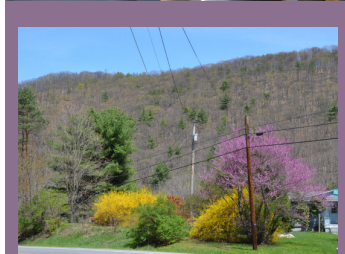


Valley Rural Electric Cooperative, Inc.

2014 ANNUAL REPORT





The Cooperative Principles

Democratic Member Control
Member Economic Participation
Autonomy and Independence

Voluntary and Open Membership
Concern for Community
Continuing Education

Cooperation Among Cooperatives

Co-op Mission Statement

Valley Rural Electric Cooperative, Inc. is committed to providing reliable, efficient energy services and to improving the quality of life throughout the region.

2015 Annual Meeting - Table of Contents

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Rich Bauer, President & CEO
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- 8 Directors & Employees

Annual Meeting Agenda

Scenic Territory Slides - 6:30 p.m.

National Anthem, Pledge of Allegiance - 7 p.m.

Invocation

Roll call

Minutes

Introduction of Candidates & Election

Report of the Treasurer

Report of the President

Report of the Chairman

Old Business

New Business

Entertainment - Chris Collins (Tribute to John Denver)

Election Results

Door Prizes

Adjournment/Collection of Bill Credit Stubs



Chris Collins - Tribute to John Denver

Chris was a two time regional finalist at the prestigious Kerrville Folk Festival and a finalist at the Wildflower Festival. He was also nominated for Album of the Year and Producer of the Year at the Texas Music Awards show for his album, Alberta Skies. Chris frequently performs larger shows with Boulder Canyon, his six-piece band. Their shows play to sell-out crowds across the U.S. in cities and towns from the East Coast and New England to the central coast of California and the mountains of Colorado.

Executive Report

Each year, members of Valley Rural Electric Cooperative have an opportunity to take stock of their business during the annual meeting. The 2015 session provides a firsthand account of the economic health of the business as well as a look at the co-op's plans for the future. It's our privilege to share this summary with you, on behalf of the co-op's employees and the board of directors.

The mission of the co-op is to provide reliable, efficient energy services and to improve the quality of life throughout the region. Achieving this goal requires a firm financial footing. The return of more than \$735,000 in patronage capital in 2014 to members and former members of the co-op demonstrates that firm foundation. Nearly \$22 million in capital credits has been returned over the years and we expect the disbursement of capital credits to continue in the years ahead.

Furthermore, the co-op continues to maintain a solid percentage of member equity (ownership) as recommended in our equity management plan. In recent months, Valley REC moved away from its traditional position as a Rural Utilities Services borrower. Savings in administration and interest costs will allow the co-op to accomplish normal maintenance and operations functions on a cash basis for the near-term.

As usual, the co-op's largest outlay in 2014 was to Allegheny Electric Cooperative for the purchase of the energy that runs our homes, farms and businesses. Allegheny is governed by a board comprised of a member from each of the 13 electric co-ops in Pennsylvania and one in New Jersey. Valley members and the members of those 13 sister co-ops are fortunate to have a level of control over their electric generation, since Allegheny owns 10 percent of the Susquehanna Steam Electric Station (a nuclear plant near Berwick, Pa.) and has sole ownership of the hydroelectric plant at Lake Raystown. Additionally, Allegheny has a long-term contract with the New York Power Authority for the purchase of electricity generated by hydro plants on the Niagara and St. Lawrence rivers.

These sources provide about 70 percent of our energy. Allegheny purchases the rest on the open market, at a price that can far exceed that of our own sources. This makes our demand response effort more important than ever. If you already participate in the program, thank you on behalf of the co-op. If not, please see the information on the bottom of the next page to see if it could be right for you. Participating members receive a \$100 bill credit while helping to stabilize the co-op's wholesale power bill.

Other than the purchase of power (54 percent of the 2014 budget), most of our revenue goes toward maintaining and upgrading our electric distribution system. Our total investment in upgrades to the utility plant and line extensions in 2014 totaled \$4.5 million. Keeping trees trimmed along nearly 2,750 miles of line is our largest maintenance expense. Last year, we spent more than \$1.3 million to maintain 341 miles of right of way. We adhere to a five-year rotation for vegetation management. This has proven to reduce costs associated with outage restoration.

Our investment in the distribution system in the past year included upgrading nearly 15,000 feet of single phase (one-line) service to three-phase on the Little Valley substation in Todd Township,



JAMES R. STAUFFER
Chairman of the Board



RICHARD S. BAUER
President & CEO

Huntingdon County. Deteriorating line in Catharine Township, Blair County (served by the Williamsburg substation) was replaced. And nearly 1.5 miles of deteriorated line near Clear Ridge, Fulton County was replaced and moved next to a roadway for better access.

We continue to use technology to improve efficiency, in the field and in co-op offices. In the spring of 2013 we rolled out our outage management system, or "OMS," as we call it. This computerized system uses our automated metering infrastructure, a complete system inventory and upgraded phone system to provide the digital capability to more quickly pinpoint the scope and location of an outage. Real-time mapping of outages has enabled our operations team to mount a more efficient response to service disruptions.

Since the OMS launch, tablet computers have been provided to office workers and line crews alike. These devices allow us to stay "plugged in" even when on the go. Line workers and staking engineers have system data at their fingertips on the job site and operations staffers can get real-time outage information anytime, day or night.

In the first quarter of 2015 we took another big technological step by introducing SmartHub. This new electronic account management system replaced the E-Bill system that first provided members with digital access to their accounts. SmartHub offers expanded services and greater compatibility with mobile devices. E-Bill users did not have to change their existing log-in credentials. Download of the SmartHub app is free through App Store and Google Play.

The way we do our job has gone "high tech" but the goal is the same. The ideals of hard work and great service for members remain unchanged from the co-op of yesteryear to the Valley Rural Electric Cooperative that you know. Employees still come to work in the morning ready to give their best for the membership and the co-op's directors continue to balance their dual charges of keeping costs low while providing top-notch service.

In closing, let us commend you on your participation in the 2015 Annual Meeting. Your attendance embodies the cooperative principle of democratic member control of your business.

JAMES R. STAUFFER
CHAIRMAN OF THE BOARD

RICHARD S. BAUER
PRESIDENT & CEO

Value For Members

Educational Opportunities



Each year, Valley REC sponsors local high school juniors and seniors on the national Rural Electric Youth Tour in Washington, D.C. While on the fun-filled, all-expenses-paid trip, students tour national monuments, meet with members of Congress, visit the national zoo and more! Shown above is Valley's group of students who participated in the 2014 event.

Valley REC awards up to 25 \$1,000 scholarships each year to eligible students who apply for the Brighter Future Scholarship Program. This initiative is funded by unclaimed capital credits

refunds that previously had to be turned over to the state treasury. Thanks to the efforts of the co-op's political advocates, these funds can now be kept in our local communities. The Pennsylvania Rural Electric Association offers two different scholarship programs as well. Visit the Scholarships page at www.valleyrec.com for more information.



Energy Management

Cooperatives believe that the cleanest kilowatt-hour is the one that is never generated. Holding to this principle, Pennsylvania and New Jersey electric co-ops launched the Coordinated Load Management System in 1986. This demand response network, whose participants include nearly 25 percent of the cooperatives' residential consumers, currently boasts the capability to reduce about 8-10 percent of the entire cooperative system's peak load. Since the program's inception, this has resulted in power cost savings of more than \$106 million statewide for cooperative members.

Valley Rural Electric Cooperative members who agree to participate in this worthwhile efficiency program receive a one-time \$100 credit on their electric bills. For participating in the demand response program, they are also eligible for a rebate on the purchase of a new electric storage tank water heater.

The rebate is \$2 per gallon for tanks from

50-79 gallons and \$3 per gallon for tanks that hold 80 gallons or more. The tank's energy factor must be 0.9 or higher and the member must agree to participate in demand response.

Demand response units (like the one shown above) work by temporarily cutting power to the water heater during periods of peak demand. Since the tank is well-insulated, the water stays warm until the control period ends. Since the DRU can be programmed according to family size, it should not inconvenience members. Ideally, you don't even realize it's there, but you're doing your part for energy efficiency.



Programs & Services

Valley Rural Electric Cooperative looks for ways to make co-op membership a real resource for members, whether they want to conserve energy, connect with other members or keep up with issues impacting rural life.

A cornerstone of this effort is the co-op's digital presence. Valley's website — www.valleyrec.com — is a place where members can do everything from paying their bills to learning the history of the co-op. It's a go-to resource for members.

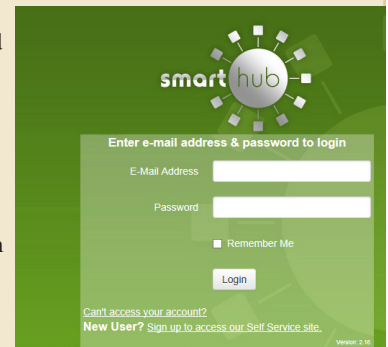
While online, members can gain valuable insight to help manage their energy bills. Touchstone Energy's Together We Save pages provide a virtual home energy savings tour. Access it by clicking on the "Save Energy" tab on the Valley REC homepage.

Valley Rural Electric employs a full-time energy specialist who is available to answer questions about energy use and who also performs in-home energy audits when necessary.

Valley REC also offers the new SmartHub online payment service, which allows members to sign up for electric service, access account history and pay electric bills online. Members can use the service to have the amount of their monthly electric bill deducted automatically from a checking or savings account or credit card. SmartHub also enables members to receive alerts using their mobile devices. Click or tap on the "View & Pay My Bill" tab on the website.

Members may also pay by credit or debit card by phone and at co-op offices.

Additionally, Valley REC members can take advantage of the Co-op Connections Card program. The card offers discounts from businesses in our communities and across the country. Discounts of 10-85 percent are available on prescriptions at participating pharmacies. Show the card and save the next time you're shopping. For a full list of participating businesses, visit www.valleyrec.com.



Co-op Connections® Card



Valley Rural Electric Cooperative, Inc.

Your Touchstone Energy® Cooperative



Other Offerings

CFL disposal (offered at all co-op office locations)

Members Helping Members assistance program

Smart surge protector sales

Member publications - *Penn Lines & Valley News*

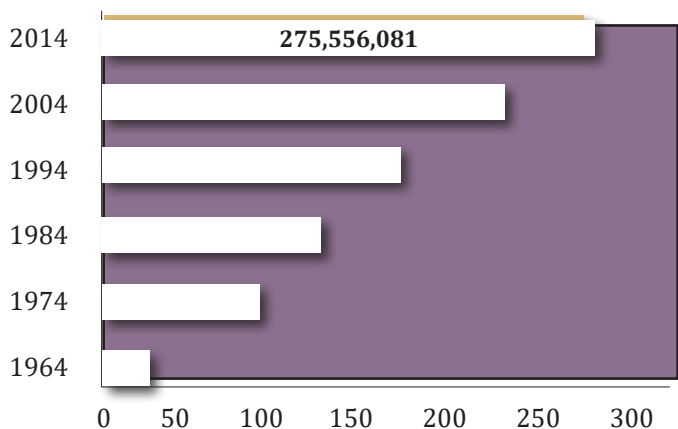
2014 Financial Report

| Statement of Operations | | 2014 | 2013 |
|-----------------------------|--|-------------------|-------------------|
| Income | | | |
| Operating Revenue | | 34,833,273 | 34,252,195 |
| Interest Income | | 288,615 | 159,034 |
| Other Non-operating Income | | 612,583 | 906,028 |
| TOTAL INCOME | | 35,734,471 | 35,317,257 |
| Expenses | | | |
| Cost of Power Purchased | | 19,223,736 | 19,374,261 |
| Operations & Maintenance | | 4,205,303 | 4,416,947 |
| Member Acct. & Service | | 1,366,868 | 1,429,070 |
| Administrative & General | | 3,344,176 | 2,898,487 |
| Depreciation & Amortization | | 3,298,912 | 2,963,004 |
| Taxes | | 43,813 | 46,433 |
| Interest Expense | | 2,027,176 | 2,019,969 |
| TOTAL EXPENSES | | 33,509,984 | 33,148,171 |
| NET MARGINS | | 2,224,487 | 2,169,086 |

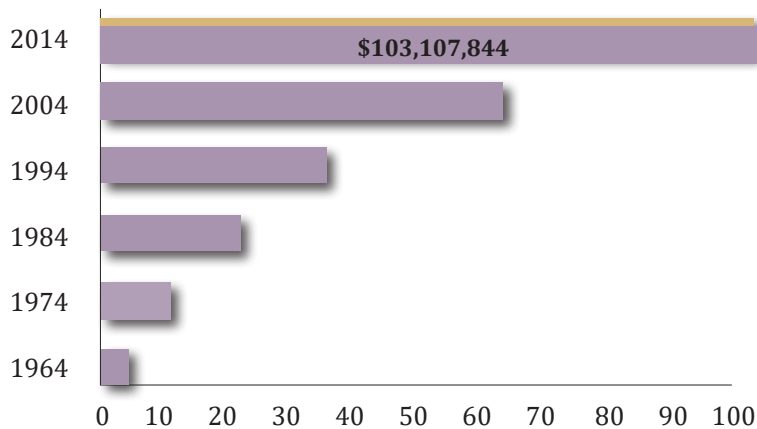
| Balance Sheet | | 2014 | 2013 |
|---|--|-------------------|-------------------|
| Assets | | | |
| Electric Plant (less depreciation) | | 71,326,636 | 70,278,070 |
| Investments | | 8,889,772 | 8,659,967 |
| General Fund Cash & Working Capital | | 337,626 | 1,643,201 |
| Accounts Receivable | | 3,772,680 | 3,896,373 |
| Materials & Supplies | | 564,908 | 554,750 |
| Payments Made in Advance | | 33,397 | 105,031 |
| Other Current & Deferred Assets | | 4,417,195 | 2,404,594 |
| TOTAL ASSETS | | 89,342,214 | 87,541,986 |
| Equities | | | |
| Patronage Capital and Margins | | 32,118,471 | 31,392,054 |
| Other Equities | | 3,637,919 | 2,754,979 |
| TOTAL EQUITIES | | 35,756,390 | 34,147,033 |
| Liabilities | | | |
| Long-term Debt | | 46,367,648 | 46,092,184 |
| Notes Payable | | 500,000 | 0 |
| Accounts Payable | | 1,762,583 | 2,000,374 |
| Member Deposits | | 331,804 | 307,894 |
| Other Current & Accrued Liabilities | | 4,178,467 | 4,271,580 |
| Deferred Credits and Regulatory Liabilities | | 445,322 | 722,921 |
| TOTAL LIABILITIES | | 53,585,824 | 53,394,953 |
| TOTAL EQUITIES & LIABILITIES | | 89,342,214 | 87,541,986 |

2014 Financial Report

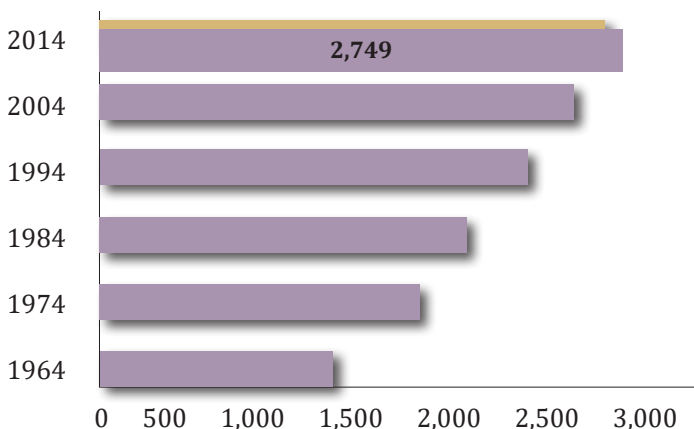
Kilowatt-hours Sold (in millions)



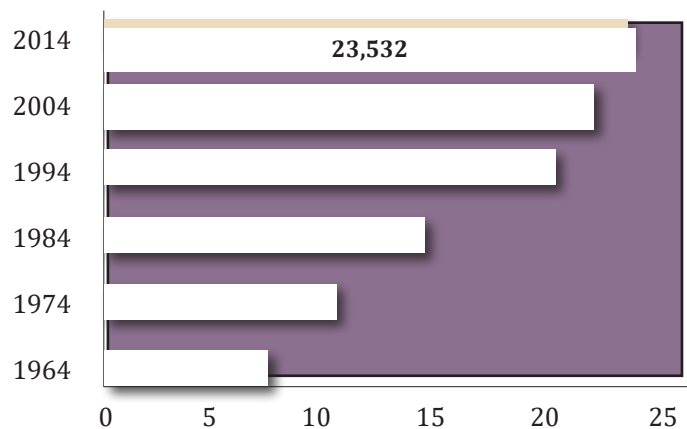
Utility Plant (in millions)



Miles of Line

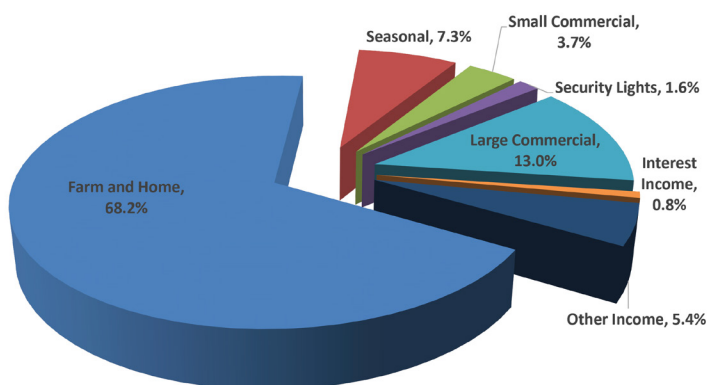


Accounts Served (in thousands)

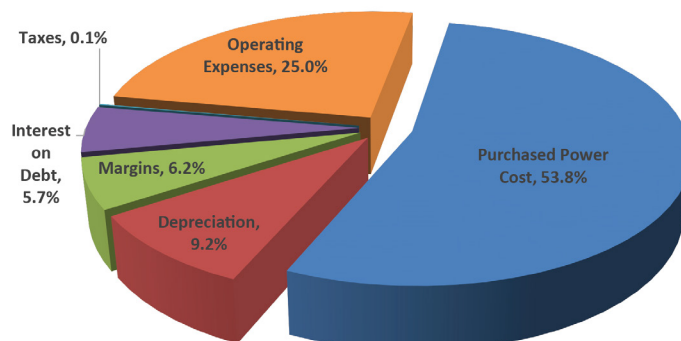


The Co-op Dollar

Where It Comes From



Where It Goes



2015 Candidate Bios

District 2

JAMES STAUFFER
175 Aultz Lane
McVeytown, PA 17051

A 1978 graduate of Kishacoquillas High School, Jim Stauffer owns and operates a 180-acre dairy farm with a herd of 140 milking cows. He farms a total of 200



acres, and ships his milk through Dairy Farmers of America Cooperative.

Jim was employed for 10 years as manager of Brookland Mills, a retail livestock feed and fuel oil delivery service in McVeytown. Prior to that time, he worked as a truck driver for a fertilizer plant in the Belleville area.

Jim and his wife, Carol, are members of Centre Union Church, Lewistown. Jim teaches an adult Sunday school class and serves as an elder.

Jim and Carol have three grown children, twins Ben and Brittney, and their younger sibling, Josh. The Stauffers have been married for 34 years.

A native of Belleville, Jim is 55 years old. He has been a member of Valley REC since 1993, and has served on the co-op board of directors since 1997. He held the office of vice chairman for two years, and currently serves as chairman of the board. He is running unopposed on the ballot for District 2.

District 4

JOANNE WHITSEL
7295 Windy Summit Lane
Mapleton Depot, PA 17052

Joanne Whitsel is running unopposed on the ballot for District 4. She retired from serving as director of the Crossroads Pregnancy Center, a faith-based and life-affirming service with offices in Huntingdon, Mifflin and Juniata counties. She also served as a jury commissioner for the Huntingdon County Court of Common Pleas for 14 years. For the past year she has served the court as tipstaff.

Joanne graduated from Captain Jack High School (now Mount Union Area) in 1964 then completed a cosmetology program at Penn State Beauty Academy, State College. She worked as a self-employed hairdresser for 20 years.

Joanne is a native of Wayne Township, Mifflin County. She likes to stay active and, when time permits, enjoys painting and drawing.

A year ago, Joanne and her sister started an antique consignment business. They have a booth at the Duncansville Antique Depot, Blair County.

Joanne is a member of Cornelius Chapel Methodist Church and also attends Beech Run Brethren Church, both in Hares Valley.

Joanne enjoys spending time with her seven grandchildren. She and her late husband, Nelson, have three grown children, Jonelle, Nathan and Jonathan.

Joanne is 68. She has been a Valley REC member since 1971.



District 6

LEROY BARNES
445 Sarah Drive
Portage, PA 15946

Leroy Barnes has successfully operated his family's dairy farm in partnership with his brother, Barry, since 1968. They currently milk 220

Holsteins and raise corn and alfalfa on approximately 700 acres of ground.

A 1966 graduate of Claysburg-Kimmel High School, Leroy holds an associate degree in computer management from the ICM School of Business in Pittsburgh.

Leroy is a member of the Mount Hope United Church of Christ near Blue Knob, where he serves on the consistory. He is a former member of the Blue Knob Fire Company, and served three years as a director for Long's Dairy, a milk marketing cooperative in Tyrone. He currently serves as a director on the Allied Milk Producers Board.

In his free time, Leroy enjoys hunting.

Leroy is 66 years old. He has three grown children and six grandchildren. A native of Blue Knob, Leroy has been a member of Valley REC for more than 30 years. He has served on the co-op board for nine years, including as vice chairman, and currently serves as the board's representative on the Pennsylvania Rural Electric Association board. He is running unopposed on the ballot for District 6.



2014 Annual Meeting Minutes

The Annual Meeting of the members of Valley Rural Electric Cooperative, Inc. was held in the auditorium of Mount Union Area High School in Mount Union, Pa. on April 11, 2014.

The business meeting was called to order at 7 p.m. by James R. Stauffer, chairman of the board of directors. Cheyanne Brumbaugh sang The National Anthem. The Pledge of Allegiance was recited and director Robert Holmes offered the invocation.

The secretary reported that 284 voting members were present and said that the members present in person constitute a quorum of the members of the cooperative.

A motion was made, seconded and passed appointing Kim Kane, Valley REC executive secretary, to serve as recording secretary for the annual meeting.

President and CEO Rich Bauer introduced the distinguished guests who were in attendance. The guests included state Senator John Eichelberger, state Representatives Mike Fleck and Jerry Stern; Huntingdon County Commissioners R. Dean Fluke and Jeff Thomas; and Pennsylvania Rural Electric Association Public Affairs/Member Services Specialist Stephanie Okuniewski.

A motion was made, seconded and passed to dispense with the reading of the minutes of the Annual Meeting held April 12, 2013 and to accept the minutes as printed in the 2013 Annual Report, a copy of which was given to each member present.

A motion was made, seconded and passed to dispense with the reading of the treasurer's report and to approve the report as printed in the 2013 Annual Report.

Cooperative attorney David Ody supervised the nomination and election of directors. Attorney Ody stated that nominating meetings were held in each of the districts where directors were to be nominated for three-year terms. Those nominated were as follows: District 1, Mervin G. Brumbaugh, Timothy A. Knepp and Tracy Detwiler; District 3, Kevin R. States; and District 5, Robert (Bob) Holmes.

Members David Sollenberger, John Knepp, Thomas Detwiler, Terry Hess and Phil Mason were appointed as inspectors of election.

The ballots were then cast by the members, after which the ballot boxes were declared closed.

Board Chairman Stauffer told the members present that Valley REC is celebrating its 75th anniversary. He asked his fellow mem-

bers to think about the beginnings of the co-op and to consider how the co-op's founders have impacted the lives of members today.

"History is often made by everyday people who do something extraordinary. That's the story of Valley Rural Electric," Stauffer said. "A generation ago some ordinary farmers and other rural residents – parents and grandparents to some of us here tonight – banded together to do something truly exceptional – bring electric service to their homes and farms located in some of the area's most out-of-the-way places."

Stauffer told the audience Valley REC energized its first lines Nov. 27, 1939 and has been improving the quality of life for members ever since. While he reviewed the co-op's early years, members enjoyed a presentation of historical photos.

Stauffer said rural electrification increased the productivity of rural America while preserving the values central to rural living.

"That's what our co-op founders did: They empowered themselves and their neighbors. Think for a minute of their foresight. Their effort literally began a lifetime ago," he said.

"Just as our co-op was born through the involvement of members, the involvement of members will be the key to our business over the next 75 years," he added.

Valley President and CEO Rich Bauer spoke about how technological innovations are impacting the coop's operating efficiencies and service reliability and the role members play as owners of the cooperative. He encouraged members to consider participating in the co-op's demand response program which lessens the amount of electricity members use at times of peak demand, when the price of wholesale power is the greatest. Demand response units work by temporarily disconnecting power to water heaters, to shed load while the insulated appliance maintains water temperature.

"We're trying to get as many people on this program as possible," Bauer said. "Your tank still keeps the water hot. You should never know that the unit is on your water heater."

Bauer also spoke about the need for the co-op to maintain an aggressive tree trimming program to lessen the size and frequency of storm-caused outages. Bauer reported that, in the past year, the co-op trimmed 350 miles of rights-of-way at a cost of \$1.7 million.

Chairman Stauffer presented state Rep. Jerry Stern with a plaque in recognition of his 22 years of service in the General Assembly.

"Rep. Jerry Stern, state representative from the 80th District, has been a champion of rural initiatives throughout his 22-year tenure in the Pennsylvania House of Representatives," he said.

Caitlyn Edgell and Cheyanne Brumbaugh, two students who participated in the 2013 Youth Tour to Washington D.C., talked about their experiences on the trip. Each year Valley REC sponsors up to 18 students on the week-long trip that enables students to meet lawmakers and learn about the cooperative business model.

Attorney Ody announced the results of the election. The following members received the highest number of votes and were elected to hold office until the 2017 Annual Meeting: District 1, Mervin G. Brumbaugh, 159; District 3, Kevin R. States, 277; and District 5, Robert (Bob) Holmes, 278.

The Certificate of Inspection of Election is attached hereto and made part of these minutes.

President Bauer introduced the guest speaker for the evening, former Penn State cornerback Adam Taliaferro, who told the audience he appreciates the co-op's story of overcoming adversity. Taliaferro was paralyzed while making a tackle for Penn State in a game against Ohio State in 2000. Given small hope for recovery, he miraculously walked out of a Philadelphia treatment center three months later. Taliaferro said that each day people suffer spinal cord injuries and need the support of their community to come through that.

"My experience helped me to see what life is really about. I look around this room and see families. That's what it's about. You have your health and your family and your community," Taliaferro said.

There was no old or new business to be discussed.

Luella Keebaugh of Shade Gap, Kenneth and Sandra Kephart of Mechanicsburg and John and Dorothy Sowash of Huntingdon each won a \$100 co-op gift certificate and James and Marie Taylor of Waterfall won a \$250 co-op gift certificate. Members in attendance received a \$10 credit on their electric bills and a commemorative 75th anniversary coaster set.

A motion was made, seconded and passed to adjourn the meeting.

Cooperative Directors & Employees

Directors

James Stauffer
Chairman

Robert Holmes
Vice Chairman
Allegheny Director

Kevin States
Secretary

Cindy Bigelow
Treasurer

Leroy Barnes
PREA Director

Corey Brumbaugh

Mervin Brumbaugh

Linda McMath

Greg Henry

Rich Bauer
President & CEO

Corporate Office

John Bookwalter Jr.
Nancy Bucher
Lisa Carper
Terri Cohenour
Ethan DeVore
Pam DeVore
Michelle Dreibelbis
Luanne Eckenrode
Danielle Estep
Ben Gorman
Max Hetrick
Kim Kane
Travis Kuhstos
Rikki Moyer
Judy Post
Doug Roles
Todd Ross
Melissa Shetrom

Employees

Huntingdon District

Matt Andrasi
Bill Ayers
Justin Berrier
Logan Booher
Randy Boonie
Kevin Detwiler
John Fogelsonger
Steve Gutshall
Eric Henchey
Dave Huntsman
Mike Lansberry
Craig Morrison
Chris Myers
Gina Norris
Nancy Rife
Jeff Ruby
Brook Sheetz
Alicia Stoner
Richard Sunderland
Curt White

Shade Gap District

Adam Atherton
Mark Booher
Wilmer Bucher Jr.
Boyd Gelvin
Patrick Lightner
Tricia Long
Rick Poleck
Jonathan Shields
Ken Sipes
Mike Williams
Jason Wilson
Ivy Lee Yohn

Martinsburg District

Bill Bogel
Greg Dilling
Ryan Dodson
Trevor Eichelberger
Jason Hey
Bill Kreider
Kathy Luprek
Barb Moyer
Mike Shawley
Rob Shook



Before you switch on the lights, we've already put up the poles, connected miles of wire and flipped more than a few switches of our own. All to make sure your life is always "on." Learn more about the power of your co-op membership at TogetherWeSave.com.



**Valley Rural Electric
Cooperative, Inc.**

® Your Touchstone Energy® Cooperative



TOGETHERWESAVE.COM

**YOUR
ELECTRICITY
ISN'T
SOMETHING
WE TAKE
LIGHTLY.**





Valley Rural Electric Cooperative, Inc.

®

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Martinsburg, PA 16662

Corporate Office
10700 Fairgrounds Road
Huntingdon, PA 16652

Shade Gap District
22140 Croghan Pike
Shade Gap, PA 17255

Learn how to save energy at www.valleyrec.com