



INN Electric Cooperative, Inc.

POWER FOR THE FUTURE!

2011 Annual Report

Letter to the Membership

Dear INNEC Members,

Your electric cooperative has had a good year. In 2011 INNEC generated a record 4 million kWh of electricity using only 6,056 gallons diesel fuel, an all time low. An early and bitterly cold winter contributed to the exceptionally large loads. Sustained and extremely cold temperatures contributed to at least two (2) of the power failures experienced by consumers this winter. For the first time in three (3) years underground faulting attributable to the ground freezing and cracking was a problem, and low water levels at the Tazimina Hydroelectric generation plant resulted in two (2) power failures in February and March. INNEC management performing upgrades to power generation and distribution will increase efficiency and reliability.

INNEC's underground distribution replacement project will continue during the summer of 2012. The project replaces a substantial portion of the faulty underground system. Thanks to Donna Vukich of Naknek Electric Association, Inc. INNEC received \$2.3 million in funding through USDA's Rural Utilities Service (RUS) High Energy Cost Community Grant program.

Along with continuation of the underground distribution replacement project INNEC will begin a major diesel generation and tank farm upgrade during the summer of 2012. The work financed by a Rural Power Systems Upgrade grant will be administered through the Alaska Energy Authority (AEA). The generation upgrade will include replacing three (3) old Caterpillar generators with new fuel efficient Skania generators and the construction of a 60,000 gallon tank farm and pipeline. The new system will be automated allowing diesel generation to come on seamlessly when hydroelectric generation is down.

Manager Hornberger, Board President Thomas "Tinney" Hedlund and Board Vice-President John Baechler traveled to Juneau in February 2012 to once again lobby for Tazimina Hydroelectric Project debt reimbursement. The Alaska Legislature is scheduled to conclude this year's session mid April and it is unknown whether INNEC's request for debt reimbursement will be included in the state's FY2013 Capital Budget.

Looking forward and focused on bringing INNEC management and consumer operations back to the Iliamna area during 2012 the Board of Directors approved a contract with Rural Alaska Fuel Services (RAFS) in Anchorage for accounting services and has hired office personnel. INNEC's goal of completing the transition by July 1, 2012 will require management and services training on several levels, and a working knowledge of the new accounting system. NEA and INNEC staff and management will be working diligently to make a successful move. Both utilities appreciate your patience and apologize for any inconveniences the transition may cause.


Thank you for being a member of INN Electric Cooperative. Without our members and consumers we would not be here.

We hope to see you at the Annual Membership Meeting on Saturday April 28, 2012.

Sincerely,



George Hornberger
General Manager



Tinney Hedlund
Board President





INN ELECTRIC COOPERATIVE, INC.

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BOARD OF DIRECTORS

Thomas Hedlund, President
John Baechler, Sr., Vice President
Greg Anelon, Secretary/Treasurer
Gary Martilla
Bob Tracey

STAFF

George Hornberger, General Manager
John Johnson, Plant Foreman
Clarence Balluta, Plant Operator
Sarah John, Secretary/Bookkeeper

2012 Director Candidates

One (1) three-year seat on INN's Board of Directors will be filled at the 2012 Annual Membership Meeting on April 28, 2012. John Baechler is the only candidate for this seat.

John Baechler, Sr. is a 30 year resident of Iliamna, Alaska. He enjoys skiing, snowmobiling and fishing. He currently owns his own business in Iliamna. As an incumbent Mr. Baechler is seeking reelection to help the INN Board of Directors and General Manager reduce operational costs, relieve INN debt and provide dependable power to INN consumers.



Above: Tailrace clean-out 2012: Edvin Balluta, Chad Koktelash, Clarence Balluta, Robert Clay & Fred Roehl

Audited Financial Statements

BALANCE SHEET DECEMBER 31, 2011

Assets	
Net Utility Plant	\$ 5,733,152
Other Property, Investments, and Receivables	
337,605	
Current Assets	
1,394,102	
Deferred Charges	
0	
Total Assets	\$ 7,464,859
Equities and Liabilities	
Patronage Capital & Other Equities	\$
3,493,734	
Net Long-Term Debt	
3,085,339	
Current Liabilities	
885,786	
Total Equities and Liabilities	\$ 7,464,859

STATEMENT OF OPERATIONS DECEMBER 31, 2011

Operating Revenues	
\$ 1,501,289	
Less: Cost of Power	
\$ 318,422	
Other Operating Expenses	
619,595	
Total Operating Expenses	
\$ 938,017	
Less: Interest on Long-Term Debt	
\$ 168,372	
Operating Margins	
\$ 394,900	
Investment Income	
\$ 4,168	
Patronage Capital from Others	
40,623	
Net Margins	
439,691	\$
Assignable Margins	
\$ 439,691	

Rates

RESIDENTIAL:

Consumer Charge	\$25.00
0 - 400 kWh	.42
Over 400 kWh	.38

COMMERCIAL:

Consumer Charge	\$35.00
Consumer 3 Phase	\$65.00
First 1000 kWh	.42
Over 1000 kWh	.38

LARGE POWER Year-Round:

Consumer Charge	\$200.00
Demand per kW	12.00
All kWh	.36

LARGE POWER Seasonal:

Consumer Charge	\$300.00
Demand per kW	14.00
All kWh	.35

FUEL SURCHARGE:

All kWh / All Members	.12
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**INN ELECTRIC COOPERATIVE
ANNUAL MEMBERSHIP MEETING MINUTES
MAY 7, 2011**

1. CALL TO ORDER AND VERIFICATION OF A QUORUM

President Thomas Hedlund welcomed members and called the 2011 INN Electric Cooperative, Inc. Annual Membership Meeting to order at 12:03 PM. The meeting was held at the Nondalton Tribal Council Building in Nondalton, Alaska. President Hedlund stated that there were 231 members of record. A quorum of 24 was reached with 37 members signing in as of 12:00 NOON.

2. READING OF THE NOTICE OF THE 2011 ANNUAL MEETING AND AFFIDAVIT OF MAILING

President Hedlund stated that he had the official notice of the 2011 INN Electric Cooperative, Inc. Annual Membership Meeting and Affidavit of Mailing mailed to members of record on April 7, 2011. He asked for a motion to waive the reading of the notice and affidavit. IT WAS MOVED, SECONDED AND DULY PASSED to waive reading the meeting notice and the affidavit of mailing.

3. READING AND APPROVAL OF THE JUNE 6, 2010 ANNUAL MEETING MINUTES

President Hedlund stated that the 2010 INN Electric Cooperative, Inc. Annual Membership Meeting Minutes were in the annual meeting packet and available at the registration desk. He asked for corrections to the minutes, none heard he asked for a motion to waive the reading and approve the minutes as presented. IT WAS MOVED, SECONDED AND DULY PASSED to waive the reading and approve the June 6, 2010 INN Electric Cooperative, Inc. Annual Membership Meeting Minutes as presented in the annual meeting packet.

4. BOARD PRESIDENT'S REPORT

President Hedlund introduced the INN Electric Cooperative, Inc. Board of Directors: John Baechler, newly appointed by the board to fill John Adcox's seat, is the Vice President, Greg Anelon, Secretary/Treasurer, Bob Tracey, and Gary Marttila. He also introduced INN's General Manager, George Homberger, and Suzanne Lamson, Board Recorder.

The President thanked the nominating committee: Fedosia Balluta, Shirley Ludwick, Natalia Marttila, and Joanna Trefon for their diligence in carrying out the duties of the committee by seeking board nominations, and ensuring that the balloting and counting was secure.

President Hedlund acknowledged INN's original founding directors and staff: John Adcox, President, Elia Anelon, Vice President, Jim Lamont, Secretary, Wassie Balluta, Treasurer, Thomas "Tinney" Hedlund, Bert Foss, and Mike Delkittie served on the original board. Ethel Adcox was the cooperative's first secretary and office manager. The president directly addressed Mrs. Adcox who was in attendance at the meeting and on behalf of the cooperative expressed appreciation for John Adcox's

service to the cooperative since 1983. The president wished them well as Mr. Adcox goes through rehabilitation therapy.

President Hedlund began his report to the membership by briefly recapping the cooperative's accomplishments in 2010-2011, and outlining plans for 2012. He stated that in the generation department Tazimina Hydroelectric plant provided 87% of gross kWh generation. Diesel generation consumed approximately 38,000 gallons of diesel fuel providing the remaining 13% of gross kWh generation. Diesel fuel consumption was up in 2010 because the Tazimina Hydroelectric plant was shut down for three months to perform turbine overhauls, and the installation of new controls.

Turbine overhauls, control system upgrades, installation of electric boilers in the Newhalen and Nondalton schools, and the application of an experimental heated trash rack at the hydro intake were accomplished thanks to the Alaska Energy Authority, the Denali Commission, and a grant totaling approximately \$1,000,000. INN is selling interruptible excess generation at \$.12/kWh to the schools when the hydro is on-line. This potential generation capacity would otherwise go over the falls and be wasted.

President Hedlund stated that INN is currently working with the Alaska Energy Authority to obtain grant funding to upgrade the diesel generation plant with new controls and three (3) new diesel generators. This upgrade will allow auto-start capacity at the diesel generation plant in Newhalen in the event Tazimina Hydroelectric goes off-line.

President Hedlund stated that cooperative management continues to work with both state and federal legislatures for Tazimina Hydroelectric Project debt forgiveness. INN received \$2,300,000 in Rural Utilities Service (RUS) High Energy Cost Grant Program funding and will continue underground primary distribution replacement this summer. The distribution upgrade project has already increased reliability and decreased unplanned outage time. 2010 outage time was down drastically from the previous year.

President Hedlund stated that the board is very pleased with the work George Homberger is doing and commented that it was a very positive move to hire a general manager. Representing the cooperative President Hedlund thanked Manager Homberger for his work and direction.

5. FIRST DRAWING OF DOOR PRIZES

6. ELECTION OF DIRECTORS

President Hedlund introduced director candidates Greg Anelon (not present), Wassie Balluta Jr., and Bob Tracey. Manager

Hornberger encouraged all members who had not yet voted to please cast their ballots.

7. RECESS FOR REFRESHMENTS

President Hedlund convened the meeting at 12:20 PM for refreshments and the casting and counting of ballots.

8. RECONVENE MEETING AND REPORT ELECTION RESULTS

President Hedlund reconvened the meeting at 12:45 PM. He reported that 100 ballots were cast by mail and at the annual meeting, 88 were valid and 12 were invalid.

Election results:

Greg Anelon	45
Wassie Balluta Jr.	35
Bob Tracey	63

Two other members received 1-3 write-in votes each.

President Hedlund announced the results and congratulated incumbents, Greg Anelon and Bob Tracey on their reelection to INN's board of directors.

9. GENERAL MANAGER'S REPORT

Manager Hornberger began his report to the membership by thanking members for attending INN Electric Cooperative's 2011 Annual Membership Meeting. He thanked John Johnson for twenty nine (29) years service to the cooperative and asked members present to acknowledge his dedication. He stated that Clarence Balluta has been hired and is currently attending power plant operator training in Seward, Alaska. He thanked Mr. Balluta for his work along with Brian Janti, Edwin Balluta, Trefon, Koktelash, and Chad Koktelash. The manager explained that these employees put in some long cold hours of work at the Tazimina Hydroelectric plant in December 2010 to help get it back on-line after ice jams shut down hydro generation. He also thanked Nakmek Electric Association staff and management for their support work throughout 2010.

Manager Hornberger noted that the 2010 audited end-of-year financial statements and balance sheet were included in the 2010 Annual Report and was also available at the registration table at the meeting. He stated that 2010 sales were up 268,726.00 kWh over 2009 and commented that the increase was directly attributable to selling interruptible power to Lake and Peninsula School Districts Newhalen and Nondalton schools and commented that the school district saved approximately \$12,000.00 in direct fuel costs. INN margins at the end of 2010 equaled \$392,042.00.

Manager Hornberger stated that management has been in communication with legislators and is working with the Lake and Peninsula Borough regarding debt forgiveness for the Tazimina Hydroelectric Project but neither Senator Stevens nor Representative Austerman placed any funding for it in the state's capital budget.

Manager Hornberger briefly reviewed current and future projects, strategy and funding sources. He stated that Don Henry is working on the underground distribution replacement project funded by RUS. Management is also working on two other

grants. If the cooperative is successful an AEA Emerging Technology Grant will help finance optimization of Tazimina's intake with the design and installation of electrically heated trash racks and removable trash screens. The grant will also help pay for rock work that will provide access to the intake with an excavator when ice needs to be cleared from the intake. He commented that at this time Tazimina Hydroelectric plant is proving out the use of reprogrammed Woodward controls linking the hydro plant with the diesel plant. He thanked Chamise Arce and the Lake and Peninsula Borough for assistance with grant preparation. Cooperative management has also submitted a Rural Power Systems Upgrade proposal to AEA. If grant funds are made available to INN they will be used to modernize the diesel plant control systems, and install two (2) new John Deere generators and switch gear. He reiterated that the upgrade will provide auto-start capacity in the event of a system failure at Tazimina. He noted that INN will continue working with NEA during 2011.

10. UNFINISHED BUSINESS – None

11. NEW BUSINESS – QUESTIONS FROM THE MEMBERSHIP

President Hedlund opened the meeting to questions from the membership. Board and management responded to a range of questions from patronage capital to the possibilities of expanding service to Port Allsworth and other communities.

Manager Hornberger stated in response to a question that with the increased load of servicing electric boilers at the schools the hydroelectric plant is close to capacity; generating 813 KV of its 824 KV capacity. At this time expanding service to other communities is not feasible from INN's perspective. From a funding perspective there are not enough people in the area to justify the cost of building transmission infrastructure to other communities with public funds.

Manager Hornberger stated in response to a question that the fuel surcharge will show up as a charge on the monthly statement until the fuel loan is paid in full. He stated that cooperative management has been working with the Western Alaska Fuel Group and will purchase 20,000 gallons of diesel fuel this year. He commented that his goal is to use less than 5,000 gallons diesel fuel per year in the near future.

Member and former long-time INN employee, Andrew Wassillie thanked John Johnson for his work at the cooperative and commented that he enjoyed working alongside him for many years.

Members expressed their appreciation for the work being done by Manager Hornberger and thanked INN's board, management, and staff for keeping the lights on.

12. SECOND DRAWING OF DOOR PRIZES

13. GRAND PRIZE DRAWING

Diane Alexie won a \$500 electricity gift certificate.

14. ADJOURNMENT 1:10 PM

President Hedlund thanked the membership for attending and adjourned the meeting 1:10 PM.

INN Electric Cooperative, Inc.

2012 Annual Membership Meeting
Newhalen Teen Center Building
Newhalen, Alaska

Saturday April 28, 2012
Registration 11:00 AM – Meeting 12:00 NOON



AGENDA

- 1. Call to Order**
- 2. Reading of Notice of Annual Meeting and Affidavit of Mailing**
- 3. Reading and Approval of the Minutes of the May 7, 2011 Annual Meeting**
- 4. Board President's Report**
 - a. Introduction of Guests**
- 5. First Drawing of Door Prizes**
- 6. Election of Directors**
- 7. Recess for Refreshments**
- 8. Reconvene Meeting and Report on Election Results**
- 9. Second Drawing of Door Prizes**
- 10. General Manager's Report**
 - a. Special Recognitions & Presentations**
- 11. Unfinished Business**
- 12. New Business – Questions from the Membership**
- 13. Third Drawing of Door Prizes**
- 14. Grand Prize Drawing – \$300 Certificate for Hydro Generated Electricity**
- 15. Adjournment**