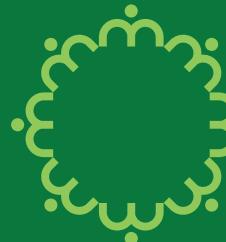


Local. Trusted. Serving You.



MEMBER'S
CHOICE
• PROGRAM •



A Touchstone Energy® Cooperative

The Touchstone Energy logo is a circular emblem featuring a stylized 'E' with three stars above it and a sunburst pattern below it.

2011

ANNUAL REPORT



LOCAL



RON BOCKSTRUCK, Vice President
District One



DONNA BOEKEL, Secretary
District Two



DAVID PRATT, Treasurer
District Three



WILLIAM SWICK, Director
District Four



EVERETT GOSSETT, President
District Five



TERRY LALIBERTE, Director
District At-Large



ROGER TINKEY, Director
District At-Large



DOUGLAS ELLIOTT
General Manager

EXECUTIVE MESSAGE

Simply put, Kootenai Electric Cooperative (KEC) had a very successful 2011. This success resulted from the tireless devotion of our employees and the leadership of our Management Team and Board of Directors. Our accomplishments have poised us to better serve our membership in the coming years and have left us financially stronger.

The Cooperative completed the year with revenues of \$32,769,696 and margins of \$4,187,421. We retired \$417,890 in patronage capital to members served in 1980 and part of 1981. KEC also completed more than \$3.5 million in capital projects aimed at extending service to new members, improving service to existing members and replacing equipment to improve reliability.

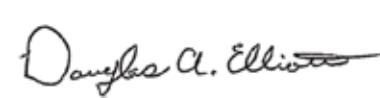
For example, KEC's Prairie Substation was upgraded to improve reliability in the Post Falls area at a cost of approximately \$2.5 million. The 20-megawatt substation can power approximately 5,000 average-sized homes.

Last year, a major focus for KEC was the use of new technology and innovation to continue giving members the value they expect from their Cooperative. This included the implementation of new customer information software that provides

members with tremendous flexibility in how they conduct business with KEC. This program, called "Member's Choice," offers members multiple payment and billing options. Another program, called "Smart Choice," offers members a prepayment billing option. And we are now using Facebook as one new way to communicate with our members.

Throughout 2011 KEC's Fighting Creek Landfill Gas to Energy project was under construction and is now up and running. This generation resource will produce enough electricity to power approximately 1,800 homes from the methane gas produced by the decomposition of trash at the Kootenai County Solid Waste Facility. It will also provide KEC's members with a low-cost and stable source of power for the next 20 years.

2012 is shaping up to be another successful year and we'll continue providing KEC members with the value and choices they expect and deserve.



Douglas A. Elliott
General Manager



Everett A. Gossett
Board President



PEGGY HARRISON, MSR II

KEC's Member's Choice program was developed in 2011 and offers KEC members a suite of billing and payment options to meet their needs and lifestyles. Some of these choices include:

PAY-BY-PHONE—Members can make a payment 24 hours a day, 7 days a week by calling KEC's pay-by-phone number of 1-877-999-3371. Have the member account number ready and a checking, saving or credit card number.

SMART PAY—An affordable prepaid electric rate for residential members. With SMART PAY members can prepay for electric consumption monthly, weekly or randomly. The only deadline is making sure you pay before your account reaches a zero balance.

PAY AT MONEYGRAM LOCATIONS—Includes stores like Walmart, Fred Meyer, Safeway, etc. for a small fee. Find locations at www.moneygram.com.

FRONT COVER & BACK COVER PHOTOS

Front cover from top: **JASON STIPPICH**, Field Engineer; **ROB HOLMQUIST**, Foreman; **ALISA SMOLINSKI**, MSR II
Back cover from top: **GLENIECE HUGHES**, MSR II; **MIKE STEVENS**, Mechanic; **GENE ZECKSER**, Member Services Supervisor

eBILL/PAPERLESS BILLING—eBill provides KEC members the convenience of receiving bills electronically. Electronic notifications make a positive impact on the environment by minimizing the use of paper, printing and energy to deliver hard copy bills.

BUDGET BILLING—A billing program that averages a member's annual electric bill into equal monthly payments. The meter is still read each month so member will see the actual readings and charges on their bill. Accounts are reviewed regularly and, if necessary, adjusted due to changes in usage or costs, so there may be minor fluctuations in the averaged amount.

CHOOSE YOUR DUE DATE—KEC mails bills in three cycles with the due dates on the 5th, 15th or 25th of each month. Members may choose their due date.



SYSTEM IMPROVEMENTS—We completed all of our system improvement projects scheduled for 2011, including the investment of more than \$600,000 for member line extensions. These improvements enhance our service and reliability and include:

Started work on the U.S. 95 reconstruction project. Several miles of line were moved and more than 50 poles have been replaced and moved. The project will continue into 2012.

Constructed six miles of overhead and underground line from Highway 58 to Conklin Park Road to improve service to the Worley area.

Upgraded the 40-year-old Prairie Substation located at Highway 41 and Poleline in Post Falls.

MAINTENANCE AND RELIABILITY—Developed and implemented a new right-of-way clearing program. We spent \$500,000 as an investment toward safe, reliable operation of our electric distribution system. We plan to accelerate the spending to \$750,000 on this program in 2012.

Responded to and recovered from the August 2011 microburst that destroyed 1.3 miles of line and 21 double circuit overhead distribution poles near the Setters Substation south of Coeur d'Alene.

ENERGY EFFICIENCY PROGRAMS—Through the combined programs of BPA and KEC, more than \$550,000 was paid in 3,338 energy efficiency rebates. This accounts for 2.7 million kilowatt hours in energy savings.



ARTHUR ELLIOTT, GIS Analyst II

FINANCIAL STATEMENTS

This discussion and analysis is designed to provide an overview of Kootenai Electric Cooperative's financial activities for the year ended December 31, 2011. This supplementary information should be read in conjunction with the Cooperative's financial statements and notes to the financial statements.

Kootenai Electric Cooperative is a member-owned electric utility incorporated in 1938 to serve the rural areas of North Idaho and Eastern Washington. The Cooperative is governed by an independent seven-member elected Board of Directors. For the year ended December 31, 2011, the annual audit was conducted by DeCoria, Maichel & Teague. Internal controls were also reviewed and tested by DeCoria, Maichel & Teague and determined to be in place and operating effectively.

During 2011, operating revenues increased by \$1.4 million or 4.5 percent over the prior year for a total of \$32.8 million. KEC introduced a wholesale power cost adjustment (WPCA) of \$0.00414 per kWh effective in October 2011, in order to offset an increase in the cost of purchased power from BPA that was introduced at that time. The constant WPCA per kWh rate was designed to protect our members from wide fluctuations in our monthly power costs and is intended to recover the increased cost of purchased power over a twelve-month period. The increase in revenue, 2011 over 2010, is driven primarily by having collected three months of the WPCA and the first five months of 2011 having been significantly cooler than the comparable time period in 2010. Even with

this adjustment, KEC's rates have been, and remain, among the lowest in the nation.

Power costs decreased slightly in 2011, by \$3,200, a fraction of one percent, for a total of \$13.8 million. As a result of the new BPA rate formulation, we saw our cost of purchased power lower than anticipated during the final three months of 2011. However, we anticipate the full impact of the BPA rate changes to be incurred as we move through 2012. The cost of electric service, which includes operations and maintenance costs, sales and member account costs, general and administrative costs, depreciation, interest and taxes, increased by \$661 thousand in 2011, or 4.5 percent over the prior year. This increase in expense levels was influenced mostly by an increase in depreciation expense related to new plant placed in service, depressed departmental expense levels in 2010 due to a number of key positions being vacant for a portion of the year and an initial charge associated with a change in our employee retirement plans having been implemented to reduce the cost of employee benefits in the future. Margins increased by \$654 thousand or 18.5 percent over the prior year for a total of \$4.2 million. Other details include:

- New connects were 274 in 2011 versus 534 in 2010.
- Built 32 miles of new line.
- Served 22,999 meters at year end 2011.
- Showed significant improvement in our key financial ratios.

- Refinanced \$3.5 million RUS of debt at favorable rates.

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 including the auditor's opinion and footnote disclosures are available for review at the Cooperative's offices. The auditor's report contained in the 2011 audited financial statements reflected a clean opinion from DeCoria, Maichel & Teague. To the best of our knowledge, the financial statements as presented are true and accurate.

TDRJ.

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

WHERE DOES YOUR MONEY GO?

Power Cost - \$42



Operations Expense - \$45



Capital Credit Allocations - \$13



AT A GLANCE: Where we've been and where we are now

	Number of Meters	Operating Revenue	Miles of Line	kWh Sold (millions)
2011	22,999	\$32,769,696	1,965	427.6
2010	22,916	\$31,363,521	1,933	404.0
2009	22,789	\$30,246,021	1,910	422.0
2008	22,521	\$28,385,402	1,881	407.0
2007	22,249	\$28,013,970	1,843	405.0

STATEMENTS OF OPERATIONS & COMPREHENSIVE INCOME

	2011	2010
OPERATING REVENUE	\$32,769,696	\$31,363,521
OPERATING EXPENSES:		
COST OF POWER	13,782,467	13,785,650
DISTRIBUTION EXPENSE—OPERATIONS	1,417,095	1,311,245
DISTRIBUTION EXPENSE—MAINTENANCE	1,679,973	1,787,950
CONSUMER ACCOUNTS EXPENSE	1,319,441	1,127,403
SALES EXPENSE	342,758	232,905
ADMINISTRATION & GENERAL EXPENSE	3,109,307	2,877,701
DEPRECIATION & AMORTIZATION EXPENSE	3,624,755	3,497,692
TAX EXPENSE	665,047	615,929
TOTAL OPERATING EXPENSES	25,940,843	25,236,475
OPERATING MARGINS BEFORE INTEREST EXPENSE	6,828,853	6,127,046
INTEREST EXPENSE	3,143,996	3,190,500
NET OPERATING MARGINS	<u>3,684,857</u>	<u>2,936,546</u>
NON-OPERATING MARGINS:		
INTEREST INCOME	163,962	31,391
PATRONAGE CAPITAL CREDITS FROM OTHER COOPERATIVES	57,863	60,667
OTHER NON-OPERATING MARGINS	280,739	505,254
TOTAL NON-OPERATING MARGINS	502,564	597,312
NET MARGINS	<u><u>\$4,187,421</u></u>	<u><u>\$3,533,858</u></u>
COMPREHENSIVE INCOME:		
NET MARGINS	\$4,187,421	3,533,858
OTHER COMPREHENSIVE INCOME (LOSS)	1,121,100	(83,600)
TOTAL COMPREHENSIVE INCOME	<u><u>\$5,308,521</u></u>	<u><u>\$3,450,258</u></u>

ASSETS		
	2011	2010
NONCURRENT ASSETS:		
NET UTILITY PLANT	\$109,133,897	\$100,279,301
INVESTMENTS	1,085,932	1,054,098
NOTES RECEIVABLE	1,106,771	978,561
TOTAL NONCURRENT ASSETS	111,326,600	102,311,960
CURRENT ASSETS:		
CASH AND CASH EQUIVALENTS	2,392,841	6,887,614
ACCOUNTS RECEIVABLE, NET	5,453,457	5,207,790
MATERIALS & SUPPLIES INVENTORY	3,851,406	4,162,565
OTHER CURRENT ASSETS	283,677	248,735
TOTAL CURRENT ASSETS	11,981,381	16,506,704
DEFERRED CHARGES	69,356	85,250
TOTAL ASSETS	<u><u>\$123,377,337</u></u>	<u><u>\$118,903,914</u></u>

EQUITIES & LIABILITIES

	2011	2010
MEMBERS' EQUITY:		
PATRONAGE CAPITAL	\$36,303,687	\$32,054,746
OTHER EQUITIES	5,014,284	5,772,442
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	922,100	(199,000)
TOTAL MEMBERS' EQUITY	<u>42,240,071</u>	<u>37,628,188</u>
NONCURRENT LIABILITIES:		
LONG-TERM DEBT, DUE AFTER ONE YEAR	69,167,675	69,152,004
POSTRETIREMENT BENEFIT OBLIGATION, DUE AFTER ONE YEAR	2,682,100	4,227,900
TOTAL NONCURRENT LIABILITIES	<u>71,849,775</u>	<u>73,379,904</u>
CURRENT LIABILITIES:		
LONG-TERM DEBT, DUE WITHIN ONE YEAR	2,036,644	2,299,144
POSTRETIREMENT BENEFIT OBLIGATION, DUE WITHIN ONE YEAR	215,200	167,700
ACCOUNTS PAYABLE	2,984,315	2,916,803
INTEREST PAYABLE	51,589	66,114
PATRONAGE CAPITAL PAYABLE	1,293,039	807,226
CONSUMER DEPOSITS	468,492	557,756
VACATION PAYABLE	374,754	388,393
TAXES PAYABLE	659,662	626,070
OTHER CURRENT LIABILITIES	1,203,796	66,616
TOTAL CURRENT LIABILITIES	<u>9,287,491</u>	<u>7,895,822</u>
TOTAL LIABILITIES	<u>81,137,266</u>	<u>81,275,726</u>
TOTAL MEMBERS' EQUITY & LIABILITIES	<u>\$123,377,337</u>	<u>\$118,903,914</u>



TERENCE ROBINSON,
Manager of Finance & Accounting/CFO

COMMITMENT TO THE COMMUNITY



MEREDITH BRYANT, Secretary/Treasurer,
Kootenai Electric Trust

The Kootenai Electric Trust's Operation Round Up® program donated more than \$65,000 in grants and scholarships in 2011. The program "rounds up" the amount of the monthly bill of contributing KEC members to the nearest dollar and uses the cumulative round up amount to provide funding for individual members in need and for worthy community projects in our area.

The program reached a new milestone in 2011. Thanks to KEC member support, the Trust has awarded more than \$500,000 in grants since 2003.

In 2011, the Trust awarded 53 grants and scholarships to organizations such as area schools, Project Share, Children's Village, ICARE, Bayview Community Center Foundation, Special Needs Recreation, Dirne Community Health Center and many more.

The 2011 KEC Golf Classic generated more than \$10,000 for the Trust's scholarship program. Scholarships are awarded annually to KEC members or their children. The annual tournament took place in July at Twin Lakes Village Golf Course.

Members who would like to begin contributing to Operation Round Up® or who choose not to contribute may simply "opt-in" or "opt-out" on their bill or contact KEC by phone, letter or email.

2011 TRUST BOARD MEMBERS

Catherine Tinder, President, District 1

Meredith Bryant, Secretary/Treasurer, District 2

Dennis Wilson, Vice President, District 3

Carole Swick, District 4

John Love, District 5

Len Crosby, District At-Large

Janet Parker, District At-Large

Chris Kastella, Ex-Officio

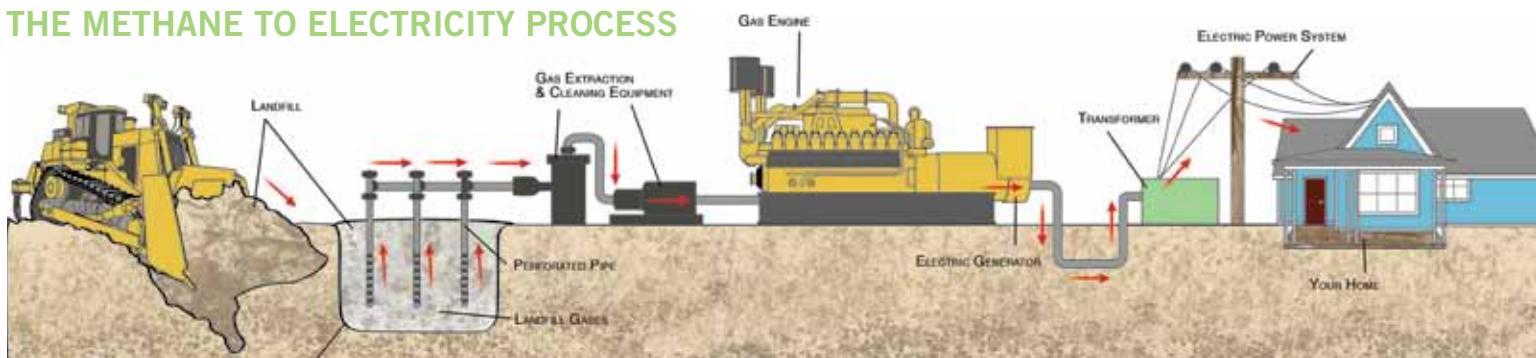
KEC's Fighting Creek Landfill Gas to Energy project was under construction in 2011 and began running in early 2012. This generation resource will produce enough electricity to power approximately 1,800 homes from the methane gas produced by the decomposition of trash at the Kootenai County Solid Waste Facility.

It will also produce what is known as "renewable energy credits." Those credits can be sold to other utilities and industries that have a regulatory obligation to reduce their carbon footprint. This helps keep your costs low and our environment clean.

The project was developed through a partnership with Kootenai County whereby KEC will pay for the gas that is used by the generators. The revenue generated helps lower the County's tax base, puts the methane gas (which was previously emitted into the air after being burned) to a more environmentally friendly use and provides KEC's members with a low-cost and stable source of power for the next 20 years. The facility, which cost just under \$7 million to build, was financed by the issuance of low-interest Clean Renewable Energy Bonds.



THE METHANE TO ELECTRICITY PROCESS





Kootenai Electric Cooperative
2451 W Dakota Ave
Hayden ID 83835-7402
(208) 765-1200

 KootenaiElectric
COOPERATIVE
A Touchstone Energy® Cooperative 