



Keeping It Simple



2017 ANNUAL REPORT



CAMERON SMALLWOOD
CEO / United Cooperative Services

Everything we do at your cooperative to be efficient, affordable, responsive and reliable as your electric service provider is done with the aim of keeping our members' service with United as **simple** and seamless as possible.

In the hustle and bustle of our everyday lives, no one needs the additional hassle and complication stemming from poor retail service. Nevertheless, every consumer has surely suffered through a business transaction that left them wondering who was supposed to be serving whom. With the busy-ness of life today, we all know the joy of experiencing simple things in life. We want your electric service to be just that easy—**simple**.

The electric industry is incredibly complex, so we take no shortcuts in continually reviewing everything we do—to streamline it, to pare it down and make it easier for our members to understand and use—to keep it **simple**. Ultimately, our mission to provide our members exceptional service and value can't be successful without ensuring our members' service experience with the cooperative is as convenient and effortless as we can make it. Our mission drives us to keep things **simple**.

At the same time, electric consumers who are served by

investor-owned electric utilities around our territory have "electric choice." That sounds nice, but those folks have figured out the retail choice market is **everything but simple**. At last count, there were more than 400 different rate offerings from which to choose, many of them have featured misleading marketing gimmicks that have cost unwary consumers hundreds of extra dollars a year for the energy they use.

On top of added service features and member resources United routinely provides members, the cooperative continues to deploy technologies and system improvements that are designed to make its service delivery even more dependable and intuitive.

Certainly, with continual change around us, United is always a work in progress. Even so, our commitment to our members is the same: to **simply** provide exceptional service and value—now and always.

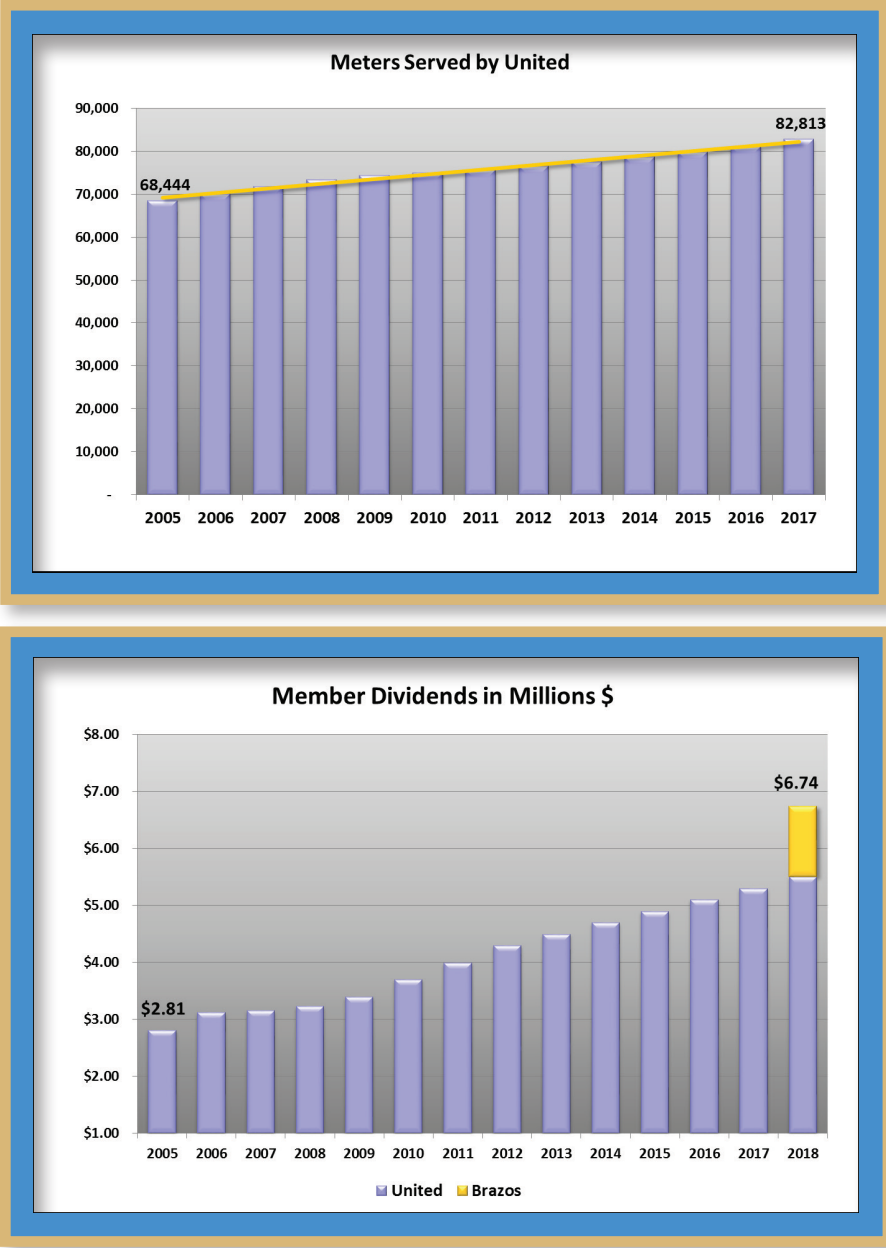
Thanks to all of our members, 2017 was a great year.

Cameron L. Smallwood

• Balance Sheets
As of December 31, 2017 and 2016

As of December 31,		
	2017	2016
ASSETS		
UTILITY PLANT		
Electric plant in service at cost	\$ 368,296,857	\$ 350,679,538
Construction work in progress	4,786,475	4,752,845
Total utility plant	\$ 373,083,332	\$ 355,432,383
Less accumulated provision for depreciation	114,983,136	108,174,615
Net utility plant	\$ 258,100,196	\$ 247,257,768
OTHER PROPERTY AND INVESTMENTS AT COST		
Investments in associated organizations	\$ 97,837,852	\$ 93,622,250
Total property and investments	\$ 97,837,852	\$ 93,622,250
CURRENT ASSETS		
Cash and cash equivalents	\$ 39,738,946	\$ 28,942,576
Accounts receivable-less allowance for doubtful accounts	18,856,072	16,744,020
Material and supplies (at average cost)	1,369,873	1,490,401
Other current and accrued assets	365,237	598,726
Total current assets	\$ 60,330,128	\$ 47,775,723
DEFERRED DEBITS		
	\$ 2,715,000	\$ 3,258,000
TOTAL ASSETS	\$ 418,983,176	\$ 391,913,741
LIABILITIES AND MEMBERS' EQUITY		
EQUITIES AND MARGINS		
Memberships	\$ 167,615	\$ 175,440
Patronage capital	226,587,822	213,287,618
Accumulated other comprehensive income	4,868,835	(3,419,376)
Other equities	1,561,176	1,548,202
Total equities and margins	\$ 233,185,448	\$ 211,591,884
LONG-TERM DEBT		
RUS mortgage notes	\$ (65,867,886)	\$ (62,675,612)
CFC mortgage notes	40,416,779	43,038,357
FFB mortgage notes	171,957,343	149,273,919
Economic development loan	335,126	335,126
Total long-term debt	\$ 146,841,362	\$ 129,971,790
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS		
	\$ 713,900	\$ 8,093,627
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 6,132,000	\$ 11,799,000
Current portion of postretirement benefits	350,000	350,000
Accounts payable - purchased power	9,741,382	10,741,395
Accounts payable - other	2,518,195	1,178,939
Consumer deposits	3,595,928	3,491,573
Accrued taxes	3,181,940	3,018,869
Accrued interest	367,056	380,963
Other current and accrued liabilities	8,384,461	7,287,223
Total current liabilities	\$ 34,270,962	\$ 38,247,962
DEFERRED CREDITS		
	\$ 3,971,504	\$ 4,008,478
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 418,983,176	\$ 391,913,741

• Statements of Revenue and Patronage Capital
For the Years Ended December 31, 2017 and 2016



For the Years Ended December 31,		
	2017	2016
NET SALES	\$ 172,407,939	\$ 163,850,951
OPERATING EXPENSES		
Purchased power	\$ 117,876,470	\$ 112,821,588
Distribution expense - operations	6,485,280	6,339,899
Distribution expense - maintenance	8,209,061	7,884,223
Consumer accounts	4,333,789	4,235,582
Customer service and information	2,116,157	2,037,076
Administrative and general	5,161,913	4,673,679
Depreciation and amortization	12,306,366	11,859,261
Taxes	1,334,249	1,290,460
Interest on long-term debt	7,356,963	7,301,196
Other interest and deductions	119,295	58,856
Total operating expenses	\$ 165,299,543	\$ 158,501,820
Net operating margins	\$ 7,108,396	\$ 5,349,131
NONOPERATING MARGINS		
Interest income	\$ 3,969,582	\$ 3,956,748
Other	114,735	19,813
Total nonoperating margins	\$ 4,084,317	\$ 3,976,561
Generation and transmission cooperative and other capital credits	\$ 7,408,997	\$ 4,326,755
NET MARGINS FOR YEAR	\$ 18,601,710	\$ 13,652,447
Patronage capital - beginning of year	213,287,618	204,736,942
Transfers from (to) other equities	(1,506)	(1,771)
Retirement of capital credits	(5,300,000)	(5,100,000)
PATRONAGE CAPITAL - END OF YEAR	\$ 226,587,822	\$ 213,287,618

2017 FINANCIAL REVIEW

SALES OF ELECTRICITY

In 2017, United delivered 2,076 gigawatt-hours to the membership, making it the fifth year in a row and seventh time in eight years that United’s sales have surpassed 2,000 gigawatt hours.

2017 residential sales decreased 3 gigawatt hours and commercial sales increased 19 gigawatt hours for an overall percentage increase of 0.8 percent over 2016’s sales.

FINANCIAL PERFORMANCE

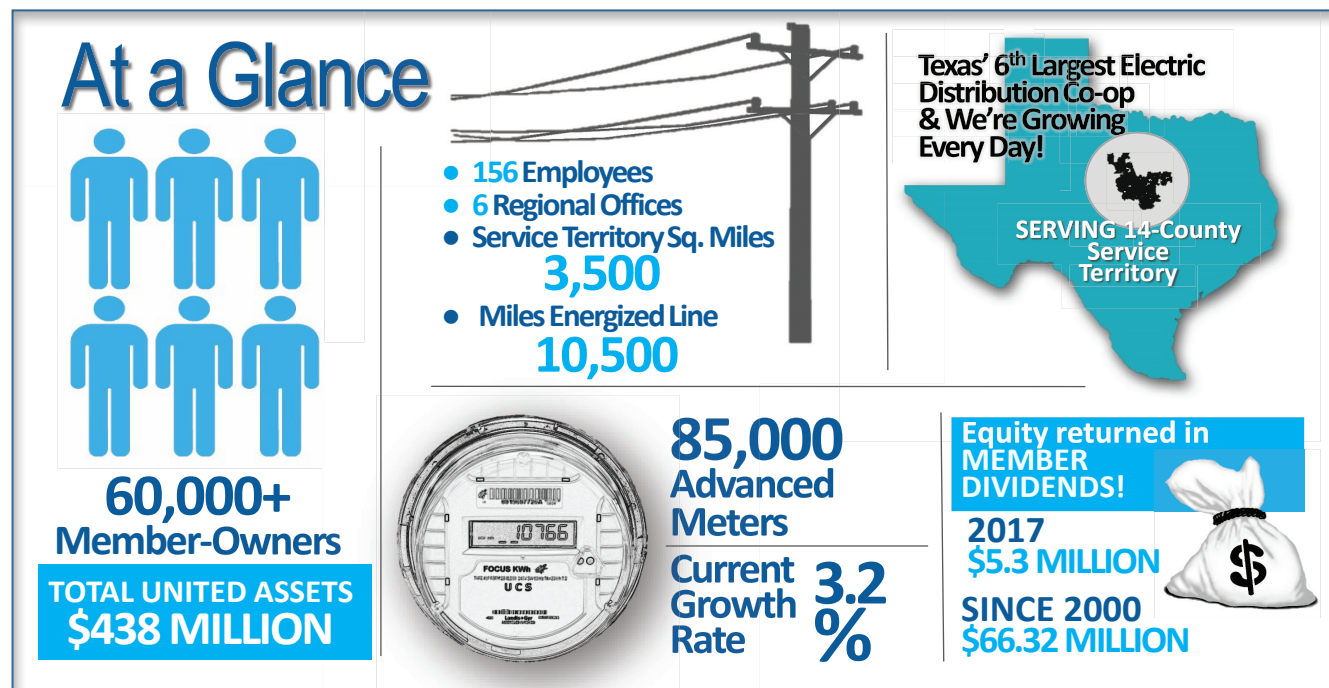
Margins for 2017 were \$18,601,711, with members receiving a patronage capital margin allocation equivalent to 11.02 percent of their 2017 billed electric service. United’s Times Interest Earned Ratio (TIER) at the end of the year was 3.48 compared to a 2017 average of 2.54 for electric distribution 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 3.15 when using the two highest TIER results from the last three years, and an average Operating TIER of 2.04.

Costs composed of distribution, consumer, and administrative expenses amounted to \$318 per meter in 2017, compared to a national average of \$383 for electric distribution co-ops of like size. United’s five-year average for this ratio from 2013 through 2017 is \$307, versus \$369 for like-sized distribution co-ops during that same period.

PLANT INVESTMENT and EQUITY POSITION

In the past five years, United has invested in electric distribution plant for new construction and system improvements totaling over \$85 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 56 percent—the second-highest equity ratio on a national level for electric distribution co-ops of like size. This allowed United to continue its strong member dividends program, and in 2017 the cooperative returned \$5.3 million of patronage capital in the form of member dividends.



When the Future Becomes Today, Your Co-op Will Be Ready

Providing solutions, performance-driven results and responsiveness that makes United's service delivery to members easier, more simple and accessible has been United's focus for 80 years.

Being industry trailblazers to create extra value for its members has contributed to its consistent ranking by members and industry peers alike as one of the nation's leading electric distribution cooperatives in member satisfaction, service delivery, operational efficiency, reliability and innovation.

By exploring new technological developments and staying at the forefront of changes that continually shape the dynamics of the electric power industry, United has been able to retain its competitive rate stance among other electric distribution companies and providers serving in the heart of North Texas, as well as to provide unique resources and programs that make a difference in members' everyday lives by helping them manage energy use more efficiently and affordably.

Even with its response to weather-related challenges that surfaced first in January and again in March, after severe thunderstorms swept across parts of United's service territory and resulted in power restoration efforts to thousands of members, United's work slate in 2017 was never any less busy.

The year's undertakings included testing and implementation of enhancements to the cooperative's outage detection and location monitoring systems, increased development of cyber security training and data systems security, as well as further hardening of co-op's distribution infrastructure.

Under the direction of new incoming United CEO Cameron Smallwood, who was named to head the company late in 2016, the cooperative also expanded and bolstered programs already in progress and planned, or launched new programs that will benefit members for years to come. At the same time, the cooperative began to address a rather substantial uptick in service growth stemming largely from new residential developments flourishing within

the cooperative's Johnson County and Hood County service areas, but also spurred by new commercial/industrial activity that has located outside of the immediate Dallas-Fort Worth hub. On a rolling 12-month average, United's meter growth from July 2017 to July 2018 has been 3.2 percent, up from 2.2 percent at the end of 2016.

Following a systemwide assessment of United's rights-of-way (ROW) to determine the scope of work needed to maintain the desired power line clearances, a sweeping new integrated vegetation management program was rolled out in 2017. The revamped program was expected to be more strategically focused in the treatment of areas most affected by overgrowth and undergrowth, and was designed not only to provide improved communications and more personal interaction with affected members, but it was also projected to lead to better reliability and more stable vegetation management costs in the future.

With the goal of making solar energy more accessible for its members, United broke ground in August 2017 on a 9.9 MW (AC) solar power plant located near Kopperl in Bosque County that today is currently generating power that can help offset power costs for subscribing members over the next 20 years. The community solar venture, which at the time of its construction was considered to be the largest of its kind organized by an electric cooperative, will provide United members with a competitive new renewable energy rate option, and at a rate that is fixed for the lifespan of the project.

Among many other member service needs that were met, United in 2017 awarded rebates for 2,582 HVAC tune-ups, 219 heat pumps, 47 residential insulation jobs, 31 water heaters and 132 smart/learning thermostats. In addition, United granted 48 residential distributed generation (solar) rebate requests and several Energy Smarts Grants to commercial members.

The cooperative also completed more than 800 free home energy audits for members in 2017, adding to more than 9,800 since the program was started (not including those already performed in 2018). The cooperative also assisted 57 members in distributed generation interconnections.

Briscoe, Burke & Grigsby LLP

CERTIFIED PUBLIC ACCOUNTANTS

April 13, 2018

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, 2017 and 2016, and the related statements of income and patronage capital, and cash flows for the years then ended and in our report dated April 13, 2018, 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.

Briscoe, Burke & Grigsby LLP
Certified Public Accountants



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President
District 2



LARRY BAYS
Vice President
District 7



TOMMY CANTRELL
Secretary-Treasurer
District 3



HARRY THOMPSON
District 1



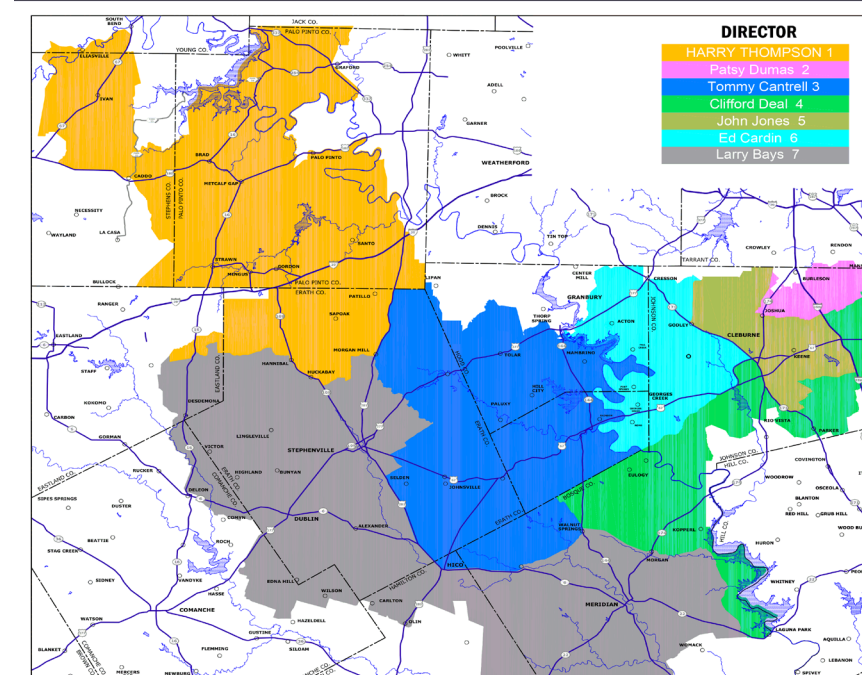
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District 4



JOHN JONES
District 5



ED CARDIN
District 6



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.