



THE POWER

BEHIND YOUR POWER

EXECUTIVE MESSAGE

Kootenai Electric Cooperative's core job is keeping the lights on, but our passion is serving our members. Because we're a cooperative, our purpose is to enrich the lives of our members and serve the long-term interests of our community. This service focus is at the heart of who we are, and we are proud to be the power behind your power.

2021 was unquestionably a banner year as we delivered outstanding performance for our members. Among the many challenges the cooperative navigated during the year were ongoing operations frustrated by the pandemic; record growth occurring simultaneously with near record supply chain constraints; recruitment of nearly 25% of our workforce; and the design of our new headquarters that will serve our members' needs for the next four decades.

Despite these challenges, we extended service to a record number of members, completed the year with strong margins, and finished the year within budget. We closed the year with total revenues of \$58.5 million and net margins of \$7.2 million. In addition, the cooperative retired \$900,000 in capital credits originally allocated to members in 1992 and retired \$2 million on a discounted basis through our Early Discounted Capital Credit program.

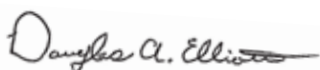
We invested approximately \$16.5 million in the infrastructure of our cooperative to safeguard and bolster the long-term reliability of our electrical system. In addition, the growth of our business created local employment opportunities for the equivalent of 4.3 new full time team members in 2021. We continued to provide our members advice on ways to save energy through conservation efforts and assisted them in acquiring rebates for those measures implemented.

As a local business, we are also proud of the role we play in community leadership, including participation and membership in local chambers of commerce. We are proud to have provided programs for our community's youth, such as educational scholarships and grants to schools. Since its beginning in 2002, KEC's Operation Round Up® program has awarded more than \$1 million in community grants and nearly \$200,000 in scholarships to our members or their children.

While the larger environment in which we operate is constantly changing, one thing will always remain constant. We will always keep the interests of our members first and will work tirelessly to serve you.



William R. Swick
Board Chair



Douglas A. Elliott
General Manager/CEO

Photo at right:

KEC broke ground at the new headquarters in Rathdrum in early 2022. Thank you to the KEC Board, City of Rathdrum, Rathdrum Area Chamber of Commerce and our contractor, Cooperative Building Solutions, for their participation in the event.

BOARD OF DIRECTORS AND GENERAL MANAGER

The KEC Board of Directors determines policy and direction that allows KEC's management to carry out the day-to-day business and operations of the cooperative. The KEC Board is comprised of seven directors, five of whom represent a specific geographical district and two of whom represent the cooperative at-large.



Bill Swick
Chair
District Five



Tim Meyer
Vice Chair
District One



Roger Tinkey
Secretary
District At-Large



Dave Bobbitt
Audit Committee Chair
District Four



Todd Hoffman
District Three



Crystal Musselman
District At-Large



Jim Robbins
District Two



Doug Elliott
General Manager/CEO



THE POWER BEHIND YOUR POWER | YEAR IN REVIEW



Darrin Hibbs
Project Engineering Technician

RATHDRUM HEADQUARTERS PLANNING AND DEVELOPMENT

In March 2021, KEC closed on the purchase of 44 acres of property near Rathdrum for our future headquarters. Throughout 2021 the KEC team worked with our consultants on the architectural layout and engineering design. The new facility will have approximately 180,000 feet of space under roof, mostly for vehicles, equipment and materials storage, and it is being built with future expansion in mind. The initial construction will meet our needs for the next 10 to 12 years and thereafter it can be expanded on site to meet future needs. It's a state-of-the-art facility, and it's being designed to support modern utility operations and the decentralization of our operations during emergencies.

The construction of this facility represents a \$53 million investment in our membership, cooperative and community. Factoring in the sale of our headquarters in Hayden and other avoided costs, the effective cost of constructing the facility is about \$46.5 million. Construction will take approximately 18 months to complete, and we hope to move in by October 2023. Our new facility will allow us to serve our members in the future and live our mission effectively.

RECORD GROWTH

As of year-end, the cooperative provided service to 30,387 members and extended service to 1,292 during 2021. This reflects a robust rate of growth in new services of 4.48%. This rate of growth also reflects a record for the cooperative in terms of new service connections as well as the number of consecutive years the trend has persisted. Our previous record was set in 2005 when we extended service to 1,238 new members.

FEMA MITIGATION GRANTS

The cooperative received final payment for the FEMA mitigation grant projects that resulted from the 2015 wind and snowstorms. This achievement concludes a six-year endeavor that represents one of the most significant investments and improvements in system wide reliability ever realized by the cooperative.

SCADA DEPLOYMENT

KEC continued the process of installing a new Supervisory Control and Data Acquisition System (SCADA), which we expect to be completed in 2022. SCADA systems provide valuable, real-time indications of equipment status to engineering and operations staff at the KEC headquarters. SCADA is also configured to provide alerts for station device alarms or abnormalities, feeder breaker operations and sustained outages. We use SCADA to collect voltage, current and power levels to optimize how the system is operated. Once the SCADA system is fully in place, engineering and operations staff will be integrating SCADA with our outage management system to better respond to power outages when they occur. It will also help with KEC's energy conservation program and wildfire mitigation plan, where we modify the operations of our electric system in areas affected by Red Flag Warnings issued by the National Weather Service.



Tracie Boller
Materials & Inventory Coordinator

MANAGEMENT DISCUSSION AND ANALYSIS

The discussion and analysis which follow are intended to provide our members an overview of Kootenai Electric Cooperative's financial activities for the year ended December 31, 2021. This information should be read in conjunction with the cooperative's audited financial statements and integral footnote disclosures. The financial presentation included in this report is summary information only, derived from the cooperative's audited financial statements. The cooperative's audited financial statements and footnote disclosures, including the auditor's opinion, are available for review at the cooperative's offices. For the years ended December 31, 2021 and 2020, the annual audit was conducted by Eide Bailly LLP.

KEC is a member-owned electric utility incorporated in 1938 to serve selected rural areas of North Idaho and Eastern Washington. The cooperative operates on a not-for-profit basis under the United States Internal Revenue Code and is governed by an independent seven-member elected board of directors.

Revenue increased in 2021 by \$4.1 million over the prior year for a total of \$54.2 million. The increase was largely driven by higher use due to extreme temperatures experienced in the summer and late winter and an increase in member base. In addition, the cooperative recorded a gain on the sale of a portion of its headquarter facility of \$0.5 million, which is classified under "Non-Operating Margins" in the Statements of Operations.

Power costs increased 4% in 2021 to a total of \$23.0 million, primarily due to the extreme temperature conditions during the year, the expiration of a power supply discount with the Bonneville Power Administration (BPA) and an increase in membership. Energy purchases from BPA comprise over 90% of the cooperative's power costs, with the balance attributable to the cost of operating our Fighting

Creek landfill gas generating plant and contractual purchases from Northwest Energy Supply Cooperative.

The cost of providing electric service to our members, including the cooperative's operating expenses, depreciation, and interest costs, increased by 9% over the prior year. This increase was due to higher operations and maintenance costs associated with augmented efforts of our right-of-way tree clearing program and inflationary pressures in all aspects of our major cost categories.

The cooperative's 2021 margins increased by \$1.2 million or 20% over the prior year producing total margins of \$7.2 million. As a cooperative operating on a not-for-profit tax basis, it is important to understand that these are not profits but rather member patronage. In the normal course of time, the board of directors will allocate the cooperative's margins to each member's individual capital credit account following the cooperative's bylaws. The allocation of 2021 margins, once completed, along with the accumulated unpaid capital credits for all prior years, represents a member's investment in KEC.



Reed Christensen, CPA

CFO/Vice President of Accounting, Finance & IT



FINANCIAL STATEMENTS | STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2021	2020
OPERATING REVENUE:	\$ 54,195,226	\$ 50,062,009
OPERATING EXPENSES:		
Cost of power	23,065,355	22,092,241
Distribution expense-operations	2,758,565	2,355,773
Distribution expense-maintenance	6,652,624	4,868,010
Consumer accounts	1,501,244	1,362,067
Sales expense	290,006	449,428
Administration & general	4,802,476	4,467,658
Depreciation & amortization	7,026,049	6,876,019
Taxes	1,083,751	967,234
Total operating expenses	47,180,070	43,438,430
Operating margins before interest expense	7,015,156	6,623,579
Interest expense	4,172,976	4,191,210
Net operating margins	<u>2,842,180</u>	<u>2,429,369</u>
NON-OPERATING MARGINS:		
Interest income	25,856	32,642
Patronage capital credits from other cooperatives	766,419	729,081
Gain on sale of electric plant	762,995	2,483,576
Paycheck Protection Program loan forgiveness	2,162,480	-
Other non-operating margins	605,278	276,916
Total non-operating margins	<u>4,323,028</u>	<u>3,522,215</u>
Net margins	<u>\$ 7,165,208</u>	<u>\$ 5,951,584</u>
COMPREHENSIVE INCOME (LOSS):		
Net margins	\$ 7,165,208	\$ 5,951,584
Other comprehensive income (loss)	115,956	(30,744)
Total comprehensive income	<u>\$ 7,281,164</u>	<u>\$ 5,920,840</u>



FINANCIAL STATEMENTS | BALANCE SHEETS

ASSETS	2021	2020
NONCURRENT ASSETS:		
Net utility plant	\$ 172,617,093	\$ 167,826,573
Investments	3,459,591	3,040,950
Notes receivable	1,174,107	975,465
Regulatory asset	89,459	106,499
Total noncurrent assets	<u>177,340,250</u>	<u>171,949,487</u>
CURRENT ASSETS:		
Cash and cash equivalents	1,631	122,409
Accounts receivable, net	8,968,754	5,734,424
Materials and supplies	8,281,248	7,526,599
Prepaid expenses and other	1,300,090	1,191,428
Total current assets	18,551,723	14,574,860
Deferred charges	4,695,150	5,121,772
Total assets	<u>\$ 200,587,123</u>	<u>\$ 191,646,119</u>
MEMBERS' EQUITY & LIABILITIES		
MEMBERS' EQUITY:		
Patronage capital	\$ 56,976,586	\$ 55,217,967
Accumulated other comprehensive loss	(76,096)	(192,052)
Other equities	26,881,811	22,283,524
Total members' equity	<u>83,782,301</u>	<u>77,309,439</u>
NONCURRENT LIABILITIES:		
Long-term debt, less current maturities	94,106,418	95,049,973
Postretirement benefit obligation, due after one year	2,242,251	2,511,329
Asset retirement obligation	173,000	173,000
Other retirement benefits	564,580	403,591
Total noncurrent liabilities	<u>97,086,249</u>	<u>98,137,893</u>
CURRENT LIABILITIES:		
Current maturities of long-term debt	4,840,716	4,458,982
Postretirement benefit obligation, due within one year	217,378	252,002
Payment Protection Plan (PPP) note payable	-	2,147,243
Accounts payable	6,890,795	3,514,253
Other current liabilities	6,814,338	5,826,307
Total current liabilities	18,763,227	16,198,787
Deferred Credits	955,346	-
Total liabilities	<u>116,804,822</u>	<u>114,336,680</u>
Total members' equity and liabilities	<u>\$ 200,587,123</u>	<u>\$ 191,646,119</u>

Photo at left:

Aaron Arthur, Lineman Assistant/Operator; Kody Hongslo, Journeyman Lineman; Ben Cook, Journeyman Service Lineman; Cameron Hall, Foreman; and Thomas Maddalone, Safety Director.



Cover Photos (left to right): Jessika Applegate, HR Administrator; Dan Hannon, Foreman; Gery Hirsch, Manager of Member Services; Karen Neorr, Real Estate Specialist; Lance Teal, Foreman; Ben Cook, Journeyman Service Lineman; and Lois Duncan, Member Service Representative.

Photos Above (left to right): Daniel Spitzer, Warehouseman; Keith Gednalske, Foreman; Tim Sebert, Mechanic; Jen Cox, Operations Coordinator; Preston Jerome, Electro Technician; Chad Hall, Lead Lineman; and Tim Lederhos, IT Administrator.