

M.J.M. ELECTRIC COOPERATIVE, INC.

SECTION I – THE ORGANIZATION

Policy 13 Approved: 12/28/2023

FINANCIALS POLICY

POLICY

The purpose of the Financial Policy is to provide guidelines and direction from the Board of Directors (hereinafter “Board”) to Management in order to maintain a sound financial position and provide for the security of the financial resources of the Cooperative.

The Cooperative is organized under the laws of the State of Illinois and will at all times be operated on a cooperative not-for-profit basis for the mutual benefit of its members. In addition to these legal requirements, the Cooperative is guided in its operations by regulations and operational practices prescribed by various regulatory bodies and/or lender(s). Beyond these legal, regulatory, and lending requirements, the Cooperative has an obligation to its members to ensure the financial integrity of the Cooperative so that it can provide high quality electric service at the lowest possible long-term cost consistent with prudent business practices not only for today, but long into the future.

RESPONSIBILITY

Review and Approval by the Board. The Board is responsible for: (1) reviewing, discussing, and evaluating the cooperative’s President/CEO (hereinafter “CEO”) recommendations for the Financial Policy; (2) approving the Financial Policy as presented or amended; (3) reviewing and evaluating this Policy annually; (3) revising this Policy as circumstances warrant.

Implementation of the Policy. The CEO is responsible for implementing this Policy and for overseeing the development of the practices and procedures necessary to maintain the financial integrity of the Cooperative.

Recommendations to the Board. The CEO is responsible for recommending revisions to this Policy to the Board as circumstances warrant.

Compliance with the Policy. The Board and CEO are responsible for assuring compliance with this Policy.

PROCEDURE

Planning Documents

In order to maintain a sound financial position and provide for the most effective management and security of the financial resources of the Cooperative, the Board directs the CEO to create and/or update or see to the creation and/or updating of the following planning reports and documents (hereinafter “reports”). These reports shall be created/updated on a regular basis with frequencies no less than the timeframes in the table below. All reports shall be reviewed and approved by the

Board. Note that from time to time there may be other planning reports not included below that may be necessary to meet this policy's intent.

<i>Planning Report Description*</i>	To Be Created/Updated with frequencies no less than the following*
Wholesale Power Contract	<i>As Necessary</i>
Long Range Construction Plan	<i>10 Years</i>
Construction Work Plan	<i>5 Years</i>
Cooperative Strategic Plan	<i>3 Years</i>
Cost of Service Study	<i>3 Years</i>
10 Year Financial Forecast	<i>Annually</i>
Capital Budget	<i>Annually</i>
Operating Budget	<i>Annually</i>

**Note: The above planning reports and time periods shall be changed as recommended by the CEO and approved by the Board*

The Cooperative shall use all resources at its disposal to assist in preparing the aforementioned planning reports. These resources shall include but are not limited to: annual independent audit; CFC Key Ratio Trend Analysis (KRTA); historical operating statements, balance sheets and cash flow analyses; and cost of service study.

FINANCIAL GOALS AND PARAMETERS

The Board directs Management to operate the Cooperative so that its financial operating results are within the following goals and parameters as established by the Board. Cooperative management shall review these financial goals and parameters annually and recommend changes to the Board, if necessary.

Equity Ratio

In order to minimize the risks associated with insolvency and maintain an optimal cost of capital, management shall strive to achieve the following equity ratio(s):

The Cooperative shall strive to maintain an equity ratio between 45% and 50%. Equity ratio is defined as Total Margins & Equity divided by Total Assets & Other Debits, as calculated by KRTA ratio #16.

Patronage Capital

The Cooperative shall allocate and retire patronage capital dividends in a manner that: (1) is consistent with all legal and regulatory requirements; (2) consistent with operating on a cooperative basis under federal tax law; (3) is fair and reasonable to the Cooperative's members and former members; (4) provides the Cooperative with sufficient equity and capital to operate effectively and efficiently; (5) is in compliance with debt covenants; and (6) protects the Cooperative's financial integrity. The Cooperative shall not retire any patronage dividends until the Board first determines that the retirement will not adversely impact the Cooperative's financial condition. Subject to applicable law, the Cooperative's Articles of Incorporation, and the Cooperative's bylaws, the allocation and retirement of patronage dividends are at the sole discretion of the Cooperative's Board.

Coverage ratios

In order to minimize liquidity and insolvency risk, management shall strive to achieve the following coverage ratio(s):

CFC

In accordance with the mortgage requirements of *NRUCFC*, The cooperative shall maintain a minimum MDSC (2 of 3 year high average) of 1.35. MDSC (2 of 3 year high average) is defined as the average of the high two MDSC ratios of the last three years, as calculated by KRTA ratio #11.

Other

The cooperative shall maintain a minimum TIER of 1.6. TIER 6 is defined as the measurement of the Coop's ability to earn margins sufficient enough to cover the interest expense on long-term debt, as calculated by KRTA 6.

Short-Term Debt

- The Cooperative shall maintain a line-of-credit for short-term operating purposes in an amount of \$1,700,000.
- The CEO shall consider and discuss establishing a line-of-credit for interim or bridge financing with the board on a case-by-case basis.
- The CEO is authorized to establish emergency lines-of-credit as necessary to support the capital and operating needs of storm recovery efforts.

Long-Term Debt – Variable and Fixed

The aggregate amount of all loans drawn and available to be drawn by the Cooperative shall not exceed the maximum debt limit established by the Board as contained in the Cooperative's mortgage documents.

Cost of Service Study

Management and Board shall strive to maintain a fair, equitable and risk rated balance between the collection of revenue and incurring of expenses between all revenue classes. This balance shall be determined through completion of an industry accepted cost-of-service study, completed on a regular basis, but no less frequently than once every 3 years.

Investment policy - General Funds and Other Liquid Assets

Optimal management of electric cooperatives includes the fiduciary responsibility of selecting appropriate investments for general funds and other liquid assets. Typically, these investments are of low risk and high liquidity in order to ensure payment of current liabilities as they become due. Management shall prepare and the Board shall approve an investment policy statement (IPS) regarding the cooperative's general funds and other liquid assets.

The IPS shall include the following:

- **Risk Tolerance:** Understand the willingness and ability for the cooperative to assume risk. For electric cooperatives, risk tolerance should be low since these investments are typically needed to pay current liabilities.

- **Constraints:**
 - **Time Horizon:** Identify the time horizon of the investments. For electric cooperatives, the time horizon should be short (under 12 months) since these investments are typically needed to pay current liabilities.
 - **Liquidity:** Identify immediate and ongoing liquidity needs. For electric cooperatives, these investments should be very liquid in order to be available to pay current liabilities.
 - **Laws and Regulation:** Identify legal and regulatory issues governing investment activity.
 - **Taxes:** Identify tax issues, if applicable.
 - **Unique Circumstances:** Identify any special needs of the cooperative.
- **Return:** Identify the expected rate of return based on the requirements stated above. For electric cooperatives, the return on these investments is of secondary importance to risk tolerance, time horizon and liquidity in order to ensure payment of current liabilities.

Suggested investments for general funds and other liquid assets:

- **CFC Daily Fund:** CFC's Daily Fund offers owners a highly flexible, "money market" type of investment account for cash surpluses to which the owner may need ready access. The fund allows owners to earn stronger returns on their short-term cash surpluses without tying the funds to any set maturity.
- **CFC Member Commercial Paper:** CFC owners can earn interest on their temporary cash surpluses by investing in CFC Commercial Paper, a highly flexible, strongly rated investment option with maturities ranging from one to 270 days.

FINANCIAL FORECASTING

Management shall create financial forecasts including: an Annual Budget and a 10-year financial forecast, described below. The forecasts shall use the planning documents identified in section III and incorporate the financial goals identified in section IV.

Annual Budget

Based on the planning documents and the financial goals identified in sections III and IV, management shall prepare or cause to be prepared an annual financial budget. The budget shall be prepared for the ensuing calendar year and shall be presented to the Board for their approval no later than December each year.

The budget shall include, at a minimum, the following sections:

- Assumptions used to prepare the budget
- Description of the primary changes and projects contemplated for the coming year
- Statement of operations by month
- Balance sheet
- Statement of changes in cash flow, detailing cash from operations, investing and financing
- Capital Expenditures (CAPEX) by month

10-year financial forecast

Based on the planning documents and the financial goals identified in sections III and IV, management shall prepare, or cause to be prepared, a 10-year financial forecast. The first forecast year will contain the financial data from the annual budget above. A summary of the financial forecast shall be reported to the Board no later than March at its regular or special board meeting each year. The financial forecast shall include and comply with all of the financial goals and

parameters identified by the Board in section IV plus include significant assumptions utilized in its preparation. In order to comply with typical lender requirements, the 10-year financial forecast shall, at a minimum, contain the following sections:

- Ratios
- Balance sheet
- Statement of operations
- General funds
- Load projections
- Determination of operating revenue
- Plant investment
- Determination of debt and debt service
- Cash flow

Conflicts with financial goals

If the financial goals in section IV conflict with each other to such a degree that the financial forecast cannot reasonably achieve all of them at the same time, management shall communicate the conflict(s) to the Board. The Board shall, with Management’s guidance, discuss and resolve these conflicts.

Rate policies/philosophy

Management shall recommend to the Board retail electric rates as recommended or amended to meet the aforementioned financial goals established by the Board. The rates shall include a power cost factor adjustment designed to automatically adjust revenues based on changes in the Cooperative’s wholesale power cost.



Marcee Tonsor, Secretary

