

REA *energy* Cooperative Inc.

A Touchstone Energy® Cooperative 

2016 Annual Report

2016 Executive Report

WE ARE very pleased to report to you, our owner-members, on the condition of your cooperative, which had a good year in 2016. The cooperative's financial performance in 2016 allowed us to make great strides in improving our system and reliability while ending the year in good shape financially.

Following are just some of our 2016 accomplishments:

Finance

Financially, REA Energy experienced a slight drop in revenue in 2016. Our revenue was \$40,320,157. This slight decrease was mostly due to a mild summer and winter, which led to a decline in electricity sales.

Our cost of power totaled \$23,554,548, due to favorable wholesale rates we received from Allegheny Electric Cooperative, Inc., our power supplier, and the benefits provided by our load management system.

This combination of decreased sales along with reasonable power costs, careful management of our operating expenses, and fewer major storms allowed us to record a net margin of \$2,377,560, which met the requirements of our mortgage holders. REA Energy also retired \$465,817 of estate capital credits. Under any measure, this was a successful year.

Detailed financial statements can be found in subsequent pages of this issue of *Penn Lines*. The cooperative's records were audited by an independent accounting firm, which issued a clean audit opinion.

Member Services

REA Energy Cooperative continued to expand member services in 2016. The biggest and most exciting change was the implementation of a new software system to enhance member service, provide more payment options, and provide members with tools to manage consumption

With this new software, members now have the ability to make their monthly electric bill payments online, an exciting change that members have been requesting for several years.

Another big addition to the cooperative's website, www.reaenergy.com, is the outage viewer. Members can now see the total number of outages, number of members affected and outages per county. By clicking a specific outage, a member can also see the cause of the outage, if known.

Some other member services accomplishments include:

- ▶ Updating the look of the cooperative's website, www.reaenergy.com.
- ▶ Continually updating our members' physical addresses to help locate crews during storms.
- ▶ Posting regularly to the cooperative's social media pages to promote different products and services the cooperative offers, and provide outage updates when available.
- ▶ Fairly maintaining our accounts receivable levels, making our cash flow more predictable, thus reducing costs for all members.
- ▶ Continuing expansion of Touchstone Energy services. This is a national cooperative that provides benefits for our members, such as discounts for pharmaceuticals and other health-related purchases, discounts at local businesses, and energy conservation education.
- ▶ Promoting the education of our youth by sending 11 students (children of members) to participate in the Rural Electric Youth Tour in Washington, D.C.
- ▶ Further promoting and enhancing the "Members Sharing with Members" fund to help members in need due to unemployment or financial hardship, and further developing our Match Fund to help members in need for winter bills and faulty services.
- ▶ Actively courting large commercial members to expand on our system, which reduces costs for all members.
- ▶ Adhering to our core principles, REA Energy will continue to enhance existing programs and offer new technology that will better serve our members.

REA Energy Services

REA Energy Services, our for-profit subsidiary, continued to be successful,

due to an increase in commercial customers. REA Energy Services had solid sales in all four business lines, including heating, ventilation and air-conditioning products (HVAC), electrical contracting, generators, and tree trimming.

REA Energy Services installs most types of HVAC systems, generators and electrical equipment. We heavily promote the cost-saving benefits of these products, such as electric boilers, and air-source and geothermal heat pumps. In fact, we continue to install many of these types of systems and anticipate future interest from members due to volatile fossil fuel prices versus low REA Energy electric rates. Since profits from this for-profit subsidiary go back to the cooperative, the subsidiary's success helps keep rates low.

Most of our products, such as heat pumps, not only provide direct profits to the cooperative, but they also increase electricity sales, which also helps keep rates low. Not only does the cooperative benefit from the subsidiary, members benefit from purchasing high-efficiency products, which saves them money on monthly energy bills.

Our electrical contracting business line continues to provide safe electrical upgrades to our residential consumers and solutions for commercial consumers. Our load technicians play a pivotal role in increasing electric sales by providing services at a competitive price. This service makes it easier for commercial and industrial accounts to locate on cooperative lines, which increases sales.

REA Energy Services recorded approximately \$593,000 in revenue for 2016. The solid sales numbers were due to great customer service, honesty and exceptional value, making REA Energy Services the company of choice for many people.

REA Energy Services will be offering more convenient and energy-efficient products and services in the future. Think of us for any future contracting jobs, and tell a friend about our excellent products and services. Visit www.reaservices.com for more information.

Rights-of-Way

REA Energy constantly monitors the reliability of our power system. Each year, an outage summary report identi-

fies areas that need attention and, based on past history, where future outages are most likely to occur. In 2016, about 30 percent of our outages were tree-related.

Last year, the cooperative spent more than \$1.7 million on cutting rights-of-way for line extensions to serve new customers, as well as on regular cutting and herbicide treatments for existing rights-of-way. Contributions for rights-of-way were made by various companies and members in 2016.

Areas we focused on in 2016 were:

- ▶ Browns Crossroads Substation – cut 40 miles of line
- ▶ Cherryhill Substation – cut 103 miles
- ▶ Tanoma Substation – cut 8 miles
- ▶ Curry Run Substation – cut 60 miles
- ▶ Smithport Substation – treated 81 miles
- ▶ Shadowood Substation – treated 44 miles
- ▶ Clyde Substation – treated 70 miles

Maintaining rights-of-way remains a very time-consuming and labor-intensive task. If you notice trees that present an immediate threat to the cooperative's power lines, please contact us so we can investigate.

Reliability/System Improvements

REA Energy strives to provide reliable electric service to members. This past year, the cooperative rebuilt 15.4 miles of line across the system. Rebuilding and upgrading of electric lines included:

- ▶ Overhead – 15.4 miles
- ▶ Brown's Crossroads – Clarksburg – Converted 1.8 miles of 7.2kV to 13.2 kV to eliminate a stepdown transformer bank
- ▶ Cherryhill Tanoma Circuit – 3.6 miles total; 1.9 miles was for converting 7.2kV to 13.2 kV to eliminate a step-down transformer bank
- ▶ Indiana North – 2 miles
- ▶ Kenwood – 23kV feed and Cookport circuit – 1.5 miles
- ▶ Parkwood – 0.9 miles
- ▶ St. Augustine – 1.7 miles
- ▶ Strongstown – 0.9 miles
- ▶ Uniontown – 1.6 miles
- ▶ Washington – 1.4 miles

REA Energy has completed its new four-year and 10-year work plans, which have been approved by the Rural Utilities Service (RUS). The new four-year work

plan runs from 2017 through 2020, and includes approximately 25-30 miles of reconductoring projects each year.

REA Energy had 128,181 member outage hours for 2016 compared to 165,705 in 2015.

Outages on the transmission system owned by private power companies, First Energy/Penelec and Allegheny Power, totaled 16,061 member hours in 2016 compared to 32,170 in 2015.


Management and staff continue to focus on our system improvements and

work closely with our power suppliers to improve transmission reliability.

Annual Meeting

REA Energy will hold its 80th annual meeting on Sept. 21 at the Kovalchick Convention Complex, Indiana, Pa. Please plan to attend. You will have the opportunity to hear what the cooperative has been working on for the past year, ask questions and, most importantly, take advantage of this opportunity to have your voice heard. ☀



A Touchstone Energy® Cooperative 



Michael J. Bertolino
Chairman, CCD, BLC



Chad Carrick
President & CEO

Board of Directors

- Rick Shope, Vice Chairman, PREA Director, CCD*, BLC**
- Robert P. Neese, Secretary/Treasurer, Allegheny Director, CCD, BLC, GOLD**
- Herman Blakley, CCD, BLC, GOLD
- Roy "Sam" Eckenrod, CCD, BLC, GOLD
- Wayne T. Farabaugh, CCD
- James Harteis, CCD, BLC, GOLD
- John R. Learn, CCD

*Credentialed Cooperative Director
**Board Leadership Certificate
***Director Gold Certificate

Staff

- Barry Baker, Indiana Operations Manager
- Erin Bauer, ACRE Coordinator
- Shane Cribbs, Network & Systems Manager
- Dave Daugherty, CSP, Safety & Right of Way Manager
- Jeff Dishong, Ebensburg Operations Supervisor
- Lisa Gardill, Accounting & Finance Supervisor
- Stacy Hilliard, CCC, Communications & Marketing Supervisor
- Chris Masterson, Reliability Supervisor
- Patrick McAndrew, Manager of Engineering
- Bryon Roland, Purchasing & Facilities Supervisor
- Renee Spalla, Supervisor of Consumer Services
- Chris Weller, Load Management Supervisor

Headquarters Office: Indiana, Pennsylvania

Physical Location: 75 Airport Road
Mailing Address: P.O. Box 70, Indiana, PA 15701-0070
724-349-4800 or 1-800-211-5667

District Office: Ebensburg, Pennsylvania

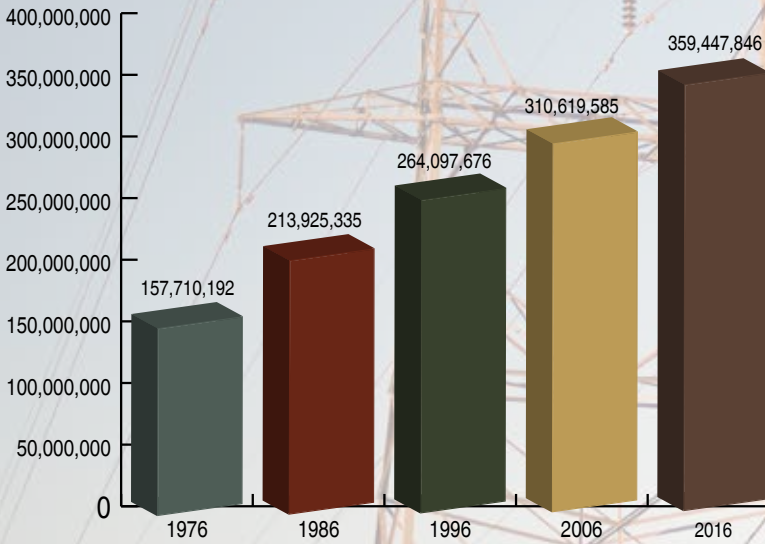
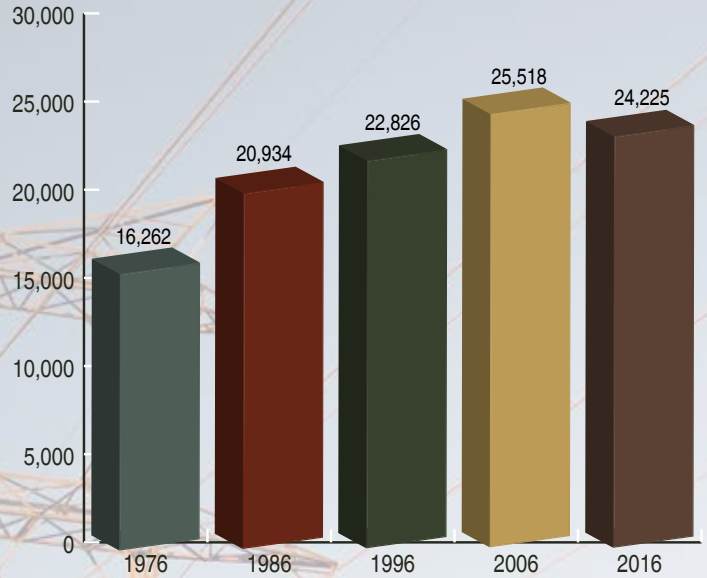
Physical Location: 127 Municipal Road
Mailing Address: P.O. Box 273, Ebensburg, PA 15931-0273
814-472-8570

Emergencies/Outages	724-463-7273 or 1-800-332-7273
Email	reaenergy@reaenergy.com
Home Page	www.reaenergy.com
Office Hours	Monday-Friday 7 a.m.-3:30 p.m.
Facebook	www.facebook.com and search for REA Energy Cooperative, Inc.
Twitter	www.twitter.com and search @REAEnergy

2016 Statistics

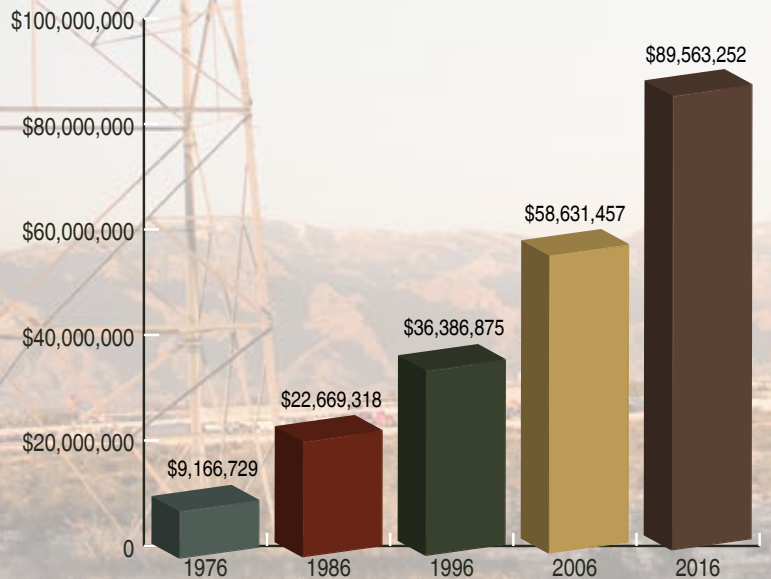
Number of Accounts	24,225
Miles of Electric Line	2,676
System Peak (February)	75,365 kW
Kilowatt-hours sold	359,447,846 kWh
Net Plant Value	\$89,563,252
Estimated Gross Load Management Savings	\$345,037
Water Heaters Controlled	5,604
Controlled Electric Heat	144
Water Heaters Issued To Date	4,689
RoundUp® Participants	2,529
Full-Time Employees	67

Number of Accounts



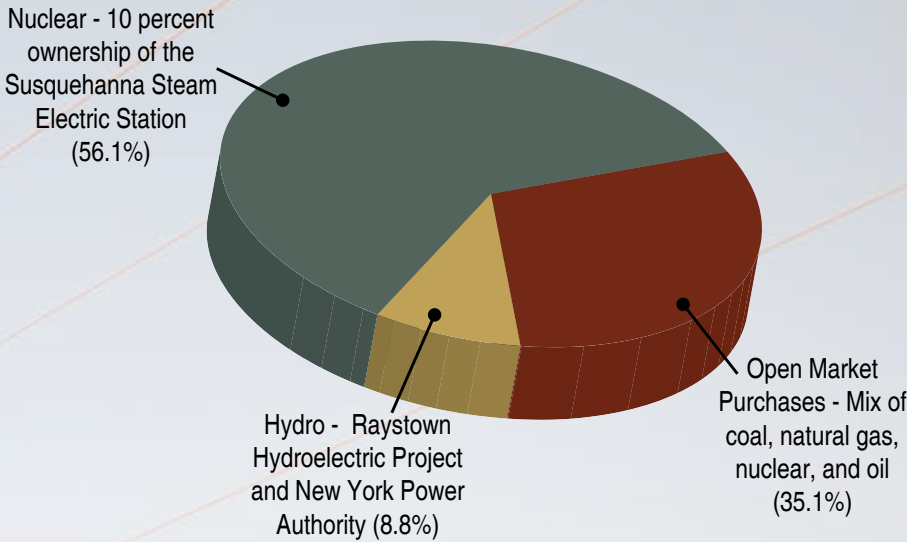
kWh Sold

Net Utility Plant

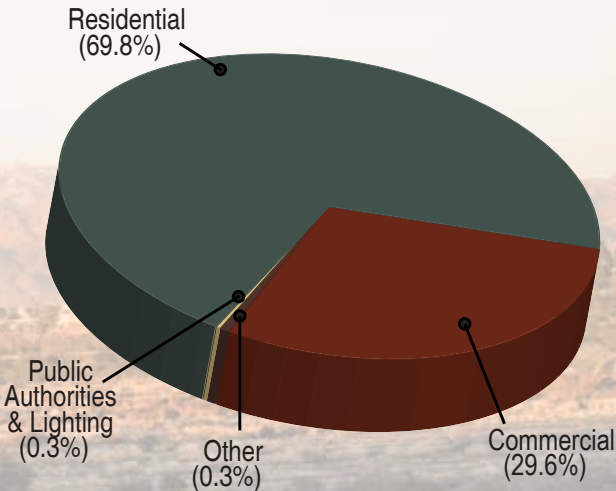
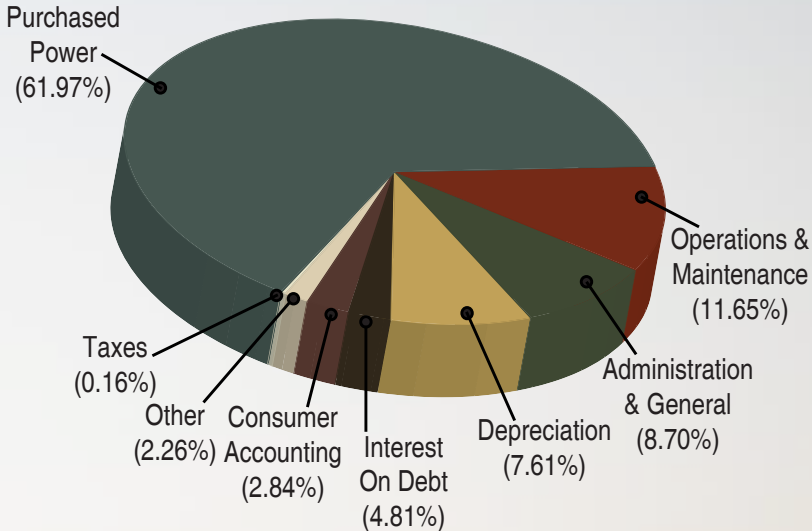


(PHOTO COURTESY OF TOUCHSTONE ENERGY)

Wholesale Power Supply Sources



How the Cooperative's Dollar Was Used



Sources of the Cooperative's Dollar

2016 Financial Report

Balance Sheets*

Assets	December 31,	
	2015	2016
Electric Plant		
In Service and Construction in Progress	112,366,192	116,416,266
Less: Accumulated Provisions for Depreciation	<u>25,528,913</u>	<u>26,853,014</u>
TOTAL ELECTRIC PLANT	<u>86,837,279</u>	<u>89,563,252</u>
Investments in Associated Organizations	<u>10,416,171</u>	<u>10,858,623</u>
Current Assets		
Cash	1,502,610	857,871
Temporary Investments	1,999,089	2,390,650
Accounts Receivable (less reserves)	2,687,161	2,670,917
Accrued Utility Revenues	1,619,404	1,733,262
Materials and Supplies (at average cost)	1,800,716	1,831,026
Other Assets and Deferred Charges	<u>2,103,553</u>	<u>1,933,455</u>
TOTAL CURRENT ASSETS	<u>11,712,533</u>	<u>11,417,181</u>
TOTAL ASSETS	<u>108,965,983</u>	<u>111,839,056</u>
Equities and Liabilities		
Equities		
Memberships	94,330	94,880
Patronage Capital	56,118,106	58,029,849
Other Equities	<u>(133,490)</u>	<u>(130,498)</u>
TOTAL EQUITIES	<u>56,078,946</u>	<u>57,994,231</u>
Liabilities		
Long-Term Debt:		
RUS Mortgage Notes (Less Current Maturities)	33,503,427	34,904,161
CFC Mortgage Notes (Less Current Maturities)	11,901,937	10,424,162
Other		
Accumulated Post Retirement Benefit Obligation	275,829	253,269
Current Maturities of Long-Term Debt	2,319,835	2,526,438
Accounts Payable:		
Purchased Power	2,111,002	2,405,036
Other	994,596	1,375,347
Consumer Deposits and Prepayments	149,860	134,544
Other Liabilities and Deferred Credits	<u>1,630,551</u>	<u>1,821,868</u>
TOTAL LIABILITIES	<u>52,887,037</u>	<u>53,844,825</u>
TOTAL EQUITIES AND LIABILITIES	<u>108,965,983</u>	<u>111,839,056</u>

Statements of Revenue and Patronage Capital*

	December 31,	
	2015	2016
Operating Revenue	<u>41,178,930</u>	<u>40,320,157</u>
Operating Expenses		
Cost of Power	24,161,141	23,554,548
Distribution - Operations	1,490,616	1,221,703
Distribution - Maintenance	2,682,602	3,110,672
Consumer Accounts	1,106,725	978,082
Sales	738,321	881,956
Administrative and General	3,395,901	3,330,060
Depreciation	3,047,316	3,114,718
Other Operating Costs	575,795	516,703
Taxes	63,325	53,331
Interest - Other	<u>2,664</u>	<u>10,593</u>
TOTAL OPERATING EXPENSES	<u>37,264,406</u>	<u>36,772,366</u>
Fixed Charges		
Interest on Long-Term Debt	<u>1,806,182</u>	<u>1,741,035</u>
G & T and Other Capital Credits	<u>553,278</u>	<u>600,516</u>
NET OPERATING MARGINS	<u>2,661,620</u>	<u>2,407,272</u>
Non-Operating Margins		
Interest Income	72,541	67,876
Other Non-Operating Income (Expenses)	<u>(95,951)</u>	<u>(97,588)</u>
TOTAL NON-OPERATING MARGINS	<u>(23,410)</u>	<u>(29,712)</u>
NET MARGINS	2,638,210	2,377,560
Patronage Capital, at beginning of year	53,479,896	56,118,106
Less: Retirement of Capital Credits		(465,817)
Patronage Capital, at end of year	<u>56,118,106</u>	<u>58,029,849</u>

Note: The Capital Credits from Allegheny Electric Cooperative, Inc., and other cooperatives, represent patronage capital credits allocated to us, but not paid.

The accounts of our cooperative for 2016 and 2015 have been audited by Barnes Saly & Company, LLC, Certified Public Accountants of Johnstown, Pa. The auditors' complete report is on file in the office of the cooperative and is available for inspection by members of the cooperative.

*Consolidated Financial Statements

Cause of Outages In 2016

CAUSE OF OUTAGES	TOTAL OUTAGE HOURS (Hours out multiplied by the number of consumers affected)	PERCENTAGE OF ALL OUTAGE HOURS
Trees or Limbs	41,389	32.3%
Distribution Line Equipment	16,777	13.1%
Unknown	16,045	12.5%
Power Supplier	16,012	12.5%
Major Storm	12,087	9.4%
Pre-Arranged	10,599	8.3%
Customer Caused	6,756	5.3%
Animals	4,282	3.3%
Lightning	2,731	2.1%
Weather Other	926	0.7%
Fire	577	0.5%
TOTALS	128,181	100%

(PHOTO COURTESY OF TOUCHSTONE ENERGY)

Important annual meeting news!

The 2017 annual meeting will be held at the Kovalchick Convention Complex located at 711 Pratt Drive, Indiana, Pa., on Thursday, Sept. 21, 2017. Doors open at 4:30 p.m., and entertainment begins at 5:30 p.m., followed by the business meeting at 6:30 p.m.

**REA Energy Cooperative, Inc. Annual Meeting
Sept. 21, 2017, Kovalchick Convention
Complex, 711 Pratt Drive, Indiana, Pa.**

Please keep this annual meeting information in mind on Sept. 21:

- NO voting for directors will be held at the meeting. Only members residing in Districts 5 and 6 will receive election information for their district.
- Attendance gifts and door prizes for members will be given at the meeting. An admittance card will be mailed, which the member listed must present at the door.
- Parking will be available in the lot behind the complex and in the lot to the left of the complex. REA employees will be present in each lot; a van will also be available for transportation to the building from the parking lots. The Kovalchick Complex is handicap-accessible.
- MEMBERS WILL BE ABLE TO ENTER THE ARENA THROUGH THE FLOOR LEVEL. SEATING WILL BE AVAILABLE ON THE ARENA FLOOR THIS YEAR.

5:30 p.m. Entertainment – Zupe

6:30 p.m. Call to Order
Determination of a Quorum
Reading of Notices
Action on 2016 Minutes
Election Results
Chairman's Report
President & CEO's Report
Guest Speaker
Unfinished Business
New Business
Questions & Answers
Adjournment
Awarding of Prizes

IMPORTANT NOTICE!

On Thursday, October 19, REA Energy's Ebensburg and Indiana Offices will be closed. Both offices will reopen at 7 a.m. on Friday, October 20. Please call 724-463-7273 or 800-332-7273 to report any power outages. Payments can be placed in the drop box at both locations, or via our online Member Portal at www.reaenergy.com.

RIGHT-OF-WAY MANAGEMENT/FACILITY CONSTRUCTION NEWS

REA Energy contractors will be completing tree-trimming work in the following areas in September:

- ▶ Contractor crews from Asplundh Tree Expert Co. will be trimming the rights-of-way of the Strongstown Substations areas, in addition to emergency maintenance areas. Crews from Penn Line Service will be trimming the right-of-way of the St. Augustine Substation area.

Notification of work will be made using our automated phone system to members in the areas affected.

Contractors will perform all right-of-way work per REA Energy specifications. If you have any questions, call 724-349-4800, or you can view the specifications online at: www.reaenergy.com. All crews will carry cards and have magnets on their vehicles identifying them as REA Energy contractors.

Your Board of Directors



Michael J. Bertolino
Chairman
District 3



J.R. "Rick" Shope
Vice Chairman
District 2



Robert P. Neese
Secretary/Treasurer
District 5



Herman Blakley
District 9



Sam Eckenrod
District 1



Wayne Farabaugh
District 8



James Harteis
District 4



John R. Learn
District 6



Open Seat
District 7