

SAWNEE ELECTRIC MEMBERSHIP CORPORATION

POLICY NO. 304

SUBJECT: GENERAL RETIREMENT OF SAWNEE EMC PATRONAGE CAPITAL

I. OBJECTIVE

To provide a method of retiring Patronage Capital allocated by the Corporation as referenced in Sawnee Electric Membership Corporation's Bylaws, Article IX, Section 9.02 relating to the Corporation's operating margins ("Sawnee EMC Patronage Capital").

II. CONTENT

A. GENERAL

1. It shall be the policy of Sawnee Electric Membership Corporation ("Corporation" or "Cooperative") to, whenever appropriate and practical as determined by the Board of Directors ("Board") of the Corporation, make retirements of Patronage Capital to its members or their designee.
2. Such retirements must be consistent with sound fiscal and management practices and be consistent with the provisions of the Corporation's Mortgage Contract with the Rural Utilities Service ("RUS"), other mortgage holders, the Bylaws of the Corporation and sound business practices.
3. Any retirement of Patronage Capital shall only be made if the Board of the Cooperative, at its sole discretion, determines that such retirement would not have an adverse effect upon the financial integrity, strength, viability and flexibility of the Cooperative.
4. General retirements of Sawnee EMC Patronage Capital, excluding Patronage Capital from Affiliated Organizations as outlined below, shall be subject to Board approval as provided in this and related policies or as may otherwise be established by the Board.

B. AFFILIATED ORGANIZATIONS

1. It is the Policy of the Cooperative that it shall not consider the retirement of Patronage Capital allocated to its patrons by the Corporation from Affiliated Organization(s), as the term Affiliated Organization(s) is defined in Cooperative Policy No. 303, until such time that: 1) the Affiliated Organization(s)' Patronage Capital is received in cash or in billing credit to the Cooperative and are not re-invested in an Affiliated Organization by this Cooperative for the same and all prior years and 2) the Affiliated Organization(s)' Patronage Capital has been approved for retirement by the Board .

2. Nothing herein, however, shall require any retirement of Affiliated Organizations Patronage Capital and no retirement shall be made if the Board, in its sole discretion, determines that such retirement would have an adverse effect upon the financial integrity, strength, viability and flexibility of the Cooperative.
3. The Patronage Capital from Affiliated Organization(s) shall be allocated, retired and paid in accordance with Policy No. 305. This Policy (Policy 304) only sets forth the procedures for retiring Sawnee EMC's Patronage Capital.

C. SET OFF AND RECOUPMENT OF DEBTS TO THE COOPERATIVE

1. Before the Cooperative makes any general Sawnee EMC Patronage Capital retirement as described herein, it shall:
 - a. Deduct any amount then owed by such member as prescribed in Article 9, Section 9.02 of the Cooperative's bylaws; and
 - b. In the case of a retirement to a member who has subsequently filed bankruptcy, deduct such amounts owed to the Cooperative prior to the time of the bankruptcy, unless the member demonstrates that such deduction of amounts owed is prohibited by the Bankruptcy Court's final order relating to the bankruptcy.

D. OTHER

1. Notwithstanding the foregoing, the early retirement of Sawnee EMC Patronage Capital to the estates or legal representatives of deceased members on a discounted basis may be made by the Cooperative in accordance with Corporate Policy No. 303.
2. The Board, in its sole discretion, may elect to make a special general retirement of patronage capital. Any action taken relative to a special general retirement of patronage capital will be done in a manner and at a time that will not, in the sole determination of the Board, have an unreasonable adverse impact on the Cooperative, or place a material financial burden on current retail rates and/or rate payers.

III. RESPONSIBILITY

It shall be the responsibility of the President and Chief Executive Officer, as directed by the Board, to administer this policy, to develop appropriate controls for its overall enforcement and to report his findings to the Board.

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ADOPTED: December 20, 1967

REVISED: April 18, 1991
March 19, 1992
October 21, 1993
June 20, 1996
July 18, 1996
January 23, 2003
March 18, 2004
June 16, 2005
July 13, 2006
February 19, 2009
January 20, 2011
January 17, 2013
April 16, 2015
June 16, 2016

EFFECTIVE: June 20, 1996
July 18, 1996
January 23, 2003
May 1, 2004
June 17, 2005
July 14, 2006
February 19, 2009
January 20, 2011
January 17, 2013
April 16, 2015
June 16, 2016