



Bylaws of Heartland Rural Electric Cooperative Inc.

As amended March 23, 2010

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ARTICLE I MEMBERSHIP

SECTION 1.01 Eligibility. Any natural person, firm, association, corporation, business trust, partnership, federal agency, state or political subdivision or agency thereof, or body politic will become a member of Heartland Rural Electric Cooperative, Inc. (hereinafter called the "Cooperative") upon receipt of electric service from the Cooperative, provided that he, she or it has first:

(a) Made a written application for membership on forms provided by the Cooperative;

(b) Agreed to purchase or accept delivery of electric energy and energy-related services from the Cooperative;

(c) Agreed to comply with and be bound by the Articles of Incorporation, Bylaws, and Rules and Regulations adopted and amended from time to time by the Board of Directors (hereinafter called the "Board"); and

(d) Paid the membership fee.

No individual may hold more than one membership. No membership is transferable.

SECTION 1.02 Membership Record. The Cooperative shall maintain membership records at its principal office, including a roll of members which shall include the name and address of each member of the Cooperative and such other information as may be deemed advisable by the Board. No membership certificates shall be issued.

SECTION 1.03 Membership Fees. The membership fee shall be set by the Board.

SECTION 1.04 Membership Definitions. Memberships in the Cooperative are extended to individual (natural or corporate) or joint members who meet the requirements of Article I. Joint memberships may only be held by a husband and wife.

The term "member" as used in these bylaws shall refer to an individual (natural or corporate) or joint membership. Any provisions relating to the rights and liabilities of membership shall apply equally with respect to the holders of a joint membership. The effect of the following actions by the holders of a joint membership by husband and wife shall be as follows:

(1) The presence at a meeting of either or both shall be regarded as the presence of one member, and shall constitute a joint waiver of notice of the meeting;

(2) Either separately or both jointly shall cast only one vote on behalf of the joint membership;

(3) A waiver of notice signed by either or both shall constitute a joint waiver;

(4) Notice to either shall constitute notice to both;

(5) Expulsion of either shall terminate the joint membership;

(6) Withdrawal of either shall terminate the joint membership;

(7) Either but not both may be elected or appointed as an officer or director, provided

that both meet the qualifications for such office.

SECTION 1.05 Conversion of Membership. A membership may be converted to a joint membership upon the written request of the member, and the agreement of the member and the spouse to be added to comply with the Articles of Incorporation, bylaws, and rules and regulations adopted by the Cooperative.

Upon the death of either spouse who is party to the joint membership, the membership shall be held solely by the survivor. The estate of the deceased shall not be released from any debts due the Cooperative.

SECTION 1.06 Purchase of Electric Service. The term "electric service" as used in these Bylaws shall mean the purchase, sale, and delivery of electric energy and all ancillary and related services incidental thereto. Electric services purchased by the member for use on the premises specified in the membership application shall be purchased from or delivered by the Cooperative. Rates and terms shall be fixed by the Board. Production or use of electric energy by facilities which are interconnected with cooperative facilities shall be subject to regulation by the Cooperative.

It is expressly understood that amounts paid for services by the Cooperative in excess of the cost of service are furnished by members as capital. Each member's account shall be credited with the capital so furnished as provided in these bylaws.

SECTION 1.07 Termination of Membership. Any member may withdraw from membership upon payment in full of all debts and liabilities of such member to the Cooperative and upon compliance with such terms and conditions as the Board of Directors may prescribe.

A membership will automatically terminate upon the withdrawal, death, or cessation of existence of the member, or when the member has ceased to purchase electric service from the Cooperative for a period of 3 consecutive months. Termination of membership in any manner will not release a member or their estate from any debts due the Cooperative.

The Board may expel a member who fails to comply with the Articles of Incorporation, bylaws, or rules and regulations by an affirmative vote of two-thirds of all members of the Board. The member shall have been given written notice of the failure and such failure shall have continued for at least ten days after the notice was given. Any expelled member may be reinstated by vote of the Board or by vote of the members at any annual or special meeting.

In case of withdrawal or termination of membership, the Cooperative shall return the membership fee, after deducting any debts or obligations owed to the Cooperative.

SECTION 1.08 Membership Required. Membership in the Cooperative is required to receive electric service from the Cooperative.

If a patron receives electric service from the Cooperative without becoming a member, the Board may furnish the patron with a membership retroactive to the date such service was first furnished and the books and records of the Cooperative, to the extent practicable, shall be revised to reflect such membership.

SECTION 1.09 Suspension and Reinstatement of Membership. Memberships will automatically be suspended upon the failure to pay, after proper notice, amounts due the Cooperative or upon violation of the Cooperative bylaws or the rules and regulations adopted by the Board. A suspended member may not vote at any meeting of the members. Payment of all amounts due the Cooperative, including any additional charges required for such reinstatement, and/or the cure of any breach of membership obligations or violations of rules and regulations shall automatically reinstate the membership.

ARTICLE II – RIGHTS AND LIABILITIES OF MEMBERS

SECTION 2.01 Property Interest of Members. Upon dissolution, after (a) all debts of the Cooperative have been paid, and (b) all membership fees shall have been repaid, the remaining property and assets of the Cooperative shall be distributed among the members of the Cooperative as specified in these bylaws or as otherwise provided by law. Termination of membership shall operate as a release of all right, title and interest of the members in the property or assets of the Cooperative.

SECTION 2.02 Non-Liability For Debts of the Cooperative. The private property of the members shall be exempt from execution or other liability for the debts of the Cooperative and no member shall be personally liable or responsible for any debts or liabilities of the Cooperative.

ARTICLE III – MEETINGS OF MEMBERS

SECTION 3.01 Annual Meeting. The Annual Meeting of the Members shall be held each year on a date and at a time and place designated by the Board, in any county where the Cooperative is providing electric service, for the purpose of electing directors, passing upon reports covering the previous fiscal year and transacting such other business as may come before the meeting. Failure to hold the annual meeting at the designated time shall not work a forfeiture or dissolution of the Cooperative.

SECTION 3.02 Special Meetings. Special meetings of the members may be called by resolution of the Board, by the President, by written request of three or more directors, or by petition signed by at least ten percent of all members. It shall be the duty of the Secretary to cause notice of the meeting to be

given as specified in Section 3.03. Special meetings of the members may be held at any place within any of the counties served by the Cooperative as designated by the Board and specified in the notice of the special meeting.

SECTION 3.03 Notice of Member Meetings. Written notice of membership meetings stating the date, time, location and purpose of the meeting shall be delivered not less than ten days nor more than thirty-five days before the date of the meeting, either personally or by mail. If mailed, such notice shall be deemed to be delivered when deposited in the United States Mail. The incidental or unintended failure of any member to receive notice of an annual or special meeting of the members shall not invalidate any action which may be taken by the members at any such meeting.

SECTION 3.04 Quorum. Business may not be transacted at any meeting of the members unless there are present in person at least fifty members, except that, if less than a quorum is present at any meeting, a majority of those present in person may adjourn the meeting to another time and date. At all meetings of the members, whether a quorum is present or not, the Secretary shall affix to the meeting minutes, or incorporate therein by reference, a list of those members who were registered as present in person.

SECTION 3.05 Voting. Each member shall be entitled to only one vote upon each matter submitted to a vote at a meeting of the members. The representative of a corporate member shall be permitted to vote upon presenting to the Secretary satisfactory credentials and authority to vote on behalf of such member. All questions, except those involving multiple choice issues or determinations, shall be decided by a vote of a majority of the members voting thereon except as otherwise provided by law, the Articles of Incorporation or these bylaws. Multiple choice issues or determinations shall be decided by a plurality vote. If in the election of directors there is a tie, such tie may be resolved by means of a coin flip or in such other manner as may be directed by the Board. No proxy voting shall be allowed.

SECTION 3.06 Mail Ballot. Issues may be presented to the members by means of a written ballot forwarded to the members and returned to the Cooperative by mail. The Board shall determine which issues are decided by a mail ballot and what terms and conditions will regulate its use. Issues decided by a mail ballot in which the number of votes cast is equal to or greater than the number of members needed to constitute a quorum for a membership meeting shall have the same force and effect as a vote taken at a meeting of the members.

SECTION 3.07 Order of Business. The order of business at the annual meeting of members and, so far as possible at all other

meetings of the members, shall be conducted under policies established by the Board and under an agenda essentially as follows:

- (1) Determine the existence of a quorum.
- (2) Proof of the timely publication or mailing of the notice of meeting or the waiver of the notice of meeting.
- (3) Review and approval of minutes of previous meetings of the members.
- (4) Election of board members.
- (5) Presentation and consideration of reports of officers, directors, managers and committees.
- (6) Unfinished business.
- (7) New business.
- (8) Adjournment.

ARTICLE IV BOARD OF DIRECTORS

SECTION 4.01 General Powers. The business and affairs of the Cooperative shall be directed by a Board of eight Directors, which shall exercise all the powers of the Cooperative, except those that are by law, the Articles of Incorporation, or these bylaws, conferred upon or reserved to the members. For purposes of these bylaws, reference to a "Director" or "Directors" shall be deemed to be references to "Trustee" or "Trustees", as the case may be, within the meaning of K.S.A. 17-4612 of the Kansas Electric Cooperative Act.

SECTION 4.02 Election and Tenure of Office. Directors shall be elected from each district described in section 4.04 for a term of three years as terms of office expire or until successors shall have been elected and qualified. Directors shall be elected by the members of the district they reside in prior to each annual meeting of the members. Elections shall be conducted by written ballot mailed to each member and returned by mail to the Cooperative, PROVIDED, there is only one nominee for a particular Director District or position, no mail ballot will be conducted as specified in Article IV, Section 4.05 C.

SECTION 4.03 Qualifications to be Nominated, Elected and Remain a Director. Any natural person shall be eligible to be nominated, elected and remain a director of the Cooperative who:

- (1) Is a member and bona fide resident in the particular district which the member is to represent.
- (2) Is not an employee of the Cooperative or in any way financially interested in a competing enterprise or a business engaged in selling energy, energy services or energy supplies or maintaining energy producing or selling facilities. However, the Board may grant exceptions for "de minimus" competing enterprises.
- (3) Is not closely related to an incumbent director or an employee of the Cooperative. The term "closely related" means the relationship of father, mother, brother, sister, son and daughter existing by reason of blood,

marriage or adoption.

Upon establishment of the fact that a director is holding the office in violation of any of the foregoing provisions, the Board shall remove the director from office.

Nothing contained in this section shall affect the validity of any action taken at any meeting of the Board.

SECTION 4.04 Districts. The territory served by the Cooperative shall be divided into four director districts. Each district shall be represented by two directors. The director districts shall be as shown on large-scale maps located and available for inspection by any member upon reasonable request during normal business hours at the main office of the Cooperative and any other office regularly maintained by the Cooperative. A description of the director districts by county and township shall be made available to any member upon request. The Board of Directors shall review the composition of the districts in years evenly divisible by five. If the Board determines that a substantial imbalance of membership has developed which can be corrected by a redefinition of the districts, the Board shall redefine the boundaries of the districts to correct the substantial imbalance that has developed.

Notwithstanding any provision of this section, a violation of such districting or redistricting provision shall not invalidate or in any way affect or impair the validity of any corporate action.

SECTION 4.05 Nomination and Election of Directors. Prior to the annual meeting of the members, an election, by mail ballot, shall be held for director districts in which a term of office expires for the purpose of electing a director from those districts. Not less than seventy-five (75) days prior to the annual meeting, the Cooperative shall cause a notice of such election to be delivered to members within those districts stating the nominating procedures and date of said election.

A. Nominations: A nomination for director from a particular district may be made only by written petition, signed by not less than twenty-five (25) members who are residents of the particular district, PROVIDED, that any incumbent director, by submitting written notice to seek reelection, shall automatically be nominated. The nominating petition may nominate for director any member residing in the particular district who possesses the qualifications for director specified in Article IV, Section 4.03 and who has affirmed his qualification to serve as director by signing the "Affirmation of Director Qualification" form. Nominating Petition and Affirmation of Director Qualification forms shall be available at the Cooperative offices not more than seventy-five (75) days prior to the annual meeting. The petition shall be filed at the main office of the Cooperative not later than Five (5:00) P.M. on the fiftieth (50th) day prior to the annual meeting. All nominating petitions that are not filed at the main office of the Cooperative on or before Five (5:00)

P.M. on the fiftieth (50th) day prior to the annual meeting shall expire automatically. The Secretary shall verify the signatures contained in the petitions and shall post not less than forty-five (45) days prior to the annual meeting, at all offices of the Cooperative, a list of the names of all qualified members nominated from each district. A member may sign more than one nominating petition.

If two (2) or fewer qualified members from a particular district either timely file a petition, or in the case of an incumbent director seeking reelection, submit in writing such intent, then each shall be declared an official candidate for the position of director from the particular district and shall stand for election under Article IV, Section 4.05 C.

B. Primary Election: If more than two (2) qualified members from a particular district either timely file petitions, or in the case of an incumbent director seeking reelection, submit in writing such intent, a primary election between those qualified members shall be held to select two (2) official candidates to stand for election under Article IV, Section 4.05 C.

C. The primary election shall be conducted by mail ballot. Not less than forty (40) days prior to the annual meeting, the Cooperative shall mail to each member residing in the particular district a ballot containing all the names of those qualified members seeking to become official candidates. The names shall be arranged in alphabetical order except that an incumbent shall have his name listed first. The ballot shall provide that a member of the particular district may vote for only one of the qualified members listed on the ballot, and that in order to be counted, the ballot must be received at the main office of the Cooperative by Five (5:00) P.M. on the twenty-ninth (29th) day prior to the annual meeting. The Election Committee shall count the ballots and the two qualified members receiving the highest number of votes shall be declared the official candidates from the particular district and shall stand for election under Article IV, Section 4.05 C. In the event that two qualified members receive the same number of votes in a primary election, the tie vote shall be resolved by lot. Immediately after the results of the primary election are determined, the Secretary shall post, at all offices of the Cooperative, a revised list of the names of the official candidates nominated from each district.

C. Election of Directors: Not less than fifteen (15) days before the annual meeting of the members, the Cooperative shall mail to each member a Notice of Election with a list of the official candidates, along with a ballot for the particular district. The election shall be conducted by mail ballot and directors shall be elected by the members of the particular district from which they have been nominated. The Cooperative shall mail to each member residing in each particular district a ballot containing the names of the official candidates. The names on the ballot shall be arranged in alphabetical order except that an incumbent shall have his name listed first. The ballot shall provide that a member of the particular district may vote for only one of

the official candidates listed on the ballot, and that in order to be counted, the ballot must be received at the main office of the Cooperative by Five (5:00) P.M. on the day before the annual meeting. The Election Committee shall count the ballots and the candidate from each district receiving the highest number of votes shall be declared elected as director. In the event that two (2) candidates for election to the office of director in any particular district receive the same number of votes, the tie vote shall be resolved by lot. At the annual meeting of the members, the Secretary shall announce to the members the names of the persons elected as directors and the district from which each director is elected.

In the event that no nominating petitions have been properly made and timely filed, the vacancies occurring shall be filled in accordance with Article IV, Section 4.07 hereof. In the event that no contest has been created by nominating petitions properly made and timely filed and the election of the sole nominee is assured because no other nominations can be made, then in order to save unnecessary expense, the election of director shall automatically be dispensed with and the sole nominee shall be deemed elected.

D. Election Committee: Each qualifying member who files a nominating petition to become a candidate for director shall designate a teller. Together, all designated tellers, along with a Chairperson appointed by the Board of Directors, shall comprise the Election Committee. It shall be the responsibility of the Committee to count all ballots cast in any election and to rule upon the effect of any ballots irregularly or indecisively marked or cast. In the exercise of its responsibility, the Committee shall have available to it the advice of counsel provided by the Cooperative. The Committee's decision (as reflected by a majority of those actually present and voting) shall be final.

In the event a protest or objection is filed concerning any election, such protest or objection must be filed in writing at the main office of the Cooperative within three (3) business days following the adjournment of the annual meeting in which the result of the voting is announced. The Board of Directors shall thereupon commence a meeting not less than seven (7) days after such protest or objection is filed. The Board shall hear such evidence as is presented by the protester(s), who may be heard in person, by counsel, or both, and any opposing evidence; and the Board by a vote of a majority of those present and voting, shall, within a reasonable time but not later than thirty (30) days after such hearing render its decision, the results of which may be to affirm the election, to change the outcome thereof, or to set it aside. The Board of Director's decision (as reflected by a majority of those actually present and voting) shall be final.

Failure to comply with the provisions of this section shall not affect the validity of any election of directors.

SECTION 4.06 Removal of Directors by Members and Resignations. Members may request the removal of a director by filing a petition stating the reasons, and signed by at least ten percent of the members. The director shall be given written notice of the reasons listed on the petition at least ten days prior to the meeting of the members at which the removal is to be considered, and shall have an opportunity at the meeting to be heard in person or by counsel, and the person requesting the removal shall have the same opportunity. The question of removal of such director shall be considered and voted upon at the meeting of the members, and any vacancy created by such removal may be filled by vote of the members at such meeting without compliance with the foregoing provisions with respect to nominations.

A director may resign at any time by written notice delivered to the Board, President, or Secretary of the Cooperative. A resignation is effective when the notice is delivered unless it specifies a future date.

SECTION 4.07 Vacancies. Subject to the provisions of these bylaws with respect to the filling of vacancies caused by the removal of directors by the members, a vacancy occurring in the Board shall be filled by the affirmative vote of a majority of the remaining directors until the next annual meeting of the members. At the next annual meeting of the members a successor shall be elected by the members to fill the remaining unexpired portion of the term.

SECTION 4.08 Reduction to Eight Members. It shall be the goal of the Cooperative to reduce the board membership from twelve directors to eight directors through attrition of directors serving on January 1, 2010. During the transition, a director district may have more directors than specified in Section 4.04 if an incumbent director in that district has held office since January 1, 2010. If a director district has no directors who were holding office effective January 1, 2010, and that district has more directors than specified in Section 4.04, then the two director positions whose terms will expire soonest will run for a single position at the next annual meeting to establish district representation as specified in Section 4.04.

In the event there is not at least two director elections each year, director terms in each district shall be realigned by action of the Board of Directors to establish at least two director elections each year.

SECTION 4.09 Compensation. Members of the Board shall not receive any salary for their services as such, however, the Board may by resolution provide reasonable compensation to be paid to each director for services rendered on behalf of the Cooperative as a director, such as attendance at meetings, conferences and training programs or performing committee assignments. The Board may also authorize reimbursement of directors or committee members for expenses

actually and necessarily incurred in carrying out such Cooperative business, or grant a reasonable per diem allowance in lieu of detailed accounting for such expenses. A director may also receive compensation for services rendered as an officer of the Cooperative, but no director shall receive compensation for serving the Cooperative in any other capacity, except in emergency.

ARTICLE V MEETINGS OF THE BOARD

SECTION 5.01 Regular Meetings. A regular meeting of the Board shall be held periodically, but not less than bi-monthly, at such time and place as the Board may provide by resolution. Such regular meetings may be held without notice other than such resolution fixing the time and place thereof.

SECTION 5.02 Special Meetings. Special meetings of the Board may be called by the President or by any three directors, and it shall be the duty of the Secretary to cause notice of such meeting to be given as provided in Section 5.03. The President or the directors calling the meeting shall fix the time and place for the holding of the meeting.

SECTION 5.03 Notice of Meeting. The Secretary shall cause written notice of the time, place and purpose of any special meeting of the Board to be delivered to each director not less than three days prior to the meeting, either personally or by mail. Upon a default in duty of the Secretary, the President or the directors calling the meeting shall cause notice to be given. If mailed, the notice shall be deemed to be delivered when deposited in the United States mail, addressed to the director at the address as it appears on the records of the Cooperative, with postage prepaid.

SECTION 5.04 Quorum. A majority of the Board shall constitute a quorum. If less than a majority of the directors are present at a meeting, a majority of the directors present may adjourn the meeting from time to time and the Secretary shall notify any absent directors of the time and place of such adjourned meeting. 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.

SECTION 5.05 Unanimous Consent in Writing. To the extent not prohibited by law, board action may be taken without a meeting, and without a vote if unanimous consent of the Board is obtained in writing setting forth the action to be taken in detail, and the document is signed by all directors entitled to vote.

SECTION 5.06 Telephone Board Meetings. Directors may participate in and hold a meeting of the Board by means of conference telephone or similar communications equipment whereby all persons participating in the meeting can hear each other. Participation

in a meeting in this manner shall constitute presence in person at such meeting. Board meetings conducted in this way are subject to all requirements for notices of meetings.

ARTICLE VI OFFICERS

SECTION 6.01 Number. The officers of the Cooperative shall be President, Vice-President, Secretary, Treasurer, and such other officers as may be determined by the Board. The offices of Secretary and Treasurer may be held by the same person.

SECTION 6.02 Election and Term of Office. The officers shall be elected by ballot, annually by and from the Board without prior nomination, at the first meeting of the Board following the annual meeting of the members. Each officer shall hold office until the first meeting of the Board following the next succeeding annual meeting of the members or until his or her successor has been elected and qualified. Except as otherwise provided in these bylaws, the vacancy in any office shall be filled by the Board for the unexpired portion of the term.

SECTION 6.03 Removal of Officers and Agents by Directors. Any officer or agent elected or appointed by the Board may be removed by the Board whenever in its judgment the best interests of the Cooperative will be served. Members may request the removal of an officer by filing with the Secretary a petition stating the reasons, and signed by at least ten percent of the members. The officer shall be given written notice of the reasons at least ten days prior to the board meeting at which the removal is to be considered, and shall have an opportunity at the meeting to be heard in person or by counsel. The person requesting the removal shall have the same opportunity. In the event the Board does not remove the officer, the question of his/her removal shall be considered and voted upon at the next meeting of the members.

SECTION 6.04 President. The President Shall:

(a) Be the principal officer of the Cooperative and, unless otherwise determined by the directors, shall preside at all meetings of the members and the Board;

(b) Sign any deeds, mortgages, deeds of trust, notes, bonds, contracts or other instruments authorized by the Board, except in cases in which the signing and execution shall be expressly delegated by the Board, these bylaws or by law to some other officer or agent; and

(c) In general perform all duties incident to the office of President and other such duties prescribed by the Board.

SECTION 6.05 Vice-President. The Vice-President shall perform the duties of the President in his/her absence, or in the event of his/her inability or refusal to act. When so

acting, the Vice-President shall have all of the powers of and be subject to all the restrictions upon the President. The Vice-President shall also perform such other duties as may be assigned by the board.

SECTION 6.06 Secretary. The Secretary shall be responsible for:

(a) Keeping the minutes of the meetings of the members and of the Board;

(b) Seeing that all notices are duly given in accordance with these bylaws or as required by law;

(c) The safekeeping of the corporate books and records and of the seal of the Cooperative, and affixing the seal of the Cooperative to all appropriate documents.

(d) Keeping a register or roll of members setting forth the names and post office addresses of all members.

(e) Keeping a complete copy of the Articles of Incorporation and bylaws of the Cooperative, and at the expense of the Cooperative, forwarding a copy of the bylaws to each member requesting the same; and

(f) In general perform all duties incident to the office of Secretary and such other duties as may be assigned by the Board.

SECTION 6.07 Treasurer. The Treasurer shall be responsible for:

(a) Custody of all funds and securities of the Cooperative;

(b) The receipt of and the issuance of receipts for all moneys and for the deposit of all moneys in the name of the Cooperative in banks selected by the Board in accordance with the provisions of these bylaws; and

(c) The general performance of all the duties incident to the office of Treasurer and such other duties as may be assigned by the Board.

SECTION 6.08 Chief Executive Officer. The Board of Directors shall appoint a Chief Executive Officer (CEO), who may be but who shall not be required to be, a member of the cooperative. Such person shall perform such duties as the Board of Directors may from time to time require and shall have such authority as the Board of Directors may from time to time vest in the CEO.

SECTION 6.09 Bonds. The Treasurer and any other officer or agent of the Cooperative charged with responsibility for custody of any of its funds or property shall be bonded in such sum and with such surety as the Board shall determine. The Board in its discretion may also require any other officer, agent or employee to be bonded in such amount and with such surety as it shall determine. The costs of all such bonds shall be borne by the Cooperative.

SECTION 6.10 Compensation. The powers, duties and compensation of officers, agents and employees shall be fixed by the Board, subject to the provisions of these bylaws.

SECTION 6.11 **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 conditions of the Cooperative at the close of the fiscal year.

SECTION 6.12 **Delegation of Secretary's and Treasurer's Responsibilities.** The Board of Directors may delegate, wholly or in part, the responsibility and authority of one or more of each such officer's duties to one or more agents, other officers, or employees of the Cooperative who are not Directors. To the extent the Board does so delegate the responsibilities, that officer shall be released from such duties, responsibilities, and authorities.

ARTICLE VII INDEMNIFICATION OF OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS

SECTION 7.01 **Scope of Indemnification.** The Cooperative shall indemnify any person who was or is a party, or is threatened to be made a party to any threatened, pending, or completed action, suit or proceedings, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Cooperative) by reason of the fact that such person is or was a director, officer, employee or agent of the Cooperative, or who is or was serving at the request of the Cooperative as a director, officer, employee or agent of another cooperative, association, corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonable incurred by such person in connection with such action, suit or proceeding, provided such person acted in good faith and in a manner such person reasonably believed to be in, or not opposed to the best interests of the Cooperative and, with respect to any criminal action or proceedings, had no reasonable cause to believe the conduct of such person was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon pleas of nolo contendere or its equivalent, shall not, of itself create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Cooperative and, with respect to any criminal action or proceeding, had reasonable excuse to believe that the conduct of such person was not unlawful.

SECTION 7.02 **Indemnification for Good Faith Action.** The Cooperative shall indemnify any person who was or is a party, or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Cooperative to procure a judgment in its favor by reason of

the fact that such person is or was a director, officer, employee or agent of the Cooperative, or is or was serving at the request of the Cooperative as a director, officer, employee or agent of another cooperative, association, corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit, if such person acted in good faith and in a manner such person reasonably believed to be in, or not opposed to the best interests of the Cooperative. No indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of the duty of such person to the Cooperative, unless, and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability, but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity of such expenses as the court shall deem proper.

SECTION 7.03 **Cost of Defense Indemnified.** To the extent that a director, officer, employee or agent of the Cooperative has been successful on the merits or otherwise, in the defense of any action, suit or proceeding referring to in Sections 7.01 and 7.02, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection therein.

SECTION 7.04 **Amount of Indemnification.** Any indemnification under Sections 7.01 and 7.02 (unless ordered by a court) shall be made by the Cooperative only as authorized in the specific case, upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because such person has met the applicable standard of conduct set forth in Sections 7.01 and 7.02. Such determination shall be made:

- (1) By the Board by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding; or
- (2) If such a quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion; or
- (3) By the members.

SECTION 7.05 **Expenses Advanced.** Expenses incurred in defending a civil or criminal action, suit or proceeding may be paid by the Cooperative in advance of the final disposition of such action, suit or proceeding, as authorized by the Board in the specific case, upon receipt of a firm commitment by or on behalf of the director, officer, employee or agent to repay such amount, unless it shall ultimately be determined that he or she is entitled to be indemnified by the Cooperative as authorized in this Article.

SECTION 7.06 **Rights of Persons Indemnified.** The indemnification provided by this Article shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any bylaw, agreement, vote of members or disinterested director, or otherwise, both as to action in his/her official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent, and shall inure to the benefit of the heirs, executors and administrators of such person.

SECTION 7.07 **Insurance Coverage.** The Cooperative may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Cooperative, or who is or was serving at the request of the Cooperative as a director, officer, employee or agent of another cooperative, association, corporation, partnership, joint venture, trust or other enterprise, against liability asserted against such person and incurred by such person in any capacity, or arising out of the status of such person as such, whether or not the Cooperative would have the power to indemnify such person against any liability under the provisions of this Article.

ARTICLE VIII NON-PROFIT OPERATION

SECTION 8.01 **Interest or Dividends on Capital Prohibited.** The Cooperative shall be operated on a cooperative non-profit basis for the mutual benefit of its members. No interest or dividends shall be paid or payable by the Cooperative on any capital furnished by its members.

SECTION 8.02 **Patronage Capital in Connection with Furnishing Electric Service.** The Cooperative's operation shall be conducted so that all patrons will furnish capital for the Cooperative through their patronage. In order to induce patronage and to assure that the Cooperative will operate on a non-profit basis, the Cooperative shall account on a patronage basis to all its patrons for all amounts received and receivable from the furnishing of electric service in excess of the sum of (a) operating costs and expenses properly chargeable against the furnishing of electrical service, and (b) amounts required to offset any losses incurred during the current or any prior fiscal year. All amounts in excess of operating costs and expenses 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 allocate credits to a capital account for each patron all such amounts in excess of operating costs and expenses: PROVIDED, that such allocations shall not be made to any entity until it has become a member of the Cooperative. If

such entity does not become a member of the Cooperative within one year after the amount of its allocated share or accumulated allocated shares equal the membership fee, or if no membership is required, within two years after the declaration of any such patronage dividend, it shall cease to be entitled to such shares.

The books and records of the Cooperative shall clearly reflect the amount of capital, if any, credited to each patrons account. The Cooperative shall notify each patron of the amount of capital credited to their account at the end of each fiscal year: PROVIDED, that individual notices shall not be required if the Cooperative notifies all patrons of the aggregate amount of such excess and provides a clear explanation of how each patron may compute and determine the specific amount of capital credited to their account. All amounts credited to the capital account of any patron shall have the same status as though they had been paid to the patron in cash in pursuance of a legal obligation to do so and the patron had then furnished the Cooperative corresponding amounts for capital.

All other amounts received and receivable by the Cooperative from its operations in excess of costs and expenses shall be (a) used to offset any losses incurred during the current or any prior fiscal year and, (b) to the extent not needed for that purpose, allocated to the Cooperative's patrons on a patronage basis, and included as a part of the capital credited to the patrons accounts.

In the event of dissolution or liquidation of the Cooperative, after all outstanding indebtedness of the Cooperative has been paid, outstanding capital credits shall be returned without priority on a pro rata basis before any payments are made on account of property rights of members. Gains realized from the sale of appreciated assets at the time of liquidation shall be distributed to patrons during the preceding seven year period in proportion to the patronage for that period before any payments are made on account of property rights of members.

The Board may retire capital credited to patrons accounts in full or in part at any time that it is determined that the financial condition of the Cooperative is not impaired.

Capital credited to member accounts shall not be assignable except to successors in interest of a partnership or corporate member, and pursuant only to the written instructions of such member. No assignment may be made to a non-member unless required by law or by specific direction of the Board acting in equity.

The Board, at its discretion and subject to policies of general application, shall have the power to retire the capital credits of a deceased patron prior to the time the capital would otherwise be retired under the provisions of these bylaws: PROVIDED, (a) that the patron was a natural person, (b) that a legal representative of the patron's estate has requested the retirement in writing and, (c) the financial condition of the Cooperative will

not be impaired.

Any retirement of capital authorized by the Board for any patron which is earlier than would normally be the case under the then existing policies of the Cooperative, may be discounted by an appropriate factor to reflect the present value of the early capital retirement and the fact that such capital credits are being retired in advance of other patrons who are similarly situated.

The Cooperative shall deduct any amount owed the cooperative including interest at the Kansas legal rate in effect when such amount first became overdue, compounded annually, before retiring any capital credited to any patron's account.

The patrons of the Cooperative, by dealing with the Cooperative, acknowledge that the terms and provisions of the Articles of Incorporation and bylaws shall constitute and be a contract between the Cooperative and each patron, and both the Cooperative and the patron 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 this Article of the bylaws shall be called to the attention of each patron of the Cooperative by posting in a conspicuous place in the Cooperative's offices.

SECTION 8.03 Patronage Capital in Connection with Furnishing Other Services. In the event that the Cooperative should engage in the business of furnishing goods or services other than energy and related services, all amounts received and receivable therefrom which are in excess of costs and expenses properly chargeable against the furnishing of such goods or services shall, insofar as permitted by law, be treated as non-operating income.

ARTICLE IX DISPOSITION AND PLEDGE OF PROPERTY; DISTRIBUTION OF SURPLUS ASSETS ON DISSOLUTION

SECTION 9.01 Disposition and Pledge of Property.

(a) The Cooperative may not sell, lease, mortgage, encumber or otherwise dispose of all or any substantial portion of its property unless such action is authorized at a meeting of the members thereof by the affirmative vote of not less than two-thirds of all members of the Cooperative, and unless the notice of such proposed sale, lease, mortgage, encumbrance or other disposition shall have been contained in the notice of meeting.

The Board, without authorization by the members, shall have full power and authority to authorize the sale, lease, lease-sale, exchange or other disposition of less than a substantial portion of the Cooperative's properties and assets ("Substantial portion" as used in this section, means ten percent or more of the fair market value of the Cooperative's total properties and assets), and

to authorize the execution of mortgages, or deeds of trust, 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 wherever situated, as well as the revenues and income therefrom, all upon such terms and conditions as the Board shall determine, to secure any indebtedness of Cooperative.

(b) Not in conflict with, or in lieu of, but rather as supplementary to the foregoing subsection (a), the following procedures shall be followed in authorizing a sale, lease, lease-back, exchange or other disposition of all or a substantial portion of the Cooperative's properties and assets:

(1) Before allowing any plan or proposal therefor to be submitted to the members, the Board shall appoint at least one, but not more than three independent appraisers expert in such matters, to render their individual opinions as to the fair market value of the Cooperative's assets and properties, including its good will and going business value, and as to any other terms and conditions which, in their respective judgments, should be considered. The Board, after receiving such appraisals (and other terms and conditions which are recommended, if any), shall then give every other electric cooperative in Kansas (which has not submitted such a plan or proposal) an opportunity to submit competing plans or proposals. Such opportunity shall be in the form of a written notice to such electric cooperatives, which notice shall attach a copy of the initial plan or proposal being then considered and a copy of the reports of the appraisers. Such electric cooperatives shall be given not less than thirty days within which to submit competing plans or proposals, and the actual minimum period within which plans or proposals are to be submitted shall be stated in the written notice given to them.

(2) If the Board then determines that favorable consideration should be given to the initial or any subsequent proposal which has been submitted to it, it shall adopt a resolution to that effect and so notify members, expressing in detail each of any proposals, and shall call a special meeting of the members for consideration thereof, which meeting shall be held not sooner than twenty days nor later than fifty days after the giving of such notice to the members: PROVIDED, that consideration thereof by the members may be had at the next annual member meeting if the Board so determines and if such annual meeting is held not sooner than twenty days nor later than fifty days after the giving of such notice.

(3) Ten percent or more of the members, by so petitioning the Board not less than twenty days before the date of the special or annual member meeting at which such a plan or proposal will be considered, may cause the Cooperative, with the cost to be borne by the Cooperative, to mail to all other members at least ten days prior to such member meeting, any opposing positions or alternate plans or proposals which the petitioners may have.

(4) The provisions of this section shall not apply to any sale, lease or other disposition to another Kansas electric cooperative if the legal or substantive effect of such sale, lease or other disposition is a merger or consolidation pursuant to the act under which the cooperative is incorporated.

SECTION 9.02 Distribution of Surplus Assets on Dissolution. Upon the Cooperative's dissolution any assets remaining after all of the Cooperative's liabilities and obligations, including outstanding capital credits, have been satisfied or discharged or a plan therefor appropriately established, shall be distributed in accordance with the provisions of these bylaws and applicable laws.

ARTICLE X SEAL

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

ARTICLE XI FINANCIAL TRANSACTIONS

SECTION 11.01 Contracts. Except as otherwise provided in these bylaws, the Board may authorize any officer, agent or employee 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 11.02 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 or countersigned by such officers, agents, or employees of the Cooperative in such manner as shall be determined by resolution of the Board.

SECTION 11.03 Deposits. All funds of the Cooperative, exclusive of petty cash, shall be deposited to the credit of the Cooperative in such banks as the Board may select.

ARTICLE XII MISCELLANEOUS

SECTION 12.01 Membership in Other Organizations. The Cooperative may become a member or purchase stock in other profit or nonprofit organizations, associations, partnerships or joint ventures when the Board finds that the general and long-term interests of the membership will be served by such investments or participation.

SECTION 12.02 Waiver of Notice. Any member or director may waive, in writing, any notice of a meeting required by these bylaws. The attendance of a member or director at any meeting shall constitute a waiver of notice of such meeting, 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.

SECTION 12.03 Rules, Regulations, Rate Schedules, and Contracts. In addition to the powers conferred upon the Board by law, the Board shall have power to make, adopt, amend, abolish and promulgate such rules, regulations, rate schedules, contracts, security deposits and any other types of deposits, payments or charges, including contributions in aid of construction, not inconsistent with law or the Cooperative's Articles of Incorporation or bylaws, as it may deem advisable for the management, administration and regulation of the business and affairs of the Cooperative.

SECTION 12.04 Rules of Order. Parliamentary procedure at all meetings of the members, of the board, of any committee

provided for in these bylaws, and of any other committee shall be governed by the most recent edition of Robert's Rules of Order, except to the extent such procedure is not otherwise determined by law or by the Cooperative's Articles of Incorporation or bylaws.

SECTION 12.05 Accounting System and Reports. The Board shall cause to be established and maintained a complete accounting system in conformance with Generally Accepted Accounting Practices (GAAP) and the Administrator of the Rural Utility Service of the United States of America or other regulatory authority. The Board shall also, after the close of each fiscal year, cause to be made by a certified public accountant a full and complete audit of the accounts, books and financial condition of the Cooperative as of the end of such fiscal year.

ARTICLE XIII AMENDMENTS OF BYLAWS

These bylaws shall be altered, amended or repealed by the members at any annual or special member meeting by a majority vote of the members attending such meeting, provided the notice of such meeting shall have contained a copy of the proposed alteration, amendment or repeal, or an accurate summary explanation thereof.

ARTICLE XIV INCORPORATION OF CONSOLIDATION AGREEMENT

The terms and conditions of the Articles of Consolidation and the Consolidation Agreement between Sekan Electric Cooperative Association, Inc., and United Electric Cooperative, Inc., shall be incorporated herein with respect to provisions pertaining to Article IV, Board of Directors.

Adopted as the first set of bylaws of Heartland Rural Electric Cooperative, Inc. at a regular meeting of the Board of Directors held April 7, 1997.

This amended set of bylaws was approved by a majority vote of the members at the Annual Meeting of the Members held March 23, 2010 at Fort Scott, Kansas.

Statement of Non-Discrimination, Heartland Rural Electric Cooperative, Inc.

Heartland Rural Electric Cooperative, Inc. is a recipient of federal finance assistance from the Rural Utilities Service (RUS), an agency of the U.S. Department of Agriculture. In accordance with federal law and U.S. Department of Agriculture policy, this institution is prohibited from discriminating on the basis of race, color national origin, sex, age, or disability.

The person responsible for coordinating this organizations nondiscrimination compliance efforts is Janet Ashbacher, of Heartland Rural Electric Cooperative, Inc. Any individual, or specific class of individuals, who feels that this organization has subjected them to discrimination may file a written complaint with this organization; the Director, office of Civil Rights, U.S. Department of Agriculture, Washington, D.C. 20250; or the Administrator, Rural Utilities Service, Washington, D.C. 20250. Complaints must be filed within 180 days after the alleged discriminatory action, or by such later date to which the Director of the U.S. Department of Agriculture's Office of Civil Rights or the Administrator of RUS extends the time for filing. Identity of complainants will be kept confidential except to the extent necessary to carry out the purposes of the rules and regulations of the U.S. Department of Agriculture.