SAN BERNARD ELECTRIC COOPERATIVE, INC.

73 YEARS OF SERVICE

SAN BERNARD ELECTRIC COOPERATIVE, INC.

DISTRICT 7

DISTRICT 8

DISTRICT 1

DISTRICT 2

DISTRICT 3

DISTRICT 4

DISTRICT 5

DISTRICT 6

DISTRICT 1

DISTRICT 2

DISTRICT 5

DISTRICT 3

DISTRICT 4

DISTRICT 6

DISTRICT 7

S. E. Golsch and Charles Matula

Gus Miller

Sammy Condra

Bruce Pilcik

Roy H. Cook

Karl Mioldit

2011 ANNUAL REPORT

AND OFFICIAL NOTICE OF ANNUAL MEETING

May 19, 2012 • Austin County Fair Convention and Expo Center • Bellville, Texas

ANNUAL REPORT PAGE 1
In 2011, San Bernard Electric Cooperative made a monumental decision it felt would benefit its membership. Beginning in 2016, we will no longer buy our wholesale power from the Lower Colorado River Authority. By contract language, we had to give notice five years before the end of the contract. The decision to terminate did not come easy due to our long-term relationship, but the contract proposed to us by the LCRA would have locked us in for 25 years. I don’t know about the rest of you, but 25 years is a long time to be committed for wholesale power—especially when we see the advancements made in technology these days.

We instead opted for contracts with shorter timeframes. This will give SBEC’s management and your board of directors the ability to monitor the wholesale power markets and have the flexibility to adjust accordingly. We have always treasured our relationship with the LCRA’s wholesale power group and will continue to do so until June 2016. This doesn’t mean that we will no longer have a partnership with the LCRA, as we will continue to work with them on areas of transmission lines and communications needs.

To facilitate the signing of new wholesale power contracts, it was necessary for San Bernard to make changes to our Articles of Incorporation. To make these changes, we held a special meeting at our Bellville headquarters in November. We also used mail-in balloting for the first time in our history to ensure that we had enough votes to make these changes. With the input from you (our members), we successfully had the number of votes needed to make the changes. More significantly, we used a new system to get more of our membership to participate in their cooperative. I’m not saying we will use mail-in ballots every time, but it’s nice to know that if we need to do so, it works.

Major disasters are common in the cooperative world, and we have learned to handle them when they arise. The most common disasters usually come in the form of hurricanes, tornadoes or ice storms. Rarely have we ever had to contend with a wildfire. This past Labor Day was a bit unusual. Our crews were put in the perilous position of trying to maintain electricity to homes that were under siege by fires that broke out in northern Waller, Grimes and Colorado counties. It took several days before these fires were brought under control, and I admire the dedication that our employees displayed during this time. They were always ready to go into these areas once they were given permission to do so by the appropriate authorities.

Once more, the cooperative’s financial position was such that the board of directors voted to pay back our members in the form of capital credits. In 2011, we were able to return more than $3 million to our membership. We simply had more kilowatt-hour sales than we’d budgeted for. Can you remember how hot it was last year? The excessive temperatures caused a historic amount of electricity use by our members. In turn, our margins were greater than anticipated. Following the cooperative model, these margins were returned to you as a bill credit in December. Do you think an investor-owned utility would have given the excessive margins back?

We look forward to seeing as many of you as possible at the annual meeting this year, and we will continue to work diligently to provide our membership with dependable service at the lowest rates possible.
SUMMARY OF COOPERATIVE BYLAWS

Pertaining to Membership, Annual Meetings, Board Representation, Nomination and 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 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 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 Association Convention and Expo Center on Highway 159 East, Bellville, Texas, on Saturday, May 19, 2012, to take action on the following:

1. Reports of directors, officers and committees.
2. Election of three directors. In connection with the election of three 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 CR 129
Hallettsville, TX 77964

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 27th Day of March 2012
PROGRAM FOR ANNUAL MEETING
SUNDAY, MAY 19
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.

2012 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 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 a member of the Knights of Columbus Council 10224. Pilcik serves on the SBEC Board of Directors and would like to continue to represent the members of District 3. Pilcik’s objective is to provide the most reliable and quality service at the most reasonable rates for the San Bernard Electric Cooperative members.

BOARD DISTRICT 5
SAMMY CONDRA has been a resident of Bernardo for 28 years. He is the owner of Condra Communications in Columbus. Condra graduated from the Institute of Electronics Science at Texas A&M University in 1978. He has worked in the utility business both before and after graduation and brings this lifelong experience to the SBEC Board of Directors. Condra is a member of St. Roch Catholic Church, the Bernardo VFD and the St. Roch Knights of Columbus Council. Condra serves on the SBEC Board of Directors, representing District 5.

BOARD DISTRICT 7
CHARLES MATULA is a Hallettsville native and has been a San Bernard director for the past 15 years. After graduating from Sacred Heart High School, he continued his education at Texas A&I University, where he received a Bachelor of Science.

After graduation, Matula entered into the oil and gas industry, where he has worked for the past 40 years. He is a member of Sacred Heart Catholic Church in Hallettsville and has volunteered for the past 30-plus years as a cook for the biannual church picnic, as a high school football coach and in various other service projects for the church and school. He will use his experience in the oil and gas industry and his dedication to the community 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 to help maintain the co-op’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 19, 2012, at the Austin County Fair Association Convention and Expo Center, Highway 159 East in Bellville, beginning at 10 a.m.
## OPERATING STATEMENT

2011 and 2010

### REVENUES

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of Electric Power</td>
<td>$58,843,875</td>
<td>$57,272,969</td>
</tr>
<tr>
<td>Other Electric Revenue</td>
<td>4,448,937</td>
<td>1,955,723</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE</strong></td>
<td><strong>$63,292,812</strong></td>
<td><strong>$59,228,692</strong></td>
</tr>
</tbody>
</table>

### EXPENSES

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased Power</td>
<td>$36,639,367</td>
<td>$33,186,663</td>
</tr>
<tr>
<td>Operations and Maintenance</td>
<td>7,287,750</td>
<td>7,022,034</td>
</tr>
<tr>
<td>Administrative and General</td>
<td>5,437,268</td>
<td>4,757,814</td>
</tr>
<tr>
<td>Depreciation</td>
<td>7,944,533</td>
<td>5,120,568</td>
</tr>
<tr>
<td>Taxes</td>
<td>288,488</td>
<td>281,462</td>
</tr>
<tr>
<td>Interest</td>
<td>2,859,745</td>
<td>3,046,113</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td><strong>$60,457,151</strong></td>
<td><strong>$53,414,654</strong></td>
</tr>
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</table>

### MARGINS

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Margins</td>
<td>$2,835,661</td>
<td>$5,814,038</td>
</tr>
<tr>
<td>Nonoperating Margins</td>
<td>463,113</td>
<td>522,283</td>
</tr>
<tr>
<td><strong>TOTAL MARGINS</strong></td>
<td><strong>$3,298,774</strong></td>
<td><strong>$6,336,321</strong></td>
</tr>
</tbody>
</table>

## BALANCE SHEET

As of December 31, 2011, and December 31, 2010

### ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Utility</td>
<td>$132,900,412</td>
<td>$131,065,330</td>
</tr>
<tr>
<td>Investments</td>
<td>4,729,203</td>
<td>4,662,823</td>
</tr>
<tr>
<td>Cash</td>
<td>4,620,998</td>
<td>4,444,946</td>
</tr>
<tr>
<td>Notes and Accounts Receivable</td>
<td>2,170,970</td>
<td>2,065,325</td>
</tr>
<tr>
<td>Materials and Supplies</td>
<td>2,803,210</td>
<td>2,450,541</td>
</tr>
<tr>
<td>Other Current and Accrued Assets</td>
<td>259,889</td>
<td>262,482</td>
</tr>
<tr>
<td>Deferred Charges</td>
<td>205,349</td>
<td>248,908</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>$147,690,031</strong></td>
<td><strong>$141,200,355</strong></td>
</tr>
</tbody>
</table>

### EQUITY

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Memberships</td>
<td>$76,915</td>
<td>$79,385</td>
</tr>
<tr>
<td>Patronage Capital and Margins</td>
<td>66,884,182</td>
<td>67,110,282</td>
</tr>
<tr>
<td><strong>TOTAL EQUITY</strong></td>
<td><strong>$66,961,097</strong></td>
<td><strong>$67,189,667</strong></td>
</tr>
</tbody>
</table>

### LIABILITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-Term Debt</td>
<td>$63,041,500</td>
<td>$66,030,448</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>7,197,285</td>
<td>2,904,167</td>
</tr>
<tr>
<td>Other Current and Accrued Liabilities</td>
<td>7,249,265</td>
<td>2,736,277</td>
</tr>
<tr>
<td>Deferred Credits</td>
<td>3,240,884</td>
<td>2,339,796</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td><strong>$80,728,934</strong></td>
<td><strong>$74,010,688</strong></td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES AND EQUITY</strong></td>
<td><strong>$147,690,031</strong></td>
<td><strong>$141,200,355</strong></td>
</tr>
</tbody>
</table>