

Board of Directors Policy

Subject: Equity Management Policy			Policy No: 202
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I. OBJECTIVE

To establish the basis for sound, long-range financial management of the Cooperative. This policy will establish equity levels, TIER levels, and require financial planning and budgeting that permit ongoing retirement of patronage capital to the Cooperative's consumers.

II. POLICY

- A. The CEO is responsible for financial management of the affairs of La Plata Electric Association, Inc to ensure that the following financial ratios are met and maintained: (1) minimum requirements of the lenders and (2) pursue a goal of reaching and maintaining the Equity as a percentage of capitalization at 38-42%.
- B. The CEO will assist the board in meeting its' equity goals.
- C. The CEO will ensure that the financial affairs of the Cooperative are maintained in such a way that capital patronage retirements can be refunded.

III. REPORTING

- A. The CEO will report on a monthly basis the financial status of the Cooperative to the board of directors.
- B. The CEO will provide the directors with an annual budget, which will, either through efficient financial management or through rate increases, if absolutely necessary, maintain the financial levels established in Part II.
- C. The CEO will annually report to the board the year-end financial condition of the Cooperative.
- D. The CEO will annually provide to the board of directors an equity projection as part of the financial forecast.

IV. DEFINITIONS

Minimum financial ratios required by RUS for meeting mortgage requirements;

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Mortgage requirements: The average coverage ratios achieved by the borrower in the best 2 out of the last 3 calendar years must not be less than:

TIER 1.25,
DSC 1.25,
OTIER 1.1,
ODSC 1.1,
MDSC 1.35 (CFC requirement)

TIER (**T**imes **I**nterest **E**arned **R**atio) equals interest on long-term debt plus Patronage Capital or Margins divided by Interest on Long-Term debt.

OTIER (**O**perating **T**imes **I**nterest **E**arned **R**atio) equals the sum of Interest on Long-Term debt, Operating Margins and cash received from G&T's and CFC for patronage retirement divided by Interest on Long-Term debt.

DSC (**D**ebt **S**ervice **C**overage) Debt Service Coverage equals the sum of Depreciation & Amortization Expense Interest on Long-Term Debt, and Patronage Capital or Margins divided by Total Billed Debt Service.

DSC is a measurement of the system's ability to generate sufficient funds to cover the cash requirements of its long-term debt service (principal and interest) on an annual basis. The non-cash expense of depreciation and amortization expenses is taken into consideration as a cash generator. A ratio value of 1.0 indicates that the system generated only enough cash to cover its principal and interest payments (total debt service) on its long-term debt.

ODSC (**O**perating **D**ebt **S**ervice **C**overage) Like DSC, ODSC is a measurement of the system's ability to generate sufficient funds to cover the cash requirements, but adjusted to eliminate non-cash amounts that are included in margins such as G&T capital credit allocations to a distribution cooperative, for the true cash impact of non-operating margins, of its long-term total debt service (principal and interest) on an annual basis. The non-cash expense of depreciation and amortization expenses is taken into consideration as a cash generator. A ratio value of 1.0 indicates the system generated only enough cash to cover its principal and interest payments (total debt service) on its long-term debt for the year.

LA PLATA ELECTRIC ASSOCIATION, INC.
DURANGO, COLORADO

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Equity level as a Percent of total Capitalization equals Total Margins & Equities divided by the total of Total Margins & Equities and Total Long Term Debt

This ratio is similar to above without the influence of the change in current assets and current liability balances. This ratio represents the percent of total capitalization (debt and equity) that members own. Since current assets/liabilities are ignored, permanent long-term growth is better expressed in this ratio.

MDSC (Modified Debt Service Coverage) equals the sum of Depreciation & Amortization Expense, Interest on Long-Term Debt, Operating Margins, Interest Income, and all cash received for patronage retirements divided by Total Billed Debt Service.

August 19, 2009
Date



Secretary, Pam Patton