

# The **Power** is Yours



MEMBER BENEFITS



OUTSTANDING SERVICE



COMPETITIVE RATES

2014 ANNUAL REPORT



A Touchstone Energy® Cooperative 

# BOARD OF DIRECTORS



**RON BOCKSTRUCK**  
Audit Committee Chair  
District One



**JIM ROBBINS**  
District Two



**TODD HOFFMAN**  
District Three



**DAVE BOBITT**  
District Four



**BILL SWICK**  
Chair  
District Five



**ROGER TINKEY**  
Secretary  
District At-Large



**TERRY LALIBERTE**  
Vice Chair  
District At-Large



**DOUG ELLIOTT**  
General Manager

The KEC Board of Directors determines policy and direction of the Cooperative. The seven-member board is elected by the KEC membership and spends approximately 60 days a year on Cooperative-related activities. Thank you to the Board for their dedication and service.

# The **Power** is Yours

As an electric cooperative, we're more than just a utility provider that you pay each month for electricity. You are a member and an owner of KEC—not just a customer. So what makes being a member of an electric cooperative unique? Well, literally, the Power is Yours. As a member-owner, you have a voice when it comes to the way we do business and we'd like to share with you some of the things we accomplished on your behalf in 2014.

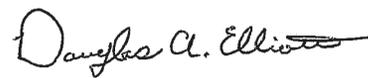
First, KEC made a historical change in our financial lender. Since 1938, we have relied on the Rural Utilities Service of the federal government to help fund our Cooperative's infrastructure. While this relationship allowed us access to very low interest financing, it also required compliance with federal regulations that have become increasingly burdensome over the years. After meeting with two national cooperative banks, KEC selected CoBank to serve our long-term financing requirements. This change allows us to better serve our members and save up to \$19 million over the term of the financing.

In addition, we concluded the year financially strong and met our equity management goals. KEC launched the Discounted Early Capital Credit program, which offered qualifying members the

choice to receive the current value of their 2013 capital credits early or receive a full retirement in the future. Nearly 4,000 members took advantage of this program. Due to the success of the program, members will be offered a similar opportunity in 2015.

In December 2014, after reviewing the financial health of the Cooperative, the Board of Directors authorized the retirement of \$837,055 in capital credits originally allocated in 1986. These capital credits were returned (paid back) to members based on their patronage with the Cooperative during that year. The checks were mailed to entitled members in March 2015.

Thank you for your membership in our Cooperative. We look forward to another year of fulfilling our mission to provide our member-owners dependable electric power and exceptional service at competitive rates.



**Douglas A. Elliott**  
General Manager



**William R. Swick**  
Board Chair



## Here's what **Members** are **Saying**:

Before we moved, I called to make sure each property we looked at was serviced by KEC. I can't imagine having the "other" company provide our electric service. Thank you for a job well done.

**Rena Brunko, KEC member for 11 years**



**ENERGY  
EFFICIENCY**



**HOURLY  
DATA**



**RELIABILITY**



**LOCAL  
PEOPLE**



**COMMUNITY  
SUPPORT**



**EXPERT  
ADVICE**



**OUTAGE  
UPDATES**



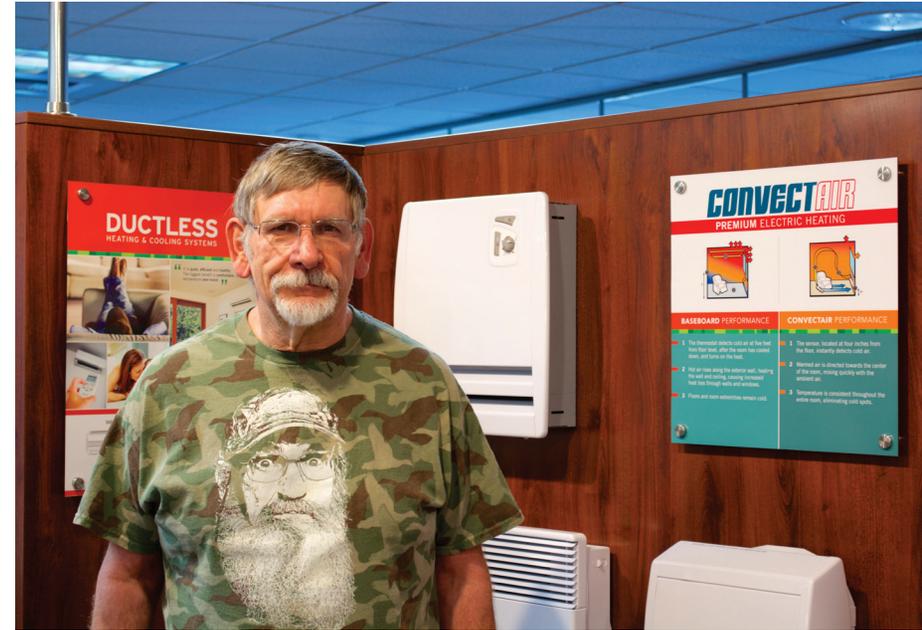
**SOCIAL  
MEDIA**



## Here's what **Members** are **Saying**:

I appreciate that Kootenai Electric Cooperative is a non-profit cooperative and they make my power available without added cost for profit.

Jerry Irvin, KEC member for 2 years



**COMPARE  
FAVORABLY WITH  
AREA UTILITIES**



**MEMBER  
EQUALITY**



**NON-  
PROFIT**



## Here's what **Members** are **Saying**:

Kootenai Electric makes me feel informed about what's going on in the community. I get good information about my power rates and any incentives they might have for energy savings. I'm a very happy member.

**Ben Owen, KEC member for 5 years**



**YOU HAVE  
A VOICE**



**CAPITAL  
CREDITS**



**MEMBER  
DISCOUNTS**



## SYSTEM IMPROVEMENTS

KEC invested \$9.5 million into the system in 2014 and completed several important capital construction projects in our work plan. The goal of this work plan is to rebuild and/or upgrade lines to improve service capacity, reliability and safety. A notable project included upgrading three miles of line on Highway 54 between Spirit Lake and Athol. This project required an investment of approximately \$700,000 and will continue to serve the Cooperative for many years.

KEC's \$3.5 million Beck Road Substation in Post Falls was also completed. This substation provides additional capacity to serve new load in the area surrounding it and increases the reliability of service to all members whenever an adjacent substation needs to be removed from service for maintenance.

## MAINTENANCE AND RELIABILITY

In addition to upgrading existing lines and constructing new ones, KEC invested in maintaining those already in service. KEC also makes a substantial investment each year in vegetation management. This program protects the reliability of our electric system by focusing on the identification and removal of hazardous trees as well as the pruning of vegetation that interferes with our distribution lines.

## ENERGY EFFICIENCY PROGRAMS

At KEC we believe conservation is the right thing to do. That's why energy efficiency remains an organizational objective. It's also a Pacific

Northwest utility obligation. We offer a variety of tools and resources to help members use energy wisely. In 2014, these programs helped our members achieve 1,815,268 kilowatt-hours (kWh) in annual energy savings.

## 2014 SNAPSHOT

<b>435,473,433</b>	kilowatt-hours (kWh) sold
<b>\$39,129,500</b>	in annual sales
<b>8,952,326</b>	kWh generated by the Fighting Creek Landfill Gas-to-Energy plant
<b>\$837,055</b>	in capital credits paid out to members from 1986
<b>1,024</b>	miles of overhead power lines
<b>985</b>	miles of underground power lines
<b>483</b>	new services
<b>358</b>	memberships attended the 2014 Annual Meeting
<b>74</b>	employees
<b>13</b>	substations
<b>7</b>	KEC board members, elected by co-op members
<b>4</b>	counties served
<b>1</b>	healthy and financially stable cooperative



**TERENCE  
ROBINSON**  
Chief Financial Officer

The discussion and analysis below is intended to provide our members an overview of Kootenai Electric Cooperative's (KEC) financial activities for the year ended December 31, 2014. 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 KEC's audited financial statements. The Cooperative's 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, 2013 and 2014, the annual audit was conducted by Moss Adams, LLP.

Kootenai Electric Cooperative, Inc. 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 2014, operating revenue increased by \$3.3 million, or 9.1 percent, over the prior year for a total of \$39.1 million. This increase was driven primarily by a full year of our new rate structure taking effect with November 2013 billings, growth in our member count and weather throughout the year.

In 2014, our cost of power increased by \$1.1 million to a total of \$17.4 million. Over 97% of our power cost is the result of the energy we purchased from the Bonneville Power Administration, with the balance representing the cost of operating the Fighting Creek Landfill Gas-to-Energy plant.

The cost of providing electric service to our members, which includes the Cooperative's operating expenses, depreciation and interest costs, increased by \$1 million

in 2014, or 6.3 percent over the prior year. Two-thirds of the increase was the direct result of the expense of restoring service following several damaging storms during the year and an increase in depreciation expense related to new plant placed in service. The balance was mostly general inflationary increases in labor, supplies and services.

During 2014, the Cooperative's margins increased by \$1.2 million, or 35.3 percent, over the prior year producing a total of \$4.7 million. As a cooperative operating on a not-for-profit tax basis, it is important to understand that these are not profits but rather patronage. In the normal course of time the co-op's margins will be allocated to each member's individual capital credit account. The allocation of 2014 margins, once completed, along with the accumulated unpaid capital credits for all prior years, represents a member's investment in KEC.

Other key elements of our financial performance during 2014 include:

- Refinanced \$63 million in long-term government debt through CoBank, saving up to \$19 million over the term of the program.
- Secured a \$33 million construction loan facility, which is available to the Cooperative through September 2018.
- Realized a full year impact of the rate case implemented during November 2013.
- Completed 27 miles of new distribution line.
- 24,674 services at year end 2014.
- Demonstrated ongoing strength in our key financial ratios.
- Retired \$1.8 million in member capital credits during 2014 including, the impact from 21% of our members taking advantage of the inauguration of the Discounted Early Capital Credit program.



**Terence D. Robinson CPA, MBA**  
**Manager of Finance & Accounting/CFO**



## STATEMENTS OF OPERATIONS & COMPREHENSIVE INCOME

	2014	2013
<b>OPERATING REVENUE:</b>	<u>\$39,129,499</u>	<u>\$35,869,811</u>
<b>OPERATING EXPENSES:</b>		
COST OF POWER	17,401,280	16,300,616
DISTRIBUTION EXPENSE—OPERATIONS	1,595,609	1,434,422
DISTRIBUTION EXPENSE—MAINTENANCE	2,372,725	1,819,694
CONSUMER ACCOUNTS EXPENSE	1,311,005	1,193,901
SALES EXPENSE	370,273	695,549
ADMINISTRATION & GENERAL EXPENSE	3,520,270	3,414,352
DEPRECIATION & AMORTIZATION EXPENSE	4,410,657	4,179,884
TAX EXPENSE	<u>762,399</u>	<u>682,492</u>
TOTAL OPERATING EXPENSES	<u>31,744,218</u>	<u>29,720,910</u>
OPERATING MARGINS BEFORE INTEREST EXPENSE	7,385,281	6,148,901
INTEREST EXPENSE	<u>3,348,288</u>	<u>3,228,628</u>
NET OPERATING MARGINS	<u>4,036,993</u>	<u>2,920,273</u>
<b>NON-OPERATING MARGINS:</b>		
INTEREST INCOME	219,993	238,897
PATRONAGE CAPITAL CREDITS FROM OTHER COOPERATIVES	116,501	66,555
OTHER NON-OPERATING MARGINS	<u>332,848</u>	<u>252,711</u>
TOTAL NON-OPERATING MARGINS	669,342	558,163
NET MARGINS	<u>\$4,706,335</u>	<u>\$3,478,436</u>
<b>COMPREHENSIVE INCOME:</b>		
NET MARGINS	\$4,706,335	\$3,478,436
OTHER COMPREHENSIVE INCOME (LOSS)	(17,300)	(313,500)
TOTAL COMPREHENSIVE INCOME	<u>\$4,689,035</u>	<u>\$3,164,936</u>

## ASSETS

	2014	2013
<b>NONCURRENT ASSETS:</b>		
NET UTILITY PLANT	\$123,129,991	\$119,357,770
INVESTMENTS	1,234,107	1,171,594
NOTES RECEIVABLE	<u>461,552</u>	<u>427,433</u>
TOTAL NONCURRENT ASSETS	<u>124,825,650</u>	<u>120,956,797</u>
<b>CURRENT ASSETS:</b>		
CASH AND CASH EQUIVALENTS	526,505	283,829
ACCOUNTS RECEIVABLE, NET	4,976,200	5,065,528
MATERIALS & SUPPLIES INVENTORY	4,589,875	3,990,641
OTHER CURRENT ASSETS	<u>317,203</u>	<u>296,353</u>
TOTAL CURRENT ASSETS	<u>10,409,783</u>	<u>9,636,351</u>
DEFERRED CHARGES	<u>7,864,470</u>	<u>3,694,204</u>
TOTAL ASSETS	<u>\$143,099,903</u>	<u>\$134,287,352</u>

## AT A GLANCE:

WHERE WE'VE BEEN AND WHERE WE ARE NOW

	Number of Meters	Operating Revenue	Miles of Line	kWh Sold (millions)
<b>2014</b>	24,674	\$39,129,499	2,027	427.0
<b>2013</b>	23,812	\$35,869,811	1,999	425.4
<b>2012</b>	23,677	\$33,917,037	1,978	412.6
<b>2011</b>	22,999	\$32,769,696	1,965	427.6
<b>2010</b>	22,916	\$31,363,521	1,933	404.0

## EQUITIES & LIABILITIES

	2014	2013
<b>MEMBERS' EQUITY:</b>		
PATRONAGE CAPITAL	\$43,724,170	\$40,836,432
OTHER EQUITIES	7,734,456	6,507,883
ACCUMULATED OTHER COMPREHENSIVE INCOME	128,000	145,300
TOTAL MEMBERS' EQUITY	51,586,626	47,489,615
<b>NON-CURRENT LIABILITIES:</b>		
CAPITAL LEASE, LESS CURRENT PORTION	194,677	215,007
LONG-TERM DEBT, DUE AFTER ONE YEAR	78,971,939	74,659,230
ASSET RETIREMENT OBLIGATION	142,000	142,000
POSTRETIREMENT BENEFIT OBLIGATION, DUE AFTER ONE YEAR	2,620,300	2,820,000
TOTAL NONCURRENT LIABILITIES	81,928,916	77,836,237
<b>CURRENT LIABILITIES:</b>		
CURRENT PORTION OF CAPITAL LEASE	20,330	19,395
LONG-TERM DEBT, DUE WITHIN ONE YEAR	3,104,444	2,661,870
POSTRETIREMENT BENEFIT OBLIGATION, DUE WITHIN ONE YEAR	342,800	345,700
ACCOUNTS PAYABLE	2,605,400	2,838,008
INTEREST PAYABLE	288,226	46,688
PATRONAGE CAPITAL PAYABLE	837,055	966,421
CONSUMER DEPOSITS	607,043	465,595
VACATION PAYABLE	554,251	530,882
TAXES PAYABLE	748,390	672,761
OTHER CURRENT LIABILITIES	476,422	414,180
TOTAL CURRENT LIABILITIES	9,584,361	8,961,500
TOTAL LIABILITIES	91,513,277	86,797,737
TOTAL MEMBERS' EQUITY & LIABILITIES	<u>\$143,099,903</u>	<u>\$134,287,352</u>

## WHERE DOES YOUR MONEY GO?



## Kootenai Electric Cooperative

2451 W. Dakota Ave.  
Hayden, ID 83835

**KEC.com** : **(208) 765-1200**

