

Year in Review

SAM HOUSTON
ELECTRIC COOPERATIVE





Our Mission:

**We are dedicated to
achieving & sustaining
a strong safety culture,
consistent reliability
improvement,
service excellence,
financial stewardship, &
a strategy for the future.**



Table of Contents

A message from our CEO	4
Cooperative leaders	5
Your Co-op by the numbers	6
Highlights from 2018	9
Community	10
Cybersecurity	11
Renewables	12
Safety	12
Training	13
Financials	14



A message from our CEO

Dear Cooperative Members,

Many electric cooperatives across Texas and the U.S. benchmark their organizations' performance based on what Sam Houston Electric Cooperative does.

In a nutshell, that's why I was excited to accept the position of CEO following the retirement of Kyle Kuntz, who served in that role since 2002. I have been part of hundreds of conversations about how electric cooperatives can best serve their members. And one question that's always asked is, "What does Sam Houston Electric Cooperative do?"

Other co-ops ask that question because of Sam Houston's commitment to...

- the safety of our members and employees,
- well-trained, highly-skilled employees,
- the use of technology to provide best in class service,
- an American Customer Satisfaction Index score that ranks among the highest of all electric utilities in the U.S.

And, the reason for all of that, is you, the consumer-members we serve. Our members are the purpose for which Sam Houston Electric Cooperative was created 80 years ago.

Your involvement in your cooperative's member meetings and elections is vital to our success. Your interactions with us, and the feedback you provide, help us chart our course for the future. And your support in times of natural disasters is second to none. In short, you are the reason for Sam Houston Electric Cooperative's success.

Throughout 2018, our focus on safety was reflected in the S.T.A.R. (Stop. Think. Awareness. Responsibility.) Safety Program. Now in its fourth year, S.T.A.R. was created by our Safety Steering Team, which is dedicated to improving all aspects of safety for Co-op employees and members.

Also in 2018, we improved system reliability by utilizing a combination of technology, electrical distribution system upgrades, as well as right-of-way maintenance. Fortunately, no hurricanes impacted our area. The right-of-way maintenance program, however, had a

significant positive impact on reducing power outages caused by typical East Texas storms.

Our new, improved outage management system uses leading technology to help us respond to outages faster and restore your power more quickly. The *mySamHouston* online portal and smartphone app give you the ability to report an outage without having to call our office. Additionally, *mySamHouston* includes an outage map that allows you to view current outages and see an estimated time of restoration. *mySamHouston* offers several other service enhancements as well.

Financially speaking, your Cooperative is strong. We are well-positioned to maintain our facilities and plan for the growth that we are experiencing in several areas of our system, in an effort to constantly improve our service to you.

In September, Sam Houston EC retired \$3 million in capital credits, which appeared as credits on members' electric bills. Capital credits have always been one of the key benefits of being part of an electric cooperative.

Your Cooperative Board of Directors and senior management developed a strategic plan that lays out a roadmap to the future. The strategic plan has targeted goals and a long-term focus on safety, reliability, financial stewardship and service excellence.

We closed 2018 by receiving an American Customer Satisfaction Index score of 86 from our Co-op members. That is a very high score and is a full nine points higher than the industry average.

Sam Houston Electric Cooperative was chartered by the State of Texas on May 16, 1939. As we celebrate our 80th anniversary, we thank you, our members, for making your Cooperative what it is today.

Cooperatively yours,

Doug Turk, P.E.
General Manager & CEO



Cooperative leaders

The board of directors continues to provide policy development, oversight and management across one of the largest electric cooperatives in Texas and the country as we mark 80 years of service. Made up of engaged Cooperative members, the board is keenly aware of what is important to our member-owners because they are members too. To ensure equal representation for each of our more than 55,000 members, our service area is divided into five districts. Mr. Robert Boyd, Board President, represents the smallest of the five districts, ensuring every member's concern is represented.

Director Districts

DISTRICT 1

Angelina, Polk and Trinity Counties



Don Boyett

DISTRICT 1



Robert C. Boyd

DISTRICT 3

DISTRICT 2

San Jacinto County



Mike Oldner

DISTRICT 1



Katherine Hardin

DISTRICT 4

DISTRICT 3

Tyler and Jasper Counties



Milton Purvis

DISTRICT 1



Chuck Turner

DISTRICT 4

DISTRICT 4

Hardin and Liberty Counties



Casey Evans Davis

DISTRICT 1



W.E. 'Ernie' Miles

DISTRICT 5

DISTRICT 5

Montgomery and Walker Counties



James Elmore

DISTRICT 2



Jim Seale

DISTRICT 5



Gary Jenke

DISTRICT 2

Co-op by the numbers

157

Employees

1 employee per 476 meters.
Lean and efficient.

7,700

Hours of Training

Your Co-op employees are among the best-trained and highest-performing in the industry.

74,969

Total Meters

The total number of active meters increased by 1,200 in 2018. Montgomery County recorded the biggest increase in total number of meters (434) and percentage increase (3.7) in 2018.

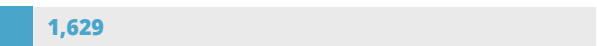
12

Average Number of
Meters Per Mile of Line

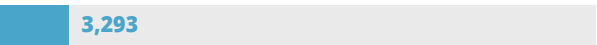
Electric cooperatives must meet the challenge of providing reliable, affordable, safe electricity in mostly rural areas. That means we must operate efficiently and cost effectively. We do that with industry-leading technology and an outstanding workforce.

Meters Per County

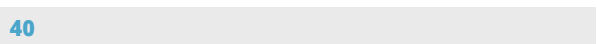
ANGELINA



HARDIN



JASPER



LIBERTY



MONTGOMERY



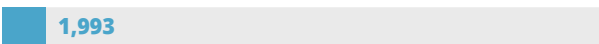
POLK



SAN JACINTO



TRINITY



TYLER



WALKER



6,078

Miles of Line

That's farther than the distance from Houston to Rome!



170,708

Poles

1,300 miles tall, laid end-to-end. That's the distance from Houston to Los Angeles!

\$4.82

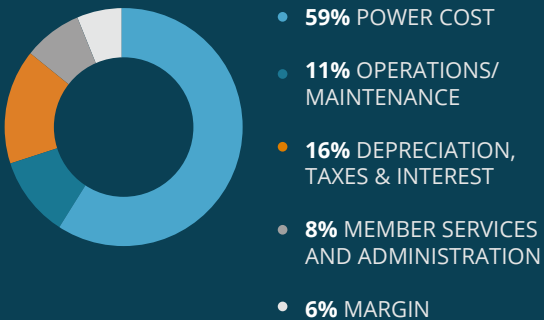
Average Cost per Day

A day's worth of electricity for about the cost of a hamburger.

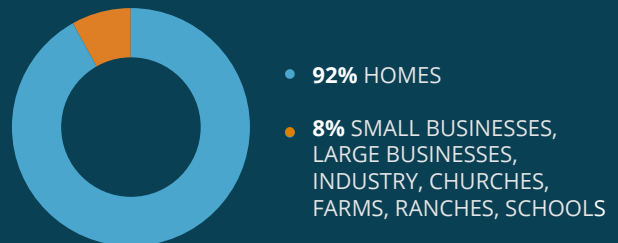
\$36,264

Saved by Co-op Members on prescriptions, by using their Co-op Connections Card

Where Dollars Go



Electric Meters



1,439,902,097

Kilowatt-hours used by Sam Houston EC members in 2018

\$82,500

In scholarships to help graduating high school seniors pursue higher education

55,791

Co-op members across 10 counties

80

Years young

May 16, 1939 is Sam Houston Electric Cooperative's Birthday!

SAM HOUSTON
ELECTRIC COOPERATIVE



MANAGE YOUR ACCOUNT SECURELY ONLINE

You'll find more than just convenient access to your Sam Houston Electric Cooperative account when you log in to *mySamHouston* from your computer or mobile device. You will gain access to tools to manage your account and save money.

SAMHOUSTON.NET 800-458-0381

Highlights from 2018



Capital Credits

\$3 million in capital credits were applied to Co-op members' September electric bills. Over the years, Sam Houston Electric Cooperative has paid more than \$41 million in capital credits to our consumer-members. Capital credits are one of the great benefits of being served by an electric cooperative.



High Satisfaction

Our members rated Sam Houston Electric Cooperative 86 on the 2018 American Customer Satisfaction Index. That's 9 points higher than the average score for all electric cooperatives (77), and 11 points higher than the national average for all energy utilities (75).



mySamHouston

The *mySamHouston* online portal, and the *mySamHouston* smartphone app allow Co-op members to report outages, receive outage updates and usage notifications, track electricity consumption, pay electric bills and much more. 28,000 Co-op members are using the *mySamHouston* online portal, and 5,000 are using the *mySamHouston* app. Start taking advantage of everything *mySamHouston* offers today!



Financially Sound

In May 2018, we lowered the Delivery charge from 3.34 cents per kilowatt-hour to 3.10 cents. The Base charge changed from \$12.75 to \$19.75. As your Cooperative experiences significant growth in several areas, we are positioned well to continue providing excellent service and cost-effective rates, now and for generations to come.



CEO Kuntz Announces Retirement

After 37 years with Sam Houston Electric Cooperative (15 as General Manager & CEO), Kyle J. Kuntz announced his retirement. Through improvements in processes and technology, Kuntz worked tirelessly to increase system reliability and create a strong culture of safety for employees and members.

Community

From quarterly blood drives to longstanding support of families through the Empty Stocking program, Sam Houston Electric Cooperative is dedicated to helping our local communities and families who are in need.



Helping Hands

Members and employees choose to make a difference through Helping Hands, which provides bill payment assistance to Co-op members in need. Since its inception in 1992, nearly \$450,000 has been distributed to Cooperative members through area assistance agencies.



We Care

We also launched our new We Care program in 2018. Led by Co-op employees, the program encourages volunteerism, hosts member appreciation days and participates in community events, such as picking up trash around Lake Livingston. We Care was very successful in 2018 and continues to grow.



Empty Stocking

The cooperative spirit is about more than providing electricity for our members. Each year Sam Houston EC employees adopt a local family and provide Christmas gifts in partnership with the Empty Stocking program.



Scholarships

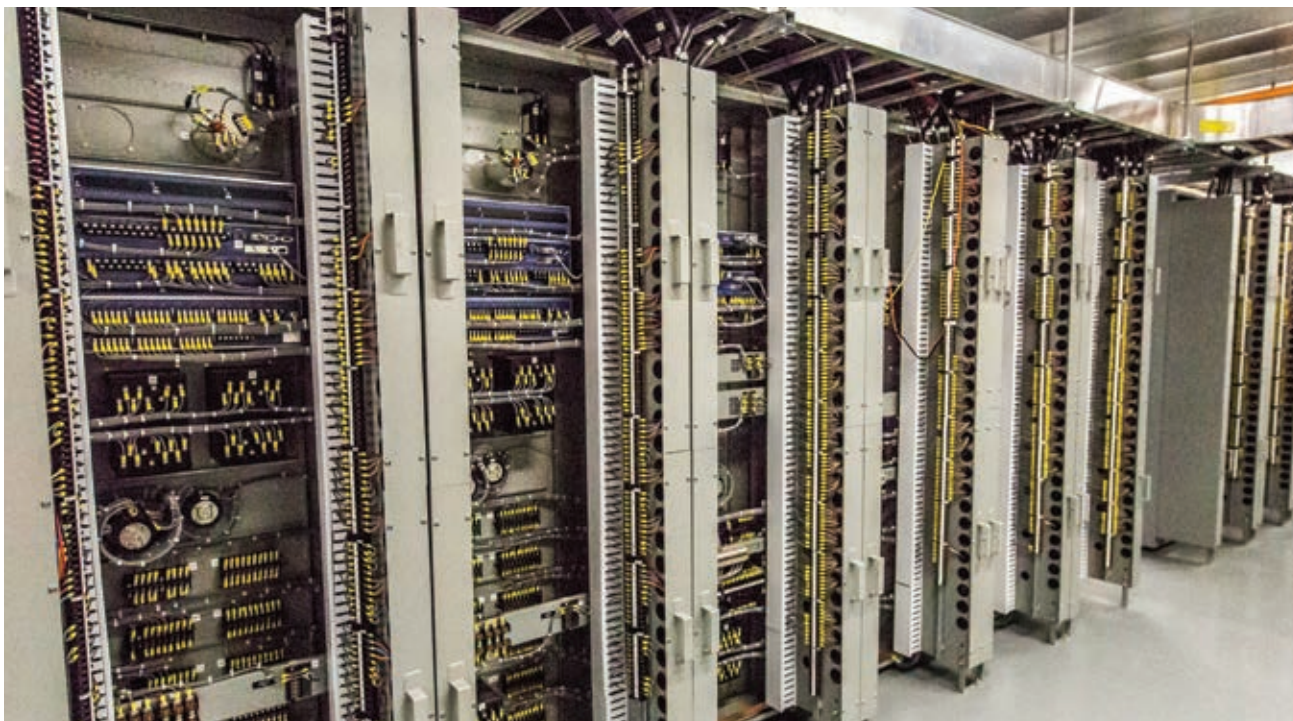
In 2018, the Cooperative distributed \$82,500 in scholarships to high school seniors whose parents or legal guardians are active Sam Houston EC members. One of the Cooperative's core principles is supporting education, and through the scholarship program over 650 local students have received assistance in pursuing higher education.



Operation Round Up

Cooperative members who elect to round up their electric bill each month are helping their communities through Operation Round Up. More than \$8,500 has been distributed to local non-profit organizations that work to improve the quality of life in East Texas, such as Don't Meth With Me, Habitat for Humanity and Reading Encourages Advanced Development, to name a few.

A \$3,500 grant from Operation Round Up allowed the Tarkington Community Library to replace three unreliable computers that were more than 10 years old in 2018. The new computers are the only access to online study and research via the internet for many people served by the library.



Cybersecurity

“Protecting our members’ personal information from cybersecurity breaches has been and will continue to be a top priority at Sam Houston EC,” Chief Information Officer Keith Staples said.

Cybersecurity is a current news topic, but at Sam Houston Electric Cooperative, it’s a vital part of what we do, and has been for quite a while.

“Protecting our members’ personal information from cybersecurity breaches has been and will continue to be a top priority at Sam Houston EC,” Chief Information Officer Keith Staples said. “Cybersecurity threats are increasing and changing on a daily basis, so we are constantly monitoring and improving the Co-op’s network to ensure members’ data, as well as our power grid, are safe and secure.”

Cybersecurity at the Cooperative starts with measures everyone can take to protect our system and information, such as not clicking on unexpected emails or learning how to spot other scams. The Co-op’s Information Technology department hosted training throughout the year to help employees identify potential scams and report them.

Sam Houston Electric Cooperative’s engineering staff led cybersecurity planning sessions with other area cooperatives as well. They shared best practices on protecting substations and the control points along the distribution system, as well as data transmission. The system’s design even has the capability to reroute data in a matter of seconds to keep information flowing. Most importantly, these steps help ensure that Sam Houston EC continues providing our members with reliable electricity.

Renewables

Sam Houston Electric Cooperative employees work to provide reliable electricity to our 55,000 members, but where does the electricity come from?

Sam Houston Electric Cooperative partners with nine other cooperatives to form East Texas Electric Cooperative. ETEC is a cooperative just like Sam Houston EC.

ETEC's member cooperatives work together to build electricity generating facilities like the R.C. Thomas Hydroelectric Project at Lake Livingston, as well as purchase power on the open market. By buying electricity together, the member cooperatives receive better prices on the electricity, just like you when you buy grocery items in bulk.

More wind-generated electricity has recently been added into the mix of generation sources. Almost seven percent of our

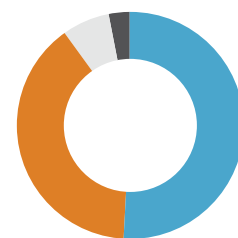
electricity is wind-generated.

Sam Houston EC's power is also generated by coal (51 percent), natural gas (39 percent) and water or hydropower (3 percent).

The R.C. Thomas Hydroelectric Project at Lake Livingston is under construction. Although plagued by the floods our area has experience over the past five years, the project is expected to begin producing electricity in 2020.

ETEC includes 10 distribution electric cooperatives, like Sam Houston EC, collectively serving more than 340,000 consumer-members across 46 counties in East Texas.

Electricity generation



- **51% COAL**
- **39% NATURAL GAS**
- **7% WIND**
- **3% WATER/HYDROPOWER**



Safety

The S.T.A.R. (Stop. Think. Awareness. Responsibility.) Safety Program moved into its fourth year of existence with the goal for each employee to be safe at work and at home.

Continuous Improvement Team 5 unveiled an improved near miss reporting process in February.

"A near miss reported today, could save a life tomorrow," is Team 5's motto. It is used to encourage all employees to be vigilant, keep lines of communication open and do their part to keep our employees and members safe.

Continuous Improvement Team 6 launched the "Slips, Trips and Falls" prevention program in September. Results have been excellent, as no slips, trips or falls have led to a lost-time incident since the program was launched.



Training

Each Sam Houston EC employee averaged more than 40 hours of training in 2018.

Texas Electric Cooperatives and Sam Houston EC continued their training partnership as the Co-op hosted six training classes at our training site near Livingston in 2018. The classes brought more than 125 line technicians from across the state for the week-long classes.

Several employees received switch training in conjunction with Entergy Corporation. Those employees are now certified to operate certain switches during large power outages, which facilitates faster power restoration.

Members of the Livingston Police Department provided active shooter training and educated our employees about credit card skimming fraud techniques being used by criminals at area gas stations.

Each Sam Houston EC employee averaged more than 40 hours of training. Our employees recorded more than 7,700 training hours in 2018. It reflects our commitment to operating safely, keeping your energy costs down and providing reliable service.

Financials

Consolidated Balance Sheets

December 31, 2018 and 2017

Assets	2018	2017
Utility Plant:		
Electric plant in service	\$ 496 438 005	\$ 477 152 664
Construction in progress	19 288 539	14 554 861
	515 726 544	491 707 525
Less: accumulated depreciation	176 712 132	162 185 128
NET UTILITY PLANT	339 014 412	329 522 397
Investments in associated organizations, at cost	65 029 486	63 114 864
TOTAL INVESTMENTS	65 029 486	63 114 864
Current Assets:		
Cash and cash equivalents	7 491 209	9 418 900
Restricted funds	904 977	949 138
Accounts receivable (less provision for doubtful accounts of \$648,216 in 2018 and \$763,011 in 2017)	17 001 126	20 547 035
Materials and supplies (at average cost)	997 973	103 714
Other current assets	423 574	393 765
TOTAL CURRENT ASSETS	26 818 859	31 412 552
Deferred charges	19 343 258	21 229 814
Total Assets	\$ 450 206 015	\$ 445 279 627

Consolidated Balance Sheets

December 31, 2018 and 2017

Equities & Liabilities	2018	2017
Equities:		
Patronage capital	\$180 933 017	\$ 173 315 654
Other equities	156 290	156 290
Accumulated other comprehensive income (loss)	16 720	(1 344 441)
TOTAL EQUITIES	181 106 027	172 127 503
Long-term postretirement benefits liability	6 458 905	7 320 549
Long-term debt, less current maturities	211 693 857	213 747 555
Current Liabilities:		
Accounts payable and accrued liabilities	24 890 832	22 786 929
Current maturities of long-term debt	12 553 699	11 893 788
Current portion of postretirement benefits liability	217 060	251 773
Accrued interest payable	556 724	638 476
Consumers' deposits	2 312 579	2 418 665
TOTAL CURRENT LIABILITIES	40 530 894	37 989 631
Deferred credits	10 416 332	14 094 389
Total Equities & Liabilities	\$ 450 206 015	\$ 445 279 627

Financials

Statements of Revenue & Expense

For the Years Ended December 31, 2018 and 2017

Statement of Revenue & Expense	2018	2017
Operating Revenues:		
Sale of electricity	\$ 162 031 768	\$ 155 767 954
Other electric revenues	7 524 705	6 559 834
TOTAL OPERATING REVENUES	169 556 473	162 327 788
Operating Expenses:		
Cost of power	102 205 145	96 721 956
Transmission expense	684 355	689 527
Distribution expense - Operation	5 115 431	5 244 027
Distribution expense - Maintenance	13 411 284	15 694 351
Consumer accounts expense	5 677 416	4 942 352
Administrative and general expense	8 325 307	8 493 498
Depreciation expense	16 833 370	16 496 705
Taxes other than income taxes	2 676 355	2 417 479
OPERATING EXPENSES	154 928 663	150 699 895
OPERATING MARGINS BEFORE INTEREST EXPENSE	14 627 810	11 627 893
Interest on long-term debt and consumer deposits	8 108 120	8 467 748
OPERATING MARGIN (LOSS)	6 519 690	3 160 145
Generation and transmission capital credits	1 261 678	3 385 208
Patronage capital - Associated organizations	2 221 995	2 292 638
Nonoperating Margins:		
Interest income	384 405	103 447
Other nonoperating income (expense)	266 503	(371 232)
TOTAL NONOPERATING MARGINS	650 908	(267 785)
Total Assets	\$ 10 654 271	\$ 8 570 206

Statements of Comprehensive Income

For the Years Ended December 31, 2018 and 2017

Statements of Comprehensive Income	2018	2017
Net margin	\$ 10 654 271	\$ 8 570 206
Other comprehensive income:		
Actuarial gain (loss)	1 361 161	(34 652)
COMPREHENSIVE INCOME	<u>\$ 12 015 432</u>	<u>\$ 8 535 554</u>


Statements of Patronage Capital & Accumulated Other Comprehensive Income				
	PATRONAGE CAPITAL	OTHER EQUITIES	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
Balance, December 31, 2016	166 745 448	\$ 156 290	\$ (1 309 789)	\$ 165 591 949
Net margin	8 570 206	-	-	8 570 206
Other Comprehensive Income:				
Actuarial gain/(loss)	-	-	(34 652)	(34 652)
Patronage capital retired	(2 000 000)	-	-	(2 000 000)
Balance, December 31, 2017	173 315 654	156 290	(1 344 441)	172 127 503
Net margin	10 654 271	-	-	10 654 271
Other Comprehensive Income:				
Actuarial gain/(loss)	-	-	1 361 161	1 361 161
Patronage capital retired - Net	(3 036 908)	-	-	(3 036 908)
Balance, December 31, 2018	\$ 180 933 017	\$ 156 290	\$ 16 720	\$ 181 106 027

Financials

Statements of Cash Flows

For the Years Ended December 31, 2018 and 2017

Cash Flows	2018	2017
Cash Flows from Operating Activities:		
Net margin	\$ 10 654 271	\$ 8 570 206
Adjustments to Reconcile Net Margins to Net		
Cash Provided by Operating Activities:		
Depreciation expense	16 833 370	16 496 705
Patronage capital credits - Non Cash -		
Associated organizations	(3 483 674)	(5 676 845)
Accumulated provision for pensions and benefits	464 804	469 082
Cash Provided by (Used for) the Change in:		
Accounts receivable, net	3 545 909	(1 849 135)
Materials and supplies	(894 259)	346 937
Other current assets	(29 809)	79 430
Deferred charges	1 886 556	4 480 690
Deferred credits	(8 445 658)	4 101 982
Accounts payable and accrued liabilities	2 103 903	(249 538)
Accrued interest payable	(81 752)	10 537
Consumers' deposits	(106 086)	(153 583)
TOTAL ADJUSTMENTS	11 793 304	18 056 262
NET CASH PROVIDED BY OPERATING ACTIVITIES	22 447 575	26 626 468
Cash Flows from Investing Activities:		
Capital expenditures for utility plant, net of retirements	(26 325 385)	(25 977 472)
Net change in restricted cash	44 161	69 832
Proceeds from patronage capital - Associated organizations	1 569 052	3 895 002
Deferred credits	4 767 601	4 382 915
NET CASH (USED) IN INVESTING ACTIVITIES	(19 944 571)	(17 629 723)
Cash Flows from Financing Activities:		
Proceeds from long-term debt	-	25 000 000
Payments of long-term debt	(11 893 787)	(11 770 339)
Net change in lines of credit	10 500 000	(15 500 000)
Retirement of capital credits	(3 036 908)	(2 000 000)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(4 430 695)	(4 270 339)
INCREASE IN CASH AND CASH EQUIVALENTS	(1 927 691)	4 726 406
Cash and cash equivalents at beginning of year	9 418 900	4 692 494
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 7 491 209	\$ 9 418 900
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest expense, net of capitalized amounts	\$ 8 189 872	\$ 7 036 682
Noncash Investing and Financing Activities:		
Net actuarial gain (loss) on postretirement benefit plan	\$ 1 361 161	\$ (34 652)



**Sam Houston Electric
Cooperative is the 52nd
largest of over 800 U.S.
electric co-ops.**



Join us for Sam Houston Electric Cooperative's

ANNUAL MEETING OF MEMBERS

Tuesday, June 11

The annual meeting is an important part of what makes Sam Houston EC special. It's an opportunity for members to learn about the state of the Cooperative. The Cooperative leaders will report on Co-op business, including the announcement of board of directors election winners.

Members in attendance will be able to visit with other member-owners, the board of directors and Cooperative management. There will also be entertainment and door prize drawings.

Time

Doors will open at noon for registration, and the meeting will start at 1:30 p.m. Entertainment begins between noon and 12:30 p.m., with music by Walter Plant.

Location

The meeting will be held at the Polk County Commerce Center in Livingston. The facility is located at 1017 U.S. Highway 59 Loop N., with its entrance at Pedigo Park.

Shuttles will be available to take attendees from the parking area to the facility.