



EMBRACING

cooperative

VALUES

FEM Electric
Association, Inc.

2014
Annual Report
June 19, 2014

FEM Electric Association, Inc.

66th Annual Meeting

Thursday, June 19, 2014

Father Bormann Hall, Ipswich

Agenda

5:00 PM **Doors Open for Registration**
Meal will be served at the time of registration

6:30 PM **Registration Closes**
Meeting called to order – Alden Flakoll, President
Invocation – Gerald Haupt, Asst. Sec./Treas.
Welcome with Special Guest Recognition
National Anthem
Children Adjourn to Kids' Program
Business Meeting Opens
Declaration of Quorum – Larry Bowar, Secretary
Notice of Meeting and Proof of Mailing – Larry Bowar
Minutes of 2013 Annual Meeting – Larry Bowar (page 4)
Unanimous Ballot For Director Districts 2 & 3 -
 Vaughn Beck, Attorney
East River Electric Report Video
President Report – Alden Flakoll, President (pages 6 & 7)
Guest Speaker - Sheldon C. Petersen, CEO National Rural
 Utilities Cooperative Finance Corporation (CFC)
Treasurer Report – Frank Heinz, Jr., Treasurer (page 8)

Manager Report – Scott Moore, Manager (page 5)
Youth Scholarships & Trips Recognition –
 Gary Bachman, Vice President (page 14)
FEM/Basin Electric \$1000 Scholarship –
 Elizabeth Anderson, Bowdle
FEM \$500 Scholarships –
 George Lapka, Leola
 Cassius Pond, Ipswich
Touchstone Energy Scholar of the Week \$100 –
 Tory Makela, Ipswich
Washington, DC Youth Tour Trip –
 Francine Hoffman, Leola
Old Business – Alden Flakoll
New Business – Alden Flakoll
ACRE Video-Scott Moore
Connection Card - Stephanie Horst
Adjournment
Grand Prize Drawings (must be present to win)
\$250 \$100 \$100 \$50

FEM Electric Association, Inc.

Official Notice of Annual Meeting of Members

Notice is hereby given that the 66th Annual Meeting of the members of FEM Electric Association, Inc. will be held at the Father Bormann Hall in the City of Ipswich, State of South Dakota, **at six-thirty p.m. on Thursday, June 19, 2014** for the purpose of:

1. The reports of officers, directors and committees.
2. The election of directors for three-year terms. In connection with the election of directors at this meeting, the following members have been nominated for directors by the Nominating Committee in accordance with the bylaws of the Cooperative:

District 2 Tom Thorpe

District 3 Gary Bachman

Please take further notice that any fifteen or more members of the cooperative may make additional nominations by listing their nominee and the appropriate Directorate District and signing such Petition of Nomination. The petition must be submitted to the board of directors at least 25 days prior to the annual meeting. Any such petition so submitted will be posted along with the list of nominations made by the Nominating Committee.

3. Transacting any such other business as may properly come before the meeting or any adjournment thereof.

Larry Bowar, Secretary, FEM Electric Association, Inc.

2014 Annual Meeting Dedication

Alden Flakoll 1977-2014

Alden Flakoll has served on the FEM Electric Cooperative Association board since 1977 and has been the board president since 1999.

At the local level, Alden has been instrumental in leading the local electric cooperative in several subsidiaries while working to keep electric rates affordable.

Alden has worked hard at keeping FEM Electric on the front end of technology, both in the office and on the line.

Alden has represented FEM Electric members on the East River Electric Power Cooperative board in Madison, SD since 1997.

East River Power Cooperative is owned by the distribution cooperatives in Eastern South Dakota and several distribution cooperatives in western Minnesota. As part of the East River board, Alden worked to allow members of distribution cooperatives to borrow against their capital credits being held to invest in locally served, value added projects, for example, ethanol plants.

Alden also campaigned and was elected to represent South Dakota, North Dakota, and Minnesota for six

years on the National Rural Utilities Cooperative Finance Corporation (CFC) in Dulles, VA. The National Rural Utilities Cooperative Finance Corporation was created as a lending institute to provide stable financing to rural electric cooperatives when Rural Utilities Services fell short. CFC is owned by you, our members, and is governed by local directors and managers.

It is always easy to find Alden at meetings and classes, just look front and center. Alden truly enjoys meetings and being a lifelong learner. Taking classes and receiving his Credentialed Cooperative Director (CCD) and Board Leadership Certificate (BLC) from the National Rural Electric Association Cooperative, Alden has a full understanding of the board's responsibilities and duties while running an effective board meeting.

Alden has helped lobby and educate representatives in Pierre and Washington, DC on the cooperative business model, while working to make sure cooperatives were given equal opportunities to succeed.

FEM Electric employees and directors would like to thank Alden for his years of service and dedication. We wish Alden and Wilma a long and healthy retirement.



2013 FEM Electric Annual Meeting Minutes

The 65th Annual Meeting of the members of FEM Electric Association, Inc. was held at 6:30 p.m. at the Ipswich High School Auditorium on Tuesday, June 11, 2013 with 129 members registered. Capital credits checks were not distributed at the annual meeting but a FEM/ East River capital credit retirement has been approved and will be done in 2013.

An evening meal was provided to the members and guests after they registered. Prior to the meeting, the invocation was given by Director Gerald Haupt. The children were dismissed to the kids' program and the national anthem was presented. President Alden Flakoll called the meeting to order at 6:30 p.m. and welcomed members and their guests. He thanked East River Electric for technical assistance and the Holy Cross Altar Society for the meal. He also introduced all the retired directors and employees: Norman Stickelmyer, Gordon Petersen, Irene Stevenson and Quinton Wolff. Special guests present were Brittney Watt from Senator John Thune's office, Rachel Hanson from CoBank, Mark Hofer from Central Electric and a NRECA Director, Chad Reisenauer from Basin Electric Power Cooperative, Jim Moore from Northern Electric and John, Jeremy and Michelle from Dalager Engineering. The FEM school education team was introduced which included Mark DeGroot, Kathy DeGroot and Margaret Nelson.

Secretary Larry Bowar declared that there was a quorum present to do business and he read the official notice of the meeting and proof of mailing. President Alden Flakoll entertained a motion to dispense with the reading of the minutes from the 2012 annual meeting and accept the minutes as distributed in printed form on page 3 of the 2013 Annual Report distributed at registration. Motion was made, seconded, and carried.

Attorney Vaughn Beck introduced the Nominating Committee: Darrell Davis, Justin Davis, Jesse Nierman, Jeffery Mohr and Donald Kaul. The following candidates were nominated for re-election in District 1 – Gerald Haupt and District 4 – Frank Heinz, Jr. No petitions for nominations were turned in. Attorney Beck asked for a motion and a second to cast a unanimous vote to officially elect Gerald Haupt for District 1 and Frank Heinz for District 4, motion carried.

Proposed changes to the bylaws were presented by Vaughn Beck for member approval; motion, second and approved the following:

Article I, Section 5 shall have the bold red, italicized portion added thereto and Section 5 has bold red-lined portion to omit.

ARTICLE I

MEMBERSHIP

Section 5. Purchase of Electric Energy. The Cooperative shall make all reasonable efforts to furnish its members with adequate and dependable electric service within the normal voltage and frequency limits although it cannot and therefore does not guarantee a continuous and uninterrupted supply thereof. If the normal voltage regulation furnished is unsatisfactory for special apparatus requiring close regulation,

or if the customer's electrical appliances are subject to damage due to high or low voltage, the single phasing of three-phase service, phase reversals, or other fluctuations in the quality of service, then the member shall install regulative apparatus and protective devices at the member's own expense. Each member shall, as soon as electric energy shall be available, purchase from the Cooperative all electric energy used on the premises specified in his/her/its application for membership, and shall pay therefor, at rates which shall from time to time be fixed by the Board of Directors. It is expressly understood that amounts paid for **applicable electric energy services**, in excess of the **cost of service operating costs** are furnished by members as capital and each member shall be credited with the capital so furnished as provided in these bylaws. Each member shall pay to the Cooperative at least the minimum amount, regardless of the amount of electric energy consumed, as shall be fixed by the Board of Directors from time to time. Each member shall also pay all amounts owed by the member to the Cooperative, as and when the same shall become due and payable.

Article XII, Section 2, Paragraph 5, shall have the bold red, italicized portion added thereto.

ARTICLE XII

NON-PROFIT OPERATION

Section 2. Patronage Capital in Connection with Furnishing Electric Energy. (Paragraph 5)

Notwithstanding any other provisions of these bylaws, the Board of Directors, at its discretion, shall have the power at all times upon the death of any patron, if the legal representatives of the member's estate shall request in writing that the capital credited to any such patron be retired prior to the time such capital would otherwise be retired under the provisions of these bylaws, to retire capital credited to any such patron immediately upon such terms and conditions as the Board of Directors, acting under policies of general application, and the legal representatives of such patron's estate shall agree upon; provided, however, that the financial condition of the Cooperative will not be impaired thereby. **Capital credits retired by the Board of Directors and unclaimed by a cooperative member or former cooperative member shall be forfeited to the Cooperative in accordance with South Dakota Codified Laws, specifically SDCL 47-16-54 through 47-16-59, as the same may be amended.**

The East River video report was viewed. Jeff Nelson, General Manager/CEO explained East River's service territory and assets and then stated that it has 113,000 member/owners. He explained that East River exists to enhance the value of its members, that co-op enterprises build a better world, explained the seven co-op principals and reassured members that decisions are made for the good of membership. He stated that East River puts its member/owners first. East River's power supply is provided 78% by Basin Electric Power Cooperative and 22% from Western Area Power Administration (WAPA). Jeff reviewed several wind projects in East River's service territory and

highlighted that the Crow Lake Wind Project is the largest wind project owned solely by a cooperative. He also mentioned the South Dakota Wind Partnership (SDWP). East River won the G&T coop of the year award. Jeff explained that RUS financing is essential but challenging. RUS lending terms have been modified to allow greater access to RUS funds. The 2011-2014 construction work plan includes smart grid, GIS, and voice radio systems. He explained that load management has saved \$150 million since 1985 for East River. Other items Jeff mentioned are the Chu memo, evaluating RTO membership and keeping the power in East River's territory affordable and reliable while currently being the cheapest in the U.S. He thanked Alden Flakoll and Scott Moore for their leadership at FEM Electric.

The SDREA video report featured Ed Anderson, General Manager. Ed discussed how coops formed around the kitchen tables of rural American homes. Co-ops were expensive but built by persistent people who worked for the success of the electric co-ops as they are today. Co-ops have changed over the years from small rural farms to large commercial hospitals, banking industries, and elevators that all demand reliable power. Co-ops didn't waiver when their co-op priority was challenged in the past or they approach ahead. SDREA has been a 71 year partner and focuses on making safety a priority. SDREA looks forward to facing challenges for its members in the future.

President Alden Flakoll presented his report to the members from page 4 of the annual meeting report. He reflected on the past year highlighting the completion of the last 95 miles of underground electric cable and the last PW being submitted to FEMA in April of 2013. He explained that power costs continue to rise from both Basin and WAPA. He reviewed the effects of the Chu memo. He explained that Gary Bachman, Gerald Haupt and Scott Moore attended the Legislative Conference in Washington, DC and discussed the following issues: RUS Electric loan program, coal combustion residuals, and energy efficiency standards for electric water heaters. Alden requested that our members contact congressional leaders to support the Coal Ash Recycling Act 2013 (CAROA). Alden also announced that this would be his last term and that a director will be needed for his area. He explained some of the time/meeting needs for being a FEM Electric director.

General Manager/CEO Scott Moore took members back in time asking members how many of them remember electricity coming to the farm. He explained the importance this has played in the key to the success of the rural electrics. He gathered and presented information on individuals who over time were dedicated to the rural electric and rural water systems. Without these dedicated individuals, co-ops would not be where they are at today. The co-ops strength comes from its members, dedicated work forces and a locally controlled board. Scott reminded members of the importance of member involvement and the possibility of the loss of co-op knowledge in the younger generation. He explained FEM Electric is dedicated to improving that through the school education programs, youth tours and scholarships but we need the help of the older members to encourage involvement

by the younger generation. He encouraged members to visit with the younger generation and remind them of the stories related to no electricity or poor quality water. Our focus should be to not disappoint the men and women who had the foresight and leadership to start and operate local cooperatives. He reminded members to leave the land and business better than you found it. Challenges of increased power costs were mentioned. He explained FEM Electric's goals and plans to help keep costs affordable while serving safe, reliable power.

Treasurer Frank Heinz announced the financial report is printed on pages 7-9 of the annual report handed out to all members at the beginning of the meeting. He gave a recap of 2012 and stated that 2012 kWh sales were down but revenue was sufficient. kWh sales revenue increased to 67.9% commercial and decreased to 30.8% residential. Our patronage capital margin ended at \$80,956. After non-operating margins and G&T capital credits were added in, the total margin ended at \$604,300. He mentioned that Basin Electric is not paying out capital credits in 2013 but the FEM board has approved a general capital credits retirement that will be paid out later in the year. The FEMA reimbursement process is slow but FEM employees continue to work diligently answering questions regarding work completed and costs that were submitted to FEMA. Our goal remains the same, to continue the reliable service that our members expect.

Vice President Gary Bachman presented the Basin/FEM Scholarship, Touchstone Energy® Scholars of the Week and Youth Tour winners. Willem Hoffman of Leola received the \$1000 Basin Scholarship, Alison Feickert of Long Lake and Taylor Beutler of Eureka each received \$500 FEM scholarships. Touchstone Energy® Scholar of the Week was Abby Ottenbacher of Eureka High School. Abby Ottenbacher also won the Touchstone Energy Scholar of the Year in the amount of \$500. Washington DC Youth Tour winners were George Lapka, Leola; Landon Morlock, Eureka; and Garrett Stafford, Ipswich. Two students represented FEM Electric on the 2012 Youth Excursion to Antelope Valley Station and Dakota Gasification Plant.

General Manager Scott Moore introduced current employees and years of service recognition; Larry Bowar with 20 years of service; Stephanie Horst with 10 years of service, and Ryan Holien with 5 years of service.

President Flakoll asked the members if they had any old business, questions they would like answered or any new business. One question was asked regarding FEM having appropriate funding to payout estate capital credits. Currently, all estates will be paid out of general funds as claimed. No new business items were presented.

A motion was made, seconded to adjourn the meeting at 7:30 p.m. All were in favor. Upon the conclusion of the meeting Don and Cathy Vetch's name was drawn for the \$500 Grand Prize but they were not present to win. The Grand Prize in 2014 will remain at \$500.



Scott Moore
General Manager /CEO

General Manager Report

As you will see in the 2013 treasurer's report, FEM Electric had a good year and with patience, over the last three years, our financials are looking good. FEM operations spent much of the summer working on upgrading existing services and building new services. Our kilowatt hour sales continue to increase mainly due to expansions on the farm and commercial loads. FEM Electric has been blessed with a strong agricultural economy along with many of our members venturing into manufacturing. Although we don't dictate what electric loads we sell to, each group is important to FEM Electric and having a well-rounded portfolio will help FEM provide affordable power to you our members.

In 2013 FEM line crews continued to do maintenance on our overhead and underground power lines. The crews were able to get all trees trimmed from the 2013 line patrol plus all maintenance found during the same patrol. Crews started to build overhead power lines using poles and materials returned during our rebuild after our 2010 ice storm. It is essential to keep our lines maintained and monitor voltages throughout our system allowing our members reliable power.

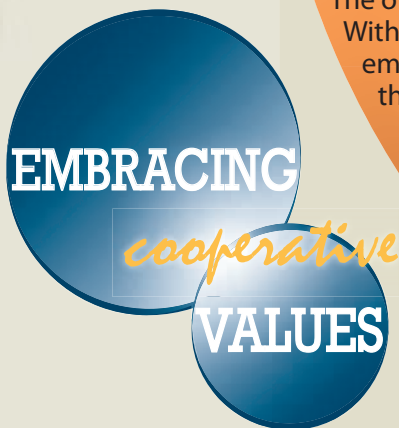
Most importantly, we had no major insurance claims or accidents with our members or employees. Providing safe power to our members doesn't just happen. Our office and line personnel attend multiple safety meetings and classes to keep trained on correct procedures.

The office was busy in 2013 as we moved duties around to better utilize FEM Electric employees. With each change comes challenges and training but in the end we will have cross trained employees that can be worked into succession planning. Each day at FEM we are planning for the big disaster, by doing our daily duties and looking to the future to make sure we have employees in place to serve you our members.

Looking ahead FEM Electric has put together a three year plan to complete several projects. We will be testing poles, testing transformers for PCB's, inspecting each service for bad connections along with completing our GIS mapping of the system.

FEM Electric board and employees have and will continue working to provide safe, affordable, and reliable power supply to you our members.

Respectfully submitted,
Scott Moore



North Star Energy, LLC

In 2002 North Star Energy, LLC was created by merging three separate propane companies with a purpose to maintain and deliver safe affordable propane to FEM Electric members and residents in the area. Prior to 2012, FEM Electric had invested \$184,165 in North Star, LLC and had returned on investment of \$105,080 and accumulated equity in North Star Energy. FEM Electric and Brick Propane both owned 25.5% with North Central Farmers Elevator owning 49%.

In July 2013 North Star Energy bought out Brick propane and ownership was purchased and divided in 1/3 shares equally between FEM Electric, NCFE, and Jerry and Susan Brick. FEM Electric's additional investment was \$333,165.

North Star Energy, LLC currently has around 20

employees working in Mobridge, Selby, Bowdle, Ipswich, Aberdeen, Britton, Faulkton, Huron, and Pollock. They have continued to work at providing safe/affordable propane by getting training and certifications for all employees and adding propane storage. Propane is like many industries and we are moving into a new business model with the shutdown of pipelines moving propane and relying on rail service. In early 2014 North Star management was able to hold propane cost to existing customers to under \$3.00 per gallon when many of their competitors were charging over \$5.00 per gallon.

North Star Energy, LLC is overseen by two individuals from each entity or owner which meets monthly. FEM's current investment and equity is \$652,975.



Alden Flakoll
Board President

Board President Report

I welcome you on behalf of the Board of Directors and Employees to our 66th FEM Annual Meeting. This will be my final board report after thirty seven and a half years of service to FEM. This has been a tremendous opportunity for me to serve at FEM as well as East River Electric Power Cooperative for seventeen years, NRFC for four years and CFC for six years, SDREA Legislative committee chairman and the Basin Electric Power Cooperative Resolutions Committee.

In this report I would like to present some history, changes and accomplishments that FEM has made over the years. The first organizational meeting of FEM Electric was held at the Court House in Leola on October 30, 1945. At another meeting, in Roscoe, an organizational meeting was held. Albert Hauffe of Leola was elected President; Robert Schurr was elected Vice-President; Theodore Martel was elected Secretary; and Victor Holsing, Treasurer. Other members of the board were Paul Hausauer, Wendell Miller, Edwin Hubbard, Michael Bauer, and Matthew Bachman. At another meeting on November 27, 1945 the new officers adopted the name of FEM Electric Inc. and selected Ipswich as the headquarter site. Jim Berry was selected the attorney and Articles of Incorporation were signed. By December 10, 1945, the State of South Dakota recognized FEM Electric Inc. as a legal entity. On January 5, 1946, the officers became permanent during the co-op's first official meeting. FEM was first energized on November 30, 1948 and began serving 2,500 farmers across 3,340 square miles. FEM had its first Annual Meeting 66 years ago on June 5th, 1949. There was a conservative estimate of 5,000 people in attendance with more than 3,700 enjoying a free lunch before the food ran out. This was the beginning of FEM Electric, Inc.

The following have served as managers: K. A. MacMillan, 1948-1956; A. W. Grage, 1956-1968; Bud Fisher, 1968-1989; David Holland, 1989-1999; acting manager Sue Hoyle, August 1999-April 2000; LeRoy Schecher management consultant, Sept 1999-April 2000; Jerry Reisenauer, April 2000 to August 2001; Paul Erickson, October 2001 to October 2006 and Scott Moore 2006 to the present.

When I first came on the board in January 1977, we had sales just under a million dollars. By 1993 we passed three million, 2007 four million and as of today because of the ethanol and grain handling on both farm and added grain terminals, plus the Aberdeen Energy ethanol plant, we grew

to more than thirteen million last year. Our equity ratio had grown from 28% in 1977 and peaked at 44.1% in 1994. During the storm in 2010 it dropped to 18.3% and through good management we have grown back up to 29.9% by 2013.

Some of the milestones were: FEM Electric was the first in South Dakota to receive Bureau Federal Power from the Fort Peck Dam on May 25th 1951. Ted Martel had the first electric heat; the first irrigation request from Marvin Morlock August 16th, 1977; and Wesley Palmer installed the first ground-source heat pump in 1991. In other milestones, we joined East River Electric Power Cooperative in 1979 to handle and maintain our high voltage lines. In 1984 we started retiring 1973 and older capital credits. The audit year was changed to end on December 31st, 1993 and each year thereafter. We merged our FEM News with the SD Highliner in 1993. A Health Fair was held at our 50th Annual meeting in 1995. The Bylaws were changed in 1999 to reduce our Director areas from nine to five. In 2002 we started having one employee attend our Board Meetings to better understand the operations of FEM. They also were encouraged to attend Statewide, East River, Basin and Regional meetings for informational knowledge. We established a School Program teaching youth the importance and vital role they play in the Cooperative while learning electrical safety. This program which began in 2009 is taught by retired educators Mark DeGroot, Kathy DeGroot, and Margaret Nelson. On October 17, 2006, I gave the dedication speech at the Northern Border Heat recovery unit at Wetonka. At that time, it produced 5 MW of clean power to Basin Electric, enough to handle 70% of FEM Electric's members' usage. On December 20, 2006, we moved forward with installing an automatic meter reading system (AMR), which eliminated members from reading meters. It also helped management to know where the power was off and how much is being used in areas. NRECA gave a National Award to FEM for the co-op's First Response Program on February 15, 2004. This program was presented to all Fire Stations and Law Enforcement people through presentations on how to handle emergencies that involved electrical lines. This program was created by Scott Moore, Rich Johnson and Mike Olson. FEM was also the first Board in the tri-state region to have 100% Presidents Club ACRE membership. We have also stressed that you as members of FEM should become ACRE members at \$25.00 per year.

FEM was one of the original incorporators of Cooperative

Finance Corporation (CFC) that was incorporated on April 10th, 1969 with a \$1,000 membership. This was brought about because of the loss of not being able to borrow adequate funds from the Government. On June 19th, 1984, Sheldon Petersen as our CFC area Vice President attended our local board meeting to encourage us to subscribe to the Capital Term Certificates. We invested in CFC and have invested twice since to help build their equity. CFC has helped us out many times since with short term financing, refinancing loans with lower interest, evaluating our progress and giving us short term financing to get through our storms. They have saved FEM thousands of dollars through the years by lowering the higher interest we were paying. One of the greatest experiences of my life was serving on the CFC Board for six years. It was a period where CFC grew from 5 billion dollars to 20 billion. They also helped FEM with their Territorial Integrity Fund when MDU wanted to take over the service area for North Central Farmers Bowdle Elevator, which we secured after going all the way to the South Dakota Supreme Court. Also Tatanka Wind Farms thought they could serve our area. CFC also has the best program to analyze and improve our finances.

Some of the worst crises we have had were the storms over the years. As a consumer, I remember the Century Storm of 1966. In the fall of 1965, we were hit with an ice storm followed by a three-day blizzard on March 2, 1966. We were without power for 86 hours. After I was on the board, there was an ice-storm October/November of 1979. On January 15th 1995, 500 members were without power for four days. We lost 100 poles and 26 cross arms. April 18 of that year brought another storm with 91 poles and 84 cross arms lost. On April 4, 1997 we had freezing rain with 60 mile per hour winds and half of our members were without power. We lost 400 poles and 300 cross arms. Five outside crews with 83 linemen helped restore power. Some customers were still without power eight days later. The worst of them all was on January 19th, 2010, when 80% of our system was off. We lost over 4,000 poles. Our management had over 400 workers come here to temporarily restore power by February 6th. I heard compliments from managers around the state that said their men were not in the FEM yard twenty minutes before they were out restoring lines due to FEM's management. This was a great compliment to our management. They had restored temporary power after 17 days. We had temporary restoration of power at a cost of about eight million dollars. FEMA wanted us to put some of the system underground. This continued as a three-year project to bury more than 560 miles of line. The total cost of the storm was more than 39.7 million dollars which averaged to \$30,000 per member. The good news was that FEMA paid 75% and State 10%, which gave us a fairly new system for the cost of 15%. This replacement allowed us to have a new system underground that covered over half our system. Another big advantage was that CFC was there to supply us with the funds that were needed to go forward with the rebuilding of the damage.

The REA Program was enacted by Presidential order on March 11, 1935. It has always been a political battle. It was

given to the investor-owned utilities but they didn't want anything to do with it. No program had more effect on rural areas than bringing electricity to the country. "What the mind can conceive and believe it can achieve." It was a battle from the beginning and still is today. Along the way we disagreed about getting established in South Dakota, territorial integrity and going into other businesses. Getting into other businesses was a legislative challenge in 1994. The Governor had vetoed it. Bob Ching and I sat on the Legislative Committee and we chose to call in 200 REA managers and directors to the legislature. We met with the Governor and he changed a little on the bill and by the next morning it was on his desk for a signature. This has allowed us to go into other entities such as the Northern TV in 1988, REED Development Loan 1994, use of credit cards 1999, North Star Energy, LLC. in 2002, the housing development at Golf View Acres in 2003 here in Ipswich and WildBlue Internet Service in 2004.

The strength of the REA/RUS program has always been in its members. We fought to get low interest loans and funding, developing an Energy Policy Act, PMA's, subsidizing Federal Financing Bank on percent of interest loans, Satellite Television, railroad and EPA, with many issues. All these programs were changed by grassroots effort or a write-in campaign. The Power Marketing Association (PMA) was started under the Reagan Administration and was brought up ten years later by the Clinton Administration. The purpose was to sell the dams to utility companies. The question was, are the purchasers going to also own the recreational, irrigation and transport industry. Through one of the largest card and letter writing campaigns, NRECA was able to defeat the issue, thanks to the expression of its grassroots members. Now we are back about to that point again with Environmental Protection Agency. They are an uncontrollable Agency that is trying to control the size of your water heater, control your local streams, endangered species and shut down coal plants to cut back on CO2 when gas plants still give off 50% as much. Coal-fired generation retirements are expected to contribute a shift in fuel use. At the end of 2012, 310 gigawatts (GW) of coal-fired capacity was available in our nation; 16 percent of that or 50 GW is projected to be retired by 2020 when our actual needs are increasing. We therefore need to develop a cleaner method to burn coal because we have over a 200 years supply that needs to be utilized. This takes time they are not allowing us.

We need strong personal relationships with legislators. The thing you, our members, must do is 1. Stay an informed consumer, 2. Be prepared, and 3. Stay involved. Outcome depends on how well we do our JOB.

In closing, I want to thank you for allowing me to serve you these years, may the Lord bless and keep you safe in the future years. I am sure with your help and the management at FEM; it will be secure for many years.

Respectfully submitted,

Alden Flakoll, President

Treasurer's Report



Frank Heinz, Jr.
Treasurer

It is my pleasure to provide you with the financial statements for 2013. All records were audited by the firm of Eide Bailly, LLP of Sioux Falls and produced a clean audit report.

FEM's total utility plant at the end of 2013 was \$27,681,492 and we have depreciated \$7,957,369 which leaves \$19,724,123 in un-depreciated plant. We had investments and cash on hand in the amount of \$5,985,909 which includes capital credits due from power suppliers and other organizations with which we do business. Other assets, which includes inventory, accounts receivable and prepaid accounts were \$3,484,535. The accounts receivable balance for the December 2010 ice storm FEMA reimbursement is \$3,122,415. This was based on 85% of the dollar amount of work complete that was unpaid by FEMA as of the end of 2012. **Total assets for 2013 were \$32,316,982.**

On the other side of the ledger, "What We Owe" includes notes due to the Rural Utilities Service (RUS) and other lenders in the amount of \$15,664,446. A storm line of credit was established with the National Rural Utilities Cooperative Finance Corporation (CFC) which had a balance of \$6,183,147 at year end. Accrued tax expense, customer deposits, notes payable and deferred credits were \$1,192,389. Patronage capital and other equities, which are primarily the margins generated by your cooperative since 1994, were \$9,277,000. **The total liabilities and equities were \$32,316,982.**

On page 11, you will find the Income and Expense Statement for 2013. **Total operating income for 2013 was \$12,945,392**, which is up \$1,431,021 from 2012. Revenue from residential customers was \$4,246,219 and revenue from commercial customers was \$8,527,601.

Total expenses were \$12,375,524, which included power costs of \$8,606,597 at an increase of \$1,000,244.

Operations and maintenance expenses were \$925,973, an increase of \$84,425. Operations and maintenance expense is increased due to the completion of the 2010 storm rebuild project and the focus on maintenance on existing lines. Customer services, sales, and office expense was \$1,085,922, an increase of \$111,913. The addition of employees to assist with the Geodigital Information System (GIS) project has added to both the operations and administrative expenses as well. Depreciation expense was \$721,103, which was a decrease of \$22. Tax expense was \$237,647, which was an increase of \$22,434. Interest expense was \$796,622 which was a decrease of \$275,962. The interest expense on the storm line of credit was \$180,579 which was \$209,897 less than 2012.

FEM's patronage capital and operating margin was \$569,868. Non-operating margin was \$333,116. East River and other margins, which are capital credit allocations from other cooperative organizations which we do business with were \$461,617. The total margins were \$1,364,601.

In 2013, the Commercial revenue decreased and is 65.9% and residential increased and is 32.8%. On pages 9 through 11, you will find a comparison of various operating statistics for the calendar years 2012 and 2013. **Sales were increased 13,347,675 kWhs and the number of connected meters increased by 19 for a total of 2,127.** The average monthly residential usage increased 324 kWh and the average monthly residential bill increased by \$32.26. Also included are a number of graphs that show the breakdown of revenue and expenses for 2013 and also chart our history for the last five years.

If you have any questions about this report, please contact the FEM business office.

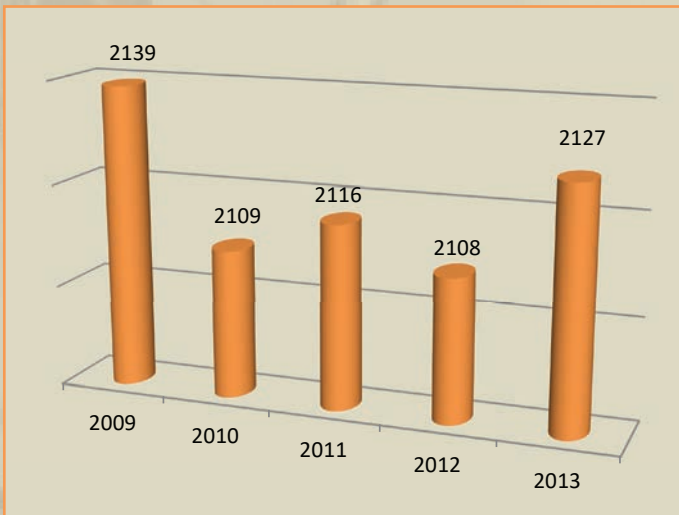
Respectfully submitted,

Frank Heinz, Jr., Treasurer

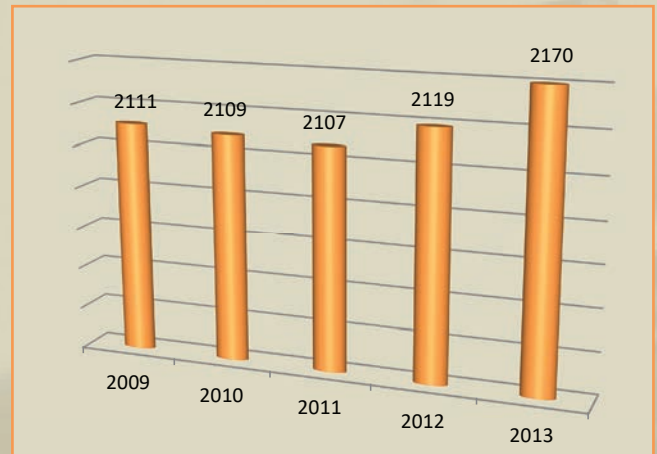
Comparative Operating Statistics

December 31	2011	2012	2013
kWhs Purchased	140,138,219	138,743,058	151,473,758
kWhs Sold	135,762,106	133,831,682	147,179,357
Estimated kWhs Used in December Sold in January	1,300,761	1,672,495	1,014,961
kWhs Unaccounted for (Line Loss, etc.)	3,075,352	3,238,881	3,279,440
Percent of kWhs Unaccounted for	2.195%	2.334%	2.165%
Number of Connected Consumers	2,116	2,108	2,127
Number of Idle Services	112	108	109
Average Monthly kWh (All)	5,347	5,291	5,799
Average Monthly kWh (Residential)	1,432	1,264	1,588
Average Monthly Bill (All)	\$424.50	\$454.13	\$508.48
Average Monthly Bill (Residential)	\$160.00	\$156.97	\$189.23
Average Cost of Power Purchased at Substations	\$0.0488	\$0.0548	\$0.0568
Average Selling Price Per kWh	\$0.0794	\$0.0858	\$0.0877
Miles of Line Energized	2,107	2,119	2,170
Consumer Density Per Mile (Energized)	.996	1.00	1.02

Connected Consumers



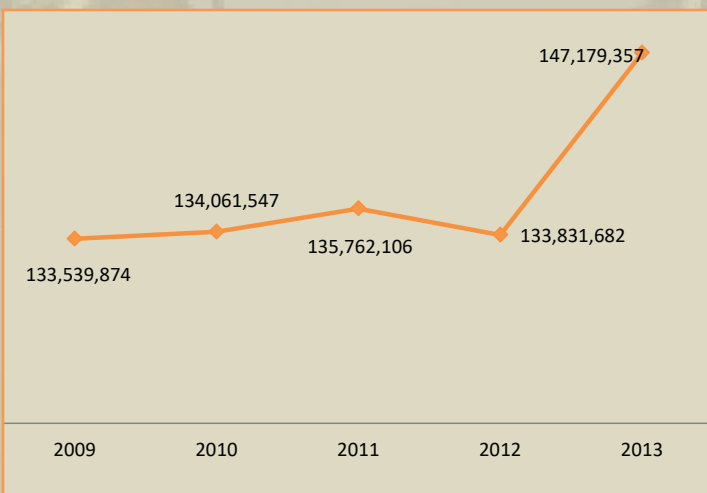
Miles of Line



2013 kWh Generation Tax By School District

School District	Total
Hoven 53-2	1,544.79
Northwestern Area 56-7	6,477.98
Faulkton Area 24-3	48,043.96
Edmunds Central 22-5	27,330.77
Ipswich 22-6	292,515.76
Bowdle 22-1	15,008.22
Warner 6-5	81.18
Eureka 44-1	16,678.05
Leola 44-2	47,545.46
Total	\$455,226.17

Total kWh Sales



Financial Statements

WHAT WE OWN:

Total Utility Plant	2013 \$27,681,492	2012 \$27,437,929
Less: Reserve for Depreciation	<u>-7,957,369</u>	<u>-8,535,749</u>

Total Utility Plant, less Reserve for Depreciation	19,724,123	18,902,180
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CASH AND INVESTMENTS:

Cash on Hand – In Banks	933,157	226,093
Investments	<u>5,052,752</u>	<u>4,639,738</u>

Total Cash and Investments	5,985,909	4,865,831
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OTHER ASSETS:

Accounts Receivable-Consumer/Other	893,321	798,378
Accounts Receivable-FEMA	3,122,415	7,911,830
Material and Supplies	970,749	1,191,495
Prepayments	30,733	62,122
Interest Receivable	3,449	9,737
Deferred Debits	652,012	21,246
Notes Receivable	53,543	53,765
Other Investments	<u>880,728</u>	<u>747,708</u>
Total Other Assets	6,606,950	10,796,281

TOTAL ASSETS	\$32,316,982	\$34,564,292
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WHAT WE OWE:

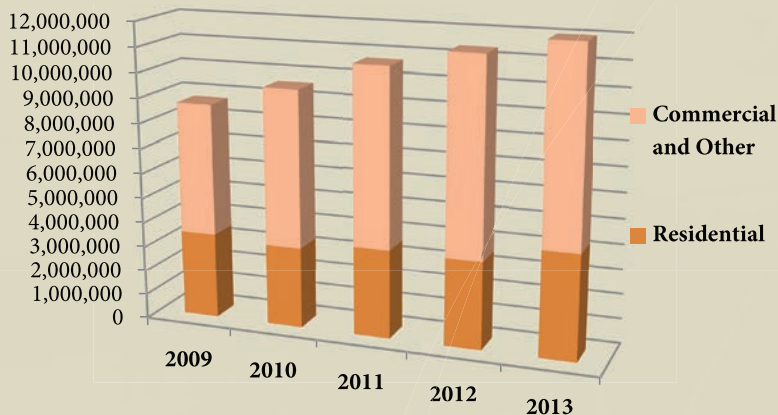
Total Borrowed from RUS	2013 14,017,500	2012 10,376,551
Less: Principal: Payments	<u>2,642,658</u>	<u>267,634</u>
Net Obligations to RUS	11,374,842	10,108,917
Long-Term Debt – RUS Rural Development Loan	0	0
Long-Term Debt – Other (Net)	4,289,604	4,531,993
Long-Term Debt – Storm Line of Credit	6,183,147	10,746,179
Accrued Taxes and Liabilities	354,124	322,503
Deferred Credits (Consumer Prepayments & Deposits)	11,028	8,025
Notes and Accounts Payable	<u>827,237</u>	<u>727,111</u>
TOTAL AMOUNT WE OWE	23,039,982	26,444,728

EQUITIES:

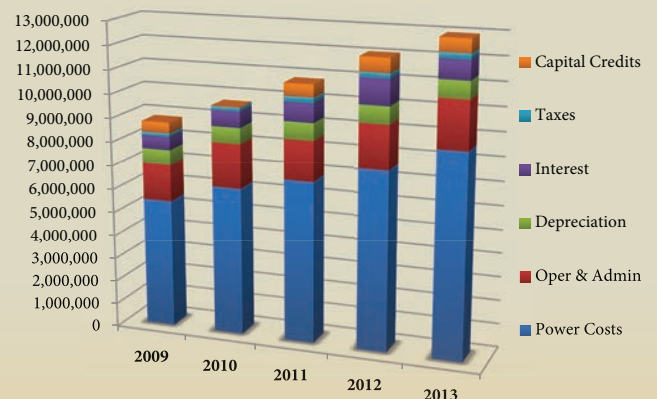
Patronage Capital and Other Equities	9,277,000	8,119,564
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TOTAL LIABILITIES AND EQUITIES	\$32,316,982	\$34,564,292
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Revenue Comparison



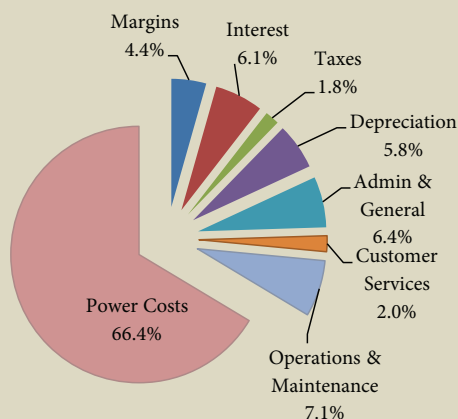
Revenue Allocation



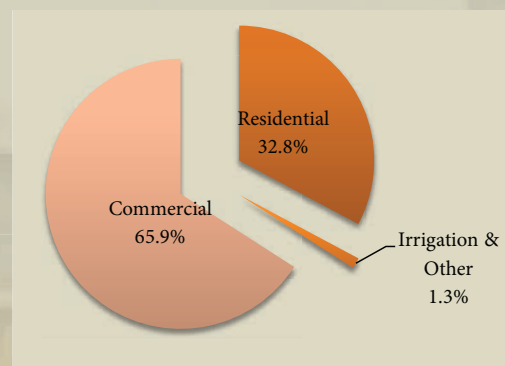
Income and Expenses

REVENUE:	2013	2012
Residential Sales	4,246,219	3,540,283
Irrigation Sales	128,851	121,646
Commercial Sales	8,527,601	7,823,625
Street Lights	2,444	2,309
Other Operating Revenue	<u>40,277</u>	<u>26,508</u>
TOTAL REVENUE	12,945,392	11,514,371
EXPENSES:		
Cost of Power	8,606,597	7,606,353
Line Operations	499,283	408,152
Line Maintenance	426,690	433,396
Consumer Accounting and Collecting	255,522	212,649
Sales Expense	3,075	2,046
Administrative and General Expenses	827,325	759,314
Depreciation	721,103	721,125
Taxes	237,647	215,213
Interest Expense	616,043	682,109
Interest Expense – Storm Line of Credit	180,579	390,475
Other Deductions	<u>1,660</u>	<u>2,583</u>
TOTAL EXPENSES	12,375,524	11,433,415
PATRONAGE CAPITAL CREDIT/MARGINS:		
FEM Operating Margins	569,868	80,956
Non-Operating Margins	333,116	151,348
East River/Basin Margins	401,985	323,472
Other Margins	<u>59,632</u>	<u>48,524</u>
TOTAL MARGINS	1,364,601	604,300
WHERE THE DOLLARS CAME FROM:		
Residential	32.8%	30.8%
Commercial	65.9%	67.9%
Others	1.3%	1.3%
WHERE THE DOLLARS WENT:		
Cost of Power	66.4%	66.1%
Operations and Administration	15.5%	15.8%
Depreciation	5.8%	6.2%
Taxes	1.8%	1.8%
Interest	6.1%	9.4%
Margin	4.4%	0.7%

2013 Revenue Allocations



2013 Revenue



Employees



SCOTT MOORE

General
Manager/CEO



RHONDA TUSCHERER

Director of Finance
and Benefits



ROB VETCH

Line
Superintendent



JIM RESMEN

Engineer



STEPHANIE HORST

Member Service/
Communications



RYAN HOLIEN

Journeyman/
Member Service



JUSTIN LARSON

Foreman



CAROL SCHAFFNER

Work Order Clerk



ANGIE SIEH

Accounting Clerk



JOSH WEIGEL

Journeyman
Lineman



CRYSTAL THORSON

Billing Clerk



VALETTE HORST

Receptionist



PERRY PTACEK

Journeyman
Lineman



DAN FELDHAUS

Journeyman
Lineman



JESSE BROWN

Journeyman
Lineman



SEAN CHRISTIANSEN

Journeyman
Lineman



CHAD DUTENHOFFER

Journeyman
Lineman



GREGG ZWART

Journeyman
Lineman



ETHAN HANNASCH

Apprentice
Lineman



GARRETT STAFFORD

Temp. Apprentice
Lineman

Board of Directors

FEM Electric Director Districts								
McPherson County	Spring Creek	Detmold	Petersburg	Bergdorf	Harrison	Wacker	Weber	Wachter
	Glucksthal	Rosenthal	Odessa	Long Lake	Highland	Hoffman	Koto	Carl
	Bauer	Stickel	Kassel	Moscow	Arena	Spring	Leola	Willow
	Jackson	Hillsview	Cleveland	Blaine	Dewey	Howard	Washington	Lincoln
Edmunds County	Modena	Hosmer	Sangamon	North Bryant	Adrian	Rosette	Belle	Pembrook
	Bowdle	Cottonwood	Glen	Bryant	Huntley	Ipswich	Fountain	Costlandt
	Odessa	Cloyd Valley	Glover	Montpelier	Cleveland	Harmony	Union	Richland
	Hudson	Madison	Hillside	Vermont	Liberty	Powell	Kent	Clear Lake
Faulk County	Sherman	Clark	Enterprise	Freedom	Emerson	Fairview	Union	
	Elroy	O'Neil	Saratoga	Pulaski	Myron	Devoe	Wesley	
	Seneca	Latham	Bryant	Tamworth	Lafoon	Centerville		
	Ellisville	Thirteen	Irving	Orient	Arcade	Hillsdale		

GERALD HAUPT

District 1
Asst. Sec./Treas.

ALDEN FLAKOLL

District 2
President

GARY BACHMAN

District 3
Vice President

FRANK HEINZ

District 4
Treasurer

LARRY BOWAR

District 5
Secretary

Nominating Committee

FEM ELECTRIC ASSOCIATION, INC.
IPSWICH, SOUTH DAKOTA
March 20, 2014

We, the Nominating Committee, in session on March 20, 2014, at the Beck Law Office in Ipswich, South Dakota, hereby nominate the following:

District 3 – Gary Bachman
District 2 – Tom Thorpe

Lee J. Hendelquist
Chairman

Daniel Davis
Secretary

We, the undersigned, certify that the foregoing minutes are true and correct.

Kevin Lapke
Brian Hauck
Lee J. Hendelquist
Evan O'Hara
Daniel Davis

We, the Nominating Committee, wish to place the above names in nomination.

Attorney

VAUGHN BECK

Attorney

EMBRACING

cooperative

VALUES

Dedication to Youth

Scholarships



\$1,000

Elizabeth Anderson

of Bowdle was chosen to receive the \$1,000 Basin Electric Power Cooperative scholarship. Elizabeth plans to attend Dakota Wesleyan University to attain her bachelor's degree in nursing. Her career objective is to work as an OB-GYN nurse. Her parents are Mark and Dr. Tammy Anderson.

\$500

Cassius Pond of Ipswich and George Lapka of Leola were each chosen to receive a \$500 FEM Electric scholarship.



Cassius Pond

plans to attend South Dakota State University majoring in agricultural science. He plans to return to the family farm after completing his bachelor's degree. His parents are Noel and Carol Pond.



George Lapka

also plans on attending South Dakota State University with a double major in engineering and mathematics. His goal is to work at a South Dakota engineering firm. His parents are Pat and Melissa Lapka.

Youth Tour Washington, DC



Francine Hoffman, daughter of Colin and Mary Beth Hoffman of Leola, was selected to represent FEM Electric on the Rural Electric Youth Tour to Washington, DC on June 12-19, 2014.

She and 40 students from South Dakota will be among 1,600+ teens from 44 states that converge on DC for the 50th Youth Tour. They will meet congressional leaders, learn about cooperatives and tour the historic sites.

2013 Youth Excursion



Six students represented FEM Electric Association on the 2013 Youth Excursion. L-R: Lane Melius, Taylor Faw, Rachel Geier, Autumn Pitz, Emily Smith, and Jacob Lux.



Touchstone Energy
**Scholar of
the Week!**

Tory Makela

Ipswich High School
Winning Week
January 19-25, 2014

Our Educators

In the fall of 2012, FEM sent three retired educators back to the classroom for the third year. Mark and Kathy DeGroot along with Margaret Nelson all of Ipswich visited seven grade schools and ten colony schools three times for the 2012-2013 school year.

In the fall of 2012, FEM employees, worked with the instructors to give presentations on electric safety. Our farm safety display was used and the linemen discussed personal protective equipment they use daily.

The instructors do an excellent job teaching the students about how electricity is produced and transported to their homes. At the same time they have math and history questions and information for the students. They also teach them about cooperatives.



Marketing & Services

Water Heater Rebates

Consumers installing electric water heaters will receive the following rebates; non-lifetime heater, 50 gallons or larger, \$.50 per gallon; lifetime units 50 gallons or larger will receive a \$4.00 per gallon rebate. To be eligible for a rebate for an electric water heater, the unit must have a load control receiver installed. There is no cost for installation of the load control receiver. By having load control hooked to your water heater, you will also enjoy \$5.00 off your monthly electric bill. Call FEM Electric at 426-6891 for more information.



Electric Heating System Rebates & Loans

Marketing rebates for heating systems are available. Consumers receive a \$400 to \$600 rebate and can apply for a 5% interest loan up to \$10,000 for the equipment and installation. This applies to electric heat pump systems which also provide the benefit of air conditioning all in one unit. Don't put off installing a new heating system. Call FEM Electric at 426-6891 for more information.

Energy Conservation Loans

FEM Electric also offers an energy conservation 5% loan, which you may apply for to replace poor windows and doors, add insulation, weather stripping, caulking, heat pump systems, and general weatherization measures which reduce energy consumption. Call FEM Electric at 426-6891 for more information.

Safety Presentations

Another service provided by FEM Electric to consumers and the general public is electrical safety presentations- be it farm safety information, our interactive safety display for students, educating area first responders on contact accidents, or covering electrical safety issues using videos, newsletters or demonstrations. If your group or class would like to have FEM present a safety demo, please give us a call at 426-6891. We will do our best to meet your needs.



Donations

Our safety committee is made up of FEM Electric employees and through this committee it was decided to have labels printed with safety messages and place them on water bottles. Since 2009 all schools are given cases of water to sell and use as fundraisers for the various school clubs and activities or they could give the water away; it was their choice. The water project has been positive and beneficial to the students, schools and FEM Electric. We have some on hand for community groups that are raising money. If you need napkins, we have those too. Contact Stephanie Horst at FEM for more information.





Electric

Your Touchstone Energy® Cooperative 

FEM Electric Association Inc.

800 5th Avenue

PO Box 468

Ipswich, SD 57451

www.femelectric.coop

