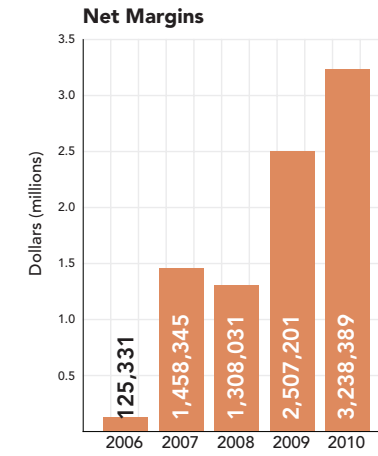
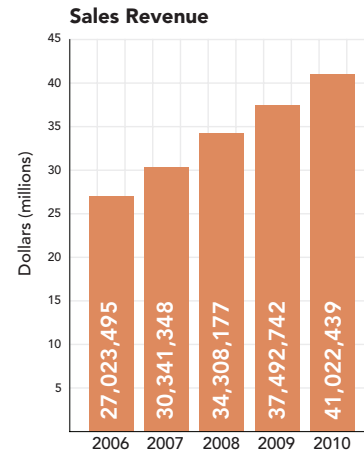


Financials

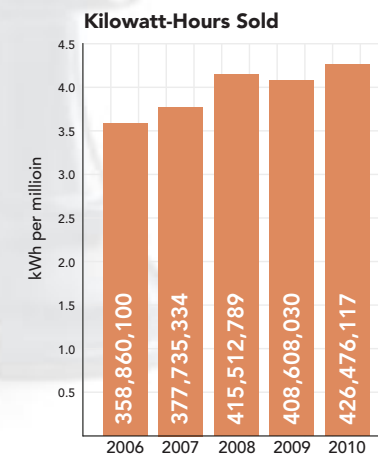
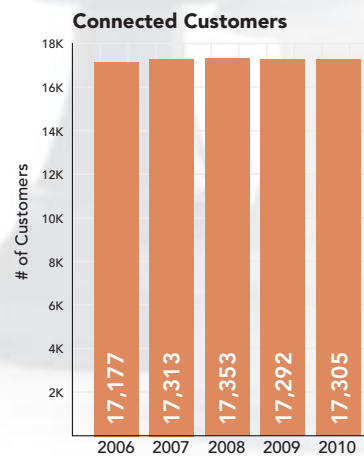
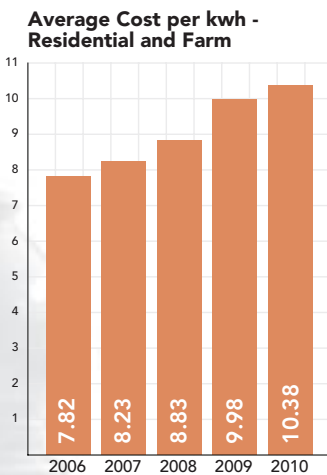


2010 revenues increased \$3,529,697 or 9.4% from 2009. Due to increased costs and usage, our wholesale power costs increased by 8.8%, from \$28,303,061 in 2009 to \$30,786,366 in 2010.

The ratio of equity to assets was 66.1% at the end of 2010, which is well above our 60% target.

Our total assets increased by \$3,019,512 or 5.3% in 2010. Net plant increased by \$1,433,620 or 3.1%.

Our equity (net worth) increased by \$2,863,155 or 7.8%. Current liabilities and deferred credits increased by \$388,116.



Condensed Statement of Operations

Unaudited for Year Ended December 31

	2010	2009
Operating Revenues	41,022,439	37,492,742
Operating Expenses		
Purchased Power	30,708,659	28,293,701
Operations & Maintenance	1,417,170	1,270,125
Collections, Administrative, & General Expenses	3,179,943	3,186,540
Depreciation	1,732,484	1,653,895
Other Operating Expenses	1,923,925	1,783,664
Total Operating Expenses	38,962,181	36,187,925
Operating Margins	2,060,258	1,304,817
Other Income or (Deductions)		
Interest Income	47,051	45,328
Misc. Income (Expense)	222,040	179,031
G&T Capital Credits	909,040	978,024
Total Non-Operating Margins	1,178,131	1,202,383
Net Margins	3,238,389	2,507,200

Balance Sheet

Unaudited for Year Ended December 31

	2010	2009
Assets		
Electric Plant	62,295,960	59,917,562
Less: Accumulated Depreciation	(13,995,330)	(13,050,552)
Net Plant	48,300,630	46,867,010
Total Investments & Current Assets	11,866,945	10,281,053
Total Assets	60,167,575	57,148,063
Equities & Liabilities		
Memberships	438,315	477,458
Patronage Capital	35,258,383	33,402,850
Margins & Other Equities	4,079,109	3,032,344
Total Margins & Equities	39,775,807	36,912,652
Long-Term Debt to CFC	15,514,996	15,746,755
Current Liabilities & Deferred Credits	4,876,772	4,488,656
Total Equities & Liabilities	60,167,575	57,148,063

Kosciusko REMC Board of Directors



(front row, l to r)
Dan Tucker
 Serving since 2009
 Physical Therapy
 Kosciusko Community Hospital

John Anglin Jr.
 Chairman
 Serving since 1976
 Owner/Manager
 Clunette Elevator

Tom Shively
 Serving since 1999
 Indiana Statewide Association of
 Rural Electric Cooperatives Director
 Maintenance/Grace College

Terry Bouse
 Secretary/Treasurer
 Serving since 1999
 Customer Service
 Synergy Feeds/Farming

(back row, l to r)
Pam Messmore
 Serving since 2010
 Vice President & Regional
 Manager
 Lake City Bank

Fred Powell
 Serving since 1974
 Wabash Valley Power
 Association Director
 Farming/Grain

Rick Parker
 Serving since 2008
 Owner
 Parker & Sons Equipment/Farming

William Stump Jr.
 Vice Chairman
 Serving since 1982
 Partner
 Stump Farms/Grain and Pork

Kim Buhrt
 Serving since 2010
 Self-employed bookkeeper
 Small business owner & partner



2010 ANNUAL REPORT
 Smart Moves



Steve Rhodes, President & CEO
John Anglin, Chairman

In the world of sports, there are hundreds of celebrities whose names you know – Peyton Manning, Kobe Bryant, Jeff Gordon – the list goes on and on. Their moves and skills on the field, court or track are often big and flashy, and yield spectacular results.

In the world of chess, however, you probably can only think of a few names – Bobby Fischer, Anatoly Karpov, and Garry Kasparov – who became famous through their “sport.” The strategic thinking and tactical skills all three of these men exhibited while playing this “thinking man’s” game brought them recognition from around the globe.

When you observe chess players, like this famous trio, you can almost see

their brains working as they focus on the strategy and tactics of the game. To win the game, chess players have to hone in on setting and achieving long-term goals. Getting to those goals is achieved by accomplishing smaller tactics – taking short-term actions that help achieve their end strategy. These “smart moves” help position the chess player for a win.

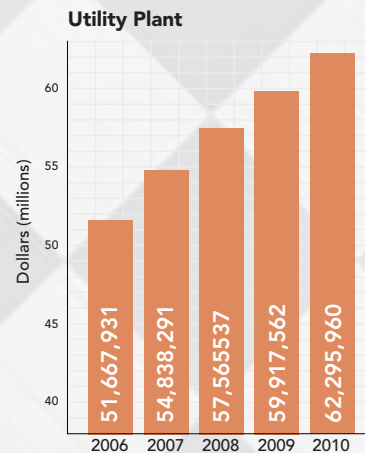
For Kosciusko REMC, 2010 was not a year of making big, flashy moves, like the professional athletes. Instead, it marked a year of making “smart moves” like the chess players, taking small tactical steps to help prepare the co-op for the “Smart Grid” of the future, and helping us prepare to achieve our long-term strategic goals. By accomplishing these tactics, the co-op is well-situated for a long-term “win” for our members. And our members are winners when KREMC’s electric distribution system is prepped and ready to interact with the “Smart Grid,” while the co-op continues to provide affordable and reliable electric service.

During 2010, many steps were taken to prepare KREMC for the future. As the co-op nears the midpoint in a significant technology plan, we can happily report to our members that the long-term strategies and short-term tactics determined by the KREMC Board of Directors and management have well positioned KREMC to be ready for the “smart grid” of the future.

Here are some of the “Smart Moves” undertaken by the co-op in 2010:

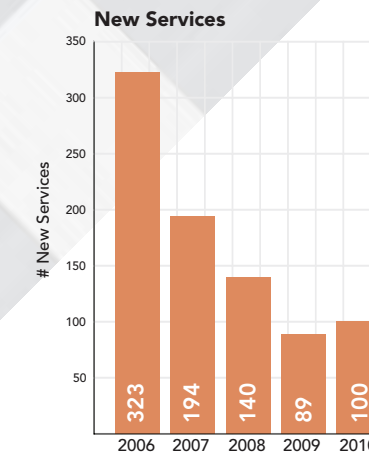
SMART MOVES IN INNOVATION AND TECHNOLOGY:

- ✓ In anticipation of the installation of Smart Meters beginning in 2012, work on the Geographic Information System (GIS), also known as mapping, was completed in the summer of 2010. This project required a physical inventory of all KREMC facilities and equipment, and translating that information into a computer map format.
- ✓ With the completion of the GIS project, KREMC field engineers now use the new technology in the field to plan new lines. It expedites the planning process significantly.
- ✓ Line trucks were equipped with computers so that linemen have map and account information at their fingertips. This enables them to quickly locate problems and provide more efficient service to members.
- ✓ Automatic vehicle location (AVL) systems were added to most co-op vehicles in 2010. This is an important upgrade which allows for quick identification of where crews are working, allowing for the most efficient routing during emergency situations. It also allows the vehicles to be located quickly for safety reasons.
- ✓ To provide members with more expedient service when they call in to the co-op, document imaging was completed in 2010. This provides CSRs and other employees with immediate access to customer account information that used to be kept in files. The technology allows CSRs to access the information immediately, instead of having to place members on hold while digging through files.
- ✓ Renewable energy continued to be a major topic of discussion in 2010. KREMC now has two residentially-sized wind turbines and one solar power system on our grid. Additionally, the co-op worked extensively with Tippecanoe Valley School Corporation as they progress towards the installation of a 1 megawatt wind turbine at their location.



SMART MOVES TO KEEP ELECTRIC BILLS AFFORDABLE:

- ✓ To save money for members who pay on a timely basis, the co-op worked diligently to ensure that past-due accounts did not become excessive. As a result, past due amounts actually dropped in 2010.
- ✓ To help with energy efficiency measures, a series of rebates for members were offered in 2010.
- ✓ More than 100 “second” refrigerators were recycled, with members receiving a \$35 “bounty” for turning in their old, inefficient fridges. Members were also offered rebates for the purchase of Energy Star® washing machines, and for heat pump installations. The programs were so successful that they were extended into 2011.
- ✓ KREMC ranked in the top 4 percent of all co-ops nationally in minimizing controllable expenses. This indicates how efficiently an electric co-op manages its local costs (all costs with the exception of wholesale power supply), making KREMC a better performer at cost control than 96% of other electric co-ops.
- ✓ A complete Cost of Service and Rate Study was completed in mid-2010. As a result of the study, a rate adjustment – not a rate increase – was approved by the Board. The purpose of the adjustment was to more fairly allocate cost recovery through the various rate classes. In many circumstances, members’ bills decreased as a result.
- ✓ Capital credits of just over \$500,000 were issued to members in 2010, giving members back a portion of the money they have invested in the co-op.
- ✓ KREMC rates are still at least ten percent lower than the local for-profit utility, and they are the second lowest in the state of Indiana, as compared to our co-op peers.



SMART MOVES TO HELP OUR MEMBERS AND COMMUNITIES:

- ✓ Educating our members is a top priority for KREMC. Two educational member workshops were conducted in 2010, one focusing on Renewable Energy and one related to Home Weatherization. Members filled the co-op’s Touchstone Energy Room to participate.
 - ✓ A commitment to our communities continued to be demonstrated through a variety of programs, including Operation Round-Up, with more than \$62,000 granted to community non-profit organizations.
 - ✓ KREMC continued its support for numerous youth programs, sending six kids to Touchstone Energy Camp, providing KREMC Scholarships to six deserving college-bound students, and sponsoring the local and regional spelling bees. Kosciusko County Spelling Bee champ Elizabeth Shepherd was the runner-up in the regional bee.
 - ✓ Keeping our kids safe around electricity continued to be a priority for the co-op in 2010. KREMC again co-hosted “Play It Safe Family Safety Day” with the Warsaw/Wayne Fire Territory, and more than 1,000 area fourth graders again received electric safety training from A.C. Sparks, courtesy of the co-op.
 - ✓ KREMC members elected two new directors to the Board at the 2010 Annual Meeting. Kim Buhr and Pam Messmore joined the Board in April 2010.
- 2010 was a year of moving forward for KREMC. With a focus on innovation and technology, affordability and our members, we made smart moves forward to prepare for the future. 2011 promises to be another year spent moving forward as we begin our “Smart Meter” project. For the members of Kosciusko REMC, your Board and employees will continue our advances like chess players, making large and small tactical decisions and improvements that will help us achieve long-term strategies. And those are Smart Moves that will benefit the long-term growth of Kosciusko REMC.

