

Safe Reliable
Affordable

2016

Valley Rural Electric Cooperative, Inc.
Annual Report

Safe

Reliable

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The Cooperative Principles



Democratic Member Control
Member Economic Participation
Autonomy and Independence
Voluntary and Open Membership
Concern for Community
Continuing Education
Cooperation Among Cooperatives

Above: Bluebells are a welcome sign of spring in co-op territory.
Next page: Crews work to replace a pole near Cassville, Huntingdon County.



Co-op Mission Statement

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

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 - Brianna Sheeder
- Election Results
- Door Prizes
- Adjournment/Collection of Bill Credit Stubs

Entertainment Brianna Sheeder

Brianna Sheeder is a 23-year-old singer from Mount Union, Pa. She has been performing since the age of five at various venues throughout Pennsylvania and Maryland. From 2014 until 2016, she was a member of Chris Woodward and Shindiggin', a country band from central



Pennsylvania. When playing bass guitar and piano and singing with the band, she had the opportunity to open up for national artists such as Eli Young Band, Montgomery Gentry, Jason Michael Carroll, Frankie Ballard, Eric Paslay and more. She is currently working on a CD project to raise money for families who have had to deal with emotional and financial hardships due to cancer. With over 15 years of dedication to performing, Brianna loves to spread the joy that music brings to her and to anyone who is willing to listen.

Executive Report

Valley Rural Electric Cooperative was founded to meet the need of rural residents for central station electric service. As the co-op has grown, the needs of members have remained at the forefront. Valley has introduced a variety of programs and technologies over the years to improve service reliability and improve quality of life. These have ranged from promoting new electric appliances in the early days to making it possible to pay your bill using your smart phone today.

Now we are proud to announce the launch of a new enterprise for the co-op – Valley REC Energy Services (VRES). This new venture continues the co-op's tradition of understanding the needs of our consumers and offering a product or service to meet those needs. VRES will provide residential and farm-related electrical services. On many occasions, residents have asked our line crews for recommendations when they needed a quick turnaround on small electric repairs. Often there is a long wait to get local electricians out to these smaller jobs because larger projects take priority. Now we're offering our own team of skilled electricians to provide prompt service when you need a panel box wired, new service installed or other electrical upgrades.

VRES will also offer sales and installation of Bosch air-source heat pumps. Rated at the top of the industry, these units pull just one amp on start-up. When members opt for such energy-efficient appliances, the co-op benefits through greater load stability and consumers benefit through ultra-efficient heating and cooling technology.

Our VRES umbrella of energy service also includes sales and installation of Marathon water heaters and the sale of LED light bulbs. And we will continue to offer home energy audits and the sale of smart surge protectors, as we have done for years.

In addition to announcing this new bundle of products and services, we also have the privilege to report that you are part-owner of a financially sound utility. At the end of the calendar year 2016, co-op equity was at 43 percent of assets. As proof of our solid financial position, more than \$903,000 in patronage capital was returned last year to eligible members and former members of the co-op. Nearly \$24 million has been given back over the years and we plan to continue that course in the foreseeable future. In 2016 Valley's board of directors put in place a new capital credits management plan. Long-range planning for disbursement of capital credits allows the co-op to have a more stable cashflow while continuing to ensure that members get back a share of their patronage capital through a model that rewards both years of membership and kilowatt-hour use.

The co-op's largest outlay in 2016 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 69 percent of our energy. We have to purchase the other 31 percent, through Allegheny, on the open market. The price of the 31 percent can far exceed that of our own sources. This makes our demand response program more important than ever. If you already participate in this effort, 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.



JAMES R. STAUFFER
CHAIRMAN OF THE BOARD



JAMES R. STAUFFER
Chairman of the Board



RICHARD S. BAUER
President & CEO

Other than the purchase of power (52 percent of the 2016 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 2016 totaled \$3.8 million. Keeping trees trimmed along nearly 2,754 miles of line is our largest maintenance expense. Last year, we spent more than \$1.6 million to maintain 453 miles of rights-of-way. We adhere to a five-year rotation for vegetation management. This has proven to reduce costs associated with outage restoration.

Making improvements to our distribution system continues to be a priority. Last fall we completed construction of a new Reeds Gap substation in Juniata County. We also upgraded to three-phase the feeders from the Harrisonville substation in Fulton County. We completed replacement of aging primary underground service at the Claysburg industrial park in Blair County. And we are continuing conversion work at the Dell substation in Huntingdon County, to increase voltage from 7,200 to 14,400 volts. All this work has the same goal – improving reliability for members.

To continue to put the co-op in the best position to serve members, we are building a new facility to house the Martinsburg district offices and equipment. We have outgrown our building and have selected a new site about two miles from the current location. It's our hope that in next year's report we can tell you that our Martinsburg folks are settled into a new building that better serves them and you.

Valley continues to use technology to improve efficiency, in the field and in co-op offices. A few years ago we introduced iPads to our crews to replace paper service orders. As with any new technology, there was an initial learning curve, but our line workers and staking engineers are getting quite comfortable with having system data at their fingertips at job sites. Through our digital metering and outage management system, our operations staff now receives real-time outage information anytime, day or night. This information literally is power because it speeds outage restoration times.

In the midst of new technologies and services, new construction and system improvements, we haven't forgotten our co-op principle of commitment to community. Please take a moment to review the next page for some of the ways the co-op supports our communities while we continue to work more efficiently to meet the needs of more than 23,000 accounts. Our goal is to continue to provide reliable, efficient energy services to you, the members, and to improve the quality of life throughout the region. Thank you for attending Annual Meeting 2017.



RICHARD S. BAUER
PRESIDENT & CEO

Products, Programs and Services

Scholarships

Valley REC awards up to 15 \$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.



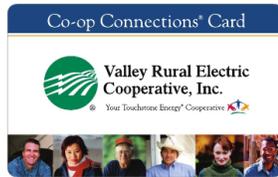
Education



Valley REC offers educational programs to students in school districts within the co-op's service territory. Presentations focus on electrical safety and energy efficiency as well as co-op careers.

Co-op Connections Card

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. The average discount for our members is 47 percent. Show the card and save the next time you're shopping. For a full list of participating businesses, visit www.valleyrec.com.



Smart Hub

Valley REC 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 bills 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 phone (using a credit/debit card or check) and at co-op offices.



Load 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

Valley REC Energy Services

Valley Rural Electric is proud to offer a range of energy solutions through Valley REC Energy Services. Have an electrical upgrade that needs done? We can help. We offer prompt service and quotes.



We also offer sales and installation of Bosch air-source heat pumps and Marathon water heaters. Bosch units draw just one amp on start-up, making them a great fit for your home and the co-op's load management program. Marathon is the last water heater you'll ever buy because it has a lifetime guarantee! We also offer home energy audits and sell LED light bulbs.

Community Service Grant Program

Valley Rural Electric Cooperative debuted its Community Service Grant Program at the 2015 annual meeting and has since awarded \$130,000 in funding. This initiative offers grants to co-op members experiencing financial hardship, to service organizations such as fire and ambulance companies and to educators who need support materials to teach blocks of instruction related to electricity or the cooperative business model.

Individuals or groups filling out applications will select one of three categories: energy assistance, education or civic/community programs. Grants of \$500 to \$1,000 are available.



The initiative is funded through unclaimed capital credits – margins that can't be returned to members and former members due to death or relocation.

Youth Tour



Each year, Valley REC sponsors local high school juniors and seniors on the national Rural Electric Youth Tour to 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 2016 event.

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 at right) work by temporarily cutting power to water heaters during periods of peak demand. Since the tanks are

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.

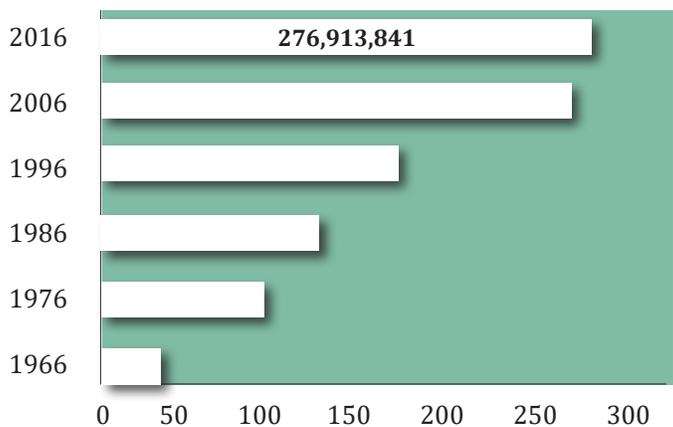


2016 Financial Report

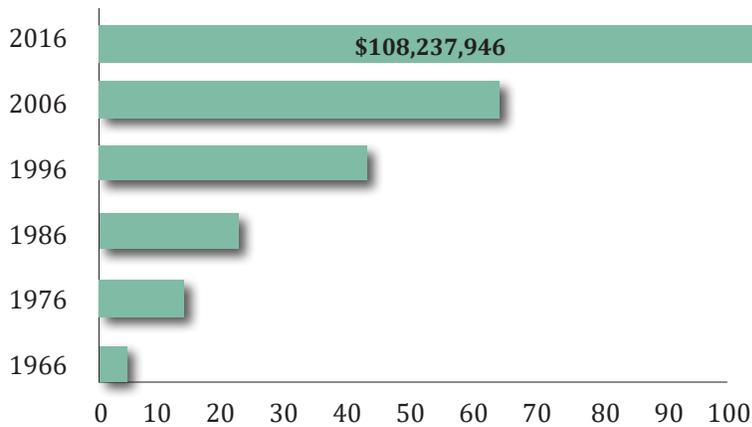
Statement of Operations		2016	2015
Income			
Operating Revenue		\$35,473,591	\$35,504,468
Interest Income		61,582	63,623
Other Non-operating Income		632,523	604,322
TOTAL INCOME		36,167,696	36,172,413
Expenses			
Cost of Power Purchased		18,854,068	18,794,896
Operations & Maintenance		4,825,067	4,633,687
Member Account & Service		1,249,876	1,293,845
Administrative & General		3,319,095	3,399,789
Depreciation & Amortization		3,746,523	3,702,556
Taxes		45,274	44,501
Interest Expense		1,951,566	1,909,390
TOTAL EXPENSES		33,991,469	33,778,664
NET MARGINS		\$2,176,227	\$2,393,749
Balance Sheet		2016	2015
Assets			
Electric Plant (less depreciation)		\$72,262,043	\$72,130,189
Investments		9,527,587	9,131,259
General Fund Cash & Working Capital		342,002	245,003
Accounts Receivable		3,514,328	3,360,563
Materials & Supplies		473,682	554,576
Payments Made in Advance		29,119	30,716
Other Current & Deferred Assets		3,909,015	4,165,186
TOTAL ASSETS		90,057,776	89,617,492
Equities			
Patronage Capital and Margins		30,097,969	30,287,488
Other Equities		9,204,871	7,111,678
TOTAL EQUITIES		\$39,302,840	\$37,399,166
Liabilities			
Long-Term Debt		42,553,738	43,821,227
Notes Payable		1,482,465	1,383,485
Accounts Payable		2,018,351	1,827,321
Member Deposit		379,000	345,621
Other Current & Accrued Liabilities		3,879,062	4,399,560
Deferred Credits and Regulatory Liabilities		442,320	441,112
TOTAL LIABILITIES		50,754,936	52,218,326
TOTAL EQUITIES & LIABILITIES		\$90,057,776	\$89,617,492

2016 Financial Report

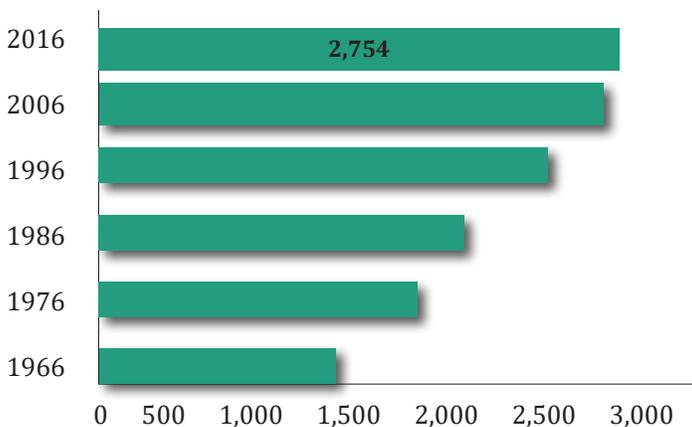
Kilowatt-hours Sold (in millions)



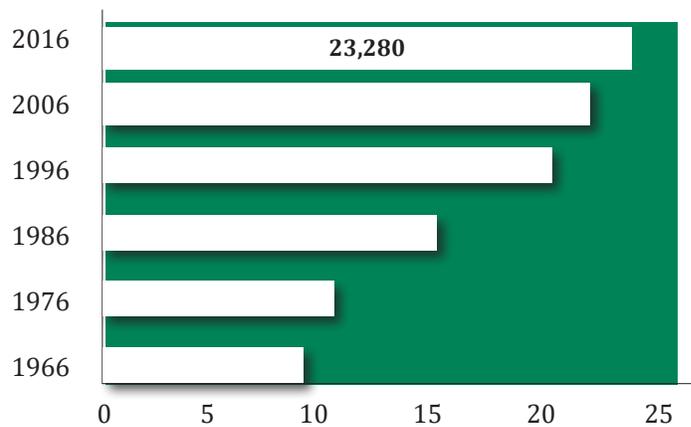
Utility Plant (in millions)



Miles of Line

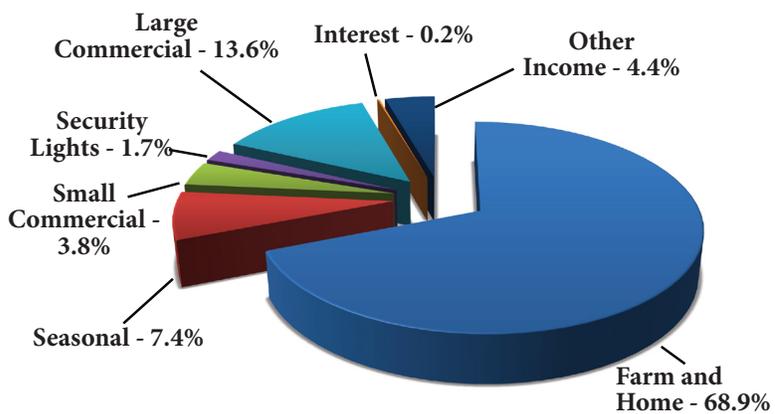


Accounts Served (in thousands)

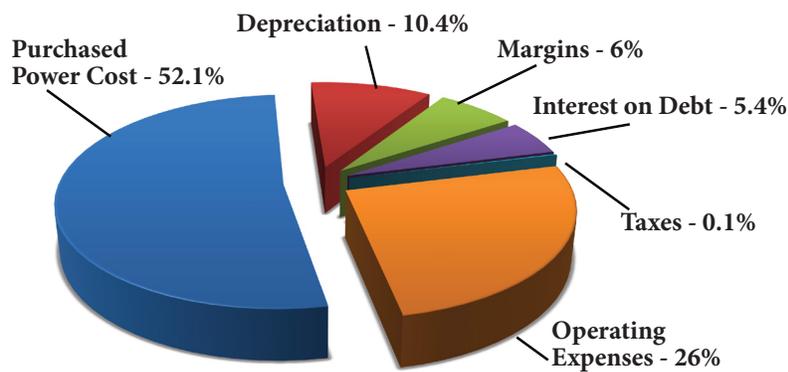


The Co-op Dollar

Where It Comes From



Where It Goes



2017 Board Candidates

DISTRICT 1

Randall (Randy) Huntsman
194 Fair Valley Road
Martinsburg, PA 16662

Randy works as an animal nutritionist with Renaissance Nutrition in Roaring Spring. Additionally, he is a crops manager with Kulp Family Dairy in Martinsburg and a bookkeeper for Hilecrest Farm, Tyrone.



A 1977 Central High School graduate, Randy and his family owned and operated a dairy farm, PA Fair Valley Farms, for more than 30 years. He also served on the North Woodbury Board of Township Supervisors for 24 years.

Randy has a wealth of co-op experience. He is a member of the following cooperatives: Land O'Lakes, Pennsylvania Farm Bureau, Select Sire Power, Ag Choice Farm Credit and Bedford Farm Bureau.

He has also served on various boards of directors, including the boards of Blair County Farm Bureau, Blair County Holstein Club and Professional Dairy Managers of Pennsylvania.

Randy and his wife, Karen, are members of Martinsburg Grace Brethren Church where he serves as an elder and a deacon.

In his free time, Randy enjoys touring the country on a Harley Davidson motorcycle, hunting and spending time with family. He and Karen are the parents of three grown children, two sons and a daughter.

Randy is 57 years old. He has been a Valley member since 2007 and has served on the Valley REC board since July 2016. He is running unopposed on the ballot for District 1.

DISTRICT 3

Kevin R. States
12817 Redstone Ridge Road
Hesston, PA 16647

A 55-year-old native of Hesston, Huntingdon County, Kevin States works on his family's 200-acre dairy farm with 60 milking cows and another 80 head of young stock. The operation utilizes the services of Land O' Lakes cooperative and Bedford Farm Bureau Co-op Association in addition to Valley Rural Electric.



Kevin is a 1979 graduate of Huntingdon Area High School. He is a member of the National Holstein Association and the Pennsylvania Farm Bureau. He was formerly involved with the Huntingdon County 4-H dairy and beef clubs and was a member of the Rural Electric Youth Tour delegation in 1978.

The States farm has received electric service from Valley REC since 1952; Kevin has been a member of the cooperative since 1982. He has served on the co-op's board of directors since 1999 and has held the position of vice chairman for the past two years. Additionally, Kevin held the office of secretary for 10 years. He has attained Gold Level director certification, the highest level of training for electric co-op directors.

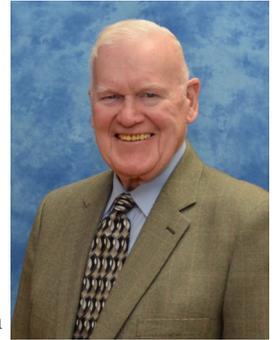
Kevin and his wife Sarah were married in 1996. Kevin has one son, one daughter, one stepson, three grandsons and two granddaughters. In his free time, he follows NASCAR racing.

Kevin is running unopposed on the ballot for District 3.

DISTRICT 5

Robert (Bob) Holmes
4684 Cold Springs Road
Huntingdon, PA 16652

Bob Holmes was principal at Huntingdon Area High School for 19 years and was assistant principal for five years prior. From 1997 through 1999, he served as acting superintendent for the Southern Huntingdon and Huntingdon Area School Districts.



A graduate of Turtle Creek High School, Bob obtained bachelor's and master's degrees in education from Bucknell University. He also earned 40 graduate credits in educational administration at Penn State. During his tenure in the U.S. Army Reserves, Bob attained the rank of captain.

Bob is an active member of Community Chapel of Hesston. He is a past president of the Huntingdon County chapter of the Pennsylvania Association of School Retirees.

Bob is 81 years old. He and his late wife, Barbara, were married for 57 years. They had four children, seven grandchildren and four great-grandchildren.

Bob has been a Valley member since 1969. He has served on the co-op board for seven terms and held the office of secretary for one year. He represented Valley REC on the board of Allegheny Electric Cooperative for 13 years.

Bob is running unopposed on the ballot for District 5.

2016 Annual Meeting Minutes

The Annual Meeting of the members of Valley Rural Electric Cooperative, Inc. was held in the auditorium of Huntingdon Area High School in Huntingdon, Pa. on April 8, 2016.

The business meeting was called to order at 7 p.m. by James R. Stauffer, chairman of the board of directors. Kate Thurston-Griswold, a member of the Huntingdon Area High School Choral Club, sang the National Anthem and led the audience in the Pledge of Allegiance. Director Robert Holmes offered the invocation.

The secretary reported that 497 voting members were present and that said members present in person constitute a quorum of the members of the cooperative.

Kim Kane, executive secretary to the president and CEO, was appointed 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 Rich Irvin and Judy Ward; Huntingdon County Commissioners Scott Walls 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 10, 2015 and to accept the minutes as printed in the 2015 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 2015 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 7, Gregory Henry; District 8, Linda McMath and Harry O'Donnell; and District 9, Cindy Bigelow.

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

Chairman Stauffer informed members that the co-op continues to invest in equipment, training and technology to reduce the average

amount of time members go without power each year. He reported that the co-op has purchased two bucket trucks in the past year and plans to purchase another in the coming year. Each vehicle comes with a price tag of more than \$200,000. Stauffer also reported that Valley REC spent nearly \$2 million for tree trimming in 2015 as part of an aggressive five-year vegetation management cycle.

Chairman Stauffer also stated that it takes a lot of planning and, sometimes, some large capital outlays to meet the co-op's mission of providing safe, reliable electric service at the best possible price. The best tool we have for providing great service is our employees – local residents who know the area and work from offices located within our communities.

Stauffer said the co-op's board is committed to maintaining district offices in Huntingdon, Martinsburg and Shade Gap. He said the co-op is outgrowing its Martinsburg district office and will explore options including renovating the building and moving to another location in that area.

During his presentation, President Bauer reported that the co-op has nearly completed construction of a new substation in Reeds Gap, Juniata County that replaces the existing substation. He said the work is part of a larger project to increase voltage in electric lines in the area to increase reliability.

President Bauer also reported Valley REC's Community Service Grant Program has distributed nearly \$81,000 to civic and community groups and to members struggling with their electric bills since the launch of the program at the 2015 annual meeting. The program makes grants available in three categories: energy assistance, education and civic/community programs. Grants of \$500 to \$1,000 are available.

The program offers funds to members experiencing financial hardship, to service organizations, such as fire and ambulance companies, and to educators who need support materials to teach blocks of instruction related to electricity or the cooperative business model. The initiative is funded through unclaimed capital credits – margins from the not-for-profit business that can't be returned to members and former members due to death or relocation. Applications are available at all co-op locations or on the co-op's website, www.valleyrec.com

President Bauer also 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 the co-op pays for 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. More than 4,300 co-op members participate in the program. Participating in the demand response program is the single biggest thing members can do to help stabilize the co-op's wholesale power bill.

Mount Union Area High School senior Heidi Bliss talked about her participation in the 2015 Rural Electric Youth Tour to Washington D.C. and asked qualifying students to consider taking part in the visit to the nation's capital. Each year Valley REC sponsors up to 18 students on the week-long trip that enables them 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 2019 Annual Meeting: District 7, Gregory Henry; District 8, Linda McMath; and District 9, Cindy Bigelow.

Chairman Stauffer introduced the evening's entertainment, authors and recording artists Steve and Annie Chapman. The Chapmans have written numerous inspirational songs and books. They have performed at more than 2,500 churches across the country and have appeared on radio and TV broadcasts including Focus on the Family and The 700 Club. They have been traveling and performing as a duet since 1980. In addition to their concert appearances, they are frequent speakers at marriage seminars. The Dove Award winning musicians reside near Nashville, Tenn.

There was no old or new business to be discussed.

Four members – Kelly Ewing, Randall Carper, Robert & Debra Miller and Elmer & Hannah Yoder – each won a \$75 co-op gift certificate and William & Deborah Hoover received a \$250 co-op gift certificate. Members in attendance received a \$15 credit on their electric bills and a 25 ft. extension cord.

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

Valley Rural Electric Cooperative, Huntingdon, was set in motion by a group of determined farmers around Martinsburg in southeastern Blair County. The cooperative was incorporated in 1938 and received its first loan in March, 1939. Under the first manager, Floyd Bush, the first 250 miles of line were built and one substation at Williamsburg was constructed. Lines were first energized on November 17, 1939.

Cooperative Directors & Employees



Corporate Office

John Bookwalter Jr.
 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
 Adam Atherton
 Billy Ayers
 Justin Berrier
 Randy Boonie
 Kevin Detwiler
 Matthew Fagan
 John Fogelsonger
 Steve Gutshall
 Eric Henchey
 Mike Lansberry
 Craig Morrison
 Chris Myers
 Gina Norris
 Alicia Stoner
 Richard Sunderland
 Brook Thompson
 Curt White
 Eric Yingling

Shade Gap District

Logan Booher
 Mark Booher
 Nancy Bucher
 Wilmer Bucher Jr.
 Boyd Gelvin
 Josh Gutshall
 Patrick Lightner
 Tricia Long
 Tyi McCartney
 Jonathan Shields
 Ken Sipes
 Mike Williams
 Jason Wilson



Directors

James Stauffer
Chairman
Allegheny Director

Kevin States
Vice Chairman

Cindy Bigelow
Secretary

Robert Holmes
Treasurer

Leroy Barnes
PREA Director

Joanne Whitsel

Randall Huntsman

Linda McMath

Greg Henry

Rich Bauer
President & CEO

Martinsburg District

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



I AM THE CO-OP



The information we get from our Touchstone Energy cooperative about efficiency, safety and technology gives us the power to make informed decisions.

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Cooperatives



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Corporate Office

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Huntingdon District

10787 Station Road
Huntingdon, PA 16652

Martinsburg District

721 W. Allegheny Street
Martinsburg, PA 16662

Shade Gap District

22140 Croghan Pike
Shade Gap, PA 17255

Learn how to save energy at www.valleyrec.com