



Capital Credits Q&A

What are capital credits?

FreeState Electric Cooperative operates on an at-cost basis by annually "allocating" to each member, based on the member's purchase of electricity, operating revenue remaining at the end of the year. Later, as financial condition permits, these allocated amounts—capital credits—are retired. Capital credits represent the most significant source of equity for FreeState Electric. Since a cooperative's members are also the people the co-op serves, capital credits reflect each member's ownership in, and contribution of capital to, the cooperative. This differs from dividends investor-owned utilities pay shareholders, who may or may not be customers of the utility.

Why are my capital credits less than prior years?

FreeState Electric has adopted a hybrid first-in-first-out (FIFO) and last-in-last-out (LIFO) system, which is different from the former method used by Kaw Valley Electric Cooperative. This retirement cycle approach to capital credits means a larger percentage of current membership gets money back every year. This year, FreeState Electric will retire 60 percent of capital to members on the system the longest, while 40 percent of the capital is retired to members being served more recently. This disbursement formula is reviewed annually.

Why am I not getting the same amount?

FreeState Electric allocates capital credits in a way that is fair and equitable. Each member is allocated capital credits based on their usage during a specific time. However, what is retired out to pay capital credits may only be a portion of a member's allocation.

Where does the money come from?

Member-owned, not-for-profit electric co-ops set rates to generate enough money to pay operating costs, make payments on any loans and provide an emergency reserve. At the end of each year, FreeState Electric subtracts operating expenses from the operating revenue collected during the year. The balance is called an operating "margin."

How are margins allocated?

Margins are allocated to members as capital credits based on their purchases from the cooperative—how much power the member used.

Are capital credits retired every year?

FreeState Electric's board of directors decides when to retire capital credits based on the financial health of the co-op. During some years, FreeState Electric may experience high growth in new accounts, or severe storms may result in the need to spend additional funds to repair lines. These and other events might increase costs and decrease member equity, causing the board of directors not to retire capital credits or retire only a portion. The co-op's ability to retire capital credits reflects the cooperative's strength and financial stability. The board of directors alone decides whether to retire capital credits.

Do I lose my capital credits in the years FreeState Electric does not retire capital credits?

No. All capital credits allocated for every year members have been served are maintained until the board retires them.

When will FreeState Electric retire capital credits?

FreeState is in the process of blending two cooperatives. Capital credits stay with each member, but to blend these two systems the co-op will be moved forward with the allocation of capital credits with May usage reflected in the June billing cycle. If you are an active member of the cooperative, any capital credit retirements credited to June usage were reflected in the July billing cycle. If you no longer live on the system, a check will be mailed to you. It is important to keep the cooperative aware of any address changes if you do move off the system.

How often will members receive capital credits?

FreeState Electric's board of directors makes the decision annually to retire capital credits. When the cooperative is strong enough financially and member equity levels high enough, the board directs staff to retire some portion of past years' capital credits.

Do I have to report capital credits on tax returns?

Capital credits are money returned for the purchase of electricity in a previous year and are not taxable income for residential customers. Commercial accounts should discuss any capital credit retirements with their tax advisers.

You Get Credit—That's the Co-op Difference Continued from page 16-A

directors may decide to retire a set amount of capital credits.

Members are annually allocated capital credits based on the amount of electricity they consumed during a year. Margins earned from electric revenues are the only real source of equity for not-for-profit electric cooperatives and it is essential for FreeState to maintain a balance between retiring capital credits to members and retaining sufficient equity to operate.

This year, FreeState retired capital credits in the form of bill credits rather than checks. We did this because it was more cost-effective and it would help members with their bills in a month where higher usage is common. We will still provide paper checks to those folks who have moved off the system and are no longer members.

In 2017, the cooperative essentially doubled in size, and retiring capital credits using a hybrid system allows us to assist more members.

In 2017, the cooperative essentially doubled in size, and retiring capital credits using a hybrid system allows us to assist more members. It's one more way FreeState Electric puts our members first.

As always, if you have any questions about the information presented in this column or this publication, we encourage you to contact us at marketing@freestate.coop or 800-794-1989.

Attend the Health Fair and Member Appreciation Day on Sept. 26

Join us Tuesday, Sept. 26, 2017, from 4 to 7 p.m. at the FreeState East District office at 507 N. Union in McLouth for FreeState Electric's 9th Annual Health Fair and Member Appreciation Day. Several local businesses will be on hand to distribute information regarding physical, mental, and financial health, and the Jefferson County Health Department will also be available to provide flu shots. This event is free to FreeState Electric members and area community members.

To coincide with our Annual Health Fair and Member Appreciation Day, the cooperative is sponsoring a community soap drive to assist multiple food pantries across the area. The food pantries in our area function as direct community



Tuesday, Sept. 26 at the East District Office

outreach to serve those who need assistance. The pantries rely on donors, volunteers and drives like this to stock their shelves and operate. Families or individuals can stop in and get food to eat, but often are also in need of personal care items.

You can participate in the soap drive by bringing new soap items or making a cash donation. Both FreeState Electric offices will be accepting soap items or cash donations from Sept. 1 to Oct. 31, Monday

through Friday, 7:30 a.m. to 4 p.m.

Help us collect the following:

- ▶ Liquid soap (hand and body)
- ▶ Bar soap
- ▶ Shampoo
- ▶ Laundry detergent
- ▶ Dish soap
- ▶ Toothbrushes and toothpaste
- ▶ Other personal care items

Community involvement is the cooperative difference at work. No donation is too small. We will distribute items collected from Sept. 1 to Oct. 31, 2017, to our local food pantries.

For more information, visit www.freestate.coop or contact Sarah Farlee, public relations and marketing specialist, at sarah.farlee@freestate.coop or 800-796-1989.

Make a Donation to the FreeState Electric Cooperative Soap Drive

Your cooperative needs your help! We are collecting soap, shampoo, laundry detergent, and other personal care items from Sept. 1 to Oct. 31. Bring your items to the health fair, or drop them off at either cooperative office!

Items Needed

- ▶ LIQUID SOAP (HAND AND BODY)
- ▶ BAR SOAP
- ▶ SHAMPOO
- ▶ LAUNDRY DETERGENT
- ▶ DISH SOAP
- ▶ TOOTHBRUSHES AND TOOTHPASTE
- ▶ OTHER PERSONAL CARE ITEMS



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District Offices

East District
P.O. Box 70
McLouth, KS
66054-0070

West District
1100 SW Auburn Rd
Topeka, KS 66615

East & West District Office Hours:
Monday-Friday, 7:30 a.m.-4 p.m.

Offices Closed Sept. 4

In observance of Labor Day, our offices will be closed on Monday, Sept. 4. FreeState Electric wishes you a safe and happy Labor Day!

FROM THE CEO

You Get Credit—That's the Co-op Difference



Steve Foss

FreeState Electric Cooperative is not like an investor-owned or municipal utility—you, as a member own a portion of the cooperative.

One benefit of membership is the allocation of excess revenue, called margins, in the form of capital credits.

FreeState operates at cost collecting enough revenue to run and expand the business without raising rates for profit. Margins are allocated back to members as capital credits. **FreeState has retired \$850,000 in capital credits to members in 2017.**

When LJEC and Kaw Valley Electric Cooperative joined together, the board of directors voted to move to a hybrid retirement cycle to benefit members and get both districts using the same formula and cycle. We are

now operating a first-in-first-out (FIFO) and last-in-last-out (LIFO) hybrid retirement cycle for both districts. This approach to

capital credits means a larger percent of current membership gets money back every year.

Allocating and retiring margins to members helps distinguish cooperatives from other utilities. We're proud to be able to credit members' accounts and put money back into the local economy and the pockets of those we serve. It's what makes the cooperative business model unique.

The retirement of capital credits is dependent on FreeState Electric's financial status. We hold onto allocated capital credits to cover emergencies, such as a natural disaster and other unexpected events, and to expand the cooperative's electric system, all of which may require large-scale construction of poles and wires. This action decreases the need to raise rates or borrow money to pay for the infrastructure. After a number of years, if financial conditions permit, the board of

Continued on page 16-F

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FreeState Retires Capital Credits

\$850,000 back to our members

It's time for you to get the credit—capital credits, that is—for helping build, sustain, and grow your local electric cooperative

This July, FreeState Electric Cooperative retired \$700,000 in general retirement and \$150,000 in special retirements, such as estates and members moving off line, equaled \$150,000—totaling \$850,000!

As a member of FreeState Electric, you are entitled to your portion of our margins. These are called capital credits also called patronage dividends, patronage refunds, patronage capital, or equity capital) based on how much electricity you purchased during a year. FreeState Electric is a not-for-profit electric

cooperative that is owned and controlled by you, our members. The cooperative operates on an at-cost basis, meaning all operating margins are allocated back as capital credits to the members who used and paid for the electric services provided by FreeState Electric.

East District members from 1983 to 1984 and West District members from 1992 received capital credit retirements through a bill credit on the July bill. This credit on your July bill reflects the contribution of capital to, and ownership of, the cooperative during those years. It may seem like a long time ago, however those funds helped the cooperative stabilize rates and reduce the amount borrowed to build, maintain, and expand the distribution service providing our members safe, reliable power. We also must meet the financial requirements of our lenders.

For more information about capital credits, read the "Capital Credits Q&A" on page 16-E. If you have questions, please call us at marketing@freestate.coop or 800-794-1989.

Making Sure Your Kids are Safe at College

Sending a child off to college is an exciting time—it can also be unsettling. Parents worry about their child's new responsibilities, academic success, new friends and about their child's safety.

Share these tips with your child to make sure their dorm or apartment is up-to-snuff when it comes to electrical safety.

- ▶ **Do not overload extension cords, power strips or outlets.**
- ▶ **Use power strips with over-current protectors.** This will shut off the power automatically if there is too much current being drawn.
- ▶ **Watch out for outlets that get too hot to touch.** If an electrical outlet becomes so hot you cannot leave your hand on it, there is potential for a fire. Unplug everything from the outlet and notify the landlord or dorm staff immediately.

- ▶ **Extension cords are for temporary situations only.** Extension cords should not be used as a long-term solution when you need another outlet.
- ▶ **Do not staple extension cords.** You might damage the insulation meant to protect you from current and potentially exposing a wire that increases the possibility of sparking.
- ▶ **Look for the UL mark on any electrical product you use.** The UL mark tells you that your appliance, cord, or device has met Underwriter's Laboratories rigorous safety requirements.
- ▶ **Never remove a grounding pin.** If you remove the pin in order to plug a three pronged plug into a wall outlet, you are removing the protection meant to keep you safe from a shock hazard.
- ▶ **If you are lighting with halogen**

- lamps, make sure they meet updated requirements.** All halogen lamps must be designed with a mesh guard that forbids contact with the bulb and an automatic tip-over switch.
- ▶ **Look for UL-listed appliances with automatic shut-off buttons.** This means they will lessen the chance of leaving something brewing or cooking all day.
- ▶ **Never plug more than one high-wattage appliance into a single outlet.** Make sure appliance cords aren't frayed or cracked. If they are, get them repaired by a professional.
- ▶ **Have a UL-listed fire extinguisher in the dorm room or apartment and know how to use it.**

It is an exciting time for students. These tips and questions are a way to help college be a rewarding and safe experience.

FreeState Electric Sponsors Youth to 41st Annual Leadership Camp

FreeState Electric Cooperative is one of 21 participating co-ops that sent Kansas high school students to the 41st annual Cooperative Youth Leadership Camp near Steamboat Springs, Colorado, July 14-20. Joining their peers from Colorado, Oklahoma and Wyoming, approximately 100 youth learned about the cooperative principles and leadership skills at the week-long educational retreat.

This year, FreeState sent **MIA BOND** from Tonganoxie High School and **MEGAN ERNZEN** from Lansing High School. **MITCH PORTER**, a Kaw Valley Electric alumnus from 2016, returned to CLYC this year as an ambassador after being elected the previous year by his peers in 2016.

These students met fellow Kansas and Oklahoma participants as they boarded the bus along its route to Colorado. Upon arriving in Denver, the group was treated to a snorkeling experience at the Denver Aquarium. Campers swam face-to-face with a grouper, a school of cownose rays, moray eels, red drums, nurse sharks and 400 other exotic underwater species.

When the group arrived at Glen

Eden Resort, nestled in the Rocky Mountains, the campers began daily membership meetings where a general manager, board of directors and committees were selected. The week-long experience also gave participants an authentic camp feel with river rafting, a volleyball tournament, swimming, a dance and a talent show.

Several demonstrations and presentations enhanced students' knowledge on the cooperative model and operations at their electric cooperative. Campers competed to build a model transmission line out of craft supplies, toured Trapper Mine, Craig Power Plant, a solar array and experienced a high-voltage safety demonstration. The campers also raised \$390 to donate to the NRECA International Foundation. Read more about Bond's and Ernzen's opportunity of a lifetime:

Mia Bond

Going into my Cooperative Youth Leadership Camp experience, I was very unsure as what to expect. I have never had a great experience with summer camps and this camp was longer than most I had attended

before. Fortunately, my fears were settled and this camp proved to be an inspiring experience.

Two of my favorite experiences from the week were the white water rafting and snorkeling as stingrays swam across my stomach and fish swarmed around my legs. The only hard part was trying to remember that I was wearing a snorkel—I learned very quickly I couldn't go under water.

Other experiences I enjoyed were visiting the Craig Power Plant and Trapper Mine. The power plant tour was fascinating as we got to stand at the very top of the building and see the cycle coal goes through to become a fuel. Then, at Trapper Mine we got a tour of the mining land and on top of Molly Brown, one of the three mining machines they use.

Throughout the rest of the week, we participated in many activities including creating commercials promoting Touchstone Energy and making small structures showing the cycle of electricity through the way it is distributed and how it starts.

The most unforgettable moment, however, was when the



Kansas students join campers from Colorado, Oklahoma and Wyoming at the Cooperative Youth Leadership Camp near Steamboat Springs, Colorado.

counselors spoke to us about their jobs. Most became emotional because they love going to work every day and that being a part of a cooperative is like having another family. This inspired me to look into other careers like this and not be so close minded.

I am so lucky to have been chosen to represent FreeState Electric this summer and I will never forget the leadership skills I learned, new friendships I made and all the great memories.

Megan Ernzen

My trip to Steamboat Springs was life-changing—filled with memories and new friends I will never forget. My favorite part of the trip was not only enjoying activities such as rafting and exploring the coal mine, but being able to experience new things outside of my comfort zone with new people. By being elected to the board of directors at camp, I was able to expand my knowledge as to how cooperatives function, and I furthered my understanding of how electricity works by touring the Craig Power Plant and the Trapper Coal mine.

While we got an inside look into how cooperatives worked, we were also given opportunities to build upon our leadership skills through experiences such as a three-hour

leadership seminar in which we practiced team building and discussed how we each lead in our own way. The quote from C.S. Lewis that stuck with me from that seminar is "being humble is not about thinking less of yourself, but thinking of yourself less." This is what I believe leadership is all about.

In another presentation, we were told about the different career options available within cooperatives. It was in this presentation I realized the love and support each employee has for one another in a cooperative. Their heart for people and communities was also shown as we learned about the electric cooperative program in which linemen are sent to numerous developing countries to provide them with electricity—something they have never had access to before.

From this experience I gained a family—friendships that will last forever. I gained more knowledge as to who I am as an individual and leader. My Cooperative Youth Leadership Camp experience has given me a new perspective on cooperatives and leadership while connecting with people from many miles away. I cannot thank my cooperative enough for allowing me this amazing opportunity.

Visit www.freestate.coop to learn more about FreeState Electric's youth programs.

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MEGAN ERNZEN, 2017 CAMPER



From left: Mitch Porter, Kaw Valley Electric alumnus from 2016, Megan Ernzen and Mia Bond represent FreeState Electric at the Cooperative Youth Leadership Camp in July.



Campers learn more about how electricity is produced during their tour of Trapper Mine.