



The Nuts and Bolts of Capital Credits

1. CVEA tracks how much electricity you buy and how much money you pay for it throughout the year.
2. At the end of the year, CVEA's financial statements show whether revenues exceed costs and result in a margin.
3. CVEA allocates the margins to members as capital credits based upon their use of electricity during the year.
4. CVEA's Board of Directors and employees work to ensure that your Cooperative's financial strength allows capital credits to be paid.

The difference between a cooperative, like CVEA, and an investor-owned utility is that a cooperative is owned by the member-customers it serves.

As a member-owner, you share in the profits of the co-op. As a nonprofit electric cooperative, CVEA allocates our annual operating margins, or profits, to members receiving service during the year.

At the close of each fiscal year, these margins (revenue in excess of expenses) are allocated back to the membership based on the dollar amount of electric service each member purchased that year compared to the total electric service purchased by all members. Those allocations are called capital credits. Capital credits are used by CVEA for operating capital or retired (paid back to our members) when the financial position of the Cooperative permits and bylaw provisions are met.

How do capital credits work?

You need to know two things about capital credits in order to understand how they work for you:

1. **Allocations:** Each year, you are "allocated" your portion of

the previous year's profit (margin) based on the amount of electricity you purchased from CVEA in relation to the total amount of electricity purchased by all members during the year. This amount is put into a "holding account" for a number of years and used by CVEA to fund capital needs for items such as power line construction, transformers, trucks, inventory and other equipment.

This is an underlying principle of the cooperative business model and is one more way we keep your electric rates as low as possible. This "allocation" adds to your equity in the Cooperative and is maintained in a separate account assigned to you.

2. **Retirement:** This is what you will get in cash at a later date. CVEA uses the amount "allocated" to you for a time, but then returns this amount to members in the form of retirements," which are actual "cash back" dollars to you.

How does a member know the amount of his or her capital credits?

Each member has a separate capital credit account, which represents the member's ownership in the Cooperative. When capital credits are allocated at the end of a year, all members who received electric service during that year will receive an allocation notice showing their current year's allocation and the outstanding balance of all years' service.

For current members this is provided on your electric bill in the June timeframe. Prior members will receive a separate statement.

These amounts are NOT now payable and do not represent cash, but rather your equity in CVEA. You cannot apply these amounts to your electric bill.

What if I had service at more than one location at the same time?

Members with multiple accounts for different locations will

receive a consolidated capital credit allocation statement and/or check whenever possible, grouped under a single membership number.

When are capital credits returned to members?

Per Cooperative Bylaws, your locally elected Board of Directors determines the amount of retirement (cash back) each year, based on the financial position of the Cooperative and other considerations.

CVEA's financial position does not allow for retirement of capital credits every year. If there are large projects in the plan of work that need funding, it is in the best interest of the members to use this funding instead of borrowing money.

How much has CVEA retired?

Over the last 15 years CVEA has retired \$3,463,052. January 2011 was the last general retirement when five percent of member equity was given back to members.

Why hasn't CVEA retired any capital credits since 2011?

Building Allison Creek is the financial priority for the CVEA Board of Directors. By building Allison Creek, CVEA will be borrowing money and adding assets, which lower the Cooperative's equity ratio.

Many cooperatives have different financial goals but a general industry equity ratio has been 30-40 percent. When you go below 30 percent, banks may limit capital credit retirements and it can hinder the ability to borrow money when needed.

It is CVEA's responsibility to ensure the Cooperative remains financially sound. Maintaining an appropriate equity ratio is important and impacts the amount of funds available to retire capital credits.

As of October 31, 2014, CVEA's equity ratio was 28.26 percent. As CVEA's asset number increases for Allison Creek, the equity ratio will reduce even farther, creating a situation where capital credit retirements are not financially responsible.

Why do I get a check from CVT but not CVEA?

Copper Valley Telecom is funded differently than CVEA. One source is the Universal Service Fund (USF). This is a national fund that everyone who has a telephone pays into. The funds are then redistributed to those areas of the country that have the highest costs to operate, such as Copper Valley Telecom. Universal Service is a national policy that dates back to 1934.

The USF allows CVT to receive a return on its investments, while providing affordable telecommunication services to its customers. These different sources of non subscriber funding enables them to have adequate margins to retire capital credits each year.

A majority of CVEA's money comes from its members. If

CVEA wanted to make a retirement, but the cash was being used for major projects, the Co-op would have to borrow the money and then members would pay an additional interest charge.

Once the Allison Creek Project is built and in operation, CVEA's goal is to return to a normal retirement schedule.

Is my capital credit allocation taxable?

For individuals, capital credits are generally not taxable. We suggest you seek the advice of a tax professional for any specific questions.

What happens in case of a deceased member?

The CVEA Bylaws provide for the option of an early retirement of the capital credits of a deceased member to his or her estate (no early retirement of capital credits is allowed in the case of dissolution of a corporation or partnership).

Representatives of a deceased member's estate can choose whether to receive the deceased member's capital credits in the form of a present valued lump sum payout or to wait and receive the monies as they are retired as part of the normal, non-discounted retirement process of the Cooperative.

To find the dollar amount of the discounted estate retirement, the executor of the estate must contact the Cooperative.

What should a member do if he or she moves from our service area?

The member should inform our office of any changes in his or her mailing address. It is a member's responsibility to make sure the Cooperative has up-to-date address information at all times.

CVEA will need your address change in writing. This can be completed by mail, fax, or email.

CVEA does not have a policy to retire and pay capital credits to members who are moving away. Industry and legal guidance has advised us against this as it improperly discriminates against current members.

For additional information on Capital Credits or specific questions regarding your account, please contact Mary Ellen Bedrick at (907) 822-3211. ■

