

## VICTORIA ELECTRIC COOPERATIVE, INC. BY-LAWS

### ARTICLE I – MEMBERSHIP

#### SECTION 1: Requirement for Membership.

Any person, firm, corporation, association, or body politic thereof, may become a member of Victoria Electric Cooperative, Inc., hereinafter called the “Cooperative,” by: (a) Paying the membership fee, hereinafter specified; (b) Agreeing to purchase, from the Cooperative, electric energy as hereinafter specified; and (c) Agreeing to comply with and be bound by the Articles of Incorporation of the Cooperative and those by-laws and any amendments thereto, and any rules and regulations adopted by the board of directors, provided, however, that no person, firm, corporation, association, or body politic thereof, shall become a member unless and until the application for membership has been accepted for membership by the board of directors of the members. No member may hold more than one membership in the Cooperative.

#### SECTION 2: Membership Fee.

The membership fee shall be five dollars. A husband and wife may jointly become a member provided the husband and wife comply jointly with all the requirements of membership. In the case of a joint membership, only one vote will be allowed at any meeting where members may vote, and only one person shall be allowed to act as a member in the operation of the Cooperative.

Upon termination of service with the Cooperative, the member shall keep the Cooperative informed of a current mailing address in order that the Cooperative may refund any remaining balance of the membership fee which is existing after payment of all final bills. If a member ceases to be a member at the Cooperative and such person's existence and whereabouts are unknown to the Cooperative the Cooperative shall continue to be liable for any remaining balance of membership fee or deposit without interest until the statute of limitations has run against such claim and any amounts shall be then handled pursuant to the provisions of the escheat laws of the State of Texas.

#### SECTION 3: Purchase of Electric Service.

Each member shall, as soon as electric service shall be available, purchase from the Cooperative all electric service (i.e. electric energy and power) used on the

premises specified in his application for membership, and shall pay therefore monthly rates which shall from time to time be fixed by the board of directors. Provided, however, that the board of directors may limit the amount of electric service which the Cooperative shall be required to furnish to any one member. It is expressly understood that amounts paid for electric service in excess of the cost of service are furnished by members as capital, and each member shall be credited with the capital so furnished as provided in these by-laws. Each member shall pay the Cooperative such minimum amount per month regardless of the amount of electric service consumed, as shall be fixed by the board of directors from time to time. Each member shall also pay all amounts owed by him to the Cooperative as and when the same shall become due and payable.

#### SECTION 4: Non-Liability for Debts of the Cooperative.

The private property of the members of the Cooperative shall be exempt from execution for the debts of the Cooperative, and no member shall be individually liable or responsible for any debts or liabilities for the Cooperative.

#### SECTION 5: Expulsion of Members.

The board of directors of the Cooperative may, by the affirmative vote of not less than two-thirds (2/3) of all the directors, expel any member who fails to comply with any of the provisions of the Articles of Incorporation, by-laws, or rules or regulations adopted by the board of directors, but only if such member shall have been given written notice by the Secretary of the Cooperative that such failure makes him liable to expulsion, and such failure shall have continued for at least ten (10) days after such notice was given. Any expelled member may be reinstated by vote of the board of directors or by vote of the members at any annual or special meeting.

#### SECTION 6: Withdrawal and termination of Membership.

Upon withdrawal, death, cessation of existence or expulsion of a member, the membership of such member shall thereupon terminate. Termination of member in any manner shall not release a member or his estate from any debts due the Cooperative. In case of withdrawal or termination of membership in any manner, the Cooperative may repay to the member the amount of membership fee paid by him, provided, however, that the Cooperative shall deduct from the amount of membership fee the amount of any debts or obligations owing from the member to the Cooperative.

#### SECTION 7: Transfer of Membership.

Membership in the Cooperative shall not be transferable.

## SECTION 8: Removal of Directors.

Any member may bring charges against a director by filing them in writing with the Secretary, together with a petition signed by ten percent (10%) of the members, requesting the removal of the director in question. Such petition shall state the legal cause for removal of the director. Such legal cause shall have a basis in the laws of the State of Texas. The removal shall be voted upon at the next regular or special meeting of the members, and any vacancy created by such removal may be filled by the members at such meeting, provided that the director filling that vacancy must reside in the same district as the director in respect of whom the vacancy occurs. The director against whom such charges have been brought shall be informed in writing of the charges prior to the meeting and shall have an opportunity at the meeting to be heard in person, and persons bringing the charge against him shall have the same opportunity.

## ARTICLE II – MEETINGS OF MEMBERS

### SECTION 1: Annual Meeting.

The annual meeting of the members shall be held in October of each year at such place and time as shall be designated in the notice of the meeting, for the purpose of electing directors, passing upon reports for the previous fiscal year, and transacting such other business as may come before the meeting. It shall be the responsibility of the board of directors to make adequate plans and preparation for the annual meeting. Failure to hold the annual meeting at the designated time shall not work a forfeiture or dissolution of the Cooperative.

### SECTION 2: Special Meetings.

Special meetings of the members may be called by resolution of the board of directors, or upon a written request signed by any three directors, by the President, or by ten percent (10%) or more of all the members, and it shall, thereupon, be the duty of the Secretary to cause notice of such meeting to be given as hereinafter provided. Special meetings of the members may be held at any place within the County of Victoria, State of Texas, specified in the notice of the special meetings.

### SECTION 3: Notice of Members Meeting.

Written or printed notice stating the place, day and hour of the meeting and, in case of a special meeting or any 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 (10) days nor more than thirty (30) days before the date of the meeting, either personally, electronically or by mail, by or at the direction of the Secretary, or upon a default in duty by the Secretary, by the persons calling the meeting, to each member. If mailed, such notice shall be deemed to be delivered

when deposited in the United States Postal Service, addressed to the member at his address as it appears on the records of the Cooperative, with postage thereon prepaid. If submitted electronically, such notice shall be deemed to be delivered when submitted to the last known electronic address. The failure of any member to receive notice of an annual or special meeting of members shall not invalidate any action which may be taken by the members at any such meeting.

#### SECTION 4: Quorum.

As long as the total number of members does not exceed five hundred, twenty percent (20%) of the total number of members present in person shall constitute a quorum. In case the total number of members shall exceed five hundred, then in such case, one hundred members shall constitute a quorum. Members voting by mail or electronically, when made available to members, shall be counted as present for purposes of determining whether a quorum is present. This Section 4 shall in no way supersede, impair, or affect Article X insofar as Article X pertains to the minimum number of affirmative votes necessary to authorize a sale of the Cooperative's property in such instances when an affirmative vote of members is necessary to authorize such a sale.

#### SECTION 5: Voting.

Each member shall be entitled to only one vote upon each matter submitted to a vote at a meeting of the members. Ballots from members voting by mail-in ballot or by electronic ballot must be received by the Cooperative by no later than the close of business, two (2) days prior to the member meeting at which such vote is to be taken. In the event more than one vote is cast by one membership, the vote received last will be considered the official vote. All questions shall be decided by a vote of a majority of the members voting thereon.

In the event a director position to be elected is uncontested, the Cooperative reserves the right to dispense with the requirement of formal balloting and allow the uncontested elections to be conducted by a voice vote of the membership.

#### SECTION 6: Procedure.

Robert's Rules of Order, insofar as applicable, shall govern the procedure at each meeting of the members of the Cooperative, provided, that no variation from such rules, irregularities, or other procedures shall in any way affect the validity of the action taken at such meeting.

#### SECTION 7: Order of Business.

The order of business at the annual meeting of the members and, so far as possible, at all other meetings of the members, shall be essentially as follows, except

as otherwise determined by the members at such meeting: (a) Report on the number of members present in person or voting by mail or electronically, when the option is made available to members, in order to determine the existence of a quorum. (b) Reading of the notice of the meeting and proof of the due publication or mailing thereof, or the waiver or waivers of notice of the meeting, as the case may be. (c) Reading of the unapproved minutes of previous meetings of the members and the taking of necessary action thereon. (d) Presentation and consideration of reports of officers, directors and committees. (e) Election of directors. (f) Unfinished business. (g) New business. (h) Adjournment.

## ARTICLE III – DIRECTORS

### SECTION 1: General Powers.

The business and affairs of the Cooperative shall be managed by a board of ten (10) directors which shall exercise all of the powers of the Cooperative except such as are by law, by the Articles of Incorporation of the Cooperative, or by these by-laws conferred upon or reserved to the members.

### SECTION 2: Election and Tenure.

The persons named as directors in the Articles of Incorporation of the Cooperative shall compose the board of directors until the first annual meeting, or until their successors shall have been elected and shall have qualified. At each annual meeting of the members, the directors shall be elected as follows:

Beginning in the year 1963, directors to represent Districts 5, 7, and 8 shall be elected by ballot by and from the members, to serve until the third successive annual meeting of the members, or until their successors shall have been elected and shall have qualified, subject to the provisions of these by-laws with respect to the removal of directors.

Beginning in the year 1964, directors to represent Districts 3, 4, 6 and 10 shall be elected by ballot by and from the members, to serve until the third successive annual meeting of the members, or, until their successors shall have qualified, subject to the provisions of these by-laws with respect to the removal of directors.

Beginning in the year 1965, directors to represent Districts 1, 2 and 9 shall be elected by ballot by and from the members, to serve until the third successive annual meeting of the members, or, until their successor shall have qualified, subject to the provisions of these by-laws with respect to the removal of directors commencing at the annual meeting of the members in 1984, and each three (3) year period thereafter, the director from District 7 may be nominated and elected at-large from any of the said ten (10) districts.

If election of directors shall not be held on the day designated, herein, for the annual meeting, or any adjournment thereof, a special meeting of the members may be held for the purpose of electing directors with a reasonable time thereafter. Directors may be elected by a plurality vote of the members. (The physical descriptions of the districts from which directors are elected are available at the Cooperative office.)

### SECTION 3: Qualifications.

To be eligible to become or remain a director, (a) a person must be a member of the Cooperative; (b) a person must have a permanent residence in the area certified by the Public Utility Commission of Texas as being within boundaries served by the Cooperative under its certificate of convenience and necessity; (c) a person must be receiving electric service from the Cooperative; (d) a person may not in any way be employed by or financially interested in a competing enterprise, or a business selling electric energy to the Cooperative; (e) a person must be above the legal voting age under the laws of the State of Texas; (f) a person must have been a member of the Cooperative for a period of more than twelve (12) consecutive months prior to holding such position; (g) a person must not have any criminal convictions or pending charges identified in a background check; (h) a person must not be a close relative of a current director or current employee of the Cooperative. ("Close relative" is defined in Section 6 of these by-laws); and (i) a person must not have been an employee of the Cooperative within five (5) years from the last date of employment to the date of the meeting at which directors are to be elected.

### SECTION 4: Nominations.

To be nominated for inclusion as a director candidate upon the ballot, a qualified member shall submit to the Cooperative at least thirty (30) days prior to the meeting at which directors are to be elected, a petition with not less than twenty five (25) member signatures. It shall be the duty of the directors to prepare and post at the principle office of the Cooperative, at least twenty (20) days before the meeting, a list of nominations for directors which may include a greater number of candidates than are to be elected.

### SECTION 5: Vacancies.

Subject to the provisions of these by-laws with respect to the removal of directors, vacancies occurring in the board of directors shall be filled by a majority vote of the remaining directors, and directors thus appointed shall serve until their successors shall be elected and shall have qualified. The member appointed as director to fill the vacancy must reside in the same District as the director to whose office they succeed.

## SECTION 6: Compensation.

Directors shall not receive any salary for their services as such, except that by resolution of the board of directors, the Cooperative may pay certain fringe benefits to the directors of the Cooperative, including, but not limited to: medical premiums, 24-hours accident insurance premiums, business travel insurance premiums, and other similar benefits.

In addition, by resolution of the board of directors, the directors may be allowed and paid a fixed amount of per diem and the expenses of attendance at each meeting of the board of directors or any meeting of any other organization of which the Cooperative is a member or in which it has an interest, or at any meeting or session of any other organization, board, commission, court, or other body or agency considering a matter of interest to the Cooperative, or at any other meeting deemed necessary, advisable, or in the best interest of the Cooperative, or while attending to the business or affairs of the Cooperative in their capacities as directors.

No director shall receive compensation for serving the Cooperative in any other capacity, nor shall any close relative of a director receive compensation for serving the Cooperative, unless the payment and amount of compensation shall be specifically authorized by a vote of the members or the service by such director or close relative shall have been certified by the board of directors as an emergency measure.

For the purpose of these by-laws, a close relative of a director is defined as one's:

- Husband, wife
- Father, mother
- Father-in-law, mother-in-law
- Son, daughter
- Son-in-law, daughter-in-law
- Brother, sister
- Brother-in-law, sister-in-law
- Uncle, aunt
- Grandfather, grandmother
- Grandparents-in-law
- Grandson, granddaughter, and
- Any step-relationship that may exist in the immediate family.

## SECTION 7: Regulations.

The board of directors shall have power to make and adopt such rules and regulations, not inconsistent with law, the Articles of Incorporation of the Cooperative or these by-laws, as it may deem advisable for the management, administration or regulation of the business and affairs of the Cooperative.

## SECTION 8: Accounting System and Reports.

The board of directors shall cause to be established and maintained a complete accounting system which, among other things, subject to applicable laws and rules and regulations of any regulatory body, shall conform to such accounting system as may from time to time be designated by the administrator of the Rural Utilities Service (RUS) of the United States of America.

The board of directors shall also, after the close of each fiscal year, cause to be made a full and complete audit of the accounts, books and financial condition of the Cooperative as of the end of such fiscal year, such reports being submitted to the members at the annual meeting.

## SECTION 9: Limiting Liability of Directors.

To the fullest extent permitted by the laws of the State of Texas, a director of the Cooperative shall not be liable to the Cooperative or its members for monetary damages for an act or omission in the director's capacity as a director, except that this Section does not eliminate or limit the liability of a director for: (a) a breach of the director's duty of loyalty to the cooperative or its members; (b) an act or omission not in good faith or that involves intentional misconduct or knowing violation of the law; (c) a transaction from which a director received an improper benefit, whether or not the benefit resulted from an action taken within the scope of the director's office; (d) an act or omission for which the liability of the director is expressly provided for by statute; or (e) an act related to an unlawful distribution to members.

## SECTION 10: Indemnification.

The Cooperative shall indemnify its directors and officers against the claims of third parties against the directors for acts done in the director's capacity as a director and shall advance or reimburse their expenses of defending against such claims, to the fullest extent permitted by the laws of the State of Texas.

## SECTION 11: Catastrophic Event.

Catastrophic loss of board members. (a) The loss by death or incapacity of five (5) or more Board members. In the event of a catastrophic loss of board members, the remaining board members shall appoint, within one hundred twenty (120) days, individuals qualified to serve as board members pursuant to these bylaws from each of the director districts which suffered a loss of a board member, keeping in mind the principle of equitable representation. Board members so appointed shall serve until the next members' meeting, at which time all board members so appointed under this section shall stand for election under the same terms as their respective deceased predecessors. (b) In the event of a catastrophic loss wherein three (3) or less board



members remain, the remaining board member (s), or if no board member remains, the highest ranking Cooperative staff member, shall call a special meeting of the membership within ninety (90) days of the occurrence of the vacancies to elect the applicable number of board members to fill the vacant positions in accordance with the provisions of these bylaws. These specially-elected board members shall serve until the next regularly scheduled annual meeting of the membership at which time all such appointed positions shall stand for election to the same terms as their respective deceased predecessors. (c) Quorum during catastrophe. In the event of a catastrophic loss as the traditional quorum requirements are simplified pending the appointment of new board members, in order to allow the remaining board members to meet and conduct business. All action of the board during this catastrophic time period shall stand for ratification at the next board meeting wherein a traditional quorum is present.

## ARTICLE IV – MEETING OF DIRECTORS

### SECTION 1: Regular Meetings.

A regular meeting of the board of directors shall be held as soon as practical after each annual meeting of the members at which directors shall be elected at some convenient place, without notice other than this by-law. Regular monthly meetings may be held without notice other than a resolution fixing the time and place thereof.

### SECTION 2: Special Meetings.

Special meetings of the board of directors may be called by the President or any three (3) directors. The person or persons authorized to call special meetings of the board of directors may fix the time and place for the holding of any special meeting of the board of directors called by them.

### SECTION 3: Notice.

Notice of the time, place and purpose of any special meeting of the board of directors shall be given at least five (5) days previous, thereto, by written notice, delivered personally, electronically or mailed, to each director at their last known address. If mailed, such notice shall be deemed delivered when deposited in the United States Postal service so addressed, with postage, thereon prepaid. If delivered electronically, such notice shall be deemed delivered when submitted to the last known electronic address. The attendance of a director of any meeting shall constitute a waiver of notice of such meeting, except in case a director shall attend a meeting for the express purpose of objecting to the transaction of any business because the meeting shall not have been lawfully called or convened.

#### SECTION 4: Quorum.

A majority of the board of directors shall constitute a quorum of the transaction of any business, except as provided in Article XIV of these by-laws, at any meeting of the board of directors, provided, that if less than a majority of the directors are present at any meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

#### SECTION 5: Manner of Acting.

Except as provided in Article IV of these by-laws, the act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors.

### ARTICLE V – OFFICERS

#### SECTION 1: Number.

The officers of the Cooperative shall be a President, Vice-President, Secretary, Assistant Secretary, Treasurer, Assistant Treasurer, and such other officers as may be determined by the board of directors from time to time. The office of Secretary and Treasurer may be held by the same person. The office of Assistant Secretary and Assistant Treasurer may be held by the same person.

#### SECTION 2: Election and Term of Office.

The officers shall be elected annually by and from the board of directors at the meeting of the board of directors held after the annual meeting of the members. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as may be convenient. Each officer shall hold office until the first meeting of the board of directors following the next succeeding annual meeting of the members or until his successor shall have been elected and shall have qualified, subject to the provisions of these by-laws with respect to the removal of officers.

#### SECTION 3: Removal.

Any officer or agent elected or appointed by the board of directors may be removed by the board of directors whenever, in its judgment, the best interests of the Cooperative will be served thereby.

#### SECTION 4: Vacancies.

Except as otherwise provided in these by-laws, a vacancy in any office may be filled by the board of directors for the unexpired portion of the term.

SECTION 5: President.

The President shall:

- (a) be the principal executive officer of the Cooperative, and, unless otherwise determined by the members or the board of directors, shall preside at all meetings of the members and board of directors;
- (b) sign, with the Secretary, any deeds, mortgages, deeds of trust, notes, bonds, contracts, or other instruments authorized by the board of directors to be executed, except in cases in which the signing and execution thereof shall be expressly delegated by the board of directors or by these by-laws to some other officer or agent of the Cooperative, or shall be required by law to be otherwise signed or executed, and
- (c) in general, perform all duties incident to the office of President and such other duties as may be prescribed by the board of directors from time to time.

SECTION 6: Vice-President.

In the absence of the President, or in the event of his inability or refusal to act, the Vice-President shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. The Vice-President shall also perform such other duties as from time to time may be assigned to him by the board of directors.

SECTION 7: Secretary.

The Secretary shall:

- (a) keep the minutes of the meetings of the members and the board of directors;
- (b) see that all notices are duly given in accordance with these by-laws or as required by law;
- (c) be custodian of the business records and of the seal of the Cooperative;
- (d) keep a register of the names and post office addresses of all members;
- (e) have general charge of the books of the Cooperative;
- (f) keep on file at all times a complete copy of the Articles of Incorporation and by-laws of the Cooperative containing all amendments thereto (which copy shall always be open to the inspection of any member) and, at the expense of the Cooperative, have available a copy of the by-laws and of all amendments thereto and
- (g) in general, perform all duties incident to the office of Secretary or Assistant Secretary and such other duties as from time to time may be assigned to him by the board of directors.

SECTION 7A: Assistant Secretary.

The duties of the Assistant Secretary shall be all those given to the Secretary, herein, in the absence of the Secretary.

## SECTION 8: Treasurer.

The Treasurer shall:

- (a) have charge and custody of and be responsible for all funds and securities of the Cooperative;
- (b) be responsible for the receipt of and the issuance of receipts for all monies due and payable to the Cooperative and for the deposit of such monies in the name of the Cooperative in such bank or banks as shall be selected in accordance with the provisions of these by-laws, and
- (c) in general, perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the board of directors.

## SECTION 8A – Assistant Treasurer.

The duties of the Assistant Treasurer shall be all those given to the Treasurer herein, in the absence of the Treasurer.

## SECTION 9 – Manager.

The board of directors shall appoint a manager who may be, but who shall not be required to be, a member of the Cooperative. The manager shall perform such duties and shall exercise such authority as the board of directors may from time to time vest in him.

## SECTION 10 – Bonds of Offices.

The Treasurer and any other officer or agent of the Cooperative charged with the responsibility for custody of any of its funds or property shall be bonded in such sum and with such surety as the board of directors shall determine. The board of directors in its discretion may also require any other officer, agent or employee of the Cooperative to be bonded in such amount and with such surety as it shall determine.

## SECTION 11 – Compensation.

The power, duties and compensation of officers, agents and employees shall be fixed by the board of directors, subject to the provisions of these by-laws with respect to compensation for directors and close relatives of directors.

## SECTION 12 – Reports.

The officers of the Cooperative shall submit at each annual meeting of the members, reports covering the business of the Cooperative for the previous fiscal

year. Such reports shall set forth the condition of the Cooperative at the close of each fiscal year.

## ARTICLE VI – FINANCIAL TRANSACTIONS

### SECTION 1: Contracts.

Except as otherwise provided in these by-laws, the board of directors may authorize any officer or officers, agent or agents, employee or employees, to enter into any contract or execute and deliver any instrument in the name and on behalf of the Cooperative, and such authority may be general or confined to specific instances.

### SECTION 2: Checks, Drafts, Etc.

All checks, drafts, or other orders for the payment of money, and all notes, bonds or other evidences of indebtedness issued in the name of the Cooperative shall be signed by such officer or officers, agent or agents, employee or employees of the Cooperative and in such manner as shall from time to time be determined by resolution of the board of directors.

### SECTION 3: Deposits.

All funds of the Cooperative shall be deposited from time to time to the credit of the Cooperative in such banks, financial institutions, or investment firms as the board of directors may select.

### SECTION 4: Change in Rates.

Written notice of changes in the Cooperative's tariffs shall be given to the Administrator of the Rural Utilities Service of the United States of America if and when such shall be necessary. Additionally, all changes in the tariff shall be presented to the Public Utility Commission of Texas if and when approval is required for such changes.

## ARTICLE VII – NON-PROFIT OPERATION

### SECTION 1: Definitions.

In this Article:

1. "Patron" shall mean (a) a member, as defined in Article I of these by-laws, to whom the Cooperative furnished electric service (i.e. electric energy and power) on a cooperative basis, (b) a member to whom the Cooperative also furnishes other utility type services on a cooperative basis and (c) a non-member to whom the Cooperative furnishes electric service and/or other utility type services on a cooperative basis by authorized contractual authority.

2. "Patronage capital" shall mean the capital credited to the capital accounts of patrons on the basis of patronage pursuant to the pre-existing obligation to do so in Section 3.1 of this Article VII.
3. "Cooperative Services" shall mean the provision of electric service (electric energy and/or services). Such term shall also include the provision of other utility type services, which includes sale or provision of any good or service qualifying for exemption from Section 501(c) (12) of the Internal Revenue Code and for which the Cooperative has a pre-existing legal obligation to provide on a patronage basis through the allocation of Capital Credits. Such pre-existing legal obligation (1) shall be provided for by Board policies, Board resolutions, an affirmative vote of the members, or other contractual authority (collectively, "authority") and (2) may be limited to members only. Notwithstanding any provision of these Bylaws to the contrary, Cooperative Service does not include any good or service provided by an affiliate of the Cooperative to its customers.

#### SECTION 2: Interest or Dividends on Capital.

The Cooperative shall at all times be operated on a Cooperative, non-profit basis for the mutual benefits of all its patrons. No interest or dividends shall be paid or payable by the Cooperative on any capital furnished by its patrons.

#### SECTION 3: Patronage Capital in Connection with Furnishing of Cooperative Services to Patrons.

1. In the furnishing of Cooperative Services or other utility services on a patronage basis by contract, the Cooperative's operation shall be so conducted that all patrons will, through their patronage, furnish capital for the Cooperative. In order to induce patronage and to assure that the Cooperative will operate on a non-profit basis, the Cooperative is obligated to account on a patronage basis to all its patrons for all amounts received and receivable from and directly related to the furnishing of Cooperative Services in excess of costs and expenses properly chargeable against the furnishing of Cooperative Services, hereinafter referred to as "margins." All such margins at the moment of receipt by the Cooperative are received with the understanding that they are furnished by the patrons as capital. The Cooperative is obligated to pay by credits to a capital credit account for each patron all such margins. The books and records of the Cooperative shall be set up and kept in such a manner that at the end of each fiscal year, the amount of capital, if any, so furnished by each patron, is clearly reflected and credited in an appropriate record to the capital account of each patron, and the Cooperative shall, within a reasonable time after the close of the fiscal year, notify each patron of the amount of capital credited to their account. All such amounts credited to the capital account of any patron shall have the same status as though they have been paid to the

- patron in cash pursuant to a legal obligation to do so and the patron had then furnished the Cooperative corresponding amounts for capital.
2. If the costs and expenses exceed the amounts received and receivable from and directly related to the furnishing of Cooperative Services, hereinafter referred to as "loss," then the board of directors shall have the authority under accepted accounting practices and applicable tax law to prescribe the manner in which such loss shall be handled. Losses subject to this Section 3.2 will be determined as provided under Section 3.3, which provides the methods for calculating and allocating patronage capital.
  3. (a) Notwithstanding any provision in Section 3 of this Article VII, it is understood that the margins and losses for each fiscal year are calculated separately for each distinctive Cooperative Service or division. The margins for each respective Cooperative Service or division shall be allocated to the capital account of patrons on the basis of patronage solely to the patrons of each Cooperative Service or division. The board of directors has the authority to choose the method for determining the patronage and allocation of margins for each Cooperative Service or division provided that such method is fair and equitable to the patrons. (b) For each fiscal year, the board of directors shall also choose the method for handling losses for each Cooperative Service or division in accordance with the provisions of Section 3.2 of this Article VII. (c) For purposes of this provision, the margins and losses for each Cooperative Service or division shall not be combined with the margins and losses from other Cooperative Services or divisions unless (1) the Cooperative provides a written notification and explanation to the patrons of the proposed netting and of the impact of such proposed netting on the patronage capital allocations to be received by the patrons and (2) the patrons approve of the netting by a simple majority of the Cooperative's patrons for each Cooperative Service or division in attendance at the annual meeting. (d) Notwithstanding any provision in Article VII, the margins from and directly related to the furnishing of Cooperative Services, which are required to be allocated to the patrons on the basis of patronage, shall be the greater of regular federal taxable income or alternative minimum taxable income as determined before the exclusion for allocations of patronage capital under federal law. The board of directors, however, does have the authority to adopt a reasonable alternative in lieu of the greater of regular federal taxable income or alternative minimum taxable income.
  4. All other amounts received in excess of costs and expenses by the Cooperative other than from and directly related to the furnishing of Cooperative Services may, in the discretion of the board and insofar as permitted by law, be: (a) used to offset any losses incurred during the current or any prior fiscal year, as may be determined in Section 3.2; (b) used to establish reserves and other capital not assignable to the patrons prior to the dissolution of the Cooperative, and (c) to the extent not needed for these purposes, allocated on a patronage basis and included and treated

as a part of the patronage capital credited to accounts of the patrons as in this article provided.

5. In the event of dissolution or liquidation of the Cooperative, after all outstanding indebtedness of the Cooperative shall have been paid, outstanding patronage capital credits (property interests) shall be paid without priority on a prorated basis before payments are made on account of property rights of patrons. If the assets of the Cooperative are insufficient to retire all of patrons' equities (property interests) in the Cooperative, all available funds shall be prorated equitably to such class, regardless of the date of the issue of the same.

If, at any time prior to dissolution or liquidation, the board of directors shall determine that the financial condition of the Cooperative will not be impaired thereby, the capital then credited to patrons' accounts may be retired in full or in part, and the board of directors shall determine the method, basis, priority and order of retirement, if any, for all amounts heretofore and hereafter furnished as capital. Notwithstanding any other provision of these by-laws regarding the method, basis, priority and order of retirement of patronage capital the board of directors may, when deemed in the best interest of the Cooperative, consider, offer and/or negotiate the retirement of amounts furnished as capital at a discount.

The method, basis, priority and order of retirement shall be determined separately for each Cooperative Service based on the operational and contractual needs of each. Therefore, the board of directors shall have the power to retire patronage capital of each division independent of any other division. In no event, however, shall patronage capital be retired if such retirements would violate any applicable law or regulation, or if such retirements would breach any provision of any mortgage or loan contract executed by the Cooperative upon the authority of the board of directors pursuant to the provisions of Article V of these by-laws.

Capital credited to the amount of each patron shall be assignable with board of directors' approval, only on the books of the Cooperative pursuant to written instruction from the assignor and only to the Cooperative or to successors in interest or successors in occupancy in all or a part of such patron's premises served by the Cooperative unless the board of directors, acting under policies of general application, shall determine otherwise. No patronage capital credits may be assigned while the patron is indebted to the Cooperative unless and until such indebtedness is paid in full. Additionally, any patronage capital credits held in the name of a patron shall remain subject to the right to offset for any debt, past or future, of such member, regardless of current holder of such credits.



Subject to the right to offset for any amounts owed the Cooperative, patrons may at any time irrevocably assign and contribute their patronage capital to the Cooperative as a contribution of capital. Any irrevocable assignment and contribution of capital made pursuant to this by-law provision shall not be allocated to the patrons and are distributable only upon dissolution of the Cooperative pursuant to the property rights of patrons.

Notwithstanding any other provisions of these by-laws, the board of directors, at its sole discretion, shall have the power to negotiate patronage capital settlement arrangements with estates of deceased natural persons and/or inactive patrons for the retirement of such capital prior to the time it would otherwise be retired under the provisions of these by-laws. However, such settlements are solely at the discretion of the board of directors, must be requested in writing by the legal representatives of the inactive patron or of the estate of the deceased natural person, must be in accordance with the terms and conditions that the board of directors and the legal representatives of such patrons shall agree upon, and is prohibited if the financial condition of the Cooperative is impaired thereby. Any debts owed to the Cooperative by such patron or such patron's estate shall be offset against any amount retired pursuant to this paragraph before payment is made.

#### SECTION 4: Unclaimed Payments to Members.

A claim for money against the Cooperative shall be subject to the provisions of this section whenever the Cooperative is ready, able and willing to pay such claim and has paid or is paying generally claims arising under similar circumstances but payment of such claim cannot be made for the reason that the Cooperative does not know the whereabouts or mailing address of the one to whom it is payable or the one entitled to payments. It is the obligation of every member of the Cooperative at all times to keep the Cooperative correctly informed concerning his whereabouts or correct mailing address in order that he might receive any sums due by the Cooperative to him in any account without delay.

No trust or fiduciary relationship shall exist between the Cooperative and its members concerning any unclaimed funds due by the Cooperative to any patron on account, but the relationship of debtor-creditor shall, at all times, exist between the Cooperative as debtor and the member as the creditor concerning such unclaimed funds. If payment cannot be made for the reasons indicated above or for any other cause beyond the control of the Cooperative, the Cooperative shall continue to be liable for the amount thereof without interest until the statute of limitations has run against such claim and any amounts shall be then handled pursuant to the provisions of the escheat laws of the State of Texas.

## SECTION 5: Property Rights of Patrons.

Upon dissolution of the Cooperative, after (a) all debts and liabilities of the Cooperative shall have been paid, and (b) all capital furnished through patronage shall have been retired as provided in these by-laws, the remaining property and assets of the Cooperative shall be distributed among the patrons and former patrons (referred collectively in this Section 5 of Article VII as "patrons") in the proportion which the aggregate patronage of each bears to the total patronage of all patrons during that period, insofar as is consistent with law and practicable as determined by the board of directors. If the Cooperative operates multiple divisions, then the provisions of this Section 5 of Article VII will be applied on a divisional basis and on the basis of historic patronage of the members of such dissolving divisions, to the extent practicable.

## SECTION 6: Acknowledgement of Patrons.

The patrons of the Cooperative, by dealing with the Cooperative, acknowledge that the terms and provisions of the Articles of Incorporation and these by-laws, as the same may be from time to time amended, shall constitute and be a contract between the Cooperative and each patron, and both the Cooperative and the patrons are bound by such contract, as fully as though each patron had individually signed a separate instrument containing such terms and provisions. The provisions of these by-laws shall be called to the attention of each patron of the Cooperative by posting in a conspicuous place in the Cooperative's office, or making copies thereof available upon request.

## ARTICLE VIII – MEMBERSHIP IN OTHER ORGANIZATIONS

The Cooperative shall not become a member of or purchase stock in any other organization without an affirmative vote of the members at a duly held meeting, the notice of which shall specify that action is to be taken upon such proposed membership or stock purchase, provided, however, that the Cooperative may, upon the authorization of the board of directors, purchase stock in or become a member of any corporation or organization organized on a non-profit basis for the purpose of engaging in or furthering the cause of rural electrification, or with the approval of the Administration of the Rural Utilities Service, or any other corporation, for the purpose of acquiring electric facilities.

## ARTICLE IX – WAIVER OF NOTICE

Any member or director may waive in writing any notice of a meeting required to be given by these by-laws. The attendance of a member or director at any meeting shall constitute a waiver of notice of such meeting by such member or director, except in case a member or director shall attend a meeting

for the express purpose of objecting to the transaction of any business on the ground that the meeting has not been lawfully called or convened.

#### ARTICLE X – DISPOSITION OF PROPERTY

The Cooperative may not sell, mortgage, lease, or otherwise dispose or encumber any of its property other than: (a) Property which, in the judgment of the board of directors, neither is nor will be necessary or useful in operating and maintaining the Cooperative's system and facilities; (b) Property which may be necessary or useful in the operation of the Cooperative's system and facilities, but which in the judgment of the board of directors, in the best interest of the Cooperative, should be sold, disposed of, leased, or encumbered; provided that all sales of such property shall not in any one year exceed in value ten percent (10%) of the value of all the property of the Cooperative, unless such sale, mortgage, lease or other disposition or encumbrance is authorized at a meeting of the members, thereof, by the affirmative vote of not less than two-thirds of all the members of the Cooperative, and unless the notice of such proposed sale, mortgage, lease or other disposition or encumbrance shall have been contained in the notice of the meeting; provided, however, that notwithstanding anything herein contained, the board of directors of the Cooperative, without authorization by the members thereof, shall have full power and authority to authorize the execution and delivery of mortgages or deeds or deeds of trust upon, or the pledging or encumbering of, any or all of the property, assets, rights, privileges, licenses, franchises and permits of the Cooperative, whether acquired or to be acquired, and where ever situated, as well as the revenues and income there from, all upon such terms and conditions as the board of directors shall determine, to secure any indebtedness of the Cooperative to the United States of America or any instrumentality or agency thereof, or to the National Rural Utilities Cooperative Finance Corporation or to any other bona fide lender or lenders, provided further that the board of directors may, upon the authorization of the members thereof, sell, lease or otherwise dispose of all or a substantial portion of its property to another Cooperative or foreign corporation doing business in the state, pursuant to the act under which the Cooperative is incorporated.

#### ARTICLE XI – FISCAL YEAR

The fiscal year of the Cooperative shall begin on the first day of January each year and shall end on the thirty-first day of December the same year.

#### ARTICLE XII – SEAL

The corporate seal of the Cooperative shall have inscribed thereon, the name of the Cooperative, and words, "Corporate Seal Texas."

## ARTICLE XIII – DELINQUENT ACCOUNTS

When refunds of capital credits are made, the credits on accounts which are delinquent, either active or inactive accounts shall be retained in the amount equal to the delinquency and charged to the appropriate accounts. This shall include charged off delinquent accounts of any period of time. At all times, the Cooperative retains a first-lien and right to offset against any capital credits for amounts due to the Cooperative, and the Cooperative may, in its sole and absolute discretion, offset any such amount, regardless of its date of issue and regardless of whether other credits of the same issue are being retired.

NOTE: For clarification purposes, the use of the masculine terms included in this document is intended to serve as gender neutral.