

Capital Credits

You deserve the credit

When you signed up to receive electric service from PPCS you became a member—and owner—of an electric utility. While investor-owned utilities return a portion of any profits back to their investors, electric co-ops operate on a not-for-profit basis. Instead of returning leftover funds, known as margins, to investors who might not live in the same region or even the same state as you do, we issue capital credits. Sometimes called patronage capital or equity capital, capital credits are based on what you purchase from the cooperative during a specified time period.

What are capital credits?

Capital credits are a major benefit of belonging to a cooperative. As a cooperative, PPCS is owned by its members. Unlike other electric utilities, your cooperative is a not-for-profit organization. Any revenues (margins) remaining after expenses have been paid are allocated to our members as capital credits. Each member's share is based on their purchases. Capital credits, or member equity, represent your investment in the cooperative.

Where does the money come from?

As a member-owned electric cooperative, PPCS sets rates to generate enough money to pay for the cost of operating, constructing and building the facilities. At the end of each calendar year, expenses are subtracted from revenues for the year. The balance is called a margin.

Why are capital credits important?

Margins represent the amount of working capital retained to keep the cooperative financially sound and provide safe, reliable electric service by investing in substations, power lines, poles and other critical infrastructure. Money is also used to balance equity and debt requirements as investments are made in the electrical system. This builds your equity in the cooperative based on the amount of time you are a member.

What is the difference between allocated and retired (refunded) capital credits? Allocated capital credits appear on the permanent financial records of the cooperative and reflect your equity as a member-owner of the cooperative. Each year the board of directors considers the financial condition of the cooperative. If the board approves the retirement (refund) of capital credits, a check or credit is issued to qualifying members whose equity in the cooperative is then reduced.

How are margins allocated?

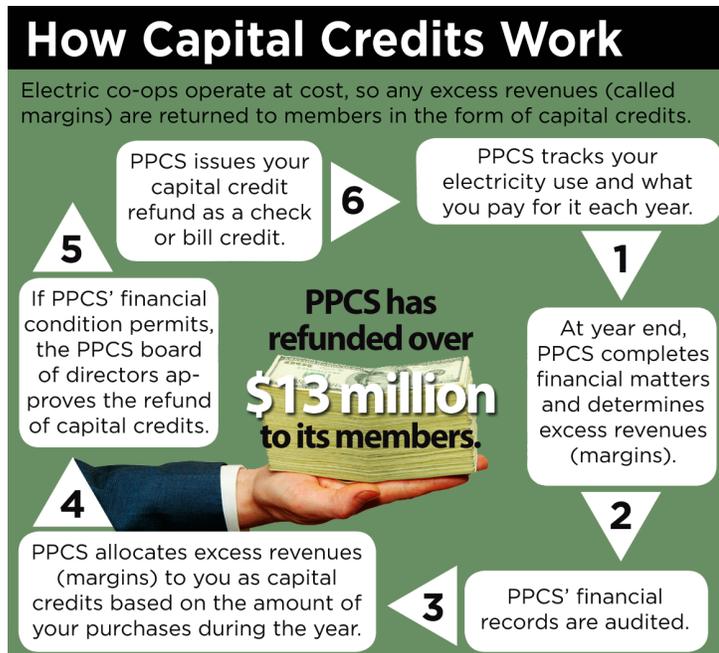
Margins (or patronage) are allocated to members as capital credits based on each member's share of purchases from the cooperative for the year.

How will I know if I have been allocated capital credits?

Members will receive a Notice of Capital Credit Allocation after the cooperative's finances for the previous year have been audited, usually in early spring. The notice indicates the amount of capital credits assigned to that member.

Can I use capital credits allocated to me to pay my electric bill?

No. Capital credits are only available to members after the board determines there are funds available for refund.



Why does my cooperative refund capital credits?

In doing so, PPCS follows one of our seven cooperative principles—Members' Economic Participation. This principle states: "Members contribute equally to, and democratically control, the capital of their cooperative. Members allocate surpluses for any or all of the following purposes: developing the cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership."

Are capital credits refunded every year?

Each year the PPCS Board of Directors makes a decision about whether to refund capital credits based on the financial health of the cooperative. During some years the co-op may experience high growth in the number of new accounts added or severe storms may result in the need to spend additional funds to repair lines. Both events might keep member equity low, causing the board to defer any capital credits refunds. If the cooperative is strong enough financially and the member equity levels high enough, the board directs staff to refund all or some portion of past years' capital credits.

Do I lose my capital credits in the years that refunds are not made?

No. All capital credits from every year members have been served by PPCS are maintained until the board approves their refund.

How will the refund work?

Active members receiving less than \$50 will see the refund as a credit to their electric bill, usually the one due in October. Active members receiving \$50 or more will receive a check, typically by the end of September. Inactive members who no longer purchase electricity from PPCS (with capital credits due) will also receive a check. The minimum check will be \$5, unless it is a final capital credit refund. If the amount is less than \$5, that amount will be combined with any future capital credits refund(s) and paid out to inactive members when the amount is \$5 or more.

I have more than one account. On which account will my refund credit be applied?

The refund credit is applied to the lowest numbered account.

I have an old capital credit check. Can I still cash it?

If your financial institution will not cash an old check, PPCS will issue a replacement check upon receipt of the old check.

What if I lost my capital credits check?

PPCS will reissue a replacement check upon verification that it remains outstanding.

What if I have moved?

Capital credits, on average, are refunded 25 years after they are allocated, and are reserved for members even if they move out of the PPCS service area. If you move or no longer receive electric service from PPCS, it is important that you keep your address current so that future disbursements can be properly mailed.

What happens to unclaimed capital credits?

PPCS attempts to locate people who have not claimed their capital credits through a notice in the cooperative magazine, the local media and a postcard mailed to the last-known address. If capital credits are not claimed within the timeframe indicated in the notice, state law allows PPCS to donate them to the Federated Youth Foundation, Inc., where they are held in trust and used for scholarships, educational projects and charitable purposes.

What happens to the capital credits of a member who dies?

The capital credits of a deceased member may be paid as part of the normal retirement process or on a net present value basis. However, payment will depend on the type of ownership and the choice of the survivors or heirs. A representative of the estate must request payment by providing a death certificate and/or other documentation.

Do I need to claim allocated or paid capital credits as income on my tax return?

It depends. PPCS mails 1099s for capital credits payments of \$600 or more. Please consult your tax advisor for more information.