To: All Electric Program Borrowers  

Subject: NRECA RS Plan - Voluntary Contribution Acceleration Program (VCAP)

NRECA has introduced a new Voluntary Contribution Acceleration Program (VCAP) as part of NRECA's Retirement and Security Plan (RS Plan). The VCAP option allows a cooperative to make voluntary, ad-hoc additional contributions to the RS Plan in exchange for a proportional reduction in the benefit funding portion of their billing rate for a specified discount period which is chosen by the cooperative, not to exceed ten (10) years. In our past experience with a similar program, we found that some participants borrowed funds from third party lenders to participate in this type of program.

Generally speaking, Section 6.13 of the typical RUS Loan Contract places restrictions on incurring further indebtedness and then lists several exceptions to the restrictions. If an exception applies, Section 6.13 defines the excepted indebtedness as "Permitted Debt." Not all unsecured indebtedness is "Permitted Debt." Section 6.13(e) of the RUS Loan Contract limits the amount of unsecured indebtedness that a borrower may incur to 15% of Net Utility Plant if the borrower's equity level, after giving effect to such unsecured indebtedness, is less than 30% of its Total Assets unless the borrower obtains the consent of RUS.

In order to facilitate participation in the VCAP option, to reduce the administrative burden on our borrowers, and eliminate the need for RUS to act on individual borrower requests to incur unsecured indebtedness; RUS will allow unsecured indebtedness incurred specifically for the purpose of participating in the VCAP to be an exception to 6.13(e) and be considered "Permitted Debt." Consequently, such unsecured indebtedness will be excluded for all purposes in applying Section 6.13(e). This is an interpretation and consent under the RUS loan contract and not an endorsement of any pension plan or its options.
From an accounting perspective, these payments are voluntary prepayments of pension costs and have a future benefit. The amounts shall be recorded as a long-term prepayment in Account 186, Miscellaneous Deferred Debits, of the RUS Electric Uniform System of Accounts, 7 CFR 1767 (USOA). This prepaid expense shall be amortized to Account 926, Employee Pensions and Benefits, over a period equal to the cooperative's selected discount period in the VCAP option. If an entity chooses to finance its prepayment, interest expense shall be recorded as such in the year incurred as required by the USOA.

For specific questions on the VCAP option, please contact NRECA directly.

As always, we appreciate the opportunity to serve our borrowers and improve customer service.

Sincerely,

Christopher A. Mclean
Assistant Administrator, RUS Electric Program