



Chris Reese
President & CEO

Annual Report

Sussex Rural Electric Cooperative, Inc.

President and Chairman's Report



Jack Haggerty
Chairman of the Board

We are ever mindful of the future path of the Cooperative, while keeping true to the foundations upon which this community and this Cooperative were built. Improving upon our initiatives set forth last year at this time, we are happy to report that we continue to grow and enhance time-tested, proven practices.

As in previous years, the Cooperative invested in upgrades, replacements, and improvements to our electric grid system, making it more resilient. Our distribution system is designed and built to withstand high winds, powerful storms, cybersecurity threats, and other disruptions that could result in outages. We also remain flexible and adaptable to allow different types of generation to seamlessly work together to provide you with safe and reliable power. In 2018, close to \$1.9 million was allocated to system improvements, including but not limited to right of way maintenance, a relay replacement in Sussex substation, other substation improvements, replacement of 2,000 feet of an underground primary service to Hidden Village in Vernon, continuation of our reconductor project including pole replacements on Sally Harden Road in Wantage, and other miscellaneous improvements to our system. Upgrades, replacements, and improvements were also made at Picatinny Arsenal, which continues to benefit the from its 50-year contract to update and maintain the base's electric system.

SREC Resources, a wholly owned subsidiary of Sussex Rural Electric, enjoyed another solid year performing installations of Cummins automatic home generators, GenerLink transfer switches, and ETS furnaces, along with some high voltage primary electric work for some commercial customers in the area.

Your Board of Directors and Executive Staff continuously monitor the financial stability of the organization to determine whether rates are covering the costs to run the utility. As a not-for-profit organization, we must recover our costs of doing business, as well as maintain sufficient margins to reinvest in our electric distribution system. The Cooperative commissioned a cost of service study with a consultant in 2018. As our mission states, Sussex Rural Electric Cooperative strives to provide the highest quality of service at the lowest possible cost. We are happy to report that rates in 2018 were flat and were projected to decrease heading into 2019. The Cooperative did realign some costs- namely increasing the Basic Facilities Charge and decreasing the Energy (kWh) Charge for the main residential rate.

The Basic Facilities Charge is the fixed rate portion of your bill. It ensures that your expectations for continuous power and outstanding customer service are met. It gives each member a fair and equal share of the Cooperative's operation costs. It provides funds to the cooperative that must be invested now to maintain the quality, reliability, integrity, and resiliency of services that our members have traditionally counted on and come to expect. The expense items covered by the facility charge range from trucks, wire, transformers, utility poles, and labor needed to build and maintain the electric distribution system, as well as implementing new technologies to provide increased reliability and operational efficiencies such as our outage management system and advanced metering technology.

We choose to live here for the beauty and way of life Sussex County provides us. However, it is sometimes that same beauty, trees and wildlife, that poses the greatest threat to our grid's reliability. To address the issue, we have developed new, ground-breaking technologies that allow us to have better oversight of our tree trimming program. Sussex Rural Electric's Engineering Department developed a dashboard application and mobile device application that allow for interactive oversight and communications between our tree trimming contractor, Asplundh, and our engineering and operations departments. The dashboard allows supervisors and managers to see real time status of our tree trimming efforts and provides quality review of

work in a graphical map format. This allows much better review of tree trimming in known trouble areas we reported and responded to last year, along with keeping current on our four-year cycle to trim our entire system. Tree trimming is one of the Co-op's largest expenses, running over \$750,000.00 per year.

Counter-intuitive to our business objective to sell power, we have increased our efforts to encourage our membership to save energy. Last summer, all members received a gift of four LED light bulbs from Sussex Rural Electric Cooperative as part of an energy efficiency plan by Allegheny Electric Cooperative, our power generation provider. That box of four bulbs had about \$500 in savings in it, with each bulb saving you over \$6 per year in energy costs, for over 20 years. The combined effect of all the lightbulbs sent to the 230,000 cooperative households across New Jersey and Pennsylvania will help reduce power costs, as it decreases the need for Allegheny to purchase power on the open market, above what its own assets generate.

The ETS Refer-A-Friend program also helped increase the installations of ETS heating systems. ETS Heat is an excellent, low cost way to replace a fossil fuel furnace, add warmth to cold and drafty rooms, or to heat an addition to your house without disrupting your present heating system. An ETS heating system is clean, quiet, and very efficient. There are no flames or fumes to pollute the air inside your home. ETS furnaces and heaters store heat from electricity at night, when rates are lower, and circulate it later in the day. Programs like ETS and Beat the Peak allow us to reduce our purchased power costs and help us to continue our focus on providing the highest quality of service at the lowest possible price.

The electric utility business requires large amounts of capital to operate and provide service. Electric cooperatives reinvest margins back into the business as capital credits before eventually retiring these capital credits to its members. If a cooperative retires too many capital credits too quickly, then day-to-day cooperative working capital can be depleted. The funds help us keep a lid on rates, reduce the amount of money we need to borrow from outside lenders to build, maintain, and expand a reliable electric distribution system, and cover possible emergency expenses.

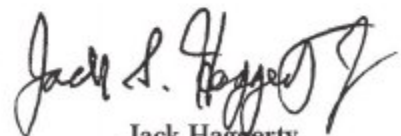
In 2018 SREC retired \$600,000.00 to members that were on Cooperative lines in the years 1994 – 1998 and another \$200,000.00 was retired to members on the lines in 2017. In the past, capital credit retirements were issued at two separate times as bill credits. This year, for the first time, members received their capital credit retirements in one check sent out to all eligible members. By receiving a check, instead of a bill credit, members get to decide what to do with their money. The check itself demonstrates each member's contribution of capital to, and ownership of, the cooperative during those years.

The Cooperative had a bigger presence in our local schools in 2018. Partnering with High Point Regional High School, the Cooperative offered the first high school internship program which will be used as guide for other businesses in the area. The Youth Tour program continues to grow. Speaking engagements with students to bring light to jobs available in our community and in the trades continues and, as a sign of our commitment, Sussex Rural Electric established a Trade School Scholarship to be awarded in 2019 to students who are pursuing a job in a trade versus a traditional college route.

In 1937, Sussex Rural Electric Cooperative was founded to fulfill a vital need in our community to bring electricity where there was none. In 2019, Sussex Rural Electric Cooperative maintains proactive maintenance and investment to keep power lines, substations, and generation facilities on our grid, running securely and smoothly while fulfilling needs in our community.



Christopher P. Reese
President & CEO



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**Sussex Rural
Electric Cooperative, Inc.**

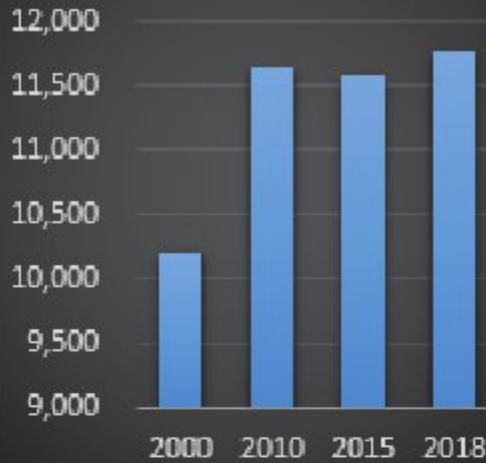
A Touchstone Energy® Cooperative 

CONSOLIDATED BALANCE SHEETS

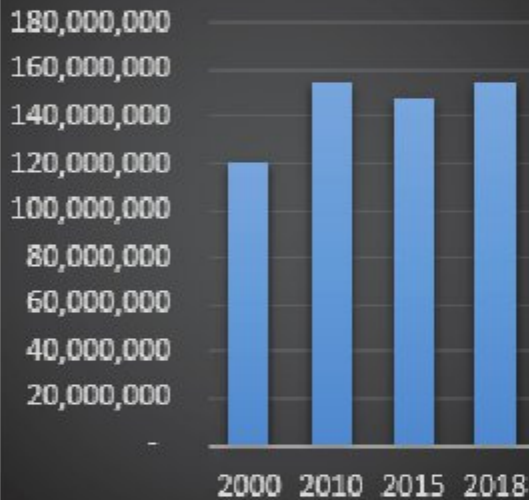
The financial statements for Sussex Rural Electric Cooperative Inc. and subsidiary as of and for the years ended December 31, 2018 and 2017, have been audited by an independent accounting firm, Buffamante Whipple Buttafaro, P.C.

| Assets | 2018 | 2017 |
|--|----------------------|----------------------|
| Total utility plant in service | \$ 67,144,447 | \$ 66,150,612 |
| Construction work in progress | 872,045 | 698,505 |
| | 68,016,492 | 66,849,117 |
| Less: Accumulated provisions for depreciation | (35,610,597) | (34,548,732) |
| Net electric plant | 32,405,895 | 32,300,385 |
| Total other investments | 6,312,113 | 6,183,823 |
| Total utility plant & other investments | 38,718,008 | 38,484,208 |
| Currents assets: | | |
| Cash & short-term investments | 985,144 | 1,423,661 |
| Accounts receivable Less provision for doubtful accounts of \$25,000 in 2018 & 2017) | 2,194,520 | 2,051,438 |
| Materials & supplies | 727,872 | 562,494 |
| Other current & accrued assets | 805,249 | 599,540 |
| Total current assets | 4,712,785 | 4,637,133 |
| Deferred charges | 1,644,487 | 1,776,402 |
| Total Assets | \$ 45,075,280 | \$ 44,897,743 |
| Equities & Liabilities | | |
| Equities: | | |
| Memberships | \$ 53,585 | \$ 53,140 |
| Patronage capital | 10,392,113 | 9,955,774 |
| Other equities | 9,450,152 | 9,360,240 |
| Total equities and margins | 19,895,850 | 19,369,154 |
| Non-current liabilities: | | |
| Long term debt, less current portion | 18,519,736 | 18,157,847 |
| Other | - | 430,000 |
| Total non-current liabilities | 18,519,736 | 18,587,847 |
| Current liabilities: | | |
| Current portion of long-term debt | 885,395 | 998,914 |
| Accounts payable | 1,495,020 | 1,365,687 |
| Consumer deposits | 399,704 | 641,467 |
| Other current & accrued liabilities | 1,595,477 | 1,320,688 |
| Total current liabilities | 4,375,596 | 4,326,756 |
| Deferred credits | 2,284,098 | 2,613,986 |
| Total Equities & Liabilities | \$ 45,075,280 | \$ 44,897,743 |

Members



kWh Sold



CONSOLIDATED STATEMENTS OF OPERATIONS

| | 2018 | 2017 |
|--|---------------------|---------------------|
| Operating revenue | \$ 21,032,995 | \$ 20,202,019 |
| Operating expenses: | | |
| Cost of power | 10,196,528 | 9,824,163 |
| Transmission expense | 4,151 | 18,513 |
| Distribution expense - operation | 1,895,054 | 1,937,261 |
| Distribution expense - maintenance | 2,509,440 | 2,015,336 |
| Consumer accounts expense | 973,507 | 941,877 |
| Administrative & general expense | 2,138,029 | 1,965,472 |
| Depreciation & amortization expense | 1,780,661 | 1,776,094 |
| Taxes | (360,954) | 117,558 |
| Interest- other | 46,510 | 17,600 |
| Total operating expenses & interest | 19,182,926 | 18,613,874 |
| Operating margins before fixed charges | 1,850,069 | 1,588,145 |
| Interest on long-term debt | (700,589) | (723,757) |
| Operating margins after fixed charges | 1,149,480 | 864,388 |
| Capital credits from other cooperatives | 335,970 | 438,176 |
| Net operating margins | 1,485,450 | 1,302,564 |
| Non-operating margins: | | |
| (Loss) / Gain on sale of assets - net | (4,700) | 45,168 |
| Interest and other income | 232,707 | 156,774 |
| Net margin for period | \$ 1,713,457 | \$ 1,504,506 |
| Total other comprehensive (loss) / income | (256,106) | 352,347 |
| Total comprehensive income | \$ 1,457,351 | \$ 1,856,853 |



\$ The Co-op Dollar \$

Where It Comes From

| | |
|--------------------------|-------|
| Residential | 75.0% |
| Electric Thermal Storage | 1.3% |
| Seasonal | 1.5% |
| Small Commercial | 5.8% |
| Large Commercial | 5.8% |
| Security Lights | 0.4% |
| Other Income | 10.2% |

Where It Goes

| | |
|----------------------|-------|
| Purchased Power Cost | 48.4% |
| Depreciation | 8.5% |
| Interest On Debt | 3.3% |
| Operating Expenses | 34.3% |
| Margins | 5.5% |

