

Challenge OF *Change*

BEK COMMUNICATIONS COOPERATIVE ANNUAL REPORT 2017

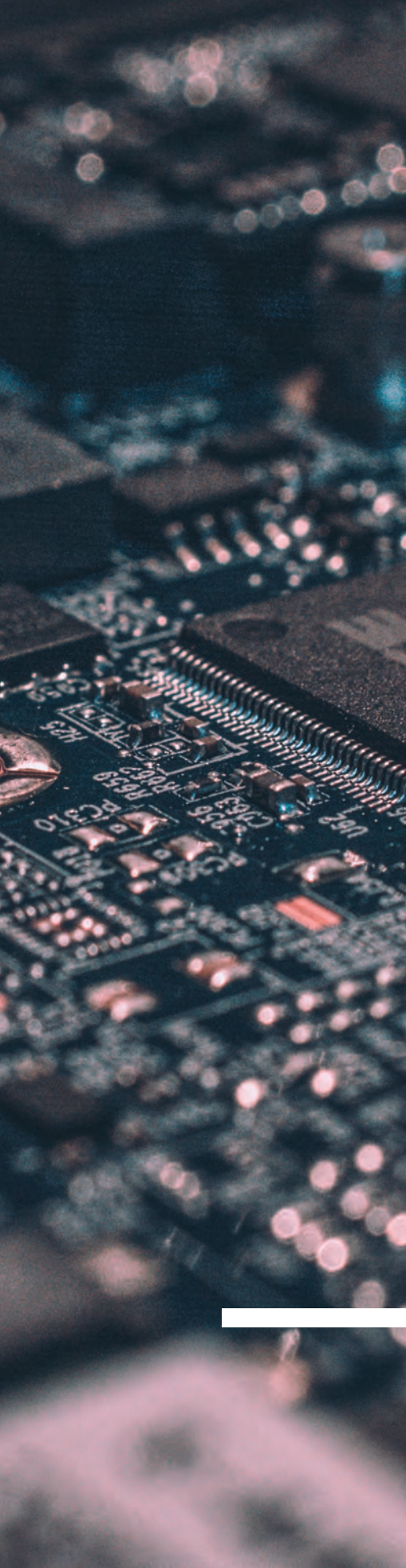




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Notice of Annual Meeting

THURSDAY, JUNE 14, 2018

Notice is hereby given that the 66th Annual Meeting of the members of BEK Communications Cooperative will be held in Steele, North Dakota on Thursday, June 14, 2018.

A beef dinner will be served at 5:30 PM at the Kidder County School lunchroom in Steele. Members will register as they are in line for the supper. The meeting will be called to order at 7:00 PM (a quorum being present).

The purpose of the meeting is to receive reports, elect directors, and review activities.

BILLIE BECKER | SECRETARY/TREASURER





BEK COMMUNICATIONS COOPERATIVE *is a leader in residential communications services and business solutions, advanced services, and technologies for its members and customers. BEK Communications has earned a reputation as a market leader through innovative efforts such as:*

Early adoption of gig-capable fiber technology with all BEK customers having fiber-based access to the internet.

First in the state to deploy Fiber-to-the-home (FTTH) in rural areas. BEK began FTTH deployment in 2004.

One of the first in the state to offer IPTV, OTT, and broadband services.

First in the nation to launch a statewide local content network regularly viewed by more than 290,000 households.

BEK has earned four competitive grant awards, exceeding \$14 million, for use in expanding BEK's service area.

Providing Fiber connectivity to cell towers in the BEK service area.

Investor in Verizon ND – helping provide the best cellular network in the state.

Early adoption of cloud-based voice, television, security/home automation, and surveillance services.

Investor in Codero – a company that develops consumer and enterprise hosted and cloud products.

USDA Community Connect Broadband Grants to help fund the extension of the BEK Fiber infrastructure to rural Barnes, northeast Morton, and southeast Oliver Counties.

Early investor in North Dakota Long Distance.

Cooperative member of NISC – a billing and processing company for electric and telecom companies.

Investor in Dakota Carrier Network (DCN) – which provides state network access for schools, public safety, cities, counties, state government, cellular towers, and large enterprises.



66th Annual

Meeting Agenda

THURSDAY, JUNE 14, 2018

5:30 - 7:00 PM
REGISTRATION & BEEF DINNER
LUNCH ROOM

7:00 PM
ANNUAL MEETING
STEELE HIGH SCHOOL GYMNASIUM

Call to Order

Presentation of Flags

- James K. McAleer Amvets Post #20

National Anthem

Invocation

- Pastor Paul Schauer
Sunne Lutheran Church, Wilton

Officer's Report

Election of Directors

Manager's Report

- 2017 Year in Review Video
- Questions & Answers

Other Reports

Unfinished Business

Grand Prize Drawings

President & CEO's Perspective

The need to grow is “The Challenge of Change” under the pressure created by the death of a 65-year-old product called phone service.

The Board's five-year strategy has focused on growing BEK's fiber optic services footprint, growing our Internet Protocol (IP) network capacity, developing next generation cloud products, and maturing the broadcast business line. These changes are happening under the pressure of the declining Universal Service Fund (USF), dramatic changes in customer expectations, and the decline of legacy product lines.

Challenge of a Changing Environment

The membership of BEK has declined every year since 2001. This is primarily due to out-migration and consolidation in the agricultural industry. In 2001, BEK reported 5,924 members; and at the close of 2017, it had declined to 4,949 members. In addition, there continues to be increasing pressure from the FCC to reduce funding for rural communications cooperatives, forcing them to find other sources of revenue and rely more heavily on their existing membership base. In 2017, traditional revenues from phone



BRETT STROH
Board of Directors President



DERRICK BULAWA
CEO/General Manager

service, USF, long distance, and carrier access declined to just over \$14 million, while non-regulated services such as Internet, TV, Nurse-Call, SpyderTalk, CLEC services, and security services exceeded \$16 million. This marks a significant milestone showing that non-regulated services have outpaced the traditional services.

Traditional revenue sources continue to decline at a faster pace each year, while new non-regulated revenue growth continues, outpacing the traditional revenue decline.

CHANGE IN WHAT CUSTOMERS EXPECT

Our members expect a common entertainment and communications experience. This customer experience must provide the ability to change products and service online at the member's convenience. Members are becoming more comfortable using online tools, social media, and messaging as a method of engagement at all hours of the day. Some members no longer feel the need to call customer service to purchase, pay, change, or terminate products and services.

BEK's 100% fiber network offering, the fastest broadband service in North Dakota, is rebranded as Lightband – BEK's unlimited broadband on BEK fiber. Today's members believe that Lightband service is available from everyone, which is not the case. The cellular operators – AT&T, Verizon, and T-Mobile, don't offer Lightband. They offer a form of broadband that is limited use, less reliable, and in the end more expensive due to usage charges. Satellite broadband operators also have limited use products, with usage charges and speed reductions when overused. The only place you can get unlimited broadband over fiber is through BEK. We offer the highest speeds, unlimited use, and the most reliable network.

Entertainment can be accessed through hundreds of services on the internet today. Netflix, Hulu, Sling TV, PlayStation Vue, and DirecTV Now are only a few examples. These services allow both downloads of content and live streaming of content. This expectation will give members greater choice of entertainment options but require more reliable broadband service like BEK's Lightband.

Today's members expect to interact with BEK and BEK products where, how, and when they want.

CHANGES IN DEMAND FOR TV AND PHONE PRODUCTS

As cell services become more reliable and more cost effective for voice, some of our members no longer feel the need to purchase traditional phone service but have opted for a cell phone or an IP voice service operating on BEK Lightband. In December of 2017, BEK met all of the obligations required to offer Lightband without the need to purchase phone service. This new flexibility is facilitating the rapid decline of phone service revenues, which are being recovered through an increased price on the Lightband products.

Over the last five years, the producers of the most commonly viewed television channels have increased the price that BEK is charged for those channels, in some cases as much as 200%. These TV channel price increases are passed on to BEK's members, causing our members to seek alternative ways of viewing these channels. Many customers are beginning to use linear streaming services like Sling TV, Sony PlayStation Vue, DirecTV Now, Hulu, and YouTube TV. These products offer our members the ability to pick the purchased channels in an a la carte manner and save money on their cable bill.

The combination of higher cable TV bills and the flexibility of emerging a la carte TV content offered by linear streaming services means we will continue to see our BEK TV customers decline.

Challenge of Changing Products and Services

CHANGES IN BEK'S FIBER OPTIC SERVICES FOOTPRINT

There continues to be a need to expand BEK's fiber-optic network footprint as the population in the Cooperative service area declines and with customers taking fewer services. The Board must continue to seek to expand the service area to

maintain long-term operational viability. The significant investment in Valley City and Barnes County is complete, and the investment in north Morton and Oliver Counties will be completed by mid-year. The Board is looking for other growth opportunities and funding support to offset the continued decline in our rural communities.

The continued growth of the fiber network ensures the long-term stability of your cooperative.

CHANGES IN BEK'S INTERNET PROTOCOL (IP) NETWORK CAPACITY

As BEK members continue to grow their use of the internet for business, entertainment, education, and communications, the need to increase the speed of the Lightband service grows. By the end of 2018, all BEK members will be upgraded to Lightband services above 100 Mbps, with most at 250 Mbps. This is the speed needed to meet the new demands in your home as you adopt services like streaming TV, internet phone service, do work from home, or pursue an online education. BEK has seen continued growth in Lightband use that exceeds 100% every 18 months. It is this demand that caused the significant investment in our IP network, and it is our mission to deploy expanded capacity before our members need to use it.

Reliable broadband service is a prerequisite to economic opportunity.

CHANGES IN BEK'S CLOUD PRODUCTS

Today, BEK offers multiple cloud products. SpyderTalk, Watch, Protect, and Back-up are the most well-known. With your investment in Codero, those products will expand to include hosting clouds, Microsoft Office 365, PC security, and desktop as a service. Because you have built a fiber network, these services will be available in the BEK cloud and not on your computer in the future.

The cloud is the long-term answer for most BEK services in the future.

CHANGES IN BEK'S BROADCASTING NETWORK

The BEK Broadcasting Network is maturing as it continues to compete against the major networks for sports event rights. Its expanded statewide coverage enhances its ability to attract advertisers. Its key investments in the future will be in support of expanding coverage, improving production quality, and cost reduction of its operations. This business line is a key part of future revenue growth and diversification.

The BEK Broadcasting Network provides much-needed revenue diversification.

CHANGES IN OUR TEAM

Everything we accomplished in 2017 was only possible because of our people. They are not only a workforce for today, but also for tomorrow. In addition to serving current member needs, they're taking advantage of training and re-skilling opportunities to help them prepare for the jobs of tomorrow. These are exciting times at BEK. Overseeing it all is a Board of Directors that brings to the job their skills, experiences, and community priorities. They're hands-on and fully engaged — pushing us with tough questions and making us better with sound, forward-looking advice. And they've reviewed and approved our strategy. I can assure you that our employee team will continue to deliver the kind of strong execution you've come to expect. I couldn't be more thankful for their efforts. And I couldn't be more grateful to you for your continued confidence in BEK.

The Challenge of Change is actually accepting the change; ignoring change is the first step in failure.

Secretary/Treasurer & CFO's Report

TO THE MEMBERS OF BEK,

2017 was an exciting year for BEK Communications Cooperative. It marked the first time in BEK's 66 year history that revenues received from traditional phone services offered within the Coop area and Universal Service Funding (USF) were less than all other revenues generated. What this means is that the revenues received for other services that are being offered, along with those offered in locations outside the coop area, have surpassed the traditional phone services and USF within the coop, for which the company was originally created. Coop telephone services and USF generated \$12.5 million in revenue and all other sources generated \$15.2 million for a total of \$27.7 million.

2017 also realized another milestone. BEK saw the squeeze of its cumulative total universal service support dollars reach a \$10 million dollar mark. This means that BEK has had a negative impact of \$10 million in support since the FCC began shrinking its annual support in 2012.

With the \$27.7 million in revenue, BEK generated a profit of \$4.6 million. Payments of \$3.2 million were paid on our RUS debt leaving a balance of \$25.1 million. Also, \$5.8 million was allocated to cooperative members, which brings BEK to a total of \$35.3 million of capital credits held.



BILLIE BECKER
*Board of Directors
Secretary/Treasurer*



BRANDON VAUGHAN
CFO/Financial Manager

KEY POINTS

\$98,928,545 in total assets

5,324 square miles served
in the coop area

1,146 square miles served
outside the coop area

6,470 total square miles served

4,949 members

4,148 customers

9,097 total member/customers

5,686 access lines

5,049 miles of fiber in the coop area

1,507 miles of fiber outside the coop area

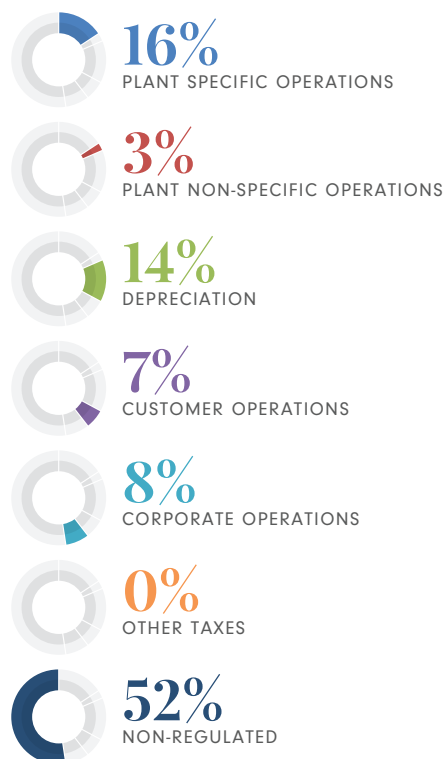
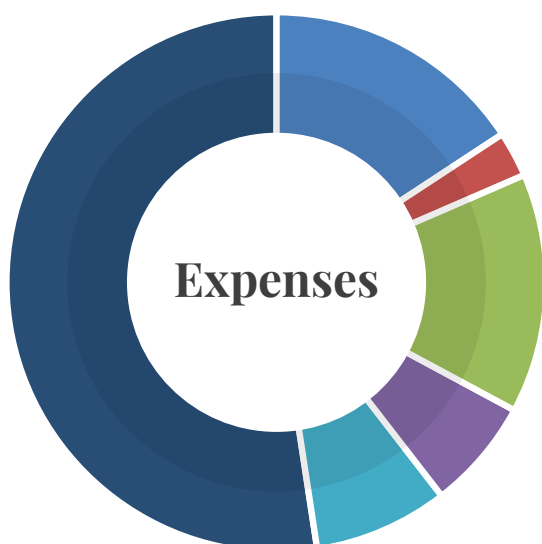
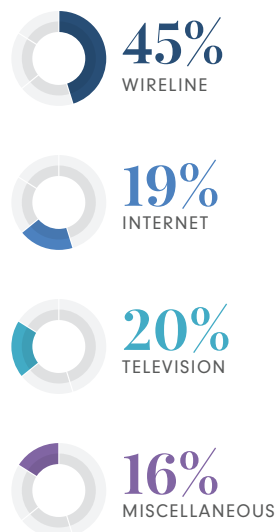
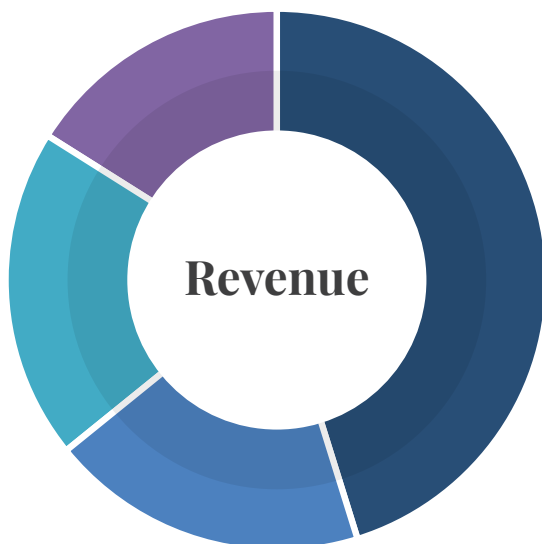
6,556 total miles of fiber

In closing, thank you for your support and we hope to see you at the annual meeting on June 14, 2018.

Operating Statement

	2017	2016
OPERATING REVENUES		
Wireline	\$12,479,888	\$13,542,753
Internet	\$5,263,997	\$4,615,605
Television	\$5,460,135	\$5,037,329
Miscellaneous	\$4,465,410	\$3,804,834
TOTAL OPERATING REVENUES	\$27,669,430	\$27,000,521
OPERATING EXPENSES		
Plant specific operations	\$4,078,046	\$4,079,014
Plant non-specific operations	\$700,498	\$626,443
Depreciation	\$3,714,646	\$3,633,702
Customer operations	\$1,713,798	\$1,284,938
Corporate operations	\$2,065,184	\$2,275,681
Other taxes	\$58,778	\$54,738
Non-regulated	\$13,514,568	\$12,552,537
TOTAL OPERATING EXPENSES	\$25,845,518	\$24,507,053
OPERATING MARGINS	\$1,823,912	\$2,493,468
NON-OPERATING INCOME (EXPENSE)		
Interest and dividend income	\$2,684,174	\$3,129,509
Allowance for funds used during construction	\$1,033	\$12,263
Interest expense	(\$969,321)	(\$1,088,687)
Gain (loss) on sale of assets	\$0	(\$39,570)
Other non-operating income (expense)	\$254,004	\$151,800
Income from affiliates	\$817,189	\$854,754
TOTAL NON-OPERATING INCOME (EXPENSE)	\$2,787,079	\$3,020,069
Net Margins Before Income Taxes	\$4,610,991	\$5,513,537
Income Tax Expense (Benefit)	\$50	(\$27,900)
NET MARGINS	\$4,610,941	\$5,541,437

Financial Graphs



Balance Sheet

ASSETS		
	2017	2016
CURRENT ASSETS		
Cash and Cash Equivalents	\$968,062	\$1,746,656
Accounts Receivable	\$1,057,144	\$900,759
Other Accounts Receivable	\$141,046	\$199,848
Materials and Supplies	\$717,999	\$666,880
Other Current Assets	\$686,250	\$614,416
TOTAL CURRENT ASSETS	\$3,570,501	\$4,128,559
NON-CURRENT ASSETS		
Investment in affiliates	\$4,736,368	\$4,485,219
Investment in non-affiliates	\$3,104,956	\$2,962,895
TOTAL NON-CURRENT ASSETS	\$7,841,324	\$7,448,114
PROPERTY, PLANT AND EQUIPMENT		
Regulated plant in service	\$85,230,696	\$85,056,344
Regulated plant under construction	\$17,039	
Non-regulated plant in service	\$51,217,711	\$50,112,837
Non-regulated plant under construction	\$6,302,459	\$1,047,319
Less accumulated depreciation and amortization	(\$55,251,185)	(\$50,028,410)
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$87,516,720	\$86,188,090
TOTAL ASSETS	\$98,928,545	\$97,764,763

Balance Sheet

LIABILITIES & EQUITIES		
	2017	2016
CURRENT LIABILITIES		
Accounts Payable, General	\$3,520,838	\$3,601,183
Advanced Billings and Customer Deposits	\$31,230	\$39,531
Current Maturities of Long-Term Debt	\$3,110,742	\$3,110,742
Line of Credit	\$0	\$871,000
Other Accrued Taxes	\$58,910	\$10,188
Other Accrued Liabilities	\$769,508	\$459,511
TOTAL CURRENT LIABILITIES	\$7,491,228	\$8,092,155
LONG-TERM DEBT, net of current maturities	\$25,108,441	\$28,288,371
DEFERRED REVENUE	\$9,312,782	\$8,163,680
MEMBERS EQUITY	\$57,016,094	\$53,220,557
TOTAL LIABILITIES & EQUITIES	\$98,928,545	\$97,764,763

Nominating Committee Report

Each year the member-owners of BEK Communications Cooperative elect directors to three-year terms at the Cooperative's Annual Meeting.

Seven cooperative members were appointed by the BEK Communications Cooperative Board of Directors to serve on the 2018 Nominating Committee.

The 2018 Nominating Committee met on Wednesday, March 21, 2018. The following nominees are eligible to be placed on the ballots for their respective districts.

District I

REGAN, STERLING, MCKENZIE, WILTON, WING

- NO ELECTION IN 2018

District II

PETTIBONE, TAPPEN, ROBINSON, TUTTLE, STEELE

- BRETT STROH, TAPPEN

District III

KINTYRE, STRASBURG, HAZELTON, LINTON

- LEO MEIER, HAGUE

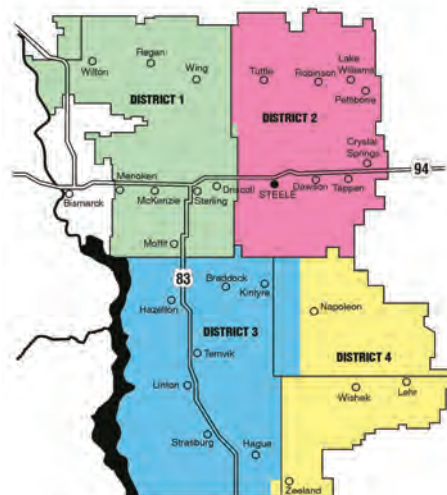
District IV

LEHR, ZEELAND, WISHEK, NAPOLEON

- GERALD BURLACK, WISHEK

On June 14, 2018, members of BEK Communications Cooperative will have the opportunity to vote for these candidates for the Board of Directors.

The bylaws of BEK Communications Cooperative do not allow for proxy voting. A "Voting Representative Authorization Form" was made available for those businesses that are incorporated or political subdivisions who send a representative to the Annual Meeting to vote on their behalf. Usually these forms are completed by the board of directors or councils of the various organizations. Forms may be submitted anytime before, but no later than, noon - June 14, 2018.



Board of Directors

District I



SANFORD WILLIAMS



SHANE MORRIS

District II



BRETT STROH
President



DOUG KALIANOFF

District III



KEVIN BERNHARDT
Vice President



LEO MEIER



VICKIE MARTIN

District IV



BILLIE BECKER
Secretary/Treasurer



GERALD BURLACK

2017 Scholarship Winners



CAITLYN ELL
Wilton High School



CARLY FORNSHELL
Century High School



ERIK JOHNSON
Valley City High School



TAYLOR JOHNSON
Valley City High School



COLE KETTERLING
Wishek High School



MCKENZIE ULMER
Wishek High School



BROOKLYN VOLLMER
Wing High School



DEVIN WEIGEL
Napoleon High School



MORGAN ZIESCH
Kidder County-Steele
High School

BEK Communications received a total of 26 scholarship applications from high school seniors throughout BEK's service area. Congratulations to these nine \$500 scholarship winners!

Employees



KURT ANDERSON



PERRY ANDERSON



ALLEN BECKER



DEBBIE BEDETTE



JESS BERG



JAY BERTSCH



CARMEN BIESTERFELD



TAMMY BIRRENKOTT



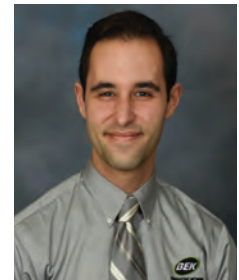
RON BLOTSKY



BRENT BORKHUIS



DEREK BRAUN



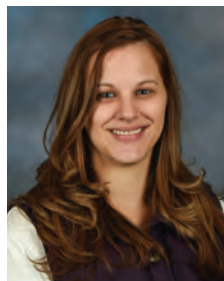
COREY BROOKS



DERRICK BULAWA



JARED CALVERT



AMANDA CLARK



PATRICK COCHRAN



NISSA CRANDALL



BECKY DEMARAY



LYNETTE DEMARAY



TAMMY DOCKTER



CHRIS DORSEY



DAN DVORAK



RYAN EDWARDSON



AUBREY EVAN



PAUL FRANK



MIKE GAYETTE



JESSE GUNSCH



LARRY GURULE



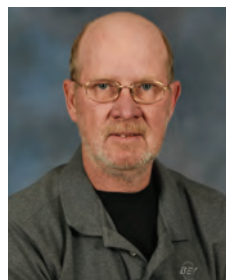
JORDAN HASSLER



RYAN HEINSOHN



BILLY HENDERSON



RON HENSCH



JUDI HINTZ



BETH JOHNSON



LISA JOHNSON



STACY JOHNSON



GREG KAHL



KELLY KRUEGER



LEROY KRUEGER



CALEB KRUGER



TERRI KRUSE



ROY KUIL



KEVIN LECH



SCOTT LOERCH



JOE LOKKEN



JORDAN LOWREY



DAVID MALSAM



MATT MEZA



MICHAEL MITTLEIDER



CONRAD NELSON



MATT OHLHAUSER



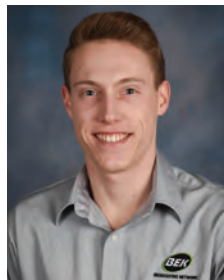
MATT OLAUSON



PAUL OLSON



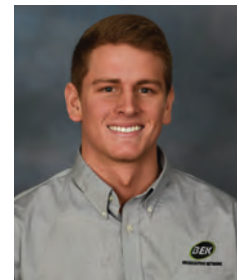
SHAUN PENDO



COOPER PERKINS



SHAWN PUKLICH



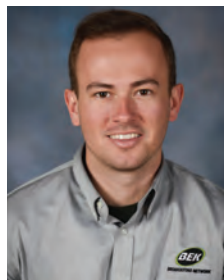
NOAH REED



JOE REWALD



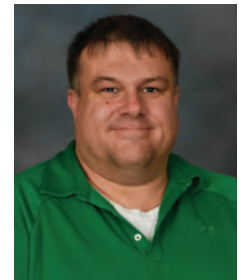
JONNY ROHRICH



BRIAN ROTHENBERGER



APRIL RUTLEDGE



JASON RUTLEDGE



ERIC SAUTER



RON SCHNEIDER



JESSE SCHWAB



PAM SCREEN



BOBBI SILBERNAGEL



BILLIE STANTON



CHRIS STEGALL



RODNEY STOCKERT



STEVE SWISS



BRIAN TAIT



PAMELA THOMPSON



JORDAN TRIPP



BRANDON VAUGHAN



BRENDA WALETZKO



DEAN WEISS



RICHARD WINKING



BECKI WOLF



DERRICK WOLF



GENE ZIMMERMAN



RYAN ZINK

2017 Annual Meeting Condensed Minutes

The 65th Annual Meeting of the Members of BEK Communications Cooperative (the "Cooperative") was held at the Steele High School gymnasium in Steele, North Dakota, on June 8, 2017, pursuant to the Notice of Annual Meeting previously mailed to all members.

The employees of the Cooperative served a beef supper to the Members and their families prior to the meeting.

The Hazelton American Legion Color Guard - Post 126 presented the colors. The National Anthem was sung by Tim Davenport of The Bismarck Mandan Civic Choir.

At 7:04 p.m., President Brett Stroh called the meeting to order and announced that as of 7:04 p.m. there were 297 registered Members present, constituting a quorum.

President Stroh then called upon Pastor Trisha DeBoer of the Bethlehem Evangelical Lutheran Church of Wing to give the invocation.

President Stroh introduced member Neil Beitelspacher to be recognized by the Members. Mr. Beitelspacher has been a member of the Cooperative for 65 years. President Stroh introduced the Directors of the Cooperative and their spouses.

A motion was made and seconded to dispense with the reading of the Meeting Notice and the motion passed.

A motion was made and seconded to dispense with the reading of the certificate of mailing of the Meeting Notice and the motion passed.

President Stroh presented the condensed minutes of the 2016 Annual Meeting as contained in the Annual Meeting report booklet which had been previously distributed to the Members. A motion was made and seconded to dispense with the reading of the minutes of the 2016 Annual Meeting and that the minutes be approved. The motion passed.

President Stroh presented his written President's report and the written report of the Secretary-Treasurer Billie Becker which were contained in the Annual Meeting report booklet.

President Stroh explained the election procedures including the methods by which candidates may be nominated; nominating committee and petition. President Stroh announced that the report of the nominating committee which had met on February 22, 2017 appears in the Annual Report.

President Stroh explained that the Cooperative did not receive any petitions for director candidates. As allowed in the Bylaws, because the election for District I, II and III are uncontested, the candidates can be elected by voice vote instead of by secret ballot. A motion was made and seconded to dispense with election by secret ballot and to elect Sanford Williams, Doug Kalianoff, and Kevin Bernhardt by casting a unanimous ballot by voice vote. The motion passed.

President Stroh then introduced Chris Skidmore from Moss Adams. Mr. Skidmore presented the results of the 2016 audit of the Cooperative to the Members.

President Stroh then introduced the Cooperative's CEO Derrick Bulawa. Mr. Bulawa presented to the Members a short video entitled "2016 Year in Review", highlighting the operations of the Cooperative over the previous year. Mr. Bulawa provided to the Members his CEO report.

Mr. Bulawa then proceeded to recognize guests of the Cooperative in attendance.

Mr. Bulawa announced that 555 meals had been served and 297 members registered for the Annual Meeting.

President Stroh asked whether there was any old business that needed to be addressed by the Members. There was none.

President Stroh asked whether there was any new business that needed to be addressed by the Members. There was none.

At 7:53 p.m., President Stroh thanked the Members for attending and adjourned the Annual Meeting.

Mr. Bulawa and the employees of the Cooperative announced prize winners and handed out prizes to the children winners and the Members and their guests.

BRETT STROH | PRESIDENT

BILLIE BECKER | SECRETARY/TREASURER



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