

<b>Subject:</b>	<b>Financial Management</b>		
<b>Policy No.:</b>	<b>B-3</b>		
<b>Original Issue Date:</b>	<b>Review Requirement:</b>	<b>Date of Last Review:</b>	<b>Date Last Revised:</b>
October 22, 2003	3 years	August 10, 2023	August 10, 2023
<b>Previous Revisions:</b>	10/16/2007, 06/12/2014, 03/12/2015, 09/08/2016, 03/09/2017, 05/11/2017, 09/13/2018, 12/19/2019, 08/11/2022, 08/10/2023		

**I. OBJECTIVE**

To establish the policy and to provide guidelines to maintain a sound financial position for the most effective management and security of the financial resources of the Cooperative.

**II. POLICY**

A. Financial Objectives

1. Mountain Parks Electric, Inc., hereinafter referred to as the Cooperative, is organized under the laws of the State of Colorado and will always be operated on a cooperative non-profit basis for the mutual benefit of its members. No interest or dividends will be paid or payable by the Cooperative on any capital furnished by its members. In addition to these legal requirements, the Cooperative is guided in its operations by various regulations and operational practices prescribed by its lenders and applicable law. Beyond these legal and official requirements, the Cooperative has an obligation to its members to ensure the financial integrity of the Cooperative so that it can provide electric service to its members at the lowest possible long-term cost.
  
2. The Cooperative, through its operations, will strive to meet the ratio goals set forth below and will maintain, consistent with prudent business practices and industry standards, the minimum equity level, TIER (Times Interest Earned Ratio) and DSC (Debt Service Coverage Ratio) as provided in the chart below.

<b>Financial Policy Components</b>	<b>Range or Guidance</b>
Operating TIER	1.10 – 2.00
DSC Ratio	1.35 – 2.25
Equity to Total Assets Ratio	35% or higher
Capital Credit Policy	Maximum of 5%

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a) OTIER – Operating Times Interest Earned Ratio:

Operating TIER assures the Cooperative of adequate cash margins to pay lender long-term interest expense. Following is the formula as provided in KRTA ratio:

$$\frac{\text{Interest on Long-Term Debt} + \text{Operating Margins} + \text{Total Cash Received this year from patronage capital}}{\text{Interest on Long-Term Debt}}$$

For purposes of this financial policy, the OTIER the cooperative shall strive to maintain is 1.10 – 2.00 on a 12-month basis.

b) DSC – Debt Service Coverage Ratio:

The Cooperative shall maintain a minimum DSC (2 or 3-year high average) of 1.35. DSC (2 or 3-year high average) is defined as the average of the high two DSC ratios of the last three years.

Following is the formula as provided in CoBank covenants:

$$\frac{\text{Net Income} - \text{gain or loss on sale of assets} + \text{depreciation} + \text{amortization} + \text{interest} - \text{non-cash patronage} - \text{non-cash income from subsidiaries}}{\text{all principal payments due within the period on all Long-Term Debt} + \text{interest expense for the applicable period.}}$$

For purposes of this financial policy, the DSC the Cooperative shall strive to maintain is a minimum of 1.35 – 2.00 on a 12-month basis to provide margins to meet financial goals.

c) Equity to Total Assets Ratio:

Operating above this ratio as directed by the Cooperative's Board of Directors, assures the Board's direction on the ratio of debt from lender to equity from members is achieved and/or maintained.

Following is the formula as provided in KRTA ratio:

$$\frac{\text{Total Margins and Equity}}{\text{Total Assets and Other Debits}}$$

For purposes of this financial policy and to minimize the risks associated with insolvency and to maintain an optimal cost of capital, management shall strive to achieve an equity to total assets ratio of 35% or higher.

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3. The General Manager will keep the Board of Directors advised as to the status of equity and the length of time patronage capital has been credited.
4. The Cooperative will prepare and/or update a ten-year financial forecast, as needed for planning, that will guide the Cooperative and ensure that all financial obligations are met. The forecast shall be updated at a minimum of once every two years or more frequently as dictated by economic or financial conditions. The financial forecast shall include and comply with all the financial goals and parameters identified by the Board in this policy, plus include significant assumptions utilized in its preparation. To comply with typical lender requirements, the 10-year financial forecast shall, at a minimum, contain the following sections:
  - a) General Funds
  - b) Ratios
  - c) Determination of Debt and Debt Service
  - d) Funds for Capital Credit Retirements
  - e) Balance Sheet
  - f) Determination of Operating Revenue
  - g) Plant Investment

#### 5. Depreciation Rates and Guidance

A review of the depreciation rates and schedule utilized by the Cooperative should be completed on a five-year cycle.

#### B. Patronage Capital Contributions

1. In the furnishing of electric energy, the Cooperative's operations shall be so conducted that all patrons, members, and non-members alike (hereinafter patrons), will through their patronage furnish capital for the Cooperative. To induce patronage and to assure that the Cooperative will operate on a non-profit basis the Cooperative is obligated to account on a patronage basis to all its patrons, for all amounts received and receivable from and directly related to the furnishing of electric energy in excess of operating costs and expenses properly chargeable against the furnishing of electric energy (hereinafter referred to as "Electric Margins"). All Electric Margins, from the moment of receipt by the Cooperative, are received with the understanding that they are furnished by the patrons, as capital. The Cooperative is obligated to allocate by credits to a capital account for each patron all such Electric Margins. The books and records of the Cooperative shall be set up and kept in such a manner that as of the end of each fiscal year the amount of

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capital, if any, so furnished by each patron is clearly reflected and credited in an appropriate record to the capital account of each patron.

2. All amounts received by the Cooperative in excess of costs and expenses, other than Electric Margins, shall be:
  - a) Used to offset any losses incurred during the current or any prior fiscal year.
  - b) To the extent not used for that purpose, available to create unallocated reserves and retained capital not currently assignable to the patrons; and
  - c) To the extent not used for these purposes, allocated to its patrons on a patronage basis and any amount so allocated shall be included as part of the capital credited to the accounts of patrons, as herein provided.

#### **C. Patronage Capital Allocations**

1. Patronage capital will be segregated into two categories, G&T provided margins and MPEI member provided margins and allocated to patrons. The allocated margins will be credited to the individual patrons in each rate class by the following factor: individual patron revenue divided by total Cooperative revenue or individual patron KWH used divided by the total KWH used or a mix use of the two methods. Exceptions to this allocation method may be made on a case-by-case basis pursuant to the contract between the patron and the Cooperative.
2. In performing these allocations, revenue will not include sales tax or franchise fees.

#### **D. Patronage Capital General Retirements**

1. The Cooperative will strive to retire distribution patronage capital to its members based on a maximum of 5% of outstanding patronage capital revolving approach.
2. If at any time prior to dissolution or liquidation, the Board of Directors determines that the financial condition of the Cooperative will not be impaired thereby, the capital then credited to patrons' accounts may be retired in full or in part.
3. In retiring patronage capital, the Cooperative:

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- a) May retire capital in the following order:

First – retire capital credited to the estate of deceased natural persons in accordance with Cooperative Bylaws, Article VII, Section 2(h).

Second – retire capital to members (active and inactive), on the basis “First In – First Out” (FIFO).

- b) Will retire capital to active members by way of check (if > \$50) or credit to an active account (if < \$50).
- c) Will retire capital to inactive members by check. If a check is \$5 or more, we will mail a check. If the check is less than \$5 the check will be available for the member to pick up at MPEI and a list of said inactive members will be published.
4. At the time capital credits standing in the name of each patron are retired under a program of general retirement as directed by the Board of Directors, such capital credits as provided in paragraph numbered II.B.2 herein, will not be retired to such patron until such capital so credited is actually paid to this Cooperative. No retirement of such portions of capital credits as provided in paragraph II.B.2 will be made prior to the general retirement of other capital credited to the patrons for the same year such portion was allocated.

### E. Special Retirement of Patronage Capital

1. A special discounted capital credit retirement may also be offered by the Cooperative to any distinguishable group of patrons, up to and including all patrons, subject to the Board of Directors determining that the financial condition of the Cooperative will not be impaired thereby. Patrons shall have the option to refuse any discounted offer and receive allocated capital credits through general retirements on the normal refund cycle.
2. Contingent upon the budgeting for discounted retirements, disconnected members no longer receiving electric service from the Cooperative and with no outstanding debt to the Cooperative shall be given the option of receiving their patronage capital either through normal general retirements, or an early discounted retirement.

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3. Any discounted early retirement option, including estate retirements, may be subject to annual monetary limits set from time to time by the Board of Directors. Requested early retirement will be paid on a first-come, first-served basis and those that cannot be paid each year due to set monetary limits will be carried over for payment in the succeeding year.

### **F. Discounting of Capital Credits**

1. The discounted rate used in the calculation of the discounted capital credit retirements shall be equal to the higher of the weighted average cost of capital, or the Wall Street Journal prime rate as of December 31 of the prior year. The discount period will be equal to the number of years of patronage capital then outstanding for each patron as established by The Board of Directors after consideration of relevant factors, including whether the patron receiving the refunds is given the option of continuing to receive capital credit refunds in the normal cycle.
2. In the event an outstanding debt is left when a patron disconnects and ceases to receive electric service from the Cooperative, all capital credits allocated to that patrons account will be discounted in accordance with F-1 and applied to the debt prior to the Cooperative writing off the debt, retiring, refunding, or assigning allocated capital.
3. The discount amount (the difference between the full amount and the amount ultimately paid out) will be deemed assigned and contributed as a capital contribution to the Cooperative.

### **G. Retirement of Capital Credits of Deceased Patron Who Was a Natural Person**

1. The Cooperative will, upon the death of a patron of the Cooperative, who was a natural person, retire the capital credits standing in the name of such deceased patron in accordance with the provision hereof.
2. At the time capital credits standing in the name of each patron are retired as an estate retirement, such capital credits as provided in paragraph numbered II.B.2. herein, will be totally retired by payment of the present-day value as described in Policy B-3, Section II.G.10.
3. No such retirement will be made until the legal representative of the Estate of such deceased patron, or the person entitled to such funds has made written application therefore upon forms supplied by the Cooperative.

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4. No such retirement will be made if the Board of Directors determines that the financial condition of the Cooperative would be impaired thereby.
5. No such retirement will be made under this policy pertaining to deceased patrons if capital credits are held jointly, until the death of both members. Capital credits may be retired, however, to such person, or their estates, as a part of a general retirement of capital credits being made to other patrons.
6. If no estate proceedings have been commenced in a Court of proper jurisdiction, then the Cooperative may withhold payment of capital credits until an Affidavit for Collection of Personal Property Pursuant to Small Estate Proceedings in the proper form is furnished the Cooperative, or until proof of intestacy and heirship is made to the Cooperative, satisfactory to the Attorney.
7. If no estate proceedings have been commenced in a Court of proper jurisdiction, the Cooperative may require a bond or written agreement of indemnity from the person or persons requesting payment of capital credits.
8. No such retirement will be made until service is no longer in the name of deceased patron and all outstanding accounts are settled or outstanding amounts have been deducted from accumulated capital credits.
9. The capital credits standing in the name of such deceased patron will be totally retired by payment of the present-day value of all the outstanding capital credited or creditable to the deceased on the books of the Cooperative, based upon the discount method established in this Policy B-3, Section II.F.1.
10. The Cooperative will have the right to not process the refund until such time as an exact determination of the percentage of margin can be determined unless, the estate of the deceased agrees to waive all interest in and to capital credits for the years in which margins have not been allocated.

### **H. Operating Budget**

The Budget will be prepared for the ensuing calendar year by the General Manager and Staff of the Cooperative and will be presented to the Board of Directors for their approval prior to the end of the current year.

The Budget will show estimates for:

1. Operating and non-operating revenue.

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2. Operating and non-operating expenditures.
3. Additional capital requirements.
4. Expenditures for new construction and purchase and/or replacement of capital equipment.
5. Projected work programs of each operating department.

### **I. Loan Funds**

1. Loan Funds (Construction Funds) may be committed only after approval of the Board of Directors. Administration of loan funds will be the responsibility of the General Manager.
2. The President, Vice President, Secretary/Treasurer, Assistant Secretary/Treasurer, and Assistant General Manager and General Manager, each, without the other, are authorized to sign documents in connection with the requisition and accounting for Construction Loan Funds

### **J. Investments and Loans**

1. The General Manager will administer a cash investment program whereby all surplus general and operating funds will be invested at such time as would seem advisable.

The program will be designed to allow the Cooperative to realize as much interest from short term investments as is reasonable without causing undue hardship or delay in payment of accounts payable to suppliers of the Cooperative.

Investments may be made as follows, without further Board authorization:

- a) Backed by full faith and credit of the U.S. Government Securities.
- b) National Rural Utilities Cooperative Finance Corporation.
- c) Tri-State Generation and Transmission Cooperative (Prepaid Power Account); and
- d) Banking institutions insured by Federal Deposit Insurance Corporation and not to exceed limits of coverage.



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2. Other investments and loans will be made only upon specific authorization from the Board of Directors in each instance. Such authorizations will be given only after the Board considers the relevant facts and concludes that:
  - a) The investment and/or loan is in the lawful furtherance of the Cooperative's purposes; and
  - b) That the investment and/or loan will be recovered.
  - c) After the Board's authorization, such investment and/or loan funds will be advanced only upon the prior or concurrent receipt of a written agreement or promissory note evidencing the terms of such investment and/or loan.

### **K. Depositories**

All funds of the Cooperative, except for investments or loans pursuant to Section J. "Investments and Loans" of this policy, will be deposited in banks, which are insured by the Federal Deposit Insurance Corporation, and which have been approved and designated as depositories by the Cooperative's Board of Directors.

### **L. Fund Transactions**

Authorization for the disbursement of funds for the Construction, General, and Patronage accounts of Mountain Parks Electric, Inc. will be as designated by the Board of Directors as follows:

Special Construction Fund	Any two of the following: President, General Manager, Assistant General Manager, Vice President, Secretary/Treasurer.
General & Patronage Fund	Any two of the following: President, General Manager, Assistant General Manager, Vice President, Secretary/Treasurer, Finance/Office Services. (Use of facsimile signatures is acceptable.)

Where applicable, funds may be received and disbursed internally by means of electronic fund transfers or automated clearing house transactions. Any transaction prepared by the accountant, for items that are not drafted, must be approved by the

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Manager of Finance. Items initiated by the Manager of Finance involving the Construction Fund must receive approval and authorization of the Assistant General Manager or the General Manager.

Other fund accounts designation for MPEI will be authorized by individual Board resolutions.

### **M. Reserves for Depreciation**

Reserves for Depreciation will be established in accordance with acceptable accounting practices and will always comply with applicable guidelines.

### **N. Purchases-Purchasing Agent**

1. The General Manager will be the chief purchasing agent for the Cooperative.
2. All purchases will be made at the lowest possible cost, consistent with quality, supply, and delivery.
3. All requests for items to be purchased will be forwarded to the General Manager on acceptable purchase requisition forms for approval. Said requisitions will state the quantity, model number, name, price, supplier, general ledger account number and purpose of said purchase. The General Manager may delegate the mechanics of purchasing to other Employees; however, in so doing, will not be relieved of the responsibility involved with purchasing of any product or service in the name of the Cooperative.
4. Western United Electric Supply Corporation (WUESC) is designated as MPEI's purchasing agent of this Cooperative for the purpose of securing electric materials at a reasonable cost and to obtain competitive bids directly from manufacturers and suppliers. This Cooperative may utilize WUESC as the supplier of standard electric material in all cases where WUESC is able to supply the required material on a timely basis at a reasonable cost. In the event WUESC is unable to supply electric material required by this Cooperative on a timely basis, this cooperative will obtain two or more competitive bids, whenever possible, from other suppliers and award the purchase to the lowest bidder and/or most qualified.
5. For substation, transmission, and distribution line projects where the Cooperative employs a consulting engineering firm, owner furnished material and equipment will be specified, bids requested, and bids evaluated by the engineering firm. They will include WUESC in all requests for bid.

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For contractor supplied material, such as poles and conductor, the contractor will be instructed to include WUESC as a supplier in all requests for bid.

#### **O. Inventory Control**

1. Inventory will be those goods and supplies held in specific locations to be used at a future date for the purpose of increasing and/or maintaining plant.
2. Inventory will include, but not be limited to construction, transportation, special equipment, maintenance, electrician materials, and resale and other items that may from time to time be added to the inventory.
3. Because of the value attached to inventory, it is essential that those Employees involved with handling items of inventory be held responsible for the proper accounting thereof.
4. Warehouse personnel will be assigned to handle all items on inventory and be responsible for same at all locations and Area Superintendents will be secondarily responsible for proper handling of inventory items at outpost locations.
5. In all instances it will be the responsibility of the assigned employee to maintain adequate inventory to meet the needs of the Cooperative, to coordinate purchase requests with the Department Managers, and to install proper safeguards for the safekeeping and storage of assigned materials.

#### **P. Sale of Surplus Vehicles and Other Equipment**

1. The Cooperative will price each new replacement vehicle with and without trade-in. The minimum value of the vehicle being replaced will be established by its trade-in-value.
2. The vehicle being replaced may then be offered for sale to the Cooperative's Employees on a sealed bid, cash basis. Prospective bidders will be advised of the minimum value of the vehicle as determined in this policy.

The vehicle will be sold to the highest bidder; however, the Cooperative reserves the right to refuse or reject all bids if below minimum value and attempt to sell the vehicle to an outside party. In the event of tie bids, there will be a "bid-off" between the tie bidders.

3. Other surplus equipment may be offered for sale to the Cooperative's Employees on a sealed bid, cash basis.

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4. All vehicles and other equipment sold will be sold on an “as-is” basis. In each case, a prospective bidder will be advised in writing that no representation or warranties, either express or implied, of the merchantability of the goods or of the fitness of the good for any purpose are being made by the Cooperative.
5. The Cooperative reserves the right to refuse any and all bids which, in the sole opinion of the General Manager, do not reflect the reasonable market value of the item being sold, and each prospective bidder will be so advised in writing before accepting a bid.
6. Transfer of vehicle or equipment will be made upon receipt of payment in full.

### **Q. Debt Limit**

The Cooperative borrows from time-to-time additional sums from the United States of America pursuant to the provisions of the Rural Electrification Act of 1936, as from time to time amended, and such sums as it may deem advisable from National Rural Utilities Cooperative Finance Corporation, CoBank, and other lending agencies or lending corporations, to finance the construction, acquisition and operation of electric transmission, distribution, and service facilities. The aggregate amount of such loans and the aggregate amount of loans made to the Cooperative will not exceed One Hundred Fifty Million (\$150,000,000) at any one time.

### **R. External Financial Audit**

1. The Board of Directors will execute the contract for an external financial audit firm.
2. In the event an external audit firm is retained for more than five consecutive years, another partner will replace the audit partner in charge of the audit after that partner has served five consecutive years on the audit.
3. An exit review will be held between the General Manager and the external auditor to discuss the audit findings.
4. The audit partner will notify the Board President of the audit findings. The Board President will determine if a special meeting is necessary.
5. Cooperative Directors and Employees will take no action to improperly influence, coerce, manipulate, or mislead the external auditors during the audit or in the preparation of the audit report.

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6. A copy of the audit report will be sent to each Director at least one week prior to the board meeting at which the audit results will be presented.
7. The audit report will be presented by the external auditor at the first regularly scheduled board meeting held after the completion of the audit report. The General Manager and any appropriate Department Heads will be in attendance.
8. Findings to be presented at the board meeting should include, but not be limited to:
  - a) All critical accounting policies and practices used.
  - b) All investment practices.
  - c) All compliance issues or concerns.
  - d) All alternative treatments of financial information that have been discussed, and ramification of these alternatives.
  - e) Any recommended procedure changes.
  - f) Any accounting disagreements between the external auditor and any Director or Employee.
  - g) Any other material written communication between the external auditor and the Board or Management of the Cooperative.
9. Following the audit presentation at the board meeting, the Board will meet with the external auditor in executive session without the presence of any Employee of the Cooperative. No final decision, action or resolution shall be taken or made, nor any action calling for the payment of money shall be taken during the executive session.

### **III. RESPONSIBILITY**

The General Manager will be responsible for the administration and compliance of this policy.

*Liz McIntyre*