

October 2013

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# Dear Members,

by Interim General Manager, Richard "Dick" Peck



Richard Peck,  
Interim General  
Manager

Due to printing schedules and requirements of your Bylaws the actual 2013 Financial Audit could not be included in the September *Rural Montana* issue. The Bylaws note our fiscal year ends on June 30. By the time BEC's Auditor completes the audit and it is accepted by your Board, the September print deadline has passed.

The 2013 financial audit was presented to the membership at the 75th Annual Member Meeting, held on September 28th. Summaries of the 2013 and 2012 financial audit are presented here for your review on the following two pages.

The financial documents contain a comparative income statement and balance sheet. The full 2013 audit is available on the BEC website or can be obtained by contacting your BEC Office personnel.

The most notable impact of this year's audit is the write down of impaired assets from the Southern Bankruptcy and the cancellation of a transmission project in Wyoming, resulting in a financial loss to the cooperative in 2013 in the amount of \$3.9 million. The loss is explained in full in the foot notes to the 2013 audit. If you have any questions about the audit please give me a call.

With warm regards—*Dick*

Thank you members for attending BEC's historic 75th Annual Member Meeting held last month. You'll be happy to know that your need not remember to submit your base-rate certificate, as all certificates will be automatically applied to your account based upon the member registration records. And, I'd like to give special recognition to the 2013 BEC 75th Anniversary Photo Contest grand prize winner, Dorothy Olson. Dorothy submitted six wonderful photos taken during the electrification of her family homestead in the 1940s. We will feature her winning photographs in next month's *Rural Montana*. Thanks Dorothy for sharing your family memories!

Last month in the September *Rural Montana*, you were provided the Beartooth Electric unaudited financial reports for 2012 and 2011. Those reports are required to be filed with our banker's, the RUS and CFC at calendar year end.

**Announcements**

- **October 4 - 5 Annual FREE Clothing Swap**  
Bridger Civic Center  
Main Street  
Oct 4 (10am-6pm)  
Oct 5 (10am-3pm)  
*Clothes for all ages & sizes*  
662-5253 or 662-5352
- **Thank you BEC Members for attending our 75th Annual Member Meeting!**
- **The next regular BEC Board meeting is Tuesday, October 29, 12:00 PM at the Red Lodge Community Foundation Building**
- **Visit our Website [www.beartoothelectric.com](http://www.beartoothelectric.com) for all the latest news!**

**BEC BOARD OF TRUSTEES**

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# BEARTOOTH ELECTRIC COOPERATIVE AUDITED FINANCIALS

## STATEMENT OF REVENUE & PATRONAGE CAPITAL

Amts in \$000

	JUNE 30, 2013		JUNE 30, 2012		Increase (Decrease)
	Amount	% Of Revenue	Amount	% Of Revenue	
TOTAL OPERATING REVENUE	\$10,347	100.0%	\$10,247	100.0%	\$101
OPERATING EXPENSES					
Cost of Power & Transmission	\$4,956	47.9%	\$4,888	47.7%	\$68
Distrubution Operations & Maint.	\$1,467	14.2%	\$1,687	16.5%	\$(220)
Admin, General & Consumer Expense	\$1,367	13.2%	\$1,346	13.1%	\$20
General Plant Maintance	\$103	1.0%	\$110	1.1%	\$(7)
Depreciation	\$848	8.2%	\$829	8.1%	\$19
Interest Expense	\$676	6.5%	\$700	6.8%	\$(24)
Total Operating Expense	\$9,417	91.0%	\$9,560	93.3%	\$(144)
Net Operating Margin Before Patronage Capital Credits	\$931	9.0%	\$686	6.7%	\$244
Patronage Capital Credits	\$46	0.4%	\$44	0.4%	\$2
Net Operating Margin	\$976	9.4%	\$730	7.1%	\$246
Non-Operating Margins					
Interest Income	\$30	0.3%	\$48	0.5%	\$(18)
Imparment Loss on Investment in Assoc Organiztions	\$(3,422)	-33.1%	\$(337)	-3.3%	\$(3,085)
Write Off-Preliminary Surveys & Investigations	\$(527)	-5.1%	\$-	0.0%	\$(527)
Other Non-Operating Revenue	\$15	0.1%	\$(8)	-0.1%	\$23
Total Non-Operating Margins	\$(3,905)	-37.7%	\$(298)	-2.9%	\$(3,607)
Net Margins	\$(2,929)	-28.3%	\$433	4.2%	\$(3,361)
PATRONAGE CAPITAL-BEGINNING OF YEAR					
Less: Retirement of Capital Credits	\$(31)		\$(246)		
Less: Margins Transferred to Other Equities	\$(43)		\$25		
PATRONAGE CAPITAL-END OF YEAR	\$4,471		\$7,473		

# JUNE 30, 2012 & JUNE 30, 2013

## BALANCE SHEET

Amts in \$000

ASSETS			EQUITIES, MARGINS, LIABILITIES & OTHER CREDITS		
	June 30, 2013	June 30, 2012		June 30, 2013	June 30, 2012
UTILITY PLANT (AT COST)			EQUITIES AND MARGINS		
Total Utility Plant	\$28,181	\$27,625	Patronage Capital	\$4,471	\$7,473
Less: Accumulated Depreciation	\$12,325	\$11,852	Other Equities	\$104	\$61
Net Utility Plant	\$15,856	\$15,773	Total Equities & Margins	\$4,575	\$7,534
OTHER PROPERTY & INVESTMENTS			LONG-TERM DEBT	\$12,678	\$13,349
Investments in Assoc Organizations	\$297	\$3,694			
Investments in CFC	\$285	\$286	CURRENT LIABILITIES		
Total Other Property & Investments	\$582	\$3,980	Note Payable Bank L/C	\$-	\$100
			Current Portion Long-Term Debt	\$661	\$649
CURRENT ASSETS			Line of Credit - Guaranteed Debt	\$251	\$251
Cash & Tempory Cash Investments	\$1,025	\$1,078	Accounts Payable	\$536	\$514
Accounts Receivable & Note Receivable	\$1,051	\$990	Consumers' Deposits	\$72	\$73
Materials, Supplies, Prepayment & Other	\$564	\$404	Accrued Taxes, Intrest & Vacation	\$231	\$239
Total Current Assets	\$2,640	\$2,472	Total Current Liabilities	\$1,752	\$1,826
DEFERRED DEBITS			DEFERRED CREDITS		
Unamortized Loan Fees	\$17	\$19	Consumer Energy Prepayments	\$16	\$17
Preliminary Surveys & Investigations	\$0	\$527	Capital Credits Payable	\$75	\$45
Total Deferred Debits	\$17	\$547	Total Deferred Credits	\$91	\$62
TOTAL ASSETS	\$19,095	\$22,772	TOTAL EQUITIES, MARGINS LIABILITIES	\$19,095	\$22,772

## PRESIDENT'S REPORT



by Roxie Melton,  
Chairman of the Board

The 75th annual meeting is now behind us and I hope those members in attendance came away more informed and knowledgeable about the tasks we have ahead. My wish is that everyone was able to talk to a Trustee or a Staff member and ask questions as well as visit with each other about our cooperative activities. Your board members hope everyone in attendance, also enjoyed the gift of one month with no base charge!

Arleen's' article this month will focus on the most relevant events we are currently experiencing with the Southern Bankruptcy. The Beartooth Electric objectives for Southern however, have not changed-"out of Southern and the

disposal of the Highwood Generating Plant!" The evaluation of data and studies we have gathered over the last two years reveal that leaving Southern Generation and Transmission and selling Highwood is to our best interest. As the bankruptcy saga continues for Southern in the bankruptcy court we will continue to keep you updated.

With that said, I would like to focus on some other issues of the co-op. Your Trustees are tasked with receiving their Credentialed Cooperative Director (CCD) certification within the first three years of their service. This education is the cornerstone of effective self-governance. Cooperative members are best served by trustees who are well-versed in democratic principles and who understand the industry and how this industry can move forward to meet changing demands. This curriculum emphasizes foundational governance knowledge in addition to skills required of electric cooperative trustees such as

understanding electricity, the financial process and board matters. At this time four of our Trustees are CCD certified and the remaining three are scheduled to attend this fall.

In regards to education, your board enjoys the opportunity to provide scholarships to our graduating high school seniors. This year there were nine college bound students who received \$1,000 scholarships from our service area high schools. In addition, BEC sent two sophomore students to Washington DC and one student to Helena to learn about cooperatives and general government.

The funding for these educational programs come from unclaimed capital credits paid to the membership in prior years. Montana State Law provides that monies from unclaimed capital credits are to be used for educational purposes or the funds must be returned to the state. Your board has established a policy to maximize educational benefits to our members graduating seniors.

## With reorganization plan pending, Southern trustee examines BEC



by Arleen Boyd,  
District 5 Trustee,  
Due Diligence Chair

On August 14 the court-appointed trustee for Southern Montana Electric Generation and Transmission Cooperative (Southern) filed a reorganization plan and associated disclosure information for the bankrupt co-op. If the Chapter 11 reorganization plan is approved by the court Southern will emerge from bankruptcy much smaller than when it declared bankruptcy in October 2011. The largest Southern member, Yellowstone Electric Cooperative, and the Great Falls Electric City Power organization reached agreements with the trustee to exit Southern. The four remaining member cooperatives with approximately 13,000 total member/ratepayers will pay rates to cover Southern's cost of power and debt, including more than \$60 million in remaining notes for the Highwood Generating Station (HGS).

Reorganized Southern will carry a ten-year contract with Morgan Stanley Capital Group, Inc. to buy electricity. Southern's member co-ops will be held in Southern by the all-requirements contract that runs through 2048. The plan designates both HGS and Southern's

contracts with its member systems as collateral for the HGS notes.

The plan touts "reasonable rates" for the debtor's member cooperatives, Beartooth, Fergus, Mid Yellowstone, and Tongue River Electric. The proposed rates greatly exceed currently available wholesale electricity rates and industry rate projections for the next ten years. The rates include the costs for power, debt payments, overhead to operate Southern and hire a new general manager, and all costs and investments required to keep the Highwood Generating Station in "ready-to-operate condition." The plan increases rates 2% percent annually over nine years.

The plan and disclosure information are posted on the BEC website and may be obtained from the co-op.

On September 5 U.S. Bankruptcy Court Judge Ralph Kirscher granted a motion by Southern's Trustee Lee Freeman for an examination of BEC. The court order authorizes the trustee to examine Arleen Boyd as BEC's representative and requires BEC to produce documents and communications.

The Trustee's *Motion for Rule 2004 Examination* asks BEC to answer questions regarding "statements, representations, beliefs, criticisms, and communications in relation to the Trustee's plans of reorganization and disclosure statements for

debtor Southern Montana Electric Generation and Transmission Cooperative, Inc." In his motion the Trustee attached three BEC documents as exhibits:

- August 27 press release, "Beartooth Electric sees risk and rate increases in bankruptcy reorganization"
- August 29 memo to members "The latest news about the Southern Montana Electric Bankruptcy proceedings"
- The BEC Annual Report published in the September issue of *Rural Montana*.

The three documents, created to meet the BEC board's fiduciary responsibility to inform members, are available on the BEC website ([www.beartoothelectric.com](http://www.beartoothelectric.com)).

The motion notes that the trustee is particularly focused on potential violations of 11 U.S.C. § 1125(b). This section of U.S. bankruptcy code defines when a party may solicit acceptance or rejection of a Chapter 11 plan.

BEC will be examined on September 20 and will report on the examination and any follow-up action.

Court hearing on approval of the disclosure information filed by the trustee is scheduled for October 14. If the disclosure is approved a confirmation hearing for the reorganization plan is scheduled for November 12.