



CAPITAL CREDITS

FREQUENTLY ASKED QUESTIONS GUIDE

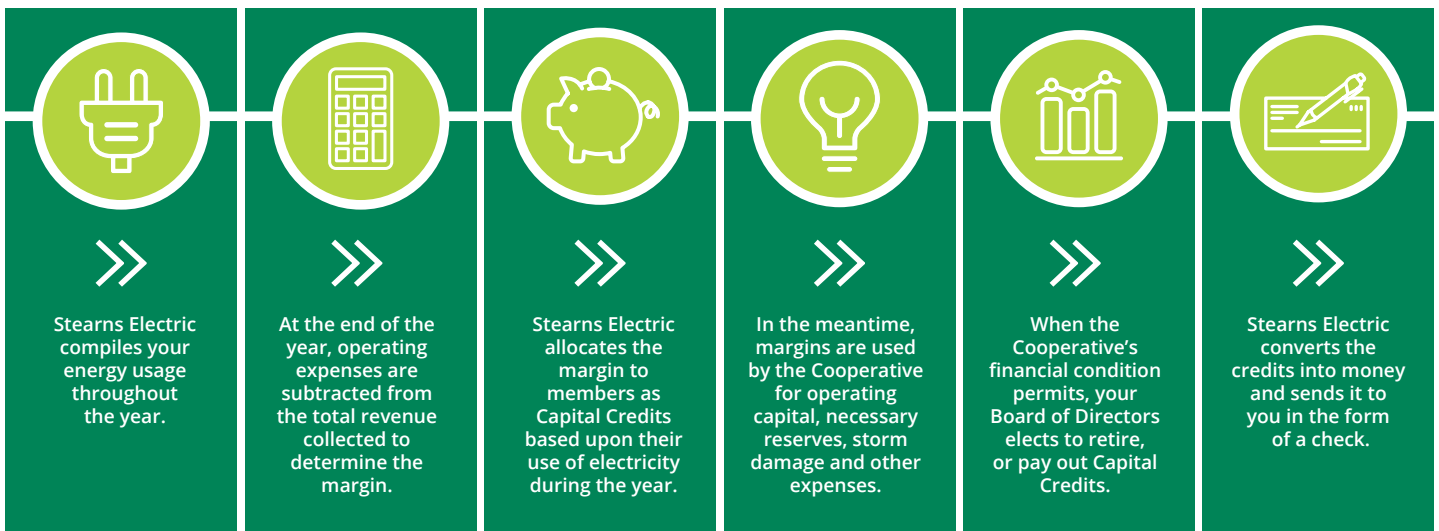
CAPITAL CREDITS: A MEMBER BENEFIT

As a non-profit cooperative, Stearns Electric Association is jointly owned by its member-consumers. Unlike investor-owned utilities, which are designed to make a profit for shareholders, Stearns Electric Association refunds capital (money), above the cost of operations, to our member-consumers in the form of "Capital Credits". Based on the Cooperative's financial status, Capital Credits are distributed in the form of checks to our members. Capital Credit payments are quantifiable proof that as a member of Stearns Electric Association, you are an owner of a successful, effective organization.

WHAT ARE CAPITAL CREDITS?

As a member-consumer of an electric cooperative, you invest in Stearns Electric through your energy purchases. Each year, any margin (revenue after expenses) earned by Stearns Electric is reinvested in the Cooperative. At the same time, our margin is proportionally allocated, based on electric purchases during the year, and recorded to Capital Credit accounts for each of our members. These accounts are maintained until the credits are retired (paid) in full. Capital Credits represent each member's ownership of the Cooperative.

HOW DO CAPITAL CREDITS WORK?



WHY DO YOU USE A CAPITAL CREDITS SYSTEM?

All cooperatives operate on a set of ethical cooperative principles that include a self-supporting system of operations. This system calls for a portion of any funds left over at the end of the year, after all expenses are covered, to be allocated to those who used and paid for the Cooperative's services, the member-consumers. Capital Credit allocations help the Cooperative qualify for cooperative status under federal income tax law, which in turn reduces costs to our members. Furthermore, the Capital Credits system of allocations and refunds helps keep member's rates lower by reducing the amount of Cooperative debt required to deliver reliable service.

WHAT IS THE DIFFERENCE BETWEEN ALLOCATED AND RETIRED CAPITAL CREDITS?

Capital Credit allocations are your share of Stearns Electric's net margins and reflect your equity and ownership of the Cooperative. Each year, your portion of any margins that Stearns Electric may have are "allocated" or assigned to you based upon your use of electricity during the year. In the meantime, the margin is used by the Cooperative for operating capital, necessary reserves, storm damage and other system investments. Until Capital Credit retirement, allocations have no cash value.

A Capital Credit retirement is the amount you receive as a refund. This refund is a portion of your total allocation. The percentage retired is decided by the Board of Directors annually, based on the financial condition of the Cooperative. When Capital Credits are retired, a check is issued and your equity in the Cooperative is reduced.

WHAT IS THE DIFFERENCE BETWEEN COOPERATIVE CAPITAL CREDITS AND GENERATION & TRANSMISSION (G&T) CAPITAL CREDITS?

When Stearns Electric Association experiences financial success, we return cash to our member-consumers in the form of Capital Credits. Cooperative Capital Credits reflect your ownership in Stearns Electric only.

Great River Energy is also a cooperative and does the same by returning Capital Credits to its 26 member cooperatives, including Stearns Electric. Because we believe this money belongs to our member-consumers, we re-allocate these Capital Credits to you. These allocations are kept separate from the Cooperative Capital Credit allocations. When we receive payment from Great River Energy to retire (pay) any portion of the G&T allocations, we retire the corresponding G&T allocation to you. In other words, when they pay us, we pay you.

HOW ARE MY CAPITAL CREDIT ALLOCATIONS DETERMINED?

Stearns Electric subtracts operating expenses from revenues collected and the remaining balance is called the margin. Stearns Electric allocates margins to members as Capital Credits based proportionately on your purchase of electricity during the year.

HOW ARE MY CAPITAL CREDIT ALLOCATIONS USED UNTIL I RECEIVE THEM?

Capital Credit allocations are pooled together and used by the Cooperative for operating capital, necessary reserves, storm damage and other operational investments. If we refunded the total amount of allocations, we would have to borrow that amount of money in order to continue operating. Having operating capital helps the Cooperative minimize the amount of high-interest money it must borrow, which in turn helps lower member's costs by stabilizing rates.

CAN MY CAPITAL CREDIT ALLOCATIONS BE REFUNDED TO ME ALL AT ONCE?

No. Remember that Capital Credit funds are used for reliability improvements and maintenance—and these are long-term investments. Capital Credits cannot be refunded all at once because they help the Cooperative remain financially sound, thereby ensuring stable, reliable electric service for the benefit of the members we serve.

CAN I USE MY CAPITAL CREDITS ALLOCATION TO PAY MY BILL?

No. Allocations are used as the operating capital of the Cooperative. They are not available until a percentage is retired and refunded back to you as the Cooperative's financial condition warrants and the Board of Directors approves.

WHAT IS THE G&T CAPITAL CREDITS ALLOCATION?

"G&T" refers to our generation and transmission (G&T) provider, Great River Energy. Great River Energy itself is a cooperative, owned by Stearns Electric and 25 other electric cooperatives in Minnesota. Just as Stearns Electric allocates its margins to our members, Great River Energy allocates margins to its members. When Stearns Electric receives margin allocations from Great River Energy, we re-allocate those margins to our member-consumers.

HOW DOES THE STEARNS ELECTRIC BOARD OF DIRECTORS DECIDE WHETHER OR NOT CAPITAL CREDITS ARE RETIRED AND PAID BACK?

The Board of Directors examines the current financial state of the Cooperative and considers future financial needs. If the Cooperative's financial condition allows, the Board of Directors will elect to retire and pay out an appropriate percentage of the Capital Credit funds.

ARE CAPITAL CREDITS REFUNDED EVERY YEAR?

Not necessarily. Stearns Electric cannot make a guarantee as to if and/or how much of a retirement will be paid each year. The Stearns Electric Board of Directors is strongly committed to paying Capital Credits each year and they are responsible for authorizing a retirement when the financial condition of the Cooperative allows. However, there are many things that can affect our ability to return Capital Credits. For example, a year of high growth in new accounts or a summer of severe storms resulting in extensive damage could cause the Board of Directors to defer Capital Credit refunds. The Board will not jeopardize the financial condition of the Cooperative to pay out Capital Credits. For this reason, Stearns Electric's ability to return margins to members in the form of Capital Credits reflects the Cooperative's strength and financial stability.

IF THE BOARD OF DIRECTORS DECIDES NOT TO RETIRE CAPITAL CREDITS IN A GIVEN YEAR, DO I LOSE CAPITAL CREDITS?

No. Capital Credit allocations simply accrue in your account until the Board of Directors approve a retirement.

HOW LONG DOES IT TAKE TO COLLECT ALL OF MY CAPITAL CREDIT ALLOCATIONS?

Currently Stearns Electric is on an estimated 20 to 25-year schedule for Cooperative Capital Credit payouts. The G&T payout schedule mirrors payments from Great River Energy and are paid out when Stearns Electric receives those G&T Capital Credit retirements.

HOW WILL I RECEIVE MY CAPITAL CREDITS REFUND?

A check will be mailed to you. Checks are typically mailed in late November or early December.

WHY DOESN'T STEARNS ELECTRIC LOWER RATES INSTEAD OF PAYING CAPITAL CREDITS?

The margin that Capital Credits are generated from is essential for the Cooperative to operate on for a number of years before being paid back to members. If the Cooperative did not use these funds for operational investments first, we would be 100% dependent on debt, which is financially irresponsible.

WHAT IS THE MINIMUM AMOUNT THAT WILL BE RETURNED TO A MEMBER?

Checks are only mailed out if they are \$10 or higher. If your annual Capital Credits return is less than \$10, the Cooperative will automatically rollover your return to the next year.

HOW LONG DO MEMBERS HAVE TO CASH THEIR CHECKS?

Checks must be cashed within 180 days.

I FOUND AN OLD CAPITAL CREDITS CHECK THAT I FORGOT TO CASH. WHAT SHOULD I DO?

If your check was issued more than 180 days ago, please contact the Stearns Electric's Capital Credits Coordinator at (800) 962-0655 to inquire about having the check reissued.

CAN I COLLECT MY CAPITAL CREDIT PAYMENTS EARLY?

No. Capital Credits are only paid out when a general retirement is approved by the Board of Directors for a particular time period or in the event of an estate payout.

WHY DOES STEARNS ELECTRIC ISSUE A CHECK INSTEAD OF APPLYING CAPITAL CREDITS TO MY ELECTRIC BILL?

The Stearns Electric Board of Directors strongly believes that you should be able to use your Capital Credits refund at your own discretion and therefore mails a check.

CAN I ELECT TO HAVE MY CAPITAL CREDITS APPLIED TO MY CURRENT STEARNS ELECTRIC BILL?

No. Stearns Electric does not offer this option at this time.

CAN MEMBERS CASH THEIR CAPITAL CREDITS CHECK AT STEARNS ELECTRIC'S OFFICE?

No.

MY CHECK WAS ISSUED INCORRECTLY, HOW CAN I RESOLVE THIS?

If you received a check that was issued to a deceased member or a joint account after a divorce, or any other incorrectly issued check, please contact our Capital Credits Coordinator at (800) 962-0655 to have the account corrected and check reissued. You will need to provide identification or legal documentation to prove your representation to the estate or account.

WHAT IF A CAPITAL CREDITS CHECK IS SENT TO ME BY MISTAKE?

If you receive a Capital Credits check that isn't yours, you simply need to return it to the Cooperative. Stearns Electric sends Capital Credit checks to the last known address of former members. If the record we have is inaccurate, a check may be delivered to the wrong person. If you receive a Capital Credits check for a former member that no longer resides at your address, please take the following steps:

- If opened, re-seal the envelope with the check enclosed.
- Write "Not at this Address – Return to Sender" on the front of the envelope.
- Place the envelope back in the mail so that it will be returned to us.

Upon return, Stearns Electric will attempt to locate the payee.

IS INTEREST ACCRUED ON CAPITAL CREDIT ACCOUNTS?

In accordance with the Cooperative's Bylaws, no interest or dividends are paid on accrued Capital Credits. (See Article VII, Section 1).

DO I HAVE TO CLAIM CAPITAL CREDIT PAYMENTS ON MY TAXES?

In general, Capital Credits are not taxable because they are essentially a refund for past electric costs. However, if you deducted your electric bill as an expense on your tax return in the year(s) we are refunding, then your Capital Credits check may be taxable. In this case, we encourage you to consult with your tax advisor on questions related to income tax filings.

IF I RECEIVE ENERGY ASSISTANCE, WILL I GET MONEY BACK?

If the account is listed in your name, it doesn't matter who actually paid the bills. You will receive the refund check.

WHAT HAPPENS TO MY CAPITAL CREDITS IF I MOVE AND TERMINATE SERVICE WITH STEARNS ELECTRIC?

Once you terminate service, you become a former member and will no longer receive additional allocations. Your existing Capital Credits balance will be maintained in a Capital Credits account in your name until it is retired (paid) in full. When the Stearns Electric Board of Directors elect to retire (pay) Capital Credits in the future, a check will be mailed to the last forwarding address on record. It is your responsibility to maintain a correct mailing address in Stearns Electric's records for the receipt of any future payments or information concerning Capital Credits.

DO I FORFEIT MY CAPITAL CREDITS ALLOCATION IF I MOVE OUT OF THE COOPERATIVE'S SERVICE TERRITORY?

No. Regardless of whether you are a current member or not, all of the money in your Capital Credits account belongs to you. Please keep your current mailing address up to date, so you can be paid what is owed to you. If you need to verify your account information, please contact the Capital Credits Coordinator at (800) 962-0655.

I AM NO LONGER A MEMBER OF STEARNS ELECTRIC, BUT I STILL RECEIVE CHECKS IN MY NAME. DO THEY BELONG TO ME?

Yes. When Capital Credits are retired for a particular time period, they are paid to members or former members who purchased electricity in the coinciding time frame, regardless of whether your account is active.

IF I MOVE, CAN MY CAPITAL CREDIT ALLOCATIONS BE PAID OUT IN FULL?

Capital Credits cannot be refunded when you terminate service because they are used for long-term investments and operations of the Cooperative. Because Capital Credit retirements are paid a number of years after the credits are earned and allocated to your account, be sure to keep Stearns Electric informed of any contact information changes. Please contact the Capital Credits Coordinator at (800) 962-0655 to verify your account information.

HOW CAN I BE SURE TO RECEIVE CAPITAL CREDIT STATEMENTS OR REFUNDS IF I MOVE OUT OF STEARNS ELECTRIC'S SERVICE AREA?

Always keep your contact information up-to-date with the Cooperative to ensure payments can be forwarded to you when Capital Credits are retired in the future. If you need to verify your account information, please contact the Capital Credits Coordinator at (800) 962-0655.

CAN I UPDATE MY CAPITAL CREDITS ACCOUNT FOLLOWING A MARRIAGE OR DIVORCE?

Yes, however the procedure for updating your account based on a marriage or a divorce varies and is also dependent on the active or inactive status of the account. Please contact our Capital Credits Coordinator at (800) 962-0655 for more detailed information.

WHAT HAPPENS TO THE CAPITAL CREDITS ACCOUNT OF A DECEASED STEARNS ELECTRIC MEMBER OR FORMER MEMBER?

In the event a member or former member passes away and is the sole owner of a Stearns Electric account, the Capital Credits in the member's account become part of the estate. In order to assist the member's surviving spouse or rightful heir(s) in closing the estate, Capital Credits can be retired early at a discounted rate. If the surviving spouse or rightful heir(s) want to take ownership of the account into the future, a new single membership will be created. In the event of the death of either partner where a joint membership is held, account information can be updated. Please contact our Capital Credits Coordinator at (800) 962-0655 for more detailed information.

I RECEIVED A CHECK ADDRESSED TO A DECEASED FAMILY MEMBER, WHAT SHOULD I DO?

Please contact our Capital Credits Coordinator at (800) 962-0655 to discuss updating the account, or to arrange a discounted estate payout.

WHY ARE CAPITAL CREDITS DISCOUNTED FOR AN ESTATE PAYOUT?

The Cooperative discounts early estate payouts to be fair to all members who have to wait until general Capital Credit retirement for their payments. Discounting estate payouts represents the present value of the future Capital Credit retirement. For example, \$10 received in cash today is worth more than \$10 received 20 years from now.

When Stearns Electric retires its capital out of sequence, there is a real cost to our other members. However, retiring this capital may provide a benefit to a deceased member or former member's surviving spouse or rightful heir(s). Retiring this capital early also allows one lump sum payment to be made so a deceased individual does not continue receiving checks year over year until all of their Capital Credit retirements are paid. Therefore, the Board of Directors has approved a policy of discounting early Capital Credit payouts on estates.

I CLOSED OUT AN ESTATE IN THE PAST, WHY WERE G&T CAPITAL CREDITS NOT INCLUDED AT THAT TIME?

Cooperative Capital Credits and G&T Capital Credits are accounted for separately. A member's Cooperative Capital Credits can be processed once proper paperwork has been provided to the Cooperative on the estate.

G&T Capital Credits, however, are paid out when the Cooperative receives payment from the G&T provider, Great River Energy. Knowing this, a member could experience a timing difference of when Cooperative and G&T Capital Credits are paid out. This is why keeping up to date account information is important.

If you closed out an estate prior to 2020 that did not include G&T Capital Credits, or if you had paperwork sent to the heir or shareholders of the account, contact the Capital Credits Coordinator at (800) 962-0655 to inquire about possible G&T Capital Credits available.

CAN A BUSINESS OR TRUST EARN CAPITAL CREDITS?

All accounts purchasing electricity from Stearns Electric earn Capital Credits in the same manner. Checks are made payable to whomever is listed on the account.

WHAT HAPPENS WHEN A CORPORATION/PARTNERSHIP OR TRUST IS DISSOLVED OR LIQUIDATED?

Corporations, partnerships and trusts receive refunds for their allocated Capital Credits when the Board of Directors authorize a general retirement. When a corporation, partnership or trust decides to dissolve or liquidate its assets, Capital Credits are not payable at this time. If this applies to your business, please contact the Capital Credits Coordinator at (800) 962-0655 directly.

WHAT HAPPENS TO CAPITAL CREDITS THAT ARE NOT CLAIMED?

In spite of our efforts to maintain updated records for former members, some checks are returned by the postal service without a forwarding address. In these cases, we make several attempts to locate the member and place the member's name on our unclaimed Capital Credits list on our website. If we cannot locate an inactive member, we are required to follow state laws regarding unclaimed property.

In Minnesota, we continue to carry unclaimed Capital Credit amounts on our books for up to seven years. If, after the required time, we still have not located an inactive member, the law (MN Statute 308A.711) requires us to either turn the money over to the state or donate it to a charitable organization. Our current policy, as set by the Board of Directors, is to donate all Minnesota unclaimed Capital Credits to the Operation Round Up® program which provides grants to charitable causes in our service territory.

Capital Credits owed to out-of-state former members are returned to the state of the last known mailing address we have on file, per individual state guidelines.

I AM AN ACTIVE MEMBER AND FORGOT TO CASH MY CHECK. WHAT HAPPENS TO MY MONEY?

All active accounts will receive their uncashed dollars in the form of a bill credit approximately 12 months after the check date.

HOW DO I KNOW IF I HAVE CAPITAL CREDIT RETIREMENTS THAT WERE RETURNED TO STEARNS ELECTRIC AS UNDELIVERABLE AND ARE CONSIDERED UNCLAIMED?

You can search our [complete list](#) of Unclaimed Capital Credits at:

<https://www.stearnslectric.org/account-services/my-account/capital-credits/unclaimed-capital-credits/>

HOW DO I CLAIM CAPITAL CREDIT RETIREMENTS FROM PAST YEARS THAT ARE OWED TO ME?

After searching the [Unclaimed Capital Credits List](#), you can request your Unclaimed Capital Credits by completing this [form](#) at <https://www.stearnslectric.org/account-services/my-account/capital-credits/unclaimed-capital-credits/unclaimed-capital-credits-form/>

CAN I TRANSFER MY CAPITAL CREDITS TO ANOTHER MEMBER?

Capital Credits are payable to the Stearns Electric account owner(s) only and cannot be transferred.

CAN I DONATE MY CAPITAL CREDITS REFUND TO CHARITY?

All current, future-expected, allocated, and unretired Capital Credits may be donated to Stearns Electric's charitable giving program, Operation Round Up® by contacting our Capital Credits Coordinator at (800) 962-0655. Capital Credits are not eligible to be donated to other charitable organizations directly through Stearns Electric.

TO LEARN MORE, GET YOUR QUESTIONS ANSWERED OR UPDATE YOUR ACCOUNT INFORMATION:

Please contact the Stearns Electric Capital Credits Coordinator.

STEARNELECTRIC.ORG/CAPITALCREDITS
CAPITALCREDITS@STEARNELECTRIC.ORG
(800) 962-0655

Remember, it is important to keep your contact information up to date with the Cooperative even if you are no longer a member to ensure payments can be forwarded to you when Capital Credits are retired in the future.