

ANNUAL REPORT

08



MEETING OUR CHALLENGES HEAD-ON

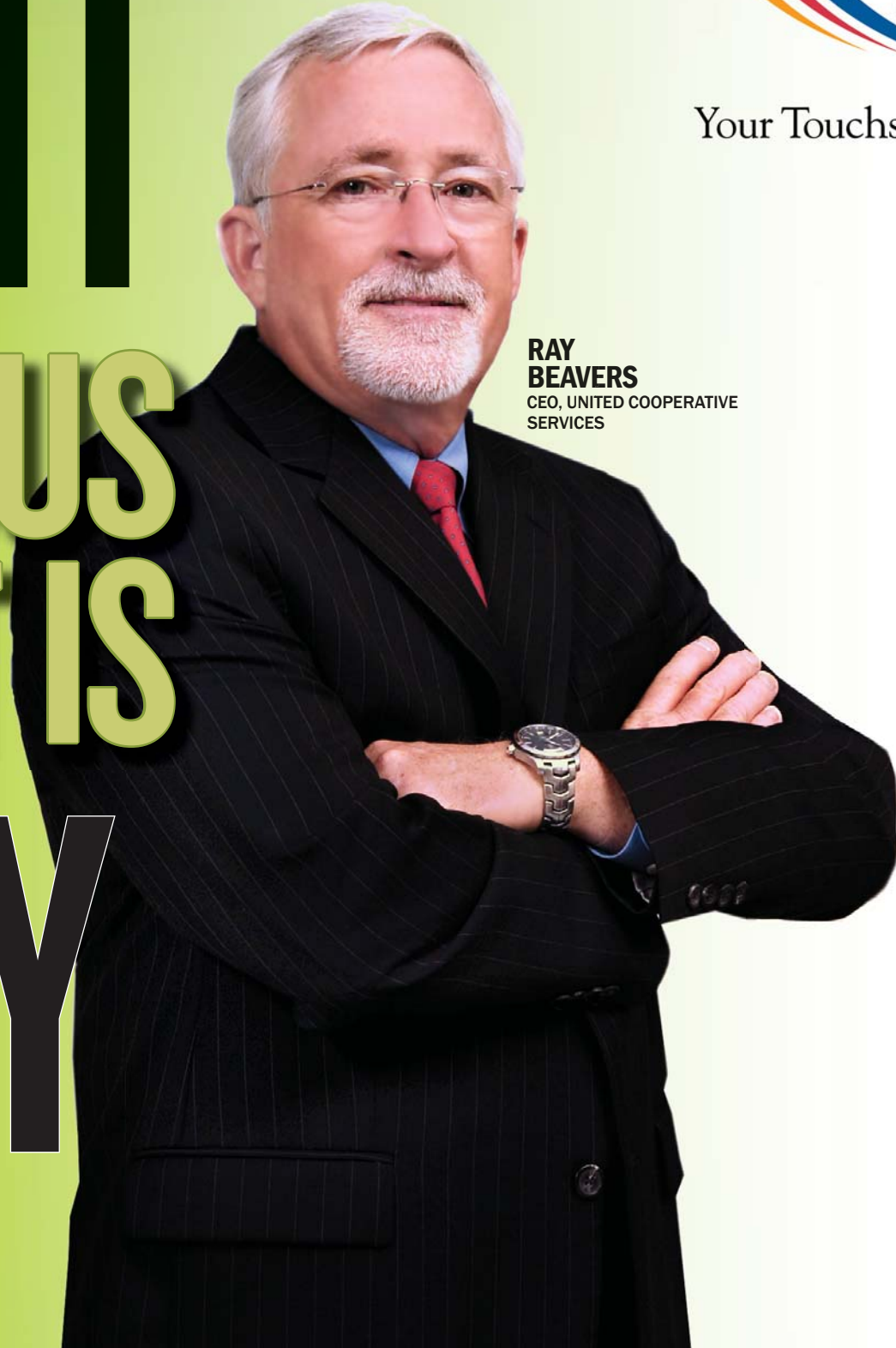
ENERGY INNOVATION

DOING WHAT IS

RIGHT

VERSUS
WHAT IS

EASY



**RAY
BEAVERS**
CEO, UNITED COOPERATIVE
SERVICES



Your Touchstone Energy® Cooperative



UNITED'S 2007 ANNUAL MEETING SEEMS LIKE AN ETERNITY AGO, AND THE TRIALS SET BEFORE US 365 DAYS AGO PALE WHEN COMPARED TO THOSE WE FACE NOW.

So many issues and challenges came to the forefront that it has been difficult to determine which battlefield has needed the most attention. Our economy hit rock bottom. Some politicians started questioning the bedrock values of the electric cooperative program. Climate legislation was introduced on the floor of Congress and has since gained significant momentum. Gas prices hit all-time highs (only to come back down...at least for now). And the general public has demonstrated an overall lack of trust in business and financial markets. All this in one year!

The past year also took an emotional toll on me personally when my dad died. However, as with everything in life, the world keeps spinning and challenges simply don't fade away—rather, they must be met head on.

Thank the Good Lord that He gave us the wisdom and the strength to do just that. When we encounter unbelievably trying times, it's important to step back, assess the situation and plan how to move forward. The process requires us

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Fulfilling **OUR** Purpose

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to grieve, evaluate, discuss or simply roll up our sleeves and set out to do the right thing. We must have the courage to take another step, and then another.

There is still a place in my heart that will always be reserved for the love I had for my dad. However, his spirit lives on in me—every wisdom and value he imparted and then instilled in me are present in all I do. Dad lived his life by adhering to two basic values he introduced to me as a very young child: 1) "Always do the right things for the right reasons." If you practice that in life you won't spend time second guessing yourself or fearing the unknown. 2) "You are never more important than your purpose." Remembering the second truth was paramount, in his view, because if we begin thinking we have grown too important to strive for even greater heights, then we are doomed to live life without realizing our potential, or fulfilling our purpose. "What a waste that would be," he would say.

I am convinced United Cooperative Services demonstrates those very values. Everything that we do here at United is weighed for the value it brings to the entire membership. Critical to that effort is seeing and understanding what challenges are ahead of us and then showing our willingness to answer them.

For example, United has spared no opportunity, especially in the past four years, to inform members, the media and anyone else that cared to listen that rising power costs were likely, if not certain, based on market and industry trends that were evolving then. Market dynamics that historically drive hikes in electric power costs were already

evident well before our nation's economic collapse.

The cooperative could see no easy fixes to the real and frightening prospect that energy costs would mushroom, so United planners encouraged members to take ownership of their electric usage and to embrace a philosophy for managing the resource more efficiently.

Today, more than 2000 United members have taken advantage of the cooperative's free residential energy audits and have now insulated themselves and their living environments against energy waste and unnecessary costs. The success of this and other new United energy efficiency programs and efforts has been an awakening for all of us—demonstrating that, as consumers, we can each play significant roles in mitigating energy costs.

We saw another of those cost drivers take shape this past year in the political arena, namely Congress, where the debate on climate legislation was introduced and has since gained momentum. As our members know, United has not taken, nor will it take a position on the science of carbon dioxide emissions, or their effects on our climate. We are not environmental scientists. Our position has focused instead on how Congress will regulate such policy, and whether irrevocable economic turbulence would be the result. While plans are still on the drawing board, the model that is getting the most support from Wall Street and lawmakers—a cap and trade system to control CO₂ emissions—could cause electric costs to surge 30 percent. In my opinion, that plan is neither sound, nor a good start.

Our worries don't end there, though. One of the most significant drivers of electric costs has always been the cost of building power plants: collectively referred to as generation portfolios, or the costs that are socialized to consumers throughout our nation for that generation construction.

There haven't been many ground-breaking ceremonies for new power plants during the past several years, and the global recession we're experiencing presently has suppressed venture capital pools and rambling investor ambition for planning new generation construction. But, when the economy heals and begins its upward momentum, projections indicate that electrical demand will heat up, too. New power plants will have to be built to meet that demand and their construction costs are going to be significantly higher than those we built several years ago, and even more costly than the generation plants we're paying for today. In some cases, the costs will soar from the \$600 per kilowatt (kW) cost we are currently meeting in our portfolio to more than \$1,200 per kilowatt for natural gas plants. Coal-fired generation plants have increased from more than \$1,000 per kW paid some 20 years ago, to well over \$3,500 per kW. Nuclear is currently projected to cost roughly \$11,000

per kW, but of course it has been so long since one has been built, pinpointing the actual cost is an inexact science. Higher electric costs are certain considering the projected need for new generation, and the increased capital costs that will come with those new power plants.

Even though the cost of natural gas has presently stabilized at a decreased price, experts have warned against getting used to those levels because gas prices, too, will escalate again. There's no doubt that such price volatility has become the chief influence in soaring energy costs, and its roller coaster twists and turns are beginning to cause severe economic hardships for many consumers.

Everyone, myself included, wants the comfort of heating and cooling, home appliances, hot water, entertainment and security that electricity brings to our homes. Keeping electric power affordable is very important to our members and to us. That consideration has been, and will always be, pivotal in the planning of your cooperative.

Organizationally, United is a very lean, efficient and exceptionally productive cooperative. It has earned a reputation for being so because of the dedicated employees who serve you and this organization. Attracting and keeping our committed work group is the result of our farsighted United board of directors who know this cooperative's employees have always been the key components to the organization's long history of service excellence and reliability, and that the sound compensation and benefits are a fair return for every employee's contribution in meeting and exceed-

ing cooperative performance objectives. A great deal is expected from the employees, and they never come up short in delivering value to United members.

United has done all it can to operate efficiently and keep distribution rates as low as possible, (remember that about 20 cents out of every dollar you pay on your monthly electric bill is for distribution, and 80 cents of every dollar goes to buy the energy).

Beyond our determination to maintain that operational efficiency and reliability, showing our members how to waste less energy is the only additional measure we can take today to mitigate costs to our members. Those efforts will become even more important as the cost to generate electricity continues to escalate.

New concepts for strengthening the collaboration between every participant in today's electric markets—from the generating plant all the way down the line to the consumer—are bridging the divide between yesterday's and today's electric delivery. Energy Innovation, the umbrella from which those contemporary philosophies were launched, was spearheaded by the staff at United and now is being replicated throughout the cooperative program. We know innovation will lead us into a better energy future. Exactly what that innovation will ultimately look like will continue to grow clearer over time. Until then, we will continue to **fulfill our purpose** at United by working to keep the lights on with an available, reliable and sustainable energy future at the lowest possible cost.

Financial Review

United's financial success is targeted toward best-in-class service and a dependable, highly efficient distribution system that meets the needs of current and future members.

We realize the challenges created by the unparalleled increases in energy costs and it should be explained that United's financial success is not derived from the increases of the power cost that now represents 80 percent of a member's bill. The power cost is a direct pass-through from Brazos Electric Power Cooperative, United's generation and transmission provider, and no profit is derived from the pass-through. In fact, we consider it our goal to offset any increase in power costs with unmatched service, prudent operational practices and a focused energy conservation communications effort.

United's residential megawatt-hour (MWh) sales increased over 4 percent in 2008, and overall MWh sales increased approximately 7 percent. The peak load for United in 2008 was 459 megawatts (MW), representing an annual average increase of 3.7 percent as compared to the 344 MW peak in 2000.

Plant investments of \$15.2 million in 2008 increased electric plant in service to \$245 million. The 2008 cost ratio of distribution, consumer, and administrative expenses per member-consumer was \$284 compared to over \$300 for the national average for like-size electric cooperatives. Efficient plant investment and operations allowed for the return of \$3.23 million in member dividends to our members, past and present. Additionally, 2008 margins allocated to members represented 3.3 percent of operating revenue.

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.

INNOVATING SUCCESS

Developing solutions to overcome tomorrow's ominous energy challenges requires a hefty commitment from those who toil in the industry on a daily basis. For more than 70 years, United Cooperative Services has led an effort and shouldered a tremendous portion of the load required to successfully meet the needs of electric cooperative members. Not only have United's members reaped the benefits of this cooperative's vision and actions, but members from other cooperatives who have followed United's lead are also benefitting from this cooperative's efforts.

While many organizations force themselves to find a purpose, United—its

board of directors, management and employees—is keenly aware of why it exists, where it should focus and whom it serves: The Members. The approaching adversity is not trivial and includes possible generation shortfalls in the not-too-distant future, the inability to build new transmission lines to get the power to those who need it, climate legislation that will drive up costs and a global recession that's affected nearly every industry and consumer. Despite these complex challenges, United Cooperative Services is well-suited to pass each of them, because of the cooperative's commitment to its purpose—the membership. Ensuring United is positioned to tackle tomorrow's challenges is a top priority

for this organization. Directors and employees are well-equipped, through education and training, to develop and apply the correct solution to whatever issue arises. By taking an innovative approach to problem-solving, United employees demonstrate that they're always looking out for the members' best interests. Serving the membership as effectively as possible isn't just the organization's purpose, but every employee's and director's, too.

ENERGY INNOVATION

At United, we think it ironic that of all the theories that abound for shoring up the nation's overburdened electric grids and reigning in power costs, the one "buzz" that has been viewed with the greatest skepticism by many within the electric utility industry is the one that carries the fewest economic risks and the greatest potential for shedding demand and bolstering capacity. That buzz is Energy Innovation, a philosophy held high by four robust supports:

- **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.



ADVANCING

INNOVATION.

▶ United spearheaded many ENERGY INNOVATION efforts locally and nationally in 2008, helping to shape successful industry solutions in these trying times.

INNOVATIVE PARTNERSHIP

Never has there been a more appropriate and responsible time for the electric utility industry to partner with the consuming public to be innovative in conserving energy and practice efficiency. United's members are well-versed in this subject matter as the cooperative began its campaign to help members waste less energy four years ago. At the time, this was considered an unpopular strategy by industry counterparts interested only in adding more money to their respective coffers. Unlike them, United and the membership got together to do something about the rising energy costs—together we created the energy innovation paradigm. Together, they drew a line in the sand and took the position of accountability and asked, "How can we be more efficient with our energy use." That partnership has benefitted thousands of United members, as well as this cooperative because, together, we've established a vision and a map for future generations to follow.

ENERGY EFFICIENCY GRANTS

Through its EnergySmarts Grant Program, the cooperative provided much-needed grant funding to eligible schools and independent school districts served by the electric cooperative for the installation and implementation of energy efficiency measures. In all, 11 schools and school districts received EnergySmarts grants totaling more than \$46,000, helping them meet a state mandate to reduce energy consumption by 5 percent each year for the next six years.

ONLINE ENERGY EFFICIENCY STORE

United has always made it a top priority to promote energy innovation to its members and through a cooperative relationship with the Energy Federation Inc., the cooperative launched the Online Energy Efficiency Store on United's Web site (www.united-cs.com). The resource helps members easily compare and pur-

chase a wide range of energy efficient products, including compact fluorescent light bulbs (CFLs), while enjoying a 20 percent discount.

FREE HOME ENERGY AUDITS

Being audited is not a bad thing if it's focused on finding energy inefficiencies in homes. In 2008, United's energy innovation experts were invited to more than 1,300 members' homes to conduct free home energy audits. Through these extensive analyses, members are able to learn whether they can make simple improvements to waste less energy and save money. The energy innovation experts inspect insulation levels, ductwork, lighting load, and air infiltration hot zones, among other targeted areas. Every member is entitled to a free audit simply by being part of United Cooperative Services.

MEMBER-OWNERSHIP

The cooperative business model is defined as one owned by the people who benefit from its service and who have a collective voice in the democratic business model. Members demonstrate this each year when they elect the cooperative's board of directors. United is an organization of peo-

ple, not of the biggest users of electricity, so each member has one vote regardless of the amount of electricity they consume.

When members pay their electric bill each month, they not only pay for the reliable service, but invest in the company in which they partly own. Electric cooperatives presently have only one primary source of equity capital, that which is contributed by the members. Member equity is the

\$3.2 million to approximately 185,000 present and former members. Since the cooperative was created, it has retired more than \$46 million in member dividends. Receiving a member dividend demonstrates how your electric cooperative is united with and committed to its members.

RATING OUR EFFORTS

Despite tough economic times, increasing complexities and immense

each quarter to ensure members continue to receive a level of service that's second to none. The ACSI, sponsored by the American Society for Quality and administered by the business school at the University of Michigan, tracks consumer satisfaction levels across 43 industries and more than 200 corporations.

Good service means going beyond what is expected of you. Because of the cooperative's commitment to informing the membership about this business of which they belong, United employees are able to go the extra mile for the members.

CONNECTING MEMBERS WITH VALUE AND SAVINGS

United introduced the Co-op Connections Card in late 2007 to bring immediate value and savings opportunities to its members. The card benefits members by offering valuable discounts at participating local and national businesses. But it does more than that. It also helps support our local economies by promoting the businesses in the communities, many of which employ United members.

The response from the membership was exceptional in 2008, a year in which members took advantage of an additional benefit

of the Co-op Connections card—discounts of between 10-60 percent on prescriptions. In just one year, United members saved more than \$124,000 on prescriptions by using the card. The Co-op Connections Card will be even more important in the future as a tool for offsetting the rising cost of energy.

POLITICALLY ACTIVE

United isn't only committed to informing its members and the general public on the issues affecting the energy industry. This cooperative and all

of its 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, thus taking the bold steps to ensure that legislative and regulatory initiatives continue to protect the cooperative way of doing business and the members who benefit from co-op services. In 2008, United employees and members pledged \$6,850 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.

INSPIRING YOUNG MEMBER-STUDENTS

United Cooperative Services adheres to seven cooperative principles, two of which focus on helping local community youths understand the importance of the cooperative business model.

In 2008, the cooperative again demonstrated that it looks out for its young members' best interests through two valuable vehicles.

To commemorate its 70th year of existence, United awarded \$87,000 in Energy Scholarship awards to 70 local students who were either members or dependents of members of the cooperative. In the last 20-plus years, United has awarded more than \$785,000 in Energy Scholarships to area students.

Building on its longstanding tradition of sending area youth to Washington, D.C., in conjunction with the Government-In-Action Youth Tour, United sent four deserving young people to the nation's capital to learn how our democratic model works and to see what our flag stands for. The weeklong 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.

In 2008, United sent Morgan Barker, Ryan Nunley, Leko Murphy and Gux Cox as part of Texas' 100-person delegation.



essential tool for United to build, maintain and upgrade the facilities necessary in providing the reliable, economical electric service the members enjoy receiving from the cooperative. 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 a bill credit. For the 24th consecutive year, the board of directors elected to return member dividends, this time in the amount of

challenges in the electric utility industry, members of United Cooperative Services still recognize a good value when they see it and they made that clear in 2008 by giving the electric cooperative an excellent customer satisfaction score. According to the American Customer Satisfaction Index (ACSI), United averaged an 87 out of a possible 100 points. The utilities industry typically averages around 72. The high ratings are a testament to United employees' commitment to providing members with safe, reliable power at the lowest possible cost. United measures satisfaction

United Cooperative Services Balance Sheets

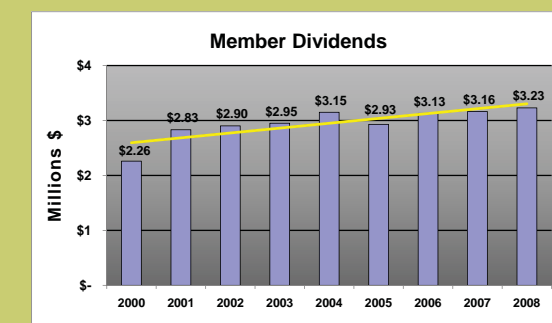
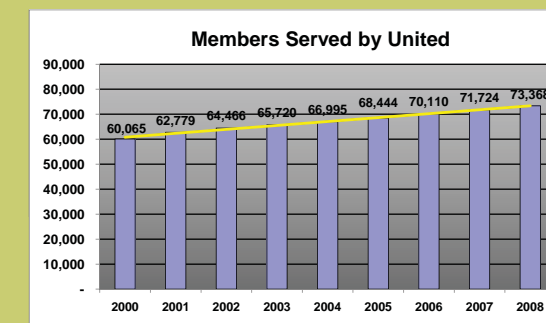
As of December 31, 2008 and 2007

ASSETS	2008	2007
UTILITY PLANT		
Electric plant in service at cost	\$ 245,459,207	\$ 230,267,473
Construction work in progress	1,219,528	3,288,355
	\$ 246,678,735	\$ 233,555,828
Less accumulated provision for depreciation and amortization	68,818,706	65,671,195
Net utility plant	\$ 177,860,029	\$ 167,884,633
OTHER PROPERTY AND INVESTMENTS AT COST		
Investments in associated organizations	\$ 37,264,110	\$ 34,642,392
Notes receivable	-	283,309
Total property and investments	\$ 37,264,110	\$ 34,925,701
CURRENT ASSETS		
Cash and cash equivalents	\$ 36,171,556	\$ 33,846,838
Accounts receivable-less allowance for doubtful accounts: 2008 - \$2,264,244 and 2007 - \$2,080,965	16,119,485	17,822,498
Notes receivable - current portion	-	70,000
Material and supplies (at average cost)	1,370,906	1,269,770
Other current and accrued assets	421,143	371,039
Total current assets	\$ 54,083,090	\$ 53,380,145
DEFERRED DEBITS	\$ 2,540,988	\$ 2,667,479
TOTAL ASSETS	\$ 271,748,217	\$ 258,857,958
LIABILITIES AND MEMBERS' EQUITY		
EQUITIES AND MARGINS		
Memberships	\$ 240,235	\$ 250,780
Patronage capital	123,261,004	101,692,399
Other equities	(3,136,099)	14,697,581
Total equities and margins	\$ 120,365,140	\$ 116,640,760
LONG-TERM DEBT		
RDUP mortgage notes	\$ 29,324,914	\$ 52,007,036
CFC mortgage notes	4,682,397	4,926,257
FFB mortgage notes	34,269,687	34,969,472
CoBank mortgage notes	21,786,560	7,375,381
Economic development loan	335,126	335,126
Total long-term debt	\$ 90,398,684	\$ 99,613,272
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS		
	\$ 8,515,486	\$ 5,169,450
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 8,734,000	\$ 2,698,000
Line of credit - CoBank	\$ 5,000,000	-
Accounts payable - purchased power	13,264,329	13,894,426
Accounts payable - other	427,832	504,156
Consumer deposits	3,120,949	2,990,093
Accrued taxes	2,526,143	2,621,935
Accrued interest	593,704	517,643
Other current and accrued liabilities	12,725,215	7,926,878
Total current liabilities	\$ 46,392,172	\$ 31,153,131
DEFERRED CREDITS	\$ 6,076,735	\$ 6,281,345
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 271,748,217	\$ 258,857,958

United Cooperative Services Statements of Revenue and Patronage Capital

For the years ended December 31, 2008 and 2007

	2008	2007
REVENUES		
Net sales	\$ 201,522,293	\$ 187,548,866
OPERATING EXPENSES		
Purchased power	\$ 165,201,897	\$ 150,463,241
Distribution expense - operations	4,798,309	4,423,277
Distribution expense - maintenance	5,823,479	4,989,572
Consumer accounts	4,697,188	3,928,700
Customer service and information	1,970,643	1,587,095
Administrative and general	3,539,070	3,322,571
Depreciation and amortization	7,897,143	7,321,531
Taxes	1,134,853	1,295,736
Interest on long-term debt	5,598,874	4,950,334
Other interest and deductions	400,059	390,290
Total operating expenses	\$ 201,061,515	\$ 182,672,347
Net operating margins	\$ 460,778	\$ 4,876,519
NONOPERATING MARGINS		
Interest income	\$ 2,452,820	\$ 2,603,889
Other	953,998	717,802
Total nonoperating margins	\$ 3,406,818	\$ 3,321,691
Generation and transmission cooperative and other capital credits	\$ 2,797,080	\$ 5,600,080
NET MARGINS FOR YEAR	\$ 6,664,676	\$ 13,798,290
Patronage capital - beginning of year	101,692,399	95,741,382
Transfers from (to) other equities	18,133,929	(4,685,310)
Retirement of capital credits	(3,230,000)	(3,161,963)
PATRONAGE CAPITAL - END OF YEAR	\$ 123,261,004	\$ 101,692,399



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of United Cooperative Services, Inc. as of December 31, 2008 and 2007, and the related statements of revenues and expenses and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and generally accepted Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Cooperative Services, Inc. as of December 31, 2008 and 2007 and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 11, 2009, on our consideration of United Cooperative Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Briscoe, Burke & Grigsby LLP, Certified Public Accountants

April 11, 2009
Tulsa, Oklahoma



**UNITED
GOVERNANCE**

United Cooperative Services Board of Directors are United members and business professionals elected by the United membership to actively participate in setting cooperative policies and providing oversight in all cooperative business. Seated from left are; Vice President Larry Bays, District 7; Secretary-Treasurer Patsy Dumas, District 2 and President Jack McCaslin, District 5. Standing from left are; Johnnie Rollins, District 6; Clifford Deal, District 4; Tommy Cantrell, District 3 and Casey Tipps, District 1.