

Report from the Secretary-Treasurer



Chris Christensen
Secretary-Treasurer

It's my pleasure to provide a summary of NRECA'S 2017 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

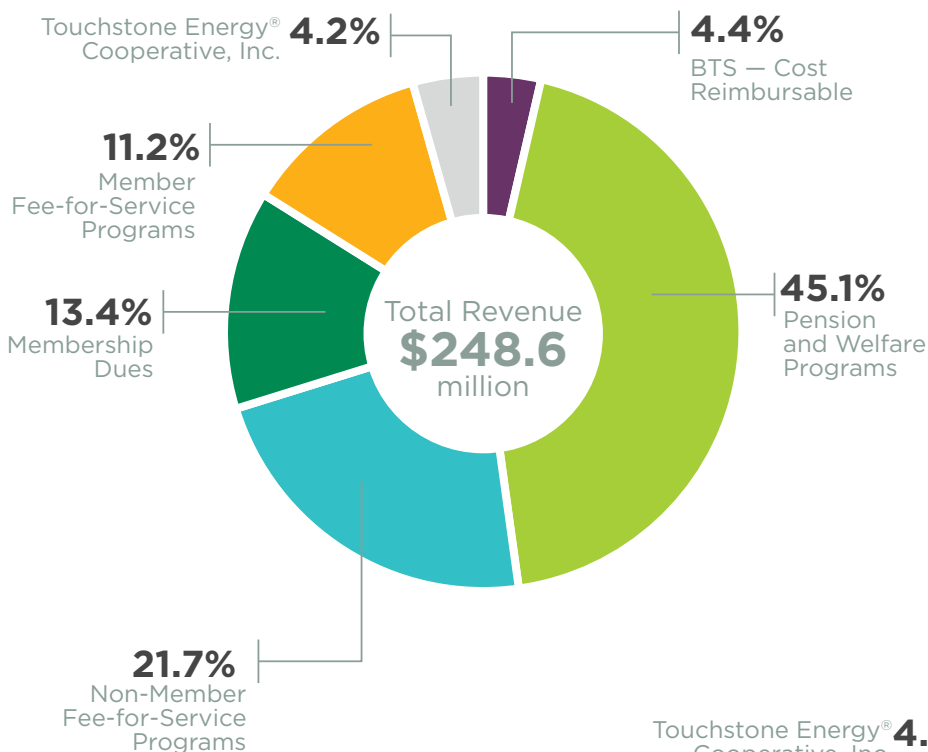
2017 Financial Highlights

[the association]

SUMMARY OF OPERATIONS (REVENUE BY SOURCE)

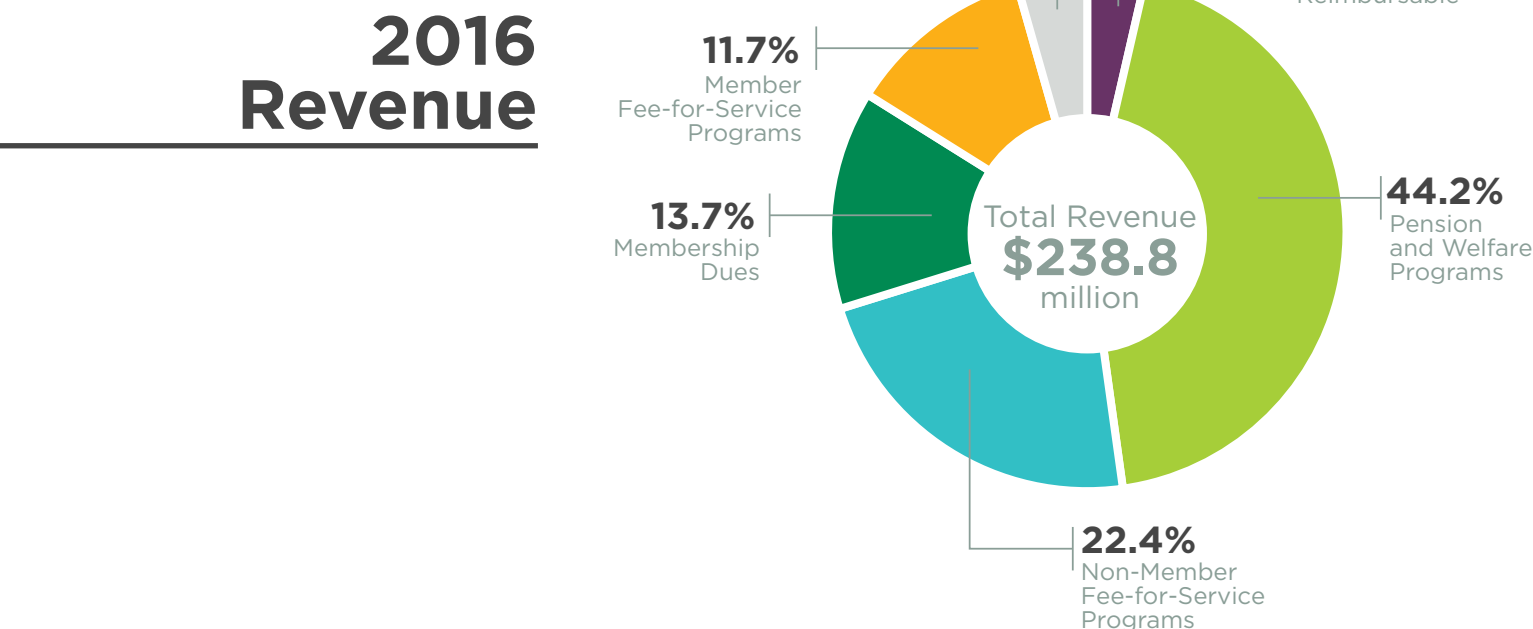
NRECA's operations include general membership, fee-for-service and cost-reimbursable programs. NRECA ended the year with total revenue of \$248.6 million and a \$5.4 million net operating margin before two payments authorized by the board of directors. The board of directors in December approved a \$2.9 million contribution to the Cooperative Research Network

fund and a one-time, non-recurring RS Plan Voluntary Contribution Acceleration Program (VCAP) payment of \$6.9 million. Since \$4.4 million of the latter payment was charged to cost-reimbursable programs, the net financial impact of the RS Plan VCAP payment was \$2.5 million. NRECA's net margin for 2017 after these two board authorized payments was zero.



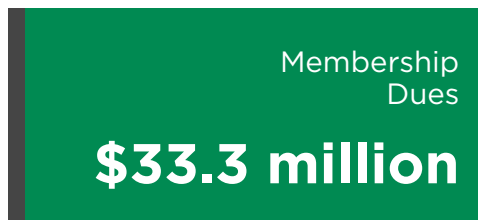
2016 Revenue

2017 Revenue



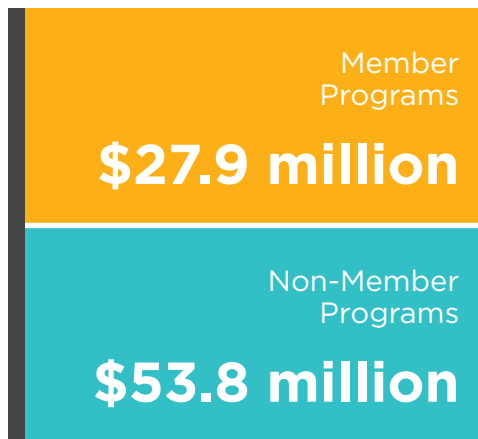
Summary of Operations by Revenue Source

General Membership Programs



Membership programs consist of government relations, communications, business & technology strategies and other programs. Dues for the year of \$33.3 million partially funded the \$46.9 million cost of these programs, which includes the CRN contribution. NRECA funded the remaining \$13.6 million from margins earned on fee-for-service programs.

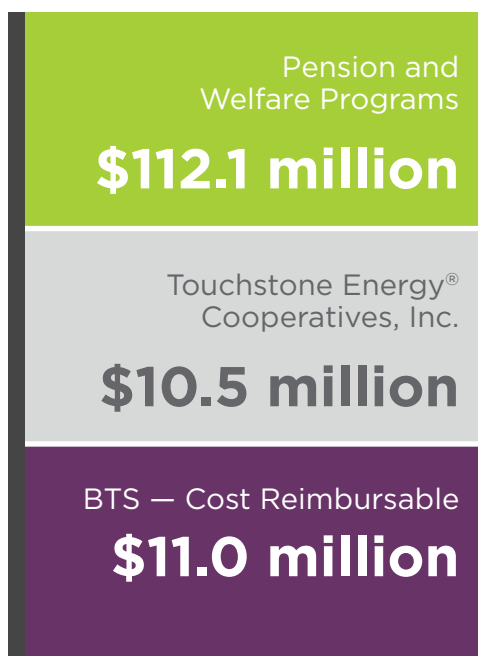
Fee-for-Service Programs



Revenue of \$27.9 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 \$2.3 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 the International programs. These programs ended the year with a net margin of \$13.8 million.

Cost Reimbursable Programs



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

NRECA provides administrative services to Touchstone Energy[®] Cooperatives, Inc. on a cost reimbursable basis.

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 2017 financial information is preliminary and may change.

Consolidated Summary Balance Sheet [in thousands]

ASSETS	2017	2016
Cash & Cash Equivalents	\$ 29,537	\$ 41,536
Accounts Receivable, Net	23,657	20,661
Receivables - Due from the Plans	26,479	17,704
Investments	12,191	9,964
Other Assets	26,985	23,405
Property and Equipment, Net	90,692	89,294
TOTAL ASSETS	\$ 209,541	\$ 202,564

Liabilities & Members' Equity	2017	2016
Liabilities		
Accounts Payable & Accrued Expenses	\$ 21,827	\$ 24,878
Health Reimbursement Arrangement Payable	7,200	7,200
Deferred Revenue	61,504	51,310
Other Liabilities	18,367	16,228
Post-Retirement Benefit Obligations Other Than Pensions	12,432	14,285
Total Liabilities	121,330	113,901
Members' Equity		
General Fund	76,062	75,959
Net Assets of 501(c)(3) Affiliated Entities	4,865	4,968
Political Advocacy, Communications and Education Fund	7,284	7,736
Total Member's Equity	88,211	88,663
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 209,541	\$ 202,564

The 2017 financial information is preliminary and may change.

Summary of Operations*

[in thousands]

	2017				2016
	GENERAL MEMBERSHIP	FEE-FOR-SERVICE	COST REIMBURSABLE	TOTAL	TOTAL
Revenue	\$ 33,296	\$ 81,715	\$ 133,632	\$ 248,643	\$ 238,812
Expense	44,092	65,533	129,176	238,801	235,614
Net Operating (Loss) Margin Before Board Authorized Payments	(10,796)	16,182	4,456	9,842	3,198
Less Board Authorized Payments:					
RS Plan VCAP Payment	2,219	274	4,456	6,949	-
CRN Contribution	2,893	-	-	2,893	-
Total Board Authorized Payments	5,112	274	4,456	9,842	-
Net (Loss) Margin (Change in Members' Equity)	\$ (15,908)	\$ 15,908	\$ -	\$ -	\$ 3,198

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, 2015	\$ 76,189	\$ 4,629	\$ 80,818	\$ 6,274	\$ 87,092
Net Margin (Loss)	2,859	339	3,198	(1,627)	1,571
Transfer to PACE Fund	(3,089)	-	(3,089)	3,089	-
Beginning Balance, December 31, 2016	75,959	4,968	80,927	7,736	88,663
Net Margin (Loss)	103	(103)	-	(452)	(452)
Ending Balance, December 31, 2017	\$ 76,062	\$ 4,865	\$ 80,927	\$ 7,284	\$ 88,211

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

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2017 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 2017, 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 \$20.6 billion, which was \$2.7 billion, or 15.1%, higher than the previous year. The main driver of the increase in net assets was the \$2.6 billion net appreciation in the market value of plan assets. Also contributing to the increase in net assets was dividend and interest income totaling \$286.4 million.
- **Contributions and premiums** totaled \$2.3 billion, which was \$144.4 million, or 6.7%, higher than the previous year. The increase was primarily due to 401(k) Plan contributions increasing \$99.1 million and Group Program premiums increasing \$37.6 million. The RS Plan contributions increased \$7.7 million.
- **Benefits and claims** paid totaled \$2.3 billion, which was \$265.8 million, or 13.1%, higher than the previous year. This variance is primarily due to the increase of RS Plan and 401(k) Plan benefits paid of \$180.0 million and \$46.4 million, respectively. Group Program benefits paid increased by \$39.4 million primarily due to an increase in the number of participants.
- **Administrative expenses** paid directly by the Plans totaled \$125.3 million, which was \$9.6 million, or 8.3%, higher than the previous year. RS Plan administrative expenses increased \$5.6 million, mainly related to an increase in Pension Benefit Guaranty Corporation (PBGC) premiums. Administrative expenses for the 401(k) Plan increased \$3.9 million, primarily due to increases in information technology and overall plan administration costs. Group Program administrative expenses increased \$115,000, primarily due to increased participation levels.

2017 Financial Highlights of the Pension and Welfare Programs

Total Assets [in thousands]

			Variance	
	2017	2016	Amount	%
Retirement Security Plan	\$ 9,728,986	\$ 8,674,856	\$ 1,054,130	12.2%
401(k) Plan	10,444,481	8,984,954	1,459,527	16.2%
Group Benefits Program	573,002	530,441	42,561	8.0%
Total	\$ 20,746,469	\$ 18,190,251	\$ 2,556,218	14.1%

Net Assets Available for Benefits [in thousands]

			Variance	
	2017	2016	Amount	%
Retirement Security Plan	\$ 9,663,474	\$ 8,594,289	\$ 1,069,185	12.4%
401(k) Pension Plan	10,420,368	8,824,852	1,595,516	18.1%
Group Benefits Program	552,469	510,765	41,704	8.2%
Total	\$ 20,636,311	\$ 17,929,906	\$ 2,706,405	15.1%

Total Contributions/Premiums [in thousands]

			Variance	
	2017	2016	Amount	%
Retirement Security Plan	\$ 925,387	\$ 917,776	\$ 7,611	0.8%
401(k) Pension Plan	750,047	650,935	99,112	15.2%
Group Benefits Program	629,938	592,303	37,635	6.4%
Total	\$ 2,305,372	\$ 2,161,014	\$ 144,358	6.7%

Benefits Paid [in thousands]

			Variance	
	2017	2016	Amount	%
Retirement Security Plan	\$ 1,198,535	\$ 1,018,545	\$ 179,990	17.7%
401(k) Pension Plan	545,137	498,780	46,357	9.3%
Group Benefits Program	556,265	516,856	39,409	7.6%
Total	\$ 2,299,937	\$ 2,034,181	\$ 265,756	13.1%

Administrative Expenses Paid By the Plans [in thousands]

			Variance	
	2017	2016	Amount	%
Retirement Security Plan	\$ 62,019	\$ 56,405	\$ 5,614	10.0%
401(k) Pension Plan	33,462	29,560	3,902	13.2%
Group Benefits Program	29,777	29,662	115	0.4%
Total	\$ 125,258	\$ 115,627	\$ 9,631	8.3%

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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.