

Nodak Neighbor

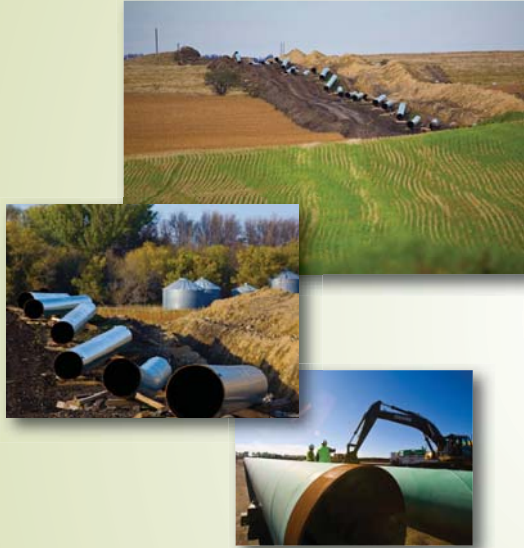
presents the

2008 ANNUAL REPORT



69th Annual Meeting

April 4, 2009



On the Cover

In 2008, construction of the Keystone Pipeline project commenced in eastern North Dakota. Nodak Electric Cooperative will provide electricity to three of the project's five pumping stations located in the state.

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Our Mission

Nodak Electric Cooperative is proud to serve as your local electric provider. We believe that working together toward a common vision is the cooperative difference. We do this by operating on a not-for-profit, cost-of-service basis. Margins are given back to the members in the form of capital credits to reduce their electric costs. Co-ops put consumers first.

These core business principles that have supported your local cooperative and all cooperatives for years are still alive and very strong today. Nodak's mission is based on the following statement: *"Nodak Electric Cooperative is dedicated to be an efficient provider of quality electric service with leadership that demonstrates the highest regard for its member-owners."*

Co-op Facts

Total miles of line:

Overhead	4,384
Underground	3,435

Counties served:

Pembina, Walsh,
Ramsey, Nelson,
Steele, Grand Forks,
Griggs, Benson, Eddy
and Traill

Square miles: 8,820

Number of accounts: 17,137

Number of employees: 69

Board meeting:

First Tuesday of each month

Date first energized:

December 23, 1939

Power supplier:

Minnkota Power
Cooperative, Inc.

Did you know?

Did you know electric cooperatives...

- Are located in **80 percent** of the nation's counties.
- Serve **40 million** members.
- Supply power to **75 percent** of the U.S. land mass.
- Maintain **44 percent** of the nation's electricity distribution structure.

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April 2009

Nodak Neighbor

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Nodak Electric Cooperative, Inc.

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Notice of Annual Meeting

To the members of Nodak Electric Cooperative, Inc.:

You are hereby notified that the 69th annual meeting of Nodak Electric Cooperative will be held Saturday, April 4, 2009, at the Alerus Center, 1200 42nd Street South in Grand Forks beginning at 10:30 a.m., for the following purposes:

1. To pass upon reports covering the previous fiscal year, including acting upon reports of directors.

2. To elect three directors:

The Committee on Nominations, appointed by the board of directors, present the following candidates for election to the board of directors:

District 1

(one 3-year term)

Paul Sigurdson

Edinburg

District 2

(one 3-year term)

David Hagert

Emerado

District 3

(one 3-year term)

Doug Lund

Aneta

3. To transact business which may come before the meeting.

Voting by mail. The board of directors has authorized mailing, for the election of directors, each member an absentee ballot. Since the election this year is uncontested, we will not be mailing ballots and return envelopes for the election. You are entitled to vote by mail, and if you wish to vote, we will honor that right. Please feel free to call our office at 1-800-732-4373 and ask for an absentee ballot, and one will be sent to your address. If the completed ballot is received by 4:30 p.m. on April 3, 2009, it shall be counted as a vote of the absent member.



Steven Smaaladen, Secretary/Treasurer

March 31, 2009

Message to our Members

As is the case with every annual report, we will attempt to review significant events of the year 2008. In our Mission Statement, we pledge to be an “efficient provider of electric service,” and furthermore, we will do this “with the highest regard” for you, the member-owner. One of the ways we do the latter is to be as transparent as possible when issuing our annual report.

Clearly, our biggest goal in 2008 was to complete the installation of a state-of-the-art Automated Meter Reading (AMR) system. We certainly weren't pacesetters in this venture, as various types of AMR systems have sprung up within the industry during the last 15 years. When we finally made the decision to invest more than \$5 million in this system, we were confident we were buying the technology that would give you an enhanced quality of service for at least 20 years into the future. This system helps us do our job better, results in reduced operating expenses, and finally, terminates the need for member-read meters. Few things have elicited more positive response from our members as the implementation of this system.

During 2008, we finalized a purchase agreement with TransCanada Keystone Pipeline for delivery of energy to three large pumping stations in Walsh, Nelson and Steele Counties. We expect to begin delivery of energy under this agreement in late 2009. It is by far the largest agreement we have ever made, and it is expected to increase our total kilowatt-hour sales by more than 20 percent when fully operational.

Our extensive load management program continues to be the flagship of our effort to market and deliver energy efficiency. We have more than 6,400 members participating in load management, with a vast majority consisting of dual heating systems. The required amount of load control varies

from year to year. As of March 1, 2009, we had approximately 200 hours of load control for dual heating.

An unfortunate incident in 2008 was when we experienced a voltage spike caused when workers were making changes to a transmission substation in Pembina County. Even though the work being done was not on our system, it resulted in voltage fluctuations on our system causing damages to appliances and equipment in many homes and businesses. Fortunately, the insurance company representing the workers stood behind their coverage, and to our knowledge, all related claims were paid.

Nodak members in the area received loss payments totaling roughly \$140,000.

With a distribution system including more than 7,500 miles of line and with growth most years, we require debt financing for much of our new construction and system improvements. We are fortunate to be able to be eligible for financing through USDA Rural Development Division. In 2008, we executed a loan agreement in the amount of \$32.5 million to finance new construction and system improvements during the next four years. The funds are drawn only after approved work is complete, and interest rates are determined at that time. We presently have roughly 55 percent of our assets financed with debt

– the remaining 45 percent representing equity held by our current and past members.

We were hopeful we would make it through the year without a serious ice storm. Our hopes ended on Nov. 6 when rain turned to ice in the early evening. By the following morning, we had more than 4,500 members without power in Walsh, Ramsey, Nelson and Steele Counties. With mud beneath the frozen surface, restoration was painfully slow and not all of our accounts were back on until three days later. The

“During 2008, we finalized a purchase agreement with TransCanada Keystone Pipeline for delivery of energy to three large pumping stations in Walsh, Nelson and Steele Counties. We expect to begin delivery of energy under this agreement in late 2009. It is by far the largest agreement we have ever made, and it is expected to increase our total kilowatt-hour sales by more than 20 percent when fully operational.”



Roger Diehl
chairman

George Berg
president & CEO

total cost to restore service was slightly more than \$320,000.

During the latter part of 2008, Nodak worked with the other North Dakota electric cooperatives to formulate a property tax proposal for the Legislature. We are very pleased to report that this proposal was adopted and will go into effect with the property taxes assessed in 2010 and paid in 2011. The most important part of this bill is that we will now pay our “in lieu” property taxes based on kilowatt-hours sold rather than dollars sold. This means we will no longer receive an automatic tax increase when we have a rate increase.

The year ended with a very necessary rate increase that was placed into effect on Dec. 20. The increase was necessary to offset increases in our wholesale cost of power of 3 percent in March 2008 and another 13 percent scheduled for March 2009.

Our retail rate increase averaged 9 percent, but varied depending upon the rate class you are in and the average monthly usage for your account. There is no way to put a positive spin on higher electric rates, but we are indeed fortunate in that North Dakota is still a region that enjoys lower-than-average electric rates when compared to the rest of the nation.

We encourage you to review the accompanying financial reports, along with the report from Secretary-Treasurer Steve Smaaladen. You will see that Nodak remains financially sound, and we are diligent in maintaining a reasonable retirement of capital credits.

On behalf of the entire board of directors, we want to thank you for your patronage in 2008, and we look forward to seeing you at our annual meeting at the Alerus Center in Grand Forks on April 4, 2009.

What is a kilowatt?

When you use electricity to cook a pot of rice for one hour, you use 1,000 watt-hours of electricity! One thousand watt-hours equals one kilowatt-hour (kWh). Your utility bill usually shows what you are charged for the kilowatt-hours you use. The national average residential rate (as of Dec. 31, 2008) is 11.47 cents per kWh, compared to Nodak Electric’s rate of 6.94 cents per kWh. A typical U.S. household consumes about 11,000 kWh per year – a national average cost of \$1,261 per household annually. The average annual cost per household for Nodak members is \$763.

Board of Director Nominees

District 1 – Paul Sigurdson



Paul Sigurdson has served on Nodak's board for District 1 since 1991. He currently serves as vice president of the Square Butte Electric Cooperative board. He has completed the director courses offered by the National Rural Electric Cooperative Association to become a credentialed cooperative director and recently completed the board leadership program.

Paul served as chairman of Pembina County Farmers Union and still serves as director. He is currently chairman of the board of directors of Edinburg Farmers Elevator, and a member of Pembina Hills Lutheran Church.

Paul and his wife, Ina, live on a farm near Gardar, N.D. He and his brother grow small grains and soybeans. They have four grown daughters and six grandchildren.

District 2 – David Hagert



David Hagert has been a member of the board of directors for Nodak Electric Cooperative since 1991 and has held numerous offices, including chairman. He has completed the required courses to receive the credentialed cooperative director certificate.

He currently serves on the Grand Forks County Planning and Zoning Commission and the North Dakota Atmospheric Resource board. He has served on the Emerado school board, the Emerado-Arvilla Lions Club, the Northwood Jaycees, the Grand Forks County Crop Improvement Association, Grand Forks County Farm Bureau, and was past treasurer of Pleasant View Township.

David and his wife, Karen, and their four daughters live near Emerado where he farmed for 24 years in a family partnership. He currently owns and operates AgriData, Inc., a Web-based mapping software company that serves farmers, ranchers and agri-businesses on a national basis.

District 3 – Doug Lund

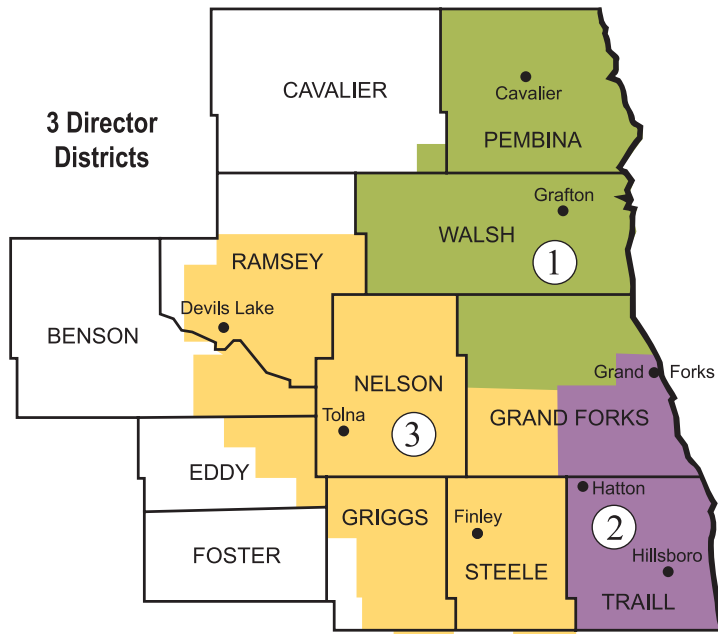


Doug Lund became a member of the board of directors for Sheyenne Valley Electric Cooperative in 1990 and Nodak Electric since the merger on Jan. 1, 2001.

He earned a business education degree from Mayville State University and taught school in Richardton and Prior Lake, Minn., before moving northwest of Sharon to farm.

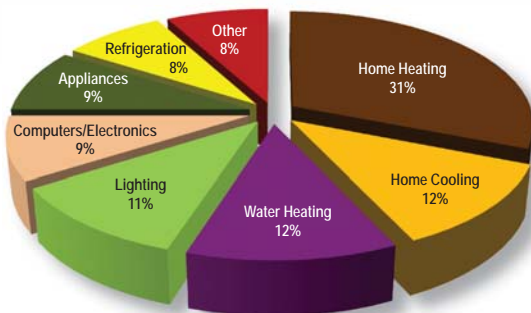
Doug currently serves on the Mid-West Electric Consumer's board, and has served on the Finley-Sharon school board, the Trinity Lutheran Church board, the Sharon Elevator board, the Sharon Township board, and the Steele County Crop Improvement Association.

Doug and his wife, Carol, farm wheat, barley, flax and soybeans. They have three grown children and three grandchildren.



How We Use Energy In Our Homes

Heating accounts for the biggest chunk of a typical utility bill.



Source: 2007 Buildings Energy Data Book, Table 4.2.1, 2005 energy cost data.

Voting by Mail

Your Bylaws state that any member may vote by mail for directors, and the absentee ballot or procedure for requesting the absentee ballot shall be mailed with the notice of the annual meeting (Bylaws, Article II, Section 6).

Candidates wishing to run for the Nodak board of directors have two options to have their name placed on the ballot. They can have a petition signed by 15 members to have their name placed on the ballot, or they can ask to be nominated by a Nominating Committee that meets roughly 45 days prior to the annual meeting. This year, there were no members who filed a petition to be placed on the ballot, and only the three incumbent directors requested to be placed on the ballot through the Nominating Committee. As a result, we have uncontested elections for each of the three district positions up for election at this year's annual meeting.

In view of the fact that the election will be uncontested, we have not mailed ballots and return envelopes for the election. In past years, when an election is uncontested, there has been a motion from the floor to declare the slate of candidates elected. Nonetheless, you are entitled to vote by mail, and we will honor that right if you so wish.

If you want to vote by mail, feel free to call our office at 1-800-732-4373 or 1-701-746-4461 and ask to have an absentee ballot sent to your address. Better yet, we hope you will take the time to come to the annual meeting on April 4. We have a great year to report on, we have quite a few door prizes to hand out, and we'll have a fantastic complimentary meal following the meeting.

Treasurer's Report

With the global economic events of the past year, stable corporate financial performance has become somewhat of a rarity, and good corporations that consistently provide added value and service to their customers have been largely forgotten by the media. At Nodak Electric Cooperative, we pride ourselves in delivering a reliable service that still carries a good value from an organization that has been around for 70 years.

In today's economy, we realize now more than ever that trust and accountability are business principles our member-owners have grown to expect from us. With those principles in mind, the board of directors and employees of Nodak Electric Cooperative take pride in providing this report of our financial condition for the year 2008.

Total margins for 2008 were \$1,765,493, as compared to 2007 margins of \$3,001,623. The largest factor leading to the reduction in annual margins was

the increased cost of wholesale power with a 3 percent wholesale rate increase recorded in April 2008. This wholesale power rate increase was absorbed by the cooperative in 2008, which led directly to a decrease in margins for the year. With 73.5 percent of our total cost of electric service expenses composed of wholesale power purchases, increasing power generation expense will continue to be a large factor in our retail rate pricing structure in the future.

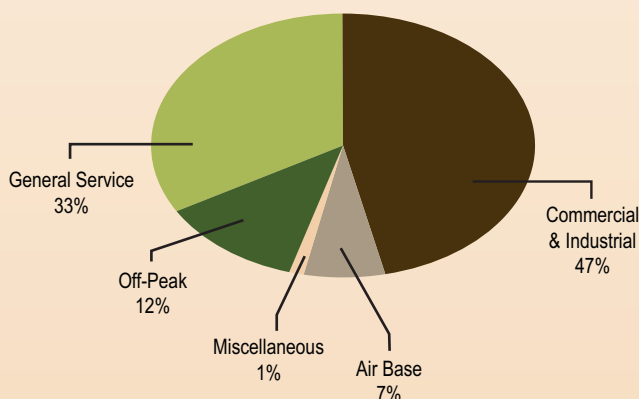
Excluding the cost of wholesale power, our remaining operating expenses averaged a 5.2 percent increase over the 2007 levels. Controllable expenses, which include operations, maintenance, customer service, accounting and administrative functions, were nearly level with 2007 expenses.

The largest percentage increase in expenses for 2008 occurred in our fixed expenses, which include depreciation, taxes and interest. Increases in depreciation expense resulted from the

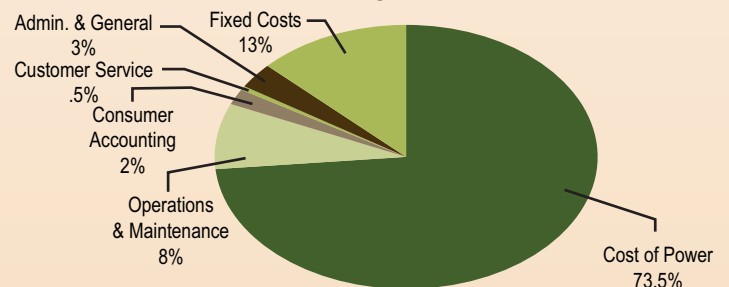
Lighting tip

A typical household incandescent light bulb uses electrical energy at a rate of 25 to 100 watts, while compact fluorescent lights typically consume 5 to 30 watts.

2008 kWh Sales Ratio



2008 Expense Ratio





Steve Smaaladen
secretary/treasurer

amortization of the newly completed automated meter reading system. Taxes, which are mainly composed of the State of North Dakota's 2 percent gross revenue assessment, increased due to additional electric revenue received as compared to 2007. Interest expense increased due to additional borrowing of funds from RUS and CoBank. These loan funds were used to finance the automated meter reading project, as well as other electric plant improvements during the year.

With the nationwide tightening of credit in the last six months, we are fortunate to have a stable source of capital that remains affordable. All borrowing that occurs for various electric plant projects is implemented with one thought in mind – that being convenience to our members, as well as service reliability. In addition to plant improvement, our electric system continues to grow each year, which requires additional borrowed capital. That growth in electric plant is welcome and allows us to spread our costs among a larger sales base, which is a benefit to all of our members.

Timely retirement of member equity is also a priority at Nodak Electric Cooperative. During 2008, nearly \$1.9 million of capital credits was retired to our past and present members. Rotation of this member equity has been consistent and will continue to remain a prime responsibility for us.

To summarize 2008, your electric cooperative had a good financial year, which is a bright spot among all of the negative economic news we have grown accustomed to hearing lately. No one can predict when the national economy will

turn around, but from a member-owner's perspective, we will continue to put your best financial interest into the decisions we make every day.

Please review the remaining financial statistics contained within this Annual Report. If you have any questions regarding these financial reports, or would like more information concerning Nodak Electric Cooperative, please stop by, give us a call or visit our Web site at **www.nodakelectric.com**.

Balance Sheet

As of December 31, 2008 and 2007

Assets

	<u>2008</u>	<u>2007</u>
Electric Plant		
Electric Plant in Service	\$114,387,058	\$109,457,882
Construction Work in Progress	<u>2,175,140</u>	<u>2,803,558</u>
	\$116,562,198	\$112,261,440
Less: Accumulated Provisions for Depreciation	<u>(36,341,381)</u>	<u>(35,827,529)</u>
	<u>\$ 80,220,817</u>	<u>\$ 76,433,911</u>
Other Assets and Investments		
Investments in Associated Companies	\$ 3,234,330	\$ 3,225,185
Other Investments	<u>781,359</u>	<u>734,476</u>
	<u>\$ 4,015,689</u>	<u>\$ 3,959,661</u>
Current Assets		
Cash and Cash Equivalents	\$ 365,878	\$ 1,551,337
Accounts Receivable (Less Accumulated Provision for Uncollectible Accounts 2008 – \$21,770; 2007 – \$21,936)	6,210,866	6,775,392
Material and Supplies	1,736,624	1,930,216
Other Current and Accrued Assets	<u>68,241</u>	<u>74,973</u>
	<u>\$ 8,381,609</u>	<u>\$ 10,331,918</u>
Deferred Debits	<u>\$ 229,142</u>	<u>\$ 332,541</u>
Total	<u>\$ 92,847,257</u>	<u>\$ 91,058,031</u>

Liabilities and Members' Equity

Equities		
Memberships	\$ 56,155	\$ 56,155
Patronage Capital	30,659,873	30,729,332
Other Equities	<u>10,285,210</u>	<u>10,324,093</u>
	<u>\$ 41,001,238</u>	<u>\$ 41,109,580</u>
Long-Term Debt		
Long-Term Debt (Net of Current Portion)	<u>\$ 41,179,735</u>	<u>\$ 36,673,235</u>
Other Non-Current Liabilities	<u>\$ 1,180,000</u>	<u>\$ 1,500,000</u>
Current Liabilities		
Current Maturities of Long-Term Debt	\$ 2,157,466	\$ 2,433,000
Line of Credit	1,600,000	3,837,590
Accounts Payable – Purchased Power	3,477,719	3,051,591
Accounts Payable – Other	289,457	720,717
Customer Deposits	196,650	202,023
Accrued Taxes	978,399	878,542
Other Current and Accrued Liabilities	<u>530,323</u>	<u>405,917</u>
	<u>\$ 9,230,014</u>	<u>\$ 11,529,380</u>
Deferred Credits	<u>\$ 256,270</u>	<u>\$ 245,836</u>
Total	<u>\$ 92,847,257</u>	<u>\$ 91,058,031</u>

Income Statement

As of December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Revenue		
Electric Revenue	\$46,823,089	\$44,908,663
Other	71,286	98,859
Total	<u>\$46,894,375</u>	<u>\$45,007,522</u>
Operating Expenses		
Cost of Power	\$33,517,609	\$30,785,211
Distribution – Operations	1,977,765	1,842,362
Distribution – Maintenance	1,695,678	1,811,370
Consumer Accounts	889,719	883,358
Consumer Service and Information	214,920	247,025
Administrative and General	1,431,219	1,421,354
Depreciation	2,849,830	2,682,059
Taxes	934,414	830,121
Total	<u>\$43,511,154</u>	<u>\$40,502,860</u>
Operating Margins Before Fixed Charges	\$ 3,383,221	\$ 4,504,662
Fixed Charges		
Interest on Long-Term Debt	\$ 1,931,429	\$ 1,565,533
Other Interest	150,457	200,232
Total	<u>\$ 2,081,886</u>	<u>\$ 1,765,765</u>
Operating Margins After Fixed Charges	\$ 1,301,335	\$ 2,738,897
G&T and Other Capital Credits	\$ 242,095	\$ 264,563
Net Operating Margins	<u>\$ 1,543,430</u>	<u>\$ 3,003,460</u>
Non-Operating Margins		
Interest Income	\$ 216,400	\$ 28,416
Other Non-Operating Income (Expense)	5,663	(30,253)
Total	<u>\$ 222,063</u>	<u>\$ (1,837)</u>
Net Margin	<u>\$ 1,765,493</u>	<u>\$ 3,001,623</u>



Board of Directors

Pictured from left: Donna Grotte, Finley; Steven R. Smaaladen, Aneta; Doug Lund, Aneta; David Hagert, Emerado; Harvey Tallackson, Grafton; David Sogard, legal counsel; Lee McLaughlin, Lankin; Paul Sigurdson, Edinburg; Roger Diehl, Hillsboro; and David Kent, Hatton.



Staff

Pictured from left: Tom A. Edwards, accounting/finance manager; Duane Hafner, customer/energy services manager; Blaine Rekken, energy services supervisor; John H. Rodgers, engineering/operations manager; and George W. Berg, president & CEO.

System Operations Department

Front, left to right: Steven Breidenbach, systems engineer; Todd Herz, engineering representative; Melissa Lunak, system operations supervisor; and Vernon Dubuque, engineering representative. Back, left to right: Ryan Schmaltz, operations technician; Charles Traiser, cable locator; and Joseph Snustad, staking engineer.





Strength in Numbers

Thanks to you, it's working!

Operation Round Up® is a program that rounds up members' monthly electric bills to the next whole dollar amount. The resulting funds are put into a special account to assist others in need. The funds collected through Operation Round Up are used for a wide variety of projects, programs and items throughout the Nodak service area.

The Round Up Board meets quarterly and considers each application that has been received since the previous meeting. They award funds to the applicants based on how well the application fits the original funding guidelines: 1. Individuals or families in crisis; 2. Services – ambulance and fire; 3. Community youth needs with emphasis on permanent benefit; 4. Scholarships with emphasis on re-education of displaced agricultural people; and 5. Senior needs with emphasis on permanent benefit.

Operation Round Up is a voluntary program with roughly 67.4 percent of the 13,349 members participating. Since the program started, a total of \$428,000 has been distributed to individuals and organizations throughout the Nodak Electric service area.

Operation Round Up 2008 Board of Directors



Bruce Ellertson



Sheryl Kjelland



Richard Lieberg



Maynard Messer



Pat Osland



Harvey Puppe



Roger Windjue

2008 Recipients

Ali's Boundless Playground	\$500
Avis Longtin	\$500
Ambulance service donations	\$2,000
Anna Werven	\$500
Candace Boese	\$700
Carl VanCamp	\$250
Catana Wyatt	\$1,000
Cavalier Robotics Team	\$500
City of Aneta	\$400
Community Violence Intervention	
Little Soul's Children Project	\$1,500
Curt Novak	\$2,500
Darrin Peterson	\$1,500
Devils Lake Park Board	\$400
Dress for Success Grand Forks	\$200
Energy Share of ND	\$1,000
Faith in Action Coalition	\$500
Fordville Park Board	\$250
Fordville Rural Fire Protection District	\$400
Francine McClendon	\$500
Friends and Neighbors Café	\$200
Gerald Byron	\$1,500
Harmony House	\$1,000
Heather Torrance	\$1,000
Henrietta Highland	\$250
Hillsboro Medical Center Foundation	\$500
JoAnn Contreras	\$2,000
Judith Behm	\$1,000
Kent Skavlem	\$1,200
Kiddie Korner Preschool and Daycare	\$1,000
Lauree Miller	\$1,000
Linda Brown	\$500
Lorne McEwen	\$1,500
Lutheran Social Services of ND	\$500
Magnus Haaland	\$700
Manvel Park Board	\$250
Manvel Senior Center	\$500
Mark Spivack	\$1,200
May Hughs	\$250
MayPort Pantry	\$500
Mayville Senior Citizens Assoc.	\$500
McVile Fire Protection District	\$1,500
Michael Thorsell	\$2,500
ND 4-H Foundation	\$500
Neché Park Board	\$500
Northlands Rescue Mission	\$600
Northwood City Park District	\$500
Park River Volunteer Fire and Rescue	\$1,000
Pembina County Emergency Medical Assoc.	\$500
Pembina County Head Start	\$400
Post prom parties (various schools)	\$550
Region IV Foster/Adopt Coalition	\$600
Ryan Erickson	\$1,000
Shane Peterson	\$1,500
Special Olympics of ND	\$250
St. Thomas Senior Center	\$250
St. Michael's Recreation Program	\$500
Sugar Bowl Senior Citizens	\$500
Sunshine Kids Center	\$400
Tots Landing Daycare	\$1,000
TOTAL	\$46,700

69th Annual Meeting

Agenda

April 4, 2009

- 9:30 a.m. – Doors open and registration begins at the Alerus Center, Grand Forks
- Entertainment by the Downtown Horns

- 10:30 a.m. – Call to order of the 69th annual meeting
Roger Diehl, chairman, presiding
- Reading of Notice
- Declaration of Quorum
- Nominating Committee Report
- Election
- Nodak business report
Roger Diehl and George Berg
- Minnkota Generation Update
Luther Kvernen
Minnkota vice president – Generation
- Question and answer period
- Old and new business
- Drawing for grand prize
- Adjournment
- Complimentary meal

Entertainment by the Downtown Horns

Each registered voter will receive a free compact fluorescent light bulb!
Cash prizes!

Guest Speaker



Luther Kvernen
vice president
– Generation
Minnkota Power
Cooperative, Inc.

Luther Kvernen joined Minnkota Power Cooperative on June 3, 1974.

Kvernen was promoted to vice president of Generation in 1997. Since that time, he has focused on the Milton R. Young Station near Center, N.D., with an emphasis

on future environmental regulations and long-term reliability issues.

Originally from Portland, N.D., Kvernen graduated from the University of North Dakota with a bachelor of science degree in electrical engineering. He and his wife, Jan, have three adult children and six grandchildren.