

2019 ANNUAL REPORT

PERPETUAL MOTION



OPTIMISM REIGNS FOR NEW SERVICE HORIZONS

Back in 1993, when I started my career in the electric utility industry, I really had no idea where it would take me. Fast forward to today and the one constant after my many years in this industry has been that striving for success is perpetual. Complacency with yesterday's achievements ignores possibilities for improving every metric in our service performance.

As an example, when we extend a new service to a member today, we put in new poles, transformers and wire. Just like a new car, the new equipment shines and glitters under the sun. That is just the beginning of a very long cycle of maintenance and replacement. As long as that home or business is at that physical location, service becomes perpetual. Our role after construction then shifts to operations and maintenance—those commitments never end.

It is the same with our support for our members. When newcomers to our cooperative connect their service, our support of their needs is perpetual. We understand, as your electric cooperative, our ultimate goal of providing you exceptional service and value is our sole purpose. That purpose really is to enhance and sustain each member's quality of life, and in today's world, it is very difficult to do that without electricity. As you pay your electric bill each month, a small portion of that bill is for future operations and maintenance of the cooperative, with the understanding that service will be perpetual.



CAMERON SMALLWOOD
CEO / United Cooperative Services

Though our work never ends, that doesn't mean the way we go about it doesn't change. Another saying I bring up relatively often is that change brings opportunity. Change is necessary. But with change, we have great opportunities for improvement. In 2019, we concluded field testing for a metering change-out, because our metering technology was no longer being supported.

That new metering deployment began in 2020, and this will be the third time we have done a project like this since I have been working at United—all because technology continues to change. Each time we change metering, new options and features become available, like improvements found in newer model cars. The old meter is akin to an old car; you must upgrade to a newer model at some point because you can no longer find replacement parts for the old car, or mechanics who can fix it. In the same fashion, a new car has a ton of modern advancements that will be supported for years to come, just as our new metering system will. Regardless, we still have an obligation to measure electric usage—it is another perpetual responsibility.

We hope our members will come to appreciate the new functionality the new advanced meters will afford—which will include automated outage reporting and increased service data availability.

We also understand that your cooperative needs to evolve over time, because our members today have different expectations of their cooperative than those of yesterday did. As a case in point, we heard very clearly that a strong majority of our members wanted us to enter into the new business of providing high-speed internet services. We have begun that process and are now serving our first group of members with exceptional internet services, and at very competitive costs. Obviously, we are doing this with the same high service standard our members have come to expect from their cooperative. Even though starting any new business has its challenges, we have already crossed many hurdles and look forward to expanding this service as quickly as feasible across the huge expanse of United's electric service territory. As we do add new fiber-optic cables and associated equipment, servicing that infrastructure, will, too, live in perpetuity.

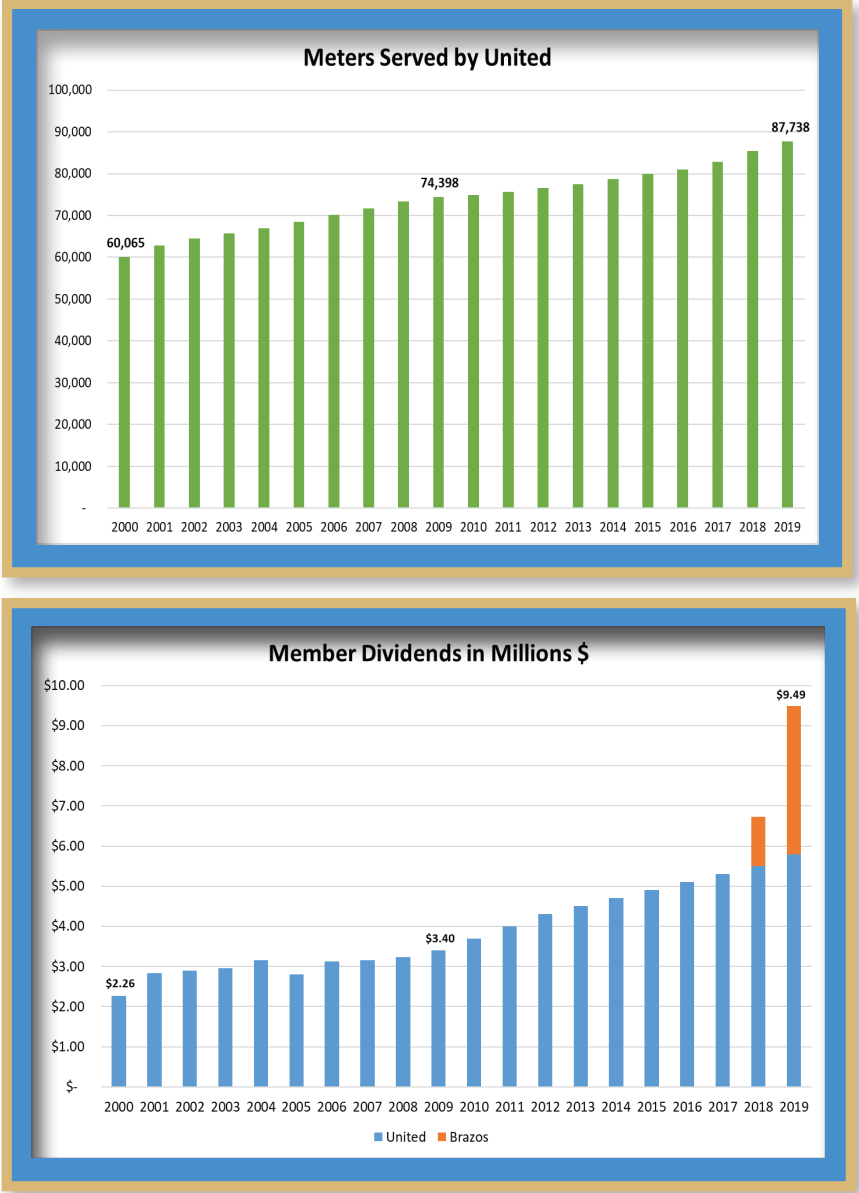
All in all, we have one purpose at your cooperative and that is to perpetually provide exceptional service and value to our members. That means providing those things today, tomorrow and for decades to come—delivering the services our members expect us to cooperatively provide. While 2020 has started with a 'bang' so to speak, I know working together, we can meet any challenges that we face.

Be safe and God Bless!

• **Balance Sheets**
As of December 31, 2019 and 2018

As of December 31,		
	2019	2018
ASSETS		
UTILITY PLANT		
Electric plant in service at cost	\$ 411,232,745	\$ 391,841,017
Construction work in progress	9,767,550	2,780,089
Total utility plant	\$ 421,000,295	\$ 394,621,106
Less accumulated provision for depreciation	128,116,736	122,388,167
Net utility plant	\$ 292,883,559	\$ 272,232,939
OTHER PROPERTY AND INVESTMENTS AT COST		
Investments in associated organizations	\$ 108,283,256	\$ 101,019,529
Total property and investments	\$ 108,283,256	\$ 101,019,529
CURRENT ASSETS		
Cash and cash equivalents	\$ 46,536,403	\$ 51,586,167
Accounts receivable-less allowance for doubtful accounts	16,869,779	20,765,247
Material and supplies (at average cost)	1,409,921	1,506,450
Other current and accrued assets	472,356	463,693
Total current assets	\$ 65,288,459	\$ 74,321,557
DEFERRED DEBITS		
	\$ 2,216,194	\$ 2,175,778
TOTAL ASSETS	\$ 468,671,468	\$ 449,749,803
LIABILITIES AND MEMBERS' EQUITY		
EQUITIES AND MARGINS		
Memberships	\$ 153,310	\$ 160,850
Patronage capital	245,236,881	237,500,132
Accumulated other comprehensive income	5,627,997	4,746,428
Other equities	1,515,756	1,561,575
Total equities and margins	\$ 252,533,944	\$ 243,968,985
LONG-TERM DEBT		
RUS mortgage notes	\$ (83,295,566)	\$ (79,257,792)
CFC mortgage notes	34,401,838	36,867,632
FFB mortgage notes	214,158,474	203,836,970
Economic development loan	335,126	335,126
Total long-term debt	\$ 165,599,872	\$ 161,781,936
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS		
	\$ 2,390,171	\$ 1,183,482
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 7,955,000	\$ 7,345,000
Current portion of postretirement benefits	350,000	350,000
Accounts payable - purchased power	11,272,933	12,051,481
Accounts payable - other	3,140,419	2,553,544
Consumer deposits	4,037,173	3,902,919
Accrued taxes	3,412,238	3,377,804
Accrued interest	401,096	375,071
Other current and accrued liabilities	11,541,120	8,384,317
Total current liabilities	\$ 42,109,979	\$ 38,340,136
DEFERRED CREDITS		
	\$ 6,037,502	\$ 4,475,264
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 468,671,468	\$ 449,749,803

• **Statements of Revenue and Patronage Capital**
For the Years Ended December 31, 2019 and 2018



For the Years Ended December 31,		
	2019	2018
NET SALES	\$ 196,473,815	\$ 196,118,658
OPERATING EXPENSES		
Purchased power	\$ 137,563,347	\$ 137,478,502
Distribution expense - operations	6,872,000	6,472,731
Distribution expense - maintenance	11,436,559	10,942,286
Consumer accounts	4,774,614	4,412,047
Customer service and information	2,412,939	2,221,620
Administrative and general	5,443,422	5,036,454
Depreciation and amortization	14,671,453	13,255,987
Taxes	1,573,711	1,520,688
Interest on long-term debt	8,574,475	7,959,104
Other interest and deductions	161,164	106,537
Total operating expenses	\$ 193,483,684	\$ 189,405,956
Net operating margins	\$ 2,990,131	\$ 6,712,702
NONOPERATING MARGINS		
Interest income	\$ 5,662,493	\$ 4,814,962
Other	19,315	(15,002)
Total nonoperating margins	\$ 5,681,808	\$ 4,799,960
Generation and transmission cooperative and other capital credits	\$ 8,557,557	\$ 6,139,943
NET MARGINS FOR YEAR	\$ 17,229,496	\$ 17,652,605
Patronage capital - beginning of year	237,500,132	226,587,822
Transfers from (to) other equities	(1,601)	(2,698)
Retirement of capital credits	(9,491,146)	(6,737,597)
PATRONAGE CAPITAL - END OF YEAR	\$ 245,236,881	\$ 237,500,132

2019 FINANCIAL REVIEW

SALES OF ELECTRICITY

In 2019, United delivered a record high 2,463 gigawatt hours to the membership, making it the seventh year in a row and ninth time in ten years that United’s sales have surpassed 2,000 gigawatt hours. 2019 residential sales decreased 9 gigawatt hours and commercial sales increased 86 gigawatt hours for an overall percentage

increase of 3.2% over 2018’s sales.

FINANCIAL PERFORMANCE

Margins for 2019 were \$17,229,496 with members receiving a patronage capital margin allocation equivalent to 8.51% of their 2019 billed electric service. United’s Times Interest Earned Ratio (TIER) at the end of the year was 3.01 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 \$353 per meter in 2019 compared to a national average of \$398 for electric distribution co-ops of like size. United’s five-year average for this ratio from 2015 through 2019 is \$328 versus \$380 for like-sized distribution co-ops from 2014 through 2018, which is the most recent data available.

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 \$110 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%. 2019 comparison data is not yet available, but United’s 2018 equity ratio of 54% was 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 2019 the cooperative returned \$5.8 million of United patronage capital and \$3.7 million of Brazos Electric Cooperative patronage capital in the form of member dividends.

Taking the Lead in Service, Innovation

KEY 2019 UNITED ACCOMPLISHMENTS KEEP MEMBER INTERESTS AT THE FORE

THE WORLD NEVER STANDS STILL and neither have United Cooperative Services’ optics for finding new and better ways to provide exceptional service and value to its members.

THE COOPERATIVE’S STEADY ADVANCEMENTS in 2019 were apparent in key initiatives that are not only transforming the way the cooperative brings myriad services and enhanced service reliability and safety to its members in its electric distribution service, but also in its new mandate to provide a high-speed fiber-optic internet network—designed from the ground-up to deliver superior internet access to members who were previously underserved or who would have never likely been served by other internet providers.

SHOWCASING THE COOPERATIVE PRINCIPLE of “democratic member control,” a practiced ideal that encourages member-owners to have a voice in how their cooperative operates, United Board of Directors unanimously elected in September 2019 to move forward with the challenge of bridging the digital divide that had impeded suburban and rural growth, livelihoods, education, commerce, entertainment and lives. Nearly a third of the cooperative’s 61,000 members responded positively (91%) to a proposition determining whether United should expand and include high-speed internet in its service options portfolio.

THE \$200 MILLION MULTI-YEAR PROJECT BEGAN at the end of the year with construction of a fiber-optic backbone that will both enhance the cooperative’s technology and communication assets, but act as the primary distribution resource for providing 100 Mbps or higher speeds to most member-subscribers with high-speed fiber-to-the-home (FTTH) internet access, and up to 100 Mbps to members served by fiber-based, high-speed fixed wireless access.

BEYOND THE LAUNCH OF THAT HISTORICAL UNDERTAKING, United entered its second year of a more aggressive integrated vegetation management (IVM) strategy—targeting areas within the cooperative’s 14-county service territory more prone to outages caused by vegetation overgrowth into and around overhead electric distribution lines. Along with a more focused emphasis on surgical tree trimming, improved tactics this year in the IVM program included selective basal and growth retardant spraying to increase longevity of ROW maintenance and enhance cost effectiveness.

SAFETY HAS ALWAYS BEEN THE CORNERSTONE of the cooperative’s overall objectives. The electric distribution industry can provide many potential settings for personal hazard. Ensuring all United employees return safely to their families at the end of every

workday has remained the top priority at United, and a goal which includes a Zero-Tolerance commitment from every employee—zero line contacts, zero accidents, zero incidents and close calls. As a result of that safety culture, United observed a record 2.5 million hours without a lost-time accident over an expanse of more than eight years.

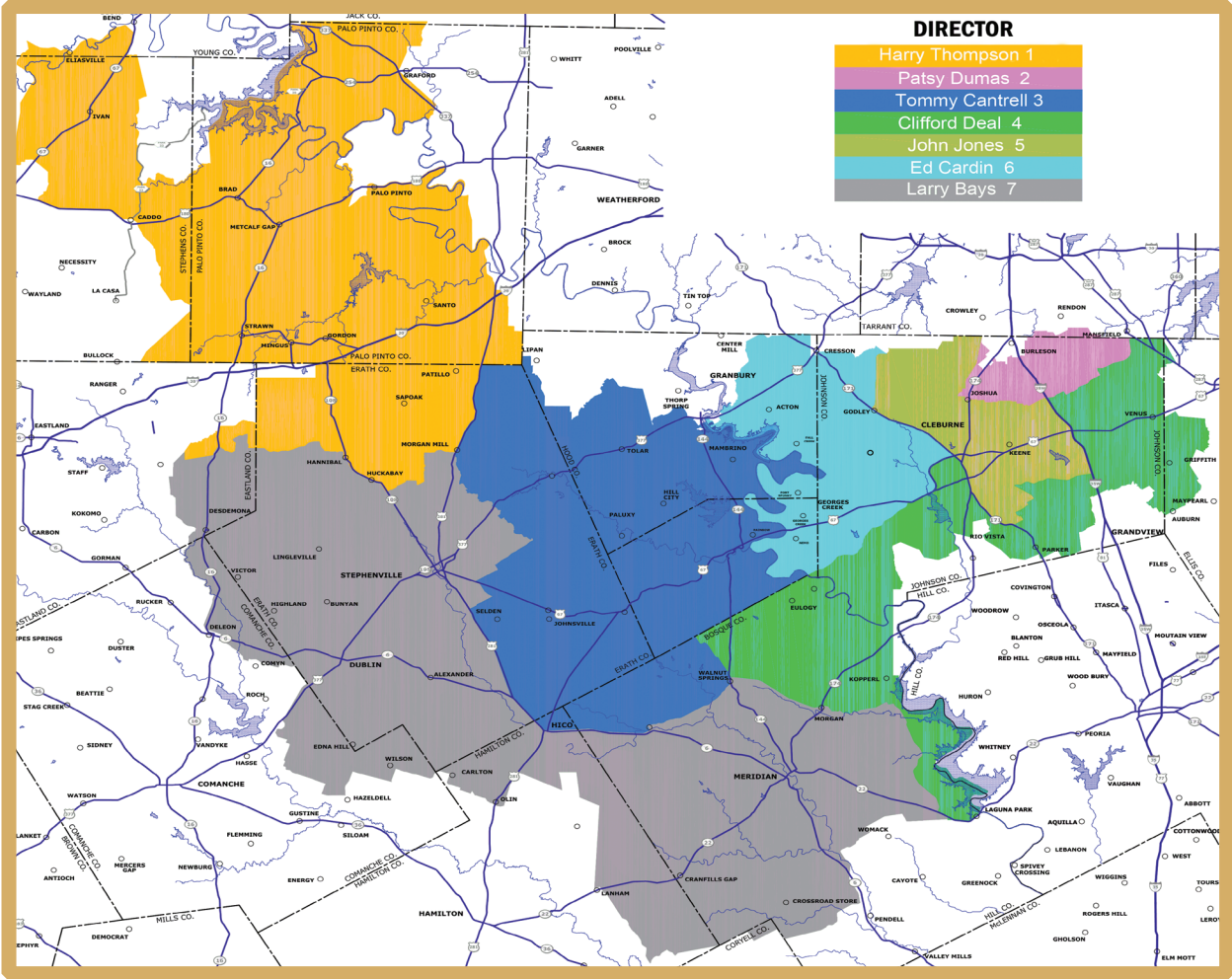
AFTER TWO YEARS OF FIELD TESTING throughout portions of United’s service territory, the latest, most-advanced iteration of metering technology was ready to make its way into systemwide service beginning in 2020. Buoyed by the latest in wireless technology that has been adopted and deployed nationally in response to emergining smart grid technologies and industry transitions, United’s new advanced metering was expected to comprise a wireless mesh network that will help the cooperative keep costs down by reducing truck rolls, improve outage response and improve overall service reliability.

THE LAUNCH IN JANUARY 2019 of a redesigned United website provided a more contemporary look, a more intuitive user experience for members and a better interface for members accessing the site from mobile applications. By March 2019, record visits to the website were recorded. The redesign also incorporated an online version of United’s monthly newsletter inserted in *Texas Co-op Power* magazine, as well as integration with the cooperative’s social media platforms.

IN ADDITION TO UNITED’S CONTINUING COMMUNICATIONS outreach to members through the enhancement of its website and social media communications platforms, the co-op provisioned improvements in system operations, explored opportunities for adding additional solar distributed energy resources, added new units to its growing fleet of electric vehicles, installed improved EV charging stations at a number of area offices, hosted numerous member engagement venues and continued to invest in strategies that provide members incentives for managing energy usage during peak conditions.

UNITED IN 2019 AWARDED REBATES for 3,051 HVAC tune-ups, 239 heat pumps, 55 residential insulation jobs, and 222 Wi-Fi enabled and Nest thermostats. Further, United granted 98 residential distributed generation (solar) rebate requests and a variety of Energy Smarts Grants to commercial members.

Cooperative energy experts also completed 817 free home energy audits for members in 2019, contributing to the 11,526 that have been performed since the program began. The cooperative also assisted 95 members with distributed energy resource interconnections.



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 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

April 13, 2020

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, 2019 and 2018, and the related statements of income and patronage capital, and cash flows for the year then ended and in our report dated April 13, 2020, 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.

Bricker, Baker & Lindsey LLP
Certified Public Accountants