

CHOCTAW ELECTRIC COOPERATIVE

# ANNUAL REPORT

2016



**your co-op**  
TODAY & TOMORROW

## our mission

Choctaw Electric Cooperative's purpose is to continuously improve customer service and satisfaction by providing members with high quality electric and related services at fair and equitable rates.

## our vision

Choctaw Electric Cooperative members view the cooperative as a stable organization characterized by high levels of member trust and satisfaction, an effective and engaged board of trustees, and a dedicated and capable workforce.

## our values

Choctaw Electric Cooperative trustees and employees pledge the consistent demonstration of the following values:

- Transparency and openness in our dealings with members, fellow trustees and employees, policy makers and other stakeholders.
- Dedication to a culture of safety and commitment to the mutual well-being of our employees, members, and the general public.
- Accountability for all of our decisions and actions.
- Commitment to innovation and forward thinking.
- Integrity and honesty beyond reproach.
- Loyalty to the philosophy of cooperative ownership and adherence to the seven Cooperative Principles.



## contents

<b>3</b>	Report To CEC Members
<b>4</b>	2016 Board of Trustees
<b>5</b>	CEC System Highlights
<b>6</b>	Financial Statement
<b>7</b>	Balance Sheet
<b>8</b>	Official Minutes/2016 Meeting
<b>9-10</b>	Trustee Elections
<b>11</b>	Proposed Bylaw Amendments
<b>12</b>	2017 Annual Meeting Agenda

# report

## to members

BY KOONEY DUNCAN, CEO

**A**ddressing the members of Choctaw Electric Cooperative is a privilege for me. I'm honored to be serving as your general manager and very happy to be back home in southeast Oklahoma.

For nearly 14 years I've worked for electric cooperatives. The experience has taught me a great deal about the power of cooperative ownership, and by that I mean member ownership. As a member of Choctaw Electric Cooperative (CEC) you are also an owner. CEC exists because of you and for you.

The people of southeast Oklahoma formed CEC to bring electricity—and a better standard of living—to rural areas. Other electric companies had the option to serve your homes and farms, but they chose not to. The reason? There weren't enough consumers per mile to make a profit for their stockholders. The non-profit cooperative-owned business model makes it possible for us to live and do business in the country.

At CEC, you've seen how member participation can make a difference. Because of your actions, your co-op is making strides to reduce debt, improve efficiency, and provide the level of service you expect. Over the past two years, we have reduced the number of employees by 40, which has lowered our labor costs significantly. At the same time, we continue to invest in technology to improve the efficiency of our data entry methods and boost the effectiveness of all our processes.

We are also devoting more resources, labor and equipment to the management and clearing of our 3,578 miles of right of way. This work is absolutely necessary to protect the safety and reliability of your service. In Oklahoma's growing climate, keeping the right of way clear of brush and trees demands vigilance and consistency to be effective. Over the past four years, measures to reduce co-op debt forced CEC to spend less on right of way clearing. This is unacceptable, not to mention unsafe. To solve these problems, we are kicking off a proactive program of spraying and cutting the right of way.

Our field employees received training and are now licensed commercial herbicide applicators. You will see them treating areas to slow vegetation growth and prevent it from reaching our power lines. After an area is sprayed, less chainsaw work is needed the following season, which means a huge savings for you and your co-op.

CEC can spray six times the amount of area it takes

to cut with a significant decrease in money spent per month. A combined program of spraying and cutting is key to improving reliability and safety, and saving money.

These decisions become more important as CEC continues to grow. Growth is good for your co-op because it means increased revenues and the ability to spread costs over a broader base of members.

At CEC, we measure progress in the dollars we save, the costs we shave, and the margins we are able to share with our members. In 2016, CEC members enjoyed a patronage capital retirement of \$1.9 million. To make it easier for members to claim their fair share, we created a page on our website specifically for this purpose. We continue to return this money to our members as they come forward to claim it.

These are positive steps in CEC's long range plan to bring you the best service possible. Remember our doors are open and we encourage your comments and suggestions. Thank you for your support and participation in CEC. It truly is *your* electric co-op.



**\$1.9  
million**

Patronage capital  
credits returned to  
members in 2016.

*Kooney C. Duncan*

# Leadership

## board of trustees



Standing: Becky Franks, Bill Woolsey, Mike Brewer, George Burns and Stacy Nichols. Seated: Norman Ranger, Brent Franks, Joe Silk and Ken Autry.

### OFFICERS

Brent Franks, President  
DISTRICT G

Joe M. Silk, Vice President  
DISTRICT B

Mike Brewer, Secretary Treasurer  
DISTRICT H

### MEMBERS

Stacy Nichols, DISTRICT C

Bill Woolsey, DISTRICT D

George Burns, DISTRICT A

Norman Ranger, DISTRICT F

Ken Autry, DISTRICT I

Becky Franks, DISTRICT E

### ABOUT YOUR BOARD

Choctaw Electric Cooperative (CEC) service territory is divided into nine voting districts. In keeping with cooperative principles of democracy and fair representation, co-op members living within each district elect a trustee to represent them on the CEC board of trustees. Trustees serve a three-year term of office and must meet certain qualifications designated by CEC bylaws. Once elected, trustees must complete professional development courses that educate them about accounting and finance, legal issues, federal and state legislation, energy regulations, and other business matters that are unique to electric cooperatives.

The Choctaw Electric board of trustees meets the last Tuesday of every month at 9 am at Choctaw Electric Cooperative headquarters in Hugo.

### HOW TO CONTACT YOUR TRUSTEE

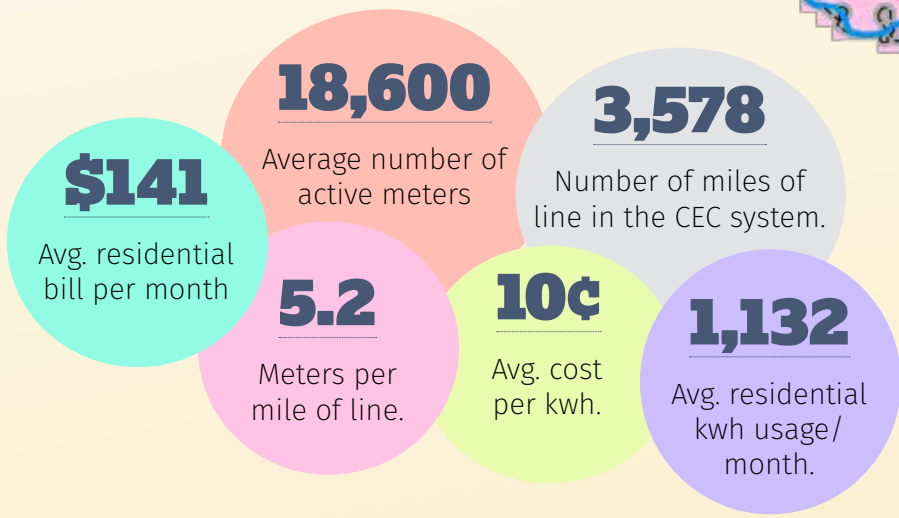
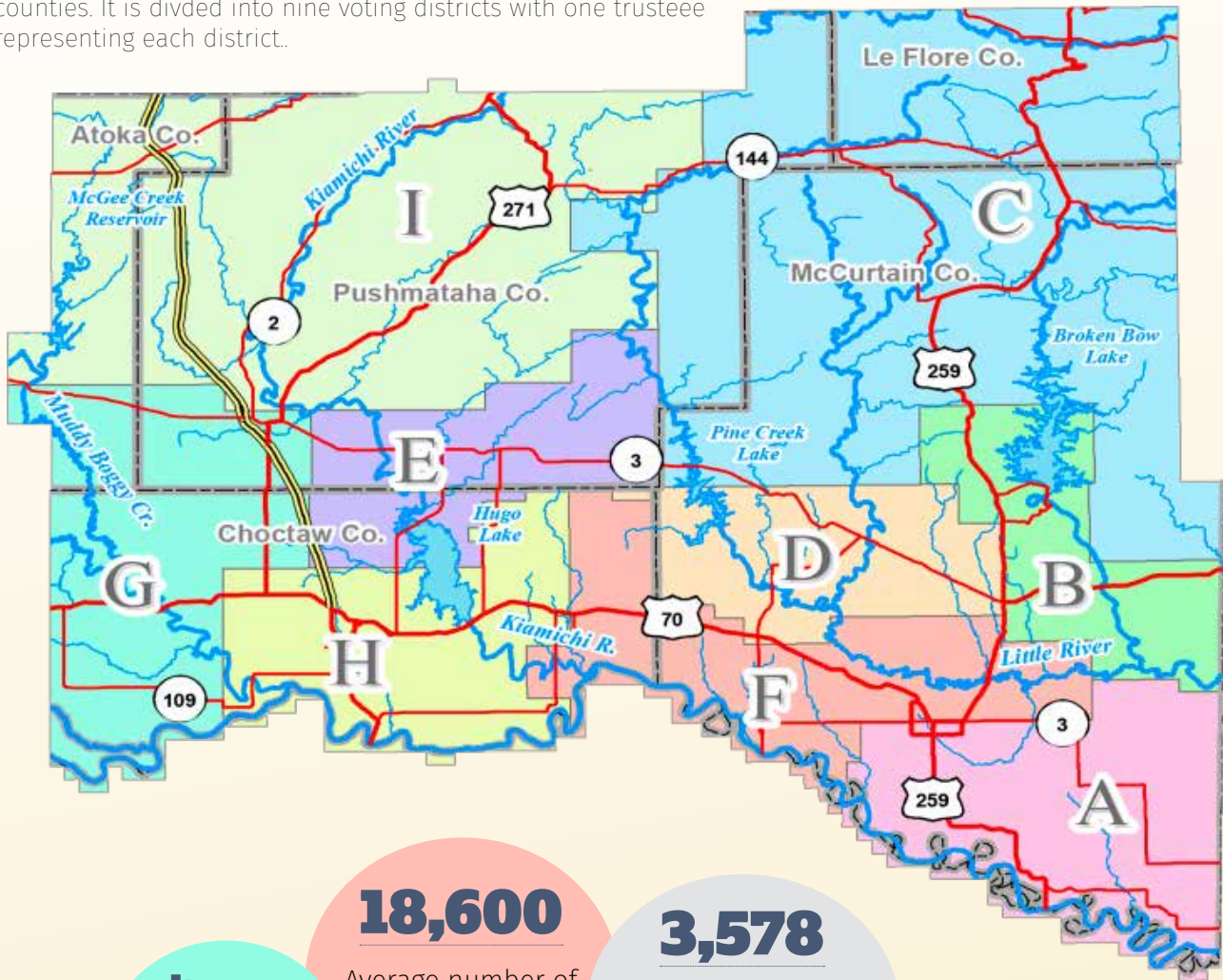
Brent.Franks@choctawelectric.coop  
Joe.Silk@choctawelectric.coop  
Bill.Woolsey@choctawelectric.coop  
George.Burns@choctawelectric.coop

Becky.Franks@choctawelectric.coop  
Norman.Ranger@choctawelectric.coop  
Mike.Brewer@choctawelectric.coop  
Stacy.Nichols@choctawelectric.coop

# your system

## cec territory & voting districts

Choctaw Electric service covers Choctaw, McCurtain and Pushmataha counties and parts of LeFlore, Atoka and Bryan counties. It is divided into nine voting districts with one trustee representing each district.



## Statement of Income and Expense

For the year ended December 31, 2016

### OPERATING REVENUES

Residential	\$30,433,575
Commercial and Industrial	11,697,060
Public Buildings and Other Authorities	216,731
Other Electric Revenue	464,766
<b>Total Operating Revenues</b>	<b>\$42,812,132</b>

### OPERATING EXPENSES

Purchased Power	\$25,433,622
Distribution - Operation	1,908,957
Distribution - Maintenance	3,087,311
Customer Accounts	1,687,337
Customer Service and Information	907,844
Administrative and General	2,380,100
Depreciation	3,935,338
Taxes	198,167
Other Interest	3,703
Other Deductions	2,902
<b>Total Operating Expenses</b>	<b>\$39,545,281</b>

### OPERATING INCOME (LOSS) - Before

Fixed Charges	\$3,266,851
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### FIXED CHARGES

Interest on Long-Term Debt	2,376,677
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### OPERATING INCOME (LOSS) - After

Fixed Charges	\$890,174
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G&T Capital Credits	\$1,256,392
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Other Capital Credits	450,697
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<b>Total Capital Credits</b>	<b>\$1,707,089</b>
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<b>NET OPERATING INCOME (LOSS)</b>	<b>\$2,597,263</b>
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### NON-OPERATING MARGINS

Interest Income	\$209,675
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Other Non-Operating Income	529,781
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\$739,456

<b>NET MARGINS</b>	<b>\$3,336,719</b>
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Audit performed by Bolinger, Segars, Gilbert & Moss, L.L.P., Lubbock, Texas

### 2016 HIGHLIGHTS

**\$2,857,533**



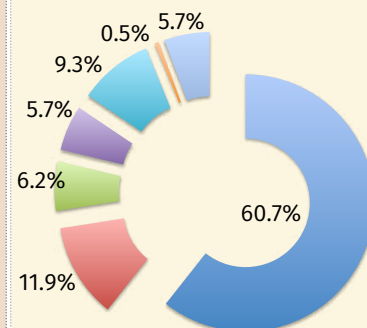
Decrease in CEC long term debt since 2015..



**\$1,213,614**

Increase in CEC net worth since 2015.

### WHERE THE DOLLAR GOES



- Purchased Power
- Operation & Maintenance
- Customer Accounts, Service, & Information
- Administrative & General
- Depreciation
- Taxes
- Interest & Other Deductions

# Balance Sheet

For the years ended December 31, 2016 and 2015

	2016	2015	
<b>ASSETS</b>			
WHAT WE OWN	UTILITY PLANT AT COST		
	Electric Plant In Service	\$119,154,137	\$114,636,791
	Construction Work In Progress	1,054,427	1,287,800
	Less: Accumulated Provision for Depreciation	33,713,582	30,152,960
		<u>\$86,494,982</u>	<u>\$85,771,631</u>
	OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE		
	Investments in Associated Organizations	\$20,598,727	\$19,510,046
	Non-Utility Property - (Net of Accumulated Depreciation)	-	31,500
	Notes Receivable	152,474	233,590
	Other Investments	25,932	25,841
	<u>\$20,777,133</u>	<u>\$19,800,977</u>	
CURRENT ASSETS			
Cash - General	\$372,169	\$562,130	
Temporary Cash Investments	1,477,361	775,811	
Available-for-Sale Investments	3,130,485	4,175,288	
Notes Receivable - Current Portion	146,556	192,696	
Accounts and Notes Receivable (Less Allowance for \$165,158 in 2016 and Uncollectibles of \$237,473 in 2015)	3,083,929	3,239,859	
Accrued Unbilled Revenue	2,149,123	1,938,833	
Material and Supplies	990,635	962,192	
Other Current and Accrued Assets	53,652	42,994	
	<u>\$11,403,910</u>	<u>\$11,889,803</u>	
<b>TOTAL ASSETS</b>	<b>\$118,676,025</b>	<b>\$117,462,411</b>	
<b>EQUITIES AND LIABILITIES</b>			
WHAT WE OWE	LONG-TERM DEBT		
	RUS Rural Development Notes Less Current Maturities	\$57,396	\$79,620
	CFC Mortgage Notes Less Current Maturities	23,507,502	25,728,852
	CoBank Mortgage Notes Less Current Maturities	31,336,180	31,950,139
		<u>\$54,901,078</u>	<u>\$57,758,611</u>
	Accumulated Provision for Pensions and Benefits	\$1,403,500	\$5,084,900
	CURRENT LIABILITIES		
	Current Maturities of Long-Term Debt	\$2,857,628	\$2,744,502
	Current Portion of APBO	190,200	329,700
	Accounts Payable - Purchased Power	2,213,658	1,950,288
Accounts Payable - Other	534,886	464,519	
Consumer Deposits	114,758	72,624	
Accrued Employee Benefits	329,343	437,551	
Accrued Interest	116,467	116,722	
Overcollected Power Cost	177,626	90,431	
Other Accrued Expenses	96,900	69,970	
	<u>\$6,631,466</u>	<u>\$6,276,307</u>	
DEFERRED CREDITS	<u>\$1,042,679</u>	<u>\$780,818</u>	
OUR NET WORTH	EQUITIES		
	Memberships	\$67,495	\$66,432
	Patronage Capital	48,893,247	46,493,743
	Other Equities	2,835,047	2,990,398
	Other Comprehensive Income	2,901,513	(1,988,798)
	<u>\$54,697,302</u>	<u>\$47,561,775</u>	
<b>TOTAL EQUITIES AND LIABILITIES</b>	<b>\$118,676,025</b>	<b>\$117,462,411</b>	

# old business

## 2016 annual meeting minutes

### CALL TO ORDER

President George Burns called the 76th Annual Meeting of Choctaw Electric Cooperative to order at 10:00 a.m. and welcomed the crowd.

The Choctaw Nation Color Guard executed the posting of the colors ceremony. Bayleigh Parker, Soper High School Student, led the Pledge of Allegiance to the flag and sang the "National Anthem". Pastor Billy Irions, Shoals Baptist church delivered the invocation.

Mr. Burns thanked the vendors, the Ft. Towson Softball Team for their help serving today's lunch, and the CEC members for their attendance.

### DECLARATION OF QUORUM

Secretary-Treasurer Mike Brewer reported the bylaws stipulate that five percent of the cooperative's members must be present to legally conduct business at an annual meeting. The total number of members registered today is 847. Per the bylaws, the number of members attending this annual meeting meets the quorum requirements for the transaction of business.

### PROOF OF MAILING OF NOTICE OF MEMBER MEETING

Secretary-Treasurer, Mike Brewer reported that the Notice of Member Meeting was mailed to each member in accordance with the bylaws. The receipt from the post office in O'Fallon, Missouri verifies that 13,055 pieces of mail containing the Official Notice were delivered to the U.S. Post Office and mailed on August 31, 2016.

### MINUTES OF ANNUAL MEETING 2015

Secretary-Treasurer, Mike Brewer reported that the minutes of the business meeting conducted during

annual meeting 2015 were published in the September 2016 Annual Report and made available to all CEC members. President George Burns received a motion from CEC member, Ken Autry, to dispense with reading of last year's annual meeting minutes and accept them as printed in the Annual Report. A second was received by CEC member Gabe Jernigan. Motion carried.

### INTRODUCTION OF CEC TRUSTEES, STAFF AND GUESTS

President Burns introduced the Trustees, Cooperative Attorney Frank Wolf and Interim CEO/General Manager Kenneth Gates.

Trustees present were: George Burns, District A Norman Ranger, District F Joe M. Silk, District B Mike Brewer, District H Bill Woolsey, District D Marcia Wright, District I Becky Franks, District E

Guests recognized: Joe Harris, Retired Kay Electric Cooperative Manager and past Choctaw Electric Cooperative Interim CEO/General Manager; and Chris Meyers, General Manager, OAEC

Two board members were recognized for their service to CEC as Trustees, Danny Antwine and James Woods.

### TREASURER'S REPORT

Secretary-Treasurer Mike Brewer reported on the financial condition of the cooperative.

### PRESIDENT'S REPORT

The annual report of the President was presented by George Burns.

### CEO'S REPORT

Kenneth Gates presented the annual report of the CEO/General Manager.

### ANNOUNCEMENT OF ELECTION AND BYLAW RESULTS

Frank Wolf announced the results of the election and bylaw amendments.

Election Results:  
District C – Stacy Nichols  
District G – Brent Franks  
District I – Ken Autry

All Bylaw Amendments Passed:  
Section 1.06      Section 1.10  
Section 3.04  
Section 4.02      Section 4.09  
Section 4.10  
Section 4.13      Section 5.01  
Section 6.10

### OLD, NEW OR UNFINISHED BUSINESS

Mr. Burns asked for any old, new, or unfinished business. There was no business to discuss.

### GRAND PRIZE DRAWINGS

Joe Fuller, Ringold, Tina Eagleroad, Hugo and Norma Waller, Atoka won the Grand Prize of \$500 each for a credit toward their electric bill.

### ADJOURN

There being no further business to come before the assembly the 2016 Annual Meeting of the members was adjourned.

### QUESTION AND ANSWERS

Mr. Burns then opened the floor for questions and answers from the audience. There were no questions.



## ■ CEC trustee elections

Qualifications for Choctaw Electric Cooperative trustees are listed in Section 4.02 of your CEC by-laws. Bylaws are available online at [www.choctawelectric.coop](http://www.choctawelectric.coop), or pick up a copy at any CEC office.



### DISTRICT B

Joe Silk currently serves as vice president of the board of Choctaw Electric Cooperative, representing members in District B. He has held the position since 2014. A 12-year member of Choctaw Electric Cooperative, Silk works as a certified franchise consultant and is owner of Silk Franchise Consulting. From 2004 to 2016, Silk owned and operated Beavers Bend Getaways in Hochatown. Prior to that, he worked as maintenance supervisor for the Kiamichi Baptist Assembly Church Camp in Talihina for four years. Other professional experience includes managing a restaurant in Calumet, Okla, and serving as economic development facilitator for NGM Inc. in Durango and Chihuahua, Mexico.



Silk's community activities include serving as a member of the McCurtain County Tourism Authority Board since 2011. He also serves as deacon, teacher and youth worker for Octavia Baptist Church and is chairman of the McCurtain County Republican Party.

Asked why he is the best candidate for trustee, Silk stated " I've served on the board for three years and have completed all course work to be a credentialed cooperative director. I've also worked closely with our board and management to successfully guide CEC through difficult situations."

Silk believes CEC's biggest challenge is to restore trust and credibility among members and move the cooperative forward. "I hope to work with the current board and new CEO, Kooney Duncan, in improving the internal structure and external strategies in fresh and innovative ways, cutting costs, paying down debt and keeping members informed and educated."

Silk and his wife, Lindy, live in Broken Bow.

### DISTRICT C

#### Stacy Nichols,

Smithville, has lived in his community for over 30 years. He and his wife, Lisa, have three children and one grandson. He graduated from Smithville High School. After attending college, Nichols returned to Smithville as an employee of Smithville Public School. For 30 years, he has worked as teacher and coach. Currently, he serves as principal of the Smithville Elementary and Middle School. Both he and his wife are active members of Panther Creek Christian Church. Nichols enjoys southeastern Oklahoma and couldn't imagine living anywhere else.



## ■ CEC trustee elections

### DISTRICT G



**Brent Franks**, Antlers, graduated from Antlers High School and attended Southeastern Oklahoma State University and Harding University. He currently serves as minister of

the Antlers Church of Christ. He has been married to his wife, Stacey, for 36 years. They have two children and seven grandchildren. Franks worked for many years in the HVAC industry. He is the owner of Four Seasons Nursery in Antlers. His family has lived in this area since 1910.

Franks served as the mayor of Antlers for several years. He has served on the LDCAA and is currently the chairman of the board. He is also serving as your District G CEC trustee and is the current president of the board of trustees.

**Scott M. Redlin** is retired from the U.S. Army. He is a three-year member of Choctaw Electric Cooperative and a resident of Soper, Okla. While serving in the military, Redlin worked on the transition teams for two U.S. Army hospitals. He is also trained in the quality control programs LEAN and Six Sigma, and is currently studying for a Masters in Business Administration (MBA) at Excelsior College.



Redlin hopes to serve his community by serving on the CEC board of trustees. He believes the experience will also help him achieve his education goals.

Asked why he is the best candidate for the position, Redlin stated, “My strength is motivating people. My weakness is I work too hard.”

Redlin believes the biggest challenges ahead for the co-op include debt and pricing. He will work to solve these problems by using his MBA and quality improvement skills to improve CEC processes and find “new and effective strategies to lower rates.” He also said he will “talk plainly and honestly to members.”



# new business

## proposed bylaw amendments

Members will vote on the following amendments at the CEC Annual Meeting on September 23, 2017. *NOTE: If approved by a majority of CEC members, text in red will be removed from the CEC bylaws. Text in blue will be added.*

### ARTICLE I: MEMBERSHIP

Section 1:10

~~B. Agenda of any official meeting within five (5) business days prior to the meeting.~~

B. In the event of an emergency, the Board may meet in good faith and must provide notice in as much time possible to the membership.

### ARTICLE 4: TRUSTEES/SECTION 4.05 TRUSTEE DISTRICTS

The territory served or to be served by the Cooperative shall be divided into nine districts, each of which shall contain as nearly as possible the same number of members. Each district shall be represented by one Trustee and shall be designated as District A, District B, District C, District D, District E, District F, District G, District H, or District I. Elections for Trustees will be conducted on a rotating basis as follows:

~~(1) for Districts B, C, and G ————— 1996  
(2) for Districts D, E, and F ————— 1997  
(3) for Districts A, H, and I ————— 1998~~

Revision: Section 4.05 Trustee Districts

For Districts D, E, and F	2018
For Districts A, H, and I	2019
For Districts B, C, and G	2020

a. Updated to current year of rotation as bylaws are reprinted.

### ARTICLE 5.01 MEMBER RIGHT OF ATTENDANCE

Definitions:

Meetings - A quorum of Trustees present, in person or by electronic means, and discussion or deliberation of any Choctaw Electric Cooperative business taking place. The term "meeting" does not include the gathering of a quorum of the Board of Trustees at a social function, or the attendance by such a quorum at a regional, state, or

national convention or workshop, ceremonial event, or press conference, if formal action is not taken and any discussion of Choctaw Electric business is incidental, notwithstanding the Cooperative's Records Management Policy and Retention Schedule, the record will be preserved by digitizing it (computer readable on CD or any other long term Storage devices. There will also be a Digital Backup Copy Maintained) within 60 days after the Board Meeting. All meetings shall be called with proper notice.

Before an Executive Session is held, the Board of Trustees or its Committees will first convene in an Open Meeting for which ~~property~~ proper notice has been given.

The Board Secretary or the Secretary's designee will make and keep a written record of the proceedings of each Executive Session of Board Meetings and Executive Sessions. The record will include a statement of the subject matter of each deliberation, and an announcement by the presiding Trustee at the beginning and the end of the Board Meeting indicating the date and time. ~~Notwithstanding the Cooperative's Records Management Policy and Retention Schedule, the record will be preserved by digitizing it (computer readable on CD or any other long term Storage devices. There will also be a Digital Backup Copy Maintained) within 60 days after the Board Meeting.~~

*Remove Article X Waiver of Notice: Due to conflict to Bylaws and intent of 1:10B.*

### ARTICLE X: WAIVER OF NOTICE

~~Any member or trustee may waive, in writing, any notice of meetings required to be given by these Bylaws.~~

### SECTION 1.10 MEMBER RIGHTS

B. Agenda of any official meeting within five(5) business days prior to the meeting.

# 2017 annual meeting

• prizes • games  
• crafts • fun

## *Of Choctaw Electric Cooperative*

**Saturday, September 23, 2017**  
 McCurtain County Fairgrounds, Idabel, OK

### **Attention Members!**

CEC would like to honor our pioneer members at the upcoming CEC Annual Meeting. If you are a CEC member 100 years of age or older, please contact CEC at **800-780-6486**. We would like to recognize you at the meeting.

### SCHEDULE OF EVENTS

8:00 am	Vendors and Events for Children open
8:00 am to 10:00 am	Registration and Voting (Voting closes at 10:00am)
8:45 am and 9:30 am	Prize Drawings Drawing for Girls & Boys Bicycles and iTunes gift card Coloring Contest Winners Announced
10:00 am	Welcome & Call to Order.....Brent Franks, President Posting of the Colors.....Choctaw Nation Color Guard National Anthem.....Terah Wright, CEC Member Invocation.....Brad Bain, CEC Member Declaration of Quorum.....Mike Brewer, Secretary/Treasurer Official Notice & Proof of Mailing.....Mike Brewer, Secretary/Treasurer Minutes of 2016 Annual Meeting.....Mike Brewer, Secretary/Treasurer Final Call for Ballots.....Frank Wolf, CEC Attorney Financial Report.....Mike Brewer, Secretary/Treasurer President's Report.....Brent Franks, President Manager's Report.....Kooney C. Duncan, CEO/General Manager Announcement of Election Results.....Frank Wolf, CEC Attorney Old, New or Unfinished Business.....Brent Franks, President Adjournment of Meeting.....Brent Franks, President Grand Prize Drawing.....Kooney Duncan, CEO/General Manager

### **GRAND PRIZES!**

Three **\$500** Bill Credits ~ Member must be present to win.

***Please bring a copy of this program to the CEC Annual Meeting!***

\*Program times are subject to change\*