Date Adopted: 01/18/94
Date Revised: 11/15/16
Date Reviewed: 11/15/16

POLICY BULLETIN NO. 112

SUBJECT:

Equity Management

OBJECTIVE:

1. To maintain the financial integrity of LYREC at all times so that it can be certain of providing high quality electric service on a continuing basis to its members.

2. To establish means whereby the members of LYREC will receive electric service at cost, and as a result, enable them to appreciate the benefits of receiving service from their cooperative versus a private utility.

3. To develop an approach of long-range financial planning that will guide and assure the cooperative of meeting its financial requirements through equity and margin development and maintenance; and at the same time, maintain rates competitive with the rates of other energy suppliers adjacent to the cooperative's service area, including the following:

    a. Provide adequate working capital and cash reserves.

    b. Provide adequate funds for debt retirement.

    c. Provide adequate funds to maintain all facilities at the highest operational level consistent with sound economic practices.

    d. Provide adequate funds for additions to plant.

    e. Provide adequate funds for a meaningful capital credits retirement program.

    f. Achieve and maintain sufficiently high TIER (Times Interest Earned Ratio) and DSC (Debt Service Coverage) ratios as are necessary to remain eligible to obtain loans from National Rural Utilities Cooperative Finance Corporation, National Bank for Cooperatives (CoBank), and the Rural Utilities Service.

GOALS:

1. Each year the ratio of equity to borrowed capital will (a) be examined to determine that a reasonable ratio between the two is maintained, and (b) be re-evaluated for any change required to achieve overall financial objectives.

2. Attempt to maintain capital credit retirement of 20-year cycle, if the Board of Trustees concludes that the financial condition of the cooperative will not be impaired thereby and using a payment method determined by the board.

3. To continue to retire capital credits to estates of deceased members in accordance with the Bylaws.

4. Maintain at least a 1.55 TIER. Retail rates will be reviewed and revised as needed.

5. To make a financial study at least annually, comparing the actual financial performance against the Equity Management Plan. This review will serve as a basis for a revised Equity Management Plan for the subsequent year (s) which would also include a 10-year financial forecast, plans for general retirement of capital credits, any changes in electric rates or other financial criteria.

6. System maintenance programs, maintenance of system integrity, and member end use requirements will be given priority over financial objectives.

PROCEDURE:

In the development of this policy, the Trustees recognize that there are a number of variables that interact together which result in a financial condition. These variables are:

1. Rate of electric plant growth.
2. Cost of debt capital.
3. Equity levels.
4. TIER (Times Interest Earned Ratio).
5. Capital credit rotation cycle.
6. Retail rates.

RESPONSIBILITY:

Board of Trustees and Management.