



Chris Reese
President and CEO



Jack Haggerty
Chairman of the Board

Sussex Rural Electric Cooperative, Inc.

ANNUAL REPORT

President and Chairman's Report

Last year at this time we celebrated the cooperative's 80th year, looking back at the people and places that formed the foundation of our Co-op. Our forefathers established this cooperative to provide the highest quality of service at the lowest possible cost. We continue to strive to keep the ideals of the founding members while also keeping up with technology and energy changes that the present and future hold.

As we head into our next chapter, while holding onto our roots, we also must continue to change with the times and must be mindful of the future path of our Cooperative. One of the main areas we improved on in 2017 was member communication via digital means. We can no longer just rely on our paper newsletter, "Currents". Increasing the cooperative's presence on social media appears to have been well received, as we now have over 1,500 people that currently "like" our Facebook page. This has given us an avenue to quickly keep members up to date on more things that happen at the cooperative, whether it be news items, new cooperative initiatives, or storm and outage updates. We also continue to use a mass e-mail service to over 3,500 subscribers. We feel that utilizing 21st century communication methods with our members has been a positive move forward for the cooperative and its member/owners.

The cooperative also took action on improving our outage statistics. Our goal every year is to average less than 120 minutes without power per member, which means power is on 99.98% of the time. In 2017, we saw very low outage numbers, with less than 100 minutes without power per member. While favorable weather helped, this was also due to a variety of measures undertaken by our engineering and line departments. SREC initiated aggressive tree trimming in known trouble areas, along with keeping current on our four-year schedule to trim our entire system. We have also been making upgrades to wire, reclosers and substations as well as expanding our line inspection program. The replacement of older porcelain cutouts (fused line switches) with new polymer cutouts has also continued, to date over 100 cutouts have been replaced, helping reduce the outage numbers due to equipment failures.

BALANCE SHEET- For the year ending December 31, 2017 2016

Assets

Total utility plant in service	\$ 68,847,947	\$ 66,889,940
Construction work in progress	698,505	1,005,792
	69,546,452	67,895,732
Less: Accumulated provisions for depreciation	(37,246,067)	(35,573,479)
Net electric plant	32,300,385	32,322,253
Total other investments	6,183,823	6,012,958
Total utility plant & other investments	38,484,208	38,335,211

Currents assets:

Cash & short-term investments	1,423,661	1,394,779
Accounts receivable Less provision for doubtful accounts of \$25,000 in 2017 & 2016)	2,051,438	2,390,829
Materials & supplies	562,494	596,434
Other current & accrued assets	599,540	451,799
Total current assets	4,637,133	4,833,841

Deferred charges

	1,776,402	1,685,849
Total Assets	\$ 44,897,743	\$ 44,854,901

Equities & Liabilities

Equities:

Memberships	\$ 53,140	\$ 52,745
Patronage capital	9,955,774	9,499,462
Other equities	9,360,240	8,696,290
Total equities and margins	19,369,154	18,248,497

Non-current liabilities:

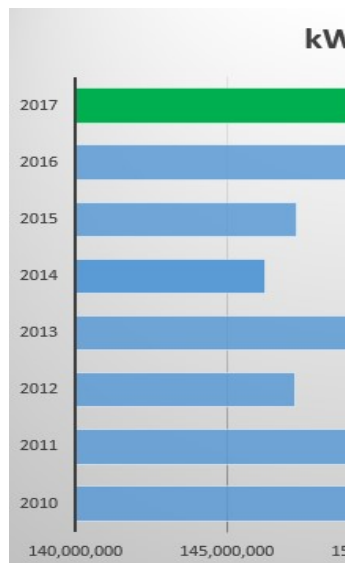
Long term debt, less current portion	18,157,847	17,829,875
Other	430,000	732,254
Total non-current liabilities	18,587,847	18,562,129

Current liabilities:

Current portion of long-term debt	998,914	1,291,089
Accounts payable	1,365,687	1,666,186
Consumer deposits	641,467	471,587
Other current & accrued liabilities	1,320,688	1,216,066
Total current liabilities	4,326,756	4,644,928

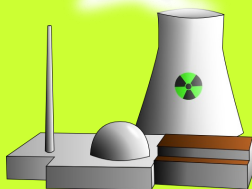
Deferred credits

	2,613,986	3,399,347
Total Equities & Liabilities	\$ 44,897,743	\$ 44,854,901



Power Supply Sources

Nuclear Power, 58%



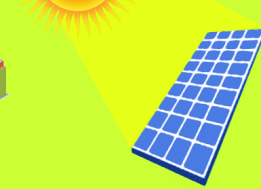
Utility Market, 33%



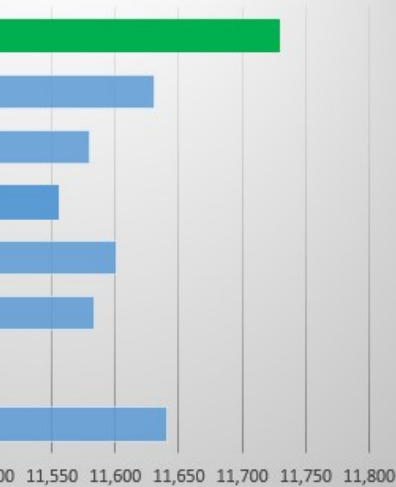
Hydro Power, 9%



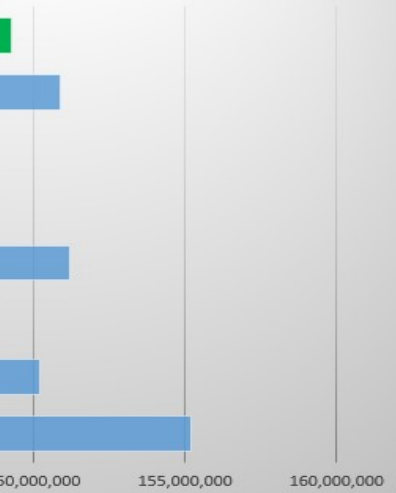
Member Generation, 0.01% (solar)



Members



Wh Sold

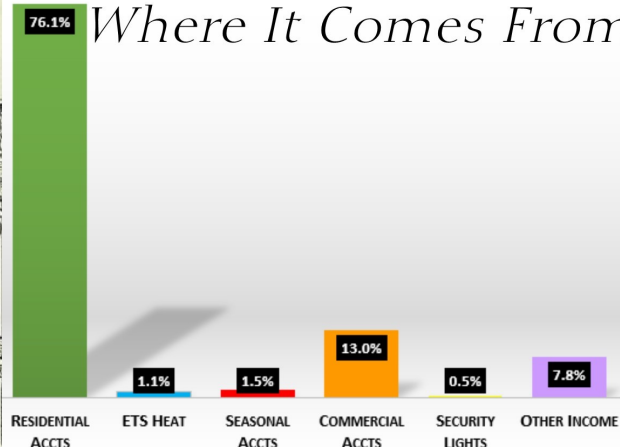


INCOME STATEMENT- For the year ending December 31, 2017 2016

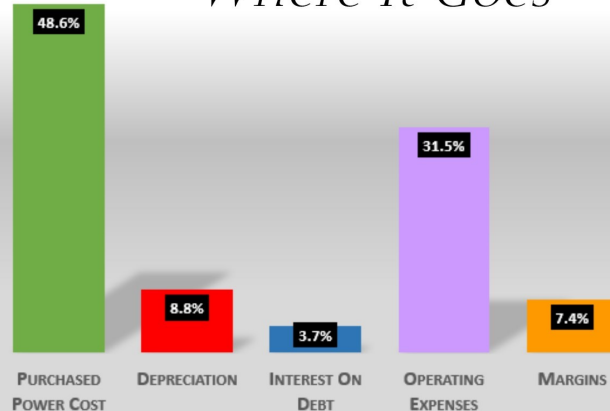
Operating revenue	\$ 20,202,019	\$ 20,292,072
Operating expenses:		
Cost of power	9,824,163	10,000,068
Transmission expense	18,513	-
Distribution expense - operation	1,937,261	1,995,586
Distribution expense - maintenance	2,015,336	2,110,230
Consumer accounts expense	941,877	916,375
Administrative & general expense	1,965,472	2,339,039
Depreciation & amortization expense	1,776,094	1,823,077
Taxes	117,558	74,639
Interest- other	17,600	579
Total operating expenses & interest	18,613,874	19,259,593
Operating margins before fixed charges	1,588,145	1,032,479
Interest on long-term debt	(723,757)	(746,324)
Operating margins after fixed charges	864,388	286,155
Capital credits from other cooperatives	438,176	286,036
Net operating margins	1,302,564	572,191
Non-operating margins:		
Gain on sale of assets - net	45,168	44,030
Interest and other income	156,774	1,177,401
Net margin for period	\$ 1,504,506	\$ 1,793,622
Total other comprehensive income (loss)	352,347	(214,319)
Total comprehensive income	\$ 1,856,853	\$ 1,579,303

The Co-Op Dollar

Where It Comes From



Where It Goes



While the weather in New Jersey remained relatively calm in 2017, elsewhere across the United States hurricanes caused massive destruction to the southern United States and Caribbean islands. Some of our SREC linemen, along with crews from our sister Pennsylvania cooperatives, went to Georgia to help restore power to members of Jackson EMC after Hurricane Irma. SREC linemen also went to assist Sullivan Rural Electric Cooperative in Pennsylvania after severe storms tore through their territory during the summer. This cooperative principle of mutual aid is something we take very seriously. We have been on the other side of mutual aid, as well, after Hurricane Sandy and more recently after a nor'easter in March, 2018. Cooperatives mutually helping cooperatives is just another way we are different than other utilities, and another way our membership benefits.

In 2017, Sussex Rural Electric Cooperative and its Board of Directors were happy to, once again, announce two capital credit retirements. As a nonprofit electric utility, Sussex Rural needs only to cover the costs of yearly operations. Any money over and above those costs is collected and allocated back to our members, who own the co-op. The current retirement schedule in November was for capital credits from the 1993-1994 period. Noting that the amount of members from 1993-94 that are still on our system today is only around 43%, the Board of Directors in December also issued an additional return of capital credits, from the year 2016, so that more current members (almost 95%) could realize one of the greatest benefits of being a Sussex Rural Electric Cooperative member.

The financial strength of your Cooperative continues to remain strong. In 2017, the cooperative recorded a margin of \$1.9 million while investing \$1.7 million in the electric system's infrastructure. This year the cooperative achieved an equity ratio of 43% which enables us to access the capital markets at a reduced cost, saving money for all our members.

The cooperative continues to provide service to Picatinny Arsenal as part of our 50 year contract and has hardened their power infrastructure by relocating a critical distribution circuit from a heavily wooded area out to the road to eliminate any outages caused by trees and branches, as well as improve access for maintenance. An additional circuit was also installed to upgrade service and optimize that service's availability. Our crews also replaced more than 50 poles throughout the base that were at the end of their useful life cycle.

SREC worked with our State representatives on a legislative bill sponsored by Senator Steven Oroho, who helped us get it through the Senate and the Assembly (with assistance from Assemblyman Parker Space), which was then signed into law on Monday, January 15, 2018. Our bill S2180, also called the NJ Rural Electric Cooperative Act officially recognizes the Cooperative as a true, not-for-profit, member-owned Cooperative. This is a critical designation if we ever have to apply for aid from FEMA (Federal Emergency Management Agency) again for any kind of disaster that might strike our area. This bill also puts us in line with the other nine municipal utilities in the state, exempting us from future NJ Corporate Business Tax (CBT) payments. Maintaining eligibility for FEMA and also being exempt from the CBT are additional ways to keep costs down, which helps ease pressure on rates.

As we step into the Cooperative's next chapter we look forward with determination to the future before us.



Christopher P. Reese
President & CEO



Jack Haggerty
Chairman of the Board