

SAWNEE ELECTRIC MEMBERSHIP CORPORATION

POLICY NO. 305

SUBJECT: PATRONAGE CAPITAL FROM AFFILIATED ORGANIZATION(S)

I. OBJECTIVE

- A. The objective of this policy is to establish guidelines for the accounting and treatment of Patronage Capital allocated to Sawnee Electric Membership Corporation (the “Cooperative”) by Affiliated Organization(s), as authorized by Section 9.02 of the Bylaws.

II. CONTENT

A. GENERAL

1. These guidelines are established to facilitate the Cooperative in making assignments and, where appropriate, retirements to its members and former members of the Cooperative’s Patronage Capital allocated from Affiliated Organization(s) that are allocated to the Cooperative and on the books of the Cooperative.
2. The Cooperative generally allocates Patronage Capital from Affiliated Organization(s) in the same manner as the Cooperative allocates Patronage Capital from its own Operating and Non-Operating Margins (“Sawnee EMC Patronage Capital”), as defined herein.
3. However, pursuant to the provisions of Section 9.02 of the Cooperative's Bylaws, Patronage Capital is allocated from year to year to the Cooperative by virtue of its patronage to Affiliated Organization(s), which shall be accounted for in accordance with the following guidelines:
 - a. Affiliated Organization(s) Patronage Capital will generally be allocated to each of the Cooperative's patrons as Patronage Capital pursuant to the same method employed for allocating Sawnee EMC Patronage Capital, as defined herein.
 - b. The Cooperative shall generally, except as provided herein, maintain its Patronage Capital records and books in such a manner as to separately reflect Patronage Capital allocations related to Affiliated Organization(s), as opposed to those which are allocated from Sawnee EMC Patronage Capital.

- c. The Cooperative will notify its members and/or former members annually of the Patronage Capital allocated to them related to Affiliated Organizations with respect to the preceding fiscal year, in accordance with its Bylaws and in the same manner and at the same time that members and former members are notified of Sawnee EMC Patronage Capital allocations.
- d. The Cooperative will not retire and pay to its members and/or former members Patronage Capital allocated to them related to Affiliated Organization(s) until:
 - (1) The related Patronage Capital from the Affiliated Organization(s) have been retired and paid to the Cooperative in cash or by billing credits and are not re-invested in an Affiliated Organization by this Cooperative for the same and all prior years.
- e. Nothing herein, however, shall require any such retirement of Patronage Capital or Affiliated Organization Patronage Capital and no such retirement shall be made if the Board of Directors (Board) of the Cooperative, at its sole discretion, determines that such retirement would have an adverse effect upon the financial integrity, strength, viability, and flexibility of the Cooperative.
- f. The exception contained in Policy No. 303 for retiring Patronage Capital to estates of deceased members or former members, who were natural persons, shall not apply to the Affiliated Organization Patronage Capital of deceased members or former members, unless, and only to the extent that, such Affiliated Organization(s) have made related Patronage Capital retirements in cash or by billing credits, for the same and all prior years, that were not re-invested in an Affiliated Organization by this Cooperative for the same and all prior years.
- g. Notwithstanding the foregoing, Affiliated Organization Patronage Capital shall not be separately accounted for, and treated with respect to, any given fiscal year that the Board determines that the amount of the Affiliated Organization Patronage Capital is too insubstantial to justify the administrative and other expenses required to separately account for and treat such Affiliated Organization Patronage Capital. Upon such a determination of the Cooperative's Board, these insubstantial Affiliated Organization Patronage Capital allocations may be retired prior to the Cooperative receiving a retirement of its allocated Patronage Capital in cash or billing credit from the Affiliated Organization.

- h. Should the Board determine that an Affiliated Organization is unlikely or unable to retire in cash or otherwise pay in cash or billing credits the Affiliated Organization's Patronage Capital allocated to the Cooperative, the Board may, at its sole discretion, re-value such Affiliated Organization Patronage Capital on the books of the Cooperative and as allocated to the Cooperative's members and former members.

III. RESPONSIBILITY

The President and Chief Executive Officer shall have full responsibility and authority to implement this Policy, except for the determinations that from time to time are required by this Policy to be made by the Board.

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