

# Report from the Secretary-Treasurer



Chris Christensen  
**Secretary-Treasurer**

It's my pleasure to provide a summary of NRECA'S 2018 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.

*Chris Christensen*

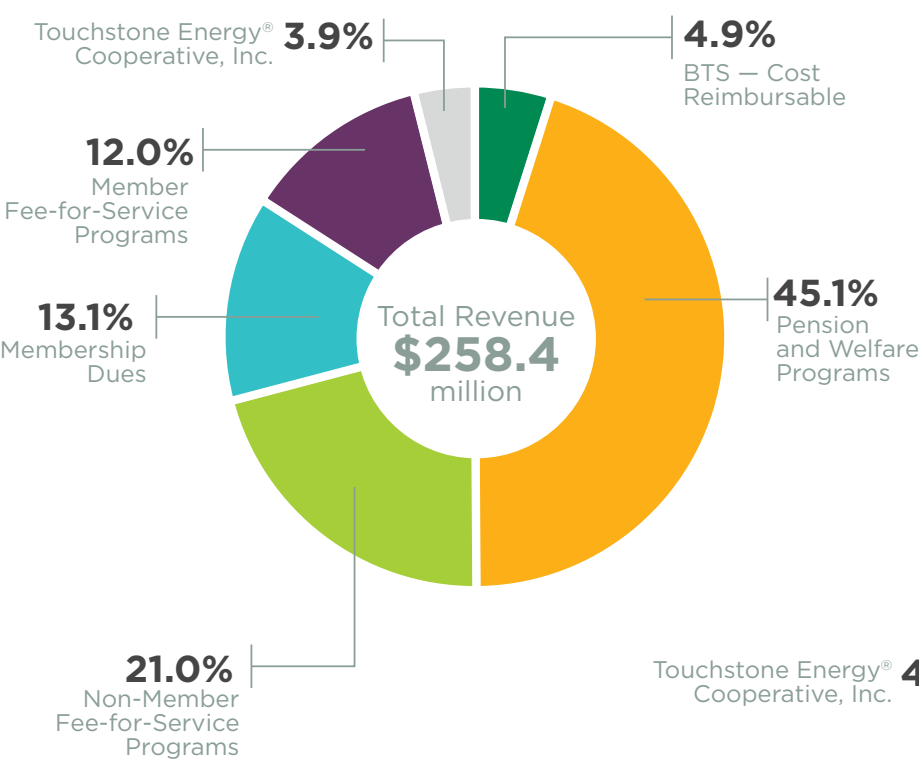
# 2018 Financial Highlights

[the association]

## SUMMARY OF OPERATIONS (REVENUE BY SOURCE)

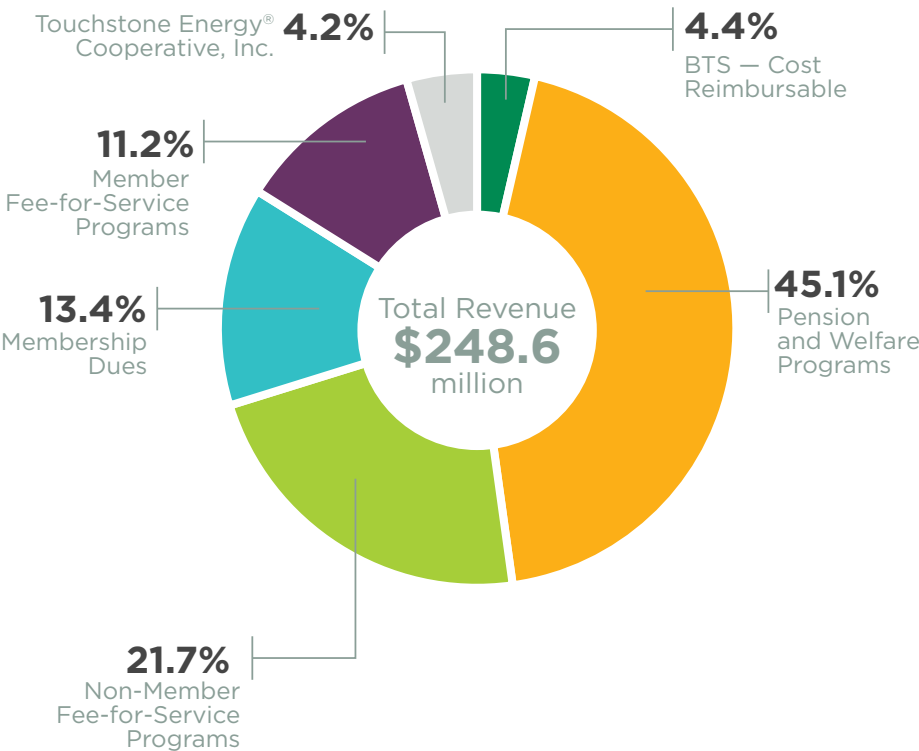
NRECA's operations include general membership, fee-for-service and cost-reimbursable programs. NRECA ended the 2018 year with total revenue of \$258.4 million and a \$7.5 million net operating margin before the Retirement Security (RS) Plan Voluntary Contribution Acceleration Program (VCAP) payment. The RS Plan VCAP payment

of \$10.9 million was approved by the board of directors in December. Since \$6.3 million of the \$10.9 million was charged to cost reimbursable programs, the net financial impact was \$4.6 million, which reduced the net margin to \$2.8 million for the year.



## 2018 Revenue

## 2017 Revenue



# Summary of Operations by Revenue Source

## General Membership Programs

Membership Dues

**\$33.9 million**

Membership programs consist of government relations, communications, business & technology strategies and other programs. Dues for the year of \$33.9 million partially funded the \$44.4 million cost of these programs. NRECA funded the remaining \$10.5 million from margins earned on fee-for-service programs.

## Fee-for-Service Programs

Member Programs

**\$31.1 million**

Revenue of \$31.1 million was generated from member fee-for-service programs, including annual and regional meetings, TechAdvantage, training and conferences, consulting, and *RE Magazine*, for which the members who use them pay a fee. These programs ended the year with a net margin of \$4.8 million.

Non-Member Programs

**\$54.3 million**

Revenue of \$54.3 million was generated from non-member fee-for-service programs, including the buildings owned by NRECA, fees for managing the Homestead Funds, and the International programs. These programs ended the year with a net margin of \$13.2 million.

## Cost Reimbursable Programs

Pension and Welfare Programs

**\$116.4 million**

NRECA is the sponsor and plan administrator of three multiple employer plans. NRECA provides plan administration services on a cost reimbursable basis.

Touchstone Energy<sup>®</sup> Cooperatives, Inc.

**\$10.0 million**

NRECA provides administrative services to Touchstone Energy<sup>®</sup> Cooperatives, Inc. on a cost reimbursable basis.

BTS — Cost Reimbursable

**\$12.7 million**

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 2018 financial information is preliminary and may change.*

# Consolidated Summary Balance Sheet [in thousands]

| ASSETS                           | 2018              | 2017              |
|----------------------------------|-------------------|-------------------|
| Cash & Cash Equivalents          | \$ 34,498         | \$ 29,537         |
| Accounts Receivable, Net         | 29,571            | 23,657            |
| Receivables - Due from the Plans | 10,743            | 26,479            |
| Investments                      | 30,494            | 12,191            |
| Other Assets                     | 26,617            | 26,985            |
| Property and Equipment, Net      | 89,315            | 90,692            |
| <b>TOTAL ASSETS</b>              | <b>\$ 221,238</b> | <b>\$ 209,541</b> |

| Liabilities & Members' Equity                           | 2018              | 2017              |
|---|-------------------|-------------------|
| <b>Liabilities</b>                                      |                   |                   |
| Accounts Payable & Accrued Expenses                     | \$ 28,994         | \$ 21,827         |
| Health Reimbursement Arrangement Payable                | 7,200             | 7,200             |
| Deferred Revenue  | 68,623            | 61,504            |
| Other Liabilities                                       | 14,009            | 18,367            |
| Post-Retirement Benefit Obligations Other Than Pensions | 11,328            | 12,432            |
| <b>Total Liabilities</b>                                | <b>130,154</b>    | <b>121,330</b>    |
| <b>Members' Equity</b>                                  |                   |                   |
| General Fund  | 79,379            | 76,062            |
| Net Assets of 501(c)(3) Affiliated Entities             | 4,364             | 4,865             |
| Political Advocacy, Communications and Education Fund   | 7,341             | 7,284             |
| <b>Total Members' Equity</b>                            | <b>91,084</b>     | <b>88,211</b>     |
| <b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>            | <b>\$ 221,238</b> | <b>\$ 209,541</b> |

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# Summary of Operations\*

[in thousands]

|   | 2018                  |                     |                      |                   | 2017             |
|---|-----------------------|---------------------|----------------------|-------------------|------------------|
|   | GENERAL<br>MEMBERSHIP | FEE-FOR-<br>SERVICE | COST<br>REIMBURSABLE | TOTAL             | TOTAL            |
| Revenue   | \$ 33,960             | \$ 85,357           | \$ 139,089           | <b>\$ 258,406</b> | <b>\$248,643</b> |
| Expense   | 44,503                | 67,354              | 132,783              | <b>244,640</b>    | <b>238,801</b>   |
| <b>Net Operating (Loss) Margin<br/>Before Board Authorized<br/>Payments</b> | (10,543)              | 18,003              | 6,306                | <b>13,766</b>     | <b>9,842</b>     |
| <b>Less Board Authorized<br/>Payments:</b>                                  |                       |                     |                      |                   |                  |
| RS Plan VCAP Payment  | 3,011                 | 1,633               | 6,306                | <b>10,950</b>     | <b>6,949</b>     |
| CRN Contribution  | -                     | -                   | -                    | <b>-</b>          | <b>2,893</b>     |
| <b>Total Board Authorized<br/>Payments</b>                                  | 3,011                 | 1,633               | 6,306                | <b>10,950</b>     | <b>9,842</b>     |
| <b>Net (Loss) Margin<br/>(Change in Members' Equity)</b>                    | <b>\$ (13,554)</b>    | <b>\$ 16,370</b>    | <b>\$ -</b>          | <b>\$ 2,816</b>   | <b>\$ -</b>      |

# Summary of Changes in Members' Equity

[in thousands]

| Members' Equity                                 | General Fund     | Net Assets of<br>501(c)(3)<br>Affiliated<br>Entities | Subtotal         | PACE Fund       | Total            |
|---|------------------|--|------------------|-----------------|------------------|
| <b>Beginning Balance,<br/>December 31, 2016</b> | \$ 75,959        | \$ 4,968   | <b>\$ 80,927</b> | \$ 7,736        | <b>\$ 88,663</b> |
| Net Margin (Loss)                               | 103              | (103)  | -                | (452)           | <b>(452)</b>     |
| <b>Beginning Balance,<br/>December 31, 2017</b> | 76,062           | 4,865  | <b>80,927</b>    | 7,284           | <b>88,211</b>    |
| Net Margin (Loss)                               | 3,317            | (501)  | <b>2,816</b>     | 57              | <b>2,873</b>     |
| <b>Ending Balance,<br/>December 31, 2018</b>    | <b>\$ 79,379</b> | <b>\$ 4,364</b>                                      | <b>\$ 83,743</b> | <b>\$ 7,341</b> | <b>\$ 91,084</b> |

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

The 2018 financial information is preliminary and may change.

## 2018 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 2018, 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 \$19.1 billion, which was \$1.5 billion, or 7.3%, lower than the previous year. The main driver of the decrease in net assets was the \$1.2 billion net depreciation in the market value of plan assets. Also contributing to the decrease in net assets were benefit payments that exceeded contributions by \$462.4 million for the year.
- **Contributions and premiums** totaled \$2.4 billion, which was \$43.3 million, or 1.9%, higher than the previous year. The increase was primarily due to RS Plan contributions increasing \$7.5 million, 401(k) Plan contributions increasing \$6.7 million and Group Program premiums increasing \$29.1 million.
- **Benefits and claims** paid totaled \$2.8 billion, which was \$481.9 million, or 20.7%, higher than the previous year. This variance is primarily due to the increase of RS Plan and 401(k) Plan benefits paid of \$338.7 million and \$102.7 million, respectively. Group Program benefits paid increased by \$40.5 million primarily due to an increase in the number of participants.
- **Administrative expenses** paid directly by the Plans totaled \$121.1 million, which was \$3.8 million, or 3.1%, lower than the previous year. RS Plan administrative expenses increased \$0.9 million, mainly related to an increase in Pension Benefit Guaranty Corporation (PBGC) premiums. Administrative expenses for the 401(k) Plan and Group Program decreased \$1.8 million and \$2.9 million, respectively, primarily due to cost containment strategies.

# 2018 Financial Highlights of the Pension and Welfare Programs

## Total Assets [in thousands]

|                          |                      |                      | Variance              |               |
|--------------------------|----------------------|----------------------|-----------------------|---------------|
|                          | 2018                 | 2017                 | Amount                | %             |
| Retirement Security Plan | \$ 8,655,169         | \$ 9,733,079         | \$ (1,077,910)        | (11.1%)       |
| 401(k) Plan              | 9,997,367            | 10,444,481           | (447,114)             | (4.3%)        |
| Group Benefits Program   | 573,897              | 575,660              | (1,763)               | (0.3%)        |
| <b>Total</b>             | <b>\$ 19,226,433</b> | <b>\$ 20,753,220</b> | <b>\$ (1,526,787)</b> | <b>(7.4%)</b> |

## Net Assets Available for Benefits [in thousands]

|                          |                      |                      | Variance              |               |
|--------------------------|----------------------|----------------------|-----------------------|---------------|
|                          | 2018                 | 2017                 | Amount                | %             |
| Retirement Security Plan | \$ 8,589,018         | \$ 9,667,567         | \$ (1,078,549)        | (11.2%)       |
| 401(k) Pension Plan      | 9,983,293            | 10,420,676           | (437,383)             | (4.2%)        |
| Group Benefits Program   | 560,544              | 555,127              | 5,417                 | 1.0%          |
| <b>Total</b>             | <b>\$ 19,132,855</b> | <b>\$ 20,643,370</b> | <b>\$ (1,510,515)</b> | <b>(7.3%)</b> |

## Total Contributions/Premiums [in thousands]

|                          |                     |                     | Variance         |             |
|--------------------------|---------------------|---------------------|------------------|-------------|
|                          | 2018                | 2017                | Amount           | %           |
| Retirement Security Plan | \$ 936,959          | \$ 929,480          | \$ 7,479         | 0.8%        |
| 401(k) Pension Plan      | 756,739             | 750,047             | 6,692            | 0.9%        |
| Group Benefits Program   | 659,032             | 629,938             | 29,094           | 4.6%        |
| <b>Total</b>             | <b>\$ 2,352,730</b> | <b>\$ 2,309,465</b> | <b>\$ 43,265</b> | <b>1.9%</b> |

## Benefits Paid [in thousands]

|                          |                     |                     | Variance          |              |
|--------------------------|---------------------|---------------------|-------------------|--------------|
|                          | 2018                | 2017                | Amount            | %            |
| Retirement Security Plan | \$ 1,537,203        | \$ 1,198,535        | \$ 338,668        | 28.3%        |
| 401(k) Pension Plan      | 647,879             | 545,137             | 102,742           | 18.8%        |
| Group Benefits Program   | 630,006             | 589,514             | 40,492            | 6.9%         |
| <b>Total</b>             | <b>\$ 2,815,088</b> | <b>\$ 2,333,186</b> | <b>\$ 481,902</b> | <b>20.7%</b> |

## Administrative Expenses Paid By the Plans [in thousands]

|                          |                   |                   | Variance          |               |
|--------------------------|-------------------|-------------------|-------------------|---------------|
|                          | 2018              | 2017              | Amount            | %             |
| Retirement Security Plan | \$ 62,876         | \$ 62,019         | \$ 857            | 1.4%          |
| 401(k) Pension Plan      | 31,358            | 33,154            | (1,796)           | (5.4%)        |
| Group Benefits Program   | 26,879            | 29,777            | (2,898)           | (9.7%)        |
| <b>Total</b>             | <b>\$ 121,113</b> | <b>\$ 124,950</b> | <b>\$ (3,837)</b> | <b>(3.1%)</b> |

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# Contact



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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.