

POWERING COMMUNITIES



EMPOWERING MEMBERS



 **Sam Houston**
ELECTRIC COOPERATIVE

2012 ANNUAL REPORT

COOPERATIVE LEADERS



Sam Houston Electric Cooperative Board of Directors

Back row, left to right: Thomas Lucher, Milton Purvis, Katherine Hardin, Robert Leisner, Don Boyett and Robert C. Boyd.
Seated: W.E. "Ernie" Miles, R.C. Thomas Sr., Arnold Ursprung, Lynn Hendrix and Truitt Thomson.

Dear Members,



Powering communities and empowering members so they can have a better quality of life. That was the purpose for which electric cooperatives were created in the mid-1930s, and that's our reason for existing today.

Seventy-four years ago, Sam Houston Electric Cooperative was created by a group of local rural residents who knew they had the power to change their community—and they certainly did. Today, those founding members would be amazed to see that their little cooperative has grown to be one of the largest electric cooperatives in Texas, with approximately 6,000 miles of line and 52,000 members.

However, one thing hasn't changed—we're still *your* Cooperative. As a not-for-profit, member-owned entity, we strive to serve you, our members, and keep our rates affordable. In 2012, we completed system upgrades and continued our extensive proactive maintenance program. Through the addition of a new substation in Point Blank and the inspection of 25,000 poles, we've worked hard to ensure that your lights stay on.

Working together with our power generation provider, East Texas Electric Cooperative, we

began construction in 2012 on the new Woodville Renewable Power Facility, which will burn wood chips to produce 49 megawatts of clean electricity. The Woodville facility is expected to have a positive annual economic impact of \$20 million and should be completed in late 2014.

Our look back at 2012 reflects some challenges as well. Government regulations, along with higher prices for almost everything, are making it cost more to produce and deliver power to our members. Due to this growing challenge, in addition to costs associated with cutting nearly 170,000 dead trees during and after the recent major drought, no capital credits were retired (paid).

In spite of the challenging economic conditions, electricity is still a bargain. We put our members first. You are our friends and neighbors—and we work hard to keep your electric bills low. In fact, in September 2012, your Board of Directors decided to pass wholesale energy credits, totaling \$3.7 million, directly to you, our members.

After 74 years, Sam Houston EC is still powering communities and empowering members. While we take a look back at 2012 in this annual report, know that we are also looking to the future. This is *your* Cooperative—created by members, thriving today because of our members and growing to serve for generations to come.



Cooperatively yours,



Kyle J. Kuntz, P.E.
General Manager & CEO

POWERING COMMUNITIES



Sam Houston Electric Cooperative first brought power to rural East Texas residents back in 1939. Though our mission of delivering safe, reliable and affordable power to our members hasn't changed, our system has.

In the 1940s there were just 661 Sam Houston Electric Cooperative members receiving electricity on 243 miles of line. Now, 74 years later, there are 52,000 members connected to approximately 6,000 miles of line.

Growing Strong

Sam Houston EC has been a part of East Texas since 1939, but our electrical distribution system certainly does not look like it has been around that long. We've made it a priority to keep our system in excellent condition by conducting regular inspections and making upgrades and repairs whenever necessary.

By replacing equipment as it approaches the end of its useful life, we're better able to meet demand and maintain correct voltage and power factor levels. In 2012, aging critical components, such as substation regulators, switches and lightning arresters, were changed out at several Cooperative substations.

New communications hardware was also installed at nearly half of the Co-op's substations. These upgrades increased bandwidth—providing faster data transfer from the substations back to the Livingston headquarters office.

168,000 POLES AND COUNTING



Keeping our system in tip-top shape doesn't stop at Sam Houston Electric Cooperative facilities. The backbone of our system consists of 6,000 miles of power lines and 168,000 poles.

As part of our ongoing preventive maintenance program, approximately 25,000 poles were inspected for deterioration in 2012 and nearly 300 were restored or replaced.

We proactively inspect our lines and equipment to ensure that our entire system is not only in good condition, but also up to par with safety codes.

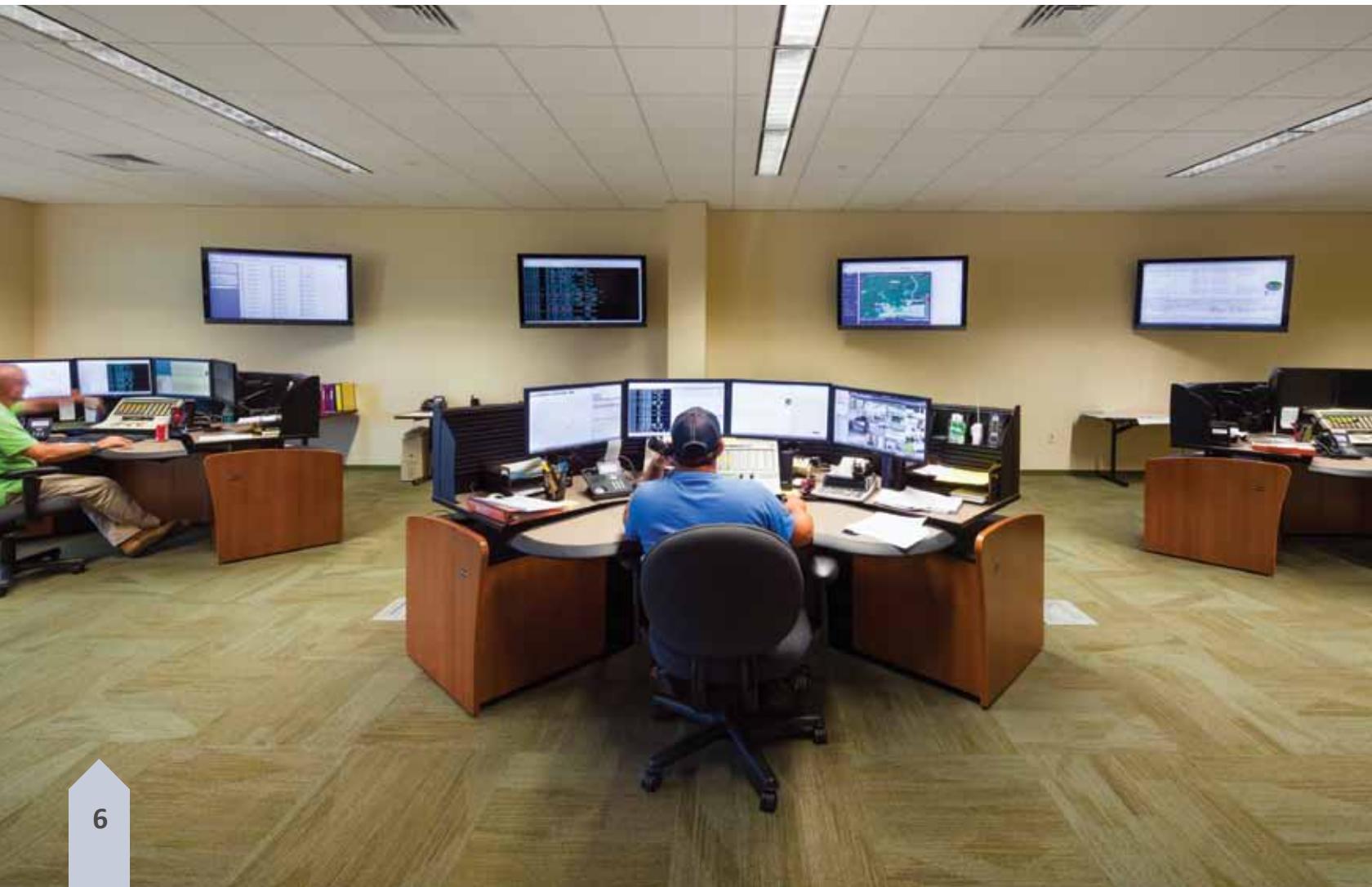
Right-of-Way Maintenance

Sam Houston EC conducted the most

proactive right-of-way maintenance program in all of Texas in 2012. This large-scale effort took down more than 170,000 dead and danger trees over the course of a year—reducing the risk of power outages and fires along power line rights-of-way.

But that effort certainly wasn't a one-time deal, our crews will continue to perform routine maintenance on our rights-of-way to ensure that the results of this program last for years to come.

IMPROVING RESTORATION



When the lights go out, our goal is to restore your power quickly and safely. Our automated crew callout system allows dispatchers to focus on coordinating power restoration, rather than calling crews in to work.

In May 2012, Sam Houston Electric Cooperative implemented an internet-based software called ARCOS, which locates and assembles utility repair crews after normal business hours. Automating this process was one giant step toward reducing the time it takes us to restore your power.

Reliability

When Sam Houston EC energized its new Point Blank substation in 2011, it was just the first step, albeit a large one, to improving reliability in this growing area. The Co-op executed a series of “swap overs” in 2012 to move a portion of load served by the Staley substation to its new neighboring substation in Point Blank.

To complete the job as safely and efficiently as possible, the project was divided into

several phases to minimize planned outage times during the conversion.

Security

Copper theft has been a problem for several years, and with the price of copper making it a hot commodity, this crime epidemic shows no signs of slowing down.

Unfortunately, perpetrators do not realize how extremely dangerous copper theft is. Even if the thieves succeed, they cause a great disservice to the public.

Copper theft is costly. Damage and unexpected repairs, unfortunately, cost Sam Houston EC members money. We’ve installed advanced security technologies at Co-op facilities to help prevent theft and vandalism. It’s our job to protect your investment.

EMPOWERING MEMBERS



Truth is, we're more than an electric provider. We take great pride in supporting our member-owners. We're committed to helping the communities we serve—they're our hometowns, too!

We're committed to our future leaders. In 2012, we awarded \$81,000 in college scholarships to 30 deserving high school seniors whose parents or legal guardians are active Sam Houston Electric Cooperative members. Scholarships are awarded to students attending universities and colleges as well as technical and vocational schools.

The money that funds this scholarship program comes from unclaimed capital credits that belong to the Cooperative and are returned by the State of Texas each year.

We also give back to our community through participation in Relay for Life and the Empty Stocking Program. Together, we collected gifts in 2012 to provide Christmas joy for a single mother with five children. Our Relay for Life team was also one of the top Polk County fundraising teams in 2012.

We're always looking for new opportunities to lend a helping hand. Supporting community programs and initiatives is a daily part of our operation and will always be a top priority.

ENGAGING MEMBERS



Sam Houston Electric Cooperative is *your* Cooperative. We are member-owned and have been since 1939. That makes keeping you in the loop and engaging our members all the more important.

Our 2012 Annual Meeting was a successful event where more than 1,200 members gathered to meet Co-op employees and the Board of Directors, learn about member benefit programs, the state of the organization and our plans for the future. Attending the Annual Meeting is a great way to get involved in *your* Cooperative—we hope you'll join us in 2013!

In September 2012, we launched a new, redesigned samhouston.net. This new site offers the same information as before, just in a clean, sleek new layout. The website also offers access to our Electronic Bill Payment Program, where you can log into your account, view your billing history and pay your bill all at the click of a button.

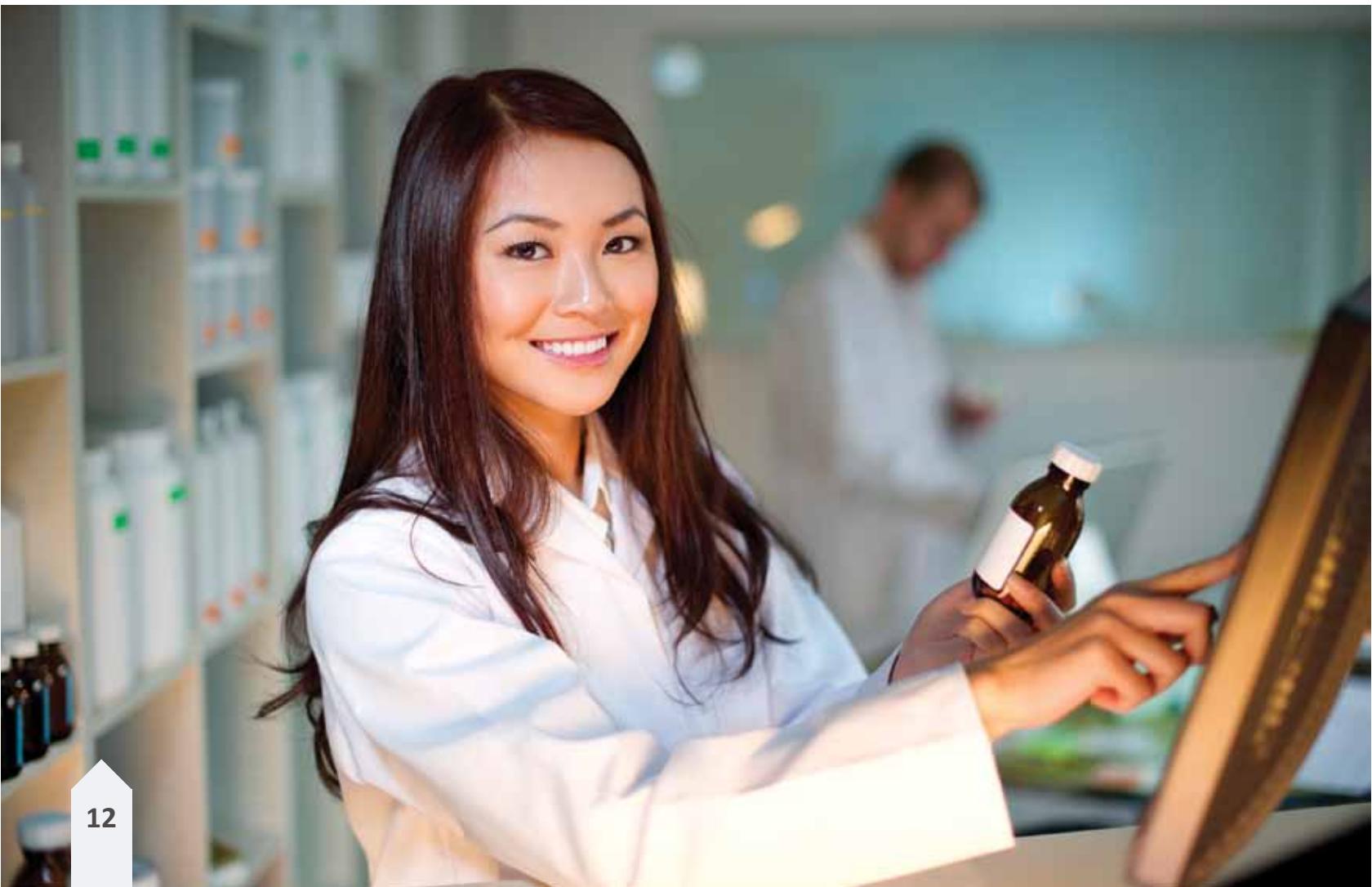
Join the Conversation

We also revamped our social media tools in 2012. We hope you'll like our Facebook page, [Facebook.com/SamHoustonEC](https://www.facebook.com/SamHoustonEC), and follow us on Twitter, [@SamHoustonEC](https://twitter.com/SamHoustonEC). Our social media outlets provide safety and energy saving tips, outage information and other Co-op news.

We brought a new form of communication to you with the inaugural issue of *The Current* e-newsletter. *The Current* gives you all of the latest Co-op news and important links in one simple, monthly e-mail newsletter.

To receive your copy, give us a call or send an email to thecurrent@samhouston.net.

PROVIDING BIG SAVINGS



We are committed to helping you save money on daily purchases with the Co-op Connections Card®. By presenting your Co-op Connections Card at local and national participating businesses, you can save big—it's that easy!



And the savings don't end there—you can save by shopping at your favorite online retailers through the My VIP Savings

program, an online shopping mall where you can receive exclusive discounts and cash back on purchases from your favorite retailers.

The Healthy Savings program gives you discounts on prescriptions, imaging services, chiropractic, dental, vision and hearing care. Though it is not insurance, you can receive discounts on prescriptions at participating pharmacies thanks to the group number located on the back of your card.

In 2012, Sam Houston Electric Cooperative members saved more than \$100,000 on prescription medications alone by using their Co-op Connections Card at participating pharmacies.

For more information on these programs, to sign up for My VIP Savings and to view a list of participating businesses and pharmacies, visit www.connections.coop/samhoustonec.

If your business could use some advertising, joining the Co-op Connections Card program will give you exposure to more than 52,000 Sam Houston EC members through *Texas Co-op Power* magazine, social media and our website. Best of all—it's free!

SAM HOUSTON ELECTRIC COOPERATIVE INC.
CONSOLIDATED BALANCE SHEETS | December 31, 2012 and 2011

ASSETS	2012	2011
Utility Plant:		
Electric plant in service	\$ 429 846 104	\$ 416 398 181
Construction in progress	<u>4 445 035</u>	<u>4 523 200</u>
	434 291 139	420 921 381
Less: accumulated depreciation	<u>139 404 214</u>	<u>130 868 806</u>
NET UTILITY PLANT	<u>294 886 925</u>	<u>290 052 575</u>
Investments in associated organizations, at cost	<u>44 370 714</u>	<u>37 251 768</u>
TOTAL INVESTMENTS	<u>44 370 714</u>	<u>37 251 768</u>
Current Assets:		
Cash and cash equivalents	10 602 304	4 203 247
Restricted funds	1 136 078	1 237 754
Accounts receivable (less provision for doubtful accounts of \$680,514 in 2012 and \$595,374 in 2011)	15 855 812	17 208 992
Materials and supplies (at average cost)	603 088	629 558
Other current assets	<u>317 927</u>	<u>399 236</u>
TOTAL CURRENT ASSETS	<u>28 516 207</u>	<u>23 678 787</u>
Deferred charges	<u>4 600 566</u>	<u>4 600 566</u>
TOTAL ASSETS	<u>\$ 372 373 414</u>	<u>\$ 355 583 696</u>
EQUITIES AND LIABILITIES		
Equities:		
Patronage capital	\$ 144 393 069	\$ 137 969 738
Other equities	156 290	156 290
Accumulated other comprehensive income	<u>(3 264 110)</u>	<u>(1 813 104)</u>
TOTAL EQUITIES	<u>141 285 249</u>	<u>136 312 924</u>
Long-term postretirement benefits liability	<u>6 806 031</u>	<u>4 872 449</u>
Long-term debt, less current maturities	<u>185 765 033</u>	<u>175 939 467</u>
Current Liabilities:		
Accounts payable and accrued liabilities	19 673 803	26 997 392
Current maturities of long-term debt	6 361 250	6 448 921
Current portion of postretirement benefits liability	85 366	89 937
Accrued interest payable	1 173 434	1 135 019
Patronage capital payable	-	991
Consumers' deposits	<u>2 105 943</u>	<u>1 912 135</u>
TOTAL CURRENT LIABILITIES	<u>29 399 796</u>	<u>36 584 395</u>
Deferred credits	<u>9 117 305</u>	<u>1 874 461</u>
14 TOTAL EQUITIES AND LIABILITIES	<u>\$ 372 373 414</u>	<u>\$ 355 583 696</u>

SAM HOUSTON ELECTRIC COOPERATIVE INC.

CONSOLIDATED STATEMENTS OF REVENUE AND EXPENSE | For the Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues:		
Sale of electricity	\$ 134 807 610	\$ 147 837 474
Other electric revenues	<u>4 347 152</u>	<u>4 381 878</u>
TOTAL OPERATING REVENUES	<u>139 154 762</u>	<u>152 219 352</u>
Operating Expenses:		
Cost of power	83 688 751	95 753 584
Transmission expense	208 542	80 473
Distribution expense - Operation	5 314 662	4 141 359
Distribution expense - Maintenance	14 909 391	20 407 636
Consumer accounts expense	5 495 972	5 621 380
Administrative and general expense	6 488 585	6 152 082
Depreciation expense	12 879 463	11 620 311
Taxes other than income taxes	<u>2 285 201</u>	<u>2 148 895</u>
OPERATING EXPENSES	<u>131 270 567</u>	<u>145 925 720</u>
OPERATING MARGINS BEFORE INTEREST EXPENSE	7 884 195	6 293 632
Interest on long-term debt and consumer deposits	<u>10 227 429</u>	<u>9 259 862</u>
OPERATING MARGIN (LOSS)	<u>(2 343 234)</u>	<u>(2 966 230)</u>
Generation and transmission capital credits	<u>7 105 244</u>	<u>5 747 291</u>
Patronage capital - Associated organizations	<u>1 602 455</u>	<u>1 595 683</u>
Nonoperating Margins:		
Interest income	105 521	105 559
Other nonoperating income (expense)	<u>(46 655)</u>	<u>(201 118)</u>
TOTAL NONOPERATING MARGINS	<u>58 866</u>	<u>(95 559)</u>
NET MARGIN	<u>\$ 6 423 331</u>	<u>\$ 4 281 185</u>



SAM HOUSTON ELECTRIC COOPERATIVE INC.

CONSOLIDATED STATEMENTS OF PATRONAGE CAPITAL AND ACCUMULATED OTHER COMPREHENSIVE INCOME

For the Years Ended December 31, 2012 and 2011

	MEMBERSHIPS	PATRONAGE CAPITAL	OTHER EQUITIES	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
Balance, December 31, 2010	\$ 615	\$ 136 666 789	\$ 156 290	\$ (1 953 809)	\$ 134 869 885
Net margin	-	4 281 185	-	-	4 281 185
Other Comprehensive Income: Actuarial gain/(loss)	-	-	-	140 705	140 705
Change in memberships	(615)	-	-	-	(615)
Patronage capital retired, net	<u>-</u>	<u>(2 978 236)</u>	<u>-</u>	<u>-</u>	<u>(2 978 236)</u>
Balance, December 31, 2011	-	137 969 738	156 290	(1 813 104)	136 312 924
Net margin	-	6 423 331	-	-	6 423 331
Other Comprehensive Income: Actuarial gain/(loss)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1 451 006)</u>	<u>(1 451 006)</u>
Balance, December 31, 2012	<u>\$ -</u>	<u>\$ 144 393 069</u>	<u>\$ 156 290</u>	<u>\$ (3 264 110)</u>	<u>\$ 141 285 249</u>



SAM HOUSTON ELECTRIC COOPERATIVE INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Net margin	<u>\$ 6 423 331</u>	<u>\$ 4 281 185</u>
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities:		
Depreciation expense	12 879 463	11 620 311
Patronage capital credits - Non cash - Associated organizations	(8 707 699)	(7 342 974)
Accumulated provision for pensions and benefits	478 005	458 752
Cash Provided by (Used for) the Change in:		
Accounts receivable, net	1 353 180	(715 795)
Materials and supplies	26 470	(25 086)
Other current assets	81 309	(7 542)
Deferred charges	-	9 022 918
Deferred credits	2 214 385	(4 810)
Accounts payable and accrued liabilities	(847 702)	968 647
Accrual for drought restoration	(6 475 887)	6 475 887
Accrued interest payable	38 415	(33 090)
Consumers' deposits	<u>193 808</u>	<u>137 624</u>
TOTAL ADJUSTMENTS	<u>1 233 747</u>	<u>20 554 842</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>7 657 078</u>	<u>24 836 027</u>
Cash Flows from Investing Activities:		
Capital expenditures for utility plant, net of retirements	(17 713 813)	(31 158 048)
Net change in restricted cash	101 676	(32 685)
Proceeds from patronage capital - Associated organizations	1 588 753	1 831 684
Deferred credits	<u>5 028 459</u>	<u>-</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(10 994 925)</u>	<u>(29 359 049)</u>
Cash Flows from Financing Activities:		
Proceeds from long-term debt	17 500 000	19 500 000
Payments of long-term debt	(7 762 105)	(15 286 926)
Retirement of capital credits, net	-	(2 978 236)
Decrease in memberships, net	-	(615)
Increase (decrease) in patronage capital payable	<u>(991)</u>	<u>(85)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>9 736 904</u>	<u>1 234 138</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	6 399 057	(3 288 884)
Cash and cash equivalents at beginning of year	<u>4 203 247</u>	<u>7 492 131</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 10 602 304</u>	<u>\$ 4 203 247</u>
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest expense, net of capitalized amounts	\$ 10 189 014	\$ 9 289 952
Noncash Investing and Financing Activities:		
Net actuarial gain (loss) on postretirement benefit plan	\$ (1 451 006)	\$ (140 705)

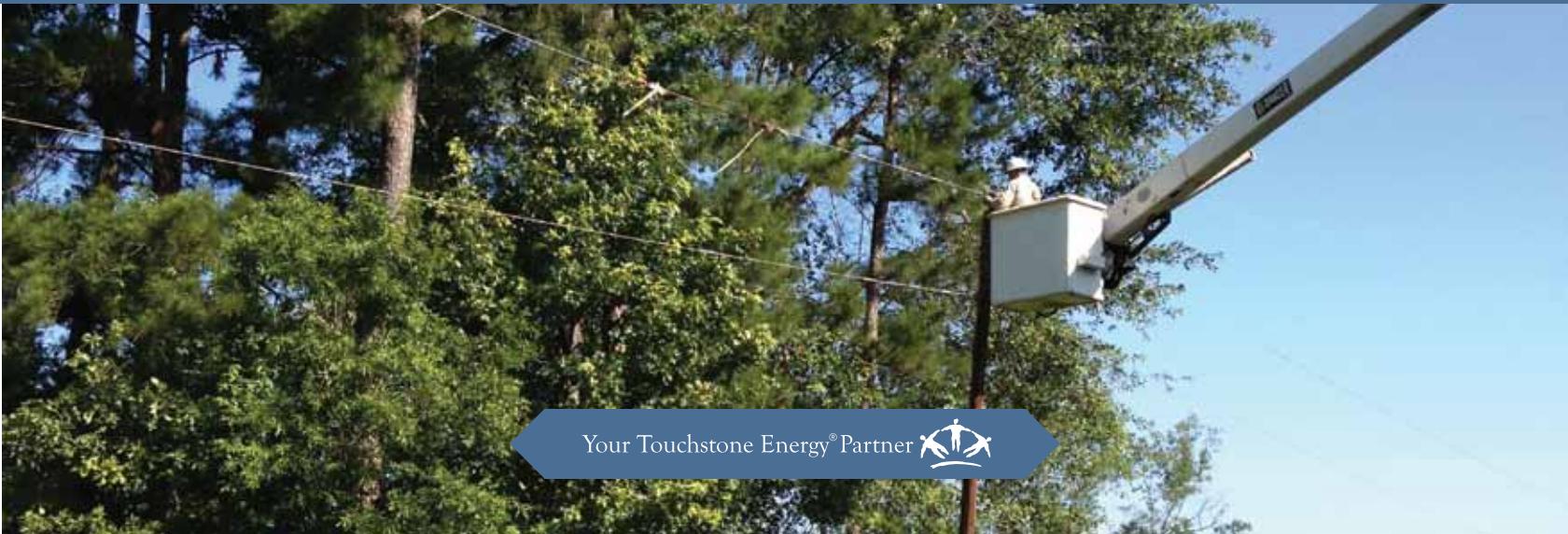


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