



KEM Electric Cooperative, Inc.

A Touchstone Energy® Cooperative 



2015 annual meeting
Thursday, June 18, 2015
Linton Public School, Linton

OFFICIAL NOTICE OF THE ANNUAL MEETING OF MEMBERS

The annual meeting of the members of KEM Electric Cooperative Inc. will be held in the Linton High School Auditorium, Linton, N.D., at 7 p.m. on Thursday, June 18, 2015, to take action on the following matters:

1. Election of two directors

In connection with the election of two directors scheduled to be held at this meeting, the following members have been nominated for director by petition, which is in accordance with the bylaws of the cooperative:

District 1

John Beck, Linton

District 2

Carter Vander Wal, Pollock, S.D.

2. Report of officers and directors and for the transaction of such other and further business that may come before the meeting or any adjournment or adjournments thereof.

Dated: May 19, 2015
/s/ Carter Vander Wal, secretary

KEM Electric Cooperative Inc. 2015 annual meeting

Thursday, June 18, 2015
Linton Public School auditorium
Linton, N.D.

5:30-7 p.m. – Registration
• Member gifts

5:30-7 p.m. – Meal compliments
of KEM Electric Cooperative

7 p.m. – Business meeting

- Election of directors
- Report of officers
- Innovative Energy Alliance report
- Door prizes
- Prize drawings include a Kindle and an Apple iPad Mini
- Grand prize is a 42-inch LED HD television and \$300 cash membership prize (All members' names will be entered for cash prize. Must be present to win.)

- Health fair by Emmons County Public Health
- Electric technologies booth by Basin Electric Power Cooperative will be on display throughout the evening

7 p.m. – Children's Fun Night

- Activities for ages 3-10
- Bicycle drawing for one boy's bike and one girl's bike (Kids ages 3-10 are eligible.)
- All children will receive a door prize

If you need assistance because of a disability or physical handicap, please contact KEM Electric at 254-4666 or 800-472-2673.

KEM Electric Cooperative employees

CO-GENERAL MANAGERS/CEO

Chris Baumgartner
Don Franklund

STAFF

Gary Hulm, Line superintendent
Roberta Nagel, Office manager/
chief of staff

OFFICE EMPLOYEES

Dawn Schiele, Executive assistant
Alex Craigmile, Assistant office manager
Kirk Praus, Member support technician
Marcy Sanders, Service dispatcher
Gerald and Ramona Birdsell, Custodians

LINE DEPARTMENT

Linton office

Jeff Gefre, Area foreman
Tim Dockter, Area foreman
Dave Twardoski, Journeyman lineworker
Dale Nagel, Journeyman lineworker
Kevin Horner, Journeyman lineworker
Austin Ohlhauser, Apprentice lineworker
Jeff Werner, Warehouseman/
purchasing clerk

Steele outpost

Paul Hewitt, Area foreman
Jake Zink, Journeyman lineworker
Martin Messer, Journeyman lineworker


Dewald

Chairman's report

KEM Electric Cooperative continues to make progress

BY DEAN DEWALD



Greetings to the members, friends and employees of KEM Electric Cooperative. It is the time of year to prepare for your co-op's annual meeting. After a very mild winter with limited snowfall, spring has arrived. In early May, we received virtually our first moisture of the year. The moisture is very welcome. Even though the winter was mild, it still seems that it was long.

Your co-op had a very good year again this past year. There were no major storm events, which is always a good thing. The system did have some damage due to wind last June and July. Maintenance is an ongoing process with our system. Even though it is aging, our crews are maintaining it very well.

In February, I had the privilege of attending the National Rural Electric Cooperative Association national convention in Orlando, Fla. It is a very good meeting and well-attended by members from all areas of the country. This grassroots group completes major work for all of the rural co-ops in our country. As a direct result of these efforts, a law was passed recently allowing our large storage water heaters to continue to be used in our off-peak systems. This was a major victory for cooperatives across the country.

There are a number of issues on the horizon that will continue to increase costs to our members, such as escalating maintenance costs, regulation changes in the industry and increases in cost of power purchased, just to list a few. Another issue that will never end is the limited workforce available in a very competitive market with the Bakken oil activity and retirements within our aging workforce.

We have had a few issues with tree trimming and other policy changes this past year. There is a very good article in KEM Electric Cooperative's May edition of *North Dakota Living* magazine which helps explain why we trim trees. Trees are trimmed for safety and reliability issues. Policies have changed over time due to costs and system changes. Individuals are now being asked to pay more of the costs when they are the only beneficiary of an improvement to the system. KEM's line extension policies have also changed in the past few years.

I would like to thank the members and the board for the support they have given me this past year. Our management team is a positive asset to KEM Electric. The board would like to thank the employees for all they do! The board is always acting in the best interest of the members. Sometimes this makes decisions very difficult.

We the board hope to see all of you at your annual meeting in Linton on June 18. ■

KEM Electric Cooperative BOARD OF DIRECTORS


 District 1
John Beck
 Director
 Linton

 District 2
Carter Vander Wal
 Secretary-treasurer
 Pollock, S.D.

 District 3
Milton Brandner
 Director
 Zeeland

 District 4
Victor J. Wald
 Vice Chairman
 Napoleon

 District 5
Dean Dewald
 Chairman
 Steele

 At-Large director
Dean Hummel
 Hague

 At-Large director
Carmen Essig Lehr

**Baumgartner****Franklund**

Managers' report

KEM Electric offers safe, affordable, reliable service

BY CHRIS BAUMGARTNER AND DON FRANKLUND, CO-GENERAL MANAGERS

KEM Electric Cooperative has enjoyed another successful year. A handful of themes arise amid the work that has been taking place in the last 12 months. Safety, reliability, efficiency and value are key words that have driven us over the past year.

Our mission is to provide safe, reliable electric service to our member-owners. Safety is, and always will be, our first priority. We work to maintain a safe electrical distribution system for our members, as well as a safe work environment for our employees. No safety precaution is too small. We encourage members to please contact us if you have a safety concern or see something on the line that looks troubling. Having the eyes of our members helping troubleshoot potential dangers is an asset to our cooperative.

We are always trying to balance reliability with affordability at KEM Electric Cooperative. In an effort to provide you with the highest

quality of service, we've been adding infrastructure and replacing older plant to create an electric grid that is stronger and more reliable. This allows for future growth and better service for those already on the line. We understand that in this technology-driven world, a blink in the lights is sometimes just as problematic as a long-term outage. By creating a stronger system, we hope to eliminate both.

In addition to improving reliability in our infrastructure, our office personnel are increasing their efficiency by utilizing the latest technology. Expansion of our software capabilities and an improved communication network all aid us in this quest. We also gain efficiencies by tapping into the resources of our management alliance shared with neighboring cooperatives. We know that by following one of our seven guiding principles – cooperation among cooperatives – we are stronger.

Because we are your local electric

cooperative, our service goes beyond the wires. It's important for us to offer extra value that has a positive impact on members and the communities you call home. As a Touchstone Energy® cooperative, we strive to meet that goal each and every day. Outreach programs like Operation Round Up or rates to allow added flexibility for our members' operations bring greater value to our membership.

Our number one priority remains keeping the lights on. And while we have spent the last year focusing on safety, reliability, efficiency and value, the spirit of KEM Electric Cooperative is always rooted in our dedication to our member-owners. Our employees often put your needs ahead of their own. They are ready to step in when Mother Nature wreaks havoc on our system or a single member has a problem that needs attention. We are thankful for the commitment of our employees. We are equally thankful for your support in another successful year. ■

INDEPENDENT AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements of KEM Electric Cooperative Inc. (a nonprofit cooperative), which are comprised of the balance sheets as of Dec. 31, 2014 and 2013, and the related statements of revenue and expenses, patronage capital and other equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in

the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the comptroller general

of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design

audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KEM Electric Cooperative Inc. as of Dec. 31, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on supplementary information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The detailed schedule of deferred debits and deferred credits, and the detailed schedule of investments on the equity basis are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other reporting required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 17, 2015, on our consideration of KEM Electric Cooperative Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering KEM Electric Cooperative Inc.'s internal control over financial reporting and compliance.

BRADY, MARTZ & ASSOCIATES P.C.

Bismarck
March 17, 2015

Meet the candidates

Two candidates are seeking seats on KEM Electric Cooperative's board of directors. This year, incumbent John Beck is seeking re-election in District 1 and incumbent Carter Vander Wal is seeking re-election in District 2.

Here, KEM Electric Cooperative provides a statement from each candidate:

John R. Beck

I am running for my second term on the KEM Electric Cooperative board representing District 1. Learning the cooperative business model has been a very challenging, yet very rewarding process. I cannot thank the current KEM board and Innovative Energy Alliance management team enough for their expertise and patience during the past three years.

I have had the opportunity to attend the last three National Rural Electric Cooperative Association legislative fly-ins in Washington, D.C. Managers and directors meet with members of Congress in non-cooperative states

to help them better understand how electricity is delivered in rural America along with the necessity for coal-fired generating plants as a base load power supply. Furthermore, we meet with North Dakota's Congressional delegation to thank them for their continued support of electric co-ops. Finally, we met to discuss challenges from strict clean air standards by EPA that if implemented would cause an increase in the cost of power.

My wife Shannon (Van Beek) Beck and I have been blessed with two wonderful children. Our daughter, Taylor, is going to be a junior at North Dakota State University, majoring in landscape architecture design, and our son, John Colton, is going to be a sophomore at Linton High School. He is a good hand on the farm and enjoys football, basketball, golf and baseball.

While the learning curve as your board member has been steep, I have enjoyed the opportunity to serve District 1 and would continue to serve the members of this co-op by

using the latest technology to provide reliable and affordable electricity for generations to come.

Carter Vander Wal

I want to thank the KEM Electric membership for their support over the past years and ask for their vote, again, in the District 2 director election.

My wife, Merlynn, and I live on and manage a farm and ranch operation located in southwest Emmons County.

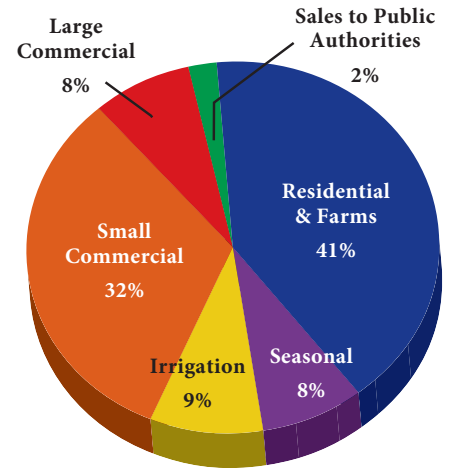
Serving as the director for District 2 for the past three terms has been very educational and rewarding. I have earned my certification as a Certified Cooperative Director from the National Rural Electric Cooperative Association and this education has been a valuable tool for making decisions in the boardroom. I appreciate the opportunity the membership has given to represent their best interests when it comes to setting policies and taking action.

I would enjoy continuing to serve as your representative from District 2 and I would appreciate your vote. ■

2014 COMPARATIVE INCOME STATEMENT

	<u>2014</u>	<u>2013</u>
Operating Revenue	\$9,121,108	\$8,866,024
Cost of wholesale electric power	4,567,433	4,368,121
Transmission line and substation expense	18,819	19,105
Distribution expense-operations and maintenance	1,089,962	1,040,126
Consumer accounts and customer service expense	132,101	175,918
General and administrative expense	1,048,284	874,115
Depreciation	1,030,288	998,876
Tax expense	77,822	60,033
Interest	656,159	635,583
Other deductions	22,228	4,940
Total cost of electric service	<u>\$8,643,096</u>	<u>\$8,176,817</u>
Patronage capital and operating margins	478,012	689,207
Other operating margins (associated cooperatives)	237,194	224,071
Non-Operating margins	51,757	53,740
Total Margins and Patronage Capital	<u>\$766,963</u>	<u>\$967,018</u>

WHERE YOUR DOLLAR CAME FROM 2014

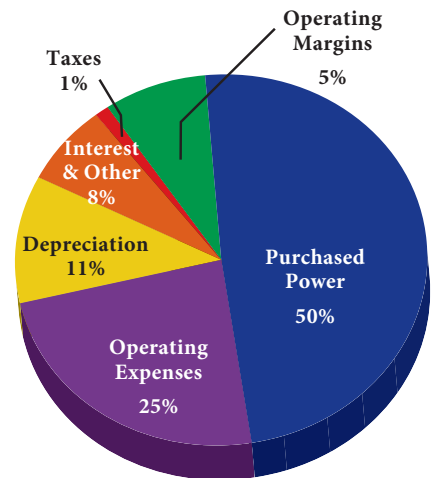


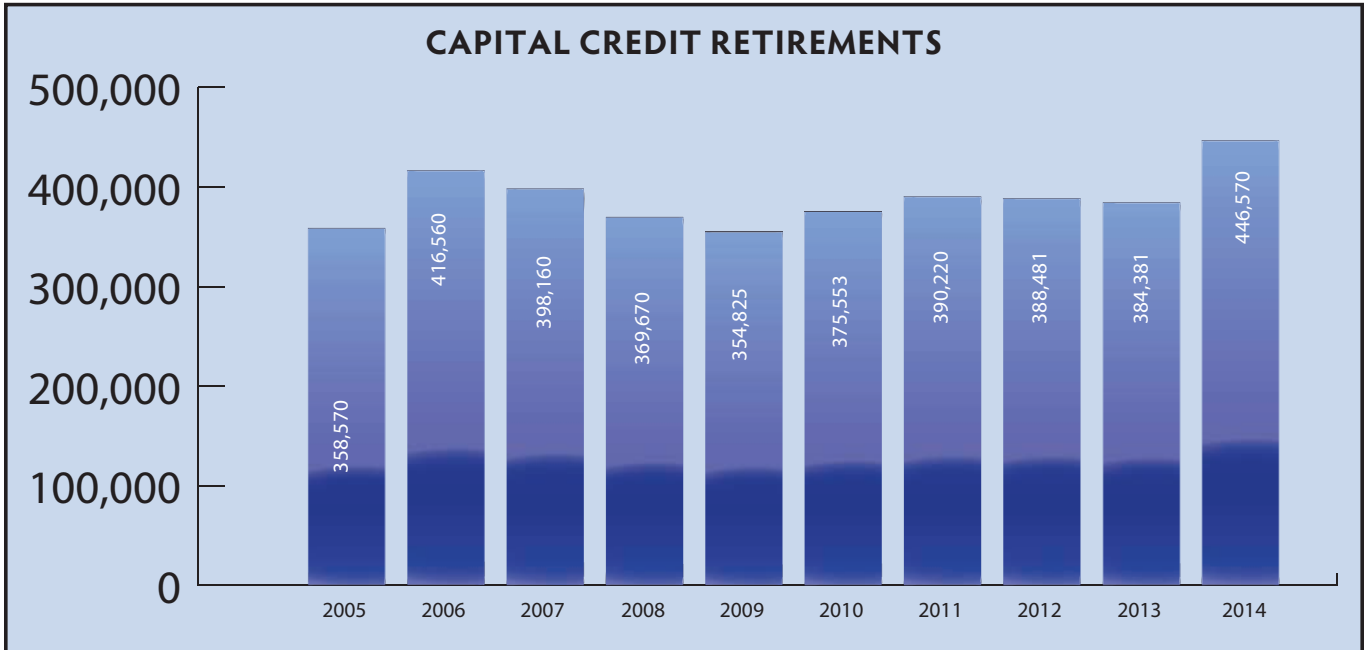
BALANCE SHEET

December 31, 2013 and 2014

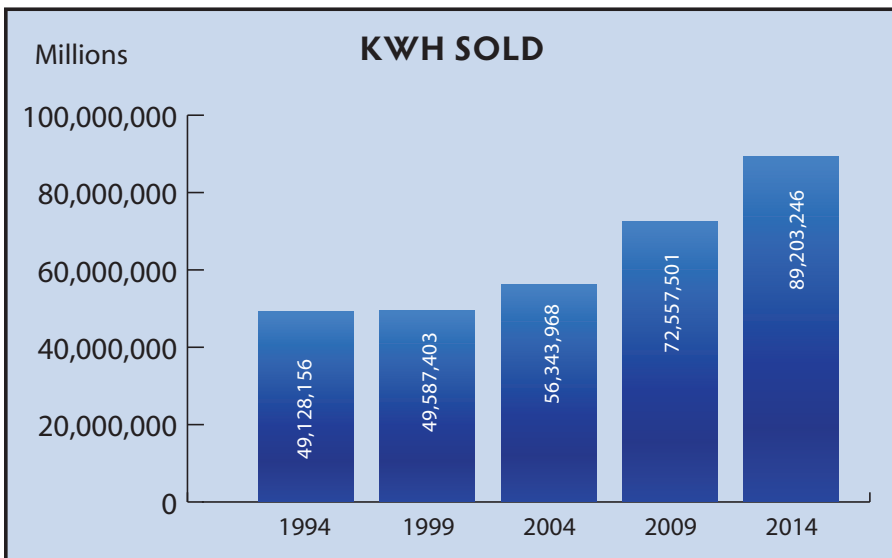
	<u>2014</u>	<u>2013</u>
Assets		
Electric Plant	\$41,568,130	\$40,101,823
Less Depreciation	19,768,360	19,074,154
Net Electric Plant	\$21,799,770	\$21,027,669
Cash - General Fund	\$460,226	\$278,323
Temporary Cash Investment	0	500,000
Investments in Associated Organizations	4,951,185	5,031,655
Accounts Receivable (Net)	908,051	1,119,285
Materials and Supplies	793,422	548,445
Other	379,769	436,003
Total Assets	<u>\$29,292,423</u>	<u>\$28,941,380</u>
Liabilities		
Long-Term Debt (Net)	\$15,009,346	\$16,114,991
Consumer Prepayments	72,337	90,245
Accounts Payable	1,287,525	681,915
Other Current and Accrued Liabilities	287,589	257,260
Power Cost Refund Deferred	1,000,000	500,000
Total Liabilities	<u>\$17,656,797</u>	<u>\$17,644,411</u>
Net Worth		
Patronage Capital	\$8,751,728	\$8,429,492
Donated Capital	250,111	231,708
Non-Operating Margins	2,633,787	2,635,769
Total Net Worth	<u>\$11,635,626</u>	<u>\$11,296,969</u>
Total Liabilities and Net Worth	<u>\$29,292,423</u>	<u>\$28,941,380</u>

WHERE YOUR DOLLAR WENT 2014





Year	General	Estate	Capital Credit Retirements
2005	326,327.80	32,242.52	358,570.32
2006	387,303.49	29,257.50	416,560.99
2007	348,849.70	49,310.54	398,160.24
2008	344,866.66	24,804.13	369,670.79
2009	332,186.68	22,639.05	354,825.73
2010	350,751.59	24,801.42	375,553.01
2011	364,482.40	25,737.92	390,220.32
2012	356,665.45	31,816.41	388,481.86
2013	363,208.26	21,173.49	384,381.75
2014	412,023.00	34,547.00	446,570.00



Minutes of the annual meeting

KEM Electric Cooperative Inc. June 19, 2014

The 70th annual meeting of KEM Electric Cooperative, Inc. was called to order at 7 p.m., June 19, 2014, in the Linton Public School auditorium, Linton, North Dakota, with Chairman Dean Dewald presiding. The meeting commenced following an evening meal.

Fr. Jason Signalness, the pastor of St. Peter & Paul Catholic Church in Strasburg and St. Mary's Catholic Church in Hague, gave the invocation.

JayCee Richter and Teegan Scherr sang the National Anthem.

Crystal Jahner, president of the Linton Chamber of Commerce, gave the welcome address.

Chairman Dewald announced the order of business for the meeting. Cooperative Attorney Tom Bair was introduced.

Chairman Dewald reviewed the contents of the packets members received during registration and directed children to the location for the Children's Fun Night activities.

Secretary Carter Vander Wal reported the cooperative's membership as of June 19, 2014, consisted of 2,141 members and there were 174 members present at the time the meeting was called to order. This number represented a quorum. (A total of 175 members registered for the evening.) Chairman Dewald declared the meeting officially opened.

Secretary Vander Wal moved to dispense with reading of the notice of the annual meeting since it was mailed to the membership. The motion was seconded and carried. Chairman Dewald directed the Secretary to attach a copy of the notice of the meeting and proof of mailing to all members to the 2014 annual meeting minutes.

Chairman Dewald called for reading of the minutes of the June 20, 2013, annual meeting. Secretary Vander Wal moved to dispense with reading of the minutes and approve the minutes as published in the 2013 annual report. The motion was seconded and carried.

Chairman Dewald informed the members there would be time later in the meeting for members to address the meeting.

The early bird prize was awarded.

Chairman Dewald introduced guests in attendance and acknowledged the receipt of letters from public officials.

Chairman Dewald introduced the members of the Board of Directors as well as the employees of KEM Electric.

Chairman Dean Dewald announced the next order of business to be the election of two directors and introduced the following election tellers: Adolph Feyereisen, Braddock; Linda Rudolph, Dawson; Rick Van Beek, Strasburg; Jerome Pool, Pollock; and Adam Vetter, Linton. Chairman Dean Dewald stated the director seats up for election are in District No. 4, District No. 5 and District At-Large at this annual meeting.

Carter Vander Wal, Secretary/Treasurer, introduced Victor J. Wald, Napoleon, nominee for the District No. 4 position having been nominated by petition. Prior to calling for nominations from the floor, Mr. Vander Wal reviewed the requirements for nominations. Mr. Vander Wal asked for additional nominations. Hearing none, a motion was made from the floor to cast a unanimous ballot for Victor J. Wald. Motion carried.

Carter Vander Wal, Secretary/Treasurer, introduced Dean Dewald, Steele, nominee for the District No. 5 position having been nominated by petition. Prior to calling for nominations from the floor, Mr. Vander Wal reviewed the requirements for nominations. Mr. Vander Wal asked for additional nominations. Hearing none, a motion was made from the floor to cast a unanimous ballot for Dean Dewald. Motion carried.

Carter Vander Wal, Secretary/Treasurer, introduced director nominee Carmen Essig, Director At-Large, having been nominated by petition. Prior to calling for nominations from the floor, Mr. Vander Wal reviewed the requirements for nominations. Frank Werlinger was nominated from the floor. Carter Vander Wal asked for additional nominations. Hearing none, Mr. Vander Wal closed the nominations.

The voting for Director-At-Large took

place at this time.

Chairman Dewald introduced Tony Schaffner, Chairman of KEM Electric Operation Roundup. Mr. Schaffner reported on activities and introduced the Operation Roundup board members.

A motion was made and seconded to approve the Chairman's and Treasurer's reports as mailed. The motion carried.

Co-Alliance Managers Don Franklund and Chris Baumgartner from the Innovative Energy Alliance gave report on the 2013 KEM Electric activities.

Prizes were awarded.

Vice Chairman Victor J. Wald introduced Casondra Rutschke who was the winner of the 2013 Rural Electric Youth Tour Essay Contest. Casondra was selected to represent North Dakota on the national Youth Leadership Council as our state's delegate. Casondra presented a slide show of her trip.

Vice Chairman Victor J. Wald announced Benjamin Schuler as the recipient of the Basin \$1,000 scholarship and Taylor Ketterling as the \$500 KEM Electric scholarship.

Prizes were awarded.

A brief question and answer period was held.

Chairman Dewald called for any further business. Chairman Dewald assured the membership that all questions and comments from the membership are welcome.

The results of the election were revealed. In District-At-Large, there were 118 votes cast for Carmen Essig and 37 votes cast for Frank Werlinger. Carmen Essig was declared Director-At-Large.

Prizes were awarded.

Chairman Dewald thanked the employees and everyone that helped make the annual meeting possible.

The Grand Prize drawings were held. The winner of the \$200 progressive door prize was not present. At the 2015 Annual Meeting, the drawing will be \$300.

The 2015 annual meeting will be held in Linton on Thursday, June 18, 2015.

It was moved and seconded the meeting be adjourned. The motion carried. ■