



2014
NRECA
ANNUAL
REPORT

LETTER FROM THE PRESIDENT & CEO

LEADING THE WAY IN AN ERA OF CHANGE...

The year 2014 was defined by new challenges and opportunities for NRECA. We made strides in helping our members adapt to new technologies, advocate for common sense policies and provide sound benefits and investments for co-op employees. With a renewed commitment to member engagement and service excellence, we partnered with our members to establish a strong strategic presence across the energy sector and vast political frontier.

NRECA does local politics at the national level, and perhaps no action better displayed the strength we bring when we work together than our tremendous grassroots achievement this past year. Co-op Nation sent nearly 1.2 million messages to the EPA commenting on the agency's proposed rules on greenhouse gas emissions for existing and new power plants. This was an unprecedented effort – one that ensured our voice was heard loud and clear in our nation's capital and beyond. And now, through Action.coop and TellEPA.com, we have a solid self-identified group of advocates to whom we can turn to for help as important issues arise that affect electric co-ops and the members we serve.

The past year also saw a number of legislative victories for Co-op Nation. Early in 2014, President Obama signed the Cooperative and Small Employer Charity Pension Flexibility Act into law. The legislation provides a permanent exemption for members participating in the Retirement Security (RS) Plan from provisions of the 2006 Pension Protection Act, which could have cost them between \$250 million to \$450 million per year starting in 2018. In December, the president signed legislation that protects the full pension benefits of more than 10,000 co-op employees against a change in Internal Revenue Service (IRS) practices. Without action, the IRS policy could have blocked many co-op employees from receiving their RS Plan distribution under an optional form of payment they were promised.

ACRE® fundraising in the 2014 election cycle contributed \$4 million to candidates, leadership PACs, party committees and state ACRE PAC's. More than 30,000 employees, executives, directors and consumer-owners participate in ACRE, which bolstered co-op champions in key races across the country.

Also in 2014, NRECA increased national media outreach toward recognition of NRECA and electric co-ops as the “voice of the consumer” on energy issues. We provided enhanced multimedia tools and support to help our members connect with stakeholders across a myriad of platforms in the rapidly evolving communications landscape, from social media to co-op websites and newsletters to statewide magazines. NRECA's flagship publication, RE Magazine, also saw a digital revamp near the end of last year.

NRECA International continued to be a force for global development in 2014, with successful projects completed or underway in more than 40 countries. The Committee of 100 was created as the vanguard to help enable NRECA International to provide millions more people around the world a chance at a better life through safe, reliable and affordable electricity. The inaugural membership continues to grow with \$1,000+ contributions from current and former NRECA board members, NRECA staff and co-op executives from across the country.

(continued...)

LETTER FROM THE PRESIDENT & CEO

In 2014, the Business and Technology Strategies (BTS) business unit was formed, combining the forces of NRECA's Energy and Power Division, the Cooperative Research Network and the Strategic and Economic Analysis teams. This process and structure allows BTS to provide key information to electric cooperatives on current and future trends affecting operations, technology planning, consumer expectations, and regulatory and policy drivers.

Also last year, 23 electric cooperatives continued their participation in NRECA's \$68 million Smart Grid Demonstration Project, co-funded by a U.S. Department of Energy grant. The project is a triumph of collaboration among cooperatives, NRECA and the U.S. government and points to a bright future for these types of technology partnerships.

Touchstone Energy® Cooperatives continued to provide access to a wealth of advertising materials, education and training tools, member benefit programs and web development resources for its members. Touchstone is focused on helping its member co-ops communicate the cooperative difference and become a trusted energy partner for the members they serve.

Looking ahead, NRECA's commitment to providing ongoing leadership in advocacy, energy policy, research, innovation, technology development, employee benefits and financial services will ensure the long-term success of electric cooperatives. Our voice is strong. Our year-end fiscal position is strong. Our ties to Co-op Nation and local communities continue to grow. We stand with our members and together plan to accomplish great things in 2015 and beyond.



A handwritten signature in black ink that reads "Jo Ann Emerson".

Jo Ann Emerson
CEO



A handwritten signature in black ink that reads "Curtis Nolan".

Curtis Nolan
President

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NOTE FROM THE SECRETARY TREASURER



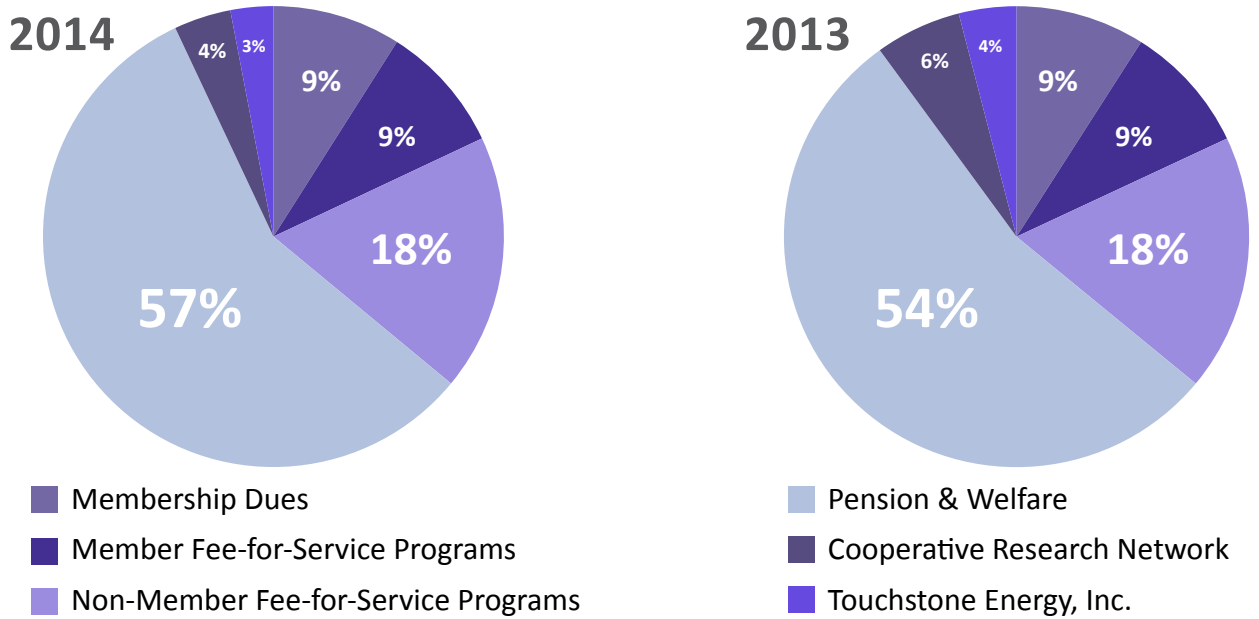
Phil Carson
Secretary Treasurer

IT'S MY PLEASURE to provide a summary of NRECA'S 2014 financial results. The summary is presented in two sections. The first describes the financial highlights of the Association's general membership, fee-for-service and cost reimbursable programs. The second reports the financial results of the programs administered by Insurance & Financial Services.

A handwritten signature in black ink that reads "Phil Carson". The signature is written in a cursive, flowing style.

2014 Financial Highlights of the Association

Summary of Operations *(Revenue by Source)*



The Association’s operations include general membership, fee-for-service and cost reimbursable programs. NRECA ended the year with total revenue of \$312.2 million consisting of:

- ▶ **\$29.2 million in membership dues**, which partially fund the membership programs that benefit all members. These programs consist of lobbying, regulatory, engineering, safety, communications and other programs. The total cost of these programs was \$42.9 million, or \$13.7 million more than dues revenue. This shortfall was funded primarily from non-member fee-for-service programs.
- ▶ **\$26.6 million in revenue from member fee-for-service programs**, which are paid for by the members that use them. These programs include training and conferences, consulting, RE Magazine, the annual and regional meetings, and other programs.
- ▶ **\$57.7 million in revenue from non-member fee-for-service programs**, which include international programs, the buildings owned by NRECA and fees for managing the Homestead Funds. As previously stated, the margins from these programs are used to fund general membership programs that benefit all members.
- ▶ **\$177.2 million, \$11.2 million and \$10.3 million in reimbursements** for administering the Pension and Welfare Programs, Cooperative Research Network and Touchstone Energy, respectively. All costs required to administer these programs are reimbursed to the Association on an actual cost basis.

NRECA ended the year with a \$3.3 million net operating margin in the General Fund.

The Political Education Advocacy Account (PEAA) began the year with a \$4 million fund balance and incurred \$1.4 million in expenses. With an additional \$2.1 million in funding approved by the NRECA Board at their December 2014 meeting, the PEAA Fund balance ended the year with a \$4.7 million fund balance.

2014 SECRETARY TREASURER REPORT

General Fund Summary of Operations (in thousands)

2014							2013	
GENERAL FUND PROGRAMS								
	General Membership	FEE-FOR-SERVICE		COST REIMBURSABLE			TOTAL	TOTAL
		Member	Non-Member	Pension & Welfare*	CRN	Touchstone		
Revenue	\$ 29,217	\$ 26,639	\$ 57,709	\$ 177,155	\$ 11,173	\$ 10,326	\$ 312,219	\$ 314,733
Expense	41,955	24,448	42,819	177,155	11,173	10,326	307,876	307,234
Net Operating (Loss) Margin Before Board Authorized Payments	(12,738)	2,191	14,890	-	-	-	4,343	7,499
Board Authorized Payments:								
RS Plan Accelerated Funding Payment	-	-	-	-	-	-	-	40,542
RS Plan Accelerated Funding Reimbursement	-	-	-	-	-	-	-	(26,831)
CRN Contribution	1,000	-	-	-	-	-	1,000	-
Total Board Authorized Payments	1,000	-	-	-	-	-	1,000	13,711
Net Operating (Loss) Margin	\$ (13,738)	\$ 2,191	\$ 14,890	\$ -	\$ -	\$ -	\$ 3,343	\$ (6,212)

* These amounts include administrative expenses paid by both the Plans and the employers of the Plans

Consolidated Summary Balance Sheet *(in thousands)*

ASSETS	2014	2013
Cash & Cash Equivalents	\$ 41,101	\$ 40,226
Accounts Receivable, Net	21,727	11,034
Receivables - Due From the Trusts	25,255	23,355
Investments	2,251	3,414
Other Assets	25,156	23,347
Property and Equipment, Net	90,062	87,233
TOTAL ASSETS	\$ 205,552	\$ 188,609

LIABILITIES & MEMBERS' EQUITY	2014	2013
LIABILITIES		
Accounts Payable & Accrued Expenses	\$ 21,066	\$ 25,857
Health Reimbursement Arrangement Plan Payable	7,200	7,200
Deferred Revenue	37,972	36,779
Other Liabilities	38,066	22,010
Post-Retirement Benefit Obligations Other Than Pensions	16,121	13,559
Total Liabilities	\$ 120,425	\$ 105,405
MEMBERS' EQUITY		
General Fund	\$ 80,447	\$ 79,204
Political, Education & Advocacy Account Fund	4,680	4,000
Total Members' Equity	85,127	83,204
TOTAL LIABILITIES & MEMBERS' EQUITY	\$ 205,552	\$ 188,609

Summary of Changes in Members' Equity *(in thousands)*

MEMBERS' EQUITY	General Fund	PEAA Fund*	Total
Beginning Balance, December 31, 2013	\$ 79,204	\$ 4,000	\$ 83,204
Net Operating Margin (Loss)	3,343	(1,420)	1,923
Transfer to Board-Designated Fund	(2,100)	2,100	-
Ending Balance, December 31, 2014	\$ 80,447	\$ 4,680	\$ 85,127

* Political, Education & Advocacy Account Fund

Financial Highlights of the Insurance & Financial Services Programs

The Insurance & Financial Services (I&FS) programs administered by NRECA consist of the Retirement Security Pension Plan (RS Plan), the NRECA 401(k) Pension Plan (401(k) Plan) and the NRECA Group Benefits Program (Group Program) (collectively, the Plans). During 2014, NRECA continued its commitment to control overall costs in the Plans and deliver high quality services to its participants, as well as improve product design and service delivery to better meet the needs of its members and their employees. In addition, NRECA continued its focus on key initiatives aimed at maintaining high quality participant services and market competitiveness, such as the RS Platform replacement, National Network Strategy and NRECA Employee Benefits website redesign projects.

- ▶ **NRECA's Retirement Program**, composed of both the RS Plan and the 401(k) Plan, serves more than 75,000 active and retired employees of member systems.
- ▶ **The RS Plan** is a defined benefit, multiple-employer pension plan, as defined under the Employee Retirement Income Security Act of 1974 (ERISA). Employees enter the RS Plan upon satisfaction of the eligibility requirements elected by their member system. The basic benefit, payable upon attainment of the normal retirement age, is based on the highest five-year average of compensation. Normal retirement age can be 65, 62, 60, or the earlier of age 62 or any age with 30 years of participation, as elected by the member system.
- ▶ **The 401(k) Plan** is a defined contribution, multiple-employer pension plan, as defined under ERISA. Employees enter the 401(k) Plan upon satisfaction of the eligibility requirements elected by their member system. Participating systems may elect to participate in a cash or deferred arrangement (401(k) option) through which participant contributions to the 401(k) Plan are made on a salary reduction basis.
- ▶ **The Group Program** provides benefits such as medical, disability, vision, dental and life insurance to participants. The Group Program is self-insured for the medical, dental, vision, and short-term and long-term disability plans. The Group Program receives all premium contributions, pays participant claims and premiums due to insurance carriers, and holds reserves for the benefit and protection of program participants. Participants must contribute as required by the participating member system. The life, AD&D, business travel accident, and VSP Vision plans are insured with third party insurance companies. The Medicare Prescription Drug Improvement and Modernization Act of 2003 provides for a prescription drug benefit under Medicare Part D. The Group Program provided for a Medicare Part D prescription drug benefit plan through December 31, 2014.
- ▶ **Net assets** available for benefits at the end of the year totaled \$17.0 billion, which was \$582 million, or 3.5%, more than the prior year. The increase in net assets was primarily due to a \$761 million increase in the market value of plan assets and \$281 million in dividends and interest income.
- ▶ **Contributions and premiums** totaled \$2.0 billion, which was \$41 million, or 2.1%, more than the prior year. The increase was primarily due to 401(k) contributions increasing \$39 million, and the Group Program premiums increasing \$8.3 million over the prior year. Slightly offsetting these increases was the \$6.2 million decrease in RS Plan contributions.
- ▶ **Benefits and claims** paid totaled \$2.2 billion, which was \$153 million, or 7.5%, higher than the prior year. This increase in benefits and claims paid is due primarily to increases in benefits paid by the RS Plan and 401(k) Plan of \$30 million and \$153 million, respectively. These increases reflect an increase in the number of participants retiring. The Group Program claims actually decreased \$30 million, which is directly related to savings generated from the National Network Strategy initiative.

Financial Highlights of the Insurance & Financial Services Programs

- ▶ **Administrative expenses** paid by the Plans totaled \$84.5 million, which was \$14.9 million or 21.4% more than the prior year. The RS Plan's administrative expenses increased \$0.5 million, mainly related to increases in consulting and outside money manager fees offset somewhat by a decrease in the premium paid to the Pension Benefit Guaranty Corporation. The 401(k) Plan's administrative expenses increased \$2.6 million primarily due to higher consulting fees and outside money manager fees. Outside money manager fees are based upon assets under management which were higher on average in 2014 compared to 2013 for both the RS and 401(k) Plans. The Group Program's administrative expenses increased by \$11.8 million primarily due to the one-time \$5.5 million Affordable Care Act transitional reinsurance fee as well as increased program expenses related to the National Network Strategy (NNS) initiative of \$7.2 million. Although NNS network access costs are higher, the NNS initiative saved the Group Program approximately \$94 million in benefit claim costs as a result of the higher provider discounts realized.

Financial Highlights of the Insurance & Financial Services Programs

Total Assets (in thousands)

			VARIANCE	
	2014	2013	Amount	Percent (%)
RS Plan*	\$ 8,540,903	\$ 8,597,068	\$ (56,165)	-0.65%
401(k) Plan	8,107,559	7,582,347	525,212	6.93%
Group Benefits Program	481,432	431,994	49,438	11.44%
TOTAL	\$ 17,129,894	\$ 16,611,409	\$ 518,485	3.12%

Net Assets Available for Benefits (in thousands)

			VARIANCE	
	2014	2013	Amount	Percent (%)
RS Plan*	\$ 8,463,808	\$ 8,442,879	\$ 20,929	0.25%
401(k) Plan*	8,091,121	7,566,832	524,289	6.93%
Group Benefits Program	458,218	421,177	37,041	8.79%
TOTAL	\$ 17,013,147	\$ 16,430,888	\$ 582,259	3.54%

Total Contributions/Premiums (in thousands)

			VARIANCE	
	2014	2013	Amount	Percent (%)
RS Plan*	\$ 799,698	\$ 805,920	\$ (6,222)	-0.77%
401(k) Plan	611,987	573,025	38,962	6.80%
Group Benefits Program	582,904	574,594	8,310	1.45%
TOTAL	\$ 1,994,589	\$ 1,953,539	\$ 41,050	2.10%

Benefits Paid (in thousands)

			VARIANCE	
	2014	2013	Amount	Percent (%)
RS Plan	\$ 1,074,309	\$ 1,044,742	\$ 29,567	2.83%
401(k) Plan	586,760	433,417	153,343	35.38%
Group Benefits Program	524,898	554,831	(29,933)	-5.39%
TOTAL	\$ 2,185,967	\$ 2,032,990	\$ 152,977	7.52%

Administrative Expenses Paid by the Plans (in thousands)

			VARIANCE	
	2014	2013	Amount	Percent (%)
RS Plan	\$ 23,868	\$ 23,460	\$ 408	1.74%
401(k) Plan	24,369	21,722	2,647	12.19%
Group Benefits Program	36,270	24,449	11,821	48.35%
TOTAL	\$ 84,507	\$ 69,631	\$ 14,876	21.36%

* These amounts are preliminary and may change.



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