



*United  
Cooperative  
Services*

Annual Report 2014

# Inspiration of Community

**W**hen I was growing up, we lived on a farm that was over 14 miles from the nearest town and the school I attended. As the summers dragged along, I spent most of the time on a tractor or in the hay fields working, usually alone or with my older brother. Needless to say, by summer's end I was looking forward to school starting, not because of the educational value, but more for the social activities and spending time with my friends.

Fifty years ago we didn't have all the technologies of today, like those of the "I" generation. Why I say "I" generation is because today we have "I" Phones, "I" Pads and "I" this and "I" that. In other words, children today don't seem to have the need for group interaction nor the need to have a sense of belonging like we did when I was young.

It concerns me that when we don't want to involve ourselves in a community of people, then, as a society, we become more individually motivated—as opposed to being motivated to serve others. I'm afraid we are seeing that attitude permeate our society more and more. We seem to be becoming a faction rather than having a desire to compromise and agree to what is better for the whole. In Proverbs 15:22 it says, "...without counsel plans fail, but with many advisors they succeed." I really believe we need to adhere to the ideal that it isn't all about us, as individuals, but more about why we were put on this earth in the first place—to work together to achieve great things.

This brings me to a point about our cooperative, United Coopera-

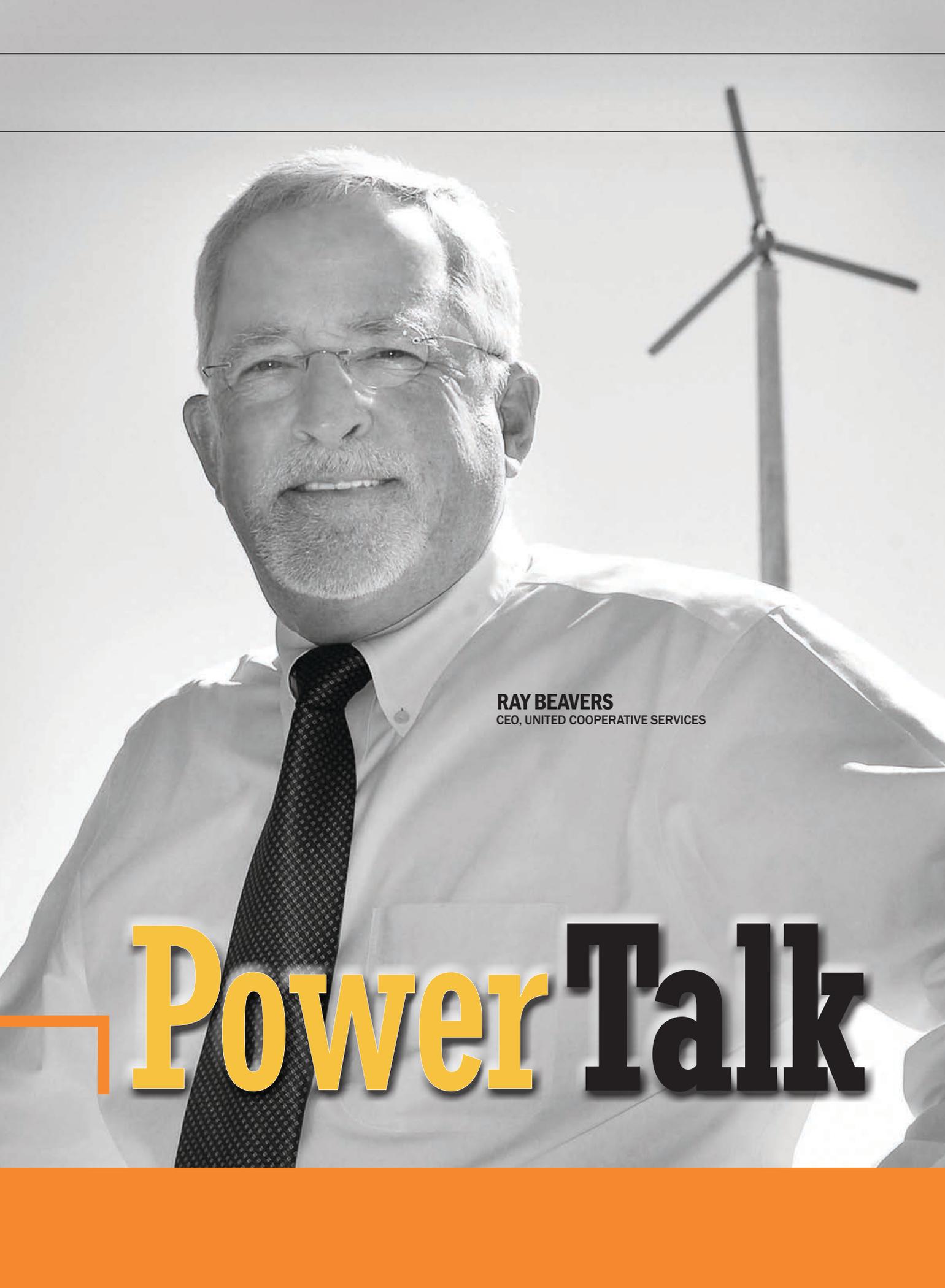
tive Services. The cooperative was formed almost 80 years ago by a community of visionary people, not individuals. And United excels today because of that ideal. At the organizational level, we continuously talk about collaboration and we make decisions that are weighed by more than one mind or viewpoint. Our governing board each month comes together to review the cooperative's accomplishments and provide direction to future activities that revolve around a constantly changing industry. We have a seasoned and tremendous executive staff that works together to plan accordingly and inclusively to meet the objectives the board sets. We have an employee group that is highly motivated and ready to meet whatever challenges are presented. The most important group, however, is you—the membership. After all, that is why we are here; to serve you.

We hear from our members in many ways. Each year we have community meetings throughout our service territory to hear first-hand what is on our members' minds. We do quarterly surveys to receive our members' views about whether we are meeting their service expectations, and we have Facebook and email available for our members' comments. We, of course, have offices in six locations to make it as convenient as is financially prudent for members to conduct their personal business and to enlist additional support. And we pledge daily to do everything in our power to see that our members' questions are answered and their concerns are resolved. We also have an annual meeting each year that provides our members an

opportunity to participate in the United community. During those events, members have an opportunity to engage with employees and visit with friends and other cooperative members. It's awesome to see those great folks from Glen Rose Medical Center at the annual meeting health fair and to see our members receive some medical check-ups while they are there. Members are also able to take part in their cooperative's business and hear reports on the state of their cooperative. And we never fail to mention that our members really enjoy the enormous amount of door prizes that may be theirs if their number comes up as a winning ticket.

Again, we do all of this in the spirit of community. At United, we embrace the truth of Solomon's observation in the verse I just quoted above from the Bible—when we all work together and put our many different God-given talents and skills together, we can achieve anything; especially when we take our own individual agendas out of the picture and just do the right things for the right reasons.

Being part of a community is, we think, valuable. And with our participation in that blessing, we should be able to leave our iPhones and iPads on the table for a while and enjoy being with others. I sure hope to see you on Saturday, October 24th at the Glen Rose High School for a fun and, hopefully, enjoyable day for every attending member.



**RAY BEAVERS**  
CEO, UNITED COOPERATIVE SERVICES

# Power Talk

## FINANCIAL REVIEW

**Sales of Electricity:** In 2014, United set a record sales figure of 2,193 gigawatt hours, making it the second year in a row and fourth time in five years that United's sales have surpassed 2,000 gigawatt hours. 2014 residential sales increased 46 gigawatt hours and commercial sales increased 9 gigawatt hours for an overall percentage increase of 2.6% over 2013's sales.

**Financial Performance:** Margins for 2014 were \$17,100,600 with members receiving a patronage capital margin allocation equivalent to 8.60% of their 2014 billed electric service. United's Times Inter-

est Earned Ratio (TIER) at the end of the year was 3.25 compared to a 2014 national average of 2.63 for electric distribution co-ops. 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 3.18 when using the two highest TIER results from the last three years and an average Operating TIER of 1.61.

Costs composed of distribution, consumer and administrative expenses amounted to \$299 per meter in 2014 compared to a national average of \$359 for electric distri-



bution co-ops of like size. United's five-year average for this ratio from 2010 through 2014 is \$280 versus \$342 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 \$75 million. Funding for these improvements comes from both current operations and long-term loans. Despite the loan funds, United has an equity ratio of 51.0%—the third-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 2014 the cooperative returned \$4.7 million of patronage capital in the form of member dividends.

## 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.



# THE COOPERATIVE COMMUNITY

From the very beginnings of the electric cooperative movement, community was at the core of the program's ability to launch, then build, and ultimately bring a better way of life to areas that large, for-profit electricity providers once considered too costly for their financial motivations. While the electric utility and consumer landscapes have changed in many ways over the last 77 years, what's clearly evident is that the electric cooperative program not only continues to be an effective business model, but that at United Cooperative Services it flourishes because of the focus the cooperative puts on the core values of integrity, value, safety and, finally, community.

In an electric cooperative, there is no boundary between the utility and the consumer base. Rather, an electric cooperative is the consumer, or more aptly called member. The membership and co-op employees make up the United community—from the governing body comprised of members who speak for and look out for the best interests of the members, to the management and employees who carry out the daily tasks of bringing reliable, affordable electricity to the homes and business throughout our communities. It's a model that has worked, and will continue to thrive, because in an electric cooperative, we're all in this together. We're all focused on doing the right thing for the right reason.

## A YEAR'S HIGHLIGHTS

## ENERGY INNOVATION

It seems ironic that of all the theories that abound for shoring up the nation's overburdened electric grids, as well as reining in power costs and providing visionary solutions for the electricity industry of the future, the one theme that is still being viewed by many with unfortunate skepticism is the one that seems to offer the greatest potential for shedding costly electricity demand—Energy Innovation. United members are well-versed in this vision, having witnessed its evolution from a strategic objective to what it is today as a body of demonstrated work that has been instrumental in helping thousands of United members actively manage their energy consumption in partnership with their electric cooperative. Energy Innovation isn't a theme, hope or prayer any longer. Rather, it's the instrument that, beyond electrons, connects the United membership and cooperative together into a community of energy innovators. 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 paradigm 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. Of-

fering 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 more than 8,000 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.

## GOING GREEN

When members reached out several years ago to their cooperative for help in fulfilling a desire to be more environmentally friendly, as a demonstration of their affinity for—and commitment to—renewable energy, United created the Green Energy



Club. Doing so paved the way for residential members to purchase, via the cooperative, Renewable Energy Credits (REC) on a monthly basis. RECs appear as an additional \$1.63 charge on participating member monthly bills, but the member can be comforted in knowing that 1,000 kWh of their usage was offset by renewable energy.

While the Green Energy Club opened the door for members to be more renewable energy-focused, United's efforts in renewable energy have been considered visionary in the electric utility industry. Each United office boasts solar generation and three offices have both solar and wind generation all for the purpose of helping members better educate themselves on the true costs and technical requirements of implementing these technologies at their homes or businesses. With up to \$500 in grants for member solar installations, United walks the talk when it comes to supporting its members and the energy solutions of tomorrow. And, ongoing research and development in this area will ensure that the cooperative will always be at the forefront of providing reliable, affordable electricity solutions whether through its contractual requirement with Brazos Electric Cooperative or in innovative alternatives.

## A 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 \$4.7 million to its member-owners in 2014. Since 2000, United has distributed more than \$50 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 fiscal year, members may receive a part of the money left over, which comes in the form of member dividends.

## FROM THOSE WE SERVE

The numbers don't lie—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 2014 average ACSI score of 89.25 on a 100-point scale, United was more than 14 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 member satisfaction scores compare so favorably to the rest of the industry and its equally important that the members 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.



## **M** EETING 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 (United's first rate adjustment in 12 years won't occur until Fall 2015), it also requires United to address its most important objective—providing reliable, affordable electric service.

The population growth, and projections for that trend to continue, in the central part of United's territory—specifically Granbury, Godley and Joshua—required the cooperative to take measures to ensure that reliable service remains a constant for both existing members and ones we'll welcome in the future. In early 2013, United embarked on a building expansion and renovation of its Hood County Office in Granbury. United utilized the existing office structure and re-used internal elements in the expanded structure. This not only offset new add-on construction expense, but ensured the older, original structure was compliant with present building codes while being more energy efficient.

In keeping with the cooperative principles of educating and informing its membership, the expanded facility, a destination designed to be LEED-certified (Leadership in Energy & Environmental Design), boasts a host of energy efficient qualities, renewable energy technologies, an Energy Innovation education exhibit and an open architecture to make conducting business seamless and expedient. At its core, the Hood County Office is a facility that demonstrates to our members that United practices what it preaches when it comes to managing energy use. Like all of our offices, it's a place where members can visit to learn more about Energy Innovation, which is why the renovated and expanded facility now supports alternate transportation technologies, featuring an electric vehicle charging station in front of the building.

## **T** HE 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 your fingertips. Save when you shop 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 more than \$725,000 on prescriptions since introducing this member benefit eight years ago.

## **P** OLITICALLY 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 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 2014, 252 United employees, directors, friends and members pledged \$8,076 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.

## **S** AFETY

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 1.3 million hours without a lost-

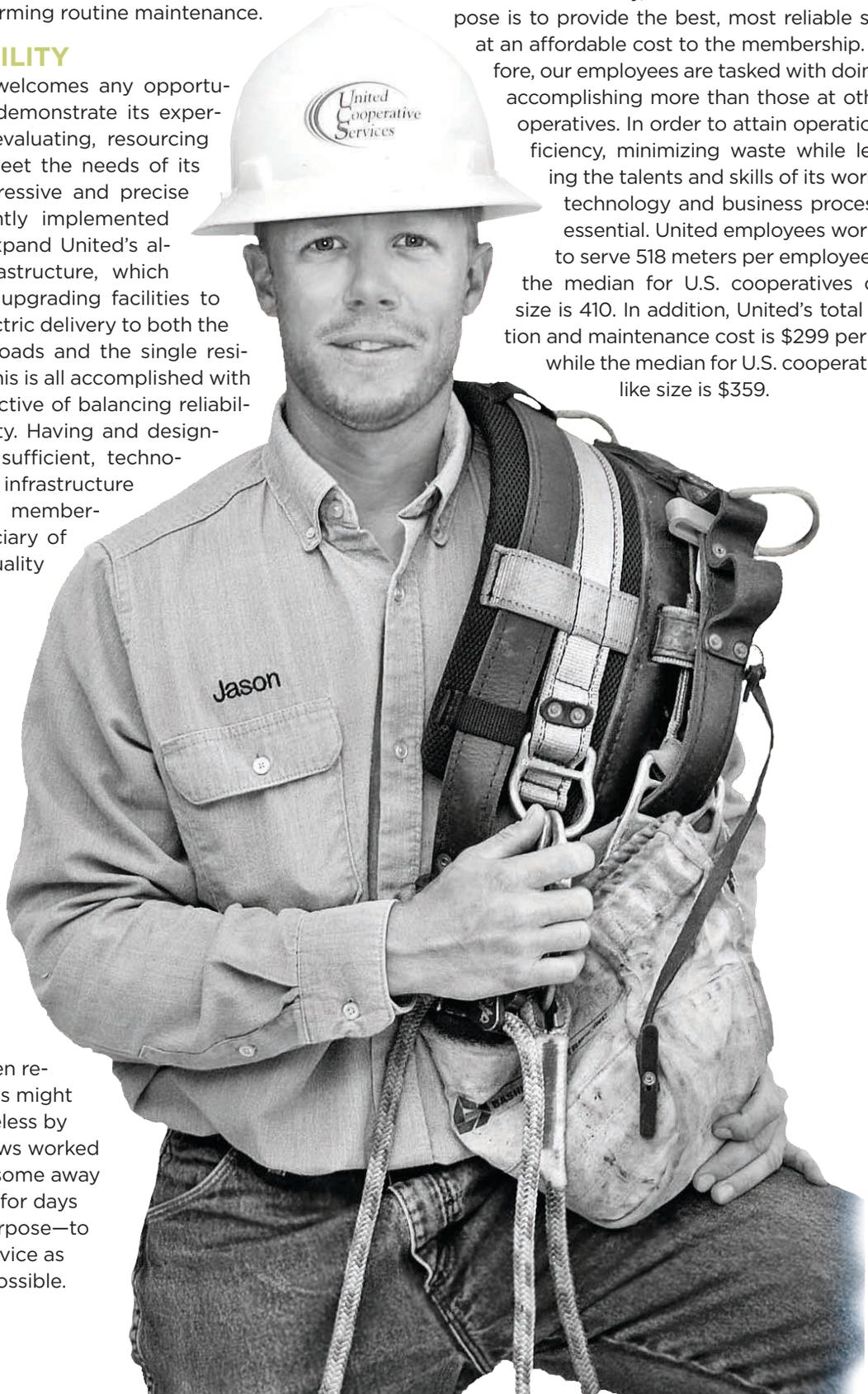
time accident. Ensuring United's immense distribution system operates smoothly and reliably requires employees to regularly perform their jobs in some of the harshest conditions imaginable when restoring power, or when simply performing routine maintenance.

**RELIABILITY** 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 518 meters per employee while the median for U.S. cooperatives of like size is 410. In addition, United's total operation and maintenance cost is \$299 per meter while the median for U.S. cooperatives of like size is \$359.



# ● Balance Sheets

As of December 31, 2014 and 2013

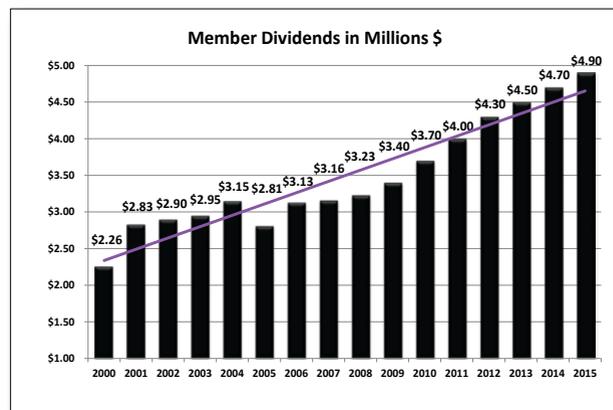
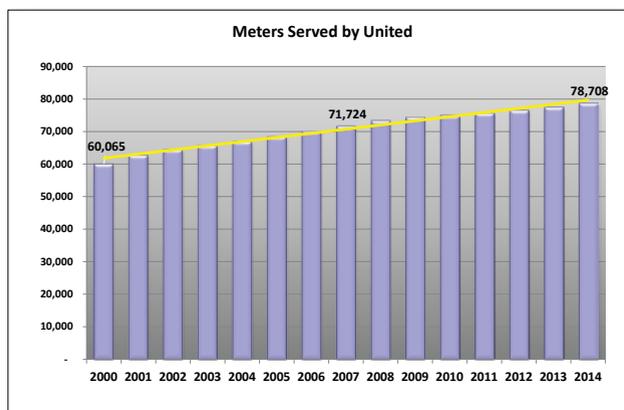
	As of December 31,	
	2014	2013
<b>ASSETS</b>		
<b>UTILITY PLANT</b>		
Electric plant in service at cost	\$ 320,820,213	\$ 308,082,022
Construction work in progress	6,435,305	3,783,725
Total utility plant	\$ 327,255,518	\$ 311,865,747
Less accumulated provision for depreciation	99,006,557	91,953,241
Net utility plant	\$ 228,248,961	\$ 219,912,506
<b>OTHER PROPERTY AND INVESTMENTS AT COST</b>		
Investments in associated organizations	\$ 82,366,629	\$ 71,391,151
<b>Total property and investments</b>	\$ 82,366,629	\$ 71,391,151
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 53,432,630	\$ 58,200,897
Accounts receivable-less allowance for doubtful accounts: 2014 - \$2,232,535 and 2013 - \$2,198,361	17,754,103	19,283,070
Material and supplies (at average cost)	1,361,506	1,378,047
Other current and accrued assets	539,437	515,377
<b>Total current assets</b>	\$ 73,087,676	\$ 79,377,391
<b>DEFERRED DEBITS</b>	\$ 6,126,045	\$ 6,795,536
<b>TOTAL ASSETS</b>	\$ 389,829,311	\$ 377,476,584
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>EQUITIES AND MARGINS</b>		
Memberships	\$ 191,340	\$ 199,615
Patronage capital	199,279,490	186,879,862
Accumulated other comprehensive income	(2,294,877)	(1,658,191)
Other equities	1,521,412	1,566,403
<b>Total equities and margins</b>	\$ 198,697,365	\$ 186,987,689
<b>LONG-TERM DEBT</b>		
RUS mortgage notes	\$ (3,554,739)	\$ 5,409,060
CFC mortgage notes	14,011,453	15,190,570
FFB mortgage notes	132,426,034	123,480,029
Economic development loan	335,126	335,126
<b>Total long-term debt</b>	\$ 143,217,874	\$ 144,414,785
<b>ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS</b>		
	\$ 7,461,523	\$ 6,365,358
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 5,167,000	\$ 5,162,000
Current portion of postretirement benefits	400,000	500,000
Accounts payable - purchased power	11,018,908	13,174,786
Accounts payable - other	1,263,878	813,690
Consumer deposits	3,418,728	3,307,596
Accrued taxes	2,753,146	2,513,792
Accrued interest	311,976	343,803
Other current and accrued liabilities	10,568,463	8,429,951
<b>Total current liabilities</b>	\$ 34,902,099	\$ 34,245,618
<b>DEFERRED CREDITS</b>	\$ 5,550,450	\$ 5,463,134
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	\$ 389,829,311	\$ 377,476,584

# ● Statements of Revenue and Patronage Capital

For the Years Ended December 31, 2014 and 2013

For the Years Ended December 31,  
2014 2013

<b>NET SALES</b>	\$ 197,696,859	\$ 168,343,665
<b>OPERATING EXPENSES</b>		
Purchased power	\$ 152,068,483	\$ 123,763,091
Distribution expense - operations	5,792,029	5,715,089
Distribution expense - maintenance	7,263,766	7,046,102
Consumer accounts	4,264,756	3,867,711
Customer service and information	1,907,569	1,840,346
Administrative and general	4,281,982	3,904,361
Depreciation and amortization	10,780,203	10,365,415
Taxes	1,274,958	1,084,365
Interest on long-term debt	7,613,900	7,343,123
Other interest and deductions	183,093	197,209
<b>Total operating expenses</b>	<b>\$ 195,430,739</b>	<b>\$ 165,126,812</b>
<b>Net operating margins</b>	<b>\$ 2,266,120</b>	<b>\$ 3,216,853</b>
<b>NONOPERATING MARGINS</b>		
Interest income	\$ 3,337,231	\$ 2,995,714
Other	328,869	293,010
<b>Total nonoperating margins</b>	<b>\$ 3,666,100</b>	<b>\$ 3,288,724</b>
<b>Generation and transmission cooperative and other capital credits</b>	<b>\$ 11,168,380</b>	<b>\$ 8,580,952</b>
<b>NET MARGINS FOR YEAR</b>	<b>\$ 17,100,600</b>	<b>\$ 15,086,529</b>
Patronage capital - beginning of year	186,879,862	176,294,917
Transfers from (to) other equities	(972)	(1,584)
Retirement of capital credits	(4,700,000)	(4,500,000)
<b>PATRONAGE CAPITAL - END OF YEAR</b>	<b>\$ 199,279,490</b>	<b>\$ 186,879,862</b>



## Independent Auditor's Report

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

April 10, 2015

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 Electric Cooperative Services as of December 31, 2014 and 2013, 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 10, 2015, 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



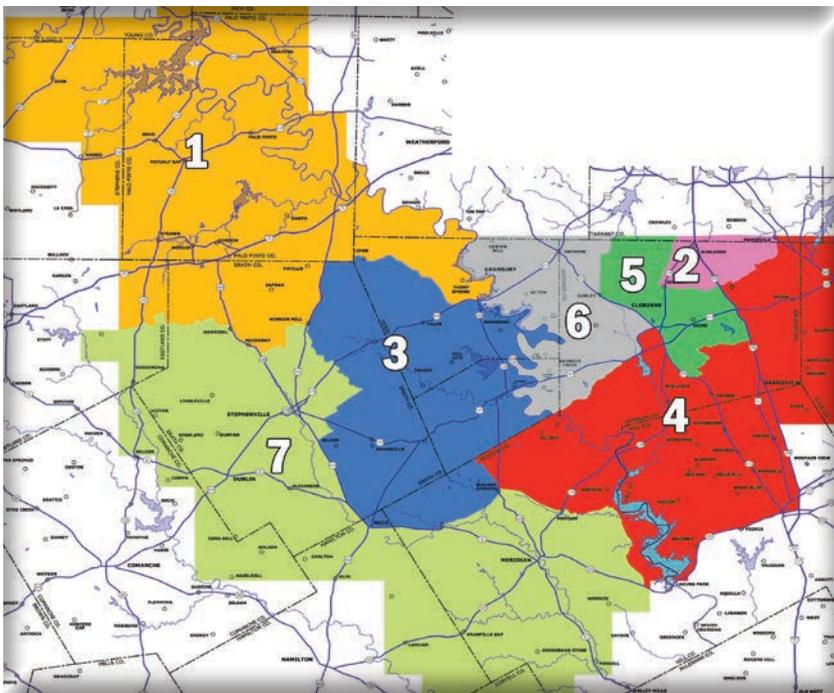
**CLIFFORD DEAL**  
District 4



**JOHN JONES**  
District 5



**ED CARDIN**  
District 6



**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.

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