

ANNUAL
REPORT
**20
22**

BUILDING A
***POWERFUL
FUTURE***



EXECUTIVE MESSAGE

Kootenai Electric Cooperative's (KEC) mission to provide our members with exceptional service and dependable electric power at competitive rates drives every business decision the cooperative makes. This missional focus on our members is reflected in our American Customer Satisfaction Index score each year. Year over year, our members rate our performance and service to them well above that of our regional and national peers. It is performance we are proud of and strive to improve on each year. While 2022 was not without challenges, the cooperative navigated continuing supply chain and inflationary issues impacting the industry; maintained our workforce through recruitment of nearly 20% of our year-end staffing amid labor shortages affecting utilities; pursued and ultimately secured a FEMA mitigation grant; and broke ground on a new headquarters that will serve our members' needs for the next several decades.

Every year, we invest heavily in the electric system and infrastructure needed to maintain the reliable service and business continuity our members depend on. This past year was no exception. Approximately \$41.1 million was invested in maintaining and modernizing our electrical infrastructure. These investments included the installation of a new Supervisory Control and Data Acquisition (or SCADA) system that allows us to monitor the operational performance of our electrical system in real time.

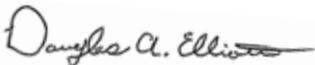
KEC's financial performance throughout the year was exceptionally strong. We closed the year with total operating revenues of \$57.9 million and net margins of \$3.3 million. In addition, the cooperative retired \$900,000 in capital credits originally allocated to members in 1994 and 1995 and retired \$1.6 million on a discounted basis through our Early Discounted Capital Credit program.

KEC is honored to be among the largest businesses and employers in our area. Our operations help support and bolster the economic vitality of the communities our members live in. With every electric bill our members pay, they are helping support our local economy. Through our Operation Round Up® program, many members voluntarily go a step further. Since its founding, participating members have invested nearly \$1.4 million in our community by providing grants to non-profits and academic scholarships to youth. Simply put, supporting our members and our community is part of who we are. KEC is not an ordinary utility company. We are a member-owned cooperative operating on a not-for-profit basis.

The success we realize results from the devotion and collaboration of our employees and the tireless leadership of our management team and board of directors. We are proud to serve you, our members.



William R. Swick
Board Chair



Douglas A. Elliott
General Manager/CEO

Photo at right:
KEC employees at the 2022 Annual Meeting.

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



BUILDING A POWERFUL FUTURE | YEAR IN REVIEW



Kayla Wanous
Lead Field Engineering
Coordinator

dates or final pricing, resulting in uncertain pricing for materials that must be ordered months or even years in advance. KEC's procurement team has taken the initiative to develop relationships with other utilities for the buying and selling of material, as well as developed direct purchasing relationships with manufacturers in addition to maintaining our traditional supplier relationships.

CONTINUED STRONG GROWTH

As of year-end, the cooperative provided service to 31,535 consumers and extended service to 1,188 during the year. This reflects a rate of growth in new services of 3.9%.

SYSTEM INSPECTION AND MAINTENANCE PLAN

KEC's system inspection and maintenance plan outlines a methodical, preventive approach to how we inspect and maintain every piece of equipment on our system. This includes equipment from transmission lines and substations to distribution lines, transformers and meters. KEC staff and contractors conducted 1,254 underground and 4,785 overhead system device inspections in 2022.

This plan includes vegetation management, which protects the reliability of our electric system and mitigates wildfire risk by focusing on the identification and removal of hazardous trees as well as the pruning of vegetation that interferes with our distribution lines. In 2022, 90 miles of power line right-of-way were cleared and numerous hazardous trees were removed.

RATHDRUM HEADQUARTERS CONSTRUCTION

KEC broke ground on its new headquarters in Rathdrum on March 31, 2022. The new facility will have approximately 180,000 feet of space under roof, mostly for vehicles, equipment and materials storage, and is being built with future expansion in mind. It's a state-of-the-art facility, and is 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. We expect to move in fall 2023.

OVERCOMING SUPPLY CHAIN ISSUES

2022 saw many of the same supply chain issues as 2021 as well as continued increases in material costs. Most manufacturers no longer guarantee shipping



Jim Herby
Warehouseman

MANAGEMENT DISCUSSION AND ANALYSIS

The discussion and analysis which follow are intended to provide our members with an overview of Kootenai Electric Cooperative's financial activities for the year ended December 31, 2022. 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, 2022 and 2021, 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.

Operating revenue increased in 2022 by \$3.8 million over the prior year for a total of \$57.9 million. The increase was largely driven by higher usage due to extreme temperatures experienced in the summer and winter months and an increase in member base, partially offset by a revenue deferral of \$4 million as per the cooperative's rate stabilization policy.

Power costs increased 16% in 2022 to a total of \$26.8 million, primarily due to the impacts of extreme temperature conditions during the year and an increase in membership. Energy purchases from the Bonneville Power Administration comprise over 85% 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 5% over the prior year. This increase in costs was primarily due to higher depreciation and overall wage and benefit expenses.

The cooperative's 2022 margins decreased by \$3.8 million, or 53%, from the prior year producing total margins of \$3.3 million. 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 policies and bylaws. As per policy, margins available for allocation are adjusted by any revenue deferred during the year. Due to the fact a revenue deferral of \$4 million took place in 2022, net margins available for allocation will increase to \$7.3 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. The allocation of 2022 margins, once completed, along with the accumulated unpaid capital credits for all prior years, represents a member's investment in KEC.



Reed Christensen, CFO



FINANCIAL STATEMENTS | STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2022	2021
OPERATING REVENUE:	\$ 57,948,718	\$ 54,195,226
OPERATING EXPENSES:		
Cost of power	26,846,607	23,065,355
Distribution expense-operations	2,497,428	2,758,565
Distribution expense-maintenance	7,252,247	6,652,624
Consumer accounts	1,723,559	1,501,244
Sales expense	345,266	290,006
Administration & general	5,220,031	4,802,476
Depreciation & amortization	7,431,543	7,026,049
Taxes	<u>1,219,662</u>	<u>1,083,751</u>
Total operating expenses	52,536,343	47,180,070
Operating margins before interest expense	5,412,375	7,015,156
Interest expense	<u>4,219,940</u>	<u>4,172,976</u>
Net operating margins	<u>1,192,435</u>	<u>2,842,180</u>
NON-OPERATING MARGINS:		
Interest income	27,409	25,856
Patronage capital credits from other cooperatives	749,683	766,419
Gain on sale of electric plant	404,575	762,995
Paycheck Protection Program loan forgiveness	-	2,162,480
Other non-operating margins	<u>967,072</u>	<u>605,278</u>
Total non-operating margins	<u>2,148,739</u>	<u>4,323,028</u>
Net margins	<u>\$ 3,341,174</u>	<u>\$ 7,165,208</u>
COMPREHENSIVE INCOME (LOSS):		
Net margins	\$ 3,341,174	\$ 7,165,208
Other comprehensive income (loss)	<u>(273,629)</u>	<u>115,956</u>
Total comprehensive income	<u>\$ 3,067,545</u>	<u>\$ 7,281,164</u>



FINANCIAL STATEMENTS | BALANCE SHEETS

ASSETS	Years Ended December 31,	
	2022	2021
NONCURRENT ASSETS:		
Net utility plant	\$ 210,659,309	\$ 172,617,093
Investments	3,721,340	3,459,591
Notes receivable	1,249,991	1,174,734
Regulatory asset	72,419	89,459
Total noncurrent assets	<u>215,703,059</u>	<u>177,340,877</u>
CURRENT ASSETS:		
Cash and cash equivalents	1,059,586	1,631
Accounts receivable, net	8,029,204	8,968,127
Materials and supplies	10,577,602	8,281,248
Prepaid expenses and other	2,489,922	1,300,090
Total current assets	<u>22,156,314</u>	<u>18,551,096</u>
Deferred charges	<u>4,200,115</u>	<u>4,695,150</u>
Total assets	<u>\$ 242,059,488</u>	<u>\$ 200,587,123</u>
MEMBERS' EQUITY & LIABILITIES		
MEMBERS' EQUITY:		
Patronage capital	\$ 53,667,626	\$ 56,976,586
Accumulated other comprehensive loss	(349,725)	(76,096)
Other equities	<u>32,580,463</u>	<u>26,881,811</u>
Total members' equity	<u>85,898,364</u>	<u>83,782,301</u>
NONCURRENT LIABILITIES:		
Long-term debt, less current maturities	125,287,747	94,056,052
Postretirement benefit obligation, due after one year	2,346,154	2,242,251
Operating lease liability, less current portion	497,879	22,095
Asset retirement obligation	145,424	173,000
Other retirement benefits	581,422	564,580
Total noncurrent liabilities	<u>128,858,626</u>	<u>97,057,978</u>
CURRENT LIABILITIES:		
Current maturities of long-term debt	5,268,458	4,840,716
Postretirement benefit obligation, due within one year	276,737	217,378
Accounts payable	8,734,040	6,890,795
Other current liabilities	7,904,781	6,842,609
Total current liabilities	<u>22,184,016</u>	<u>18,791,498</u>
Deferred Credits	<u>5,118,482</u>	<u>955,346</u>
Total liabilities	<u>156,161,124</u>	<u>116,804,822</u>
Total members' equity and liabilities	<u>\$ 242,059,488</u>	<u>\$ 200,587,123</u>

Photo at left:

Rathdrum headquarters groundbreaking in March 2022.

Cover Photos (top to bottom):
John DeBoer, Manager of IT;
Nathan Smither, Service Lineman;
Leslie Miller, Controller; KEC's
new Rathdrum Headquarters
construction as of April 2023.

Photos Right: (top to bottom):
Casey Walton, Project Engineering
Technician; Dennis Wanous,
Foreman; Lois Duncan, Member
Service Representative; Matt Hull,
Foreman.

