



## **SAN PATRICIO ELECTRIC COOPERATIVE**

# **ANNUAL REPORT**

**The following pages contain information about the operation of your electric cooperative over the past year.**

We encourage you to review the information. If you have any questions, please don't hesitate to call us at (361) 364-2220.

We also encourage you to attend your cooperative's annual member meeting.

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## **SAN PATRICIO EC**

# **ANNUAL MEMBER MEETING**

**Saturday, September 28, 2019 | Bee County Exposition Center**  
**Meeting starts at 9:30 a.m.**

Registration opens at 8 a.m. and closes at 9:30 a.m.  
The determination of a quorum will be made upon the closing of registration.

# PRESIDENT'S MESSAGE



I have been farming for more than 40 years now, so I truly appreciate a cool place to go home to. That's why I am grateful to our general manager, Ron Hughes, and all the hardworking employees at San Patricio Electric Cooperative for keeping electricity flowing to me and the rest of our co-op's members.

Keeping the lights on is at the heart of what SPEC does every day. But as a cooperative, SPEC is also invested in your community. Our employees live and work in your neighborhoods. Their children go to school with your children. They volunteer at local organizations, coach youth sports teams and attend community events. And when you call during business hours, you're going to hear from a local person who understands what is unique about your community.

We are your neighbors, and we're invested in seeing our communities thrive. Because what's good for the community is good for the cooperative.

I'm proud to say that this cooperative is invested in the youths of our communities. Through the San Patricio Electric Education Trust, the cooperative has awarded more than 300 scholarships, totaling more than \$1.4 million, to graduating high school seniors in our service area since 1999.

This year, the cooperative gave out \$20,000 in scholarships to 10 local high school seniors. All of these students are currently starting their first semester at a college or university. We hope that these students will bring their newfound knowledge back to our communities—and maybe even come work for the co-op someday.

We also hold an annual essay contest for high school juniors

and seniors in our service area. From that contest, two deserving students are selected to represent SPEC on Youth Tour, an all-expenses-paid trip to Washington, D.C., where they tour our nation's capital and witness how our government is run.

On this trip, these students make lifelong friends, learn about the history and impact of electric cooperatives, and even get the chance to meet with their congressional representatives to discuss issues affecting our area. It truly is the trip of a lifetime.

Beyond those programs, we work to support our communities by donating photography services to participants at area livestock shows, providing safety demonstrations to elementary school students, supporting local organizations and more.

A service-oriented mentality is a hallmark characteristic of a co-op employee, and at SPEC, a safety mindset is also of utmost importance. I feel blessed to say the cooperative has gone 11 years without a lost-time accident. That is an impressive safety record in an industry with so many hazards. Lord willing, the cooperative will celebrate 12 years without lost time in November.

As we work to serve you every day, we want to be sure electricity remains a great value for you. Thanks to new technologies and greater efficiency, the price of electricity has risen at a much lower rate than inflation in our 81-year history. Today, most families can power their entire homes—and all of the devices in them—for less than the cost of a fast-food meal each day. For all the benefits electricity provides to us, I'd say that's a great value.

I look forward to seeing you at our annual meeting September 28.

*Tom Mayo*

**TOM MAYO**, *President*

Board of Directors

San Patricio Electric Cooperative

# MANAGER'S MESSAGE



As a cooperative, we're driven by the people we serve, not by profits. How we're perceived by our members is important to us. We strive to provide services that benefit our members and add value to your life.

Last year, San Patricio Electric Cooperative gave back more than \$2.3 million to our members. About \$1.5 million was returned as billing credits.

In addition, we retired \$830,507

in capital credits from the year 2000 and a portion of 2017. On average, each member received about \$200 to help offset their cost of electricity. That's what we call the cooperative difference.

We also believe the work we do in our communities sets our cooperative apart. Each year, our employees volunteer more than 300 hours, outside of our regular business hours, to help our communities. They have dedicated their time to local food banks and animal shelters and fundraising for fire departments. They have even adopted a section of highway just outside of Sinton.

We're always looking for new and innovative ways to serve our members. For the last several years, we've conducted member satisfaction surveys to help us understand how to serve you best. These surveys give us a good idea of how we're doing and provide guidance on the services you would like from us going forward.

In each survey, we include questions from the American Customer Satisfaction Index, which measures and compares our customer satisfaction rates to other businesses in the industry. As a result of the 2018 survey, we received an ACSI score of 88 on a 100-point scale—well above the national aver-

age for cooperatives of 77. Our score was also far above the average for investor-owned and municipal utilities, both of which had a score of 75.

Through these member satisfaction surveys, we have identified several areas where we can better meet the needs of our members. For example, our members have indicated a desire for more information on energy efficiency and greater access to renewable energy.

To help us meet this need, we hired an energy services representative earlier this year, who will conduct energy audits for our members and recommend ways to improve the energy efficiency of your home. If you act on this advice, you could see a decrease in your electric bill.

We've also seen that renewable energy options are important to our members. While we already provide some renewable energy in the power you use every day, I'm happy to report that we're also pursuing a solar energy project with South Texas Electric Cooperative, our generation and transmission cooperative. As a result, we will be developing a renewable energy rate to allow greater access to renewable electricity to our members who are interested.

Our most recent membership satisfaction survey was conducted in August. I want to thank everyone who participated in the survey and gave us feedback. We're looking forward to seeing those results.

With your continued support, San Patricio Electric Cooperative will continue to meet your energy needs with safe, reliable and affordable electric service.

Thank you for your patronage, and I hope to see you at our annual meeting September 28.

*Ron Hughes*

**RON HUGHES**, General Manager  
San Patricio Electric Cooperative

## BALANCE SHEET

December 31, 2018 and 2017

ASSETS	2018	2017
<b>Utility Plant</b>		
Electric plant in service at cost	\$62,006,002	\$57,072,676
Construction work in progress	<u>(208,326)</u>	<u>4,210,686</u>
Total	\$61,797,676	\$61,283,362
Less: Accumulated provisions for depreciation and amortization	<u>(11,091,465)</u>	<u>(10,097,677)</u>
Net utility plant	<u>\$50,706,211</u>	<u>\$51,185,685</u>
<b>Other Property and Investments</b>		
Nonutility property (net of accumulated depreciation (\$79,797 in 2018 and \$79,797 in 2017))	\$ 0	\$ 0
Investments in associated organizations	<u>19,676,276</u>	<u>18,585,927</u>
Total	<u>\$19,676,276</u>	<u>\$18,585,927</u>
<b>Current Assets</b>		
Cash—general	\$ 1,771,421	\$ 679,706
Temporary cash investments	2,865,504	850,000
Accounts receivable (less provision for doubtful accounts of \$366,142 in 2018 and \$365,163 in 2017)	1,428,497	1,456,456
Materials and supplies (at average cost)	24,500	3,315
Other current and accrued assets	<u>1,216,972</u>	<u>1,167,916</u>
Total	<u>\$ 7,306,894</u>	<u>\$ 4,157,393</u>
<b>Deferred Charges</b>	<u>\$ 113,374</u>	<u>\$ 125,081</u>
<b>TOTAL ASSETS</b>	<b><u>\$77,802,755</u></b>	<b><u>\$74,054,086</u></b>

EQUITIES AND LIABILITIES	2018	2017
<b>Equities and Margins</b>		
Memberships	\$ 31,735	\$ 33,665
Patronage capital	41,352,826	39,200,107
Other equities	<u>935,404</u>	<u>1,238,235</u>
Total	<u>\$42,319,965</u>	<u>\$40,472,007</u>
<b>Long-Term Debt</b>		
RUS mortgage notes	\$23,308,641	\$18,830,084
Other long-term debt	<u>8,543,552</u>	<u>9,244,120</u>
Total	<u>\$31,852,193</u>	<u>\$28,074,204</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 1,589,213	\$ 1,483,379
Accounts payable	1,497,919	1,755,866
Notes payable—CFC	0	1,731,311
Consumer deposits	270,240	284,445
Other current and accrued liabilities	<u>273,973</u>	<u>252,826</u>
Total	<u>\$ 3,631,345</u>	<u>\$ 5,507,827</u>
<b>Deferred Credits</b>	<u>\$ (748)</u>	<u>\$ 48</u>
<b>TOTAL EQUITIES AND LIABILITIES</b>	<b><u>\$77,802,755</u></b>	<b><u>\$74,054,086</u></b>



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
San Patricio Electric Cooperative, Inc.  
Sinton, Texas 77954

### Report on the Financial Statements

We have audited the accompanying financial statements of San Patricio Electric Cooperative Inc. (San Patricio), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Patricio as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated March 25, 2019, on our consideration of San Patricio Electric Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering San Patricio's internal control over financial reporting and compliance.

*Gowland, Streaty, Morales  
& Company, P.L.L.C.*

5934 S. Staples St., Suite 101  
Corpus Christi, Texas 78413  
March 25, 2019

## STATEMENT OF REVENUE AND PATRONAGE CAPITAL

December 31, 2018 and 2017

	2018	2017
<b>Operating Revenues and Patronage Capital</b>	<u>\$28,905,835</u>	<u>\$27,695,842</u>
<b>Operating Expenses</b>		
Cost of power	\$17,189,923	\$16,352,360
Distribution expense—operations	1,507,001	1,359,331
Distribution expense—maintenance	3,060,493	3,013,990
Consumer accounts expense	744,121	758,658
Customer service and informational expense	84,263	97,991
Sales expenses	63,868	62,949
Administrative and general expense	1,497,951	1,515,805
Depreciation and amortization	1,930,914	1,853,332
Interest—other	15,459	1,259
Other operating expenses	<u>190</u>	<u>(130)</u>
Total	\$26,094,182	\$25,015,544
<b>Operating Margins Before Fixed Charges</b>	\$ 2,811,653	\$ 2,680,298
Interest on long-term debt	<u>(1,326,331)</u>	<u>(1,261,750)</u>
Operating margins after fixed charges	\$ 1,485,322	\$ 1,418,548
<b>G&amp;T and Other Capital Credits</b>	<u>1,115,019</u>	<u>1,077,094</u>
Net operating margins	\$ 2,600,341	\$ 2,495,642
<b>Nonoperating Margins</b>		
Interest income	\$ 383,700	\$ 330,814
Other nonoperating income	<u>10,782</u>	<u>16,738</u>
<b>Net Margins</b>	\$ 2,994,823	\$ 2,843,194
<b>Patronage Capital—Beginning of Year</b>	<u>\$39,200,107</u>	<u>\$36,370,562</u>
Total patronage capital available	\$42,194,930	\$39,213,756
<b>Retirement of Capital Credits</b>	<u>(842,104)</u>	<u>(13,649)</u>
<b>Patronage Capital—End of Year</b>	<u>\$41,352,826</u>	<u>\$39,200,107</u>

## SECRETARY-TREASURER'S REPORT

	2018	2017	Change	% Change
Revenue	\$28,905,835	\$27,695,845	\$1,209,990	4.37%
Margins	\$2,994,823	\$2,843,194	\$151,629	5.33%
Assets	\$77,802,755	\$74,054,086	\$3,748,669	5.06%
KWh Sales	276,695,954	266,000,415	10,695,539	4.02%
Net Value of Plant	\$50,706,211	\$51,185,682	-\$479,471	-0.94%
Equity	54.39%	54.63%	-0.24%	-0.44%

### Retired Capital

Credits	\$842,104	\$13,649
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*Clyde Stewart*

**CLYDE STEWART**, Secretary-Treasurer  
San Patricio Electric Cooperative

# MINUTES OF THE ANNUAL MEMBERSHIP MEETING OF SAN PATRICIO ELECTRIC COOPERATIVE, INC.

September 22, 2018

The annual member meeting was held September 22, 2018, at the Bee County Exposition Center, Beeville, Texas. Those present were:

## Members

202 attending the meeting in person

821 mail-in or electronic ballots were received

## Directors

<b>Tom Mayo</b> , President	<b>Aaron Salge</b>
<b>Jim Bassett</b> , Vice President	<b>Tryne Mengers</b>
<b>Clyde Stewart</b> , Secretary	<b>Daren Wilder</b>
<b>Bobby Bauch</b>	

## Others

**Ron Hughes**, General Manager  
**Milton Lorenz**, Attorney  
**Brittany Williams**, PR and Member Services Manager  
Employees

## Quorum

Mr. Mayo called the meeting to order at 9:30 a.m. Mr. Mayo declared a quorum was represented through member attendance and voting ballots. There were 7,541 members with a required quorum of 50. 202 members attended the meeting in person, and 821 members were represented at the meeting by mail-in or electronic ballot, which constituted a quorum.

## Invocation

The invocation was given by Director Daren Wilder.

## Board Introduction and Special Guests

Mr. Mayo welcomed the members to the meeting, recognized the exhibits and introduced the Board of Directors and the General Manager. Mr. Mayo introduced special guests Cory Allen with South Texas Electric Cooperative; Reymundo Gaitan, former SPEC Board Member; Kayla Rutkowski, SPEC's 2018 Youth Tour Participant; and Cassy Hill, a former SPEC employee.

## Health Fair

Mr. Mayo thanked Christus Spohn Health Services for their help with the health fair.

## Official Notice

Mr. Mayo stated the official notice was mailed to all members and announced the reading of the notice would be waived.

## Waive Reading of Minutes

Mr. Mayo announced the reading of the September 23, 2017, Annual Member meeting minutes would be waived as the minutes were

printed in the September Issue of *Texas Co-op Power* magazine.

## Minutes Approved M/S/P

Mr. Mayo requested a motion to approve the September 23, 2017, Annual Member Meeting minutes as mailed. A motion was made to approve the 2017 Annual Member Meeting minutes. The motion passed.

## President, Manager and Secretary Reports

Mr. Mayo reported the President, Secretary, and Manager reports were published in the *Texas Co-op Power* magazine.

## Government-in-Action Youth Tour

Mr. Hughes introduced Kayla Rutkowski from Skidmore-Tynan High School, who gave a presentation and read a letter about her experience on the Government-in-Action Youth Tour. She was one of two students SPEC sponsored on the trip. The other recipient was Rebekah Halepaska, who was not present.

## Hughes Addresses Members

Mr. Hughes then addressed the members.

Mr. Hughes began by thanking members for their continued support, especially in the aftermath of Hurricane Harvey. He explained that the storm affected the cooperative's finances, which meant capital credits could not be retired last year as originally planned. Mr. Hughes announced that even though FEMA reimbursement is taking longer than expected, the cooperative is hoping to retire some capital credits this year.

Mr. Hughes went on to describe a membership satisfaction survey that was completed in August. SPEC asked a random sample of members to rate their satisfaction with the cooperative on a number of different criteria. That survey revealed that SPEC received an ACSI score of 88, which is among the highest in the industry.

One of the lowest scores SPEC received was on rates. Only 75% of members indicated they were satisfied with the cooperative's rates. Mr. Hughes explained that the co-op's rates are sometimes higher than what is available in retail choice, largely because of customer density. SPEC operates in rural areas and serves an average of about 3.5 meters per mile, whereas an investor-owned utility could serve upwards of 50 meters per mile. When there are more people to share the cost of electricity, rates can be lower.

Mr. Hughes also noted that the cooperative has not increased rates in years. And while SPEC does what it can to keep rates low, the cooperative also has a responsibility to keep qualified employees, provide benefits and obtain insurance.

Lastly, Mr. Hughes warned against phone scams that target cooperative members. He described red flags that members should be aware of when speaking to anyone over the phone. In closing, Mr. Hughes asked members to always hang up and call the cooper-

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ative directly if they feel a phone call is suspicious.

Mr. Hughes then addressed questions asked by the members.

One member asked why the cooperative no longer had a waitlist for people that want to pick up retired poles. Mr. Hughes explained the waitlist caused an administrative problem. The cooperative now offers retired poles on a first come, first served basis.

The next and final question asked was if the cooperative planned to increase rates like many other utilities because of Hurricane Harvey. Mr. Hughes explained that the cooperative had positioned itself financially before the storm and had no plans to increase rates anytime soon. A rate increase could be possible in six to seven years if growth remains slow in the cooperative's service area. However, there are some large industries expected to move into the region in the next few years, which could cause growth for SPEC.

### Service Awards

Mr. Mayo commended Mr. Hughes for his longevity as an employee of SPEC. Mr. Mayo reported that Mr. Hughes has been an employee of SPEC since 1976 and has served as General Manager for 12 years.

Mr. Mayo presented service pins to Director Tryne Mengers and Director Bobby Bauch for 10 years and 5 years, respectively.

### Employees

Mr. Mayo introduced the employees to the membership. Mr. Mayo thanked the employees for their dedication and efforts to the cooperative.

### Nominating Committee and Credentials and Election Committee

Mr. Lorenz introduced the 2018 Nominating Committee and the 2018 Credentials and Election Committee. He thanked them for their work.

Mr. Lorenz reviewed the nominating and voting procedures. He reported the Nominating Committee selected the following nominees for the election of directorship: Randy Jones for District 1,

Aaron Salge for District 1 and Clyde Stewart for District 5.

Mr. Lorenz presented a certification from the Credentials and Election Committee certifying the ballot count for the elected directors.

Three-year terms:

Randy Jones, District 1: 302 votes

Aaron Salge, District 1: 486 votes

Clyde Stewart, District 5: 716 votes

### Election Results

Mr. Lorenz announced, based on the Credentials and Election Committee's ballot certification the elected directors were Aaron Salge, District 1, and Clyde Stewart, District 5.

Total of 7,541 eligible voters.

Out of 821 ballots received, 690 were paper ballots and 121 were online ballots. That equates to 10.89% participation from eligible voters.

### New/Unfinished Business

Mr. Mayo called for any new and/or unfinished business. There was no new or unfinished business.

### Adjourn M/S/P

Mr. Mayo thanked the members for coming and asked if there were any further comments. There being none, a motion was made and seconded to adjourn the meeting. The meeting was adjourned at 10:15 a.m.

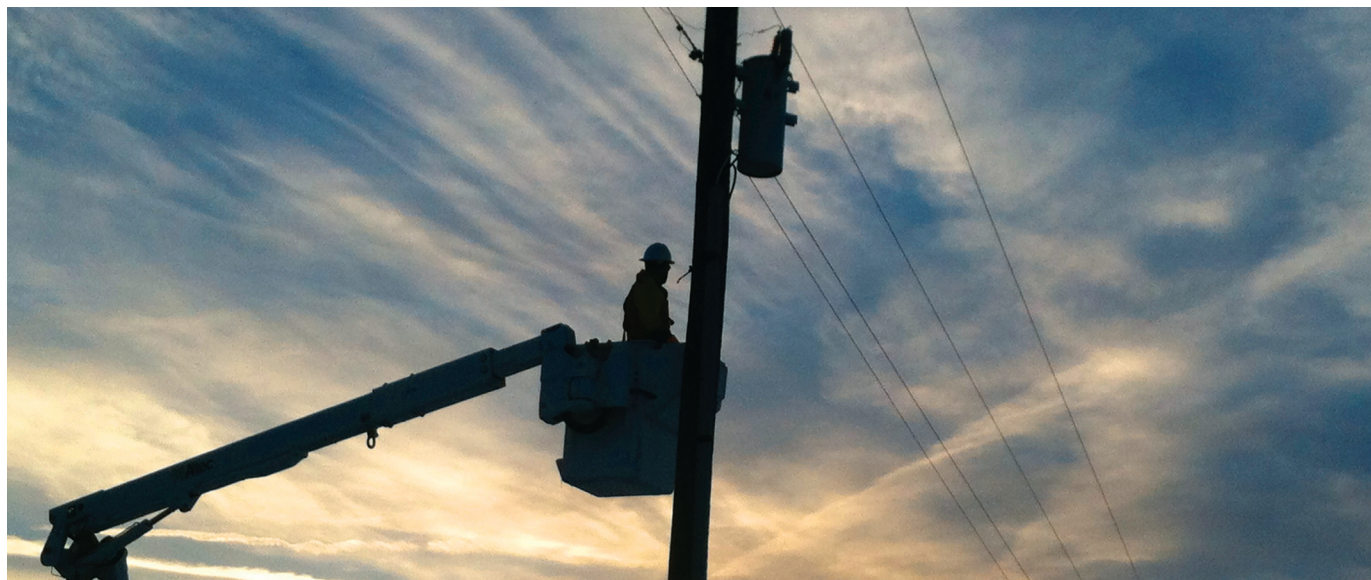
The meeting was then turned over to the employees for the drawing of door prizes.

*Tom Mayo*

**TOM MAYO**, President

*Clyde Stewart*

**CLYDE STEWART**, Secretary







# Cleaning Up for a Cause

BY STEPHANIE MUNSON, SPEC INTERN

FOR MOST PEOPLE, THE THOUGHT OF SPENDING A HOT JULY MORNING PICKING UP trash on the side of a highway never crosses their mind. But San Patricio Electric Cooperative employees welcomed the challenge and recently did some community service during the most brutal part of the summer.

After searching for more ways to get involved in our community, SPEC employees decided to participate in the Texas Department of Transportation's Adopt-a-Highway program. This program assigns a 2-mile section of highway to organizations and groups that are willing to clean it at least four times per year.

SPEC's assigned section is a stretch along U.S. Highway 181 near Rob and Bessie Welder Park. As part of their commitment, SPEC employees will pick up trash along both sides of the highway and in the median.

The first trash pickup occurred on the morning of Saturday, July 20. Thirteen employees attended and collected enough trash to fill 24 bags in three hours. SPEC employees will participate in their second Adopt-a-Highway pickup later this month.

Although providing reliable electric service is the core of our business, we know our communities have other needs, too. Each year, SPEC employees are encouraged to participate in at least eight hours of community service, outside of our regular business hours, in areas that benefit the communities we serve.

Adopt-a-Highway is not the only project SPEC employees work on throughout the year. In the past, our employees have helped rebuild structures after Hurricane Harvey, volunteered at the Coastal Bend Food Bank, helped out at local animal shelters, raised funds for a volunteer fire department and more.

Through these community service projects, we're able to help our community continue to thrive. We want to do our part to build on the success and longevity of the places we call home. After all, what's good for the community is good for our cooperative.

## San Patricio Electric Cooperative

402 E. Sinton St. • P.O. Drawer 400  
Sinton, TX 78387

### GENERAL MANAGER

Ron Hughes

### BOARD OF DIRECTORS

Tom Mayo, District 2, Taft  
Daren Wilder, District 4, Mathis  
Clyde Stewart, District 5, Sinton  
Jim Bassett, District 6, George West  
Tryne Mengers, District 3, Tynan  
Aaron Salge, District 1, Beeville  
Bobby Bauch, At Large, Sinton

## Contact Us

For information during office hours  
and outages after hours

### CALL US

(361) 364-2220 local or  
1-888-740-2220 toll-free

### FIND US ON THE WEB

[sanpatricioelectric.org](http://sanpatricioelectric.org)



### COOPERATIVE SERVICES

- Online bill payment
- Information on the efficient use of electricity
- Convenient payment locations and methods—credit card or bank draft
- Visa, Mastercard and Discover credit cards accepted
- Levelized billing plan—using a monthly average
- Convenient scheduling and options for construction or connection
- Certified electrician services (outside of facility only) never stop. We are on call 24/7 for your convenience.

**TEXAS CO-OP POWER**   
**CELEBRATING 75 YEARS**