

# ANNUAL REPORT SUMMARY

## NOTICE OF ANNUAL MEETING

### DUNN ENERGY COOPERATIVE MENOMONIE, WISCONSIN

The Annual Meeting of the members of Dunn Energy Cooperative will be held at the Off Broadway Banquet Center in the City of Menomonie, Dunn County, Wisconsin. Registration will begin at 11:30 a.m. with dinner to start at Noon. The meeting will begin at 1 p.m. on Saturday, March 17, 2018 to take action on the following matters.

1. The reports of officers, directors, and committees
2. The election of three directors to the Cooperative
3. Vote on amendments to the Cooperative bylaws
4. Any other business

**NOTE:** Ballots are enclosed for the election of three directors to the Cooperative. Ballots may also be enclosed for the voting of any other business to be brought before the members.

**IF YOU ATTEND THE ANNUAL MEETING** please bring your ballots with you.

**TO VOTE BY MAIL** enclose your ballots in the enclosed self-addressed envelope. **Please remember to sign the voter certification on the back of the ballot envelope.** To be counted, your mail vote must be received at our office no later than 4:30 p.m. on March 16, 2018.

**A complete Annual Meeting Report will be available at the meeting, upon request or at our website at [www.dunnenergy.com](http://www.dunnenergy.com)**

## MISSION STATEMENT

*Dunn Energy Cooperative is dedicated to efficiently providing safe, reliable energy and superior service to benefit our members and the community.*

## PRESIDENT'S MESSAGE

Dunn Energy had a busy year in 2017. The new metering system continued to be installed, some major projects to replace old outdated line were completed, and general maintenance needed to provide electricity to our members was done. The meter replacements should be completed in 2018. Your cooperative had no major outages, but two of our linemen joined with several other Wisconsin Cooperative linemen to spend four days in Florida helping to restore power after Hurricane Irma for a cooperative that suffered major damage. Their help was much appreciated and I'm sure if we needed help the favor would be returned.

Our Board of Directors was also busy this past year starting with our regular monthly board meetings. They occur on the last Monday of each month. At these meetings we approve capital credit estate payouts for our members, hear reports on work done by our outside crew, Member Services activities, and hear an inside report that covers the previous months financial statements and approval of expenditures. We also hear the audit committee report, a report on Dairyland Power Cooperative, a safety report, and the Manager's report. The Board may take action on any item that needs approval like the award of bids for work projects, rate changes, or other recommendations from management.

In addition to the Board's regular meetings, there are many opportunities throughout the year to attend events related to electric coops. The National Rural Electric Association (NRECA) holds their annual meeting in late February. With over 900 electric cooperatives as members this meeting is a large one with several thousand delegates. The NRECA also holds a Region 5 & 6 meeting in September that includes the states of Illinois, Iowa, Minnesota, North and South Dakota, and Wisconsin. These meetings have speakers that cover current issues facing the electric industry and co-ops in particular and offers the chance to meet with other directors from all over the United States. NRECA also hosts a legislative conference in Washington D.C. where board members and managers have the opportunity to meet with their Senators and Representatives. It's important to make sure they are aware of issues facing rural America and our electric co-ops.


The Wisconsin Electric Cooperative Association (WECA) holds their annual meeting in November and in the spring hosts Lobby Days which offers the opportunity for Board members to meet with our State Senators and Representatives. Many of our national and state representatives are great supporters of electric coops and these meetings also give us a chance to thank them for their support.

Dairyland Power Cooperative, our power supplier, holds district meetings in the spring and their Annual Meeting in June. Our power bill is about 70% of our total budget, so it is important to stay informed about happenings there. One of Dunn Energy's board members also represents us on the Dairyland Power Board of Directors.

Because safety is important in the electric business, a member of our Board attends the linemen's monthly safety meeting. This allows us to become acquainted with the crew and learn about safety.

Board members not only have meetings, but we also attend classes. When an individual is elected to the Board there are a series of classes offered by the NRECA. The Credentialed Cooperative Director (CCD) curriculum consists of five courses designed to provide basic knowledge and skills required of Co-op directors. Each course is one day long and it usually takes about three years to complete the series; not all courses are offered each year. After the CCD a director can go on to earn a Board Leadership Certificate and then a Director Gold Credential.

While not every Dunn Energy Board Member attends every meeting, we are well represented at these events. I hope this brief description of Board activities was informative for you. Thank you to our dedicated employees and to you, our members, for a very successful 2017. I hope to see all of you at Dunn Energy's Annual Meeting on March 17.



Larry Amble, Board President

# BALANCE SHEET

## DUNN ENERGY COOPERATIVE DECEMBER 31, 2017 AND 2016

	2017 (Unaudited)	2016 Audited
<b>ASSETS</b>		
<b>PLANT</b>		
Utility Plant	\$ 57,595,237	\$ 55,083,644
Less: Reserve for Depreciation	(12,319,164)	(12,126,388)
Net Utility Plant	45,276,073	42,957,256
<b>INVESTMENTS</b>		
Investments in Associated Organizations	10,209,157	9,591,573
Other Investments	-	55,152
Total Investments	10,209,157	9,646,725
<b>CURRENT ASSETS</b>		
Cash and Temporary Investments	450,335	296,072
Accounts Receivable - Less Reserve	2,465,521	2,060,030
Materials and Supplies	1,026,337	1,375,860
Other Current and Accrued Assets	2,993	5,502
Prepayments	92,108	123,947
Total Current Assets	4,037,294	3,861,411
DEFERRED DEBITS	582,650	691,512
<b>TOTAL ASSETS</b>	<b><u>\$ 60,105,174</u></b>	<b><u>\$ 57,156,904</u></b>
<b>EQUITIES &amp; LIABILITIES</b>		
<b>EQUITIES</b>		
Membership Fees and Other Capital	\$ 6,781,946	\$ 6,718,315
Patronage Capital Credits Assigned	20,837,800	19,907,678
Current Year Patronage	1,860,509	1,616,483
Total Equities	29,480,255	28,242,476
<b>LONG TERM LIABILITIES</b>		
Long Term Debt - Obligations to RUS		
Long Term Debt - Other	25,975,772	24,116,728
Total Long Term Liabilities	25,975,772	24,116,728
<b>CURRENT LIABILITIES</b>		
Notes Payable	1,300,000	2,000,000
Accounts Payable	1,839,568	1,697,399
Consumer Deposits	106,523	105,653
Other Current and Accrued Liabilities	557,730	570,572
Total Current Liabilities	3,803,821	4,373,624
DEFERRED CREDITS	845,326	424,076
<b>TOTAL EQUITIES AND LIABILITIES</b>	<b><u>\$ 60,105,174</u></b>	<b><u>\$ 57,156,904</u></b>

# STATEMENT OF OPERATIONS

## DUNN ENERGY COOPERATIVE FOR THE PERIODS ENDING DECEMBER 31, 2017 AND 2016

	2017 (Unaudited)	2016 (Audited)
OPERATING REVENUES	<u>23,843,880</u>	<u>23,214,277</u>
OPERATING EXPENSES		
Cost of Purchased Energy	16,020,410	15,368,704
Distribution Expense - Operation & Maintenance	2,345,923	2,163,228
Consumer Accounting and Collection	297,195	347,092
Consumer Informational & Advertising	157,163	156,277
Sales Expense	71,650	67,186
Administrative and General Expenses	<u>1,156,729</u>	<u>1,116,486</u>
Total Operating Expenses	<u>20,049,070</u>	<u>19,218,973</u>
OPERATING MARGINS BEFORE FIXED EXPENSES	<u>3,794,810</u>	<u>3,995,304</u>
FIXED EXPENSES		
Depreciation Expenses	1,621,756	1,860,125
Tax Expense - Property	249,578	250,274
Other Operating Deductions	27,439	14,867
Interest Expense - Other	12,598	23,759
Interest on Long Term Debt	<u>1,030,132</u>	<u>968,326</u>
Total Fixed Expenses	<u>2,941,503</u>	<u>3,117,351</u>
OPERATING MARGINS AFTER FIXED CHARGES	853,307	877,953
Other Patronage Capital or Margins	<u>873,674</u>	<u>737,316</u>
NET OPERATING MARGINS	1,726,981	1,615,269
Non Operating Margins	133,528	1,206
<b>TOTAL PATRONAGE CAPITAL &amp; OPERATING MARGINS</b>	<b><u>\$ 1,860,509</u></b>	<b><u>\$ 1,616,475</u></b>

Dunn Energy Operating Margins	\$ 964,895	\$ 1,005,788
Dairyland Power Margins	762,086	609,481
Dunn Energy Non-Operating Margins	<u>133,528</u>	<u>1,206</u>
<b>TOTAL PATRONAGE CAPITAL &amp; OPERATING MARGINS</b>	<b><u>\$ 1,860,509</u></b>	<b><u>\$ 1,616,475</u></b>

### AUDIT REPORTS

Each year the Rural Development Utilities Program (R.D.U.P) and the National Rural Utilities Cooperative Finance Corporation (C.F.C.) require an independent audit be made of the Cooperative's records. Our most recent audit was completed for the period ending December 31, 2016.

Each year, an independent auditing firm does a complete audit of the past year's operation. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the

financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The auditing firm appears before the Board of Directors at a regularly scheduled board meeting to make recommendations, changes, auditing entries and methods to further enhance the Cooperative. Copies of the completed audit are sent to R.D.U.P and C.F.C. and are available at the office of the Cooperative.

# GENERAL MANAGER'S REPORT

The Annual Meeting of your energy cooperative is a very important event in the cooperative's year. As a cooperative, control of the organization is placed in the hands of the membership who actively participate in setting the cooperative's policies and decision making.

Your cooperative had another good year in 2017. Wholesale electric costs from our power supplier, Dairyland Power, went up slightly in 2017. However, we were able to reduce some local costs and, as a result, electric rates did not change in 2017. That is the fourth year out of the past five years that electric rates have not gone up. For 2018 wholesale power costs from Dairyland will be going up about two percent. Wholesale power costs represent about 70% of our total costs so they have a big influence on our electric rates. Other costs are going up as well, but we are thinking that electric sales may be enough to cover the added costs. So, we have decided on a "wait and see" approach to adjusting electric rates in 2018.

Keeping electric rates stable is a good thing; but we also know how important it is to provide reliable electric service. That means keeping the lights on. In 2017, for the second year in a row, average outage hours per member were less than 2 hours. That means the electricity was on 99.98% of the time. Mother Nature had something to do with this. Tornados, severe thunderstorms, and ice storms can do a lot of damage to an electric system. We were lucky not to have much in the way of severe weather in 2017.

Mother Nature doesn't get all of the credit though. We have been working hard for a number of years to reduce outages. Trees have always been the number one cause of power outages. We invest a lot of money in tree trimming and brushing efforts. Every year we bury an increasing amount of line. The new underground cable is more reliable and less likely to be damaged by severe weather.

We have other programs to keep our electric service more reliable, too. Poles are tested on an eight-year rotation to make sure they are still in good condition. Sectionalizing equipment is tested every four years and line inspections are performed every three to four years. Our goal, as always, is to reduce outages and improve power quality.

Another measure of a successful year is meeting the goals of our strategic plan. A few years ago, our meter supplier stopped providing support for our old Turtle metering system. Our strategic plan called for installing a new 21st century metering system. Over the past couple of years, we have been installing the new system and we are now over 70% complete.

The new metering system provides us with more data, more quickly. The data is provided electronically. This will save us hundreds of hours each year in monitoring outages, gathering billing data, and helping members with usage concerns. The advantage of faster outage information is that it will help us reduce the time that members are out of power when an outage occurs. In some cases, we'll know before you do! With the new metering system members will eventually be able to monitor their electric usage in their own homes as well.

Another goal in our strategic plan was developing a community solar facility for our members. In 2017 a large solar array, located next to our Downsville substation just south of Menomonie, was energized. The solar array has produced over 150 megawatt hours of renewable electricity since it was energized.

Cooperative Principle number three is Member Economic Participation. That means member dollars are invested in the cooperative to provide electric service to members. Dollars left over after expenses are returned right back to those members. In 2017 Dunn Energy returned over \$2,000,000 to our members. About \$1.5 million was due to a settlement between Dairyland Power and the Federal Government. The remainder was the normal return of capital credits to members.

From our beginning over 80 years ago, your energy cooperative has faced a lot of challenges in the effort to bring reliable, affordable electric energy to our members. Time and time again we have met those challenges with advanced technical equipment, innovative solutions, and hard work from a team of devoted employees. My pledge to you is that Dunn Energy Cooperative will continue in the coming years to make every effort towards our meeting our mission of providing safe, reliable energy, and superior service to benefit our members and the community.

*James R. Hathaway*

# DAIRYLAND POWER REPORT

## Dairyland delivers safe, sustainable, reliable and affordable power

The homes, farms and businesses of Dunn Energy Cooperative members are powered with more wind and solar renewable energy in 2018 than ever before. And we're not done yet.

Dairyland Power Cooperative (DPC), our wholesale power provider, has a long-term plan that includes more renewable energy.

## New Energy Sources

In 2017, 15 solar projects came online throughout the DPC system. Together, these facilities total 20 megawatts (MW) and can produce enough renewable energy to power over 3,000 homes. Pollinator gardens also provide bee and butterfly habitat.

Wind generation is growing, too. In early 2017, DPC agreed to purchase energy from the Barton Wind Farm in Kensett, Iowa. Energy from the 80 MW wind farm can power more than 19,000 households. DPC also contracted to purchase energy from the 98 MW Quilt Block Wind Farm last fall. The Quilt Block wind farm is located in Lafayette County, near Platteville, Wis., and will power more than 25,000 households.

Last June, DPC and Minnesota Power / ALLETE (Duluth, Minn.) announced plans to build a 525-550 MW combined cycle natural gas facility near Superior, Wis. This state of the art gas facility will provide power when the sun doesn't shine or the wind doesn't blow.

## Competitive and Financially Strong

Ensuring that rates and services are competitive is important. The DPC Board approved a rate increase of 1.58 percent in DPC's 2018 budget. The increase, which is well below the rate of inflation, will take effect May 1. Efficiency improvements and wise management of controllable costs and risks are priorities. DPC is also investing in prudent transmission opportunities that improve reliability and add value for members.

## Safe and Reliable

The safety of employees, members and the public is a key part of operations. DPC continues to educate, promote and maintain a safety focus as they strive for a goal of "zero incidents." These efforts are resulting in better safety metrics.

DPC addressed some operational challenges in 2017. A planned maintenance outage was extended for the coal-fired Genoa Station #3 (G-3) early in the year due to damage that occurred to the turbine while a contractor transported it to the plant. Thankfully, there were no injuries during a coal mill explosion at the John P. Madgett Station (JPM) in July. The damage caused a 10-day plant outage, and reduced the plant's maximum capability by 25 percent until late fall when repairs could be made.

Despite these challenges, both G-3 and JPM achieved "World Class Status" for their minimal forced outage rates due to boiler tube failures in 2017. As DPC tracks operational performance at its plants, lowering forced outage rates is a key objective. Safety is also enhanced, as a reduction in forced outage rates minimizes potential hazards.

Power suppliers like Dairyland Power continue to face the challenge of potential tougher environmental regulations. There is also the possibility of growing state renewable energy standards and energy efficiency mandates. All of these are increasingly difficult to implement and costly. It is important that we, as members of our cooperative, understand the impacts. Exceeding members' expectations is DPC's vision. As your director, I am pleased to share that DPC is financially and operationally sound. DPC's goal is to provide Dunn Energy Cooperative *safe, reliable, sustainable and affordable* electricity today and in the future.

*Tom Zupfel*