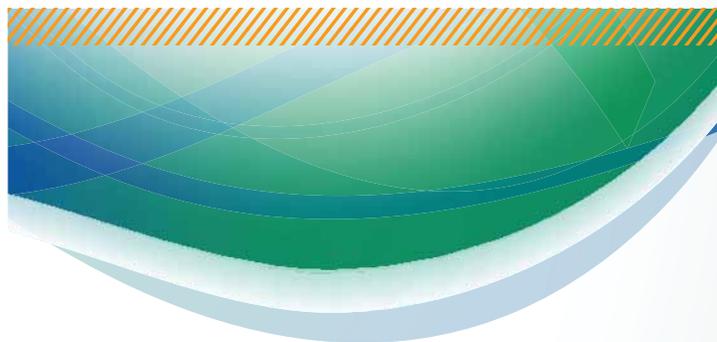
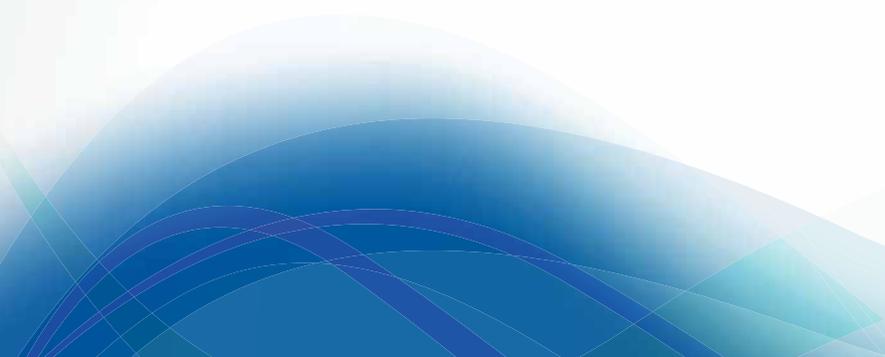




2011

ANNUAL REPORT



**National Rural Electric
Cooperative Association**

A Touchstone Energy® Cooperative 

Combined letter from President Michael J. Guidry and CEO Glenn English



Michael J. Guidry
President



Glenn English
CEO

In the past year the National Rural Electric Cooperative Association (NRECA) undertook the most in-depth review and revision of its member resolution and policy making process in a generation. After nearly 70 years of operation, it was time to take a step back from business as usual and reassess our commitment to the cooperative principles of democratic control and member education. Did the Association's policies and processes do all they could to promote member participation and did member co-ops have access to all the information necessary to participate effectively? On both questions we found that we could do better. Modern technology has made it possible for NRECA to restructure the resolution process to make it both more transparent and accessible to member co-ops while at the same time enabling us to provide near instant updates to a membership that spans five time zones. We believe that by reducing the bureaucracy and improving technology we can reduce barriers to participation and become an even more open and democratic institution.

Not all democratic institutions were so introspective or responsive in 2011; a partisan stalemate overtook the 111th Congress creating a policy vacuum that was quickly filled by regulatory agencies and the courts. In response NRECA shifted resources accordingly. The Association's staff worked tirelessly to review and respond to a flood of new agency rules, regulations; and court decisions that have already begun to reshape the electric utility industry. It is a trend that will continue into the foreseeable future as the Environmental Protection Agency moved early in 2012 to sharply reduce carbon dioxide emissions from new electric power plants.

While the bureaucrats were busy in Washington, D.C., NRECA member cooperatives were quietly leading a nationwide effort to create a smarter electric grid. NRECA's Cooperative Research Network continued to set the industry pace; developing a groundbreaking cyber security guide and template deemed "outstanding" by the Pacific Northwest National Laboratory. The Network also pushed forward with its smart grid demonstration project undertaken in partnership with the U.S. Department of Energy; contracting for 75% (\$28.5 million) of the necessary hardware and software.

As our member cooperatives were improving their physical networks, they were simultaneously strengthening their business and community ties. In 2011, Touchstone Energy, the national branding effort, grew to encompass a record 728 member cooperatives. As economic and regulatory forces beyond the control of local co-ops continue to put upward pressure on electric bills, Touchstone Energy has increased brand value by delivering more than 50 different programs that strengthen co-op connections with members and local businesses. An example of which is the success of the Co-op Connections program which saved co-op member owners nearly \$14 million on prescription medication in 2011 and more than \$45 million since the program's inception in 2007.

2011 was a busy year for electric cooperatives and as we look back it appears that all the hard work has really paid off. NRECA enters its 70th year in a stronger fiscal position than at any time in our history. The resolutions that guide our advocacy efforts are clearer and the process by which they are established is more transparent. Our member cooperative's distribution networks have grown smarter and more reliable while their ties to the local community have grown stronger. It is good momentum upon which we can build in 2012 and beyond.

Source: Cooperative.com



From left to right:

Gerald Anderson
Nevada

Martin Anderson
Alabama

Tony Anderson
Michigan

Lawrence "Larry" Becker
Wisconsin

Dean C. Belt
Delaware

Vernon N. Brinkley
Virginia

Phil Carson
Illinois

Raymond Cloud
California

Mel Coleman
Secretary Treasurer
Arkansas

Michelle DaVia
Vermont

Charles "Chuck" Dawsey
Washington

Dan Dyer
Maryland

Larry Elkins
Tennessee

Dennis Esaki
Hawaii

Roy Friedersdorf
Indiana

Edward "Ray" Garcia
Colorado

Eston W. Glover
Kentucky

Michael J. Guidry
President
Louisiana

Scott Hallowell
Maine

William "Bill" Hart
South Carolina

Angus S. Hastings
Florida

Mark Hofer
South Dakota

Clarence "Fritz" Keller
Montana

Kerry Kelton
Texas

Meera Kohler
Alaska

Donald "Don" Link
North Dakota

Thomas E. Madsen
New Jersey

Tom McQuiston
Ohio

Don R. McQuitty
Missouri

Galen Mills
Georgia

Sam Nichols
Iowa

Russell Nielsen
Nebraska

Curtis Nolan
Vice President
Arizona

Robert "Bob" J. Occhi
Mississippi

Ronald Osterhout
Idaho

Max W. Ott
Oklahoma

Gail F. Paine
New Hampshire

Gary Potter
New York

Lanny Rodgers
Pennsylvania

Keith Ross
Kansas

Ronald J. Schwartz
Minnesota

C. Brooks Sharp
West Virginia

David Spradlin
New Mexico

M. LaDon "Don" Torgersen
Utah

Bryan Wolfe
Oregon

F.E. "Wally" Wolski
Wyoming

Curtis Wynn
North Carolina

2011

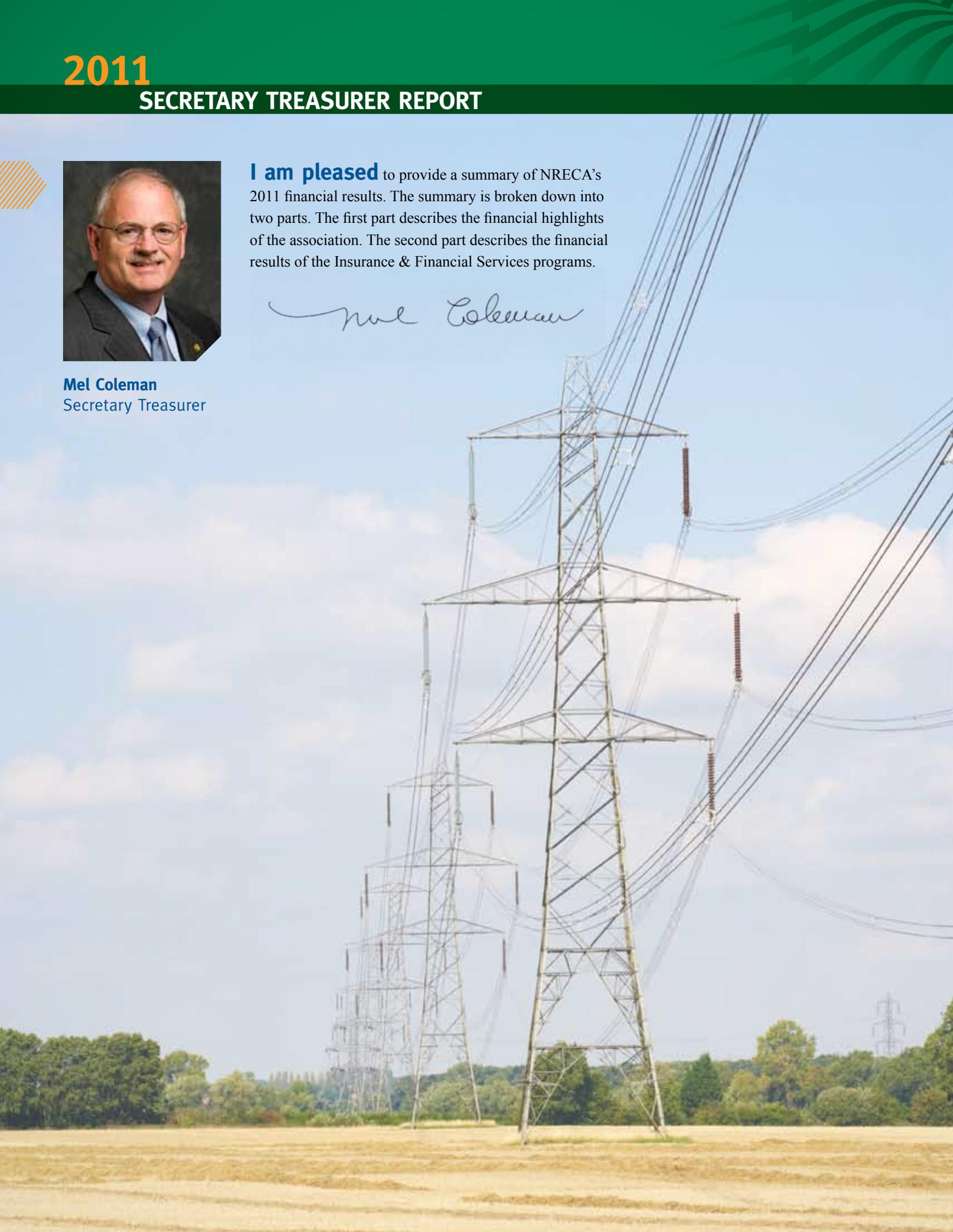
SECRETARY TREASURER REPORT



Mel Coleman
Secretary Treasurer

I am pleased to provide a summary of NRECA's 2011 financial results. The summary is broken down into two parts. The first part describes the financial highlights of the association. The second part describes the financial results of the Insurance & Financial Services programs.

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



2011 SECRETARY TREASURER REPORT

FINANCIAL HIGHLIGHTS OF THE ASSOCIATION

Summary of Operations (Revenue by Source)



The association's consolidated operations include the General Membership programs, Fee-for-Service programs and Cost Reimbursable programs. NRECA ended the year with total revenue of \$287 million consisting of:

- \$27 million in membership dues**, which fund the core membership programs that benefit all members. These core programs consist of the lobbying, regulatory and communication programs.
- \$189 million in reimbursements** for costs incurred administering the pension and other trust programs and payments to service providers of the pension and other trust programs, as well as the Cooperative Research Network® and Touchstone Energy®.
- \$24 million in revenue from the member fee-for-service programs**. These programs are paid for by the members that use them and include training and conferences, consulting, RE Magazine, the Annual and Regional Meetings, as well as other programs.
- \$47 million in revenue from the non-member fee-for-service programs**, which include the International Programs, the buildings owned by NRECA, and fees for managing the Homestead Funds®. The margins from these programs are used to fund other general membership programs that were requested by the membership through the resolution process and which benefit the majority of the members. Examples of such programs are Education and Training development and Market Research.

NRECA also ended the year with a net operating margin of \$3.3 million, which was derived as follows:

- \$11.8 million** from non-member fee-for-service programs.
- \$1.8 million** from member fee-for-service programs.
- (\$10.3) million** shortfall from general membership programs.

2011 SECRETARY TREASURER REPORT

FINANCIAL HIGHLIGHTS OF THE ASSOCIATION

Consolidated Summary of Operations (In Thousands)

	2011					TOTAL	2010
	PROGRAMS						
	GENERAL MEMBERSHIP		FEE-FOR-SERVICE		Cost Reimbursable		
	Core	Other	Member	Non-Member		TOTAL	TOTAL
Revenue	\$ 27,218	\$ -	\$ 23,826	\$ 46,830	\$ 188,627	\$ 286,501	\$ 241,870
Expense	28,578	3,513	22,049	34,981	188,627	277,748	233,317
Net Operating Margin Before Board Authorized Payments	(1,360)	(3,513)	1,777	11,849	-	8,753	8,553
Board Authorized Payments—							
401(k) Loan Cancellation	-	(2,445)	-	-	-	(2,445)	-
CRN Contribution	-	(3,000)	-	-	-	(3,000)	(1,770)
Net Operating (Loss) Margin	\$ (1,360)	\$ (8,958)	\$ 1,777	\$ 11,849	\$ -	\$ 3,308	\$ 6,783

Consolidated Summary Balance Sheet (In Thousands)

ASSETS	2011	2010
Cash & Cash Equivalents	\$ 61,396	\$ 34,088
Accounts Receivable – Net	17,519	11,092
Receivables – Due From the Trusts	16,257	18,739
Investments	2,441	1,588
Other Assets	34,341	38,395
Property and Equipment, Net	96,463	95,871
TOTAL ASSETS	\$ 228,417	\$ 199,773

LIABILITIES AND MEMBER EQUITY	2011	2010
Accounts Payable & Accrued Expenses	\$ 21,187	\$ 18,256
Deferred Revenue	59,994	43,107
Other Liabilities	17,572	16,070
Note Payable	8,634	8,888
Postretirement Benefit Obligations Other Than Pensions	36,104	31,834
TOTAL LIABILITIES	\$ 143,491	\$ 118,155
Member Equity	84,926	81,618
TOTAL LIABILITIES AND MEMBER EQUITY	\$ 228,417	\$ 199,773

2011 SECRETARY TREASURER REPORT

FINANCIAL HIGHLIGHTS OF THE INSURANCE & FINANCIAL SERVICES PROGRAMS

The Insurance & Financial Services (I&FS) 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). During 2011, NRECA continued to make product design and service delivery improvements to the I&FS programs to better meet the changing needs of its members and their employees. In addition, NRECA continued its focus on controlling the costs of the benefit programs and financial service products that it makes available to the membership.

- **NRECA's Retirement Program**, composed of both the RS Plan and the 401(k) Plan, serves over 61,000 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 Benefits Program (Group Program)** sponsored by NRECA provides group benefits such as medical, disability, vision, dental and life insurance benefits to participants. The Group Program receives all premium contributions, pays participant claims and premiums due insurance carriers, and holds reserves for the benefit and protection of program participants. Participants must contribute as required by the participating member system. The Group Program is self-insured for the medical, dental, vision, short-term and long-term disability plans. The life and AD&D insurance, 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 provides for a Medicare Part D prescription drug benefit.
- **Net Assets** available for benefits at the end of the year totaled \$11.3 billion, which was \$275 million more than last year. The increase in net assets was primarily due to \$306 million or 2.7% increase in the market value of plan assets.
- **Contributions and premiums** billed totaled \$1.8 billion, which was \$194 million less than the prior year. The decrease is primarily due to a 22% decrease in accrued contributions for the RS Plan.
- **Benefits and claims** paid totaled \$1.6 billion, which was approximately the same amount paid in the prior year. This reflects a \$12 million or 2.2% increase in Group Program benefit payments, which is due in part to higher claims volume. Benefits paid increased \$50 million or 18.9% for the 401(k) plan, due primarily to an increase in the average asset value of participants who left the plan. Benefits paid decreased \$62 million or 8.1% in the RS Plan due primarily to a decrease in the number of retirees electing lump sum payments.
- **Administrative expenses** paid by the Plans totaled \$74 million, which was \$4.4 million or 6.30% more than the previous year. The 401(k) Plan's administrative expenses decreased \$1.8 million or 7.6% primarily due to a \$4.5 million refund from NRECA for previously charged administrative costs, which was offset somewhat by increased information technology costs and an increase in NRECA staff dedicated to supporting the 401(k) plan. The Group Program's administrative expenses increased \$3.9 million or 11.25% primarily due to increases in managed care expenses to help minimize claim costs and an increase in information technology costs. The RS Plan's administrative costs increased \$2.2 million or 10.14% primarily due to increases in money management and consulting fees.

2011 SECRETARY TREASURER REPORT

FINANCIAL HIGHLIGHTS OF THE INSURANCE & FINANCIAL SERVICES PROGRAMS

Total Assets (In Thousands)

	2011	2010	VARIANCE	
			AMOUNT	PERCENT
RS Plan*	\$ 5,665,501	\$ 5,586,636	\$ 78,865	1.41%
401(k) Plan	5,438,186	5,225,385	212,801	4.07%
Group Benefits Trust	400,399	385,464	14,935	3.87%
TOTAL	\$ 11,504,086	\$ 11,197,485	\$ 306,601	2.74%

Net Assets Available for Benefits (In Thousands)

	2011	2010	VARIANCE	
			AMOUNT	PERCENT
RS Plan*	\$ 5,446,127	\$ 5,394,237	\$ 51,890	0.96%
401(k) Plan	5,417,003	5,208,638	208,365	4.00%
Group Benefits Trust	390,194	375,941	14,253	3.79%
TOTAL	\$ 11,253,324	\$ 10,978,816	\$ 274,508	2.50%

Contributions/Premiums (In Thousands)

	2011	2010	VARIANCE	
			AMOUNT	PERCENT
RS Plan*	\$ 847,491	\$ 1,089,495	\$ (242,004)	(22.21)%
401(k) Plan	357,689	341,904	15,785	4.62%
Group Benefits Trust	591,642	559,785	31,857	5.69%
TOTAL	\$ 1,796,822	\$ 1,991,184	\$ (194,362)	(9.76)%

Benefits Paid (In Thousands)

	2011	2010	VARIANCE	
			AMOUNT	PERCENT
RS Plan*	\$ 703,309	\$ 765,533	\$ (62,224)	-8.13%
401(k) Plan	313,836	263,913	49,923	18.92%
Group Benefits Trust	572,997	560,580	12,417	2.22%
TOTAL	\$ 1,590,142	\$ 1,590,026	\$ 116	0.01%

Administrative Expenses Paid By The Plans (In Thousands)

	2011	2010	VARIANCE	
			AMOUNT	PERCENT
RS Plan*	\$ 24,301	\$ 22,063	\$ 2,238	10.14%
401(k) Plan	21,469	23,235	(1,766)	(7.6%)
Group Benefits Trust	27,793	23,907	3,886	16.25%
TOTAL	\$ 73,563	\$ 69,205	\$ 4,358	6.30%

*The RS Plan amounts are preliminary and may change.