

GROWING

with our community



EXECUTIVE MESSAGE

GROWING WITH OUR COMMUNITY

As a cooperative, we belong to those we serve and exist to meet their needs. Because of this, we have a different bottom line than most businesses. While the financial integrity and soundness of the cooperative's operations will always be a priority, ensuring we deliver exceptional service to our members and providing them with reliable power is equally vital to our bottom-line performance and is core to our strategy. Simply put, we measure our success by the satisfaction of our members, the vitality we foster within our community and the safety and well-being of those who depend on us.

By all these standards, KEC is performing exceptionally well. This past year, our members rated their satisfaction with our service among the best cooperatives in the nation. In terms of safety, we set a new safety performance record exceeding that of the last 20 years. 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 has been a monumental undertaking that will be completed in 2020 and will greatly improve reliability, reduce maintenance costs and be safer for our linemen.

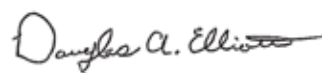
Our financial performance throughout 2018 remained strong as well. We closed the year with revenues of \$46.1 million and net margins of \$5.8 million. Furthermore, KEC extended service to more than 1,000 new members and invested approximately \$13.9 million in capital construction. KEC also returned \$900,000 in capital credits originally allocated to members in 1989 and 1990 and returned another \$2.74 million on a discounted basis through our Early Discounted Capital Credit program.

While this is performance we are proud of, we also recognize we cannot rest on our laurels. Our community is experiencing robust growth and we must ensure our infrastructure is capable of serving it. Our industry is changing as well. Technological advancements, regulatory changes and member expectations continue to evolve. We must evolve with them and are resolved to do so.

To us, you are not just a consumer; you are a member of our cooperative and without you, we would not exist. Since our founding in 1938, Kootenai Electric Cooperative has fulfilled a vital need in our community that would not have otherwise been met. Concerned local leaders came together to build this cooperative and bring electricity where there was none. Since then we have been growing with our community. We remain dedicated to that heritage and look forward to meeting your energy needs for years to come.



William R. Swick
Board Chair



Douglas A. Elliott
General Manager

Photo at left: Ryan, Journeyman Lineman, works at KEC's 80th Anniversary Celebration Event in September 2018.



BOARD OF DIRECTORS & 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.



Tim Meyer
Vice Chair
District One



Jim Robbins
District Two



Todd Hoffman
District Three



Dave Bobbitt
Audit Committee Chair
District Four



Bill Swick
Chair
District Five



Crystal Musselman
District At-Large



Roger Tinkey
Secretary
District At-Large



Doug Elliott
General Manager/CEO

OUR MISSION

TO PROVIDE OUR MEMBERS WITH EXCEPTIONAL SERVICE AND
DEPENDABLE ELECTRIC POWER AT COMPETITIVE RATES.

YEAR IN REVIEW

Our mission is to deliver dependable energy but it doesn't stop there. We are also committed to providing competitive rates. As a KEC member, your cost of power is among the lowest in the nation. This is possible because of our ability to purchase low cost hydro power from the Bonneville Power Administration, the way we operate as a not-for-profit cooperative and our internal focus on controlling costs and operating efficiently. Providing low cost power to you is something we are proud of and work very hard to protect.

SYSTEM UPGRADES

In 2018, KEC began upgrading our 30-year-old Scarcello substation in Rathdrum. The new transformer has almost doubled the capacity of the original transformer which will allow us to back feed other substations and be prepared for future growth in the area. KEC's Engineering Department also began designing a new substation in Hayden, called the Rimrock substation. Construction is slated to begin in 2020. These upgrades will enable us to keep up with current and future energy demands as well as improve reliability.

ENERGY EFFICIENCY AND RENEWABLES

KEC's Energy Services Program provides rebates to members on the purchase of certain energy-saving appliances and products. In 2018, \$396,174 in rebates were paid to our members, which helped save 2,237,876 kilowatt-hours.

KEC's Community Solar Project is located in Worley and comprised of 288 solar units. This 50 kW solar array allows participating KEC members to provide support for and receive benefit from locally-sited solar generation.

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 rolled out two carbon-free energy options. 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.

Photos at right: Julie Turbin, Vice President of Operations and Operational Services, speaks at a monthly employee safety meeting. Cody, Journeyman Lineman, on a practice pole at KEC's headquarters.



MANAGEMENT DISCUSSION AND ANALYSIS

The discussion and analysis which follows is intended to provide members an overview of Kootenai Electric Cooperative's financial activities for the year ended December 31, 2018. 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 office. For the years ended December 31, 2017 and 2018, the annual audit was conducted by Moss Adams, LLP.

Kootenai Electric Cooperative 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 2018, operating revenue increased by \$1 million over the prior year for a total of \$46.1 million. The increase in revenue, 2018 over 2017, was largely driven by an increase in consumer base and an increase in rates effective October 2017.

Power costs increased 2.5% in 2018 to a total of \$20.3 million as a result of a Bonneville Power Administration rate increase effective October 2018 and additional member connections.

The cost of providing electric service to members, which includes the cooperative's operating expenses, depreciation and interest costs, increased by 1% over the prior year. This small increase was due to higher depreciation and interest expense, mostly offset by

lower energy efficiency program spending and lower operations costs.

During 2018, the cooperative's margins increased by \$200,000, or 4.5% over the prior year, producing total margins of \$5.8 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 allocated 2018 margins, 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



FINANCIAL STATEMENTS

STATEMENTS OF OPERATIONS

	2018	2017
OPERATING REVENUE:	<u>\$46,089,540</u>	<u>\$45,131,350</u>
OPERATING EXPENSES:		
Cost of Power	20,371,049	19,810,149
Distribution Expense-Operations	1,789,250	1,719,206
Distribution Expense-Maintenance	3,038,771	3,214,220
Consumer Accounts Expense	1,363,420	1,503,575
Sales Expense	346,949	929,289
Administration & General Expense	4,250,315	4,015,494
Depreciation & Amortization Expense	5,734,290	5,056,449
Tax Expense	<u>887,949</u>	<u>881,167</u>
Total Operating Expenses	<u>37,781,993</u>	<u>37,129,549</u>
Operating Margins Before Interest Expense	8,307,547	8,001,801
Interest Expense	<u>3,628,515</u>	<u>3,524,766</u>
Net Operating Margins	<u>4,679,032</u>	<u>4,477,035</u>
NON-OPERATING MARGINS:		
Interest Income	29,439	104,918
Patronage Capital Credits From Other Cooperatives	980,995	839,621
Other Non-Operating Margins	<u>89,767</u>	<u>88,882</u>
Total Non-Operating Margins	<u>1,100,201</u>	<u>1,033,421</u>
Net Margins	<u>\$5,779,233</u>	<u>\$5,510,456</u>



478 million

2018 kWh SOLD



27,926

2018 # OF METERS



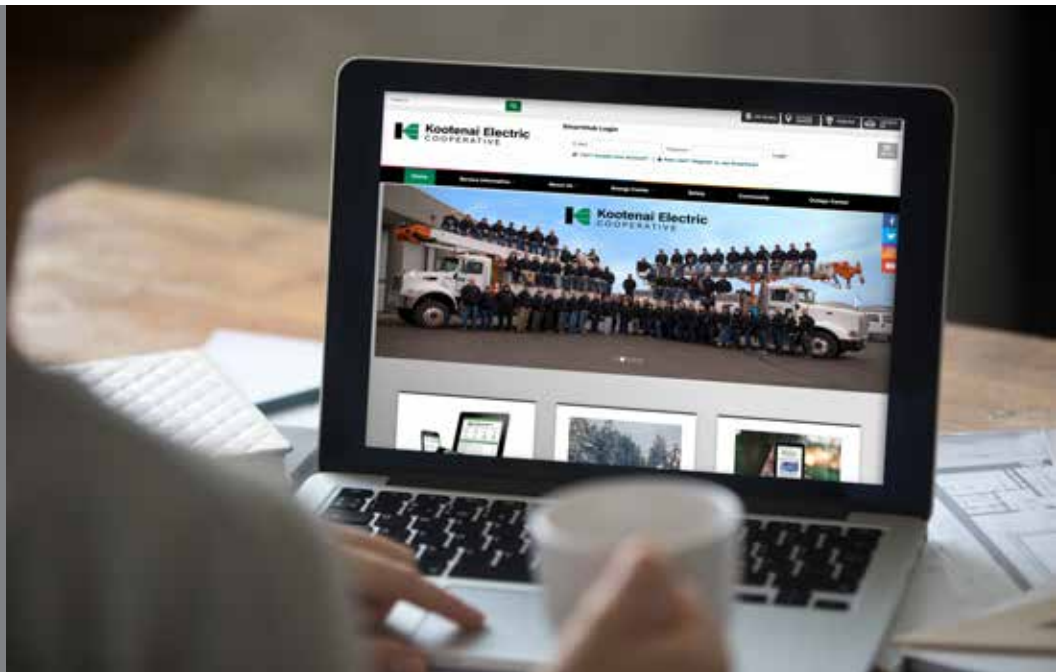
1,082

2018 # OF NEW SERVICES



\$46,089,540

2018 OPERATING REVENUE



ASSETS

NONCURRENT ASSETS:	2018	2017
Net Utility Plant	\$151,617,716	\$140,788,068
Investments	2,268,626	1,984,763
Notes Receivable	365,554	445,107
Regulatory Asset	<u>140,579</u>	<u>157,619</u>
Total Noncurrent Assets	<u>154,392,475</u>	<u>143,375,557</u>
CURRENT ASSETS:		
Cash & Cash Equivalents	471,121	2,545,610
Accounts Receivable, Net	5,468,718	5,566,772
Materials & Supplies Inventory	6,748,839	5,519,550
Other Current Assets	<u>377,826</u>	<u>331,855</u>
Total Current Assets	<u>13,066,504</u>	<u>13,963,787</u>
Deferred Charges	<u>6,030,931</u>	<u>6,529,021</u>
Total Assets	\$173,489,910	\$163,868,365

MEMBERS' EQUITY & LIABILITIES

MEMBERS' EQUITY:	2018	2017
Patronage Capital	\$52,304,326	\$50,331,635
Other Equities	15,723,362	12,995,930
Accumulated Other Comprehensive Income (Loss)	<u>(1,778)</u>	<u>346,400</u>
Total Members' Equity	<u>68,025,910</u>	<u>63,673,965</u>
NONCURRENT LIABILITIES:		
Capital Lease, Less Current Portion	103,066	127,612
Long-Term Debt, Due After One Year	89,590,913	80,558,717
Asset Retirement Obligation	171,820	171,820
Other Retirement Benefits	367,442	335,497
Postretirement Benefit Obligation, Due After One Year	<u>2,414,358</u>	<u>2,092,000</u>
Total Noncurrent Liabilities	<u>92,647,599</u>	<u>83,285,646</u>
CURRENT LIABILITIES:		
Current Portion of Capital Lease	24,546	23,416
Long-Term Debt, Due Within One Year	3,946,437	3,609,219
Line of Credit, Due Within One Year	-	4,000,000
Postretirement Benefit Obligation, Due Within One Year	242,720	201,300
Accounts Payable	3,985,171	4,559,399
Interest Payable	339,068	292,232
Patronage Capital Payable	900,000	900,000
Consumer Deposits	843,696	719,500
Vacation Payable	671,317	634,105
Taxes Payable	909,333	1,008,846
Other Current Liabilities	<u>954,059</u>	<u>960,737</u>
Total Current Liabilities	<u>12,816,401</u>	<u>16,908,754</u>
Total Liabilities	<u>105,464,000</u>	<u>100,194,400</u>
Total Members' Equity & Liabilities	\$173,489,910	\$163,868,365



Photo above: Employees at the 80th Anniversary Celebration Event in September 2018. Front row, from left: Desiree, Kayla, Melissa, Julie, Kelly, Erika, Jennifer and Jim. Back row, from left: Jeremy, Daniel, John, Tracie, Michael, Jim and Scott.