DRIVEN BY RESPONSIBILITY

MECKLENBURG ELECTRIC COOPERATIVE

2018 ANNUAL REPORT
Mecklenburg Electric Cooperative (MEC) is responsible for meeting your electric needs ... it’s a significant charge and an undertaking that has a tremendous effect on your family’s quality of life, and the ability to successfully operate your business. Your team at MEC never forgets the impact of the services we provide to you, and never takes for granted the substantial trust you have placed in us to meet both your needs and your expectations.

Pastor Bonhoeffer’s words in the quote above appropriately memorialize what motivates your board and employees to action here at MEC ... we are driven to action by the immense responsibility we have to our membership. Our “readiness for responsibility,” and all that we do at MEC is prompted by our desire to be the best for you. And while we are driven by our commitment to you, we are guided by seven core cooperative principles ... and we are not alone.

Hundreds of cooperatives around the world operate in accordance to the same set of core principles and values that were adopted by the International Cooperative Alliance. The roots of these principles have been traced to the first modern cooperative founded in Rochdale, England, in 1844; and they have been timeless and are as applicable today as they were then. These principles are a key reason that America’s electric cooperatives, including your own Mecklenburg Electric Cooperative, operate differently from other electric utilities, putting the needs of those they serve first and foremost.

MEC takes these principles seriously and operates within the guidelines and priorities they provide. Every decision made, and action taken, is done so utilizing these directives as our boundaries or “checklist” for consideration, evaluation and implementation. They are embedded in the soul of your cooperative and serve as the foundation of MEC’s culture of “readiness for responsibility.” They are in every successful cooperative’s DNA ... they are in your cooperative’s DNA. They are:

1. Voluntary and Open Membership
2. Democratic Member Control
3. Members’ Economic Participation
4. Autonomy and Independence
5. Education, Training and Information
6. Cooperation Among Cooperatives
7. Concern for Community

“Action springs not only from thought, but also a readiness for responsibility.”

– Dietrich Bonhoeffer, German pastor and theologian
We are hopeful that when you think of your cooperative, its 104 employees, and 11 directors, these principles come quickly to mind, and that you have experienced first-hand examples where we applied these very worthy standards to our efforts to serve you. Your directors and employees alike share the common goal of meeting the needs and exceeding the expectations of a membership that’s over 25,000 individuals strong … people who have entrusted us to keep them safe and make certain they’re able to utilize the tools, electronics and appliances that make life easier, more entertaining, more convenient and more comfortable.

With regards to our responsibility to you, there are several areas that are of particular importance; and throughout these pages you’ll find, in the words of the President and CEO, additional information on each of these critically important areas of responsibility. Your MEC team focuses more specifically on our responsibilities to…

- Build Upon MEC’s Proud Legacy
- Deliver Reliable, Affordable Electric Service
- Provide Exceptional Service
- Make a Difference in the Community
- Plan and Prepare for Your Future Needs
- Properly Manage Your Finances

To us, meeting your needs includes more than delivering electrons, it also means doing everything possible to deliver a brighter tomorrow for the communities we serve … we want to make a positive difference in Southside Virginia. For example, the process of upgrading the telecommunications infrastructure MEC utilizes to provide electric distribution service has provided an opportunity to offer ultra-high-speed fiber broadband to our members and their communities. The construction of an optical fiber cable network to interconnect our 26 substations and three district offices is required to increase our communications system speed, capacity and bandwidth for collecting and sharing power system information and data.

This fiber “backbone” ring will provide the additional capacity needed to communicate with electric distribution equipment including meters, down line devices and substations on the cooperative’s system; monitor substation operations and evaluate energy use; as well as improve overall reliability and meet the future requirements of Smart Grid. Further benefits for the cooperative, in addition to speed and higher capacity, include a reduction in costs as we eliminate communication lines currently being leased, and an increase in substation and grid security. The fiber ring will ensure your cooperative has the capacity and capabilities to meet its communications needs well into the future.

Optical fiber is a “future-proof” technology and represents the best of the best for communications and broadband offerings.

In recognizing the growing internet requirements of its residential, commercial and industrial members, and their need to have access to high-speed, high-capacity broadband service, MEC has established EMPOWER Broadband, an affiliate, through which we’ll offer retail broadband service through fiber to the home (or business). Internet service of this quality is a game-changer, particularly in education and economic development, as quality internet access becomes more critical to homes and businesses every day.

Clearly, fiber deployment to offer world-class broadband service to the areas we serve has a number of common factors with the extension of electric service to MEC members in 1938. When no one would bring power to rural areas because of the sparse population and the inability to recover the required investment, MEC’s founding members formed this cooperative and brought power to the “country.” Our region’s lack of reliable, high-speed internet service forced us to ask ourselves the same question answered by those visionaries 81 years ago … “if we don’t deploy fiber and offer high-speed internet utilizing this technology, who will?”

EMPOWER Broadband is yet another example of MEC’s relentless commitment to Principle #7, Concern for Community, and we believe that this broadband effort can assist in bringing stability back to a region plagued by loss of industry and jobs and keep Southside Virginia’s young people close to home. Through EMPOWER Broadband, MEC will deliver the same high standards of service based on our four core values: integrity, accountability, innovation and commitment to community. We believe in and abide by these values in our “readiness for responsibility.”

As you review the pages of this report, you’ll see numerous ways we are delivering on our responsibility to you and doing so while collectively using the seven cooperative principles, our critical areas of responsibility, and our core values as our “lighthouse” in the sea of challenges faced by today’s electric utilities. You’ll also see and read about our efforts, on your behalf, to create a stronger and brighter future for Southside Virginia, to be an excellent electric service provider, and a meaningful corporate citizen.

Your cooperative’s “readiness for responsibility” has never been stronger … nor has our desire to do the right thing by you. MEC is well governed and effectively managed, financially sound and fiscally strong, operationally safe and efficient, and is staffed by capable people driven by the satisfaction of a job well done. Your cooperative is strong, resilient and poised to prompt beneficial change in the region.

We thank you for your support, for the tremendous responsibility you place in us for your electric needs, and for the opportunity to make a difference.

Respectfully,

John C. Lee, Jr.  
President & CEO

David J. Jones  
Chairman, Board of Directors
Mecklenburg Electric Cooperative (MEC) is a well-established and reputable not-for-profit utility that has been capably offering the vital service of electric power to homes and businesses in Southside Virginia and northern North Carolina for over 80 years. The strong foundation of today’s organization was built in the 1930s by passionate farmers and rural residents longing for the use of electricity to ease their heavy workloads on the farm and in the home.

For its governance, Mecklenburg Electric Cooperative’s service territory (pictured on the following page) is sectioned into 11 districts, with one member from each district elected for a three-year term to the cooperative’s board of directors. Director elections are conducted at the annual membership meeting held each June.

MEC board members are responsible for determining the strategic direction of the cooperative, ensuring that the organization is effectively managed, and monitoring its fiscal and operational health. They are trustees of the cooperative’s legacy and mission, and they meet on a monthly, and as needed, basis to conduct the business of the organization. Your directors are serious about their commitment to the membership and the cooperative, and fully comprehend the tremendous responsibility they have to those served by MEC as well as the impact of their decisions on Southside Virginia.

“Our Responsibility to You

“We feel close to you . . . , which makes us have a greater responsibility in fulfilling the needs of the area.”

— J. E. Smith, MEC’s manager from 1938-1977, from his message in the 1968 annual report.
Mecklenburg Electric Cooperative is proud to be a member of the Touchstone Energy Cooperatives federation comprised of more than 750 local, consumer-owned utility cooperatives in 46 of the 50 United States. Touchstone Energy co-ops serve more than 30 million members.

FROM YOUR PRESIDENT & CEO

The faces of your cooperative are rapidly changing, and the responsibility to ensure your organization is staffed with excellent employees is the most significant one of all. Of those who dedicated their entire careers to MEC since 1938, 23 retired with over 20 years of service, 52 retired with over 30 years of service and an astounding 26 retired with over 40 years of service. Literally hundreds of years of experience have been lost to retirement in recent years, but our succession-planning efforts have been highly effective; and despite the tremendous loss of experience and historical knowledge, your cooperative continues its strong performance and legacy of excellent service.

In 2018, your cooperative was recognized by Virginia Business magazine as one of the top 100 Best Places to Work in the Commonwealth, a distinction that allows us to attract strong talent and maintain the cooperative’s tradition of competent employees who believe in our mission. The faces are changing, but our proud commitment to you remains the same.

ACTIVE ACCOUNTS BY COUNTY

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<td><strong>TOTAL</strong></td>
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</tr>
</tbody>
</table>

MEC SERVICE TERRITORY

FROM YOUR PRESIDENT & CEO

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One of MEC’s line crews utilizes a digger derrick to replace a power pole. Poles are checked on a 10-year rotation and treated or replaced based upon overall condition both above and below ground. Crews routinely replace such poles while the line remains energized, allowing your homes, farms and businesses to continue operation without a loss of electric service.

**DRIVEN BY THE RESPONSIBILITY**

**TO DELIVER RELIABLE, AFFORDABLE ELECTRIC SERVICE**

Mecklenburg Electric Cooperative (MEC), its board of directors, and its team of employees are responsible for reliably and affordably meeting the electric needs of every home and business in its territory and delivering that power with the very best in customer service … and it’s a responsibility they take seriously.

Throughout the year 2018, MEC line crews performed routine system maintenance to ensure the continuing reliability of that service. Additionally, system improvements were successfully completed throughout the cooperative’s 4,483 miles of line including line and substation upgrades, installation of automated distribution control equipment, identification and mitigation of hotspots in substations, changing out poles that no longer meet requirements, trimming rights-of-way, and installing wildlife deterrents.

**OUR RESPONSIBILITY TO YOU**

“The strength of the team is each individual member. The strength of each individual member is the team.”

— Phil Jackson, former professional basketball player, coach and NBA executive
Right: Mark Towery, underground and special equipment technician, tests a recloser. In your home electrical circuits are protected by breakers, and in a similar manner our high-voltage distribution lines are protected by a type of breaker referred to as a recloser. These intelligent devices sense a short circuit or “fault” and subsequently de-energize the line. The device opens for a few seconds and then attempts to “reclose.” A majority of faults are temporary in nature allowing a recloser to keep your lights on and avoid a longer outage.

Below: MEC’s three-man mechanic team ensures the cooperative’s fleet of vehicles and all pieces of equipment are dependable and in excellent operating condition around the clock to perform both daily work assignments and power restoration whenever outages occur. They are skilled mechanics and creative fabricators whose talents ensure that MEC’s employees have equipment that allows them to work safely and efficiently and is ready to roll at any time. Pictured below are (from left): R.G. Owen, Jr., Kris Newcomb and Joe Barton

FROM YOUR PRESIDENT & CEO

Our Average System Availability Index in 2018, excluding major event days, was 99.958 percent. That high percentage is testament to MEC’s diligence in building beneficial new lines, maintaining existing ones, and keeping the paths traveled by those lines safe and clear.

However, when Mother Nature landed a destructive punch, which was all too often last year, our award-winning employees gave their all to see that your service was restored in a timely manner, being ever vigilant in recognizing the importance of the service we provide for your quality of life.
Service excellence for Mecklenburg Electric Cooperative means consistently and respectfully meeting or exceeding the needs of those for whom we provide electric service, our members. It even involves anticipating the needs of our members before they occur and creating service opportunities.

Giving great customer service year after year doesn’t “just happen,” it must be part of an organization’s culture. MEC’s employees receive extensive service training from Touchstone Energy to learn more about addressing your needs, and whenever possible, exceeding your expectations.

However, caring about others and taking pride in one’s work is not merely instilled by training. Your cooperative successfully sets those as priority requirements when filling open positions at MEC.

Our representatives have 10 major goals in serving you. They strive to:

1. Provide reliable service
2. Restore power quickly
3. Handle any questions or problems
4. Always treat you fairly
5. Ensure that Mecklenburg Electric Cooperative is a name you can trust
6. Always deliver on promises made
7. Improve the quality of life in your community
8. Inspire you to use energy more efficiently
9. Work to attract and keep existing businesses in the community
10. Provide good value for the money you spend

They work tirelessly to ensure the warm/cool comfort of your home and all the amenities that electricity affords … recognizing the tremendous faith you have placed in your cooperative to do the job well and to take care of you and your family.

“Always render more and better service than is expected of you, no matter what the task may be.”

— Og Mandino, American author and past president of Success Unlimited magazine
**MEC QUICK FACTS**

- **Number of Substations**: 26
- **Number of Employees**: 104
- **Average Residential Kilowatt-Hours Used Per Month**: 1,077
- **Total Miles of Energized Line**: 4,483
- **Services in Place**: 34,232
- **Number of Poles**: 76,932
- **Cost of Purchased Power**: $1,427,733
- **Taxes Paid**: $46,646,134
- **Kilowatt-Hours Sold**: $632,393,056

**MEC MEMBERS EXPRESS THANKS**

“On Sunday afternoon during the recent snowstorm we lost power at 2:15 p.m. I reported the outage immediately. However, with 10 inches of snow already on the ground, I was confident that my report would most certainly fall pretty low on the electric company’s repair list.

“Around 6 p.m. as the snow fell and the wind blew, my husband and I were preparing to have a delicious peanut butter sandwich and call it an early night. Then we heard what sounded like a large truck or farm tractor coming down the road. I looked out hoping it was perhaps a snowplow. Flashing yellow lights lit the night. I couldn’t believe my eyes... it wasn’t a snowplow, not a local farm tractor. It was a miracle... Mecklenburg Electric Cooperative was coming to our rescue! Twenty minutes later our power came back on!

“I am so grateful to be a part of a small community with folks that look out for one another. I’d like to take this opportunity to thank those Mecklenburg employees and others who braved the storm and came out to help. I appreciate, very much, the jobs that you do!”

— Shari and John Dudley of Long Island

**FROM YOUR PRESIDENT & CEO**

The American Customer Satisfaction Index (ACSI) is a widely used, and highly reputable, measure of customer service quality. Investor-owned utilities earned an average ACSI score of 75, and municipal utilities, such as the City of Danville or the City of Franklin, registered an average score of 72 in the index. The average ACSI score for the nation’s electric cooperatives is 78. Your cooperative received an outstanding American Customer Satisfaction Index score of 86, which is among the highest electric utility scores in the nation. We are very proud of that distinction, because customer service is our highest priority behind safety.
FREEDOM ISN’T FREE
When organizers learned of Mecklenburg Electric Cooperative’s strong sense of patriotism and respect for our military veterans, they invited the cooperative to be a part of the “Ride 2 Recovery” Honor Ride. The long-distance cycling event is held for injured military and law enforcement heroes to support their health and wellness through a fun, noncompetitive bicycle ride.

MEC employees who participated in the 2018 event at McGuire VA Medical Center in Richmond are (from left): Ben Moss, Clint Card, John Lee and T. W. Parks.

DRIVEN BY THE RESPONSIBILITY
TO MAKE A DIFFERENCE IN THE COMMUNITY

Bringing value to the communities it serves is one of Mecklenburg Electric Cooperative’s (MEC) seven basic principles … Principle #7, Concern for Community. On a daily basis your cooperative demonstrates care and concern for the communities in which MEC’s members live, work, enjoy recreation and raise their families. Schools, civic organizations, chambers of commerce and economic development entities all benefit from the support of the cooperative and the time volunteered by its employees.

To your cooperative, honoring community also means honoring country, and the cooperative has an awesome way to celebrate both at the same time!

At patriotic events, parades, festivals and other community gatherings, we very proudly display our giant 30-by-50-foot United States flag that’s hung from the booms of two MEC bucket trucks. It’s a beautiful and inspirational sight!

Events like these connect people to people, and it’s your cooperative’s responsibility to contribute to the success of these valuable efforts and to make a difference. Your MEC employees share the same aspirations, concerns and community values as you, and we are proud to be active and involved in our communities … it’s a responsibility we take seriously.

OUR RESPONSIBILITY TO YOU

“There is immense power when a group of people with similar interests gets together to work toward the same goals.”

— Idowu Kayenikan, internationally acclaimed consultant and author
Bottom right: Children and wards of MEC members benefit from a variety of educational opportunities. Corey Long, Jr., is one of several students who received a $1,000 scholarship from MEC in 2018. After studying one year at Longwood University, he will be transferring to Old Dominion University in the fall to major in cybersecurity. Corey is pictured with his parents, Lawanda and Corey Long, Sr.

Top right: Jim Brown, U.S. Marine Corps veteran and Toys for Tots coordinator, says, “Mecklenburg Electric Cooperative is one of our largest contributors of toys. We can always count on them.”

Shenandoah Valley Electric Cooperative (SVEC) member, Angela Whitacre, posted the above comment on Mecklenburg Electric Cooperative’s Facebook page after MEC sent three crews to assist her cooperative with outages caused by an ice storm. SVEC is one of our sister cooperatives that helped us restore power after Hurricane Michael last year, and we were pleased to return assistance to them in their time of need. “Cooperation Among Cooperatives” is one of seven principles by which all cooperatives operate.

FROM YOUR PRESIDENT & CEO

During 2018, your cooperative’s employees continued their service in active leadership and support roles in our communities and wherever our members are found. Your cooperative is everywhere, lending a hand, working alongside other organizations and individuals who are determined to make a difference. Your staff also establishes and maintains sound working relationships with local, state and federal elected officials and takes strong positions on behalf of rural residents concerning any matter that impacts our ability to serve you safely, reliably and economically.

Our employees are deacons in churches, coaches, directors on countless community boards for hospitals, volunteers for chambers of commerce, educational institutions, fire departments, rescue squads, and the list goes on. They work tirelessly away from the job to make a difference for Southside Virginians. It is hard to imagine that their community work in healthcare, education, community sports leagues or other causes has not benefited every MEC member in some way. We are proud of the many contributions of our employees to a wide variety of causes and their willingness to give back to your communities.
TO PLAN AND PREPARE FOR YOUR FUTURE NEEDS

Your team is not only responsible for building and maintaining today’s electrical system, we must also ensure that this same system is designed and constructed to meet the needs of tomorrow. The dynamic demands of your system require long-range studies and continual system improvements to accommodate the combined power requirements of our membership.

MEC performs annual system load assessments that become the basis for a longer-range 15-year plan. This plan includes a review of historical growth patterns as well as anticipated load additions for each substation and each circuit. Your team analyzes the size of future power transformers in every substation and reviews conductor sizes on every circuit to ensure the system will withstand the demands of both the routine day as well as those of a sub-zero winter night or summer days with temperatures in excess of 100 degrees.

We calculate and review the voltage delivered—to the home next to a substation as well as those at the end of the line—to ensure the quality of service delivered to every family, farm and business.

Your team plans for the availability of surplus capacity to allow the transferring of load from one substation to another during emergency situations. The locations of protective devices like reclosers, fuses, and lightning arresters are reviewed to mitigate the impact of a passing storm. Additionally, those preparations include the upgrading of conductors on existing lines and the conversion of single-phase to three-phase lines…all undertaken to reliably meet the needs of you, our members.

OUR RESPONSIBILITY TO YOU

“Energy of the future will require us to think differently about the resources we use, the efficiency we create and the effectiveness we achieve.”

— Lynn Moore, executive director with Touchstone Energy Cooperatives
Left: Field Engineer Supervisor Jared Blair has been busy this past year designing, staking lines and creating work orders for new service extensions, line upgrades and general improvements to strengthen our electric system and maintain reliability and efficiency. He is also staking new services for EMPOWER Broadband.

Below: In the continuing effort to develop the most modern infrastructure to better serve its members, Mecklenburg Electric Cooperative began deploying a backbone of fiber optic cable this year to upgrade the communications system it utilizes to provide electric service. This decision prompted consideration of also deploying fiber to the homes of our members within 1,000 feet of the cable to enable them to access ultra-high-speed broadband internet service. It was a historic day as crews pulled the very first span of broadband cable on June 7, 2018.

The year 2018 will be long-remembered for the launch of EMPOWER Broadband.

FROM YOUR PRESIDENT & CEO

Being proactive in the maintenance of your electric distribution system translates into fewer unplanned outages and ensures that we are prepared for growth. For example, in 2018 we rehabbed 41 miles of line that serve 2,911 members. These improvements will provide increased capacity for years to come and strengthen your system for future opportunities related to outage restoration. We also installed new capacitor banks and rehabbed existing ones to provide more efficient power flow and greater voltage stability. New sectionalizing devices were implemented that allow us to isolate sections of line and communicate critical real-time information to the office enabling more efficient outage restoration.

Your electric system is stronger and in better condition than it has ever been, and each year we continue to make improvements and utilize new technology that results in greater reliability, fewer voltage issues and reduced outage-restoration times.
I am pleased to report that Mecklenburg Electric Cooperative has experienced another successful year, ending 2018 in a strong financial position with a net margin of $3,376,306. An audit of the cooperative’s accounting records has been performed and includes an examination of MEC’s balance sheets, statements of operations, statements of equities, statements of cash flows and remarks concerning each. The audit was performed by the accounting firm of Adams, Jenkins and Cheatham of Midlothian, Virginia, and copies of the complete audited financial statements are on file at our office for your review.

Thank you for your patronage this past year, and we look forward to your continued support in 2019.

Respectfully submitted,

D. Stanley Duffer
Secretary-Treasurer

FROM YOUR TREASURER

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CONDENSED CONSOLIDATED INCOME STATEMENT

<table>
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<tr>
<th>Description</th>
<th>Amount</th>
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<td>Operating Revenues</td>
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<td>Non-operating Margins</td>
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<td>Patronage Capital or Margins</td>
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For the year ending December 31, 2018

OUR RESPONSIBILITY TO YOU

“The time is always right to do what is right.”

— Martin Luther King, Jr., the most visible spokesperson and leader in the U.S. civil rights movement
MEC is a not-for-profit organization, and one of the benefits of being a member is that YOU share in any margins that are earned. Your share of those margins is called “capital credits.” Upon the direction of the board of directors, margins (profits) are returned to members and former members of MEC. In 2018, we returned capital credits totalling $904,917.

### FROM YOUR PRESIDENT & CEO

As noted on these pages, your cooperative continues to operate on strong financial ground. Extensive cost-management practices, improved process efficiencies and a constant eye on the bottom line have contributed to the fact that MEC’s base rates have not increased since 2009. In a challenging economic environment, MEC has worked hard to maintain the cost of power delivery and avoid rate increases and will continue to do so. MEC’s base rates recover operating, depreciation, interest and tax expenses, as well as the majority of the cost of power purchased from suppliers; and we maintained MEC’s equity as a percent of assets at the end of 2018 at 38.27 percent.

We have taken all these measures and were still able to return $904,917 to our member-owners last year, bringing the total returned to the membership to over $38 million in capital credits. Your cooperative’s fiscal strength is a must for MEC to successfully meet your electric needs.
SATISFACTION OF A JOB WELL DONE

It’s the end of a work day … Mecklenburg Electric Cooperative employees return to their homes … remove their steel-toed boots or office dress shoes, as the case may be, and relax in the haven of their homes. They have come back to their families safe and sound because they performed the duties of their jobs in a cautious manner, conscious of the possible dangers and hazards of their profession.

At the end of the day they enjoy the satisfaction of knowing they have given their best to attend to the needs of the members of Mecklenburg Electric Cooperative. They serve … not merely out of a sense of responsibility … but also willingly and with genuine concern for you and your family.

At your upcoming Annual Membership Meeting, you will have an opportunity to come to the pavilion in Chase City and talk with our employees and get to know those who are responsible for meeting your electric needs. They make themselves available day and night … weekends and holidays … in all extremes of weather … to ensure that you receive reliable service.

Mark your calendar for Wednesday, June 19, and plan to join us for a time to hear reports on the successful operation of your electric cooperative, to cast your vote for directors and to fellowship with us.

OUR RESPONSIBILITY TO YOU

“If you work just for money, you’ll never make it, but if you love what you’re doing and you always put the customer first, success will be yours.”

— Ray Kroc, American businessman who set the stage for national expansion of McDonald’s fast food company