

BANDERA ELECTRIC COOPERATIVE, INC.

BANDERA, TEXAS

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**BANDERA ELECTRIC COOPERATIVE, INC.
BANDERA, TEXAS**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Bandera Electric Cooperative, Inc.
Bandera, Texas

We have audited the accompanying balance sheet of Bandera Electric Cooperative, Inc. as of December 31, 2010 and 2009, 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides 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 Bandera Electric Cooperative, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Bolinger, Segars, Gilbert & Moss L.L.P.

Certified Public Accountants

February 18, 2011

BANDERA ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEET
DECEMBER 31, 2010 AND 2009

ASSETS

	December 31,	
	<u>2010</u>	<u>2009</u>
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 172,504,013	\$ 155,801,511
Construction Work in Progress	6,780,817	10,856,066
	<u>\$ 179,284,830</u>	<u>\$ 166,657,577</u>
Less: Accumulated Provision for Depreciation	35,781,507	33,612,092
	<u>\$ 143,503,323</u>	<u>\$ 133,045,485</u>
OTHER PROPERTY AND INVESTMENTS - AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 4,236,785	\$ 4,100,007
Other Investments	18,303	23,041
	<u>\$ 4,255,088</u>	<u>\$ 4,123,048</u>
CURRENT ASSETS		
Cash - General	\$ 111,178	\$ 397,702
Accounts Receivable (Less allowance for uncollectibles of \$206,064 in 2010 and \$265,904 in 2009)	3,047,859	3,085,389
Accrued Unbilled Revenue	1,892,301	1,872,930
Underbilled Fuel Cost Recovery	157,187	
Materials and Supplies Inventory	151,069	178,901
Other Current and Accrued Assets	302,996	316,324
Total Current Assets	<u>\$ 5,662,590</u>	<u>\$ 5,851,246</u>
DEFERRED CHARGES	<u>\$ 410,616</u>	<u>\$ 290,788</u>
TOTAL ASSETS	<u>\$ 153,831,617</u>	<u>\$ 143,310,567</u>

EQUITIES AND LIABILITIES

EQUITIES		
Memberships	\$ 526,870	\$ 517,030
Patronage Capital	47,435,344	46,265,117
Other Equities	736,495	644,909
Accumulated Other Comprehensive Loss	(311,900)	(624,893)
	<u>\$ 48,386,809</u>	<u>\$ 46,802,163</u>
LONG-TERM DEBT		
CFC Mortgage Notes Less Current Maturities	<u>\$ 80,504,361</u>	<u>\$ 67,294,724</u>
ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS	<u>\$ 5,692,166</u>	<u>\$ 5,655,490</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 3,100,066	\$ 2,097,043
Advances on Line of Credit - CFC	975,000	4,156,000
Accounts Payable - Other	4,591,241	4,492,494
Consumer Deposits and Prepayments	515,161	523,933
Accrued Power Cost	727,479	812,590
Accrued Taxes	21,654	
Other Current and Accrued Liabilities	1,108,373	891,383
Overbilled Fuel Cost Recovery		1,959,923
Total Current Liabilities	<u>\$ 11,038,974</u>	<u>\$ 14,933,366</u>
DEFERRED CREDITS	<u>\$ 8,209,307</u>	<u>\$ 8,624,824</u>
TOTAL EQUITIES AND LIABILITIES	<u>\$ 153,831,617</u>	<u>\$ 143,310,567</u>

See accompanying notes to financial statements.

BANDERA ELECTRIC COOPERATIVE, INC.

Exhibit B

**STATEMENT OF INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	December 31,				Increase (Decrease)
	2010		2009		
	Amount	%	Amount	%	
OPERATING REVENUES					
Residential	\$ 40,134,734	69.4	\$ 40,157,500	70.6	\$ (22,766)
Irrigation	66,653	0.1	79,164	0.1	(12,511)
Commercial and Industrial	15,073,029	26.0	13,956,263	24.5	1,116,766
Public Street and Highway Lighting	30,164	0.1	44,321	0.1	(14,157)
Unbilled Revenue	19,371	0.1	146,680	0.3	(127,309)
Other Operating Revenues	2,553,013	4.4	2,505,909	4.4	47,104
Total Operating Revenues	\$ 57,876,964	100.0	\$ 56,889,837	100.0	\$ 987,127
OPERATING EXPENSES					
Purchased Power	\$ 36,915,867	63.7	\$ 37,254,093	65.5	\$ (338,226)
Transmission - Operation	270,829	0.5	150,916	0.3	119,913
Distribution - Operation	2,854,819	4.9	2,413,430	4.2	441,389
Distribution - Maintenance	1,927,288	3.3	2,044,721	3.6	(117,433)
Consumer Accounts	1,422,208	2.5	1,518,120	2.7	(95,912)
Customer Service and Information	273,460	0.5	231,346	0.4	42,114
Administrative and General	3,976,602	6.9	4,150,975	7.3	(174,373)
Depreciation and Amortization	5,615,838	9.7	6,223,745	10.9	(607,907)
Taxes	100	0.0	100	0.0	0
Other Interest	2,775	0.0	13,272	0.0	(10,497)
Miscellaneous Income Deductions	225,544	0.4	108,171	0.2	117,373
Total Operating Expenses	\$ 53,485,330	92.4	\$ 54,108,889	95.1	\$ (623,559)
OPERATING MARGINS - Before Fixed Charges	\$ 4,391,634	7.6	\$ 2,780,948	4.9	\$ 1,610,686
FIXED CHARGES					
Interest on Long-Term Debt	\$ 3,454,014	6.0	\$ 3,444,987	6.0	\$ 9,027
Amortization of Gain on Reacquired Debt	(250,857)	(0.5)	(251,256)	(0.5)	399
	\$ 3,203,157	5.5	\$ 3,193,731	5.7	\$ 9,426
OPERATING MARGINS (DEFICITS) - After Fixed Charges	\$ 1,188,477	2.1	\$ (412,783)	(0.8)	\$ 1,601,260
Capital Credits	667,806	1.2	609,827	1.1	57,979
NET OPERATING MARGINS	\$ 1,856,283	3.3	\$ 197,044	0.3	\$ 1,659,239
NONOPERATING MARGINS					
Interest Income	\$ 70,706	0.1	\$ 61,225	0.1	\$ 9,481
Other Nonoperating Income	12,609	0.0	24,763	0.0	(12,154)
	\$ 83,315	0.1	\$ 85,988	0.1	\$ (2,673)
NET MARGINS	\$ 1,939,598	3.2	\$ 283,032	0.4	\$ 1,656,566
OTHER COMPREHENSIVE INCOME (LOSS)					
Adjustment for Application of Postretirement Benefit Accounting	312,993		76,048		
COMPREHENSIVE INCOME	\$ 2,252,591		\$ 359,080		
Adjustment for Application of Postretirement Benefit Accounting	(312,993)		(76,048)		
NET MARGINS	\$ 1,939,598		\$ 283,032		
PATRONAGE CAPITAL - BEGINNING OF YEAR	46,265,117		46,436,560		
Patronage Capital Retired	(769,371)		(454,475)		
PATRONAGE CAPITAL - END OF YEAR	\$ 47,435,344		\$ 46,265,117		

See accompanying notes to financial statements.

BANDERA ELECTRIC COOPERATIVE, INC.

Exhibit C

**STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	December 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 1,939,598	\$ 283,032
Adjustments to Reconcile Net Margins to Net Cash Provided by Operating Activities		
Depreciation and Amortization	5,940,200	6,525,886
Amortized Gain on Retirement of RUS Debt	(250,857)	(251,256)
Capital Credits - Non Cash	(429,989)	(388,960)
Accumulated Provision for Pensions and Benefits Accrual	649,901	617,508
Deferred Charges	(119,828)	(229,797)
Deferred Credits	(164,660)	(451,765)
Accounts Receivable	18,159	62,475
Power Cost Adjustments Over Collected	(2,117,110)	298,931
Inventories and Prepaid Expenses	41,160	(63,820)
Payables and Accrued Expenses	243,508	172,644
Net Cash Provided by Operating Activities	\$ 5,750,082	\$ 6,574,878
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (15,686,353)	\$ (15,723,806)
Plant Removal Costs (in Excess of) Salvage and Other Credits	(711,685)	(614,982)
Other Property and Investments	297,949	(432,412)
Net Cash Used in Investing Activities	\$ (16,100,089)	\$ (16,771,200)
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-Term Lines of Credit Activity - Net	\$ (3,181,000)	\$ 4,156,000
Payments on Long-Term Debt to CFC	(2,042,213)	(1,983,961)
Advances on CFC Long-Term Debt	16,254,874	8,000,000
Payments on Accumulated Provision for Pensions and Benefits	(300,233)	(338,326)
Other Equities	91,586	51,475
Retirement of Patronage Capital	(769,371)	(454,475)
Increase in Memberships - Net	9,840	8,630
Net Cash Provided by Financing Activities	\$ 10,063,483	\$ 9,439,343
DECREASE IN CASH AND CASH EQUIVALENTS	\$ (286,524)	\$ (756,979)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	397,702	1,154,681
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 111,178	\$ 397,702
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 3,385,525	\$ 3,451,905
Income Taxes	\$ 0	\$ 0

The adjustment for the application of post-retirement benefit accounting increased (decreased) the accrued post-retirement benefit liability by \$(312,993) and (\$76,048) and changed equities by the same amount for 2010 and 2009, respectively.

See accompanying notes to financial statements.

BANDERA ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Bandera Electric Cooperative, Inc. (the Cooperative) is a non-profit company organized to provide electric service at the retail level to primarily residential and commercial accounts in a designated service area. Power delivered at retail is purchased wholesale from the Lower Colorado River Authority and other suppliers. Any revenues earned in excess of costs incurred are allocated to members of the Cooperative and are reflected as patronage capital in the balance sheet.

System of Accounts

The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission for Class A and B electric utilities modified for electric borrowers of the National Rural Utilities Cooperative Finance Corporation (CFC).

Electric Plant, Maintenance, and Depreciation

Electric plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials, and overhead items. Contributions from others toward the construction of electric plant are credited to the applicable plant accounts.

When property which represents a retirement unit is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with cost of removal less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and temporary cash investments are considered cash and cash equivalents.

Accounts Receivable

In the normal course of business the Cooperative recognizes accounts receivable for energy delivered and billed. The Cooperative allows 16 days from the date of the bill for payment to be received or the service is considered delinquent. Delinquent accounts receive a penalty of five percent. If no payment is received within 24 days or a deferred payment agreement is not in place, the account is subject to disconnect.

The Cooperative provides an allowance for doubtful accounts to recognize the portion of receivables considered uncollectible. The Cooperative accrues amounts monthly to the allowance. The allowance is estimated based on historical trends, aging of receivables and review of potential bad debts. The Board of Directors reviews delinquent accounts annually and charges off accounts over two years old.

BANDERA ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Inventories

Materials and supplies inventories are valued at average unit cost.

Electric Revenues

Certain aspects of the Cooperative's operations are under the jurisdiction of the Public Utility Commission of Texas; however, the Cooperative is no longer regulated for ratemaking purposes. The Cooperative records electric revenues as billed to customers on a monthly basis. Revenue is also accrued for power delivered but not billed at the end of each month.

The Cooperative's tariffs for electric service include power cost adjustment clauses under which billings to customers are adjusted to reflect changes in the cost of purchased power. In order to match power cost and related revenues, underbilled power cost to be billed to consumers in subsequent periods is recognized as a current asset - "Underbilled Fuel Cost Adjustment" and as an increase of classified operating revenues on the statement of income and patronage capital. Also, overbilled power cost to be credited to consumers in subsequent periods is recognized as a current liability - "Overbilled Fuel Cost Adjustment" and as a reduction of classified operating revenues on the statement of income and patronage capital. The Cooperative had under collected power cost of \$157,187 at December 31, 2010 and over collected power cost of \$1,959,923 at December 31, 2009.

Income Tax Status

The Cooperative is an exempt organization for federal income tax purposes under Section 501(c)(12) of the Internal Revenue Code.

On January 1, 2009, the Cooperative adopted the "uncertain tax positions" provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its filing status as a tax exempt entity. The Cooperative determined that it is more likely than not that their tax positions will be sustained upon examination by the Internal Revenue Service (IRS), or other State taxing authority and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Cooperative files income tax returns in the U.S. federal jurisdiction. The Cooperative is no longer subject to U.S. federal and state income tax examinations by federal taxing authorities for years before 2007.

The Cooperative recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended December 31, 2010 and 2009.

Group Concentration of Credit Risk

The Cooperative's headquarters facility is located in Bandera, Texas. The service area includes members located in substantially all or parts of a seven county area surrounding the City of Bandera. The Cooperative records a receivable for electric revenues as billed on a monthly basis. The Cooperative may require a deposit from new members upon connection which is applied to unpaid bills and fees in the event of default. The deposit accrues interest annually and is returned along with accrued interest after one year of prompt payments. As of December 31, 2010 and 2009, deposits on hand totaled \$515,161 and \$523,933, respectively.

BANDERA ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative maintains its cash balances in institutions insured by the Federal Deposit Insurance Corporation (FDIC). The cash balances exceeded applicable insurance coverages at times during the year.

Patronage Capital Certificates

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Assets Pledged

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation.

3. Electric Plant

The major classes of electric plant are as follows:

	December 31,	
	<u>2010</u>	<u>2009</u>
Transmission Plant	\$ 22,472,491	\$ 11,821,453
Distribution Plant	135,917,155	131,368,314
General Plant	<u>14,114,367</u>	<u>12,611,744</u>
Total Electric Plant in Service	\$ 172,504,013	\$ 155,801,511
Construction Work in Progress	<u>6,780,817</u>	<u>10,856,066</u>
Total Electric Plant	<u>\$ 179,284,830</u>	<u>\$ 166,657,577</u>

BANDERA ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Provision for depreciation of electric plant is computed using straight-line rates as follows:

Transmission Plant	2.75%
Distribution Plant	2.75%
General Plant	
Structures and Improvements	2.0% - 33.3%
Office Furniture and Fixtures	7.0% - 33.3%
Transportation Equipment	6.7% - 33.3%
Store Equipment	20.0%
Power Operated Equipment	5.0% - 33.3%
Communications Equipment	5.4% - 33.3%
Miscellaneous Equipment	6.0% - 33.3%
Tools, Shop, and Garage Equipment	6.0% - 33.3%
Laboratory Equipment	6.0% - 33.3%

Depreciation and amortization for the years ended December 31, 2010 and 2009, was \$5,940,200 and \$6,525,886, respectively, of which \$5,615,838 and \$6,223,745, was charged to depreciation expense and \$324,362 and \$302,141, was allocated to other accounts.

4. Investments in Associated Organizations

Investments in associated organizations consisted of:

	December 31,	
	<u>2010</u>	<u>2009</u>
CFC		
Capital Term Certificates	\$ 1,728,764	\$ 1,694,280
Patronage Capital	1,143,233	944,583
Member Capital Securities	500,000	500,000
Hill Country Telephone		
Patronage Capital	73,593	70,570
Texas Electric Cooperatives, Inc.		
Patronage Capital	753,861	867,366
Other	<u>37,334</u>	<u>23,208</u>
Total	<u>\$ 4,236,785</u>	<u>\$ 4,100,007</u>

BANDERA ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

5. Inventories

Materials and supplies inventories consisted of:

	December 31,	
	2010	2009
Construction Materials and Supplies	\$ 79,351	\$ 107,147
Resale Material	70,781	70,296
Transportation Supplies	937	1,458
Total	<u>\$ 151,069</u>	<u>\$ 178,901</u>

Texas Electric Cooperative sells material to the Cooperative as needed, thus reducing the need to carry large inventory balances.

6. Deferred Charges

Deferred charges included the following:

	December 31,	
	2010	2009
Work Plans	\$ 65,594	\$ 78,743
Automated Staking	159,524	200,253
Software Training	182,324	
Other	3,174	11,792
Total	<u>\$ 410,616</u>	<u>\$ 290,788</u>

7. Return of Capital

The mortgage agreements contain provisions that must be met for the Cooperative to make patronage capital retirements. These provisions include minimum equity, debt service, and earnings ratios. The Cooperative is in compliance with these provisions at December 31, 2010 and 2009. Patronage capital totaling \$769,371 and \$454,475 was retired during 2010 and 2009, respectively.

8. Patronage Capital

	December 31,	
	2010	2009
Assigned	\$ 45,495,746	\$ 45,982,087
Assignable	1,939,598	283,030
Total	<u>\$ 47,435,344</u>	<u>\$ 46,265,117</u>

BANDERA ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

9. Other Equities

	December 31,	
	<u>2010</u>	<u>2009</u>
Capital Credits Payable - Under \$5	\$ 18,737	\$ 19,856
Retired Capital Credits - Gain - Estates	<u>717,758</u>	<u>625,053</u>
Total	<u>\$ 736,495</u>	<u>\$ 644,909</u>

10. Mortgage Notes – CFC

Following is a summary of long-term debt due CFC and maturing at various times from 2015 to 2043:

	December 31,	
	<u>2010</u>	<u>2009</u>
Variable Rate Notes - Currently 1.358%	\$ 11,061,198	\$ 8,000,000
Fixed Rate Notes - 1.51% to 7.19%	<u>72,543,229</u>	<u>61,391,767</u>
	83,604,427	69,391,767
Less: Current Maturities	<u>\$ 3,100,066</u>	<u>\$ 2,097,043</u>
Total	<u>\$ 80,504,361</u>	<u>\$ 67,294,724</u>

Principal and interest installments on the above notes are due quarterly. Annual maturities of long-term debt due CFC for the next five years are as follows:

2011	\$ 3,100,066
2012	3,220,731
2013	3,351,902
2014	3,347,111
2015	3,454,043

The Cooperative has \$15,580,126 available from unadvanced funds.

11. Short-Term Borrowing

The Cooperative has a line of credit at a variable interest rate with CFC not to exceed \$20,000,000. The balance outstanding at December 31, 2010 and 2009, was \$975,000 and \$4,156,000, respectively. Interest paid is capitalized as part of work order capitalization. The Cooperative capitalized \$322,989 and \$165,361 for 2010 and 2009, respectively.

BANDERA ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

12. Operating Leases

The Cooperative leases certain vehicles with various base monthly rental amounts. These leases expired at various times through 2010. Lease expense under all operating leases totaled \$19,495 for 2010 and \$79,867 for 2009. The Cooperative discontinued lease transactions in 2010.

13. Deferred Credits

Deferred credits include the following:

	December 31,	
	2010	2,009
Refundable Aid to Construction	\$ 4,613,678	\$ 5,114,319
Undeliverable Checks Returned	154,552	97,344
Scholarship Fund	49,360	56,414
Unamortized Gain on Reacquired Debt	1,943,194	2,194,050
LCRA Power Bill Credits	525,046	188,000
Other	923,477	974,697
Total	<u>\$ 8,209,307</u>	<u>\$ 8,624,824</u>

The Cooperative realized a gain in 1987 of \$8,767,919 from the discount realized on the buyout of long-term debt to RUS. This amount is classified as a deferred credit and will be amortized over the remaining life of the prepaid RUS debt. Amortization for 2010 and 2009 was \$250,857 and \$251,256, respectively.

14. Litigation and Commitments

There was no litigation pending against the Cooperative at December 31, 2010, that could have a material effect on the financial statements.

15. Pension Benefits

Substantially all employees of the Cooperative participate in the National Rural Electric Cooperative Association (NRECA) Retirement & Security Program, a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. The defined benefit plan, a multi-employer plan, is available to all member cooperatives of NRECA, and the accumulated benefits and plan assets are not determined or allocated by individual employer. The plan is tax exempt under the Internal Revenue Code. The Cooperative makes monthly contributions equal to the amounts accrued for pension expense. Total pension cost for the year ended December 31, 2010 and 2009, was \$608,553 and \$447,441, respectively.

BANDERA ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

In addition, the Cooperative provides retirement benefits through a 401k plan that is administered by NRECA SelectRe Pension plan. The Cooperative provides matching funds up to three percent of an employee's salary. The cost of this plan for 2010 and 2009 was \$101,153 and \$95,691, respectively.

16. Post-retirement Benefits Other Than Pensions

Generally Accepted Account Principles in the United States require an employer that sponsors a defined benefit postretirement plan to report the current economic status (the overfunded or underfunded status) of the plan in its balance sheet, to measure the plan assets and plan obligations as of the balance sheet date, and to include enhanced disclosures about the plan.

Benefits are paid on behalf of retirees and are a function of medical insurance costs and number of retirees. Benefits paid for the years ended December 31, 2010 and 2009, were \$300,233 and \$338,326, respectively.

The measurement date used for the current valuation is January 1, 2010.

BANDERA ELECTRIC COOPERATIVE, INC.**NOTES TO FINANCIAL STATEMENTS**

Amounts recognized in the Cooperative's financial statements and funded status of the plan are as follows:

	December 31,	
	<u>2010</u>	<u>2009</u>
Accumulated Post-retirement Benefit Obligation (APBO)		
Balance at Beginning of Year	\$ 5,655,490	\$ 5,452,356
Service Cost	310,510	302,360
Interest Cost	276,791	239,100
Adjustment to Net Loss/Gain	(250,393)	
Less Premiums Paid	<u>(300,233)</u>	<u>(338,326)</u>
Net Post-retirement Benefit Obligation at Year End	<u>\$ 5,692,165</u>	<u>\$ 5,655,490</u>
Net Periodic Post-retirement Benefit Cost Includes:		
Service Cost	\$ 310,510	\$ 302,360
Interest Cost	276,791	239,100
Amortization of Gain or Loss		13,448
Amortization of Transition Obligation	<u>62,600</u>	<u>62,600</u>
Total	<u>\$ 649,901</u>	<u>\$ 617,508</u>
Accumulated Other Comprehensive Loss		
Actuarial Loss - Beginning of Year	\$ (624,893)	\$ (700,941)
Transition Obligation	62,600	62,600
Adjustment to Net Loss/Gain	250,393	
Net Loss		<u>13,448</u>
Other Comprehensive Loss	<u>\$ (311,900)</u>	<u>\$ (624,893)</u>

A 10% annual increase for medical and a five percent annual increase for dental benefits in per capita costs was assumed for 2010, gradually decreasing to 5% by the year 2015. Increasing the assumed healthcare cost trend rates by one percentage point in each year would have resulted in an increase in the APBO of \$529,057 and an increase in the net periodic post-retirement benefit cost of \$75,384. A weighted average discount rate of 5.75% was used to determine the APBO.

The Cooperative has not funded any plan assets as of December 31, 2010 or 2009.

Estimated future benefit payments for the next five years cannot be reasonably estimated as of December 31, 2010.

17. Disclosures About Fair Value of Financial Statements

Many of the Cooperative's financial instruments lack an available market with similar terms, conditions, and maturities as those reflected in the carrying amount recorded. Accordingly, significant assumptions, estimations, and present value calculations were used for purposes of this disclosure.

BANDERA ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Estimated Fair Value has been determined by calculating the present value of financial instruments using the best data available.

Fair Value for some amounts carried on the financial statements has not been calculated for the following reasons:

Patronage Capital from Associated Organizations – The right to receive cash is an inherent component of a financial instrument. The Cooperative holds no right to receive cash since any payments are at the discretion of the governing body for the associated organizations. As such, Patronage Capital from Associated Organizations are not considered financial instruments.

CFC Capital Term Certificates and Member Capital Securities – It is not practicable to estimate fair value for these financial instruments given the lack of a market and their long holding period. Relevant information with respect to these are as follows:

	Amount	Interest Rate	Maturity
\$	86,668	3.00%	2025 to 2030
	56,646	5.00%	2075
	168,676	5.00%	2080
	136,792	5.00%	2085
	241,397	5.00%	2090
	1,038,585	0.00%	2014 to 2044
	500,000	7.50%	2044
\$	<u>2,228,764</u>		

Cash and Temporary Cash Investments – The recorded book value approximates fair value given the short period to maturity.

The estimated fair value of the Cooperative’s financial instruments is as follows:

Long-Term Debt Fixed Rate – The fair value of the Cooperative’s CFC Fixed Rate long-term debt is calculated by computing the present value of the individual notes to maturity. The discount rate used is the currently available CFC fixed interest rate available for long-term debt repricing at the same maturity as the current debt.

	Carrying Value	Fair Value
December 31, 2010:		
CFC	\$ <u>72,543,229</u>	\$ <u>61,464,647</u>

BANDERA ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Fair Value Hierarchy

The Fair Value Measurements Topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Cooperative has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

Long-Term Debt valuations are considered Level 2.

18. Subsequent Events

The Cooperative has evaluated subsequent events through February 18, 2011, the date which the financial statements were available to be issued.

ACCOMPANYING INFORMATION

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CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT ON
ACCOMPANYING INFORMATION**

Our audits of the basic financial statements presented in the preceding section of this report were made for the purpose of forming an opinion on such financial statements taken as a whole. The accompanying information shown on pages 17 through 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bolinger, Segars, Gilbert & Moss L.L.P.

Certified Public Accountants

February 18, 2011

BANDERA ELECTRIC COOPERATIVE, INC.

Schedule 1

**ELECTRIC PLANT
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Balance 1/1/2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/2010</u>
CLASSIFIED ELECTRIC PLANT IN SERVICE				
Transmission Plant				
Land and Land Rights	\$ 51,024	\$	\$	\$ 51,024
Structures and Improvements	172,820			172,820
Station Equipment	4,460,992	3,841,942	141,377	8,161,557
Poles, Towers, and Fixtures	3,396,288	3,352,332	264,771	6,483,849
Overhead Conductors and Devices	3,740,329	4,117,863	254,951	7,603,241
Total	<u>\$ 11,821,453</u>	<u>\$ 11,312,137</u>	<u>\$ 661,099</u>	<u>\$ 22,472,491</u>
Distribution Plant				
Land and Land Rights	\$ 125,072	\$ 1,328	\$	\$ 126,400
Structures and Improvements	916,416			916,416
Station Equipment	12,404,669	15,202	1,744	12,418,127
Poles, Towers, and Fixtures	42,826,039	1,298,154	177,862	43,946,331
Overhead Conductors and Devices	37,599,720	2,002,973	91,664	39,511,029
Underground Conductors and Devices	5,754,667	321,127	11,910	6,063,884
Line Transformers	23,837,509	1,599,178	342,900	25,093,787
Services	1,567,008	2,449		1,569,457
Meters	4,632,993	1,296,443	1,382,101	4,547,335
Installations on Consumer Premises	1,692,636	112,037	91,849	1,712,824
Street Lighting	11,585		20	11,565
Total	<u>\$ 131,368,314</u>	<u>\$ 6,648,891</u>	<u>\$ 2,100,050</u>	<u>\$ 135,917,155</u>
General Plant				
Land and Land Rights	\$ 109,297	\$	\$	\$ 109,297
Structures and Improvements	6,118,057	513,465		6,631,522
Office Furniture and Equipment	3,256,789	722,292	217,061	3,762,020
Transportation Equipment	1,093,308	217,901	24,738	1,286,471
Store Equipment	2,537			2,537
Tools, Shop, and Garage Equipment	179,482	2,224	642	181,064
Laboratory Equipment	211,795	16,366		228,161
Power Operated Equipment	1,420,745	265,766	54,640	1,631,871
Communications Equipment	129,452	1,470	870	130,052
Miscellaneous Equipment	90,282	61,090		151,372
Total	<u>\$ 12,611,744</u>	<u>\$ 1,800,574</u>	<u>\$ 297,951</u>	<u>\$ 14,114,367</u>
Total Classified Electric Plant in Service	\$ 155,801,511	\$ 19,761,602	\$ 3,059,100	\$ 172,504,013
Construction Work in Progress	<u>10,856,066</u>	<u>(4,075,249)</u>		<u>6,780,817</u>
Total Utility Plant	<u>\$ 166,657,577</u>	<u>\$ 15,686,353</u>	<u>\$ 3,059,100</u>	<u>\$ 179,284,830</u>

BANDERA ELECTRIC COOPERATIVE, INC.

Schedule 2

**SCHEDULE OF ACCUMULATED PROVISION FOR DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Balance</u> <u>1/1/2010</u>	<u>Accruals</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2010</u>
Transmission Plant	\$ <u>3,587,009</u>	\$ <u>368,334</u>	\$ <u>929,274</u>	\$ <u>3,026,069</u>
Distribution Plant	\$ <u>25,189,792</u>	\$ <u>4,575,509</u>	\$ <u>2,587,180</u>	\$ <u>27,178,121</u>
General Plant				
Structures and Improvements	\$ 952,831	\$ 154,556	\$	\$ 1,107,387
Office Furniture and Fixtures	2,171,435	399,912	217,061	2,354,286
Transportation Equipment	712,814	233,275	24,738	921,351
Store Equipment	1,565	333		1,898
Tools, Shop, and Garage Equipment	120,457	18,039	642	137,854
Laboratory Equipment	126,543	25,195		151,738
Power Operated Equipment	740,702	119,508	54,640	805,570
Communication Equipment	86,653	8,063	870	93,846
Miscellaneous Equipment	61,306	15,735		77,041
Outage Management Equipment	75,685	21,741		97,426
Total General Plant	\$ <u>5,049,991</u>	\$ <u>996,357</u>	\$ <u>297,951</u>	\$ <u>5,748,397</u>
Total Classified Electric Plant in Service	\$ 33,826,792	\$ 5,940,200	\$ 3,814,405	\$ 35,952,587
Retirement Work in Progress	<u>(214,700)</u>	<u> </u>	<u>(43,620)</u>	<u>(171,080)</u>
Total	\$ <u><u>33,612,092</u></u>	\$ <u><u>5,940,200</u></u>	\$ <u><u>3,770,785</u></u>	\$ <u><u>35,781,507</u></u>

(1)

(2)

(1) Depreciation			
Charged to Expense		\$ 5,615,838	
Charged to Clearing		<u>324,362</u>	
		\$ <u><u>5,940,200</u></u>	

(2) Net Loss on Retirement			
Original Cost			\$ 3,059,100
Cost of Removal			724,365
Less: Salvage and Other Credits			<u>12,680</u>
			\$ <u><u>3,770,785</u></u>

BANDERA ELECTRIC COOPERATIVE, INC.

Schedule 3

**OTHER PROPERTY AND INVESTMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	December 31,	
	<u>2010</u>	<u>2009</u>
INVESTMENTS IN ASSOCIATED ORGANIZATIONS		
Memberships		
Associated Organizations	\$ 2,760	\$ 2,760
Patronage Capital		
NRUCFC	1,143,233	944,583
NRTC	32,710	18,903
Texas Electric Cooperatives, Inc.	753,861	867,366
Guadalupe Valley	1,864	1,545
Hill Country Telephone	73,593	70,570
Capital Term Certificates		
CFC	1,728,764	1,694,280
Member Capital Securities		
CFC	<u>500,000</u>	<u>500,000</u>
Total	<u>\$ 4,236,785</u>	<u>\$ 4,100,007</u>

BANDERA ELECTRIC COOPERATIVE, INC.

Schedule 4

**PATRONAGE CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2010**

<u>Calendar Year</u>	<u>Assignable</u>	<u>Assigned</u>	<u>Balance</u>
1983	\$	\$ 760,874	\$ 760,874
1984		1,029,773	1,029,773
1985		1,357,527	1,357,527
1986		1,243,842	1,243,842
1987		1,298,443	1,298,443
1988		1,165,542	1,165,542
1989		1,134,185	1,134,185
1990		947,830	947,830
1991		1,312,746	1,312,746
1992		1,526,953	1,526,953
1993		1,951,161	1,951,161
1994		1,432,245	1,432,245
1995		1,614,895	1,614,895
1996		1,603,295	1,603,295
1997		1,469,868	1,469,868
1998		1,350,305	1,350,305
1999		1,086,806	1,086,806
2000		834,656	834,656
2001		4,130,374	4,130,374
2002		3,083,499	3,083,499
2003		2,939,851	2,939,851
2004		4,124,414	4,124,414
2005		2,190,866	2,190,866
2006		2,116,851	2,116,851
2007		2,170,540	2,170,540
2008		1,618,405	1,618,405
2010			
	1,939,598		1,939,598
	<u>\$ 1,939,598</u>	<u>\$ 45,495,746</u>	<u>\$ 47,435,344</u>

BANDERA ELECTRIC COOPERATIVE, INC.

Schedule 5

**CFC MORTGAGE NOTES
DECEMBER 31, 2010**

DIRECT LOANS

Note Number	Maturity Date	Interest Rate	Principal Amount	Amount Unadvanced	Principal Repayments	Net Obligation
9003001	3/1/2015	6.04%	\$ 675,000	\$	\$ 496,109	\$ 178,891
9006001	6/1/2017	6.09%	1,011,000		611,403	399,597
9007001	12/1/2018	6.19%	1,010,000		581,394	428,606
9008001	9/1/2021	6.28%	3,290,323		1,466,457	1,823,866
9013001	11/30/2018	6.19%	213,340		100,466	112,874
9013002	11/30/2018	6.19%	1,786,660		840,817	945,843
9014001	2/29/2028	7.19%	3,000,000		1,043,700	1,956,300
9015001	11/30/2018	3.50%	3,000,000		1,457,624	1,542,376
9017001	2/28/2030	7.19%	3,000,000		773,930	2,226,070
9018001	2/28/2030	7.19%	3,000,000		773,930	2,226,070
9019001	8/31/2021	3.90%	3,000,000		1,057,227	1,942,773
9022001	11/30/2023	5.20%	3,000,000		776,180	2,223,820
9023001	11/30/2023	5.20%	1,986,530		503,984	1,482,546
9023002	5/31/2024	5.25%	1,013,470		248,980	764,490
9024001	5/31/2024	5.25%	1,756,545		379,551	1,376,994
9024002	5/31/2030	6.30%	1,243,455		170,575	1,072,880
9025001	8/31/2024	4.25%	1,939,410		422,275	1,517,135
9025002	5/31/2030	6.30%	1,060,590		133,849	926,741
9026001	2/28/2034	3.90%	1,171,600		352,146	819,454
9026002	2/28/2034	6.25%	1,285,330		255,911	1,029,419
9026003	5/31/2030	6.30%	543,070		95,591	447,479
9027001	2/28/2034	6.65%	1,240,510		143,315	1,097,195
9027002	11/30/2024	3.90%	1,249,690		258,481	991,209
9027003	5/31/2030	6.30%	509,800		62,321	447,479
9028001	5/31/2030	6.30%	1,106,870		116,310	990,560
9028002	5/31/2030	6.20%	1,893,130		201,311	1,691,819
9029001	8/31/2035	6.20%	2,165,000		217,922	1,947,078
9029002	11/30/2036	6.90%	835,000		36,699	798,301
9032001	11/30/2036	6.90%	915,000		40,215	874,785
9032002	11/30/2036	6.95%	1,750,000		76,249	1,673,751
9032003	11/30/2036	7.00%	1,750,000		75,589	1,674,411
9032004	11/30/2036	7.00%	1,750,000		75,589	1,674,411
9032005	11/30/2037	6.20%	2,000,000		70,414	1,929,586
9032006	11/30/2037	6.40%	3,000,000		101,979	2,898,021
9032007	11/30/2037	6.45%	3,000,000		101,084	2,898,916
9032008	11/30/2043	3.90%	2,338,318		53,293	2,285,025
9032009	11/30/2043	4.45%	2,283,448		47,765	2,235,683
9032010	11/30/2043	4.45%	1,213,234		25,379	1,187,855
9033001	11/30/2043	4.45%	528,448		11,054	517,394
9033002	11/30/2043	3.45%	136,552		3,423	133,129
9033003	11/30/2039	3.90%	3,000,000		36,239	2,963,761
9033004	11/30/2039	3.50%	3,000,000		37,202	2,962,798
9033005	11/30/2039	3.90%	122,431		1,479	120,952
9033006	11/30/2039	3.90%	1,877,569		22,681	1,854,888
9033	12/19/2047		6,080,126	6,080,126		
9036	12/21/2050		9,500,000	9,500,000		
Total CFC - Direct			\$ 91,231,449	\$ 15,580,126	\$ 14,358,092	\$ 61,293,231

LOANS UNDER MANAGEMENT

Note Number	Maturity Date	Interest Rate	Principal Amount	Amount Unadvanced	Principal Repayments	Net Obligation
FMD001	2/1/2025	* 1.36%	\$ 6,245,126	\$	\$ 188,802	\$ 6,056,324
FMD001	9/1/2025	1.51%	11,250,000			11,250,000
FMD001	9/1/2025	* 1.36%	5,004,874			5,004,874
Total CFC - Loans Under Management			\$ 22,500,000	\$ -	\$ 188,802	\$ 22,311,198

* Variable Interest Rate

BANDERA ELECTRIC COOPERATIVE, INC.

Schedule 6

**ADMINISTRATIVE AND GENERAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	December 31,	
	<u>2010</u>	<u>2009</u>
Administrative and General Salaries	\$ 1,106,788	\$ 1,121,264
Office Supplies and Expenses	345,843	335,332
Outside Services Employed	494,381	329,760
Workmen's Compensation, General Liability, and Other Insurance	107,959	114,597
Employee Benefits	605,825	976,561
Directors' Fees and Expenses	227,115	199,884
Institutional and Goodwill Advertising	28,010	67,880
Dues to Associated Organizations	83,475	76,842
Annual Meeting Expense	81,911	100,160
Miscellaneous General Expenses	340,221	426,023
Regulatory Commission Expense	92,858	93,486
Maintenance of General Plant	<u>462,216</u>	<u>309,186</u>
Total	<u>\$ 3,976,602</u>	<u>\$ 4,150,975</u>

COMPLIANCE SECTION

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**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES
CONCERNING AUDITS OF CFC BORROWERS**

Board of Directors
Bandera Electric Cooperative, Inc.
Bandera, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America, the balance sheet of Bandera Electric Cooperative, Inc. as of December 31, 2010, and the related statements of income and patronage capital and cash flows for the year then ended, and have issued our report thereon dated February 18, 2011.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters. However, our audits were not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Boards of Directors and management of Bandera Electric Cooperative, Inc. and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

February 18, 2011