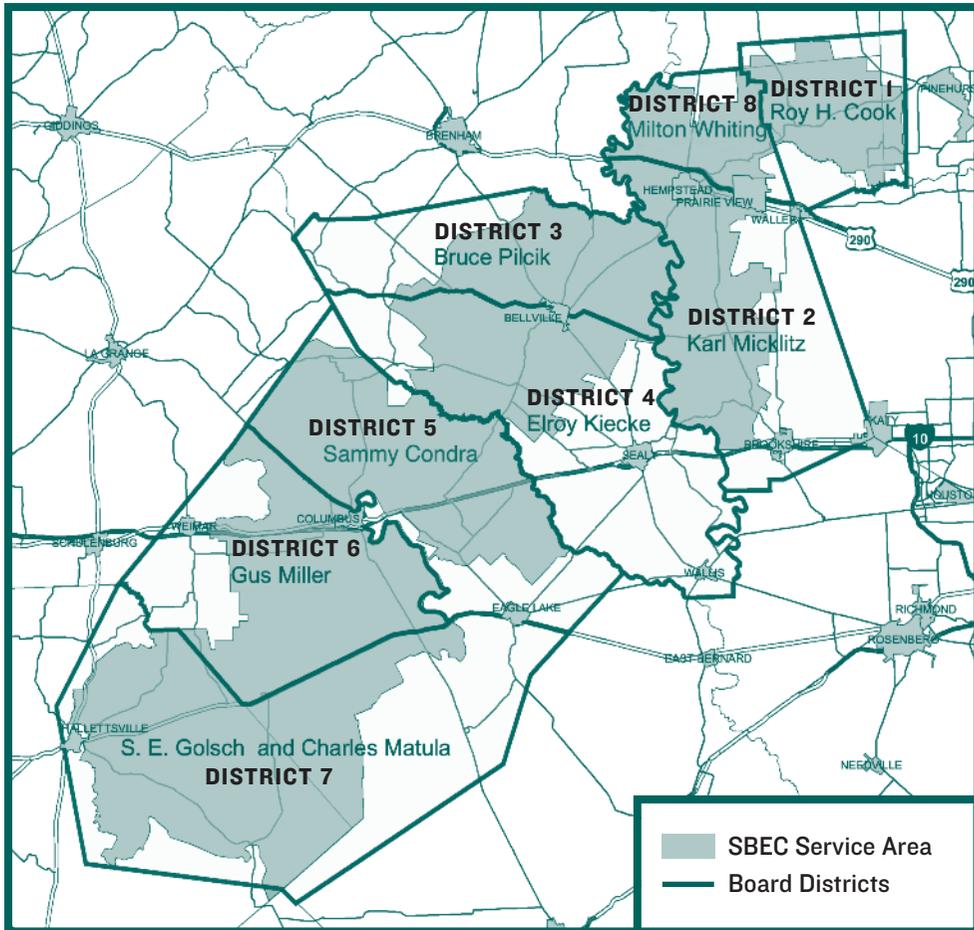


70th
Anniversary



SAN BERNARD
ELECTRIC COOPERATIVE, INC.



2 • 0 • 0 • 8 ANNUAL REPORT

AND OFFICIAL NOTICE OF ANNUAL MEETING

May 16, 2009 • Austin County Fair Convention and Expo Center • Bellville, Texas

CHAIRMAN'S REPORT

The year 2008 could be described as a roller-coaster ride. We saw the stock market pummeled in sustained, record-setting drops. We experienced peaks and valleys concerning gasoline prices. These exaggerated swings were also present in electric energy prices because of natural gas price fluctuations. And, toward the end of the year, we experienced a slow creep upward in gasoline prices. All the while, the housing market was retreating into low points. Even though we built 621 new services in 2008, that was still 150 fewer than the 771 services we added in 2007.

We implemented a rate increase in the beginning of 2008, which was the first true adjustment of the rates since 1985. As a result, San Bernard Electric Cooperative experienced a very healthy financial year. This stability was embellished by the fact that we haven't yet had to start paying for the largest single system improvement that your cooperative has ever had to undertake: the rebuilding of our 138,000-volt transmission line in Waller County. We had anticipated having to pay for a lot of the preparation expenses in 2008, but this didn't happen and, as a result, we had a healthier "bottom line" than was anticipated. We did invest \$7.8 million in our electric system, and a lion's share of that money was reinvested in the cooperative as system improvements to our distribution system.

During 2008, we continued to investigate alternative sources for long-term wholesale power as our current contract with the Lower Colorado River Authority (LCRA) will expire in 2016 and we must give notice of our intentions in 2011. The LCRA has been a stable electric supplier for our membership for years, and we appreciate our partnership.

In September, we experienced the ravaging effects of Hurricane Ike. Our employees worked long, hard hours restoring power to the SBEC membership affected by that storm. Almost all the outages related to the hurricane were in Waller, Grimes and Montgomery counties, and approximately 25 percent of our membership experienced interruption in their electric service. We had our system restored in three and a half days, which was more than a week sooner than many of our IOU neighbors. We are very fortunate to have the dedicated employees we do, and we received lots of e-mails, cards, phone calls and gifts thanking SBEC for a job well done.

Of course, we had some outside help by way of Bluebonnet Electric Cooperative and New Braunfels Utilities as we engaged the help of some of their crews in the restoration process. That's one good thing about having contacts within the industry—we usually rely on each other to help out in situations such as this. In fact, SBEC sent crews to Louisiana to help with restoration after Hurricane Gustav prior to Ike's visit.

San Bernard Electric continues to monitor what is happening in Washington, D.C., and Austin regarding the intentions and actions of our elected officials. Your board of directors continues to campaign on behalf of our membership for affordable, reliable and readily accessible electricity. We encourage you, our membership, to join in this process by communicating with your public officials.

Hopefully, we will all experience greater economic stability in 2009.

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 16, 2009, 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 3

BRUCE PILCIK
3003 Pilcik Road
Industry, TX 78944

BOARD DISTRICT 5

SAMMY CONDRA
2824 FM 949
Cat Spring, TX 78933

BOARD DISTRICT 7

CHARLES MATULA
240 County Road 129
Hallettsville, TX 77964

3. Hear comments and questions.

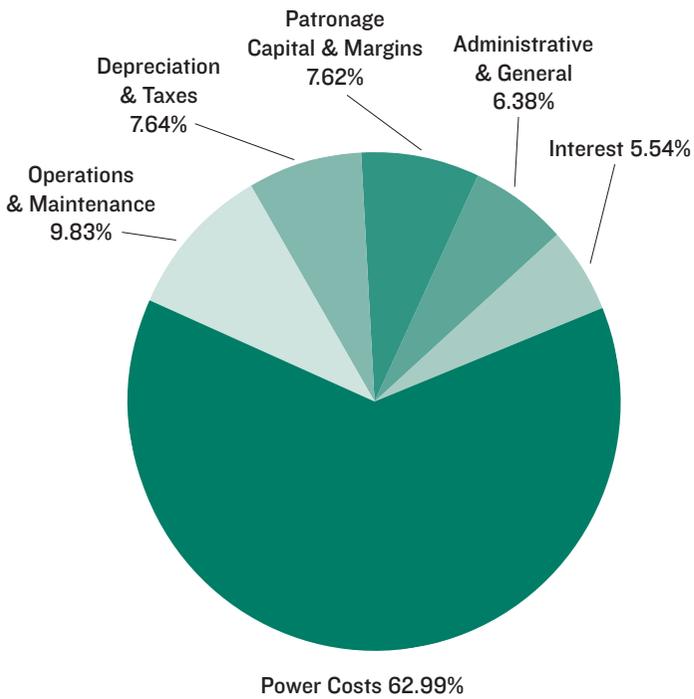
Every member is urged to attend the Annual Membership Meeting.

Respectfully,

*Charles Matula, Secretary
San Bernard Electric Cooperative, Inc.
Dated this 17th Day of March 2009*

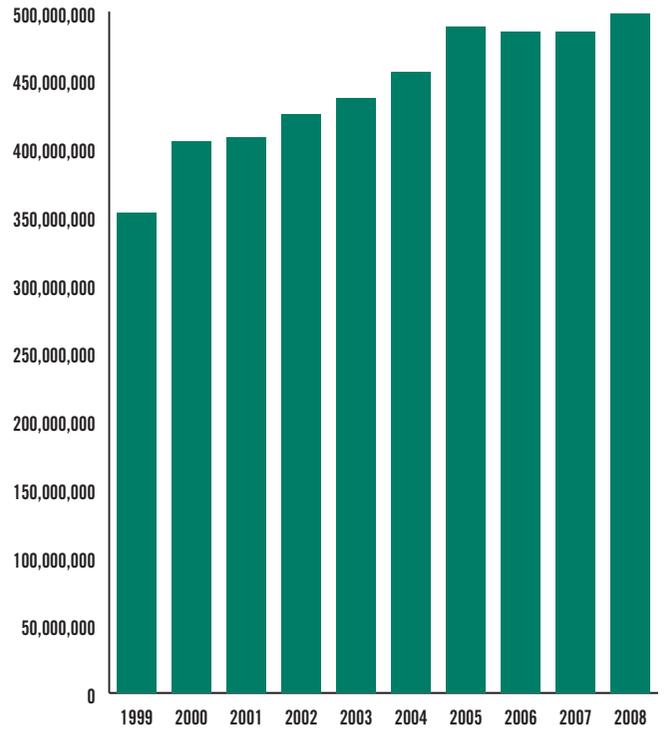
USES OF REVENUE

(2008 Allocation of Revenue)



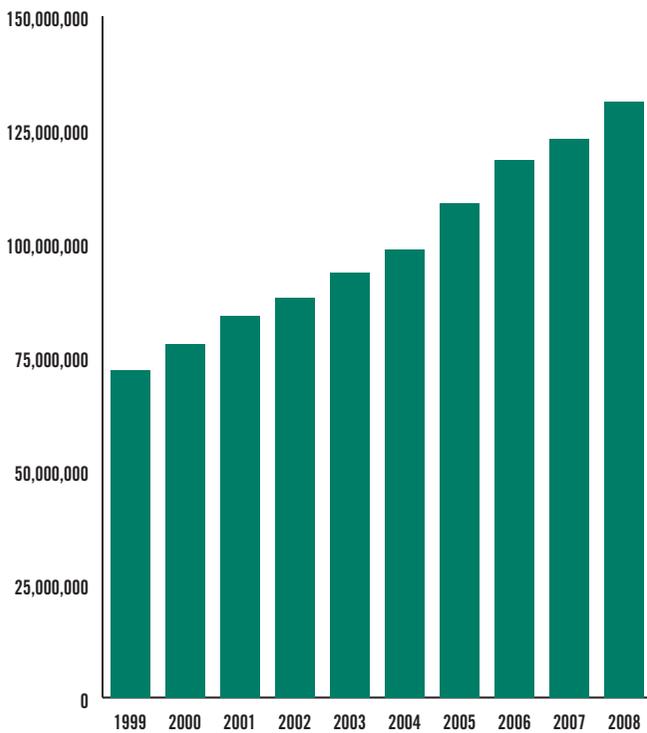
KWh SALES

(Past 10 Years)



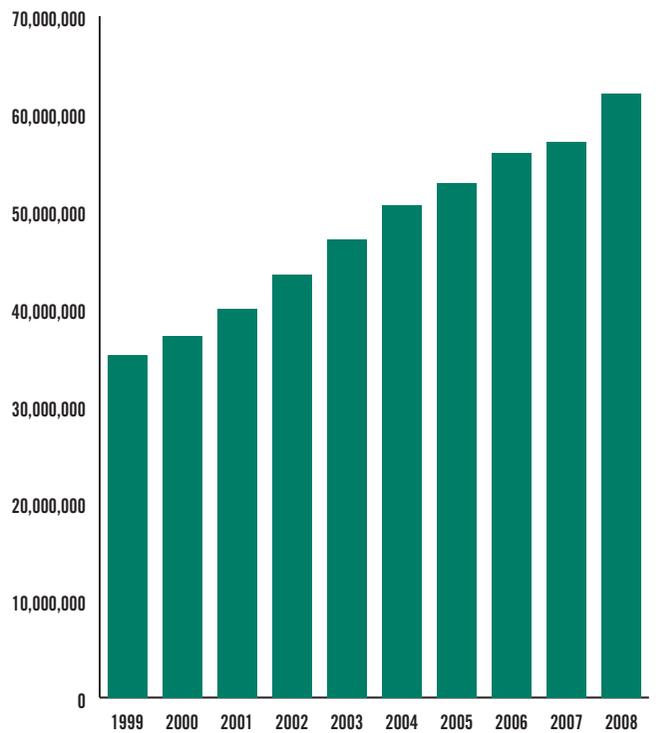
ASSETS

(Past 10 Years)



EQUITY

(Past 10 Years)



2009 NOMINEES FOR SBEC DIRECTOR

BOARD DISTRICT 3

BRUCE PILCIK is a lifelong resident of the Industry community. He is a building contractor and rancher. Upon graduation from Bellville High School, he continued his education at Blinn College and received a Bachelor of Science degree in Animal Science from Sam Houston State University. He is a member of Immaculate Conception Catholic Church, where he is on the Advisory Board and is a Eucharistic Minister. He is the treasurer for the Knights of Columbus Council 10224. Bruce presently serves on the SBEC board of directors and would like to continue to represent the members of District 3. His main concern is how to provide the most reliable services at the most reasonable prices for San Bernard Electric Cooperative, Inc., members.

BOARD DISTRICT 5

SAMMY CONDRÁ has been a resident of Bernardo for 28 years. He is the owner of Condra Communications in Columbus. Sammy graduated from The Institute of Electronics Science at Texas A&M University in 1978. He has worked in the utility business before and after graduation and brings this lifelong experience to the board of directors. Sammy is a member of St. Roch Catholic Church, the Bernardo Volunteer Fire Department and the St. Roch Knights of Columbus Council.

BOARD DISTRICT 7

CHARLES MATULA is a Hallettsville native and has been a San Bernard director for the past 11 years. After graduating from Sacred Heart High School, he continued his education at Texas A&I University where he received a Bachelor of Science degree. Matula is a member of the Sacred Heart Catholic Church in Hallettsville and has volunteered as a football coach for Sacred Heart High School for the past 30 years. He will utilize his experience in the oil and gas industry to help SBEC continue to deliver reliable, affordable and safe electrical service in today's ever-changing economic environment. He would like to continue to serve as a director of SBEC in order to help maintain SBEC's consistent and reliable system that provides stability for its members.

IMPORTANT NOTICE

This is your official notice that the Annual Membership Meeting of San Bernard Electric Cooperative, Inc., will be held May 16, 2009, at the Austin County Fair Convention and Expo Center, Highway 159 East, Bellville, Texas, beginning at 10 a.m.

PROGRAM FOR ANNUAL MEETING

MAY 16

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

New 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, 2008, and 2007, 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, 2008 and 2007, 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

OPERATING STATEMENT

2008 and 2007

	2008	2007
REVENUES		
Sales of Electric Power	\$60,714,972	\$45,696,134
Other Electric Revenue	1,581,259	1,996,689
TOTAL REVENUE	\$62,296,231	\$47,692,823
EXPENSES		
Purchased Power	\$39,240,409	\$29,648,327
Operations and Maintenance	6,126,678	5,988,840
Administrative and General	3,971,581	3,229,282
Depreciation	4,473,138	4,244,424
Taxes	285,612	220,965
Interest	3,450,342	3,398,824
TOTAL EXPENSES	\$57,547,760	\$46,730,662
MARGINS		
Operating Margins	\$ 4,748,471	\$ 962,161
Nonoperating Margins	603,925	512,385
TOTAL MARGINS	\$ 5,352,396	\$ 1,474,546

BALANCE SHEET

As of December 31, 2008, and December 31, 2007

	2008	2007
ASSETS		
Net Utility	\$117,722,123	\$111,761,300
Investments	4,539,777	4,428,211
Cash	2,223,646	1,067,448
Notes and Accounts Receivable	3,351,920	2,205,557
Materials and Supplies	2,703,965	2,949,050
Other Current and Accrued Assets	247,018	212,029
Deferred Charges	416,397	443,685
TOTAL ASSETS	\$131,204,846	\$123,067,280
EQUITY		
Membership	\$ 84,685	\$ 88,025
Patronage Capital and Margins	61,944,992	57,001,640
TOTAL EQUITY	\$ 62,029,677	\$ 57,089,665
LIABILITIES		
Long-Term Debt	\$ 56,343,844	\$ 53,275,847
Accounts Payable	9,589,491	9,781,491
Other Current and Accrued Liabilities	2,163,880	1,544,062
Deferred Credits	1,077,954	1,376,215
TOTAL LIABILITIES	\$ 69,175,169	\$ 65,977,615
TOTAL LIABILITIES AND EQUITY	\$131,204,846	\$123,067,280