



COTTON

ELECTRIC CO-OP

A Touchstone Energy® Cooperative 

2019 ANNUAL REPORT



A MESSAGE FROM

Board president Ken Layn & CEO Jennifer Meason

We are focused on our members

With every decision we make at Cotton Electric Cooperative, we stop to think about what is right for our membership. As we make long-term and short-term plans, we discuss the proven benefits of our programs as well as the financial impact to the cooperative. In order for the Board of Trustees and employees of Cotton Electric to move forward, it has to be in the best interest of the membership.

During 2019, we continued work in several areas to improve the quality of the electric service we provide. Our focus was improving the reliability and resiliency of our system, incorporating new technology, and giving back to the communities we serve.

In the areas of reliability and resiliency, we made substantial progress with our inspection and maintenance programs. In 2019,



Ken Layn



Jennifer Meason

6,568 poles were inspected and 3,136 were replaced. This proactive approach allows us to address areas of concern before outages occur. CEC employees also completed 16,216 service orders throughout our eight-county service area.

Another vital aspect of our maintenance program is vegetation management (VM), which includes clear cutting and trimming of trees and herbicide application to prevent regrowth. With the help of our contractor and in-house crews, CEC

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.

clear cut and trimmed 192 miles of line and applied herbicide along 129 miles. This program is essential to maintaining a safe and reliable electric system as well as speeding up the outage restoration process.

After a successful pilot project in 2018, the Cooperative gained ground updating our metering system. Cooperative employees updated seven substations, changing 4,625 meters. The new metering system features improved communication, particularly during outage situations, as well as providing more detailed usage information. The project is on schedule to be completed in 2021.

Poles, wires and meters are essential but it is our member service that sets us apart. The CEC Board of Trustees and employees are proud to serve and give back to the communities where we live. In fiscal year 2019-20, \$71,000+ in Operation Round Up grants were awarded, bringing your total donations to over \$1.2 million since the Cotton Electric Charitable Foundation was established in 2004. The Board of Trustees voted to return \$1.15 million

in capital credits to the membership and \$2.3 million in gross receipts tax was contributed to our local schools.

We experienced a first at the cooperative when Jarrod Hooper, a Journeyman Lineman and the co-op's Safety and Loss Control Director, volunteered for the Energy Trails project in Guatemala. Hooper traveled with 11 other linemen from Oklahoma and Colorado who worked in challenging conditions to bring electricity to a remote village for the first time. These projects are very reminiscent of when the cooperatives began in the 1930s and take us back to our roots, emphasizing the importance of empowering future generations.

In closing, we recognize that this Annual Report is a look back at our achievements in 2019. While it's important to honor our history and accomplishments, we know that we can't rely upon our past successes.

We work to continually improve, and we are dedicated to getting better every day. With every decision we make, we'll keep our focus and commitment on you.

MANAGEMENT

Jennifer Meason, *Chief Executive Officer*
Mike Ottinger, *Vice President*
Bryce Hooper, *Vice President*

ACCOUNTING STATISTICS

Karen Rivet
Accounting Supervisor

INDEPENDENT AUDITORS

Briscoe, Burke & Grigsby, LLP
Tulsa, Okla.

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

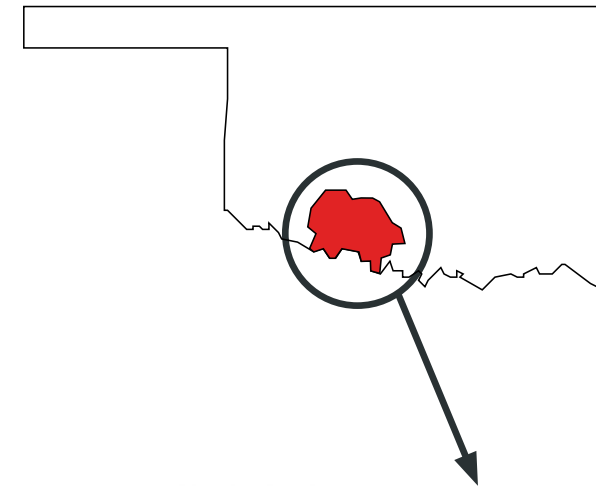
District 9



Ronnie Bohot

SERVICE AREA

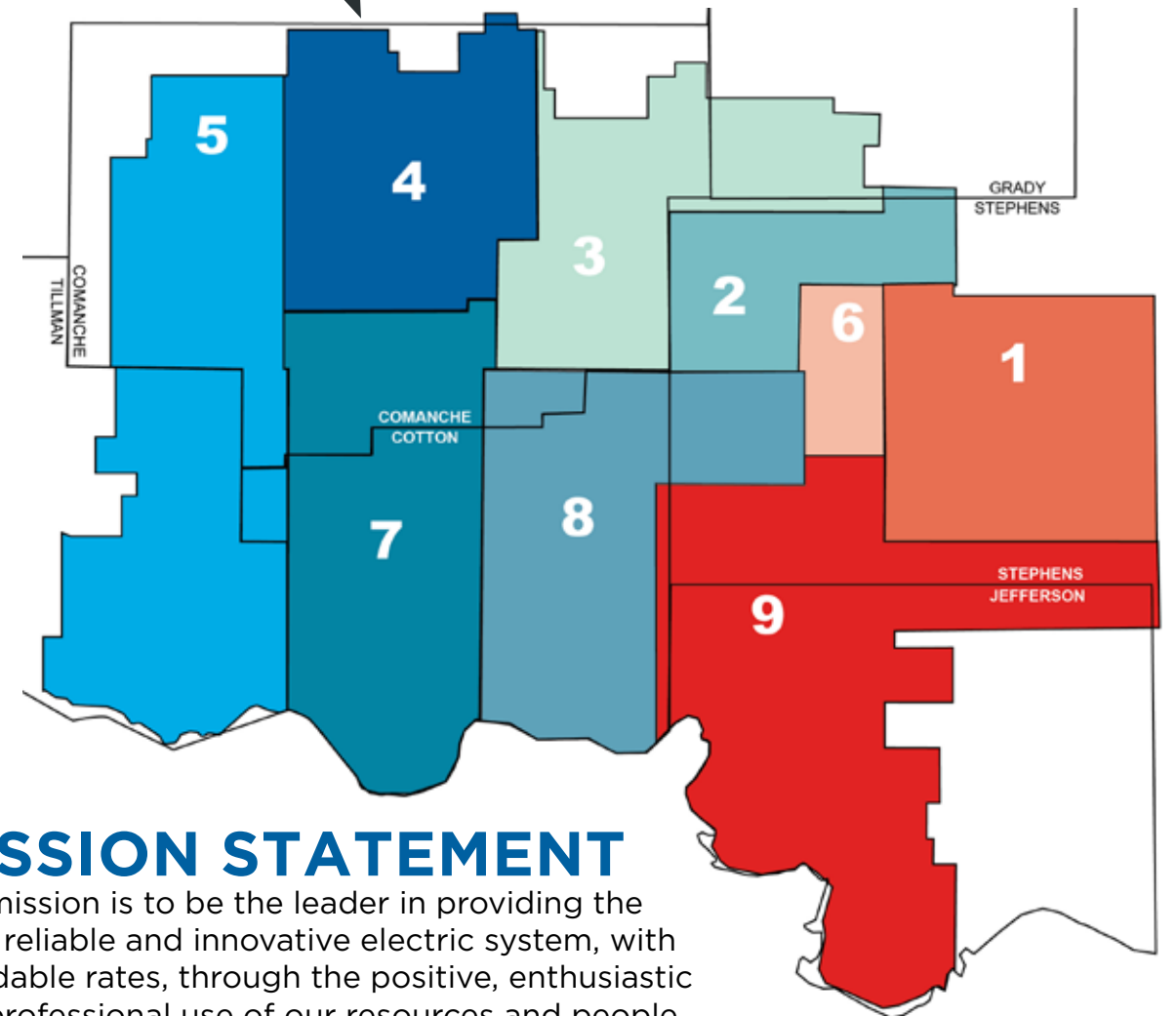
3,720 square miles



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 more than 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.

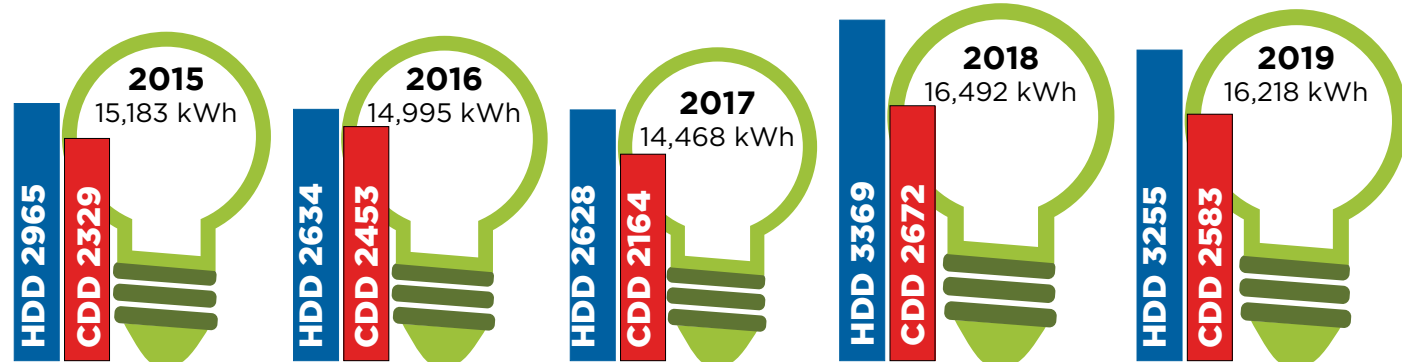
Our headquarters is located at 226 North Broadway in Walters and a branch office at 1101 West Oak in Duncan.



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, 2019

	2015	2016	2017	2018	2019
Total Revenue	\$66,181,939	\$63,037,399	\$61,626,473	\$65,188,507	\$66,103,443
Cost of Purchased Power	45,309,599	42,171,946	41,290,211	43,532,744	44,134,706
Taxes	1,317,723	1,206,924	1,204,620	1,258,102	1,288,812
Operating Expense per Mile	12,382	11,920	11,602	12,116	12,252
Operating Income per Mile	12,843	12,212	11,923	12,616	12,713
Average Farm/Residential Annual Bill	1,722	1,694	1,656	1,783	1,800
Average Number of Meters Billed	22,171	22,114	22,105	22,214	22,356
Miles of Line Energized	5,153	5,162	5,169	5,167	5,200
Density per Mile	4.30	4.28	4.28	4.30	4.30
New Services Connected	333	255	268	278	345
Services Retired	197	106	141	116	136

OPERATING EXPENSES 2019



424.5
megawatts
produced at
solar site
in 2019

246.3
kilowatts
Peak generation on Oct. 11

15,592
Members at year-end

189,011
Man-hours worked by
Cotton Electric employees
87 full time - 2 part time
3 temporary helpers

The Current
15,204 issues mailed
monthly to all members

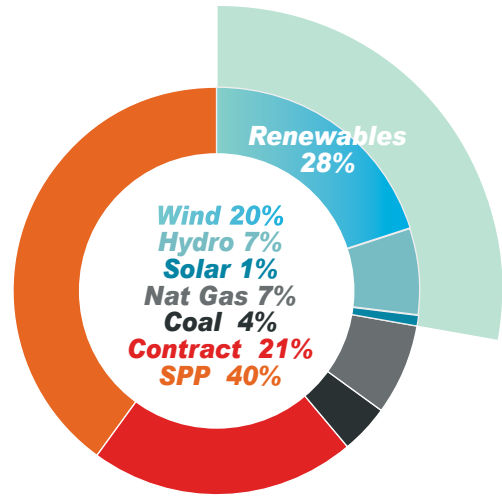
Facebook
7,014 followers at year-end

Twitter
1,842 followers at year-end

Instagram
Launched Oct. 2018,
379 followers at year-end

5,200
Miles of line

960,377
Miles driven



Western Farmers Electric Cooperative

FUEL MIX

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

165,520
KILOWATTS
PEAK DEMAND
MARCH 2019

99.97%

AVERAGE SYSTEM RELIABILITY

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Cost of Distributing Power	\$0.022	\$0.024	\$0.025	\$0.025	\$0.023	\$0.021	\$0.021	\$0.022	\$0.022	\$0.022
Cost of Generating Power	\$0.049	\$0.055	\$0.056	\$0.055	\$0.056	\$0.064	\$0.055	\$0.052	\$0.054	\$0.052

TOTAL AVERAGE COST PER KWH PURCHASED

762,652,556
KILOWATT-HOURS SOLD
\$44,134,706
COST OF POWER

6,568
POLES INSPECTED

3,136
POLES REPLACED



97
Outages caused by animals

6,994
UNDERGROUND LOCATES

7,287

OUTAGE PHONE CALLS RECEIVED

1,199

OUTAGES CAUSED BY WEATHER

532

OUTAGES CAUSED BY WEATHER

370
Lightning

157
Wind

2
Ice

3
Other

22,356
METERS

5,200
MILES OF LINE

4.30
METERS SERVED PER MILE OF LINE

\$1,021
AVERAGE MONTHLY EXPENSES PER MILE

See Operating Expense breakdown on Page 6

\$150
AVERAGE MONTHLY RESIDENTIAL or FARM BILL

\$1,150,000
CAPITAL CREDITS RETIRED

BALANCE SHEETS

Consolidated As of December 31, 2019
2019 2018

ASSETS		
	2019	2018
Utility Plant		
Electric Plant in Service	147,533,318	140,347,085
Construction Work in Progress	1,316,089	2,413,321
Total Utility Plant, at cost	148,849,407	142,760,406
Less Accumulated Depreciation	(42,008,507)	(41,465,188)
Net Utility Plant	106,840,900	101,295,218
Non-utility plant		
Non-utility Plant	550,168	427,775
Less Accumulated Depreciation	(273,941)	(305,560)
Total Non-utility Plant	276,227	122,215
Other Property and Investments		
Investment in Associated Organizations	32,902,776	32,399,064
Notes Receivable less current portion	-	-
Total Other Investments	32,902,776	32,399,064
Current Assets		
Cash & Cash Equivalents	4,016,137	5,897,793
Accounts Receivable less doubtful accounts	1,141,254	1,158,970
Unbilled Revenue	5,254,252	5,276,328
Materials and Supplies	1,646,986	1,908,397
Other Current and Accrued Assets	314,630	311,316
Total Current Assets	12,373,259	14,552,804
Deferred Debits	1,068,852	1,420,223
TOTAL ASSETS	153,462,014	149,789,524
LIABILITIES AND MEMBERS' EQUITY		
	2019	2018
Equities and Margins		
Memberships	112,560	113,145
Patronage Capital	68,040,884	65,601,099
Accumulated other comprehensive income	(1,564,317)	(371,021)
Other Equities	11,055,166	10,314,551
Total Equities and Margins	77,644,293	75,657,774
Long-term Debt		
Long-term Debt less Current Maturities	56,366,938	57,257,067
Other Non-current Liabilities	8,672,149	7,259,310
Total Long-term Liabilities	65,039,087	64,516,377
Current Liabilities		
Current Maturities of Long-term Debt	1,998,000	1,979,000
Account Payable	5,733,498	4,784,531
Consumer Deposits	1,319,614	1,213,682
Other Current and Accrued Liabilities	1,038,496	1,201,083
Total Current Liabilities	10,089,608	9,178,296
Deferred Credits & Income Taxes	689,026	437,077
TOTAL LIABILITIES AND EQUITY	153,462,014	149,789,524

CONSOLIDATED STATEMENT OF REVENUE, PATRONAGE CAPITAL & COMPREHENSIVE INCOME

	2019	2018
REVENUE		
Operating Revenues	68,400,200	67,306,390
Operating Expenses		
Cost of Power	44,134,706	43,532,744
Distribution Expense - Operations	3,287,708	3,499,287
Distribution Expense - Maintenance	4,050,086	3,617,055
Consumer Accounts	1,567,018	1,531,950
Customer Service and Information	162,321	154,883
Sales Expense	615,606	613,309
Administrative and General	2,671,692	2,516,683
Depreciation	4,379,321	4,282,431
Taxes	1,288,812	1,258,102
Interest	2,232,359	2,301,193
Cost of Goods Sold	1,330,371	1,197,647
Other Interest and Deductions	57,482	41,943
Total Operating Expenses	65,777,482	64,547,227
Net Operating Margins	2,622,718	2,759,163
Other Income		
Interest Income	278,551	261,917
Other Income (Expense)	1,533	(21,825)
Total Other Income	280,084	240,092
W.F.E.C. and Other Capital Credits	1,257,960	1,435,499
Net Margins Before Income Taxes	4,160,762	4,434,754
Provision for Income Taxes	(69,224)	(46,013)
PATRONAGE CAPITAL		
Patronage Capital Beginning of Year	65,601,099	63,218,872
Transfer to Other Equities	(445,070)	(369,838)
Retirement of Capital Credits	(1,206,683)	(1,636,676)
Patronage Capital End of Year	68,040,884	65,601,099
COMPREHENSIVE INCOME		
Net Margins for the Year	4,091,538	4,388,741
Other Comprehensive Income		
Amortize loss (gain) on APBO	-	-
Current Gain on APBO	(1,193,296)	-
Comprehensive Income	2,898,242	4,388,741



Cotton Electric Services Inc.

Proudly keeping line workers safe since 1984.

CESI Statements of Financial Position

For the Years Ended Dec. 31, 2019 and 2018

BALANCE SHEET

	2019	2018		2019	2018
ASSETS			LIABILITIES and MEMBERS' EQUITY		
Current Assets:			Current Liabilities:		
Cash/Cash Equivalents	\$679,761	\$374,063	Accounts Payable	\$34,131	\$57,904
Accounts Receivable	212,531	198,998	Accounts Payable-Parent	43,267	86,848
Accounts Receivable-Parent	4,180	4,279	Other Accrued Liabilities	1,810	2,051
Prepayments	32,552	36,110	Income Tax Accrual	14,751	13,170
Inventory	603,815	951,813	Total Current Liabilities	93,959	159,973
Total Current Assets	1,532,839	1,565,263	Long-Term Liabilities:		
Fixed Assets:			Deferred Income Taxes	37,656	20,981
Property and Equipment	550,168	427,775	Total Long-Term Liabilities	37,656	20,981
Less: Accumulated Depreciation	(273,941)	(305,560)	Members' Equity		
Net Fixed Assets	276,227	122,215	Memberships	225,000	225,000
TOTAL ASSETS	\$1,809,067	\$1,687,478	Retained Earnings	1,452,452	1,281,524
			Total Members' Equity	1,677,452	1,506,524
			TOTAL LIABILITIES and MEMBERS' EQUITY		
				\$1,809,067	\$1,687,478

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. Seven full-time and three 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 (NAIIL for PET) and maintains its NAIIL 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.

INCOME STATEMENT

	2019	2018
Revenues:		
Revenues from Sales	\$2,393,301	\$2,194,243
Cost of Goods Sold	1,330,371	1,197,647
Gross Profit	1,062,930	996,596
Expenses:		
Operating Expenses	836,451	820,643
Other Income:		
Interest Income	3,773	2,160
Gain/Loss on Sale of Equipment	9,900	-
Total Other Income	13,673	2,160
Income Before Taxes	240,152	178,113
Provision for Income Taxes	69,224	46,013
Net Income	\$170,928	\$132,100
Retained Earnings, beg of year	1,281,524	1,149,424
Retained Earnings, end of year	\$1,452,452	\$1,281,524

2019 statistics

68,295	Gloves tested
14,003	Sleeves tested
4,296	Line hose tested
2,776	Blankets tested
33,100	Miles driven
18	New customers
2,694	Orders filled
\$1,915,480	New sales
10	Employees
7	full time
3	part time

CECF Statements of Financial Position

For the Years Ended
June 30, 2020 and 2019

BALANCE SHEET

ASSETS	2020	2019
Current Assets		
Checking/Savings	\$49,080	\$57,117
Accounts Receivable		
Contributions Receivable	-	6,777
Total Accounts Receivable	-	6,777
Total Current Assets	49,080	63,893
TOTAL ASSETS	\$49,080	\$63,893
LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable	\$-	\$12,344
Total Current Liabilities	-	12,344
Total Liabilities	-	12,344
Equity		
Perm. Restricted Net Assets	5,000	5,000
Unrestricted Net Assets	46,408	45,168
Net Income	(2,328)	1,382
Total Equity	49,080	51,549
TOTAL LIABILITIES & EQUITY	\$49,080	\$63,893

STATEMENT OF ACTIVITIES

REVENUE	2020	2019
Golf Tournament	\$-	\$27,343
Member Contributions	81,249	83,997
Total Revenues	\$81,249	\$111,340
EXPENSES		
Charitable Disbursements	\$74,649	\$85,278
Golf Tournament	2,798	15,690
Total Program Disbursements	\$77,448	\$100,969
Gross Profit/(Loss)	\$3,802	\$10,371
OTHER INCOME/EXPENSES		
Other Expenses	\$6,271	\$8,990
Total Other Income/Expenses	\$6,271	\$8,990
Net Income/(Loss)	\$(2,469)	\$1,382
Beginning Net Assets	51,549	50,167
End-of-Year Net Assets	\$49,080	\$51,549

2019-20 CECF GRANT RECIPIENTS

Alzheimer's Association	\$2,000.00
Big Pasture Education Foundation	\$2,000.00
Cache High School	\$2,000.00
Center for Creative Living	\$2,500.00
Central High Schools	\$5,000.00
Town of Chattanooga	\$2,500.00
Children United SWOK Community	\$2,000.00
Chisholm Trail Arts Council	\$2,000.00
Chisholm Trail Kiwanis Club	\$3,000.00
Duncan Area Literacy Council	\$1,500.00
Duncan Public Schools Foundation	\$3,000.00
Empire Public Schools	\$5,000.00
Gabriel's House	\$1,500.00
Grandfield Senior Citizens Center	\$2,995.00
Hearts That Care	\$1,000.00
Indiahoma Community Food Bank	\$5,000.00
Make-A-Wish Oklahoma	\$3,000.00
Oklahoma Family Network	\$1,654.46
Regional Food Bank of Oklahoma	\$5,000.00
Safe Center	\$1,600.00
Surgical Extraction Foundation	\$4,200.00
Temple Area Food Pantry	\$1,600.00
Temple Public Schools	\$3,000.00
Walters Police Dept.	\$3,100.00
Wichita Mountains Estates Fire Dept.	\$5,000.00

Total distribution FY2019-20 **\$71,149.46**

Statements audited annually

The financial statements for Cotton Electric Charitable Foundation as of and for the years ended June 30, 2019 and 2018, 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 quality of life

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 522 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 grants totaling \$71,149.46 during the 2019-20 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 territory. Area classrooms and fire departments are better equipped, facilities are updated, youth have more opportunities and empty bellies are filled.

"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 \$309,000 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 \$34,654 were issued for the benefit of schools and youth programs in 2018-19. Six schools received grants that will benefit students with materials for STEM pods, graphing calculators and devices and projects enhancing health and fitness. Youth programs can better serve children in need 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
Secretary



Jennifer Meason
Board Member



Ken Layn
Board Member

WE LOVE YOUR ENERGY



And we think you're going to love ours. So let's work together: As an electric cooperative, Cotton Electric was built by the communities we serve—and by members just like you.



COTTON
ELECTRIC CO-OP

A Touchstone Energy® Cooperative 

POSTPONED:

2020 District & Annual Meetings of Cotton Electric Cooperative, Inc.

We look forward to seeing our members every year at our District and Annual Meetings. It's like a big family reunion full of good food, good friends, good fun. We look forward to it because we care about serving members well, which includes an opportunity to meet face to face with cooperative employees.

We want what's best for everyone. We want to ensure the good health of the people of southwest

Oklahoma and the electric cooperative that serves them. Due to the current COVID-19 health crisis, it is impractical to have the 2020 District and Annual Meetings. We've made the difficult decision to postpone them until further notice.

Please stay safe and know that Cotton Electric will continue to operate and provide the highest-quality service possible for you, the members we serve.

Thank you for your understanding and support.