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OBJECTIVE:

To specify the parameters of DSO's capital credit allocation and retirement programs, including what is to be allocated and paid to members, and when it is to be allocated and paid.

POLICY:

DSO shall allocate and retire capital credits in a manner that:

- is consistent with state and federal law;
- is consistent with operating on a cooperative basis under federal tax law;
- is fair and reasonable to DSO's members and former members;
- provides DSO with sufficient equity and capital; and
- protects DSO's financial condition.

Subject to law, DSO's articles of incorporation and bylaws, the allocation and retirement of capital credits are at the sole discretion of the board.

Allocations

- A. Board Approval. DSO's board shall annually determine which, if any, non-operating capital credits shall be allocated to members.
- B. Patronage Earning Allocations. DSO shall allocate to each member class the patronage earnings for providing a good or service during the calendar year on an equitable basis.
- C. Patronage Loss Allocations. DSO shall not allocate patronage losses but shall offset patronage losses with DSO's patronage earnings from the next succeeding calendar year(s).
- D. Non-Patronage Earning Allocations. As approved by the board, DSO may use, retain, or allocate DSO's non-patronage earnings.
- E. Non-Patronage Loss Allocations. DSO shall offset non-patronage losses with DSO's non-patronage earnings during any calendar year.
- F. Notice of Allocation. Within eight and one-half (8 1/2) months following a calendar year, DSO shall notify each member in writing of the amount of capital credits allocated to the member for the preceding calendar year.
- G. Separate Allocations. DSO may separately identify and allocate to DSO's members those capital credits allocated to DSO by an entity in which DSO is a member, patron, or owner.
- H. Forfeiture of Capital Credits. DSO shall not enter contracts through which a member or former member forfeits the right to the allocation of capital credits, except in cases of early retirement.

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- I. Member Classes. DSO may allocate capital credits to classes of similarly situated members or former members under different manners, methods, timing, and amounts, provided DSO allocates capital credits to similarly situated members and former members in the same manner.

Retirements

- A. Board Approval. DSO's board shall determine the manner, method, timing, and amount for retiring capital credits.
- B. General Capital Credit Retirements. DSO shall generally retire capital credits based upon guidelines shown in this section with the purpose of communicating and promoting the cooperative principles, fostering loyalty and support among members and former members, and maximizing public relations and political goodwill.

Guidelines for general retirement of capital credits:

- Maintain DSO's equity level between twenty five percent (25%) and forty percent (40%) of DSO's total assets;
- Retire capital credits every year during the month of December;
- Retire capital credits on a hybrid basis;
- Include G&T capital credits and other affiliated capital credits in retirements, if applicable (see H. Retirements of Affiliated Capital Credits); and
- The total annual amount to be retired shall be determined by the board and included in the annual operating budget, with a goal of retiring 1/30 of outstanding capital credit allocations.

- C. Special Capital Credit Retirements. DSO may specially retire capital credits according to guidelines shown in this section.

Guidelines for special retirements of capital credits:

- May specially retire capital credits upon the death of an individual residential member or former residential member, but only upon receiving a written request from the appropriate legal representative and only under terms and conditions agreed upon by DSO and the appropriate legal representative;
- May specially retire capital credits upon a residential member becoming a former residential member;
- Shall not specially retire capital credits upon the dissolution, liquidation, or cessation of existence of an entity member or former member;
- Shall not specially retire capital credits upon the reorganization, merger, or consolidation of an entity member or former member;

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- Shall not specially retire capital credits upon a member or former member reaching a certain age;
 - Shall not specially retire capital credits upon a member failing to pay an amount owed to DSO;
 - Specially retired capital credits shall be paid at net present value (NPV);
 - The number of years used in the NPV calculation shall be 30;
 - The interest rate used in the NPV calculation shall correspond to DSO's blended cost of capital (i.e. weighted average of the Goodwin Formula calculation for equity and blended interest rate for debt).
- D. Separate Retirements. At the board's discretion, DSO and affiliated capital credits may be retired at different times.
- E. Recoupment. After retiring, but before paying capital credits allocated to a member or former member, DSO may recoup, offset, or set-off any amount owed to DSO by the member in the amount of the retired capital credits.
- F. Forfeiture of Capital Credits. DSO may enter contracts through which a member or former member forfeits the right to the retirement of capital credits. Early retirement of capital credits on DSO's books requires the member or former member to accept such payment as full settlement and satisfaction of any and all claims or entitlements for capital credit payments now owed or that may hereafter accrue or be allocated or credited.
- G. Member Classes. DSO may retire capital credits to classes of similarly situated members or former members under different manners, methods, timing, and amounts, provided DS&O retires capital credits to similarly situated members and former members in the same manner.
- H. Retirements of Affiliated Capital Credits. DSO may retire affiliated (G&T, vendor, etc.) capital credits only after the affiliated entity retires and pays the amounts to DSO.
- I. Minimum Amount. DSO shall not retire and pay capital credits via check in an amount less than twenty dollars (\$20), unless the retirement (and payment) is for all remaining capital credits allocated to a former member or is part of a special retirement. There is no minimum amount to pay capital credits as a bill credit.
- J. Payment and Notice of Retirement. After DSO retires capital credits, DSO shall pay the retired amount by sending a check, bill credit, or other legal form of payment to the member's or former member's most current address listed on DSO's records. When a payment or other capital credit communication is returned because the address on file is no longer valid, then payments and other notices shall no longer be mailed to the former member until a valid address is provided.

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K. Unclaimed Capital Credits. If a member or former member fails to claim a retired capital credit amount within one hundred eighty (180) days, then the payment is marked void and the amount is transferred to the unclaimed property account. If the payment is unclaimed due to the current address on file being invalid, then the account is marked as such and no additional payment will be issued until a valid address is obtained.

ACCOUNTABILITY:

Board
CEO

Attested: David P. Mull
Secretary

Date: 9/20/2021