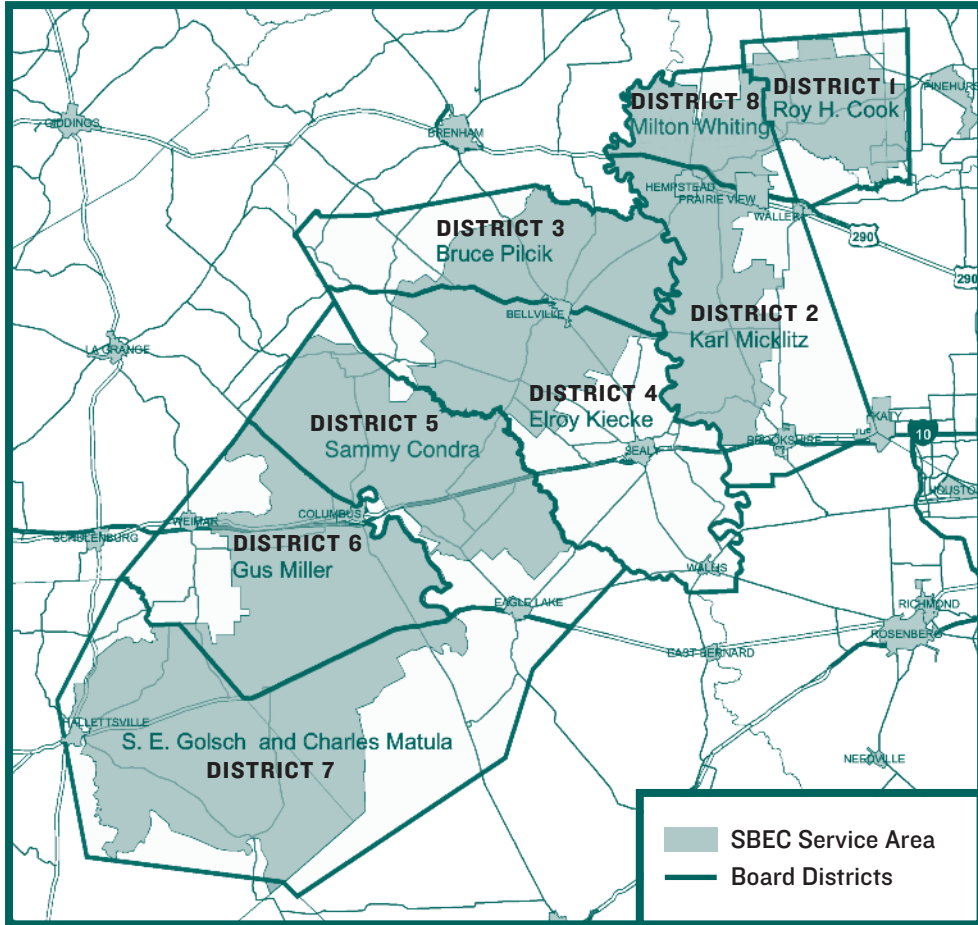




SAN BERNARD ELECTRIC COOPERATIVE, INC.

71 YEARS OF SERVICE



2009 ANNUAL REPORT

AND OFFICIAL NOTICE OF ANNUAL MEETING

May 15, 2010 • Austin County Fair Convention and Expo Center • Bellville, Texas

CHAIRMAN'S REPORT

The year 2009 was volatile, and the best way that I can describe it is that it was a year of survival for all of us. The economy was bleak, which resulted in San Bernard Electric Cooperative having fewer new connects; only 441 in 2009 as compared to 621 in 2008. We endured a climate that was horrific (in terms of electricity usage), and we started the new year pretty much like last year ended. We are still concerned about the economy and the winter bills were astronomical, yet San Bernard Electric remains financially healthy. That financial strength was a result of several decisions made by the cooperative in light of the economic times we faced.

Early in 2009, San Bernard started scaling back on the contractors that we utilized. We could see that the need to keep them working on our system was dwindling. By the end of the year, we had released all "construction contractors" and cut back on the number of "vegetation management contractors" working on our system. Additionally, San Bernard's management implemented a hiring freeze and reviewed each open position, whether due to retirement or other reasons, to determine the need of filling that opening. In fact, we eliminated three positions last year. Those jobs will eventually need to be filled once we see substantial improvement to the economy. These decisions helped save our membership substantial dollars. Realistically, we won't be able to continue this approach long term because an electrical system will always have a need for line upgrades or replacements. To maintain our system to a standard that you are accustomed to we will, in due course, have to address these areas. By hiring contractors to do the lion's share of this work, our staffing levels remain low. Furthermore, these contractors know that when times get tough—they are the first to go. It's a lot easier and more economical to let contractors go instead of "staffing up" to do this work. These contractors will eventually be back on our system, but for now, we will continue to toe the line on all expenses affecting your price of electricity.

There were a considerable number of high bill complaints this year, and quite frankly they were brought on by Mother Nature's wrath. We had extremely hot temperatures during last summer's drought and were hit by record low temperatures this past winter. Many of you have re-evaluated your homes to determine how energy efficient they are. For those of you who haven't, please contact any of our offices if you need help in this area.

We completed the rebuilding of our Waller County transmission line in 2009, and the drought actually helped us in regards to the completion of this project. Because we had dry weather during most of the construction phase of this project, its completion was ahead of schedule by almost two full months, and in turn it came in at \$2.2 million below budget.

San Bernard Electric Cooperative is still working with the Lower Colorado River Authority concerning an extension to our wholesale power contract. In all likelihood, your cooperative board will make the decision on who we will buy our future power from before next year's Annual Meeting. I will say that this is constantly on each director's mind. This decision will affect what our members will pay for electricity for years to come, and we are giving this matter our full attention.

Looking forward, the board, staff, and employees of San Bernard Electric Cooperative will continue to work diligently to provide our membership with dependable service at the lowest rates possible. Your input is always welcome—after all, you are an owner of this cooperative.

BOARD OF DIRECTORS

San Bernard Electric Cooperative, Inc.



ROY H. COOK
BOARD DISTRICT 1



KARL MICKLITZ
BOARD DISTRICT 2
2ND VICE CHAIRMAN



BRUCE PILCIK
BOARD DISTRICT 3
1ST VICE CHAIRMAN



ELROY KIECKE
BOARD DISTRICT 4
ASST. SECRETARY-TREASURER



SAMMY CONDRA
BOARD DISTRICT 5



GUS MILLER
BOARD DISTRICT 6
CHAIRMAN



CHARLES MATULA
BOARD DISTRICT 7
SECRETARY-TREASURER



S.E. GOLSCH
BOARD DISTRICT 7



MILTON WHITING
BOARD DISTRICT 8
3RD VICE CHAIRMAN



LOU LEE WOOD
DIRECTOR EMERITUS
(INACTIVE)



BILLY MARRICLE
PRESIDENT/
GENERAL MANAGER

SUMMARY OF COOPERATIVE BYLAWS

Pertaining to Membership, Annual Meetings, Board Representation, Nomination & Election Procedures

MEMBERSHIP: Any natural person, firm, association, corporation, business trust, partnership, Federal agency, State or political subdivision thereof or any body politic (each hereinafter referred to as "person," "applicant," "him" or "his") shall be eligible to become a member of, and, at one or more premises owned or directly occupied or used by him, to receive electric service from SAN BERNARD ELECTRIC COOPERATIVE, INC. No person shall hold more than one membership in the Cooperative. A husband and wife, by specifically so requesting in writing, may be accepted into joint membership.

ANNUAL MEETING: For the purposes of electing directors, hearing and passing upon reports covering the previous fiscal year, and transacting such other business as may properly come before the meeting, the annual meeting of the members shall be held on the third Saturday of the month of May each year, at such place in one of the counties in Texas within which the Cooperative serves, and beginning at such hour as the Board of Directors shall from year to year fix... Written or printed notice stating the place, day and hour of the meeting and, in case of a special meeting or an annual meeting at which business requiring special notice is to be transacted, the purpose or purposes for which the meeting is called, shall be delivered not less than ten days nor more than forty days before the date of the meeting, either personally or by mail, by or at the direction of the Secretary... If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the member at his address as it appears on the records of the Cooperative ... At all meetings of the members, all questions shall be decided by a majority of the members voting thereon, except as otherwise prohibited by law or the Cooperative's Articles of Incorporation or these Bylaws. Members may not cumulate their votes or vote by proxy or by mail.

DIRECTORS: The business and affairs of the Cooperative shall be managed by a Board of nine (9) Directors. The Board shall exercise all of the powers of the Cooperative except such as are by law or by the Cooperative's Articles of Incorporation or Bylaws conferred upon or reserved to the members. At each annual meeting of the members, directors shall be elected by secret written ballot by the members. No person shall be eligible to become or remain a director of the Cooperative who is a close relative of an incumbent director or of an employee of the Cooperative, or is not a member in good standing of the Cooperative and receiving service therefrom in the district that he/she is elected to represent. No person shall be eligible to become or remain a director of, or to hold any other position of trust in, the Cooperative who is not at least twenty-one (21) years of age or is in any way employed by or financially interested in a competing enterprise, or a business primarily engaged in selling electrical or plumbing appliances, fixtures or supplies to, among others, the members of the Cooperative.

NOMINATIONS: It shall be the duty of the Board of Directors to appoint not less than ninety (90) days, nor more than one-hundred twenty (120) days before the date of an annual meeting of the members, a committee of nominations for each district from which a director is to be elected, consisting of three members and two alternates, all of whom shall be members in good standing of the Cooperative and shall reside within the district.

Each committee shall nominate at least one but not more than two members from their respective districts and shall prepare and post at the principal office of the Cooperative at least thirty (30) days before the meeting a list of nominations for each directorship up for election. Any 50 or more members acting together may make other nominations by petition not less than thirty (30) days prior to the meeting and the secretary shall post such nominations at the same place where the list of nominations made by the committee is posted. These fifty or more petitioners shall have electric services

within the Board district that has its normal directorship term due for election... The chairman shall call for additional nominations from the floor by district... Any member making a nomination by petition or from the floor shall be a member in good standing of the Cooperative and shall reside within the district for which the nomination is made. Each member shall mark his ballot and deposit same for counting by the credentials and election committee. The candidate from each district from which a director is to be elected receiving the majority of votes of those members at this meeting who cast ballots shall be declared elected as director. The credentials and election committee shall report the results thereof before the meeting adjourns.

Complete copies of the cooperative's bylaws are available from the headquarters office upon request.

OFFICIAL NOTICE of Annual Membership Meeting

San Bernard Electric Cooperative, Inc. • Bellville, Texas

To All Members:

Pursuant to the bylaws of San Bernard Electric Cooperative, Inc., the Annual Membership Meeting will be held at the Austin County Fair Pavilion, Highway 159 E., Bellville Texas, on Saturday, May 15, 2010, to take action on the following:

1. Reports of Directors, Officers and Committees.
2. Election of three (3) directors. In connection with the election of three (3) directors scheduled for this meeting, the following named members have been nominated by a Committee on Nominations appointed by the Board of Directors of the cooperative, pursuant to the bylaws:

BOARD DISTRICT 2
KARL MICKLITZ
P.O. Box 366
Brookshire, TX 77423

BOARD DISTRICT 4
ELROY KIECKE
P.O. Box 1000
Bellville, TX 77418

BOARD DISTRICT 6
GUS MILLER
1908 Milam St.
Columbus, TX 78934

3. Hear comments and questions.

Every member is urged to attend the Annual Membership Meeting.

Respectfully,

Charles Matula, Secretary
San Bernard Electric Cooperative, Inc.
Dated this 16th Day of March 2010

2010 NOMINEES FOR SBEC DIRECTOR

BOARD DISTRICT 2

KARL MICKLITZ is a retired state judge and currently serves as municipal judge for the City of Brookshire. He and his wife, Lucy, have lived in the Pattison area since 1970, where he is a member of the Pattison Area Volunteer Fire Department. He has been a director of SBEC since 1980. Upon graduation from Texas A&M College in 1960, he attended law school and graduated from South Texas College of Law in 1965. He also served 30 years in the Army and the Texas National Guard, retiring with the rank of colonel in 1990. Micklitz, who was a paratrooper, is also a licensed pilot and flies frequently. He and his wife have four children and eight grandchildren. They attend Sts. Peter and Paul Catholic Church in Bellville.

BOARD DISTRICT 4

ELROY E. KIECKE has been a director of San Bernard Electric for 13 years. He and his wife, Jeanette, are the parents of three sons and have three daughters-in-law and eight grandchildren. After graduating from Blinn College, he served in the Air Force for four years. Upon discharge, he entered Sam Houston State, where he received a master's degree. Kiecke was an educator for six years and then entered the insurance business for 35 years, retiring as president of Lynn, Kiecke, Lackey. He has been the recipient of the Lions Club Citizen of the Year Award and the Bellville Chamber of Commerce's Good Neighbor Award. He appreciates the opportunity to serve with the other directors, the administrators and the employees, but most of all he is cognizant of the responsibility he has to represent the interests of all SBEC members.

BOARD DISTRICT 6

GUS H. MILLER JR. is a director of the First State Bank, Columbus, where he retired as president on January 1, 1996. He has served on the San Bernard Electric Cooperative Board of Directors for 20 years and was elected chairman of the board in June 2006. Miller and his wife, Margaret, reside in Columbus and have a ranch southwest of the city limits. They have four children and seven grandchildren. He graduated from Columbus High School and attended the University of Texas at Austin. Miller is a past president of The Columbus Rotary Club, The Columbus Chamber of Commerce and The Columbus Community Chest. He attends and is a board member for the First United Methodist Church, is the chairman of the board of the Leon & Beatrice Obenhaus Goodhaus Foundation and is a member of the Texas Farm Bureau. Miller served in the Army during World War II with the 97th Infantry Division in Europe and Japan.

IMPORTANT NOTICE

This is your official notice that the Annual Membership Meeting of the San Bernard Electric Cooperative, Inc., will be held May 15, 2010, at the Austin County Fair Association Convention and Expo Center, Highway 159 E., Bellville, Texas, beginning at 10 a.m.

PROGRAM FOR ANNUAL MEETING

MAY 15

Austin County Fair Convention and Expo Center, Bellville

REGISTRATION OF MEMBERS 8:30 a.m.

BUSINESS MEETING 10 a.m.

- Call to Order
- Invocation
- Reading of Notice of Meeting
- Minutes of Previous Meeting
- ELECTION OF DIRECTORS**
- Report of Officers
- Old Business
- Drawing for Attendance Prizes

BARBECUE DINNER 11:30 a.m.

One free ticket per member; additional tickets may be purchased.

INDEPENDENT AUDITORS' REPORT

BOLINGER, SEGARS, GILBERT & MOSS

CERTIFIED PUBLIC ACCOUNTANTS

8215 NASHVILLE AVE., LUBBOCK, TEXAS 79423-1054

Board of Directors

*San Bernard Electric Cooperative, Inc.
Bellville, Texas*

We have audited the accompanying balance sheets of San Bernard Electric Cooperative, Inc., as of December 31, 2009, and 2008, and the related statements of income and patronage capital 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 audits.

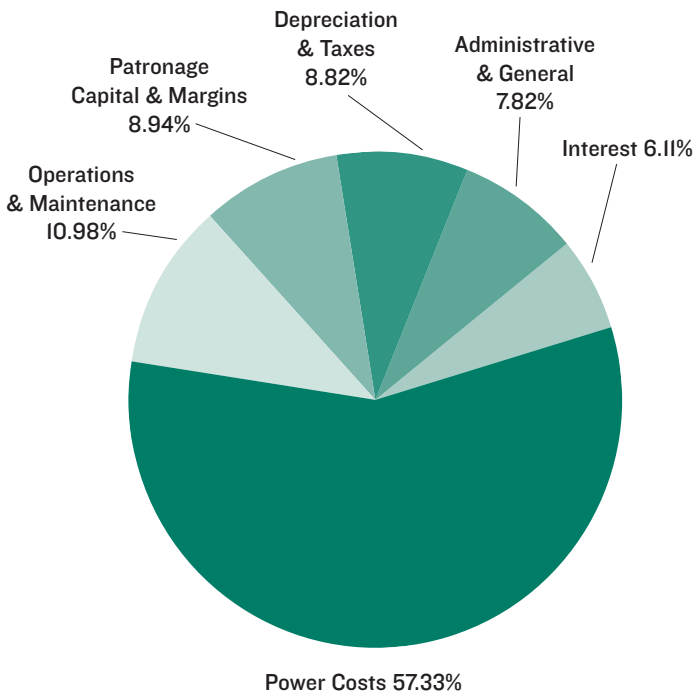
We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence 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 San Bernard Electric Cooperative, Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Bolinger, Segars, Gilbert & Moss
CERTIFIED PUBLIC ACCOUNTANTS

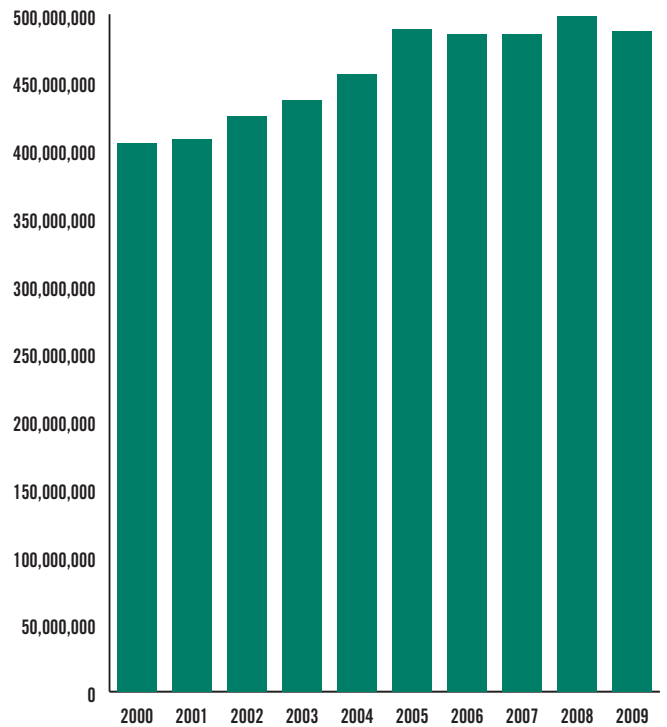
USES OF REVENUE

(2009 Allocation of Revenue)



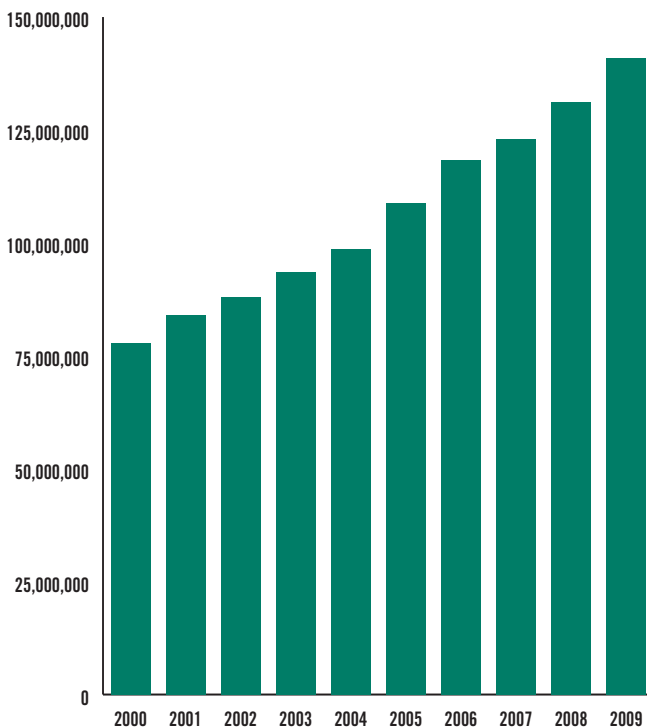
KWh SALES

(Past 10 Years)



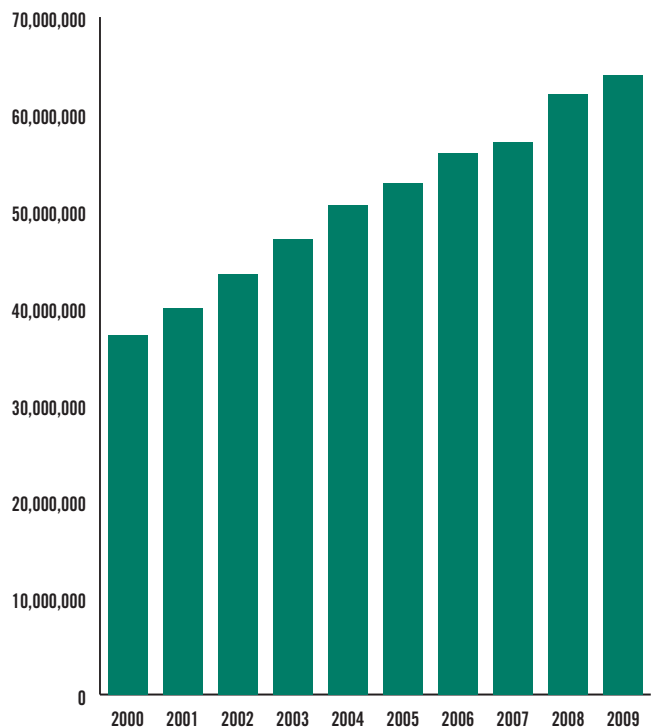
ASSETS

(Past 10 Years)



EQUITY

(Past 10 Years)



OPERATING STATEMENT

2009 and 2008

	2009	2008
REVENUES		
Sales of Electric Power	\$54,795,489	60,714,972
Other Electric Revenue	2,488,296	1,581,259
TOTAL REVENUE	\$57,283,785	\$62,296,231
EXPENSES		
Purchased Power	\$32,839,187	\$39,240,409
Operations and Maintenance	6,289,414	6,126,678
Administrative and General	4,478,342	3,971,581
Depreciation	4,788,427	4,473,138
Taxes	264,992	285,612
Interest	3,499,962	3,450,342
TOTAL EXPENSES	\$52,160,324	\$57,547,760
MARGINS		
Operating Margins	\$ 5,123,461	\$ 4,748,471
Nonoperating Margins	(716,646)	603,925
TOTAL MARGINS	\$ 4,406,815	\$ 5,352,396

BALANCE SHEET

As of December 31, 2009, and December 31, 2008

	2009	2008
ASSETS		
Net Utility	\$129,281,248	\$117,722,123
Investments	4,507,429	4,539,777
Cash	906,217	2,223,646
Notes and Accounts Receivable	2,934,237	3,351,920
Materials and Supplies	2,616,917	2,703,965
Other Current and Accrued Assets	275,556	247,018
Deferred Charges	346,668	416,397
TOTAL ASSETS	\$140,868,272	\$131,204,846
EQUITY		
Memberships	\$ 81,835	\$ 84,685
Patronage Capital and Margins	63,883,936	61,944,992
TOTAL EQUITY	\$ 63,965,771	\$ 62,029,677
LIABILITIES		
Long-Term Debt	\$ 67,828,513	\$ 56,343,844
Accounts Payable	5,864,889	9,589,491
Other Current and Accrued Liabilities	2,038,770	2,163,880
Deferred Credits	1,170,329	1,077,954
TOTAL LIABILITIES	\$ 76,902,501	\$ 69,175,169
TOTAL LIABILITIES AND EQUITY	\$140,868,272	\$131,204,846