

# Eastern Iowa Light & Power Cooperative

## BOARD POLICY

SUBJECT: Capital Credit

OBJECTIVE: The objective of this Capital Credit Policy ("Policy") is to state the general policy of Eastern Iowa Light and Power Cooperative ("Cooperative") for allocating and retiring capital credits.

### 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 patrons and former patrons; (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 ("board").

### 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. For each good or service provided by the Cooperative on a Cooperative basis during a fiscal year, the Cooperative shall equitably allocate to each patron, in proportion to the quantity or value of the good or service purchased by the patron during the fiscal year, the Cooperative's patronage earnings from providing the good or service during the fiscal year. The Cooperative, however, may retain for necessary purposes, without allocation, patronage earnings to meet the reasonable future needs of providing the good or service, but the Cooperative shall keep records necessary to determine, at any time, the rights and interests of each patron and former patron in the retained patronage earnings.
- C. Patronage Loss Allocations. For each good or service provided by the Cooperative on a Cooperative basis, the Cooperative shall offset patronage losses with the Cooperative's patronage earnings from providing the good or service during the most recent past fiscal year(s) or the next succeeding future fiscal year(s).
- D. Nonpatronage Earning Allocations. As approved by the Board, the Cooperative may use, retain, or equitably allocate the Cooperative's nonpatronage earnings.
- E. Nonpatronage Loss Allocations. The Cooperative shall offset nonpatronage losses with the Cooperative's nonpatronage earnings during previous fiscal years.

- F. General Capital Credit Retirements. The Cooperative shall generally retire capital credits with the goals of: (1) maintaining an equity level of at least thirty percent (30%) of the Cooperative's total assets; (2) retiring some capital credits every year at or prior to the Annual Meeting; (3) retiring capital credits on a first-in, first-out and last-in, last-out hybrid basis; (4) retiring capital credits between fifteen (15) and twenty (20) years after their allocation; (5) communicating and promoting the Cooperative principles; (6) fostering loyalty and support among patrons and former patrons; and (7) maximizing public relations and political goodwill.
- G. Special Capital Credit Retirements. The Cooperative: (1) may specially retire capital credits upon the death of an individual patron or former patron; (2) may not specially retire capital credits upon the dissolution, liquidation, or cessation of existence of an entity patron or former patron; (3) may not specially retire capital credits upon the reorganization, merger, or consolidation of an entity patron or former patron; (4) may not specially retire capital credits upon a patron or former patron reaching a certain age; (5) may not specially retire capital credits upon a patron becoming a former patron; (6) may specially retire capital credits upon a patron failing to pay an amount owed to the Cooperative; and (7) may specially retire capital credits upon a former patron failing to pay an amount owed to the Cooperative.
- H. Discounted General Capital Credit Retirements. As agreed, upon by the Cooperative and a patron or former patron, the Cooperative may generally retire capital credits before the time the Cooperative anticipates normally retiring the capital credits and pay the discounted, net present value of the capital credits.
- I. Discounted Special Capital Credit Retirements. For capital credits specially retired before the time the Cooperative anticipated normally retiring the capital credits, as agreed upon by the Cooperative and a patron or former patron, the Cooperative may pay the discounted, net present value of the capital credits.
- J. Recoupment. After retiring, and before paying, capital credits allocated to a patron or former patron, the Cooperative shall recoup, offset, or setoff any amount owed to the Cooperative by the patron or former patron by reducing the amount of retired capital credits paid to the patron or former patron by the amount owed.

#### LIMITATIONS:

- A. Forfeiture of Capital Credits. The Cooperative shall not enter contracts through which a patron or former patron forfeits the right to the allocation or retirement of capital credits. The Cooperative shall not require any patron or former patron to forfeit the right to the allocation or retirement of capital credits.
- B. Patron Classes. As reasonable and fair, and as approved by the board, the Cooperative may allocate or retire capital credits to classes of similarly situated patrons or former patrons under different manners, methods, timing, and amounts, provided the Cooperative allocates and retires capital credits to similarly situated patrons and former patrons under the same manner, method, timing, and amount.

- C. **Separate Allocations and Retirements.** The Cooperative shall separately identify and allocate to the Cooperative's patrons capital credits and similar amounts allocated to the Cooperative by an entity in which the Cooperative is a member, patron, or owner. The Cooperative may retire these separately identified and allocated capital credits before or after the entity retires and pays the amounts to the Cooperative.
- D. **Notice of Allocation.** Within eight and one-half (8 ½) months following a fiscal year, the Cooperative shall notify each patron in writing of the amount of capital credits allocated to the patron for the preceding fiscal year through a written notice stating the dollar amount allocated.
- E. **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.
- F. **Request and Agreement for Special Retirement.** The Cooperative may specially retire capital credits upon the death, dissolution, liquidation, cessation of existence, reorganization, merger, or consolidation of a patron or former patron 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.
- G. **Discount Rate.** If the Cooperative retires capital credits before the time the Cooperative anticipates normally retiring the capital credits and pays the discounted, net present value of the capital credits, then the Cooperative shall use a discount rate equaling the rate paid on average of five banking institutions on a five (5) year CD rate.
- H. **Minimum Amount.** The Cooperative shall not retire and pay capital credits in an amount less than five dollars (\$20.00), unless the retirement and payment are for all remaining capital credits allocated to a former patron.
- I. **Payment and Notice of Retirement.** After the Cooperative retires capital credits allocated to a patron, the Cooperative shall pay the retired amount by crediting the amount on the patron's next bill. After the Cooperative retires capital credits allocated to a former patron, the Cooperative shall pay the retired amount by sending a check for the amount to the former patron's most current address listed on the Cooperative's records.
- J. **Unclaimed Capital Credits.** If a patron or former patron fails to claim a retired capital credit amount within one (1) year, then the Cooperative shall notify patrons or former patrons via the Cooperative Treasure Hunt. If a patron or former patron fails to claim the retired amount within one (1) year, then the Cooperative shall provide notice and take action required by law and may use the amount as permitted by law.

#### RESPONSIBILITY:

- A. **Implementation of Policy.** The CEO 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 CEO 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 patrons and former patrons, 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 CEO'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 CEO'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.

ADOPTED BY THE BOARD OF DIRECTORS ON FEBRUARY 24, 2022.

REVIEWED BY THE BOARD OF DIRECTORS ON JULY 1, 2022.