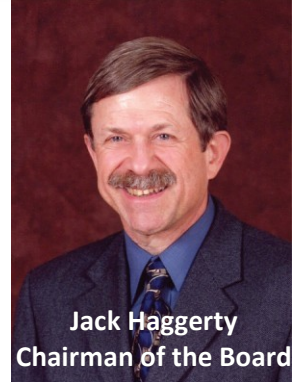


Chris Reese
President and CEO

Sussex Rural Electric Cooperative, Inc.

ANNUAL REPORT



Jack Haggerty
Chairman of the Board

President and Chairman's Report

From its beginning, rural electrification was a grassroots movement. The Rural Electrification Administration, initiated by President Franklin D. Roosevelt's executive order in 1935 and given statutory authority by the Rural Electrification Act in 1936, was created to make loans on a continuing basis for rural electrification. This movement would change the world as we knew it.

In 1936, three farmers from Mt. Salem were given a quote of \$10,000.00 to extend the power line to their farms. An unattainable feat would become a possibility when these three farmers, with over 150 more from all over Sussex County attended a meeting at the courthouse in Newton to learn more about the Rural Electrification Act. By December 24, 1936, James E. Bacon, Associate Project Advisor of the REA, returned to Washington, D.C. with 321 prospective subscribers from Sussex County. A New Jersey Herald article dated May 13, 1937 reported the construction of 128.2 miles of lines through Vernon, Wantage, Frankford, and Lafayette townships and a small section of Montague Township. The Cooperative had begun operations.

Our membership and kilowatt-hour (kwh) sales grew steadily for most of our 80 year history, though things have leveled off the past seven years or so. In 2016, our membership grew by .002%, just a net total of 24 new members. Our kwh sales grew by about 2%, from about 147,000,000 to 151,000,000.

Sussex Rural Electric Cooperative was the result of many of our forefathers' hard work and dedication. Eighty years later, we are still holding our annual meetings and reporting our progress to you, our co-op members. Whether you were here when the lights came on or you are new to our community, we work for you, our member/owners. At Sussex Rural Electric Cooperative we are guided by seven cooperative principles. We believe in open membership; democratic member control; members' economic participation; independence; education, training, and information; cooperation with other cooperatives; and—above all—concern for our community.

During the initial years of the cooperative, the first lines served the farms well, however, poles were spaced as much as 300 feet apart. Flocks of birds which arrived in the fall and spring landed on the wires and then flew off enmasse, causing power outages when the two-wire system would bounce and connect. In 2016 our reliability continued to improve. Although flocks of birds no longer cause outages, wildlife, trees and wind do account for 70% of our

BALANCE SHEET

Assets		
Total utility plant in service	\$ 66,889,942	\$ 66,189,582
Construction work in progress	1,005,792	356,507
	67,895,734	66,546,089
Less: Accumulated provisions for depreciation	(35,573,479)	(34,802,323)
Net Electric Plant	32,322,255	31,743,766
Total other investments	6,012,958	5,735,164
Total Utility Plant & Other Investments	38,335,213	37,478,930
Currents assets:		
Cash & short-term investments	1,394,778	1,435,345
Accounts receivable Less provision for doubtful accounts of \$25,000 in 2016 & 2015)	2,390,828	2,502,399
Materials & supplies	596,434	609,515
Other current & accrued assets	1,645,561	1,836,665
Total current assets	6,027,601	6,383,924
Deferred charges	62,088	137,207
Total Assets	\$ 44,424,902	\$ 44,000,061
Equities & Liabilities		
Equities:		
Memberships	\$ 52,745	\$ 52,625
Patronage capital	9,296,109	9,654,511
Other equities	8,899,644	7,734,043
Total equities and margins	18,248,498	17,441,179
Long-Term Debt		
Mortgage notes, less current portion	17,829,875	19,120,964
Current Liabilities:		
Loan payable - line of credit	-	-
Current portion of long-term debt	1,291,089	986,132
Accounts payable	1,666,186	1,218,544
Patronage capital payable	316,828	274,791
Consumer deposits	471,587	436,387
Taxes accrued	6,523	127,622
Deferred revenue	3,399,346	3,193,852
Other current & accrued liabilities	1,194,970	1,200,590
Total current liabilities	8,346,529	7,437,918
Total Equities & Liabilities	\$ 44,424,902	\$ 44,000,061

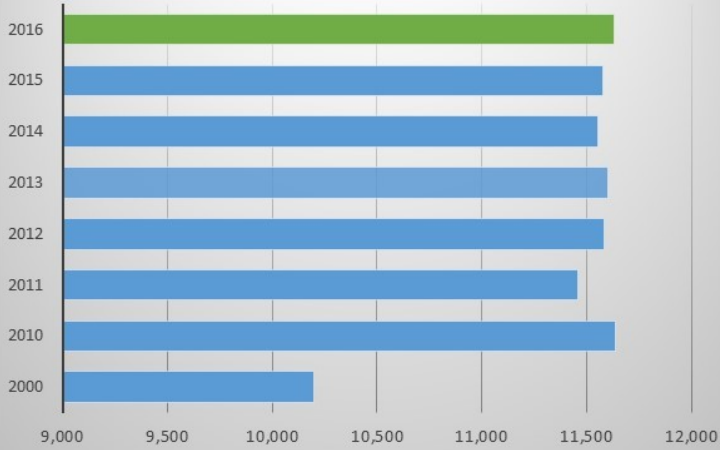
INCOME STATEMENT

Operating Revenue	\$ 20,292,071	\$ 19,882,951
Operating Expenses:		
Cost of power	10,000,068	9,743,506
Transmission expense	-	6,337
Distribution expense - operation	1,995,590	1,962,370
Distribution expense - maintenance	2,110,230	1,881,169
Consumer accounts expense	916,373	927,072
Administrative & general expense	2,339,035	2,163,088
Depreciation & amortization expense	1,823,077	1,714,055
Taxes	74,639	(16,633)
Interest	579	192
Total operating expenses & interest	19,259,591	18,381,156
Operating margins before fixed charges	1,032,480	1,501,795
Interest on long-term debt	(746,324)	(782,935)
Operating margins after fixed charges	286,156	718,860
Capital credits from other cooperatives	286,036	253,190
Net operating margins	572,192	972,050
Non-operating margins:		
Gain on sale of assets - net	44,030	20,757
Interest and other income	1,177,401	241,361
Net margin for period	1,793,623	1,234,168
Other comprehensive income		
Postretirement benefit accounting	(214,319)	(226,321)
Comprehensive margin	1,579,304	1,007,847
Postretirement benefit accounting	214,319	226,321
Net margin	\$ 1,793,623	\$ 1,234,168

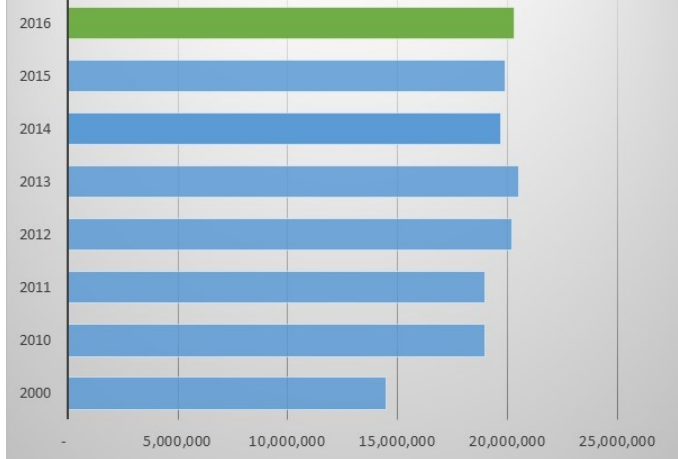
PATRONAGE CAPITAL

Patronage capital - January 1	\$ 9,654,511	\$ 9,422,476
Operating margins after fixed charges	286,156	718,860
Retirement of patronage capital	(785,926)	(741,770)
Adjustments to non-operating margins	141,368	254,945
Patronage Capital - December 31	\$ 9,296,109	\$ 9,654,511

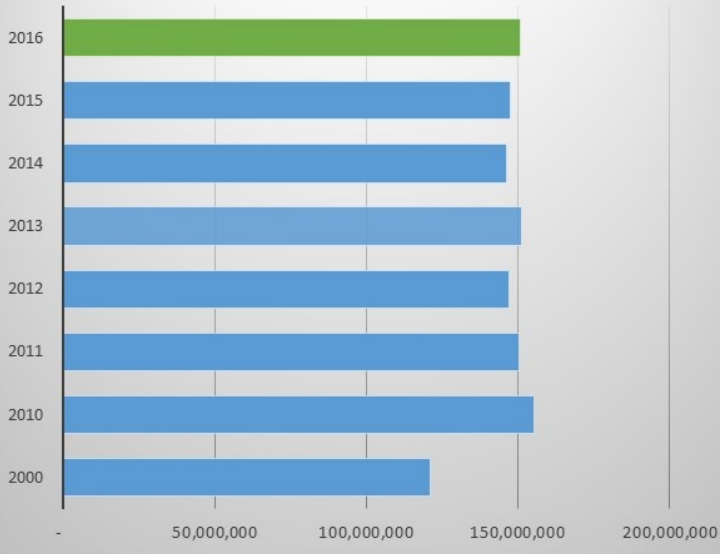
Members



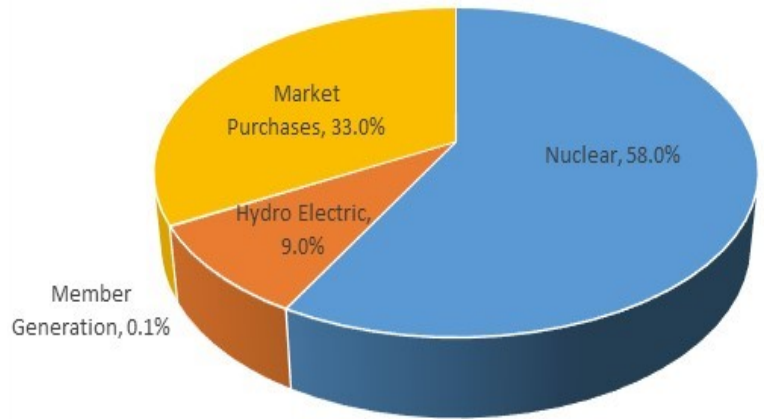
Revenue



kWh Sold

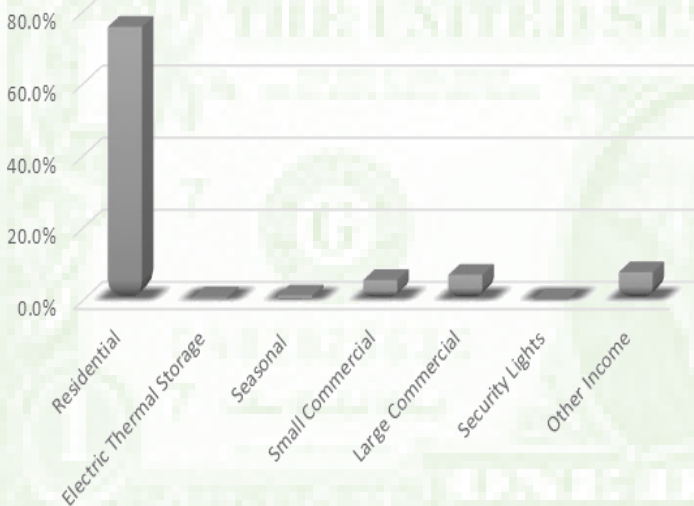


Power Supply Sources

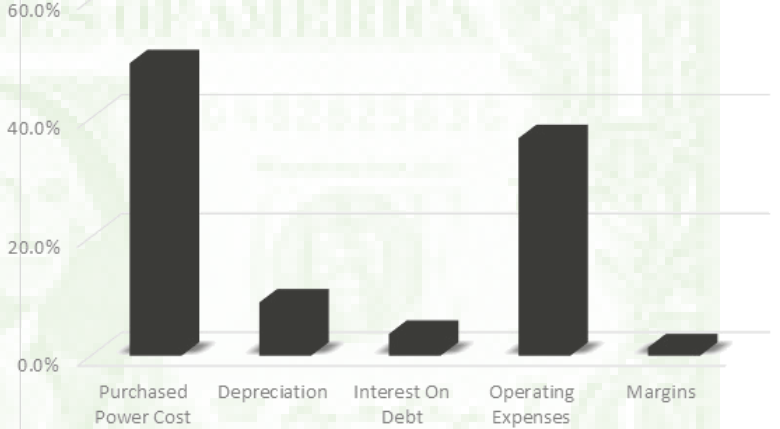


THE Co-Op Dollar

WHERE IT COMES FROM



WHERE IT GOES



outages. By tracking outages and investigating the causes we are better prepared to continue to offer our members the reliable power we are known for. Our active tree trimming program and investment in technology like automated switching capabilities help to keep our outage counts lower, and our response times faster.

In 2016, 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 left over above those costs is collected and allocated back to our members, who own the co-op. The current retirement schedule retired capital credits from the 1991-1992 period. In December 2016, the Board of Directors issued an additional refund of capital credits, from the period of 2015, so that more current members could also realize one of the benefits of being a Sussex Rural Electric Cooperative owner. As a result, \$750,000 was returned to the membership in the two capital credit retirements.

The financial strength of your Cooperative remained strong in 2016. The cooperative recorded a margin of \$1.9 million, while investing \$1.3 million of capital improvements in the electric system's infrastructure. This year the cooperative achieved an equity ratio of 41% which enables us to access the capital markets at a reduced cost saving money for all our members.

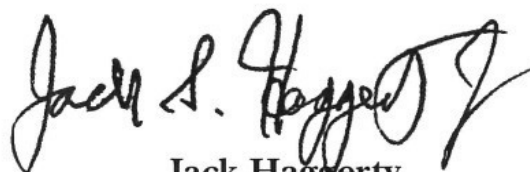
SREC Resources, our wholly owned subsidiary continues to remain financially strong and has allowed for continual improvements while keeping our members costs low. SREC Resources total revenue was its highest since 2008. The company was busy installing Cummins home generators and Electric Thermal Storage (ETS) heating systems, among other jobs.

The cooperative of 1937 changed our community and SREC continues to work in the communities it serves. SREC works closely with schools at all levels, from elementary school safety education to college scholarships, SREC believes strongly in the education of our communities' youth. We also brought our knowledge of electric safety and energy to our volunteer firefighters, presenting information on safeguarding themselves from issues that arise when solar panels are on a home. SREC is present in the lives of our members, from our youngest member who is just happy to "Touch A Truck" at an event in Highland Lakes to our senior members who have us speak at their meetings. We are an active member of our community.

Working together, our forefathers built an electric cooperative, and today, we continue their legacy building our communities, bringing dreams to reality, and giving local youth a better future. For 80 years Sussex Rural Electric Cooperative has been providing the highest quality of service at the lowest possible cost. This mission has served our members well for the past 80 years, and we see no reason to work any differently for the next eighty!



Christopher P. Reese
President & CEO



Jack Haggerty
Chairman of the Board