



COTTON
ELECTRIC CO-OP

A Touchstone Energy® Cooperative 

2018 ANNUAL REPORT

A MESSAGE FROM *Board president Ken Layn & CEO Jennifer Meason*

Founding principles remain true

As we celebrate Cotton Electric's 80th anniversary, we would like to express our appreciation for your support and involvement in your co-operative. Since our founding members started this journey in 1938, we've seen many changes and advancements. Your cooperative utility plant is now valued at over \$100 million and provides service to 22,100 meters along 5,165 miles of line.

The Board of Trustees and employees of Cotton Electric take that responsibility very seriously. Over the past year, we've focused on projects to improve your service quality, reliability and expedite restoration efforts when severe weather hits our area. We responded to 1,390 outages in 2018, the majority of which were caused by storms and lightning damage.

Cotton Electric's vegetation management and preventative maintenance programs are key items in our strategic plan. As part of the Cooperative's maintenance program, utility poles are inspected and replaced in a proactive manner. In 2018, 8,500 poles were inspected leading to



Ken Layn



Jennifer Meason

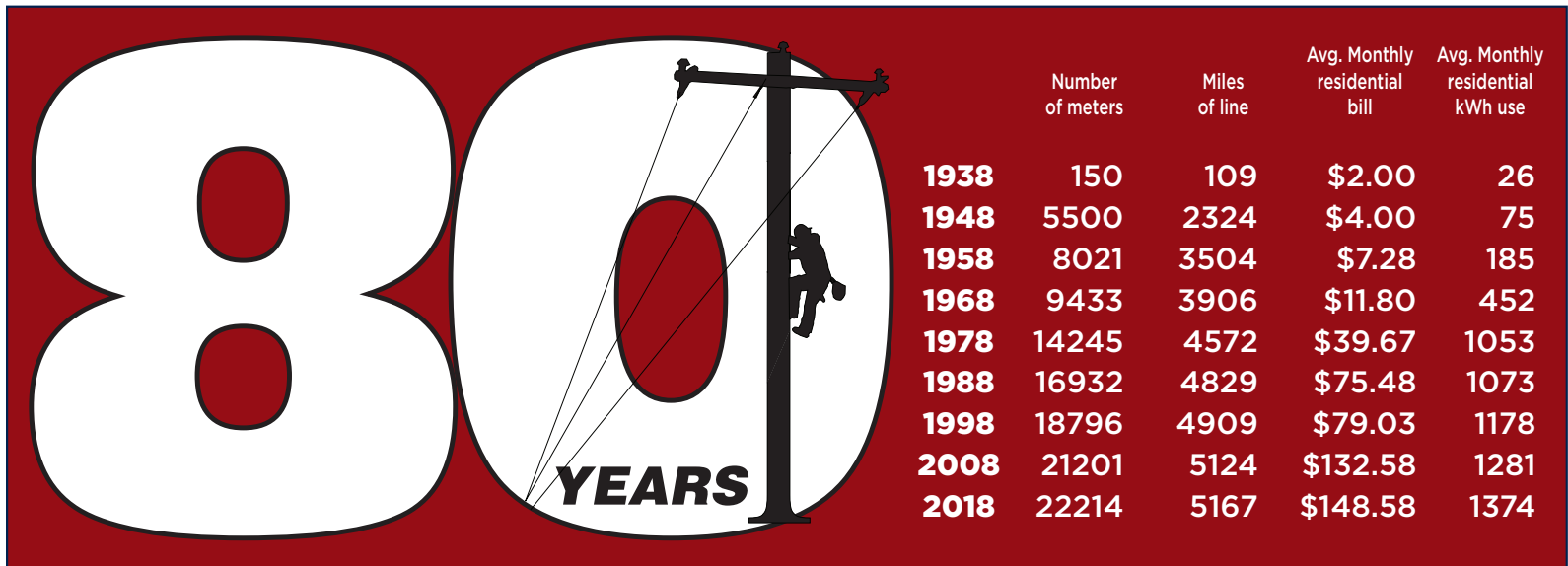
the replacement of 1,105. This proactive approach improves safety and increases system reliability and resiliency during severe weather events.

Our vegetation management program is a three-pronged approach of clear cutting, trimming in front of residences at least 10 feet below the neutral line, and following up with herbicide application to prevent regrowth. Throughout the year, our employees evaluate the system for tree issues and determine the most economical and effective methods of treatment. After this year's evaluation, crews clear cut and trimmed 30 miles of line and applied herbicide applications over 69 miles. Through this program, we've seen improvement in

the ability of the system to weather storms with minimal damage in addition to improving power quality.

We expanded our meter pilot project to the east side of our system and had a positive outcome. After seeing the results of the pilot project, we will begin a full deployment of the new system over a three-year period. The new system will provide more detailed energy use information as well as notify us as outages occur. We're excited to deploy a system that will help our crews restore power in a more efficient manner and better assist our members.

Providing safe, reliable and affordable power for our members is our mission but we know our purpose goes beyond the meter. We



continued our support of area youth, sending eighth graders to Energy Camp in Hinton, high school seniors to the Touchstone Energy Leadership Summit in Oklahoma City, and high school juniors to the Washington D.C. Youth Tour. We were happy to visit with many of you at community events throughout the year like the Lawton Home and Garden Show, Fiesta in Fuqua, county fairs, parades and live-stock shows.

With your help, the Cotton

Electric Charitable Foundation made a positive impact in our communities through \$108,256 in grants awarded in 2018. Since its inception in 2004, your generosity has provided \$1,110,000 to individuals and organizations in need in our service area.

Cotton Electric, along with our power supplier Western Farmers Electric Cooperative (WFEC), contributed more than \$2.3 million to local school districts via a 2% gross receipts tax paid to the State of Oklahoma. The

Cooperative also returned \$1.5 million in capital credits from Cotton Electric and WFEC last year.

We're proud of the cooperative's past and our founding principles that remain true today. We've made great progress but there's still more work to do. The Board of Trustees and employees of Cotton Electric remain dedicated to our mission to improve electric service and the quality of life in southwest Oklahoma. Here's to another 80 years!

HEADQUARTERS

Cotton Electric Cooperative
226 N. Broadway
Walters, OK 73572
Phone: 580-875-3351
Website: CottonElectric.com

DUNCAN OFFICE

1101 W. Oak
Duncan, OK 73533
Phone: 580-255-5065

LEGAL COUNSEL

J.W. Doolin
Lawton, Okla.

INDEPENDENT AUDITORS

Briscoe, Burke & Grigsby, LLP
Tulsa, Okla.

ACCOUNTING STATISTICS

Karen Rivet
Accounting Supervisor

MANAGEMENT

Jennifer Meason
Chief Executive Officer

Jeff Simpson, Vice President

Mike Ottinger, Vice President

Bryce Hooper, Vice President

BOARD OF TRUSTEES

Cotton Electric Cooperative's Board of Trustees has a fiduciary responsibility for the governance of the cooperative and its subsidiary, serving to oversee and shape policy and keep the co-op and its subsidiary on a steadfast, focused course.

Your trustees are a dedicated, experienced group of professionals who share in an abiding

loyalty for, and commitment to, the members throughout our eight-county service area. They act on behalf of you, our members, carrying out their principal responsibility to evaluate and create policies to ensure your cooperative provides safe, affordable and reliable service; all while adhering to our core value: to strengthen the communities we serve.

District 1



Shan Files

Vice President

District 2



Ken Layn

President

District 3



Charles Spencer

District 4



Brian DeMarcus

Secretary/Treasurer

District 5



Clifford Dunham

District 6



Todd Clark

District 7



Steve Robinson

Asst. Sec./Treas.

District 8



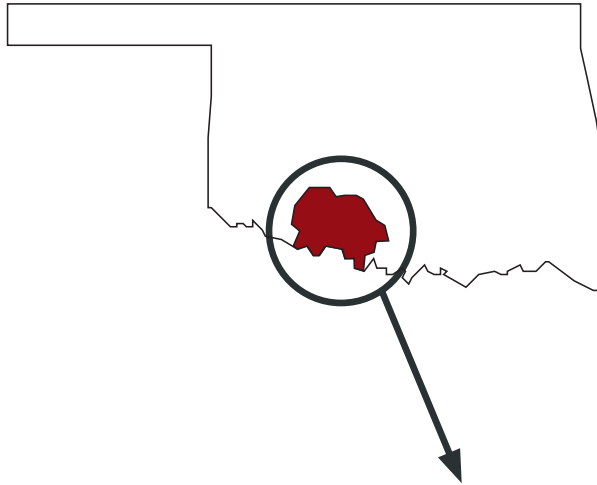
Tony High

District 9



Ronnie Bohot

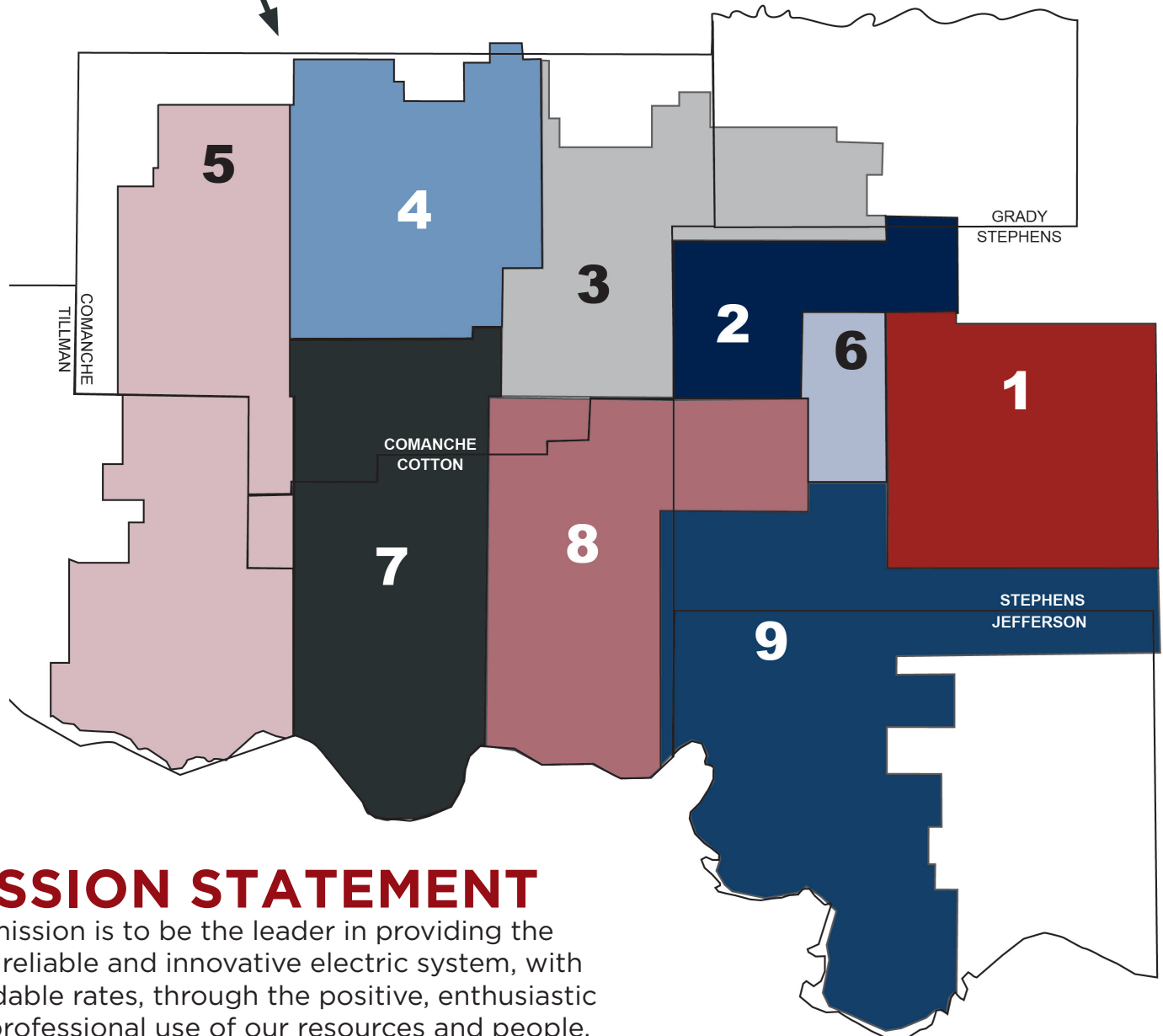
SERVICE AREA



Cotton Electric Cooperative provides electric service to some 22,000 meters in eight counties of southwest Oklahoma. Cotton Electric was organized in 1938 to provide electric services to rural areas at a time when other utilities did not consider it economically feasible. Over the course of nearly 80 years, the cooperative has steadily grown while continuing to meet the changing needs of its members.

The members of Cotton Electric own the cooperative's electric system and have an active voice in business matters. Combined with the many services offered, a local dispatcher is always on duty to assist with any unexpected problems occurring after normal working hours.

Our headquarters is located at 226 North Broadway in Walters and a branch office at 1101 West Oak in Duncan.

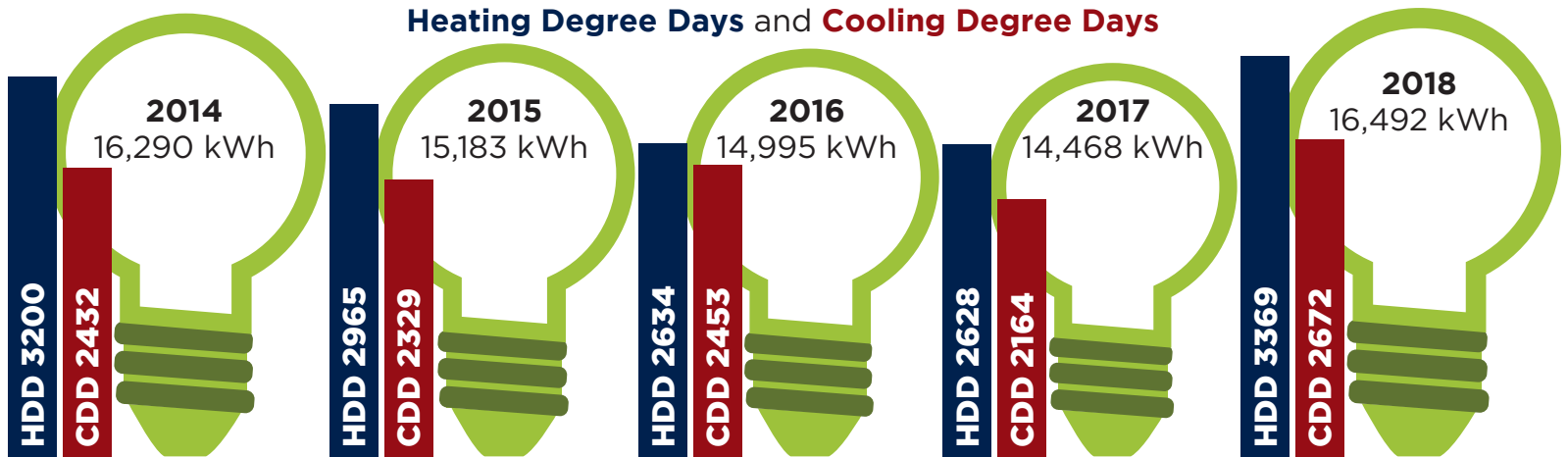


MISSION STATEMENT

Our mission is to be the leader in providing the most reliable and innovative electric system, with affordable rates, through the positive, enthusiastic and professional use of our resources and people.

2018 ANNUAL REPORT | COTTON ELECTRIC COOPERATIVE

Average Farm/Residential kWh consumed
Annual fluctuations can often be attributed to
Heating Degree Days and **Cooling Degree Days**



FIVE-YEAR OPERATING STATISTICS

As of December 31, 2017

	2014	2015	2016	2017	2018
Total Revenue	\$73,370,764	\$66,181,939	\$63,037,399	\$61,626,473	\$65,188,507
Cost of Purchased Power	54,405,248	45,309,599	42,171,946	41,290,211	43,532,744
Taxes	1,437,019	1,317,723	1,206,924	1,204,620	1,258,102
Operating Expense per Mile	14,112	12,382	11,920	11,602	12,116
Operating Income per Mile	14,244	12,843	12,212	11,923	12,616
Average Farm/Residential Annual Bill	1,830	1,722	1,694	1,656	1,783
Average Number of Meters Billed	22,093	22,171	22,114	22,105	22,214
Miles of Line Energized	5,151	5,153	5,162	5,169	5,167
Density per Mile	4.29	4.30	4.28	4.28	4.30
New Services Connected	361	333	255	268	278
Services Retired	164	197	106	141	116

OPERATING EXPENSES 2018



448.7
megawatts
produced at
solar site
in 2018

259.81
kilowatts

Peak generation on April 14

15,447

Members at year-end



172,005

Man-hours worked by
Cotton Electric employees
86 full time - 2 part time
6 temporary helpers

Cotton Electric communicates
with members in a variety of ways.



The Current

15,070 issues mailed
monthly to all members



Facebook

6,343 followers at year-end



Twitter

1,786 followers at year-end



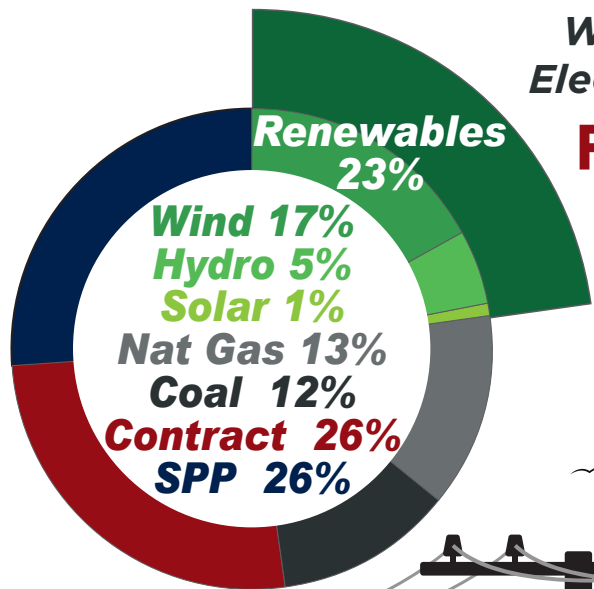
Instagram

Launched Oct. 2018,
105 followers at year-end

1,041,504
Miles driven

5,167
Miles of line





**Western Farmers
Electric Cooperative**

FUEL MIX

Our power provider's generation portfolio includes a variety of sources.

174,048

KILOWATTS

PEAK DEMAND

JANUARY 2018

\$0.024	2018	\$0.055
\$0.025	2017	\$0.056
\$0.025	2016	\$0.055
\$0.023	2015	\$0.056
\$0.021	2014	\$0.064
\$0.021	2013	\$0.055
\$0.022	2012	\$0.052
\$0.022	2011	\$0.054
\$0.022	2010	\$0.052
\$0.022	2009	\$0.049

TOTAL AVERAGE COST PER KWH PURCHASED

 Cost of
Generating
Power

 Cost of
Distributing
Power

\$43,532,744

COST OF POWER

766,268,361

KILOWATT-HOURS SOLD

99.96%

AVERAGE SYSTEM
RELIABILITY

\$1,010

AVERAGE
MONTHLY
EXPENSES PER
MILE

*See Operating Expense
breakdown on Page 6*

7,412

OUTAGE
PHONE CALLS
RECEIVED

1,390

OUTAGES

655

OUTAGES CAUSED
BY WEATHER

495
Lightning

127
Wind

18
Ice
15
Other

22,214

METERS

5,167

MILES OF LINE

4.30

METERS SERVED
PER MILE
OF LINE

\$148.58

AVERAGE
MONTHLY
RESIDENTIAL
or FARM BILL



111

Outages caused
by animals

8,500

POLES INSPECTED

1,105

POLES REPLACED

\$500,000

COTTON ELECTRIC
CAPITAL CREDITS
RETIRED

\$1.034M

WFEC
CAPITAL CREDITS
RETIRED

5,540

UNDERGROUND
LOCATES

BALANCE SHEETS

Consolidated As of December 31, 2018

ASSETS

Utility Plant

Electric Plant in Service	140,347,085	134,933,837
Construction Work in Progress	2,413,321	2,220,603

Total Utility Plant, at cost	142,760,406	137,154,440
Less Accumulated Depreciation	(41,465,188)	(39,449,143)

Net Utility Plant	101,295,218	97,705,297
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Non-utility plant

Non-utility Plant	427,775	427,361
Less Accumulated Depreciation	(305,560)	(283,778)

Total Non-utility Plant	122,215	143,583
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Other Property and Investments

Investment in Associated Organizations	32,399,064	32,124,647
Notes Receivable less current portion	-	90,726

Total Other Investments	32,399,064	32,215,373
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Current Assets

Cash & Cash Equivalents	5,897,793	4,913,261
Accounts Receivable less doubtful accounts	1,158,970	1,512,086
Unbilled Revenue	5,276,328	5,112,308
Materials and Supplies	1,908,397	1,555,693
Other Current and Accrued Assets	311,316	339,766

Total Current Assets	14,552,804	13,433,114
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Deferred Debits	1,420,223	1,782,751
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TOTAL ASSETS	149,789,524	145,280,118
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LIABILITIES AND MEMBERS' EQUITY

2018 2017

Equities and Margins

Memberships	113,145	113,755
Patronage Capital	65,601,099	63,218,872

Accumulated other comprehensive income	(371,021)	(371,021)
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Other Equities	10,314,551	9,572,163
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Total Equities and Margins	75,657,774	72,533,769
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Long-term Debt

Long-term Debt less Current Maturities	57,257,067	56,190,149
Other Non-current Liabilities	7,259,310	7,035,082

Total Long-term Liabilities	64,516,377	63,225,231
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Current Liabilities

Current Maturities of Long-term Debt	1,979,000	2,155,000
Account Payable	4,784,531	4,304,059
Consumer Deposits	1,213,682	1,084,775
Other Current and Accrued Liabilities	1,201,083	1,474,308

Total Current Liabilities	9,178,296	9,018,142
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Deferred Credits	437,077	502,976
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TOTAL LIABILITIES AND EQUITY	149,789,524	145,280,118
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CONSOLIDATED STATEMENT OF REVENUE, PATRONAGE CAPITAL & COMPREHENSIVE INCOME

REVENUE	2018	2017
Operating Revenues	67,306,390	63,500,089
Operating Expenses		
Cost of Power	43,532,744	41,290,211
Distribution Expense - Operations	3,499,287	3,477,886
Distribution Expense - Maintenance	3,617,055	3,718,390
Consumer Accounts	1,531,950	1,455,071
Customer Service and Information	154,883	131,487
Sales Expense	613,309	526,620
Administrative and General	2,516,683	1,610,793
Depreciation	4,282,431	4,252,075
Taxes 1,258,102	1,204,620	
Interest 2,301,193	2,293,126	
Cost of Goods Sold	1,197,647	1,683,127
Other Interest and Deductions	41,943	40,802
Total Operating Expenses	64,547,227	61,684,208
Net Operating Margins	2,759,163	1,815,881
Other Income		
Interest Income	261,917	224,444
Other Income (Expense)	(21,825)	(12,029)
Total Other Income	240,092	212,415
W.F.E.C. and Other Capital Credits	1,435,499	1,360,661
Net Margins Before Income Taxes	4,434,754	3,388,957
Provision for Income Taxes	(46,013)	(50,556)
PATRONAGE CAPITAL		
Patronage Capital Beginning of Year	63,218,872	61,774,575
Transfer to Other Equities	(369,838)	(320,803)
Retirement of Capital Credits	(1,636,676)	(1,573,301)
Patronage Capital End of Year	65,601,099	63,218,872
COMPREHENSIVE INCOME		
Net Margins for the Year	4,388,741	3,338,401
Other Comprehensive Income		
Amortize loss (gain) on APBO	-	-
Current Gain on APBO	-	(337)
Comprehensive Income	4,388,741	3,338,064

Safety a top priority at CESI

Established in 1984, Cotton Electric Services, Inc. (CESI) specializes in high voltage testing, repairing and selling personal protective equipment to electric providers nationwide. It is an independent, for-profit subsidiary of Cotton Electric Cooperative.

Safety is the first priority and the primary reason the CESI test lab exists. Six full-time and four part-time employees use state-of-the-art cleaning and dielectric testing procedures to ensure personal protective equipment is up to national standards.

CESI tests items used every day by line workers, such as gloves, blankets, sleeves, line hose, hot sticks, and other protective equipment. The staff cleans and then scrutinizes each item for visual signs of wear and tear before subjecting them to electrical testing.

The testing facility has exceeded the strictest standards established by the Association of North American Independent Laboratories for Protective Equipment Testing (NAIL for PET) and maintains its NAIL for PET accreditation for protective equipment testing by an in-house audit from an independent inspector every 3 years.



If items do not pass the tests and must be discarded, CESI serves as a supplier/distributor for replacements. An on-site warehouse holds an extensive inventory of products in an effort to provide customers with materials they need at an affordable cost.

CESI Statements of Financial Position

For the Years Ended June 30, 2018 and 2017

BALANCE SHEET

	2018	2017		2018	2017
ASSETS			LIABILITIES and MEMBERS' EQUITY		
Current Assets:			Current Liabilities:		
Cash/Cash Equivalents	\$374,063	\$668,416	Accounts Payable	\$57,904	\$114,967
Accounts Receivable	198,998	186,279	Accounts Payable-Parent	86,848	71,094
Accounts Receivable-Parent	4,279	10,383	Other Accrued Liabilities	2,051	3,956
Prepayments	36,110	35,890	Income Tax Accrual	13,170	
Inventory	951,813	545,228	Total Current Liabilities	159,973	190,017
Total Current Assets	1,565,263	1,446,196			
Fixed Assets:			Long-Term Liabilities:		
Property and Equipment	427,775	427,361	Deferred Income Taxes	20,981	25,338
Less: Accumulated Depreciation	(305,560)	(283,778)	Total Long-Term Liabilities	20,981	25,338
Net Fixed Assets	122,215	143,583			
TOTAL ASSETS	\$1,687,478	\$1,589,779	Members' Equity		
			Memberships	225,000	225,000
			Retained Earnings	1,281,524	1,149,424
			Total Members' Equity	1,506,524	1,374,424
			TOTAL LIABILITIES and MEMBERS' EQUITY	\$1,687,478	\$1,589,779



INCOME STATEMENT

	2018	2017
Revenues:		
Revenues from Sales	\$2,194,243	\$1,946,297
Cost of Goods Sold	<u>1,197,647</u>	<u>1,032,042</u>
Gross Profit	<u>996,596</u>	<u>914,255</u>
Expenses:		
Operating Expenses	<u>820,643</u>	<u>754,827</u>
Other Income:		
Interest Income	2,160	887
Gain/Loss on Sale of Equipment	-	132
Total Other Income	<u>2,160</u>	<u>1,019</u>
Income Before Taxes	<u>178,113</u>	<u>160,447</u>
Provision for Income Taxes	<u>46,013</u>	<u>50,556</u>
Net Income	<u>\$132,100</u>	<u>\$109,891</u>
Retained Earnings, beg of year	1,149,424	1,039,536
Retained Earnings, end of year	<u>\$1,281,524</u>	<u>\$1,149,427</u>

CESI 2018 statistics

63,532	Gloves tested
11,973	Sleeves tested
3,712	Line hose tested
2,810	Blankets tested
32,400	Miles driven
23	New customers
2,683	Orders filled
\$1,756,856	New sales
10	Employees
6	full time
4	part time

CECF Statements of Financial Position

For the Years Ended June 30, 2019 and 2018

BALANCE SHEET

ASSETS	2019	2018
Current Assets		
Checking/Savings	\$57,117	\$54,136
Accounts Receivable		
Contributions Receivable	6,777	8,299
Total Accounts Receivable	6,777	8,299
Total Current Assets	63,893	62,435
TOTAL ASSETS	\$63,893	\$62,435
LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable	\$12,344	\$12,268
Total Current Liabilities	12,344	12,268
Total Liabilities	12,344	12,268
Equity		
Opening Balance Equity	-	45,165
Perm. Restricted Net Assets	5,000	-
Unrestricted Net Assets	45,168	-
Net Income	1,382	5,002
Total Equity	51,549	50,168
TOTAL LIABILITIES & EQUITY	\$63,893	\$62,435

STATEMENT OF ACTIVITIES

	2019	2018
REVENUES		
Golf Tournament	\$27,343	\$26,655
Member Contributions	83,997	83,161
Total Revenues	\$111,340	\$109,816
EXPENSES		
Charitable Disbursements	\$85,278	\$79,679
Golf Tournament	15,690	16,403
Total Program Disbursements	\$100,968	\$96,083
Gross Profit (loss)	\$10,372	\$13,733
OTHER INCOME/EXPENSES		
Other Expenses	8,990	8,730
Total Other Income/Expenses	\$8,990	\$8,730
Net Income	\$1,382	\$5,002
Beginning Net Assets	50,167	45,165
End of Year Net Assets	\$51,549	\$50,167

2018-19 CECF GRANT RECIPIENTS

Break Bread Together	\$770.00
Camp Waluhi'yi	3,500.00
Alzheimer's Association	1,644.83
Big Pasture School District	2,000.00
Cache High School	2,000.00
Cameron University Foundation	1,675.00
CASA of Southwest Oklahoma Inc.	2,102.27
Central High Public Schools	2,400.00
Chattanooga Fire & Rescue	7,500.00
Chattanooga Police Department	2,000.00
Chattanooga Public Schools	4,500.00
Chisholm Trail Heritage Center	500.00
Duncan Area Literacy Council	1,584.00
Duncan Special Olympics	500.00
Empire Public School	1,000.00
Gabriel's House Inc.	1,529.74
Geronimo Elementary School	3,000.00
Girl Scouts of Western Oklahoma	2,000.00
Indiahoma Community Food Bank	2,500.00
Indiahoma Public Schools	2,949.00
Make-A-Wish Oklahoma	5,000.00
Marlow Samaritans	2,363.12
Meers VFD	5,000.00
Regional Food Bank of Oklahoma	3,500.00
Safe Center	499.00
St. Ann Catholic Church	2,500.00
Stephens County Honor Guard	1,500.00
Stephens County Humane Society	1,000.00
Sterling Public Schools	2,254.17
Tillman County Fair Board	3,000.00
United Way of SW Oklahoma	700.00
Walters Community Food Pantry	807.00
Walters Volunteer Fire Department	5,000.00
Wichita Mountain Estates Fire Dept.	5,000.00

Total distribution FY2018-19 **\$83,778.13**

Statements audited annually

The financial statements for Cotton Electric Charitable Foundation as of and for the years ended June 30, 2018 and 2017, have been audited by Briscoe, Burke & Grigsby, LLP, an independent accounting firm. An unmodified opinion was issued for each fiscal year. Copies of the complete audited financial statements are on file at the cooperative's headquarters in Walters.

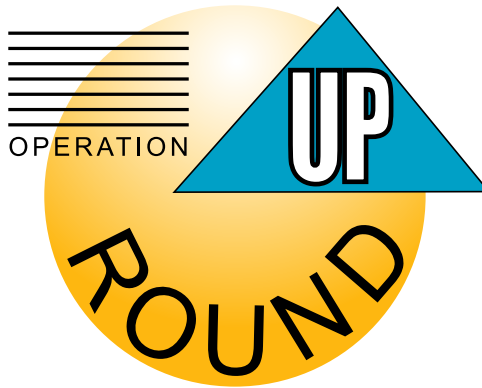
CECF grants enhance life in southwest Oklahoma

Cotton Electric members are a generous group. Most of them participate in Operation Round Up, which rounds their power bills up to the nearest dollar each month. The funds collected by Operation Round Up are administered by the Cotton Electric Charitable Foundation (CECF).

Since the program began in April 2004, CECF has issued a total of 499 grants in an effort to improve the quality of life throughout the Cotton Electric service area. The organization hit a milestone in 2017, surpassing \$1 million in grants awarded to area organizations and individuals in need. Recipients are located within the Cotton Electric service territory.

CECF awarded 37 grants totaling \$83,778.13 during the 2018-19 fiscal year. The foundation's fiscal year begins July 1 and ends June 30.

The grants have had broad effects on communities throughout the service area. Area classrooms and fire departments are better equipped, facilities are updated,



youth have more opportunities and empty bellies are filled.

A total of \$22,500 in CECF grants benefitted fire departments in the service area. Fire fighters in Chattanooga and Wichita Mountain Estates have new personal protection gear to use during wildland fires. Trucks are outfitted with new water tanks in the departments serving the Walters and Meers areas.

"Rural fire protection is an important issue for our members," said Ken Layn, president of the Cotton Electric Cooperative's board of trustees and CECF board member.

"Through Operation Round Up, more than \$304,000 has been contributed to fire departments in our service area since 2004. These additional funds have helped them purchase new equipment and cope with fuel and maintenance costs."

CECF grants totaling \$41,610 were issued for the benefit of schools and youth programs in 2018-19. Nine schools received grants for purchases of items ranging from equipment for science labs and archery programs to security cameras and Chromebooks. Youth programs have a wider reach because of support from CECF.

"The goal of CECF is to improve the lives of our members and we feel these contributions have made a difference in improving the quality of life in southwest Oklahoma," said Jennifer Meason, Cotton Electric Cooperative's CEO and CECF board member.

The foundation's board of directors meets on a quarterly basis to review applications.

CECF Board of Directors



Danny Marlett
President



Carter Waid
Vice President



Cindy Zelbst
Board Member



Jennifer Meason
Board Member



Ken Layn
Board Member

Annual Meeting and Member Appreciation Night

OCT. 3, 2019

Stephens County Fairgrounds in Duncan



We hope to see you there!