

 <b>Oakdale Electric Cooperative</b>		<b>Board Policy</b>
Policy Name: <b>Financial Management</b>		<b>Policy No: 2.01</b>
Last Reviewed/Revised: <b>03-03-2025</b>		<b>Page 1 of 8</b>

## ***OBJECTIVE***

The purpose of the Financial Policy is to provide guidelines and direction from the Board of Directors (hereinafter “Board”) to Management in order to maintain a sound financial position and provide for the security of the financial resources of the Cooperative.

## ***POLICY***

The Cooperative is organized under the laws of the State of Wisconsin and will at all times be operated on a cooperative not-for-profit basis for the mutual benefit of its Members. In addition to these legal requirements, the Cooperative is guided in its operations by regulations and operational practices prescribed by various regulatory bodies and/or lender(s). Beyond these legal, regulatory, and lending requirements, the Cooperative has an obligation to its members to ensure the financial integrity of the Cooperative so that it can provide high quality electric service at the lowest possible long-term cost consistent with prudent business practices not only for today, but long into the future.

## ***PROCEDURE***

In order to maintain a sound financial position and provide for the most effective management and security of the financial resources of the Cooperative, the Board directs the General Manager & CEO to create and/or update or see to the creation and/or updating of the following planning reports and documents (hereinafter “reports”) and adhere to the Financial Goals and Parameters identified below. These reports shall be created/updated on a regular basis with frequencies no less than the time frames in the table below. All reports shall be reviewed and approved by the Board. Note that from time to time there may be other planning reports not included below that may be necessary to meet this policy’s intent.

## ***Planning Documents***

Planning Report Description*	To Be Created/Updated with frequencies no less than the following*
Wholesale Power Contract	<i>As Necessary</i>
Load Forecast Study	2 Years – Completed by DPC
Power Delivery Plan (10 Years)	5 Years
Technology Work Plan	<i>Annually</i>
Cooperative Strategic Plan	3-4 Years
10 Year Financial Forecast	<i>Annually</i>
Capital/Construction Budget	<i>Annually</i>
Operating Budget	<i>Annually</i>

\*Note: The above planning reports and time periods may be changed as recommended by the GM and approved by the Board

The Cooperative shall use all resources at its disposal to assist in preparing the aforementioned planning reports. These resources shall include but are not limited to annual independent audit; CFC Key Ratio Trend Analysis (KRTA); historical operating statements, balance sheets, and cash flow analyses; and cost of service/rate studies.

### ***Financial Goals and Parameters***

The Board directs Management to operate the Cooperative so that its financial operating results are within the following goals and parameters as established by the Board. Cooperative management shall review these financial goals and parameters annually and recommend changes to the Board, if necessary.

In order to minimize insolvency risk and maintain an optimal cost of capital, management shall strive to achieve the following ratio(s):

#### **Equity Ratio**

The Cooperative will strive to maintain an equity ratio between 40% and 50%. Equity ratio is defined as Total Margins & Equity divided by Total Assets & Other Debits, as calculated by KRTA ratio #16.

#### **Coverage Ratios**

In accordance with the mortgage requirements of *NRUCFC*, the Cooperative shall maintain a minimum modified debt service coverage (MDSC) (2 of 3-year high average) of 1.35. MDSC (2 of 3-year high average) is defined as the average of the high two MDSC ratios of the last three years, as calculated by KRTA ratio #11.

The Cooperative shall maintain a minimum TIER of 1.1. TIER is defined as ratio that measures the Cooperative's ability to generate sufficient earnings from electric operations to pay the interest on its long-term debt, as calculated by KRTA #8.

#### **Patronage Capital**

The Cooperative shall allocate and retire patronage capital dividends in a manner that: (1) is consistent with all legal and regulatory requirements; (2) is consistent with operating on a cooperative basis under federal tax law; (3) is fair and reasonable to the Cooperative's members and former members; (4) provides the Cooperative with sufficient equity and capital to operate effectively and efficiently; (5) is in compliance with debt covenants; and (6) protects the Cooperative's financial integrity. The Cooperative shall not retire any patronage dividends until the Board first determines that the retirement will not adversely impact the Cooperative's financial condition. Subject to applicable law, the Cooperative's Articles of Incorporation, and the Cooperative's Bylaws, the allocation and retirement of patronage dividends are at the sole discretion of the Cooperative's Board.

Refer to Board Policy #2.02 regarding specific allocation and retirement guidelines for patronage capital dividends.

The Board of Directors shall annually approve the discount rate for determining the present value of deceased member's patronage capital, at a rate to be set based on recommendations of the auditors.

Table A (included in this policy) represents the amount of discount applied to the corresponding year in which the patronage capital was accumulated.

### **Short-Term Debt**

- The Cooperative shall maintain lines-of-credit for short-term operating purposes in an amount not to exceed \$ 2,000,000.
- The GM & CEO shall consider and discuss establishing a line-of-credit for interim or bridge financing with the board on a case-by-case basis.
- The GM & CEO is authorized to establish emergency lines-of-credit as necessary to support the capital and operating needs of storm recovery efforts.

### **Capitalization vs Expensing**

Generally, any purchased item that is over \$2,000 in value is capitalized. The Finance Director, along with the General Manager & CEO, will review the item to determine what it is, and what it will be used for to ensure that capitalization of the item is appropriate.

### **Long-Term Debt – Variable and Fixed**

The aggregate amount of all loans drawn and available to be drawn by the Cooperative shall not exceed the maximum debt limit established by the Board as contained in the Cooperative's mortgage documents.

### **Debt Portfolio Management**

#### **Commitment to Debt Portfolio Management**

The Board will periodically guide management of choices among equity, debt, and other forms of financing and selection of the interest-rate modes, principal amortization, and other features of its debt portfolio.

#### **Foundations of the Cooperative's Debt Portfolio Management**

The cooperative's management of its debt portfolio shall be based upon consideration of its:

1. Present debt portfolio structure including mix of variable- and fixed-rate interest modes, interest rate adjustment periods, covenant requirements, and other features.
2. Forecast future needs for capital, including both debt and equity for utility plant, diversified business ventures, community and economic development, and such other uses as the board may recognize from time to time.
3. Current and prospective business conditions that may have an impact on the availability and cost of alternative forms of financing.
4. Diligent analysis of risks and rewards of allowing debt interest rates to vary or be fixed.

#### **Policy Implementation Guidance**

The cooperative shall develop and implement debt portfolio management, generally as follows:

1. Staff will be assigned to maintain understanding of capital markets and interest rate trends, regularly update forecasts of the cooperative's capital needs, operate financial models, and keep documentation of alternative debt sources current.

2. The cooperative's debt portfolio will be monitored to identify and execute savings opportunities from conversions between interest rate modes.
3. The board will provide periodic guidance regarding its financing cost reduction goals, risk tolerance, rate conversion trigger points, and cost-recovery-period guidelines.
4. The board will provide periodic guidance specifying target percentages for various loan types.
  - Variable Notes - Line of Credit and Long-Term Variable
    - Debt exposed to variable rates will not exceed 20% of the overall debt portfolio, excluding emergency lines of credit.
  - Fixed Notes – Long-Term Fixed
5. Management shall report to the board the status of the debt portfolio on a regular basis. The reports will include:
  - Long-Term Debt Schedule - CFC
  - Schedule of long-term debt subject to re-pricing on an annual basis
  - Current variable interest rates

### **Monitoring and Correction of Debt Portfolio Management**

Management shall be held accountable for achievement of the cooperative's debt cost reduction and availability objectives and will routinely report to this board regarding progress objectives as well as opportunities to improve the cooperative's plans and this policy.

### **Cost of Service Study**

Management and Board shall strive to maintain a fair, equitable, and risk rated balance between the collection of revenue and incurring of expenses between all revenue classes. This balance shall be determined through completion of an industry accepted cost-of-service study, completed on a regular basis, but no less frequently than once every four to seven years.

### **Investment policy - General Funds and Other Liquid Assets**

Optimal management of electric cooperatives includes the fiduciary responsibility of selecting appropriate investments for general funds and other liquid assets. Typically, these investments are of low risk and high liquidity in order to ensure payment of current liabilities as they become due.

### **Investment of Restricted Funds**

The Cooperative may be entrusted with funds that must remain segregated from general funds and there are special restrictions as to how they may be invested. This category includes, but is not restricted in the future to the following:

- REDLG fund

### **Depreciation Rates**

Depreciation rates by primary accounts for the cooperative's transmission, distribution, and general plant facilities, are established according to general accounting principles.

Depreciation accounting practices shall be reviewed by the Board of Directors from time to time in order that depreciation rates may be altered where necessary to give effect to justifiable changes in estimates of service life and net salvage.

See Table B for details.

## **Accumulated Provision for Uncollectible Accounts and Charge Off of Uncollectible Accounts**

1. The Cooperative will establish adequate uncollectible reserves for accounts receivable based on the collectivity as well as the potential loss involved.
2. Provision for uncollectible accounts shall be made as follows:
  - A. Customers' Accounts Receivable - Electric
    - i. **\$ 1,000.00 per month**
  - B. Non-electric allowance
    - i. **\$500.00 per month**
3. Each month at the board meeting a list of accounts shall be submitted to the Board of Directors for approval to be written off as uncollectible.
4. The adequacy of the reserve shall be reviewed on an annual basis with the Board of Directors each year in order that accruals may be altered when necessary.

### ***Financial Forecasting***

Management shall create financial forecasts including: An Annual Budget and a 10-year financial forecast, further described below. The forecasts shall use the planning documents and incorporate the financial goals stated herein.

#### **Annual Budget/Work Plan**

Based on the planning documents and the financial goals, management shall prepare or cause to be prepared an annual budget. The Annual Capital budget and work plan shall be prepared for the ensuing calendar year and shall be presented to the Board for their approval no later than December each year.

The budget/work plan shall include, at a minimum, the following sections:

- Assumptions used to prepare the budget
- Each department head will include their departmental project summary with associated costs for the coming year.
- Statement of operations
- Balance sheet
- Cash flow statement
- Capital Expenditures (Distribution and General Plant)

#### **10-year Financial Forecast**

Based on the planning documents and the financial goals identified above, management shall prepare, or cause to be prepared, a 10-year financial forecast. The first forecast year will contain estimated financial data for the remainder of the current year. The second financial year will be the financial data from the annual budget. A summary of the financial forecast shall be reported to the Board.

A summary of assumptions shall be included along with the 10-year financial forecast.

**Conflicts with Financial Goals**

If the financial goals above conflict with each other to such a degree that the financial forecast cannot reasonably achieve all of them at the same time, management shall communicate the conflict(s) to the Board. The Board shall, with Management's guidance, discuss and resolve these conflicts.

**Rate Policies/Philosophy**

Management shall recommend to the Board retail electric rates as recommended or amended to meet the aforementioned financial goals established by the Board per Board Policy #7.01 Electric Retail Rates. The rates may include a power cost factor adjustment designed to automatically adjust revenues based on changes in the Cooperative's wholesale power cost.

## **RESPONSIBILITY:**

**Review and Approval by the Board.** The Board is responsible for: (1) reviewing, discussing, and evaluating the cooperative's General Manager/CEO recommendations for the Financial Policy; (2) approving the Financial Policy as presented or amended; (3) reviewing and evaluating this Policy annually; (3) revising this Policy as circumstances warrant.

**Implementation of the Policy.** The General Manager/CEO is responsible for implementing this Policy and for overseeing development of the practices and procedures necessary to maintain the financial integrity of the Cooperative.

**Recommendations to the Board.** The General Manager/CEO is responsible for recommending revisions to this Policy to the Board as circumstances warrant.

**Compliance with the Policy.** The Board and General Manager/CEO are responsible for assuring compliance with this Policy.

**TABLE A    February 03, 2025**

Year	Refund %	Discount %
2024	34.18%	65.82%
2023	35.89%	64.11
2022	37.69%	62.31
2021	39.57	60.43
2020	41.55	58.45
2019	43.63	56.37
2018	45.81	54.19
2017	48.10	51.90
2016	50.51	49.49
2015	53.03	46.97
2014	55.68	44.32
2013	58.47	41.53
2012	61.39	38.61
2011	64.46	35.54
2010	67.68	32.32
2009	71.07	28.93
2008	74.62	25.38
2007	78.35	21.65
2006	82.27	17.73
2005	86.38	13.62
2004	90.70	9.30
2003	95.24	4.76
2002	100	0
2001	100	0
2000	100.00%	0.00%
1999	100.00%	0.00%
1998	100.00%	0.00%
1997	100.00%	0.00%
1996	100.00%	0.00%
1995	100.00%	0.00%
1994	100.00%	0.00%
1993	100.00%	0.00%
1992	100.00%	0.00%
1991	100.00%	0.00%

The table above provides the factor to be used, based upon the value of money chosen for the cooperative discounting plan. These factors apply to the amounts of patronage capital allocated to a patron for the year in question.



**Table B**  
**Depreciation Rates**

ACCOUNT	CLASS OF PLANT	ANNUAL DEPRECIATION RATE	RUS RECOMMENDED ANNUAL DEPRECIATION RATE
355-356	Transmission Plant	3.2% (n/a)	2.75%
362-373	Distribution Plant (Except 370 & 377)	3.4%	1.8 - 4.4%
370	Meters	8.33%	
377	Electric Vehicle Chargers	14.28%	
	<b>General Plant</b>		
390	Structures & Improvements (new, masonry	2.0%	1.0 – 3.0%
391	Office Furniture & Equipment	5.0%	5.0%
391.1	Mapping	5.0%	
391.2	Computer Equipment	15.0%	
392	Transportation Equipment	14.0%	14.0 – 17.0%
396	Power Operated Equipment	11.0%	11.0 – 16.0%
397	Communications Equipment	6.0%	5.0 – 8.0%
	<b>Other General Plant</b>		
393	Stores Equipment	5.0%	3.6 – 6.0%
394	Tools Shop & Garage Equipment	6.0%	3.6 – 6.0%
395	Laboratory Equipment	6.0%	3.6 – 6.0%
398	Miscellaneous Equipment	5.0%	3.60- 6.0%

<b>Original Effective Date:</b> 07/29/2015	<b>Reviewed Date (no revisions):</b> 02-23-2022	<b>Revised Date(s):</b> 04/29/2020, 02/23/2023, 03-02-2023, 05-02-2023, 02-29-2024, 03-03-2025
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