

OFFICIAL NOTICE OF THE ANNUAL MEETING OF MEMBERS

The annual meeting of the members of KEM Electric Cooperative Inc. will be held in the Napoleon Public School Auditorium, Napoleon, North Dakota, at 7 p.m. Thursday, June 16, 2011, to take action on the following matters:

1. Election of three directors

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. In connection with the election of three 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 4

Victor J. Wald, Napoleon

District 5

Dean Dewald, Steele

District At-Large

Carmen Essig, Lehr

Dated: May 20, 2011
/S/ Carter Vander Wal, secretary

KEM Electric Cooperative, Inc.

2011 ANNUAL MEETING

THURSDAY, JUNE 16, 2011

Napoleon Public School Gym - Napoleon, N.D.

5:30 - 7 p.m.—Registration

- Member gifts
- Meal compliments of KEM
- An electric technologies booth will be on display throughout the evening.

7 p.m.—Business meeting

- Election of directors
- Report of officers and management
- Guest Speaker: Dennis Hill, executive vice president/general manager, North Dakota Association of Rural Electric Cooperatives
- Door prizes and grand prizes
- Progressive \$500 cash prize



7 p.m. — Children's Fun Night

Ages 3 – 10

If you need assistance because of a disability or physical handicap, please contact KEM Electric prior to June 16.



Dewald

Directors discuss critical issues

I would like to extend greetings to the members and friends of KEM Electric Cooperative. It is hard to believe another year has passed. It seems like it was not very long ago I was writing the 2010 president's report.

Even though it seemed like winter would never end, we were very fortunate this year to avoid any major winter snow and/or ice storms. We did have our share of

bad weather, but avoided any significant damages due to the weather. The repairs are continuing on the electric system from the devastating storm of 2010. The lineworkers are continuing their hard work; the repair work is almost complete.

Just recently, I had the privilege of attending the 2011 NRECA Legislative Conference in Washington, D.C. Cooperative members and rural Americans from across the United States traveled to Washington, D.C., to talk to our lawmakers about critical issues that have an impact on electric cooperative members and rural Americans.

This year, the major issues that were discussed were:

- continued support of the current Rural Utilities Service funding for electric cooperatives
- support the Recycling Coal Combustion Residuals Act of 2011
- continued support for incentives for renewable generation
- support for the Railroad Antitrust Enforcement Act

There are many more issues of concern, but these are the major issues at this time which will affect cooperatives and members from around the country. We need to continue to tell our lawmakers our story and try to acquire their continued support to keep electricity reliable and affordable for our members.

I would like to thank the members of KEM Electric Cooperative and the board for their support. I would also like to thank the employees of KEM Electric for their hard work and dedication. With the changes in the regulatory issues that affect KEM Electric, your board is acting in the best interest of the members to direct your cooperative into the future.

I hope each of you can join us at the annual meeting at Napoleon, Thursday, June 16, 2011.

CEO/General Manager's report

by John J. Knox



Knox

KEM Electric had productive year

The employees of KEM Electric and I would like to offer our greetings to you, the members of KEM Electric Cooperative. This is our 67th year of providing electric service to Emmons, Kidder, Logan and McIntosh counties. A lot has changed over those 67 years, but the one thing that has remained the same is our co-op way of thinking and dedication to you, the member-owners of KEM.

2010, 43 percent of our expenses went to purchasing that energy. While the cost of electricity is going up, so is the cost of other fossil fuels. Electricity is still the best value in providing the essentials to your farm, home or business.

Other changes that have and will affect the cooperative are rate increases or other charges from Basin Electric Power Cooperative and Western Area Power Administration. A vast majority of these increases are due to the regulatory requirements, which Basin and Western must adhere to. This is why we must make sure our voices and our story are heard in Washington, D.C., as Chairman Dewald addressed in his report.

While looking forward, KEM Electric has also looked at our future finances and how we will meet these needs. Recently, KEM Electric refinanced a portion of the long-term debt. This move will help save the cooperative approximately \$400,000 over the next 10 years. Borrowing money at the lowest rate possible is important for the cooperative.

Recently, KEM also started the borrowing process from RUS (Rural Utilities Services) for a new long-term note of \$6 million which will cover the cost of system improvements and construction costs over the next five years. As we review our costs of providing electricity and the responsibilities that go along with the task, KEM Electric is looking at our present rate structures and will determine if a rate increase is needed in the future. The cooperative has certain financial benchmarks that we must meet, as directed by the RUS.

As we move forward this year, we will be looking at opportunities to make us more efficient, to enhance the distribution system by taking advantage of upcoming technologies that will allow you or the system to save money through automation. As always, we know we must be financially responsible in our spending habits, while finding savings without hurting our reliability of providing electric service to you, the member-owners of KEM Electric Cooperative.

KEM Electric has had a very productive year. The restoration work from the 2010 devastating ice storm is near completion. As you know, we were eligible for Federal Emergency Management Agency (FEMA) money to help reduce our expenses in restoring the system. To date, the total cost of the storm was \$3.2 million. Presently, FEMA has reimbursed KEM \$2.1 million for the storm damages, with an additional \$255,000 funding still pending. To date, KEM Electric is responsible for \$845,000.

This past year, we analyzed our distribution and transmission systems to determine what improvements needed to be made to continue to provide reliable service that meets your expectations, while performing these services at an affordable rate. Since then, we completed our 2011-2014 construction work plan, which gives us the plan needed to maintain and enhance our infrastructure. Some of the improvements that will be made to protect and upgrade the system consist of burying certain sections of overhead line, replacing aged poles, and replacing/upgrading certain equipment such as transformers and regulators.

Another positive for KEM is that our kilowatt-hours (KWH) sold have been on a steady increase over the last several years, with over 70 million kWh sold in 2010. The increase in sales has been to new loads such as the Williston-Basin Pumping Station, new electric heat loads, and new services added to the system.

The cost of purchasing your energy has also been increasing. In

2010 annual meeting minutes

June 17, 2010

The 66th annual meeting of KEM Electric Cooperative, Inc. was called to order at 7:00 p.m., June 17, 2010 in the Linton Public School auditorium, Linton, North Dakota with Chairman Dean Dewald presiding. The meeting commenced following an evening meal.

Robin Weber, Breanna Burgad and Lakin Kramer, students from the Linton Public School, sang the National Anthem.

Perry Kimble, Linton, gave the invocation.

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.

Chairman Dewald expressed appreciation to the KEM Community Service Organization, and the FBLA/FCCLA Clubs for their assistance with the meeting.

Secretary Carmen Essig reported the Cooperative's membership as of June 17, 2010 consisted of 2,115 members and there were 175 members present at the time the meeting was called to order. This number represented a quorum. (A total of 178 members registered for the evening.) Chairman Dewald declared the meeting officially opened.

Secretary Essig 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 2010 annual meeting minutes.

Chairman Dewald called for reading of the minutes of the June

18, 2009 annual meeting. Secretary Essig moved to dispense with reading of the minutes and approve the minutes as published in the 2009 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.

The meeting was turned over to General Manager/CEO John J. Knox. Mr. Knox introduced guests in attendance and acknowledged the receipt of letters from public officials.

Manager Knox introduced the members of the Board of Directors.

Chairman Dewald then conducted the election of directors.

Chairman Dean Dewald announced the next order of business to be the election of two directors and introduced the following election tellers: George Bohlin, Braddock; Clarence Hettich, Hazelton; Rick Van Beek, Strasburg; Ken Vander Vorst, Pollock; Peggy Welder, Napoleon; Linda Rudolph, Dawson; Ron Bauman, Strasburg; and Bill Becker, Wishek. Mr. Dewald stated the director seats up for election are in Districts 3 and 4 and District At-Large. The Director position for District 4 is for the remaining one year.

Mr. Dewald introduced director Milton Brandner, Zeeland, nominee for the District No. 3 position having been nominated by petition. Prior to calling for nominations from the floor, Chairman Dewald reviewed the requirements for nominations. Mr. Dewald called for nominations from the floor. Mark Dohn was nominated from the floor. The nomination was seconded. Chairman Dewald asked for additional nominations. Hearing none, Chairman Dewald closed the nominations.

Continued on page C8

Independent auditor's report

We have audited the accompanying balance sheets of KEM Electric Cooperative Inc. as of Dec. 31, 2010 and 2009, and the related statements of revenue and expenses, patronage capital and other equities, and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, and the results of its operations, patronage capital and other equities, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

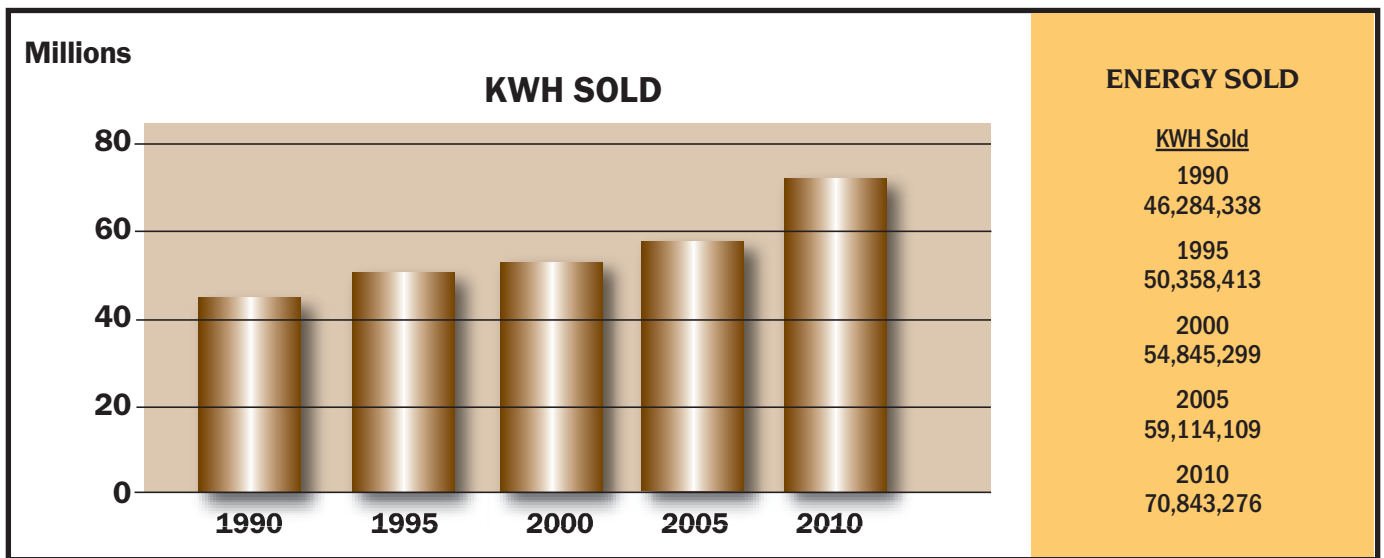
In accordance with Government Auditing Standards, we have also issued a report dated March 17, 2011, on our consideration of KEM Electric Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of KEM Electric Cooperative Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

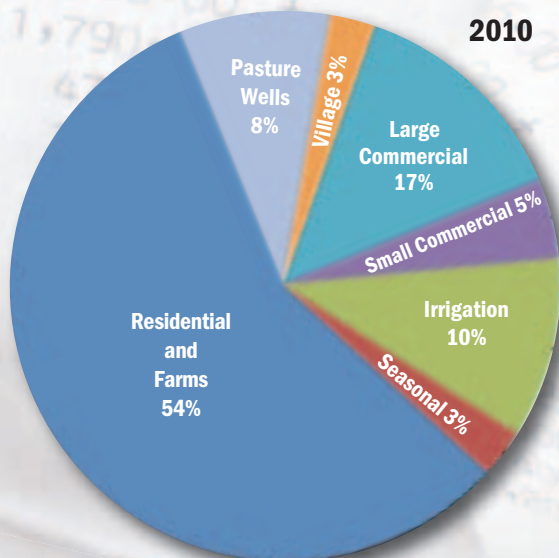
BRADY, MARTZ & ASSOCIATES, P.C.
March 17, 2011

2010 COMPARATIVE INCOME STATEMENT

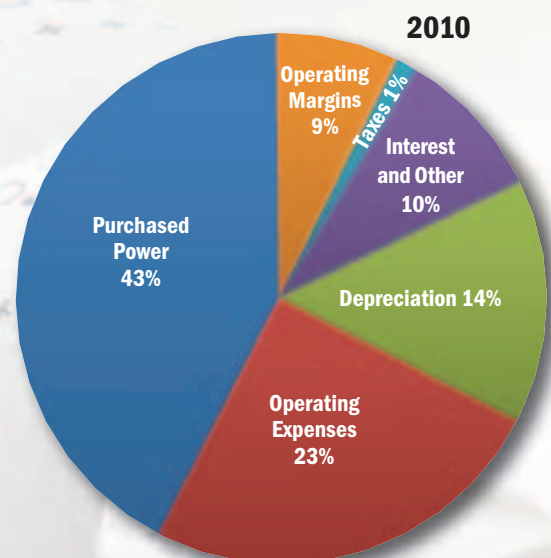
	<u>2010</u>	<u>2009</u>
Operating Revenue	\$6,807,841	\$6,227,023
Cost of wholesale electric power	2,917,670	2,636,025
Transmission line and substation expense	15,728	24,358
Distribution expense-operations and maintenance	676,089	622,574
Consumer accounts and customer service expense	145,041	157,221
General and administrative expense	750,063	747,307
Depreciation	923,747	916,218
Tax expense	77,307	79,045
Interest	678,577	564,990
Other deductions	<u>6,992</u>	<u>14,200</u>
Total cost of electric service	\$6,191,214	\$5,761,938
Patronage capital and operating margins	616,627	465,085
Other operating margins (associated cooperatives)	84,551	200,769
Non-operating margins	108,109	107,232
Total Margins and Patronage Capital	<u>\$809,287</u>	<u>\$773,086</u>



WHERE YOUR DOLLAR CAME FROM



WHERE YOUR DOLLAR WENT





BALANCE SHEET

Dec. 31, 2009 and 2010

ASSETS	<u>2010</u>	<u>2009</u>
Electric Plant	\$35,559,964	\$33,502,100
Less Depreciation	16,867,140	16,056,820
Net Electric Plant	\$18,692,824	\$17,445,280
Cash - General Fund	\$ 180,367	\$ 360,520
Temporary Cash Investment	1,575,000	255,000
Investments in Associated Organizations	2,641,884	3,688,116
Accounts Receivable (Net)	737,709	755,797
Materials and Supplies	533,027	398,036
Other	78,867	41,253
Total Assets	\$24,439,678	\$22,944,002
LIABILITIES		
Long-Term Debt (Net)	\$13,617,167	\$12,421,153
Consumer Prepayments	80,449	84,000
Accounts Payable	401,301	454,249
Other Current and Accrued Liabilities	286,763	322,050
Power Cost Refund Deferred	234,299	289,299
Total Liabilities	\$14,619,979	\$13,570,751
NET WORTH		
Patronage Capital	\$ 7,723,695	\$ 7,398,071
Donated Capital	202,974	190,258
Non-Operating Margins	1,893,030	1,784,922
Total Net Worth	\$ 9,819,699	\$ 9,373,251
Total Liabilities and Net Worth	\$24,439,678	\$22,944,002

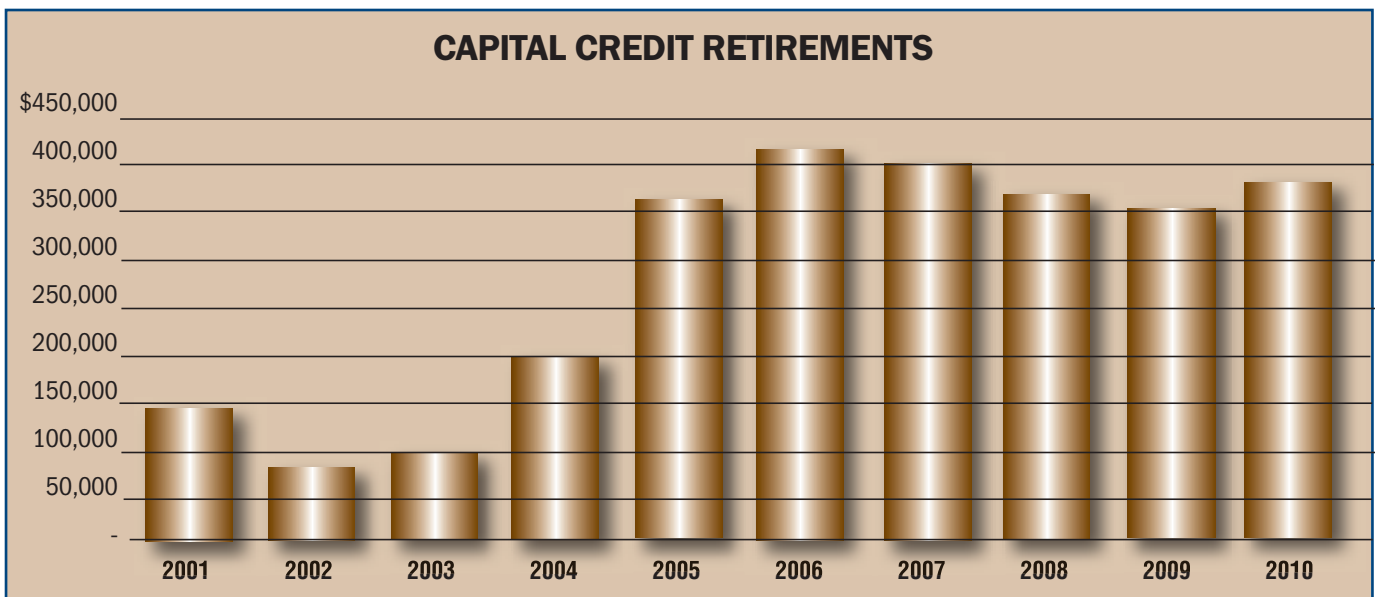
CAPITAL CREDITS

	General	Estate	Total
2001	120,398.80	25,626.30	146,025.10
2002	46,830.27	26,880.51	73,710.78
2003	74,968.78	27,338.22	102,307.00
2004	174,983.20	27,225.15	202,208.35
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

COOPERATIVE STATISTICS

	<u>2010</u>	<u>2009</u>
Number of members	2,128	2,186
Number of meters	3,619	3,366
Miles of line	2,988	2,971
Kilowatt-hours (kWh) sold	70,843,276	54,139,046
Average monthly (kWh) used	1,634	1,353
Average monthly bill	\$153.75	\$111.23
Meters per mile	1.21	1.13
Members served per mile	0.71	0.74

CAPITAL CREDIT RETIREMENTS



KEM Electric Cooperative

BOARD OF DIRECTORS



Dean Dewald
Chairman
Steele
District 5



Milton Brandner
Vice Chairman
Zeeland
District 3



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



Carmen Essig
District At-Large
Lehr



Adolph Feyereisen
Braddock
District 1



Dean Hummel
Hague
District At-Large



Victor J. Wald
Napoleon
District 4



John J. Knox
CEO/General
Manager

Meet the candidates....

Victor J. Wald - District 4

Victor J. Wald (Chuck) and Susan (Dewald) have been married for 26 years and have four children: Alex, 24, Austin, 21, Logan, 19, and Lucas, 15. Victor and Susan operate a dairy farm north of Napoleon. In addition, the Walds also raise wheat, barley, sunflowers, corn and beef cattle. Victor is currently serving as the president of Logan County Farm Bureau and as president of the Napoleon Community Center committee.

As a rural energy member, I see the necessity of electricity in every aspect of our operation. A need for strong leadership in the cooperative is essential for KEM. We need to be on the cutting-edge of the energy industry, and be able to provide our members with the best product, prices and service possible.

I currently have been on the KEM Electric board for one year. I have learned an exceptional amount of information about the rural electric cooperative. KEM Electric is a well-organized cooperative that faces many challenges ahead. If elected again, I will do my best to help keep KEM Electric on the right path moving forward in today's economy.



Dean Dewald - District 5

In June 2002, I was elected by the members of KEM Electric Cooperative to be their representative for District 5. It is hard to imagine that I have been on the board for nine years! During those nine years, I have learned a tremendous amount of information relating to the operations of the electric cooperative and the electric industry in general. It has been a very rewarding and exciting tenure. I would like to continue serving the membership of KEM Electric as a director for District 5.

My wife, Robin, works at Northland Financial Insurance in Steele. Our oldest daughter, Darcie, attends college at Minot State University. Our daughter, Darla, is a senior at Kidder County High School in Steele. Our family operates a cow/calf operation south of Dawson. I recently accepted a supervisor position doing crop insurance.

I would like to thank the members of KEM Electric for allowing me to serve as director for District 5. I would appreciate your support in my re-election efforts at this year's annual meeting.

I hope to see you at the annual meeting on Thursday, June 16, at the Napoleon High School.



Carmen Essig - At-Large

I have enjoyed being a board member of KEM Electric for the past 12 years and would like to continue to serve you. I have attended many director training sessions and I feel I have the knowledge to continue to make the right decisions for you, the members. I look forward to serving the membership with prompt and reliable service. Since I am at the end of a line, I especially know that reliable and quality service is important. My goal is to work for the good of the cooperative. Thank you for your support and confidence.

My wife, Cindy, and I have two grown children, Damen (and his wife, Amanda) and Russel. I operate a ranch 11 miles north of Lehr and am active in my community and church. Cindy is the owner of Photos by Cindy photography studio.





KEM Electric connects members to **UTILITY REBATES**

Members, if you are thinking about making energy-efficiency improvements to your home or place of business, there is a great rebate program now available through the American Recovery & Reinvestment Act. More than \$2 million has been set aside for electric cooperative members in North Dakota, making NOW the smartest, most economical time to make residential and commercial energy-efficiency improvements. The N.D. Department of Commerce launched the utility rebate program on June 1, 2010.

RESIDENTIAL REBATES

Residential members will be able to apply for more than one category of rebate, but the total residential rebate maximum is \$5,000. Consider upgrading or retrofitting with Energy Star-rated products or renewable energy systems including an air-source heat pump, a central air conditioner, a water heater, a geothermal heat pump, and solar applications and wind turbines (subject to utility interconnect policy). Rebates are also available to help with the costs of an energy audit, and to add attic and wall insulation.

COMMERCIAL REBATES

Commercial members can apply for up to \$15,000 in utility rebates on energy-efficient products and services including lighting, motors, central air conditioners, building recommissioning, custom design, energy audits, geothermal heat pumps, solar applications and wind turbines. (subject to utility interconnect policy). To receive certain commercial rebates, an applicant must include documentation that federally approved Davis-Bacon wages were paid on the project.

Both residential and commercial rebates also offer two demand response program rebates for a thermal storage central furnace with an air-

source heat pump and thermal storage water heater program. For program details, go to: www.ndarec.com.

To take advantage of this generous rebate program:

1. Members and contractors should stop by KEM Electric Cooperative headquarters, or contact us.
2. Get the applicable rebate form,
3. Study the specific product requirements,
4. Talk to cooperative staff to make sure a product meets those specific requirements,
5. Ask our co-op to verify that there is still money available through the utility rebate program,
6. Purchase and install the energy-efficiency product, and
7. Fill out the rebate application and return the completed paperwork to KEM Electric Cooperative.

You must include a receipt that shows the date of purchase is June 1, 2010, or later. Once the paperwork is filled out and returned, it will then be submitted to the N.D. Association of Rural Electric Cooperatives (NDAREC), which will review the information for eligibility. NDAREC will then issue a rebate check and forward it on to KEM Electric for delivery to the consumer. All rebates will be handled on a first-come, first-served basis. The program is open to all electric co-op members in North Dakota. The program ends when the money runs out, or on Dec. 31, 2011, whichever comes first.

There are a few limitations to the utility rebate program. In order to be eligible for a rebate a consumer must purchase the equipment or product on

or after June 1, 2010. Rebates are not available for federal, state or local government agencies, including public schools. And if members make energy-efficiency improvements prior to the launch of the program, they will not qualify for a retroactive rebate.

Some facilities are also ineligible for rebates, including swimming pools, golf courses, gambling establishments, aquariums and zoos.

This program, combined with current tax credits for energy efficiency and KEM Electric Cooperative's other programs, will mean plenty of energy investment dollars going back into your pocket. There has probably never been a smarter time to make energy efficiency investments. By installing high-efficiency energy systems or renewable-energy technologies, KEM Electric members will save immediately with the rebates and credits and receive future benefits from lower energy bills.

As always, the member services department at KEM Electric is ready to help you, our member-owners. To learn how these utility rebates and other programs can benefit you, especially if you are considering energy-efficiency improvements, call KEM Electric at (701) 254-4666 or (800) 472-2673 today.



BOARD MINUTES...continued from page C3

Chairman Dewald introduced director nominee Dean Hummel, District At-Large, having been nominated by petition. Prior to calling for nominations from the floor, Mr. Dewald reviewed the requirements for nominations. There were no nominations from the floor. A motion was made and seconded that the secretary cast a unanimous ballot for Dean Hummel director for District At-Large. The motion carried. Mr. Hummel was declared Director for District At-Large.

Chairman Dewald introduced director nominee Victor J. Wald, District 4, having been nominated by petition. Prior to calling for nominations from the floor, Mr. Dewald reviewed the requirements for nominations. There were no nominations from the floor. A motion was made and seconded that the secretary cast a unanimous ballot for Victor J. Wald director for District 4. The motion carried. Mr. Wald was declared Director for District 4.

The voting for District 3 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.

Manager Knox introduced guest speaker Mike Eggl, with Basin Electric. Mr. Eggl addressed the membership.

Chairman Dean Dewald announced Carlene Ternes as the recipient of the Basin \$1,000 scholarship and Kimberly Hulm as

the \$500 KEM Electric scholarship. He also announced Sarah Nagel as the recipient of the \$1,000 Basin Electric dependent of cooperative employee scholarship.

Manager John J. Knox announced Kaitlyn Ebel as the winner of the 2010 Rural Electric Youth Tour Essay Contest. Kaitlyn was unable to attend the meeting as she was in Washington, D.C. representing North Dakota on the tour.

Prizes were awarded.

A brief question and answer period was held.

Mr. 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 3 there were 78 votes cast for Milton Brandner and 73 votes cast for Mark Dohn. Milton Brandner was declared Director in District 3.

Chairman Dewald thanked the employees, the FBLA/FCCLA Clubs of Linton, and the Women's Group.

Prizes were awarded.

The winner of the \$500 progressive door prize was not present. Chairman Dewald stated that after careful consideration it was decided to stay with one progressive door prize. At the 2011 Annual Meeting the drawing will stay at \$500.

The 2011 annual meeting will be held in Napoleon on Thursday, June 16, 2011.

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

KEM Electric employees

CEO/General Manager

John J. Knox

Staff:

Richard Ibach, Line Superintendent
Brian Jacob, Manager of Member Services
Roberta Nagel, Office Manager

Office Employees:

Diane Grossman, Plant Accountant
Lisa Cross, Billing Clerk
Dawn Schiele, Executive Assistant
Alex Craigmile, Accounting Clerk
Gerald and Ramona Birdsell, Custodians

Line Department:

Linton Office:

Gary Hulm, General Foreman
Jeff Gefre, Area Foreman
Dave Twardoski, Journeyman Lineman
Ken Schneider, Journeyman Lineman
Tim Dockter, Journeyman Lineman
Jeff Werner, Warehouseman/Purchasing Clerk

Steele Outpost:

Paul Hewitt, Area Foreman
Jake Zink, Journeyman Lineman

Looking back on last year's annual meeting....

