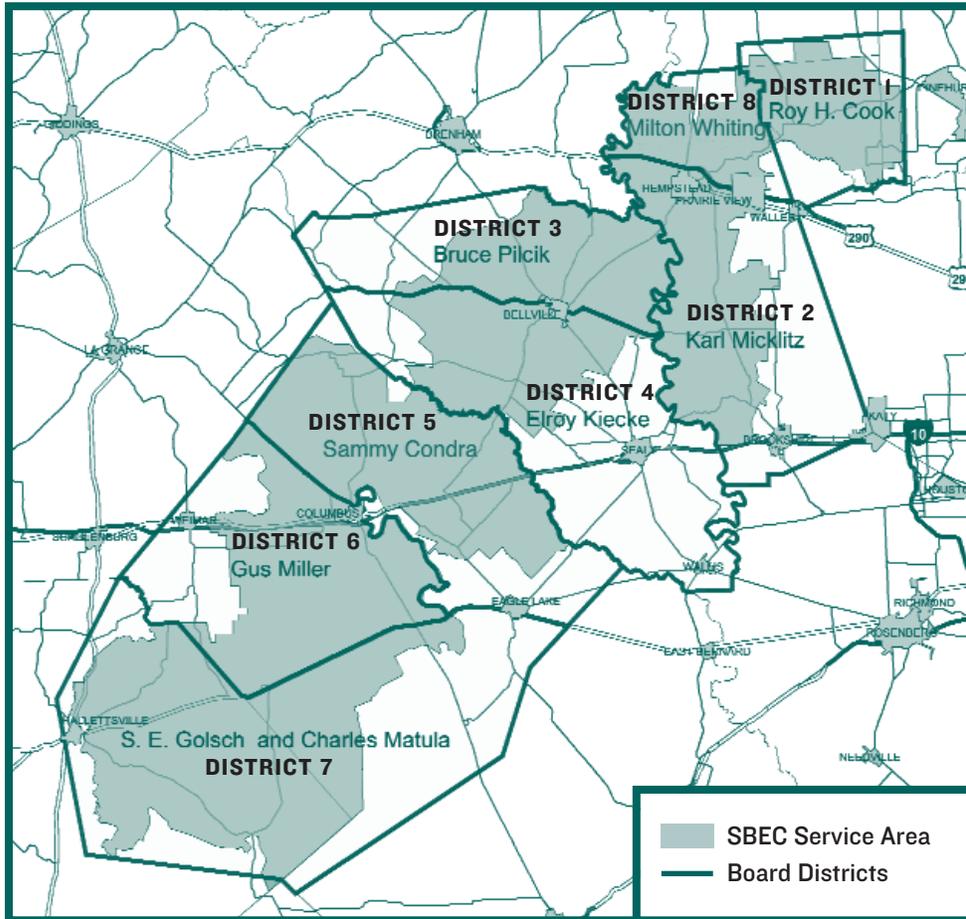




SAN BERNARD ELECTRIC COOPERATIVE, INC.

72 YEARS OF SERVICE



2010 ANNUAL REPORT

AND OFFICIAL NOTICE OF ANNUAL MEETING

May 21, 2011 • Austin County Fair Convention and Expo Center • Bellville, Texas

CHAIRMAN'S REPORT

BOARD OF DIRECTORS

San Bernard Electric Cooperative, Inc.

Reflecting on 2010, I would say it was a year of survival (with a silver lining) for your cooperative. While the local economies in most of the service area struggled to recover, San Bernard Electric Cooperative held tight. We actually saw growth in new connections, the number of services in place and total kilowatt-hours (kWh) sold. I won't go way out on a limb and say we've rounded the corner, but I will say we might have our finger in the dam, beginning to stop the floodwaters.

The growth in new services we experienced was rather unexpected, as we were actually projecting zero growth in this area. In fact, we actually expected a decrease from last year's numbers (which were historical lows).

Most of the kWh sales boost can be attributed to last year's weather. If you'll remember early last year, we had that extended period of time where the cold snap set in and lingered. This year's winter was colder, but it was for fewer days. During 2010's lengthy winter, our members' kWh usage really soared, and coupled with our warmer summer, SBEC bought more kWh than we did in 2009.

Early in 2009, San Bernard started scaling back on the contractors that we utilized. In fact, at the end of 2009, San Bernard Electric Cooperative did not have a single major contractor working for us. In doing that, we asked employees to step up to the plate and do more. They responded, thus helping us bridge the slow time.

All this combined to produce an unexpected, but pleasant, surprise. SBEC's margins were more than we budgeted for. In turn, the board of directors authorized the cooperative's staff to issue a return of capital credits during the month of December. We retired more than \$3 million to our members. In fact, this was the second year in a row that we were able to return money to our members in form of capital credit retirements.

While the lion's share of the unexpected margins were weather-related, resulting in higher kilowatt-hour sales, some of these margins can be attributed to hard choices made by your cooperative's staff. The staff and employees of SBEC are dedicated individuals working together to provide you with reliable and affordable electricity.

I mentioned earlier the bitterly cold weather this winter. It should not be a surprise to anyone that this event affected the generation units that provide electricity to San Bernard Electric Cooperative.

In fact, this weather event affected most of Texas and required our area to go into "rolling blackouts." During a rolling blackout, we purposely interrupt our members' electricity for short intervals. We do this to make sure that the generators still available will not be overloaded and "trip" offline. When enough generators trip offline it causes a cascade effect in which every generator will trip offline to protect these units.

Should that happen, it would be a minimum of 48 hours (at best) before power could be restored. So by conducting rolling blackouts, we are actually trying to stabilize a very critical situation. There have been only three events of this nature—ever. Talking with staff, I found that we went through this process with minimal problems or complaints.

Looking back, I can summarize 2010 as "Staying on Course."

We look forward to seeing as many of you as possible at the annual meeting this year. One thing I do know, whatever the road ahead has for San Bernard Electric, we are prepared to tackle it with the concerns of our membership foremost on our minds.



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 (1) but not more than two (2) 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 fifty (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 21, 2011, 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 1

ROY COOK
29417 Roy Cook Lane
Waller, TX 77484

BOARD DISTRICT 7

S.E. GOLSCH
RR 5 Box 259
Hallettsville, TX 77964

BOARD DISTRICT 8

MILTON WHITING
P.O. Box 2125
Prairie View, TX 77446

3. Hear comments and questions.

Every member is urged to attend the annual membership meeting.

Respectfully,

CHARLES MATULA, *Secretary-Treasurer*
San Bernard Electric Cooperative, Inc.
Dated this 21st Day of March 2011

2011 NOMINEES FOR SBEC DIRECTOR

BOARD DISTRICT 1



ROY H. COOK has been active in agribusiness for many years. He attended public schools in Fieldstore and Waller and is a graduate of Texas A&M University. He was attending South Texas School of Law when he was called to serve as an officer in the U.S. Air Force.

Cook is on the board of San Bernard Electric Cooperative and has previously served as chairman. He is a past director of the Guaranty Bond State Bank, Waller County Farm Bureau, Waller County Fair Association and the Texas Plant Food Educational Society and is a member of the Waller County Beef and Forage Committee.

Cook and his wife, Joan, are members of the Waller Baptist Church. They are the parents of two daughters and have three grandchildren.

Cook says SBEC has provided dependable and affordable service to our area for more than 50 years. The cooperative brought electrical service to our area when it was impossible to obtain power from other sources.

“I feel that to serve as a director of the cooperative is an opportunity to represent the people of District 1 and to repay San Bernard, which has served my family and neighbors so faithfully,” he said.

BOARD DISTRICT 7



S.E. GOLSCH is a farmer-rancher, carpenter and exotic-bird breeder living near Hallettsville. He has served on the San Bernard Electric Cooperative Board of Directors since 1962. Golsch is a member of Sacred Heart Catholic Church, where he attended elementary and high school. He was in the Transportation Corps during the Korean conflict. His civic affiliations include being part of the Hallettsville Chamber of Commerce and Agriculture and the Farm Bureau, a charter member of the Hallettsville Young Farmers and member of the Veterans of Foreign Wars.

BOARD DISTRICT 8



MILTON WHITING graduated from Prairie View A&M with a bachelor’s degree in agriculture education and a master’s degree in agricultural economics. He went on to obtain his counselor certification from Prairie View. Whiting attended the University of Oklahoma to continue his education in the field of business financial analysis, a course offered by Dun and Bradstreet.

After 35 years, Whiting retired from the U.S. Department of Agriculture as an assistant district director. His responsibility was to implement loans within an eight-county area for water systems, wastewater and sewage-treatment plants, community facilities and apartments.

Whiting was appointed to the Waller County Appraisal Review Board and serves as chairman. He served eight years as Precinct 3 commissioner for Waller County. He is a director for the Waller County Crime Stoppers and director for the South-west Texas Housing Finance Corporation. Whiting is a life member of the Prairie View A&M Alumni Association. He is a member and serves on the board of trustees for the Bethlehem United Methodist Church in Hempstead.

Whiting has been a San Bernard Electric Cooperative member for 47 years. For the past five years, he has served on the board of directors. He will encourage SBEC management to continue with the cooperative’s good service and reasonable rates.

IMPORTANT NOTICE

This is your official notice that the Annual Membership Meeting of San Bernard Electric Cooperative, Inc., will be held May 21, 2011, at the Austin County Fair Association Convention and Expo Center, Highway 159 E., Bellville, Texas, with the business meeting beginning at 10 a.m.

PROGRAM FOR ANNUAL MEETING

MAY 21

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

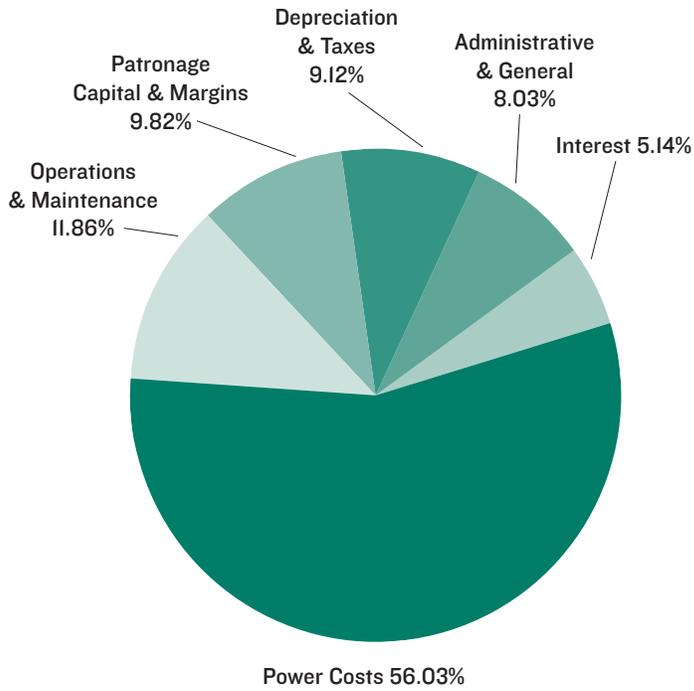
- Report of Officers
- Questions and Answers
- Drawing for Attendance Prizes

BARBECUE DINNER 11:30 a.m.

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

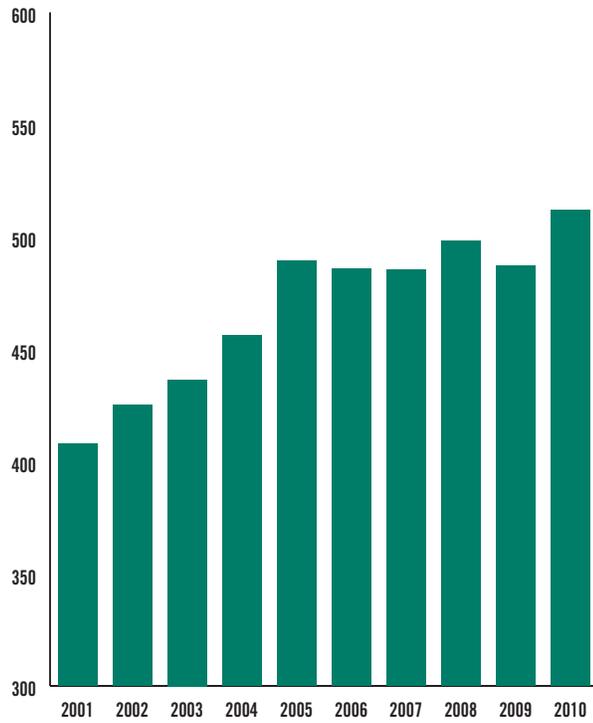
USES OF REVENUE

(2010 Allocation of Revenue)



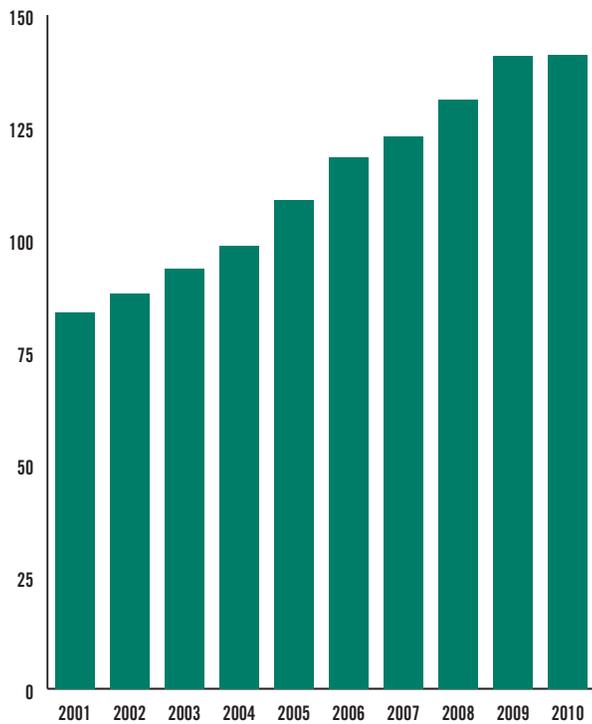
KWh SALES

(Millions, Past 10 Years)



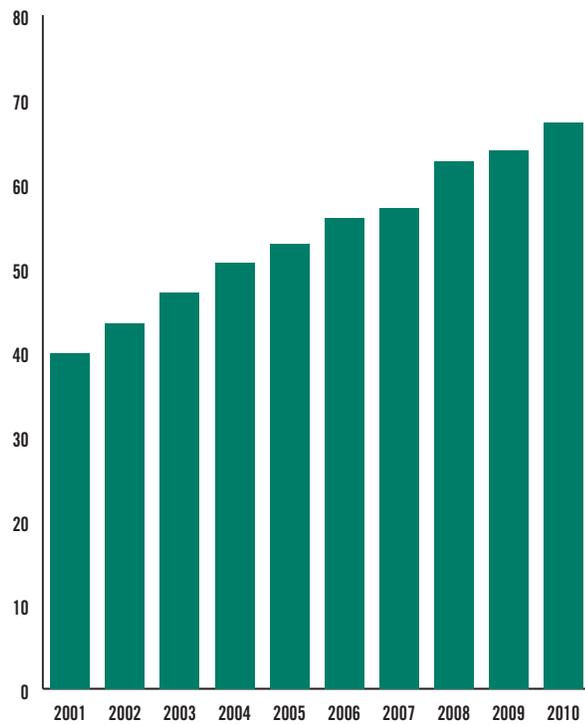
ASSETS

(Millions of Dollars, Past 10 Years)



EQUITY

(Millions of Dollars, Past 10 Years)



OPERATING STATEMENT

2010 and 2009

	2010	2009
REVENUES		
Sales of Electric Power	\$57,272,969	\$54,795,489
Other Electric Revenue.....	1,955,723	2,488,296
TOTAL REVENUE	\$59,228,692	\$57,283,785
EXPENSES		
Purchased Power.....	\$33,186,663	\$32,839,187
Operations and Maintenance.....	7,022,034	6,289,414
Administrative and General	4,757,814	4,478,342
Depreciation	5,120,568	4,788,427
Taxes	281,462	264,992
Interest	3,046,113	3,499,962
TOTAL EXPENSES	\$53,414,654	\$52,160,324
MARGINS		
Operating Margins	\$ 5,814,038	\$ 5,123,461
Nonoperating Margins.....	522,283	(716,646)
TOTAL MARGINS.....	\$ 6,336,321	\$ 4,406,815

BALANCE SHEET

As of December 31, 2010, and December 31, 2009

	2010	2009
ASSETS		
Net Utility.....	\$131,065,330	\$129,281,248
Investments.....	4,662,823	4,507,429
Cash.....	444,946	906,217
Notes and Accounts Receivable	2,065,325	2,934,237
Materials and Supplies	2,450,541	2,616,917
Other Current and Accrued Assets	262,482	275,556
Deferred Charges.....	248,908	346,668
TOTAL ASSETS	\$141,200,355	\$140,868,272
EQUITY		
Memberships	\$ 79,385	\$ 81,835
Patronage Capital and Margins.....	67,110,282	63,883,936
TOTAL EQUITY	\$ 67,189,667	\$ 63,965,771
LIABILITIES		
Long-Term Debt	\$ 66,030,448	\$ 67,828,513
Accounts Payable.....	2,904,167	5,864,889
Other Current and Accrued Liabilities.....	2,736,277	2,038,770
Deferred Credits	2,339,796	1,170,329
TOTAL LIABILITIES	\$ 74,010,688	\$ 76,902,501
TOTAL LIABILITIES AND EQUITY	\$141,200,355	\$140,868,272