

A Brighter Energy Future Beckons

2018 ANNUAL REPORT

The Future Looks Bright, Indeed

Your cooperative continued to grow and change in 2018. When a lot of things occur all at once, the extra attention they demand can sometimes be daunting. But growth is one of those good challenges to have. The growth we experienced again in 2018 has been nothing but a positive for your cooperative.

Electric distribution system growth throughout our service territory has been strong in 2018. The benefits of that growth are multifold. It brings more homes, businesses and commerce to our area economy, and it has a positive affect on your cooperative's business, too. New United electric consumers add to the margins that allow United to continue to update its electric distribution system while spreading those operational costs among more members, which helps to keep our rates very competitive within the North Texas market. Without growth,

it is difficult to maintain rate competitiveness. Thankfully, we have been blessed for many years to be able to provide United members some of the most consistently stable and competitive rates offered in the region.

Change is another area that has come in ample waves. Change is challenging at times, but we must face the fact that the world continues to change and that your cooperative must continue to change to meet the desires and expectations of our members. That is what we are here to accomplish, to provide exceptional service and value. We cannot achieve this unless we continue to determine where we may be falling short in meeting our members' expectations, before finding solutions that continue to bring more service value and better service experiences to our membership. That continuing commitment led your cooperative to embark on two major projects in 2018: establishing a community solar program and studying the possibility of providing fiber optic-based high-speed broadband internet.

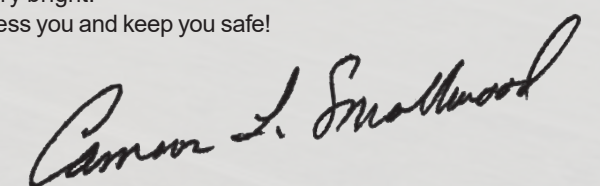
As Texans, we all know the sun shines often! It has been an exciting year at your cooperative when it comes to the sun. For the first time in United's history, the cooperative has invested in the development of a community solar project for the benefit of its membership. We have nearly 4,000 members (the plant is almost fully subscribed, better hurry) taking service from our community solar project while saving money on their monthly electric bills. The program has been so successful, we

are reviewing options to expand the program in the future.

As I mentioned, the other major undertaking we embarked on in 2018 centers around United's study for providing fiber-optic-based high-speed internet services to our members. We completed the first business feasibility study in 2018 and we are continuing to assess the membership's interest and further considerations for such a project currently.

Ultimately, United Cooperative Services is your cooperative. We are here to meet the members' expectations. We continually listen to your input through the many means available to us and we will continue to shift our business to meet your changing expectations. With this approach, I believe our future is very bright!

May God bless you and keep you safe!



**CAMERON
SMALLWOOD**

CEO / United Cooperative Services

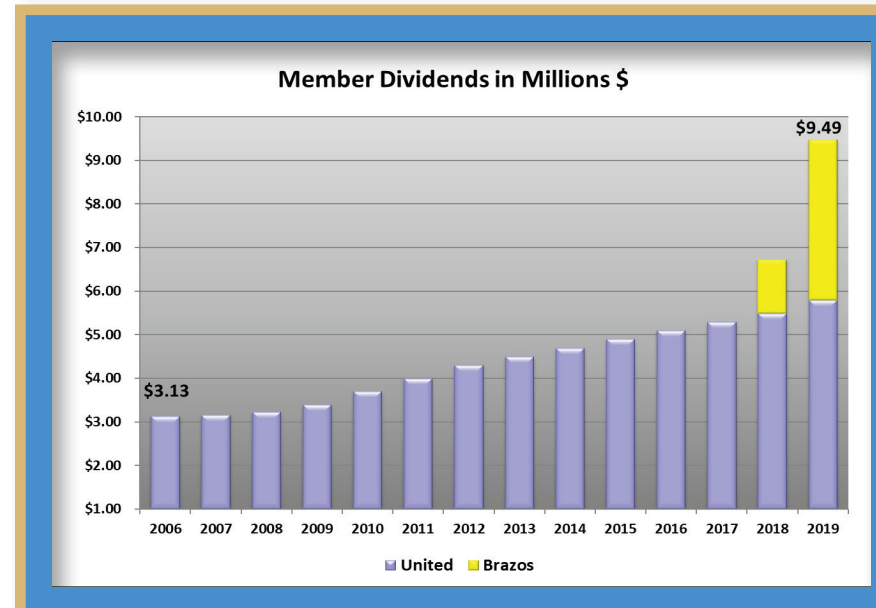
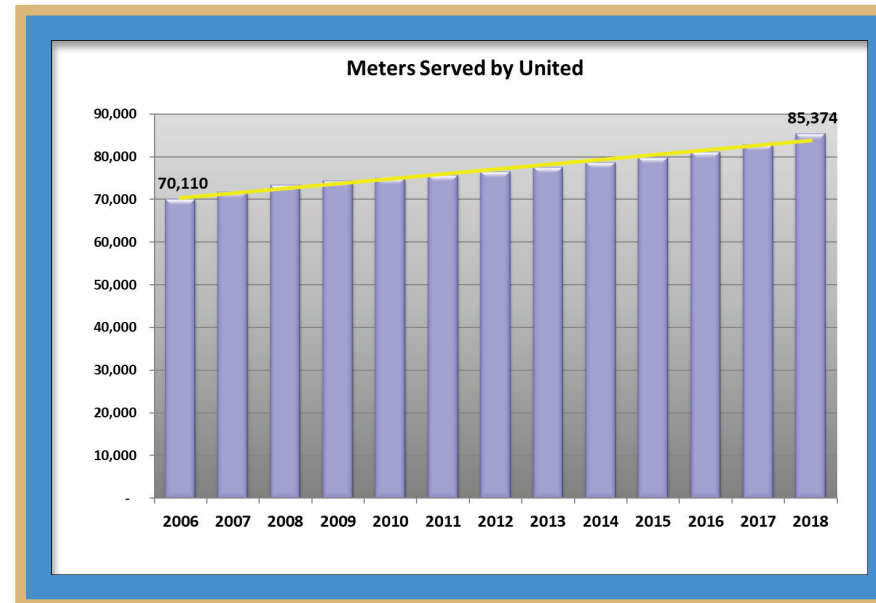
• Balance Sheets

As of December 31, 2018 and 2017

• Statements of Revenue and Patronage Capital

For the Years Ended December 31, 2018 and 2017

	As of December 31,	
	2018	2017
ASSETS		
UTILITY PLANT		
Electric plant in service at cost	\$ 391,841,017	\$ 368,296,857
Construction work in progress	2,780,089	4,786,475
Total utility plant	\$ 394,621,106	\$ 373,083,332
Less accumulated provision for depreciation	122,388,167	114,983,136
Net utility plant	\$ 272,232,939	\$ 258,100,196
OTHER PROPERTY AND INVESTMENTS AT COST		
Investments in associated organizations	\$ 101,019,529	\$ 97,837,852
Total property and investments	\$ 101,019,529	\$ 97,837,852
CURRENT ASSETS		
Cash and cash equivalents	\$ 51,586,167	\$ 39,738,946
Accounts receivable-less allowance for doubtful accounts	20,765,247	18,856,072
Material and supplies (at average cost)	1,506,450	1,369,873
Other current and accrued assets	463,693	365,237
Total current assets	\$ 74,321,557	\$ 60,330,128
DEFERRED DEBITS	\$ 2,175,778	\$ 2,715,000
TOTAL ASSETS	\$ 449,749,803	\$ 418,983,176
LIABILITIES AND MEMBERS' EQUITY		
EQUITIES AND MARGINS		
Memberships	\$ 160,850	\$ 167,615
Patronage capital	237,500,132	226,587,822
Accumulated other comprehensive income	4,746,428	4,868,835
Other equities	1,561,575	1,561,176
Total equities and margins	\$ 243,968,985	\$ 233,185,448
LONG-TERM DEBT		
RUS mortgage notes	\$ (79,257,792)	\$ (65,867,886)
CFC mortgage notes	36,867,632	40,416,779
FFB mortgage notes	203,836,970	171,957,343
Economic development loan	335,126	335,126
Total long-term debt	\$ 161,781,936	\$ 146,841,362
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS	\$ 1,183,482	\$ 713,900
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 7,345,000	\$ 6,132,000
Current portion of postretirement benefits	350,000	350,000
Accounts payable - purchased power	12,051,481	9,741,382
Accounts payable - other	2,553,544	2,518,195
Consumer deposits	3,902,919	3,595,928
Accrued taxes	3,377,804	3,181,940
Accrued interest	375,071	367,056
Other current and accrued liabilities	8,384,317	8,384,461
Total current liabilities	\$ 38,340,136	\$ 34,270,962
DEFERRED CREDITS	\$ 4,475,264	\$ 3,971,504
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 449,749,803	\$ 418,983,176



	For the Years Ended December 31,	
	2018	2017
NET SALES	\$ 196,118,658	\$ 172,407,939
OPERATING EXPENSES		
Purchased power	\$ 137,478,502	\$ 117,876,470
Distribution expense - operations	6,472,731	6,485,280
Distribution expense - maintenance	10,942,286	8,209,061
Consumer accounts	4,412,047	4,333,789
Customer service and information	2,221,620	2,116,157
Administrative and general	5,036,454	5,161,913
Depreciation and amortization	13,255,987	12,306,366
Taxes	1,520,688	1,334,249
Interest on long-term debt	7,959,104	7,356,963
Other interest and deductions	106,537	119,295
Total operating expenses	\$ 189,405,956	\$ 165,299,543
Net operating margins	\$ 6,712,702	\$ 7,108,396
NONOPERATING MARGINS		
Interest income	\$ 4,814,962	\$ 3,969,582
Other	(15,002)	114,735
Total nonoperating margins	\$ 4,799,960	\$ 4,084,317
Generation and transmission cooperative and other capital credits	\$ 6,139,943	\$ 7,408,997
NET MARGINS FOR YEAR	\$ 17,652,605	\$ 18,601,710
Patronage capital - beginning of year	226,587,822	213,287,618
Transfers from (to) other equities	(2,698)	(1,506)
Retirement of capital credits	(6,737,597)	(5,300,000)
PATRONAGE CAPITAL - END OF YEAR	\$ 237,500,132	\$ 226,587,822

2018 FINANCIAL REVIEW

SALES OF ELECTRICITY

In 2018, United delivered a record high 2,388 gigawatt hours to the membership, making it the sixth year in a row and eighth time in nine years that United's sales have surpassed 2,000 giga-

watt hours. 2018 residential sales increased 196 gigawatt hours and commercial sales increased 113 gigawatt hours for an overall percentage increase of 15.0 percent over 2017's sales.

FINANCIAL PERFORMANCE

Margins for 2018 were \$17,652,605 with members receiving a patronage capital margin allocation equivalent to 9.13 percent of their 2018 billed electric service. United's Times Interest Earned Ratio (TIER) at the end of the year was 3.22 compared to a 2018 average of 2.79 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

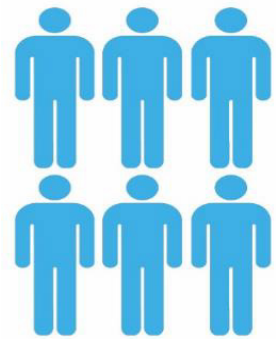
not fall below 1.25 and our Operating TIER level not fall below 1.10 when averaging the two highest annual results over the last three years. United reports an average TIER of 3.35 when using the two highest TIER results from the last three years and an average Operating TIER of 2.34.

Costs composed of distribution, consumer, and administrative expenses amounted to \$341 per meter in 2018 compared to a national average of \$398 for electric distribution co-ops of like size. United's five-year average for this ratio from 2014 through 2018 is \$317 versus \$380 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 \$98 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 54 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 2018 the cooperative returned \$5.5 million of United patronage capital and \$1.2 million of Brazos Electric Cooperative patronage capital in the form of member dividends.

At a Glance



61,000+
Member-Owners
TOTAL UNITED ASSETS
\$450 MILLION

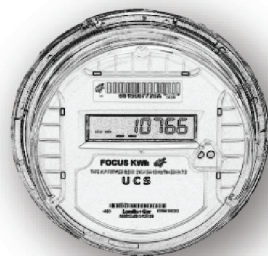


- 159 Employees
- 6 Regional Offices
- Service Territory Sq. Miles **3,500**
- Miles Energized Line **10,700**

Texas' 6th Largest Electric Distribution Co-op & We're Growing Every Day!



SERVING 14-County Service Territory



87,500+
Advanced Meters
Current Growth Rate 3%

Equity returned in MEMBER DIVIDENDS!

2018
\$5.5 MILLION
SINCE 2000
\$71.8 MILLION



Designing Your Cooperative to Meet Your Expectations

Designing and implementing solutions to answer future needs has never been a discretionary goal at United.

Driven to serve and inspired by innovation, United Cooperative Services continues its aim of providing exceptional service and value. In doing so, it is building a brighter energy future for its growing membership by staying agile in meeting diverging member expectations and service needs.

In that spirit, United has been *listening carefully to its members* to determine where those service expectations reside—through every venue and at every opportunity afforded to the cooperative.

When members voiced their interest in having more options in distributed generation (renewable energy such as solar, etc.), the cooperative provided a solution by investing in a 9.9 MW (AC) community solar power plant that could help offset member power costs for 20 years, and without the personal maintenance hassles or upfront investment that would be required with a residential solar installation. Nearly 4,000 members are saving energy costs today from their subscriptions to available power blocks in the community solar plant that went online for production in 2018. Subscriptions to the community solar plant's available capacity filled so quickly that United began exploring the potential for additional distributed generation opportunities elsewhere that could benefit both residential and commercial members.

When a growing number of members lobbied the cooperative to find the means to provide broadband service to members who had little or no recourse in obtaining adequate access to affordable and reliable internet service, United in 2018 followed through on an objective

begun in 2017 to study the feasibility of providing high-speed fiber-optic based broadband service throughout its service territory—a study that later revealed such a project was potentially viable and which cooperative leaders suggested should be considered as a matter to be adopted by the entire membership.

Another major highlight among the body of work conducted in 2018 included the full implementation of a new integrated vegetation management program (IVM) that not only effectively doubled United's previous investment in maintaining rights-of-way line clearances, but which also represented a more strategically focused treatment of areas more prone to overgrowth and undergrowth, and an increased emphasis on providing improved communications and more personal interaction with affected members. Beyond leading to better service reliability, the IVM program is expected to stabilize vegetation management costs in the future—a plus since rights-of-way management typically represents one of the largest recurring operational expenses for utilities.

In addition to increasing its communications outreach to members through the redesign and enhancement of its website and social media communications platforms, installing improved EV charging stations at a number of area offices, hosting numerous member engagement venues and continuing to invest in smart phone app strategies that provide members incentives for managing energy usage during peak conditions, United in 2018 awarded rebates for 2,596 HVAC tune-ups, 225 heat pumps, 48 residential insulation jobs, and 153 smart/learning thermostats. Further, United granted 61 residential distributed generation (solar) rebate requests and a variety of Energy Smarts Grants to commercial members.

The cooperative also completed 889 free home energy audits for members in 2018, contributing to the 11,284 that have been performed since the program began. The cooperative also assisted 69 members in distributed generation interconnections.

Briscoe, Burke & Grigsby LLP

CERTIFIED PUBLIC ACCOUNTANTS

April 15, 2019

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, 2018 and 2017, and the related statements of income and patronage capital, and cash flows for the years then ended and in our report dated April 15, 2019, 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



PATSY DUMAS
President
District 2



LARRY BAYS
Vice President
District 7



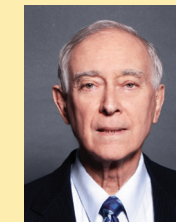
TOMMY CANTRELL
Secretary-Treasurer
District 3



HARRY THOMPSON
District 1



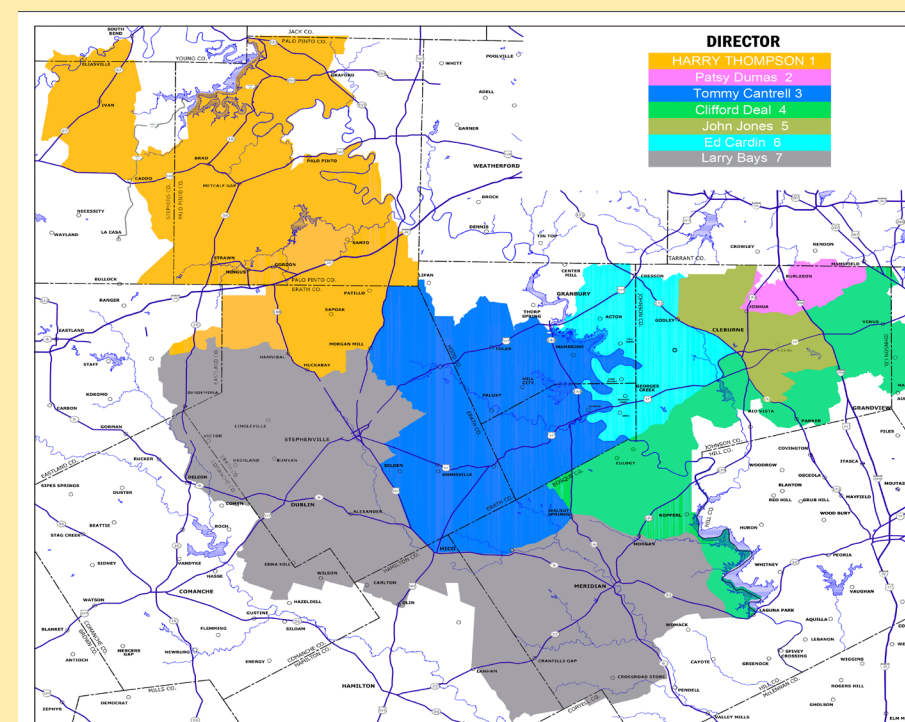
CLIFFORD DEAL
District 4



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.