



Your  
Cooperative



# CELEBRATING 70 YEARS



Your  
Community



**KEM  
Electric Cooperative, Inc.**

A Touchstone Energy® Cooperative 

## ***ANNUAL REPORT***

***2014 annual meeting  
Thursday, June 19, 2014  
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. Thursday, June 19, 2014, to take action on the following matters:

## **1. Election of three directors**

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, Dawson

### **District At-Large**

Carmen Essig, Lehr

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 20, 2014

/s/ Carter Vander Wal, secretary

## **KEM Electric Cooperative, Inc. 2014 annual meeting**

**Thursday, June 19, 2014  
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, Inc.

7 p.m. – Business meeting

- Election of directors
- Report of officers
- Innovation Energy Alliance report
- Prize Drawings including an Apple iPod nano, Kindle, Apple iPad mini
- Grand prize of a Traeger Electric Grill

- Progressive \$200 cash prize (All members' names will be entered in drawing. Must be present to win.)

7 p.m. – Children's Fun Night Activities & prizes for ages 3-10

*If you need assistance because of a disability or physical handicap, please contact KEM Electric prior to June 19.*

## **KEM Electric Employees**

### **General Managers/CEO**

Chris Baumgartner  
Don Franklund

### **Staff**

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

### **Office employees**

Lisa Cross, Billing clerk  
Dawn Schiele, Executive assistant  
Alex Craigmile, Accounting clerk  
Kirk Praus, Member support technician  
Marcy Sanders, Service dispatcher  
Gerald and Ramona Birdsell, custodians

### **Line department**

*Linton office*  
Jeff Gefre, Area foreman  
Tim Dockter, Journeyman lineworker  
Dave Twardoski, Journeyman lineworker  
Dale Nagel, Apprentice lineworker  
Kevin Horner, Journeyman lineworker  
Austin Ohlhauser, Apprentice lineworker  
Jeff Werner, Warehouse/Purchase Clerk

### *Steele Outpost*

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



**Dewald**

## **Chairman's report**

### **Co-op shares challenges on national level**

BY DEAN DEWALD

I would like to send greetings to the members and friends of KEM Electric Cooperative. Again, this was a year when it seemed spring would never arrive. This has been somewhat common for the last several years.

The co-op has been very fortunate again this past year to avoid any major storm damage. We have had a few outages, which brought up an interesting question from a member.

I was asked if our system is really that old. Records indicate that KEM Electric Cooperative's first substation was energized on April 2, 1949. During one of the outages when equipment failed at an interconnection with Montana-Dakota Utilities, records had to be checked to see who was responsible for certain equipment. It had been functioning flawlessly since it was installed. It was also discovered that the equipment had been used when originally installed.

So to answer the question, yes our system is old. There are many original poles and much original wire out on the system. Stop and think about the elements the system endures over that amount of time: everything from hot, cold, rain and ice to wind, snow and hail.

The managers and staff are working diligently to repair and replace the system as needed. It is very difficult to find faults when the system is working properly. Regular maintenance and replacement are being carried out all year. Despite its age, our system has been very reliable. It is very important for members to report outage and blinks to the office. This helps staff to find problems and repair them.

We also have all of the other issues affecting costs to the members: regulation, transportation, endangered species and so many more. We need to voice our concerns to our elected officials to get their support on these critical issues.

I would like to thank the members of KEM Electric Cooperative and the board for their support. I would also like to thank the staff for their dedication and work. The board is acting in the best interest of the members of KEM.

I hope to see you at the annual meeting at Linton, Thursday, June 19, 2014. ■



*Do you recognize any of the members in this photo from the 1950s of the KEM Electric Cooperative board of directors? Watch for their names in next month's issue.*

## **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  
Dawson



*At-Large director*  
**Dean Hummel**  
Hague



*At-Large director*  
**Carmen Essig**  
Lehr



**Baumgartner**



**Franklund**

## **Managers' report**

### **KEM Electric offers affordable, reliable service**

BY CHRIS BAUMGARTNER AND DON FRANKLUND

**A**s we enter the summer of 2014, the long, cold winter is behind us and we look forward to another fast-paced and interesting new year. Our goal, as in prior years, is to safely provide you, our member-owners, with affordable and reliable electric service.

As you review this annual report, you will notice the record sales by your cooperative. The weather pattern for 2013 resulted in greater than normal sales for heating and grain drying. In addition, we have also seen growth in new members joining the cooperative, which has resulted in greater sales.

Your cooperative continues to balance reliability with affordability. Simply stated, the more reliable we make your electric service, the greater the cost. While we pride ourselves in being prudent with your dollars, we strive to be more efficient in the operations going forward.

Safety is an area in which we cannot and do not cut corners. This past year, your cooperative, working with neighboring cooperatives, hired a dedicated safety coordinator. This person works with our employees to review, develop and implement safe work

procedures. This allows everyone to better understand the rules and regulations to assure we stay in compliance with federal and state laws.

Safety and reliability are key factors with the implementation of rules and regulations from the North American Electric Reliability Corporation, known as NERC. These rules outline how we will operate, test and document several key elements of our transmission system and computer network. We are working with our neighboring cooperatives to reduce the overall costs to you, our members.

In 2013, your cooperative also made significant investments in underground infrastructure. Although more expensive than building overhead, your board feels the additional benefits (such as less exposure to ice storms) will benefit the members over time.

Another benefit to underground is that it is less likely to be compromised by large farm equipment. We ask you to look up and look around when moving hay or operating large equipment. Power lines and poles installed in years past may not be tall enough to accommodate today's large machinery. In fact, if you see

anything of potential concern about our electric system, please call our office or email us at [safety@kemelectric.coop](mailto:safety@kemelectric.coop).

Looking forward, we will continue to make system improvements to improve your reliability and look for ways to increase efficiencies in our system.

Today, the spirit of dedication and commitment runs deep at your cooperative. Our staff is ready to step up when Mother Nature knocks down power lines. They strive to minimize disturbances on the system, because today a blink of the lights is as bad as having a long-term outage.

North Dakota is experiencing growth unseen since the homesteading days more than a century ago. This pace of change has impacted everyone and the electric utility industry and your cooperative are not immune. While many businesses are looking to capitalize on change, your member-owned cooperative brings a sense of stability and local ownership. We are here to serve you, the member-owners with reliable and affordable electric service.

Thank you for supporting KEM Electric Cooperative. ■

## **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, 2013 and 2012, 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.

## Meet the candidates

Three candidates are seeking seats on KEM Electric Cooperative's board of directors. This year, incumbent Victor J. Wald is seeking re-election in District 4, incumbent Dean Dewald is seeking re-election in District 5 and incumbent Carmen Essig is seeking re-election in an At-Large position.

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



**Wald**

### **Victor Wald** District 4

I am running for my second term on the KEM Electric Cooperative board. I was first elected in 2010. I have learned a lot about the electric cooperative business in these past years. I see the KEM board as futuristic thinkers who are always trying to meet the new electrical needs of their members.

I live five miles north of Napoleon and operate a dairy and grain farm. I have been married to Susan for 31 years and we have four sons. Alex and his wife, Jessica, live in Napoleon with their two sons, Bentley and McKoy. Austin, Logan and Lucas reside at the Wald farm. Presently, all of our sons are involved in the dairy and farming operation. In my spare time, I enjoy meeting new people and visiting with old friends. I also enjoy play time with my grandsons and spending time at the lake with family and friends.



**Dewald**

### **Dean Dewald** District 5

I have been on the board of directors at KEM Electric for 12 years now. I was elected to the board in 2002 to represent District 5. It is hard to believe that it has been that long. It has been a very interesting learning adventure. There are so many factors affecting our industry today compared to issues in the past: endangered species, regulation, environmental issues and self-interest groups, just to name a few.

Our family operates a cow/calf operation south of Dawson. My wife, Robin, works at Northland Financial Insurance. Darcie is graduating from the University of North Dakota with a degree in elementary education. Darla is attending Minnesota State University Moorhead, working toward a degree in accounting. I do some crop insurance work supervising 13 adjusters.

I would like to thank the members of KEM Electric for having me serve as a director for District 5. I would appreciate your support for my re-election bid this year.

I hope to see you at the annual meeting Thursday, June 19, 2014, at the Linton High School auditorium in Linton. ■



**Essig**

### **Carmen Essig** District At-Large

I have enjoyed being a board member of KEM Electric Cooperative for the past 15 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 members 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, runs a photography studio called Photos by Cindy. Together, we operate a ranch 11 miles north of Lehr. We are active in our community and church. Family life is very important to us and we enjoy spending time with our family: Damen and his wife, Amanda, and their son, Christian, who is 8 months old, and Russel and his wife, Michelle.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of KEM Electric Cooperative Inc. as of Dec. 31, 2013 and 2012, and the respective 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 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 29, 2014, 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 29, 2014



**2013 COMPARATIVE INCOME STATEMENT**

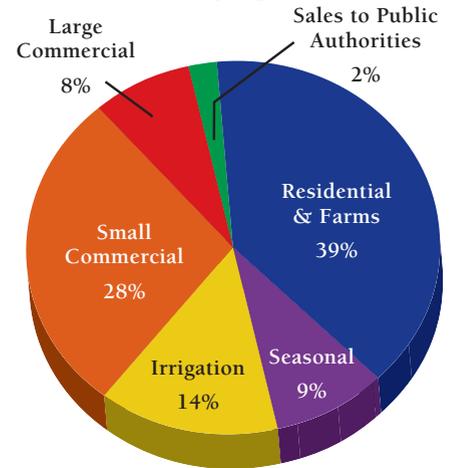
	<u>2013</u>	<u>2012</u>
Operating Revenue	\$8,866,024	\$7,622,537
Cost of wholesale electric power	4,368,121	3,401,381
Transmission line and substation expense	19,105	13,946
Distribution expense-operations and maintenance	1,040,126	850,487
Consumer accounts and customer service expense	175,918	166,982
General and administrative expense	874,115	968,198
Depreciation	998,876	965,884
Tax expense	60,033	77,187
Interest	635,583	610,077
Other deductions	<u>4,940</u>	<u>6,211</u>
<b>Total cost of electric service</b>	<b>\$8,176,817</b>	<b>\$7,060,353</b>
Patronage capital and operating margins	689,207	562,184
Other operating margins (associated cooperatives)	224,071	123,327
Non-Operating margins	<u>53,740</u>	<u>48,529</u>
<b>Total Margins and Patronage Capital</b>	<b><u>\$967,018</u></b>	<b><u>\$734,040</u></b>

**BALANCE SHEET**

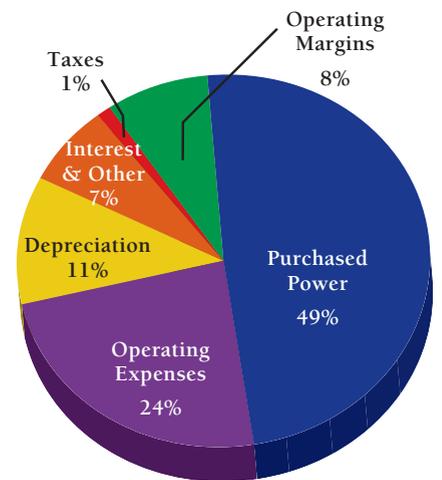
December 31, 2012 and 2013

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Electric Plant	\$40,101,823	\$38,051,057
Less Depreciation	<u>19,074,154</u>	<u>18,189,355</u>
Net Electric Plant	\$21,027,669	\$19,861,702
Cash - General Fund	\$278,323	\$375,477
Temporary Cash Investment	500,000	200,000
Investments in Associated Organizations	5,031,655	4,523,727
Accounts Receivable (Net)	1,119,285	767,985
Materials and Supplies	548,445	575,260
Other	<u>436,003</u>	<u>48,652</u>
<b>Total Assets</b>	<b><u>\$28,941,380</u></b>	<b><u>\$26,352,803</u></b>
<b>LIABILITIES</b>		
Long-Term Debt (Net)	\$16,114,991	\$14,895,558
Consumer Prepayments	90,245	95,604
Accounts Payable	681,915	392,646
Other Current and Accrued Liabilities	257,260	262,277
Power Cost Refund Deferred	500,000	0
Total Liabilities	\$17,644,411	\$15,646,085
<b>NET WORTH</b>		
Patronage Capital	\$8,429,492	\$7,955,771
Donated Capital	231,708	222,658
Non-Operating Margins	<u>2,635,769</u>	<u>2,528,289</u>
Total Net Worth	<u>\$11,296,969</u>	<u>\$10,706,718</u>
<b>Total Liabilities and Net Worth</b>	<b><u>\$28,941,380</u></b>	<b><u>\$26,352,803</u></b>

**WHERE YOUR DOLLAR CAME FROM  
2013**



**WHERE YOUR DOLLAR WENT  
2013**



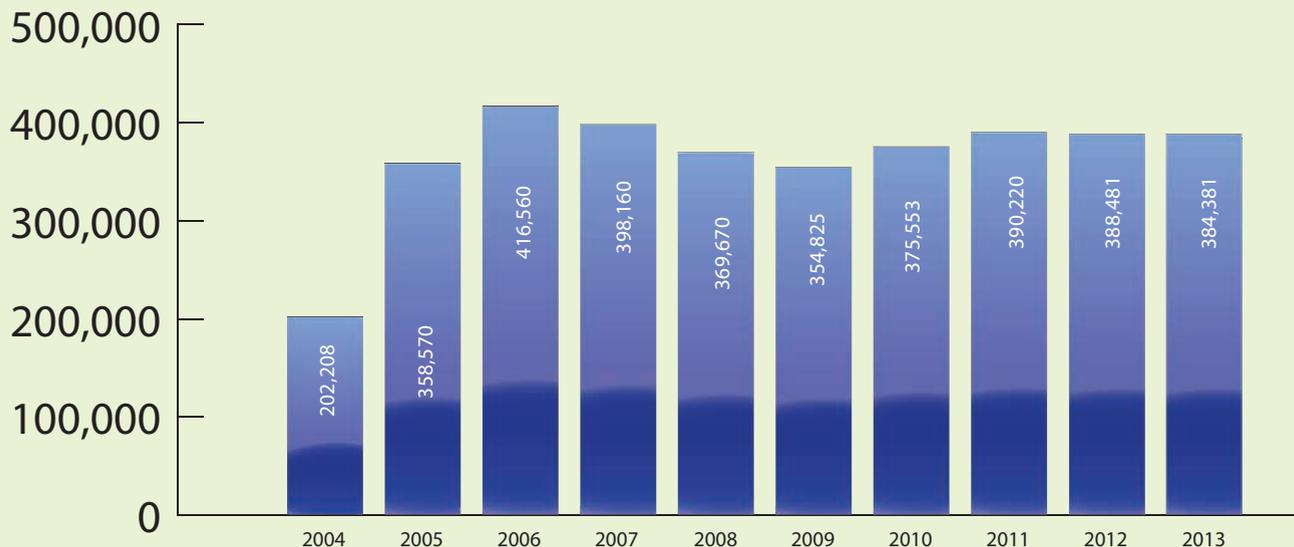
**COOPERATIVE STATISTICS**

	<u>2013</u>	<u>2004</u>
Number of members	2,150	2,167
Number of meters	3,723	3,407
Miles of line	3,014	2,969
KWH purchased	\$92,815,861	\$61,938,473
Average monthly KWH used	2,974	1,796
Average monthly bill	\$279.71	\$130.12
Meters per mile	1.24	1.15
Members served per mile	0.71	0.73





### CAPITAL CREDIT RETIREMENTS



Year	General	Estate	Capital Credit Retirements
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
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



### KWH SOLD





## **Minutes of the annual meeting**

**June 20, 2013**

The 69th annual meeting of KEM Electric Cooperative, Inc. was called to order at 7 p.m., June 20, 2013, in the Linton Public School auditorium, Linton, North Dakota, with Chairman Dean Dewald presiding. The meeting commenced following an evening meal.

Tim Dockter and Diane Nagel sang the national anthem.

John Beck, director, gave the invocation and Eric Schmidt, president of the Linton Lions Club, gave the community welcome.

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 for their assistance with the meeting.

Secretary Carter Vander Wal reported the Cooperative's membership as of June 20, 2013, consisted of 2,150 members and there were 139 members present at the time the meeting was called to order. This number represented a quorum. (A total of 157 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 2013 annual meeting minutes.

Chairman Dewald called for reading of the minutes of the June 21, 2012 annual meeting. Secretary Vander Wal moved to dispense with reading of the minutes and approve the minutes as published in the 2012 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: Kevin Bernhardt, Linton; Ann Bernhardt, Linton; Arlo Ryckman, Pollock; Willis Vander Wal, Pollock; Terry Weigel, Kintyre; Frank Braun, Napoleon; Linda Rudolph, Dawson; Kris Stroh, Tappen; Ron Bauman, Strasburg; and Adolph Feyereisen, Braddock. Mr. Dewald stated the director seats up for election are in District 3 and District At-Large at this annual meeting.

Chairman Dean Dewald introduced Milton Brandner, Zeeland, nominee for the District 3 position having been nominated by petition. Mr. Dewald also introduced Mark Dohn, Eureka, S.D., being nominated by petition. Prior to calling for nominations from the floor, Chairman Dewald reviewed the requirements for nominations. Chairman Dewald asked for additional nominations. Hearing none, Chairman Dewald closed the nominations.

Chairman Dean Dewald introduced director nominee Dean Hummel, Director 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 At Large. The motion carried. Mr. Hummel was declared Director At Large.

The voting for District 3 took place at this time.

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.

Co-Alliance Managers Don Franklund, and Chris Baumgartner from the Innovative Energy Alliance gave report on the 2012 KEM Electric activities.

Vice Chairman Milton Brandner announced Karli Feist as the recipient of the Basin \$1,000 scholarship and Kelsey Weigel as the \$500 KEM Electric scholarship.

Chairman Dean Dewald announced Casondra Rutschke as the winner of the 2013 Rural Electric Youth Tour Essay Contest. Casondra was unable to attend the meeting as she was in Washington, D.C., representing North Dakota on the tour. Mr. Dewald also announced that Casondra was selected to represent North Dakota on the national Youth Leadership Council as our state's delegate.

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 81 votes cast for Milton Brandner and 45 votes cast for Mark Dohn. Milton Brandner was declared Director in District 3.

Prizes were awarded.

Chairman Dewald thanked the employees, the 4-H Club of Linton, and the Women's Group.

The Grand Prize drawings were held. The winner of the \$100 progressive door prize was not present. At the 2014 Annual Meeting the drawing will be \$200.

The 2014 annual meeting will be held in Linton on Thursday, June 19, 2014.

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

### **KEM Electric Cooperative, Inc.**

#### **Board meeting highlights**

April 24, 2014

- Approved the March board meeting minutes
- Heard department updates
- Heard reports on meetings attended
- Approved two estate retirement

- Heard Innovative Energy Alliance update
- Approved capital credit general retirement
- Reviewed the safety meeting minutes
- Reviewed the 2013 audited financial statement
- Signed work order inventory 560 & 560MP