



Electric Cooperative

Official Notice of 56th Annual Meeting

Tuesday, July 11, 2006

6:30 p.m. Dinner

7:30 p.m. Annual Meeting

Lane County Fairgrounds, Dighton, KS

A Touchstone Energy®
Cooperative 

2005 ANNUAL REPORT



Photo by Tanya Burns

Lane-Scott Electric Cooperative Headquarters Building

OFFICIAL NOTICE of Annual Meeting

The Annual Meeting of the members of the Lane-Scott Electric Cooperative, Inc. will be held at the Lane County Fairgrounds, Tuesday, July 11, 2006, in Dighton. The events will begin at 6:30 p.m. with a meal catered by Stan Hoss, with the business meeting to follow.

The election of three trustees, approval of the minutes of the 2005 Annual Meeting, the treasurer's report and manager's report are all on the agenda.

The committee on nominations, appointed by the Board of Trustees, has nominated the following members as candidates for the offices of trustees. Craig Ramsey, representing Scott and Logan Counties; Richard Jennison, representing Lane and Gove Counties and Harold Hoss, representing Ness County.

Other nominations may be made by petition or from the floor at the meeting. Of the persons nominated, and any other nominations made by petition, or from the floor, it will be necessary to elect three trustees to succeed the persons whose terms expire at the meeting.

Lane-Scott Electric Cooperative, Inc.
P. O. Box 758
Dighton, KS 67839-0758

This is your registration card. Please bring it to the Annual Meeting.

Guest Speaker



L. Earl Watkins, Jr.

President and Chief Executive Officer
Sunflower Electric Power Corporation

L. Earl Watkins, Jr. was selected to be Sunflower's president and CEO in June 2004. He is the fourth person to hold this position since the cooperative was formed in 1957. For more than twenty-four years, he served as general counsel for Sunflower. This provided him with invaluable experience in a wide range of legal services, including union negotiations and elections, electric and gas utility regulation, utility financing, and human resources administration.

Earl was admitted to practice law in Kansas in 1973 after earning his Juris Doctorate degree from the University of Kansas in 1973. Earl began his civilian career following his four-year service in the United States Air Force Judge Advocate Corps in 1973-1977. He was in private practice from the time he left the Air Force until November 2001 when he became Sunflower's Executive Vice President and General Counsel.

Earl is keenly focused on continuing the development of Sunflower's culture which is based on its 'TRAITS' of trustworthiness, respect and dignity, accountability, integrity, technical competence, and servant leadership.

He believes the consistent application of these values enable Sunflower to always reach the "best answer" in each decision as Sunflower continues to live its mission statement of providing reliable, long-term power supply and transmission services to its Member-Owners.

**Energy conservation is everyone's responsibility,
contact Lane-Scott Electric
for ways to conserve your energy needs.**

Program

Annual Meeting Agenda

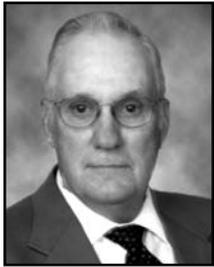
6:30 p.m. Dinner catered by Stan Hoss

7:30 p.m. Call to Order..... President Larry Jasper

- Early Bird Prize Drawing
- Introduction of Guests
- Report on Quorum
- Approval of Minutes of 2005 Annual Meeting
- Treasurer's Report
- 2005 Steamboat Springs Youth Tour Report, Camron Shay & Andrea Scheurman
- Washington D.C. Youth Tour Report, Colby Hagans & Marit Ehmke
- Manager's Report, Earl Steffens
- Guest Speaker – Earl Watkins, CEO Sunflower Electric Power Corporation
- Drawing for Door Prizes
- Junior Board of Trustees
- Election of Trustees
- Vote on Bylaw Amendments
- Unfinished Business
- New Business

Visit our website at www.lane-scott.com

Report To Members



Larry Jasper
President

Message From The President And The General Manager



Earl N. Steffens
General Manager

On behalf of the Trustees and employees of Lane-Scott, I would like to extend a special invitation for you to attend the fifty-sixth annual meeting of your cooperative. Lane-Scott continues to achieve excellence in their safety program. Our employees have worked 285,000 hours with “No Lost Time Accidents,” through the end of 2005. Lane-Scott is very proud of this as we continue to build on this total.

Board of Trustees and management staff participated in a two-day strategic planning session in October of 2005. This strategic planning provided an opportunity for the Board of Trustees and management staff to exchange ideas and discuss the future goals and objectives of your cooperative. Ken Nelson, our facilitator, did a good job of providing direction and suggestions for all. At completion it proved to be a very beneficial time for exchange of information; we now have our road map to follow for the next couple of years.

Lane-Scott had a very good year financially. Our margins for 2005 at the cooperative were \$654,900. Lane-Scott is required to make a 1.25 TIER (times interest earnings ratio) to meet our mortgage requirements, this year our TIER was at 3.81. Our Resale Department showed profits of \$37,240 for the year as well as providing a valuable service to our members and customers in the community. Our subsidiary, High Line Services, LLC, showed significant improvement over last year with a profit of \$8,981 for the year. The High Line Services employees worked a total of 62,600 hour with “No Lost Time Accidents,” and none since its inception in October of 2002. Lane-Scott continues to have a good working relationship with the City of Dighton as we continue to have a wholesale power agreement and operating and maintenance agreement with them. Lane-Scott currently has an equity level of 44%. Lane-Scott has a total utility plant of \$15,955,000.

Lane-Scott operations department was extremely busy this year; we were in the final year of our four-year work plan and showed good progress by adding just over 1.2 million dollars to our total plant. We had just one major project to finish in 2006 that was our three-miles of double circuit work coming out of the Dighton substation and this was finished in May of this year. Lane-Scott

has added 104 new services this year, as compared to other years 30-40 new services on the average. The GIS (global information system) project was completed, this will give us much valuable information about our total system that we use everyday to better serve our members and make our own system maps. This type of data will also help our engineers predict where the future line construction projects should be to better serve the needs of our members. This will be an ongoing project, as we continue to build line and improve our plant we will use GIS information to keep current. In 2005, Lane-Scott had only 9,235 total outage hours for the system, this was above our all time low of 7,952 hours. In 2005, Lane-Scott purchased 75.5 million-kilowatt hours from our power supplier, Sunflower Electric Power Corporation. With our line maintenance program we continue to keep our annual line loss at a respectable 7.15% and for all loads combined we have maintained a very good overall power factor of 79%. Maintaining our electrical system is a big job and our linemen go out in many difficult weather conditions to make sure that our members have electricity to run their homes and businesses.

In July of 2005 Lane-Scott along with the other Sunflower members formed a limited liability company called Mid-Kansas Electric Cooperative (MKEC) for the purpose of acquiring the Kansas Aquila electric territory that had come up for sale. In September, MKEC was notified that we were the high bidder and the process to acquire this property is underway; we expect this process to be completed within the next couple of months. For Lane-Scott this will mean adding 2450 new members and 330 miles of line to our current system. The territory will include the cities and close surrounding areas of Alexander, Arnold, Bazine, Brownell, McCracken, Ness City, Ransom and Utica; most of this territory lies within our current system and will provide many synergies for the cooperative.

Sunflower Electric Power Corporation is our power supplier and we are fortunate that this is a coal-fired generation plant; as that is the most economical at this point and looks like it will be in the future. Sunflower is in the process of adding new generation to their existing generation and part of this plan will be to give all the Sunflower members a second shaft for generation of electricity in the event that something should happen to the first one. This is also a very significant undertaking and one that will have a significant benefit to western Kansas in the years to come.

Lane-Scott continues to retire capital credits and paid back to our members \$173,959 in 2005; these were from the years of 1984-1986. Lane-Scott is on a 21-year rotation of capital credits; the Board of Trustees makes a decision each year on the amount of capital credits to retire depending on the financial condition of the cooperative. Lane-Scott has paid back to its members \$1,706,919 in capital credits since it started. Lane-Scott was able to rebate to its members \$200,000.00 in 2005 in the form of a rate rebate that was given to active members.

In 2002, Lane-Scott Electric started a Junior Board of Trustees. We have one junior board member that will be leaving us this year, Joanna Fay of

Dighton; we will recognize her for her time on the Junior Board of Trustees. Lane-Scott hopes this education was worthwhile to her and will help her in her future. Today's youth will be the future of this and other cooperatives. With this in mind, Lane-Scott is sponsoring two youth trips, one trip to Washington D.C. and the other to Steamboat Springs, CO. Lane-Scott also offers a \$500 scholarship for a family member of a Lane-Scott member going into the electrical utility field.

Safety is never taken for granted at Lane-Scott. Our goal is to bring our employees home safely to their families each and every day. You can be proud of your Lane-Scott employees. Their diligence and competence keeps the lights on without causing danger to employees, members or the public. We appreciate our membership and are thankful for the integrity and dedication of the Lane-Scott Electric Cooperative, Inc. employees.

Lane-Scott Employees

<u>EMPLOYEE</u>	<u>JOB TITLE</u>
Earl N. Steffens	General Manager
Dow Morris	Assistant Manager
Kathy Lewis	Manager of Financial Services
Jodi Marsteller.....	Cashier
Tanya Burns.....	Billing Clerk
Bob Venters.....	Resale Manager/Member Services
Kalo Mann	Master Electrician
Al Berndt.....	HVAC Technician
Michael Pollock	Apprentice Electrician
Vic Torson	Manager of Electrical Operations
Gary Lewis.....	General Foreman
David Howard	Journeyman Lineman
Nathan Burns.....	Journeyman Lineman
Kasey Jenkinson.....	Journeyman Lineman
Ben Mann	Journeyman Lineman
Henry Morrow.....	Journeyman Lineman
Dal Hawkinson.....	Apprentice Lineman
Chad Rupp.....	Apprentice Lineman
Deanne Shull	Warehouse Clerk

Nominating Committee Report

Report of Nominating Committee

The Lane-Scott Electric Cooperative, Inc.

May 22, 2006

A meeting of the Nominating Committee was called to order at 6:30 o'clock p.m. on Monday, May 22, 2006, in the offices of the cooperative at 410 South High Street, Dighton, Kansas. Members of the Nominating Committee present were Alan James, Joe Cramer, and Robert Scheib representing Lane and Gove Counties; Randy Scheuerman and John Beaton representing Scott and Logan Counties; Kenneth Schlegel and Lane Copeland representing Ness County; and Marvin Bohling and Grover Whipple representing Finney and Hodgeman Counties. Also attending were Joseph Gasper, Attorney, and Earl N. Steffens, General Manager.

By vote the Committee nominated the following individuals:

Richard Jennison for the position of Trustee representing Lane and Gove Counties

Craig Ramsey for the position of Trustee representing Scott and Logan Counties.

Harold Hoss for the position of Trustee representing Ness County.

There being no further business, the meeting of the nominating committee was adjourned at 6:40 p.m. on motion made by Alan James, seconded by Robert Scheib, and carried.

Lane-Scott Electric Cooperative

Has Electricians as well as Heating and Air Conditioning personnel on staff for all of your residential, agricultural and commercial needs. We give free estimates on all jobs. If we can assist you in any way with your needs call 620-397-5327 or 800-407-2217 or stop by our office at 410 South High for any questions or needs that you might have.

Members' Financial Report

Statement of Operations

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Operating Revenue	\$6,006,954	\$6,088,114	\$6,187,957
Wholesale Cost of Power	\$3,383,707	\$3,350,071	\$3,395,274
System Operations & Maintenance Exp.	\$914,460	\$716,677	\$731,678
Consumer Billing & Service Expense	\$174,282	\$185,210	\$190,589
Administrative & General Expense	\$586,589	\$595,942	\$617,646
Total Operations & Maint. Exp.	\$5,059,038	\$4,847,900	\$4,935,187
Depreciation Expense	\$438,839	\$425,132	\$491,857
Tax Expense	\$0	\$0	\$0
Interest on Long Term Debt	\$206,599	\$219,628	\$251,803
Other Deductions	\$6,431	\$3,360	\$4,375
Total Cost of Electric Service	\$5,710,907	\$5,496,020	\$5,683,222
Operating Margins	\$296,047	\$592,094	\$504,735
Non-Operating Margins Interest	\$24,222	\$25,896	\$33,709
Income From Equity Investments	(\$383,294)	(\$203,358)	\$8,981
Margins Other	\$22,320	\$56,447	\$100,159
Other Capital Credits & Dividends	\$6,971	\$4,306	\$7,330
Patronage Capital Or Margins	-\$33,734	\$475,385	\$654,914

Property Taxes Paid By County

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Finney	\$10,608	\$15,462	\$12,527	\$13,088
Gove	\$4,058	\$5,721	\$5,329	\$5,611
Hodgeman	\$11,775	\$17,556	\$16,929	\$16,138
Lane	\$98,372	\$140,619	\$120,772	\$128,067
Logan	\$435	\$598	\$494	\$523
Ness	\$42,682	\$56,822	\$48,559	\$51,455
Scott	\$21,363	\$29,403	\$29,028	\$34,680
TOTALS	\$189,293	\$266,180	\$233,637	\$249,561

Members' Financial Report

Balance Sheet

	<u>2003</u>	<u>2004</u>	<u>2005</u>
ASSETS			
Total Cost of Our System	\$14,337,026	\$15,102,342	\$15,954,666
Less: Depreciation	(\$5,788,719)	(\$6,131,373)	(\$6,423,198)
NET VALUE OF OUR PLANT	\$8,548,307	\$8,970,969	\$9,531,468
Cash & Temporary Investments	\$288,463	\$158,945	\$710,335
Investments in Associated Organizations	\$414,578	\$542,236	\$529,852
Owed to Us for Electricity & Misc. Service	\$730,861	\$715,828	\$744,743
Expenses Paid in Advance	\$0	\$0	\$65,459
Value of Materials on Hand	\$302,725	\$279,397	\$337,746
Misc. Deferred Debits	\$123,567	\$0	\$139,800
TOTAL ASSETS	\$10,408,501	\$10,667,375	\$12,059,403
LIABILITIES			
Long-Term Loans Owed to REA & CFC	\$5,065,968	\$5,170,319	\$5,946,794
Notes Payable	\$0	\$0	\$0
What We Owe for Insur., Taxes, Supplies, etc.	\$323,457	\$221,128	\$283,554
Consumer Deposits	\$43,639	\$43,168	\$67,288
Other Current & Accrued Liabilities	\$420,653	\$387,715	\$418,246
TOTAL LIABILITIES	\$5,853,717	\$5,822,330	\$6,715,882
NET WORTH			
Memberships	\$0	\$0	\$0
Patronage Capital Credits	\$4,471,030	\$4,752,125	\$4,578,382
Other Equities	\$83,754	\$92,920	\$765,139
TOTAL VALUE OF OUR EQUITY	\$4,554,784	\$4,845,045	\$5,343,521
TOTAL LIABILITIES & EQUITY	\$10,408,501	\$10,667,375	\$12,059,403
OUR SYSTEM EQUITY	43.8%	45.4%	44.3%
T.I.E.R. (REA Minimum = 1.50)	0.83	3.24	3.83
% OF DEPRECIATED PLANT IN SERVICE	40.4%	40.6%	40.3%

Your Neighbors Serving as Your Cooperative's Trustees



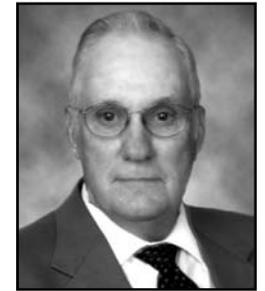
Ed Gough
Trustee
Lane & Gove Counties



Dick Jennison
Vice President
Lane & Gove Counties



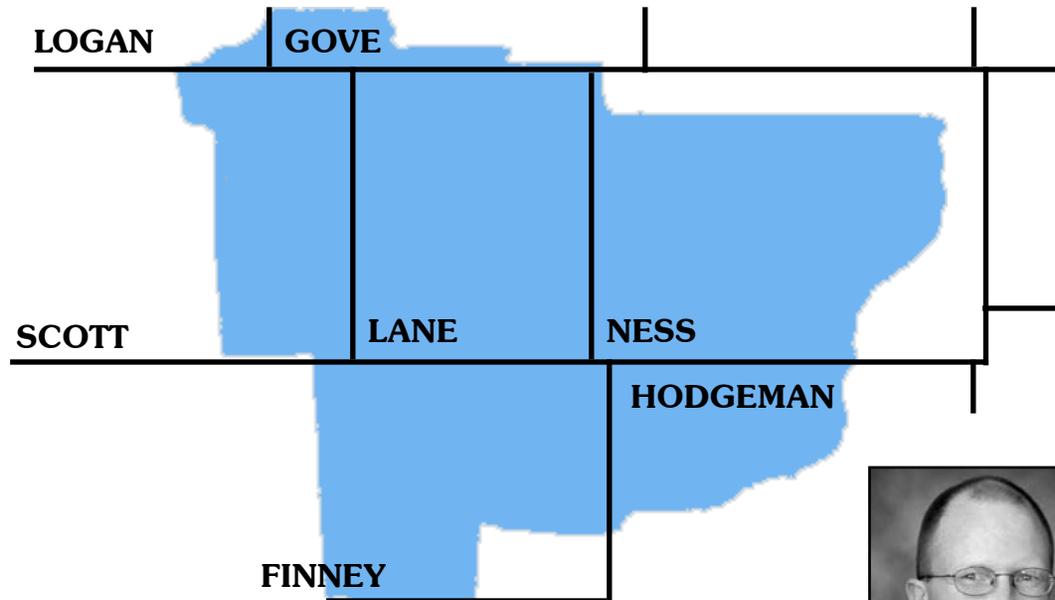
Bruce Wilkens
Trustee
Scott & Logan Counties



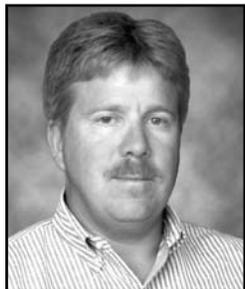
Larry V. Jasper
President
Lane & Gove Counties



Craig Ramsey
Trustee
Scott & Logan Counties



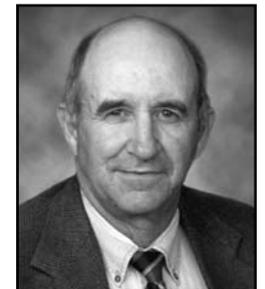
Paul Seib, Jr.
Secretary
Ness County



Eric Doll
Trustee
Finney & Hodgeman Counties



Dick Sorem
Treasurer
Finney & Hodgeman Counties



Harold Hoss
Trustee
Ness County

Lane-Scott provides electrical power to more than 3,000 services in the Western Kansas Counties of Lane, Scott, Gove, Ness, Finney, Logan and Hodgeman.

Board Candidates

■ **Craig Ramsey** is the incumbent trustee serving Scott and Logan Counties. He is a lifelong resident of Scott County. Craig graduated from Scott Community High School, Colby Community College, and Kansas State University.

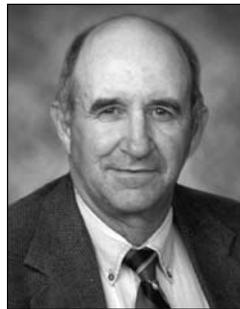
Craig and his wife, Gina, have two grown children. Craig has served on the Lane-Scott Electric Cooperative Board of Trustees since Jan. 05, when he was appointed to fill the term of his late father, Richard Ramsey, a long time member of the board at Lane-Scott Electric Cooperative.



Craig Ramsey

■ **Harold Hoss** is the incumbent trustee serving Ness County. He is a lifelong resident of Ness County. Harold graduated from Ness City High School and Emporia State University. Harold and his wife, Joyce, have two grown children

Harold has been a member of the Lane-Scott Electric Cooperative Board of Trustees for 21 years. He is a past director on the Ness City High School Board and a member of the Ness City American Legion and Knights of Columbus. He is also a past director of the United Credit Union of Ness City.



Harold Hoss

■ **Richard (Dick) Jennison** is the incumbent trustee serving Lane and Gove Counties. Dick is a lifelong resident of rural Healy in Lane County. He graduated from Healy High School and Kansas State University. Dick and his wife Diana have three grown children.

Dick has been a member of the Lane-Scott Electric Cooperative Board of Trustees for 24 years currently serving as vice president. Dick is also an active member in the United Methodist Church of Healy.



Richard Jennison

Minutes of 2005 Annual Meeting

The Lane-Scott Electric Cooperative, Inc.

The year 2005 annual meeting of the members of Lane-Scott Electric Cooperative, Inc. was held on Tuesday, July 12, 2005, at the Lane County Fair Grounds in Dighton, Lane County, Kansas. The meeting commenced at 7:30 o'clock p.m., pursuant to notice mailed to all members in accordance with the bylaws of the cooperative.

The meeting was called to order by President Larry Jasper. President Jasper welcomed those in attendance and introduced guests including: Alan Westfall of Stanion Electric; Dave Holthaus of KEC; Ralph Ostmeier of Grinnell, Kansas Senate; Larry Powell of Garden City, Kansas House; Sunflower Electric Power Corporation was represented by Earl Watkins, CEO, Steve Miller, Senior Manager of External Affairs, Clare Gustin, Senior Manager of Member Services and Nikki Phannenstiel, Economic Development Specialist; and Congressman Jerry Moran was represented by his aid Daron Jamison.

President Jasper next introduced the members of the Board of Trustees, the manager and legal counsel.

Attorney Ramsey certified notice of the annual meeting was mailed to members on June 28, 2005, at each members address as it appears on the records of the cooperative. Attorney Ramsey reported 149 members were in attendance, constituting a quorum.

President Jasper referred the members to the printed minutes of the 2004 Annual Meeting appearing in the notice of the annual meeting. On motion duly made, seconded and carried, the reading of the minutes of the 2004 Annual Meeting was waived and the minutes were approved as printed.

President Jasper next referred the members to the Treasurer's Report appearing in the notice of the annual meeting. On motion duly made, seconded and carried, the reading of the Treasurer's Report was waived and the report appearing in the notice of the annual meeting was approved as printed.

President Jasper next called for the employees of the cooperative to stand and be recognized. President Jasper introduced the new employees; Justin Tankersley, Jodi Marsteller, Robert Price, Deanne Shull, Marilyn Berndt, Shyree Levin, Michael Pollock and Lisa Ward.

Manager, Earl Steffens, presented his report. Manager Steffens honored Richard Ramsey, deceased, who served Lane-Scott for sixteen years as a member of the Board of Trustees, which included nine years as Lane-Scott's representative to Kansas Electric Cooperatives. Employees were introduced to and recognized for their dedication and loyalty. Manager Steffens acknowledged Lane-Scott's commitment to maintaining cooperative principles while delivering services to members at competitive rates. Approximately \$260,000 was returned to members in year 2004, with more than one million dollars returned to date. Lane-Scott's total utility plant increased by \$765,000.00 in year 2004 and now exceeds \$15 million dollars. Lane-Scott's wholesale price for electricity has remained consistent, allowing the cooperative's equity level to grow to 45%. At the close of 2004, the times interest earnings ratio (TIER) stood at 3.24, above the required minimum of 1.5. The

depreciated power plant is now 40%, down from 57% in the 1990's. In 2004, margins from electric sales totaled \$492,000.00, which when combined with the minus \$200,000.00 margin of Highline Services, the resale department margin of \$35,000.00 and the city operating agreement margin of \$40,000.00, resulted in a company wide margin of \$470,000.00. A new four-year work plan will commence in year 2006. The existing work plan is being completed with the installation of automated meter readers on all single-phase meters and the completion of the system GIS data collection. In 2004, Lane-Scott employees achieved a score of 92% on the state safety accreditation program, one of the top scores in the state. Lane-Scott employees have accumulated in excess of 250,000 employee-hours without a lost-time accident. Local dispatching services are working well. The subsidiary, High Line Services, has accumulated 50,000 hours of employee-hours without a lost-time accident. High Line Services crews are now working in the state of Alabama, repairing hurricane damage. Manager Steffens acknowledged the benefits of KEC membership including the newsletter, safety programs, apparatus testing, legislative efforts and website maintenance. Sunflower Electric Power Corporation was recognized for stable wholesale power rates, making margins possible. Manager Steffens introduced members of the junior board of directors and emphasized Lane-Scott's dedication to youth programs including support of youth through 4-H, schools and the electric car competition. Lane-Scott has supported economic development through its revolving loan program. Employees are busy bringing new electric power customers online, indicating electric power is becoming the energy source of choice for customers who seek stable energy costs. In closing, Manager Steffens emphasized Lane-Scott is a cooperative owned and operated by its members.

President Jasper then called for additional registrations. There was one additional registration, bringing the total members present to 150.

President Jasper presided over the election of trustees. The members of the nominating committee met and submitted names of three individuals as nominees for three trustee positions: Ed Gough, representing Lane County and Gove County; Paul Seib, Jr., representing Ness County; and, Richard Sorem, representing Finney County and Hodgeman County. President Jasper called for additional nominations from the floor. There were no additional nominations. On motion duly made by Lane Copeland, seconded and carried the nominations ceased and a unanimous ballot was cast for the named nominees.

President Jasper called for unfinished business. There was no unfinished business. President Jasper called for new business. There was no new business.

There being no new business, President Jasper called for a motion to adjourn. By motion duly made, seconded and carried the meeting was adjourned at 8:20 o'clock p.m. on July 12, 2005.

At various times during the meeting, attendance prizes were given away to members by drawing. The winners were; Delmer & Laura Marie Speer, Robert Borthwick, Howard Fenley Allen Schuler, Joyce Ramsey, Harold Meis, Jeff Vincent, Howard Richards, Thomas & Mary Cochran, Robert & Mary Ann Ming, Kenneth R. Schlegel, Vern Stiles, Sylvia Anne Martin, Shirley Eaton, Mike Penka, Terry Penka, Anna Eikelberger, Robin Jennison, Joyce E. Shull, James Cline, Guy H. Reed, Lane Copeland, Mark A. & Sharon Flax, Calvin Myers, Rachel Redburn, Lottie Burnett, Eloise M. Thomas, Mishler Oil, Shane Schlegel, Tom Reed, Jack Jewell, Darrell Wells, Billie Barnett, Sr., Calvin Ehmke, Terry Donecker, Sarah Myers, E.R. Redburn, Loren Pollock and Darwin Whipple.

Proposed Bylaw Amendments

Lane-Scott Electric Cooperative will be asking the members to vote on amending the bylaws of the cooperative. The purpose of the amendments is to modernize the bylaws and better prepare Lane-Scott for the future.

The proposed changes are printed below and the following three pages. It is proposed that wording with "strikethrough" type be deleted from the bylaws and replaced with the "underlined" wording.

OVERVIEW OF THE PROPOSED BYLAW AMENDMENTS MAY 22, 2006

SELECTED EXISTING BYLAWS
(As amended July 24, 2000)

Article 1 MEMBERSHIP

Section 1. **Membership Eligibility.** Any person, firm, association, corporation, or body politic or subdivision thereof ("Applicant") may become a member in THE LANE-SCOTT ELECTRIC COOPERATIVE, INC. (hereinafter called the "Cooperative") by

- (a) filing a written application for membership therein;
- (b) agreeing to purchase ~~Cooperative Services~~ Electric Service from the Cooperative as hereinafter specified; and,
- (c) agreeing to comply with and be bound by the articles of incorporation and bylaws of the Cooperative, any policies, rules and regulations (collectively, "Governing Documents") adopted by the board of trustees ("Board"), and all applicable law and legally binding agreements regarding the Cooperative (collectively, "Law").

No Person may hold more than one (1) Cooperative membership. Unless required by Law or otherwise provided in these Bylaws, and unless allowed in writing by the Cooperative's Board, no Cooperative membership, and no right or privilege associated with Cooperative membership, may be sold, purchased, assigned, or otherwise transferred.

Section 2. **Automatic Membership.** Unless the Board determines otherwise as provided in these Bylaws, upon:

1. Completing the membership procedure to the Cooperative's satisfaction; and
2. Using, receiving, or purchasing ~~any Cooperative Service~~ Electric Service from the Cooperative.

an Applicant automatically becomes a member of the Cooperative effective the date the Applicant began using, receiving, or purchasing ~~a Cooperative Service~~ Electric Service from the Cooperative ("Member").

The Cooperative may issue membership certificates to each Member in a manner, method, and form determined by the Board.

If the Board determines that any Applicant is unable to comply with the Governing Documents, or for other good cause determined by the Board, the Board may refuse the Applicant membership in the Cooperative.

If the Board refuses membership to any Applicant, then the Cooperative shall return to the Applicant any amounts paid to the Cooperative by the Applicant other than:

1. Amounts paid for using, receiving, or purchasing ~~any Cooperative Service~~ Electri-

cal Service from the Cooperative;

2. Outstanding amounts previously owed the Cooperative, and any associated interest or late payment charges.

Article II Rights and Liabilities of Members

Section 1. **Property Interest of Members.** Upon dissolution, after

- (a) All debts and liabilities of the Cooperative shall have been paid, and
- (b) All capital furnished through patronage shall have been retired as provided in these bylaws the remaining property and assets of the Cooperative shall be distributed among the members and former members in a proportion to which the aggregate patronage of each bears to the total patronage of all members during the seven years next preceding the date of the filing of the certificate of dissolution consistent with the laws of the State of Kansas as found in K.S.A. 17-4621 as it now exists or may be hereafter amended.

Article IV Trustees

Section 3. **Qualifications.** As used in these Bylaws, the term "Close Relative" means an individual who: (1) is, either by blood, law, marriage, including half, step, foster, and adoptive relations, a spouse, child, grandchild, parent, grandparent, or sibling; or, (2) principally resides in the same residence. Any individual properly qualified and elected or appointed to any position does not become a Close Relative while serving in the position because of any new marriage or legal action to which the individual was not a party, or by the Cooperative's merger with another corporation or the acquisition of additional service territory for business purposes unrelated to this section.

Section 7. **Compensation.** Trustees as such shall not receive any salary for their services, but by resolution of the board of trustees a fixed sum and expenses of attendance, if any, may be allowed for attendance at each meeting of the board of trustees or at any other meeting involving the Cooperative's interest when such attendance is authorized by the board of trustees. No trustee shall receive compensation for serving the Cooperative in any other capacity, unless approved by vote of the members. No Close Relative of a trustee ~~shall receive compensation for serving the Cooperative, unless the payment of the compensation shall be specifically authorized by a vote of the trustees, excluding the trustee who is a Close Relative, or the service by such trustee or close relative shall have been certified by the board of trustees as an emergency measure as a non-trustee Cooperative officer, employee, agent, or representative.~~

Article VII NONPROFIT OPERATION

Section 1. **Interest or Dividends on Capital Prohibited.** The Cooperative shall at all times be operated on a cooperative, nonprofit basis for the mutual benefit of its patrons. No interest or dividends shall be paid or payable by the Cooperative on any capital furnished by its patrons.

Section 2. **Patronage Capital in Connection with Furnishing Cooperative Services.** In the furnishing of electric energy the Cooperative's operations shall be so conducted that all patrons, members and nonmembers alike, will through their patronage furnish capital for the Cooperative. In order to induce patronage and to assure that the cooperative will operate on a nonprofit basis the Cooperative is obligated to account on a patronage basis to all its patrons for all amounts received and receivable from the

furnishing of electric energy in excess of operating costs and expenses properly chargeable against the furnishing of electric energy ("Operating Margins"). All such amounts in excess of operating costs and expenses at the moment of receipt by the Cooperative are received with the understanding that they are furnished by the patrons as capital. The Cooperative is obligated to pay by credits to a capital account for each patron the Operating Margins in proportion to the value or quantity of electric energy used, received, or purchased by each patron during the applicable fiscal year ("Capital Credits"). The books and records of the Cooperative shall be set up and kept in such a manner that at the end of each fiscal year the amount of Capital Credits, if any, so furnished by each patron is clearly reflected and credited in an appropriate record to the capital account of each patron, and the Cooperative shall within a reasonable time after the close of the fiscal year notify each patron via individual written notice of the amount of Capital Credits so credited to his or her account. All such amounts credited to the capital account of any patron shall have the same status as though they had been paid to the patron in cash in pursuance of a legal obligation to do so and the patron had then furnished the Cooperative corresponding amounts for capital.

Funds and amounts, other than Operating Margins, received by the Cooperative from other sources or for providing Cooperative Services, other than providing electric energy, that exceed the Cooperative's costs and expenses ("Non-Operating Margins") shall, insofar as permitted by law, (a) be used to offset any losses incurred during the current or any prior fiscal year; (b) be allocated as Capital Credits to Patrons in the same proportion as the Cooperative allocates Operating Margins to Patrons; or (c) be used by the Cooperative as permanent, non-allocated capital.

Notwithstanding this Article VII, the amount to be credited to the capital of members on account of their patronage shall be no less than the greater of alternative minimum taxable income or regular taxable income resulting from their patronage as determined under Federal income tax law.

In the event of dissolution or liquidation of the Cooperative, after all outstanding indebtedness of the Cooperative shall have been paid, outstanding capital credits shall be retired without priority on a pro rata basis before any payments are made on account of property rights of members. If, at any time prior to dissolution or liquidation, the board of trustees shall determine that the financial condition of the Cooperative will not be impaired thereby, the capital then credited to patrons' accounts may be retired in full or in part.

The Board shall determine the ~~manner and method of retiring and refunding Capital Credits, basis, priority and order of retirement, if any, for all amounts heretofore and hereafter furnished as capital.~~ The Board shall adopt a Board policy regarding the allocating and retiring of capital credits that is:

- (a) consistent with state and federal law;
- (b) is consistent with operating on a cooperative basis under federal tax law;
- (c) is fair and reasonable to the Cooperative's members and former members;
- (d) provides the Cooperative with sufficient equity and capital to operate effectively and efficiently; and
- (e) protects the Cooperative's financial condition.

Capital credited to the account of each patron shall be assignable only on the books of the Cooperative pursuant to written instruction from the assignor and only to successors in interest or successors in occupancy in all or a part of such patrons' premises served by the Cooperative unless the board of trustees, acting under policies of general application shall determine otherwise. In addition, the capital credit of any member may be applied by the Cooperative toward any bad debts which are owed to the Cooperative by such member.

Notwithstanding any other provision of these bylaws, the board of trustees, at its discretion, shall have the power at any time upon the death of any patron, if the legal representatives of his or her 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 provision of these bylaws, to retire capital credited to any such patron immediately upon such terms and conditions as the board of trustees, 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.

Further, after the death of an individual owning stock in a family corporation that is a patron, the Board of Trustees in its discretion may retire a portion of the capital credits of the family corporation in the same proportion as the equity ownership of the deceased individual in the family corporation bears to the total shareholder equity, in the same manner and subject to the same limitations which would apply to an individual deceased patron, as set forth in the preceding paragraph. For purposes of this paragraph, "Family Corporation" shall mean a corporation:

- (1) Actively engaged in the conduct of a business, all or a portion of which is located within the Cooperative service area;
- (2) That purchases electricity from the Cooperative directly for use in the principal business of the corporation;
- (3) In which the voting stock is held by and the majority of the shareholders are persons related to each other, all of whom have a common ancestor within the third degree of relationship, by blood or by adoption, or the spouses or the stepchildren of any such persons, or persons acting in a fiduciary capacity for persons so related;
- (4) All of its stockholders are natural persons or persons acting in a fiduciary capacity for the benefit of natural persons; and
- (5) At least one of the stockholders is a person actively engaged in the labor or management of the principal corporation business. A stockholder who is an officer of any corporation referred to in this subsection and who is one of the related stockholders holding a majority of the voting stock shall be deemed to be actively engaged in the management of the corporation.

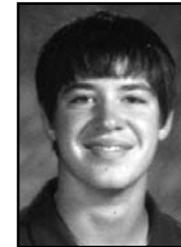
The patrons of the Cooperative, by dealing with the Cooperative, acknowledge that the terms and provisions of the articles of incorporation and bylaws shall constitute and be a contract between the Cooperative and each patron, and both the Cooperative and the patrons are bound by such contract, as fully as though each patron had individually signed a separate instrument containing such terms and provisions. The provisions of this article of the bylaws shall be called to the attention of each patron of the Cooperative by posting in a conspicuous place in the Cooperative's office.

Section 3. **Operating Deficits.** ~~That all operating deficits now accrued or which may hereafter accrue be first retired before assigning capital credits to patrons as herein before set out. If the costs and expenses exceed the amounts received and receivable from the furnishing of electric service, hereinafter referred to as "loss", then the Board shall have the authority to prescribe a fair and equitable manner in which such loss shall be handled, including but not limited to, the carrying forward of the loss to offset future allocations of patronage capital to the members resulting from the furnishing of the electric service. Losses subject to this paragraph shall be determined in the same manner and method that patronage capital is calculated and allocated to members as provided above with respect to the pre-existing obligation to allocate patronage capital.~~

Junior Board of Trustees



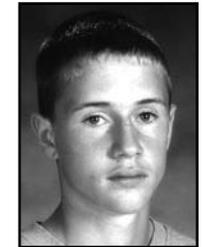
Ashley Ming



Camron Dane Shay



Joanna Fay



Tyrel George



Ian Huck



Traci Goebel



Dane Whitley



Ellen Huschka

The Junior Board of Trustees is an educational program to encourage youth in our community to learn about cooperatives. This will include field trips and boardroom discussions on the operation and organization of cooperatives in general with emphasis on electrical cooperatives. The Board meets four times a year. Visit our website to learn more – www.lane-scott.com.

This is your

Registration Card

BRING THIS CARD TO THE ANNUAL MEETING

Visit us on the web at www.lane-scott.com