

Striving to Deliver

A network diagram with human figures connected by lines, set against a blue textured background. The figures are stylized and connected by a web of lines, symbolizing a community or network.

ANNUAL REPORT 2016

Exceptional
Service and
Value



**CAMERON
SMALLWOOD**

UNITED COOPERATIVE SERVICES
CEO / GENERAL MANAGER

We are in a perpetual process of improvement at your cooperative. Simply put, this means we continue to work every day to find new ways to provide our member-owners exceptional service and value.

In that respect, I would like to focus on the service side of our mission statement. United Cooperative Services' sole focus is providing service to members of the cooperative. That service happens to be focused on delivering electricity to approximately 83,000 different meter locations spread across parts of 14 counties in North Texas. However, the service we provide extends well beyond the simple distribution of electricity.

Your cooperative aspires to provide exceptional service in three major areas: to the membership directly, to the communities we serve, and to the greater community of cooperatives across the nation.

Those efforts begin with our employees, who tirelessly provide exceptional service to the membership. While we are an electric distribution cooperative, we strive to be the first and most trusted place our members can turn to for information concerning the energy sector. United always wants to earn the distinction of being your trusted energy advisor.

In that vein, we focus on new and innovative ways to keep your energy flowing. We utilize leading-edge technologies in order to ensure the highest system reliability possible under sometimes challenging weather situations.

We have deployed automation in many of our processes for new construction and system maintenance, streamlining the processes and making them more efficient, which saves time and money.

We measure and benchmark our internal performance and use that information to continually improve processes, procedures and technologies.

Again, all of this is for one purpose—delivering exceptional service value to our members-owners. We hope our efforts to serve our members and our communities are always tangible and relevant, and that we are truly making a difference.

Please continue to let us know how we're doing in our far-reaching service aim.

A handwritten signature in black ink that reads "Cameron L. Smallwood". The signature is written in a cursive, flowing style.

• Balance Sheets

As of December 31, 2016 and 2015

ASSETS

UTILITY PLANT

Electric plant in service at cost	\$ 350,679,538	\$ 340,565,740
Construction work in progress	4,752,845	1,299,823
Total utility plant	\$ 355,432,383	\$ 341,865,563
Less accumulated provision for depreciation	108,174,615	106,287,606
Net utility plant	\$ 247,257,768	\$ 235,577,957

OTHER PROPERTY AND INVESTMENTS AT COST

Investments in associated organizations	\$ 93,622,250	\$ 89,552,046
Total property and investments	\$ 93,622,250	\$ 89,552,046

CURRENT ASSETS

Cash and cash equivalents	\$ 28,942,576	\$ 51,436,382
Accounts receivable-less allowance for doubtful accounts	16,744,020	13,700,761
Material and supplies (at average cost)	1,490,401	1,501,596
Other current and accrued assets	598,726	626,265
Total current assets	\$ 47,775,723	\$ 67,265,004

DEFERRED DEBITS

	\$ 3,258,000	\$ 3,801,000
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TOTAL ASSETS

	\$ 391,913,741	\$ 396,196,007
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LIABILITIES AND MEMBERS' EQUITY

EQUITIES AND MARGINS

Memberships	\$ 175,440	\$ 183,110
Patronage capital	213,287,618	204,736,942
Accumulated other comprehensive income	(3,419,376)	(4,214,900)
Other equities	1,548,202	1,524,537
Total equities and margins	\$ 211,591,884	\$ 202,229,689

LONG-TERM DEBT

RUS mortgage notes	\$ (62,675,612)	\$ (23,150,935)
CFC mortgage notes	41,363,494	12,836,988
FFB mortgage notes	150,802,984	155,106,491
Economic development loan	335,126	335,126
Unamortized premium (discount) on reacquired debt	145,798	313,064
Total long-term debt	\$ 129,971,790	\$ 145,440,734

ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS

	\$ 8,093,627	\$ 11,188,981
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CURRENT LIABILITIES

Current maturities of long-term debt	\$ 11,799,000	\$ 5,317,000
Current portion of postretirement benefits	350,000	400,000
Accounts payable - purchased power	10,741,395	9,596,227
Accounts payable - other	1,178,939	854,611
Consumer deposits	3,491,573	3,502,412
Accrued taxes	3,018,869	2,759,060
Accrued interest	380,963	290,323
Other current and accrued liabilities	7,287,223	10,772,535
Total current liabilities	\$ 38,247,962	\$ 33,492,168

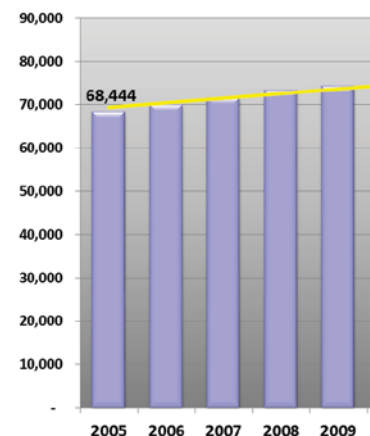
DEFERRED CREDITS

	\$ 4,008,478	\$ 3,844,435
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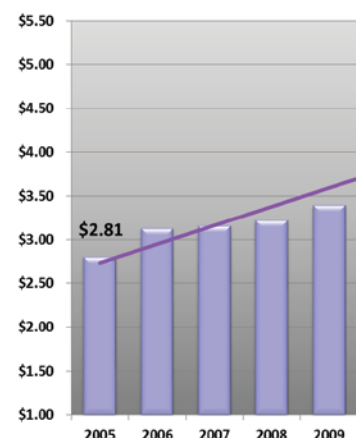
TOTAL LIABILITIES AND MEMBERS' EQUITY

	\$ 391,913,741	\$ 396,196,007
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Meters Se



Member Divid



2016 FINANCIAL REVIEW

SALES OF ELECTRICITY

In 2016, United delivered 2,059 gigawatt hours to the membership, making it the fourth year in a row and sixth time in seven years that United's sales have surpassed 2,000 gigawatt

hours. 2016 residential sales decreased 50 gigawatt hours and commercial sales decreased 51 gigawatt hours for an overall percentage decrease of 4.7% over 2015's near record sales.

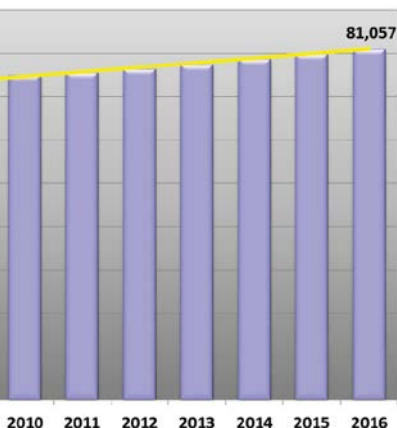
FINANCIAL PERFORMANCE

Margins for 2016 were \$13,652,447 with members receiving a patronage capital margin allocation equivalent to 8.73% of their 2016 billed electric service. The margins include a partial year of phase two of a rate adjustment that was spread over a two-year period (the first rate adjustment since 2003). United's Times Interest Earned Ratio (TIER) at the end of the year was 2.83 compared to a 2016 average of 2.54 for electric distribution

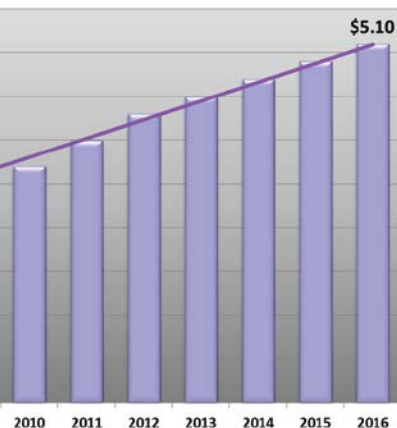
• Statements of Revenue and Patronage Capital

For the Years Ended December 31, 2016 and 2015

erved by United



ends in Millions \$



For the Years Ended December 31,
2016 2015

NET SALES	\$ 163,850,951	\$ 169,585,091
OPERATING EXPENSES		
Purchased power	\$ 112,821,588	\$ 124,748,599
Distribution expense - operations	6,339,899	6,367,133
Distribution expense - maintenance	7,884,223	8,074,143
Consumer accounts	4,235,582	4,236,122
Customer service and information	2,037,076	2,065,127
Administrative and general	4,673,679	4,674,581
Depreciation and amortization	11,859,261	11,323,687
Taxes	1,290,460	1,212,669
Interest on long-term debt	7,301,196	7,710,853
Other interest and deductions	58,856	190,744
Total operating expenses	\$ 158,501,820	\$ 170,603,658
Net operating margins	\$ 5,349,131	\$ (1,018,567)
NONOPERATING MARGINS		
Interest income	\$ 3,956,748	\$ 3,854,448
Other	19,813	127,950
Total nonoperating margins	\$ 3,976,561	\$ 3,982,398
Generation and transmission cooperative and other capital credits	\$ 4,326,755	\$ 7,396,857
NET MARGINS FOR YEAR	\$ 13,652,447	\$ 10,360,688
Patronage capital - beginning of year	204,736,942	199,279,490
Transfers from (to) other equities	(1,771)	(3,236)
Retirement of capital credits	(5,100,000)	(4,900,000)
PATRONAGE CAPITAL - END OF YEAR	\$ 213,287,618	\$ 204,736,942

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 3.04 when using the two highest TIER results from the last three years and an average Operating TIER of 1.53. Costs composed of distribution, consumer, and administrative expenses amounted to \$311 per meter in 2016 compared to a national average of \$385 for electric distribution co-ops of like size. United's five-year average for this ratio from 2012 through 2016 is \$299, versus \$361 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 \$83 million. Funding for these improvements comes from both current operations and a portion funded by long-term loans. Despite the loan funds, United has an equity ratio of 54%—the second-highest 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 2016 the cooperative returned \$5.1 million of patronage capital as member dividends.

Our work to make our members' service better, more reliable and affordable was as focused in 2016 as ever. When it is said that "new" is on its way, we want to be able to say we're already applying it. The changes and the challenges we face every year in that service aim are constant, and they provide an opportunity for United to leverage change as a means of progress; to go farther, reach higher in its quest to be the best service provider our members have, or ever will have—not just in electric service delivery...but period.

We're in the people business, and we love it. We try to attract and hire top talent from across the marketplace to employ in all facets of our business to serve other good people—our members; all of whom are the only reason we're here. We don't take our service to our members lightly, and neither do our savvy members. United has consistently earned some of the highest scores in the nation in customer satisfaction. That fact alone might lead other businesses to rest on their good fortune, but United's average member satisfaction score of 90.25 out of 100 in 2016 was only an indication our members felt their co-op was still heading in the right direction, but with still more work to do. We haven't rested, we've moved forward.

Understanding what our members want and expect and then meeting and exceeding those needs as a trusted energy provider is United's mantra. We think such awareness and drive are the undeniable links between success and failure for any business, not only for a not-for-profit business, such as United Cooperative Services.

In delivering on the promise of meeting those expectations within the past year, the following is a condensed example of some of the work United initiated and accomplished to benefit its growing membership.

Innovative



A great deal of research and vision goes into making our members' electric service more convenient and affordable. That's why United looked for another way to offer members a more seamless approach to personal home energy management, while also helping the cooperative optimize its utilization of wholesale electric power resources. To do so, United collaborated with Nest Learning Labs and became the first electric cooperative in the nation to offer its members an incentive-based demand response program called Rush Hour Rewards, that allowed newly participating members with Nest thermostats to receive up to \$110 in bill credits in return for shifting power usage to off-peak periods, when energy market costs are less.

Collaborative



United seizes every available opportunity to engage its membership and to hear member views on key issues that could potentially affect service reliability and the cost of electric power delivery. One such concern was addressed with a member focus group that volunteered to advise the cooperative's future direction in vegetation management—a key component in reducing power outages and maintaining system reliability, yet one of the single most costly maintenance factors for electric utilities with forested service territories. Thanks to that good counsel, United will have moved forward and implemented a more effective systemwide vegetation management campaign in 2017 that is affordably progressive.

Responsive



Remaining member-centric is the hallmark of the cooperative's initiatives—an ethos born through United's governing principles, but demonstrated in a variety of ways—especially through the cooperative's aim to always bring more value to its array of member services. A mainstay among those services has long been the cooperative's considerable Energy Innovation Rebate Program, and we were again busy in that area. As an example, United in 2016 collectively saved its members nearly \$250,000 dollars when it awarded rebates for 1,955 HVAC tune-ups, 172 heat pumps, 28 home insulation jobs, 81 water heaters and 58 wifi thermostats. Since the program's inception, United has granted 17,847 different rebate requests and 210 Energy Smarts Grants to residential and commercial members.

Trusted



While United's expertise and insight have long been sought across national and statewide circles because of the cooperative's currency as a credible leader in the electric energy industry, there is nothing more revealing about the cooperative's trustworthiness than being invited into a member's home to help. The cooperative completed 660 free home energy audits for members in 2016, and 9,470 since the program was started (not including those already performed in 2017). The cooperative has also assisted 178 members (42 wind and 136 solar) in distributed generation interconnections.

April 2, 2017

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, 2016 and 2015, and the related statements of income and patronage capital, and cash flows for the years then ended and in our report dated April 2, 2017, 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



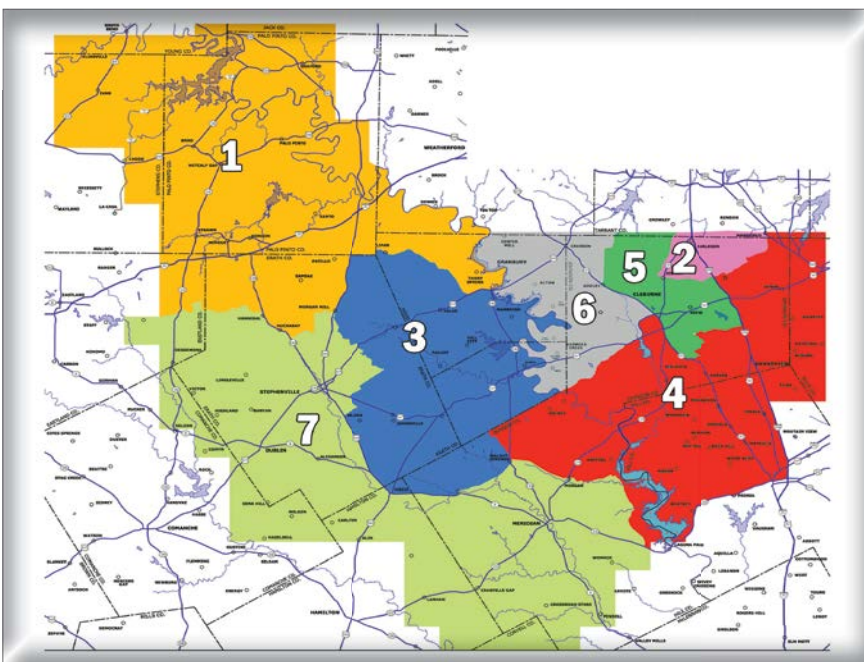
CLIFFORD DEAL
District 4



JOHN JONES
District 5



ED CARDIN
District 6



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.