

Capital Credits, Frequently Asked Questions

What is a cooperative?

A cooperative is a business that is owned and controlled by the people who use its services.

What are capital credits?

A cooperative does not earn profits in the sense that other businesses do. Instead, any margins, or revenues remaining after expenses have been paid, are allocated to the members in proportion to their usage of the co-op's services. Capital credits represent each member's share of the cooperative's margins and ownership of the co-op.

What do cooperatives do with capital credits?

Every business needs to maintain a suitable balance between debt and equity to ensure its financial health and stability. Capital credits are the most significant source of equity for most electric cooperatives. In addition to expenses the cooperative has capital expenditures (poles, conductor, transformers, equipment, etc.) that must be financed through either debt (borrowed funds) or equity (rates). Using equity (capital credits) to finance a portion of capital expenditures helps keep rates at a competitive level by reducing the amount of funds that must be borrowed.

How does the cooperative determine who receives capital credits?

Capital credits are allocated to each member of Ozark Electric Cooperative every year based on participation in the cooperative. The allocations are based on the total dollar amount of services purchased.

How does the cooperative notify members about capital credits allocations?

In recent years Ozark Electric has notified members of annual capital credits allocations through the Rural Missouri magazine.

How are retirements of capital credits determined?

Each year the board of directors determines whether the co-op's financial position permits the return, or retirement, of capital credits and, if so, what amount of capital credits will be retired.

How are capital credits disbursed?

The board decides the method for determining how capital credits are returned. This year the board has authorized retiring capital credits using the First-in, First-out, or FIFO, method. That means that the capital credits that have been invested in the cooperative for the longest period of time are returned to members first. Retirements will be for the years 1968 through 1972 and total about \$1.3 million.

Customers who were members between 1968 through 1972 and are still members today will receive a credit on their December bill statement.

Do members receive interest on capital credits?

Cooperatives do not pay interest on capital credits because the money to pay that interest would have to be collected from members through higher rates.

What happens to a member's capital credits if the member moves away from the system?

A member who terminates service no longer receives additional capital credits allocations. The balance in the member's capital credits account is maintained until it is retired in full.

It is the member's responsibility to notify the co-op of any changes in address so that the member can be located when it is time for the co-op to retire capital credits allocated to the member's account.

What happens to a member's capital credits if the member dies?

Capital credits in the member's account belong to the member's estate. The heir of the estate should submit an Affidavit of Heirship in order to claim the deceased member's capital credit retirement.

Why does the co-op not charge lower rates instead of retaining capital credits?

The board of directors has a fiscal responsibility to maintain the financial integrity of the cooperative in a way that provides competitive rates and allows the return of capital credits to members. Having a sound equity management plan and a commitment to serving the members are key to achieving this.

Does the member have to report capital credits on tax returns?

Capital credits are a return of money paid for electricity in a previous year and are generally not taxable income for residential consumers. Commercial and industrial consumers should discuss any capital credits retirements with their tax advisers.