

THE VISION



2019 ANNUAL REPORT

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LETTER TO MEMBERS

Dear Members,

SECO Energy's mission is to construct, maintain and restore the electric system when outages occur. We construct new facilities to meet the growing demand for affordable, safe, reliable power in our 2,100-square mile territory. Our system is upgraded and rigorously maintained to prevent outages. When an outage occurs, crews quickly respond to restore service safely.

In 2019, SECO added 6,189 new services. Our member count at 2019 year-end was 210,815 members. Growth of this caliber is almost unheard of among electric cooperatives as the median size co-op nationally is just 13,000. SECO is the third-largest cooperative in Florida and the seventh-largest cooperative in the nation.

Growth brings its own unique challenges. The cost of everything associated with operating, constructing and maintaining a state-of-the-art electric system is rising. We are building new substations, adding power transformers at existing substations, upgrading voltage and conductor and converting critical overhead facilities to underground.

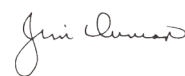
Our 2020 construction work plan tops \$55 million and is configured to preserve the balance between reliability and affordability. The work plan includes building new communication towers, upgrading our radio system and installing fiber-optic cable and microwave backhaul for automated communications that facilitate faster and safer outage restoration.

Storm hardening our electric system is also a top priority. We aggressively replace aging poles that have the potential to fail and cause outages. Our annual tree trimming budget has increased from \$9 million in 2017 to almost \$18 million projected in 2020 to target trees growing too close to power lines that are likely to cause outages.

SECO Energy's 400+ world-class employees excel in member satisfaction. In 2019, our American Customer Satisfaction Index (ACSI) score came in at 90. This is a one-point increase from our 2018 score, and makes SECO a customer satisfaction leader.

Thank you for your membership and the trust you place in SECO as your local not-for-profit electric cooperative.

Sincerely,



Jim Duncan
Chief Executive Officer



Jerry Hatfield
President, Board of Trustees



20/20
VISION

2020 SYSTEM IMPROVEMENT MAP



NEW SUBSTATION



EXISTING SUBSTATION UPGRADE



NEW FIBER



NEW COMMUNICATIONS TOWER



POLE REPLACEMENTS



TREE TRIMMING/REMOVALS



THREE-PHASE CONVERSION



25 KV CONVERSION



UNDERGROUND CONVERSION/UPGRADES



FIBER

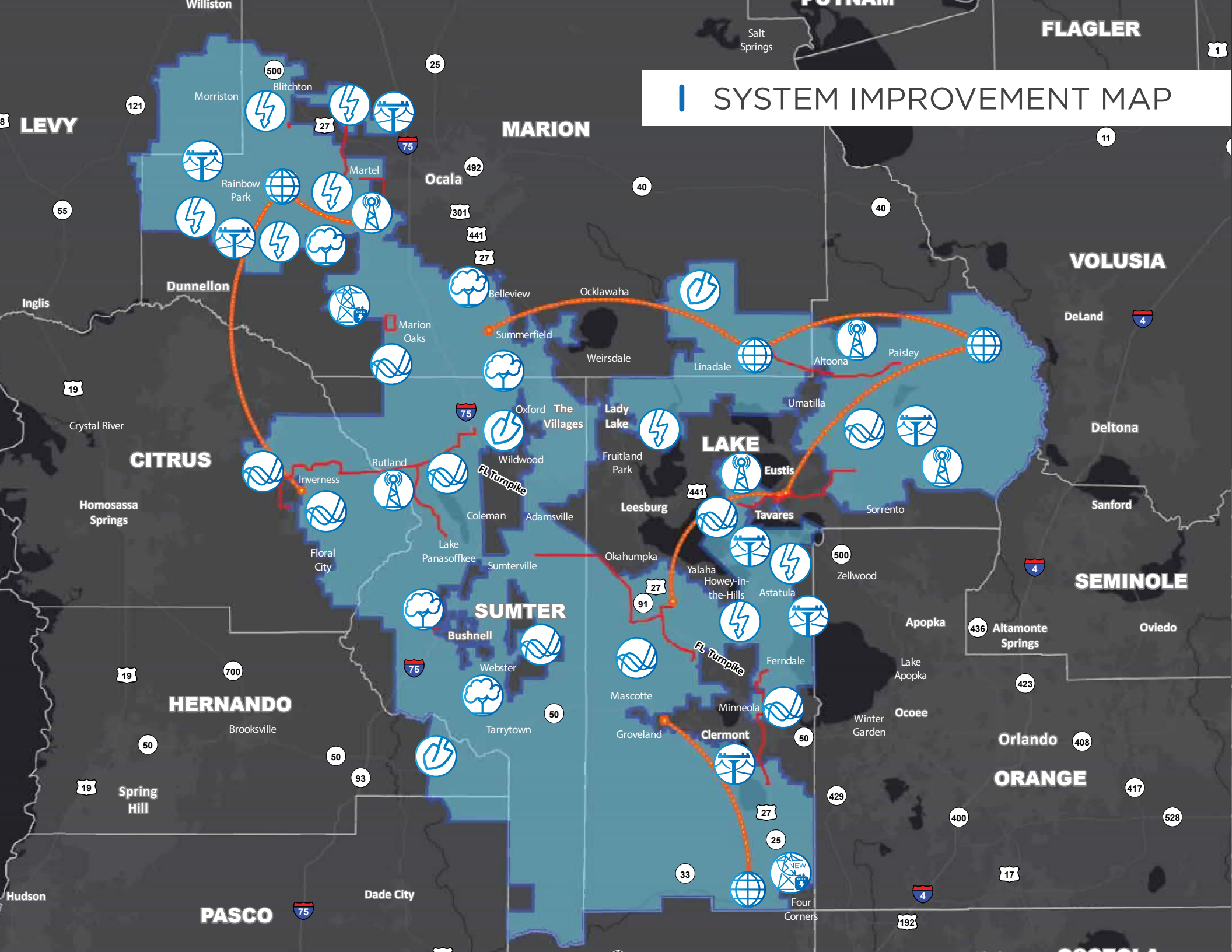


MICROWAVE BACKHAUL



SECO ENERGY SERVICE TERRITORY

SYSTEM IMPROVEMENT MAP



OUR YEAR BY THE NUMBERS

210,815

MEMBERS

2019 ACSI SCORE

90

400+

EMPLOYEES

3.47

BILLION KWH SOLD

31.77%

MEMBER EQUITY

TIER

2.07

3rd

LARGEST CO-OP IN FLORIDA



7th

LARGEST IN THE
NATION

TOTAL PLANT INVESTMENT

\$917.8 MILLION



90

75

73

73

OTHER CO-OPS

MUNICIPALS

INVESTOR-OWNED

SECO ENERGY

ACSI 2019

THE COOPERATIVE DIFFERENCE

In 2019, members rated SECO Energy a customer satisfaction leader. Our 2019 ACSI score is an impressive 90. This is a one-point increase over our 2018 score.

Our score of 90 is tops when compared to average ACSI scores in the energy industry. Nationally, cooperative utilities averaged 75 in 2019, which is two points lower than the 2018 score. Investor-owned utilities and municipal utilities scores averaged 73, both of which are two points lower than the 2018 score.

Thank you, members, for your recognition of our employees' efforts.



BOARD OF TRUSTEES



JERRY D. HATFIELD

■ District 9
President



RICHARD DENNISON

■ District 4
Vice President



BILL JAMES

■ District 8
Secretary-Treasurer



SCOTT D. BOYATT

■ District 1



DILLARD B. BOYATT

■ District 2



GERALD B. ANDERSON

■ District 3



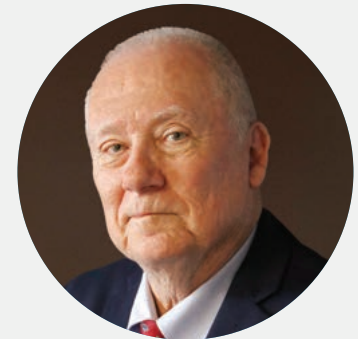
RAY F. VICK

■ District 5



EARL MUFFETT

■ District 6

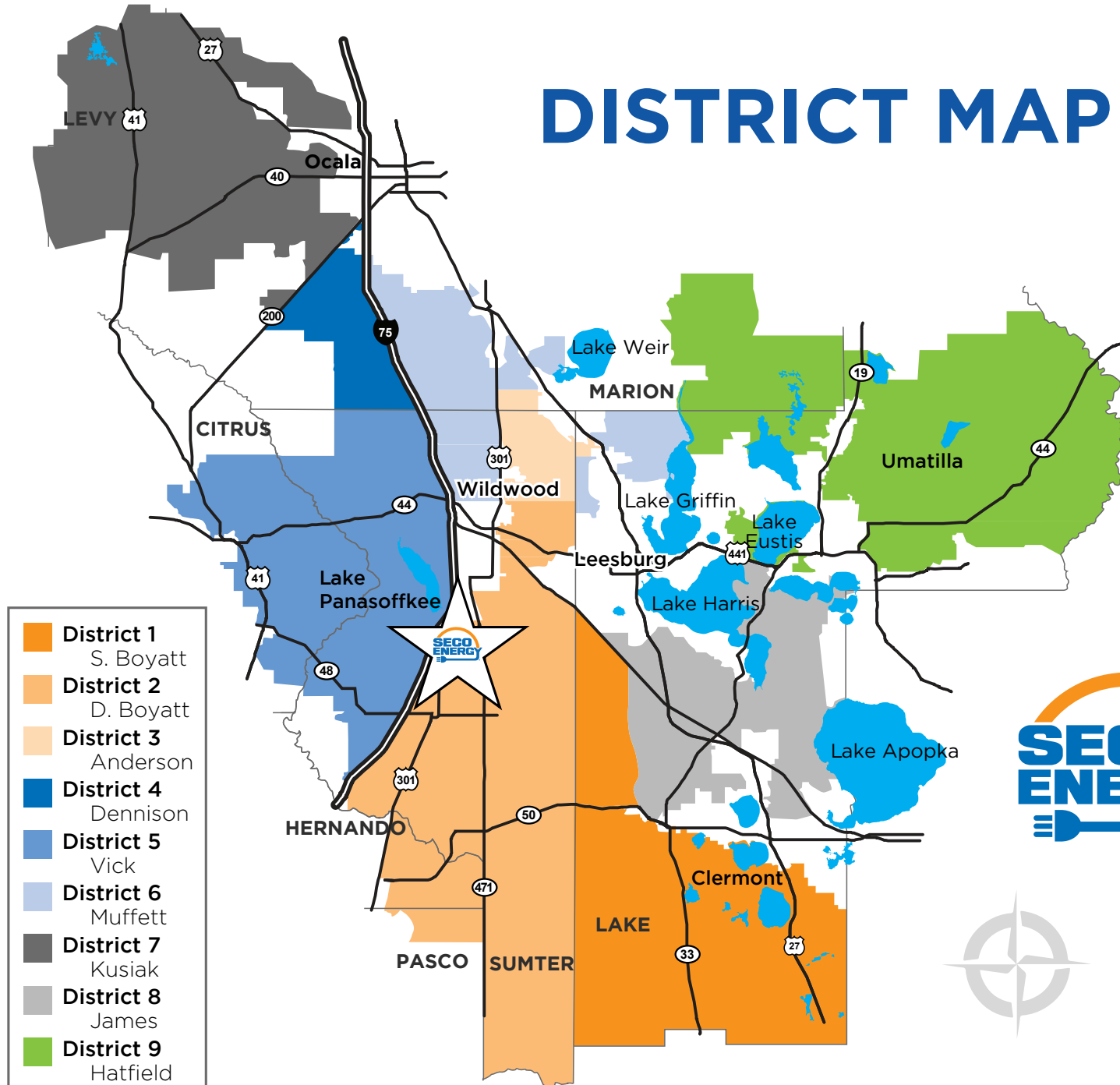


JOSEPH E. KUSIAK

■ District 7

SECO Energy's Board of Trustees are members who live in SECO's service territory. They are elected to oversee the governance of the cooperative. Each Trustee on the Board is elected by the members who reside in his/her District. Collectively, the Trustees are responsible for establishing, reviewing and revising corporate policies to ensure that SECO continues to preserve reliable, affordable service for all members.

DISTRICT MAP



OUR PURPOSE

To provide exceptional service to our members, co-workers and communities.

OUR VALUES

Member Commitment
Honesty and Integrity
Safety
Strong Work Ethic
Teamwork
Open Communication



EXECUTIVE LEADERSHIP



JIM DUNCAN
Chief Executive Officer



BEN BRICKHOUSE
VP of Engineering



NORA BROWN
Sr. Executive Assistant



KATHRYN GLORIA
VP of Corporate Communications



GENE KANIKOVSKY
Chief Financial Officer



JOHN LASELVA
VP of Operations



GREGG MORRELL
VP of Corporate Services & Human Resources

INDEPENDENT AUDITOR'S REPORT



Board of Directors
Sumter Electric Cooperative, Inc.
Sumterville, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Sumter Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of revenues and patronage capital, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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 entity'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 entity'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 the Cooperative, as of December 31, 2019 and 2018, 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.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements of the Cooperative's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from, and related directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2020, on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.

Other Reporting Required by 7 CFR Part 1773

In accordance with 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33, we have also issued our report dated February 11, 2020, on our consideration of the Cooperative's compliance with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in the regulatory requirements for electric borrowers, insofar as they relate to accounting matters enumerated therein. The purpose of that report is to describe the scope of our testing of the Cooperative's compliance with the regulatory requirements for electric borrowers and the results of that testing, and not to provide an opinion on the Cooperative's compliance with the regulatory requirements for electric borrowers. That report is an integral part of an audit in considering the Cooperative's internal control over financial reporting and compliance.

Purvis, Gray and Company, LLP

February 11, 2020
Ocala, Florida

Certified Public Accountants

Laurel Ridge Professional Center . 2347 S.E. 17th Street . Ocala, Florida 34471 . (352) 732-3872

MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

BALANCE SHEETS | DECEMBER 31, 2019 AND 2018

ASSETS	2019	2018	EQUITIES AND LIABILITIES	2019	2018
Electric Plant			Equities		
Distribution, Transmission, and General Plant	\$ 878,746,560	\$ 828,151,643	Memberships	\$ 937,010	\$ 911,525
Construction Work in Progress	39,070,154	50,519,318	Patronage Capital	272,268,172	257,504,864
Total Electric Plant	<u>917,816,714</u>	<u>878,670,961</u>	Accumulated Other Comprehensive Income	(692,156)	(519,288)
(Accumulated Provision for Depreciation and Amortization)	<u>(204,325,724)</u>	<u>(198,127,664)</u>	Other Equities	<u>5,860,121</u>	<u>5,216,724</u>
Total Electric Plant - Cost Less Depreciation and Amortization	<u>713,490,990</u>	<u>680,543,297</u>	Total Equities	<u>278,373,147</u>	<u>263,113,825</u>
Investments			Non-Current Liabilities		
Investments in Associated Organizations and Other Special Funds	<u>97,272,555</u>	<u>89,955,325</u>	Long-Term Debt	498,141,631	475,610,909
Current Assets			Capital Lease Obligation	3,678,601	2,806,272
Cash and Cash Equivalents	2,027,502	2,468,372	Deferred Compensation Liability	<u>2,132,463</u>	<u>1,555,821</u>
Accounts Receivable - Consumers (Less Provision for Doubtful Accounts 2019 - \$922,007, and 2018 - \$1,293,251)	11,225,269	10,808,496	Total Non-Current Liabilities	<u>503,952,695</u>	<u>479,973,002</u>
Other Receivables	17,892,879	20,912,606	Current Liabilities		
Unbilled Electric Revenues	13,474,363	9,937,438	Long-Term Debt - Portion Due Within One Year	19,989,058	17,333,663
Inventories	15,882,376	17,107,723	Capital Lease Obligation - Portion Due Within One Year	1,467,007	1,032,088
Prepayments and Other Current Assets	<u>379,200</u>	<u>164,667</u>	Line of Credit	1,186,132	-
Total Current Assets	<u>60,881,589</u>	<u>61,399,302</u>	Accounts Payable	19,548,807	34,821,115
Deferred Charges	<u>4,564,778</u>	<u>6,261,486</u>	Consumer Deposits	17,819,162	17,395,843
Total Assets	<u>\$ 876,209,912</u>	<u>\$ 838,159,410</u>	Other Current or Accrued Liabilities	<u>18,749,902</u>	<u>11,629,114</u>
			Total Current Liabilities	<u>78,760,068</u>	<u>82,211,823</u>
			Deferred Credits	<u>15,124,002</u>	<u>12,860,760</u>
			Total Equities and Liabilities	<u>\$ 876,209,912</u>	<u>\$ 838,159,410</u>

STATEMENTS OF REVENUES AND PATRONAGE CAPITAL | DECEMBER 31, 2019 AND 2018

	2019	2018
Operating Revenues	\$ 395,780,230	\$ 392,699,934
Operating Expenses		
Cost of Power	255,458,625	265,587,987
Transmission Expense	276,306	228,289
Distribution Expense - Operations	19,334,959	18,352,708
Distribution Expense - Maintenance	37,394,763	29,836,108
Consumer Accounts Expense	12,629,391	12,274,676
Customer Service and Informational Expense	2,172,608	2,185,419
Administrative, General, and Other Expense	18,049,692	16,522,505
Depreciation Expense	27,120,911	25,487,271
Taxes - Expense	77,746	71,835
Other Expense	553,303	307,823
(Total Operating Expenses)	<u>(373,068,304)</u>	<u>(370,854,621)</u>
Operating Margins Before Fixed Charges	<u>22,711,926</u>	<u>21,845,313</u>
Fixed Charges		
Interest on Long-Term and Short-Term Debt	<u>(16,580,726)</u>	<u>(15,157,044)</u>
Operating Margins After Fixed Charges	<u>6,131,200</u>	<u>6,688,269</u>

	2019	2018
Other Margins		
G&T Cooperative Capital Credits	\$ 5,916,257	\$ 5,100,000
Other Capital Credits and Margins	<u>1,618,740</u>	<u>1,793,800</u>
Total Other Margins	<u>7,534,997</u>	<u>6,893,800</u>
Net Operating Margins	<u>13,666,197</u>	<u>13,582,069</u>
Non-Operating Margins		
Interest Income	1,241,461	899,223
Other Non-Operating (Expense) Income	<u>1,998,723</u>	<u>271,937</u>
Total Non-Operating Margins	<u>3,240,184</u>	<u>1,171,160</u>
Net Margins	16,906,381	14,753,229
Patronage Capital, Beginning of Year	257,504,864	248,116,609
Reallocation of Unclaimed Patronage Capital	1,345,150	-
(Retirement of Capital Credits)	<u>(3,488,223)</u>	<u>(5,364,974)</u>
Patronage Capital, End of Year	<u>\$ 272,268,172</u>	<u>\$ 257,504,864</u>

STATEMENTS OF COMPREHENSIVE INCOME DECEMBER 31, 2019 AND 2018

2019 2018

Net Margins	\$ 16,906,381	\$ 14,753,229
Other Comprehensive Net Margins		
Amortization of Unrecognized Prior Service Costs and Unrecognized Actuarial (Loss) Gain	(172,868)	125,411
Comprehensive Net Margins	<u>\$ 16,733,513</u>	<u>\$ 14,878,640</u>

STATEMENTS OF CHANGES IN COMPREHENSIVE INCOME DECEMBER 31, 2019 AND 2018

2019 2018

Accumulated Other Comprehensive Income (Loss)-Beginning of the Year	\$ (519,288)	\$(644,699)
Amortization of Unrecognized Prior Service Costs and Unrecognized Actuarial (Loss) Gain	(172,868)	125,411
Accumulated Other Comprehensive Income (Loss)-End of the Year	<u>\$ (692,156)</u>	<u>\$ (519,288)</u>

STATEMENTS OF CASH FLOWS DECEMBER 31, 2019 AND 2018

2019 2018

Cash Flows from Operating Activities

Net Margins	<u>\$ 16,906,381</u>	<u>\$ 14,753,229</u>
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Adjustments to Reconcile Net Margins to Net Cash Provided by (Used in) Operations:

Capital Credits and Patronage		
Dividend Certificates Assigned	(7,534,997)	(6,893,800)
Depreciation	28,341,424	26,722,224
Provision for Uncollectible Accounts	363,057	227,150
Amortization of Prepaid Pension	1,148,029	1,148,029

Changes in Assets - Decrease (Increase) and Liabilities - Increase (Decrease):

Accounts Receivable	(4,316,755)	(4,589,861)
Other Receivables	3,019,727	(2,199,650)
Prepayments and Other Current Assets	(214,533)	(26,726)
Deferred Charges	548,679	(55,787)
Accounts Payable	(15,272,308)	2,647,181
Consumer Deposits	423,319	928,669
Other Current Liabilities	7,120,788	(3,475,567)
Deferred Compensation Liability	576,642	9,748
Deferred Credits	2,263,242	161,668

Total Adjustments	<u>16,466,314</u>	<u>14,603,278</u>
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Net Cash Provided by (Used in) Operating Activities

	<u>33,372,695</u>	<u>29,356,507</u>
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Cash Flows from Investing Activities

Change in Inventory - Net of Salvage	1,225,347	(1,354,257)
Contributions in Aid of Construction Received	12,905,920	13,216,548
Proceeds from Disposition of Property	4,887,038	405,570

STATEMENTS OF CASH FLOWS | DECEMBER 31, 2019 AND 2018

2019

2018

Proceeds from Redemption of Patronage Capital Certificate	381,213	684,927
Proceeds from Redemption of Other Investments	57,155	370,732
Purchase of Other Investments	(220,601)	(146,496)
Extension and Replacement of Plant	(68,637,402)	(63,186,735)
Plant Removal Cost	(7,542,289)	(4,490,820)
Net Cash Provided by (Used in) Investing Activities	<u>(56,943,619)</u>	<u>(54,500,531)</u>

Cash Flows from Financing Activities

Line of Credit (Net)	(19,767,298)	1,526,830
Proceeds from Long-Term Debt	45,500,000	72,000,000
Payments on Long-Term Debt	(17,821,616)	(18,647,399)
Payment to Cushion of Credit	18,461,163	(25,114,420)
Payments on Capital Lease Obligation	(1,595,136)	(918,207)
Other Equities	470,529	774,111
Membership Fees	25,485	24,340
Reallocation of Unclaimed Patronage Capital	1,345,150	-
Retirement of Capital Credits	(3,488,223)	(5,364,974)
Net Cash Provided by (Used in) Financing Activities	<u>23,130,054</u>	<u>24,280,281</u>

Net Increase (Decrease) in Cash and Cash Equivalents

Cash and Cash Equivalents, Beginning of Year

(440,870)	(863,743)
<u>2,468,372</u>	<u>3,332,115</u>

2019

2018

Cash and Cash Equivalents, End of Year

\$	<u>2,027,502</u>	\$	<u>2,468,372</u>
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Supplemental Disclosures of Cash Flow Information

Cash Paid During the Year for:

Interest	\$	<u>16,655,345</u>	\$	<u>15,054,955</u>
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Supplemental Schedule of Non-Cash Investing and Financing Activities

The Cooperative Retired Certain Assets from its Plant Records as Follows:

Cost of Assets Retired	\$	21,374,435	\$	14,701,232
Plant Removal Costs		7,542,289		4,490,820
Material Salvaged		<u>(1,695,619)</u>		<u>(1,732,170)</u>

Net Reduction in Accumulated Depreciation

\$	<u>27,221,105</u>	\$	<u>17,459,882</u>
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The Cooperative Financed Certain Equipment Using a Capital Lease:

Amounts not Included in Proceeds from Capital Lease Obligation	\$	2,902,384	\$	1,430,443
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Amounts not Included in Extension and Replacement of Plant	\$	2,902,384	\$	1,430,443
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STORMCENTER

StormCenter is SECO Energy's all-in-one online outage reporting and communications platform. Members can report an outage 24/7, check the status of an existing outage or report an area light malfunction. StormCenter is designed specifically for use on your smartphone or tablet.

Enroll in outage notifications to receive updates about current outages or scheduled system maintenance in your area. Members can choose to receive notifications via email, text, voice message or all three. Update your contact information and other settings to prepare for storm season. Visit SECOEnergy.com > StormCenter to explore the options.

Outage Map

INTERACTIVE MAP WITH ETR, CREW STATUS AND MORE!

Report Outage

REPORT A NEW OUTAGE.

Check Status

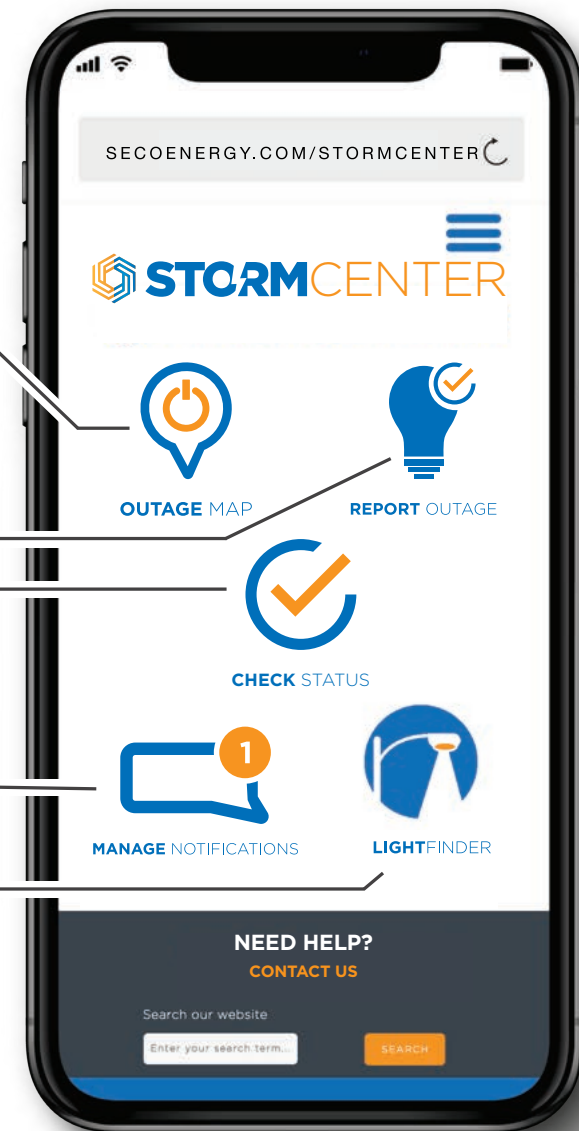
CHECK THE STATUS OF AN EXISTING OUTAGE.

Manage Notifications

ENROLL IN EMAIL, TEXT AND VOICE NOTIFICATIONS.

LightFinder

REPORT AN AREA LIGHT OUTAGE OR ISSUE.



SURGE MITIGATOR™

TAKES THE BITE OUT OF DAMAGING SPIKES AND SURGES.

For just pennies a day, SECO Energy's Surge MitiGator™ helps take the bite out of damaging power surges and spikes that can damage or destroy household appliances and sensitive electronics. This valuable protection is "Made in the USA" and includes a beastly warranty. Visit SECOEnergy.com > Energy Solutions > Surge MitiGator to enroll or learn more today.

SURGE@SECOENERGY.COM



HIGHEST IN CUSTOMER SATISFACTION

"Highest in Customer Satisfaction among Cooperatives (2017 & 2016) and among South Midsize Utilities (2015)"



TRIPLE CROWN

For J.D. Power award information, visit jdpower.com. | To learn more about SECO Energy visit secoenergy.com.

