	2
Purchasing Agent/CAD Draftsman	1
Billing Clerk/Administrative Assistant	
Part-time Summer Apprentice Lineman	

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.



- 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 UPDATE

Mac McLennan, President & CEO, Minnkota Power Cooperative

The energy landscape is swiftly changing, and with each year the pace seems to quicken. New technologies are emerging. Major regulations and policies are being enacted. Physical and cyber security requirements are becoming more stringent. The world is evolving around us.

I am pleased to report that Minnkota Power Cooperative is well-positioned to adapt to these changes in a way that preserves safe, reliable, and cost-competitive energy for North Star Electric Cooperative and its membership. Minnkota has had successful years in 2017 and so far in 2018, which translates into stable wholesale power costs for North Star and the other 10 electric cooperatives in the Minnkota system.

A major reason for our success is the reliable operation of the Milton R. Young Station. In 2017,



Minnkota Power Cooperative's two-unit, coal-based Milton R. Young Station had one of its best years in 2017. In addition to outstanding production levels, employees at the plant surpassed two years without a lost-time accident in 2018.

the two-unit, coal-based facility had one of its best overall years since beginning operation in the 1970s. Through the first half of 2018, the Young Station, located near Center, N.D., has been available about 94 percent of the time – well above industry standards. In addition to the outstanding production totals, employees at the plant have surpassed two years without a lost-time injury and continue to meet all compliance requirements for air, land, and water quality.

One of our most significant risks at the Young Station is the potential of adverse regulations. We have been supportive of the Environmental Protection Agency's decision to replace the Clean Power Plan – an effort to regulate carbon dioxide (CO₂) emissions from existing coal-based facilities.

The rule, finalized in 2015, had stringent targets and aggressive timelines that would have likely put significant upward pressure on electric rates in the region. The proposed replacement regulation, referred to as the Affordable Clean Energy rule, appears to be a step in the right direction, although it will face significant legal and technical challenges. We remain hopeful that common sense will prevail and future regulations will not impair our industry's ability to innovate.

Minnkota has taken a leadership role in evaluating breakthrough technologies to capture and utilize CO₂ from our facilities. We continue research efforts related to Project Tundra – a potential CO₂ capture project at the Young Station. Early indications are that the project would pair well with either enhanced oil recovery or safe, permanent geologic storage. Project Tundra continues to receive robust support at the state and federal levels. The initial design, engineering, testing, and economic analysis is currently being conducted.

On the power delivery side of our business, 2017 and 2018 have been among our most productive project years in recent memory. An accelerated effort to address blink outages on our 69-kilovolt (kV) transmission system reached full stride during the past year. About 800 miles of this 2,100-mile system have been equipped with technologies to reduce the impacts of these brief outages. Early indications are that the projects have significantly improved the reliability of the system.



A line worker replaces an old lightning arrester on a 69-kilovolt line. It's part of blink mitigation efforts throughout the Minnkota member systems.

The beginning of 2018 marked the start of a new era for Minnkota. Our Grand Forks-based employees moved into the cooperative's first new headquarters and operations center since the 1940s. The 252,000-square-foot facility will give us greater

security, better workplace efficiency, and much-needed room to store and manage our vehicles and large equipment. One of the most notable upgrades is in the Energy Control Center, which serves as the nerve center of Minnkota's electric grid. The room now includes advanced safeguards to protect employees, infrastructure, and data from potential threats.

The challenge of preparing for the future is exciting – and it is daunting. We are embracing the rapid changes in our industry by going back to our roots and building stronger connections with our members. It is our continued goal to provide North Star with the best energy value in the region.



Minnkota's new Energy Control Center includes advanced safeguards to protect employees, infrastructure and data from potential threats.

Panel Discussion Participant

Mac McLennan, President & CEO

Minnkota Power Cooperative



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.

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 2018 annual meeting of North Star Electric Cooperative, Incorporated.

Attest _____
(Mayor, Chairperson)

Attest _____
(Clerk, Secretary)

YOUR 2017 DOLLAR

WHERE IT CAME FROM:

Farms and Homes	\$ 9,763,332
Small Commercial	3,941,159
Large Commercial	315,493
Seasonal	482,214
Street Lighting	32,363
Consumer Penalties & Misc. Electric Revenue	122,411
Rent from Electric Property	56,078

Total Revenue **\$ 14,713,050**

WHERE IT WENT:

Operation Expense:

Purchased Power	\$ 8,742,381
Operations (includes supervision, safety, mapping, cable locating, etc.)	629,394
Consumer Accounts	320,818
Consumer Services and Information	298,699
Sales	68,859
Administrative and General	1,285,831

Maintenance Expense:

Maintenance of Distribution Plant (includes right-of-way maintenance, outage costs, etc.)	\$ 740,675
Depreciation	1,315,363
Interest	856,583
Taxes	77,704

Total Expense **\$ 14,336,307**

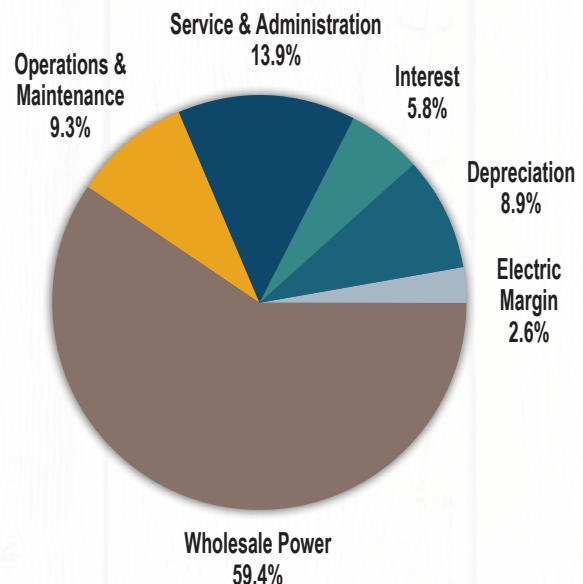
Electric Operation Margin for Year (Revenue less expense)	\$ 376,743
Interest and Dividend Income	293,190
Misc. Nonoperating Margins	(62,452)
Generation and Transmission Capital Credits (Minnkota Power Cooperative)	-
Other Capital Credits and Patronage Dividends	52,278
Net Patronage Capital Assigned	\$ 659,759



Baudette crew works on Zippel Bay road conversion from single-phase to v-phase.

HOW YOUR 2017 DOLLAR WAS SPENT

Revenue from the sale of our service amounted to **\$14,713,050** as of the year ending December 31, 2017.



STATEMENT OF FINANCIAL CONDITION

Balance Sheet as of Dec. 31, 2017

WHAT WE OWN:

Lines and General Equipment	\$ 44,997,607
Less: Provision for Depreciation	17,024,819
	\$ 27,972,788
Cash:	
General Funds	\$ 522,121
Special Funds	20
Investments	1,552,530
Temporary Investments	1,105,174
Notes Receivable Net	290,580
Receivables	1,947,447
Material and Supplies	456,453
Prepaid Expenses (includes insurance)	73,410
Other Current and Accrued Assets (accrued revenue)	3,900
Deferred Debits (includes prepayments for engineering studies and benefits)	476,367

Total what we own **\$ 34,400,790**

WHAT WE OWE:

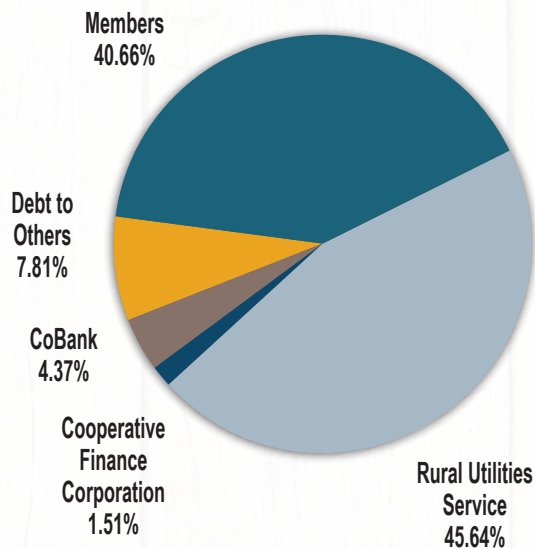
Long-Term Obligations	\$ 17,042,572
Current and Accrued Liabilities (includes accounts payable, taxes, interest, deposits, etc.)	2,932,068
Deferred Credits (includes member prepayments)	438,314

Our Equity in Above Assets:

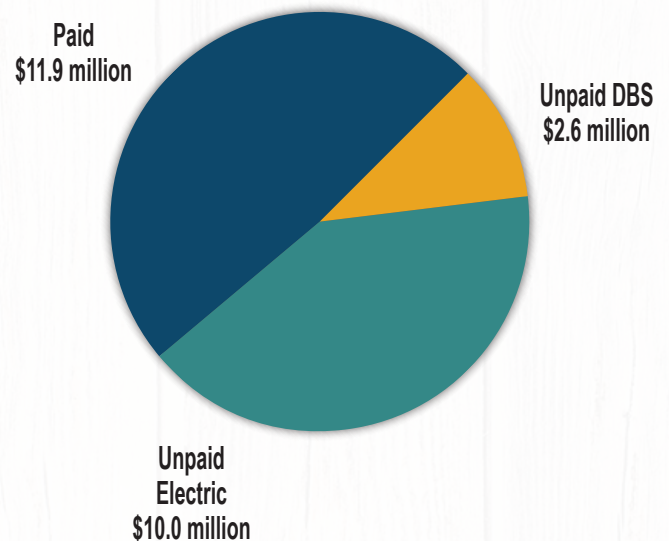
Membership Fees	\$ 26,905
Patronage Capital and Other Equities	13,960,931

Total what we owe **\$ 34,400,790**

WHO OWNS WHAT



CAPITAL CREDITS (as of Aug. 2018)

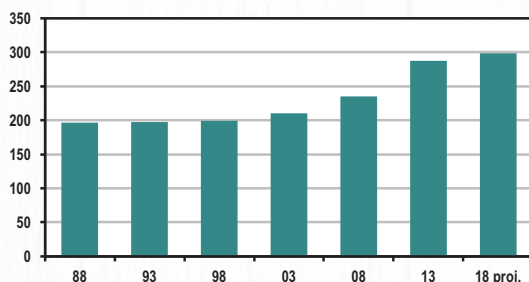


COMPARATIVE OPERATING STATISTICS

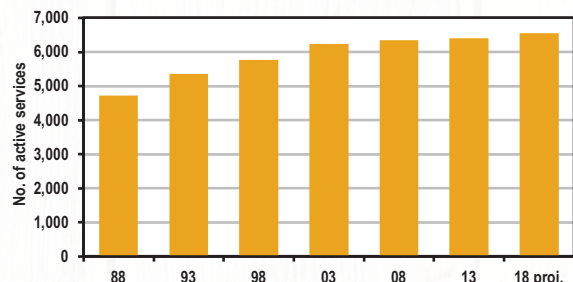
	2013	2014	2015	2016	2017	2018 proj.
Revenues	\$13,998,026	\$14,485,503	\$14,091,142	\$14,145,538	\$14,713,050	\$14,938,497
Cost of Wholesale Power	8,333,789	8,818,213	8,521,268	8,502,552	8,742,381	8,875,369
Operating Expenses	3,238,302	3,293,903	3,408,478	3,378,657	3,344,276	3,601,954
Depreciation	1,001,813	1,383,399	1,067,702	1,126,580	1,315,363	1,224,083
Taxes	0	75,000	62,600	600	77,704	73,083
Interest	808,073	826,668	841,986	843,285	856,583	881,519
TOTAL EXPENSES	\$13,381,977	\$14,397,183	\$13,902,034	\$13,851,674	\$14,336,307	\$14,656,008
OPERATING MARGIN	\$616,049	\$88,320	\$189,108	\$293,864	\$376,743	\$282,489
kWh Purchased	124,125,276	127,426,696	116,772,002	111,114,871	112,629,479	113,421,771
kWh Sold	116,394,570	118,864,025	109,268,707	104,003,534	105,527,407	106,040,214
Miles of Line	1,431	1,434	1,437	1,437	1,442	1,443
Connected Members	6,396	6,388	6,427	6,457	6,513	6,555
Average Residential Usage*	1,349	1,376	1,207	1,127	1,128	1,194
Average Residential Bill*	161.17	164.99	155.49	153.95	158.63	165.68
Average Residential Rate/kWh* (excludes seasonals)	0.119	0.12	0.129	0.137	0.141	0.139
Average Wholesale Cost to North Star per kWh Sold	0.0716	0.0742	0.0780	0.0818	0.0828	0.0837

* Monthly billed residential accounts

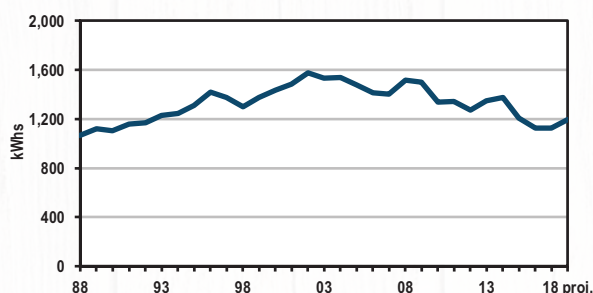
ACCOUNTS PER EMPLOYEE



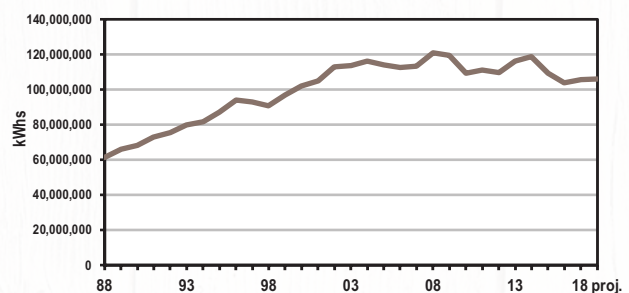
TOTAL ELECTRICAL ACCOUNTS



ELECTRICITY CONSUMED PER RESIDENCE



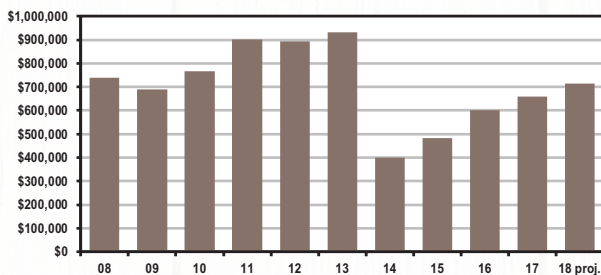
ELECTRICITY CONSUMED CO-OP TOTAL



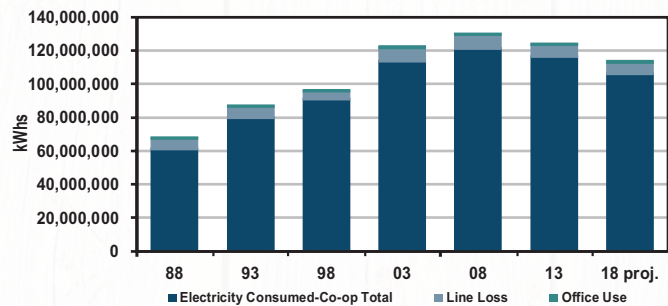
OPERATING COMPARISONS

	New Services	Retired Services	Connects	Disconnects	Net Gain	Sec. Lights Installed	Sec. Lights Removed
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
2017	82	58	78	104	56	29	31

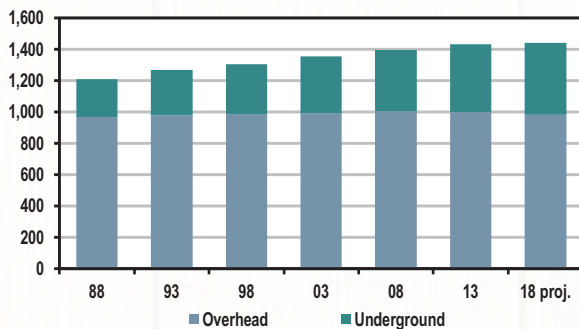
MARGINS



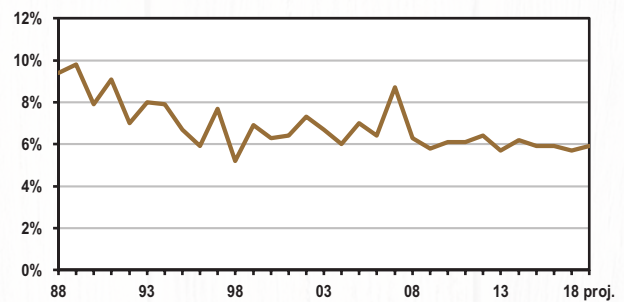
KWH SOLD, OFFICE USE AND LOSSES



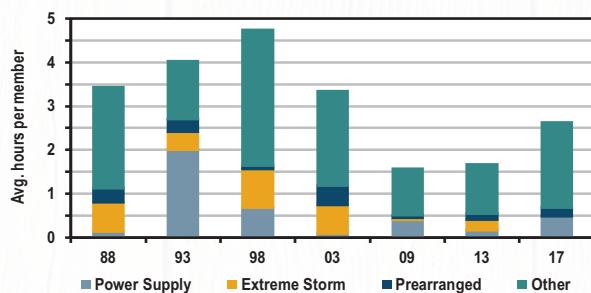
MILES OF LINE



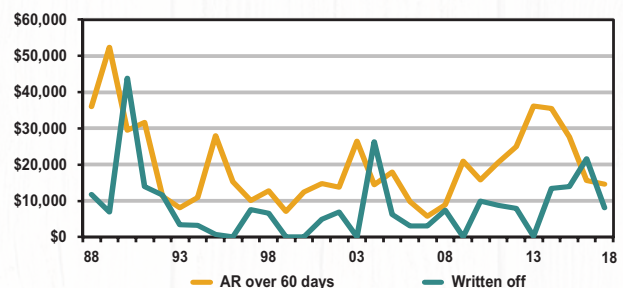
LINE LOSS



OUTAGE TYPES



BAD DEBTS AND WRITE-OFFS



ANNUAL MEETING MINUTES

Annual meeting of the members of North Star Electric Cooperative, Inc., Oct. 6, 2017

The annual meeting of the members of North Star Electric Cooperative, Inc., was held at Littlefork/Big Falls School in Littlefork, Minn., on Friday, Oct. 6, 2017, pursuant to the notice of the meeting published in the cooperative's newsletter.

The meeting was preceded by the registration of the members. A chicken kiev dinner was served by members of the Littlefork Lutheran Church. Entertainment was provided by the Littlefork/Big Falls High School band and the Littlefork/Big Falls Pompom girls.

The Colors were presented and the national anthem was sung by Littlefork/Big Falls student Jacklynne Johnson of International Falls.

President Steve Arnesen welcomed the members, called the meeting to order at 6:06 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 Brad Dolinski, Bruce Leino, and James White of North Itasca Electric Cooperative, Murl Nord and Rick Coe of Beltrami Electric Cooperative, State Rep. Rob Ecklund, Sen. Amy Klobuchar's aide Ida Rukavina, and Mac McLennan and Gerad Paul from Minnkota Power Cooperative.

President Arnesen reported the number of registered members as 177, which exceeded the minimum

requirements of 50 for a quorum.

Secretary-Treasurer Lorraine Nygaard read the Notice of the 2017 Annual Meeting, reported that the minutes of the 2016 annual meeting of the members were printed in the annual report and handed out during registration, and gave the treasurer's report, which highlighted the favorable results of the annual audit conducted by Eide Bailly.

A motion was made by Bruce Sampson, seconded by Mary Boomgaarden, and unanimously carried to approve the 2017 notice and agenda as presented.

A motion was made by Marjie

there would be no need to mark paper ballots.

A motion was made by Dennis Jenson, seconded by Glen Zizka, and unanimously carried to cast a unanimous ballot for District 5 candidate Thomas Smith.

A motion was made by Shawn Pritchard, seconded by Angela Boes, and unanimously carried to cast a unanimous ballot for District 6 candidate Lorraine Nygaard.

Attorney Paul reported that Mike Trueman of District 2 and Julian Brzoznowski of District 7 are retiring from the board effective immediately, and the remaining board will be accepting applications until Oct. 24.

President Arnesen recognized both Mike Trueman and Julian Brzoznowski for their years of service. Both candidates spoke of their time on the board and their appreciation for serving the membership.

President Arnesen introduced Manager of Finance and Administration Robyn Sonstegard,

who provided an informative financial presentation, which included costs to the cooperative and capital credits. Her focus centered around two of the seven Cooperative Principles: Concern for the Community and Member Economic Participation.

A motion was made by Kevin Adee, seconded by George Swentik, and unanimously carried to accept the financial report.

President Arnesen introduced Mac McLennan, President & CEO of Minnkota Power Cooperative, to the audience. Mr. McLennan spoke to the audience about generation equipment, environmental



Sporlein, seconded by George Swentik, and unanimously carried to approve the minutes of the 2016 annual meeting as presented.

President Arnesen introduced Attorney Gerad Paul to conduct the election for the directors in Districts 5 and 6. Attorney Paul introduced the two unopposed candidates, Thomas Smith as the only candidate for District 5, and Lorraine Nygaard as the only candidate for District 6.

Attorney Paul explained that if a motion was made to cast a unanimous ballot for the re-election of the unopposed candidates in Districts 5 and 6,

regulations, renewables, and cybersecurity. He also answered a few questions from the membership regarding natural gas and promoting wind energy.

President Arnesen then introduced General Manager Ellis, whose report focused on how members can keep their electric cooperative healthy by choosing electric when they have

a fuel choice. She also reported on cultivating our future leaders, our commitment to community, 'beneficial electrification,' and rates.

General Manager Ellis recognized the following employees for their years of service: Glen Marcotte – 15 years, and Robyn Sonstegard – 10 years.

President Arnesen recognized Lorraine Nygaard for her 10 years of service and Ann Ellis for her 40 years of service.

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 members of

the Littlefork Lutheran Church for preparing the delicious dinner. He also asked the membership if there is another night of the week that would work better for the night of the annual meeting. By a show of hands, it was agreed that the first Friday in October would continue to serve as the annual meeting day.

Prizes drawn totaled \$600 in energy credits and \$500 in a Section 529 College Savings Plan:

- **\$100 Energy Bill Credit** - William Breeton
- **\$500 Energy Bill Credit** - Dennis Jenson
- **\$500 College Savings Plan** - Miley Davis (daughter of member James Davis)

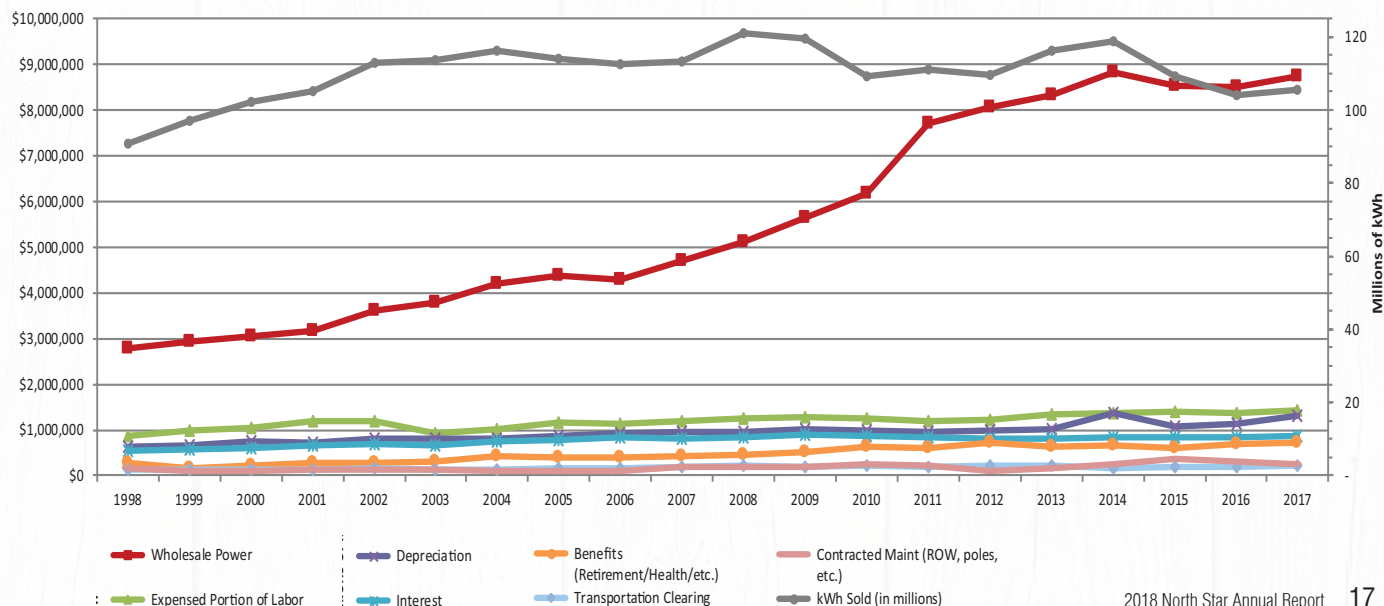
There being no further business, a motion was made by Mary Boomgaarden and unanimously carried to adjourn the meeting at 7:25 p.m.



Littlefork employees register youth for the college fund drawing.

HIGHEST COST EXPENSES *(compared to kWh sold)*

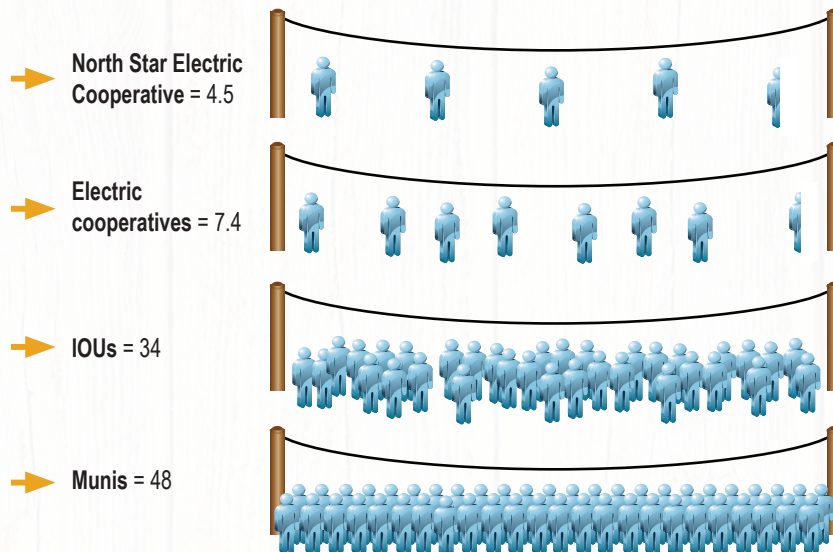
These lines represent our largest expenses for the last 19 years. Cost of power is the quickly climbing line in spite of the fact that the number of kWh sold were rather unchanged since 2002. Wholesale power, per kWh, has stabilized in 2013 and 2014. The lines along the bottom include labor, depreciation,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



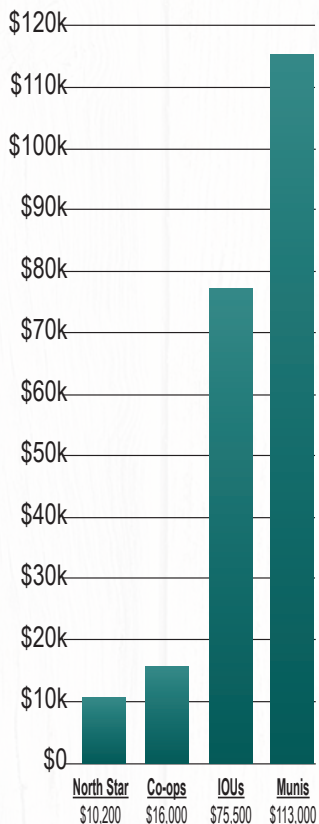
BY THE NUMBERS: *Electric utility comparisons*

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.	900	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.)	\$175 billion	\$1,025 billion	\$280 billion

ABOUT CO-OPS

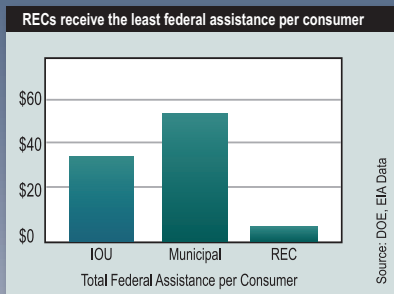
Electric cooperatives are private, independent electric utilities owned by the members they serve. Democratically governed businesses, electric cooperatives are organized under the Cooperative or Rochdale Principles, anchoring them firmly in the communities they serve and ensuring that they are closely 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. Over the last 75 years, it has 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.

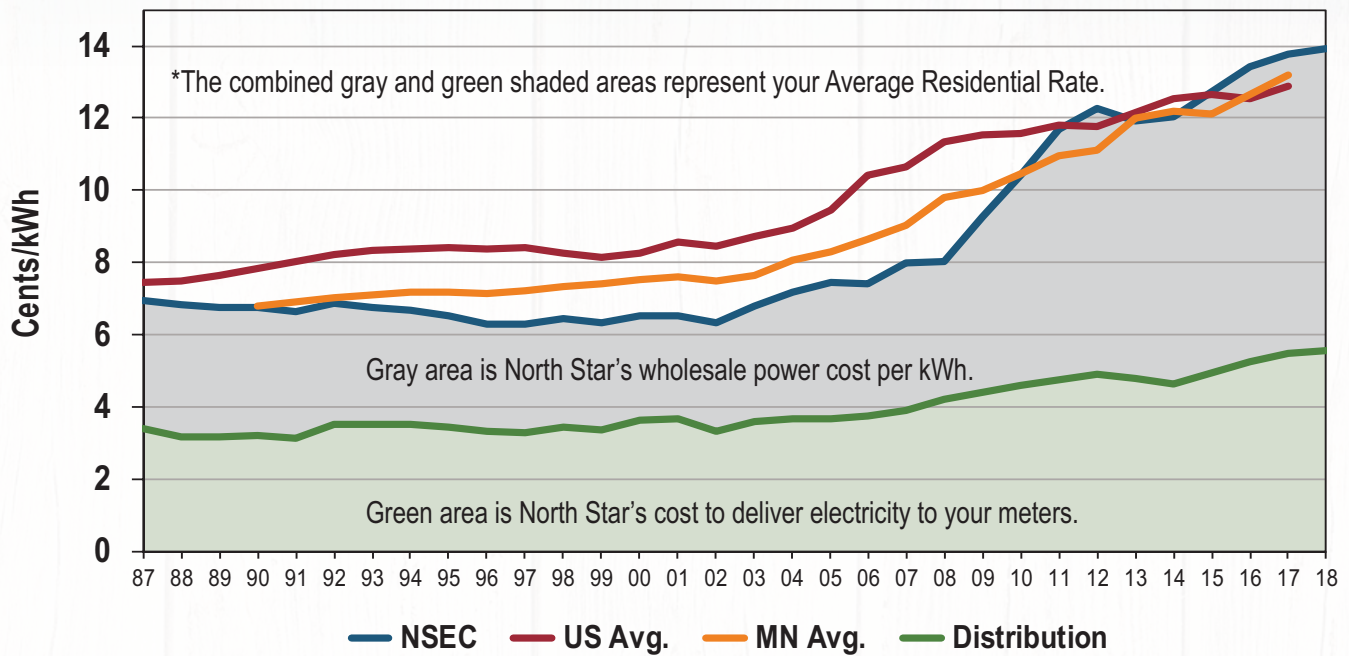
Federal assistance to electric utilities

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.

2017 Average Residential Electric Rates

(cents per kilowatt-hour; data shows year-to-date rates as of December 2017)

**North Star
Electric Rate
13.77¢**

West North Central	12.07	East North Central	13.23	New England	18.93	Middle Atlantic	16.04
Iowa	12.60	Illinois	12.70	Connecticut	20.31	New Jersey	15.69
Kansas	13.27	Indiana	11.95	Maine	15.96	New York	18.04
Minnesota	13.19	Michigan	15.47	Massachusetts	18.92	Pennsylvania	14.33
Missouri	11.27	Ohio	12.37	New Hampshire	19.22		
Nebraska	10.98	Wisconsin	14.68	Rhode Island	18.30	South Atlantic	11.96
North Dakota	10.40			Vermont	17.65	Delaware	13.44
South Dakota	11.68					District of Columbia	12.93
						Florida	11.85
Mountain	11.94					Georgia	11.80
Arizona	12.50					Maryland	13.99
Colorado	12.13					North Carolina	11.12
Idaho	10.11					South Carolina	12.78
Montana	11.11					Virginia	11.67
Nevada	12.00					West Virginia	11.62
New Mexico	12.92						
Utah	11.04					East South Central	11.26
Wyoming	11.41					Alabama	12.61
						Kentucky	10.64
Pacific Contiguous	15.07			West South Central	10.79	Mississippi	11.19
California	18.24			Arkansas	10.22	Tennessee	10.65
Oregon	10.71	Pacific Noncontiguous	26.01	Louisiana	9.51		
Washington	9.60	Alaska	21.57	Oklahoma	10.48		
		Hawaii	29.50	Texas	11.18		

Source: Energy Information Administration

2018 ANNUAL MEETING AGENDA

Lake of the Woods School • Baudette, Minnesota • Oct. 5, 2018

- 4:30 p.m. Tour of Lake of the Woods International Ice Arena
- 5-6 p.m. Dinner and Registration
- 5 p.m. Entertainment Lake of the Woods High School Band
- 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 |
| Notice of 2018 Meeting | Secretary Lorraine Nygaard |
| Minutes of 2017 Meeting | Secretary Lorraine Nygaard |
| Treasurer's Report of Audit | Secretary Lorraine Nygaard |
| Introduction of Board Candidates | |
| Election of Directors | Districts 2, 3 and 7 |
| Financial Report | Finance Manager Robyn Sonstegard |
| Panel Discussion | Mac McLennan, Minnkota President & CEO
Ann Ellis, North Star General Manager
Marty Mollberg, North Star Operations Manager |
| Old and New Business | Members |
| Recognize Guests | President Steve Arnesen |
| Prize Drawing | |
| Adjournment | |



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



*Thank you for attending your
annual meeting!*

ANNUAL MEETING PRIZES

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

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