

Lyon-Lincoln Electric Cooperative

505 – PATRONAGE CAPITAL

I. OBJECTIVE

To allocate and retire patronage capital dividends in a manner that is consistent with all legal and regulatory requirements, is consistent with operating on a cooperative basis under federal tax law, is fair and reasonable to LLEC's members and former members, provides the cooperative with sufficient equity and capital to operate effectively and efficiently, is in compliance with debt covenants, and protects the cooperative's financial integrity.

II. POLICY

The cooperative will retire patronage capital on a systematic basis, consistent with sound business practices and in accordance with the Articles of Incorporation, Bylaws, and Restated Mortgage. The following guidelines will be used in the payment of patronage capital:

- A. Each year, approximately five (5) percent of the patronage capital as of December 31 of the prior year will be retired in the form of early retirements or a general retirement.
- B. The total amount of early retirements incurred during the twelve (12) months preceding December 31 will be determined.
- C. The total amount of patronage capital payable will be the amount determined in A. above reduced by the amount determined in B. above.
- D. General retirements of patronage capital will be made on a modified First In First Out (FIFO) basis as follows:
 1. Approximately 35% of the general retirement will be retired for patronage allocated in the sixth (6th) year before the year of payment of general retirement.
 2. The remaining portion of the general retirement will be made on a FIFO basis.
- E. East River Electric Power Cooperative (East River EPC) patronage capital will be retired and paid out on a FIFO basis in the year in which it is retired to LLEC. However, these patronage capital payments will not be generally retired until LLEC has received payment from East River EPC.

LLEC will retain patronage retired by East River EPC to meet the obligations of Paragraph F. below.

F. Estate settlements and dissolved or dissolving business settlements will be discounted and paid on a present value basis as defined in paragraph F.3. below.

1. Estate Settlements: The estate or trust will receive the allocated patronage capital of the deceased member through an early retirement of capital on a present value basis.
2. Dissolved or Dissolving Business Settlements: The dissolved or dissolving business will receive the allocated patronage capital through an early retirement of capital. Dissolved or dissolving businesses are those cooperatives, corporations, partnerships, or local units of government that provide sufficient evidence that the entity has ceased, or will cease, to exist. Early retirements of patronage capital (settlements) under this paragraph are limited to one-half (.5) percent of the total patronage capital as of December 31 of the prior year. Requests for early retirements under this paragraph will be processed on a first-come, first-served basis.
3. For purposes of paragraphs F.1 and F.2. above, settlements of all allocated patronage capital will be discounted to their present value at a rate to be set by the Board annually, effective on the first day of the cooperative's calendar year. The present value rate will be equal to the cooperative's cost of borrowed monies at that time.
4. For purposes of paragraphs F.1. and F.2. above, patronage capital is defined as allocations from LLEC and East River EPC.
5. Settlements will be paid in cash and/or in a bill credit in accordance with limitations as established by the Board. The remainder will be credited to permanent capital as prescribed by the Rural Utilities Service (RUS).

Approved by the Board of Directors _____

Board President

Adopted: 2/4/2011

Effective: 1/1/2011

Reviewed: 11/25/2013

Revised: 12/28/2015