



Your Touchstone Energy® Cooperative



WEATHERING THE STORM

2021

ANNUAL REPORT

In 2020, everyone wanted 2021 to get here yesterday. Then, it did.

The New Year brought hopes of respite from the global pandemic. Tired of shuttered schools and businesses, mask requirements and restrictions put in place to counter COVID-19, everyone wanted to cast off the craziness of 2020 and start fresh.

Then storm clouds gathered, both figuratively and literally. In the middle of February, an arctic cold front would set the tone for a year of distrust and disappointment in the electricity industry. What came to be called Winter Storm Uri literally descended on Texas with prolonged snow and ice, delivering days of bitter-cold temperatures to a state used to warmer weather. Uri also brought a figurative storm to the Lone Star State's electric grid, which collapsed into rotating outages to maintain integrity just when citizens needed it the most. A days-long, extended repeat of a cold-weather outage in February 2011, Uri's relentless sub-freezing temperatures again exposed the weaknesses in the state's electric grid, causing hundreds of deaths and between \$80-\$130 billion in damage for Texas alone.

United Cooperative Services operated within the challenges that occurred as we were expected to operate. While our members did have to endure many rotating outages, we collectively did our part to keep the Texas grid from a complete blackout. We tried to

make these planned outages as predictable as possible. We also brought our communications "A" game prior to the winter storm throughout the crisis to keep our members as informed as possible. Our communications successfully reached our members and, ironically, customers at other utilities who received nothing but radio silence from their electricity providers. Several Texas congressional leaders specifically applauded our communications effort, citing it as an industry communications standard during my legislative testimony in Austin after the event.

Had we and other electric providers not taken extreme actions with outage rotations across Texas, an uncontrolled blackout would likely have occurred. A later ERCOT report clocked total failure was only 4 minutes and 37 seconds away before a cascading series of events that might have left Texans without power for weeks, if not longer.

This would have had even more of a catastrophic impact on all Texans. Thankfully, that did not happen. While we recovered operationally from this situation, many extreme financial implications still exist for some market participants, including Brazos Electric Power Cooperative, which filed for chapter 11 bankruptcy following a \$1.9 billion power bill, and its 16 member/owners of which United is one—all owing a portion of Brazos' bill.

Throughout the cooperative's ongoing planning and prospects with respect to the unknown February costs, we have focused solely on insulating and protecting members from as much of the event's financially devastating implications as possible. The cooperative retained its own bankruptcy professionals to help protect the cooperative and member interests in the Brazos

bankruptcy. While the rug may have been pulled out from under the feet of millions of other unsuspecting Texas electric stakeholders who may have no recourse or relief from the storm's consequences, the cooperative will do everything within its domain to mitigate the storm's ultimate cost to members.

Despite the vast shortfalls resulting from the disaster, United members didn't see any changes in United's daily operational standards in electric delivery or in the continuation of the high-speed internet buildout process. And though Winter Storm Uri was, by far, the largest historical footnote of the year, 2021 wasn't entirely gloom and doom at your electric cooperative either. We actually made several positive milestones despite the turmoil in February.

Your electric cooperative grew at a tremendous rate—at one point more than 4.6 percent. We haven't seen that type of system growth since the late '90s. Not only did we add homes, apartments and the like, but we also added new commercial members to our rolls, which means new jobs. Many of these "new" members have never been a part of an electric cooperative before, and we worked hard to ensure each new member experienced a positive difference in service experience.

United's high-speed internet project also expanded considerably, and we continue to work hard on its expansion every day. We had a goal to install about 20 miles of fiber-optic cable per week, and most weeks we achieved this. We added between 400-600 home and business connections each month. By the end of 2021, we had more than 8,000 members connected.

With growth in electric and internet, we continued to expand our employee group that serves you each day. Some of that growth is handled by adding additional employees, but some of that growth also comes with the training of the employees we already have. We are actively doing both to prepare for the future and continue to provide our members exceptional service and value.

No matter what the world throws at us, we have a purpose of providing our members exceptional service and value. We work to make a difference while improving your quality of life. I believe this is a noble purpose. Serving our communities, not just with electricity or internet, but being there, living there, being involved in serving others is very important; and this is precisely what we do at your cooperative. We were born by and for the communities we serve, and we will always be an active part of them, just as we have now more than 80 years later.



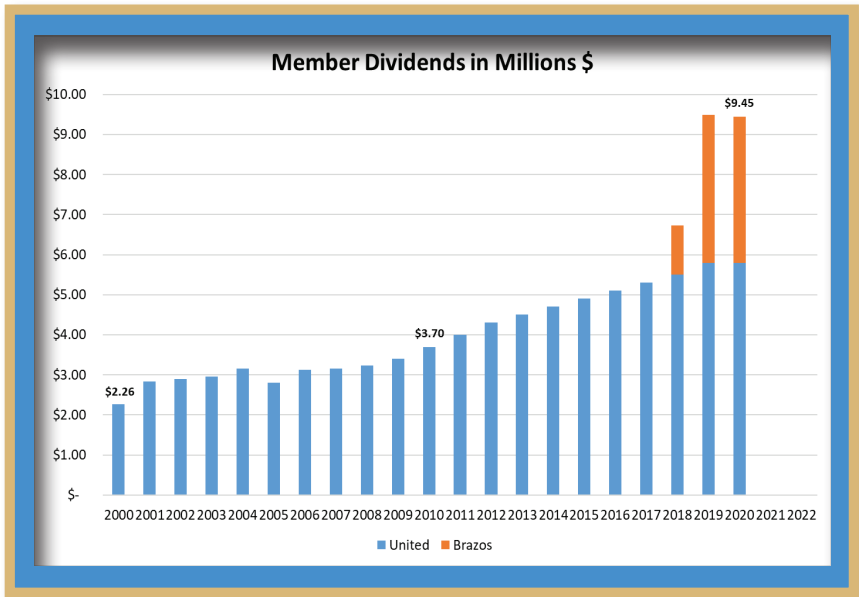
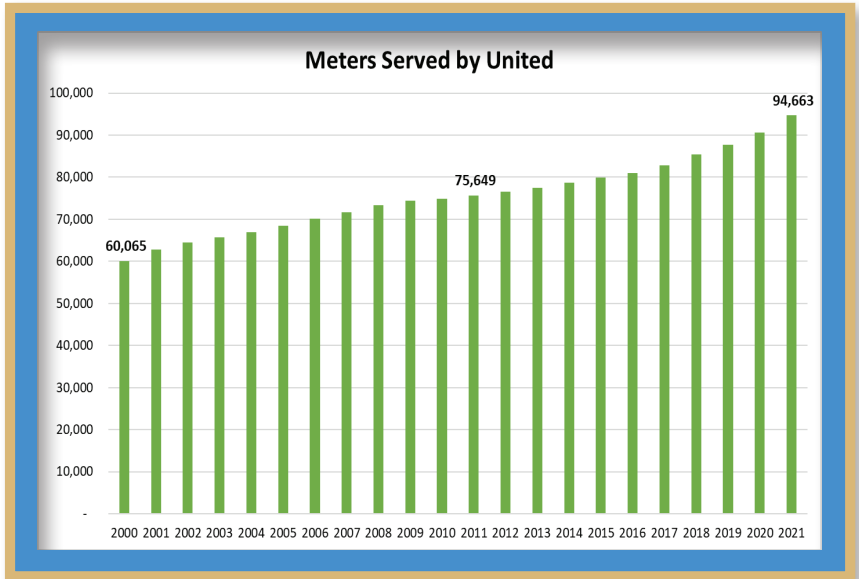
**CAMERON
SMALLWOOD**
CEO / United Cooperative

A handwritten signature in black ink that reads "Cameron L. Smallwood".

Balance Sheets

As of December 31, 2021 and 2020

| | As of December 31, | |
|--|-----------------------|-----------------------|
| | 2021 | 2020 |
| ASSETS | | |
| UTILITY PLANT | | |
| Electric plant in service at cost | \$ 496,086,453 | \$ 445,611,329 |
| Construction work in progress | 24,096,187 | 37,340,354 |
| Total utility plant | \$ 520,182,640 | \$ 482,951,683 |
| Less accumulated provision for depreciation | 138,971,049 | 133,123,371 |
| Net utility plant | \$ 381,211,591 | \$ 349,828,312 |
| INTERNET SERVICE PLANT | | |
| Internet plant in service at cost | \$ 25,790,616 | \$ 4,037,597 |
| Construction work in progress | 54,470,511 | 26,242,052 |
| Total non-utility plant | \$ 80,261,127 | \$ 30,279,649 |
| Less accumulated provision for depreciation | 1,248,473 | 73,895 |
| Net non-utility plant | \$ 79,012,654 | \$ 30,205,754 |
| OTHER PROPERTY AND INVESTMENTS AT COST | | |
| Investments in associated organizations | \$ 132,039,683 | \$ 115,607,285 |
| Total property and investments | \$ 132,039,683 | \$ 115,607,285 |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 7,076,853 | \$ 9,455,077 |
| Accounts receivable-less allowance for doubtful accounts | 33,258,020 | 18,209,629 |
| Material and supplies (at average cost) | 9,887,034 | 11,597,530 |
| Other current and accrued assets | 724,445 | 538,762 |
| Total current assets | \$ 50,946,352 | \$ 39,800,998 |
| DEFERRED DEBITS | | |
| | \$ 543,000 | \$ 3,930,938 |
| TOTAL ASSETS | \$ 643,753,280 | \$ 539,373,287 |
| LIABILITIES AND MEMBERS' EQUITY | | |
| EQUITIES AND MARGINS | | |
| Memberships | \$ 139,135 | \$ 146,910 |
| Patronage capital | 268,408,377 | 250,811,146 |
| Accumulated other comprehensive income | 8,722,367 | 6,629,431 |
| Other equities | (283,570) | 1,497,375 |
| Total equities and margins | \$ 276,986,309 | \$ 259,084,862 |
| LONG-TERM DEBT | | |
| RUS mortgage notes | \$ - | \$ - |
| CFC mortgage notes | 29,401,780 | 31,926,142 |
| CoBank mortgage notes | 30,000,000 | - |
| FFB mortgage notes | 233,370,423 | 139,935,131 |
| Economic development loan | 335,126 | 335,126 |
| Total long-term debt | \$ 293,107,329 | \$ 172,196,399 |
| ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS | | |
| | \$ 2,977,599 | \$ 2,925,511 |
| CURRENT LIABILITIES | | |
| Current maturities of long-term debt | \$ 6,773,000 | \$ 6,025,000 |
| Current portion of postretirement benefits | 300,000 | 350,000 |
| Line of Credit | 11,500,000 | 53,500,000 |
| Accounts payable - purchased power | 13,002,845 | 11,473,680 |
| Accounts payable - other | 8,619,259 | 9,367,685 |
| Consumer deposits | 3,479,168 | 2,697,875 |
| Accrued taxes | 3,933,781 | 3,528,929 |
| Accrued interest | 378,727 | 428,910 |
| Other current and accrued liabilities | 13,689,931 | 9,226,033 |
| Total current liabilities | \$ 61,676,711 | \$ 96,598,112 |
| DEFERRED CREDITS | | |
| | \$ 9,005,332 | \$ 8,568,403 |
| TOTAL LIABILITIES AND MEMBERS' EQUITY | \$ 643,753,280 | \$ 539,373,287 |



Statements of Revenue and Patronage Capital

For the Years Ended December 31, 2021 and 2020

| | For the Years Ended December 31, | |
|---|----------------------------------|----------------|
| | 2021 | 2020 |
| NET SALES | | |
| | \$ 230,135,857 | \$ 194,036,613 |
| OPERATING EXPENSES | | |
| Purchased power | \$ 165,294,088 | \$ 133,416,114 |
| Distribution expense - operations | 7,164,970 | 7,317,786 |
| Distribution expense - maintenance | 12,376,773 | 11,220,893 |
| Consumer accounts | 4,272,212 | 4,517,152 |
| Customer service and information | 1,851,196 | 1,917,228 |
| Administrative and general | 8,312,370 | 6,203,079 |
| Depreciation and amortization | 17,808,864 | 16,013,288 |
| Taxes | 1,882,520 | 1,524,663 |
| Interest on long-term debt | 6,076,413 | 7,344,184 |
| Other interest and deductions | 579,250 | 217,373 |
| Total operating expenses | \$ 225,618,656 | \$ 189,691,760 |
| Net operating margins | \$ 4,517,201 | \$ 4,344,853 |
| INTERNET SERVICE REVENUE (EXPENSES) | | |
| Internet Service Revenue | \$ 3,646,255 | \$ 301,250 |
| Cost of Sales | (858,906) | (180,477) |
| Operating expenses | (4,992,286) | (1,879,821) |
| Total internet service margins | \$ (2,204,937) | \$ (1,759,048) |
| NONOPERATING MARGINS | | |
| Interest income | \$ 191,135 | \$ 3,451,142 |
| Other | (11,036) | 75,857 |
| Total nonoperating margins | \$ 180,099 | \$ 3,526,999 |
| Generation and transmission cooperative and other capital credits | \$ 13,345,820 | \$ 8,923,803 |
| NET MARGINS FOR YEAR | \$ 15,838,183 | \$ 15,036,607 |
| Patronage capital - beginning of year | 250,811,146 | 245,236,881 |
| Transfers from (to) other equities | 1,759,048 | (9,182) |
| Retirement of capital credits | - | (9,453,160) |
| PATRONAGE CAPITAL - END OF YEAR | \$ 268,408,377 | \$ 250,811,146 |

2021 FINANCIAL REVIEW

SALES OF ELECTRICITY & INTERNET SERVICES

In 2021, United delivered 2,514 gigawatt-hours to the membership, marking the first time that United’s sales have surpassed 2,500 gigawatt-hours. This was the fifth-highest total among Texas coop-

eratives and in the top 5 percent of cooperatives nationwide. The year’s residential sales increased 55 gigawatt hours and commercial sales increased 44 gigawatt-hours for an overall percentage increase of 4.0 percent over 2020’s sales. 2021 was the first full deployment year of internet services. At year end, 8,785 members had subscribed to United’s fiber-to-the-home (FTTH) or fixed wireless access (FWA) internet service.

PLANT INVESTMENT AND EQUITY POSITION

In the past five years, United has invested in electric distribution and internet plant for new construction and system improvements totaling over \$195 million. Funding for these improvements comes

from both current operations and a large portion funded by long-term loans. Despite the loan funds, United has an equity ratio of 43 percent, which equaled the median on a national level for electric distribution co-ops of like size.

FINANCIAL PERFORMANCE

Margins for 2021 were \$15,838,184 with members receiving a patronage capital margin allocation equivalent to 8.36 percent of their 2021 billed electric service. United’s Times Interest Earned Ratio (TIER) at the end of the year was 3.61 compared to a 2021 average of 3.08 for electric distribution co-ops of like size. TIER is an important ratio measuring United’s ability to repay debt. United’s

lenders require that our TIER level not fall below 1.25 and our Operating TIER level not fall below 1.10 when averaging the two highest annual results over the last three years. United reports an average TIER of 3.33 when using the two highest TIER results from the last three years and an average Operating TIER of 1.96.

Costs composed of distribution, consumer, and administrative expenses amounted to \$359 per meter in 2021 compared to a national average of \$392 for electric distribution co-ops of like size. United’s five-year average for this ratio from 2017 through 2021 is \$343 versus \$394 for like-sized distribution co-ops.



Striving Through Strange Times: The Year in Brief

EVERYONE HOPED FOR MORE ORDER AND NORMALITY IN 2021. But that's not quite how the year played out. Despite the uncertainty, United's electric and internet grew at breakneck speeds, and employees never wavered from delivering exceptional service and value to the membership.

IN JANUARY, UNITED deals with freezing rain and snow twice, which creates a winter wonderland and outages for some. The co-op gears up for a big year for both electric and internet. **ALSO IN JANUARY,** a mob of demonstrators storm the U.S. Capitol trying to stop certification of the 2020 presidential election results. Joe Biden is inaugurated as the 46th president.

IN FEBRUARY, UNITED executes rotating outages Feb. 15-18 after Winter Storm Uri drops sub-freezing temperatures on Texas, and the state's electric grid nearly fails. United sends a restoration crew to Heart of Texas and Navasota Electric Cooperatives near Waco following winter storm damage. **ALSO IN FEBRUARY,** the Tampa Bay Buccaneers beat the Kansas City Chiefs in the Super Bowl.

IN MARCH, UNITED activates its 2,000th internet connection in Alvarado. Brazos Electric Power Cooperative files for Chapter 11 Bankruptcy protection. **ALSO IN MARCH,** the \$1.9 trillion pandemic economic relief package is signed into law. The cargo ship Ever Given gets stuck and completely blocks the Suez Canal.

IN APRIL, UNITED completes one full fiber-optic backbone strand between Stephenville and Cleburne and begins construction on distribution to serve members within 1,500 feet of this strand. **ALSO IN APRIL,** San Diego Padres pitcher Joe Musgrove no-hits the Texas Rangers. Biden confirms the decision to withdraw all U.S. troops from Afghanistan by Sept. 11.

IN MAY, UNITED welcomes its 3,000th internet activation. Despite Winter Storm Uri and rotating outages, United scores a 90 for its first-quarter ACSI score, extending the 90+ run to nine quarters in a row. Electric growth stands at 4.5 percent between 2020 and 2021, as thousands flock to the Lone Star State. **ALSO IN MAY,** Ransomware attack on U.S. Colonial pipeline by DarkSide criminal group stops supply for half of East Coast.

IN JUNE, UNITED starts Telephone Town Hall events to explain what was known and what was not known following Winter Storm Uri and the Brazos bankruptcy. **ALSO IN JUNE,** The U.S. Pacific Northwest experiences the most extreme heatwave in its recorded history with 116 degrees in Portland, Oregon, and 108 degrees in Seattle, Washington.

IN JULY, UNITED commemorates 500,000 hours without a lost-time accident and activates its 4,000th internet member. Scholarship winners announced with 2020's changes to disbursement and cancellation of banquet for health and safety. **ALSO IN JULY,** Champlain Towers South condominium in Surfside, Florida, partially collapses. Biden changes timeline for U.S. troop withdrawal in Afghanistan to Aug. 31. The Tokyo 2020 Olympics finally start following postponement due to COVID-19.

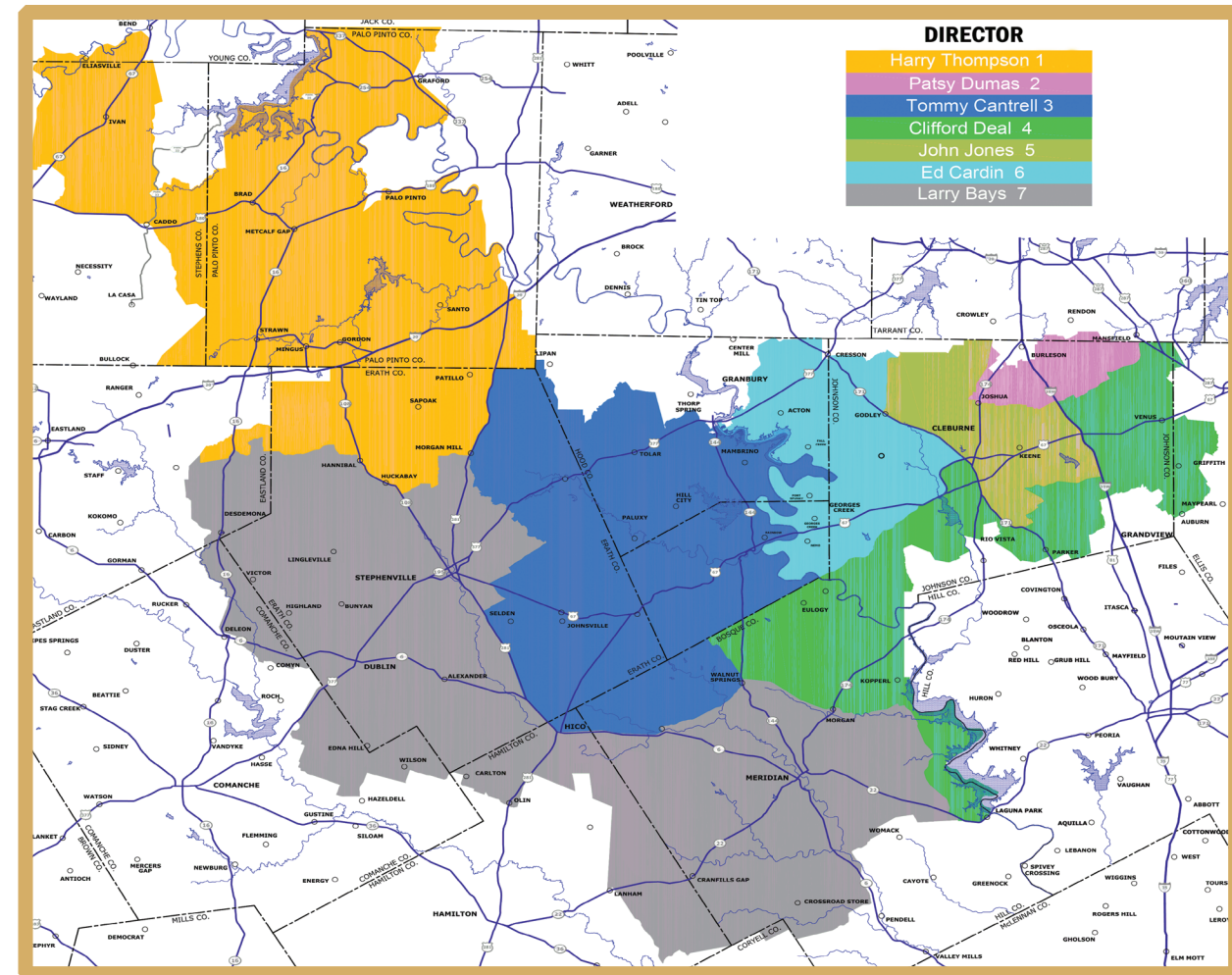
IN AUGUST, UNITED sends a crew to Louisiana to assist with Washington-St. Tammany Electric Cooperative's restoration after Hurricane Ida blows into Louisiana. Members give United an ACSI score of 89 for the second quarter. The co-op's 5,000th internet member is activated, and officials announce that 2,000 miles of fiber have been hung. **ALSO IN AUGUST,** the Taliban takes advantage of a crumbling Afghan government and seize control of the country as U.S. troops withdraw completely.

IN SEPTEMBER, UNITED activates its 6,000th internet member. Co-op communicators begin plans to educate membership on rising natural gas prices. **ALSO IN SEPTEMBER,** Theater patrons return to New York's Broadway theaters after 18 months. Elon Musk launches first-ever civilian space tourists into Earth's orbit.

IN OCTOBER, UNITED'S Annual Meeting was successfully held virtually for the second time, and members were treated to a luncheon in their honor at all offices. United's internet announces it's ready for a full year of installation for 2022, despite supply-chain woes faced by others nationally. **ALSO IN OCTOBER,** Facebook experiences global outage, and also announces changing its corporate name to Meta amid increased public scrutiny over leaked internal documents.

IN NOVEMBER, UNITED members receive the first warning of higher electricity costs due to higher natural gas prices projected to reach the highest prices in 13 years. Members grant a score of 90 to United for the third quarter ACSI scores. Three United employees are lauded for their heroics during Texas Electric Co-ops' Safety Awards. The 7,000th internet member is activated. **ALSO IN NOVEMBER,** Global death toll from COVID-19 surpasses 5 million. U.S. begins vaccinating children between 5 and 11 years old.

IN DECEMBER, UNITED activates its 8,000th internet member. United CEO Cameron Smallwood discusses the energy business and grid modernization for an upcoming piece on the changing energy landscape on "Full Measure with Sharyl Attkisson," a news magazine-style program featuring long-form reporting. **ALSO IN DECEMBER,** U.S. COVID-19 death toll surpasses 800,000. Rare December tornadoes strike Arkansas, Missouri, Tennessee and Kentucky.



The United Cooperative Services Board of Directors consists of United members and business professionals elected from seven service territory districts by the United membership; each charged with the responsibility of setting cooperative policies and providing oversight of all cooperative business.



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District 4



JOHN JONES
District 5



ED CARDIN
District 6

Briscoe, Burke & Grigsby LLP

CERTIFIED PUBLIC ACCOUNTANTS

April 13, 2022

To the Members of United Cooperative Services:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheets of United Cooperative Services as of December 31, 2021 and 2020, and the related statements of income and patronage capital, and cash flows for the years then ended and in our report dated April 13, 2022, we expressed an unqualified opinion on those financial statements.

In our opinion, the information set forth in the accompanying condensed financial statements is fairly stated in all material respects in

relation to the financial statements from which it was derived.

The complete audit report as described above is on file at the Cooperative's headquarters office.

Certified Public Accountants