

TOGETHER 09

WE SAVE





PowerTalk: CEO's ADDRESS



“Together We Save—What a great focus for our annual report. That is the emphasis of the cooperative philosophy; that, together, we *can* do anything.”

RAY BEAVERS
CEO, UNITED COOPERATIVE SERVICES



I have been blessed by having the opportunity to serve as an employee of the cooperative program for over 33 years. It has indeed been an experience I will always be thankful for because the core of the program—cooperatively working together toward a common goal—brings out the best in people. When we focus on something in common, great accomplishments are realized and I firmly believe that is what has occurred for more than 73 years at United Cooperative Services. Our forefathers and mothers saw the need to band together to get electricity to the rural areas when the big for-profit entities thumbed their noses at them. Those

early adopters of the cooperative model forged ahead in a cooperative fashion and, because of their fortitude and vision, look at us today. United is one of the most successful electric cooperatives in the nation, all because people worked together to make it that way.

Today we face some immense challenges in the energy industry, especially in the electric utility industry. We have seen the cost of generating electricity increase by as much as one hundred percent since 2003. This challenge will be with us from this point forward and will probably even worsen in the near future. As we have discussed in the past several years, the increases are com-

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ing from the cost of fuel to generate electricity—such as natural gas price volatility—the cost to build new power plants and the cost of building transmission. The one area that has been the model of consistency and an area that has not increased in cost is electric distribution, which is the role United plays in bringing you electric service. Since 2003, United has not raised the rate of distribution one cent while other electric distribution utilities have had, not just one or two increases, but as many as three or four during that same timeframe. So what does this mean to you and me

as consumers and members of United? It means we are not powerless and that we can do something about it. And, many of us have.

Like the pioneers who brought electricity to this area in the cooperative spirit and helped themselves when nobody else would offer the luxury of electric power, we will have to mimic that tenacity in attacking the challenge of increasing costs. And, we must do this on the demand side, meaning you and me as users and consumers of electricity. As you can see in the financial report of this document, there is little we can do to

cut the expenses at United without diminishing the service quality and reliable electric delivery you expect. We are one of the leanest, yet most productive, electric cooperatives in the nation. That said, this challenge of attacking the area with the highest cost can be a victory if we attack it together. It will be a mission, but one in which you will have the support of your cooperative. United has assembled a tremendous group of people who are conservation and energy efficiency experts; ready to meet your needs with innovation. They are



at your disposal as a service to the members. They will come to your residence and help you find ways to waste less energy, which will result in you using less electricity, thus keeping your costs in line. United even has rebates that can give you additional savings as your residence becomes more energy efficient.

You ask, "Why does the cooperative do this because when people conserve, they use less, thus pay less for the electric service?" The answer is simple: United is not here to profit from your efforts to af-

ford electricity. United is here, as a cooperative, to work with you for a common purpose of meeting this challenge of holding the line on increasing costs. We are, after all, the experts about electric service. And because we are, as a cooperative we need to be proactive in meeting the challenges we know you are going to be faced with now and well into the future. Together we can effectively deal with higher costs. Together we can set a standard for other utilities to meet the future head on. Together we can do the right thing and that is to demon-

strate that the cooperative philosophy is alive and strong at United Cooperative Services. We can do all this because we have proved Together We Save.



Financial Review

United continues the challenge of funding growth while working towards efficiencies to the benefit of our members. Plant investments of \$12.8 million in 2009 increased the electric plant in service to \$258 million. This included a net increase of 163 miles of energized distribution line for a total of 10,073 miles of energized distribution line at the end of 2009.

The 2009 cost ratio of distribution, consumer, and administrative expenses per member-consumer decreased to \$251 and ranks favorably compared to the national average of like-size cooperatives of \$312 per member-consumer. Efficient plant investment and operations allowed for the return of \$3.4 million in member dividends to our members, past and present. Additionally, 2009 margins allocated to members represented 9.4 percent of operating revenue.

United's megawatt-hour (MWh) sales decreased by 7 percent in 2009, as compared to 2008. However, for the 10 years

since 1999, United has had an annual average increase in MWh of over 4 percent per year. The peak load for United in 2009 was 476 megawatts (MW), representing an annual average increase of 4.3 percent as compared to the 313 MW peak in 1999.

There was some relief in 2009 when electric service paid by our members decreased as exhibited by the change in residential rates—primarily due to lower costs for power generation. The average residential rate decreased from 11.7 cents per kWh in 2008 to 10 cents per kWh in 2009.



One Small Cha



I magine if everyone in our co-op made one small change. Flip a switch. Seal some cracks. Screw in a CFL. Install a programmable thermostat and actually program it. It doesn't take a lot of energy to save energy. But it sure pays off. You're a vital part of a co-op that is recognized as a national leader in energy innovation, and together we're learning better ways to save.

Leading the Way for Members and Industry

While the energy industry is at a critical crossroads as utilities wrestle with the hard decisions on which direction is in the best interest of their consumers, which one is best for meeting potential carbon regulation and which path ensures reliable electric service for future generations, United Cooperative Services is at the forefront of shaping and defining the necessary solutions. The industry has even turned its attention to United's leadership, seeking guidance on how to navigate what will likely be tumultuous seas for the next five to 10 years.

In early 2009, *EnergyBiz* magazine and *USA Today* asked United CEO Ray Beavers to share the cooperative's leading perspective on industry issues at the inaugural EnergyBiz Leadership Forum in the nation's capital. The forum drew some of the most respected utility executives from around the world to share their viewpoints on a range of pertinent issues, including climate change, smart grids, smart meters, nuclear power, consumer engagement and energy policy. Known for leading energy innovation efforts that focus on the end-use consumer, Mr. Beavers shared his perspec-

tive with the more than 200 executives who descended on Washington, D.C. Imploring his peers to meet the future demands of the industry and the consuming public, Mr. Beavers asked the utilities to take a page out of the United book and become leaders in a paradigm shift that used to suggest, "Use all the energy you want and we'll build more generation facilities," to the new paradigm that emphasizes "demand side action." In essence, he asked that the industry create a partnership with consumers so that together we all might save and triumph.

Energy Innovation

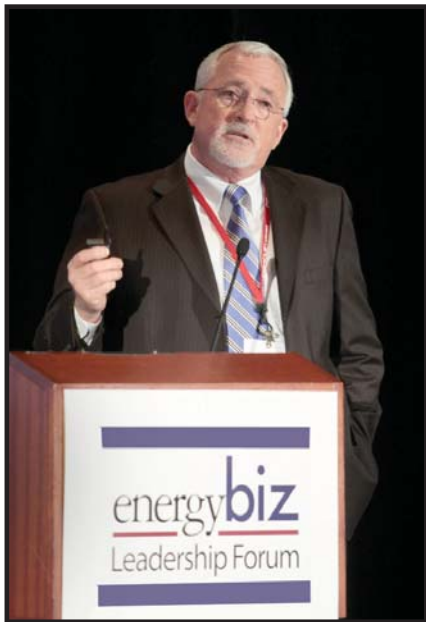
How utilities get demand side results—which occur on the consumer side—in managing energy use and reining in costs requires a philosophical and practical transition by both industry and consumers. Fortunately, United members and their cooperative have been leading this transition for the last five years, evidenced by their increased interest in learning how to save energy and in the actual measures they've implemented to succeed. By practicing Energy Innovation—conservation, efficiency, demand response and distributed generation—United is well-positioned to help members manage challenges today and well into the future.

Rebates

United's commitment to Energy Innovation continues to grow stronger and this year that was demonstrated through an expanded rebate program that paved the way for members to waste less energy and hold onto precious energy dollars. United's robust Energy Innovation Rebate Program included substantial monetary rebates, complimentary energy-saving resources—such as compact fluorescent light bulbs, insu-

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lated water heater blankets and low-flow showerheads—and a dedicated team of Energy Innovation experts prepared to perform free energy analyses at member homes.



EnergySmarts Grants

Through its expanded EnergySmarts Grant Program, United provided grant funding to eligible low-income, residential members for the installation and implementation of energy efficiency measures. The Legislature gave electric cooperatives the opportunity to invest unclaimed capital credits (also referred to as “member dividends”) in their members’ energy efficiency efforts and scholarship awards. These unclaimed dividends—distributed annually to members of the co-op—would otherwise go to the state. The EnergySmarts grants are funded 100 percent by the unclaimed member dividends. Fortunately, through this residential EnergySmarts grant program, United was able to assist some members (who did not have the financial ability to achieve their

energy-saving goals) with insulation, solar screens and other energy-saving measures.

Distributed Generation

In another example of its support of Energy Innovation, United incorporated residential distributed generation (DG) installations into its EnergySmarts Grant program, approving the move in late 2009 for adoption in 2010. Members who install solar or wind applications at the residence in which they receive electric service from United were eligible in 2010 for one grant per unit—up to a maximum of two grants per member. Grants were and continue to be awarded up to \$500 for wind DG and \$1,000 for solar DG.

Smart Grid Technology

United is well-seasoned when it comes to utilizing smart grid technology, having initially implemented the first generation of smart metering more than seven years ago. Since then, United has deployed the second generation, Hunt Technology’s TS2 AMI (automated meter infrastructure), throughout the cooperative’s service territory. Such an implementation was necessary to comply with United’s goal of helping its members better manage their energy use. An example of how the technology is helping members is its assistance to the cooperative’s extensive free energy audit efforts. Before United’s energy auditors visit a member’s home, they obtain data that shows electricity consumption on an hourly basis. This is beneficial when usage spikes irregularly and enables the energy auditor to narrow the scope of his search for the energy hog within a member’s home. United’s existing AMI infrastructure is the foundation for even greater opportunities for our members to manage energy use, op-

portunities that will allow them in the coming years to monitor their usage through a Web site, PDA, or other technology. In its attempt to make such complexities a little easier to digest, United maintains that the smart grid of the future will, in essence, couple important information from the supply side (generating facilities) to the demand side (consumers), allowing consumers to make informed decisions on when and how they use energy.

Operational Efficiency

Reining in operational costs has long been one of the keys to United’s nationally recognized achievements among other electric cooperatives and utilities, but more importantly, those efforts have preserved the cooperative’s promise to members that United will always strive to provide superb service reliability at the lowest possible cost.

Your cooperative, since its consolidation in 2000, has become an accomplished model in every category that traditionally measures electric industry productivity, resourcefulness and value to the consumer. Maintaining a distribution system that encompasses more than 10,000 miles of energized line across a 14-county service territory, and serving approximately 75,000 meters and 52,000 members is an immense daily task, but of all the industry benchmarks United has set in meeting its commitment to deliver “best-in-class” service, one of the cooperative’s most telling successes is reflected in the ratio of meters served per employee. In a comparison among co-ops of like size, United serves 480 meters per employee while the national median is 384 meters per employee—your cooperative requires fewer employees to maintain its vast distribution system because every United

employee shares pride and commitment in finding new and more innovative ways to maximize the service value and operational efficiency of the company.

Safety

Another fundamental element in United's ongoing operational success is found in its safety culture—a moral imperative that all employees return safely to their families from an everyday work environment that is rife with potential hazard, and that safety awareness be promoted to United members. On average, safety accreditation scores don't get much higher than the near perfect score of 98 United earned in 2009 when the cooperative, after intensive review, was awarded safety accreditation from the Rural Electric Safety Accreditation Program (RESAP), sponsored by the National Rural Electric Cooperative Association.

Accreditation not only provides United with a third-party assessment for whether the cooperative is operating as safely as possible, it also helps lower United's annual insurance premiums—amounting to appreciable cost savings to the cooperative, and therefore its members.

Cooperative Model

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 comprised of equal member-owners so each member has one vote regardless of the amount of electricity they consume.

Member Dividends

Electric cooperatives presently have only one primary source of equity capital, that which is contributed by the members. Therefore, when United members pay their monthly electric bill, they invest in the company in which they partly own. Member equity is the essential tool for United to build, maintain and upgrade facilities required to provide the reliable electric service to members at the lowest possible cost. As a result of that equity stake in the business, United members share in cooperative margins. After all operating costs for the fiscal year have been paid, members may receive a portion of any excess capital, which comes in the form of a member dividend check or a bill credit. In 2009, the board of directors elected to return member dividends in the amount of \$3.4 million to approximately 185,000 present and former members. Since the cooperative was created, it has retired more than \$49 million in member dividends.

Your Voice

Ensuring members always have a voice in their cooperative has been an important part of United's success as an electric provider, as has the co-op's vow to keep members informed. Each year United holds an

annual meeting of the membership, typically the single-most important event of the year for your member-owned cooperative. At the annual meeting, members have direct participation in the operation of the cooperative through:

- Election of directors.
- Having a voice and a vote in any other business that is important to the cooperative's operation.

In 2009, United also held community meetings to familiarize members with the future direction of the co-op and how, together, United and its members will succeed in a new energy paradigm. The cooperative also held four focus groups, consisting of members representative of United's diverse membership. These events not only provided another important resource for hearing member concerns, but also allowed cooperative management to learn how well members understood changing dynamics within the energy sector, and how those changes were affecting energy costs at their cooperative and across the electric industry. More than a few new cooperative service initiatives were presented to United's Board of Directors and adopted for implementation as a result of those widely attended meetings throughout the cooperative's entire service territory.

Co-op Connections Card

As a cooperative, we feel obligated to help our members offset



the cost of rising wholesale power costs in every possible channel and one way is through the Co-op Connections Card. Since launching the program in November 2007, United members have enjoyed some of the biggest savings of any cooperative in the country. Of more than 240 cooperatives participating in the card program—which offers members discounts at local and national merchants, as well as 10-60 percent off most prescriptions—United members are in the top 10 percent in prescription savings. In fact, United members average more than \$10,000 in prescription savings per month. United members have realized savings of more than \$300,000 on prescriptions alone. It's doubtless that they have saved many more dollars by shopping at participating businesses.

Rural Friends/ACRE

United and all of its employees take an active role in state and national political arenas through their voluntary participation in Rural Friends/ACRE (Action Committee for Rural Electrification), a grassroots political action committee (PAC) that supports legislators who protect the interests of electric co-op members. On a national level, ACRE is comprised of more than 34,000 individual contributions from electric cooperative directors, employees, and members nationwide. The average contribution to ACRE is \$44 per year. 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. In 2009, United employees and members pledged \$7,370 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.

Member Satisfaction

Because of the emphasis United's board and employees place on continually meeting and surpassing member expectations, it was welcome news when the cooperative learned it had averaged 87 on a scale of 100 in the American Customer Satisfaction Index (ACSI) during 2009. The utilities industry typically averages around 72. Specific criteria studied in the surveys include member sentiments on reliable service, value, managing energy use, looking out for members' best interests and other service attributes. 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.

An Electric Cooperative's Community Commitment

United adheres to seven cooperative principles, two of which focus on helping local community youths

understand the importance of the cooperative business model. In 2009, the cooperative presented \$50,000 in **Energy Scholarship** awards to 14 local students who were either United members or dependents of members. United has awarded more than \$920,000 in Energy Scholarships to more than 800 area students.

The co-op maintained its long-standing tradition of sending area youth to Washington, D.C., in conjunction with the **Electric Co-op Youth Tour**, United sent two deserving young people—Megan Muir and Rachel Price—to the nation's capital to learn how our democratic model works and to see what our flag stands for. The weeklong tour included visits to a host of national sites and monuments.

United reached out to local schools to commemorate **Earth Day 2009**. As part of Alvarado ISD's 'Lights-Out' program, United employees explained the environmental benefits of energy conservation to 160 Alvarado fourth graders. The youngsters learned how simple measures at home, such as turning off lights and TVs when not in use and switching to compact fluorescent light bulbs (CFLs) doesn't just help save money, but has a positive impact on the environment.

United also launched an education program that encourages elementary school children to become innovative in managing energy use. The co-op donated **Super Energy Saver Classroom Kits** to local elementary schools to help educate kids about energy efficiency, renewable energy and electric safety.

United
Cooperative
Services
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● Balance Sheets

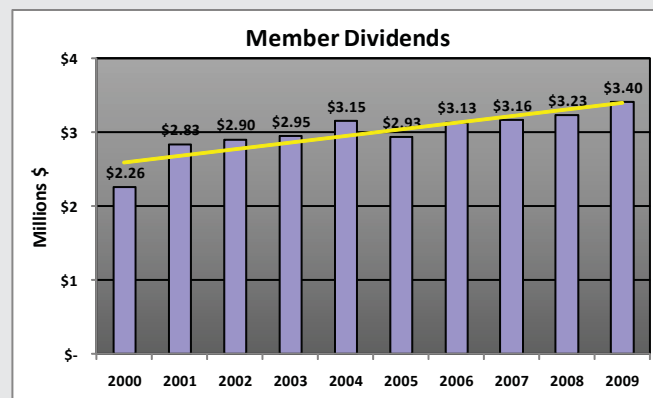
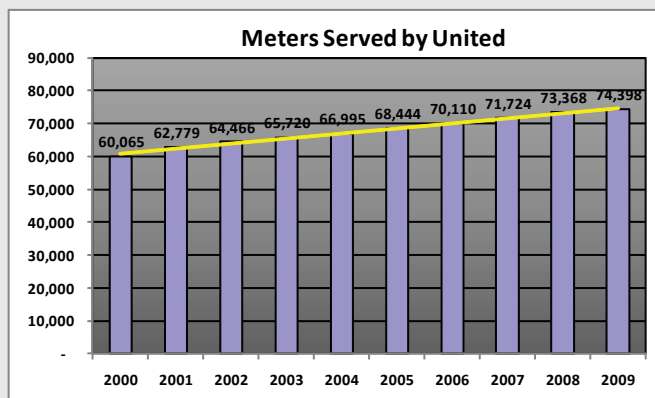
As of December 31, 2009 and 2008

	As of December 31,	
	2009	2008
ASSETS		
UTILITY PLANT		
Electric plant in service at cost	\$ 258,244,951	\$ 245,459,207
Construction work in progress	2,205,996	1,219,528
	<u>\$ 260,450,947</u>	<u>\$ 246,678,735</u>
Less accumulated provision for depreciation and amortization	74,230,837	68,818,706
Net utility plant	<u>\$ 186,220,110</u>	<u>\$ 177,860,029</u>
OTHER PROPERTY AND INVESTMENTS AT COST		
Investments in associated organizations	\$ 42,320,291	\$ 37,264,110
Total property and investments	<u>\$ 42,320,291</u>	<u>\$ 37,264,110</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 17,293,952	\$ 36,171,556
Accounts receivable-less allowance for doubtful accounts: 2009 - \$2,419,955 and 2008 - \$2,264,244	22,321,654	16,119,485
Notes receivable - current portion	-	-
Material and supplies (at average cost)	1,177,147	1,370,906
Other current and accrued assets	517,705	421,143
Total current assets	<u>\$ 41,310,458</u>	<u>\$ 54,083,090</u>
DEFERRED DEBITS	<u>\$ 2,414,498</u>	<u>\$ 2,540,988</u>
TOTAL ASSETS	<u><u>\$ 272,265,357</u></u>	<u><u>\$ 271,748,217</u></u>
LIABILITIES AND MEMBERS' EQUITY		
EQUITIES AND MARGINS		
Memberships	\$ 232,840	\$ 240,235
Patronage capital	135,742,210	123,261,004
Other equities	(2,668,468)	(3,136,099)
Total equities and margins	<u>\$ 133,306,582</u>	<u>\$ 120,365,140</u>
LONG-TERM DEBT		
RDUP mortgage notes	\$ 33,123,237	\$ 29,324,914
CFC mortgage notes	4,439,390	4,682,397
FFB mortgage notes	33,571,231	34,269,687
CoBank mortgage notes	15,011,749	21,786,560
Economic development loan	335,126	335,126
Total long-term debt	<u>\$ 86,480,733</u>	<u>\$ 90,398,684</u>
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS	<u>\$ 8,100,036</u>	<u>\$ 8,515,486</u>
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 9,062,000	\$ 8,734,000
Line of credit - CoBank	-	5,000,000
Accounts payable - purchased power	14,305,244	13,264,329
Accounts payable - other	466,300	427,832
Consumer deposits	3,412,584	3,120,949
Accrued taxes	2,230,873	2,526,143
Accrued interest	527,181	593,704
Other current and accrued liabilities	8,151,018	12,725,215
Total current liabilities	<u>\$ 38,155,200</u>	<u>\$ 46,392,172</u>
DEFERRED CREDITS	<u>\$ 6,222,806</u>	<u>\$ 6,076,735</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u><u>\$ 272,265,357</u></u>	<u><u>\$ 271,748,217</u></u>

● Statements of Revenue and Patronage Capital

For the Years Ended December 31, 2009 and 2008

	For the Years Ended December 31,	
	2009	2008
NET SALES	\$ 182,176,905	\$ 201,522,293
OPERATING EXPENSES		
Purchased power	\$ 139,212,774	\$ 165,201,897
Distribution expense - operations	4,402,013	4,798,309
Distribution expense - maintenance	5,335,215	5,823,479
Consumer accounts	3,821,959	4,697,188
Customer service and information	1,700,997	1,970,643
Administrative and general	3,397,984	3,539,070
Depreciation and amortization	8,418,495	7,897,143
Taxes	1,040,576	1,134,853
Interest on long-term debt	5,422,839	5,598,874
Other interest and deductions	396,301	400,059
Total operating expenses	\$ 173,149,153	\$ 201,061,515
Net operating margins	\$ 9,027,752	\$ 460,778
NONOPERATING MARGINS		
Interest income	\$ 2,848,871	\$ 2,452,820
Other	567,188	953,998
Total nonoperating margins	\$ 3,416,059	\$ 3,406,818
Generation and transmission cooperative and other capital credits	\$ 3,437,395	\$ 2,797,080
NET MARGINS FOR YEAR	\$ 15,881,206	\$ 6,664,676
Patronage capital - beginning of year	123,261,004	101,692,399
Transfers from (to) other equities	-	18,133,929
Retirement of capital credits	(3,400,000)	(3,230,000)
PATRONAGE CAPITAL - END OF YEAR	\$ 135,742,210	\$ 123,261,004



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, 2009 and 2008, 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, 2009 and 2008 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 23, 2010, 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 23, 2010
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.