



2017 ANNUAL REPORT



**MORE** powerful  
together



# Board of Directors & General Manager



**Tim Meyer**  
District One



**Jim Robbins**  
District Two



**Todd Hoffman**  
District Three



**Dave Bobbitt**  
Audit Committee Chair  
District Four



**Bill Swick**  
Chair  
District Five



**Terry LaLiberte**  
Vice Chair  
District At-Large



**Roger Tinkey**  
Secretary  
District At-Large



**Doug Elliott**  
General Manager/CEO

“Our mission is to provide our member-owners exceptional service and dependable electric power at competitive rates.”

# MORE powerful together

## EXECUTIVE MESSAGE

Customers of a big company rarely have a say in how things are run. Cooperatives are different. You are more than a customer, you're a member. Kootenai Electric Cooperative (KEC) is owned by you and your neighbors. And when we, as a locally-owned electric cooperative, work with you, our members, we are more powerful together.

As our community's needs and priorities change, local voices and choices help KEC easily adapt and support shared interests. What's best for our neighbors is best for us. Working hand-in-hand with members, cooperatives form a dependable lifeline for local needs.

But cooperatives deliver more than local support. We work with members to find innovative energy solutions, reliability and savings, and you will read examples of this throughout this report.

Your electric cooperative maintained exceptionally strong financial performance throughout 2017. We closed the year with revenues of \$45.1 million and net margins of \$5.5 million. Furthermore, KEC invested approximately \$9.25 million in capital construction.

KEC retired \$585,000 in capital credits originally allocated to members in 1988 and retired \$1.77 million on a discounted basis through our Early Discounted Capital Credit program. The program is extremely popular among members, with more than 7,100 participating.

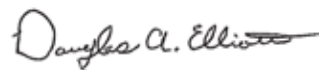
The development of KEC's 2017-2020 construction work plan was completed in 2017. The construction work plan took nine months to develop and outlines \$49,840,756 of capital improvements and maintenance activities over a four-year period.

We also continued work to convert about 50 miles of our oldest, most difficult to access and outage-prone overhead lines to underground. KEC was approved for a grant awarded by FEMA for this conversion following the 2015 wind and snow storms. This is a monumental job that will be completed in 2019 and will greatly improve reliability, reduce maintenance costs, and be safer for our linemen.

Thank you for your membership in Kootenai Electric Cooperative. Our mission and members are in every decision we make.



**William R. Swick**  
Board Chair



**Douglas A. Elliott**  
General Manager

# MORE than a utility. A LIFELINE.

## OPERATION ROUND UP®

When neighbors are in need, we take action through Operation Round Up® grants. Last year, 30 local nonprofits and community groups received \$68,454 to help with everything from energy payment assistance to various health care and school programs.

Participating in Operation Round Up® is easy. No one donates more than \$12 a year but together our members have generated more than \$1 million since November 2002, and it's made a world of difference. The donations are placed in a trust (called the Kootenai Electric Trust) and a

volunteer board of KEC members determine how to allocate the funds.

Grants are awarded to local non-profit organizations including schools, food banks, senior centers and more. Grants are reported quarterly on our website and in our member newsletter.

To us, you are more than an account number. That's why KEC also helps hometown students pay for college. We have supported 132 students with \$142,000 in college scholarships over the last 12 years. These scholarships help educate

and strengthen our community.

Thank you to all the members who "round up" their electric bills. Member support helps keep our community strong today and into the future.

### PHOTO BELOW

**Trust Board Members (from left): Kathleen Barrett, District 4; Connie McGee, District 3; Fred Muhs, District 5; Cheri Zao, District At-Large; Len Crosby, Chair, District 2; Tom Craig Zajicek, Vice Chair, District At-Large; and Susan Meyer, Secretary/Treasurer, District 1.**



“Small change to most, but the collective result really adds up—to more than \$1,000,000.”

# MORE than an app. A KEY.

## SMARTHUB

Flip a switch. Stock the fridge. Warm up dinner, then do the laundry. Energy supports almost every aspect of our lives.

Reliable energy is critical to our way of life. But at KEC, we want to do more than maintain a steady power flow. You deserve more. Your interests are our interests. When we team up to tackle our shared goals, we are more powerful together.

Our focus on innovation means we provide more than an app for paying bills. SmartHub is KEC's free account management tool. It's available online or by downloading the mobile app. SmartHub puts information at your fingertips. Use our app to pay your bill, report power outages and receive updates on energy use. This mobile service



is a new way of connecting with our members, like the member service representatives you reach when you call us, or who greet you from behind the counters at our office. SmartHub helps us offer the quality services you expect us to provide.

**PHOTO ABOVE**  
KEC employees (from left): IT/GIS Administrator Jim Derrig and Member Service Representative Paige Bingham.

“At KEC, we want to do more than maintain a steady power flow. You deserve more.”

A screenshot of KEC's mobile app.



# MORE than opinions. EXPERTISE.

## RENEWABLE POWER

Many of our members like the idea of solar power. We do, too. We have several options ready to help you shine. KEC's energy experts can give members advice on managing energy use and answer questions about how to add renewable energy to their homes. When you become a KEC member, you find more than power. You find a local connection.



In 2017, we constructed our Community Solar

Project. The 50KW solar array is located in Worley and was partially funded through a \$50,000 grant from the Bonneville Environmental Foundation. KEC members may purchase individual units for \$475. Each unit represents a portion of the energy produced by the solar array. The solar array is divided into 288 units and each unit is expected to generate approximately 234 kilowatt-hours (kWh) per year. KEC takes care of all the costs including maintenance and insurance.



### KEC's Solar Walkway

We also developed a 4KW solar walkway at the KEC office. It is visible to all members who visit the office. The size of the project was specifically selected to match what a typical member interested in rooftop solar would install at their home. This demonstration gives members an idea of how solar performs in North Idaho. We are also happy to help members find qualified installers in our area.

### Renewable Energy Rate

Although 96.6% of the power KEC sells to members is carbon-free, some members would like the option to be 100% carbon-free in their energy purchases. In 2018, KEC will be rolling out an optional new carbon-free rate. Whether you're interested in solar power or going carbon-free, KEC will work with you every step of the way to help you find the right solution.

“Many of our members like the idea of solar power. We do, too.”

### PHOTO ABOVE

KEC Member Services Manager Don Crawford at the Community Solar Project in Worley.

# MORE than energy. SOLUTIONS.



“We are always looking for better ways to serve you.”

#### PHOTO AT LEFT

**KEC employees (from left): Member Service Representative Jen Cox, Field Engineering Supervisor Jessie Holderman and Business Development Coordinator Melissa Newcomer.**

At KEC, we are always looking for better ways to serve you. One of the ways we do this is by regularly surveying our members to gather feedback on our programs and services.

It's amazing what we learn through listening and observation. It improves understanding, builds trust, strengthens relationships and fosters cooperation.

In 2017, we began evaluating our current service capabilities and we are focusing on implementing

additional services based on the following member feedback:

- Improve our processes for new member applications and service extensions.
- Evaluate the hours and days we offer member service in the office, over the phone and online. Consider offering members an online chat option.
- Extend service offerings online so members can conduct more business with us using SmartHub and our website.

We strive to provide members with exceptional service and, thanks to technology, we can enhance our services to meet those needs.

KEC employees are ready to provide you with the best service possible. So, when you have questions about energy efficiency, electrical service or any of our products or services, just ask us. Stop by our office, give us a call, or send us a message through social media—we're ready to listen and offer solutions.

# MORE than poles and wires. A LAUNCH PAD.

## YEAR IN REVIEW

At KEC, we strive to provide reliable service to our members and to do that we invest greatly in our system. Whether our crews are replacing poles, installing underground wire, or building a new substation, they're doing far more than meets the eye. Each step invests in our future.

New poles and wires mean greater reliability for local homes and businesses. Energy will be here when our more than 23,000 members need it. And that same solid foundation provides a launching pad for future economic growth in Idaho.

During 2017, KEC performed

considerable maintenance on our electrical system to improve member reliability.

This investment included the construction of more than 1,000 new services and nearly 50 miles of new power lines. The most noteworthy projects included:

- The completion of a 1.5 mile high capacity underground tie-line along Hayden Avenue.
- The construction of 1.6 miles of transmission line needed for renovations to the Athol substation.
- The installation of 6.3 miles of underground line to replace aging cable.
- Testing the integrity of 3,188 poles. This resulted in the

identification of more than 200 poles in need of replacement.

In 2017, KEC completed the FEMA application process and began work to convert 50 miles of overhead lines to underground after the 2015 wind and snow storms. FEMA's grant will cover 75% of the nearly \$10 million expense to complete these projects. Specifically, we began the engineering and easement obtainment process required to begin construction planned for 2018 and 2019. This work is the most significant action the Cooperative can take to improve overall reliability for members.

We also invested more than \$800,000 in right-of-way/vegetation clearing along 278 miles of line.

Finally, in all our work, safety is the number one priority. Over time, KEC has created a culture of safety by putting our employees' safety and the safety of the community above all else. Our goal each day is to return our workers home safely to their loved ones. To do this requires ongoing focus, dedication and vigilance.





# MORE than a number. A PROMISE.

## MANAGEMENT DISCUSSION & ANALYSIS

The discussion and analysis which follows is intended to provide our members an overview of Kootenai Electric Cooperative's (KEC) financial activities for the year ended December 31, 2017. This information should be read in conjunction with KEC'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. Our audited financial statements and footnote disclosures, including the auditor's opinion, are available for review at KEC's offices. For the years ended December 31, 2016 and 2017, 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.

During 2017, operating revenue increased by \$4.9 million over the prior year for a total of \$45.1 million. The increase in revenue, 2017 over 2016, was largely driven by a cold snap the first

three months of the year and, to a lesser extent, by the growth in our member count and full year impact of an increase in rates effective October 2016. A disproportionate share of our annual revenue is represented by sales during the winter months. Changes in weather patterns greatly affect those results.

Our cost of power increased 8.5% in 2017 to a total of \$19.8 million, primarily the result of weather driven demand, adding new member connections and a Bonneville Power Administration (BPA) rate increase effective October 2017. Over 94% of our power cost was the result of the energy we purchased from BPA, with the balance representing 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, which includes the Cooperative's operating expenses, depreciation and interest costs increased by 10.0% over the prior year. This increase was due to higher energy efficiency program spending, increased distribution maintenance costs, several outages experienced

in December 2017, higher depreciation expense year over year, and general inflationary increases in labor, supplies and services.

During 2017, KEC's margins increased by \$1.5 million or 35.9% over the prior year producing a total margin of \$5.5 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, KEC's margins will be allocated to each member's individual capital credit account. The allocation of 2017 margins, once completed, along with the accumulated unpaid capital credits for all prior years, represents a member's investment in KEC.



**Reed Christensen, CPA**  
**VP of Accounting, Finance & IT/CFO**



# Financial Statements

## STATEMENTS OF OPERATIONS & COMPREHENSIVE INCOME

	2017	2016
<b>OPERATING REVENUE:</b>	<b>\$45,131,350</b>	<b>\$40,277,960</b>
<b>OPERATING EXPENSES:</b>		
Cost of Power	19,810,149	18,254,578
Distribution Expense-Operations	1,719,206	1,478,019
Distribution Expense-Maintenance	3,214,220	2,691,178
Consumer Accounts Expense	1,503,575	1,428,984
Sales Expense	929,289	341,043
Administration & General Expense	4,015,494	3,923,444
Depreciation & Amortization Expense	5,056,449	4,816,670
Tax Expense	<u>881,167</u>	<u>764,736</u>
Total Operating Expenses	<u>37,129,549</u>	<u>33,698,652</u>
Operating Margins Before Interest Expense	8,001,801	6,579,308
Interest Expense	<u>3,524,766</u>	<u>3,531,169</u>
Net Operating Margins	<u>4,477,035</u>	<u>3,048,139</u>
<b>NON-OPERATING MARGINS:</b>		
Interest Income	104,918	31,850
Patronage Capital Credits From Other Cooperatives	839,621	811,141
Other Non-Operating Margins	<u>88,882</u>	<u>164,136</u>
Total Non-Operating Margins	<u>1,033,421</u>	<u>1,007,127</u>
Net Margins	<u>\$5,510,456</u>	<u>\$4,055,266</u>
<b>COMPREHENSIVE INCOME:</b>		
Net Margins	\$5,510,456	\$4,055,266
Other Comprehensive Income (Loss)	<u>412,800</u>	<u>(177,100)</u>
Total Comprehensive Income	<u>\$5,923,256</u>	<u>\$3,878,166</u>

<b>ASSETS</b>	<b>2017</b>	<b>2016</b>
<b>NONCURRENT ASSETS:</b>		
Net Utility Plant	\$140,788,068	\$134,751,609
Investments	1,984,763	1,674,400
Notes Receivable	445,107	506,773
Regulatory Asset	<u>157,619</u>	<u>2,327,196</u>
Total Noncurrent Assets	<u>143,375,557</u>	<u>139,259,978</u>
<b>CURRENT ASSETS:</b>		
Cash & Cash Equivalents	2,545,610	251,896
Accounts Receivable, Net	5,566,772	5,492,749
Materials & Supplies Inventory	5,519,550	4,914,642
Other Current Assets	<u>331,855</u>	<u>332,191</u>
Total Current Assets	<u>13,963,787</u>	<u>10,991,478</u>
Deferred Charges	<u>6,529,021</u>	<u>6,859,689</u>
Total Assets	<u><u>\$163,868,365</u></u>	<u><u>\$157,111,145</u></u>

<b>MEMBERS' EQUITY &amp; LIABILITIES</b>	<b>2017</b>	<b>2016</b>
<b>MEMBERS' EQUITY:</b>		
Patronage Capital	\$50,331,635	\$47,657,200
Other Equities	12,995,930	11,266,649
Accumulated Other Comprehensive Income (Loss)	<u>346,400</u>	<u>(66,400)</u>
Total Members' Equity	<u>63,673,965</u>	<u>58,857,449</u>
<b>NONCURRENT LIABILITIES:</b>		
Capital Lease, Less Current Portion	127,612	151,028
Long-Term Debt, Due After One Year	80,558,717	84,515,285
Asset Retirement Obligation	171,820	171,820
Other Retirement Benefits	335,497	211,866
Postretirement Benefit Obligation, Due After One Year	<u>2,092,000</u>	<u>2,486,400</u>
Total Noncurrent Liabilities	<u>83,285,646</u>	<u>87,536,399</u>
<b>CURRENT LIABILITIES:</b>		
Current Portion of Capital Lease	23,416	22,339
Long-Term Debt, Due Within One Year	3,609,219	3,423,377
Line of Credit, Due Within One Year	4,000,000	-
Postretirement Benefit Obligation, Due Within One Year	201,300	212,100
Accounts Payable	4,559,399	2,919,839
Interest Payable	292,232	304,797
Patronage Capital Payable	900,000	586,266
Consumer Deposits	719,500	623,595
Vacation Payable	634,105	616,574
Taxes Payable	1,008,846	850,403
Other Current Liabilities	<u>960,737</u>	<u>1,158,007</u>
Total Current Liabilities	<u>16,908,754</u>	<u>10,717,297</u>
Total Liabilities	<u>100,194,400</u>	<u>98,253,696</u>
Total Members' Equity & Liabilities	<u><u>\$163,868,365</u></u>	<u><u>\$157,111,145</u></u>

**Kootenai Electric Cooperative**

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KEC.com

