



VIGILANTE ELECTRIC COOPERATIVE

A Touchstone Energy® Cooperative 

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A Joint Message from Your Board President and General Manager

2017 Annual Meeting Report to Members

A cooperative annual meeting is the epitome of member participation and governance of an electric cooperative. The cooperative model of business involves member participation in selecting the governing board from its membership. This ensures those responsible for the organization are actual patronage-providing members themselves. We hope you find the information included in this report beneficial as you review your cooperative's operation.

Financial Strength

We are pleased to report that your cooperative had another strong financial year. Our net margins for the 2016 calendar year were \$1,174,472, and total revenues for the year equaled \$13,143,679. Our largest expense was the wholesale power cost, which came to \$6,114,084. We ended the year with record sales of 165 million kilowatt hours and experienced a line loss of 7.9 percent.

Approximately 29 percent of our total sales for the year were for irrigation-designated loads.

We added 172 new services to the membership in the last year, and reached a milestone in our total number of services by cresting the 10,000 mark. We ended the year with more than 2,705 miles of transmission and distribution line serving our members.

We also reached another milestone in the total utility plant in service which now stands at \$50,232,773, with an equity level of slightly more than 50 percent. Your cooperative has become financially stronger in 2016, while keeping rates very low. Our financial strength also continues to benefit from our one-half ownership interest in Montana Energy Alliance, a propane distribution company.

As a not-for-profit entity, we allocate our excess margins back to members in relation to their patronage. We use those excess margins for several years to offset costs, and then return them to the members. This is referred to as retirement of capital credits. We are happy to report that we retired \$537,705 of capital credits in a general retirement to the membership in 2016, and \$1.76 million has been retired in general retirements in the last three years.

Wholesale and Retail Rates

As you may remember, we receive all of our wholesale power from the Bonneville Power Administration (BPA). The wholesale rates are called tiered rates, and we recently crossed the threshold from Tier 1 into Tier 2. Tier 2 rates are more market-based and therefore subject to market fluctuations, which we will monitor closely. Although the amount of Tier 2 that we are purchasing now is relatively low, that

number will continue to grow. The short-term outlook for Tier 2 power cost is that it will remain in line with Tier 1, which is good news. In October 2017, we are expecting to see another increase in our wholesale rates; however, that increase is expected to be less than 1 percent.

We will work hard to mitigate that increase on the membership, and hope to find efficiencies within the organization to eliminate the need to increase retail rates. We are highly dependent on the weather for our total revenue, so time will tell if the need for a retail increase will come or not. While rates at neighboring utilities have increased in the past year, ours have remained stable. Our retail residential and irrigation rates continue to be the lowest in the state and near the lowest in the entire country.

As we have encroached on Tier 2 market-based power and the implications associated with market wholesale rates, we have implemented a policy to handle large single retail loads coming on at once. All new loads 1 megawatt or larger will have separate rates to minimize the impact on the entire membership.

Our Communities

One of the seven cooperative core principles that we operate under is concern for community. During the last three years, the cooperative has provided 53 scholarships totaling \$38,500 to member-dependent youth. We have also funded seven high school students with week-long trips to Washington, D.C., to learn more about electric cooperatives. In 2016, we donated \$5,000 in support of the local rural school districts in our service territory and provided more than \$8,000 to local foundations such as the University of Montana-Western Foundation, the Broadwater Community Foundation and the Montana 4-H Foundation. All of these donations have come as a result of capital credits that have gone unclaimed for a period of five years. We all live in the communities we serve and strive to support them.

Accomplishments in 2016

The following are some of the accomplishments we as a board and management/staff team have accomplished in 2016:

- Refinanced approximately \$5.7 million in older United States Department of Agriculture (USDA) debt with CoBank;

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Rollee Miller
General Manager



Dean Hanson
President

VIGILANTE ELECTRIC COOPERATIVE, INC.

Vigilante Electric 2016 Financials

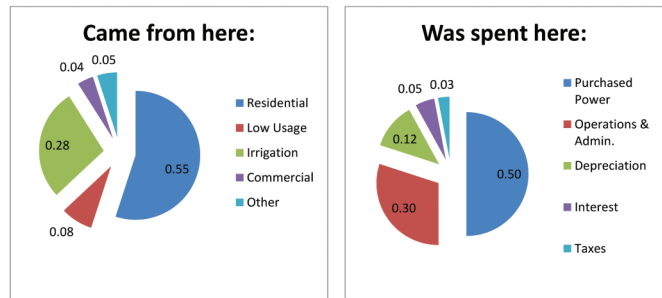
Balance Sheet

ASSETS	2016	2015
ELECTRIC PLANT:		
In Service - at cost	\$50,232,773	\$49,079,803
Construction Work in Progress	426,319	395,420
	<u>\$50,659,092</u>	<u>\$49,475,223</u>
Accumulated Depreciation	\$24,297,221	\$23,288,086
Net Utility Plant	<u>\$26,361,871</u>	<u>\$26,187,137</u>
INVESTMENTS:	\$2,235,247	\$2,207,459
CURRENT ASSETS:		
Cash - General Funds	\$185,741	\$212,304
Temporary Investments	5,220,406	6,830,335
Accounts Receivable	1,649,468	1,449,726
Materials & Supplies	1,302,288	1,299,068
Other Current & Accrued Assets	348,543	293,405
TOTAL ASSETS:	<u>\$37,303,564</u>	<u>\$38,479,434</u>
LIABILITIES		
MEMBERS EQUITIES:	\$18,858,954	\$18,377,756
LONG TERM DEBT:		
Rural Utilities Service	-\$2,507,017	\$4,434,661
Federal Financing Bank	\$9,838,039	\$9,995,381
Other - NRUFC & CoBank	\$8,382,859	\$3,068,090
	<u>\$15,713,881</u>	<u>\$17,498,132</u>
CURRENT LIABILITIES:		
Accounts Payable	\$780,682	\$756,165
Consumer Deposits	512,985	499,215
Other Current & Accrued Liabilities	1,437,062	1,348,165
TOTAL LIABILITIES:	<u>\$37,303,564</u>	<u>\$38,479,433</u>

Revenue and Expenses

	2016	2015
TOTAL OPERATING REVENUE	\$13,143,679	\$12,493,815
Nonoperating Revenues	540,065	436,528
OPERATING EXPENSES		
Power Purchased for Consumers	\$6,114,084	\$5,721,682
Operation and Maintenance	2,007,448	1,770,017
Consumer Accounting, Administration and General Operating Expenses	1,754,544	1,729,915
Depreciation of Plant	1,548,896	1,411,598
Interest on Long Term Debt	655,366	656,055
Property Taxes	428,935	393,584
TOTAL COST OF SERVICE	\$12,509,272	\$11,682,851
NET MARGIN	<u>\$1,174,472</u>	<u>\$1,247,492</u>

Your Co-op's Dollar



Operating Statistics

	2016	2015
Meters	10,059	9,953
Miles of Line	2,706	2,699
KWh Purchased	179,812,113	175,275,903
KWh Sold	165,485,502	161,311,163
Percent Line Loss	7.9%	7.9%
Members' Equity	\$18,858,954	\$18,377,756
Employees	25	25

Annual Report

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- Implemented the SmartHub App allowing members to view/monitor their accounts via their smartphone or tablet;
- Implemented the Vigilante Safety Roundup program, where members may elect to round up their accounts to the next whole dollar with the funds being placed in a separate account to be used for financial assistance to non-profit entities;
- Completed a four-year construction work plan. This process involved thoroughly analyzing the system to locate weaknesses or problem areas, and then preparing projects to mitigate or eliminate the problems. This plan is also the basis for the new long-term loans through the USDA;
- Completed the rollout of the new-and-improved website, allowing for more and better information to the members;
- Surveyed all members regarding their desire to acquire and maintain a community solar system. Work remains, and we are proceeding cautiously due to advancements in solar technology; and
- Completed numerous pole and line replacement projects. Our linemen do an excellent job of not only keeping the lights on, but also upgrading and maintaining the system.

We thank you for allowing us to serve you, the members of Vigilante Electric Cooperative. We are excited about the coming year, and the challenges it will bring. As a company we will evolve normally, but we will do our best to ensure that those evolutions continue to keep the system in the best shape possible while keeping rates as low as possible. We are very optimistic about the future of Vigilante Electric Cooperative. The management and staff are here for the sole purpose of serving you, the members, with clean, reliable and affordable power, now and into the future.

*Dean Hanson, Board President and
Rollie Miller, General Manager*

D.C. Awaits

Each year the National Rural Electric Cooperative Association hosts the Youth Tour to Washington, D.C. During this week-long event, participants from across the country tour Washington's historic treasures, visit with their state's congressional delegation and participate in youth rallies and socials. Over the years this program has evolved and grown from 400 students from 12 states in 1964, to 1,724 students and 384 chaperones from 42 states last year.

This will be the 15th year that Vigilante Electric Cooperative will send representatives to the Youth Tour. Starting on June 9th, three students from our service territory embark on a one-of-a-kind experience. We would like to congratulate Harleigh Johnson and Larkin Voss, who are currently sophomores at Beaverhead County High School, and Jasmine Hurlbert, who is a junior at Lima High School.

Selection was based on an application and a short essay. This year's topic was, "Why I should be Vigilante Electric Cooperative's Youth Tour delegate." Each participant's essay is featured below. Again, congratulations ladies, and we look forward to hearing about your adventure.

By Harleigh Johnson

When my mom came home with a stack of papers with information about the Rural Electric Cooperative's Youth Tour, I was a little skeptical. Seven days away from my busy, small-town, summer life and going right in the middle of one of the most bustling cities in America on the other side of the country sounded less than appealing. But once I picked up the packet and read through the outline of the trip, I started to get excited. Touring monuments, memorials and museums, and visiting historical landmarks; making friends and having fun — I loved the sound of that. Then I saw the mission: to reward academic achievements and leadership, educate about the role of electric cooperatives, foster students' appreciation for our government, expose students to our nation's heritage, and to build students' leadership skills so they can make a difference in their community. The last one really hit home. I want to leave a legacy in the world. I want to make a difference in my home and community that will stand solid for years. By going on this tour, I feel that I could leave an impact with all I have learned, and there is no telling where it could lead me. I am someone who loves to gain knowledge and throw myself out there for the chance of becoming the best that I can be. I know I would benefit from this trip by being exposed to the history and diversity that makes our country the best.



Harleigh Johnson

I want to join other students from the United States to partake in one of the only things we may have in common — sharing the gratitude and love for our country. While we may be thousands of miles apart, we can share the experience and soon realize that the only difference between us is the geographic location of our homes. There is so much diversity in our nation, so this is huge way I can be exposed and learn about it through the fellow students I meet and our nation's history. I feel that this would be a great opportunity to bring ideas and knowledge back to my clubs and community, and share the experiences and history that I partook in and witnessed. I will also have the opportunity to form an appreciation for our democratic government in myself and my peers, and share with them the sacrifices made for it every day in the present and past.

After this year's presidential election and campaign season, I've heard so much about politics and government that I

don't really understand. I feel that if I was to go on this tour, I would better understand political topics and standings from experiencing them firsthand and speaking with our representatives. I would also really like to see how Montana stands with laws and beliefs compared to other states and why. Talking with our representatives would create a new viewpoint on why we do things and open my eyes to things that I have overlooked in the past.

I have experienced and been involved in government on the county and state level through 4-H and Youth Legislature, but I would really love to experience it on the national level. More than a few times I have thought about getting involved in local government in the future, and this would really be the icing on the cake for my first-hand political experience. In school we are told we need to learn and memorize parts of our history and government, and it is very challenging for me. It is hard to relate some events to modern day or to a small town, but seeing where historical events happened, or the real artifacts and remains of our decisions would be indescribable. Standing there and really feeling and being in that moment would give me a new appreciation and understanding of all that has been done to get our country to the heights it has reached. Washington, D.C., is a city unlike any other and definitely different than my quiet town of Dillon, Montana. Experiencing the sights and our national heritage like this would be the chance of a lifetime.

All in all, being the Vigilante Electric Cooperative Youth Tour delegate would be an amazing, once-in-a-lifetime experience that I would treasure forever. I believe the trip would open my eyes to just how much effort and sacrifice was made to make America great, and just how our government works. I feel the trip will help me become a better leader and I will share my new knowledge with my community to make a difference.

History is being made every day in Washington, D.C., and I would love to be a part of it.

By Jasmine Hurlbert

I believe that I should represent Montana in the Youth Tour for 2017. The reason why is I'm always looking to improve myself. With that said, in 2017 I'm also running for Miss Montana Teen. To be Miss Montana you have to have a background with Montana. And I do



Jasmine Hurlbert

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D.C. Awaits

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believe that being a part of this will help me achieve my goals in life. I have gone to D.C. before with the junior high version of Close-Up. I believe that with me being so young, I didn't actually get the experience that I was hoping for. I didn't take that trip for granted, which is why I would love the opportunity to go again. My grandpa had passed away this year with prostate cancer and he was formerly in the Army. In fact he served in the Vietnam War. I would love to go to D.C. in the hopes of seeing the Veteran's Memorial. Having an opportunity to go down there will be a once-in-a-lifetime thing. Also, I like to believe I show great leadership skills. With that said, I have remained at a 3.6 if not higher grade point average for my high school career. I am in three varsity sports. I was my class president for three years and then the representative for two. I have been a part of several clubs such as BPA, yearbook, high honor roll society, Close-Up and 4-H. Also, being a part of this program will help open up many doors for me in scholarships. I would really appreciate for you to choose me to go on this Youth Tour of D.C. and you won't regret it!

By Larkin Voss

Learning is important in order to grow and expand a person's knowledge. I want to go on this trip to learn and to become a better person. Although I love where I live, and my school and community have given me many opportunities, I know I could acquire many life-learning skills in a different atmosphere. Washington, D.C., has a lot of experiences to offer that Dillon, Montana, could never teach me. In the 15 years I've been on this earth, I recognize that I still have a lot to learn.

The 2017 presidential election exposed me to politics this year. I found out I didn't really know a lot about the elections because I didn't pay attention to the last few. It really sparked an interest in me, and I wish I knew more about how our nation is run. I know this trip would provide answers to many of the political questions I have had about this election and elections in the past. Because I am young, I still haven't really chosen a political side, but I hope to learn more about how a democracy works. Since this election was very close, I did learn how important it is to vote.

I know that Washington, D.C., is very different from where I've grown up. I haven't had very much experience in other places but Montana. This trip would show me new American cultures that are different from small-town living. It would also be very rewarding to meet new people and other delegates on this trip. I would love to learn about their views and opinions compared to mine. I recognize that an important life skill is working well with people. This tour would give me an opportunity to work with people who are different than me.

Throughout the years, I've tried to do many activities and



YOUTH TOUR

projects that connect me with people and keep me in touch with my community. These activities have been valuable learning opportunities. This school year I've been very busy participating in Key Club, cross county, Speech and Drama, Eco Club, Student Council, 4-H, Art Club, FCCLA and the Lunch Buddy Program.

In Key Club this year I chaired Red Ribbon Week. It was a lot more to take on than I originally thought. Red Ribbon Week is an opportunity for the student body to show that they are drug and alcohol free. I came up with some fun dress-up days for this week. I also had to get up in front of all my classmates and talk about what Red Ribbon Week is, and how to show their commitment.

Speech and drama taught me a lot about confidence. It is always very scary performing in front of judges. I competed in Serious Solo. My piece was a challenge all season, and I never made it to final rounds. I did end up being able to compete in state speech and drama due to lack of Serious Solo competitors. It was all a great experience, but full of a lot of anxiety.

I didn't do Student Council my freshman year, but my sophomore year I had the courage to join. I like the experience Student Council gives me, and it also gives me a taste of democracy by seeing how decisions are made by voting.

This year is my eighth year of 4-H, and I've basically completed the same projects all eight years. Sewing in 4-H with my grandma has been so much fun. I enjoy making outfits with her while she tells me old stories. I know sewing is a skill I will use for the rest of my life. I also take part in market hog in 4-H. I love raising pigs with my siblings, even though we sometimes fight. It's hard to let the pigs go at the end of the summer, but it's also a relief.

FCCLA is a new club I've started this year. It is similar to Key Club, but more community based. This year I've already attended districts, and have been thinking about the projects I want to compete in for state FCCLA.

I have the same lunch buddy from my freshman year, and she has been such a pleasure to get to know. At first it seemed her friends wanted to talk to me more than she did. But after spending time and building a relationship, we both became very comfortable with each other. It's not always easy to talk to new people, and I'm grateful that I got to work on my communication skills.

It's very important for me to stay involved and volunteer for many things. I love getting to know new people and hear their stories. Over all the years I've done all these clubs and projects I've always learned something new, and with all this new knowledge I like to share it. It is important to be exposed to new situations.

Some of my hobbies are sewing, knitting, reading, and watching *Downton Abbey*. I also love to cook and bake for my family after school. They love it, too! I enjoy picking out what I want to make, and trying new things.

My community has given me many wonderful learning experiences with new people, clubs and projects. I've had some exposure to politics, but I can't wait to learn more. This trip has been on my mind since last summer, and it would be a great privilege to see our Capitol and all of its history with my own eyes, and not through pictures and a TV screen.



Larkin Voss