








Membership Makes Sense (and Dollars)



How To Read Your CAPITAL CREDIT statement

Simply align this key with the top of the chart on your Capital Credit statement. For more information, visit CoServ.com or e-mail contact@coserv.com.

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 <p>A Allocation Year(s)</p>	 <p>B Previous Capital Credit Balance</p>	 <p>C Retirement Amount</p>	 <p>D Early Payment Discount %</p>	 <p>E Early Payment Discount Amount</p>	 <p>F Check Amount</p>	 <p>G New Capital Credit Balance</p>
<p>The year(s) in which Capital Credits were allocated to your Capital Credits account.</p>	<p>The current amount of allocated Capital Credits for a given year, before this retirement.</p>	<p>The amount of Capital Credits being retired. 1993 = Column B x 100% 1994-2010 = Column B x 19.1%</p>	<p>The percentage used to arrive at today's value of the Capital Credits being retired.</p>	<p>The difference between the retirement amount and the current value of the Capital Credits being retired this year. Column C – Column F</p>	<p>The amount you are being paid on the Capital Credits that are being retired. Column C x Column D</p>	<p>The remaining amount of Capital Credits in your account after the current retirement. Column B – Column C</p>

Membership with Benefits

Every day, CoServ Electric works to earn your trust through delivering reliable, local, and safe service, remaining financially sound, and contributing extensively to the communities we serve. After all, we're your friends and neighbors, and we live here, too.

Throughout 2011, CoServ Electric continued to offer stable rates while adding value to your membership and supporting our communities through our charitable foundation. We've worked to add more value by continuing to develop our Co-op Connections Card program, which offers discounts for CoServ Electric Members at participating area businesses and pharmacies. In fact, our Members have saved over \$300,000 since February 2010 on prescriptions alone!

Winter and summer generation scarcity kept electric providers and consumers on "conservation alert" during peak load periods in 2011, and we encouraged Member energy-saving initiatives on CoServ.com, Facebook®, Twitter, and through local media outlets. We also provided financial incentives for Members through our Think Green Rebates. The 2011 rebate program was very successful, with funding depleted in most categories. We encourage all Members to look for next year's Think Green Rebate program in early 2012.

On the social services front, CoServ Electric also contributed to communities through the CoServ Charitable Foundation (CCF)—surpassing \$3.4 million in contributions. The majority of CCF's funds are donated through Operation Roundup®, a program supported by Members and Customers who "round up" their monthly electric and gas bills to the nearest dollar. CoServ Employees also support the CCF through payroll deduction. For more information on these programs and other benefits, visit CoServ.com>Community.

Your share of Capital Credits is one of the most tangible benefits of belonging to a cooperative committed to customer service, value, and Member satisfaction. We appreciate the opportunity to serve you, and we thank you for being a CoServ Electric Member.

We've provided answers to some of the most commonly asked questions about Capital Credits. For more information, e-mail us at Contact@CoServ.com.



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Capital Credits

The power of membership. As a Member of CoServ Electric, you are also one of our 140,000+ owners. You have a voice in the direction of the co-op through the election process where you help elect the directors that oversee the management of the company.

Electric cooperatives exist to provide Members with reliable electric service and high satisfaction. Investor-owned utilities, on the other hand, create a rate structure that will maximize their margins (profits) so they can pay dividends to their stockholders. In a cooperative business structure, your Capital Credit retirement represents your share in the margins of the cooperative.

This year, CoServ Electric will return a record \$9 million to current and former Members in the form of Capital Credit retirements. Enclosed you will find information that should answer your questions about Capital Credits and show how your Capital Credit retirement amount was calculated. If your Capital Credit retirement amount is \$20 or greater, a check is enclosed. If it is less than \$20, the amount will be applied to an upcoming electric bill. Capital Credits are just one way we show you the value of being a Member.

The CoServ Electric Vision: To be trusted to safely and consistently exceed Members' and Customers' expectations for reliability, service, value, and community support.

Questions and Answers

What are Capital Credits? Unlike electric utilities that generate margins on behalf of investors and shareholders, electric cooperatives sometimes return the margins earned by the electric cooperative to their members. Each year, any margins earned by CoServ Electric are reinvested in the cooperative. At the same time, the value of the margin is proportionally allocated (based on electric purchases during the year) to Capital Credit accounts maintained for each of our current Members. When the Board of Directors has determined that the cooperative has met its financial requirements and any other obligations, they may decide to retire (pay) the Capital Credits to the Members.

When will I be paid for my Capital Credits? Capital Credits may be retired at the discretion of the CoServ Electric Board of Directors when the cooperative has met certain financial requirements and other obligations. A retirement cycle is the period of time between the allocation and retirement of the Capital Credits and can typically be 20 or more years for electric cooperatives. This year, CoServ Electric is retiring 100% of the outstanding Capital Credits for the year 1993 and 19.1% of the outstanding Capital Credits for the years 1994 through 2010.

How is the amount paid to me determined?

1. For each Member account, CoServ Electric starts with a list of the years in which Capital Credits were allocated to the Member as well as the existing Capital Credit balance for each of these years. Years in which CoServ allocated Capital Credits to you and the existing Capital Credit balances for those years are reflected in Columns A and B respectively in the enclosed Capital Credit statement.
2. For the year 1993, CoServ Electric has decided to retire 100% of the outstanding Capital Credits. If you received a Capital Credit allocation in 1993, the figures in Column B (Previous Balance), Column C

(Retirement Amount), and Column F (Check Amount) of your Capital Credit statement will, therefore, be identical for those years.

3. For the years 1994 through 2010, CoServ Electric has elected to retire 19.1% of the outstanding Capital Credits. For these years, Column C (Retirement Amount) on your Capital Credit statement represents the existing Capital Credit balance multiplied by 19.1%.
4. Because the credits from 1994 through 2010 have not reached the end of the normal retirement cycle, they are paid at a discount. Column D on your Capital Credit statement represents the discounted percentage that you will receive.
5. The Capital Credit retirement amount is multiplied by the early payment discount percentage¹ to determine the amount you are being paid. Column F on your Capital Credit statement represents this amount.
6. Finally, an outstanding or new Capital Credit balance is determined and shown in Column G of your Capital Credit statement. The new balance represents the Capital Credits remaining in your account for each year of allocation. These credits will remain available for future retirements at the discretion of the CoServ Electric Board of Directors.

Why are the 1994 through 2010 Capital Credits being retired at a discount? Because the 1994 through 2010 Capital Credits are being retired before the end of the normal retirement cycle, CoServ Electric is paying you the discounted, net present value of these Capital Credits today, as opposed to waiting to pay the face value of these Capital Credits at the end of the normal cycle, which can typically be 20 or more years. CoServ Electric wants our Members to realize the benefits of Capital Credits today in the form of a cash payment or credit, and net present value discounting accomplishes that goal.

What happens to the money marked "Early Payment Discount Amount"? Column E of your Capital Credit statement represents the difference between the retirement amount and the amount paid to you upon early retirement at a net present value discount. This difference is retained by the cooperative as permanent equity and may be payable, after all liabilities and obligations of the cooperative have been satisfied, on a pro-rata basis to Members upon any dissolution or liquidation of the cooperative.

My statement has "Write-off Amount Applied" written at the bottom. What does this mean?

If you have an outstanding balance with CoServ Electric, the amount of this balance has been subtracted from your check amount. This amount will be applied to your debt.

Is this check considered income and will I be taxed?

In general and based upon information furnished to us by our tax advisors, the accompanying payment has the same characteristic of your payments to us for electricity. That is—if your payment for electricity represented a deduction for either federal or state income tax purposes to you, then this credit represents either taxable income or a reduction in the amount of deductible electricity expense for the current year. However, we suggest that you consult with your tax advisor regarding taxability and proper tax reporting of your credit or enclosed check.

What happens to allocated Capital Credits if I terminate service with CoServ Electric?

If you terminate service with CoServ Electric, you will become a former Member and will no longer receive future allocations. The existing Capital Credit balance will be maintained in a Capital Credit account in your name until it is retired in full. When and if the CoServ Electric Board of Directors elects to retire any Capital Credits in the future, a check will be mailed to the last forwarding address on record.

NOTE: It is the former Member's responsibility to maintain a correct mailing address with CoServ Electric.

How are Capital Credits handled upon the death of a Member? Capital Credits will remain in the name of the deceased Member or be changed to the estate of the deceased Member upon request. The CoServ Electric Board of Directors may elect to retire estates early.

¹This figure is based on a discount period of 18 years and a discount rate of 5.19%, which reflects the current rate available to CoServ for long-term fixed borrowing from one or more of its traditional lenders. The CoServ Electric Board of Directors establishes the discount period and discount rate in accordance with CoServ Electric's bylaws and policies.