



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

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 re-growth. 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



Jennifer Meason

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 livestock shows.

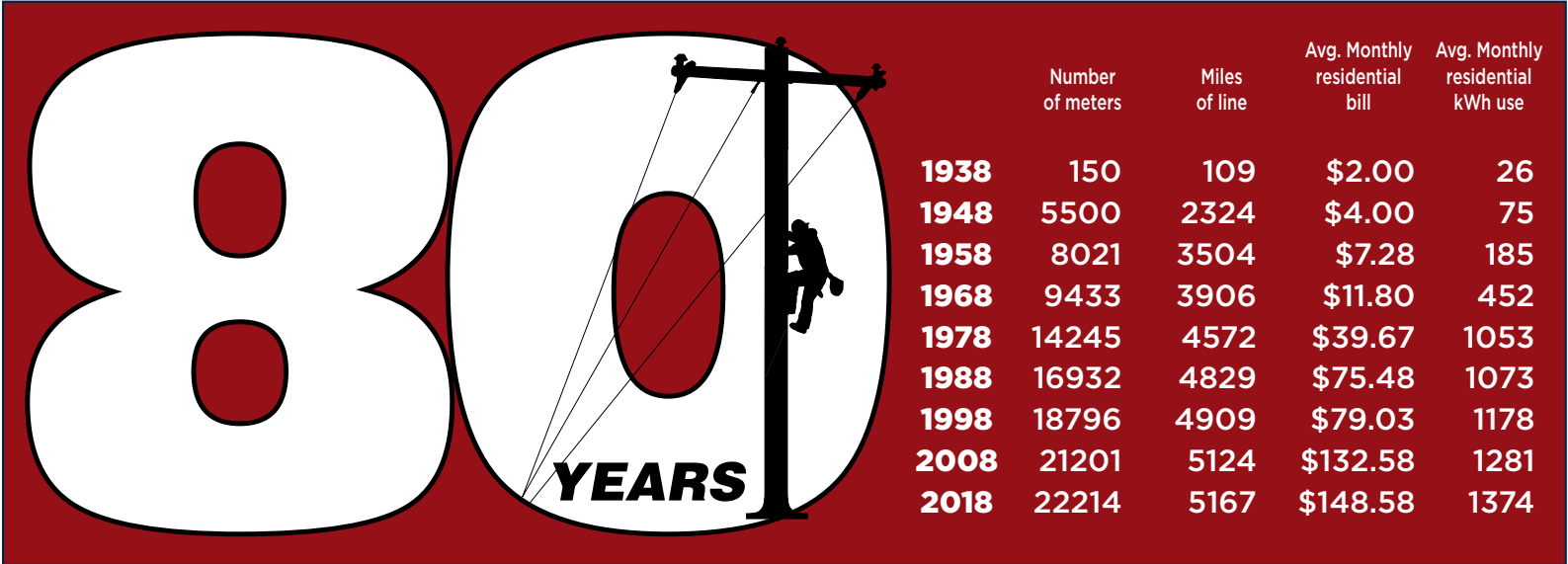
With your help, the Cotton

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



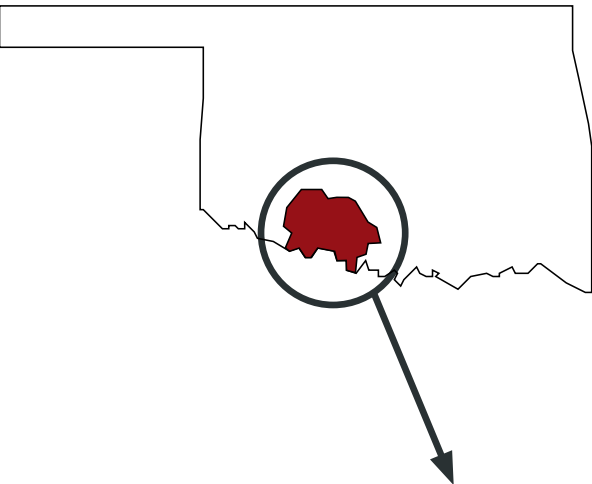
Tony High

District 9



Ronnie Bohot

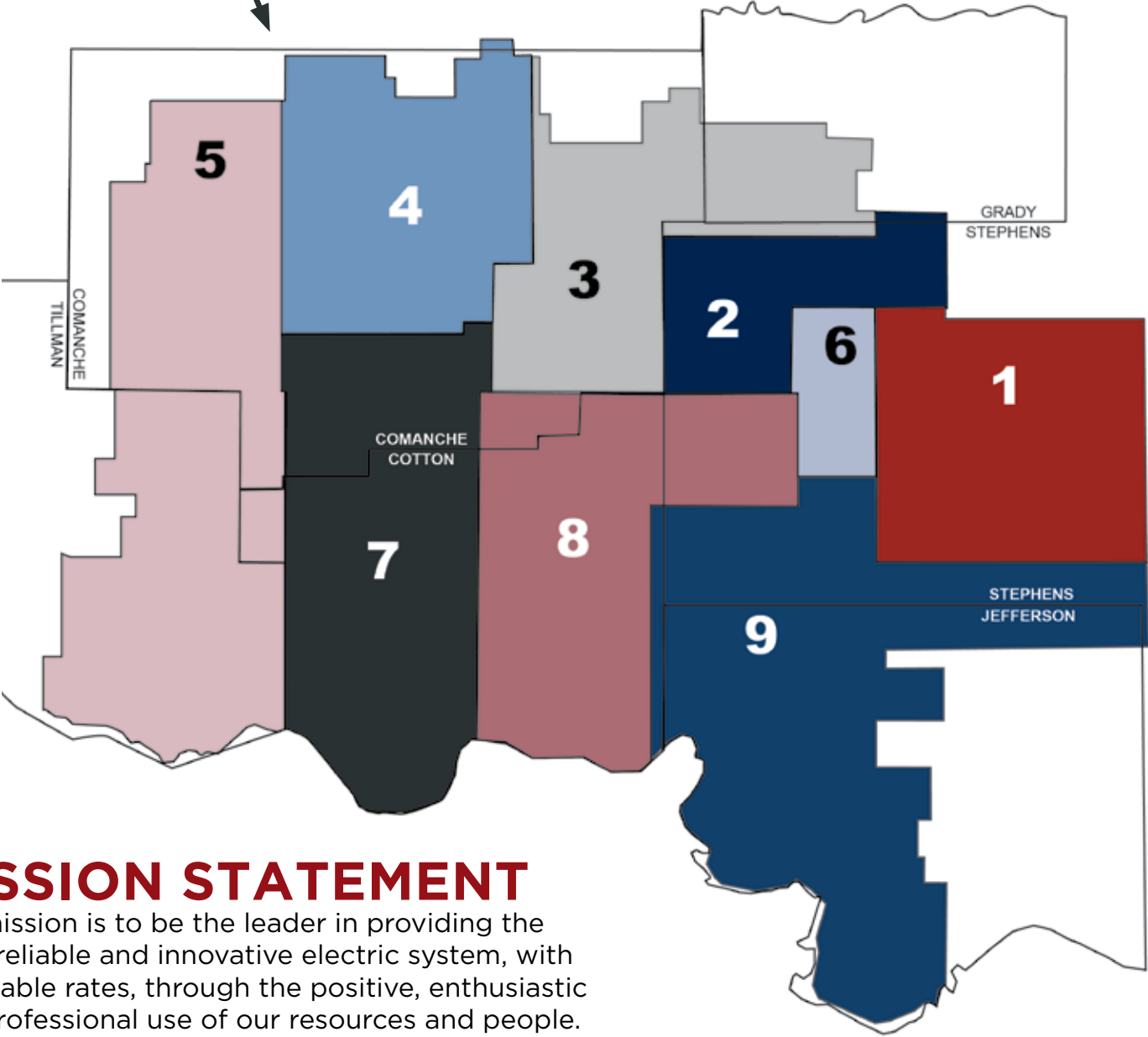
SERVICE AREA



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.

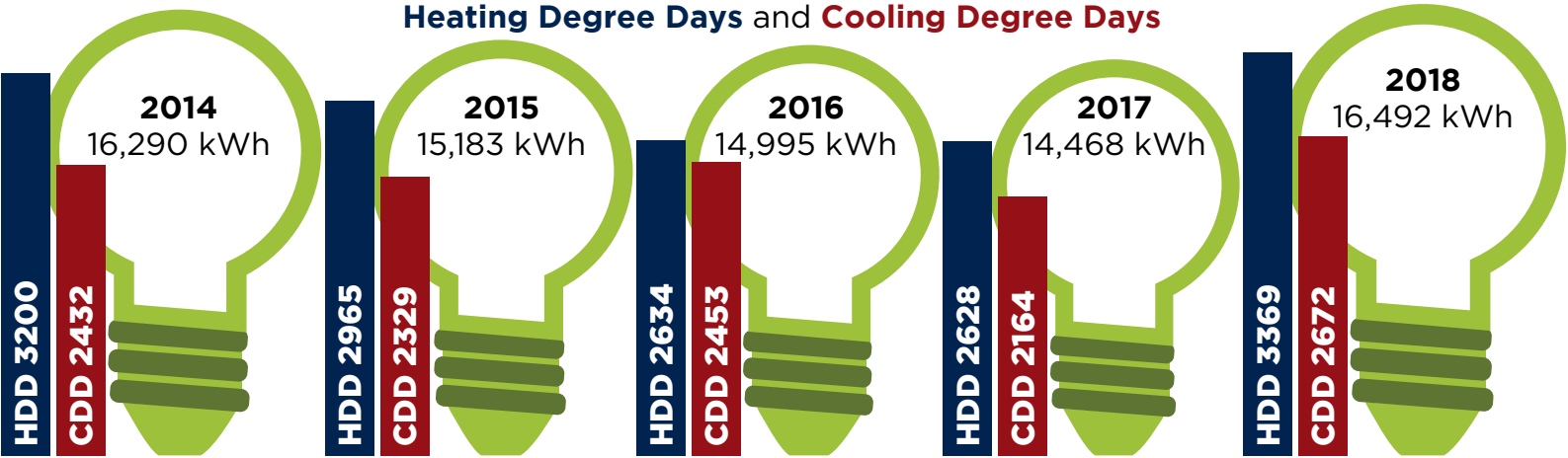
Our headquarters is located at 226 North Broadway in Walters and a branch office at 1101 West Oak in Duncan.



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.

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

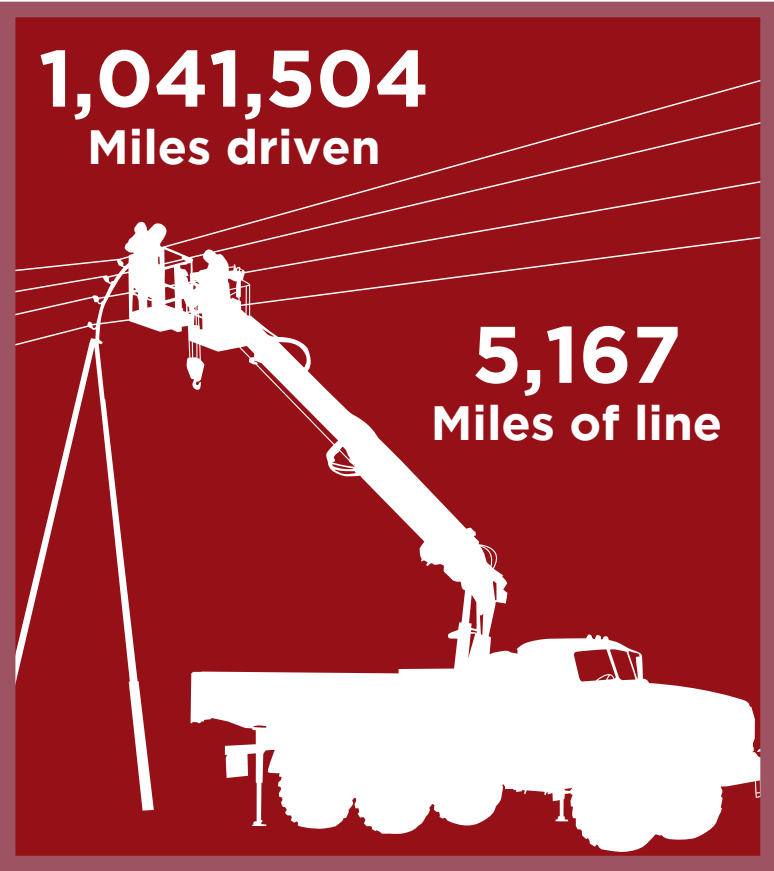
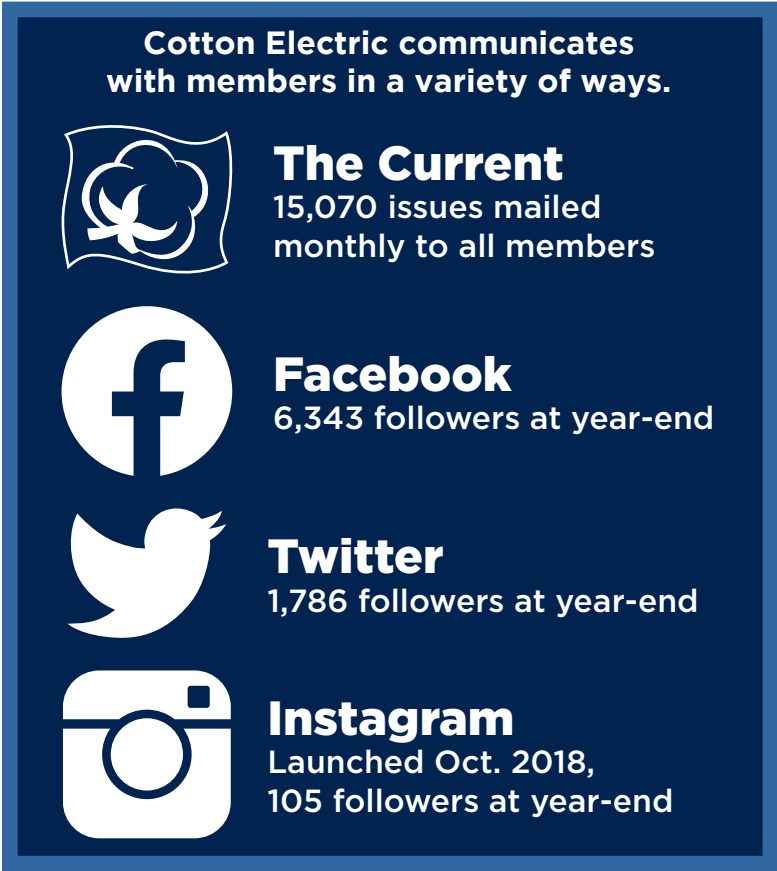
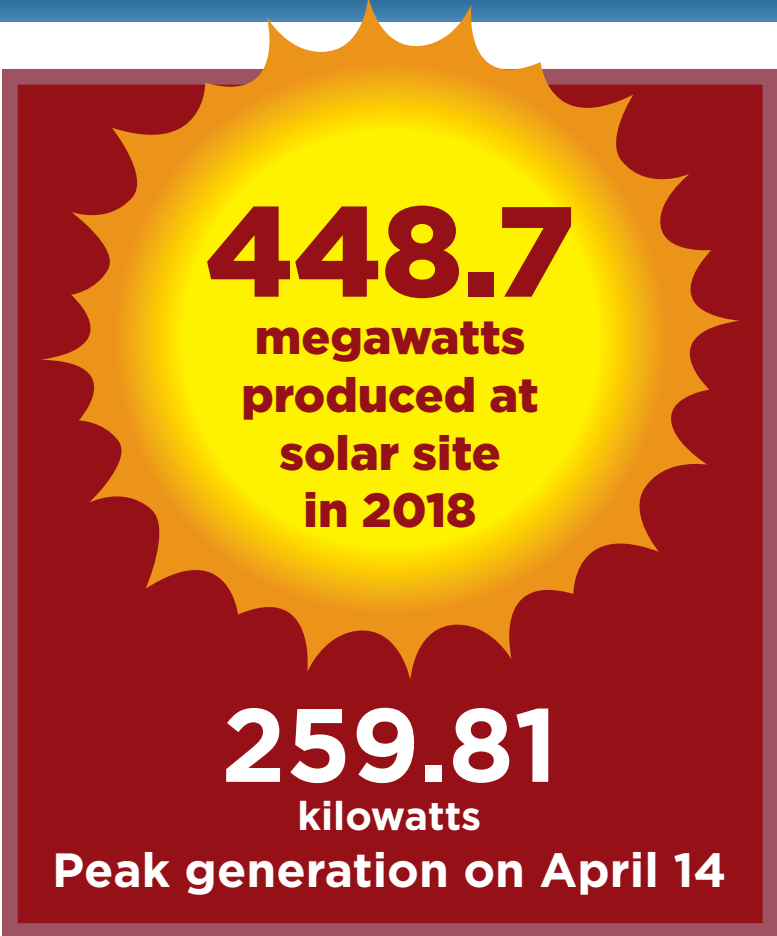


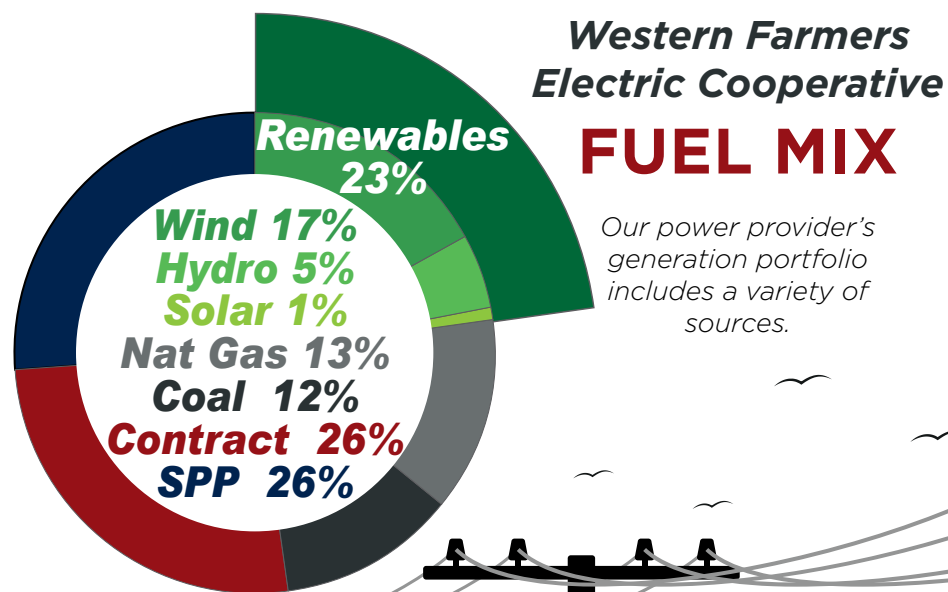
FIVE-YEAR OPERATING STATISTICS

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





174,048
KILOWATTS
PEAK DEMAND
JANUARY 2018

99.96%
AVERAGE SYSTEM
RELIABILITY

\$1,010
AVERAGE
MONTHLY
EXPENSES PER
MILE
*See Operating Expense
breakdown on Page 6*

\$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

\$500,000
COTTON ELECTRIC
CAPITAL CREDITS
RETIRED

\$1.034M
WFEC
CAPITAL CREDITS
RETIRED

7,412
OUTAGE
PHONE CALLS
RECEIVED

1,390
OUTAGES

655
OUTAGES CAUSED
BY WEATHER

495 Lightning	18 Ice
127 Wind	15 Other

111
Outages caused
by animals

22,214
METERS

5,167
MILES OF LINE

4.30
METERS SERVED
PER MILE
OF LINE

8,500
POLES INSPECTED

1,105
POLES REPLACED

5,540
UNDERGROUND
LOCATES

BALANCE SHEETS*Consolidated As of December 31, 2018*

ASSETS	2018	2017
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
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
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
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
Deferred Debits	1,420,223	1,782,751
TOTAL ASSETS	149,789,524	145,280,118
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)
Other Equities	10,314,551	9,572,163
Total Equities and Margins	75,657,774	72,533,769
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
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
Deferred Credits	437,077	502,976
TOTAL LIABILITIES AND EQUITY	149,789,524	145,280,118

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	
Interest	2,301,193	
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	Long-Term Liabilities:		
Fixed Assets:			Deferred Income Taxes	20,981	25,338
Property and Equipment	427,775	427,361	Total Long-Term Liabilities	20,981	25,338
Less: Accumulated Depreciation	(305,560)	(283,778)	Members' Equity		
Net Fixed Assets	122,215	143,583	Memberships	225,000	225,000
TOTAL ASSETS	\$1,687,478	\$1,589,779	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	1,197,647	1,032,042
Gross Profit	996,596	914,255
Expenses:		
Operating Expenses	820,643	754,827
Other Income:		
Interest Income	2,160	887
Gain/Loss on Sale of Equipment	-	132
Total Other Income	2,160	1,019
Income Before Taxes	178,113	160,447
Provision for Income Taxes	46,013	50,556
Net Income	\$132,100	\$109,891
Retained Earnings, beg of year	1,149,424	1,039,536
Retained Earnings, end of year	\$1,281,524	\$1,149,427

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.

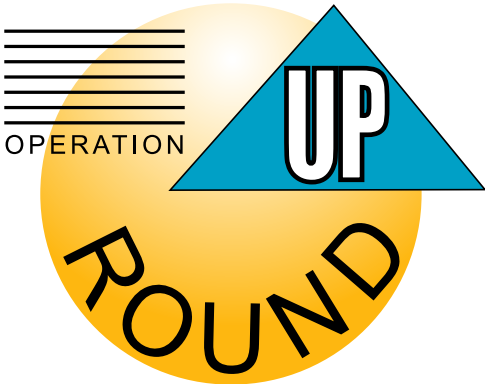
CECF grants enhance life in southwest Oklahoma

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!