WE EXIST TO SERVE OUR MEMBERS

SHENANDOAH VALLEY ELECTRIC COOPERATIVE

2012 Annual Report

SVEC MISSION STATEMENT

“We exist to serve our members”

We will provide reliable and safe electric service at the lowest possible cost within our service area, consistent with sound management and Cooperative principles.

We will continually evaluate our members’ needs and work to exceed their expectations, pursuing opportunities that will benefit our members.

SVEC CORE VALUES

As an organization we hold the following core values to be important in the way we do business. These values include: Commitment to Consumers and Employees, Integrity, High Work Ethic, Honesty, Trust and Respect.

BOARD OF DIRECTORS

Augusta County

JOYCE R. CRAUN
Director since 2001

LARRY C. HOWDYSHELL
Vice Chairman
Director since 1992

Augusta/Highland counties

CHARLES H. HUFFMAN
Secretary/Treasurer
Director since 2005

Frederick/Clarke counties

RICHARD C. SHICKLE
Director since 2011

Page County

GARLAND H. GIBBS
Director since 2011

Rockingham County

STEPHEN W. BURKHOLDER
Chairman
Director since 1992

LARRY E. GARBER
Director since 1994

GERALD A. HEATWOLE
Director since 1990

Shenandoah/Warren counties

FRED C. GARBER
Director since 1984

Shenandoah/Page/Warren counties

JAMES E. ZERKEL II
Director since 1996

City of Winchester

ROBBIE F. MARCHANT
Director since 2011

TO OUR MEMBER/OWNERS

Despite challenges presented by the year 2012, including a Derecho and a hurricane, Shenandoah Valley Electric Cooperative (SVEC) again presented members with the enduring constant of a promise to always provide reliable and safe electric service at the lowest possible cost by adhering to sound cooperative principles.

All members, including those welcomed into the Cooperative family in June of 2010, received one of the benefits of being a SVEC member: Capital Credits. Capital Credits are one of the things that make the cooperative way of business different. Members of Shenandoah Valley Electric Cooperative contribute equity based on their patronage for electrical energy consumption through the year, which allows us to meet our financial obligations: this equity contribution is allocated to each member and contained in their Capital Credit account.

L-R: MYRON D. RUMMEL and STEPHEN W. BURKHOLDER
SVEC President & CEO and Chairman of the Board

Once all financial obligations are met, you may receive Capital Credits, retirement and payment based upon Capital Credit account balances. Receiving Capital Credits is one thing that sets the cooperative business model apart from an investor-owned utility. From the time you become an SVEC member, you are a part of the Cooperative, and receive benefits as such.

For 2012, SVEC had margins of more than $15 million. We were able to return more than $4.13 million in Capital Credits to our members. This, added to prior-year retirements, totals more than $52.3 million that SVEC has returned to members since we started returning Capital Credits in 1960.

From one of the very positive aspects of 2012, we must transition to one of the more challenging storms SVEC ever experienced. On the night of Friday, June 29, a Derecho came through the area. Most people, prior to that June night, might have said, 'a what!?' before experiencing the storm — and pronunciation was debatable — but the damage caused by the storm was not. However you said it, or how it was described, the destruction caused by the storm was substantial. This Derecho — the Spanish word for straight — brought a widespread, long-lived windstorm accompanied by rapidly moving showers and thunderstorms. All eight counties of SVEC's service area were affected, from the northern reaches to the southern tips.

When the storm had passed, SVEC team members knew it was an "all-hands-on-deck" scenario. Our service area had experienced significant damage — the winds had wreaked havoc with trees and power lines. At one point, more than 44,590 members were without power, or about 48 percent of SVEC's total accounts. Needless to say, this was a challenge unlike any other our Cooperative has ever faced.

Crews headed out in difficult conditions to restore power to you and your families as quickly and safely as possible. The Cooperative knows that you want your power restored quickly following an event, and we do everything possible to make sure it happens. SVEC also knows that you depend on us to have your lights on every day as your electric supplier, and we take our responsibility to you seriously. Another way we worked to restore power as quickly as possible was to bring in additional resources, and as part of the cooperative way (the seventh cooperative principle, "Cooperation Among Cooperatives") crews came in from 15 sister cooperatives to assist in restoration efforts after the Derecho. In total, SVEC had about 440 men and women working to restore electric service after the storm.

Though a challenge, Shenandoah Valley Electric Cooperative saw this unprecedented scenario as an opportunity. An opportunity to *show* you, our members, what we mean when we constantly say, year in and year out: "We Exist to Serve Our Members." The Cooperative prides itself in bringing you, your families, and businesses reliable and safe electric service — this is part of our pledge to you — no matter what Mother Nature may have in store, including a repeat of strange fall weather.

Following the October 2011 snowstorm, October 2012 brought Hurricane Sandy, which included heavy rains, strong winds, and even some blizzard conditions within the SVEC service territory. Sandy was a big storm, and its effects were far-reaching. Parts of the SVEC service territory experienced widespread outages as a result of the storm's visit to the Valley. After it rolled through, over 22,000 consumers were affected.

As with the Derecho, Cooperative team members knew a tough task was at hand. Our Cooperative was started as a result of neighbors pulling together toward a common goal of electric service in their rural areas, and that concept of working together continues today at your Cooperative. SVEC is made up of men and women who are dedicated to their roles of bringing electric service to you. The wind may have been strong, the conditions sloppy, and the snow deep in some areas, but our team did not quit until all of the lights were back on.

Providing reliable and safe electric service is the mission of Shenandoah Valley Electric Cooperative, and helping others is part of the cooperative way, so when Hurricane Sandy struck the East Coast, SVEC team members welcomed the opportunity to assist with power restoration. When it became clear that the Shenandoah Valley Electric Cooperative service area affected by the storm had full restoration, 13 SVEC crew members traveled to Maryland and New Jersey to help not only other cooperatives, but investor-owned utilities as well.

Whether working in adverse conditions after extreme weather events, or during normal work conditions, working safely is one of the most important things to us at SVEC, and 2012 was a successful year from the safety perspective. The commitment of all employees and the Board of Directors to safe work practices resulted in ending 2012 with a total of 183,527 hours since the Cooperative's last lost-time accident on July 12, 2012.

This thought brings us to the always-enduring constant of Shenandoah Valley Electric Cooperative's dedication to you, our members. These sometimes-harsh weather conditions may challenge the mettle of your Cooperative, but the commitment of our team members remains steadfast to keep your lights on, and when unexpected events do occur, restore power to you as expediently and safely as possible.

We are honored to be of service to you, your families, your businesses, and your communities, and would like to thank *you* for your support and patience when Derechos blow through the Valley, or Hurricanes like Sandy decide to visit!

Stephen W. Burkholder

Stephen W. Burkholder
Chairman of the Board

Myron D. Rummel

Myron D. Rummel
President & CEO

SELECTED FINANCIAL DATA AND FIVE-YEAR GROWTH COMPARISON

	2012	2011	2010	2009	2008
Total Utility Plant	$431,864,702	$406,825,300	$404,205,175	$180,903,318	$172,582,757
Total Revenue	$213,325,105	$216,482,589	$163,671,786	$91,378,936	$91,451,187
Cost of Purchased Power	$148,680,768	$154,789,464	$122,685,674	$66,645,615	$66,219,894
Total Margins	$15,244,568	$18,087,516	$10,626,930	$8,231,661	$4,034,946
Equity Ratio (Equity/Total Assets)	28.87%	24.53%	21.15%	44.78%	43.56%
Interest on Long-Term Debt	$11,300,154	$7,607,233	$4,671,849	$4,389,342	$4,108,047
Interest Coverage (TIER)	2.35	3.38	3.29	2.87	1.98
Service Interruptions (average hours)	29.7	10.3	5.68	3.23	5.28
Full-time Employees	203	199	188	120	118
Services in Place	92,001	89,699	92,294	39,312	39,102
Total Miles of Line	7,509	7,445	7,966	5,256	5,222
kWh Sold	2,273,838,235	2,336,745,802	1,779,068,114	832,641,917	840,222,015
Load Management Savings	$1,741,207	$1,778,912	$1,744,936	$1,443,100	$1,412,783
Capital Credits Retired	$4,137,576	$2,028,743	$1,936,456	$2,433,163	$5,117,728

No matter what challenges we face, Shenandoah Valley Electric Cooperative (SVEC) will always strive to bring you, our members, reliable and safe electric service at the lowest possible cost. The year 2012 was a great test, and turned into a testament of our dedication to you, when the Cooperative was faced with events such as the Derecho in late June, and then Hurricane Sandy, which rolled through the area in October. These two events were major challenges for the year, but SVEC works every day to improve efficiency, utilizes the latest technologies, maintains lines and rights of way, and contributes to the communities in which it serves.

This section of the Annual Report shares information from each department of Shenandoah Valley Electric Cooperative, as we continue to utilize what we have learned to make our organization stronger and more efficient for years to come. Highlights from 2012 include information from the engineering, technological, financial, and consumer service areas of the Cooperative.

Maintenance Update

Keeping rights of way clear of trees, brush, and other debris is an important part of bringing you reliable electric service. In 2012, these vegetation-management efforts continued across the Cooperative's service area, utilizing mechanized and manual ground crews, an aerial saw, and herbicides to manage rights of way beneath and around power lines. More than 1,140 miles of right of way were maintained in 2012.

Maintenance of distribution poles on the SVEC system resulted in crews visiting and inspecting 7,960 poles during 2012. Plans for corrective action were identified, prioritized, and initiated to address deficiencies. Other maintenance activities included the aerial patrol of sub-transmission lines, as well as ground patrols of distribution circuits.

Once again, as in 2011, extreme weather events occurred in 2012. The Derecho, and the hurricane, caused major outages for the Cooperative, and resulted in 29.81 as the average outage hours per member, up from 10.31 in 2011.

Operational Improvements

In 2012, SVEC system engineers completed a comprehensive projection of system improvements required across the Cooperative distribution system. This work plan includes significant distribution line improvements and substation upgrades.

The Cooperative broke ground on a new central warehouse and technical services facility. The facility will provide bulk material for the five district offices, and will serve as a centralized testing and shop facility for substation, controls, and meter equipment.

Technological Advances

The Cooperative continued to expand its automated metering infrastructure (AMI), and completed the rollout of automated metering to all but 100 meters across the Cooperative's service area by the end of 2012. The use of automated meters, which are part of the AMI, allow for greater billing accuracy and operational efficiency.

Major substation upgrades were completed that include the installation of substation AMI, supervisory control and data acquisition (SCADA), vacuum circuit reclosers and controls within Page and Carvel Road substations in Page County, Greenwood and Stephenson substations in Frederick County, and Zepp substation in Shenandoah County.

SVEC staff visited all facilities serving underground developments in the counties of Augusta, Rockingham, and Shenandoah during 2012. While at each location, Global Positioning System (GPS) coordinates were obtained. In addition, GPS coordinates were obtained at all structures located within the counties of Page, Warren, Frederick, Clarke, and the city of Winchester. The GPS coordinates for the 80,000 structures visited during 2012 are being incorporated into the Cooperative's mapping system to enhance map accuracy, and provide driving directions for Cooperative employees who need to travel to specific locations on the system.

The Cooperative also completed its first large-scale lighting pilot program, a light-emitting diode (LED) project, which will provide information about the feasibility of these types of lights in the future. This program included installation of a 110-unit street lighting project within the city of Winchester.

System Upgrades

Major substation rebuilds were completed at the Cooperative's Hayfield substation in Frederick County, and North Winchester substation in the city of Winchester. Power transformer replacement and upgrades were completed at Woodstock substation in Shenandoah County, and a new power transformer bay was installed to double the capacity of Barterbrook substation in Augusta County. In addition, the Cooperative completed design and construction for 53 miles of the electric distribution system during 2012.

Safety

Shenandoah Valley Electric Cooperative employees make sure they are working in the safest manner possible, always putting safety first. They are able to achieve this goal by combining the proper training and techniques with diligence and concern for their fellow employees and the public, to complete their tasks as efficiently and safely as possible. The Cooperative ended 2012 with 183,527 hours hours since the Cooperative's last lost-time accident on July 12, 2012.

Margins and Capital Credits

Margins are the amount of dollars that remain, after all proper expenses are deducted from revenues, for a given year. Capital Credits are then assigned, or allocated, to members based on their patronage. Members receive a notice of this allocation each year.

Once all financial obligations are met and the Board of Directors determines that a retirement of Capital Credits may be made, members receive their share of the retirement as credits on their bills for current consumers or in the form of checks for former SVEC members. Receiving Capital Credits is part of the cooperative advantage.

In 2012, SVEC recorded margins of more than $15 million. In 2012, $4.13 million was retired as credits or cash returns to members. Since 1960, the total amount retired by SVEC, and returned to members, is more than $52.3 million.

Efficiency

Load Management is one of the primary ways Shenandoah Valley Electric Cooperative incorporates technologies to improve efficiencies that benefit our members and the environment. SVEC has worked to implement a campaign to acquire permission for installation of Load Management control devices in the acquired area, in order to increase the number of participants in the program.

When members sign up for the Load Management program and a switch is installed on their water heater, they will receive a free water heater inspection and water heater blanket to install to help keep their water hot and conserve more energy. SVEC has a robust load management system that included 9,474 water heater control switches at the end of 2012. This number includes over 1,500 additional units installed during the calendar year. Water heater control switches contributed $1,061,889 toward a total load control program savings of $1,603,466 during 2012.

The Cooperative also continues to distribute compact fluorescent light bulbs (CFLs) and CFL coupons. Additionally, the Cooperative offers Energy Saver Guides at all of its district offices, and energy-saving tips on its website, www.svec.coop.

Consumer Services and Billing

At Shenandoah Valley Electric Cooperative, we strive to provide consumer education relative to energy use, billing, conservation, and other programs and offerings of the Cooperative. We also work to provide prompt responses to consumer inquiries, while meeting the increased work load and filing all required regulatory reports in a timely manner.

Cooperative consumer service representatives also answered an average of 10,705 business-related calls per month. The average speed of answer was one minute and 13 seconds.

One of the services offered by SVEC is the energy-assistance program. The Cooperative has continued efforts to expand the acceptance and implementation of pledges and payments, along with other assistance procedures for assisting consumers to meet payment obligations.

In 2012, the Cooperative continued billing improvements to enhance the accuracy of metering, billing, and reporting. The Cooperative also updated software that handles financial, accounting, and consumer records, in efforts to improve efficiency.

The Cooperative took additional steps to save money through re-financing of approximately $10 million in existing Rural Utilities Service (RUS) long-term debt, which resulted in lower-interest costs through National Rural Utilities Cooperative Finance Corporation (NRUCFC) debt, after receiving approval from the State Corporation Commission (SCC) to do so.

Community Service

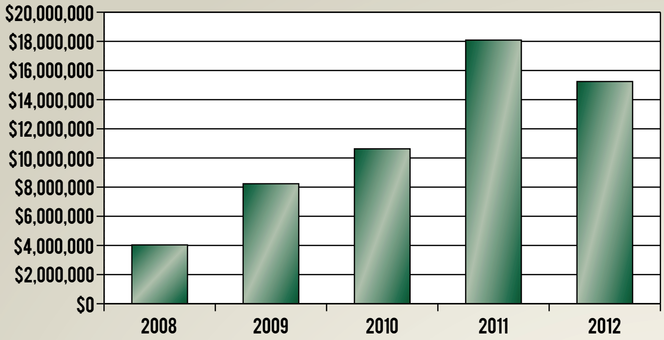
The Cooperative works to bring its members reliable and safe electric service, and SVEC also believes in giving back to the community. In 2012, SVEC held three blood drives, in addition to participating in many community events throughout the service area, including the United Way campaign, donations for the American Cancer Society, safety demonstrations at various schools and groups, and reality town events at schools. The Cooperative also supports youth through 4-H and FFA activities, county fair participation, local sports, and church activities. SVEC also awarded ten $1,000 scholarships to deserving area high school seniors in 2012.

We Exist to Serve our Members, and appreciate the opportunity to be of service to you and your families!

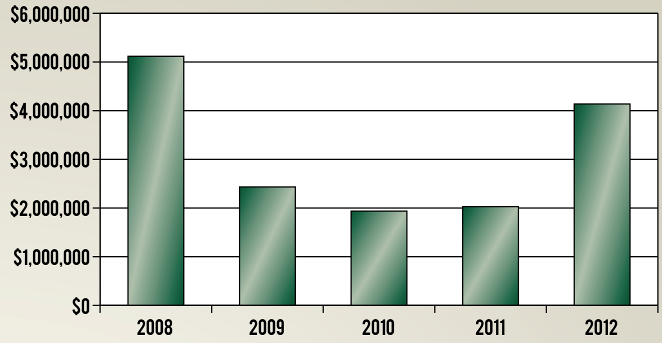
WE EXIST TO SERVE OUR MEMBERS

CHARTS AND GRAPHS

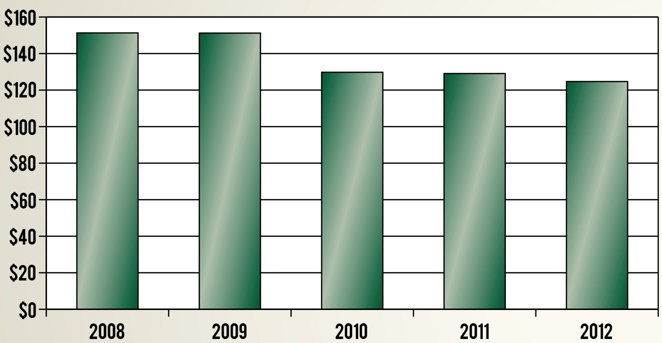
Total Margins



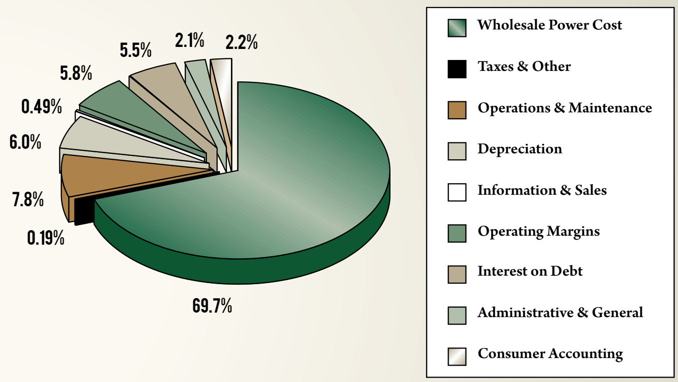
Capital Credits Returned



Average Monthly Residential Bill
(dollars)



How Your Dollar Was Spent



SENIOR MANAGEMENT

JOHN A. COFFEY
Vice President
Engineering & Operations

WAYNE HANNAH JR.
Vice President
Information Technology

ALLEN R. RITCHIE
Vice President
Finance & Administration

VIVIAN M. MICHAEL
Manager of
Corporate Services & HR

J. MICHAEL AULGUR
Manager of
External Affairs

SVEC FULL-TIME AND PART-TIME EMPLOYEES

As of April 15, 2013

Mike Alexander
Kevin Alger
Jeremy Ambler
Rocky Anthony
Connie Arey
Brian Argenbright
Jason Armentrout
Sam Armentrout
Jared Armstrong
Lance Armstrong
Mike Aulgur
Scott Austin
Terry Baker
Laurie Baltimore
Bryan Beavers
Nathan Berry
Don Biller
Josh Blackburn
Craig Bockey
Heidi Bodanske
Brian Bogolin
Jennifer Bolinger
Faye Bottenfield
Scott Boyd
Heather Bradfield
Kevin Brewster
Carrie Brumfield
Sheila Buckley
Jason Burch
Todd Butcher
Kyle Bywaters
Fay Campbell
Julie Campbell
Ben Cash
Sherri Christian
Tim Cleveland
James Clifton
Temple Combs-Wilkes
Randy Couch
John Coffey
Doug Colvin
Myron Conner
Donald Coyner
Curtis Craig
Kayla Creasey
Jonathan Cromer
Teri Crorken
Ron Crowe
James Cubbage
Julie Custer
Jeff Damron
Barbara Davis
Tina Davis
Tony Dean
Jeff Deaver
Allen Desper

Shannon Detamore
Katie DeWarf
Dale Dove
Joel Dove
Laura Drummond
Matt Durbin
Ed Eudy
Reda Eye
Terry Eye
Amanda Fadley
Mark Feltner
LeAnna Fifer
Gloria Frazier
Barbara Frye
Taylor Fulk
Jeff Fuss
Sonia Getic
Eddie Giles
Randy Glick
Leigh Glovier
Jennifer Goff
Blair Good
Joshua Good
Kevin Good
Delmas Gordon
Kenny Grandstaff
June Grove
Gary Halterman
Lisa Halterman
Dennis Hamrick
John Hanger, II
Wayne Hannah
Renea Harlow
Jeffrey Harmon
Wayne Harold
Daniel Hawkins
Brian Hazelwood
Andrew Hedrick
Josh Hedrick
Virgil Hedrick
Mike Hepner
Kevin Hill
Richard Hill
Lisa Hirsh
Carl Holyfield
Holly Housden
Kim Huffman
Kathy Hulvey
Felicia Jack
Tracy Johnson
Dirk Junkins
Jim Keeley
Alice Kenney
Bradley Kochel
Danny LaClair
Cynthia Laing

Amanda Lam
Donnie Lang
Kenny Layman
Michael Lee
Mary Ann Lees
Sam Lilly
Will Link
Sathena Liskey
BriAnna Litten
Curtis Lockridge
Brandon Long
Bruce Mabe
Tammy Marion
Deanna Marrah
Kent May
Terry Mayes
Billy McAlister
Tom McCampbell
Gina McCarty
Mike McCune
Ray McGill
Michele McGinnis
Brian McGovern
Ben McInturff
John Medved
Jim Messick
Vivian Michael
Max Miller
Richard Miller
Tara Miller
Tim Miller
Jeff Mongold
Scott Morris
Joe Moskal
Alan Moyers
Tracy Mullins
Brian Murphy
Linda Murtadha
Brenda Muterspaugh
Brent Neff
Joe Nelson
Roger Nichols
Roger Pace
Chris Pellerin
William Perry
Dennis Pierce
Debbie Presgraves
Jesse Proffitt
Wade Ramey
Dan Ramsey
Steve Rannells
Beth Ray
Eddie Reed
Bill Rees
Dan Rhodes
Linda Rhodes

Brittany Ricketts
Allen Ritchie
Sam Robinson
Greg Rogers
Josh Romick
Jerry Ruckman
Lee Ruffner
Myron Rummel
Bryan Runkles
Wes Rusmisel
Josiah Sargent
Jason Scheermesser
Jill Seal
Justin Sherman
Ron Shickel
Barry Shifflett
Scott Shingleton
Stacy Shipe
Roger Shoemaker
Glen Shomo
Jerry Showalter
Sam Showalter
C. A. Shuler
Allen Shull
Kyle Simmons
Teresa Simmons
Jon Sisler
Anne Smallwood
Sherry Smith
Scott Sorrels
Chris Strecky
Phillip Strickler
Sarah Surface
Jon Swartz
Brenda Swink
Nancy Swisher
Don Switzer
Mike Taylor
Brent Tayman
Jeff Troxell
Charlie Tusing
Cammie Tutwiler
Deborah Van Cott
Doug VanSant
Les Webster
Dorothy Weaver
Ron Whetzel
William Whetzel
Tim Whitcomb
Pat Wilcher
Bev Wilharm
Danny Williams
Jeremy Wisman
Doug Wood
Ginger Zollman

INDEPENDENT AUDITORS' REPORT

ADAMS, JENKINS AND CHEATHAM
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS

The Board of Directors
Shenandoah Valley Electric Cooperative
Mt. Crawford, Virginia

We have audited the accompanying financial statements of Shenandoah Valley Electric Cooperative which comprise the balance sheets as of December 31, 2012 and 2011 and the related statements of operations, equities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
The Cooperative's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shenandoah Valley Electric Cooperative as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Regulatory Requirements
In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2013, on our consideration of Shenandoah Valley Electric Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

Adams, Jenkins & Cheatham

Richmond, Virginia
February 8, 2013

FINANCIAL STATEMENTS

Balance Sheets
Shenandoah Valley Electric Cooperative

	December 31, 2012	December 31, 2011
Assets		
Electric plant		
Electric plant	$ 431,864,702	$ 406,825,300
Less accumulated provision for depreciation	149,410,665	142,176,316
	282,454,037	264,648,984
Other property and investments		
Investments in associated organizations	41,751,201	39,769,180
Other investments	401,003	357,331
	42,152,204	40,126,511
Current assets		
Cash and cash equivalents	15,971,918	57,505,269
Accounts receivable, net	18,425,664	15,060,382
Materials and supplies	10,107,985	13,010,090
Accrued unbilled revenue	8,961,847	9,079,755
Other current assets	264,611	406,937
	53,732,025	95,062,433
Deferred charges	10,121,948	11,323,883
	$ 388,460,214	$ 411,161,811
Equities and Liabilities		
Equities		
Patronage capital	$ 101,306,485	$ 90,638,295
Other equities	10,459,355	9,815,821
Memberships	374,150	390,985
	112,139,990	100,845,101
Current liabilities		
Accounts payable	16,945,158	22,097,770
Consumer deposits	5,726,736	5,397,714
Current maturities of long-term debt	6,201,000	3,617,000
Other current and accrued liabilities	1,845,606	2,271,782
	30,718,500	33,384,266
Long-term debt	241,000,741	247,844,549
Deferred credits	4,600,983	4,087,895
Bridge financing note payable		25,000,000
	$ 388,460,214	$ 411,161,811

See Notes to Financial Statements

Statements of Operations
Shenandoah Valley Electric Cooperative

	Year Ended December 31, 2012	2011
Operating revenues	$ 213,325,105	$ 216,482,589
Operating expenses		
Cost of power	148,680,768	154,789,464
Transmission	73,813	52,501
Distribution – operation	6,757,203	6,015,688
Distribution – maintenance	10,059,611	10,243,263
Consumer accounts	4,760,996	5,834,364
Customer service and informational	808,116	744,203
Sales expense	256,073	256,666
Administrative and general	4,514,187	4,112,634
Depreciation and amortization	12,930,194	12,109,369
Taxes	309,160	306,105
Interest on long-term debt	11,300,154	7,607,233
Other	358,179	2,695,208
	200,808,454	204,766,698
Operating Margins Before Patronage Allocations	12,516,651	11,715,891
Patronage allocations		
Generation and transmission	1,844,322	2,008,684
Other	333,301	407,820
	2,177,623	2,416,504
Net Operating Margins	14,694,274	14,132,395
Nonoperating income		
Gain on sale of assets	471,882	3,083,588
Investment income, net	78,412	793,638
Other	78,412	77,895
	550,294	3,955,121
Net Margins	$ 15,244,568	$ 18,087,516

Statements of Equities
Shenandoah Valley Electric Cooperative
Years Ended December 31, 2012 and 2011

	Patronage Capital	Other Equities	Memberships	Total
Balance, December 31, 2010	$ 78,534,642	$ 5,782,665	$ 387,990	$ 84,705,297
Net margins	14,132,395	3,955,121		18,087,516
Retirement of capital credits	(2,028,742)			(2,028,742)
Net change in donated capital		78,035		78,035
Net change in memberships			2,995	2,995
Balance, December 31, 2011	90,638,295	9,815,821	390,985	100,845,101
Net margins	14,694,274	550,294		15,244,568
Retirement of capital credits	(4,026,084)			(4,026,084)
Net change in donated capital		93,240		93,240
Net change in memberships			(16,835)	(16,835)
Balance, December 31, 2012	$101,306,485	$ 10,459,355	$ 374,150	$ 112,139,990

See Notes to Financial Statements

Statements of Cash Flows
Shenandoah Valley Electric Cooperative

	Year Ended December 31, 2012	2011
Cash Flows from Operating Activities		
Cash received from members	$ 209,089,279	$ 223,872,457
Cash paid to suppliers and employees	(181,798,715)	(187,673,352)
Interest received	471,882	793,638
Interest paid	(11,670,894)	(10,314,318)
Net Cash Provided by Operating Activities	16,091,552	26,678,425
Cash Flows from Investing Activities		
Extension and replacement of plant	(26,514,835)	(33,738,239)
Plant removal costs	(2,370,808)	(2,204,110)
Contribution in aid of construction	993,661	1,083,012
Proceeds from the sale of plant	58,840	46,583
Proceeds from retirement of investments in CTC's	13,294	14,267
Net Cash Used by Investing Activities	(27,819,848)	(34,798,487)
Cash Flows from Financing Activities		
Proceeds from long-term debt		169,910,000
Payments on bridge financing	(25,000,000)	(150,000,000)
Principal payments of long-term debt	(4,259,808)	(3,340,614)
Capital credits paid to members, net	(1,027,321)	(923,659)
Proceeds from capital credits and other investments	151,197	188,698
Net change in consumer deposits	329,022	78,418
Net change in memberships	1,855	2,995
Net Cash Provided (used) by Financing Activities	(29,805,055)	15,915,838
Net Increase (decrease) in Cash and Cash Equivalents	(41,533,351)	7,795,776
Cash and cash equivalents – beginning of year	57,505,269	49,709,493
Cash and Cash Equivalents – End of Year	$ 15,971,918	$ 57,505,269
Net Margins	$ 15,244,568	$ 18,087,516
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization	12,930,194	12,109,369
Gain on sale of assets		(3,083,588)
Increase in cash value of life insurance	(12,561)	(11,877)
Noncash capital credits received	(2,177,623)	(2,416,504)
Capital credits applied to member accounts	(2,905,523)	(1,027,048)
(Increase) decrease in:		
Accounts receivable	(3,266,064)	12,524,770
Other current assets	142,326	(66,655)
Deferred charges	1,201,935	(1,743,503)
Increase (decrease) in:		
Accounts payable	(5,152,612)	(5,939,535)
Other current and accrued liabilities	(426,176)	621,071
Deferred credits	513,088	(2,375,591)
Net Cash Provided by Operating Activities	$ 16,091,552	$ 26,678,425

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Shenandoah Valley Electric Cooperative
December 31, 2012 and 2011

Note A - Significant Accounting Policies

Nature of Operations
Shenandoah Valley Electric Cooperative (the "Cooperative") is a member-owned, not-for-profit company organized to provide electric service to its members essentially residing in the counties of Rockingham, Augusta, Shenandoah, Clark, Frederick, Highland, Page, Warren, and the City of Winchester in the Commonwealth of Virginia.

Basis of Presentation
These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), including GAAP for regulated operations.

The system of accounts of the Cooperative are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (FERC) for Class A and B electric utilities modified for electric borrowers of the Rural Utilities Service (RUS) and the State Corporation Commission of the Commonwealth of Virginia (SCC).

Regulatory Assets and Liabilities
The Cooperative complies with the accounting guidance set forth by the Financial Accounting Standards Board (FASB) regarding the effect of certain types of regulation. The FASB allows a regulated Cooperative to record certain costs and credits that have been or are expected to be allowed in the ratemaking process in a period different from the period in which the costs would be charged to expense or income by a non-regulated enterprise. Accordingly, the Cooperative records certain assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities.

Accounting Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Electric Plant
Electric plant is stated at the original cost of construction, which includes the cost of contracted services, direct labor, materials and overhead items. Acquired plant was recorded based on information received pursuant to purchase contracts as approved by the State Corporation Commission (SCC). Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

When property, which represents a retirement unit, is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with cost of removal less salvage is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expenses and other accounts.

Depreciation
Provision for depreciation has been made by application of the straight-line method to the original cost, by groups of depreciable properties in service. Current depreciation rates, which are estimated to amortize the cost of existing plant over the service lives, were as follows at December 31, 2012:

Transmission plant	2.75%
Distribution plant	2.86 – 9.12%
Load management equipment	5.93%
General plant	3.00 – 10.00%
Office furniture and equipment	20.00 – 30.00%

Depreciation rates for the assets acquired from Potomac Edison Company d/b/a Alleghany Power (PE) (Note P), which were used by PE and included in their retail rates are currently being used by the Cooperative. These rates were as follows at December 31, 2012:

Distribution plant	1.52 – 2.94%
General plant	2.38 – 20.00%

Inventories
Inventories are generally used for construction, operation and maintenance work, and are not for resale. They are valued the lower of moving average unit cost or market.

Accounts Receivable
The Cooperative provides for the uncollectible accounts monthly, based on a percentage of sales which past experience has indicated will be uncollectible. When accounts are deemed to be uncollectible, they are charged against the provision for uncollectible accounts.

Advertising Costs
Advertising costs are expensed as incurred.

Revenues
The Cooperative records electric revenues as energy is delivered to consumers on a monthly basis. The billing rate schedules of the Cooperative contain provisions to either increase or decrease the consumers' billing from the base level billing schedules dependent upon the cost of the wholesale power adjustment passed on from the vendor for electrical energy purchased for resale. The base billing rates of the newly acquired PE territory, per order of the SCC, are required to be the same rates which were billed or would have been billed by PE except for the wholesale power adjustment clause effective July 1, 2011 until July 1, 2014.

Cost of Power
The Cooperative utilizes a deferred method of accounting for wholesale power fuel adjustments. Under this method, the cost of power is adjusted to recognize as expense that portion of the pass-through fuel charge that is billed to consumers. Any amounts collected in advance or not billed to consumers are recorded as a deferred charge or deferred credit as applicable. The cost of power for the newly acquired PE territory includes the Old Dominion Electric Cooperative (ODEC) cost with a wholesale power adjustment clause as defined by the SCC stipulation agreement.

Income Taxes
The Cooperative has been granted exemption from income tax under Internal Revenue Service Code Section 501(c)(12). Accordingly, no provision for income taxes has been made in the financial statements. The tax years from 2009 to 2011 remain subject to examination by taxing authorities.

Cash and Cash Equivalents
The Cooperative considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Subsequent Events
Subsequent events have been evaluated through February 8, 2013, which is the date the financial statements were available to be issued.

Note B – Assets Pledged
All assets are pledged as security for the long-term debt to RUS, National Rural Utilities Cooperative Finance Corporation (CFC), Federal Financing Bank (FFB) and CoBank.

Note C – Electric Plant

Listed below were the major classes of electric plant:

	December 31, 2012	December 31, 2011
Distribution plant	$ 328,375,750	$ 309,344,767
Acquisition adjustments	43,229,911	43,229,911
General plant	31,545,283	29,475,167
Transmission plant	5,372,186	5,350,027
Electric plant in service	408,523,130	387,399,872
Construction work in progress	23,341,572	19,425,428
	$ 431,864,702	$ 406,825,300

During 2010, the Cooperative entered into a contract to sell its West Virginia service territory. In January 2011, the Cooperative finalized a transfer of its West Virginia service territory, including net distribution plant of approximately $10,500,000 and certain other net assets of approximately $450,000, which resulted in a gain of approximately $3,084,000 for the year ended December 31, 2011.

In accordance with GAAP and Federal Energy Regulatory Commission (FERC) as adopted by the RUS, the Cooperative has determined that it had no legal asset retirement obligations for the years ended December 31, 2012 and 2011. Regarding non-legal retirement costs, the Cooperative follows the regulatory principle of inter-generational cost allocation by including net salvage (gross salvage less cost of removal) as a component of depreciation rates.

Note D – Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	December 31, 2012	December 31, 2011
Patronage capital:		
ODEC	$ 37,244,294	$ 35,399,972
CFC	1,127,845	978,925
CoBank	220,868	223,626
Other	389,286	384,455
	38,982,293	36,986,978
Capital Term Certificates (CTC):		
Subscriptions (SCTC's)	1,213,509	1,213,509
Loan (LCTC's)	300,950	300,950
Loan (ZCTC's)	620,743	634,037
	2,135,202	2,148,496
Other:		
TEC Trading, Inc.	470,365	470,365
CFC Member Capital Certificates	125,000	125,000
Investment in building – Virginia, Maryland, Delaware Association of Electric Cooperatives	36,320	36,320
Membership fees	2,021	2,021
	633,706	633,706
	$ 41,751,201	$ 39,769,180

The capital term certificates invested in CFC are unsecured and subordinated. The SCTC's bear interest at an annual rate of 5% payable semiannually and the LCTC's bear interest at an annual rate of 3% payable semiannually. The ZCTC's are non-interest bearing.

The investment in TEC Trading, Inc. represents an unconsolidated joint venture with other members of ODEC. The Cooperative has a non-controlling ownership interest that has been accounted for under the cost method.

The CFC Member Capital Certificates are unsecured and subordinated and bear interest at an annual rate of 7.5% payable semiannually.

Note E – Concentrations of Credit Risk

The Cooperative places its cash on deposit with financial institutions located in the United States of America. The Federal Deposit Insurance Corporation (FDIC) provides insurance coverage for up to $250,000 of cash held by the Cooperative in each separate FDIC insured bank and savings institution. The $250,000 limit of coverage (per depositor, per bank) is in place through December 31, 2013. Effective January 1, 2014, the limit of deposits protected by the FDIC will decrease to $100,000. From time to time, the Cooperative may have amounts on deposit in excess of the insured limits. As of December 31, 2012, the Cooperative had approximately $7,250,000 of deposits that exceed the $250,000 limit. The Cooperative also held a short-term investment totaling approximately $8,940,000 that was not insured at December 31, 2012.

Concentrations of credit risk with respect to consumer accounts receivable generally are limited due to the large number of consumers comprising the consumer base. The Cooperative services ten consumers that represented approximately 15% of total operating revenues for the years ended December 31, 2012 and 2011, respectively. Generally, the rate structure of the Cooperative is designed in such a manner that all classes of consumers contribute equitably to net margins.

Note F – Accounts Receivable

Accounts receivable consisted of the following:

	December 31, 2012	December 31, 2011
Consumer accounts receivable	$ 12,275,158	$ 12,241,626
Other accounts receivable	4,447,285	3,139,142
Federal Emergency Management Agency receivable	2,212,607	
	18,935,050	15,380,768
Less provision for uncollectible accounts	509,386	320,386
	$ 18,425,664	$ 15,060,382

Note G – Other Current Assets

Other current assets consisted of the following:

	December 31, 2012	December 31, 2011
Prepayments	$ 222,439	$ 314,904
Interest receivable	42,172	92,033
	$ 264,611	$ 406,937

Note H – Deferred Charges

Deferred charges consisted of the following:

	December 31, 2012	December 31, 2011
Rate mitigation (Note P)	$ 3,750,000	$ 3,750,000
Acquisition costs (Note P)	2,935,212	3,240,603
Deferred fuel costs	1,436,592	3,257,576
Deferred power costs	1,268,580	
Other	731,564	1,075,704
	$ 10,121,948	$ 11,323,883

Rate mitigation charges represents a regulatory asset due from PE that will be a direct pass-through to the former PE customers.

Note I – Patronage Capital

Patronage capital consisted of the following:

	December 31, 2012	December 31, 2011
Assigned	$ 138,844,531	$ 124,712,136
Assignable	14,505,816	13,943,937
	153,350,347	138,656,073
Retired	(52,043,862)	(48,017,778)
	$ 101,306,485	$ 90,638,295

Under provisions of the long-term debt agreements and Title 7 of the Code of Federal Regulations (Part 1717.617), the Cooperative may refund capital to patrons without limitation if total equity is equal to or greater than 30% of total assets and there are no instances of default. If equities are between 20% and 30% of total assets, general refunds are limited to 25% (adjusted for returns to estates, which are not limited) of patronage capital or margins received in the next preceding year. Total equities and margins amounted to 29% and 25% of total assets for 2012 and 2011, respectively.

Note J – Other Equities

Other equities consisted of the following:

	December 31, 2012	December 31, 2011
Permanent equity	$ 8,535,589	$ 7,985,295
Donated capital	1,909,541	1,816,301
Other	14,225	14,225
	$ 10,459,355	$ 9,815,821

Note K – Long-Term Debt

Long-term debt consisted of the following:

	December 31, 2012	December 31, 2011
FFB		
Mortgage notes, fixed	$ 142,822,415	$ 142,910,000
CFC		
Mortgage notes, fixed	82,541,751	75,802,689
RUS		
Mortgage notes, fixed	19,918,524	30,776,001
CoBank		
Mortgage notes, fixed	1,919,051	1,972,859
	247,201,741	251,461,549
Less current maturities	6,201,000	3,617,000
	$ 241,000,741	$ 247,844,549

Long-term debt payable to RUS is represented by mortgage notes with rates ranging from 2.63% to 5.23%. The notes generally have 35-year maturity periods, maturing 2015 to 2037, and are payable on an installment basis. Principal and interest payments are due monthly in the amount of approximately $121,000. There were no un-advanced funds at December 31, 2012.

Long-term debt payable to CoBank is represented by a mortgage note payable with interest at 4.98%, maturing in 2029. Principal and interest installments are due monthly in the amount of approximately $13,000.

Long-term debt payable to FFB is represented by mortgage notes with rates ranging from 3.83% to 3.88%. The notes mature from 2045 to 2046 and were interest-only until December 2012 and October 2012, respectively. Principal and interest installments are due quarterly in the amount of approximately $2,155,000. During the year ended December 31, 2012, the Cooperative refinanced approximately $10,000,000 of RUS debt through CFC.

Approximate annual maturities of existing long-term debt were as follows:

Year Ending December 31,	
2013	6,201,000
2014	5,790,000
2015	5,681,000
2016	5,801,000
2017	5,218,000
Thereafter	218,510,741
	$ 247,201,741

In addition to the mortgage notes, the Cooperative had established unsecured lines of credit in the amounts of $9,000,000 with CFC and $9,000,000 with CoBank at variable interest rates. Total aggregate borrowing between the two lines of credit is not to exceed $9,000,000. At December 31, 2012 and 2011, there were no outstanding balances against the lines of credit.

The Cooperative had established lines of credit with CFC in the amount of $175,000,000 in 2010 to provide temporary bridge financing for the PE acquisition (Note P). At December 31, 2011, the Cooperative had an outstanding balance of $25,000,000, bearing interest at 3.35%. At December 31, 2012, the Cooperative had paid the balance in full.

Under the terms of the loan agreements with RUS and CFC, there are certain restrictions, which include requirements to maintain a TIER (times interest earned ratio) of 1.25 and DSC (debt service coverage) of 1.25. As of December 31, 2012 and 2011, the Cooperative was in compliance with these requirements. There were also restrictions on the return of capital to patrons as discussed in Note I.

Note L – Other Current and Accrued Liabilities

Other current and accrued liabilities consisted of the following:

	December 31, 2012	December 31, 2011
Accrued taxes and amounts withheld from employees	$ 727,992	$ 685,043
Accrued salaries and wages	615,424	512,930
Accrued vacation	367,190	923,809
Deferred compensation	135,000	150,000
	$ 1,845,606	$ 2,271,782

Note M – Deferred Credits

Deferred credits consisted of the following:

	December 31, 2012	December 31, 2011
Deferred rate mitigation (Note P)	$ 3,750,000	$ 3,750,000
Consumer advances	496,075	109,210
Advance pole rentals	230,379	225,885
Other	124,529	2,800
	$ 4,600,983	$ 4,087,895

Note N – Retirement Plans

Pension Plan

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

The Cooperative's contributions to the RS Plan in 2012 and in 2011 represented less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made contributions to the plan of approximately $2,800,000 in 2012 and $2,443,000 in 2011. There have been no significant changes that affect the comparability of 2012 and 2011 contributions.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was between 65 percent and 80 percent funded at January 1, 2012 and January 1, 2011 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

Deferred Income Plan
In addition to the NRECA Retirement and Security Program, substantially all employees of the Cooperative are eligible to participate in the NRECA SelectRE pension plan, a defined contribution multi-employer deferred income plan qualified under Section 401(k) of the Internal Revenue Code. The Cooperative's required contribution to the Plan and its net pension cost was approximately $400,000 and $384,000 for the years ended December 31, 2012 and 2011, respectively.

Note O – Fair Value of Financial Instruments
The Cooperative has recorded all financial instruments based on the carrying amount (book value) in the financial statements in accordance with accounting principles generally accepted in the United States of America. According to guidance from FASB, the Cooperative is required to disclose the fair value of financial instruments. Accordingly, the following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents
The carrying amount of cash and cash equivalents approximates fair value due to the short maturity of these instruments.

Accounts Receivable
The carrying amount of accounts receivable approximates fair value due to the short period of time amounts are outstanding.

Investments in Associated Organizations
Fair value of capital term certificates and member capital certificates was determined by computing the present value of estimated future cash flows, discounted at the long-term treasury rate of 2.95% and 2.89% for the years ended December 31, 2012 and 2011, respectively. The fair value of patronage capital is not determinable since no legal obligation exists to retire capital credits.

The fair value of the cost method investment is not estimated since there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value and it is not practicable to estimate fair value. The carrying value of memberships approximates fair value.

Accounts Payable
The carrying amount of accounts payable approximates fair value due to the short period of time amounts are outstanding.

Long-Term Debt
The carrying amount of the Cooperative's long-term debt includes certain interest rates that are below quoted market prices for the same or similar issues. Therefore, the fair value of long-term debt is estimated based on current market prices for the same or similar issues offered for debt of the same and remaining maturities which was 5.55% and 5.60% for the years ended December 31, 2012 and 2011, respectively.

Consumer Deposits
The carrying amount approximates fair value due to the relatively short maturity of the deposits.

The estimated fair values of the Cooperative's financial instruments were as follows:

	December 31,			
	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Investments in associated organizations:				
Capital term certificates	$ 2,135,202	$ 2,601,000	$ 2,148,496	$ 2,643,000
Member capital certificates	$ 125,000	$ 247,000	$ 125,000	$ 251,000
Liabilities:				
RUS, CFC, FFB and CoBank notes payable including current portion	$ 247,201,741	$ 222,320,000	$ 220,882,000	$ 222,320,000
Bridge financing note payable			$ 25,000,000	$ 25,000,000

Note P – Acquisition

During 2010, the Cooperative completed an asset purchase agreement with PE for the distribution plant assets and approximately 52,000 accounts located in the Commonwealth of Virginia. At December 31, 2012, as a result of the final order approved by the Commonwealth of Virginia State Corporation Commission related to this purchase, the Cooperative has $3,750,000 as deferred charge and deferred credit for rate mitigation payments that will be received and passed through to the acquired customers during 2014.

Note Q – Related Party Transactions

The Cooperative was a member of the following organizations and conducted business transactions during the current and prior years as set forth below:

The Cooperative was a member of the CFC and CoBank, national financing organizations, and had investment assets and mortgage notes payable at various interest rates and maturities.

The Cooperative, as a member of the ODEC, an organization composed of electric cooperatives, has entered into a contract for the acquisition of wholesale power. The rates for wholesale power sales to members are determined by the Board of Directors of ODEC.

The Cooperative was a member of the Virginia, Maryland and Delaware Association of Electric Cooperatives, an association organized to serve rural electrification in those three state areas by providing group efforts on a regional basis in public and member relations, government affairs, human resource development, technical services, and legal services.

Note R – Commitments and Contingencies

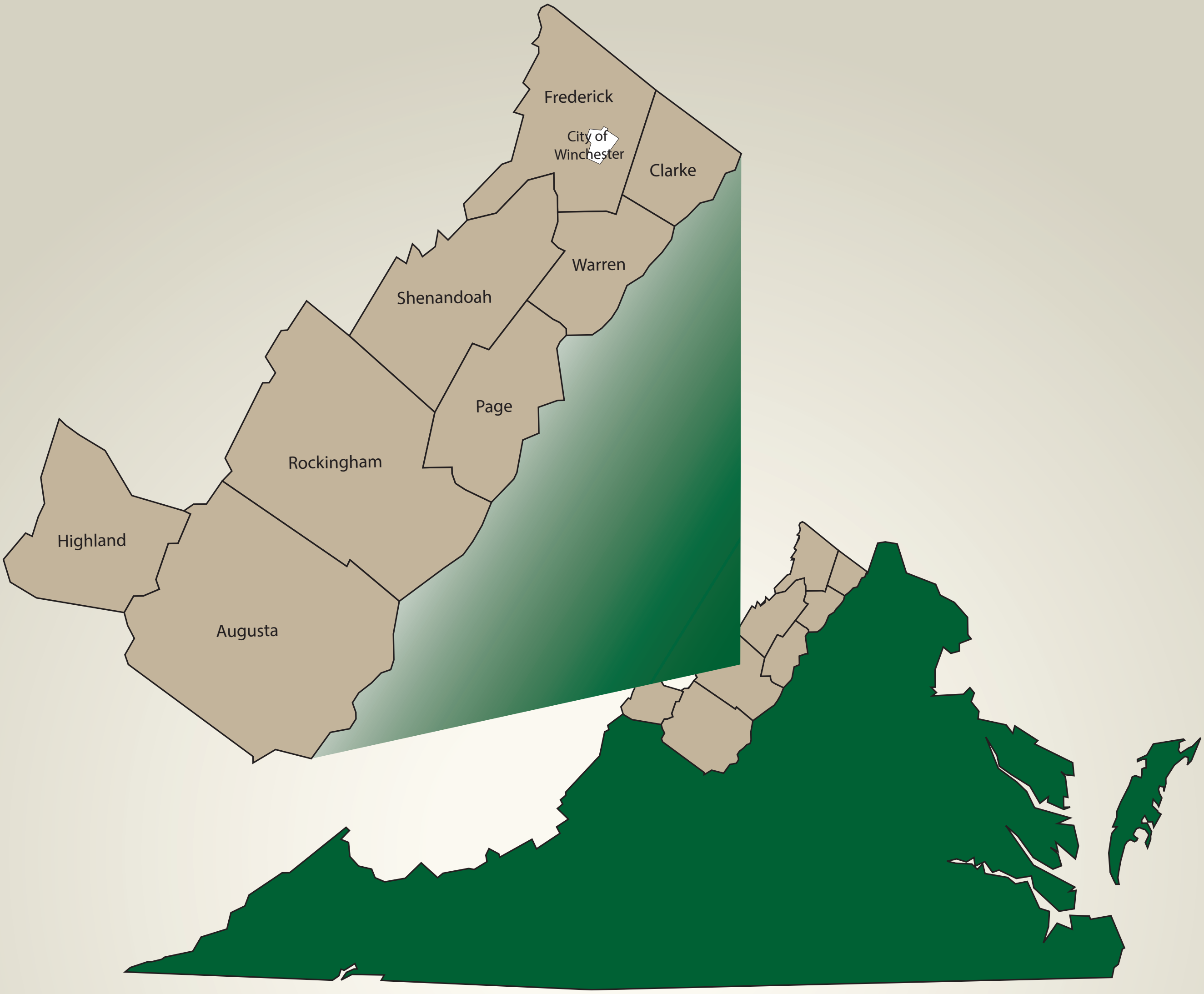
Purchased Power

The Cooperative, as a member of ODEC, an organization composed of electric cooperatives in Virginia, Maryland and Delaware, has entered into a long-term contract with ODEC for the acquisition of wholesale power through ODEC as have other members of the organization. The cost of wholesale power purchases through ODEC may increase or decrease based upon rates established by the Board of Directors of ODEC

Construction Contracts

The Cooperative had a commitment of approximately $3,300,000 associated with various construction projects, of which approximately $2,800,000 was outstanding as of December 31, 2012.

Officers' and Directors' Compensation	
Officers' Total Compensation	$546,088
Non-Officer Directors' Compensation	$125,953



Shenandoah Valley Electric Cooperative

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