

**DIRECTOR QUALIFICATIONS**  
**From December 16, 2011 Bylaws Article III**

Section 2. Qualifications and Tenure.

Directors are nominated only by the members of the district in which they reside. All members vote for nominees from all director districts. Members vote for directors for a term not to exceed three years, or as determined by the board of directors, by ballot, which may be cast by mail or in person or both, at the option of the board of directors, at the annual meeting of the membership. Directors serve until their successors are elected and qualified. A member is ineligible to become or remain a director, or to hold any position of trust in the cooperative, who is:

- (a) Not a bona fide resident in the area served by the cooperative and the district from which he or she is nominated, or who moves from the cooperative area or district;
- (b) A cooperative employee, or a cooperative affiliate employee or director, or has been a cooperative employee, or a cooperative affiliate or trust board employee or director, for three years before the election is held or position is filled;
- (c) In any way employed by or financially interested in a competing enterprise of the cooperative or a cooperative affiliate; or a business selling electric energy, goods for resale, or supplies to the cooperative or a cooperative affiliate; or a business primarily engaged in selling electrical, plumbing, other appliances, fixtures or supplies to the members of the cooperative or a cooperative affiliate;
- (d) The incumbent of, or a candidate for, an elected public office in connection with which a salary is paid; or
- (e) Has not resided in the service area of the cooperative for at least six months before the election is held.
- (f) Has not become a fully credentialed director by completing all course work necessary to earn a National Rural Electric Cooperative (N.R.E.C.A.) credentialed cooperative director's certificate by the end of that director's first full three year term, in which event that director shall not be eligible for re-election.

(i) Definitions:

A "Cooperative affiliate" is defined as any entity owned, controlled, or managed by the cooperative.

The term "Credentialed Director" is defined as follows: A person becomes a credentialed director for the purpose of this policy on the first full day after all course work necessary to earn the N.R.E.C.A. Credentialed Cooperative Directors Certification is completed, not to include the final day of class work, after completion of all course work is verified at the next regular board meeting by the board of directors by comparing the completed courses with those courses listed as necessary to earn the N.R.E.C.A. Credentialed Cooperative Directors Certification as listed on the website. This status would apply to the first full day after all course work necessary to earn the N.R.E.C.A. Credentialed Cooperative Directors Certification is completed.

(ii) Spouse Qualification:

When a membership is held by husband and wife, either one, but not both, may be elected a director, but neither one shall be eligible to become or remain a director, nor hold a position of trust in the cooperative unless both spouses meet the qualifications set in this section. Nothing contained in this section shall, or shall be construed to, affect the validity of any action taken at any meeting of the board of directors.

(iii) Director Incapacity:

If a director becomes physically or mentally incapable of performing his or her duties as a director, the board of directors may declare the office of such a director to be vacant at a regular meeting, or special meeting called for the specific purpose of considering the capability of a director, upon an affirmative vote finding the director to be physically or mentally incapable of performing his duties by a majority of the total membership of the board of directors. The directors shall vote on this question if any director has missed three (3) consecutive regularly scheduled board of directors meetings, and after every three (3) meetings that are missed by that director thereafter.

(iv) Resignation or Removal:

If a director has missed three consecutive, regularly scheduled board of directors meetings, the board of directors may declare the office of such a director to be vacant at a regular meeting, or special meeting called for that specific purpose, upon an affirmative vote by a majority of the total membership of the board of directors. The directors shall vote on this question if any director has missed three consecutive, regularly scheduled board of directors meetings, and after every three meetings that are missed by that director thereafter.

Any director who resigns, has not timely obtained their Credentialed Cooperative Director Certification from the National Rural Electric Cooperative, or is otherwise found unfit for service by the board of directors may not run for re-election for a period of ten (10) years from the date of their resignation or removal from the Board of Directors.

(v) Employment of Former Director: A director is not eligible for employment with the cooperative or a cooperative affiliate for three years after the last date that the director served as a director on the board of directors unless approved by resolution of the board of directors with the affected director abstaining.

HILCO ELECTRIC COOPERATIVE, INC.

GENERAL POLICY NO. 122

SUBJECT: CONFLICT OF INTEREST-FINANCIAL INTERESTS

I. OBJECTIVE:

The purpose of the conflict of interest policy is to protect the Cooperative's interest when it is contemplating entering into a transaction or arrangement that might benefit the private interest of an officer or director of the Cooperative or might result in a possible excess benefit transaction. This policy is intended to supplement but not replace any applicable state and federal laws governing conflict of interest applicable to nonprofit organizations.

II. DEFINITIONS:

A. Interested Person

Any director, principal officer, or member of a committee with powers delegated by the board of directors, who has a direct or indirect financial interest, as defined below, is an interested person.

B. Financial Interest

A person has a financial interest if the person has, directly or indirectly, through business, investment, or family:

1. An ownership or investment interest in any entity with which the Cooperative has a transaction or arrangement,
2. A compensation arrangement with the Cooperative or with any entity or individual with which the Cooperative has a transaction or arrangement, or
3. A potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which the Cooperative is negotiating a transaction or arrangement. Compensation includes direct and indirect remuneration as well as gifts or favors that are not insubstantial. A financial interest is not necessarily a conflict of interest. Under Article III, Section 2, a person who has a financial interest may have a conflict of interest only if the board of directors or appropriate committee decides that a conflict of interest exists.

III. PROCEDURES:

A. Duty to Disclose

In connection with any actual or possible conflict of interest, an interested person must disclose the existence of the financial interest and be given the opportunity to disclose all material facts to the directors and members of committees with powers delegated by the board of directors considering the proposed transaction or arrangement.

B. Determining Whether a Conflict of Interest Exists

After disclosure of the financial interest and all material facts, and after any discussion with the interested person, he or she shall leave the board of directors or committee meeting while the determination of a conflict of interest is discussed and voted upon. The remaining board or committee members shall decide if a conflict of interest exists.

C. Procedures for Addressing the Conflict of Interest

1. An interested person may make a presentation at the board of directors or committee meeting, but after the presentation, he or she shall leave the meeting during the discussion of, and the vote on, the transaction or arrangement involving the possible conflict of interest.
2. The chairperson of the board of directors or committee shall, if appropriate, appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement.
3. After exercising due diligence, the board of directors or committee shall determine whether the Cooperative can obtain, with reasonable efforts, a more advantageous transaction or arrangement from a person or entity that would not give rise to a conflict of interest.
4. If a more advantageous transaction or arrangement is not reasonably possible under circumstances not producing a conflict of interest, the board of directors or committee shall determine by a majority vote of the disinterested directors whether the transaction or arrangement is in the Cooperative's best interest, for its own benefit, and whether it is fair and reasonable. In conformity with the above determination it shall make its decision as to whether to enter into the transaction or arrangement.

D. Violations of the Conflicts of Interest Policy

1. If the board of directors or committee has reasonable cause to believe one of its directors or committee members has failed to disclose actual or possible conflicts of interest, it shall inform that director or committee member of the basis for such belief and afford him or her an opportunity to explain the alleged failure to disclose.
2. If, after hearing the director or committee member's response and after making further investigation as warranted by the circumstances, the board of directors or committee determines the director or committee member has failed to disclose an actual or possible conflict of interest, it shall take appropriate disciplinary and corrective action, which may include having charges brought against the director or committee member in action to remove the member.

IV. RECORDS OF PROCEEDINGS:

The minutes of the board of directors and all committees with board delegated powers shall contain:

- A. The names of the persons who disclosed or otherwise were found to have a financial interest in connection with an actual or possible conflict of interest, the nature of the financial interest, any action taken to determine whether a conflict of interest was present, and the board of director's or committee's decision as to whether a conflict of interest in fact existed.
- B. The names of the persons who were present for discussions and votes relating to the transaction or arrangement, the content of the discussion, including any alternatives to the proposed transaction or arrangement, and a record of any votes taken in connection with the proceedings.

V. ANNUAL STATEMENTS:

Each director, principal officer and member of a committee with powers delegated by the board of director shall annually sign a statement which affirms such person:

- A. Has received a copy of the conflicts of interest policy,
- B. Has read and understands the policy,
- C. Has agreed to comply with the policy, and

- D. Understands the Cooperative is not-for-profit and in order to maintain its federal tax exemption it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.

VI. PERIODIC REVIEWS:

To ensure the Cooperative operates in a manner consistent with tax-exempt purposes and does not engage in activities that could jeopardize its tax-exempt status, periodic reviews shall be conducted. The periodic reviews shall, at a minimum, include the following subjects:

- A. Whether compensation arrangements and benefits are reasonable, based on competent survey information and the result of arm's length bargaining.
- B. Whether partnerships, joint ventures, and arrangements with management organizations conform to the Cooperative's written policies, are properly recorded, reflect reasonable investment or payments for goods and services, further charitable purposes and do not result in inurement, impermissible private benefit or in an excess benefit transaction.

VII. USE OF OUTSIDE EXPERTS:

When conducting the periodic reviews as provided for in Article VI, the Cooperative may, but need not, use outside advisors. If outside experts are used, their use shall not relieve the board of directors of its responsibility for ensuring periodic reviews are conducted.

VIII. RESPONSIBILITY:

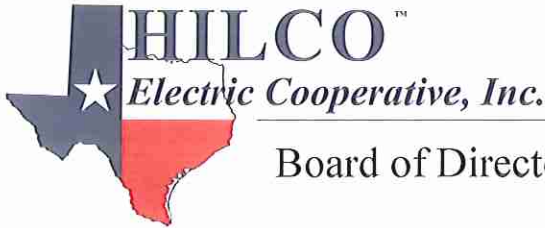
The Directors shall be responsible for the administration of this policy.

APPROVED BY THE BOARD OF DIRECTORS



William (Bill) Allen, President

Date Adopted: July 31, 2008



## Board of Directors Candidate Application Form

A candidate for director must be a member of HILCO and bona fide resident of the district he/she represents and have 6 months residency in the area served by the Cooperative. The candidate must not be a minor. No candidate may in any way be employed by or have a substantial financial interest in a competing enterprise or business selling electric energy or supplies to HILCO; or be a cooperative employee, or a cooperative affiliate or trust board employee or director, for three years before the election is held or position is filled; or the incumbent of, or a candidate for, an elected public office in connection with which a salary is paid.

District: \_\_\_\_\_

Name of Member-Customer: \_\_\_\_\_

How name is to be printed on ballot: \_\_\_\_\_

Physical Address: \_\_\_\_\_

Mailing Address: \_\_\_\_\_

*(If different from physical address)*

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_

Have you lived at this address for 6 months: Y\_\_\_ N\_\_\_ Account #: \_\_\_\_\_

Home Phone: (\_\_\_\_) \_\_\_\_\_ Fax: (\_\_\_\_) \_\_\_\_\_

Work Phone: (\_\_\_\_) \_\_\_\_\_ Email: \_\_\_\_\_

\_\_\_\_\_ Initial that you have read this **IMPORTANT NOTICE: For your biography or photograph to be published in the *Texas Co-op Power* magazine or on the HILCO website, you must attach a high resolution, wallet size photograph and a biography of sixty words or less to this application no later than the time of submission of your application.**

### Verification of Director Qualifications and No Conflict of Interest

**I am a member in good standing with HILCO Electric Cooperative. I live in the district in which I am running for director. I have read the conflict of interest policy and director qualifications that are provided with the application packet. I do not have a conflict of interest violation of HILCO board policy, and I meet all of the qualifications to be a director of HILCO Electric Cooperative.**

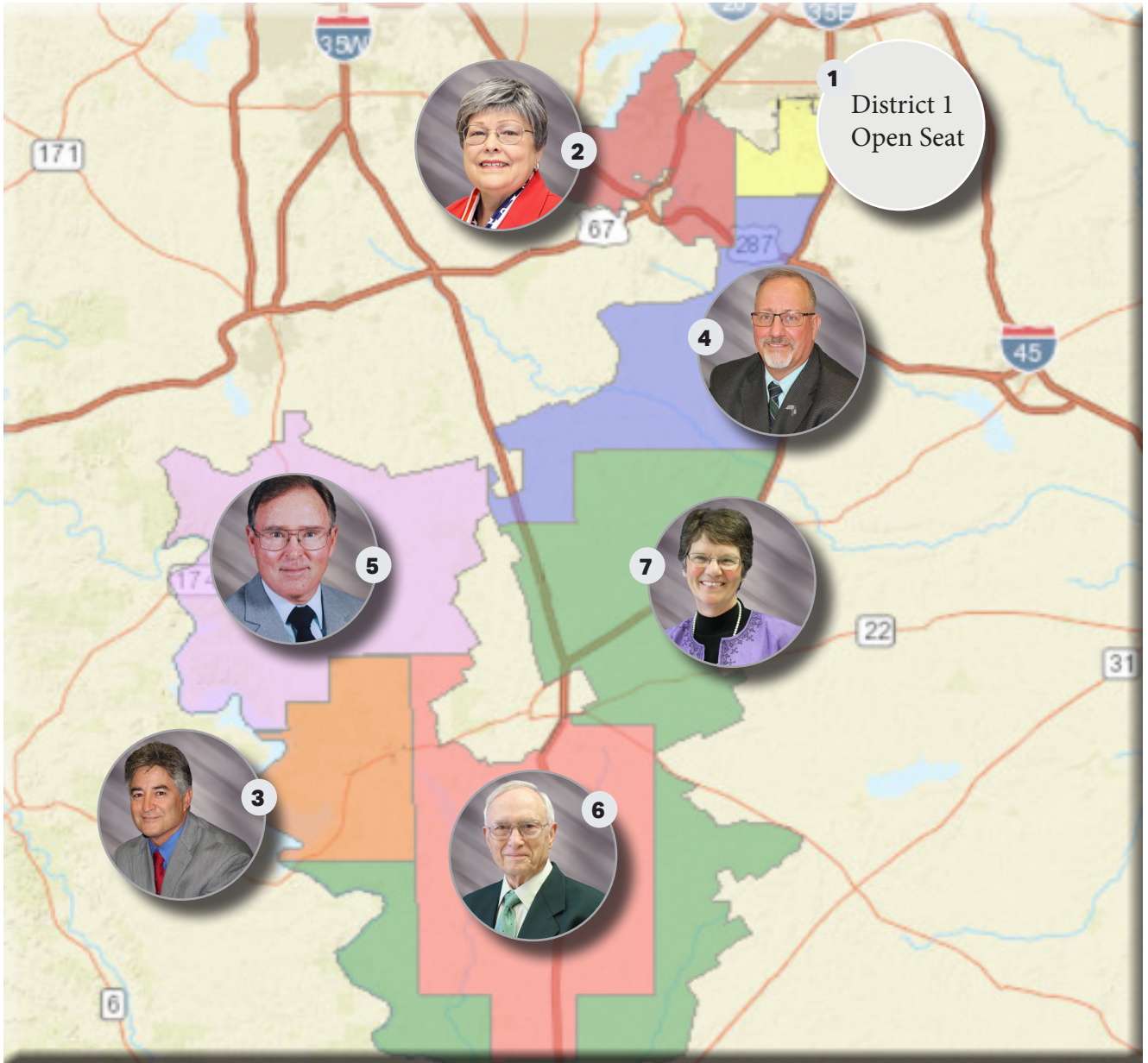
\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature of Applicant

P.O. Box 127  
Itasca, Texas 76055-0127  
254.687.2331 • Fax 254.687.2428

300 Silken Crossing, Suite A  
Midlothian, Texas 76065  
972.723.2900 • Fax 972.723.2911

4581 FM 933  
Whitney, Texas 76692  
254.694.5237 • Fax 254.694.4062



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| <p><b>1</b> Open Seat..... Board District 1</p> <p><b>2</b> Margaret Hill..... Board District 2</p> <p><b>3</b> Ron Roberts..... Board District 3</p> <p><b>4</b> Joseph Tedesco, president..... Board District 4</p> | <p><b>5</b> Bill Allen, vice president.. Board District 5</p> <p><b>6</b> George Thiess..... Board District 6</p> <p><b>7</b> Janet Smith, secretary..... Board District 7</p> |
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