

Annual Report 2013



**vision**

**insight**

**focus**

**purpose**

UNITED COOPERATIVE SERVICES

# Power Talk

## Know Your Purpose



**“The cooperative was not created to provide a job for me or anyone working at United. Instead, as employees our purpose is to work diligently in meeting the responsibilities that have been entrusted to us for meeting our membership’s expectations.”**

**RAY BEAVERS**  
CEO, UNITED COOPERATIVE SERVICES

**N**ow that I'm entering my golden years, I often reflect on why I think the way I do on some issues.

Sometimes, when trying to develop a proper strategy to deal with a particular situation, things come up that consume my every thought, distracting my efforts to find resolution. At other times, determining a plan of action to overcome an issue or conundrum is obvious.

In either scenario, what I often hear are the words my father uttered to me many years ago. The conversation that comes to mind occurred after a football game in which I felt fairly good about my play (keep in mind I wasn't that good). The timing coincided with several academic honors I received, so you could say Dad saw that I was getting a little full of myself.

As a farmer's son, I worked alongside my dad most of the time, which always provided ample opportunity for discussions about my life, some good and some less enjoyable.

Dad told me that God has sent me to this earth for a purpose and if I ever get to thinking that I was more important than my purpose, I would never meet God's expectations.

That discussion rang a bell. I realized that success is momentary, but by doing what God has planned for us to do is eternal. In other words, Dad was telling me to always stick to the purpose that God intended.

As I have gotten older, it is plain to see now that all of

us have a great responsibility to be true to our purpose and, really, the only obstruction that can interfere with meeting that responsibility is ourselves.

Dad was one wise man who loved me enough to let me know that in the scheme of things it is about what we do and how we do it to serve others—rather than ourselves—that is important in experiencing a successful life.

That very wisdom applies to us here at United, too. At United our purpose is clear. We are a cooperative that was created to meet the needs of a membership by providing safe, reliable and affordable electricity.

The cooperative was not created to provide a job for me or anyone working at United. Instead, as employees our purpose is to work diligently in meeting the responsibilities that have been entrusted to us for meeting our membership's expectations. To fulfill that purpose is sometimes very challenging and difficult, especially in such a changing environment that we deal with today; but still it must be done.

The great thing about what we do at this cooperative, however, is reflected in our service response when major issues arise, whether it be a storm that ravages our distribution system or a financial crisis in our economy. We each know our actions have to overcome those challenges in a way that represents our members' best interests. And in doing so, we feel a sense of accomplishment.

I'll add another component to our purpose; knowing that what we do and how we do things is transparent and acceptable to not only our members, but to the values

that United is bound by. Honesty, integrity and a sense of caring about others are what our membership expects and definitely what we, as employees and caretakers of your business, set as priorities.

Through all of our efforts, we know we have to lean on a higher power in making the right decisions and that, too, is a priority for us.

Not too long ago, a challenging issue cropped up, causing several sleepless nights and arduous days as we tried to determine the best course of action. It was also immensely obvious to my wife, Pat, that my worry over the issue was having a profound effect on me. She told me that she knew I prayed a lot for guidance from God, but she asked if I prayed to God for myself.

Being the prayer warrior she is, her point became clear to me. I found some solitude and asked God to keep me on the right track so I could fulfill His purpose for me and at the same time for God to wrap His arms around me for comfort. As is normally the case, my wife was right. The next morning I knew what we had to do and before we carried out that plan, all of the executive staff and I prayed for God's wisdom and guidance. Not only did our plan work, but it received immediate results.

Dad was right and so was my wife. My purpose is more than me and I can't meet that purpose without God's strength and direction. Even though I'm in my golden years, I'm still learning.

Hope to see each of you at this year's Annual Meeting. Come and be a part of it—after all, it could be your purpose.

# A Vision For

## OUR MISSION

To meet the electrical distribution needs of our diversified membership by providing safe, reliable and competitively priced electricity with excellent and progressive customer services, while also remaining committed to core cooperative principles and anticipating the challenges of the restructured electric market in Texas.

## FINANCIAL REVIEW

**SALES OF ELECTRICITY:** In 2013, United set a record sales figure of 2,137 gigawatt-hours (GWh) making it the third time in four years that United's sales have surpassed 2,000 GWh. Residential sales in 2013 increased 68 GWh, and commercial sales increased 102 GWh for an overall percentage increase of 8.7% over 2012 sales.

**FINANCIAL PERFORMANCE:** Margins for 2013 were \$15,086,529, with members receiving a patronage capital margin allocation equivalent to 9.08% of their 2013 billed electric service. United's Times Interest Earned Ratio (TIER) at the end of the year was 3.05 compared to a 2013 national average of 2.62 for electric distribution co-ops. TIER is an important ratio measuring United's ability to repay debt. United's lenders require that its TIER level not fall below 1.25 when averaging the two highest annual TIER results over the last three years. United reports an average TIER of 3.48 when using the two highest TIER results from the last three years.

Costs composed of distribution, consumer and administrative expenses amounted to \$289 per meter in 2013 compared to a national average of \$341 for electric distribution co-ops of like size. United's five-year average for this ratio from 2009 through 2013 is \$270 versus \$333 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 more than \$75 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 49.5%—the fourth-best equity ratio on a national level as compared to electric distribution co-ops of like size. This allowed United to continue its strong member dividends program, and in 2013 the cooperative returned \$4.5 million of patronage capital in the form of member dividends.

# The Future

## ENVISION SUCCESS



Establishing a vision for the future is essential in meeting the chal-

lenges—both known and unknown—United will encounter as it continues its legacy of providing reliable, affordable electric distribution service. To establish a clear vision, it's important—actually vital—to know where you stand today in order to get to where you want to be and to accomplish everything that must be accomplished. This requires endless and relentless monitoring of a multitude of specific efforts, including communication (internally and externally), technological know-how, agility to overcome changing dynamics within the electric utility industry, conservative financial practices, and, finally, maintaining passion to serve the membership reliably and affordably.

To create a clearer vision of the cooperative's success, United embraces its past accomplishments, learns from its tribulations, but always maintains a keen eye on the future to ensure its growing membership enjoys the distinguishing qualities and service attributes of a nonprofit, member-owned electric cooperative. This visionary effort is a successful combination of a three-pronged team: United's Board of Directors, United's 152 employees, and United's membership. Just as the founding members of the electric cooperative came together to create a better way of life when they brought electricity to rural Texas, United's membership and employees today continue to look forward to sustain one of the most successful business models in U.S. history.

**MEMBER SATISFACTION:** Through year-round satisfaction surveys, we hear United members' individual voices, but more importantly, we hear your collective voice. It's clear that our members appreciate the service they receive as United achieved a 91 out of 100 in the American Customer Satisfaction Index survey, which was tops in the industry. It's also clear that members appreciate the nonprofit business model of their electric cooperative, which means United rates are set simply to cover the cost of doing business, not to generate profits for distant stockholders.

**ENERGY INNOVATION:** As an innovative, member-owned electric co-op, United takes its obligation very seriously when it comes to educating its members about how to manage their energy use more effectively.

With the uncertainty of future generation capacity needs in Texas, and the effects insufficient generation capacity could have on energy prices, it is crucial that all consumers strive to waste less energy.

United has made it an organizational responsibility to inform members about the challenges that lie ahead with respect to rising energy costs due to increased demand, new costly regulation and an international business climate that has shown a growing appetite for materials, driving prices up for utilities and other business sectors worldwide.

Energy Innovation is United's flagship energy-saving platform under which the cooperative champions four components:

- **Conservation—changing behavior to reduce energy use**
- **Energy Efficiency—reducing energy use without changing behavior**
- **Demand Response—shifting energy use to different times**
- **Distributed Resources—generation on the distribution side rather than the supply side**

While the co-op promotes Energy Innovation across numerous communications vehicles—publications, social media, public speaking venues, bill inserts and its website—there is no other tool more noteworthy in United's Energy Innovation arsenal than its highly regarded free energy audit program (which includes both residential and commercial/industrial energy audits). Since 2007, nearly 8,000 members have invited United's energy experts into their homes and businesses either to investigate the potential for energy-saving measures, or to validate whether energy efficiency upgrades already made are sufficient.

**INVESTING IN THE MEMBERSHIP:** United has spearheaded one of the most successful electric cooperative energy efficiency rebate programs in the country. We know that our members' investments in Energy Innovation measures today will pay rich dividends for many years into the future. If United is going to encourage its membership to waste less energy, it only makes sense that it provides support, both educationally, and financially. The most glaring example of the cooperative's rebate program success is the utilization by members of the HVAC Tune-Up rebate in which members are reimbursed up to \$100 per unit per year after a licensed technician performs a list of requirements that help those units operate efficiently. Since 2012, more than 4,000 HVAC tune-up rebates have been awarded to the membership.

**ENERGY INNOVATION WORKSHOPS:** Working with local vendors, United used after-hours Energy Innovation workshops to provide members unable to meet during the normal work day hours a means of obtaining energy-saving information. The cooperative and local vendors used these events to share expertise on a range of topics, including: HVAC issues, insulation, solar screens and distributed generation.

# FOCUS

# Insight



**ACCREDITED MEMBER PROGRAM (AMP):** An informed member is going to be way ahead of the curve when challenges or new technologies emerge. That's why the cooperative has introduced its Accredited Member Program (AMP). The program consists of five videos that range from three to 10 minutes. Upon completion of the video education series (accessed at [www.united-cs.com](http://www.united-cs.com)), which includes three-question quizzes at the end of each, United members will be Accredited Member Patrons (AMPs). AMPs are eligible to receive up to \$25 in energy-saving LED light bulbs. The 5-video AMP series focuses on these topics:

- **Rates 101—What makes up my bill?**
- **Resource Adequacy/Reliability—Will we have the electricity to meet the growing demand?**
- **The Electric Cooperative Story**
- **Energy Savings—How do I keep my precious energy dollars?**
- **United's Conservative Practices—How does United control costs as my nonprofit electric cooperative?**

**GREEN ENERGY CLUB:** In recent years, a number of members have asked United to help them fulfill a desire to be positive stewards of the environment by

providing a renewable energy option. Since United doesn't generate electricity, the cooperative had to seek an option that would meet the membership's wishes without it being a financial hardship. In launching its Green Energy Club, United was able to provide interested members a pay-as-you-go program, where members could purchase, via the cooperative, Renewable Energy Credits (REC) on a monthly basis. The Electric Reliability Council of Texas facilitates the Texas REC market and a REC is created when an authorized renewable generator generates 1 MWh (1,000 kWh) of energy. And, just like the energy that United members pay for every month, the REC charge is a direct pass-through fee with no mark-up.

**OPERATIONAL EFFICIENCY:** United is considered one of the most operationally efficient electric cooperatives in the nation and in the state of Texas. United employees' productivity levels far exceed the norm for electric cooperatives, which plays a major role in holding the line on costs. As stewards of the members' electric cooperative, we at United have a longstanding commitment of managing the cooperative with a conservative business mission. Unlike our for-profit counterparts in the electric utility industry, we don't have to focus on generating profits for shareholders. Serving areas adjacent to the DFW metroplex has led to significant growth for United. While this growth helps offset the need to raise rates as frequently as other utilities, it also requires United to address its most important objective—providing reliable, affordable electric distribution service. United's last distribution rate increase was in 2003.

**PRODUCTIVE:** United employees accomplish more than the average co-op employee because they work more efficiently and understand their objectives in serv-

# Purpose

ing the membership reliably. United serves more than 500 consumers per employee, far exceeding the co-op national average of 300 consumers per employee. That number of consumers served per employee grows each year for United.

And while the electric utility industry is known to be capital intensive due to the significant investment required to reliably provide electricity, United's operation and maintenance cost is \$289 per meter, while similarly sized co-ops have a cost of \$341 per meter. This is accomplished because of United's conservative business practices and the fact that the cooperative's employees are more productive and efficient than their industry counterparts.

**A RETURN ON YOUR INVESTMENT:** When members pay their electric bill each month, they're not only paying for reliable service, but investing in the company in which they own. As a result of that equity stake in the business, United members share in cooperative margins. After paying for all operating costs for the fiscal year, members may receive a part of the money

left over, which comes in the form of a member dividend check or credit on their bill if less than \$20. For more than three decades, United's Board of Directors has elected to allocate each Fall millions of dollars in member dividends as a return on member equity. This member equity represents a disproportionate share of co-op equity in excess of operating margins for the fiscal year. Member dividends are also called capital credits and represent another example of why it pays to be a member of a co-op and of United Cooperative Services. In 2013, United returned \$4.5 million to the membership in member dividends. Since 2000, United has distributed approximately \$50 million in member dividends. Sustaining the ability to distribute a member dividend demonstrates our conservative business focus and how our electric cooperative is united with and committed to its members.

**SAFETY:** United employees on May 12, 2014, reached an historic milestone—1 million work hours without a lost-time accident. While this achievement is immensely significant, it is more noteworthy when considering the

# Looking Out



business the cooperative is in—delivering electric power to the cooperative's nearly 80,000 meters and 55,000 members. Keeping United's infrastructure operating at an optimal reliability level often requires employees to encounter some of the harshest conditions when restoring power—as evidenced by their around-the-clock restoration efforts during thunderstorms—or simply performing day-to-day maintenance. Some of the many challenges faced by employees include tornadoes, ice storms, wild fires, raging winds, and lightning. Despite these hurdles, United employees perform their jobs professionally and, more importantly, safely.

The byproducts of United's safety culture can be seen in all areas of the co-op's business. When people are injured on the job, it costs an organization a tremendous amount—financially, operationally and emotionally. While the 1 million hours without a lost-time accident serves as a symbol of achievement, the approach to safety taken by United employees is the reason why it occurred. That emphasis on safety will continue to serve as the hallmark of United Cooperative Services.

**RELIABILITY:** In order to maintain the high level of reliability its membership expects, United performs a systemwide facilities audit, which involves evaluating the cooperative's distribution poles and cross-arms that support more than 10,000 miles of energized line as well as the underground infrastructure that has become more prevalent in recent years. This effort allows United to be proactive in replacing and repairing infrastructure before they fail and cause service interruptions. The assessment is part of an ongoing 10-year cycle and goes a long way toward ensuring that the reliable service our members have come to expect from their electric cooperative will continue well into the future.

**POLITICALLY ACTIVE:** United's board of directors

and all of the cooperative's employees take an active role in state and national political arenas through their voluntary participation in Rural Friends/ACRE, a political action committee (PAC) that supports legislators who protect the interests of electric co-op members. Open to all people with an interest in preserving their local electric co-ops and promoting the progress and growth of co-ops and the communities they serve, United employees and members invest their own money in the PAC to help ensure the cooperative way of doing business continues to thrive for future generations. This year, United employees and members pledged \$8,425 to Rural Friends/ACRE. Contributions go to candidates for state and federal office who have demonstrated support for electric cooperatives. Support is based on their voting records on legislation affecting electric cooperatives, their statements on cooperative issues and their historical stance on those issues.

**INTERNATIONAL COMMUNITY:** An epic national electric cooperative movement dedicated nearly 50 years ago to help developing countries extend rural electrification to foreign countrysides was aided this year when two United employees volunteered to put their metering experience to work for SOCOEPA Cooperative in Paillaco, Chile, as part of a National Rural Electric Cooperative International Foundation mission to assist the Chilean cooperative with implementation and training for its TS2 Advanced Metering Infrastructure (AMI) system. This technology offers the potential for improving commercial operations, enhancing the energy efficiency of distribution grids, increasing the penetration of renewable generation, and enabling consumer options. These technologies have been developed and put in place in the developed grids of the United States and Europe, but they offer considerable promise for use in developing countries as well.

# For Members!

# Balance Sheets

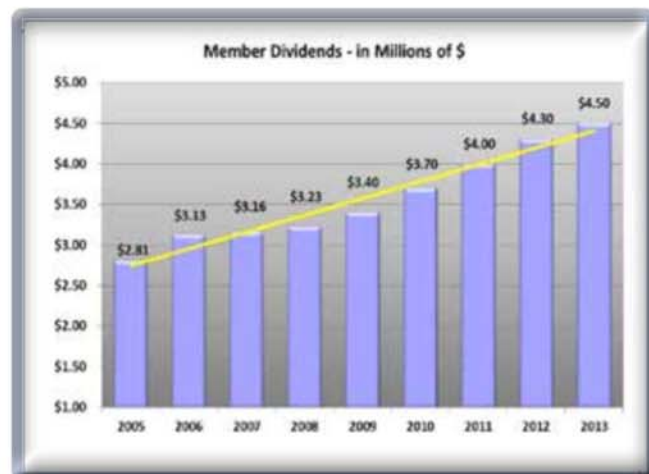
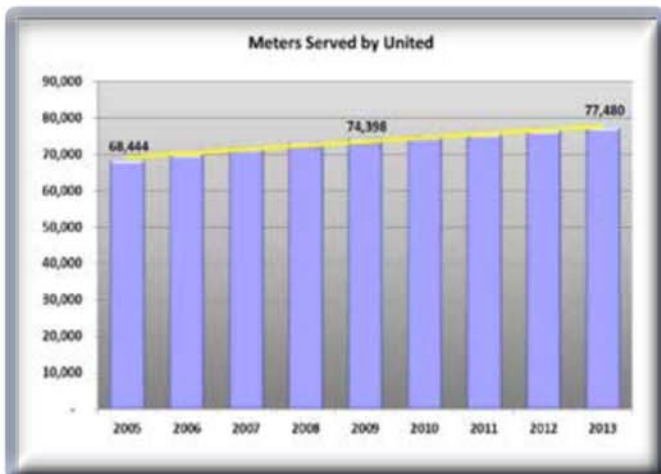
As of December 31, 2013 and 2012

	As of December 31,	
	2013	2012
<b>ASSETS</b>		
<b>UTILITY PLANT</b>		
Electric plant in service at cost	\$ 308,082,022	\$ 297,355,656
Construction work in progress	3,783,725	4,191,343
<b>Total utility plant</b>	<b>\$ 311,865,747</b>	<b>\$ 301,546,999</b>
Less accumulated provision for depreciation	91,953,241	84,502,246
<b>Net utility plant</b>	<b>\$ 219,912,506</b>	<b>\$ 217,044,753</b>
<b>OTHER PROPERTY AND INVESTMENTS AT COST</b>		
Investments in associated organizations	\$ 71,391,151	\$ 63,251,198
<b>Total property and investments</b>	<b>\$ 71,391,151</b>	<b>\$ 63,251,198</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 58,200,897	\$ 49,866,258
Accounts receivable-less allowance for doubtful accounts:		
2013 - \$2,198,361 and 2012 - \$2,182,844	19,283,070	15,148,630
Material and supplies (at average cost)	1,378,047	1,498,812
Other current and accrued assets	515,377	516,055
<b>Total current assets</b>	<b>\$ 79,377,391</b>	<b>\$ 67,029,755</b>
<b>DEFERRED DEBITS</b>	<b>\$ 6,795,536</b>	<b>\$ 2,035,026</b>
<b>TOTAL ASSETS</b>	<b>\$ 377,476,584</b>	<b>\$ 349,360,732</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>EQUITIES AND MARGINS</b>		
Memberships	\$ 199,615	\$ 207,695
Patronage capital	186,879,862	176,294,917
Accumulated other comprehensive income	(1,658,191)	(206,408)
Other equities	1,566,403	1,469,024
<b>Total equities and margins</b>	<b>\$ 186,987,689</b>	<b>\$ 177,765,228</b>
<b>LONG-TERM DEBT</b>		
RUS mortgage notes	\$ 5,409,060	\$ 5,626,991
CFC mortgage notes	15,190,570	11,425,404
FFB mortgage notes	123,480,029	113,945,279
Economic development loan	335,126	335,126
<b>Total long-term debt</b>	<b>\$ 144,414,785</b>	<b>\$ 131,332,800</b>
<b>ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS</b>	<b>\$ 6,365,358</b>	<b>\$ 5,308,832</b>
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 5,162,000	\$ 5,479,000
Current portion of postretirement benefits	500,000	500,000
Accounts payable - purchased power	13,174,786	9,508,263
Accounts payable - other	813,690	940,408
Consumer deposits	3,307,596	3,360,232
Accrued taxes	2,513,792	2,221,921
Accrued interest	343,803	370,682
Other current and accrued liabilities	8,429,951	6,727,856
<b>Total current liabilities</b>	<b>\$ 34,245,618</b>	<b>\$ 29,108,362</b>
<b>DEFERRED CREDITS</b>	<b>\$ 5,463,134</b>	<b>\$ 5,845,510</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 377,476,584</b>	<b>\$ 349,360,732</b>

# ● Statements of Revenue and Patronage Capital

For the Years Ended December 31, 2013 and 2012

	For the Years Ended December 31,	
	2013	2012
<b>NET SALES</b>	\$ 168,343,665	\$ 158,004,027
<b>OPERATING EXPENSES</b>		
Purchased power	\$ 123,763,091	\$ 113,586,154
Distribution expense - operations	5,715,089	5,160,871
Distribution expense - maintenance	7,046,102	6,799,189
Consumer accounts	3,867,711	3,774,812
Customer service and information	1,840,346	1,837,556
Administrative and general	3,904,361	3,926,257
Depreciation and amortization	10,365,415	9,557,255
Taxes	1,084,365	1,020,475
Interest on long-term debt	7,343,123	7,122,289
Other interest and deductions	197,209	193,022
<b>Total operating expenses</b>	\$ 165,126,812	\$ 152,977,880
<b>Net operating margins</b>	\$ 3,216,853	\$ 5,026,147
<b>NONOPERATING MARGINS</b>		
Interest income	\$ 2,995,714	\$ 3,343,632
Other	293,010	90,318
<b>Total nonoperating margins</b>	\$ 3,288,724	\$ 3,433,950
<b>Generation and transmission cooperative and other capital credits</b>	\$ 8,580,952	\$ 6,463,220
<b>NET MARGINS FOR YEAR</b>	\$ 15,086,529	\$ 14,923,317
Patronage capital - beginning of year	176,294,917	165,672,168
Transfers from (to) other equities	(1,584)	(568)
Retirement of capital credits	(4,500,000)	(4,300,000)
<b>PATRONAGE CAPITAL - END OF YEAR</b>	\$ 186,879,862	\$ 176,294,917



## Independent Auditor's Report

Board of Directors  
United Electric Cooperative Services, Inc.  
Cleburne, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheets of United Electric Cooperative Services as of December 31, 2013 and 2012, and the related statements of revenue and patronage capital, comprehensive income and cash flows for the years then ended and in our report dated April 14, 2014,

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**  
April 14, 2014  
Tulsa, Oklahoma



**CLIFFORD DEAL**  
President  
District 4



**LARRY BAYS**  
Vice President  
District 7



**PATSY DUMAS**  
Sec/Treas.  
District 2



**JOHN JONES**  
District 5



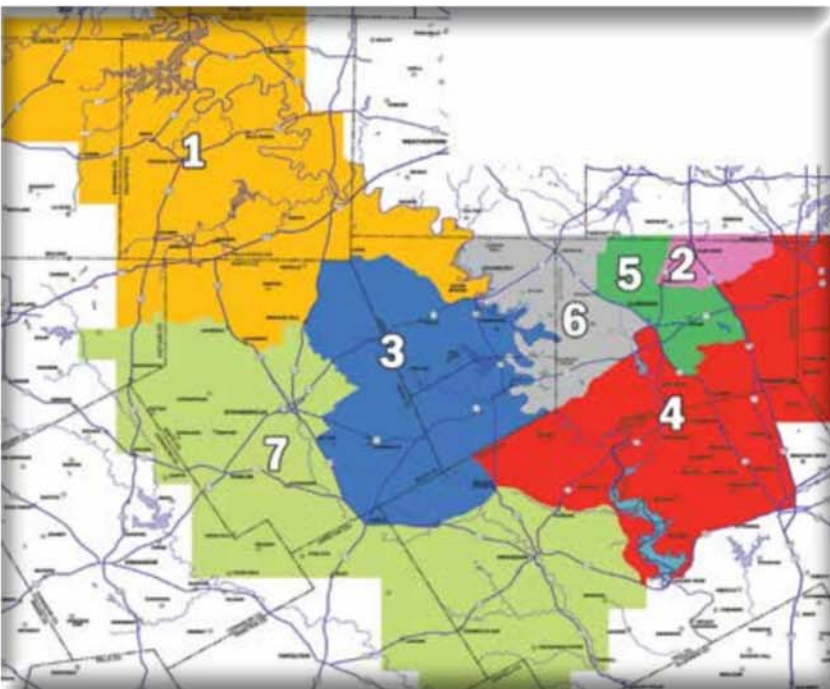
**TOMMY CANTRELL**  
District 3



**ED CARDIN**  
District 6



**HARRY THOMPSON**  
District 1



The United Cooperative Services Board of Directors consists of United members and business professionals elected from seven service territory districts by the United membership to actively participate in setting cooperative policies and provide oversight of all cooperative business.

*This institution is an equal opportunity provider and employer.*