



POLICY

SUBJECT: Financial Goals and Objectives

DEFINITIONS: Capital Credit Allocation: The process by which the electric margin is credited to the capital credit account of each member in proportion to each member's contribution to the electric revenues of the Cooperative for the year. A member's capital credits represent that member's ownership interest in the Cooperative. The Cooperative's annual electric margin is the amount by which electric revenues exceed the cost to provide electric service. Electric margins are treated as capital furnished by the members.

Capital Credit Retirement: The process by which capital previously allocated to members (see Capital Credit Allocation above) is returned to members in the form of cash, check, or bill credit. The timing and amount of Capital Credit Retirements are at the discretion of the board of directors in accordance with New York State Rural Electric Cooperative Law and the Cooperative's Bylaws.

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 on an annual basis based on the member's proportionate share of year-end margins, as determined by the revenue from each member divided by the Cooperative's total revenue. 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. Additional permanent equity is created after inactive members cannot be located for purposes of capital credit retirements and after appropriate measures are taken by the Cooperative to find these "lost members" in accordance with the Cooperative's bylaws.

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; current requirements are
 - 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 with the time period between full cost of service studies not to exceed 5 years;
 - b. considering all Cooperative financial goals and objectives; and
 - c. engaging the board of directors in the rate setting process.
 3. Maintain an Equity Ratio target range of 35% - 40%
 4. Annual capital credit retirement:
 - a. Objective not to exceed 30-year Capital Rotation Cycle such that the Capital Rotation Cycle does not exceed the average life of utility plant assets.
 5. Manage cash responsibly
 - a. To the extent practical, keep sufficient liquid cash on hand to handle the expected cash expenditures for 30 days. As used within this financial goal/objective number 6(a), the term “on hand” shall mean available for withdrawal without penalty and without risk of loss of principal.
 - b. When additional cash is available, invest cash in a safe manner that balances the opportunity to earn interest against the desire to have timely access to the funds.
-



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 are responsible for regularly reviewing and updating the financial goals and objectives. The CEO/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
Revised by Board of Directors	Dec 18, 2018
Revised by Board of Directors	Nov 23, 2021

*The November 27, 2012 version of the financial goals and objectives was created in the form of a board resolution, which was converted to this policy on October 25, 2016.
