

2019 ANNUAL
REPORT

We **POWER THE
COMMUNITY**



As your cooperative,

we're proud to power your life and bring good things to our community. You, the members we serve, are at the heart of everything we do.

When we helped to bring electricity to rural North Idaho many years ago, the quality of life improved for all. Through the years, other issues needed to be tackled and we have been at the forefront of helping to address some of those issues. We want to help meet the long-term needs of our community to ensure it continues to thrive—because just like you, we live here too.

While our top priority is to provide safe, reliable and affordable energy to you, equally important is our mission to enrich the lives of the members we serve. This focus to benefit the larger community is central to the way we operate as a cooperative. KEC knows that electricity is a critical need for modern-day life, but it takes more than poles and power lines to make a community.

Over time, our cooperative has evolved to meet the changing needs of our community, thereby improving the quality of life for everyone. And that can mean many different things. For instance, KEC provides its members advice on ways to save energy through conservation efforts and helps them achieve them through rebates. It can also mean providing programs for our community's youth, such as education scholarships and grants to schools. Through our Operation Round Up® program, KEC has extended nearly \$1 million in community grants and more than \$180,000 in scholarships to our members or their children. And, our employees are active in the community organizing food drives,

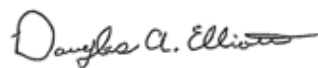
training first responders on the hazards of working near high voltage lines and volunteering their time in serving other non-profit organizations.

While this service to community is part of our organizational DNA, it does not distract from our steadfast and relentless focus on managing costs and keeping rates competitive. This past year was no exception. KEC's financial performance throughout the year was exceptionally strong. We closed the year with revenues of \$48 million and net margins of \$6.1 million. In terms of capital credit management, the cooperative fully retired \$900,000 originally allocated to members in 1990 and 1991 and retired another \$3 million through our Early Discounted Capital Credit program to members voluntarily participating in it.

We are proud to power your life and bring good things to our community. We hope you will continue to guide our efforts by sharing your perspective as we plan for the future. The energy landscape is undergoing dramatic change fueled by evolving technology and consumer desires for more options. While the larger environment in which we operate is constantly changing, one thing remains the same: by working together, we are certain that KEC can continue to do good things for our community.



William R. Swick
Board Chair



Douglas A. Elliott
General Manager/CEO

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



At KEC, our mission is to provide our members exceptional service and dependable electric power at competitive rates.

Our mission is to deliver dependable energy but it doesn't stop there.

SYSTEM UPGRADES

During 2019, KEC invested more than \$24 million in capital plant. Among the most noteworthy aspects of this work were our FEMA mitigation projects, the completion of the Scarcello substation upgrade and the relocation of several lines required by road moves, including Bunco Road and the Highway 53/95 interchange.

As of year-end, KEC had completed the construction of all but three of the 24 FEMA mitigation projects approved in the aftermath of the 2015 wind and snow storms. This work reduced overhead line exposure by nearly 25 miles, which in turn reduces our wildfire risk, the amount of vegetation management needed and line maintenance.

These upgrades will enable us to keep up with current and future energy demands as well as improve reliability.

NEW MEMBER EXTENSIONS

2019 marked another banner year for member extensions as 1,046 new services joined the system. This followed similar growth experienced in the three preceding years. Prior to this upturn in growth, the average annual number of member extensions following the recovery from the housing recession was approximately 500.

ENERGY EFFICIENCY AND RENEWABLES

KEC's energy services program provides rebates to members on the purchase of certain energy-saving appliances and products. In 2019, we paid \$525,442 in rebates and reduced electric use by 1,595,597 kWh.



Marketing & Communications Specialist Kaylee Dinkel



Safety Director Thomas Maddalone

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, 2019. 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 headquarters. For the years ended December 31, 2018 and 2019, the annual audit was conducted by Moss Adams, 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 2019 by \$2.2 million over the prior year for a total of \$48.7 million. The increase was largely driven by a cold snap in February and March as well as an increase in the number of new services.

Power costs increased 6% in 2019 to a total of \$20.8 million, primarily due to the high demand from colder temperatures and an increase in new service extensions. Energy purchases from the Bonneville Power Administration comprise over 97% of the cooperative's power costs, with the balance attributable to other resources.

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 was due to higher depreciation and interest expenses resulting from new capital construction projects placed in service during 2019, as well as higher operations and maintenance costs.

The cooperative's 2019 margins increased by \$0.3 million or 5.9% over the prior year producing total margins of \$6.1 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 cooperative's margins will be allocated to each member's individual capital credit account. The allocation of 2019 margins, once completed, along with the accumulated unpaid capital credits for all prior years, represents a member's investment in Kootenai Electric Cooperative.



Reed Christensen, CPA
CFO/Vice President of Accounting, Finance & IT



Statements of Operations

	2019	2018
OPERATING REVENUE:	\$48,794,550	\$46,089,540
OPERATING EXPENSES:		
Cost of Power	21,446,429	20,371,049
Distribution Expense-Operations	2,159,193	1,789,250
Distribution Expense-Maintenance	2,989,147	3,038,771
Consumer Accounts Expense	1,017,954	1,363,420
Sales Expense	383,032	346,949
Administration & General Expense	4,206,397	4,250,315
Depreciation & Amortization Expense	6,532,347	5,734,290
Tax Expense	940,955	887,949
Total Operating Expenses	39,675,454	37,781,993
Operating Margins Before Interest Expense	9,119,096	8,307,547
Interest Expense	3,959,791	3,628,515
Net Operating Margins	5,159,305	4,679,032
NON-OPERATING MARGINS:		
Interest Income	36,830	29,439
Patronage Capital Credits From Other Cooperative	698,070	980,995
Other Non-Operating Margins	226,975	89,767
Total Non-Operating Margins	961,875	1,100,201
Net Margins	\$6,121,180	\$5,779,233
COMPREHENSIVE INCOME (LOSS):		
Net Margins	6,121,180	5,779,233
Other Comprehensive Loss	(159,530)	(348,178)
Total Comprehensive Income	\$5,961,650	\$5,431,055

2019 By the Numbers



504 million

kWh SOLD



28,957

OF METERS



1,046

OF NEW SERVICES



\$48,794,550

OPERATING REVENUE



Journeyman Lineman Matt Hull

Assets

NONCURRENT ASSETS:

	2019	2018
Net Utility Plant	\$163,075,991	\$151,617,716
Investments	2,650,244	2,268,626
Notes Receivable	375,693	365,554
Regulatory Asset	123,539	140,579
Total Noncurrent Assets	<u>166,225,467</u>	<u>154,392,475</u>

CURRENT ASSETS:

Cash & Cash Equivalents	686,342	471,121
Accounts Receivable, Net	5,556,901	5,468,718
Materials & Supplies Inventory	6,641,526	6,748,839
Other Current Assets	498,903	337,826
Total Current Assets	<u>13,383,672</u>	<u>13,066,504</u>
Deferred Charges	5,532,841	6,030,931
Total Assets	<u>\$185,141,980</u>	<u>\$173,489,910</u>

Members' Equity & Liabilities

MEMBERS' EQUITY:

	2019	2018
Patronage Capital	\$53,572,596	\$52,304,326
Other Equities	19,160,523	15,723,362
Accumulated Other Comprehensive Income (Loss)	(161,308)	(1,778)
Total Members' Equity	<u>72,571,811</u>	<u>68,025,910</u>

NONCURRENT LIABILITIES:

Capital Lease, Less Current Portion	77,337	103,066
Long-Term Debt, Due After One Year	94,631,617	89,590,913
Asset Retirement Obligation	173,000	171,820
Other Retirement Benefits	455,242	367,442
Postretirement Benefit Obligation, Due After One Year	2,449,879	2,414,358
Total Noncurrent Liabilities	<u>97,787,075</u>	<u>92,647,599</u>

CURRENT LIABILITIES:

Current Portion of Capital Lease	25,729	24,546
Long-Term Debt, Due Within One Year	4,259,246	3,946,437
Postretirement Benefit Obligation, Due Within One Year	256,501	242,720
Accounts Payable	5,002,500	3,985,171
Interest Payable	341,485	339,068
Patronage Capital Payable	900,000	900,000
Consumer Deposits	896,120	843,696
Vacation Payable	1,022,925	671,317
Taxes Payable	965,331	909,333
Other Current Liabilities	1,113,257	954,059
Total Current Liabilities	<u>14,783,094</u>	<u>12,816,401</u>
Total Liabilities	<u>112,570,169</u>	<u>105,464,000</u>
Total Members' Equity & Liabilities	<u>\$185,141,980</u>	<u>\$173,489,910</u>



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A future KEC member meets Solar Sam at KEC's Member Appreciation Event on September 7, 2019.