



**POWERING COMMUNITIES
AND EMPOWERING MEMBERS
TO IMPROVE THE QUALITY OF THEIR LIVES**



NRECA

A Touchstone Energy Cooperative

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

“The greatest legacy we can pass to following generations is an invigorated and energized membership, willing and able to pull together and united in purpose by their electric cooperative.”

For the two of us, this will be our last NRECA Annual Report and our final opportunity to thank the many people who have helped make the National Rural Electric Cooperative Association one of the most effective trade associations in America. Over the years we have had the honor to represent employees, directors/trustees, and consumer-members of electric cooperatives across the country; and been blessed to have made many friends along the way. Those interactions helped to continually fuel our passion for the program and reaffirm our belief that electric co-ops can be as great a catalyst for civic advancement today as they were 75 years ago.

Right from the start, electric cooperatives were envisioned as do-it-yourself projects, organized by folks in a community to achieve a significant quality of life goal—providing themselves with safe, reliable, and affordable electric power. Not-for-profit, consumer-owned co-ops were so successful in accomplishing this purpose that many consumers today, unaware of history, take electric service for granted. In fact, until the lights flicker during a storm, they rarely give their electric provider a second thought.

The foremost challenge facing electric co-ops in 2013—in addition to continuing to deliver the highest levels of service—is to re-engage our members in pursuing community development initiatives. This means re-establishing the “local, hometown electric co-op” as a mechanism to support those activities.

At the time each co-op was incorporated its members were desperate for electric power; a need that galvanized the community. What needs do our members have today? And how can we as electric cooperatives,

with a wealth of experience and expertise, incubate community-based solutions to meet them?

The answers are likely to be different for each co-op and community but the results—goodwill and enhanced member trust and loyalty—will ensure that electric cooperatives are able to more keenly engage members in grassroots political advocacy, allowing our program to remain politically relevant for years to come.

As we hand the reigns to a new generation of co-op leaders, it is striking to observe how far we have come in so little time. NRECA stands debt free for the first in its 71-year history; member dues make up less than 10 percent of the NRECA operating budget; and ACRE®, our political action committee, has doubled in size, growing to one of the Top 50 in the nation. In addition to punching above its political weight, NRECA is regularly recognized as one of the best places to work in the Washington, D.C. area by well regarded institutions like AARP, *Computer World*, and *Washingtonian Magazine*. All of these things enable NRECA to effectively represent electric cooperative interests in our nation’s capital.

As a final thought, the greatest legacy we can pass to following generations is an invigorated and energized membership, willing and able to pull together and united in purpose by their electric cooperative. Along those lines, we encourage you to find the will and passion to build the necessary trust and loyalty among your membership by returning to the crux of what it means being a cooperative—helping your consumer-members take steps to improve their quality of life.



Michael J. Guidry
President



Glenn English
CEO



From left to right:

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|--|--|---|---|
| ■ Michael J. Guidry
Louisiana
<i>President</i> | Dennis Esaki
Hawaii | Donald “Don” Link,
North Dakota | Gary Potter
New York |
| ■ Curtis Nolan
Arizona
<i>Vice President</i> | Roy Friedersdorf
Indiana | Thomas E. Madsen
New Jersey | Reuben Ritthaler
Wyoming |
| ■ Mel Coleman
Arkansas
<i>Secretary Treasurer</i> | Edward “Ray” Garcia
Colorado | Tom McQuiston
Ohio | Lanny Rodgers
Pennsylvania |
| Tony Anderson
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Kentucky | Don R. McQuitty
Missouri | Keith Ross
Kansas |
| Lawrence “Larry” Becker
Wisconsin | Sandra Green
Nevada | Galen Mills
Georgia | Ronald J. Schwartau
Minnesota |
| Vernon N. Brinkley
Virginia | Scott Hallowell
Maine | Sam Nichols
Iowa | C. Brooks Sharp
West Virginia |
| Phil Carson
Illinois | William “Bill” Hart
South Carolina | Russell Nielsen
Nebraska | Charles “Ed” Short
Alabama |
| Raymond Cloud
California | Angus S. Hastings
Florida | Woody Noel
Delaware | Timothy Smith
Oklahoma |
| Michelle DaVia
Vermont | Mark Hofer
South Dakota | Robert “Bob” J. Occhi
Mississippi | David Spradlin
New Mexico |
| Dan Dyer
Maryland | Clarence “Fritz” Keller,
Montana | Ronald Osterhout
Idaho | Steven Walter
Washington |
| Larry Elkins
Tennessee | Kerry Kelton
Texas | Gail F. Paine
New Hampshire | Bryan Wolfe
Oregon |
| | Meera Kohler
Alaska | Michael Peterson
Utah | Curtis Wynn
North Carolina |



Mel Coleman
Secretary Treasurer

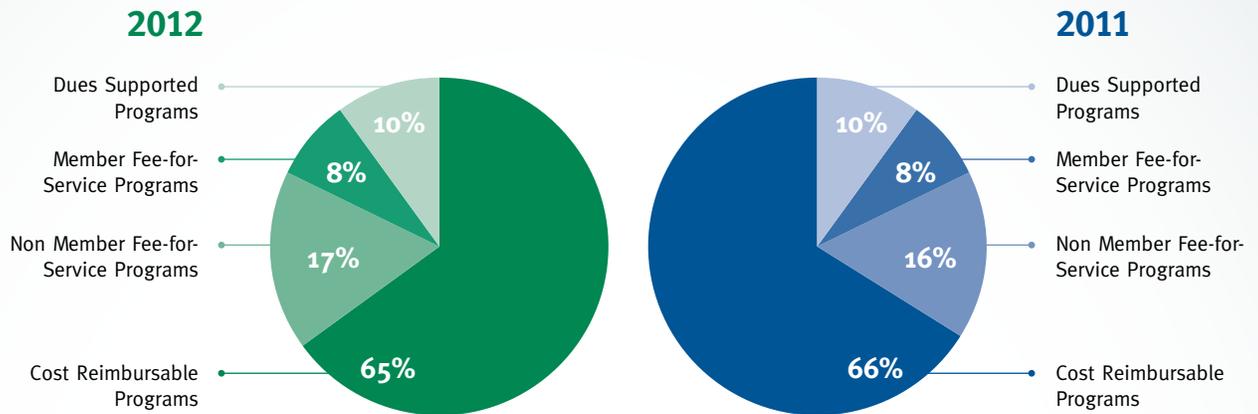
I am pleased to provide a summary of NRECA's 2012 financial results. The summary is broken down into two parts. The first part describes the financial highlights of the association. The second part describes the financial results of the Insurance & Financial Services programs.

A handwritten signature in black ink that reads "Mel Coleman". The signature is fluid and cursive.



2012 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 \$286 million consisting of:

- **\$29 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.
- **\$184 million in reimbursements** for administering the pension and other trust programs as well as the Cooperative Research Network and Touchstone Energy. All costs required to administer these programs are reimbursed to the association on an actual cost basis.
- **\$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 others.
- **\$49 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 programs that were requested by the membership through the resolution process and which benefit the majority of the members.

NRECA also ended the year with a net operating margin of \$4.5 million, which was derived as follows:

- **\$12.4 million** from non-member fee-for-service programs.
- **\$2.0 million** from member fee-for-service programs.
- **(\$9.9) million** shortfall from general membership programs.

2012 Financial Highlights of the Association

Consolidated Summary of Operations (In Thousands)

	2012					2011
	PROGRAMS				TOTAL	TOTAL
	General Membership	FEE-FOR-SERVICE		Cost Reimbursable		
Member		Non-Member				
Revenue	\$ 28,473	\$ 24,365	\$ 48,507	\$ 184,275	\$ 285,620	\$ 286,501
Expense	36,385	22,368	36,102	184,275	279,130	277,748
Net Operating Margin Before Board Authorized Payments	(7,912)	1,997	12,405	–	6,490	8,753
Board Authorized Payments–						
401(k) Plan Loan Cancellation	–	–	–	–	–	(2,445)
CRN Contribution	2,000	–	–	–	(2,000)	(3,000)
Net Operating Margin	\$ (9,912)	\$ 1,997	\$ 12,405	\$ –	\$ 4,490	\$ 3,308

Consolidated Summary Balance Sheet (In Thousands)

ASSETS	2012	2011
Cash & Cash Equivalents	\$ 77,381	\$ 61,396
Accounts Receivable – Net	12,850	16,775
Receivables – Due From the Trusts	18,276	16,257
Investments	2,223	2,441
Other Assets	22,160	34,004
Property and Equipment, Net	94,572	96,463
TOTAL ASSETS	\$ 227,462	\$ 227,336

LIABILITIES AND MEMBER EQUITY	2012	2011
Liabilities		
Accounts Payable & Accrued Expenses	\$ 20,927	\$ 20,850
Health Reimbursement Arrangement Plan Payable	19,209	–
Deferred Revenue	63,417	59,994
Other Liabilities	19,905	16,828
Note Payable	–	8,634
Postretirement Benefit Obligations Other Than Pensions	14,588	36,104
TOTAL LIABILITIES	\$ 138,046	\$ 142,410
Member Equity	89,416	84,926
TOTAL LIABILITIES AND MEMBER EQUITY	\$ 227,462	\$ 227,336

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 401(k) Pension Plan (401(k) Plan) and the Group Benefits Program (Group Program). During 2012, NRECA continued to make product design and service delivery improvements to the benefit 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 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 benefits to participants. The Group Program is self-insured for the medical, dental, vision, short-term and long-term disability plans. 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 life, 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 \$13.7 billion, which was \$2.4 billion or 21.5% more than last year. The increase in net assets was primarily due to a \$1.0 billion increase in the market value of plan assets, \$226 million in dividends and interest, and \$1.2 billion of excess contributions/premiums over claims and benefits paid and other expenses.
- **Contributions and premiums** totaled \$3.1 billion, which was \$1.2 billion or 64% more than the prior year. The increase was primarily due to accruing 8.5 months of 2013 contributions into the RS Plan for the 2012 plan year to minimize the amount of the variable premium payable to the Pension Benefit Guaranty Corporation (PBGC). This included \$1.2 billion in accrued contributions related to the RS Plan's voluntary accelerated funding program.
- **Benefits and claims** paid totaled \$1.9 billion, which was \$232 million or 13.7% higher than the prior year. This increase in benefits and claims paid is due primarily to an increase of \$181 million in RS Plan benefits paid and \$46 million in 401(k) Plan benefits paid.
- **Administrative expenses** paid by the Plans totaled \$79.4 million, which was \$5.8 million or 7.9% more than the previous year. The increase is primarily due to the \$10.5 million or 43.3% increase in the RS Plan administrative expenses related to higher PBGC premiums (\$7.7 million) and money management fees (\$1.8 million). The 401(k) Plan's administrative expenses decreased \$3.2 million or 15% primarily due to a \$4.6 million refund from NRECA for previously charged administrative costs. The Group Program's administrative expenses decreased \$1.5 million or 5.3% primarily due to lower information technology consulting fees in anticipation of the national provider network initiative.

Financial Highlights of the Insurance & Financial Services Programs

Total Assets (In Thousands)

			VARIANCE	
	2012	2011	AMOUNT	PERCENT
RS Plan*	\$ 7,207,669	\$ 5,665,344	\$ 1,542,325	27.22%
401(k) Plan	6,206,791	5,438,186	768,605	14.13%
Group Benefits Program	427,450	400,399	27,051	6.76%
TOTAL	\$ 13,841,910	\$ 11,503,929	\$ 2,337,981	20.32%

Net Assets Available for Benefits (In Thousands)

			VARIANCE	
	2012	2011	AMOUNT	PERCENT
RS Plan*	\$ 7,056,549	\$ 5,445,970	\$ 1,610,579	29.57%
401(k) Plan**	6,199,511	5,417,003	782,508	14.45%
Group Benefits Program	415,167	390,194	24,973	6.40%
TOTAL	\$ 13,671,227	\$ 11,253,167	\$ 2,418,060	21.49%

Total Contributions/Premiums (In Thousands)

			VARIANCE	
	2012	2011	AMOUNT	PERCENT
RS Plan*	\$ 2,018,908	\$ 843,781	\$ 1,175,127	139.27%
401(k) Plan	530,732	484,239	46,493	9.60%
Group Benefits Program	598,286	591,642	6,644	1.12%
TOTAL	\$ 3,147,926	\$ 1,919,662	\$ 1,228,264	63.98%

Benefits Paid (In Thousands)

			VARIANCE	
	2012	2011	AMOUNT	PERCENT
RS Plan	\$ 998,654	\$ 817,209	\$ 181,445	22.20%
401(k) Plan	359,987	313,836	46,151	14.71%
Group Benefits Program	567,241	562,812	4,429	.79%
TOTAL	\$ 1,925,882	\$ 1,693,857	\$ 232,025	13.70%

Administrative Expenses Paid By The Plans (In Thousands)

			VARIANCE	
	2012	2011	AMOUNT	PERCENT
RS Plan	\$ 34,820	\$ 24,301	\$ 10,519	43.29%
401(k) Plan**	18,230	21,434	(3,204)	(14.95)%
Group Benefits Program	26,309	27,793	(1,484)	(5.34)%
TOTAL	\$ 79,359	\$ 73,528	\$ 5,831	7.93%

*These RS Plan amounts are preliminary and may change.

**These 401(k) Plan amounts are preliminary and may change.