POLICY BULLETIN NO. 80

SUBJECT: FINANCIAL AND EQUITY MANAGEMENT

I. OBJECTIVE:

The purpose of this Financial and Equity Management Policy is to provide guidelines and direction from the Board of Directors ("Board") to Management in order to maintain a sound financial position and provide for the security of the financial resources of the Cooperative.

The Cooperative is organized under the laws of the State of Colorado and will at all times be operated on a cooperative not-for-profit basis for the mutual benefit of its members. In addition to these legal requirements, the Cooperative is guided in its operations by regulations and operational practices prescribed by various regulatory agencies and lenders. Beyond these legal, regulatory, and lending requirements, the Cooperative has an obligation to its members to ensure the financial integrity of the Cooperative so that it can provide affordable and reliable electric service now and long into the future.

II. RESPONSIBILITIES

A. **Review and Approval by the Board.** The Board is responsible for: (1) reviewing, discussing, and evaluating the cooperative's CEO'S recommendations for the Financial Policy and Equity Management Policy; (2) approving the Policy as presented or amended; (3) reviewing and evaluating this Policy annually; (3) revising this Policy as circumstances warrant.

B. **Implementation of the Policy.** The CEO is responsible for implementing this Policy and for overseeing development of the practices and procedures necessary to maintain the financial integrity of the Cooperative.

C. **Recommendations to the Board.** The CEO is responsible for recommending revisions to this Policy to the Board as circumstances warrant.

D. **Compliance with the Policy.** The Board and CEO are responsible for assuring compliance with this Policy.

III. PLANNING DOCUMENTS

In order to maintain a sound financial position and provide for the most effective management and security of the financial resources of the Cooperative, the Board directs Management to create and/or update the following planning reports and documents ("reports"). These reports shall be created and updated on a regular basis with frequencies no less than the time frames in the table below. Note that from time to time there may be other planning reports not included below that may be necessary to meet this policy's intent.

Planning Report Description	Frequency
Load Forecast Study	Annually
Operating and Capital Expenditures Budget	Annually
Financial Forecast	2 Years
Construction Work Plan	4 Years

The Operating and Capital Expenditures Budget, Financial Forecast, and Construction Work Plan shall be reviewed and approved by the Board. The Cooperative shall use all resources at its disposal to assist in preparing the aforementioned planning reports. These resources shall include, but are not limited to:

annual independent audit; CFC Key Ratio Trend Analysis ("KRTA"); historical operating statements, balance sheets and cash flow analyses; and cost of service study.

IV. FINANCIAL GOALS AND PARAMETERS

The Board directs Management to operate the Cooperative so that its financial operating results are within the following goals and parameters as established by the Board. Cooperative management shall review these financial goals and parameters annually and recommend changes to the Board, if necessary.

A. Equity Ratio. In order to minimize the risks associated with insolvency and maintain an optimal allocation of capital costs, management shall strive to achieve a minimum distribution equity ratio between 32 to 40 percent. Distribution Equity is calculated by CFC KRTA ratio number 17 as follows:

$$\frac{\text{Total Margins and Equity} - \text{Investment in Associated Organizations Patronage Capital (Current Year)}}{\text{Total Assets and Other Debts} - \text{Investment in Associated Organizations Patronage Capital (Current Year)}}$$

In the event distribution equity drops below the approved range, Management shall establish a plan to bring distribution equity back into the approved range within five years.

B. Utility Plant Investment. Maintaining the high reliability standards that the Cooperative's members have come to expect will require annual investments in the distribution system. From time to time there will be significant utility plant investment projects that occur above and beyond routine system growth and maintenance. This policy recognizes that these investments will impact the financial position of the Cooperative.

C. Patronage Capital. The Cooperative shall allocate and retire patronage capital to members in a manner that: (1) is consistent with all legal and regulatory requirements; (2) 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; (5) is in compliance with debt covenants; and (6) protects the Cooperative's financial integrity. The Cooperative shall not retire any patronage capital until the Board first determines that the retirement will not impair the Cooperative's financial condition. Subject to applicable law, the Cooperative's Articles of Incorporation, and the Cooperative's bylaws, the allocation and retirement of patronage capital are at the sole discretion of the Cooperative's Board.

Subject to these requirements, when financial conditions allow retirement of patronage capital, Management is directed to develop patronage retirement plans or programs that (1) acknowledge the importance of annual capital credit retirements issued in the form of checks to members and former members; (2) include an allocation method that provides for retirements to current members as well as long-time members; (3) retire at least 3% of the Cooperative's cumulative unretired patronage capital each year; (4) continue efforts to retire all patronage capital as soon as prudently possible, in a manner consistent with other financial goals and objectives set forth in this policy, with a goal of retiring 5% of the Cooperative's cumulative unretired patronage capital each year.

D. **Coverage Ratios.** To meet CFC mortgage requirements, the Cooperative shall maintain a minimum **Modified Debt Service Coverage ("MDSC") (2 of 3-year high average)** of 1.35. **MDSC (2 of 3-year high average)** is defined as the average of the high two MDSC ratios of the last three years, as calculated by KRTA ratio number 11.

In addition to this mortgage requirement, the Cooperative will strive to meet the following coverage ratios:

1. **Times Interest Earned Ratio ("TIER") (2 of 3-year high average)** of 1.25. **TIER (2 of 3-year high average)** is defined as the average of the high two TIER ratios of the last three years, as calculated by KRTA ratio number 7.
2. **Operating Times Interest Earned Ratio ("OTIER") (2 of 3-year high average)** of 1.1. **OTIER (2 of 3-year high average)** is defined as the average of the high two OTIER ratios of the last three years, as calculated by KRTA ratio number 9.
3. **Debt Service Coverage ("DSC") (2 of 3-year high average)** of 1.25. **DSC (2 of 3-year high average)** is defined as the average of the high two DSC ratios of the last three years, as calculated by KRTA ratio number 13.

E. **Short Term Debt.** The Cooperative shall maintain one or more lines-of-credit for short-term operating purposes, interim or bridge financing, and/or to support emergency capital and operating needs of storm or fire recovery efforts. The cumulative amount of all lines-of-credit shall not exceed $10 million.

F. **Cost of Service Study.** The Cooperative's mission calls for it to keep rates as low as practicable, recognizing that operating requirements will from time to time require rate increases. Management and the Board shall strive to maintain a fair, equitable and risk-rated balance between the collection of revenue and incurring of expenses between all revenue classes. To achieve this balance, the Board will consider, at least once every four years, whether completion of an industry accepted cost-of-service study is necessary.

V. CONFLICTS WITH FINANCIAL GOALS

If the financial goals in this policy conflict with each other to such a degree that the financial forecast cannot reasonably achieve all of them at the same time, management shall communicate the conflict(s) to the Board. The Board shall, with Management's guidance, discuss and resolve these conflicts.

VI. RATE POLICIES

Management shall recommend to the Board retail electric rates and rate adjustments necessary to meet the financial goals and objectives established in this policy.

Date Adopted: October 14, 1959
Date Reviews: March 15, 1989
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Date Revised: February 18, 2009
Date Revised: August 16, 2017
Date Revised: December 19, 2018
Date Reviewed: October 20, 2021

ATTEST: Jesse Mease
Secretary

Date Reviewed: October 19, 2022