

2010
ANNUAL REPORT

AFFORDABLE
INNOVATION
MEMBER FOCUSED

Looking Out
for You



A Touchstone Energy® Cooperative 



WHO WE ARE

- | | | | |
|---|--|----|---|
| 1 | Shawn Dolan, Manager of Engineering | 8 | Douglas Elliott, General Manager |
| 2 | Chris Aiken, Energy Services Coordinator | 9 | John DeBoer, IT Administrator |
| 3 | Mike Stevens, Mechanic | 10 | Kim Krier, Operations Coordinator |
| 4 | Alisa Smolinski, Member Services Rep II | 11 | Matt Hull, Apprentice Lineman |
| 5 | Everett Gossett, Board President | 12 | Tim Hunt, Field Engineer |
| 6 | Tracie Boller, Accounting Administrator | 13 | Craig James, Manager of Human Resources |
| 7 | Catherine Tinder, President, Kootenai Electric Trust Board | | |

EXECUTIVE MESSAGE

In these challenging economic times many of our members are struggling to afford the basics like food, housing and energy. That's why at Kootenai Electric Cooperative (KEC) we've renewed our commitment to looking out for you. Your Cooperative is doing everything possible to provide reliable, affordable energy to you and to power our local economy.

Our rates have remained stable—with no rate increase since 2009 and our rates have been, and remain, among the lowest in the nation. However, since all of the

power we deliver to our members is currently purchased from the Bonneville Power Administration (BPA) and since BPA's system is limited we know the cost of power will be more expensive in the future. To minimize future increases in power rates, we partnered with Kootenai County in the development of the Fighting Creek Landfill Gas Project. This facility will allow the Cooperative to produce power from waste landfill gas at costs that are comparable to current market prices and considerably less than the forecasted cost of power over the life of this facility. In other words, this resource will allow us to keep rates lower than otherwise possible. This benefits our members and the fuel purchased from the County also allows the Cooperative to give back to the community it serves by purchasing an otherwise wasted resource. Work on this project began in late 2010 and we expect the facility to be up, running and benefiting our members by the end of the year.

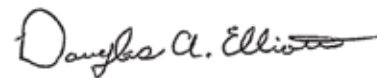
Along with maintaining stable rates in 2010, we

We financed the Fighting Creek Project by issuing \$7 million in low-interest CREBs without reducing equity.

invested \$5,681,000 in system improvements and member extensions. These investments improved our overall system reliability plus provided service to new members. We know that improving reliability is important to our members. No member likes outages or blinking lights when wind or snowstorms occur. We continually monitor where outages occur so we can target those areas for investment.

Your Cooperative was able to close the year with margins of \$3,533,858. These margins allowed us to maintain equity even after issuing \$7 million in Clean Renewable Energy Bonds (CREBs) to finance the Fighting Creek project. These margins further enabled us to retire \$417,890 in patronage capital allocated to members in 1980 through 1981. Our goal is to continue this trend next year.

At a time when corporate profits and excess can overwhelm common sense, it's nice to know you're part of something different. At KEC you don't have to compete with the stockholders. You are our member-owners and we're looking out for you. We worked for you to keep electric bills affordable, found ways to control costs through innovation and along every step of the way we put you, our members, first. We're Looking Out for You and we look forward to another year of proudly serving you.



Douglas A. Elliott
General Manager



Everett A. Gossett
Board President



Ron Bockstruck, Vice President
District One

Donna Boekel, Secretary
District Two

David Pratt, Treasurer
District Three

William Swick, Director
District Four

YOUR BOARD OF DIRECTORS & GENERAL MANAGER

Everett Gossett, President
District Five

Terry LaLiberte, Director
District At-Large

Roger Tinkey, Director
District At-Large

Douglas Elliott
General Manager



AFFORDABLE



MATT HULL
Apprentice Lineman

For the past 73 years, KEC has purchased most of its power from the Bonneville Power Administration (BPA). The rates we pay them, and consequently the rates we charge our members, are among the lowest in the nation and at KEC we work hard to keep it that way. In fact, KEC members haven't seen a rate increase since 2009. These low rates are possible because of the low-cost hydro facilities BPA operates. However, they are running out of capacity and that's why we're developing new power resources like the Fighting Creek Landfill Gas Project. When complete it will allow us to produce electricity at costs comparable to market prices which will in turn keep rates affordable for our members. When compared to other alternatives, this investment will save the Cooperative between \$4 million to \$20 million over the next 20 years.

As we look toward the future the KEC Board of Directors and management are continuing to look for innovative ways to keep your electric bills affordable. This includes leadership and involvement in industry trade associations like the Idaho Consumer-Owned Utilities Association, the Northwest Public Power Association and the National Rural Electric Cooperative Association. These organizations act as advocates on behalf of public power and utilities like KEC. No matter what the future brings, one thing is certain—we're working together to keep your electric bills affordable.

INNOVATION

We're using innovation to control costs for our members. Our Fighting Creek Landfill Gas Project and state-of-the-art solutions like our automated meter infrastructure system help us control operating costs and improve your service reliability. This year we developed and deployed a real-time web application for members to geographically view ongoing outages affecting the Cooperative and also their community.

In 2010 we evaluated several software packages aimed at improving and automating our customer information and accounting systems. We then selected and implemented the iVUE Enterprise Management Suite offered by NISC. This implementation integrated our customer service and billing processes with our finance and accounting processes for the first time in 11 years. And, it provides our members with better tools for managing their energy usage and interactions with their Cooperative.

While new technology helps us keep your electric bills affordable, our energy efficiency programs help you manage your energy use. Through the combined programs of BPA and KEC, more than \$700,000 was paid to more than 2,000 members in energy efficiency rebates in 2010. This accounts for 2.4 million kilowatt hours in member energy savings. We continued to offer rebates on heat pumps, water heaters and appliances. BPA and KEC are also focusing efforts to improve commercial lighting, efficient motors and pumps and efficiency improvements in the industrial sector. No matter what type of member you are, KEC has something to offer you for minimizing your electric usage and maximizing your comfort.



KIM KRIER
Operations Coordinator

MEMBER FOCUSED



CHRIS AIKEN
Energy Services Coordinator

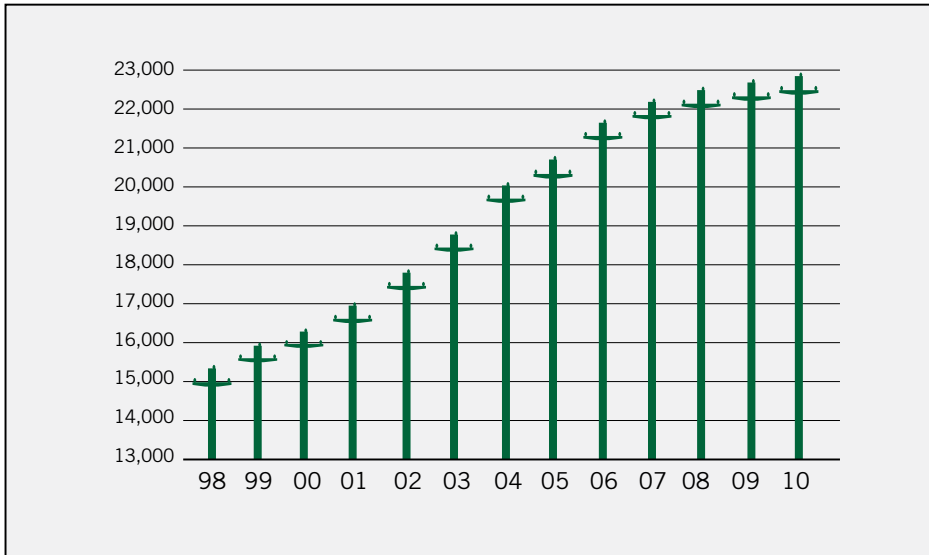
KEC is member-focused and each year we continue to put you, our member-owners, first. In 2010, we invested \$5,681,000 in capital projects aimed at extending service to new members, improving service to existing members and replacing equipment. Some of these projects included rebuilding the distribution line along Meadowbrook Loop Road, acquiring the land for a new substation in Coeur d'Alene and clearing right-of-way around our power lines.

In December 2010, the KEC Board of Directors authorized the retirement of \$417,890 in capital credits originally allocated during 1980 and part of 1981. Capital credit refunds promote our cooperative philosophy of “power at cost” and are a true representation of the Cooperative’s way of doing business.

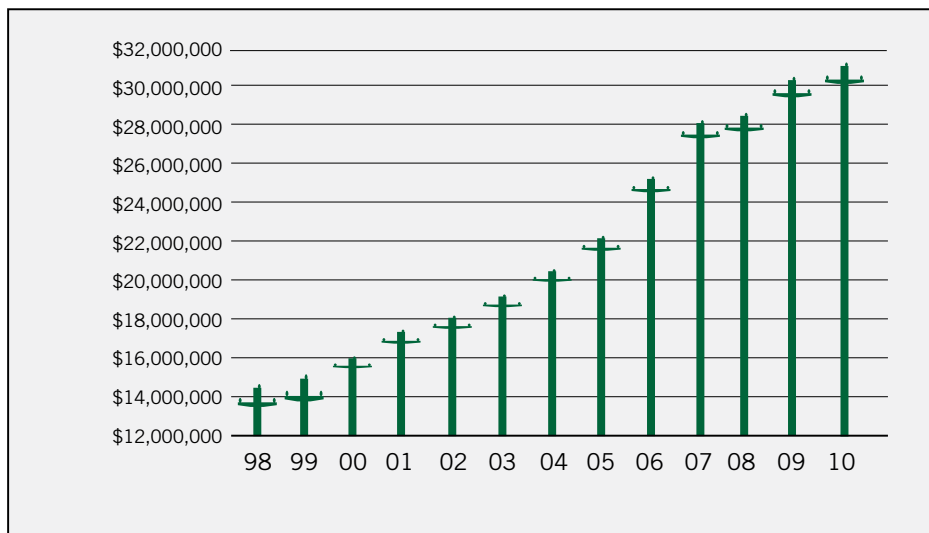
In addition, to support local businesses and help you save on daily expenses, we provide the Co-op Connections Card®. Not only can you use your card to save money at local and national retailers, but you can use it at pharmacies. So far this card has saved KEC members more than \$30,000 on prescription medicine alone.

But we don’t stop there. We work together with you, our members, on efforts like Operation Round Up®, which has donated more than \$470,000 since 2003 to worthy groups in our community. These funds come from voluntary donations of our members. Our 2010 KEC Golf Classic also generated over \$7,000 for the Kootenai Electric Trust Scholarship Program. On behalf of the people whose lives have been changed through your generosity, thank you.

FIGURES AT A GLANCE



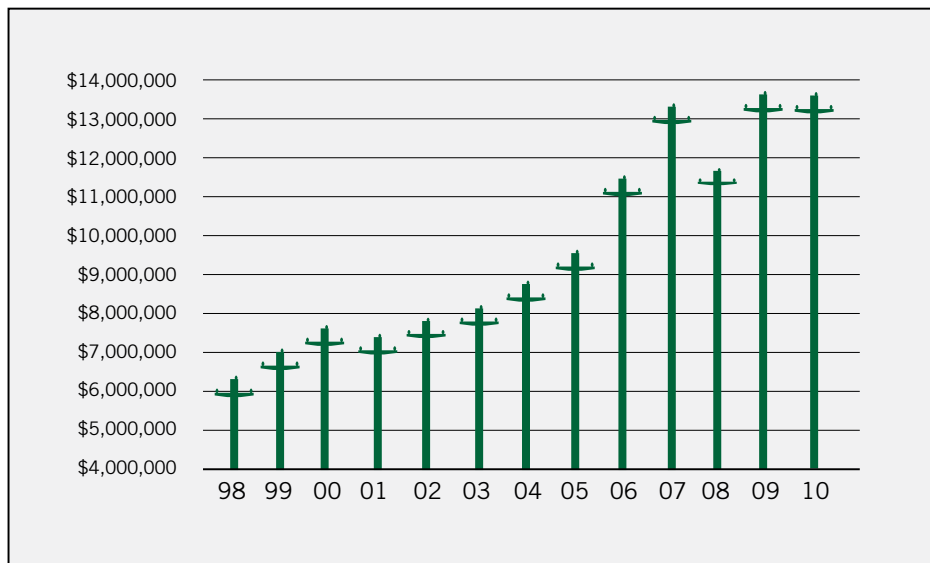
**METERS
SERVED**



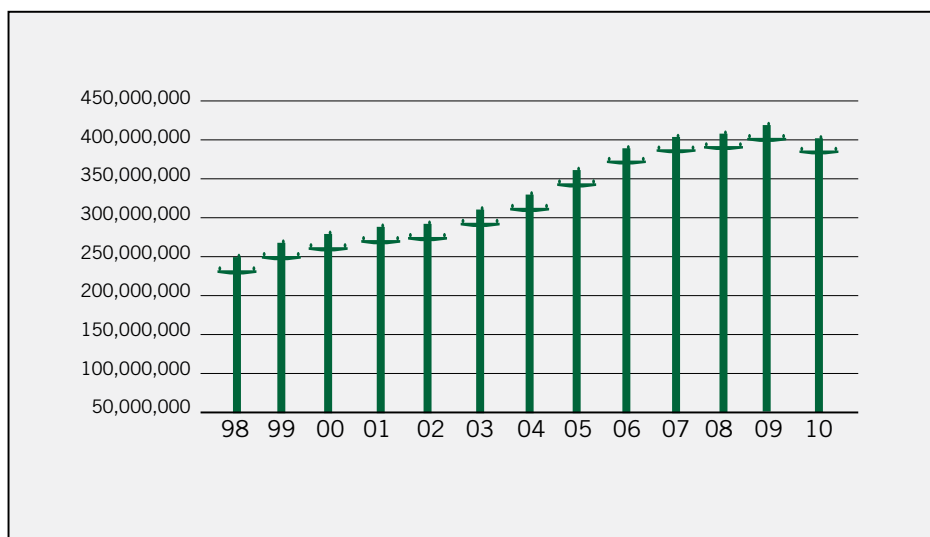
**OPERATING
REVENUE**

FIGURES AT A GLANCE

COST OF POWER



KWH SALES



MANAGEMENT DISCUSSION & ANALYSIS

This discussion and analysis is designed to provide an overview of Kootenai Electric Cooperative's financial activities for the year ended December 31, 2010. 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, 2010, the annual audit was conducted by DeCoria, Maichel & Teague, P.S. Internal controls were also reviewed and tested by DeCoria, Maichel & Teague and determined to be in place and operating effectively.

FINANCIAL SUMMARY & ANALYSIS

During 2010, operating revenues increased by \$1.1 million or 3.7 percent over the prior year for a total of \$31.4 million. KEC introduced an average rate increase of 13.2 percent effective in October 2009, in order to offset the BPA power rate increase introduced at that time. The increase in revenue, 2010 over 2009, is driven primarily by the full year impact of the rate increase, offset by a mild winter in the early part of 2010.

Power costs decreased slightly by \$89,300, or 0.6 percent, over the prior year for a total of \$13.8 million. The slight decrease in power costs between the two years resulted from lower sales in 2010 due to a mild winter, offset largely by a full year impact of the BPA power rate increase effective in October 2009.

The cost of electric service, which includes operation and maintenance costs, sales and member account costs, general and administrative costs, depreciation, interest and taxes, increased by \$500,600 in 2010, or 3.5 percent over the prior year. This increase was mostly due to storm repair and maintenance on our distribution plant. Margins increased by \$723,000 or 25.7 percent over the prior year for a total of \$3.5 million.

Other details include:

- New connects were 534 in 2010 versus 393 in 2009
- KEC issued \$7 million in 1.73%, 17 year Clean Renewable Energy Bonds (CREBs) to finance the Fighting Creek project
- Built 23 miles of new line

FINANCIAL STATEMENTS

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 at the Cooperative's offices. The auditor's report contained in the 2010 audited financial statements reflected an unqualified or clear opinion from DeCoria, Maichel & Teague, P.S. and read as follows:

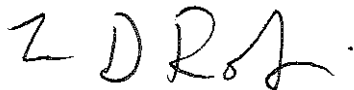
"We have audited the accompanying balance sheets of Kootenai Electric Cooperative, Inc. ("the Cooperative") as of December 31, 2010 and 2009, and the related statements of operations and comprehensive income, changes in members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kootenai Electric Cooperative, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a separate report dated February 24, 2011 on our consideration of Kootenai Electric Cooperative, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit."

To the best of the Cooperative's knowledge, the financial statements as presented are true and accurate.



Terence D Robinson CPA, MBA
Manager of Finance & Accounting

FINANCIAL REPORTS

STATEMENTS OF OPERATIONS & COMPREHENSIVE INCOME

	2010	2009
OPERATING REVENUE	<u>\$31,363,521</u>	<u>\$30,246,021</u>
OPERATING EXPENSES:		
COST OF POWER	13,785,650	13,874,913
DISTRIBUTION EXPENSE—OPERATIONS	1,311,245	1,140,857
DISTRIBUTION EXPENSE—MAINTENANCE	1,787,950	1,476,246
CONSUMER ACCOUNTS EXPENSE	1,127,403	946,341
SALES EXPENSE	232,905	230,962
ADMINISTRATION & GENERAL EXPENSE	2,877,701	3,130,597
DEPRECIATION & AMORTIZATION EXPENSE	3,497,692	3,469,086
TAX EXPENSE	<u>615,929</u>	<u>578,104</u>
TOTAL OPERATING EXPENSES	<u>25,236,475</u>	<u>24,847,106</u>
OPERATING MARGINS BEFORE INTEREST EXPENSE	6,127,046	5,398,915
INTEREST EXPENSE	<u>3,190,500</u>	<u>3,168,474</u>
NET OPERATING MARGINS	<u>2,936,546</u>	<u>2,230,441</u>
NON-OPERATING MARGINS:		
INTEREST INCOME	31,391	40,939
PATRONAGE CAPITAL CREDITS FROM OTHER COOPERATIVES	60,667	55,831
OTHER NON-OPERATING MARGINS	<u>505,254</u>	<u>483,625</u>
TOTAL NON-OPERATING MARGINS	<u>597,312</u>	<u>580,395</u>
NET MARGINS	<u>\$3,533,858</u>	<u>\$2,810,836</u>
COMPREHENSIVE INCOME:		
NET MARGINS	3,533,858	2,810,836
OTHER COMPREHENSIVE INCOME (LOSS)	<u>(83,600)</u>	<u>(126,411)</u>
TOTAL COMPREHENSIVE INCOME	<u>\$3,450,258</u>	<u>\$2,684,425</u>

ASSETS

	2010	2009
NONCURRENT ASSETS:		
NET UTILITY PLANT	\$100,279,301	\$97,588,994
INVESTMENTS	1,054,098	1,020,430
NOTES RECEIVABLE	978,561	989,730
PREPAID POSTEMPLOYMENT BENEFITS		2,270
TOTAL NONCURRENT ASSETS	<u>102,311,960</u>	<u>99,601,424</u>
CURRENT ASSETS:		
CASH AND CASH EQUIVALENTS	6,887,614	136,726
ACCOUNTS RECEIVABLE, NET	5,207,790	4,907,968
MATERIALS & SUPPLIES INVENTORY	4,162,565	4,345,209
OTHER CURRENT ASSETS	<u>248,735</u>	<u>287,567</u>
TOTAL CURRENT ASSETS	<u>16,506,704</u>	<u>9,677,470</u>
DEFERRED CHARGES	<u>85,250</u>	<u>104,033</u>
TOTAL ASSETS	<u>\$118,903,914</u>	<u>\$109,382,927</u>

EQUITIES & LIABILITIES

	2010	2009
MEMBERS' EQUITY:		
PATRONAGE CAPITAL	\$32,054,746	\$29,708,347
OTHER EQUITIES	5,772,442	5,003,757
ACCUMULATED OTHER COMPREHENSIVE INCOME	<u>(199,000)</u>	<u>(115,400)</u>
TOTAL MEMBERS' EQUITY	<u>37,628,188</u>	<u>34,596,704</u>
NONCURRENT LIABILITIES:		
LONG-TERM DEBT, DUE AFTER ONE YEAR	69,152,004	64,082,770
POSTRETIREMENT BENEFIT OBLIGATION, DUE AFTER ONE YEAR	<u>4,227,900</u>	<u>3,952,400</u>
TOTAL NONCURRENT LIABILITIES	<u>73,379,904</u>	<u>68,035,170</u>
CURRENT LIABILITIES:		
LONG-TERM DEBT, DUE WITHIN ONE YEAR	2,299,144	1,796,486
POSTRETIREMENT BENEFIT OBLIGATION, DUE WITHIN ONE YEAR	167,700	159,500
ACCOUNTS PAYABLE	2,916,803	2,481,736
INTEREST PAYABLE	66,114	61,677
PATRONAGE CAPITAL PAYABLE	807,226	619,804
CONSUMER DEPOSITS	557,756	480,172
VACATION PAYABLE	388,393	375,315
TAXES PAYABLE	626,070	689,239
OTHER CURRENT LIABILITIES	<u>66,616</u>	<u>87,124</u>
TOTAL CURRENT LIABILITIES	7,895,822	6,751,053
TOTAL LIABILITIES	<u>81,275,726</u>	<u>74,786,223</u>
TOTAL MEMBERS' EQUITY & LIABILITIES	<u>\$118,903,914</u>	<u>\$109,382,927</u>

MEMBER BENEFITS



The Touchstone Energy[®] Co-op Connections[®] Program!

SAVE USING YOUR CO-OP CONNECTIONS[®] CARD!

As a member of KEC you can receive discounts on products and services from participating local and national businesses. The Co-op Connections Card member benefit program is absolutely free and another benefit of being a member of KEC.

Here's what you get:

- Great discounts from more than 200 local businesses and national businesses, including Papa Murphy's, Lookout Pass, Phones Plus, Barnes & Noble.com, Best Western, Sherwin-Williams, Sprint, Alamo and more. Visit www.kec.com and click the card on the left to check out valuable local and national discounts.
- Discounts on prescriptions at participating pharmacies, including access to over 60,000 national and regional pharmacy chain stores like Walgreens, Wal-Mart, Target and many more. While not insurance, the discount can deliver savings of 10-60 percent on prescription drugs. Search online to find discounted prices on prescriptions at www.rxpricequotes.com and participating locations at www.locateproviders.com.

Here's what you do:

- Visit www.kec.com to view a list of participating businesses and discount offerings.
- Present your card at participating businesses to receive discounts.

MEMBER BENEFITS

USE YOUR CO-OP CONNECTIONS CARD AT THESE AREA PHARMACIES:

- Asthma & Allergy of Idaho
- Benewah Medical Center
- Costco Pharmacy
- Fred Meyer Pharmacy
- Jack's Pharmacy
- Kmart Pharmacy
- Kootenai Cancer Center
- Medicine Man Pharmacies: Coeur d'Alene (Ironwood Dr.), Rathdrum, Post Falls
- Rathdrum Drug
- Rite Aid Pharmacy
- Safeway Pharmacy
- Savon Pharmacy
- Shopko Pharmacy
- Walgreens
- Wal-Mart Pharmacies
- Well Life Pharmacy



Join other KEC members who have saved more than \$30,000 on prescriptions since 2007! Here's how it works: Show your card at the above pharmacies. You will receive the best price available to you through this program at the pharmacy. On occasion, pharmacies will price a particular medication lower than the discount rate provided by the card. If that occurs, you will receive the lower price.

This plan is not insurance; it is a pharmacy discount offer. The card provides immediate discounts at the pharmacy. Upon presenting your card to the pharmacist, you will pay the lower of a discounted price or the pharmacy's regular retail price. There are no forms to fill out and no limit to the number of times you can use the card. These discounts are available only at participating retail pharmacies. Need a card? Call us at (208) 765-1200.

Kootenai Electric Cooperative, Inc.

PO Box 278

2451 W. Dakota Ave.

Hayden, ID 83835-0278

(208) 765-1200



Looking Out
for You

www.KEC.com