

Report from the Secretary-Treasurer



Tony Anderson
Secretary-Treasurer

It's my pleasure to provide a summary of NRECA'S 2019 financial results. The summary is presented in two sections. The first section describes the financial highlights of NRECA's general membership, fee-for-service and cost reimbursable programs. The second section reports the financial results of the pension and welfare programs administered by NRECA.

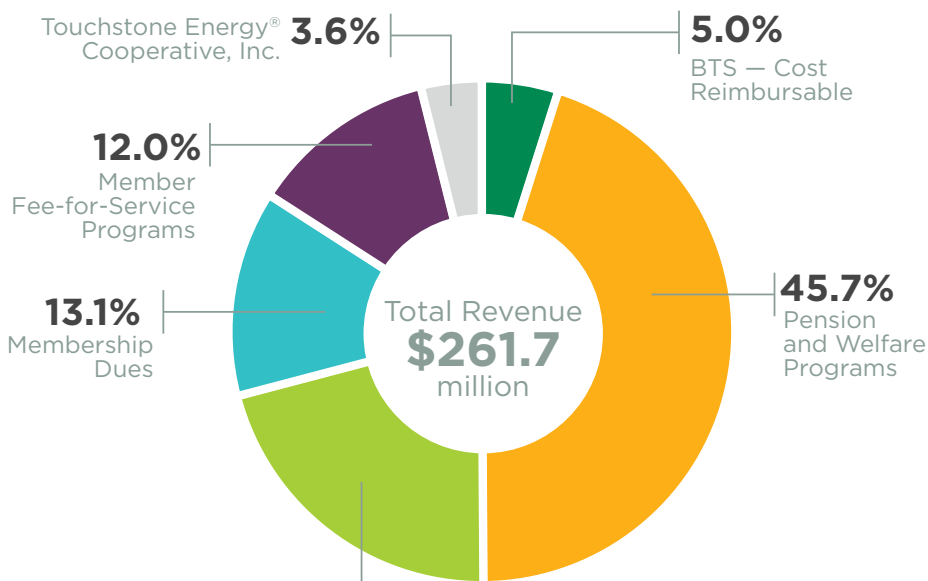
A handwritten signature in black ink that reads "Tony Anderson". The signature is written in a cursive, flowing style.

2019 Financial Highlights

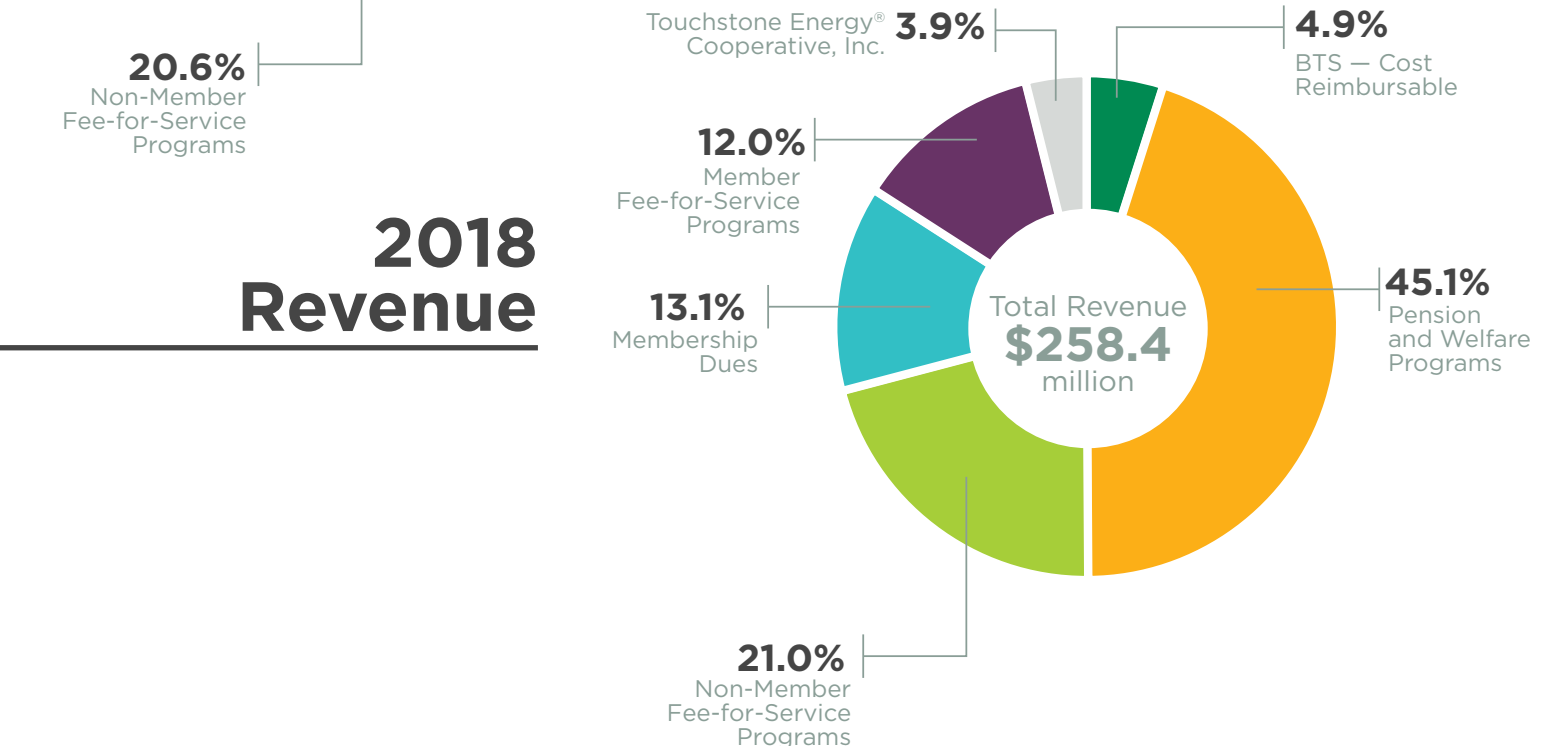
[the association]

SUMMARY OF OPERATIONS (REVENUE BY SOURCE)

NRECA ended 2019 with total revenue of \$261.7 million and net operating expenses of \$258.1 million before the RS Plan Voluntary Contribution Acceleration Program (VCAP) payment. Including the VCAP payment, NRECA ended 2019 with a net margin of \$501,000.



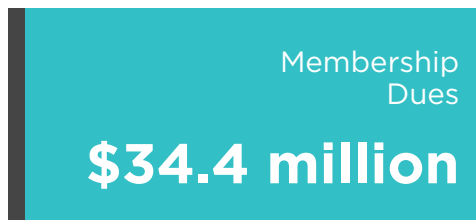
2019 Revenue



2018 Revenue

Summary of Operations by Revenue Source

General Membership Programs



Membership programs consist of government relations, communications, business & technology strategies and other programs. Dues for the year of \$34.4 million partially funded the \$43.1 million cost of these programs. NRECA funded the remaining \$8.7 million from margins earned on fee-for-service programs.

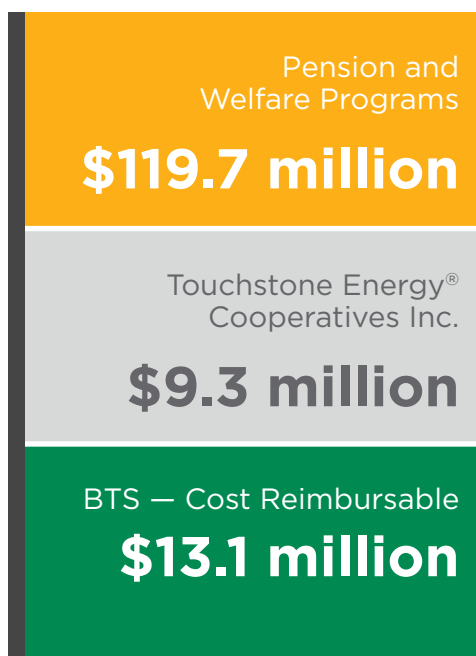
Fee-for-Service Programs



Revenue of \$31.4 million was generated from member fee-for-service programs, including annual & regional meetings, TechAdvantage®, training & conferences, consulting and *RE Magazine*, for which members who use them pay a fee. These programs ended the year with a net margin of \$3.3 million.

Revenue of \$53.8 million was generated from non-member fee-for-service programs, including the buildings owned by NRECA, fees for managing the Homestead Funds, and NRECA International. These non-member programs ended the year with a net margin of \$9.0 million.

Cost Reimbursable Programs



NRECA is the plan sponsor and plan administrator of three multiple employer plans. NRECA provides plan administration services on a cost reimbursable basis. Office space is provided at market rates.

NRECA provides administrative services to Touchstone Energy® Cooperatives Inc. on a cost reimbursable basis. Office space is provided at market rates.

Business & Technology Strategies (BTS) conducts research to accelerate technological innovation, which is primarily funded by member research dues and government grants. BTS revenue is recognized to the extent program expenses are incurred.

The 2019 financial information is preliminary and may change.

Consolidated Summary Balance Sheet [in thousands]

ASSETS	2019	2018
Cash & Cash Equivalents	\$ 23,742	\$ 34,498
Accounts Receivable, Net	32,424	29,571
Receivables - Due from the Plans	10,563	10,743
Investments	43,950	30,494
Other Assets	28,642	26,617
Property and Equipment, Net	86,799	89,315
TOTAL ASSETS	\$ 226,120	\$ 221,238

Liabilities & Members' Equity	2019	2018
Liabilities		
Accounts Payable & Accrued Expenses	\$ 23,392	\$ 28,994
Health Reimbursement Arrangement Payable	7,200	7,200
Deferred Revenue	79,139	68,623
Other Liabilities	13,730	14,009
Post-Retirement Benefit Obligations Other Than Pensions	10,951	11,328
Total Liabilities	134,412	130,154
Members' Equity		
General Fund	79,673	79,379
Net Assets of 501(c)(3) Affiliated Entities	4,572	4,364
Political Advocacy, Communications and Education Fund	7,463	7,341
Total Members' Equity	91,708	91,084
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 226,120	\$ 221,238

The 2019 financial information is preliminary and may change.

Summary of Operations*

[in thousands]

	2019				2018
	GENERAL MEMBERSHIP	FEE-FOR-SERVICE	COST REIMBURSABLE	TOTAL	TOTAL
Revenue	\$ 34,358	\$ 85,244	\$ 142,175	\$ 261,777	\$ 258,406
Expense	43,097	72,869	136,951	252,917	244,640
Net Operating (Loss) Margin Before Board Authorized Payments	(8,739)	12,375	5,224	8,860	13,766
Less Board Authorized Payments:					
RS Plan VCAP Payment	2,677	458	5,224	8,359	10,950
Net (Loss) Margin (Change in Members' Equity)	\$ (11,416)	\$ 11,917	\$ -	\$ 501	\$ 2,816

Summary of Changes in Members' Equity

[in thousands]

Members' Equity	General Fund	Net Assets of 501(c)(3) Affiliated Entities	Subtotal	PACE Fund	Total
Beginning Balance, December 31, 2017	\$ 76,062	\$ 4,865	\$ 80,927	\$ 7,284	\$ 88,211
Net Margin (Loss)	3,317	(501)	2,816	57	2,873
Beginning Balance, December 31, 2018	79,379	4,364	83,743	7,341	91,084
Net Margin (Loss)	293	208	501	122	623
Ending Balance, December 31, 2019	\$ 79,672	\$ 4,572	\$ 84,244	\$ 7,463	\$ 91,707

*Excludes Political Advocacy, Communications and Education (PACE) Fund

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2019 Financial Highlights of the Pension and Welfare Programs

[NRECA multiple employer plans]

The pension and welfare programs administered by NRECA consist of the Retirement Security Plan (RS Plan), the 401(k) Pension Plan (401(k) Plan) and the Group Benefits Program (Group Program) (collectively, the Plans). During 2019, NRECA continued its commitment to ensure that member cooperatives, regardless of their size and location, have access to comprehensive, flexible, and affordable employee benefit programs for current and former employees, and their dependents. In addition, NRECA continued its commitment to support legislation to preserve members' access to these programs, reduce cost pressure on co-ops utilizing these programs, and ensure the delivery of high quality services to the participants covered under these programs.

- **NRECA's Retirement Program**, composed of both the RS Plan and the 401(k) Plan, serves over 100,000 active and retired participants 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 through which participant contributions to the 401(k) Plan are made on a salary reduction basis.
- **The Group Program** provides benefits such as medical, pharmacy, 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.
- **Net assets** available for benefits at the end of the year totaled \$22.7 billion, which was \$3.5 billion, or 18.4%, higher than the previous year. The main driver of the increase in net assets was the \$3.4 billion net appreciation in the market value of plan assets. Offsetting the increase in net assets were benefit/claim payments which exceeded contributions and premiums by \$122.2 million for the year.
- **Contributions and premiums** totaled \$2.4 billion, which was \$9.1 million, or 0.4%, higher than the previous year. The increase was primarily due to RS Plan contributions and Group Program premiums increasing \$5.4 million and \$27.1 million, respectively. 401(k) Plan contributions in total decreased \$23.4 million. Employee and employer contributions increased \$32.7 million while rollover contributions decreased \$56.1 million.
- **Benefits and claims** paid totaled \$2.5 billion, which was \$305.5 million, or 10.9%, lower than the previous year. This variance is primarily due to the decrease of RS Plan benefits paid of \$405.7 million. 401(k) Plan and Group Program benefits paid increased by \$82.2 million and \$18.0 million, respectively.
- **Administrative expenses** paid directly by the Plans totaled \$92.1 million, which was \$29.4 million, or 24.2%, lower than the previous year. RS Plan administrative expenses decreased \$36.0 million due the passage of the SECURE Act. The SECURE Act provided relief from Pension Benefit Guaranty Corporation (PBGC) premiums for multiple employer benefit plans. Administrative expenses for the 401(k) Plan and Group Program increased \$3.1 million and \$3.5 million, respectively.

2019 Financial Highlights of the Pension and Welfare Programs

Total Assets [in thousands]

			Variance	
	2019	2018	Amount	%
Retirement Security Plan	\$ 10,092,838	\$ 8,680,449	\$ 1,412,389	16.3%
401(k) Plan	12,059,335	9,997,367	2,061,968	20.6%
Group Benefits Program	644,300	574,077	70,223	12.2%
Total	\$ 22,796,473	\$ 19,251,893	\$ 3,544,580	18.4%

Net Assets Available for Benefits [in thousands]

			Variance	
	2019	2018	Amount	%
Retirement Security Plan	\$ 10,014,323	\$ 8,614,298	\$ 1,400,025	16.3%
401(k) Pension Plan	12,046,984	9,982,982	2,064,002	20.7%
Group Benefits Program	627,987	560,626	67,361	12.0%
Total	\$ 22,689,294	\$ 19,157,906	\$ 3,531,388	18.4%

Total Contributions/Premiums [in thousands]

			Variance	
	2019	2018	Amount	%
Retirement Security Plan	\$ 967,606	\$ 962,241	\$ 5,365	0.6%
401(k) Pension Plan	733,325	756,739	(23,414)	(3.1%)
Group Benefits Program	686,177	659,033	27,144	4.1%
Total	\$ 2,387,108	\$ 2,378,013	\$ 9,095	0.4%

Benefits/Claims Paid [in thousands]

			Variance	
	2019	2018	Amount	%
Retirement Security Plan	\$ 1,131,513	\$ 1,537,203	\$ (405,690)	(26.4%)
401(k) Pension Plan	730,105	647,879	82,226	12.7%
Group Benefits Program	647,771	629,826	17,945	2.8%
Total	\$ 2,509,389	\$ 2,814,908	\$ (305,519)	(10.9%)

Administrative Expenses Paid By the Plans [in thousands]

			Variance	
	2019	2018	Amount	%
Retirement Security Plan	\$ 26,915	\$ 62,879	\$ (35,964)	(57.2%)
401(k) Pension Plan	34,750	31,669	3,081	9.7%
Group Benefits Program	30,441	26,978	3,463	12.8%
Total	\$ 92,106	\$ 121,526	\$ (29,420)	(24.2%)

The 2019 financial information is preliminary and may change.

Contact



cooperative.com
electric.coop



4301 Wilson Blvd.
Arlington, VA 22203



703.907.5500



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This document summarizes the consolidated financials and general activities of NRECA and its related companies. It is intended to be informational only. For ease of use, references to NRECA may include entities owned by or affiliated with NRECA; and references to NRECA programs, events, or activities may include NRECA-owned or affiliated entity programs, events or activities.