

STEELE-WASECA COOPERATIVE ELECTRIC

Owatonna, Minnesota

ARTICLES OF INCORPORATION

and

BY-LAWS

As amended at meeting of the Members on June 6, 1995

ARTICLES OF INCORPORATION AS AMENDED

ARTICLE I—Name

The **name** of this association shall be STEELE-WASECA COOPERATIVE ELECTRIC.

ARTICLE II Purposes—Nature of Business

Section 1. The **purposes** of this association shall be to reduce the cost of electrical energy to its several patrons by generating, purchasing, or otherwise procuring, and transmitting and distributing electrical energy to its patrons at the lowest possible net cost to them and, incidentally thereto, by procuring for its patrons at the lowest possible net cost to them any and all kinds of supplies, equipment and services which are directly or indirectly related to the use or consumption of electrical energy. All of its activities shall be conducted strictly upon the cooperative plan at cost and without profit to either this association or any member or stockholder as such.

Section 2. The **general nature of its business** shall be: to generate, purchase, or otherwise procure, transmit and distribute electrical energy and to purchase, lease, construct, erect, and otherwise acquire, own, hold, maintain, operate, repair, service, replace, lease out, deal in, sell, assign, convey, exchange, and otherwise dispose of or furnish any and all kinds of land, easements, and other kinds of interests in land, franchises, plants, buildings, structures, works, machinery, apparatus, equipment, appliances, supplies, transmission or distribution lines or systems or both, and any and all other or additional kinds of facilities or real or personal property or services which may be necessary, useful, convenient, or otherwise directly or indirectly related to the generation, transmission, distribution, furnishing, use or consumption of electrical energy.

ARTICLE III—Place of Business

The principal **place of business** of this association shall be in the City of Owatonna, in Steele County, Minnesota.

ARTICLE IV—Period of Duration

The **period of duration** of this association shall be perpetual.

ARTICLE V—Capital Stock

Section 1. The authorized **capital stock** of this association shall be Thirty Thousand Dollars (\$30,000) which shall consist of fifteen thousand (15,000) shares of common stock of the par value of Two Dollars (\$2) each. This association may also establish and maintain such capital reserve or non-stock revolving capital, or both, as may be provided in the By-Laws.

Section 2. Capital Stock:

a. **Lien.** This association shall have a first lien on all shares of its capital stock for all indebtedness of the holder thereof to this association.

b. **Transfer.** Shares of capital stock shall be sold or transferred only on the books of this association and only with the consent and approval of the Board of Directors; provided, that said shares shall remain subject to this association's lien thereof; and provided, further, that this association shall have the first privilege of purchasing any shares offered for sale by any stockholder, as more particularly provided in the By-Laws.

c. **No Pre-emptive Rights.** Shares of capital stock shall not entitle the holder thereof to subscribe for or to purchase any unissued or treasury shares of capital stock, either ratably in proportion to the number of shares held or otherwise.

d. **Issuance of Shares.** No share of capital stock may be issued for less than par; but the Board of Directors may issue new shares for par regardless of the book value or the market value of any other value of any shares then issued and outstanding.

e. **Redemption.** Any share or shares of capital stock may be redeemed, at the option of the Board of Directors, at any time upon (i) call by the Board of Directors, and (ii) thirty (30) days written notice mailed to the record holder thereof at his address as it appears on the records of this association, and (iii) payment or tender of either (I) the par value of said shares or (II) the book value of said shares as of the close of the fiscal year of this association next preceding the date of such call and as conclusively determined by the audit report to this association covering said

fiscal year, whichever of said values shall be the lesser value; and such tender may be made to any such holder either in person or by mailing this association's check to such holder at his address according to the records of this association.

f. **Reserves.** The records of this association may show the interests of the patrons in the reserves; but stockholders shall have no right, title or interest of any kind in or to any reserve or revolving capital either upon dissolution or otherwise.

Section 3. Common Stock:

a. **Members and Eligibility.** The members of this association shall be the holders of one or more fully paid shares of its common stock. The common stock of this association may be issued or transferred to or held by only persons who (i) either reside or own or lease real property in the territory served by this association, (ii) patronize this association, and (iii) have been approved by the Board of Directors. Whenever any member shall have ceased to be eligible to hold said common stock, or shall have failed to patronize this association for a period of twelve consecutive calendar months, or shall have intentionally or repeatedly violated any By-Laws, or shall have remained indebted to this association for more than ninety days after such indebtedness became payable, or otherwise shall have breached any contract between him and this association, or shall have willfully obstructed any purpose or proper activity of this association, then in any such event the Board of Directors may require such member to surrender all common stock owned by him, and shall refund to him the par value or the book value of such stock, whichever is lesser; and such refund may be made either in cash, or in revolving capital at the principal amount thereof, as the Board of Directors may determine in each case; and such refund may be made to any such former member either by delivering to him in person or by mailing to him at his address according to the records of this association either this association's check, or written notice of its issuance of a revolving capital credit.

b. **Votes.** Each person holding one or more shares of common stock shall be entitled and restricted to only one vote in the affairs of this association regardless of the number of such shares held by him. There shall be no voting by proxy. Only common stockholders shall have voting power. Each member which is a corporation, partnership or unincorporated association may elect or appoint any one natural person (who may, but need not, be himself a member) to represent it and to cast its vote at any meeting of the members of this association; provided, that no natural person may represent or vote for more than one such member.

c. **No dividends** shall be declared or paid on any shares of common stock.

ARTICLE VI—Patrons' Net Margins

All of the **Patrons' Net Margins** received by this association shall, as received by it, belong to and be held by it for and be paid to its patrons at least annually and on the basis of their respective patronage, all as may be more particularly defined and provided in the By-Laws.

ARTICLE VII—Board of Directors

The government of this association and the management of its affairs shall be vested in a **board of nine (9) directors** who shall be elected by and from the members at the annual meetings of the members and for such terms as the By-Laws may prescribe.

ARTICLE VIII—Director's Liability

A director's personal liability to this Association and its members for monetary damages for breach of fiduciary duty as a director is eliminated to the fullest extent permitted by law including Minnesota Statutes, Section 308.11 and any laws amendatory thereof supplemental thereto.

ARTICLE IX—Amendments

These Articles of Incorporation may be amended in the manner provided by statute.

BY-LAWS AS AMENDED

ARTICLE I—Members' Meetings

Section 1. The **annual meeting** of the members of this association shall be held annually at the principal place of business of this association, or at such other place conveniently located within the area served by it, and at such date and hour, as may be determined by the Board of Directors and designated in the notice of the meeting.

Section 2. **Special meetings** of the members may be called at any time by a majority vote of the directors or upon the written petition of at least twenty percent (20%) of the members as provided by law.

Section 3. **Notice of meetings**, both annual and special, shall be mailed to each and every member personally (or in the case of an association, to the secretary thereof) at his last known post office address, not less than fifteen (15) days previous to the date of the meeting; or, in lieu of such mailed notice, the notice of the meeting may be given by publication in a legal newspaper published in the county of the principal place of business of the association, at least two weeks previous to the date of the meeting. Upon the mailing of any notice of any meeting of members, the Secretary shall execute a certificate, setting forth a correct copy of the notice and showing the date of the mailing thereof and that the same was mailed within the time and in the manner herein prescribed. Said certificate shall be made a part of the record of the meeting.

Section 4. A **quorum** necessary to the transaction of business at any meeting of the members shall be at least ten percent (10%) of the total number of members in this association when the number of members in this association does not exceed five hundred (500), but when the association has a larger number of members, fifty (50) members present shall constitute a quorum. The quorum shall be established by a registration of the members present at such meeting, which registration shall be verified by the President and Secretary and shall be reported in the minutes of the meeting.

ARTICLE II—Board of Directors

Section 1. Election of Directors:

a. **Directors' Districts.** For elections of directors, the members shall be grouped into nine districts, on the basis of the places where they reside; provided, that if a member does not reside within the territory served by this association, then on the basis of the place where such member receives the most electrical energy from this association. One, and only one, director shall be elected from each of said districts. Said districts shall be comprised of the following areas:

District No. 1. Kilkenny Township in LeSueur County, Shieldsville, Morriston Townships and the Southeast one quarter (SE 1/4) of Erin Township, Southwest one quarter (SW 1/4) of Wells Township, and the Northwest one quarter (NW 1/4) of Warsaw Township in Rice County.

District No. 2. Dunbar, Lura and Minnesota Lake Townships in Faribault County, and Mapleton, Danville, Medo, McPherson and LeRay Townships in Blue Earth County, and Freeborn Township in Freeborn County, and Alton, Byron, Freedom, Janesville, St. Mary, Vivian, and Wilton Townships in Waseca County.

District No. 3. Hartland Township in Freeborn County, and New Richland, Otisco, Woodville, Blooming Grove and Iosco Townships in Waseca County, and Lemond Township and the Northwest one quarter (NW 1/4) and the Northeast one quarter (NE 1/4) of Berlin Township, and the Northwest one quarter (NW 1/4) and the Southwest one quarter (SW 1/4) of Somerset Township in Steele County.

District No. 4. Bath and Geneva Townships in Freeborn County, and the Southwest one quarter (SW 1/4) and the Southeast one quarter (SE 1/4) of Berlin Township, and Deerfield, Owatonna, Meriden Townships, the Northeast one quarter (NE 1/4) and the Southeast one quarter (SE 1/4) of Somerset Township, and Summit Township in Steele County, and the Southwest one quarter (SW 1/4) of Warsaw Township in Rice County.

District No. 5. Newry Township in Freeborn County, and Aurora, Blooming Prairie Townships, the Southwest one quarter (SW 1/4) of Havana Township in Steele County, and Westfield, Ripley, Ashland and Hayfield Townships in Dodge County.

District No. 6. Medford, Clinton Falls, Merton Townships, and the Northwest, Northeast and Southeast one quarters (NW, NE & SE 1/4's) of Havana Township in Steele County, and Ellington, Concord, Claremont and Wasioja Townships in Dodge County.

District No. 7. The Northeast and Southeast one quarters (NE & SE 1/4's) of Warsaw Township, the Northwest and Southwest one quarters (NW & SW 1/4's) of Walcott Township, the Northwest, Northeast and Southeast one quarters (NW, NE & SE 1/4's) of Wells Township in Rice County.

District No. 8. Kenyon Township in Goodhue County, and Richland, Wheeling, Cannon City, Bridgewater, Upper Bridgewater and Northfield Townships and the Northeast and Southeast one quarters (NE & SE 1/4's) of Walcott Township in Rice County.

District No. 9. Forest, Webster, Wheatland Townships, and the Southwest,

Northwest and Northeast one quarters (SW, NW & NE 1/4's) of Erin Township in Rice County.

b. **Eligibility.** No member shall be eligible to be nominated or elected or to remain a director unless he both resides in and receives electrical energy from this association in the district for which he is or was nominated or elected; provided, that if any two or more persons jointly hold one or more shares of common stock, and each of them otherwise is eligible to be nominated and elected or to remain a director, then either or any but not more than one of them may be nominated and elected or remains a director; provided, further, that nothing in this subsection shall affect the validity of any action by the Board of Directors.

c. **Nominations.** The Board of Directors shall, not less than sixty (60) days before each annual meeting of the members of this association, appoint a Nominating Committee which shall be comprised of not less than five nor more than nine members of this association; provided, that at least one member of said committee shall reside in each district from which a director is to be elected at said annual meeting; and provided, further, that neither any director nor any officer nor any employee of this association shall be a member of said committee. Said committee shall nominate at least one member of this association for each district from which a director is to be elected at said annual meeting; and said committee shall post its nominations in the principal office of this association at least thirty days before said annual meeting. Additional nominations may be made, from the floor, at said annual meeting. If any director be removed from office at any meeting of the members, the members may, without complying with this subsection 1-c, elect at said meeting a successor to the removed director. Nothing in this subsection 1-c shall effect the validity of any election.

d. **Elections.** Each member who is personally present at said annual meeting may vote for one nominee from each district. The nominee from each district who receives the highest number of votes cast at said annual meeting shall then and hereby be elected to the office of director. Directors may be elected in any manner which is proposed by the person then presiding at said annual meeting; provided, that any such election shall be conducted in such different manner as may be determined by a majority vote of the members who are personally present at said meeting and vote on such determination.

e. **Terms.** Directors shall be elected for regular terms of three years each and until their respective successors shall have been duly elected.

Section 2. Each **vacancy** occurring on the Board of Directors other than by the removal of a director by the members or by the expiration of a term, may be filled until the next annual meeting of the members by a vote of the remaining directors.

Section 3. **Meetings.** The Board of Directors shall meet regularly at such times and places as the board may determine. Special meetings may be called by the President, or the Board of Directors, or a majority of the directors. All meetings shall be held on such notice, if any, as the board may prescribe; but any business may be transacted at any meeting without mention of such business in the notice, if any, of the meeting.

Section 4. A **quorum** shall consist of a majority of the directors. A majority vote of the directors present shall decide all questions, except where a greater vote is expressly required by law or these By-Laws.

Section 5. **Compensation.** The compensation, if any, of the directors or officers or both may be fixed at each annual meeting of the members of this association; but upon any failure of the members to do so, the Board of Directors may do so.

Section 6. **Bonds.** The Board of Directors shall require each officer, agent, and employee having control or custody of any of this association's funds or property to furnish a surety bond satisfactory to said board and the cost thereof shall be paid by this association.

Section 7. **Audit.** The Board of Directors shall have the books of this association audited by a certified public accountant at least once each fiscal year; and the report of such audit shall be made at the next annual meeting of the members.

Section 8. **Borrowings.** The Board of Directors shall have power, which may be exercised only by a vote of a majority of all of the directors, to authorize and approve the borrowing of money and the pledging and mortgaging of any or all of the assets of this association as security for the sums so borrowed.

Section 9. **Corporate Seal.** The Board of Directors may adopt, alter or abandon the use of a corporate seal.

Section 10. **Executive Committee.** The Board of Directors may appoint an Executive Committee of not less than three (3) directors, one of whom shall be the President. Such committee shall not have any authority either (i) to fill any vacancy either in any elective office or its own membership or in the Board of Directors, or (ii) to employ or discharge any General Manager for this association, or (iii) to call any meeting of the members, or (iv) to meet or otherwise to act at any time when either the Board of Directors or the members are holding a meeting, or (v) to do anything which is required by law to be done only by the Board of Directors and which said board cannot lawfully delegate to such a committee; but said committee shall have such other powers and duties as the Board of Directors may delegate to or require of it.

ARTICLE III—Officers

Section 1. **Election of Officers.** Promptly following each annual meeting of the members of this association, the Board of Directors shall elect from among the directors a President and a Vice-President, and shall at the same time elect a Secretary and a Treasurer who may, but need not, be directors. The offices of Secretary and Treasurer may be held by the same person and, when so held, may be termed Secretary-Treasurer. The Board of Directors may appoint such additional officers with such titles, powers, and duties, and for such terms, as said board may determine.

Section 2. **The President shall:**

a. Preside over all meetings of the members and of the Board of Directors and of the Executive Committee; and
b. Have all authority ordinarily held by the president of a corporation but he shall not be obligated either to devote his full time to the business of this association or to actively supervise all of its ordinary business.

Section 3. **The Vice-President,** in the absence of disability of the President, shall perform the duties of the President.

Section 4. **The Secretary shall:**

a. Take or supervise the taking of complete minutes of all meetings of the members and of the Board of Directors and of the Executive Committee; and
b. Have custody of this association's minute book and of its corporate seal, if any; and
c. Submit to the annual meeting of the members a report covering the business of this association for the previous fiscal year and showing the condition of this association at the close of said fiscal year; and
d. Give, or cause to be given, all notices as required by law or these By-Laws; and
e. Perform such additional duties as may be required of him by the Board of Directors.

Section 5. **The Treasurer shall:**

a. Supervise the safekeeping of all funds and property of this association; and
b. Supervise the keeping of complete books and records of all financial transactions of this association; and
c. Perform such additional duties as may be required of him by the Board of Directors.

Section 6. **General Manager.** The Board of Directors shall employ a General Manager and fix his compensation and all other terms of his employment. The General Manager shall actively supervise all of the ordinary business of this association, and shall employ and discharge all other employees of this association, and shall perform such additional duties and shall have such additional powers as the Board of Directors may require of or may delegate to him.

Section 7. **Removal of Directors.** Any request for removal of a director must be in writing, signed by not less than fifty (50%) percent of the then-total members of the Cooperative which petition calls for a special member meeting the stated purpose of which shall be to hear and act upon such charge(s) and which specifies the place, time and date thereof not sooner than sixty (60) days after filing of such petition, or which requests that the matter be acted upon at the subsequent annual member meeting if such meeting will be held no sooner than sixty (60) days of the filing of such petition. Each page of the petition shall, in the forefront thereof, state the name(s) and address(es) of the member(s) filing such charge(s), a verbatim statement of such charge(s) and the name(s) of the director(s) against whom such charge(s) is (are) being made. The petition shall be signed by each member in the same name as he is billed by the Cooperative and shall state the signatory's address as the same appears of such billings. Notice of such charge(s) verbatim, of the director(s) against whom the charge(s) have been made and of the member(s) filing the charge(s) and the purpose of the meeting shall be contained in the notice of the meeting, or separately notice to the members no less than seven (7) days prior to the member meeting at which the matter will be acted upon. Such director(s) shall be informed in writing of the charges after they have been validly filed and at least thirty (30) days prior to the meeting of the members at which the charges are to be considered, and shall have an opportunity at the meeting to be heard in person, by witnesses, by counsel, or any combination of such, and to present evidence in respect of the charge(s); and the member(s) bringing the charge(s) shall have the same opportunity, but must be heard first. The question of removal of such director(s) shall separately for each if more than one has been charged, be considered and voted upon at such meeting, and that the question of the removal of a director shall not be voted upon at all unless some evidence in support of the charge(s) against him shall have been presented during the meeting.

ARTICLE IV—Capital Stock and Certificates

Section 1. A **certificate** of capital stock shall be issued to each holder of one or more fully paid shares of capital stock. Each such certificate shall state whether the shares evidenced thereby are common or preferred, the par value of said shares, the number of shares evidenced thereby, the name of the person

who is the holder of said shares according to the records of this association, and shall bear the signatures of the President or Vice-President and the Secretary or Assistant Secretary, and shall be numbered and issued in numerical order from the stock certificate books. Each certificate shall reproduce or summarize the provisions of Article V of the Articles of Incorporation and Articles IV and VIII of the By-Laws applicable to the shares evidenced by said certificate.

Section 2. **Transfers** of shares shall be made only on the books of this association, either by the holder in person or by his attorney-in-fact, and only upon surrender of the outstanding certificate for the shares so transferred.

Section 3. This association shall have the **first option** of purchasing any shares of capital stock if and when the same are offered for sale by any stockholder, and no such shares shall be transferrable until after they first shall have been offered for sale to this association. Upon receiving any such offer in writing, this association shall have ninety days thereafter in which to purchase the shares so offered. If this association, within said period, shall pay or tender to the holder the price for which said shares are so offered for sale, the holder shall endorse and deliver to this association the certificate for said shares, and said shares may be held as treasury stock or retired. If this association shall refuse said offer or fail to pay or tender said price within said period, the holder thereupon and for a period of one year thereafter shall be free to sell said shares to others at a price not less than the price at which said shares were offered to this association; provided, that said shares shall not be transferred to anyone not eligible to hold the same; and, provided, further, that said shares shall remain subject to this association's lien thereon.

ARTICLE V—Patrons and Patrons' Net Margins

Section 1. **Patrons.** Each person who purchases or otherwise receives any electrical energy from this association shall thereby become and be a "patron"; and each such transaction shall be a "patronage transaction". Each patronage transaction between this association and each patron shall be subject to, and shall include as a part of its terms, each provision of this Article V, whether it be expressly referred to in said transaction or not; and no person shall have any authority to accept for this association any patronage from any patron on any terms inconsistent with this Article V. Upon buying or otherwise receiving any electrical energy from this association or contracting to do so, each patron with or without then executing any writing or doing any other act thereby:

- (a) Shall, as further consideration owed to him by this association on account of such patronage, become entitled to have paid to him (and this association thereby shall promise to pay to him) an amount of money equal to his proportionate share of the Patrons' Net Margins, all as more particularly hereinafter defined and provided; and
- (b) Shall, in consideration of similar subscriptions by others in the same fiscal year, irrevocably subscribe and agree to pay to this association an amount of money equal to the amount of his share of the Patrons' Net Margins for a credit in the revolving capital having a principal value equal to said amount of money; and his said subscriptions shall become payable by him in cash without any notice or call for payment upon acceptance of all or any part of his said subscriptions by the Board of Directors at any time during the next succeeding fiscal year.

Section 2. **Computation of Patrons' Net Margins.** The Patrons' Net Margins shall be computed upon the basis of each fiscal year as follows:

a. **Gross Receipts.** All proceeds of all sales of electrical energy to patrons, plus all income from all other sources, shall be deemed to be the "Gross Receipts."

b. **Net Margins.** This association shall deduct from said Gross Receipts the sum of all costs and expenses and other charges which would be lawfully excludable or deductible from this association's gross income for the purpose of determining the amount of any income or related taxes payable by this association if it were not exempt from such taxes except (1) the amount of such taxes, and (2) the amount of the Patrons' Net Margins as defined in subsection d, and (3) any amount which may be both deductible from the Net Margins pursuant to subsection c and also excludable or deductible from this association's gross income for the aforesaid tax purpose; provided, that with respect to any costs or expenses or other charges which are not deductible for the aforesaid tax purpose, deduct the amount thereof. The balance of said Gross Receipts which remains after the foregoing deductions shall be deemed to be the "Net Margins."

c. **Association's Net Margins.** This association shall deduct from said Net Margins the sum of the following items:

- (i) an amount equal to ten percent (10%) of the Net Margins, and the amount deducted pursuant to this clause (i) shall be set aside in the Capital Reserve; provided, however, that no amount shall be deducted from said Net Margins pursuant to this clause (i) at any time when the balance then in said Capital Reserve shall equal or exceed fifty percent (50%) of this association's paid up capital stock; and
- (ii) an amount equal to twenty percent (20%) of the Net Margins, and

the amount deducted pursuant to this clause (ii) shall be set aside in the Capital Reserve; provided, that no amount shall be deducted from said Net Margins pursuant to this clause (ii) in any fiscal year when this association is not entitled to a net operating loss deduction for the purpose of determining the amount of any federal income or related taxes payable by this association for said year; and, provided, further, that the amount to be deducted from said Net Margins pursuant to this clause (ii) in any fiscal year shall be limited to either (1) said amount equal to said twenty percent (20%) of said Net Margins or (2) the amount of said net operating loss deduction applicable to said fiscal year, whichever is the lesser amount; and

- (iii) an amount equal to (and comprised of) the excess (if any) of (I) all of this association's non-patronage net income over (II) the sum of the amounts deducted from the Net Margins pursuant to the foregoing clauses of this subsection c, and so much of said amount deducted pursuant to this clause (iii) as the certified public accountant who audits this association for said fiscal year may deem to be necessary for the payment of income or related taxes for said fiscal year payable by this association shall be set aside for the payment of said taxes, and the balance (if any) of said amount shall be restored to the Net Margins and paid to the patrons as part of the Patrons' Net Margins; and
- (iv) an amount equal to the excess (if any) of (I) the amount of income or related taxes for said fiscal year payable by this association over (II) the amount (if any) deducted from the Net Margins pursuant to the foregoing clause (iii).

To the extent that the non-patronage net income is sufficient, all amounts deducted from the Net Margins pursuant to this subsection c shall be comprised of and deducted from the non-patronage net income rather than from so much of the Net Margins as resulted from patronage transaction with patrons. ("Non-patronage net income" means and includes so much of the Net Margins as resulted from the Gross Receipts other than all proceeds of all sales of electrical energy to patrons.) The sum of the foregoing deductions from the Net Margins shall be deemed to be the "Association's Net Margins."

d. Patrons' Net Margins. The balance of said Net Margins which remains after the deduction of the Association's Net Margins shall be deemed to be the "Patrons' Net Margins". All of the Patrons' Net Margins shall, as received by this association, belong to and be held by it for its respective patrons and shall be apportioned between and paid to them as hereinafter provided.

Section 3. Apportionment of Patrons' Net Margins. The Patrons' Net Margins shall be apportioned between the several patrons on the basis of their respective patronage and may be apportioned on the basis of their respective patronage of and the amounts which resulted from the operations of the various departments of this association or from the various quantities and values of electrical energy sold to patrons; but there shall be no discrimination between patrons who are members and patrons who are not members.

Section 4. Payment of Patrons' Net Margins. Each patron's share of the Patrons' Net Margins shall be payable to him in cash at the close of each fiscal year.

Section 5. Authority to Compute and Apportion. Neither this association nor its Board of Directors nor its members nor anyone else acting for this association shall have any discretion to determine either how much or what proportion of the Gross Receipts shall constitute the Patron's Net Margins or in what form or manner or at what time the Patrons' Net Margins shall be paid to the patrons; and neither this association's Articles of Incorporation nor its By-Laws nor any other agreement of this association shall be construed as conferring any such discretion on this association or anyone acting for it. All determinations as to how much or what proportion of the Gross Receipts shall constitute the Patrons' Net Margins as well as all determinations involving the proper basis of apportioning the Patrons' Net Margins as between the several patrons shall be determined solely by the certified public accountant who audits the books of this association for the fiscal year for which such determinations are made; and his determination, when made in good faith and according to what he considers to be sound accounting principles and proper construction of the provisions of this article and this association's corporate purposes, shall be conclusive upon both this association and each and all of its patrons.

Section 6. Power Supply Cooperative Credits and Other Credits. Notwithstanding any provision of this Article, the Board of Directors may adopt rules providing for the segregation of that portion of membership patronage capital which is identified separately as being reinvested in a power supply cooperative and a cooperative financing association. Such rules shall establish methods for the apportionment and segregation and shall provide for a separate identification on the association's books of the power supply portion and cooperative financing portion credited.

ARTICLE VI—Capital Reserve

This association shall establish and maintain a Capital Reserve for the purpose of providing a reserve against which this association may charge losses and other charges which properly could be charged against the surplus of a business corporation for profit; provided, that this association's Revolving Capital shall be its Capital Reserve and that each reference in these By-Laws to the Capital Reserve shall be deemed to refer to the Revolving Capital; and, provided, further, that notwithstanding any contrary provisions in these By-Laws, no Revolving Capital credits shall be retired at any time when the balance which would remain in the Revolving Capital after such retirement would be less than fifty percent (50%) of this association's paid-up capital stock.

ARTICLE VII—Revolving Capital

Section 1. Purpose. This association shall establish and maintain a revolving capital account, or accounts, for the purpose of acquiring and maintaining non-stock capital, to supplement its capital stock, adequate to finance its properties and business. The account which theretofore was designated as the Capital Credits shall, after the adoption of this article, thenceforth be designated as the Revolving Capital; and holders of credits in said account shall thenceforth have like credits in the revolving capital subject to the provisions of this article; provided, that said credits shall be deemed to represent contributions to the revolving capital as of the dates when the amounts for which said credits were issued were transferred to said accounts.

Section 2. Contributions. This association may accept contributions to its revolving capital from any person who is a patron or is approved by the Board of Directors; and this association shall issue to such a person a revolving capital credit in a principal amount equal to the amount of his contribution. Proper entries shall be made in the books and records of this association so that the principal amount and the book value, if less than the principal amount, of the credit issued to each contributor for his contributions to the revolving capital in each fiscal year can be ascertained at any time. This association may issue revolving capital certificates to evidence credits in said capital, and such certificates may be in such form and contain such terms and conditions not inconsistent with this article as the Board of Directors may prescribe.

Section 3. Operation. Contributions to the revolving capital need not be segregated from, but on the contrary may be invested in or commingled with, any other assets of this association. No dividend, interest, or any other income shall be declared or paid on account of any credits in the revolving capital. This association shall have a first lien on each revolving capital credit for all indebtedness of the holder thereof to this association. If and when there shall have been a deficit balance in the Capital Reserve for five consecutive full fiscal years next following the year in which this association sustained a loss, the Board of Directors may (at any time during the sixth consecutive full fiscal year or thereafter) charge against the revolving capital an amount not exceeding so much of said deficit balance as of the close of the fifth consecutive full fiscal year as is equal to the difference between the amount of said loss less the sum of all amounts which were credited to the Capital Reserve pursuant to Section 2-c of Article V during said five consecutive full fiscal years. If and when the revolving capital shall have been impaired (that is to say, whenever the sum of the principle amounts of all revolving capital credits then issued and outstanding exceeds the balance in the revolving capital), then the Board of Directors may reduce the principal amount of any or all such revolving capital credits as said board may designate so that the sum of the principal amounts of all revolving capital credits shall be not less than the balance then in the revolving capital, all as may be more particularly provided by said board.

Section 4. Transfers of revolving capital credits shall be made only on the books of this association, either by the record holder in person or by his attorney-in-fact, and only with the consent of the Board of Directors; provided, that said credits shall remain subject to this association's lien thereon.

Section 5. Conversion. The Board of Directors may from time to time convert the whole or any part of any or all such revolving capital credits as said board may designate into so many shares of capital stocks as shall have an aggregate par value equal to the aggregate principal amount of the revolving capital credits so converted.

Section 6. Retirement. If and when the sum of the balance in the revolving capital plus the amount of the paid up capital stock the balance in the capital reserve shall exceed the amount of capital reasonably needed by this association, it shall apply such excess to the retirement, in full or pro rata of any or all such credits in the revolving capital as the Board of Directors may designate. The Board of Directors, in its discretion, may retire any revolving capital credits in whole or in part at any time when the record holder shall either (i) die, or (ii) otherwise cease to be a member, or (iii) remove from the territory served by this association, or (iv) attain the age of 72 years if an individual. Whenever this association shall have received any

cash from any other cooperative association in payment of any patronage refunds, credits, or securities issued by such other cooperative association, then the Board of Directors may apply all or part of such cash to the retirement, in full or pro rata, of any or all credits in the revolving capital. Revolving capital credits may be retired, as above required, or authorized by (i) motion or resolution of the Board of Directors and (ii) payment or tender to the record holder of said credits of the book value of said credits as of the close of this association's fiscal year next preceding the adoption of such motion or resolution as conclusively determined by the certified public accountant who audited the books of this association for said fiscal year; and such tender may be made to any such holder either in person or by mailing this association's check to such holder at his address according to the records of this association.

Section 7. Retirement. The Board of Directors, at its discretion, shall have the power at any time upon the death of an individual member to retire capital credited to any such member immediately upon such terms and conditions as the Board of Directors, acting under policies of general application, and the legal representative of such member's estate shall agree upon.

Section 8. Retirement. The Board of Directors, at its discretion, shall have the power at any time upon the death of any member, if the legal representatives of his estate shall request in writing that the capital credited to any such member be retired prior to the time such capital would otherwise be retired under the provisions of these By-Laws, to retire capital credited to any such member immediately upon such terms and conditions as the Board of Directors, acting under policies of general application, and the legal representatives of such member's estate shall agree upon; provided, however, that the financial condition of the Cooperative will not be impaired thereby. The Board of Directors is authorized, but not required, to provide for prior retirements to surviving joint tenancy members and to heirs of deceased members on the same basis as retirements hereunder may be made to estates of deceased members.

Section 9. Retirement. Any member or former member who fails to claim any cash retirement of capital credits or other payment from the Cooperative within two years after payment of the same has been made available to him by notice or check mailed to him at his last address furnished by him to the Cooperative, such failure shall be and constitute an irrevocable assignment and gift by such member of such capital credit or other payment to Steele-Waseca Cooperative Electric. Failure to claim any such payment within the meaning of this section shall include the failure by such member or former member to cash any check mailed to him by the Cooperative at the last address furnished by him to the Cooperative; failure to leave with the Cooperative an accurate current mailing address at which mail can be delivered to such member; or failure to correspond with the Cooperative concerning such payment after notice of the availability thereof has been mailed to such member or former member at the last address furnished to the Cooperative. The assignment and gift provided for under this section shall become effective only upon the expiration of two (2) years from the date when such payment was made available to such member or former member without claim therefor and only after the further expiration of sixty (60) days following the giving of a notice by mail and publication that unless such payment is claimed within said sixty (60) day period, such gift to Steele-Waseca Cooperative Electric shall become effective.

ARTICLE VIII—Dissolution

Upon the dissolution of this association, all of its debts and liabilities shall first be paid according to their respective priorities. Any property then remaining shall be distributed to the stockholders and patrons of this association. Holders of shares of common stock shall next be paid, and shall be limited to, the principal amount of their credits in said capital. If all or any part of any reserve shall have been apportioned between and credited to any persons on the books of this association, then the holders of such credits shall next be paid, and shall be limited to, the gross amount of their said credits. Any property then remaining shall be distributed among the patrons on the basis of their respective patronage as shown by the records of this association. Where there has been presented and discussed at a meeting of the Board of Directors a proposed agreement for the purchase and sale of all or substantially all of the property and assets of this association, the Board of Directors shall not authorize the president or secretary to execute, on behalf of this association, a contract of sale, or similar instrument, for the purchase and sale of all or substantially all of the property and assets of this association without the prior vote of the members at a special meeting held for that purpose, the quorum necessary to the transaction of such business at such special meeting of the members shall at least be twenty-five percent (25 %) of the total number of members in this association. Notwithstanding any provisions of these By-Laws, where there has been presented to and discussed at a meeting of the Board of Directors a proposed agreement for the purchase and sale of all or substantially all of the property and assets of this association, the Board of Directors shall secure an independent appraisal of the property and assets of this association and no action on the part of the Board of Directors calling for a meeting of the members or authorizing the sale of all or substantially all of the property and assets of this corporation shall be adopted unless preceded by at least ninety (90) days prior written notice mailed to each and every member personally (or, in the case of an association, to the secretary thereof) at his last known post office address, or, in lieu of such mailed notice, notice given by publication in a legal newspaper published in the county of the principal place of business of this association for twelve (12) consecutive weeks, which notice shall outline the terms of the sale, including the identification of the purchaser and indicating whether or not the Board of Directors deem it to be in the best interest of the association and its members that all or substantially all of the property and the assets of this association be sold, conveyed and transferred to the purchaser. The Board of Directors are specifically authorized to enter into Right of First Refusal Agreements with other cooperatives with respect to the sale of all or substantially all of the corporate property and assets.

ARTICLE IX—Fiscal Year

The fiscal year of this association shall commence on the first day of January in each year and shall end on the last day of December in the same year.

ARTICLE X—Amendments

These By-Laws may be amended as provided by law.