2013 Annual Report and Meeting Notice

Lincoln Electric Cooperative, Inc.

Your Touchstone Energy® Cooperative
Attend Lincoln Electric’s

Annual Meeting of the Members

March 22, 2014
Lincoln County High School Auditorium
312 9th Street East, Eureka, MT
Registration begins at 8:00 am
Business meeting to commence at 9:00 am

Each registering membership will receive a door prize of $10 in Eureka Chamber of Commerce bucks and a travel mug. Registration also provides the chance to win various prizes throughout the meeting. The grand prize drawing of ‘Free Electricity for a Year’* will be awarded to one lucky attending member.

◊ A light breakfast will be served.
◊ Capital credit checks will be distributed to those LEC members who used electricity during 1995 and/or 1996.
◊ Five $1,000 Luck of the Draw scholarships will be drawn from all eligible applicants.
◊ Professional day care will be available free of charge at:
   Kid Country Day Care
   960 Fourth Avenue East, Eureka

*Some restrictions apply
Lincoln Electric Cooperative, Inc. (LEC) had another successful year in 2013. Your Board of Trustees, Management Team and employees have worked hard to reduce controllable expenses in an attempt to mitigate rising power supply costs.

LEC finished the year 2013 with revenues of $9,630,333 and margins of $956,235. We retired $377,025 in patronage capital to members served in 1994 and/or 1995.

As we go into the future, we will continue to honor our mission statement to provide reliable energy, at reasonable rates, with exceptional member service and commitment to the communities we serve.
2013 saw the retirements of three LEC employees. These employees had 80 years of combined experience at LEC. The expertise and knowledge of these three employees will be greatly missed. All of us at LEC wish our retirees much happiness and health as they enjoy their well-deserved retirements.

The first to retire in 2013 was Andy Kindel, who started as a journeyman lineman at LEC in 1981. He moved to Crew Foreman in 1986 and advanced to Operations Superintendent in 2011.

In the fall of 2013, Tim Engleson retired after serving LEC in member services and energy efficiency since 1988. He was instrumental in building an excellent communications plan to interact effectively with members.

The third to retire in 2013 was Dennis DeLong. He began as a groundsman in 1990. He quickly transferred to the Engineering Department as a Staking Technician, where he provided assistance to members requesting new or changes of service.
The retirements of these employees gave LEC an opportunity to restructure the organization. By combining and shifting job duties and positions, we were able to reduce our operational costs. This was a needed measure to help control LEC expenses and offset rising power supply costs.

This change will still allow LEC to serve our members with exceptional member service and devotion by utilizing existing, knowledgeable employees in new roles.

**Rising Power Supply Costs**

On October 1st, 2013, the rates for LEC wholesale power purchased from the Bonneville Power Administration (BPA) increased about 6 percent.

These additional costs are partially a result of BPA infrastructure maintenance projects and increasing demands for fish restoration. However, the biggest impact on BPA rates has been the under-performance of their secondary sales. This means they are not raising enough revenue to offset their operational expenses to the degree planned.

Although we have been impacted by these costs, LEC has been making financial and operational changes to mitigate the anticipated increase.

In addition to restructuring, we have also changed our procedures for installations, relinquished ownership of secondary facilities and shifted our billing cycle.

Through these combined efforts, LEC has been able to avoid a rate increase in 2014.
Crossing Lake Koocanusa

Arguably one of the largest projects undertaken by LEC, crossing Lake Koocanusa, was completed in 2013.

This project saw four high-voltage cable runs of 8,750 feet each floated across Lake Koocanusa. It stayed on top of the lake overnight and was sunk with the aid of divers the next morning.

Installation of the cable along the beaches on both sides of the lake and across the water itself took about two weeks to complete. The work was done by a highly qualified marine contractor with LEC supervision.

Installing this new cable was necessary to continue to provide the West Kootenai area with reliable electricity. The existing crossing was installed in the early 1970's before the reservoir was flooded and has been in use ever since.

However, cable that reaches a certain age starts to become unreliable and has a higher danger of faulting. If that occurred, LEC members in the West Kootenai area would have been without power for an indefinite amount of time.

Over the last seven years, LEC has been regularly replacing aged underground cable on our system. This crossing marks one of the last large cable replacement projects scheduled for the foreseeable future.
Other Notable Events

Windstorm Outage

On October 27, 2013, some LEC members experienced a fierce windstorm that toppled trees, took out overhead power lines and damaged poles.

There were a total of 674, or about 12.5%, of LEC members out of power from this weather event. Affected meters were out for an average of about 5.5 hours.

Our line crew worked through the night cutting trees, repairing lines and replacing poles.

Community Involvement

LEC continued to provide donations of money and time to local organizations in 2013.

We sponsored another high school student on the Youth Tour to Washington, D.C. This trip provides the student with a chance to see the capital and experience firsthand how our country works.

LEC awarded $12,000 in Luck of the Draw scholarships to area students for continuing education.

Co-Op Day at the Fair celebrated its 8th year of giving bucket rides to children and educating participants on the cooperative difference.

Our employees are also actively involved in our communities. Some volunteer with the Chamber of Commerce, on the Rendezvous committee, with the 4-H program, or coach local sports.

Working to improve our communities is the same type of cooperative spirit that helped bring electricity to our rural area and it will continue to be a cornerstone in LEC's future.
### System Statistics

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
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</thead>
<tbody>
<tr>
<td>Number of Members</td>
<td>4,197</td>
<td>4,109</td>
</tr>
<tr>
<td>Number of Meters</td>
<td>5,508</td>
<td>5,410</td>
</tr>
<tr>
<td>Miles of Power Line</td>
<td>941</td>
<td>934</td>
</tr>
<tr>
<td>New Services Connected</td>
<td>94</td>
<td>82</td>
</tr>
<tr>
<td>Average Outage Hours per Meter</td>
<td>7.80</td>
<td>5.71</td>
</tr>
<tr>
<td>kWh Sales</td>
<td>113,792,289</td>
<td>108,300,207</td>
</tr>
<tr>
<td>Average Residential Usage (kWh's)</td>
<td>1,360</td>
<td>1,267</td>
</tr>
<tr>
<td>Average Cost per kWh</td>
<td>$0.0846</td>
<td>$0.0823</td>
</tr>
<tr>
<td>Average Residential Monthly Bill</td>
<td>$118.40</td>
<td>$107.86</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>19</td>
<td>19</td>
</tr>
</tbody>
</table>

### Uses of Revenue

- **Margins**: 9% (45% of total revenue)
- **Interest**: 7%
- **Admin**: 9%
- **Depreciation**: 8%
- **Operations**: 22%
These summarized financial statements are based on an audit by Summers, McNea & Co. as of year end 2013 & 2012. A full copy of the audit is available in LEC’s office for inspection by members of LEC.

### Revenue, Expense & Margin - Year End

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
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</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power Sales</td>
<td>9,630,333</td>
<td>8,911,762</td>
</tr>
<tr>
<td><strong>Expense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Power</td>
<td>4,352,690</td>
<td>4,063,726</td>
</tr>
<tr>
<td>Operations</td>
<td>2,152,772</td>
<td>2,016,241</td>
</tr>
<tr>
<td>Administrative</td>
<td>857,193</td>
<td>820,921</td>
</tr>
<tr>
<td>Depreciation</td>
<td>766,341</td>
<td>749,856</td>
</tr>
<tr>
<td>Interest</td>
<td>671,202</td>
<td>661,026</td>
</tr>
<tr>
<td><strong>Total Expense</strong></td>
<td>8,800,198</td>
<td>8,311,770</td>
</tr>
<tr>
<td><strong>Operating Margin</strong></td>
<td>830,135</td>
<td>599,992</td>
</tr>
<tr>
<td>Other Income (net)</td>
<td>126,100</td>
<td>110,346</td>
</tr>
<tr>
<td><strong>Total Margin</strong></td>
<td>956,235</td>
<td>710,338</td>
</tr>
</tbody>
</table>

### Balance Sheet - Year End

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electric Plant - Net</td>
<td>20,381,792</td>
<td>19,908,281</td>
</tr>
<tr>
<td>Long Term Investments</td>
<td>1,379,687</td>
<td>1,304,001</td>
</tr>
<tr>
<td>Cash &amp; Short Term Investments</td>
<td>2,028,450</td>
<td>505,628</td>
</tr>
<tr>
<td>Receivables</td>
<td>1,186,477</td>
<td>947,749</td>
</tr>
<tr>
<td>Materials &amp; Supplies</td>
<td>1,454,602</td>
<td>1,645,267</td>
</tr>
<tr>
<td>Other Current &amp; Deferred Assets</td>
<td>951,676</td>
<td>13,049</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>27,382,684</td>
<td>24,323,975</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Equity and Liabilities</strong></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patronage Capital</td>
<td>8,719,070</td>
<td>8,174,902</td>
</tr>
<tr>
<td>Long Term Debt</td>
<td>17,181,258</td>
<td>14,934,593</td>
</tr>
<tr>
<td>Short Term Notes</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Payables</td>
<td>1,141,033</td>
<td>929,614</td>
</tr>
<tr>
<td>Consumer Deposits</td>
<td>119,842</td>
<td>99,797</td>
</tr>
<tr>
<td>Other Current &amp; Deferred Liabilities</td>
<td>221,481</td>
<td>185,069</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>27,382,684</td>
<td>24,323,975</td>
</tr>
</tbody>
</table>
Delegate Certificate

A person who intends to vote a membership of a corporation, association, school, political body, church or firm with multiple ownership shall be required to furnish at the time of registering for the meeting, a certificate from a duly authorized officer of the organization certifying that such person shall have the right to vote the membership at the meeting.

I, ____________________________________________________________________________,

The __________________________________________________________________________
(Clerk, Secretary, Corporate Title)

Of __________________________________________________________________________
(Name of Corporation or Organization)

Do hereby certify that ___________________________________________________________________ (Name of Delegate)

Has been appointed by the governing body of such organization to act as the official delegate to the Annual Meeting of Lincoln Electric Cooperative, Inc., to be held in Eureka, Montana on March 22, 2014, and to vote the membership of this organization and act as the official delegate and representative.

Dated this ____________ day of March, 2014.

________________________________________________________________________
(Clerk, Secretary, Corporate Officer)
Board of Trustees

LEC’S Trustees are members elected by the membership at the Annual Meeting. They meet at least once a month to provide leadership, vision and direction for the cooperative.

†Indicates a trustee seat up for election

Mike Workman
President
District 5†
Koocanusa Shores-Pinkham

Tina Taurman
Vice-President
District 2
Trego-Stryker

Courtney Pluid
Secretary-Treasurer
District 3
Fortine-Glen Lake

Mike Clark
District 1†
Flathead

Joel Graves
District 5
Koocanusa Shores-Pinkham

Tom Klyver
District 1
Flathead

Wesly Loughman
District 4†
Eureka-Tobacco Plains

Marianne Roose
District 3†
Fortine-Glen Lake

Terry Utter
District 4†
Eureka-Tobacco Plains

Ethel White
District 4
Eureka-Tobacco Plains
Notice of Annual Meeting

As a member of Lincoln Electric Cooperative, Inc., you are invited to attend the 65th Annual Meeting of the Members. It will be held on **Saturday, March 22, 2014** at the Lincoln County High School Auditorium in Eureka, Montana.

Member registration begins at **8:00 am** with the business session to commence at **9:00 am**.

This is an opportunity for you to learn more about your cooperative, participate in electing trustees for your board and transact any other business that comes before the membership.

This year we will again be offering a door prize of $10 in Eureka Chamber of Commerce bucks along with a travel mug to each registering membership.