

*Service...*

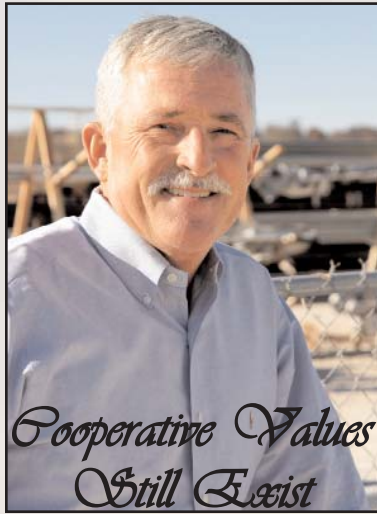
is part of your electric co-op.



Your Touchstone Energy® Cooperative 

United Cooperative Services  
*2003 Annual Report*

*Leadership...*  
is part of your  
electric co-op.



the existence of our cooperative. United's Annual Meeting highlights the basic premise of what co-ops are all about and provides a forum for the member/owners to conduct the business of the cooperative.

The Annual Meeting also allows time for a lot of fellowship to take place between neighbors and friends while nurturing new friendships that develop as we all get to meet one another. After all, cooperatives are all about people, not individuals, who work together and strive to accomplish a basic mission — providing quality service to members. At United, **service** is a major part of your cooperative.

The past year has been a remarkable period in the life of your cooperative. Many accomplishments we considered short-term objectives were met and the employees of United are meeting our long-term goals as well. Several people showed great commitment and sacrifice during this time and worked to make the challenges that can be expected from the consolidation become a thing of the past. We pressed forward with a strong organization and will continue to thrive in the future.

Organizationally, every employee has realized their new responsibilities and carried on to higher levels of achievement and performance. Financially, the cooperative grew quickly in meeting the financial objectives established by the board of directors and the members began to realize the benefits of the consolidation. Through the new practices and economies of scale, United developed greater economic value than predicted in the studies leading to the consolidation. The board and the employees are committed to the cooperative way and to the members of United. This demonstrates why **commitment** is a major part of your cooperative.

The year 2003 may be remembered as a time where many were amazed in how some individuals in corporate America could be so greedy and were exposed as they lied and cheated the public, causing chaos and ruining the lives of trusting people. Integrity has become a lost value to so many in the

## Manager's Report

Every year, I get excited as we begin preparing for the cooperative's Annual Meeting by setting time aside to review the activities of the previous year and celebrating

the existence of our cooperative. The consuming public was alerted to these self-absorbed business leaders who stooped to such practices and caused much harm to the economy and to individuals who had placed trust in these corrupt figures.

In the cooperative program, integrity and trust are still virtues in the foundation of our day to day operation. We work hard to maintain these virtues. We know people are what really matters in the co-op world — not profits and stock options — and **integrity** is a major part of your cooperative.

Other major challenges directly related to our industry that affect the future of United became a reality in 2003. Natural gas prices hit historic highs and remained that way for the rest of the year. Since natural gas is our primary fuel source for electric generation, prices for electric power escalated to all time highs. This dilemma continues to be felt by the entire state and most of the United States as well.

The future prospect for natural gas is that these new and higher standards for pricing will only serve to allow gas prices to be much more expensive than in the past. With that in mind, our power supplier, Brazos Electric Cooperative, is looking at alternate sources of generating power (such as coal) to add diversity to our fuel sources and hopefully stabilize our future power costs.

This past year, we also began to see the effects of a free market where deregulated entities manipulated and "gamed" the market, causing artificial increases in costs to some consumers in the state. Except in the case of industrial users, the new electric market has seen little movement and the residential sector is still waiting to see the benefit. United carefully monitors this activity and will do what is necessary to protect the best interest of our members to make sure **stability** is a major part of your cooperative.

The most basic aspect of human decency is caring for others. The principles of success always surround the act of service to others. Caring about what we do for the members of United is a premise the board and employees work from as decisions are made and actions are carried out each day. Our efforts are to see that your cooperative remains strong for your use today and well into the future. We take nothing lightly and every opportunity we have to improve your service will be considered. I hope you are as proud of United as we are in serving your needs through this cooperative.

Thank you for your support as we embark on a new year, expecting nothing less than the same results — our member's approval. **Caring is a major part of your cooperative, as cooperative values still exist.**

# A Year in Review

## New Rate Structure

The final step in the United Cooperative Services consolidation process was completed in April 2003 when the rate structures of the former Erath County EC and JCEC were combined into one United rate structure. The new consolidated rate was reflected in bills received in April and was the first adjustment for the co-ops in more than a decade.

According to Jack McCaslin, president of the board of directors, a future rate adjustment was inevitable for both of the cooperatives making up United, but as a result of the consolidation, the adjustment had been minimized for many rate classes. The new rate structure helps United achieve an equal return for all rate classes.

Ray Beavers, United's General Manager/CEO, said there were several goals of the consolidation of JCEC and Erath County EC back in 2000 and by combining efforts, United has been able to enhance the technical and professional staff, merge operations to reduce overhead and maintain competitive rates for members.

The rate adjustment should allow the cooperative to remain financially stable and will continue to provide competitive rates for the membership of United. It was predicted to increase revenue by just under four percent and would help United meet debt service obligations and projected increases in operating and maintenance expenses. Also, the new rate structure includes only five rate classes, which will allow greater simplicity in billing and accounting practices.

## Natural Gas Prices

The price of natural gas continued to stay at high levels throughout 2003 and United stepped up public education campaigns about conservation and the role natural gas plays in the cost of generating electricity.

Since natural gas is a demand-sensitive product of the free market, the price is passed on to the consuming public. Brazos Electric Cooperative, United's wholesale supplier of electricity, was directly impacted by the spikes in natural gas pricing and passed those costs on through United to the end-consumer. Due to the sharp rise in natural gas, it was necessary to make a greater adjustment to United's Power Cost Recovery Factor (PCRF), the rate component on all electric bills that directly

reflects the fluctuating cost of natural gas required to run an electric generation plant.

United's rate structure allows for monthly adjustments of fuel charges so that if natural gas prices go back down, members are not stuck with a higher rate indefinitely. The PCRF is adjusted to reflect the actual market and since it is a pass-through charge, United does not make a profit from the charges.



Customer service reps. Cathy Wilson, Misty Chesshir, Gina Greer, Frances Boase & Melinda Montgomery.

## Outage Management System

United began taking more proactive steps to help quickly resolve power outages in 2003 by updating the automated phone system, which works with the new outage management software. The co-op also began a campaign educating members of the importance of knowing their account number when reporting an outage.

When a vast number of calls occur after hours or during major storms or outages, United can now handle the calls with an automated phone system, which asks members for the account number or meter number associated with the outage. When used correctly, the system accurately references the correct location of the outage, further assisting the crews in these emergency situations.

By knowing their account number, members help United crews determine the source of the problem faster and restore power quicker while maintaining the focus on the safety of United crews and members.

Throughout November 2003, all United members received a refrigerator magnet with their monthly bill where they can write down their account number and have the necessary information handy when calling in to report an outage. The education campaign and further improvements on the outage management system are still in progress and will continue for years to come.

... continued on the next two pages.

*Dedication...*

is part of your electric co-op.

## Safety Accreditation

In 2003, United received safety accreditation after an intensive review by the Rural Electric Safety Accreditation Program (RESAP), sponsored by the National Rural Electric Cooperative Association.

The accreditation program is an organized analysis of a cooperative's safety and loss control program, which measures its overall effectiveness. The purpose of the RESAP is to inform and promote safety and loss control, preserve lives, prevent injury and help reduce the escalating costs associated with preventable injuries and/or death.

Safety is a priority at United and the co-op teaches first aid, CPR and safe driving courses, operates under safe work practices and pays for training from OSHA and Texas Electric Cooperatives Inc.

### *United's 2003 Safety Committee*



## Employees Work with No Lost Time

In November 2003, United employees reached an extraordinary milestone by working 500,000 hours without a Lost-Time Accident, a tremendous achievement in safety reached after 19 months.

An unblemished lost-time record is important to United for many reasons beyond obvious employee and member safety — it can also lower operational costs when the cooperative has a low injury rate and it's a win-win situation for employees and members.

## Rural Friends / ACRE

On Jan. 30, 2003, United Cooperative Services hosted its first luncheon for all employees who became members of Rural Friends/ACRE. Rural Friends/ACRE is a non-partisan political action committee helping supporters of electric cooperatives seeking a seat on the Texas Legislature or to

the U.S. Congress. United's total Rural Friends membership for 2003 was 73 members, 46 of which were new members. At the Texas Electric Cooperatives, Inc. Annual Meeting in August 2003, United's Ted Gebhardt, a lineman in Cleburne, accepted a plaque from TEC acknowledging United in its efforts of recruiting the most new members in Rural Friends.

## Vial of Life

In April 2003, United launched the Vial of Life initiative, an emergency medical information kit program specifically designed to provide necessary medical information to emergency response personnel when a patient is unable to do so. This program is made possible through United's Operation Round Up program and currently used in retirement communities, nursing homes and assisted living facilities throughout United's service area.

United's Vial of Life kit contains an instruction sheet, two plastic pill bottles, two window decals, two medical information sheets and a wallet-size information card. The medical information sheets are placed inside each of the two pill bottles and placed on the top shelf of the refrigerator and inside a vehicle's glove box.

Decals go on the door or window at the main entrance to a participant's home and on the window of their vehicle and the wallet-sized information card also provides emergency personnel with essential family and physician contact information for the victim.

Vial of Life was introduced to residents in Hood, Johnson and Erath counties throughout 2003



*Granbury office manager Vickie Schlittler and customer service reps. Misty Cheshshir and Diane Snyder distribute Vial of Life.*

*Commitment to Education...*  
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# in Review

and was attributed to helping save the lives of two United members by the year's end. Thanks to local donations and United's member-funded Operation Round Up program, the co-op can continue to provide this life-saving service to members.

*Board member Paul Wilkerson (center) congratulates 2003 scholarship winners from Hico, Iredell & Meridian.*



## Scholarship Program

In 2003, United celebrated a 15-year anniversary of awarding college scholarships to members of the co-op by continuing the principle of investing back into local communities. As established by United's democratically elected board of directors, the scholarship award program encourages and assists in the educational pursuits of United members and their families.

The scholarship funds were made available by Texas House Bill 3203, which allows non-profit electric cooperatives like United to put unclaimed member dividend funds to use for student scholarships. In years prior, unclaimed dividends were returned to the state's general fund but due to this change, the money can now stay in this area and directly benefits United members.

The 2003 Energy Scholarship awards, designated for 65 recipients, were representative of the number of years United has been in business and after recognition of the 2003 winners, a total of 446 students had received scholarships, totaling more than \$400,000 in award money. Winners were chosen from numerous applicants area-wide based on financial need, leadership, community involvement and school activities.

## Red Cross Names United "Good Neighbor"

In late September 2003, the Chisholm Trail Chapter of the American Red Cross presented United with the Good Neighbor Award for quick service during storm restoration and coordination of donation efforts for troops overseas.

The award is marked for an individual and/or

organization outside the American Red Cross for having made a significant humanitarian contribution to the local, national, or international community in support of the Red Cross.

During March of 2003, United accepted donations for care packages to be shipped overseas to give service men and women a few of the comforts of home. The public response was very supportive and a number of other agencies and businesses joined in to help United support the worthy cause. Nearly 100 boxes filled with donations from United members were shipped along with other donations to deployed troops.

The Red Cross also honored United for quick response in restoring electric service to members during a severe wind storm on April 24, 2003. The storm damaged more than 150 homes in the Metroplex Homestead Subdivision of Alvarado.

United's joint venture projects with the American Red Cross in 2003 included Operation Round Up assistance to fire and tornado victims, a blood drive and the utilization of Red Cross training programs for United employees.

## Revamped Web Site

A new and improved look was implemented in 2003 for United's Web site, [www.united-cs.com](http://www.united-cs.com), to provide current and potential members more information on their electric co-op.

The site's clean setup incorporates easy-to-use navigation tools with beefed up content on United, its staff, board and place in the community.

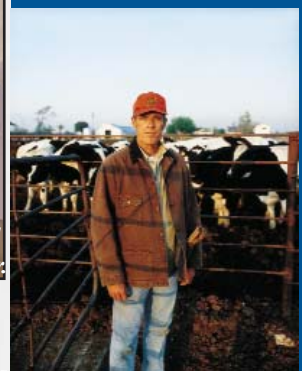
The site also has expanded sections covering United's communication plans, programs such as Youth Tour, scholarships, Vial of Life and Operation Round Up, along with more information on energy and safety.



*Burleson linemen Ed Nunez, Paul Woodall and Darrell Sulak accept an award from the Red Cross's Lisa Ormer.*



*Community Involvement...*  
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# Statements of Revenue

For Years Ending Dec. 31	2003	2002
Net Sales	<u>\$116,091,527</u>	<u>\$96,489,026</u>
Operating expenses:		
Purchased power	\$82,039,617	\$66,216,466
Distribution expense — Operations	3,906,232	3,964,794
Distribution expense — Maintenance	3,575,313	3,361,373
Consumer accounts	3,343,379	3,132,458
Customer service and information	1,426,653	1,288,843
Administrative and general	2,760,226	3,004,021
Depreciation and amortization	5,992,889	5,700,848
Taxes	909,857	702,372
Interest on long-term debt	3,006,136	3,609,567
Other interest and deductions	176,197	292,886
Total operating expenses	<u>\$107,136,499</u>	<u>\$91,273,628</u>
Net operating margins	<u>\$8,955,028</u>	<u>\$5,215,398</u>

# Balance Sheet

As of Dec. 31

ASSETS	2003	2002
Utility Plant:		
Electric plant in service — At cost	\$186,646,655	\$176,242,982
Construction work in progress	1,971,052	3,401,182
	<u>\$188,617,707</u>	<u>\$179,644,164</u>
Less accumulated provision for depreciation and amortization	49,730,097	45,970,251
Net utility plant	<u>\$138,887,610</u>	<u>\$133,673,913</u>
Other property and investments at cost:		
Investments in associated organizations	\$21,453,027	\$19,568,750
Notes receivable	6,623,246	6,297,313
Total property and investments	<u>\$28,076,273</u>	<u>\$25,866,063</u>
Current assets:		
Cash and cash equivalents	\$10,001,358	\$12,634,944
Accounts receivable less allowance for doubtful accounts	9,766,991	7,979,355
Notes receivable — Current portion	106,000	75,000
Material and supplies — At average cost	743,514	885,073
Other current and accrued assets	649,152	640,303
Total current assets	<u>\$21,267,015</u>	<u>\$22,214,675</u>
TOTAL ASSETS	<u>\$188,230,898</u>	<u>\$181,754,651</u>

*Integrity...*

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# Statements of Revenue ...continued

For Years Ending Dec. 31	2003	2002
Nonoperating margins:		
Interest Income	\$702,278	\$690,611
Other	181,557	103,153
Total nonoperating margins	<u>\$883,835</u>	<u>\$793,764</u>
Generation and transmission cooperative and other capital credits	<u>\$1,904,628</u>	<u>\$229,886</u>
Net margins for the year	\$11,743,491	\$6,239,048
Patronage capital – Beginning of the year	77,451,850	75,276,359
Transfers to other equities	(621,018)	(1,160,562)
Retirement of capital credits	<u>(2,949,996)</u>	<u>(2,902,995)</u>
Patronage capital – End of the year	<u>\$85,624,327</u>	<u>\$77,451,850</u>

*Accountability...*

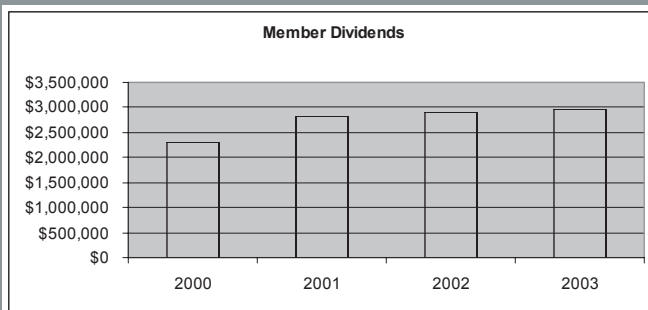
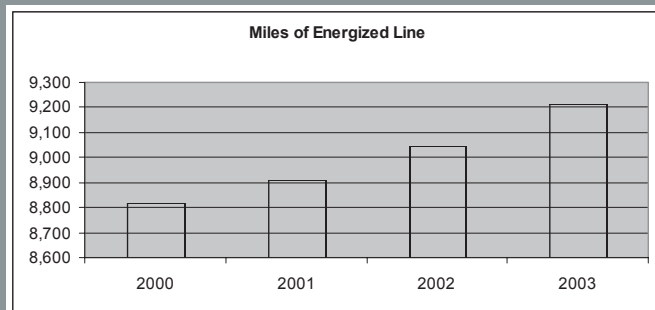
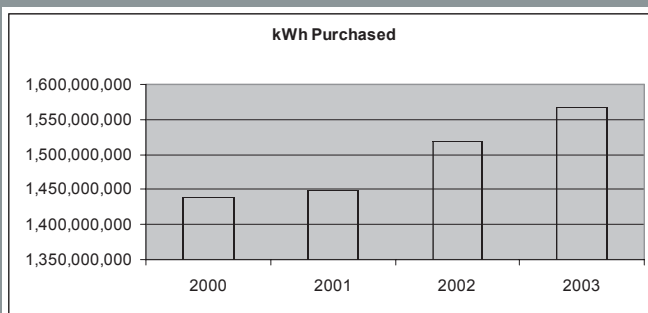
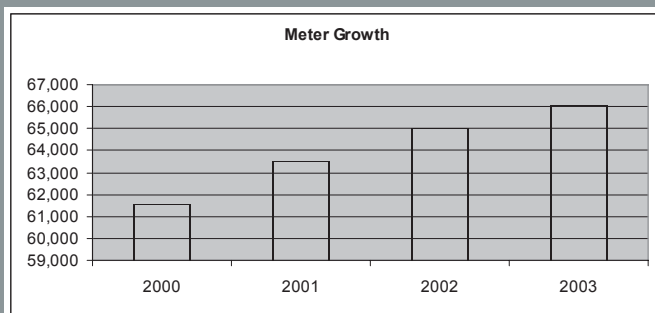
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# Balance Sheet ...continued

LIABILITIES AND MEMBERS' EQUITY	2003	2002
Equities and margins:		
Memberships	\$315,165	\$335,295
Patronage capital	85,624,327	77,451,850
Other equities	<u>5,491,743</u>	<u>4,800,430</u>
Total equities and margins	<u>\$91,431,235</u>	<u>\$82,587,575</u>
Long-term debt:		
RUS mortgage notes	\$12,461,209	\$17,425,088
CFC mortgage notes	6,026,366	6,255,407
FFB notes	41,675,612	39,772,142
CoBank mortgage notes	8,533,474	8,391,431
Economic development loan	<u>335,126</u>	<u>335,126</u>
Total long-term debt	<u>\$69,031,787</u>	<u>\$72,179,194</u>
Accumulated provisions for pensions and benefits-postretirement benefits	<u>\$2,421,058</u>	<u>\$2,537,068</u>
Current liabilities:		
Current maturities of long-term debt	\$2,450,658	\$2,506,000
Accounts payable – Purchased power	6,758,905	5,753,709
Accounts payable – Other	352,489	106,974
Consumer deposits	2,017,402	1,813,152
Accrued taxes	2,176,172	1,868,786
Accrued interest	384,775	455,150
Other current and accrued liabilities	<u>4,769,291</u>	<u>5,422,096</u>
Total current liabilities	<u>\$18,909,692</u>	<u>\$17,925,867</u>
Deferred credits	<u>\$6,437,126</u>	<u>\$6,524,947</u>
TOTAL LIABILITY and MEMBERS' EQUITY	<u>\$188,230,898</u>	<u>\$181,754,651</u>



# Comparative Statistics



**April 2, 2004**

**To 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 Dec. 31, 2003 and 2002, and the related statements of income and patronage capital, and cash flows for the years then ended and in our report dated April 2, 2004, 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**

Established in 1938 and headquartered in Cleburne, Texas, United Cooperative Services is an electric distribution co-op serving 66,000 meters and more than 49,000 members. As your Touchstone Energy® cooperative, United plays a key role in the economic development of its communities and unlike a private utility, the cooperative is a not-for-profit business owned by the members it serves. Maintaining more than 9,125 miles of energized line, United serves parts of Johnson, Erath, Hood, Bosque, Somervell, Palo Pinto, Coryell, Eastland, Comanche, Stephens, Young, Hamilton, Tarrant and Ellis counties.

## Board of Directors



*United's Board of Directors (Back rows, left to right): Hoyt Cantrell, Clifford Deal, vice president Larry Bays, Casey Tips, Fred Parker, Billy Poland, Paul Wilkerson, Harold Pack and Johnnie Rollins. (Seated front row, left to right) secretary/treasurer Patsy Dumas, president Jack McCaslin and Lola Mitchell.*