



Capital Credits: Questions & Answers

Because Lake Country Power is a cooperative, owned by its members, it does not earn profits. Instead, any revenues over and above the cost of doing business are considered “margins.” These margins represent an interest-free loan of operating capital by the membership to the cooperative. This capital allows Lake Country Power to finance operations and — to a certain extent — utility construction, with the intent that this capital will be repaid to you in later years. We have provided answers to some questions for a better understanding of capital credits.

WHAT is the difference between allocated and retired capital credits?

Allocated capital credits appear as entry on the permanent financial records of the cooperative and reflect your equity or ownership in Lake Country Power. When capital credits are retired, a check is issued to you and your equity in the co-op is reduced.

HOW often will I receive an allocation notice?

You will receive an allocation notice annually after the finances for the previous years financial statements have been completed and audited.

WHEN will I receive my next capital credit payment?

The next capital credit retirement is scheduled for December if margins allow. Retiring capital credits on an annual basis is a long-term strategic goal set by the Board of Directors.

HOW are capital credits calculated?

The amount of capital credits you earn in a given year is based upon the amount of capital you contribute to the cooperative through payment of your monthly bills. The more electric service you buy, the greater your capital credits account — although the percentage will remain the same. The sum of your monthly bills for a year is multiplied by a percentage to determine your capital credits.

WHAT percent of my bill is returned as capital credits?

The percentage of your total payment that is allocated as capital credits varies from year to year, depending upon the financial health of the cooperative. Capital credits are only allocated for a year in which Lake Country Power earns margins.

WHY does it take so long to be paid from my capital credit account?

The co-op has retired all capital credits through 1981, and when all capital credit accounts over 25 years old are retired a “hybrid” process will likely be implemented, in which current members will also receive a retirement (based on a percentage of the amount of capital current members contribute to the cooperative through payment of monthly electric bills).

WILL I receive a capital credit check every year?

Not necessarily. The Board of Directors must authorize a retirement before you receive a check. When considering a retirement, the Board analyzes the financial health of the cooperative and will not authorize a retirement if Lake Country Power can not afford it.

WHAT do I have to do to start accumulating capital credits?

Capital credits are calculated by Lake Country Power for every member who purchased electricity during a year in which the utility earned margins. No special action is required to start a capital credits account. Your membership activates your capital credits account. If you are billed for service for even one month, you will accumulate some capital credits if Lake Country Power earned margins in that year.

CAN I use my allocated capital credits to pay my electric bill?

No. Allocated capital credits may not be used to pay current bills. Billing statements represent a current payment due. Capital credits accumulate over time and are used as working capital for the cooperative.

WHAT happens to the capital credits of a member that dies?

The capital credits of a deceased member may be paid on a discounted basis without waiting for a general retirement. A representative of the estate must request the credits by submitting a certification of entitlement form and a copy of the death certificate.

WHY discount early retirements?

By discounting special retirements, such as estates, the cooperative can make a payment sooner than it otherwise would without unfair cost to other members of the cooperative. Discounting special retirements reflects the time value of money and provides a fair way to recognize special circumstances while continuing to treat members equitably.

WHAT is the "time value of money" and why is it applied to early retirements of capital credits?

This commonly accepted accounting method allows for the valuation of money in the future to be adjusted for today's value by providing a lump-sum "present value" of the entire amount. Said differently, it factors in the value of money and a typical amount of interest for a given amount of time. For example, \$100 of today's money held for a year at 5 percent interest is worth \$105, therefore \$100 paid now or \$105 paid exactly one year from now is considered the same amount of money paid out.

WHAT happens to my capital credits when I leave the Lake Country Power service area?

They remain on the books in your name until they are retired. You should make sure that Lake Country Power always has your current mailing address to ensure the co-op's records are up-to-date when retirement checks are issued.