



# NRECA

A Touchstone Energy® Cooperative 



# ANNUAL REPORT 2013

# CO-OP NATION

STRONG & PROUD

## Letter from **The President & CEO**

Change, growth, new challenges and new opportunities marked 2013 for NRECA. With new leadership of the organization at the executive level and on the Board of Directors, the Association has trained its focus on a strategic presence and partnership with its members. Exciting new conversations are taking place throughout Co-op Nation.

The foundation for all of this new activity is strong. NRECA is financially sound, full of talent and ready to meet the challenges of the coming years. As we anticipate major changes in the electric industry, dramatic leaps in technology, new rules and regulations, and transformational changes in the communities served by electric cooperatives, it has never been more important for NRECA to succeed in strategic partnership with its members. Accordingly, we are focused on preventing undue hardships, burdens and costs from falling at the feet of our member-owners and their communities. At the same time, we have aspirational goals to strive toward: helping electric cooperatives adapt to new technologies, advocate for common sense policies, and provide sound benefits and investments.

In 2013, we made huge progress in shoring up the affordability and sustainability of NRECA's benefit plans. In partnership with our members, the NRECA Retirement Security Plan's (RS Plan) accelerated funding program was successful, with more than 75 percent participation. Accelerated contributions of nearly \$1.8 billion were received in exchange for a 25 percent reduction in ongoing RS Plan contribution rates.

We also achieved success in completing the first phase of the new National Network Strategy through United HealthCare for the NRECA Group Benefits Program, a transition that affected nearly every system and process supporting the plan.

Also in 2013, we worked ceaselessly toward passage of the five-year Farm Bill despite a long period of inaction on the legislation in the U.S. Congress. The Farm Bill eventually passed in early 2014, and it contained two long-sought-after improvements to the Rural Utilities Service (RUS) loan program: the reestablishment of baseload power generation loans and a new zero-interest-rate energy efficiency loan program.

Looking ahead at legislative and regulatory challenges, the NRECA Board created a Political, Educational & Advocacy Account from the 2013 net operating margin before Board authorized payments. This account works to maintain our strong position as a nationally-recognized and respected advocate for reliable, affordable electric service and our communities' high quality of life. With this account, we can thank our friends, voice support for ideas we care about, express concern about policies we oppose and respond quickly in a rapidly-changing political landscape.

Climate change regulations were also squarely in focus for our industry in 2013. NRECA's two-pronged response emphasized what cooperatives stand for in terms of efficiency, technology and renewable fuels as well as our promises of affordability and reliability for the member-owners we serve. Our political strength was tested by regulatory pressures, and we continue to stand up for energy consumers and advocate reasonable courses of action through the Cooperative Action Network advocacy tools.

(continued...)





## Letter from **The President & CEO**

Technological leadership through the Cooperative Research Network and by our members continued to attract major attention in the industry, academia and halls of government. Our work in energy storage, cyber security and the Smart Grid demonstration project, in particular, identify NRECA and its membership as leaders in the electric industry. In addition, we made great strides through our members' dedication to a culture of safety through a strengthened Rural Electric Safety Accreditation Program (RESAP).

Our annual and regional meetings carried forward the major improvements we made to our membership resolutions process, which encouraged greater discussion and understanding of the issues relevant to electric cooperatives today.

Our Touchstone Energy® Cooperatives brand alliance launched the new "Power of Co-op Membership" campaign, which is winning awards and sending powerful messages to the nation as well as to cooperative member-owners about the strength of the cooperative advantage.

In 2013, NRECA formalized the Association's strategic priorities even as we accomplished substantial organizational change. Every department of NRECA was tasked with the responsibility to associate its work directly with the vision of the organization. Our commitment is to be the trusted resource, to champion the cause and to inspire the future, which holds new responsibilities for each employee at NRECA to support the work of our members.

Together, we will anticipate challenges, solve problems, provide leadership and trumpet successes – now and in the years to come.



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



**Curtis Nolan**  
Arizona  
President



**Mel Coleman**  
Arkansas  
Vice President



**Phil Carson**  
Illinois  
Secretary Treasurer



**Tony Anderson**  
Michigan

**Lawrence "Larry" Becker**  
Wisconsin

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**Michelle DaVia**  
Vermont

**Dan Dyer**  
Maryland

**Larry Elkins**  
Tennessee

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Hawaii

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Colorado

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Kentucky

**Sandra Green**  
Nevada

**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

**Woody Noel**  
Delaware

**Robert "Bob" J. Occhi**  
Mississippi

**Ronald Osterhout**  
Idaho

**Gail F. Paine**  
New Hampshire

**Michael Peterson**  
Utah

**Gary Potter**  
New York

**Reuben Ritthaler**  
Wyoming

**Lanny Rodgers**  
Pennsylvania

**Keith Ross**  
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**C. Brooks Sharp**  
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**Charles "Ed" Short**  
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**Timothy Smith**  
Oklahoma

**David Spradlin**  
New Mexico

**Steven Walter**  
Washington

**Bryan Wolfe**  
Oregon

**Curtis Wynn**  
North Carolina



## Note from **The Secretary Treasurer**



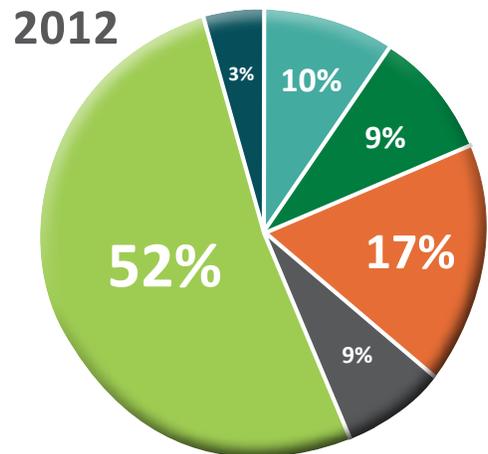
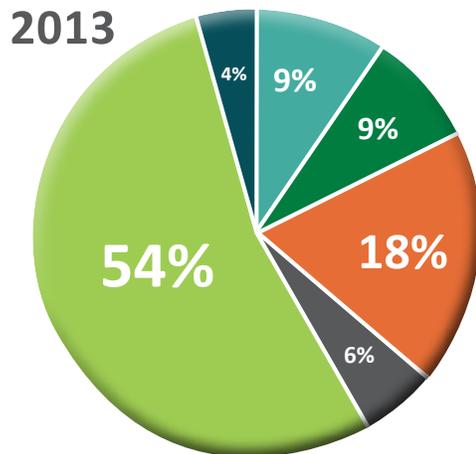
**Phil Carson**  
Secretary Treasurer

**IT'S MY PLEASURE** to provide a summary of NRECA's 2013 financial results. The summary is broken down into two parts. The first describes the financial highlights of the Association's general membership, fee-for-service and cost reimbursable programs. The second describes the financial results of the programs administered by Insurance & Financial Services.

A handwritten signature in cursive script that reads "Phil Carson".

# 2013 Financial Highlights of the Association

## Summary of Operations (Revenue by Source)



Membership Dues

Member Fee-for-Service Programs

Non-Member Fee-for-Service Programs

Pension & Welfare

Cooperative Research Network

Touchstone Energy, Inc.

The Association's operations include general membership, fee-for-service and cost reimbursable programs. NRECA ended the year with total revenue of \$303.9 million consisting of:

- ▶ **\$28.8 million in membership dues**, which 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 \$37.6 million, or \$8.8 million more than dues revenue. This shortfall was funded primarily from non-member fee-for-service programs.
- ▶ **\$25.3 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.
- ▶ **\$55.4 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.
- ▶ **\$164.4 million, \$17.4 million and \$12.6 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 \$7.5 million net operating margin before Board authorized payments. In February 2013, the NRECA Board approved a one-time, non-recurring RS Plan accelerated funding payment in the amount of \$40.5 million. Since \$26.8 million of this amount was charged to cost reimbursable programs, the net financial impact of the RS Plan accelerated funding payment was \$13.7 million, which resulted in a net operating loss of \$6.2 million.

At its December meeting, the NRECA Board approved the creation of a \$4 million Board-designated member equity account that will be used to fund future political, educational, advocacy or similar communication activities that address issues and events impacting NRECA members. This activity is reflected in the Summary of Changes in Members' Equity schedule and the members' equity section of the balance sheet.





## Summary of Operations (in thousands)

2013							2012	
GENERAL FUND PROGRAMS								
	General Membership	FEE-FOR-SERVICE		COST REIMBURSABLE			TOTAL	TOTAL
		Member	Non-Member	Pension & Welfare*	CRN	Touchstone		
Revenue	\$ 28,842	\$ 25,319	\$ 55,360	\$ 164,438	\$ 17,381	\$ 12,578	\$ 303,918	\$ 285,620
Expense	37,680	23,515	40,827	164,438	17,381	12,578	296,419	279,130
Net Operating (Loss) Margin Before Board Authorized Payments	(8,838)	1,804	14,533	-	-	-	7,499	6,490
Board Authorized Payments:								
RS Plan Accelerated Funding Payment	13,176	201	334	25,818	-	1,013	40,542	-
RS Plan Accelerated Funding Reimbursement	-	-	-	(25,818)	-	(1,013)	(26,831)	-
CRN Contribution	-	-	-	-	-	-	-	2,000
Total Board Authorized Payments	13,176	201	334	-	-	-	13,711	2,000
<b>Net Operating (Loss) Margin</b>	<b>\$ (22,014)</b>	<b>\$ 1,603</b>	<b>\$ 14,199</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (6,212)</b>	<b>\$ 4,490</b>

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



## Consolidated Summary Balance Sheet *(in thousands)*

ASSETS	2013	2012
Cash & Cash Equivalents	\$ 40,226	\$ 77,381
Accounts Receivable, Net	11,034	12,850
Receivables - Due From the Trusts	22,689	19,190
Investments	3,414	2,223
Other Assets	23,347	22,160
Property and Equipment, Net	87,233	94,572
<b>TOTAL ASSETS</b>	<b>\$ 187,943</b>	<b>\$ 228,376</b>

LIABILITIES & MEMBERS' EQUITY	2013	2012
<b>LIABILITIES</b>		
Accounts Payable & Accrued Expenses	\$ 25,857	\$ 20,927
Health Reimbursement Arrangement Plan Payable	7,200	19,209
Deferred Revenue	36,113	64,331
Other Liabilities	22,010	19,905
Post retirement Benefit Obligations Other Than Pensions	13,559	14,588
<b>Total Liabilities</b>	<b>\$ 104,739</b>	<b>\$ 138,960</b>
<b>MEMBERS' EQUITY</b>		
General Fund	79,204	89,416
Political, Education & Advocacy Account Fund	4,000	-
<b>Total Members' Equity</b>	<b>83,204</b>	<b>89,416</b>
<b>TOTAL LIABILITIES &amp; MEMBERS' EQUITY</b>	<b>\$ 187,943</b>	<b>\$ 228,376</b>

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

MEMBERS' EQUITY	General Fund	PEAA Fund*	Total
Beginning Balance, December 31, 2012	\$ 89,416	\$ -	\$ 89,416
Net Operating Loss	(6,212)	-	(6,212)
Transfer to Board-Designated Fund	(4,000)	4,000	-
<b>Ending Balance, December 31, 2013</b>	<b>\$ 79,204</b>	<b>\$ 4,000</b>	<b>\$ 83,204</b>

\* 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 2013, NRECA continued its commitment to control overall costs in the Plans and deliver high quality services to our 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 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 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 provides for a Medicare Part D prescription drug benefit.
- ▶ **Net assets** available for benefits at the end of the year totaled \$16.4 billion, which was \$2.2 billion, or 15.2%, more than last year. The increase in net assets was primarily due to a \$2.2 billion increase in the market value of plan assets and \$227 million in dividends and interest income.
- ▶ **Contributions and premiums** totaled \$1.9 billion, which was \$1.8 billion, or 47.9%, less than the prior year. The decrease was primarily due to \$1.8 billion in accrued contributions related to the RS Plan's accelerated funding program included in 2012 contributions.
- ▶ **Benefits and claims** paid totaled \$2.2 billion, which was \$271 million, or 14.1%, higher than the prior year. This increase in benefits and claims paid is due primarily to an increase of \$210 million in RS Plan benefits paid and \$73 million in 401(k) Plan benefits paid. These increases were offset slightly by the \$12 million decrease in Group Program claims in 2013 compared to 2012.
- ▶ **Administrative expenses** paid by the Plans totaled \$69.3 million, which was \$10.9 million, or 13.7%, less than the previous year. The decrease is primarily due to an \$11.0 million decrease in RS Plan administrative expenses, mainly related to lower PBGC premiums of \$10.5 million. Slightly offsetting this decrease was the \$1.9 million increase in 401(k) Plan administrative expenses, primarily due to increased money manager fees resulting from an increase in plan assets. The Group Program's administrative expenses decreased by \$1.8 million primarily due to lower information technology consulting fees as a result of the national network initiative.

## Financial Highlights of the Insurance & Financial Services Programs

### Total Assets (in thousands)

			VARIANCE	
	2013	2012	Amount	Percent (%)
RS Plan*	\$ 8,572,964	\$ 7,777,642	\$ 795,322	10.23%
401(k) Plan	7,582,347	6,206,791	1,375,556	22.16%
Group Benefits Program	431,994	427,451	4,543	1.06%
<b>TOTAL</b>	<b>\$ 16,587,305</b>	<b>\$ 14,411,884</b>	<b>\$ 2,175,421</b>	<b>15.09%</b>

### Net Assets Available for Benefits (in thousands)

			VARIANCE	
	2013	2012	Amount	Percent (%)
RS Plan*	\$ 8,417,244	\$ 7,626,522	\$ 790,722	10.37%
401(k) Plan*	7,567,497	6,198,597	1,368,900	22.08%
Group Benefits Program	421,177	415,168	6,009	1.45%
<b>TOTAL</b>	<b>\$ 16,405,918</b>	<b>\$ 14,240,287</b>	<b>\$ 2,165,631</b>	<b>15.21%</b>

### Total Contributions/Premiums (in thousands)

			VARIANCE	
	2013	2012	Amount	Percent (%)
RS Plan*	\$ 789,854	\$ 2,588,881	\$ (1,799,027)	(69.49%)
401(k) Plan	573,025	530,732	42,293	7.97%
Group Benefits Program	574,594	598,286	(23,692)	(3.96%)
<b>TOTAL</b>	<b>\$ 1,937,473</b>	<b>\$ 3,717,899</b>	<b>\$ (1,780,426)</b>	<b>(47.89%)</b>

### Benefits/Claims Paid (in thousands)

			VARIANCE	
	2013	2012	Amount	Percent (%)
RS Plan	\$ 1,209,542	\$ 998,654	\$ 210,888	21.12%
401(k) Plan	433,417	359,987	73,430	20.40%
Group Benefits Program	554,831	567,241	(12,410)	(2.19%)
<b>TOTAL</b>	<b>\$ 2,197,790</b>	<b>\$ 1,925,882</b>	<b>\$ 271,908</b>	<b>14.12%</b>

### Administrative Expenses Paid by the Plans (in thousands)

			VARIANCE	
	2013	2012	Amount	Percent (%)
RS Plan	\$ 23,790	\$ 34,820	\$ (11,030)	(31.68%)
401(k) Plan	21,057	19,144	1,913	9.99%
Group Benefits Program	24,449	26,309	(1,860)	(7.07%)
<b>TOTAL</b>	<b>\$ 69,296</b>	<b>\$ 80,273</b>	<b>\$ (10,977)</b>	<b>(13.67%)</b>

\* These amounts are preliminary and may change.





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