



MEMBERS – POWER – PURPOSE

73RD ANNUAL MEETING

JUNE 19, 2018

OFFICIAL NOTICE OF ANNUAL MEETING

You are hereby notified that the 73rd annual meeting of McKenzie Electric Cooperative will be held Tuesday, June 19, 2018, at the McKenzie Electric Cooperative headquarters, 3817 23rd Ave. N.E. in Watford City, with the following agenda:

Registration and complimentary meal5 p.m.
 Children's activity 5:30 p.m.
 Business meeting.....6 p.m.
 Invocation
 Call to order
 National anthem
 Appointment of parliamentarian
 Approval of minutes
 Financial report by audit firm..... Brady Martz & Assoc., P.C.

Board president's report Clayton Monsen
 Cooperative update..... John Skurupey
 Election of directors
 Service awards presentation
 Operation Round Up report
 Scholarship awards
 Youth Tour
 Old and new business
 Adjournment
 Drawing for door prizes

www.mckenzieelectric.com

McKenzie Electric Cooperative

Connections



Clayton Monsen

PRESIDENT'S REPORT

MEMBERS, POWER, PURPOSE

BY CLAYTON MONSEN

McKenzie Electric Cooperative's annual meeting is again upon us. This has been what seems to be a fast 12 months. The annual report is not the highlight of the year nor my favorite part of being the president, but I will again give it a shot. From the entire board of directors, we take great pride in representing you, the member-owners of the cooperative.

As members, I would like to let you know there is not a meeting that goes by where your best interests are not thought about or considered. Members' power is a hot topic at the board table. The McKenzie Electric staff works very hard, all the way up to the power supplier, to ensure our members have the most reliable and cost-effective power supply possible. A big "hats off" to the staff on this ever-changing process.

The cooperative's purpose can be summed up in our mission statement: "McKenzie Electric Cooperative is dedicated to improving the quality of life of its member-owners, while supporting the communities in which we operate by offering safe, reliable and affordable electricity." This is more easily said than done. I can say without a doubt, your staff at McKenzie Electric stands firm to that statement and truly works in the best interest of you, the member-owners of the system.

Looking back over the last year, there are some

highlights I would like to mention. In July, the cooperative finished the sale of the old headquarters campus to the McKenzie County School District. I believe this to be a great move for the school, a great benefit for the community, and it is great to see the old headquarters and campus repurposed.

With one year in the new headquarters behind us, there have been corrections that needed to be made by the general contractor, as is the case in most projects of this size. Staff will continue to follow up with the contractor and resolve the remaining issues. As I look around the area and the entire state, some expansion projects appear to be too late as the big push and buildout may have passed them by. But at McKenzie Electric, the demand for electricity and the means of providing it to the end user is nowhere close to being done. The need is still there.

As in the past and the ability to move forward with buildout of electric plant, we extend a big thank you to the landowners for allowing this growth to happen. In closing, feel free to ask the staff and board of directors any questions you may have. We look forward to seeing all of you at the new McKenzie Electric campus in June for the 2018 annual meeting. ■

MEC NOMINATING COMMITTEE MINUTES

MARCH 8, 2018

The 2018 Nominating Committee for McKenzie Electric Cooperative was convened on March 8, 2018, via telephone conference. Present were Cameron Dodge and Ben Murphy. Faye Jorgenson was not present, but had earlier confirmed with the other members of the committee and attorney Dennis Johnson that she had one candidate to nominate.

Motion by Cameron Dodge to nominate Rondee Hanna as a candidate for the upcoming election of a director from District 2C. Second by Ben Murphy. Vote was called. Nomination carried.

Motion by Ben Murphy to nominate Stephan

Kershisnik as a candidate for the upcoming election of a director from District 3B. Second by Cameron Dodge. Vote was called. Nomination carried.

Motion by Cameron Dodge to nominate Kenneth Sanford as a candidate for the upcoming election of a director from District 1B. Second by Ben Murphy. Vote was called. Nomination carried.

There being no further business to come before the Nominating Committee, the meeting was adjourned.

Dennis Edward Johnson

Acting secretary for the committee



John Skurupey

CEO'S REPORT

MEMBERS, POWER, PURPOSE

BY JOHN SKURUPEY

This year's theme provides an opportunity to put a new spin on who we are, what we do and why we do it. To me, the spin comes in the fact that we put "members" and "purpose" on each end of the theme, with "power" being the conjunction.

Members: This is a bit obvious, but here at McKenzie Electric Cooperative (MEC), we try to always put members first. We don't always agree with each and every individual member all the time, but we do take into account the overall impact of our decisions or position on the general membership. With member focus, whether you're a ranch water well or a large gas processor, all members are important. Simply put, that's who we are!

Power: Power being the conjunction is interesting in that wholesale power supply has consumed much of your board's and management's time over the past year. Approximately 89 cents of every revenue dollar MEC receives from its members goes to pay for power supply, so it is important for us to keep an eye on that ball!

MEC receives its wholesale power from the Western Area Power Administration (WAPA) and Basin Electric Power Cooperative (Basin). Less than 1 percent of MEC's wholesale power comes from WAPA while the other 99-plus percent comes from Basin.

Basin is going through some trying times as it tries to address a troubled subsidiary with a long-term outlook of running in the red. This, of course, has a direct impact on MEC's wholesale power cost. MEC's board of directors and management are doing what we can to ensure that the Basin board of directors and management hear our concerns. MEC's hope is that Basin makes decisions that are in the best interest of the member at the end of the line.

MEC is a cooperative but we need to always be aware that we are also a business and, as such, are subject

to the competitive pressures that are inherent in the business world. Loss of new loads is a real risk and it's our job to be cognizant of our competitive position and to do what is within our power to ensure we remain in the game. The cost of wholesale power has a significant impact on MEC's competitive position.

Purpose: Our purpose here at MEC is represented in the cooperative's mission and vision statements. In general, our purpose is to improve the quality of life for our members through offering safe, reliable and affordable electricity and doing that by remaining committed to our corporate values. In short, we are committed to our core business. We work hard every day to ensure our member needs and concerns are addressed as soon as practical or possible.

We keep our operating costs as low as we possibly can without sacrificing service, with 11 cents of every revenue dollar going toward operating expenses. By comparison, I'd say we do a good job at that.

Keeping the cost of operating at such a low level is a direct result of having a cost-conscious board of directors, management and staff. MEC's members should know that you have a full complement of leaders and staff who understand who we work for. "What's in it for the member?" is a question that requires an answer before we move forward with anything we do.

As always, thank you, landowners, who have provided easements. We wouldn't be as successful if it weren't for your cooperation. Thank you to all the members who assisted our lineworkers during outages and storms. There's nothing like working for a common purpose. And finally, a big thank you to all MEC's members. Your willingness to work toward a common, successful goal is amazing.

MEC's power is adhering to our purpose, that being to serve the member. I hope to see all of you at your June 19 annual meeting. ■



Rondee Hanna

TREASURER'S REPORT

MEMBERS, POWER, PURPOSE

BY RONDEE HANNA

McKenzie Electric Cooperative (MEC) experienced another successful fiscal year in 2017. Table 1 below represents an overview of MEC's 2017 financial activity. The "net margin" is what remains once revenue dollars are used to pay expenses. Net margins are then allocated to you, the member, in the form of capital credits.

	2017	2016
Revenue	\$244.50	\$217.90
Wholesale Power Cost	\$202.50	\$167.70
Operating Expenses exclusive of Wholesale Power Cost	\$26.30	\$25.60
Other Income & G&T Capital Credits	\$10.70	\$18.40
Nonoperating Margin	\$2.50	\$0.50
Net Margin	\$28.90	\$43.50

Table 1 Summary numbers are represented in millions

Highlights from 2017 include:

- Growth, as always, is somewhat unpredictable and, in the end, has an impact on margins. McKenzie Electric Cooperative (MEC) projected 8 percent growth for 2017, but the price of oil improved somewhat, which drove loads higher to where year-end growth came in at just over 12 percent.
- Wholesale power costs surpassed \$200 million.
- Nearly 89 cents of every revenue dollar went toward wholesale power cost.
- MEC's old headquarters complex was sold to the McKenzie County School District. The sale proceeds are included in the nonoperating margin in Table 1.
- Cash from the old headquarters sale was used in conjunction with other funds to retire a total of \$2.9 million of allocated capital credits.
- A weather event with high winds impacted the Halliday area and resulted in roughly \$950,000 in damages.

As required each year, MEC underwent an annual audit of our 2017 financial year conducted by Brady, Martz & Associates, P.C. At the end of the examination, the audit firm returned an unmodified opinion. This opinion is the best report that can be received from an audit firm. The completed audit report has been reviewed in detail by the board of directors. A summary of the audited financials is included for your review and will be presented at the annual meeting.



89¢

WHERE YOUR DOLLAR WENT

5¢



Depreciation and Plant Retirement Reserve

\$10,829,234

3¢



Line Operation and Maintenance

\$7,829,842

1¢



Administrative and Customer Service

\$3,021,841

1¢



Taxes

\$2,565,879

1¢



Interest

\$2,065,169

Cost of power

\$202,478,536



Damaged line in Halliday area

FINANCIALS

BALANCE SHEET

	2017	2016
ASSETS		
Electric plant in service	195,783,037	161,918,139
Construction work in progress	23,946,135	45,203,458
Less accumulated depreciation	-76,145,003	-72,655,700
Total assets - electric plant	143,584,169	134,465,897
Other property and investments	55,122,309	45,932,274
Current assets, cash, cash equivalents, materials	115,861,941	135,889,538
TOTAL ASSETS	<u>314,568,419</u>	<u>316,287,709</u>
EQUITIES AND LIABILITIES		
Patronage capital and other equities	201,876,350	175,993,865
Long-term debt	42,924,381	47,108,637
Non-current liabilities including power cost reserve	1,869,451	1,358,657
Current liabilities including current maturities of long-term debt	35,236,600	30,427,190
Deferred credits	32,661,637	61,399,360
TOTAL EQUITIES AND LIABILITIES	<u>314,568,419</u>	<u>316,287,709</u>

OPERATING STATEMENT

	2017	2016
REVENUE FROM ELECTRIC SERVICE		
Revenue from electric service	244,252,235	217,826,935
Other electric revenue	232,690	72,462
Total gross operating revenue	244,484,925	217,899,397
COST OF ELECTRIC SERVICE		
Cost of power	202,478,536	167,706,688
Operations and Maintenance	7,829,842	8,369,956
Customer service and accounts	707,211	1,478,295
Administrative and general	2,314,630	2,298,540
Depreciation	9,966,090	9,002,604
Accretion of plant retirement reserve	863,144	539,840
Tax expense	2,565,879	2,065,258
Interest on long-term debt	2,015,552	1,770,554
Interest expense - other	49,617	51,135
Total cost of electric service	228,790,501	193,282,870
OPERATING MARGINS		
BEFORE CAPITAL CREDITS	15,694,424	24,616,527
G&T and other capital credits	10,745,855	18,464,890
Net operating margins	26,440,279	43,081,417
NON OPERATING MARGINS	2,483,834	450,431
TOTAL NET MARGINS	<u>28,924,113</u>	<u>43,531,848</u>

72ND ANNUAL MEETING

MCKENZIE ELECTRIC COOPERATIVE MINUTES

JUNE 20, 2017

The 72nd Annual Meeting of the members of the McKenzie Electric Cooperative Inc. was called to order on June 20, 2017, at the new McKenzie Electric Cooperative Headquarters.

President Clayton Mosen called the meeting to order.

Pastor Stephen Backes of the First Baptist Church of Watford City gave the invocation.

The National Anthem was performed by McKenzie Electric member Jim Konsor.

President Mosen welcomed the members who had come to the meeting. He next appointed Paul Deutsch as Parliamentarian for the meeting. President Mosen also explained that only members of McKenzie Electric may participate in the meeting.

President Mosen introduced cooperative attorney Dennis Edward Johnson and inquired if a sufficient number of members were present to constitute a quorum so that business could be conducted. Attorney Johnson indicated that a quorum of members was present. (147 voting members present.)

President Mosen called for a motion to adopt the meeting rules as printed in the annual report. Motion was made and a second to the motion was received to adopt the meeting rules as printed. Motion carried.

President Mosen called for a motion to waive the reading of and approve the meeting notice and minutes of the 71st Annual Meeting. Motion was made and a second to the motion was received to waive the reading of the meeting notice and minutes and approve as printed the minutes from the 71st Annual Meeting. Motion carried.

President Mosen next called upon Matt Laughlin from Brady Martz & Associates to provide the financial report for McKenzie Electric. Mr. Laughlin presented the report of the financial status of McKenzie Electric.

Mr. Laughlin summarized the printed report from the meeting brochure. Total gross operating revenue was \$217,899,397 for 2016 compared to \$168,922,208 for 2015. Cost of electricity purchased by McKenzie Electric was \$193,282,870 for 2016 compared to \$144,946,606 for 2015. Total net margins for 2016 was \$43,531,848 compared to \$30,186,850 for 2015. Total assets of the cooperative at year end 2016 were \$316,287,709 compared to \$344,935,220 for 2015.

The membership was asked if they had any questions on the financial report. The membership had no questions regarding the financial reports from the audit that had been performed. President Mosen called for a motion to approve the financial report. Motion was made and a second to the motion was received to approve the financial report. Motion carried.

Clayton Mosen next gave the President's report to the membership. Mosen reported the biggest challenge of the year had been the 21% increase in wholesale cost of power from Basin Electric. McKenzie Electric needed to increase its price of electricity despite efforts by staff and the Board, taking every step they could to reduce costs. Mosen reported a few oil company bankruptcies had created an issue for McKenzie Electric, although the cooperative was working its way through those problems. The labor contract had been negotiated and completed for another two years. Mosen discussed safety risks and the improvements made to reduce potential risks by the cooperative. Mosen expressed that the hard work of the McKenzie Electric employees and willingness of the member owners to work with the cooperative have resulted in many accomplishments during the tremendous growth cycle at McKenzie Electric. Mosen thanked the members for working with the cooperative in granting easements for power expansion and rebuilds.

President Mosen introduced the present cooperative Board of Directors and their spouses along with other guests in attendance.

Jon A Cameron from Sen. John Hoeven's office was called to the podium. Mr. Cameron read a letter from Sen. Hoeven to McKenzie Electric congratulating McKenzie Electric on what it has done and is doing to supply electricity to its members. Kaitlyn Kline, representative from Congressman Kevin Cramer's office, also came to the podium and read a letter from Congressman Cramer to the members.

CEO John Skurupey was next called upon to give the CEO's report to the membership. Skurupey highlighted the tremendous growth that has occurred at McKenzie Electric, pointing out that in 2006 the cooperative had five circuit breakers on 179 miles of transmission line that served 19 substations. Today, McKenzie Electric has 140 circuit breakers, 470 miles of transmission line and serves 64 substations! Skurupey pointed out the hard work of the cooperative's employees and staff was in part responsible for keeping costs down to the member, and also reported the effect of having a safety manager on staff has

had a positive impact on the cooperative, making everyone work safer and recognizing a safety issue before an injury or situation develops. Skurupey complimented the diligence and dedication of the Board of Directors leading McKenzie Electric and always acting in the interest of the members. Skurupey thanked the members for all the help they give to the cooperative, especially for granting easements to allow electricity to serve other consumers.

Following the CEO's report, President Mosen appointed David Brenna, Wayne Johnson and Joel Gorrell as Sergeant at Arms during director voting. Attorney Dennis Johnson was called upon to conduct the director voting for the three positions open on the Board of Directors.

Attorney Johnson assumed the podium and explained the nomination process and how candidates for the Board of Directors positions are selected, and then began the voting procedure.

District 1C Election. Johnson reported the position of Director for District 1C was open and there was one candidate nominated for the position - Travis Thompson. Johnson called for a motion that a unanimous ballot be cast for Travis Thompson. Motion to cast a unanimous ballot to elect Travis Thompson to the position of Director for District 1C was made and a second to that motion was given. Upon vote, the motion carried.

District 2B Election. Clayton Mosen had been nominated and there were no other candidates. Attorney Johnson called for a motion that a unanimous ballot be cast for Clayton Mosen. Motion to cast a unanimous ballot to elect Clayton Mosen to the position of Director for District 2B was made and a second to that motion was given. Upon vote, the motion carried.

District 3A Election. Attorney Johnson reported there was one candidate nominated for that position - Ray Tescher. Johnson called for a motion that a unanimous ballot be cast for Ray Tescher. Motion to cast a unanimous ballot to elect Ray Tescher to the position of Director for District 3A was made and a second to that motion was given. Upon vote, the motion carried.

Following the election of the Board of Directors, Attorney Johnson was called upon to explain a proposed change to McKenzie Electric's bylaws. Johnson explained the reason for the proposed bylaw change was to better protect McKenzie Electric in the event of member bankruptcy by allowing McKenzie Electric to place a lien on unretired unpaid amounts of capital credits allocated to a member consumer.

The Board had voted to approve the bylaw change and present this proposed change to the membership for their consideration. After the explanation Johnson requested a motion to approve the bylaw change. Motion was made and seconded by the membership to approve the changes to the bylaws allowing a lien upon the capital credits owed to a member in the event a member failed to pay McKenzie Electric for debt it owed. Upon vote, the motion carried.

President Mosen and CEO Skurupey next handed out years of service awards to the following employees: Steve Lautenschlager, 35 years, Rick Pokrzywinski, 30 years, Curtis Samuelson, 30 years, Nick Shattuck, 10 years, Jeremy Yates, five years, Kim Huebner, five years. One year service awards were given to Arlene Ashihi, Chad Cox, Jordan Kleppen and Bethany Sorenson.

Kell Helmuth gave a short speech on his trip to the 2017 Youth Tour to Washington, D.C., thanking McKenzie Electric for the opportunity to attend.

President Mosen next explained the McKenzie Electric and Basin Electric college scholarship programs. Jayden Leiseth received a \$500 scholarship from McKenzie Electric and Marlie Heiser received the \$1,000 scholarship from Basin Electric.

President Mosen next called Doreen Orf to the podium to report on Operation Round Up. Orf, President of the Operation Round Up Board of Directors, introduced the members of the Operation Round Up Board and reported Operation Round Up has awarded funds totaling \$192,350 since its inception. The following recipients were then announced and presented grants: \$1,000—Bakken Oil Rush Ministry, \$1,000—Killdeer Parks and Recreation; \$2,000—Hilltop Heritage Foundation \$1,000—Injured Military Wildlife Project of ND, \$1,500—Killdeer Public School's Future Health Professionals Program (HOSA), \$1,700—Grassy Butte First Responders, \$1,000—Keene Park, \$1,000—Great Plains Food Bank McKenzie & Dunn County Backpack Program, \$1,000—Dale Ihli (medical). Orf thanked the members who participate in Operation Round Up which allows Operation Round Up to make meaningful grants to individuals, local organizations and other entities.

President Mosen next called for any Old Business. There was none.

President Mosen next called for any New Business. There was none.

President Mosen asked for a motion to adjourn the meeting. Motion was made and seconded to adjourn the 2017 annual meeting. Upon vote the motion carried and the meeting was adjourned.

Warning ALL SmartHub users:

Older browsers that do not support the latest encryption protocols are no longer considered secure. The Payment Card Industry (PCI) requires that the older browsers and encryption protocols not be used at all after June 2018. This is not unique to SmartHub. SmartHub has been showing a warning to users on old browsers since August 2016 that they need

to upgrade. Most users are on supported browsers so this isn't a far-reaching issue, but one that needs to be addressed to remain PCI compliant. Below is a list of the minimum supported browser versions. If the user is at this level or higher, they will be able to use SmartHub. All users should routinely update their browsers to ensure they stay secure on the internet

even if not using SmartHub. The updated browser versions you need to install or update to are:

- Internet Explorer 11+
- Chrome 30+
- Android 5.0+
- Firefox 27+
- Safari iOS 5.0+
- Safari OSX 9+

BOARD
OF
DIRECTORS



Monsen



Thompson



Hanna



Houghton



Wasem



Wahlstrom



Sanford



Teschler



Link

Board report

March 28, 2018

The regular meeting of the McKenzie Electric Board of Directors was held at the Headquarters Building in Watford City, North Dakota. Directors present were: Clayton Monsen, Travis Thompson, Rondee Hanna, Cameron Wahlstrom, Ken Sanford, Chris Link, Glen Houghton, Tim Wasem and Ray Tescher. CEO John Skurupey, Attorney Dennis Johnson and staff personnel of McKenzie Electric were also present.

PRELIMINARIES: The agenda for the meeting, minutes of the previous board meeting and minutes of an executive committee conference call were approved by the Board of Directors. Expenses were also approved.

DIRECTOR DISCUSSIONS: The Board and management discussed member concerns which had arisen from their director districts.

BRADY MARTZ INDEPENDENT AUDIT: Lance Rambousek presented the 2017 independent auditor's report of MEC's financial statements. Rambousek reported a clean audit and reviewed the financial and cash flow statements with the Board. The audit was accepted by the Board of Directors and will be presented to the membership at the annual meeting in June.

ASSOCIATED ORGANIZATIONS: Director Tim Wasem reported on the recent North Dakota Association of Rural Electric Cooperatives (NDaREC) meeting. Directors Cameron Wahlstrom, Tim Wasem, Rondee Hanna and Ken Sanford reported on the National Rural Electric Cooperative Association (NRECA) annual meeting.

POWER SUPPLY: Director Travis Thompson reported on the Upper Missouri board meeting. The Basin Electric board summaries of their board meeting were reviewed. Director Ray Tescher reported on the Mid-West Electric Consumers Association board meeting. Tescher also reported on their Congressional delegation visits.

ATTORNEY'S REPORT. Attorney Dennis Johnson gave the nominating committee report. The following were nominated as Director candidates: District 1B—Kenneth Sanford,

District 2C—Rondee Hanna, District 3B—Stephan Kershnik. Attorney Johnson discussed a proposed bylaw amendment and reported on collection of delinquent accounts and litigation.

CEO REPORT: CEO John Skurupey reported on several items including a recent Basin Electric managers advisory conference call, metering issues, building issues and wholesale power issues. The Board approved partial release of retainage on the headquarters building.

HUMAN RESOURCES: The Board reviewed the written report. Other administrative issues were discussed with the Board. MEC is working with Watford City High School and will participate in the job shadow program spring semester.

OFFICE REPORT: Financial and statistical reports for February were reviewed with the Board along with a budget-to-date comparison, the capital projects report and the comparative cash report. The Board approved the capital credit allocation of 2017 margins. The Board also approved a bankruptcy settlement.

ENGINEERING REPORT: An update was given on generator maintenance contracts for headquarters generators. The Board and management discussed harmonics in distribution lines that are byproducts of variable speed drives. Updates were provided on system outages, potential new loads, substations, SCADA, metering and reclosures.

OPERATIONS/CONTRACT MANAGEMENT/SAFETY REPORT: Written reports provided updates on projects currently being worked on by MEC contractors and a work order progress report; the new circuit out of the Charlson Substation toward Tobacco Garden has been completed. An update was given on member property damage concerns. MEC crews have been line patrolling the lines East of Watford City and the line North of Alexander since the April 5th ice storm. Crews are also busy working on outages, maintenance projects, work orders, meter changes, cleaning substations, retirements and high loads. The written safety report was reviewed by the Board.

SPECIAL PROJECTS

COORDINATOR: An update was given on NERC (North American Electric Reliability Corporation) compliance activities. MEC is performing an annual review of the compliance program and associated procedures. MEC managers are receiving incident response training in the event of a cyber attack. An update was also given on Member Service activities including annual meeting details.

NEXT MEETING DATE: The next meeting date was set for April 25, 2018 at the Watford City Headquarters building.

ADJOURNMENT: There being no further business, the meeting was adjourned. ■



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OFFICERS AND DIRECTORS:

- Clayton Monsen, President
Director, District 2B, Arnegard..... 586-3336
- Travis Thompson, V. President
Director, District 1C, Charlson 675-2373
Upper Missouri Power Cooperative Director
- Rondee Hanna, Sec.-Treas.
Director, District 2C, Watford City..... 675-2516
- Glen Houghton, Director At Large
Director, District 3B, Grassy Butte 863-6606
- Tim Wasem, Statewide Director
Director, District 3C, Halliday..... 938-4376
- Cameron Wahlstrom
Director, District 1A, Alexander..... 770-6631
- Ken Sanford
Director, District 1B, Watford City..... 842-2581
- Ray Tescher, Midwest Director
Director, District 3A, Beach..... 565-2342
- Chris Link
Director, District 2A, Alexander..... 651-6524

CEO:

John Skurupey
701-570-3542

