



## Runestone Electric Association's Capital Credits

### The Basics

**Runestone Electric Association (REA) is a cooperative.** A cooperative is a business that is owned and controlled by the people who use its services.

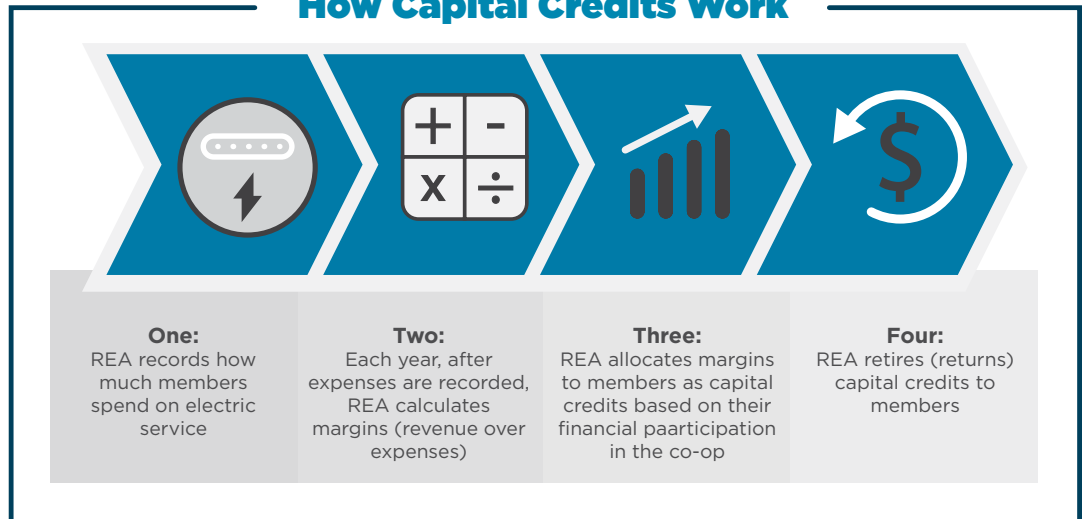
#### What are capital credits?

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

#### What does REA 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. Equity is used to help meet the expenses of the co-op, such as paying for new equipment to serve members and repaying debt. Capital credits help keep rates at a competitive level by reducing the amount of funds that must be borrowed.

### How Capital Credits Work



### The Fundamentals

#### How does REA determine who receives capital credits?

The REA Board of Directors determines the basis for the allocation and sets policy for capital credits retirement. Capital credits are allocated to each member of the cooperative every year based on financial participation in the cooperative.

#### How does REA notify members about capital credits?

REA prints the Capital Credit Allocation Notice on the June REA bill statement. The allocation is strictly a notice of the member's share of ownership and cannot be applied to the electric bill.

#### How are capital credits disbursed?

Each year the REA 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.

The Board also decides the method for determining which capital credits are returned. REA currently uses a combination of retiring a portion of the oldest membership allocation

(members receiving service in the early to mid-1990s) and to the newest membership allocation (members receiving service the previous year, i.e., 2019). General retirement checks have historically been mailed in April. When the retirement is less than \$5.00, the amount will accumulate until the total retirement exceeds \$5.00 before a check is issued.

#### What happens if you move and are no longer a member of REA?

As long as you keep us informed with your current mailing address, we will send your capital credit check whether you're a current co-op member or not.

#### What happens when capital credit checks are returned to REA?

When capital credit checks are not cashed or are returned to REA, and we are unable to locate the owner, we call those unclaimed capital credits. By law, we hold unclaimed capital credits for a period of time in order to allow owners to claim them. After that period of time, and if the owner was from Minnesota, funds can be used for the REA Scholarship Program. Otherwise, funds are claimed by states' unclaimed property laws.



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## Runestone Electric Association's **Capital Credits** *Cont...*

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### **Age 80 Capital Credit Retirement**

Members who have reached the age of 80 are eligible to request a one-time payment of capital credits. Members or their trustees (if their capital credits have been assigned to a trust for estate planning purposes) can complete the Certification of Age form.

**A copy of the member's driver's license or a copy of a birth certificate is required.**

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### **Estate Capital Credit Retirement**

#### **Joint Membership**

If the form of membership is joint, the membership is not eligible for a special retirement. The surviving joint member(s) becomes the sole owner(s) of the capital credit account and will continue receiving capital credit retirements.

#### **Individual Membership (married)**

A spouse of a deceased member with an individual membership or a spouse of a deceased member whose capital credits have been transferred to a trustee (provided that spouse is the beneficiary of the trust) may receive a capital credit retirement for the full amount (no discounting) assigned at the time of the death of the member.

#### **Individual Membership and Member's Trust (no spouse)**

An heir or a trustee upon the death of the member may apply for a special retirement of capital credits which will be discounted.

In order to assist the member's heirs in closing the estate, REA offers a special retirement of the capital credits at a discount. In the interest of fairness to all members, REA discounts special retirements to estates to reflect the net present value of making a capital credits retirement today that would otherwise be made at a later date.

Net Present Value (NPV) formulas are used to determine today's value of money that would otherwise have been paid through REA's general capital credit retirement process. If left until the general retirement date, the smaller amount received today would be equal to the general retirement amount. REA currently uses a 21-year maturity and a 6% discount rate when calculating the current worth of capital credit account balances.

Alternatively, heirs/legatees\* may continue to receive the deceased member's capital credits according to REA's general retirement process. It is the heirs'/legatees' responsibility to maintain a current mailing address.

*\*Legatee means a person(s), organization, or trust named in a will.*

If the capital credit check is to be issued to the estate, an Affidavit for Collection of Personal Property is required and available by contacting REA.

**A death certificate is required for estate retirements.**

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### **Are My Capital Credits Taxable?**

Yes and no - it depends if you use your electric bill as a tax deduction. Please consult your tax preparer for information on claiming capital credits.

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### **Other Questions? Contact us.**

**Please contact the REA office at 800-473-1722 or email us at [rea@runestoneelectric.com](mailto:rea@runestoneelectric.com).**

Forms are available by contacting the office or online at [runestoneelectric.com](http://runestoneelectric.com)