

2015

Annual Report
UNITED COOPERATIVE SERVICES

Eternal Flame of Optimism

The one word that kept coming back to me as I weighed what I would convey here to United's awesome members was this: "Optimism."

Yes, it takes a solid past to make a better future. However, the future is filled with unlimited possibilities. So I would like to share some past accomplishments and then take a glimpse at our future. In 1999, two strong cooperatives began to explore how they could work together and improve service and provide lower costs to the members of each cooperative.

The courage and vision of the two boards of directors made that a possibility and the two memberships voted to make it a reality. The result—now almost 17 years later—is a financially strong cooperative with one of the lowest distribution rates in the country and a membership satisfaction rating that is consistently the highest among cooperatives in the nation.

United has paid millions of dollars in member dividends (capital credits) and this year it will put \$5.1 million in our members' pockets because we are a nonprofit cooperative. We have taken advantage of the lowest interest rates in decades to add capital while still using enough of United's cash to increase our equity to higher levels. We have built a cash reserve to handle emergencies like the past wildfires, tornados and floods.

Prior to the consolidation, both cooperatives together had a combined 167 employees and about 57,000 meters. Today, we have 152 employees and almost 83,000 meters. We have developed greater productivity levels to meet our members' high expectations, and those achievements are paying dividends today due to the efforts of some of the greatest employees in the world.

Since our consolidation, there's no arguing our most important accomplishment:

we have had no major life-threatening injuries. Even with our guys working through storms and emergency situations to get the lights back on, they have taken the time to do their jobs safely. Simply put, they are amazing.

We have obtained and are utilizing some of the most current technologies to bring faster and better member service, measures which make me so proud of how terrific our folks are in answering the phones and responding to member inquiries. We have used new technologies in our engineering services that allow us to come to your location and stake a line, and give you an almost immediate idea of what costs may be involved. The guys who do our staking and engineering make it work not just for the cooperative, but for each individual member.

United was one of the first cooperatives to introduce Energy Innovation to its membership. We built technology learning labs at each of our offices so our members could get real-time data on wind and solar applications. We offer free energy evaluations at our members' homes and businesses to show how less energy could be wasted while saving hundreds, and even thousands, of dollars. The energy experts from United are trained and have a passion to help our membership by being our members' most trusted energy advisor.

During the past few years, we have worked diligently to prepare for a high number of retirements expected in the coming years. Unlike other companies, United hasn't waited and then scrambled to fill positions when long-time employees were lost to retirement; we accelerated training programs well in advance to be proactive and allow for seamless transitions.

Personally, I have had the distinct pleasure of working with your next CEO for the last 17 years, but even more closely over the last year since the board named him the CEO designate. In saying that, I

truly believe the future of your cooperative will be as bright as ever with his new leadership. Cameron Smallwood is an amazing man who brings unbelievable credentials and integrity to lead the cooperative into this new era. Cameron has an incredible staff to help him and, of course, the most loyal and trusted employees.

I believe we will continue to see the electric industry change; we will see more technological advances and opportunities that United will seize to hold the reins on future rising costs and still maintain great service. And as those changes occur within our industry, United will continue to be your trusted energy advisor.

The board and employees have been, and will always be, dedicated to the purpose of service and will never back off of that focus.

I believe the eternal flame of optimism exists; it exists because God has promised that through Him all things are possible. He has proved that over and over in my life. As I finish my last annual CEO's report here, I thank everyone from United, including the members, for the past 17 years. I am a very blessed man to have had God lead me here and that blessing will be forever in my heart.

To me, we all should feel that eternal flame of optimism that no matter what happens through the death of Our Lord and Savior, Jesus Christ, that flame will always burn so brightly.

My prayers will always be with United and for all that this cooperative does.

God bless you and keep you!

A portrait of Ray Beavers, CEO of United Cooperative Services, standing in front of a large wind turbine against a clear blue sky. He is wearing a white dress shirt and a dark blue patterned tie.

RAY BEAVERS
CEO, UNITED COOPERATIVE SERVICES

PowerTalk

FINANCIAL REVIEW

Sales of Electricity

In 2015, United delivered 2,161 gigawatt hours to the membership, making it the third year in a row and fifth time in six years that United's sales have surpassed 2,000 gigawatt hours. 2015 residential sales decreased 15 gigawatt hours and commercial sales decreased 14 gigawatt hours for a slight overall percentage decrease of 1.4% over 2014's record sales.

Financial Performance

Margins for 2015 were \$10,360,688 with members receiving a patronage capital margin allocation equivalent to 6.05% of their 2015 billed electric service.* United's Times Interest Earned Ratio (TIER) at the end of

the year was 2.34 compared to a 2015 average of 2.30 for electric distribution cooperatives 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 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.

Costs composed of distribution, consumer, and administrative expenses amounted to \$318 per meter in 2015 compared to a national average of \$376 for electric distribution cooperatives of like size. United's five-year average for this ratio from 2011 through 2015 is \$292 versus \$352 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 \$80 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 51.0% - the fifth-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 2015 the cooperative returned \$4.9 million of patronage capital in the form of member dividends.

*** The margins include a partial year of a rate adjustment that will be spread over a two-year period (the first electric distribution rate adjustment since 2003).**

OUR MISSION

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



YOUR COOPERATIVE FORGING AHEAD

For 78 years, United Cooperative Services has been at the forefront of the electric utility industry, having seen complex challenges long before many utilities dared to acknowledge them. Because the industry is in constant transition as new technologies overtake less efficient business practices, communications channels between utilities and consumers continue to multiply and value-added service opportunities become readily available, United remains agile to adapt and provide the best possible service while balancing affordability.

This electric cooperative has dedicated tremendous resources, time and effort into ensuring that the board of directors and all of the employees are well-equipped to tackle the challenges that will affect each of us more and more. United employees are the most valuable assets on the co-op's balance sheet. Simply put, they are prepared to make the complex less so. Not only is this important to maintain the well-being of the members' electric cooperative, it's something that every director and employee believes is the right thing to do for the people we serve.

Through the cooperative's efforts to educate and inform its members about the many issues dotting the nation's and state's energy landscape, United members should feel like they're ahead of the pack as together—co-op and members—we forge ahead and share in the success of this electric cooperative.

ANNUAL HIGHLIGHTS

ENERGY INNOVATION

Despite sweeping changes that have been fueled by increasing population growth, technology and rising construction and energy costs, today's electric industry is surprisingly a very difficult sector to innovate in, largely because the industry has for so long clung to an antiquated philosophy that increasing electric demand would never overwhelm generation resources. In reality, the times have made the goods promised in the old business model a bit more difficult to deliver.

As one answer to today's industry concerns, thousands of United members have for years been recruits in this cooperative's strategic objective to help consumers better manage energy consumption—a cooperative vision and an initiative formed under the scope of a program called Energy Innovation. Energy Innovation isn't a theme, hope or prayer. Rather, it's the instrument that, beyond electrons, connects the United membership and cooperative together into a community of energy innovators. Energy Innovation is not only a practical solution for shedding costly electricity demand that is burdening the electric grid today, but it's relevance is further magnified in the reality that a whole new generation of consumers have become practitioners of energy efficiency.

The four tenets of Energy Innovation include:

- **Energy 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**

As United's members led the charge into the realm of Energy Innovation nearly a decade ago, the joint effort of the utility industry and consumers has matured into a stable of programs and resources that provides the blueprint for other industry organizations and consumers to duplicate.

ENERGY INNOVATIVE PARTNERSHIP

Unlike for-profit utilities, United encourages members to use less of what it sells. That's because United is not profit-driven. Instead, as a member-owned, rate-sensitive provider, the focus is to deliver safe, reliable and affordable electricity. This is evident in the financial support United's rebate program offers members who implement Energy Innovation measures in their homes.

Offering something for just about anyone seeking to become more energy efficient, United invests hundreds of thousands of dollars back into membership service value through the rebate program each year. The most utilized rebate continues to be the HVAC Tune-up rebate, providing up to \$100 per unit per year for members' efforts in making sure their systems are running at optimal levels. Whether installing a new efficient heat pump or bringing inadequate insulation levels up to a recommended R-Value, United continues to look out for its members when it comes to supporting energy-saving measures.

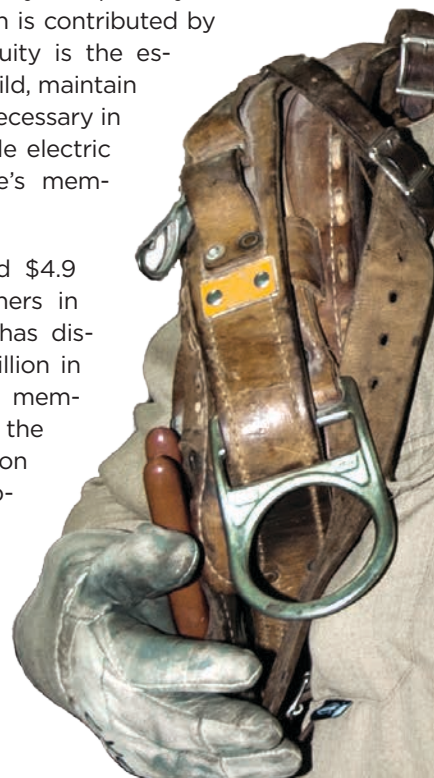
ANSWERING THE CALL

It's a rare week when a member doesn't contact United bewildered about where to start looking for the energy inefficiencies in the home. Since launching its energy audit program in 2007, United has conducted nearly 9,000 free home energy audits, providing guidance and energy efficient products (CFLs, water heater jackets, low-flow shower heads, etc.) to help members get started immediately on managing energy use more wisely. Every member is entitled to a free audit simply by being part of the United Cooperative Services community.

RETURN ON INVESTMENT

One of the most telling advantages of the cooperative business model and one that is celebrated every year by United members is the annual distribution of member dividends. Electric cooperatives presently have only one primary source of equity capital, that which is contributed by the members. Member equity is the essential tool for United to build, maintain and upgrade the facilities necessary in providing reliable, affordable electric service to the cooperative's membership.

The cooperative distributed \$4.9 million to its member-owners in 2015. Since 2000, United has distributed more than \$60 million in member dividends. These member dividends represent the member-owners' return on equity in United. All cooperative members have an equity stake in the business and, thus, share in cooperative margins. After paying for all operating costs for the fis-



cal year, members may receive a part of the money left over, which comes in the form of member dividends.

FROM THOSE WE SERVE

United members each quarter let their cooperative know if they're satisfied with the service they receive from their cooperative. Using an independent, third-party assessor, United members have awarded their co-op the highest scores in the nation in the American Customer Satisfaction Index (ACSI). As the gold standard in consumer satisfaction surveys, the ACSI is administered by the business school at the University of Michigan and tracks consumer satisfaction across 43 industries, more than 300 corporations and 10 economic sectors, as well as various services of federal and local government agencies.

With a 2015 average ACSI score of 89.25 on a 100-point scale, United was more than 13 points higher than the larger, for-profit industry average and nine points better than the combined score for electric cooperatives nationwide.

It's extremely rewarding to see United's annual member satisfaction scores compare so favorably to the rest of the industry and its equally important that the mem-

bers of this cooperative understand that the employees know what their mission is—to serve our members reliably, safely and affordably day in and day out.

MEETING MEMBER NEEDS TODAY—AND FOR FUTURE GENERATIONS

Serving areas adjacent to the DFW metroplex has led to significant growth for United over the past 15 years. 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 service.

A 2015 cost of service study, which was conducted by an independent rate consulting firm, determined a rate adjustment was needed to more accurately reflect the cooperative's true delivery costs today. As a result, United's first rate adjustment in 13 years was adopted with an increase of 4.17 percent over adjusted test year (2013) revenues. The rate adjustment was to be applied in a two-step implementation—split between October 2015 and October 2016 billing cycles.

THE SEARCH FOR SAVINGS BEYOND ENERGY

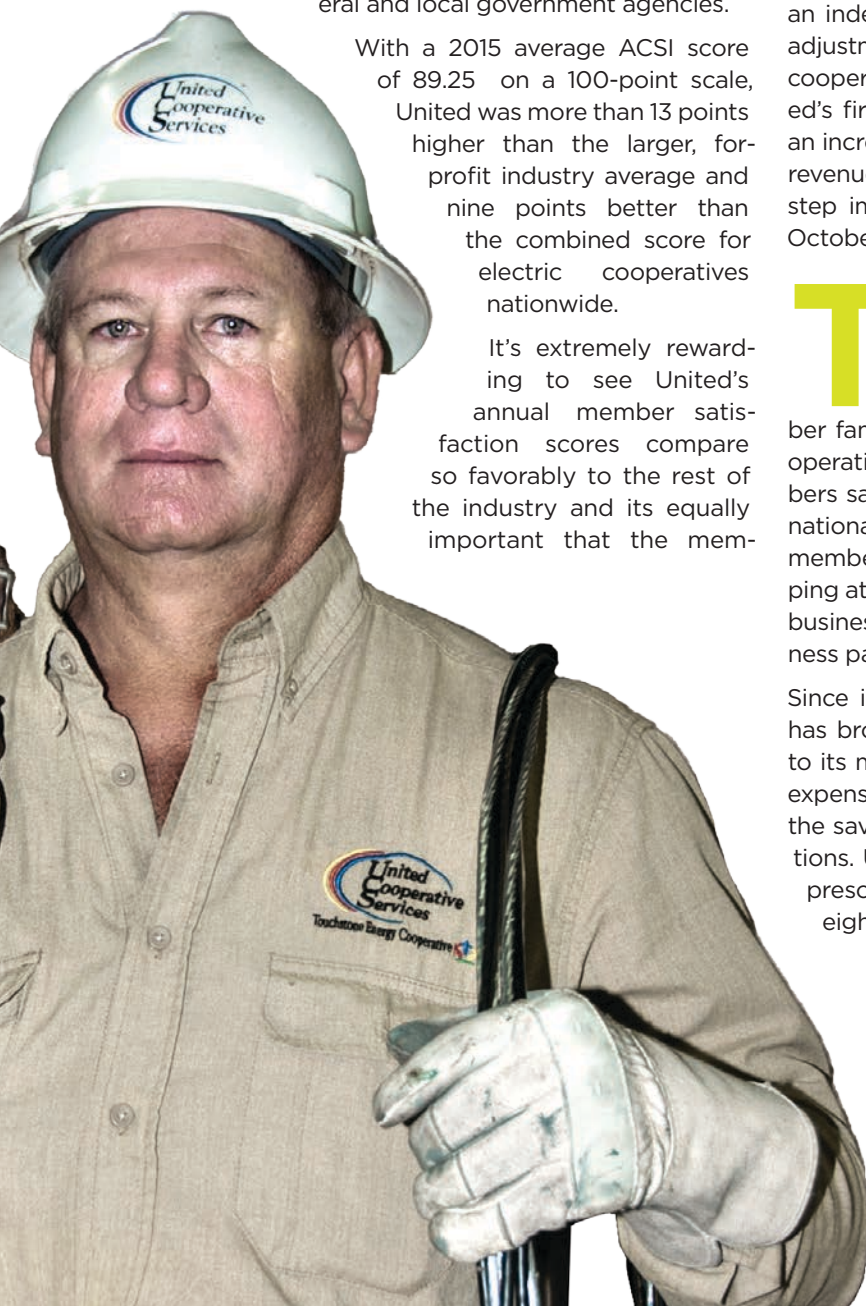
Introduced in 2007 and relaunched in 2014, United's Co-op Connections Card helps member families get more than just electricity from their cooperative membership. The discounts help United members save a little money here and there both locally and nationally. The member discount card puts savings at members' fingertips. United members save when shopping at local network pharmacies and other participating businesses, and when shopping online with national business partners who want to give co-op members a break.

Since introducing the Co-op Connections Card, United has brought consistent value and savings opportunities to its membership. More telling, especially as healthcare expenses continue an incessant surge upward, has been the savings the card has provided members on prescriptions. United members have saved nearly \$800,000 on prescriptions since introducing this member benefit eight years ago.

POLITICALLY ACTIVE

United—its 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

continued next page



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. In 2015, 257 United employees, directors, spouses and friends pledged \$8,925 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.

SAFETY

The ultimate trademark of United's success is found in the cooperative's safety culture designed, implemented and adhered to by the employees to meet the moral imperative that every employee returns safely to their families at the end of every work day. Further, that safety emphasis doesn't stop when the business of the day has been put to bed. On numerous occasions, United representatives weave their safety initiatives and education efforts into the local communities. It's not uncommon for United to lead safety training for area first responders who might encounter unsafe electricity situations in their daily regimen of helping the public. A familiar sight in local schools is United's arcing demonstration trailer surrounded by wide-eyed youth learning that electricity is something to be highly respected.

The safety culture inherent in the cooperative's day-to-day business operations continues to thrive as employees recently surpassed 1.5 million hours without a lost-time accident. Ensuring United's immense distribution system operates smoothly and reliably requires employees to regularly perform their jobs in some the harshest conditions imaginable when restoring power, or when simply performing routine maintenance.

United welcomes any opportunity to demonstrate its expertise in evaluating, resourcing and working to meet the needs of its membership. Aggressive and precise plans are constantly implemented to improve and expand United's already robust infrastructure, which means adding or upgrading facilities to ensure reliable electric delivery to both the largest industrial loads and the single residential member. This is all accomplished

with an overriding objective of balancing reliability and affordability. Having and designing a more than sufficient, technologically advanced infrastructure ensures United's membership is the beneficiary of reliable and top-quality service.

Beyond the equipment is a dedicated group of employees—prepared to address any challenge that comes their way. In recent years this has included tornadoes and destructive winds that have thrown trees, buildings and other debris into United's infrastructure. And when reconstruction efforts might have seemed hopeless by some, United's crews worked around the clock, some away from their families for days on end, for one purpose—to restore electric service as quickly as safely possible.

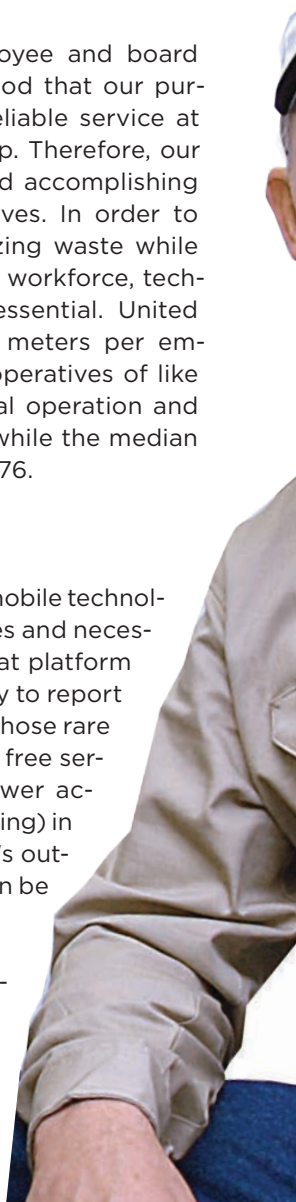
OPERATIONAL EFFICIENCY

Within the United employee and board community, it's understood that our purpose is to provide the best, most reliable service at an affordable cost to the membership. Therefore, our employees are tasked with doing and accomplishing more than those at other cooperatives. In order to attain operational efficiency, minimizing waste while leveraging the talents and skills of its workforce, technology and business processes is essential. United employees work hard to serve 525 meters per employee while the median for U.S. cooperatives of like size is 409. In addition, United's total operation and maintenance cost is \$318 per meter while the median for U.S. cooperatives of like size is \$376.

LEVERAGING TECHNOLOGY

Today's consumers rely on mobile technology for myriad conveniences and necessities, and United further leveraged that platform in 2015 to provide members a new way to report outages as efficiently as possible. On those rare occasions when the lights go out, this free service allows members with five or fewer accounts to report their outages (via texting) in a manner that goes directly to United's outage management system so a crew can be dispatched quickly and safely.

Another way United has provided convenient new service options through mobile phone technology was the cooperative's launch this year of the



MyAccount Mobile app, which represents an integration between United's online account services, but with operational features tapered to fit smart phone screens. The MyAccount Mobile service provides United members with easy access to regular MyAccount features such as current billing and bill payment options for both regular and prePower accounts.

This summer, United demonstrated its willingness to adopt innovative methods to help members manage energy use and save money by being the first electric cooperative in the nation to partner with Nest Labs to launch a demand response program. Through United Rush Hour Rewards, co-op members with Nest Learning Thermostats can help United optimize wholesale power resources, earn financial incentives and save money on their electric bills.

We were interested in forming a relationship with Nest Labs because the company was the reigning leader in the smart thermostat market—especially from a communications perspective. Our internal testing of the Nest platform convinced us the technology was sound and reliable,

and that it could be utilized in a demand response program offered through our Energy Innovation program.

The program allows participating members with Nest Learning Thermostats to voluntarily lower or allow the automatic lowering of personal electricity use during periods of peak demand during hot summer months, helping the cooperative reduce overall wholesale power costs. More than 100 of the devices were registered to participate in the inaugural year of the program.

United members who participate in the Rush Hour Rewards program become eligible for financial incentives. The co-op offers a \$50 rebate to members who upgrade from non-wi-fi capable thermostats to wi-fi enabled thermostats, and who agree to have an energy audit performed. Cooperative members can earn up to \$110 in bill credits during the first year of participation.

C COMMUNITY EDUCATION PROGRAMS, INITIATIVES

United Cooperative Services adheres to the seven Rochdale cooperative principles, two of which focus on helping local community youths understand the importance of the cooperative business model. Yet, the cooperative's commitment in this area goes beyond principles—we consider it a moral obligation as a member-owned electric cooperative to demonstrate our commitment to the membership. In 2015, the cooperative again showed that it looks out for its young members' best interests through two valuable vehicles. United awarded more than \$40,000 in Energy Scholarship awards to local students who were either members or dependents of members of the cooperative. In the last 20-plus years, United has awarded more than \$1 million in Energy Scholarships to area students.

In addition, United sent two deserving young people to represent the cooperative in the nation's capital as part of the Electric Cooperative Youth Tour. The weeklong event is designed to help high school students learn how our democratic model works and to see what our flag stands for. The tour includes visits to the Washington Monument, the White House, the U.S. House and Senate Chambers, the Supreme Court, Arlington National Cemetery and a host of other national sites.



● Balance Sheets

As of December 31, 2015 and 2014

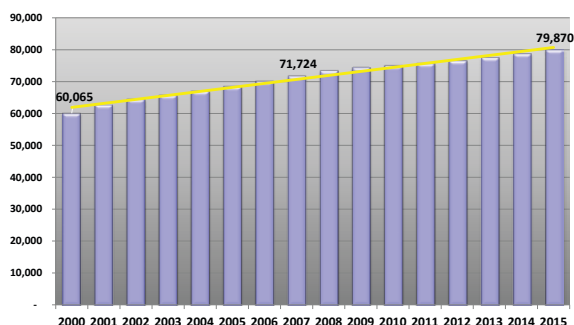
	As of December 31,	
	2015	2014
ASSETS		
UTILITY PLANT		
Electric plant in service at cost	\$ 340,565,740	\$ 320,820,213
Construction work in progress	1,299,823	6,435,305
Total utility plant	\$ 341,865,563	\$ 327,255,518
Less accumulated provision for depreciation	106,287,606	99,006,557
Net utility plant	\$ 235,577,957	\$ 228,248,961
OTHER PROPERTY AND INVESTMENTS AT COST		
Investments in associated organizations	\$ 89,552,046	\$ 82,366,629
Total property and investments	\$ 89,552,046	\$ 82,366,629
CURRENT ASSETS		
Cash and cash equivalents	\$ 51,436,382	\$ 53,432,630
Accounts receivable-less allowance for doubtful accounts:		
2015 - \$2,187,263 and 2014 - \$2,232,535	13,700,761	17,754,103
Material and supplies (at average cost)	1,501,596	1,361,506
Other current and accrued assets	626,264	539,437
Total current assets	\$ 67,265,003	\$ 73,087,676
DEFERRED DEBITS	\$ 5,456,556	\$ 6,126,045
TOTAL ASSETS	\$ 397,851,562	\$ 389,829,311
LIABILITIES AND MEMBERS' EQUITY		
EQUITIES AND MARGINS		
Memberships	\$ 183,110	\$ 191,340
Patronage capital	204,736,942	199,279,490
Accumulated other comprehensive income	(4,214,900)	(2,294,877)
Other equities	1,524,537	1,521,412
Total equities and margins	\$ 202,229,689	\$ 198,697,365
LONG-TERM DEBT		
RUS mortgage notes	\$ (23,150,935)	\$ (3,554,739)
CFC mortgage notes	12,836,988	14,011,453
FFB mortgage notes	155,106,491	132,426,034
Economic development loan	335,126	335,126
Total long-term debt	\$ 145,127,670	\$ 143,217,874
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS	\$ 11,188,981	\$ 7,461,523
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 5,317,000	\$ 5,167,000
Current portion of postretirement benefits	400,000	400,000
Accounts payable - purchased power	9,596,227	11,018,908
Accounts payable - other	854,611	1,263,878
Consumer deposits	3,502,412	3,418,728
Accrued taxes	2,759,060	2,753,146
Accrued interest	290,323	311,976
Other current and accrued liabilities	10,772,535	10,568,463
Total current liabilities	\$ 33,492,168	\$ 34,902,099
DEFERRED CREDITS	\$ 5,813,054	\$ 5,550,450
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 397,851,562	\$ 389,829,311

● Statements of Revenue and Patronage Capital

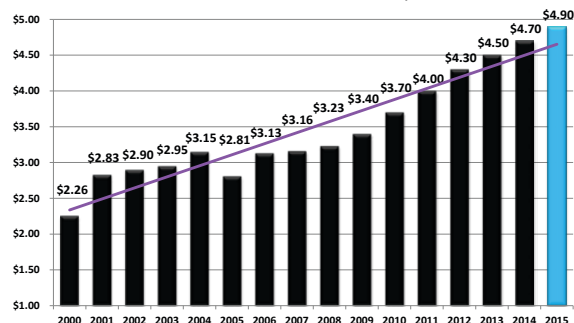
For the Years Ended December 31, 2015 and 2014

	For the Years Ended December 31,	
	2015	2014
NET SALES	\$ 169,585,091	\$ 197,696,859
OPERATING EXPENSES		
Purchased power	\$ 124,748,599	\$ 152,068,483
Distribution expense - operations	6,367,133	5,792,029
Distribution expense - maintenance	8,074,143	7,263,766
Consumer accounts	4,236,122	4,264,756
Customer service and information	2,065,127	1,907,569
Administrative and general	4,674,581	4,281,982
Depreciation and amortization	11,323,687	10,780,203
Taxes	1,212,669	1,274,958
Interest on long-term debt	7,710,853	7,613,900
Other interest and deductions	190,744	183,093
Total operating expenses	\$ 170,603,658	\$ 195,430,739
Net operating margins	\$ (1,018,567)	\$ 2,266,120
NONOPERATING MARGINS		
Interest income	\$ 3,854,448	\$ 3,337,231
Other	127,950	328,869
Total nonoperating margins	\$ 3,982,398	\$ 3,666,100
Generation and transmission cooperative and other capital credits	\$ 7,396,857	\$ 11,168,380
NET MARGINS FOR YEAR	\$ 10,360,688	\$ 17,100,600
Patronage capital - beginning of year	199,279,490	186,879,862
Transfers from (to) other equities	(3,236)	(972)
Retirement of capital credits	(4,900,000)	(4,700,000)
PATRONAGE CAPITAL - END OF YEAR	\$ 204,736,942	\$ 199,279,490

Meters Served by United



Member Dividends in Millions \$



Independent Auditor's Report

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

April 2, 2016

To the Members of United Electric
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, 2015 and 2014, and the related statements of income and patronage capital, and cash flows

for the years then ended and in our report dated April 2, 2016, 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
Tulsa, Oklahoma



PATSY DUMAS
President
District 2



LARRY BAYS
Vice President
District 7



TOMMY CANTRELL
Secretary-Treasurer
District 3



HARRY THOMPSON
District 1



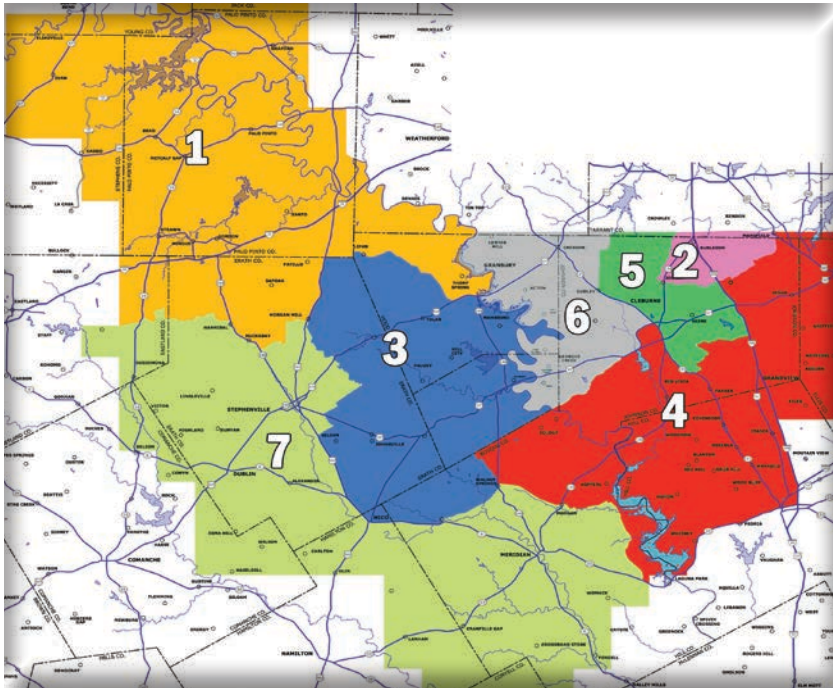
CLIFFORD DEAL
District 4



JOHN JONES
District 5



ED CARDIN
District 6



STATEMENT OF NONDISCRIMINATION

United Electric Cooperative Services, Inc. is the recipient of Federal financial assistance from the U.S. Department of Agriculture.

This institution is an equal opportunity provider and employer.

If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form, found online at http://www.ascr.usda.gov/complaint_filing_cust.html, or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, by fax (202) 690-7442 or email at program.intake@usda.gov.

**UNITED
GOVERNANCE**

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.