

POLICY

SUBJECT: Financial Goals and Objectives

DEFINITIONS: Capital Rotation Cycle: The elapsed time between capital credits being allocated to a member and those same capital credits being retired to the member. Capital credits are allocated to a member each year based on the member's pro rata share of year-end margin, as determined by the member's dollars of patronage divided by the sum of all members' dollars of patronage. Capital credits are retired to a member by paying those capital credits to the member in the form of a check or bill credit.

Equity Ratio: Ratio of member equity to total assets of the Cooperative where member equity consists of unretired capital credits and permanent equity. Permanent equity is created when allocated capital credits are discounted and paid out pursuant to special retirements (non-cycle events), as in the case of the death of a member.

Formulary Rate: Retail electricity rate paid by members for kWh purchased from the Cooperative; guided by a revenue requirement formula based on the Cooperative's financial goals and objectives

TIER: Times Interest Earned Ratio as defined in the Code of Federal Regulations (7CFR 1710.2)

OTIER: Operating Times Interest Earned Ratio as defined in the Code of Federal Regulations (7CFR 1710.2)

DSC: Debt Service Coverage Ratio as defined in the Code of Federal Regulations (7CFR 1710.2)

ODSC: Operating Debt Service Coverage Ratio as defined in the Code of Federal Regulations (7CFR 1710.2)

MDSC: Modified Debt Service Coverage Ratio as defined by the National Rural Utility Service Cooperative Finance Corporation; a measurement of the Cooperative's ability to generate sufficient operating funds to cover its cash requirement.

POLICY: It shall be the policy of the Cooperative to develop and maintain a prioritized list of financial goals and objectives, which shall include the following:



Financial Goals and Objectives

1. Maintain compliance with all loan covenants and bylaws every year
 - a. TIER > 1.25
 - b. OTIER > 1.10
 - c. DSC > 1.25
 - d. ODSC > 1.10
 - e. MDSC > 1.35
 - f. Per Bylaws, Equity Ratio >30%
2. Use formulary rate design to maintain competitive rates, by
 - a. conducting a full cost of service study as warranted by market conditions, but on not less than a five year cycle;
 - b. considering all Cooperative financial goals and objectives; and
 - c. engaging the board of directors in the rate setting process.
3. Pursue 37% Equity Ratio target by 12/31/2020
4. Develop a \$500k capital facilities cash reserve fund by 12/31/2020
5. Annual capital credit retirement:
 - a. Objective not to exceed 30-year Capital Rotation Cycle

PROCEDURE: The financial goals and objectives shall be reviewed at least three times each year by the Finance Committee, a subcommittee of the Cooperative's board of directors. The Finance Committee shall recommend changes, as they deem appropriate, to the full board of directors. The full board of directors may approve the recommendations, approve the recommendations with amendments by the board, or reject the recommendations. The current version of the financial goals and objectives at any given time shall be communicated to the membership and staff of the Cooperative by posting on the Cooperative's website.

RESPONSIBILITY: The board of directors and its Finance Committee is responsible for regularly reviewing and updating the financial goals and objectives. The General Manager is responsible for aligning the financial decisions of management and staff of the Cooperative with the version of the financial goals and objectives in effect at any given time.

DELAWARE COUNTY ELECTRIC COOPERATIVE, INC.

Approved by Board of Directors* Nov 27, 2012

Revised by Board of Directors Oct 25, 2016

*The November 27, 2012 version of the financial goals and objectives was created in the form of a board resolution, which has now been converted to this policy.
