

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 Public School Auditorium, Linton, North Dakota, at 7 p.m. Thursday, June 17, 2010, to take action on the following matters:

1. Election of three directors

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 3

Milton Brandner, Zeeland

District 4

Victor Wald Jr., Napoleon

District At Large

Dean Hummel, Hague

Dated: May 14, 2010
Carmen Essig, secretary



KEM Electric Cooperative, Inc. 2010 ANNUAL MEETING

THURSDAY, JUNE 17, 2010
Linton Public School Gym
Linton, N.D.

5:30 - 7 p.m.—Registration

Member gifts
Meal compliments of KEM

7:00 p.m.—Business meeting

- Election of directors
- Report of officers and management
- Guest Speaker: Mike Eggl,
Basin Electric Power Cooperative
- Door prizes and grand prizes
- Progressive \$500 cash prize
(All members' names will be entered in drawing.
Must be present to win.)

- An electric technologies booth will be on display throughout the evening.
- The Emmons County Health will hold a health fair from 5:30 – 7 p.m.

7:00 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 17.

President's report



Dewald

Cooperative sees challenging year

by Dean Dewald

I would like to extend greetings to the members and friends of KEM Electric Cooperative. It has been a very exciting and challenging year at the cooperative as your board president.

We, as a board, had the task of hiring a new chief executive officer/general manager. Thanks to Ken Holmes at the National Rural Electric Cooperative Association, the process went smoothly and successfully. We were excited to hire John Knox. John joined the cooperative Feb. 1 and stepped into a major crisis that the recent snow and ice storm had created in the area. John is no stranger to these types of situations and worked well with the staff. I would like to thank our employees and additional outside help for doing a great job in restoring power to the members. Also thanks to the members for their understanding and support in difficult situations.

As I have talked about during the last two years, we need to keep in contact with our congressional delegates on the issues that affect our business. Examples are carbon tax, climate change and water uses that affect the hydropower systems.

These issues will not go away. This is why we need to continue to voice our side of the issues. The membership, along with other cooperative members from across the country, will need to be heard; the message is simple "Our Energy . . . Our Future." KEM Electric's directors along with the staff are concerned about your electric bill, however, other people in Washington, D.C. do not have your best interests in mind.

Once again, I would like to thank the members and the board for their continued support. Your board is doing its best to guide the cooperative today and into the future.

I hope to see each of you at your cooperative's annual meeting in Linton Thursday, June 17.

Manager's report



Knox

Looking forward to continued service

by John Knox

For those of you who have not met me, my name is John Knox. I am your new chief executive officer/general manager. I have 22 years experience in the cooperative network, working for two other electric cooperatives. I am excited about working here at KEM Electric Cooperative and living

in North Dakota. The people I have met are fantastic and the area is very nice and has lots to offer my family and me.

by the Environmental Protection Agency (EPA) will not be beneficial to the working class of America. The loss of jobs and the impact that these regulations will have on our economy will be very costly in the end. These types of regulations will keep affecting and raising our rates now and in the future.

Concerning the financial status of KEM Electric, one reason I chose KEM Electric was its financial position and strengths, of which your current rate structure is very good. By looking at the financials provided on the next few pages, your board of directors has performed well in making sure that your cooperative is financially sound. The one question I am often asked is, "Are you going to raise rates?" My answer to that question is, "I hope not!"

Since I started in February, we have had a few challenges, including two ice storms that caused considerable damage. The employees at KEM Electric did a fantastic job of restoring electricity as quickly and safely as possible for you, the members. I want to say thank you for your patience while we made and continue to make all the repairs from these disasters.

It is my responsibility to make sure that your cooperative is run properly and that certain financial benchmarks are met. The financial damage from the storm has not been finalized yet. This will be a major factor along with any additional taxes or other costs which we will be burdened with in the near future from the government or our power suppliers. Both of these will be a determining factor as to where rates go. My goal is to make sure we keep our expenses in check and operate the cooperative to meet your needs. We must keep the system sound so it can continue to deliver reliable electricity to your farms and homes in the most affordable way possible.

As members of KEM Electric Cooperative, you have two power suppliers that help stabilize your electric rates, Basin Electric Power Cooperative (BEPC) with its abundant coal resources and Western Area Power Association (Western) and its hydro resources. The rate structure that they offer KEM Electric and its membership is very favorable. What we need to focus on as a cooperative is making sure we are able to keep our energy costs as low as possible. We need to be proactive with getting our message to our congressional delegations and other people across the country. We need them to know that the cap and trade and issues of carbon regulation

I am looking forward to seeing you at KEM's annual meeting Thursday, June 17.

2009 annual meeting minutes

June 18, 2009

The 65th annual meeting of KEM Electric Cooperative, Inc. was called to order at 7:00 p.m. June 18, 2009, in the Linton Public School auditorium, Linton, North Dakota, with Chairman Dean Dewald presiding. The meeting commenced following an evening meal.

Perry Kimble, Linton, gave the invocation.

Cole Glass, Holly Glass, Liz Forsythe, Sarah Forsythe, Renae Vetter, Robin Weber, Brianna Burgad and Hayley Jangula, students from the Linton Public School, sang the national anthem.

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, the Linton Lions Club, and the FBLA/FCCLA Club's for their assistance with the meeting.

Secretary Carmen Essig reported the Cooperative's membership as of June 18, 2009, consisted of 2,119 members and there were 183 members present at the time the meeting was called to order. This number represented a quorum. (A total of 183 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 2009 annual meeting minutes.

Chairman Dewald called for reading of the minutes of the June 17, 2008, annual meeting. Secretary Essig moved to dispense with reading of the minutes and approve the minutes as published in the 2008 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 Interim General Manager Ken Berreth. Mr. Berreth introduced guests in attendance and acknowledged the receipt of letters from public officials. Manager Berreth introduced the members of the Board of Directors.

Chairman Dewald then conducted the election of directors. Vice Chairman Milton Brander announced the next order of business to be the election of two directors and introduced the following election tellers: Gary Wolff, Zeeland; Neil Meidinger, Zeeland; John Gross, Napoleon; Chris Stroh, Tappen; Ray Zimmerman, Wishek; Linda Rudolph, Dawson; and Nathan Wolf, Zeeland. Mr. Dewald stated the director seats up for election are in Districts 1 and 2.

Mr. Dewald introduced director Adolph Feyereisen, Braddock, nominee for the District 1 position having been nominated by petition. Prior to calling for nominations from the floor, Chairman Dewald reviewed the requirements for nominations. There were no nominations from the floor. It was moved and seconded to instruct the secretary to cast a

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Independent auditor's report

We have audited the accompanying balance sheets of KEM Electric Cooperative, Inc. as of Dec. 31, 2009, and 2008, and the related statements of revenue, 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, 2009, and 2008, 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 22, 2010, 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.

BRADY, MARTZ & ASSOCIATES, P.C.

March 22, 2010

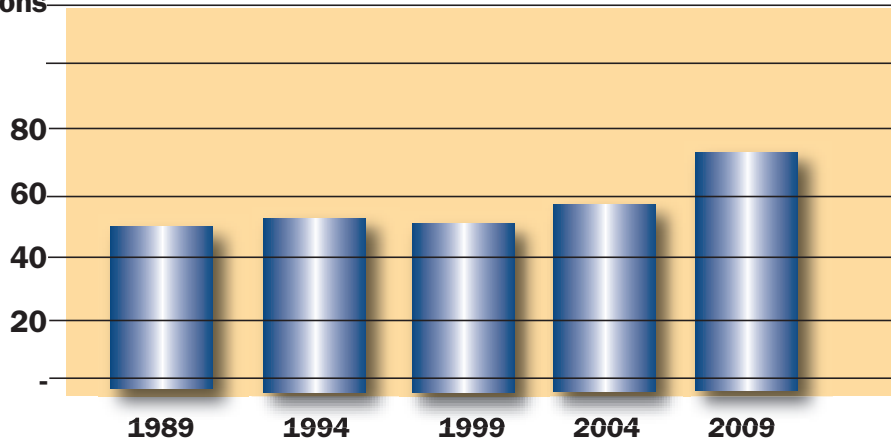
2009 COMPARATIVE INCOME STATEMENT

	<u>2009</u>	<u>2008</u>
Operating revenue	\$6,227,023	\$5,863,444
Cost of wholesale electric power	2,636,025	2,136,296
Transmission line and substation expense	24,358	21,873
Distribution expense-Operations and maintenance	622,574	808,362
Consumer accounts and customer service expense	157,221	184,743
General and administrative expense	747,307	765,214
Depreciation	916,218	904,405
Tax expense	79,045	125,549
Interest	564,990	526,109
Other deductions	14,200	6,359
Total cost of electric service	\$5,761,938	\$5,478,910
Patronage capital and operating margins	465,085	384,534
Other operating margins (associated cooperatives)	194,712	301,734
Non-operating margins	113,290	34,502
Total margins and patronage capital	<u>\$773,086</u>	<u>\$720,770</u>



KWH SOLD

Millions



ENERGY SOLD

KWH Sold

1989
48,667,576

1994
49,928,156

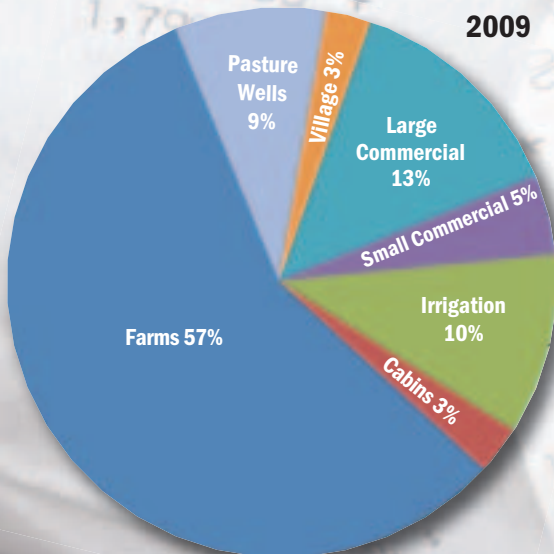
1999
49,587,403

2004
56,343,968

2009
72,557,501

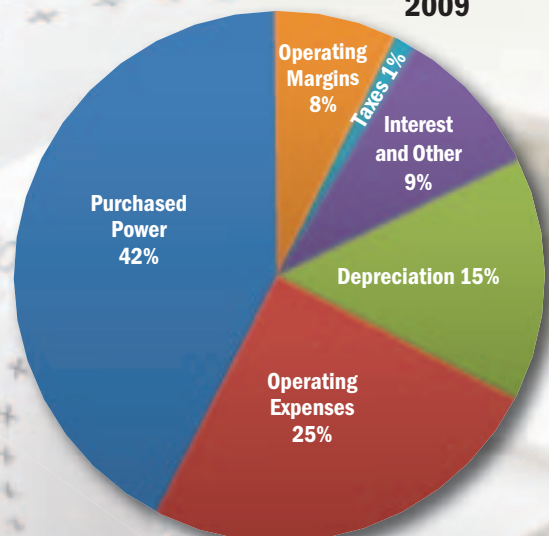
WHERE YOUR DOLLAR CAME FROM

2009



WHERE YOUR DOLLAR WENT

2009





BALANCE SHEET

Dec. 31, 2008 and 2009

ASSETS	<u>2009</u>	<u>2008</u>
Electric plant	\$33,502,100	\$32,639,924
Less depreciation	16,056,820	15,251,396
Net electric plant	\$17,445,280	\$17,388,528
Cash—General fund	\$360,520	\$319,996
Temporary Cash Investment	\$255,000	-
Investments in associated organizations	3,688,116	3,552,361
Accounts receivable (net)	755,797	746,930
Materials and supplies	398,036	381,982
Other	41,253	22,934
Total assets	<u>\$22,944,002</u>	<u>\$22,412,731</u>
 LIABILITIES		
Long-term debt (net)	\$12,421,153	\$12,516,534
Consumer prepayments	84,000	83,727
Accounts payable	454,249	292,651
Other current and accrued liabilities	322,050	342,388
Power cost refund deferred	289,299	234,299
Total liabilities	<u>\$13,570,751</u>	<u>\$13,469,599</u>
 NET WORTH		
Patronage capital	\$7,398,071	\$7,087,043
Donated capital	190,258	178,401
Non-operating margins	1,784,922	1,677,688
Total net worth	<u>\$9,373,251</u>	<u>\$8,943,132</u>
Total liabilities and net worth	<u>\$22,944,002</u>	<u>\$22,412,731</u>

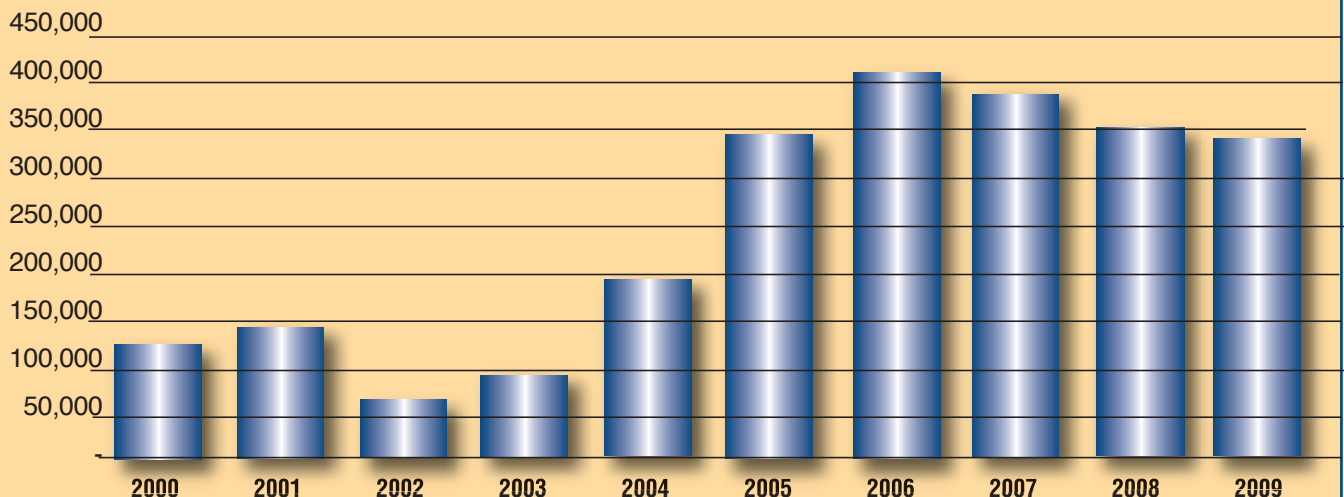
CAPITAL CREDITS

	General	Estate	Total
2000.....	104,506.80	25,052.36	129,559.16
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

COOPERATIVE STATISTICS

	<u>2009</u>	<u>2000</u>
Number of members	2,114	2,198
Number of meters	3,637	3,316
Miles of line	2,988	2,977
Kilowatt-hours (KWH) purchased	79,268,943	60,701,623
Average monthly KWH used	2,502	1,378
Average monthly bill	\$205.38	\$112.01
Meters per mile	1.22	1.11
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



Carmen Essig
sec.-treas.
Lehr
District At Large



Adolph Feyereisen
Braddock
District 1



Dean Hummel
Hague
District At Large



Carter Vander Wal
Pollock, S.D.
District 2



John Knox
Manager

DIRECTOR ELECTIONS

KEM Electric Cooperative members will elect three directors this year. The director seats up for election are those of incumbents. Milton Brandner in District 3, Dean Hummel in the District at Large Director. Also up for election is the remaining term in District 4.

KEM ELECTRIC COOPERATIVE'S SERVICE AREA



Meet the candidates....

Milton Brandner – District 3

I am running for re-election on the KEM Electric board for District 3. My wife, Judy, and I live nine miles north of Zeeland. We have four grown children, 10 grandchildren and one great-grandson. I have ran an auction business for 37 year and I am still active in auctioneering.

There are always new challenges facing KEM Electric. I believe my 24 years experience on the board are an advantage to KEM. I continue to learn new and improved ways to better your cooperative through our cooperative education process. Your support would be greatly appreciated. I hope to see you all the annual meeting.



Dean Hummel - District at Large

I am running for re-election on the KEM board for the District at Large Director.

My wife, Connie, and I live three miles north of Hague. We run a livestock and grain farm. We have four children, with one in college. We also have four grandchildren — all boys — and two girls on the way.

I have served on the KEM board for six years. I have learned a great deal and dealt with many important issues. I have completed all the courses to become a certified board member. I feel I can be an asset to KEM Electric.

Your support would be greatly appreciated. I hope to see you in Linton on June 17.



Victor Wald - District 4

Victor J. Wald (Chuck) and Susan (Dewald) have been married for 26 years and have four children: Alex, 23, Austin, 20, Logan, 18, Lucas, 14. Victor and Susan operate a dairy farm north of Napoleon. In addition to dairy, 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 consumer, I see the necessity of electricity in every operation. I feel the need for strong leadership of the co-op is essential to keep it on the cutting edge of the energy industry, and able to provide the consumers with the best product, prices and service possible.





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.

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. 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

unanimous ballot for Adolph Feyereisen director in District 1. The motion carried. Mr. Feyereisen was declared director for District 1.

Chairman Dewald introduced director nominee Carter Vander Wal, Pollock, from District 2 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 Carter Vander Wal director in District 2. The motion carried. Mr. Vander Wal was declared Director for District 2.

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

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

Manager Berreth introduced guest speaker Jim Bach, customer service representative at Western Area Power Administration. Mr. Bach addressed the membership. Manager Berreth then introduced guest speaker Douglas Neibauer, executive director with South Central Regional Water District. Mr. Neibauer addressed the membership. Chairman Dean Dewald announced Stephanie Bechtle as the

recipient of the Basin \$1,000 scholarship and Ashlee Bernhardt, Linton, as the recipient of \$500 KEM Electric scholarship. Ms. Bernhardt briefly addressed the membership.

Manager Ken Berreth announced Darla Dewald as the winner of the 2009 Rural Electric Youth Tour Essay Contest. Darla was unable to attend the meeting as she was in Washington, D.C., representing North Dakota on the tour.

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.

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

Prizes were awarded.

The winner of the \$500 progressive door prize was not present. Chairman Dewald made a suggestion that next year there will be two progressive door prizes. One prize will remain at \$500 and another will start over at \$100. Discussion will be held on this at the next regular board meeting.

The 2010 annual meeting will be held in Linton on Thursday, June 17, 2010.

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

KEM Electric employees

Chief Executive Officer/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
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....

