

FINANCIAL POLICY NO. 306

1. SUBJECT: RETIREMENT OF CAPITAL CREDITS

2. OBJECTIVE:

To establish the standards, rules, methodologies and procedures governing Beartooth Electric Cooperative (BEC) retirement of Capital Credits.

3. POLICY:

3.1. It is the intent and purpose of BEC, subject to the discretion of the Board, to effectuate a program for retiring capital credits, consistent with sound business principles, applicable law, BEC Bylaws, and any related BEC contractual obligations.

3.2. BEC may retire capital credits and, when approved by the Board, such retirements shall be in accordance with the following rules and procedures:

3.2.1. General Retirements:

3.2.1.1. Each general retirement will be made only upon authorization by the Board based upon its determination that it is in the best interests of BEC and will not impair BEC financial condition. Such retirements shall also be subject to any applicable restrictions contained in BEC mortgages or loan contracts.

3.2.1.2. Capital credits shall vest in a patron only after an amount equal to more than \$110.00 is assigned. If the patron ceases to take service before that amount is reached, the capital credits assigned to that patron shall be reclassified as Donated Capital.

3.2.1.3. Retirements in any given year can be made for all or a portion of one or more prior years as the Board shall determine.

3.2.1.4. The Board, upon recommendation from management, will determine the years from which capital credits will be retired and the amount of capital credits to be retired from each year.

3.2.1.5. Upon the request of an individual patron, the Board may approve a special retirement of that patron's capital when, in the judgment of the Board, both BEC and the patron will benefit. Such retirements shall be made on a discounted basis.

- 3.2.1.6. Capital credits may be retired to BEC patrons or former patrons in cash or by way of billing credits, whichever is decided by BEC management.
- 3.2.1.7. BEC shall not retire and pay capital credits in an amount less than ten dollars (\$10.00, unless the retirement and payment is for all remaining capital credits allocated to a former patron.
- 3.2.2. Special Retirements:
  - 3.2.2.1. Retirements to estates of deceased patrons will be performed in the normal course of business unless otherwise directed by the Board. When there is a patronage capital settlement with an estate, there will not be a future allocation for the partial year in which the settlement is made.
  - 3.2.2.2. Retirements to members, who wish to donate their patronage capital to a non-profit organization to assist the organization in paying its contribution-in-aid of construction to BEC, may be authorized at the discretion of the Board of trustees.
  - 3.2.2.3. The Board, with the assistance of management, will determine whether or not early retirements will impair the BEC financial condition. Such retirements shall also be made subject to any restrictions contained in BEC's mortgage or loan contracts.
  - 3.2.2.4. BEC will retire capital credits to estates of deceased members, members donating to non-profit organizations and any other early retirement on a discounted basis
  - 3.2.2.5. For estates, the following provisions also apply:
    - 3.2.2.5.1. Subject to the discretion of the Board, regarding estates involving an Estate Proceeding:
      - 3.2.2.5.1.1. When applicable, distribution will be made pursuant to the orders of the probate court having direction over the estate.
      - 3.2.2.5.1.2. When the court has named an administrator, executor or family representative, the distribution will be made to that person after BEC has received a copy of that person's official appointment.
    - 3.2.2.5.2. Estates without Estate Proceedings: If an individual believes he or she is the sole living heir, or the heir with the right to receive the property of the decedent, that individual must provide reasonable documentation of death and sign an indemnification agreement with

BEC. In the event there is more than one living heir, all of them will be required to sign the form designating the person to whom the check is to be written. The discounted dollar amount may then be retired to the claimant at the discretion of BEC.

3.2.2.5.3. If a survivor was part of a joint membership, the full balance of the capital credits shall continue to be carried in the name of the surviving member and will be subject to the general retirement procedures.

3.2.2.5.4. If service is supplied to members as documented in BEC membership records, or if BEC membership records are silent in this regard, the capital credits of any deceased member may be distributed as any other estate claim. BEC will follow the appropriate process set forth above and taking into account the amount involved, the claim of the claimant, the existence or non existence of Probate Court proceedings, or other matters will be decided at the discretion of the Board.

### 3.2.3. Retirements to corporations, partnerships, LLC's and other business entities:

3.2.3.1. Corporations or other entities, whose duration comes to an end, shall be addressed by the Board on a case-by-case basis. In the sole discretion of the Board, a settlement amount may be negotiated provided that the settlement is reasonably consistent with other action on corporate or business entity patronage and the amount does not put a financial burden on BEC. Generally, capital credits shall be paid under the defined retirement cycle.

3.2.3.2. At the time of dissolution, capital credits owned by a partnership, a limited liability company or other business entity shall be treated in the same manner as corporations. Division between the partners of the amount is the responsibility of the partners. The distribution authorized by the Board shall be to a recipient designated in writing by the business entity.

3.2.3.3. Retirements to governmental entities and non-profit organizations: A precedent has been established to grant a return of discounted patronage capital in situations where such a settlement will serve the public interest or the mission of a non-profit organization. The Board may also approve the use, by a governmental entity or non-profit organization, of patronage capital to be accrued and/or allocated in the future when the conditions stated above are met. When utilizing patronage capital not yet allocated, the governmental entity or non-profit organization will pay interest at the rate of the BEC cost of debt plus one percent on any unpaid balance until sufficient allocations of patronage capital are made to the member to satisfy the obligation. Such patronage capital allocations will be retired when allocated and will be discounted at the rate previously defined with the discounted amount applied to the member's obligation.

In each case the Board retains sole discretion and shall not impair the financial interests of BEC.

3.2.3.4. In all cases, the discounted portion of any capital credits paid shall become donated capital. There shall be executed by the member, by the representatives of heirs of the deceased patron or a representative of any corporation, partnership, or other entity a written agreement, on such form as is provided by BEC, consenting to such treatment of the discounted capital credit. Such capital shall thereafter be transferred to the Donated Capital account.

4. RESPONSIBILITY:

Except for the determinations that from time to time are required by this policy to be made by the Board, the General Manager shall have full responsibility and authority to implement this policy.

Adopted: 11/25/2014  
Revised: 2/28/2017  
Reference: LV BP310, BEC  
Bylaws Articles VII and X,  
BEC III.A.3, III.A.4, III.5.C  
Review Date: February 2019

Attest: /s/ David Peterson  
Board President

Attest: /s/ Julie Lindgren  
Secretary/Treasurer