



Your Touchstone Energy® Cooperative 

LIGHTING A DARK YEAR

2020 ANNUAL REPORT

WHILE A PANDEMIC PLUNGED THE WORLD INTO CHAOS, UNITED PROVIDED CONFIDENCE DURING 12 MONTHS OF UNCERTAINTY.

At the beginning of 2020, no one could have predicted how the year ultimately would have progressed.

Hints in headlines about a new viral disease in China began making the rounds in January, but it wasn't until March that the lives of most Americans really began to change.

For some, children went on Spring Break, only never to return to their classrooms. Government-mandated shutdowns of non-essential businesses found many people, including a portion of our members, out of work.

While United Cooperative Services did close its offices to public traffic on March 23, business continued as near to normal as possible because your cooperative is an essential service. We also realized, as a member-owned business, that we were responsible for continuing to provide exceptional service and value to our members while responding to their needs as their lives and livelihoods were affected by the pandemic.

It helped that the cooperative had already developed and practiced an emergency response plan to a pandemic situation years before one occurred. Going through a real pandemic has taught United's leadership a lot about what could happen during such an event, and many amendments have been made to improve that response.



**CAMERON
SMALLWOOD**
CEO / United Cooperative

That's one of the many advantages of the electric co-op model. We're able to move quickly for the benefit of our members. And I think that we strive in everything we do to demonstrate exceptional service and value because we have a board of directors composed of members who govern the cooperative. Our directors live in communities we serve and see firsthand the needs in their communities. That sharply puts into focus what we need to do to help our members.

Our top priority became ensuring our members' lives stayed powered on. We realized many were forced to homeschool their children and work from home, and we made sure to keep power flowing to everyone.

At the same time, we realized many members were laid off because of shuttered businesses, and as such, had no means to pay their electric bills. So the cooperative's board of directors decided the best thing to do was to help our members in their time of need by suspending disconnection and late fees for non-payment from March to October, relaxing deposit requirements, offering deferred payment plans and providing partial returns of deposits held at the time.

Our help didn't just stop with payment support measures. During this time, we also stepped up donations from our Operation Round Up funding, which in turn feeds five community support organizations in United's service territory. From the beginning of the pandemic through December, United allocated about \$226,000 to these organizations, and that funding touched the lives of nearly 2,500 families.

That support has grown and continues to this day.

In June, United took an additional step in pandemic relief response by returning nearly \$9.5 million in combined United and Brazos Electric Cooperative member dividends well in advance of their usual disbursement every September.

The year wasn't entirely about darkness. In fact, as people adjusted to the new way of living, we installed internet headends in Burleson and Stephenville and began building the fiber-optic rings of our member-requested high-speed internet service, and we literally started providing light through those cables to our first beta customers in June.

By December, more than 1,500 members could say they enjoyed United's high-speed experience, and that growth continues. By the end of 2021, our goal is to have 10,000 members connected to our internet network. On the electric side, we experienced 3.3 percent growth in 2020 throughout our service territory. That's about double the national average for co-op growth.

Probably one of the most remarkable accomplishments throughout the 2020 pandemic year was the fact that, despite all of the challenges, inconveniences and sometimes downright nerve-wracking changes, United's employees continued their commitment to the membership. And that commitment was reflected back to us in the 90-and-above American Customer Satisfaction Index (ACSI) scoring we received (and have continued to receive since) through each quarter of 2020.

The ACSI® is one of the most recognized customer satisfaction indices in the United States. Created at the University of Michigan Business School, ACSI measures customer satisfaction in more than 46 industries and over 380 companies.

There's a pride in that accomplishment for all of our members to know that the employees throughout their electric cooperative never wavered from keeping their promise to them. Even as the world seemed to go a little bit crazy at times, United employees suited up and stood strong. As John 1:5 says, "The light shines in the darkness, and the darkness has not overcome it." Perhaps we, too, managed in the same way to shine without being overcome.

Be safe and God bless!

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

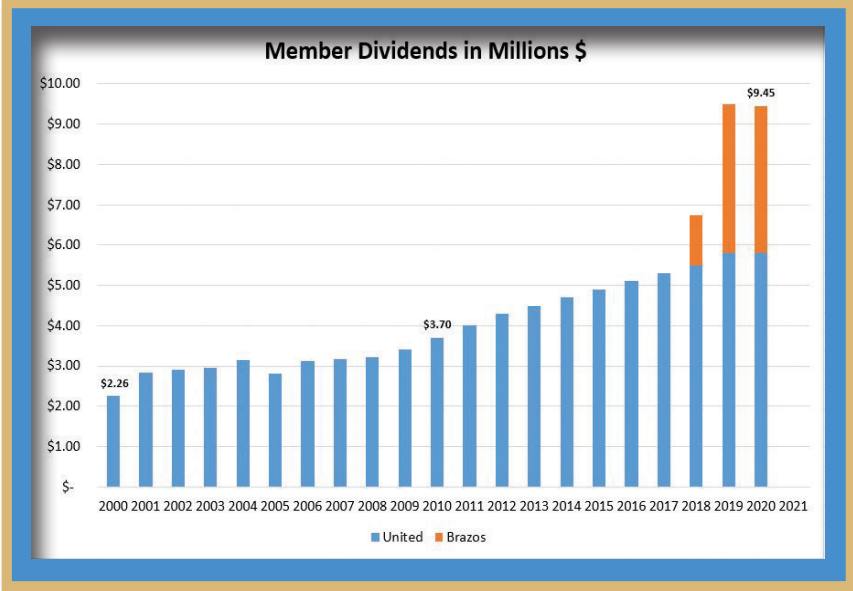
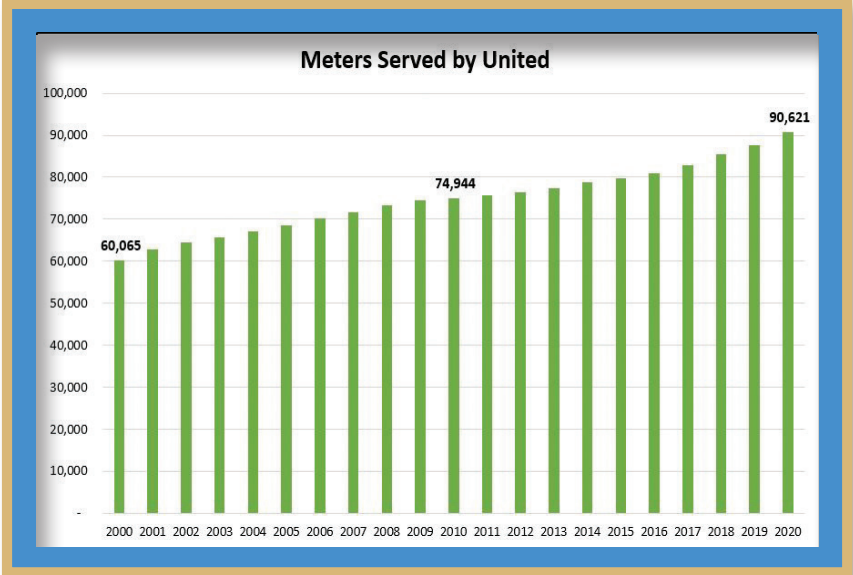
• Balance Sheets

As of December 31, 2020 and 2019

ASSETS	As of December 31,	
	2019	2020
UTILITY PLANT		
Electric plant in service at cost	\$ 411,232,745	\$ 445,611,329
Construction work in progress	9,767,550	37,340,354
Total utility plant	\$ 421,000,295	\$ 482,951,683
Less accumulated provision for depreciation	128,116,736	133,123,371
Net utility plant	\$ 292,883,559	\$ 349,828,312
INTERNET SERVICE PLANT		
Internet plant in service at cost	\$ -	\$ 4,037,597
Construction work in progress	-	26,242,052
Total non-utility plant	\$ -	\$ 30,279,649
Less accumulated provision for depreciation	-	73,895
Net non-utility plant	\$ -	\$ 30,205,754
OTHER PROPERTY AND INVESTMENTS AT COST		
Investments in associated organizations	\$ 108,283,256	\$ 115,607,285
Total property and investments	\$ 108,283,256	\$ 115,607,285
CURRENT ASSETS		
Cash and cash equivalents	\$ 46,536,403	\$ 9,455,077
Accounts receivable-less allowance for doubtful accounts	16,869,779	18,209,629
Material and supplies (at average cost)	1,409,921	11,597,530
Other current and accrued assets	472,356	538,762
Total current assets	\$ 65,288,459	\$ 39,800,998
DEFERRED DEBITS		
	\$ 2,216,194	\$ 3,930,938
TOTAL ASSETS	\$ 468,671,468	\$ 539,373,287
LIABILITIES AND MEMBERS' EQUITY		
EQUITIES AND MARGINS		
Memberships	\$ 153,310	\$ 146,910
Patronage capital	245,236,881	250,811,146
Accumulated other comprehensive income	5,627,997	6,629,431
Other equities	1,515,756	1,497,375
Total equities and margins	\$ 252,533,944	\$ 259,084,862
LONG-TERM DEBT		
RUS mortgage notes	\$ (83,295,566)	\$ -
CFC mortgage notes	34,401,838	31,926,142
FFB mortgage notes	214,158,474	139,935,131
Economic development loan	335,126	335,126
Total long-term debt	\$ 165,599,872	\$ 172,196,399
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS		
	\$ 2,390,171	\$ 2,925,511
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 7,955,000	\$ 6,025,000
Current portion of postretirement benefits	350,000	350,000
Line of Credit	-	53,500,000
Accounts payable - purchased power	11,272,933	11,473,680
Accounts payable - other	3,140,419	9,367,685
Consumer deposits	4,037,173	2,697,875
Accrued taxes	3,412,238	3,528,929
Accrued interest	401,096	428,910
Other current and accrued liabilities	11,541,120	9,226,033
Total current liabilities	\$ 42,109,979	\$ 96,598,112
DEFERRED CREDITS		
	\$ 6,037,502	\$ 8,568,403
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 468,671,468	\$ 539,373,287

• Statements of Revenue and Patronage Capital

For the Years Ended December 31, 2020 and 2019



	For the Years Ended December 31,	
	2020	2019
NET SALES	\$ 194,036,613	\$ 196,473,815
OPERATING EXPENSES		
Purchased power	\$ 133,416,114	\$ 137,563,347
Distribution expense - operations	7,317,786	6,872,000
Distribution expense - maintenance	11,220,893	11,436,559
Consumer accounts	4,517,152	4,774,614
Customer service and information	1,917,228	2,412,939
Administrative and general	6,203,079	5,443,422
Depreciation and amortization	16,013,288	14,671,453
Taxes	1,524,663	1,573,711
Interest on long-term debt	7,344,184	8,574,475
Other interest and deductions	217,373	161,164
Total operating expenses	\$ 189,691,760	\$ 193,483,684
Net operating margins	\$ 4,344,853	\$ 2,990,131
INTERNET SERVICE REVENUE (EXPENSES)		
Internet Service Revenue	\$ 301,250	\$ -
Cost of Sales	(180,477)	-
Operating expenses	(1,879,821)	-
Total internet service margins	\$ (1,759,048)	\$ -
NONOPERATING MARGINS		
Interest income	\$ 3,451,142	\$ 5,662,493
Other	75,857	19,315
Total nonoperating margins	\$ 3,526,999	\$ 5,681,808
Generation and transmission cooperative and other capital credits		
	\$ 8,923,803	\$ 8,557,557
NET MARGINS FOR YEAR	\$ 15,036,607	\$ 17,229,496
Patronage capital - beginning of year	245,236,881	237,500,132
Transfers from (to) other equities	(9,182)	(1,601)
Retirement of capital credits	(9,453,160)	(9,491,146)
PATRONAGE CAPITAL - END OF YEAR	\$ 250,811,146	\$ 245,236,881

2020 FINANCIAL REVIEW

SALES OF ELECTRICITY

In 2020, United delivered 2,416 gigawatt hours to the membership, making it the eighth year in a row and tenth time in eleven years that United's sales have surpassed 2,000 gigawatt hours. 2020 residential sales decreased 13 gigawatt hours and commercial sales decreased 35 gigawatt hours for an overall percentage decrease of 1.9 percent over 2019's sales.

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 \$128 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 48 percent. 2020 comparison data is not yet available, but United's 2019 equity ratio of 54 percent was the third-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 2020 the cooperative returned \$5.8 million of United patronage capital and \$3.7 million of Brazos patronage capital in the form of member dividends.

FINANCIAL PERFORMANCE

Margins for 2020 were \$15,036,607 with members receiving a patronage capital margin allocation equivalent to 7.95 percent of their 2020 billed electric service. United's new high-speed internet service, a multi-year initiative, requires significant start-up capital and operational investment. Like most capital-intensive start-up businesses, the statement of revenue and patronage capital will show a financial loss in this service offering for the first several years. However, the cooperative's conservative business plan shows this new service offering to generate positive margins in less than seven years.

United's Times Interest Earned Ratio (TIER) at the end of the year

was 3.05 compared to a 2019 average of 2.77 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 3.14 when using the two highest TIER results from the last three years and an average Operating TIER of 2.23.

Costs composed of distribution, consumer, and administrative expenses amounted to \$344 per meter in 2020 compared to a national average of \$412 for electric distribution co-ops of like size. United's five-year average for this ratio from 2016 through 2020 is \$333 versus \$391 for like-sized distribution co-ops from 2015 through 2019, which is the most recent data available.

Striving for Success In a World Gone Sideways

► **The pandemic may have thrown the world a curveball, but United continued hitting home runs for its members.**

THE WORLD NEVER STANDS STILL, EVEN DURING A PANDEMIC. Despite the uncertainty, United never wavered from delivering exceptional service and value to its membership.

IN JANUARY, UNITED continued enhancing it's recently relaunched website by offering new content addressing member needs. Plans were under way to provide high-speed internet and the meter-changeout to the Advanced Metering Infrastructure began again. **ALSO IN JANUARY,** The World Health Organization (WHO) announced a mysterious coronavirus-related pneumonia in Wuhan, China. The Centers for Disease Control and Prevention confirmed the first U.S. coronavirus case. The WHO issued a global health emergency.

IN FEBRUARY, UNITED contractors began hanging fiber-optic cables to begin construction on the high-speed internet's backbone. **ALSO IN FEBRUARY,** The U.S. declared a public health emergency. Global air travel was restricted, and the CDC warned COVID-19 was heading toward pandemic status.

IN MARCH, UNITED began following CDC guidelines by closing lobbies and encouraging members to use the drive-thru service or online payment. At the same time, ensuring our members' lives stayed powered ON became THE top priority for the co-op as members began working and teaching children from home. **ALSO IN MARCH,** Passengers on a California cruise ship tested positive, and WHO declared COVID-19 a pandemic. Reports found extended shutdowns could delay a second wave to flatten the COVID-19 curve. Congress passed the CARES act, providing \$2 trillion in aid.

IN APRIL, UNITED members met Marcellus Nixon, vice president of internet services, in a magazine interview. Headend buildings for the high-speed internet were installed. United also assisted members by suspending disconnect for non-payment, relaxing deposit requirements, suspending late fees and offering deferred payment and partial return of deposits. **ALSO IN APRIL,** COVID-19 infections continued to rise throughout the globe. Gating criteria established that called on states and metropolitan areas to achieve COVID-19 reduction benchmarks before reopening.

IN MAY, UNITED members ranked United with a score of 90 for the first quarter of 2020. Broadband beta-testers began experiencing high-speed internet as United perfects delivery. **ALSO IN MAY,** U.S. passed 100,000 COVID-19 deaths.

IN JUNE, UNITED planned a virtual annual meeting instead of the standard in-person event. The website changed to less-cumbersome address of www.ucs.net. Scholarship winners announced with changes to disbursement and cancellation of banquet. **ALSO IN JUNE,** COVID-19 cases reached 2 million in the U.S.

IN JULY, UNITED members received another big dose of pandemic support into cooperative members' hands when it returned nearly \$9.5 million in combined United and Brazos Electric Co-operative dividends to members well in advance of their usual disbursement in September. **ALSO IN JULY,** the largest one-day spike of 50,000 cases prompted some states to delay reopening. That number was quickly eclipsed with 75,600 cases two weeks later. U.S. surpasses 3 million COVID-19 infections.

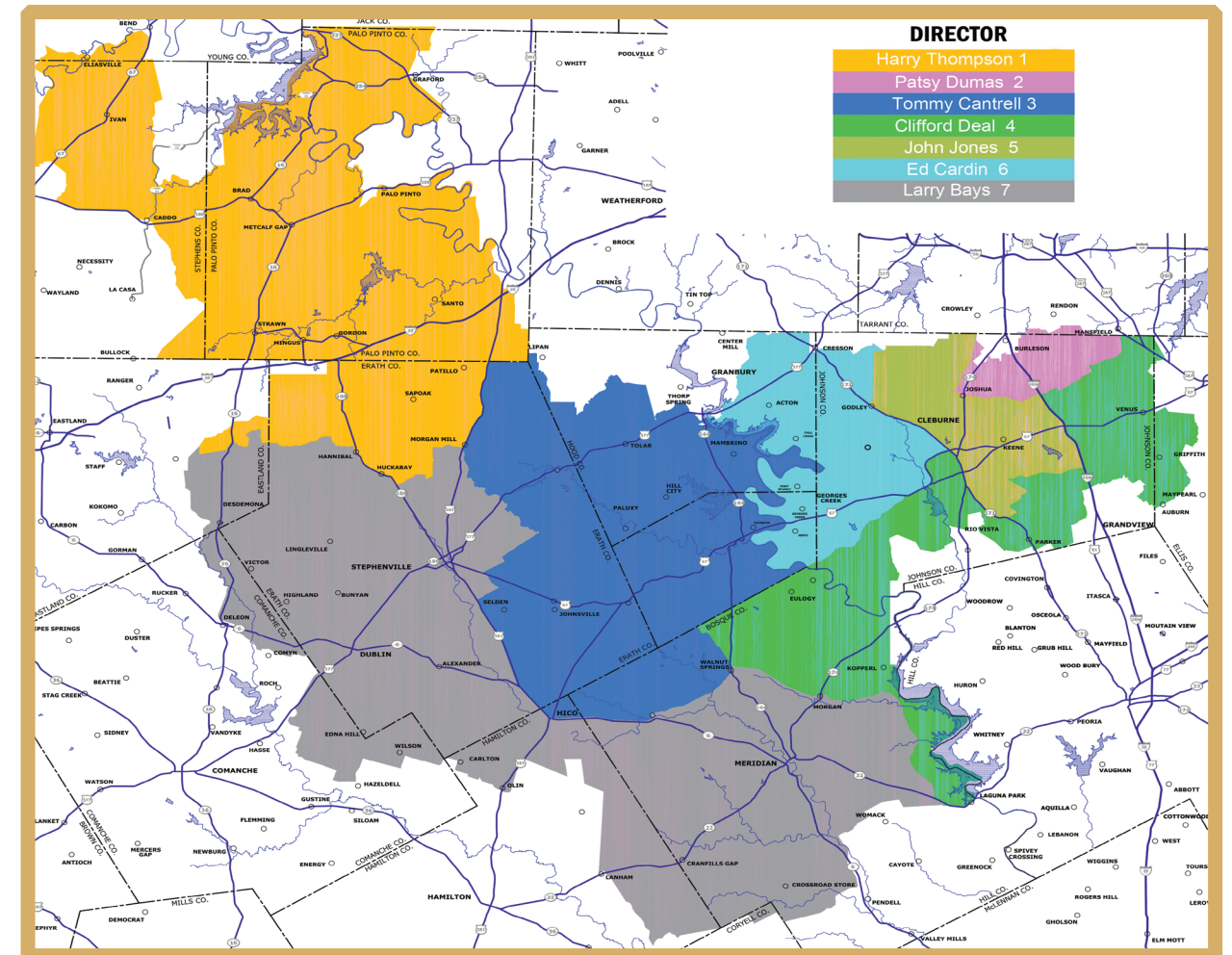
IN AUGUST, UNITED delayed the ribbon-cutting ceremony for the newly opened Meridian office. United members gave the co-op a score of 90 for the second quarter of 2020 in the ACSI. Line crew assisted Texas and Louisiana co-ops affected by Hurricane Laura. **ALSO IN AUGUST,** COVID-19 became the No. 3 leading cause of death in the U.S. behind heart disease and cancer. Overall U.S. COVID-19 cases exceeded 5.4 million, and deaths exceeded 1,000 a day.

IN SEPTEMBER, UNITED line crews continued assisting a Louisiana co-op affected by Hurricane Laura. **ALSO IN SEPTEMBER,** The Trump administration releases a vaccine distribution plan for 2021. Global deaths linked to COVID-19 passed 1 million. This surpassed deaths in 2020 from HIV, dysentery, malaria, the flu, cholera and the measles combined.

IN OCTOBER, UNITED offices reopened, and the co-op no longer suspended disconnects for non-payment. Line crews traveled back to Louisiana to assist after Hurricane Delta. The Annual Meeting was successfully held virtually for the first time. **ALSO IN OCTOBER,** COVID-19 topped 40 million cases globally, and President Trump contracted the virus.

IN NOVEMBER, UNITED members thankful for United's tenacity scored their cooperative with a 92 for the third quarter of 2020 in the ACSI. **ALSO IN NOVEMBER,** The U.S. reported unprecedented 100,000 cases in one day. The country also elected a new president.

IN DECEMBER, UNITED experienced a whopping 3.3 percent growth on the electric side for the entire year of 2020. The national average for annual growth at an electric cooperative is between 1 and 2 percent. **ALSO IN DECEMBER,** U.S. fell short of 20 million vaccination goal by year's end. Only 14 million doses were distributed.



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.



PATSY DUMAS
President
District 2



LARRY BAYS
Vice President
District 7



TOMMY CANTRELL
Secretary-Treasurer
District 3



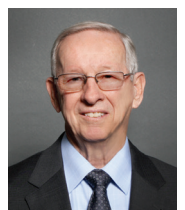
HARRY THOMPSON
District 1



CLIFFORD DEAL
District 4



JOHN JONES
District 5



ED CARDIN
District 6

April 16, 2021

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, 2020 and 2019, and the related statements of income and patronage capital, and cash flows for the years then ended and in our report dated April 16, 2021, 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.

Burton, Burke & Engstler LLP

Certified Public Accountants