

POLICY 25. CAPITAL CREDITS

September 19, 2006

Amended June 21, 2010

Amended October 21, 2015

Amended May 24, 2017

I. OBJECTIVE:

The objective of this Capital Credits Policy is to state the general policy of Salmon River Electric Cooperative, Inc. for allocating and retiring capital credits.

II. POLICY:

The Cooperative shall allocate and retire capital credits in a manner that (1) is consistent with state and federal law; (2) is consistent with operating on a cooperative basis under federal tax law; (3) is fair and reasonable to the Cooperative's members and former members; (4) provides the Cooperative with sufficient equity and capital to operate effectively and efficiently; and (5) protects the Cooperative's financial condition. Subject to law, the Cooperative's articles of incorporation, and the Cooperative's bylaws, the allocation and retirement of capital credits are at the sole discretion of the Cooperative's Board of Directors.

III. EXPECTATIONS:

- A. Board Approval.** The Cooperative shall allocate and retire capital credits according to the manner, method, timing and amount approved by the Board.
- B. Patronage Earning Allocations.** Net electric operating margins as stated in that fiscal year's audited financial statements represent those dollars that ~~may~~ **shall** be allocated as patronage capital. Allocation will be based on the total dollar amount of purchases for electric service. Total dollar purchases are limited to energy, capacity and monthly access charges for electricity. **In addition, interest income derived from electric operations and patronage capital allocated from affiliated cooperatives shall be allocated as patronage capital.**
- C. General Capital Credits Retirements.** The Cooperative shall generally retire capital credits with goals of: (1) maintaining an equity level ~~between~~ **above** forty-five percent (45%) ~~and sixty percent (60%)~~ of the Cooperative's total assets; (2) retiring ~~some~~ capital credits every year ~~during the months of April and/or December~~; (3) retiring capital credits on a first-in, first-out (FIFO) basis; (4) ~~the goal of~~ retiring 5% of the SREC total capital credit account balance ~~or each year representing a~~ twenty (20) year rotation **cycle**; (5) communicating and promoting the Cooperative principles; (6) fostering loyalty and support among members and former members; and (7) maximizing public relations and political goodwill.

- D. Special Capital Credits Retirements. The Cooperative (1) may specially retire capital credits upon the death of an individual member or former member; (2) may specially retire capital credits of an individual member or former member leaving SREC's system when that member or former member's capital credit account balance is less than \$100.00 and chooses to be paid a discounted amount for capital credits, (3) shall specially retire capital credits when a member or former member has a delinquent account that is over ninety days owing and/or the account(s) has been formerly written off. The board shall retire on a discounted rate basis the member's capital credits in an amount equal to or less than the member's debt, (4) may not specially retire capital credits upon the dissolution, liquidation, or cessation of existence of an entity member; and (5) may not specially retire capital credits upon the reorganization, merger, or consolidation of an entity member.
- E. Recoupment. After retiring, and before paying capital credits allocated to a member or former member, the Cooperative may recoup, offset, or set off any amount owed to the Cooperative by the member or former member by reducing the amount of retired capital credits paid to the member or former member by the amount owed.

IV. LIMITATIONS:

- A. Forfeiture of Capital Credits. The Cooperative shall not enter contracts through which a member or former member forfeits the right to the allocation or retirement of capital credits. The Cooperative shall not require any member or former member to forfeit the right to the allocation or retirement of capital credits.
- B. Member Classes. As reasonable and fair, and as approved by the Board, the Cooperative may allocate or retire capital credits to classes of similarly situated members or former members under different manners, methods, timing and amounts, provided the Cooperative allocates and retires capital credits to similarly situated members and former members under the same manner, method, timing and amount.
- C. Notice of Allocation. Within eight and one-half (8 ½) months following a fiscal year, the Cooperative shall notify each member and former member in writing of the amount of capital credits allocation to the member for the preceding fiscal year included with a statement of their total capital credit allocation.
- D. Adverse Financial Impact. The Cooperative shall not retire any capital credits unless the Board first determines that the retirement will not adversely impact the Cooperative's financial condition.

- E. Special Retirement for Deceased. The Cooperative may specially retire capital credits upon the death of a member or former member only upon receiving a written request from the appropriate legal representative, and only under terms and conditions agreed upon by the Cooperative and the appropriate legal representative.
- F. Minimum Amount. The Cooperative shall not retire and pay capital credits in an amount less than ten dollars (\$10.00). Exception: Amounts less than \$10.00 may be paid on inactive accounts to reduce future administrative costs.
- G. Payment and Notice of Retirement. After the Cooperative retires capital credits allocated to a member, the Cooperative shall pay the retired amount by sending a check to the member's most current address listed on the Cooperative's records or crediting a member's account. The Cooperative shall pay the retired amount to a former member by sending a check to the former member's most current address listed on the Cooperative's records.
- H. Early Retirement. A member leaving SREC's system or a former member may choose to be paid a discounted price for capital credit account balances of \$100.00 or less. The discounted value will be the net present value. The member may choose to bypass the discounted rate by donating 100% of their capital credit account balance to the SREC scholarship fund.

$$\text{Net Present Value} = \frac{\text{Amount to be Retired}}{(1 + i)^n}$$

i = Interest Rate (CFC's long term variable rate)

n = Number of yrs remaining until the normal retirement would have occurred

If multiple years are to be retired, then the net present value equals the sum of each year's retirement net present value.

- I. Delinquent Account Offsets. When the board offsets delinquent accounts the following criteria shall be established: (1) the debt is for supplying electric energy to the debtor in the ordinary course of the debtor's and the Cooperative's business; (2) the Cooperative, in the ordinary course of its business and pursuant to a bylaw or policy of general application, regularly retires and offsets capital credits to members or former members owing the Cooperative past due debts; and (3) the retirement and offsetting are made according to ordinary business terms. The discounted rate shall be the net present value of the applicable capital credit account(s) value.
- J. Unclaimed Capital Credits. If a member or former member fails to claim the retired amount within seven (7) years from the retirement date, the

Cooperative shall provide notice and take any other action required by law, and may use the amount as permitted by law.

V. RESPONSIBILITY

- A. Implementation of Policy. The Cooperative's General Manager or Chief Executive Officer is responsible for implementing this Policy and for developing the practices and procedures necessary to allocate and retire capital credits according to this Policy.
- B. Recommendations to Board. The Cooperative's Manager is responsible for (1) recommending to the Board the manner, method, timing and amount for allocating and retiring capital credits; and (2) when in the best interest of the Cooperative and its members and former members, recommending to the Board revisions to this Policy.
- C. Review and Approval by Board. The Board is responsible for: (1) reviewing, discussing and evaluating the Manager's recommendations regarding the manner, method, timing and amount for allocating and retiring capital credits; (2) approving the manner, method, timing and amount for allocating and retiring capital credits; (3) reviewing, discussing, and evaluating this Policy every year; (4) reviewing, discussing, and evaluating the Manager's recommendations for revising this Policy; and (5) revising this Policy.
- D. Compliance with Policy. The Board is responsible for the Cooperative's compliance with this Policy.