

# Valley News

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## ANNUAL REPORT

07



# REPORT OF THE PRESIDENT



**ONCE AGAIN,** it is my privilege to report on the status of Valley Rural Electric Cooperative. I am honored to serve as President and CEO of such a successful organization.

This report will highlight achievements during calendar year 2007.

Last year, we met our desired goals in various areas of Valley's operations. Our ongoing maintenance and construction projects continued to provide significant dividends for us. For example, we completed the first year of the second rotation of our five-year right-of-way maintenance cycle. Annually, we trim trees and clear brush along 500-600 miles of our 2,800-mile electric distribution system.

The results of this maintenance clearing program have been outstanding. In fact, we believe right-of-way clearing has been a major contributor to our excellent reliability statistics. In 2007, the average outage time per member on Valley's system was about 1.75 hours, essentially the same as 2006. Our average outage times remain competitive with power companies that serve highly-populated areas. Considering the rural

nature of our service territory, with its many miles of tree-lined rights-of-way, our reliability statistics are commendable.

The primary goals of our right-of-way maintenance program are to reduce the number of outages on the electric system, decrease line loss and thereby provide a more efficient delivery system, and enable our line workers to gain access to equipment and restore service more quickly when outages occur.

In 2007, we upgraded a circuit near Orbisonia from single-phase to three-phase and also increased the operating voltage on the circuit from 12,000 to 25,000 volts. This circuit provides a major tie line between the co-op's Three Springs and Riverview substations, further improving our ability to provide reliable electric service in the areas of Mount Union, Shirleysburg, Orbisonia and Three Springs. And, just as right-of-way clearing reduces line loss, the increase in operating voltage also lowers line loss on our system. Smaller-scale line improvement projects were also completed in the Shade Gap and Martinsburg districts of the co-op's service territory.

Valley's new corporate headquarters along Fairgrounds Road near Huntingdon has been open for business since last October. The co-op purchased the Poole-Anderson Construction office in August 2006. Renovations were completed and an addition was made to the existing building there.

The decision to move the headquarters from its former location came after about three years of deliberation by the board of directors regarding the future needs of the membership. After an outside consultant assessed the potential for renovation and expansion of the former building, it was determined that it would be more

financially prudent to find a new location for the headquarters.

Although the co-op continued to enjoy excellent service reliability last year, we experienced skyrocketing costs for materials like bucket trucks, transformers, utility poles and copper and aluminum wire. This meant we had to make a very difficult decision — to implement a retail rate increase for the first time in 15 years. Fortunately, we only needed to boost annual revenue by about 5 percent, so the impact to our consumers was minimal compared to the rate increases of other utilities in Pennsylvania and surrounding states.

Maintaining dependable service at the most affordable price possible remains the cornerstone of our business. To accomplish this, we have to protect the integrity and financial stability of the cooperative.

At Valley Rural Electric, we are committed to providing reliable and efficient energy services throughout our eight-county service area. We continuously attempt to improve our procedures, manage our expenses and incorporate advances in technology and equipment.

We are confident that our efforts this year will further enhance the quality of service you receive from your cooperative.

Although changes in the electric industry are on the horizon, you can rest assured that Valley is in a strong position to forge into the future. I'm grateful for the opportunity to help lead your cooperative forward.

Cooperatively yours,

A handwritten signature in black ink, appearing to read "Edward A. Dezich". The signature is written in a cursive, flowing style.

Edward A. Dezich  
President & CEO

# REPORT OF THE CHAIRMAN



**ON BEHALF OF** your board of directors, I am pleased to give an account of Valley Rural Electric Cooperative's accomplishments and goals.

Your cooperative continues to be a very financially sound utility. We've been able to maintain member equity – that is, member ownership of the organization – within the 40 to 45 percent range as recommended in our equity management plan. At the end of calendar year 2007, co-op equity was at 43 percent of assets. The extensive retail rate study that was performed last year was based on our 10-year financial plan, which helped us determine an ideal equity range for the co-op.

Last April, the cooperative returned approximately \$635,000 in patronage capital. This year, more than \$923,000 will be returned. The financial stability of our co-op shows in our ability to retire capital credits, support operations and maintain equity while satisfying the requirements of our lenders – the Rural Utilities Service (formerly the Rural Electrification Administration) and the National Rural Utilities Cooperative Finance Corporation.

At the beginning of this year, your

board members and management staff conducted a strategic planning session geared toward key goals that will focus our activities for the next several years. The two primary areas that were addressed at the meeting were financial planning and the implementation of new or updated technologies.

As I mentioned earlier, it was the consensus of the board to maintain a strong equity position of 40 to 45 percent. A steady, adequate equity level helps ensure that capital credits are returned to consumers in a timely manner while enough collateral is maintained to preserve borrowing power. Borrowing is required for new construction, normal replacement of depreciated poles and equipment and periodic upgrades to the existing 2,800-mile distribution system.

Regarding the integration of technologies, there are several projects planned that should significantly improve the way we do business.

We have already begun the process of evaluating our present load management system, which is used to turn off electric water heaters during periods of peak demand. Our goal is to update our equipment so the co-op can take advantage of the latest innovations in demand-side management. We also want to encourage more participation in the program by our members. Demand response is an important resource to use in controlling electric rates because it reduces the need for new generating capacity and cuts down on costly demand charges. A state-of-the-art coordinated load management system will help us better control electric load during peak periods of use.

Another top priority is providing more efficient ways for members to report meter readings. You will soon be able to key in meter readings via our Web site or by using your touch-tone phone. The co-op's long-range plan is

to integrate an automated meter reading system that will eliminate the need to turn in readings.

Additional plans call for further development of our Web site to include online bill payment options and access to account history information. In the months ahead, the co-op will also offer an online energy audit program where you can get energy efficiency information tailored to your home or business.

Your directors are responsible for the oversight of a corporation with a total utility plant of more than \$76 million. This means director training and development is vital. All of our directors have completed the National Rural Electric Cooperative Association (NRECA) courses that are required for Credentialed Cooperative Director Certification. In addition, three directors have received NRECA Board Leadership Certification.

The co-op offers ongoing training and development courses for its employees as well. With many of our "baby boomer" employees approaching retirement age, we must have skilled and well-qualified employees at all levels of the organization.

We have an exceedingly dedicated group of employees working for the co-op. Your friends and neighbors, they are truly people you can count on.

In conclusion, your board is confident that the co-op is in a healthy financial position, and we take very seriously our responsibility to continue that record of success. Thank you for allowing us to represent your best interests.

Sincerely,

A handwritten signature in cursive script that reads "James R. Stauffer".

James R. Stauffer  
Chairman of the Board

07

## FINANCIAL REPORT

## STATEMENT OF OPERATIONS

2007

2006

|                             |                     |                     |
|-----------------------------|---------------------|---------------------|
| <b>Income</b>               |                     |                     |
| Sale of Electricity         | \$27,196,631        | \$26,383,454        |
| Interest Income             | 206,086             | 204,766             |
| Other                       | 1,361,514           | 1,297,969           |
| <b>TOTAL INCOME</b>         | <b>\$28,764,231</b> | <b>\$27,886,189</b> |
| <b>Expenses</b>             |                     |                     |
| Power Purchased             | \$16,801,277        | \$17,215,595        |
| Operations & Maintenance    | 3,200,741           | 3,030,246           |
| Member Acct. & Service      | 1,170,842           | 1,184,640           |
| Administrative & General    | 2,225,622           | 2,227,055           |
| Depreciation & Amortization | 2,029,606           | 1,931,403           |
| Taxes                       | 35,537              | 22,289              |
| Interest Expense            | 1,556,109           | 1,409,450           |
| <b>TOTAL EXPENSES</b>       | <b>\$27,019,734</b> | <b>\$27,020,678</b> |
| <b>NET MARGINS</b>          | <b>\$1,744,497</b>  | <b>\$865,511</b>    |

## BALANCE SHEET

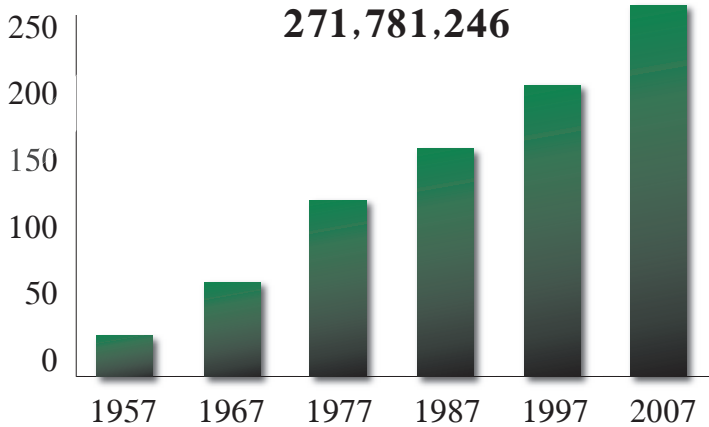
2007

2006

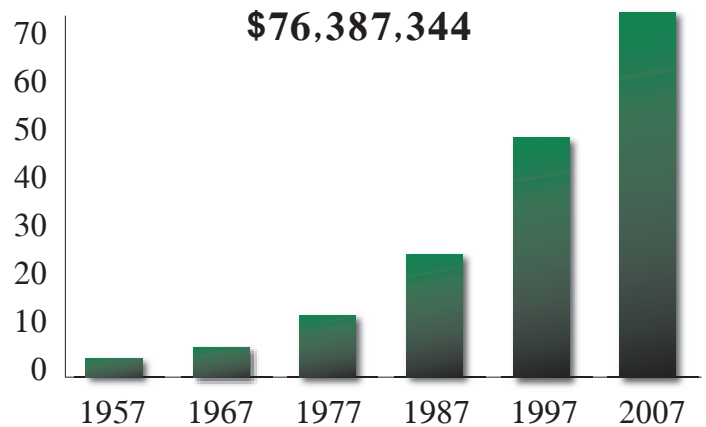
|   |                     |                     |
|---|---------------------|---------------------|
| <b>Assets</b>                           |                     |                     |
| Electric Plant (less depreciation)      | \$54,628,032        | \$51,845,164        |
| Investments                             | 6,866,225           | 6,873,354           |
| General Fund Cash & Working Capital     | 968,721             | 560,160             |
| Accounts Receivable                     | 707,054             | 517,883             |
| Materials & Supplies                    | 637,024             | 554,645             |
| Payments Made in Advance                | 88,921              | 90,129              |
| Other Current & Deferred Assets         | 1,962,157           | 2,008,892           |
| <b>TOTAL ASSETS</b>                     | <b>\$65,858,134</b> | <b>\$62,450,227</b> |
| <b>Equity</b>                           |                     |                     |
| Patronage Capital                       | \$24,987,617        | \$24,781,327        |
| Other Equities                          | 3,573,861           | 2,643,103           |
| <b>TOTAL EQUITIES</b>                   | <b>\$28,561,478</b> | <b>\$27,424,430</b> |
| <b>Liabilities</b>                      |                     |                     |
| Long-term Debt                          | \$30,031,327        | \$28,086,606        |
| Accounts Payable                        | 2,648,400           | 2,909,323           |
| Member Deposits                         | 373,222             | 356,588             |
| Other Current & Accrued Liabilities     | 3,416,885           | 3,109,837           |
| Deferred Credits (energy prepayments)   | 826,822             | 563,443             |
| <b>TOTAL LIABILITIES</b>                | <b>\$37,296,656</b> | <b>\$35,025,797</b> |
| <b>TOTAL EQUITIES &amp; LIABILITIES</b> | <b>\$65,858,134</b> | <b>\$62,450,227</b> |

# 07 FINANCIAL REPORT

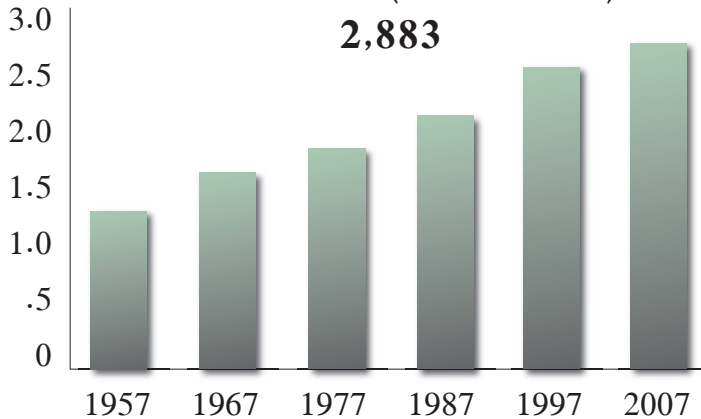
**Kilowatt-hours sold (in millions)**



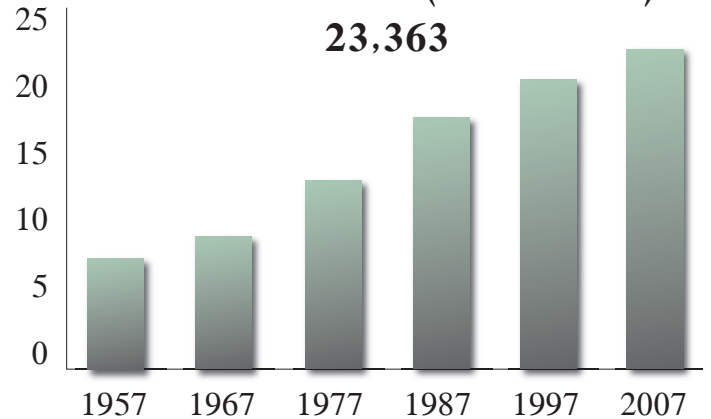
**Utility plant (in millions)**



**Miles of line (in thousands)**



**Accounts served (in thousands)**



## THE CO-OP DOLLAR

WHERE IT COMES FROM



WHERE IT GOES

