

ALFALFA ELECTRIC COOPERATIVE, INC.
Cherokee, Oklahoma

POLICY NO. 604

CAPITAL CREDITS

I. OBJECTIVE

To provide a methodology to comply with Article VII, Section 2 of the Bylaws, that will provide for allocation, transfer and payment of the Capital Credits of the Cooperative.

II. POLICY CONTENT

The Cooperative will use the following guidelines for the allocation, transfer and distribution for all amounts received and receivable from the furnishing of electric energy in excess of the operating costs and expense properly chargeable against the furnishing of electric energy.

III. PROVISIONS

A. Definitions

1. "Patron" shall mean any person, firm, association, cooperative, corporation, trustees, any body politic or subdivision thereof, or any other recognized legal entity who may or may not be a member of the Cooperative, but has received and paid for electric energy furnished by the Cooperative, during any fiscal year.
2. DSC – Debt Service Coverage
3. "Equity Ratio" - Equity to total capitalization

B. Spreading of Capital Credits

At the end of each fiscal year, the margins of the Cooperative will be spread to the individual patron's ledger account based upon their contribution to total revenue. In the event that the individual rate classification's contributions to margins become substantially uneven, then capital credits will be spread to the individual patron's ledger accounts based on the patron's total revenue and the margins for their rate classifications.

C. General Repayment of Capital Credits

At the close of each fiscal year and in accordance with the Cooperative Bylaws, the Cooperative will make annual repayments of capital credits provided:

1. The Board of Trustees determines that the financial condition of the Cooperative will not be impaired, and that satisfactory progress is being made toward the Cooperative's Equity Management goals as set forth below.

2. The Cooperative's Equity Management goal shall be to operate with annual revenue and expense levels so as to:
 - a. maintain a DSC ratio of 1.35 or better,
 - b. maintain an Equity Ratio at or above a forty percent level,
 - c. maintain a rate of return on the rate base equal to or greater than the minimum required to achieve the DSC goal and the Equity Ratio goal,
 - d. and to strive to maintain a twenty year rotation cycle of its capital credits.

3. The payment of general and special refunds of capital credits will be authorized annually by the Board of Trustees, and
 - a. will be in total amounts not to exceed twenty-five percent (25%) of the prior year's margin until the actual Equity Ratio is in excess of forty-five percent (45%),
 - b. will be in such larger amounts as approved by the Board of Trustees provided that the Cooperative is achieving its goals,
 - c. and payments to the estates of deceased members made ahead of schedule will be discounted to present value.
 - d. The discretionary powers of such repayment shall remain with the Board of Trustees as stated in the Bylaws and this policy shall not diminish this right.

D. Transfer of Capital Credits

1. From time to time, patrons request the transfer of capital credits in the Cooperative to a trust, from a past member to a current member or from an entity to another member or non-member by name. In order to facilitate such transfers, it will be the policy of the Board of Trustees of Alfalfa Electric Cooperative, Inc. to allow the patrons to transfer their capital credits within the following guidelines:
 - a. All requests for assignment of existing or future capital credits must be made in writing to the General Manager of Alfalfa Electric Cooperative, Inc.
 - b. The aforementioned written request must be signed by the patron and, in the case of a joint account, must be signed by both husband and wife.
 - c. In the transfer to a "Trust", the membership account of the patron will be transferred into the name of the trustees for the trust, i.e. John Doe and Jane Doe, trustees of the John Doe Trust. The member shall be required to complete and return to the cooperative form "AFFIDAVIT A" that is attached to this policy.

- d. In the transfer from a past member to a current member, the past member shall be required to complete and return to the cooperative form "AFFIDAVIT B" that is attached to this policy.
- e. In the transfer from an entity to another member or non-member by name, the entity shall be required to complete and return to the cooperative form "AFFIDAVIT C" that is attached to this policy.

E. Payment of Capital Credits in the Event of the Death of the Patron

- 1. In the event of the death of a patron, who is a natural person, where the membership is issued to the patron and his/her spouse as joint tenants, the credit will be transferred to the name of the surviving spouse.
- 2. Upon the death of a patron, any capital credits accrued shall be paid to the duly appointed administrator or executor of the estate upon furnishing to the office of the Cooperative a certified copy of the Court Order of making such appointment and showing that the Letters are still in full force and effect. Payment shall then be made to the duly appointed administrator or executor.
- 3. In the event that the patron leaves no estate and no administrator is to be appointed, the accrued capital credits may be paid to the heirs-at-law of the deceased upon the following documents being filed with the Cooperative:
 - a. An affidavit by some person familiar with the facts that the patron is deceased; that no probate of his estate has been instituted, nor will such probate be instituted; that all claims, including funeral expense and expenses of last sickness of deceased, have been paid in full; and the names and relationship of all the heirs-at-law of the deceased patron.
- 4. In the event a patron is deceased and the probate of his estate has already been completed and closed, capital credits can then be paid pursuant to the decree of distribution of personal property made in his estate, and certified copy of such decree shall be filed with the Secretary of the Cooperative.
- 5. In the event of a death of a patron, who is a natural person, where the membership is issued to the patron and/or another as trustees of a revocable trust, the credit will remain in the name of the surviving trustee or if it is an individual membership, payment shall be made to the successor trustee pursuant to the request of said successor trustee; provided that the Cooperative is supplied with a memorandum of trust or the actual trust which shows said successor trustees' authority.
- 6. In the event payment is to be made pursuant to paragraphs VI B-E inclusive and the amount to be paid is in excess of \$2,500.00, the Cooperative shall be supplied with a copy of any estate tax returns filed and the releases obtained as a result thereof.

7. The payment of Capital Credits to deceased estates shall only be made on present value basis using a seven percent (7%) interest rate with a 20-year period for rotation of Capital in the Capital Credit Computation for present value.

IV. RESPONSIBILITY

- A. The Board of Trustees is responsible for the adoption, review and alteration of this policy.
- B. The Management is responsible to the Board of Trustees for the execution of this policy.

Attested: s/ Dennis Ferrell
Secretary

Previous Revision Date: 9-27-11
Revised Effective Date: 6-22-12

AFFIDAVIT A, Trusts

STATE OF _____

COUNTY OF _____ ss:

KNOW ALL MEN BY THESE PRESENTS:

I, _____, of lawful age, being duly sworn under oath, state as follows:

That I, _____, am a member of Alfalfa Electric Cooperative, Inc.

Affiant further states that he/she wishes to transfer all of the Alfalfa Electric Cooperative, Inc. and Western Farmers Electric Cooperative Capital Credits held in his/her name to the following trust:

Further affiant saith not.

Affiant Signature

Subscribed and sworn to before me this _____ day of _____, 20____.

NOTARY PUBLIC

(SEAL)

My commission expires: _____

AFFIDAVIT B, NON-MEMBER TO MEMBER

STATE OF _____

COUNTY OF _____ ss:

KNOW ALL MEN BY THESE PRESENTS:

I, _____, of lawful age, being duly sworn under oath, state as follows:

That I, _____, amno longer a member of Alfalfa Electric Cooperative, Inc.

Affiant further states that he/she wishes to transfer all of the Alfalfa Electric Cooperative, Inc. and Western Farmers Electric Cooperative Capital Credits held in his/her name to the following:

Further affiant saith not.

Affiant Signature

Subscribed and sworn to before me this _____ day of _____, 20____.

NOTARY PUBLIC

(SEAL)

My commission expires: _____

AFFIDAVIT C, ENTITY

STATE OF _____)
COUNTY OF _____)ss:

KNOW ALL MEN BY THESE PRESENTS:

I, _____ (“Affiant”), of lawful age and after being duly sworn under oath, state as follows:

I am the (check one)

- Sole proprietor of an entity doing business as _____
Entity name
 - General partner of a partnership known as _____
Entity name
 - President of a corporation known as _____
Entity name
 - Vice President of a corporation known as _____
Entity name
 - Manger of a limited liability company known as _____
Entity name
 - Sole member of a limited liability company known as _____
Entity name
- (“the Entity”).

The Entity desires to cease being a member of Alfalfa Electric Cooperative, Inc. (“the Cooperative”) and the Entity does by these presents transfer all of the Capital Credits of the Entity in and to Alfalfa Electric Cooperative, Inc. and Western Farmers Electric Cooperative to _____ (“Transferee”).
Transferee name

In consideration of the Cooperative’s acceptance of such transfer Affiant, on his/her behalf and on behalf of the Entity, agrees to indemnify the Cooperative from any and all claims and hold the Cooperative harmless from any and all damages resulting from such transfer, including attorney’s fees and costs incurred in defense thereof. Affiant and Entity’s liability for indemnification pursuant to this paragraph shall be joint and several and the Cooperative is granted a lien against such Capital Credits to secure Affiant and/or Entity’s payment of such damages, attorney’s fees and costs. In conjunction therewith, in the event the Cooperative receives a claim for such Capital Credits subsequent hereto that is adverse to the interest of Transferee in such Capital Credits, the Cooperative may withhold distribution of such Capital Credits until such dispute is resolved to the satisfaction of the Cooperative in its sole discretion.

Affiant Signature _____

Subscribed and sworn to before me this _____ day of _____, 20__.

Commission Exp.: _____ Notary Public