Q & A

1.) Q: Can the new cooperative be sold?
A: No. The cooperative has been created to serve the member/customers. If the company is liquidated or otherwise ceases to exist, remaining assets of the cooperative must be shared among members. (Clause 8 of Articles of Incorporation.) No one person or entity stands to benefit by sale or liquidation of CUI.

2.) Q: I'm worried about surrounding development. What stops new customers from joining the cooperative?
A: For any new customers to be located out of the Choctaw Lake Subdivision, it requires a 75% vote of approval from current members. (Clause 7 of Articles of Incorporation.)

3.) Q: How does the new cooperative set rates?
A: The new cooperative is required by law to operate at cost. That means neither at a loss, nor at a profit. CU is required by law to set rates at a point where operational costs AND future capital needs, such as water main line replacement, are accounted for. However, in some years, the company may have excess funds after capital reserve requirements are met. In this case, excess funds are only allowed to be spent on company debt or must be returned to members. CU currently has a 5 year plan that is in compliance with Ohio Asset management law for utilities.

4.) Q: I'd like to see Choctaw Utilities records and documents.
A: Article XV in the new Not For Profit Company bylaws outlines the process by which records may be viewed. No process exists in current CUI documents. As a private, "for profit" company, CU is not required to open its books to anyone. The new documents specify a process in Article XV of the Code of Regulations (bylaws).

5.) Q: What happens if the CU Board is unable or unwilling to manage and guide CU?
A: The CLPOA Board of Trustees will assume operation. If CU is liquidated, the assets of CU will be distributed to member-patrons in accordance with Ohio Non Profit law and Article VIII of the Articles of Incorporation.

6.) Q: What happens to the Balance Sheet of CLPOA?
A: The CLPOA Balance sheet would reduce in assets from $6.06 million to $4.42 million. This is a result of eliminating the value of CU stock initially purchased, as well as any retained earnings from CU. When queried, the accountants stated the removal of the CU as a subsidiary has no detrimental affect on financial position. The asset of CU has never paid CLPOA any dividend or provided any income to CLPOA.

7.) Q: What happens to the Balance Sheet of CU?
A: The CU Balance Sheet essentially remains unchanged. What was previously categorized as "stock and retained earnings" would be recategorized as "Net Assets without donor restrictions."

8.) Q: What are the tax benefit of taking this action?
A: CU files exemption under ORC 5709.111 to realize real and personal property tax savings of ~$70,000 annually.

9.) Q: What is the tax detriment of taking this action?
A: The main consequence to CU and CLPOA would be the inability to use the others loss at tax time. However, it is anticipated in most circumstances that the tax savings to CU from NFP status would be larger than the tax offset benefit. Example, if CLPOA had a net income of $100,000, that would drive a $20,000 tax bill for CLPOA. If CU had a $100,000 loss, that could wipe out the $20,000 bill to CLPOA. Therefore, even a $100,000 profit that drove an income tax bill of $20,000 would still be considerably less than the $70,000 saved in real and property taxes.

Going forward, CU needs to have a net income of ~$153,000 to meet the loan payment for the plant ($100k annually) and fund the Asset Management Program (~$53k annually). Therefore, there is no tax benefit to CLPOA anticipated. Furthermore, any tax savings CU could realize under the current construct by taking advantage of a CLPOA loss would likely be much smaller than the outright tax savings from exemption of real and personal property taxes. (Note: Current tax law changes allow for any losses in a FY can be set aside until a gain is realized. Then the loss can be set against the gain. This also negates the current benefit to balance gains and losses to eliminate taxes.)

10.) Q: Why is a Water User's Agreement part of this proposal?
A: The Water User's Agreement outlines the responsibilities of both the members and the utility. CU has received feedback from the EPA in Sanitary Surveys for things such as: the necessity to ensure cross contamination conditions do not exist, conduct surveys, etc. Having a Water Users Agreement ensures compliance with EPA requirements, and creates a mutual understanding between members and the utility.

11.) Q: What have CU and CLPOA's advisors (attorneys and accountants) said regarding this matter?
A: It is in the benefit of the community to take this action.