



**Northwestern Rural Electric
Co-operative Association, Inc.**

A Touchstone Energy® Cooperative 

2018 ANNUAL REPORT

Photo by Ross Thomas, Journeyman Lineman



2018 Quilts of Valor presentation to the co-op employees who have served in the military.

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This 2018 Annual Report was written, compiled and produced by the employees of Northwestern Rural Electric Cooperative Association, Inc. and its subsidiaries.

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Kathryn Cooper-Winters

Bill Buchanan

2018 EXECUTIVE REPORT

AS I sit down to write this executive summary for 2018, I can't help but wonder what Mary Grill is up to at this moment. You recall that Mary was your president and CEO for all of twenty-eight. What are the odds that in her retirement she would forego a round on the back nine to type up a year-end summary for Kathy Cooper-Winters and me?

All kidding aside, I have been your president and CEO for six months. Actually, July 1 marks my 106th day in office. During these past several months, I have been immersing myself into the organizational culture by working outages with the line crews, meeting with members, and sharing conversations with employees and directors. Managing a cooperative is not new to me, as I bring over 28 years of experience from a communications cooperative. But managing this cooperative, your electric cooperative, is a new and welcomed endeavor.

In 2018, there were three common themes that emerged as top priorities for the managing body of your electric cooperative. Every employee task and every job done revolved

around one or more of these core topics: safety, rate stability, and electric reliability. None of these is ever taken lightly.

The safety of our employees and our communities is and always will be our top priority. Last year, we joined the "Commitment to Zero Contacts" initiative started by the National Rural Electric Cooperative Association and Federated Rural Electric Insurance Exchange. This initiative provides cooperative CEOs, senior leaders and field personnel with key recommendations and resources needed to eliminate injuries by electrical contact.

Each day, we remind our employees of the four life-saving rules: always wear your gloves and sleeves, always use personal grounds, always maintain proper clearances, and always use proper insulating materials. Most of the work our line crews

performs is hot, or, in other words, on energized lines. There are times, however, when we must de-energize the work zone so crews can safely perform the job.

To help minimize the impact of these and other outages, in 2018, the co-op continued to invest in sophisticated switching technology. This included adding a tie line between the Edinboro and Mill Village substations, as well as upgrading, replacing, and adding numerous reclosers throughout the service territory. Your co-op now has interties between 12 of our 17 substations and 37 line reclosers for sectionalizing to help reduce the number and length of power outages.

Other areas where we focused on electric reliability include line rebuilds and other system improvements. Last year, the co-op replaced 17.7 miles of old conductor with new, stronger aluminum wire. It was also





THE 7 COOPERATIVE PRINCIPLES

Voluntary & Open Membership

What this means to you: *Anyone (or business) who could use our services, the door is open, without gender, social, racial, political or religious discrimination.*

Democratic Member Control

What this means to you: *You help call the shots by electing a board of directors. One member equals one vote. This is local democracy in action.*

Member Economic Participation

What this means to you: *You contribute equitably to, and democratically control, the capital of the co-op. Any "profits" are returned to you as capital credits.*

Autonomy & Independence

What this means to you: *As a rural electric cooperative, Northwestern REC is controlled by real members like you, instead of outside shareholders.*

Education, Training & Information

What this means to you: *The co-op provides the tools and resources you need so you can better contribute to the success of the cooperative.*

Cooperation Among Co-ops

What this means to you: *Your co-op strengthens the cooperative movement by partnering with organizations that share the same important details.*

Concern for Community

What this means to you: *While focusing on member needs, your co-op helps develop communities through policies accepted by the members.*

2018 EXECUTIVE REPORT CONT'D

necessary to relocate and rebuild the Mount Hope Substation on Route 173 near Sugar Lake. We take great pride in our aggressive right-of-way maintenance and pole inspection programs, rotating between specific locations every five and 10 years respectively.

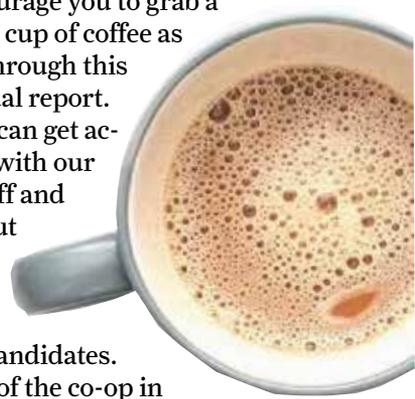
How do these investments or system improvements impact your almighty dollar? Each year, your board of directors and senior staff hold key planning sessions where they forecast and plan 10 years into the future. As a result of this planning done well, your electric rates remained stable into 2019 with zero rate increases and over \$442,000 of capital credits returned to the members in December 2018.

New and exciting things are in store for you and your cooperative in 2019, some of which have already occurred. We have recently introduced a new informative electric bill statement that includes multiple areas for specialty messaging. One of the benefits of this new statement is that we can communicate more, while completely eliminating about three-quarters of the yearly bill inserts.

For the first time in our 83 years, we are opening up the director election voting to include mail-in ballots as well as online and electronic voting options. This is an incredible opportunity for more of our members to participate in co-op principle No. 2: democratic member control. Voting begins July 18 and will conclude at the annual meeting on Sat., Aug. 17, at the Crawford County Fairgrounds.

Speaking of the annual meeting, that, too, will see a dramatic change this year. In addition to the new date, Aug. 17, we are changing the venue of the 83rd annual meeting. It will still be held at the fairgrounds — well, outside the fairgrounds, directly across the street from Gate 2, but rather than provide a carnival setting ourselves, annual meeting attendees will be able to enjoy the Crawford County Fair on us.

So, I encourage you to grab a seat and a cup of coffee as you leaf through this 2018 annual report. Here you can get acquainted with our senior staff and learn about your current board of director candidates. The state of the co-op in 2018 was outstanding, which continues today. Your cooperative is in good hands. By hands, I mean those of all our employees.



On behalf of Kathy and myself, we'd like to again invite you to the 83rd annual meeting on Aug. 17 at the Crawford County Fairgrounds. It is a great opportunity for you to ask questions you may have or to simply have a chat. We look forward to seeing you there.

Cooperatively yours,

Bill Buchanan
President & CEO

Kathryn Cooper-Winters
Board Chair

YOUR CO-OP MANAGEMENT STAFF



WILLIAM BUCHANAN

President & CEO

Employed with Northwestern REC since 2019, Buchanan graduated from Western Illinois University and the University of Missouri's Graduate Institute for Cooperative Leadership, and he holds Stanford University's professional certification in energy innovation. He has over 28 years of cooperative leadership experience. Buchanan and his wife recently relocated to Pennsylvania from Illinois. They have two sons in college.



KEVIN HINDMAN

Vice president of operations & engineering

Employed with Northwestern REC since 1985, Hindman has a bachelor's degree in electrical engineering from Grove City College. He has more than 40 years of experience working with rural electric cooperatives. He and his wife reside in the Cambridge Springs area, have two grown daughters and three grandchildren.



KATHY LANE

Vice president & chief financial officer

Employed with Northwestern REC since 2012, Lane has a bachelor's degree in business administration from Edinboro University and an MBA (finance) from Gannon University. She has over 15 years of work experience in the accounting field. Lane and her husband live in Cambridge Springs with their son.



LINDA KING

Vice president of communications & energy solutions

Employed with Northwestern REC since 1988, King has an MBA and master's degree in marketing from Gannon University, as well as a bachelor's degree from Edinboro University. She currently serves on several national committees and is an active General McLane School District board member. She and her husband live in Edinboro with their three children.



CLARISSA SCHNEIDER

Executive secretary & human resources assistant

Employed with Northwestern REC since 2014, Schneider has a bachelor's degree in communication arts from Gannon University. She is a past participant in the Crawford Area Young Chamber of Commerce and Business Professional Women's Club. She lives in Meadville with her boyfriend and their two cats.



CONNIE SOVISKY

Vice president of member services

Employed with Northwestern REC since 1998, Sovisky has a bachelor's degree from Edinboro University and is a graduate of the supervisory skills program at the Manufacturers' Association. She is an active board member for the Center for Family Services in Meadville. She and her husband live in Cambridge Springs and have two grown children.



KERRI FLEET

Human resources manager

Employed with Northwestern REC since 1993, Fleet is a graduate of Bradford Business School in Pittsburgh, as well as the Leadership Meadville program. She is a member of the Society for Human Resources Management, the Manufacturers' Association Human Resources Roundtable and the local Human Resources Consortium. She and her husband live in Cambridge Springs with their two daughters.



THOMAS DIMPERIO

Vice president of IT

Employed with Northwestern REC since 2002, Dimperio has a bachelor's degree in computer science from Edinboro University. He has 25 years of experience working in education, manufacturing and utility environments. He and his wife live in Erie with their two sons.

CONSOLIDATED FINANCIAL STATEMENTS

Northwestern Rural Electric Cooperative Association, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31, 2018 and 2017

CONSOLIDATED STATEMENT OF REVENUES & EXPENSES

Years ended December 31, 2018 and 2017

Assets	2018	2017	2018	2017
Property and equipment:				
Electric plant in service - at cost	\$ 120,819,764	\$ 114,952,559	\$ 33,229,473	\$ 31,890,338
Construction work in progress	1,016,566	1,349,117	94,820	93,733
	121,836,330	116,301,676	1,102,510	882,153
Less accumulated provisions for depreciation	37,933,144	35,746,713	367,402	373,004
Total electric plant	83,903,186	80,554,963	34,794,205	33,239,228
Other assets and investments:				
Non-utility property, at cost	260,000	957,633	15,263,664	14,587,096
Cash surrender value of life insurance	336,711	312,569	1,277,265	1,241,914
Investments in associated organizations	9,708,190	9,494,480	3,039,879	3,218,695
Certificates of deposit	190,997	169,246	1,323,074	1,376,340
Board designated funds	1,401,324	1,391,111	694,798	748,506
	240,551	247,304	3,719,485	3,639,295
	3,582,365	3,517,113	808,026	102,924
Total other assets and investments	11,897,222	12,325,039	29,949,107	28,679,187
Current assets:				
Cash and cash equivalents	2,478,405	2,003,531		
Accounts receivable, less allowance for uncollectible accounts of \$208,646 and \$205,285 for 2018 and 2017, respectively	4,697,459	4,477,477		
Current maturities of notes receivable	-	6,127		
Materials and supplies	612,978	811,159		
Other current and prepaid assets	214,718	76,150		
Total current assets	8,003,560	7,374,444		
Deferred charges	1,857,433	1,996,407		
	\$ 105,661,401	\$ 102,250,853		
Equities and Liabilities	2018	2017		
Equities:				
Memberships	\$ 70,660	\$ 72,620		
Patronage capital	12,880,281	12,258,811		
Other equities	38,127,627	35,740,179		
Accumulated other comprehensive loss	(482,972)	(192,823)		
Total equities	50,595,596	47,878,787		
Long-term debt:				
CFC notes, less current maturities	39,869,593	39,175,234		
Farmer Mac notes, less current maturities	6,302,782	6,706,880		
Capital Lease obligation, less current maturities	201,724	28,614		
Total long-term debt	46,374,099	45,910,728		
Non-current liabilities:				
Accumulated post retirement benefit obligation, less current portion	702,935	425,764		
Employee deferred compensation, less current portion	116,000	140,000		
Total other long-term liabilities	818,935	565,764		
Current liabilities:				
Current maturities of long-term debt	2,173,700	2,056,722		
Current maturity of capital lease obligation	49,998	22,290		
Current post-retirement benefit obligation & deferred comp	71,229	71,985		
Accounts payable:				
Purchased power	1,391,402	1,441,275		
Other	857,758	1,003,055		
Capital credit retirement funding liability	395,543	347,160		
Customer deposits	380,829	364,383		
Accrued interest	401,882	402,551		
Accrued payroll	256,217	212,610		
Accrued vacation liability	434,856	514,186		
Total current liabilities	6,413,414	6,436,217		
Total liabilities	53,606,448	52,912,709		
Deferred credits	1,459,357	1,459,357		
	\$ 105,661,401	\$ 102,250,853		
Operating revenues:				
Electric energy revenue			\$ 33,229,473	\$ 31,890,338
Customers' forfeited discounts and penalties			94,820	93,733
Rent from electric property			1,102,510	882,153
Miscellaneous electric revenue			367,402	373,004
Total operating revenues			34,794,205	33,239,228
Operating expenses:				
Cost of power			15,263,664	14,587,096
Distribution - operations			1,277,265	1,241,914
Distribution - maintenance			3,039,879	3,218,695
Consumer accounts			1,323,074	1,376,340
Customer service and information			694,798	748,506
Sales			240,551	247,304
Administrative and general			3,719,485	3,639,295
Depreciation and amortization			3,582,365	3,517,113
Other			808,026	102,924
Total operating expenses			29,949,107	28,679,187
Operating margin before fixed charges			4,845,098	4,560,041
Fixed charges:				
Interest on long-term debt			2,039,579	1,990,814
Operating margin after fixed charges			2,805,519	2,569,227
G & T and other capital credits			563,041	783,154
Net operating margins			3,368,560	3,352,381
Nonoperating margins:				
Interest income			77,690	71,679
Gain (loss) on disposition of property			35,648	6,484
Miscellaneous non-operating income (loss)			(27,015)	52,378
Total non-operating margin			86,323	130,541
Net margin			\$ 3,454,883	\$ 3,482,922
Other comprehensive loss				
Unfunded post-retirement benefit plans:				
Net actuarial loss			(322,708)	-
Amortization of actuarial loss recognized			32,559	964
Total other comprehensive loss			(290,149)	964
Total comprehensive income			3,164,734	3,483,886

The financial statements of the cooperative for the year ended December 31, 2018 have been audited by Buffamante Whipple Buttafaro, P.C., Jamestown, New York. The audit resulted in a clean opinion stating that the financial statements presented fairly, in all material respects, the financial position of the cooperative and subsidiaries as of December 31, 2018 and results of their operations and cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

The auditor's complete report is on file in the office of the cooperative and is available for inspection by the membership.

CONSOLIDATED FINANCIAL STATEMENTS

Northwestern Rural Electric Cooperative Association, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF EQUITIES

Years ended December 31, 2018 and 2017

	Memberships	Patronage Capital	Other Equities	Accumulated Other Comprehensive Loss
Balance, at December 31, 2016	\$ 74,535	\$ 11,718,427	\$ 33,176,428	\$ (193,787)
Membership fees cancelled	(1,915)	-	-	-
Net operating margins	-	3,352,381	-	-
G&T patronage capital credits received and allocated	-	92,615	(92,615)	-
Non-patronage source margins	-	(1,766,346)	1,766,346	-
Net non-operating margins	-	-	130,541	-
Retirement of capital credits	-	(1,138,266)	-	-
Equity payable upon liquidation	-	-	754,617	-
Gain on early retirement of capital credits	-	-	4,754	-
Total other comprehensive gain	-	-	-	964
Donated capital	-	-	108	-
Balance, at December 31, 2017	72,620	12,258,811	35,740,179	(192,823)
Membership fees cancelled	(1,960)	-	-	-
Net operating margins	-	3,368,560	-	-
G&T patronage capital credits received and allocated	-	215,287	(215,287)	-
Non-patronage source margins	-	(1,685,319)	1,685,319	-
Net non-operating margins	-	-	86,323	-
Retirement of capital credits	-	(1,277,058)	-	-
Equity payable upon liquidation	-	-	825,227	-
Gain on early retirement of capital credits	-	-	5,866	-
Total other comprehensive gain (loss)	-	-	-	(290,149)
Donated capital	-	-	-	-
Balance, at December 31, 2018	\$ 70,660	\$ 12,880,281	\$ 38,127,627	\$ (482,972)

- Purchased Power – covers the cost of the power your co-op purchases to deliver to your home.
- Operations & Maintenance Expense – covers operational costs, like line work, repair and maintenance.
- Consumer Expense – covers the cost of handling members' accounts, including bill payments and answering calls.
- Sales Expense – for other member services, such as communications, energy marketing services and educational publications.
- Administrative & General Expenses – covers administrative costs, including employee benefits, safety program and building maintenance.
- Depreciation Expense – covers the cost of assets, such as wire, poles and transformers, that span over several years.
- Interest on Long-Term Debt – covers interest payments on loans for the long-term borrowing to finance the assets of the co-op.
- Net Margins – retained in the form of capital credits, which provide a source of equity for Northwestern REC. These margins are refunded to members through capital credits retirements.

Allocation of your Co-op Dollar

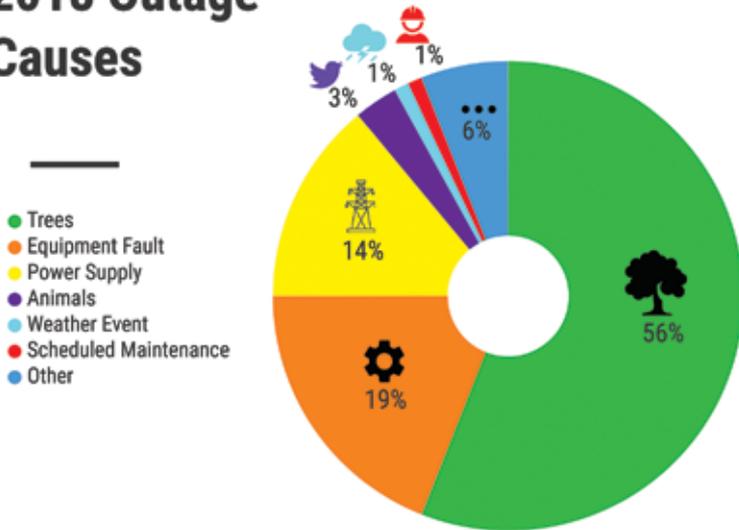
for year 2018





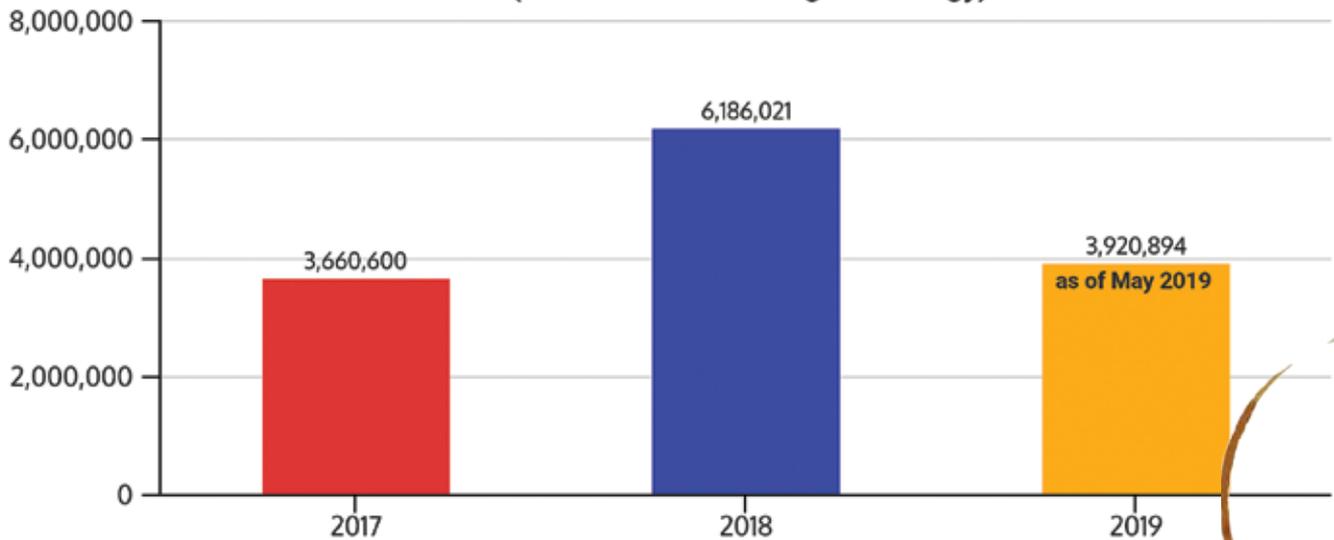
YOUR COOPERATIVE AT A GLANCE

2018 Outage Causes



*In 2018, co-op smart switching technology was able to save 6.19 million outage minutes. That's equivalent to 11.8 years of avoided outage time!

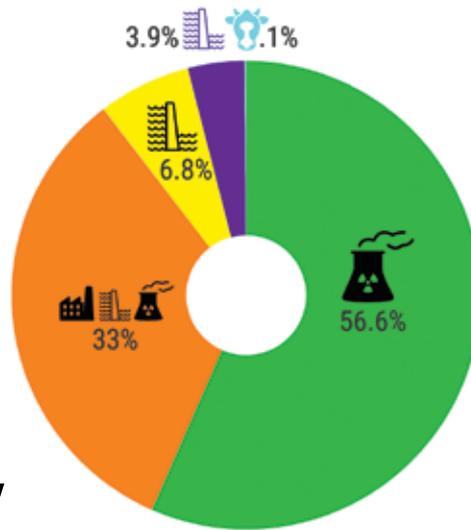
Avoided Outage Minutes (with SCADA switching technology)





Susquehanna Steam Electric Power Plant in Luzerne County, Pa.

Where we get our power



- Susquehanna Steam Electric
- Purchased Power
- New York Power Authority
- Raystown Hydroelectric
- Member Interconnections

2018 Year in Review




60 Full time Employees


21,196 Total Meters Served


2,656 Miles of Electric Line


8 Members per Mile of Line


\$15,263,664 Cost of Power


257,513,981 kWh Sold


\$124.17 Average Monthly Bill (residential member)


932 Avg. Monthly kWh used (residential member)

YOUR BOARD OF DIRECTORS

The map displays the following board members and their districts:

- District 1:** Karl Ebert
- District 2:** Earl Koon
- District 3:** Mike Sample
- District 4:** Robert Agnew
- District 5:** Kathryn Cooper-Winters
- District 6:** Kim Docter
- District 7:** David Rectenwald
- District 8:** Marian Davis
- District 9:** Lisa Chausse
- District 10:** Lanny Rodgers

Northwestern REC's Board of Directors

ADMIT ONE

You're invited!

JOIN US AT THE CRAWFORD COUNTY FAIRGROUNDS

NORTHWESTERN REC'S
ANNUAL MEETING

17 AUGUST 2019

REGISTRATION OPENS AT 10 AM
MEETING STARTS PROMPTLY AT 11 AM

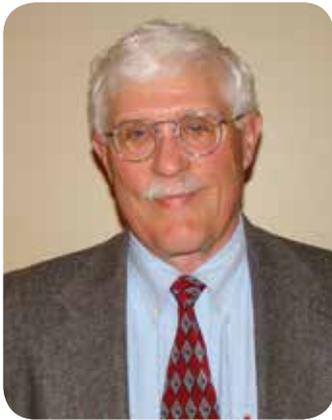
THEN ENJOY THE CRAWFORD COUNTY FAIR ON US!
EVERYONE WILL RECEIVE A GATE PASS TO THE FAIR.
EACH MEMBERSHIP WILL RECEIVE \$25 IN FOOD/RIDE VOUCHERS.

CALL IN YOUR RESERVATIONS NOW AT 1-800-352-0014.

AUG.
17

KNOW THE NOMINEES

District 1: Springfield, Conneaut, Girard, Elk Creek, and Franklin townships, and Cranesville and Platea boroughs in Erie County, and parts of Monroe Township and City of Conneaut in Ashtabula County.



Karl E. Ebert, incumbent
Cranesville, Pa.

Karl E. Ebert has work experience in both labor and management in several companies. He worked in a machine shop and was a steelworkers grievance man there while attending Mercyhurst College. He earned a Bachelor of Arts degree in accounting, Magna Cum Laude, in 1983 and he also has a bachelor's degree in English from Thiel College.

Ebert was employed as an accountant with manufacturing companies for over 23 years. He considers himself a moderate conservative who believes in fiscal responsibility. He also serves the people of Franklin Township as an elected auditor.

His hobbies include gardening, carpentry, hunting, fishing, and maintaining an old car and tractors. Ebert and his wife became Northwestern REC members when they moved to Franklin Township in 2000. The couple has two grown daughters.

District 2: McKean, Washington, Waterford, and LeBoeuf townships, and Mill Village and Edinboro boroughs in Erie County.



Earl Jesse Koon, incumbent
Edinboro, Pa.

Earl Jesse Koon was born and raised in Edinboro, Pa., on the family farm where he still resides, continuing the family tradition of operating and maintaining the family farm.

Koon received a Bachelor of Arts in mathematics in 1975 from Edinboro University and a master's degree in business administration from Gannon University in 1979. Following college, he was employed by the Borough of Edinboro for five years as the code enforcement officer, then by Washington Township as the secretary/manager, a position he held for over 17 years. Since his departure from the township, Koon has pursued a career in the asphalt industry, serving as vice president/branch manager for Russell Standard Corporation, Fairview Branch, for eight years. He is currently employed by Suit-Kote Corporation, Western Pennsylvania Branch, and is the general manager.

Koon and his family have been members of Northwester REC since its inception in the mid-1930s. He is a member of the Oasis Lodge No. 416, and served as past master and past treasurer. He is a member of the Zem Zem Temple, member of the IOOF Lodge No. 510, and sits on the board of directors for the Odd Fellows Home of Western Pennsylvania. He is married and has three grown children.

District 4: Beaver, Spring, Conneaut, Summerhill, Summit, Sadsbury, and Pine townships, and Conneautville Borough in Crawford County, and Pierpont and parts of Richmond and Monroe townships in Ashtabula County.



Robert Agnew, incumbent
Conneautville, Pa.

A lifetime resident of Crawford County, Robert Agnew graduated from Linesville High School. He earned a bachelor's degree in business administration from Duquesne University, Pittsburgh.

Agnew has served as a board member since 1989 and became a Certified Cooperative Director in 1994 and a Credentialed Cooperative Director in 2006 with the National Rural Electric Cooperative Association.

He worked in the insurance and finance planning business from 1971 to 2000. He is actively involved with the Meadville Kiwanis Club and serves on the board of directors for the Conneaut Lake Joint Municipal Sewer Authority. He is a member of the Harmonsburg Presbyterian Church.

Agnew resides in a 170-year-old, remodeled farmhouse near Harmonsburg with his wife, Jean. The couple have been cooperative members since 1971 and have two adult children.

Director elections take place on a rotating basis. This year, directors from Districts 1, 2 and 4 are up for election. Nominating meetings were held in each of these districts in March and April. The members who attended these meetings nominated members they felt met the qualifications necessary to be a director of Northwestern REC. The above biographical sketches will familiarize you with the candidates. Voting begins on July 18 and will continue through annual meeting on Saturday, Aug. 17, 2019.

We're not your typical electric company.

We're a local,
not-for-profit
electric cooperative.

That's because we
don't have customers,
we have members.

Putting people
first is our
superpower.

To learn more
about the cooperative
difference, visit
NorthwesternREC.coop.



**WE ARE
MEMBER
OWNED.**



**EVERY
MEMBER HAS
A VOICE.**



**EVEN THE
ONES WHO
CAN'T SPEAK
YET.**



**WE ARE
BOARD
RUN.**

YOUR SOURCE OF POWER. AND INFORMATION.



**Northwestern Rural Electric
Co-operative Association, Inc.**

A Touchstone Energy® Cooperative 

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