

CAPITAL CREDITSI. OBJECTIVE

Article VIII of GVEA's Bylaws requires it to function as a not-for-profit organization and establishes certain requirements concerning the accounting for patronage capital furnished by members. One objective of this policy is to set forth the procedures to fulfill these requirements while building equity to an optimum level. Another objective of this policy is to establish a capital credit rotation period of 25 years or less. To achieve these objectives, the Board is committed to a program of building equity through electric and non-electric revenues and achieving and maintaining adequate Times Interest Earned Ratio (TIER) levels.

II. POLICY

- A. Not later than July 31 of each year, GVEA will mail to the last known address of each member from whom patronage was received during the previous fiscal year a statement showing the amount of patronage capital assigned to their account as a result of such patronage, provided that such statements will not be required for years in which GVEA fails to earn assignable margins as defined in Article VIII of the Bylaws.
- B. If pursuant to A. above, assignable margins for a given year are not assigned to the capital credit accounts of GVEA's members during that year, those margins will be combined with those of the following year for assignment to members providing patronage to GVEA in the following year.
- C. No capital credits will be paid or otherwise retired unless and until the board has taken action approving such retirement.
- D. GVEA will at all times endeavor to comply fully with the provisions of its long-term debt instruments concerning the retirement of patronage capital.
- E. Any member of GVEA, including all legal entities, may assign their interests in capital credits in accordance with policy and procedures adopted by GVEA.
- F. To the extent such action does not conflict with the provisions of GVEA's Bylaws or long-term debt instruments, GVEA will pay capital credits to the estates of deceased members under the following conditions:
 - 1. The deceased member must have been a natural person.
 - 2. If the legal representative of the deceased member's estate requests, in writing, that the capital credit assigned to the deceased member's account be

retired, the board may, if the financial condition of GVEA will not thereby be impaired, retire such capital credits immediately. Early retirement of capital credits under this section will be permitted only if the deceased member either held an account solely in their name or was the surviving owner of a joint membership, and upon proof satisfactory to GVEA that the applicant is the legal representative of the deceased member's estate or is otherwise entitled. Applications for the retirement of capital credits submitted by persons other than the legal representative of a deceased member's estate will be referred to GVEA's attorney, who will, after appropriate inquiry, advise GVEA as to the proper recipient of the capital credits according to the deceased member's will or, if the deceased member died without a will, under the laws of Alaska relating to intestate succession.

3. All payments of capital credits to the estate or survivor of deceased members will be discounted to their estimated net present value before being paid. For purposes of estimating the net present value of capital credits to be retired, a 25-year rotation schedule and discount rate, as adopted from time to time by the board will be applied.

- G. GVEA may retire a member's interest in capital credits, but will be limited to an amount set by the Board of Directors for any given year. The amount will be set by the board after consultation with staff and take into consideration the financial condition of the cooperative.

Capital credits eligible to be retired in advance of the rotation period will be those of (1) voluntarily dissolved corporations that have been duly documented by the appropriate state authority and that have been offered by the president of the corporation or other authorized official or successor for the corporation; (2) corporations which have been duly liquidated through the federal bankruptcy laws and which have an appropriate order of the bankruptcy court that effectively discharges the corporation of its debts and permits the assignment of the liquidated corporation's capital credits; (3) members purchasing power under a non-firm purchase agreement; (4) any member whose delinquency in paying their utility bill has caused GVEA to discontinue electric service to that member; or, (5) any member who has terminated their membership with GVEA. These retirements are to be retired at the discount rate in effect at that time.

For the purposes of estimating the net present value of capital credits to be retired, a 25-year rotation schedule will be applied, unless modified by the board.

1. CFC's long-term 25-year fixed interest rate as of January 1 of the year the capital credits are disbursed;
2. Plus two percent;

3. Rounded up to the nearest half percent.
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- H. Except in the case of payment of capital credits to the estates of deceased members, GVEA need not issue retirement checks in amounts less than twenty-five dollars (\$25.00). Any amounts not paid due to the twenty-five dollars (\$25.00) minimum will be applied to the member's current bill. Any inactive member's capital credits will be accumulated until such time as the account totals at least twenty-five dollars (\$25.00), at which time a check will be issued. If the capital credit account does not total twenty-five dollars (\$25.00) within five (5) years, the accumulated amount will be refunded to the member.
 - I. Except insofar as GVEA's Bylaws may require the application of capital credits received from associated organizations to offset losses incurred in the current or prior fiscal years, such capital credits may not be segregated or otherwise treated differently from other assignable margins of GVEA.
 - J. All retirements of capital credits will be accomplished by the issuance of checks or the extension of credits to members' current bills.
 - K. No check will be issued in payment of a member's capital credits unless GVEA's records will have first been reviewed to determine if any amount is owed to GVEA. To the extent such member has an outstanding balance with GVEA that has been written off as a bad debt, any capital credits to be retired will be applied to that balance and no check will be issued to the member until the sum of the capital credit payments so applied equals the amount owed to GVEA.
 - L. The retirement of capital credits will be subject to the following guidelines:
 1. If the corporate equity is less than 30 percent, a maximum of 25 percent of the previous year's margins may be allocated to the retirement of previously assigned capital credits. If the corporate equity is 30 percent or more, there is no mortgage restriction on allocations to capital credit retirements. The retirement of capital credits will be made in order of priority according to the year in which the capital was credited. Funds determined by the board to be available for the retirement of capital credits may be used to retire capital credits from the most recent fiscal year, subject to the requirement that at least fifty percent of such funds will be applied to the retirement of the oldest outstanding capital credits. The retirement of capital credits of deceased members will be made in the manner specified in Section II. F. of this policy and in accordance with the provisions of GVEA's Bylaws.
 2. Each year the board will determine the amount of the previous year's margins, subject to applicable limitations, which may be applied to capital credits retirement without jeopardizing the goals of providing reliable electric service to its members and the timely servicing of its debt obligations. The board will

also approve the percentage of the retirement that is applied on a first-in-first-out basis (FIFO) and/or a last-in-first-out basis (LIFO).

- M. Unclaimed capital credits (returned and un-cashed checks) are abandoned if the member has not made claim to them within one year, provided GVEA has complied with the notice provisions in AS 34.45.200. Capital credits considered abandoned may be claimed upon presentation of documentation and proof to substantiate their claim to them.
- N. Abandoned capital credits or a portion thereof, subject to board approval, may be used to fund GVEA's scholarship program, foundation operating expenses, or become GVEA permanent equity.

III. RESPONSIBILITY

The Board Chair, in conjunction with the President & CEO, will be responsible for ensuring compliance with this policy.

ADOPTED: April 15, 1987
AMENDED: July 24, 2017