

ALWAYS ON THE FRONTLINE



Executive Message

As an electric cooperative, our mission is to provide our members with exceptional service and dependable electric power at competitive rates. Our priority is to enrich the lives of our members and serve the long-term interests of our local community—and this has never been more critical than in the year 2020. One of the seven principles that guides all cooperatives is “concern for community.” This principle is the essential DNA of Kootenai Electric Cooperative (KEC) and it sets us apart from other electric utilities. We recognize the essential role we play in serving a special community like ours. At KEC, we are always on the frontline.

Who would have fathomed in March 2020, that the COVID-19 virus would amount to a test of our community and nation? The changing circumstances due to the pandemic have created both challenges and opportunities. Over the past year, we’ve all been challenged to operate differently, and KEC has stepped up to help our members and strengthen the safety net for our more vulnerable neighbors. As an essential service, and to ensure reliability of your power supply, we modified our operations to safeguard business continuity. For our members impacted by COVID-19 who needed help with their electric bills, we waived late fees and worked with those hardest hit to make special payment arrangements. In addition, KEC, its lender CoBank and the Kootenai Electric Trust/Operation Round Up® program donated a combined \$22,500 to the Community Action Partnership for COVID-19 energy assistance. These funds are available to KEC members affected by COVID-19 who qualify for help paying their energy bills.

Through all this, KEC continued to provide exceptional service to its members amid near record growth. The cooperative invested approximately \$18 million in capital construction, extended service to more than 1,100 new members, and advanced several other major projects benefiting the cooperative’s membership.

KEC’s financial performance throughout the year was exceptionally strong. We closed the year with total revenues of \$50.1 million and net margins of just under \$6 million. Due to this strong performance, the board of directors authorized the return of nearly \$3.4 million through capital credit retirements to members who received service from the cooperative in 1992 or who have enrolled in our Early Discounted Capital Credit program. As a result of these financial achievements, our year-end equity, which is a measure of the portion of the cooperative’s assets that are owned by our membership, was 40.3%. This is well within our strategic performance goal for managing equity within a range of 36-42%.

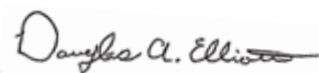
We tell you about all of these efforts not to boast about KEC but to explain how much we care about this community—because we live here too.

We’ve seen other local businesses rising to meet similar challenges during this time, because that’s what communities do. While the challenges caused by COVID-19 have been daunting, we are heartened to see how everyone is pulling together.

In 1938, KEC was built by the community to serve the community, and we’ll continue to serve you, our members.



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

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Year in Review

Facilities Master Plan

KEC completed a Facilities Master Plan to assess whether our current headquarters and the land it is constructed on could adequately serve the cooperative's long-term needs. From that study, it became evident that the construction of a new headquarters was in order. In turn, KEC negotiated and closed on the sale of our headquarters facility in Hayden to Kootenai County with a three-year lease back provision allowing the cooperative to continue to occupy it while our new headquarters is constructed. KEC also sold the property across the street from our headquarters building to a separate buyer with a similar leaseback arrangement. In December 2020, KEC made an offer on a piece of property near Rathdrum for our future headquarters. KEC closed on this purchase in March 2021. We anticipate construction commencing in spring 2022 and the new headquarters should be open for business by mid-2023.

FEMA Mitigation Projects

We completed the construction of the FEMA mitigation projects related to the 2015 wind and snowstorms and submitted the final reports required for reimbursement under the grant program. The completion of this work represents one of the most significant investments and improvements in system-wide reliability ever achieved by the cooperative.

Through these grants, the cooperative converted 51 miles of overhead line to 65 miles of underground line at a total capital cost of more than \$21 million of which our grant covers 75%.

Other notable 2020 projects:

KEC began operating under a new System Inspection and Maintenance program which includes all aspects of system operations from substation inspections to increased right-of-way management. This plan will help ensure our cooperative's infrastructure continues to be well maintained and service reliability continues to be enhanced.

FEMA announced that approximately \$400 million in federal grant funding would be competitively awarded to qualifying entities for disaster mitigation investments under its Building Resilient Infrastructure and Communities grant program. Grant applications were due by the end of 2020 with awards to be announced in the latter part of 2021. KEC submitted grant applications to place overhead lines underground in the following areas to improve reliability: Spirit Lake East, Farragut State Park/Naval Warfare Center, and Hayden Lake North and East. The grant would cover approximately 75% of the capital cost of construction.

Matt Hull
Service Lineman



Management Discussion and Analysis

The discussion and analysis which follow are intended to provide our members an overview of KEC's financial activities for the year ended December 31, 2020. 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 year ended December 31, 2020, the annual audit was conducted by Eide Bailly, LLP. For the year ended December 31, 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 2020 by \$1.3 million over the prior year for a total of \$50.1 million. The increase was largely driven by higher electric use due to an increase in member base. In addition, the cooperative recorded a gain on the sale of its headquarter facility of \$2.5 million, which is classified under "Non-operating margins" in the Statements of Operations.

Power costs increased 3% in 2020 to a total of \$22.1 million, primarily due to the increase in the member base. Energy purchases from the Bonneville Power Administration comprise over 91% of the cooperative's power costs, with the balance attributable to the cost of operating KEC's Fighting Creek landfill gas project 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 15% over the prior year. This increase was due to higher operations and maintenance costs associated with the right-of-way tree clearing program and storm-caused outages, as well as higher depreciation and interest expense resulting from new capital construction projects placed in service during 2020.

The cooperative's 2020 margins decreased by \$0.2 million or 3% from the prior year producing total margins of \$6.0 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 2020 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

	2020	2019
OPERATING REVENUE:	<u>\$50,062,009</u>	<u>\$48,794,550</u>
OPERATING EXPENSES:		
Cost of power	22,092,241	21,446,429
Distribution expense-operations	2,355,773	2,159,193
Distribution expense-maintenance	4,868,010	2,989,147
Consumer accounts	1,362,067	1,017,954
Sales expense	449,428	383,032
Administration & general	4,467,658	4,206,397
Depreciation & amortization	6,876,019	6,532,347
Taxes	<u>967,234</u>	<u>940,955</u>
Total operating expenses	<u>43,438,430</u>	<u>39,675,454</u>
Operating margins before interest expense	6,623,579	9,119,096
Interest expense	<u>4,194,210</u>	<u>3,959,791</u>
Net operating margins	<u>2,429,369</u>	<u>5,159,305</u>
NON-OPERATING MARGINS:		
Interest income	32,642	36,830
Patronage capital credits from other cooperatives	729,081	698,070
Gain on sale of electric plant	2,483,576	45,270
Other non-operating margins	276,916	181,705
Total non-operating margins	<u>3,522,215</u>	<u>961,875</u>
Net margins	<u>\$5,951,584</u>	<u>\$6,121,180</u>
COMPREHENSIVE INCOME (LOSS):		
Net margins	\$5,951,584	\$6,121,180
Other comprehensive income (loss)	<u>(30,744)</u>	<u>(159,530)</u>
Total comprehensive income	<u>\$5,920,840</u>	<u>\$5,961,650</u>

Bob Jacobson
General Foreman



Financial Statements - Balance Sheets

ASSETS	2020	2019
NONCURRENT ASSETS:		
Net utility plant	\$167,826,573	\$163,075,991
Investments	3,040,950	2,650,244
Notes receivable	975,465	375,693
Regulatory asset	<u>106,499</u>	<u>123,539</u>
Total noncurrent assets	<u>171,949,487</u>	<u>166,225,467</u>
CURRENT ASSETS:		
Cash & cash equivalents	122,409	686,342
Accounts receivable, net	5,734,424	5,556,901
Materials & supplies	7,526,599	6,641,526
Prepaid expenses and other	<u>1,191,428</u>	<u>498,903</u>
Total current assets	<u>14,574,860</u>	<u>13,383,672</u>
Deferred charges	<u>5,121,772</u>	<u>5,532,841</u>
Total assets	<u><u>\$191,646,119</u></u>	<u><u>\$185,141,980</u></u>
MEMBERS' EQUITY & LIABILITIES		
MEMBERS' EQUITY:		
Patronage capital	\$55,217,967	\$53,572,596
Accumulated other comprehensive income (loss)	(192,052)	(161,308)
Other equities	<u>22,283,524</u>	<u>19,160,523</u>
Total members' equity	<u>77,309,439</u>	<u>72,571,811</u>
NONCURRENT LIABILITIES:		
Long-term debt, less current maturities	95,049,973	94,708,954
Postretirement benefit obligation, due after one year	2,511,329	2,651,556
Asset retirement obligation	173,000	173,000
Other retirement benefits	<u>403,591</u>	<u>253,565</u>
Total noncurrent liabilities	<u>98,137,893</u>	<u>97,787,075</u>
CURRENT LIABILITIES:		
Current maturities of long-term debt	4,458,982	4,284,975
Postretirement benefit obligation, due within one year	252,002	256,501
Payment Protection Plan (PPP) note payable	2,147,243	-
Accounts payable	3,514,253	5,002,500
Other current liabilities	<u>5,826,307</u>	<u>5,239,118</u>
Total current liabilities	<u>16,198,787</u>	<u>14,783,094</u>
Total liabilities	<u>114,336,680</u>	<u>112,570,169</u>
Total members' equity & liabilities	<u><u>\$191,646,119</u></u>	<u><u>\$185,141,980</u></u>



Cover photos (left to right, top to bottom): Kevin Schneider, Operations Superintendent; Carrie Butterfield, After Hours Dispatcher; Don Bush, Operations Superintendent; Doug Cardinel; Foreman. Photos below (left to right, top to bottom): Cameron Hall, Foreman; Alisa Smolinski, Member Service Representative; Kurt Larson, Project Engineering Technician; Scott Davis, Vice President of Engineering and Technical Services.

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