

Notice shall be given to the United States Department of Agriculture, Rural Utilities Service (RUS) thirty (30) days prior to any proposed change in Beartooth Electric Cooperative's general rate structure as required by the agency.

SECTION 6. Fiscal Year.

The fiscal year of the Cooperative shall begin on the first day of January of each year and shall end on the last day of December of the same year.

SECTION 7. Accounting System, Audit and Reports.

The Board shall be responsible to establish and maintain a complete accounting system subject to applicable laws and rules and regulations of any regulatory body and consistent with RUS requirements. An audit of the books and records and other relevant business documents of the Cooperative shall be conducted each year by an independent public accounting firm hired by the Board. A report of such audit shall be submitted to the Members at the following Annual Meeting.

Board Report –Southern/Due Diligence/Bankruptcy/Legal -- June, 2013

Due Diligence -- We continue to work toward a reasonable bankruptcy solution that will allow us to exit Southern and dispose of the Highwood Generating Station with the best financial outcome possible. We are bringing our power supply due diligence work to the final phase: identifying a business partner ready to provide affordable wholesale power and help us provide the rates, services, and support you have told us you expect. We are prepared to leave Southern and meet both power supply and reasonable debt requirements responsibly – if we can leave Southern.

If, however, the court approves the Southern trustee's current reorganization plan (posted on our website) We will remain members of Southern forced to own and pay for HGS, a power plant that cannot produce power economically. All currently filed valuations show HGS value well under \$20 million while the claim for payment from Prudential Finance, the plant creditor, exceeds \$100 million. Southern is being held together to pay for HGS debt. As a Generation and Transmission cooperative southern provides no services and no financial advantage in the market place

Legal position and actions -- We are participating in discussions with Prudential Finance, the creditor for HGS, to lower Prudential's claims and ensure that any plan will allow a negotiated exit for Southern's member systems.

- We will participate in the court's July 29 hearing to value collateral for the HGS loan. The collateral consists of HGS and the all-requirements contracts between Southern and its member systems.
- We are developing potential content and support for an alternative to the trustee's plan.
- We continue to demand information from the trustee, including the investigative report on Southern done by attorney Nancy Temple and Southern's audit.
- BEC's legal argument that Southern's contracts with its member systems cannot be offered as security for the HGS loan because they were not valued as required by law will be heard when confirmation hearings are held. Our original complaint to void the 2008 contract is not necessary because the trustee has reverted to the 2007 contract as collateral for the HGS loan in his reorganization plan. The 2008 contract contained many onerous provisions requiring Southern members to be jointly and separately responsible for an expanded list of debts and liabilities including unrecovered accounts receivable. It allowed for "adjustments" to be charged in addition to rate increases and specifically prohibited the commonly used "used and useful" standard for objections to debt.

Committee and board review of court filings -- Valuation hearing filings deadline June 27 produced new filings:

- Appraisal from Southern – value of member contracts zero, plant value \$\$1.18 million
- Prudential appraisal – value of contracts \$1.26 million, plant value \$16.5 million
- Other co-ops claim that Prudential claims are usurious – we have just received the filing and counsel is reviewing
- PPL and Unsecured Creditors Committee — filed a motion to convert to Chapter 7 and a motion to expedite hearing that motion at the hearing scheduled for July 29. BEC understands that Southern offers no financial advantage or services and staying in Southern is risky at best. BEC counsel will review the liquidation filing for detail. Based on that review and an analysis of the financial impact of liquidation the BE board could take a legal position on the liquidation motion.

Due Diligence committee is meeting prior to board meeting and may recommend action.

SME – Sme met on June 26 to approve financials and purchase of insurance

Arleen Boyd, Due Diligence Committee Chair (406-328-6645)