



ANNIVERSARY

75th

THE *Victory Electric*

1945-2020 COOPERATIVE ASSN., INC.

NOTICE TO JOIN US FOR THE

75TH ANNUAL MEETING



WESTERN STATE BANK EXPO CENTER

▶ 11333 U.S. Highway 283 in Dodge City

5:30 P.M. REGISTRATION BEGINS

- ▶ Bring the registration card you received in the mail to the meeting for express registration and for a registration gift
- ▶ No meal will be provided

6 P.M. BUSINESS MEETING

- ▶ Abbreviated business meeting — to ensure the health and safety of all in attendance, the meeting will last no more than 30 minutes
- ▶ Vote on the proposed bylaw change
- ▶ Results of trustee election

In accordance with Victory Electric's bylaws, each year the cooperative holds a meeting of the members to communicate the cooperative's activities and financial status for the past year. The meeting also brings the annual trustee election to a close. Members mail their votes prior to the meeting, and election results are announced at the meeting.

Purchasing electric power from Victory Electric gives you membership in the cooperative, and, as a member, you have voting rights. Your participation is a fundamental power that flows from you to your electric cooperative. You have the power to discuss issues with friends and neighbors and elect your board representation. That democratic right — which includes one vote by every cooperative member — is one of several important differences between electric cooperatives and investor-owned utilities. This is your opportunity to have a voice in cooperative business affairs, the business you own.

The strength of our cooperative comes from you, our members. Informed and concerned members stay involved by electing those people who value their way of life and work to improve the quality of life in southwest Kansas. So, mark your calendars and plan to attend Victory Electric's annual meeting.



For all your Victory Electric news and events and to stay in touch, we encourage you to visit us online.



VICTORYELECTRIC.NET
VICTORYELECTRIC.SMARTHUB.COOP
FACEBOOK.COM/VICTORYELECTRIC
TWITTER.COM/THEVICTORYELEC
WATCH US ON YOUTUBE

AN ELECTRIFYING PAST A BRIGHT FUTURE

VICTORY ELECTRIC CELEBRATES 75 YEARS

The year 2020 marks an important milestone for Victory Electric. For 75 years, more than poles and wire have connected cooperative members in southwest Kansas. The cooperative is more than a place to pay your electric bill every month. It's people and it's passion. And that's something that hasn't changed over the cooperative's 75-year history.

In the beginning, local people banded together to form a cooperative to provide electricity to their rural homes and farms — so they built the service, and they used it — and we are still using it today under the same service-minded, not-for-profit philosophy.

The same passion that built this cooperative still pulses through the veins of its caretakers today. From the board of trustees leading the way, to employees handling the day-to-day functions, and to the members who believe in the cooperative business model — the goal remains the same, to deliver safe, reliable, electric service at the lowest possible cost.

There was a time when the only light available was a faint glow from a kerosene lantern. A wood stove provided heat, as well as a means to cook food. We all enjoy having electricity in our lives today, and as we celebrate Victory Electric's rich history, we encourage our members to embrace what your cooperative is today and will be in the future. It has been an honor to serve our members over the past 75 years and we look forward to serving for another 75 years.



EXECUTIVE SUMMARY

POWERING YOU

SHANE LAWS, CEO
JOHN LEIS, BOARD PRESIDENT



In an era defined by change, Victory Electric embraces our history, but strives to adapt to a world with increased connectivity, technological advances and changing member expectations.

Change is not about leaving history behind. It's about embracing the foundation of member service on which electric cooperatives were built. In 1945, our ancestors saw a need for rural electrification, and they created a cooperative to provide it. We do not change blindly, or without purpose — but rather position ourselves to continue to meet the needs of our members in the years to come. Today, the energy industry is nowhere near as generic as it once was. It's diverse, progressive, and shifting its focus toward convenience with tools and services that will power us all into a brighter future.

Technology and convenience are directly related when it comes to your electricity and your needs. If there's an outage or sudden spike in your electric use, you want to know as soon as possible. If you're on the go and need to pay a bill or access your account, you need the convenience to do it whenever you want from wherever you are. That's why we are committed to providing tools like SmartHub and PowerMyWay to help you manage your energy use and your account.

To maintain high levels of performance and reliability, Victory Electric relies on a combination of new technologies, electrical distribution system upgrades, infrastructure inspections, and right of way maintenance.

Our upgraded outage management system uses leading technology to help us respond to outages faster and restore your power more quickly. The SmartHub online portal and smartphone app give you the ability to report an outage without having to call our office. Additionally, we recently implemented text alerts for members who elect to receive a notice when power goes out and when it is restored.

As we move into the next decade, our goals are

fewer outages, better communication, more ways to control costs, and additional programs and services that make your life better and meet your current and future energy needs.

WE POWER PROGRESS

Throughout our 75-year history, Victory Electric operated on the philosophy that taking care of finances is a critical part of caring for the communities we serve. Without prudent financial stewardship, neither past, present nor future successes are achievable. Keeping rates stable is the most important way we can help keep your bill lower.

We are very pleased our members enjoyed a rate reduction as a result of a wholesale power cost reduction. This decrease translated into Victory Electric members receiving a credit on the energy cost adjustment portion of their bill for all 12 months of 2019, with some months reaching more than a penny per kilowatt-hour in savings. Based on the average electric bill of \$118 per month, our members' yearly savings averaged \$95, or 7%.

In addition to a lower cost of wholesale power in 2019, Victory Electric returned more than \$900,000 to members through a capital credit retirement.

Victory Electric's rates are set to bring in enough money to pay operating costs, make payments on loans, and provide an emergency reserve. A cooperative does not earn profits; instead, when revenues exceed the expense of providing electric service, these margins are returned to you in the form of capital credits. Capital credits are the difference in operating costs and revenues and denote each member's ownership of the cooperative. The margins represent a contribution of operating capital by the membership to the cooperative with the intent the capital will be retired (repaid) to you in later years.

As a not-for-profit utility, Victory Electric is

limited to two options for raising capital: borrowing or raising capital from its members. By melding capital credit funding obtained from members with borrowed money on which Victory Electric must pay interest, the cooperative is able to lower its cost of capital. Therefore, capital credits help Victory Electric remain in good financial standing and keep rates as low as possible for our members. The capital is used for improvements, such as substations, power lines and other electrical system infrastructure that serve our members.

Capital credits are unique as they are a sign of your ownership of the cooperative. We are very proud to be financially strong and able to retire capital credits to the membership.

WE POWER SAFETY

Financial success and reduced outage numbers mean nothing if we do not have a safe working environment for all our employees. Creating a culture of safety takes focus and commitment — it is not something that happens overnight. It is an ongoing process and takes everyone's involvement.

Victory Electric maintains a safety program with regular employee training on safe work practices. We also created technology and programs to assist with job planning, hazard recognition, and employee and member safety. Our employees embrace the culture of safety, and they understand their safety and the safety of others is each employee's responsibility.

We also focus on public safety by educating and engaging members in our community. To help remind everyone "safety is no accident," our employees conduct free electrical safety demonstrations for schools, community organizations and businesses, as well as provide free electrical safety information on our website.

WE POWER SECURITY

Just as the safety of our employees and members is a top priority, member privacy and system security is also paramount. Digital technologies and smart devices are facilitating greater information sharing by allowing people and devices to communicate more efficiently with each other. Internet-connected devices not only enable us to stay in touch with friends and loved ones, but they also simplify and streamline our lives. However, greater connectivity comes at a cost.

It is unavoidable — Victory Electric relies on digital data such as member information, passwords, credit card numbers, and more. Protecting our members' personal information from cybersecurity breaches has been and will continue to be a top priority at Victory Electric. With cybersecurity threats increasing and changing daily, Victory Electric is constantly monitoring and improving our network. We are committed to investing time and resources to build stronger cyber defenses, increasing our resiliency to cyberattacks, and safeguarding member data and grid operations.

AHEAD OF THE CURVE

Seventy-five years ago, the rural citizens who formed Victory Electric did so with an eye fixed on the future — a future where electricity powered every rural household. Our founders refused to allow their communities to be left behind in a world powered by the wonders of electricity.

Furthermore, they likely never envisioned the impact technological advancements would have on the cooperative. As we enter a new era, that innovative spirit still lives on as we rise to the challenge of identifying innovative ways to fulfill the needs of our members.



PROPOSED BYLAW CHANGE

The board of trustees periodically reviews bylaw provisions to improve the cooperative's operations and governance. With the 2019 retirement of capital credits, the board realized the need for a bylaw change to clarify the language pertaining to capital credits. When considering a capital credit retirement, the board of trustees evaluates the financial condition and health of the cooperative to ensure a retirement will not impair the cooperative. The proposed bylaw changes are aimed at giving the board of trustees (a) clarification on how to handle a financial loss and the ability to prescribe the accounting procedures to address such loss, (b) the flexibility to make decisions regarding the retention or distribution of non-operating margins, and (c) the manner and method to which capital credits are retired.

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ARTICLE 7, SECTION 2: PATRONAGE CAPITAL IN CONNECTION WITH FURNISHING ELECTRIC ENERGY

In the furnishing of electric energy, the cooperative's operations shall be so conducted that all patrons; will, through their patronage, furnish capital for the cooperative. In order to induce patronage and to assure the cooperative will operate on a non-profit basis, the cooperative is obligated to account on a patronage basis to all its patrons, for all amounts received and receivable from the furnishing of electric energy in excess of operating costs and expenses properly chargeable against the furnishing of electric energy ("**operating margins**"). All such amounts in excess of operating costs and expenses at the moment of receipt by the cooperative are received with the understanding **that** they are furnished by the patrons; as capital. The cooperative is obligated to pay by credits to a capital account for each patron all such amounts in excess of operating costs and expenses. The books **are and** records of the cooperative shall be set up and kept in such a manner that at the end of each fiscal year the amount of capital, if any, so furnished by each patron is clearly reflected and credited in an appropriate record to the capital account of each patron. **and t**The cooperative shall, within a reasonable time after the close of the fiscal year, notify each patron of the amount of capital so credited to **the patron's his** account. All such amounts credited to the capital account of any patron shall have the same status as though they had been paid to the patron in cash in pursuance of a legal obligation to do so, and the patron had then furnished the cooperative corresponding amounts for capital.

All other amounts received by the

cooperative from its operations in excess of costs and expenses, **such as revenue and income other than from the furnishing electric energy ("non-operating margins")**, shall, insofar as permitted by law, **and at the discretion of the board**, be (a) used to offset any losses incurred during the current or any prior fiscal year **and**; (b) **used to establish unallocated reserves and retained capital not currently assignable to the patrons; and (c)** to the extent not needed for **that these** purposes, allocated to its patrons on a patronage basis, and any amount so allocated shall be included as part of the capital credited to the accounts of patrons, **in the same manner as the cooperative allocates operating margins**, as herein provided.

If costs and expenses exceed the amounts received and receivable from and directly related to the furnishing of electric energy, thereby creating an operating loss, the cooperative may, at the discretion of the board, so far as permitted by law, loan covenants, and federal cooperative tax law, (a) offset the loss against existing capital credits of loss year patrons; (b) carry the loss forward to offset future allocations; (c) offset the loss against a reserve, or similar amount or account; (d) assess the loss in accordance with contractual provisions between a patron and the cooperative; or (e) account for the loss in some combination of the above methods.

In the event of dissolution or liquidation of the cooperative, after all outstanding indebtedness of the cooperative shall have been paid, outstanding capital credits shall be retired without priority on a pro rata basis before any payments are made on account of property rights of members.

If, at any time prior to dissolution or

liquidation, the board of trustees shall determine **that** the financial condition of the cooperative will not be impaired thereby, the capital then credited to patron's accounts may be retired in full or in part. **Any such retirements of capital shall be made in order of priority according to the year in which the capital was furnished and credited, the capital first received by the cooperative being first retired. The manner, method, and timing of retiring and paying capital credits and the net present value of any retired credits shall be determined by the board of trustees, and is not dependent and shall not be affected by previous retirements and payments.**

Patronage capital allocated to the cooperative by an affiliated wholesale provider, and allocated to the cooperative members as a separate allocation, will not be retired by the cooperative until such capital is retired and paid by the wholesale provider. However, at the discretion of the board, a patron's share of such allocated capital may be retired at the death of a patron at the net present value of the allocations.

Capital credited to the account of each patron shall be assignable only on the books of the cooperative pursuant to written instruction from the assignor, and only to successors in interest or successors in occupancy in all or a part of such patron's premises served by the cooperative, unless the board of trustees, acting under policies of general application, shall determine otherwise.

Notwithstanding any other provisions of these bylaws, the board of **directors-trustees**, at its discretion, shall have the power at any time upon the death of any patron, if the legal representative of **his the** estate shall request in writing that such capital credited

2019 ANNUAL MEETING MINUTES

The 74th annual meeting of members of The Victory Electric Cooperative Assn., Inc., was held Tuesday, April 9, 2019, at the Western State Bank Expo in Dodge City. The meeting followed a dinner served to 608 members and guests for approximately 961 meals.

The meeting began with the National Anthem by Diamond Carbajal, invocation by Kirk Larson, and veteran recognition.

President John Leis called the meeting to order at 6:15 p.m., pursuant to a notice that was mailed to all members in accordance with cooperative bylaws and declared a quorum.

After the early bird drawing, Leis introduced Victory Electric's board of trustees and their spouses: Pat Morse, vice-president, and Shannon; Daryl Tieben, secretary/treasurer, and Carol; Cedric Drewes and Diane; Gary Gillespie and Kelly; Jim Imel and Cindy; Terri Larson and Kirk; Richard Lightner and Carol; Jim Ochs and Deb; Randy Quint and Lynne; Ken Schulte and Gwen; Kenny Wehkamp and Ivy; CEO Shane Laws and Ali; and Victory Electric attorney Dave Snapp and his spouse, Jill.

Leis asked for a motion to waive the reading of the minutes of the 2018 annual meeting, and the motion was made, seconded and carried. A motion was made, seconded and carried to approve the minutes as mailed. It was motioned, seconded and carried to waive the reading of the official notice and affidavit of mailing.

CEO, Shane Laws, introduced guests and retirees.

A video presentation by Jerri Whitley, vice president of communications, highlighted the 2018 youth tour winners and introduced the 2019 winners. The video also honored the 2018 and 2019 Lightner Community Spirit Scholarship winners.

Leis introduced the nominating committee before asking for a motion to waive the reading of both the minutes and the report of the nominating committee. A motion was made, seconded and carried.

In his president's report, Leis spoke about the cost to build infrastructure, Richard Lightner's retirement, and board redistricting.

Via a video production, Laws' CEO report highlighted how Victory Electric's various departments work together to benefit the cooperative and our members. He also discussed cooperative financials and the recent rate decrease of wholesale power costs.

Attorney Dave Snapp explained the bylaw amendment. With no questions, Leis called for a vote. A motion was made to approve the bylaw changes, seconded and carried.

Attorney Dave Snapp announced the results of the trustee election. Those elected were District 5, Gary Gillespie; District 7, Jim Ochs; and District 10, Pat Morse.

Leis asked for any old or new business. There was none.

Numerous prizes from Victory Electric and vendors were given. Leis thanked everyone for attending, and the meeting adjourned at 7:17 p.m.

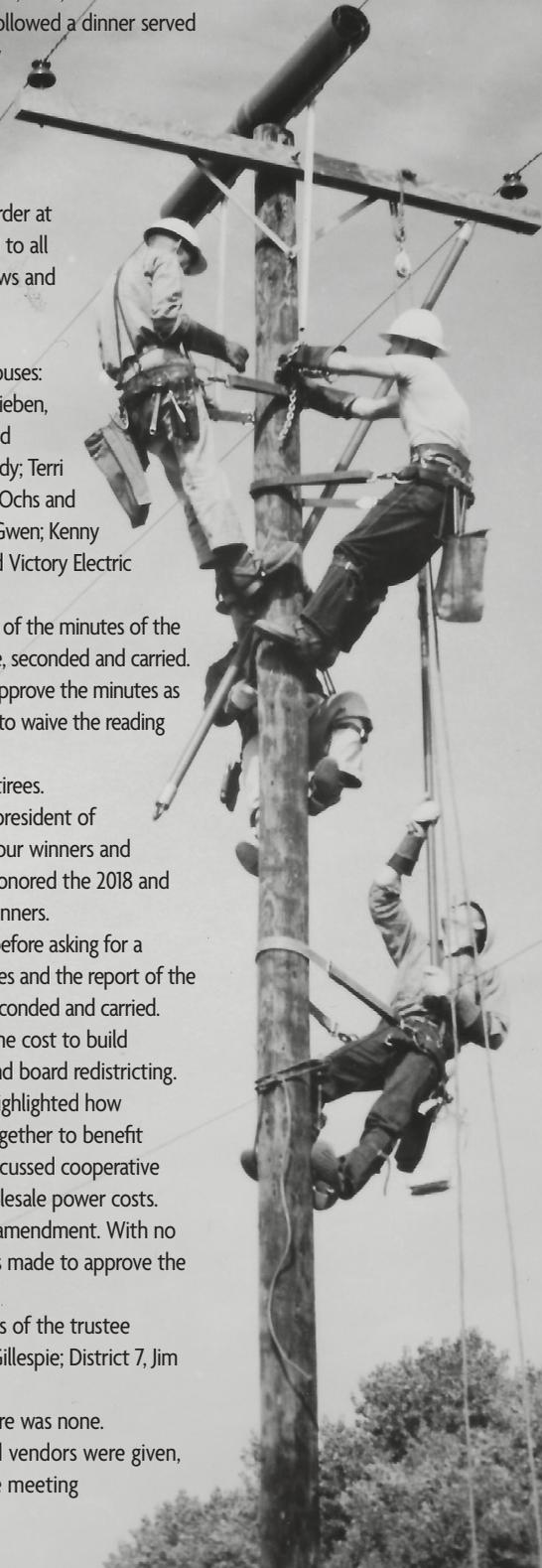
VOTING ON THE BYLAW CHANGE WILL TAKE PLACE AT THE ANNUAL MEETING.

to any such patron be retired prior to the time such capital would otherwise be retired under the provisions of these bylaws, to retire capital credits to any such patron immediately upon such terms and conditions as the board of trustees, acting under policies of general application, and the legal representative of such patron's estate shall agree upon provided, however, that the financial condition of the cooperative will not be impaired thereby.

The board of trustees shall have the power, at its discretion, to retire the capital credits of any person who has ceased to be a patron of the cooperative.

The cooperative, before retiring any capital credited to any patron's account, shall deduct therefrom any amount owed by such patron to the cooperative. The right of the cooperative to set off capital credits against debts due the cooperative is superior and prior to the right of any creditor in and to such capital credits.

The patrons of the cooperative, by dealing with the cooperative, acknowledge ~~that~~ the terms and provisions of the articles of incorporation and bylaws shall constitute and be a contract between the cooperative and each patron. ~~and both~~ the cooperative and the patrons are bound by such contract, as fully as though each patron had individually signed a separate instrument containing such terms and provisions. The provisions of this article of the bylaws shall be ~~called to the attention of each patron of the cooperative by posting in a conspicuous place made available to patrons on the cooperative's website, as well as upon request at~~ in the cooperative's office.



FINANCIAL REPORT

BALANCE SHEET

ASSETS

Total cost of plant	\$171,709,721
Less: accumulated depreciation	\$56,295,187
Total net value of plant	\$115,414,534
Cash	\$1,152,799
Investments	\$41,410,574
Receivables	\$5,725,052
Materials and supplies	\$2,186,309
Prepayments	\$87,003
Other current and accrued assets	\$10,905
Deferred debits	\$3,252,160
TOTAL ASSETS	\$169,239,336

LIABILITIES

Long-term debt	\$100,385,164
Notes and accounts payable	\$3,178,710
Current liabilities	\$6,312,254
Noncurrent liabilities	\$25,244
Deferred credits	\$115,963
TOTAL LIABILITIES	\$110,017,335

MEMBERS' EQUITY

Deposits	\$1,157,940
Equities and margins	\$58,064,061
TOTAL MEMBERS' EQUITY	\$59,222,001
TOTAL LIABILITIES & EQUITY	\$169,239,336

INCOME STATEMENT

INCOME

Electric revenue	\$65,465,453
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EXPENSES

Cost of power	\$41,312,765
Operating and maintenance expenses	\$9,060,326
Depreciation	\$4,750,432
Property taxes	\$2,761,892
Interest	\$3,626,724
TOTAL EXPENSES	\$61,512,139

OPERATING MARGINS	\$3,953,314
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NON-OPERATING MARGINS	\$4,264,260
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NET MARGINS FOR 2019	\$8,217,574
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