

REA *energy* Cooperative Inc.

A Touchstone Energy® Cooperative 

2015 Annual Report

2015 Executive Report

I AM very pleased to report to you, our owner-members, on the condition of your cooperative. The year 2015 was a very good year for the cooperative. The cooperative's financial performance during the year allowed us to make great strides in improving our system and reliability while ending the year in great shape financially.

The following are just some of our 2015 accomplishments:

Finance

Financially, REA Energy experienced a good year in 2015. Our revenue was \$41,178,930, mostly due to increased summer and winter electricity sales and our revised rates.

Our cost of power totaled \$24,161,141, 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 increased sales along with reasonable power costs, careful management of our operating expenses, and fewer major storms allowed us to record a net margin of \$2,638,210, which met the requirements of our mortgage holders. Under any measure, this was a very 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 2015. Our recent decision to change software systems will enhance member services, provide more payment options, and provide members with tools to manage consumption.

Additionally, this software upgrade provides the cooperative tools needed to comply with financial oversight requirements, to analyze meaningful information, and most importantly, give members what they have been asking for — better access to their accounts.

The goals for 2015 were to provide value-added benefits and information to assist members in making better energy management decisions.

Some member services accomplishments include:

- ▶ Continually updating our members' physical addresses to help line crews during storms.
- ▶ Fairly maintaining our accounts receivable levels, making our cash flow more predictable, thus reducing costs for all members.
- ▶ Expanding Touchstone Energy services. This national cooperative provides our members with benefits 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 seven students (children of members) to participate in the 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. Our generous members who contribute to our Operation Round-Up® fund make helping members in need a possibility. Thank you!
- ▶ Further developing our Match Fund to help members who need assistance to help pay for winter bills and faulty services.
- ▶ Expanding and upgrading our load management system. With approximately 5,500 members participating in these programs, REA Energy saves thousands of dollars on its wholesale power bill. As part of our continuous improvement program, we completed an upgrade to our load management system at every residence. We would like to thank our participating members for their time and patience during this upgrade.
- ▶ 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 exist-

ing 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, provide direct profits to the cooperative, and also increase electric sales, which helps keep rates low. Not only does the cooperative benefit from the subsidiary, members benefit from purchasing high-efficiency products, which saves money on monthly energy bills.

Our electrical contracting business line continues to provide safe electrical upgrades to our residential consumers and provides 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 \$648,000 in revenue for 2015. 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.

Rights-of-way

REA Energy constantly monitors the reliability of our power system. Each year, an outage summary report identifies areas that need attention and, based on past history, where future outages are most likely to occur. In 2015, about 35 percent of our outages were tree-related.

Last year, we spent more than \$1.3 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 2015.

In 2015, we focused on the area served by Shadowood Substation, cutting 44 miles of line.

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 32.3 miles of line across the system. Rebuilding and upgrading of electric lines included:

Overhead – 32.3 miles

- ▶ Birtle MP – 3.9 miles
- ▶ Summerhill to Redhead – 6.2 miles
- ▶ Cherryhill – Tanoma Circuit Re-conductor – 1.5 miles
- ▶ Uniontown – 1.0 mile
- ▶ Kenwood – Cookport Circuit – 2.0 miles
- ▶ Smithport – 3.6 miles
- ▶ St. Augustine – 3.8 miles
- ▶ Washington – 10.3 miles

REA Energy has completed the construction of a new tie line between its Birtle MP and Summerhill substations. This project involved approximately 10 miles of single-phase to three-phase conversion and installation of a new 3,750-kVA padmounted step transformer. Completion of this project enables us to backfeed either the Birtle MP or the Summerhill Substation in the event of an extended power supply outage, or to do substation preventative maintenance, without extended outages to consumers.

REA Energy had 165,705 member out-

age hours for 2015 compared to 126,719 in 2014.

Outages on the transmission system owned by private power companies, First Energy/Penelec and Allegheny Power, were 32,170 member hours in 2015 compared to 26,288 in 2014.

We experienced an increase in outage hours due to a major storm on May 11, which caused broken poles, downed wires and tree contact. This storm accounted for 20,308 outage hours affecting almost 6,000 REA members.

Management and staff continue to focus on our system improvements and also work closely with our power suppliers to improve transmission reliability.


Annual meeting

REA Energy will hold its 79th annual meeting on Sept. 29 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.

Leadership change


As mentioned in the August *Penn Lines*, President & CEO Gary Grindle will be retiring after 43 years of service to the cooperative. Chief Operating Officer Chad Carrick will be the next president & CEO of REA Energy Cooperative. We would like to wish Gary a fond farewell and thank him for his

years of service to the cooperative.

The REA Energy Board of Directors, management and employees thank you for your continued support. We will do our best to continue providing you with reliable electric service at reasonable rates. 

Cooperatively yours,
Gary Grindle
President & CEO



A Touchstone Energy® Cooperative 



Gary Grindle
President & CEO

- Barry Baker
Indiana Operations Manager
- Chad Carrick
Chief Operating Officer
- Shane Cribbs
Network & Systems Manager
- Dave Daugherty
Safety Supervisor
- Chris Masterson
Reliability Supervisor
- Patrick McAndrew
Manager of Engineering
- Brendan Short
Right-of-Way/Forestry Supervisor
- Renee Spalla
Supervisor of Consumer Services
- Chris Weller
Load Management Supervisor
- Stacy Patterson, CCC
Local Pages Editor

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

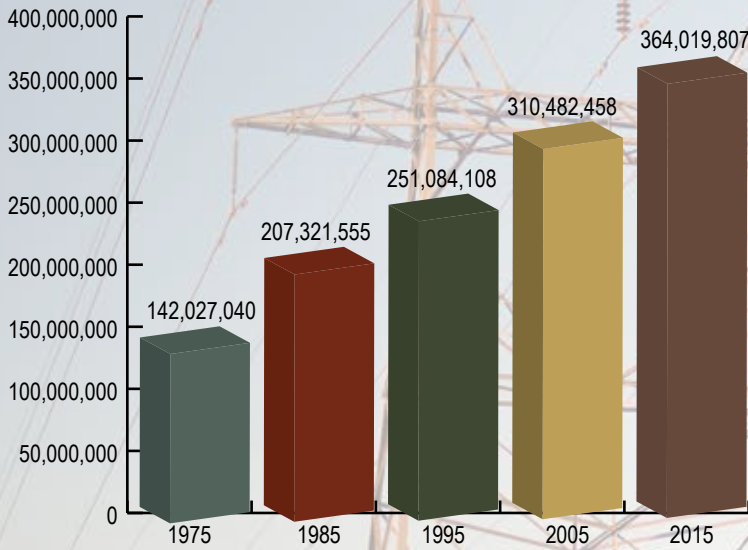
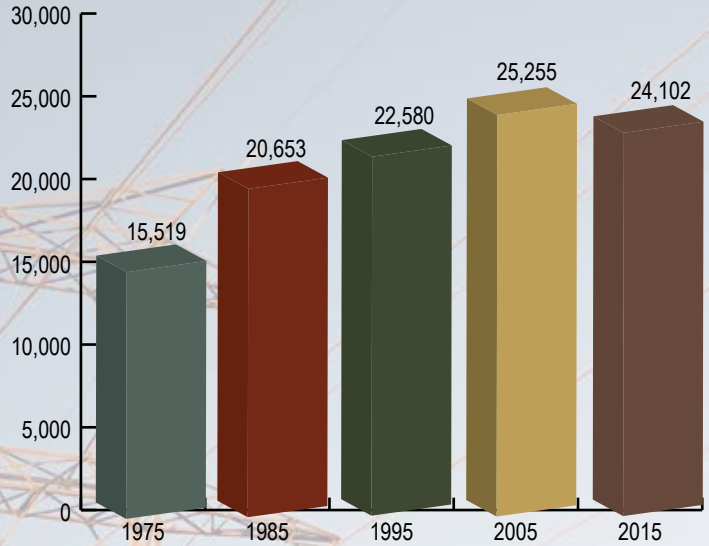
Physical Location: 127 Municipal Road
Mailing Address: P.O. Box 273, Ebensburg, PA 15931-0273
814-472-8570

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

2015 Statistics

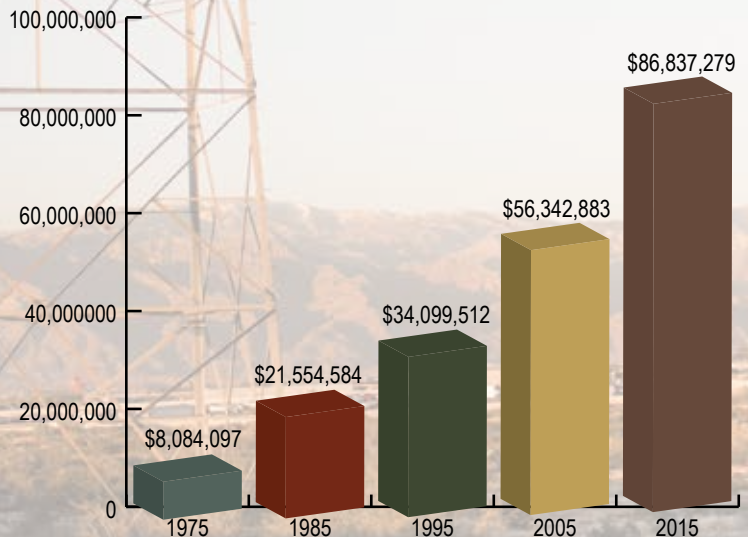
Number of Accounts	24,102
Miles of Electric Line	2,665
System Peak (February)	74,585 kW
Kilowatt-hours sold	364,019,807 kWh
Net Plant Value	\$86,837,279
Estimated Gross Load Management Savings	\$331,324
Water Heaters Controlled	5,490
Controlled Electric Heat	144
Water Heaters Issued To Date	4,523
RoundUp® Participants	1,675
Full-Time Employees	65

Number of Accounts



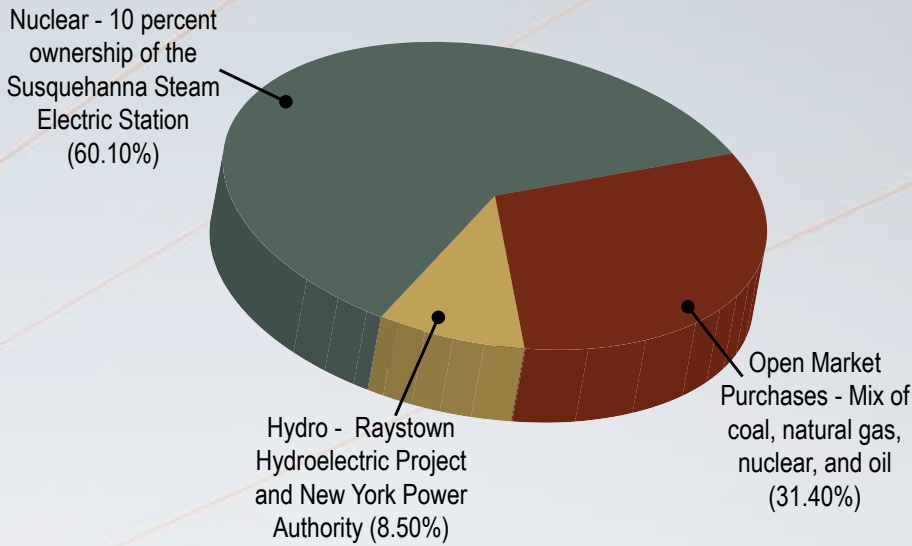
kWh Sold

Net Utility Plant

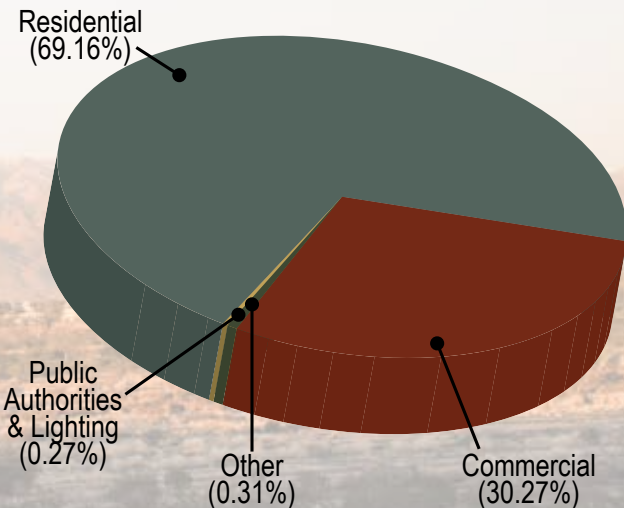
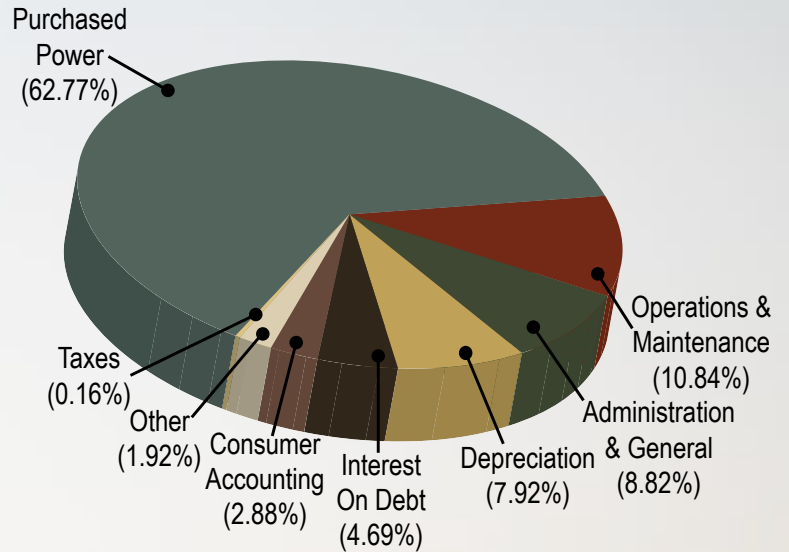


(PHOTO COURTESY OF TOUCHSTONE ENERGY)

Wholesale Power Supply Sources



How the Cooperative's Dollar Was Used



Sources of the Cooperative's Dollar

2015 Financial Report

Balance Sheet

<u>Assets</u>	December 31,	
	2014	2015
<u>Electric Plant</u>		
In Service and Construction in Progress	\$107,756,409	112,366,192
Less: Accumulated Provisions for Depreciation	<u>24,122,792</u>	<u>25,528,913</u>
TOTAL ELECTRIC PLANT	<u>83,633,617</u>	<u>86,837,279</u>
Investments in Associated Organizations	<u>10,225,310</u>	<u>10,416,171</u>
<u>Current Assets</u>		
Cash	657,844	1,502,610
Temporary Investments	3,859,768	1,999,089
Accounts Receivable (less reserves)	3,013,582	2,687,161
Accrued Utility Revenues	1,812,604	1,619,404
Materials and Supplies (at average cost)	1,900,137	1,800,716
Other Assets and Deferred Charges	<u>2,586,228</u>	<u>2,103,553</u>
TOTAL CURRENT ASSETS	<u>13,830,163</u>	<u>11,712,533</u>
TOTAL ASSETS	<u>\$107,689,090</u>	<u>108,965,983</u>
<u>Equities and Liabilities</u>		
<u>Equities</u>		
Memberships	\$ 94,565	94,330
Patronage Capital	53,479,896	56,118,106
Other Equities	<u>(137,028)</u>	<u>(133,490)</u>
TOTAL EQUITIES	<u>53,437,433</u>	<u>56,078,946</u>
<u>Liabilities</u>		
Long-Term Debt:		
RUS Mortgage Notes (Less Current Maturities)	\$ 33,370,027	33,503,427
CFC Mortgage Notes (Less Current Maturities)	13,127,996	11,901,937
Other	_____	
Accumulated Post Retirement Benefit Obligation	293,527	275,829
Current Maturities of Long-Term Debt	2,302,138	2,319,835
Accounts Payable:		
Purchased Power	2,244,110	2,111,002
Other	1,052,144	994,596
Consumer Deposits and Prepayments	145,803	149,860
Other Liabilities and Deferred Credits	<u>1,715,912</u>	<u>1,630,551</u>
TOTAL LIABILITIES	<u>54,251,657</u>	<u>52,887,037</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$107,689,090</u>	<u>108,965,983</u>

Statements of Revenue and Patronage Capital

	December 31,	
	2014	2015
<u>Operating Revenue</u>	<u>\$ 42,355,205</u>	<u>41,178,930</u>
<u>Operating Expenses</u>		
Cost of Power	25,289,916	24,161,141
Distribution - Operations	1,278,657	1,490,616
Distribution - Maintenance	3,262,901	2,682,602
Consumer Accounts	1,130,199	1,106,725
Sales	882,692	738,321
Administrative and General	2,790,642	3,395,901
Depreciation	2,878,928	3,047,316
Taxes	62,114	63,325
Interest - Other	<u>2,229</u>	<u>2,664</u>
TOTAL OPERATING EXPENSES	<u>38,224,786</u>	<u>37,264,406</u>
<u>Fixed Charges</u>		
Interest on Long-Term Debt	<u>1,876,676</u>	<u>1,806,182</u>
<u>G & T and Other Capital Credits</u>	<u>591,985</u>	<u>553,278</u>
NET OPERATING MARGINS	<u>2,845,728</u>	<u>2,661,620</u>
<u>Non-Operating Margins</u>		
Interest Income	72,789	72,541
Other Non-Operating Income (Expenses)	<u>(86,555)</u>	<u>(95,951)</u>
TOTAL NON-OPERATING MARGINS	<u>(13,766)</u>	<u>(23,410)</u>
NET MARGINS	2,831,962	2,638,210
<u>Patronage Capital, at beginning of year</u>	50,647,934	53,479,896
Less: Retirement of Capital Credits	-----	
<u>Patronage Capital, at end of year</u>	<u>\$ 53,479,896</u>	<u>56,118,106</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 2014 and 2015 have been audited by Barnes Saly & Company, LLC, Certified Public Accountants of Johnstown, Pa. The auditor's complete report is on file in the office of the cooperative and is available for inspection by members of the cooperative.

Cause of Outages In 2015

CAUSE OF OUTAGES	TOTAL OUTAGE HOURS <small>(Hours out multiplied by the number of consumers affected)</small>	PERCENTAGE OF ALL OUTAGE HOURS
Trees or Limbs	50,736	30.62%
Power Supplier	32,170	19.41%
Major Storm	20,308	12.26%
Distribution Line Equipment	15,222	9.19%
Pre-Arranged	10,518	6.35%
Customer Caused	9,724	5.87%
Lightning	9,618	5.80%
Unknown	6,453	3.89%
Animals	6,213	3.75%
Weather Other	4,702	2.84%
Fire	41	0.02%
TOTALS	165,705	100%

(PHOTO COURTESY OF TOUCHSTONE ENERGY)

Important annual meeting news!

The 2016 annual meeting will be held at the Kovalchick Convention Complex located at 711 Pratt Drive, Indiana, Pa., on Thursday, Sept. 29, 2016. Come and learn more about your cooperative. 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.

Please keep this annual meeting information in mind on Sept. 29:

- NO voting for directors will be held at the meeting. Only members residing in Districts 3 and 4 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.

REA Energy Cooperative, Inc. Annual Meeting Sept. 29, 2016, Kovalchick Convention Complex, 711 Pratt Drive, Indiana, Pa.

5:30 p.m. Entertainment – Zupe

6:30 p.m. Call to Order
Determination of a Quorum
Reading of Notices
Action on 2015 Minutes
Election Results
Chairman's Report
President & CEO's Report
Guest Speaker
Unfinished Business
New Business
Questions & Answers
Adjournment
Awarding of Prizes

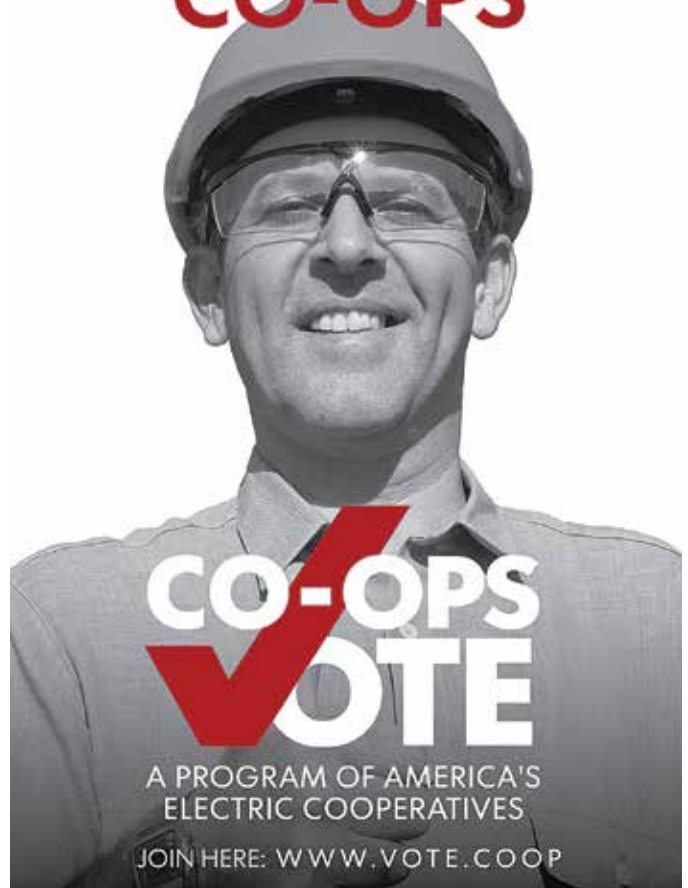
What is 'Co-ops Vote?'

According to Vote.coop, "Co-ops Vote is a new campaign focused on enhancing the political strength of electric cooperatives through voter engagement. The goal of the campaign is to boost voter turnout in cooperative areas, making sure that our members exercise one of their most basic rights – the right to vote. Working in collaboration with statewide organizations and local co-ops, this nonpartisan campaign will educate and engage all voters on important issues like: expanding broadband coverage throughout rural America, ensuring continued access to reliable electricity, and promoting the work of co-ops in developing innovative renewable energy solutions."

Take the pledge, visit vote.coop today!



STAND WITH CO-OPS



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 Curry Run and Amsbry substation areas, in addition to emergency maintenance areas.
- ▶ Contractor crews from Asplundh Tree Expert Co. will be performing herbicide vegetation management work within the Amsbry, Brown's Crossroads, Cherryhill, Clyde, Curry Run, Laurel, Senate, Shadowood, Smithport, St. Augustine, Tanoma and Washington substation and metering point areas, in addition to emergency maintenance areas.

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



Herman Blakley
Chairman
District 9



Michael J. Bertolino
Vice Chairman
District 3



Robert P. Neese
Secretary/Treasurer
District 5



Sam Eckenrod
District 1



Wayne Farabaugh
District 8



James Harteis
District 4



John R. Learn
District 6



Jack R. Rising
District 7



J.R. "Rick" Shope
District 2