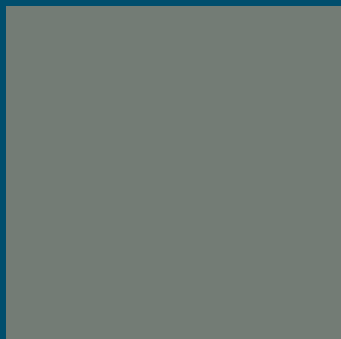


MEETING CHALLENGES

CREATING OPPORTUNITIES



PROMISE OF SERVICE

WE ARE A MEMBER-OWNED, MEMBER-FOCUSED ELECTRIC DISTRIBUTION COOPERATIVE, STRIVING TO EXCEED OUR MEMBERS' ENERGY EXPECTATIONS IN A CHANGING WORLD.

MEMBER-OWNED, MEMBER-FOCUSED

We are owned by those we serve; our members' energy concerns are our top priority. We will continue to be their trusted source of energy-related information.

ENERGY EXPECTATIONS

Our members can count on us to provide excellent member service and reliable, dependable electricity at reasonable rates.

CHANGING

We will work on our members' behalf to monitor and adapt to the rapidly changing energy industry.

VALUES

SAFETY

We place the safety of the public and our employees first.

INTEGRITY AND HONESTY

We will remain a trusted source of information for energy solutions by being accountable, accessible and truthful while acting in the best interest of all involved.

MEMBER SERVICE

We provide prompt and superior service and strive to exceed our members' expectations. We strive to answer every call promptly and in person. We continually look for ways to be even more convenient for our members. Our well-trained employees will treat members with respect, courtesy and integrity at all times.

RELIABILITY

We design, maintain, operate and support our electrical system to maximize its reliability in a cost-effective manner.

INNOVATION

We implement proven technologies and procedures to benefit our members.

ENVIRONMENTAL COMMITMENT

We are committed to seeking innovative cost-effective solutions that improve the environmental impact of this organization and its members.

COMMUNITY

We cultivate partnerships with the communities we serve, provide leadership in civic organizations and give back for the benefit of our communities and members.

TO OUR MEMBERS

The electric industry currently faces many challenges. Challenges come from legislation, power supply and infrastructure needs, environmental standards and even the weather. From these challenges, we strive to create opportunities to improve convenience and comfort, reduce environmental impact and help our area's communities, businesses and youth prosper.

Representing about 65 cents of every dollar members pay to Dakota Electric, increasing wholesale power costs present many challenges. Dakota Electric's staff and board of directors work with our wholesale power supplier, Great River Energy, to keep this significant portion of members' bills as low as possible. Still, we anticipate electric costs will continue increasing as a result of rising wholesale power costs. We also look for opportunities to reduce Dakota Electric's internal costs and help offset a portion of the wholesale power increases. In 2008, we reduced our total number of positions through a company reorganization and kept budget increases to a minimum by carefully evaluating each budget request. We will not add new positions in 2009, and open positions will remain unfilled unless absolutely necessary for service or reliability. These measures help Dakota Electric keep rates competitive with neighboring utilities even with upward cost pressures.




Even weather creates challenges. A July storm caused Dakota Electric's most extensive outage in a decade, leaving approximately 15,000 members without power. Employees responded immediately, and with the help of neighboring cooperatives, restored nearly all accounts within 48 hours. We are thankful for our members' patience and proud of our staff's response to this storm.

Amid the many challenges, members have many opportunities in the form of energy-efficiency and conservation programs. Last year, we helped members save 9.9 million kilowatt-hours — enough energy to power nearly 1,000 average homes for an entire year. Energy efficiency and conservation help members save money and reduce wholesale power costs. We will continue providing staff, rebates, programs and resources to encourage members to save energy, but successful programs depend on members choosing to take action to reduce electricity use.

Even in a down economy, Dakota Electric's membership continues to grow. In 2008, we welcomed our 100,000th member. Despite our many challenges, our goal remains the same: providing exceptional member service and reliable electricity at the lowest possible cost.

Greg Miller
President and CEO

Jim Sheldon
Chair, Board of Directors

A white utility truck is parked on a snow-covered road. Its bucket arm is extended upwards, and a worker in a yellow safety vest and hard hat is visible in the bucket, working on a power line. The background shows a snowy field and bare trees under a clear sky.

In 2008, Dakota Electric installed more than 97 miles of electric cable, including new construction and replacements.

On average, the typical member experiences an outage once every two to three years.

In 2008, members had power available more than 99.99 percent of the time.

You've told us what you want — great customer service and reliable electricity. As the cost to deliver reliable electricity and great customer service increases, Dakota Electric will be challenged to control costs while making the improvements necessary to maintain the service and reliability members expect.

SERVICE

TECHNOLOGY IMPROVEMENTS

Dakota Electric is working to better serve members by implementing a new geographical information system (GIS). This multi-year project will launch in 2009 and connect Dakota Electric's billing system, customer information database, mapping software, outage and call handling systems and more. The system's interactive maps will display crew locations so dispatchers can send the nearest crew for faster outage response, and crews will access system information and enter completed fieldwork electronically throughout the day. The latest information will be transferred wirelessly to the main system, giving work groups access to not only more information, but also more accurate and timely information. This technology will help employees serve members better, track jobs accurately, reduce paperwork and improve work processes, providing efficiencies throughout the organization.

IMPROVED WEB SITE

In just four years, Dakota Electric's Web site traffic increased by 10,000 visitors a month. To better assist members using this resource, we redesigned our Web site to provide easier navigation and more energy-saving information. Online members can tour an interactive energy-efficiency house for energy-saving

ideas, pay bills, submit service applications, learn about energy-efficiency loans and much more.

RELIABILITY

CONTINGENCY STUDY

Dakota Electric's service reliability is among the best in the nation. To ensure that Dakota Electric remains a leader in reliability, staff will complete a study in 2009 to analyze the best ways to reroute power during major outages. The study will identify infrastructure improvements necessary for Dakota

MEETING CHALLENGES

Electric to quickly reroute power and restore outages while avoiding system overloads and equipment failures.

SYSTEM UPGRADES

In 2008, Dakota Electric finished upgrading the Wescott substation and plans to finish rebuilding the River Hills substation in 2009. Both projects increase substation capacity and improve reliability. Additional substation projects are in the planning stages, and Dakota Electric will closely evaluate each project and defer them, if necessary, depending upon growth projections and financial circumstances.

Dakota Electric also tracks outages on underground line and other equipment to prioritize replacements. Proactively replacing equipment lowers maintenance costs — saving money for our members — and reduces outage frequency and duration.

As a member-owned cooperative, Dakota Electric strives to create opportunities for members by providing a variety of programs and services to help members lower electric bills, enjoy a comfortable lifestyle and save energy.

ENVIRONMENTAL

RENEWABLE ENERGY

Renewable power accounts for a growing portion of our energy mix, and Great River Energy is on target to meet Minnesota's goal of generating 25 percent of its energy from renewable resources by 2025. Dakota Electric members also have the opportunity to purchase additional wind electricity through the Wellspring Renewable Wind Energy® program.

OUR ENERGY, OUR FUTURE

Because decisions made in St. Paul and Washington D.C. influence reliability and energy costs, the National Rural Electric Cooperative Association (NRECA) launched the *Our Energy, Our Future* campaign to encourage cooperative members to join the energy discussion with legislators. As a result, consumers from across the nation have sent more than 1.5 million e-mails to their representatives. To start a discussion with your representatives, go to www.ourenergymn.coop.

CREATING OPPORTUNITIES

ENERGY SAVINGS

Dakota Electric has provided programs and rebates to help members save electricity and money for nearly 30 years. Members can save money on air conditioning, water heating, electric heating, lighting and more. Dakota Electric has staff dedicated to helping members find energy- and money-saving options that best suit their needs. Each year, Dakota Electric seeks to provide more ways to help members save, and in 2009, we expanded our rebate programs.

In 2008, the *Brighter Idea* campaign, established by Great River Energy, promoted discounted compact fluorescent lights (CFLs), which can reduce lighting costs by approximately 75 percent. The campaign resulted in the sale of more than 126,000 CFLs in Minnesota, helping cooperative members save more than 9.6 million kilowatt-hours (kWh) of electricity. Dakota Electric members saved more than 500,000 kWh of electricity through the program.

COMMUNITY

ECONOMIC DEVELOPMENT

Dakota Electric is actively involved in many local economic development organizations and activities. We also provide resources for local business owners and businesses looking to locate in our area, and we offer incentives for businesses making energy-efficiency upgrades.

YOUTH

Each year, Dakota Electric sends local students on the Washington, D.C. Youth Tour, which is an opportunity for participants to meet youth from around the nation and learn about our nation's history, government and electric cooperatives. Dakota Electric also provides approximately \$25,000 annually for student scholarships from unclaimed capital credits, helping youth realize their dreams of higher education.



DAKOTA ELECTRIC PROMOTES ENERGY-EFFICIENCY AT LOCAL EVENTS.

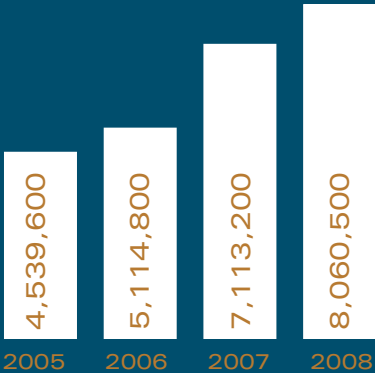
SERVICE ACCOMPLISHMENTS

- New service connections are completed in less than three days.
- We helped members save 9.9 million kilowatt-hours of energy, enough to power 1,000 homes for an entire year.
- Member service representatives answered more than 13,000 calls per month.

WELLSPRING® PARTICIPATION

Wellspring Renewable Wind Energy® allows members to purchase a larger portion of their energy from renewable wind energy. Since 2005, the number of kilowatt-hours from Wellspring wind energy sold to Dakota Electric members has nearly doubled.

NUMBER OF KILOWATT-HOURS PURCHASED THROUGH WELLSPRING®



DAKOTA ELECTRIC SPONSORS MANY YOUTH PROGRAMS, SUCH AS RACHEL'S CHALLENGE.

2008 SUMMARIZED FINANCIALS

CONSOLIDATED BALANCE SHEETS

ASSETS

	2008	2007
	(in thousands)	
CURRENT ASSETS		
Cash and cash equivalents	\$2,028	\$1,777
Accounts receivable, less allowance for uncollectible accounts (2008 - \$888, 2007 - \$668)	33,220	28,791
Lease receivable	48	105
Materials and supplies	4,944	5,166
Prepayments and interest receivable	1,349	651
Deferred charges	968	114
Total current assets	42,557	36,604
Investments in associated companies and other investments	54,981	49,307
Energy conservation loans and non-current receivables	214	287
UTILITY PLANT		
Distribution system and general plant	249,298	238,659
Less accumulated depreciation	(86,485)	(82,828)
Net utility plant and work in progress	162,813	155,831
Deferred charges and other assets	189	3
TOTAL ASSETS	\$260,754	\$242,032

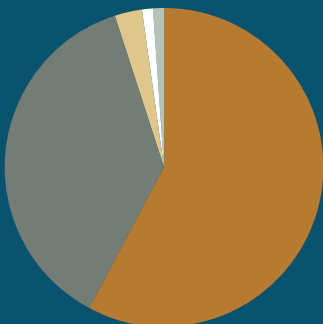
LIABILITIES AND EQUITIES

CURRENT LIABILITIES

Accounts payable	\$20,476	\$17,604
Notes payable	15,705	7,686
Current portion of long-term debt	4,755	4,700
Conservation cost over-recovery	1,885	972
Customer security deposits	344	289
Accrued property and other taxes	4,199	4,037
Other current liabilities	7,699	7,139
Total current liabilities	55,063	42,427
Long-term debt	103,643	103,068
Deferred gain on RUS buyout	2,501	2,912
Deferred credits and other liabilities	4,646	4,195
Total liabilities	165,853	152,602

MEMBERS' EQUITY

Patronage capital and other equity	94,901	89,430
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$260,754	\$242,032



2008 SOURCES OF ELECTRIC REVENUE

- Residential - 58%
- Large commercial - 37%
- Small commercial - 3%
- Irrigation - 1%
- Street lighting - 1%

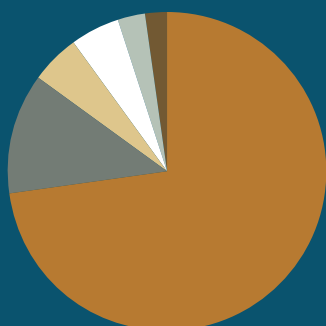
CONSOLIDATED STATEMENTS OF OPERATIONS

	2008	2007
	(in thousands)	
OPERATING REVENUES		
Net sales	\$185,110	\$172,254
Cost of sales	135,327	122,332
Gross margin	49,783	49,922
OPERATING EXPENSES		
Total operating expenses	49,265	47,615
Net operating margin	518	2,307
OTHER INCOME		
Total other income	5,876	7,395
Income before taxes	6,394	9,702
Income tax (benefit) on non-regulated operations	(577)	170
NET INCOME	\$6,971	\$9,532

CONSOLIDATED STATEMENTS OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash provided by operations	\$7,872	\$6,216
Net cash used for investing activities	(14,770)	(12,693)
Net cash provided by financing activities	7,149	5,581
Net increase (decrease) in cash and cash equivalents	251	(896)
Cash and cash equivalents at beginning of year	1,777	2,673
Cash and cash equivalents at end of year	\$2,028	\$1,777

Financial information presented in this report is summarized. A copy of the complete audited financial statements is available upon request or can be viewed online at www.dakotaelectric.com.



2008 USES OF REVENUE

- Cost of sales - 73%
- Labor & related benefits - 12%
- Depreciation - 5%
- Operations expense - 5%
- Net interest expense - 3%
- Property & other tax - 2%



BOARD OF DIRECTORS

Left to right: Gerald F. Pittman, Jr., vice chair, Lakeville, elected 1994; William F. Holton, Apple Valley, elected 1995; Ray B. Nicolai, Hampton, elected 1984; Margaret D. Schreiner, Eagan, elected 1987; Carl E. Potter, Great River Energy director and Minnesota Rural Electric Association director, Burnsville, elected 1983; James F. Sheldon, chair, Apple Valley, elected 1994; Clay A. Van De Bogart, Great River Energy director, Lakeville, elected 2000; Judy H. Kimmes, secretary, Hampton, elected 1997; Paul A. Trapp, Hastings, elected 2002; Ronald R. Swagger, Burnsville, elected 1987; Kenneth H. Danner, treasurer, Apple Valley, elected 2003; Janet L. Lekson, Rosemount, elected 1996.

A group photograph of seven people, six men and one woman, standing in a formal office setting. They are all dressed in business attire, including suits and ties. The background features a large wooden panel, a framed picture, and an American flag. The group is posed behind a dark wooden table.

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DAKOTA ELECTRIC ASSOCIATION STATISTICS

2008 YEAR-END FIGURES

Headquarters	Farmington, Minnesota	Annual sales	1.9 billion kWh
Year founded	1937	Wholesale power source	Great River Energy, Elk River, Minn.
Service area	Portions of Dakota, Goodhue, Scott and Rice counties	Source of funds	Cooperative Finance Corp., Herndon, Virginia CoBank, Denver, Colorado
Number of members	100,535	Subsidiaries	Midwest Energy Services: <ul style="list-style-type: none">• Energy Alternatives• Consulting Engineers Group• In 2008, Dakota Electric sold its subsidiary Controlled Air
Number of employees	208		
Miles of line	3,693 (2,356 underground, 1,337 overhead)		
Number of substations	25		

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4300 220th Street West
Farmington, MN 55024
651-463-6212
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MEETING CHALLENGES CREATING OPPORTUNITIES

INSIDE, LEARN MORE ABOUT...

- How much electricity members saved in 2008 with Dakota Electric's programs
- How technology helps provide better service
- How many kWhs of Wellspring Renewable Wind Energy® were purchased
- How system upgrades are improving reliability

