

**SHELBY ENERGY COOPERATIVE, INC.**  
**Shelbyville, Kentucky**

**POLICY NO. 108**

**QUALIFICATIONS, STANDARDS OF CONDUCT AND CONFLICT OF INTEREST POLICY FOR DIRECTORS, OFFICERS AND KEY EMPLOYEES**

**I. BOARD OF DIRECTOR QUALIFICATIONS**

- A. Any person who serves on the Shelby Energy board must first meet all the requirements listed in the bylaws:
1. Be a member of Shelby Energy whose permanent, principal residence is presently located and has been located during the past sixty (60) months in the district served by Shelby Energy where the vacancy exists;
  2. Not be an employee of or financially interested in (i) a competing enterprise, other than indirect and minimal ownership through a mutual stock or bond fund or similar investment entity, or (ii) an entity which sells goods or services to Shelby Energy, if the entity derives more than 1% of its annual gross income from sales to Shelby Energy;
  3. Have the capacity to enter into legally binding contracts;
  4. Before becoming a Director, graduate from high school or earn an equivalent degree or certification;
  5. Not be an employee of, retired employee of, nor have been employed by Shelby Energy during the past sixty (60) months, nor be the spouse of such a person;
  6. Not be a close relative of an active employee, director or attorney of Shelby Energy;
  7. Not having entered a plea of guilty to, or no contest to, or have been convicted of, a felony, or while a Director, and prior to becoming a Director, not have a final judgment entered against them involving civil fraud, ethical violations, discrimination and/or acts of harassment;
  8. While a Director, and eight-four (84) months immediately before becoming a Director, not have been discharged of debt in a federal bankruptcy proceeding or have had as a debtor a final order entered against them in a similar proceeding under applicable state law such as insolvency,

liquidation, receivership reorganization, or assignment for the benefit of creditors;

9. While a Director, and eighty-four (84) months immediately before becoming a Director, not have been a party to a foreclosure or other proceeding (judicial or non-judicial), which resulted in a judicial sale of any of the Director's property which proceeding is or was instituted because of the director's default on indebtedness;
10. Except as otherwise provided by the Board of Directors for good cause shown, the Director must have received a Credentialed Cooperative Director designation, Director's Certificate, or similar designation or certification from the National Rural Electric Cooperative Association within thirty-six (36) months of becoming a Shelby Energy Director and after becoming a Director, must participate in and complete additional director training as may be required by the Board of Directors;
11. Except as otherwise provided by the Board of Directors for good cause shown, the Director must attend at least ninety percent (90%) of all properly noticed Regular and Special Board Meetings, Committee Meetings and Board Telephone/Video Conference Meetings during each twelve (12) month rolling period.
12. Except as otherwise provided by the Board of Directors for good cause shown, the Director shall not miss more than two (2) consecutive properly noticed Regular Board Meetings;
13. While a Director, the Director must not breach the Director's fiduciary duties to Shelby Energy, violate confidences, or engage in illegal activity under the color of authority as a Director;
14. While a Director, the Director must provide a "Disclosure and Authorization" form to be used for obtaining periodic background check based on employment purposes.
15. The Director must comply with any other reasonable qualifications determined, made, adopted, amended, and/or disseminated in policies or rules of Shelby Energy, not inconsistent with law, the Articles of Incorporation regulations, or By-Laws.
16. While a director, and during the thirty-six (36) months immediately before becoming a director, not be an employee of an entity of which Shelby Energy is a member or owns an interest;
17. While a director, and during the thirty-six (36) months immediately before becoming a director, not have been a director, officer, employee or agent of

a union or other entity representing, or seeking to represent, Shelby Energy employees regarding the terms and conditions of employment with Shelby Energy;

Notwithstanding any of the foregoing provisions, no incumbent director shall lose eligibility to remain a director or be re-elected as a director if he or she becomes a close relative of another incumbent director, a Shelby Energy employee, or attorney representing Shelby Energy because of a marriage to which he or she was not a party.

“Close relative” as used in this policy shall be defined as a person who by blood or marriage, including, half, step, and adoptive kin is either a spouse, child, grandchild, parent, grandparent, brother, sister, aunt, uncle, nephew, or niece of the principal.

Upon establishing the fact that a director is holding the office in violation of any of the foregoing provisions, unless the violation is promptly resolved and to the complete satisfaction of the Board, the Board shall remove such director from office. Nothing contained in this section shall affect the validity of any action taken at any meeting of the Board.

## **II. COMMITMENT TO SERVICE – DIRECTOR**

Each Director must make a meaningful contribution to carrying out the functions of a Director. Functions of a Director include:

- A. Demonstrate absolute understanding of the need to give the necessary time required to be an active Director by thorough preparation for and regular attendance at:
  - 1. Meetings of the Board, and any Board committees on which the Director serves, meetings of other boards or committees on which the Director officially represents Shelby Energy.
  - 2. State and national association meetings,
  - 3. Director orientation and training programs, and other meetings deemed necessary to keep the Director informed and educated in order to be a responsible and learned Director. Directors are expected to gain and maintain the knowledge and skills necessary to function actively and effectively as a Director. The information, education and networking knowledge obtained from such meetings is imperative to the skills necessary and required for a Director to make intelligent and informed choice on the

complex and rapidly changing matters that come before an energy cooperative board.

4. Study data and other information presented to the Board to keep fully informed and prepared for Board discussions and deliberations.
5. Contribute significantly to Board Meetings by raising pertinent and discerning questions and by contributing innovative ideas and suggestions.
6. Support decisions and actions approved by a majority of the Board.
7. Make every effort to obtain member and public understanding and support of Shelby Energy while being sensitive to and knowledgeable about their needs, concerns and attitudes.
8. Become skilled in raising questions about end results being achieved in certain key performance areas and in interpreting operating and financial reports.
9. Provide leadership to meet changing needs of the membership and improve the quality of life in Shelby Energy's service areas.

### **III. ADDITIONAL BOARD OF DIRECTOR, OFFICER AND KEY EMPLOYEE QUALIFICATIONS**

A director, officer and key employee must at all times:

1. Share a belief in Shelby Energy's principles and way of doing business, including:
  2.
    - a. Member ownership and control
    - b. One member, one vote
    - c. Non-profit operation
    - d. Area coverage
2. Share a belief that energy resources of this country should be developed to provide adequate energy at an affordable cost for all people, and that Shelby Energy will make such affordable cost energy available to its members.
3. Exercise honesty, fairness, objectivity and diligence in the performance of corporate duties and responsibilities.

4. Display the utmost loyalty to Shelby Energy and members of Shelby Energy in all matters pertaining to its affairs.
5. Fulfill the director's, officer's, and key employee's fiduciary duty to Shelby Energy and the members of Shelby Energy, which means that at all times each director, officer and key employee shall place the interest of Shelby Energy and members of Shelby Energy ahead of the interests of that director, officer and key employee. This will require each such person to set aside longtime friendships, political alliances, personal feelings and personal financial interests as required to best protect the interests of Shelby Energy and members of Shelby Energy, including balancing the financial interests of one member with the financial interests of all members.
6. Demonstrate by his or her action the following personal characteristics:
  - a. Provide strong and dependable leadership in his/her community.
  - b. Exhibit the highest integrity and earn and maintain the respect of the community in which he/she lives.
  - c. Use sound judgment and possess the ability to reason logically and clearly.
  - d. Demonstrate maturity and understanding of others, their concerns and viewpoints.
  - e. Exercise a high level of personal hygiene, be neat and well-dressed, and strive to make a favorable impression whenever in contact with any member of Shelby Energy or the public.
7. Must be mentally and physically capable of fulfilling his/her duties as a director, officer, or key employee.

#### **IV. STANDARDS OF CONDUCT FOR DIRECTORS, OFFICERS AND KEY EMPLOYEES**

1. A director, officer, and/or key employee with discretionary authority shall discharge his/her duties, including a director's duties as a member of a committee:
  - a. In good faith;
  - b. On an informed basis; and
  - c. In a manner he or she honestly believes to be in the best interests of Shelby Energy and its members.
2. A director, officer, and/or key employee shall be considered to discharge his or her duties on an informed basis if he or she makes, with the care

an ordinarily prudent person in a like position would exercise under similar circumstances, inquiry into the business and affairs of Shelby Energy and its members, or into a particular action to be taken or decision to be made.

3. In discharging his or her duties, a director, officer, and/or key employee shall be entitled to rely on information, opinions, reports, or statements, including financial statements and other financial data, if prepared or presented by:
  - a. One or more officers or employees of Shelby Energy whom the director, officer, and/or key employee honestly believes to be reliable and competent in the matters presented;
  - b. Legal counsel, public accountants, or other persons as to matters the director, officer, and/or key employee honestly believes are within the person's professional or expert competence;
  - c. A director may rely upon a committee of the board of directors of which he or she is not a member, if the director honestly believes the committee merits confidence.
4. A director, officer and/or key employee shall not be considered to be acting in good faith if he or she has knowledge concerning the matter in question that makes reliance otherwise permitted by Subsection 3 of this section unwarranted.

## **V. CONFLICT OF INTEREST**

- A. No director, officer or key employee, or any close relative of a director, officer or key employee shall accept or keep any gifts, fees, loans, or favors from suppliers, contractors, consultants, financial institutions, outside legal counsel or accountants, or any other person or entity with which Shelby Energy does business, which would tend to obligate or induce them to compromise their responsibility to conduct all affairs of Shelby Energy solely with the best interests of Shelby Energy uppermost in mind.

This shall encompass all business affairs of Shelby Energy including, without limitation, bid solicitations, negotiations, inspections, audits, purchases or leases of real or personal property, and the award of contracts. However, this provision does not prohibit the acceptance of gifts or favors of insignificant value (Examples: gift baskets of flowers or food), including, without limitation, casual meals or entertainment which involve no element of concealment.

- B. Directors, officers and key employees shall at all times maintain the complete confidentiality of Shelby Energy's business information. This requirement includes without limitation:
- a. The prohibition against the knowing disclosure of such information to anyone, whether inside the organization or not, who does not have the need to know, or whose interests may be adverse to those of Shelby Energy; and
  - b. The prohibition against the use of such information by a director, officer or key employee for any personal gain or advancement, or in any other way that may be a detriment to the interests of Shelby Energy.
- C. Shelby Energy shall not purchase or lease any real or personal property, or any interest therein, which is owned by a director, officer or key employee, or any close relative of a director, officer or key employee, unless such ownership is disclosed and the Board determines such purchase or lease is in the best interests of Shelby Energy.
- D. No director, officer or key employee, or any close relative of a director, officer or key employee, shall acquire or retain any direct or indirect financial interest in any supplier, contractor, consultant, financial institution, or any other entity with which Shelby Energy does business, or which competes with Shelby Energy. Provided, however, that this provision shall not prohibit the ownership of 1% or less of the outstanding shares of a particular class in any publicly-held company, or the ownership of an interest of no more than 5% in any other form of business entity.
- E. Each director, officer and key employee is required to act in the entire community of members' interest and not in his/her own interest or that of other people or organizations with whom the director, officer and/or key employee is affiliated.
- F. Notwithstanding the other provisions of this policy, every director, officer or key employee shall avoid any situation, whether specifically referenced herein or not, which may constitute a conflict of interest or which may reasonably give rise to the appearance of a conflict of interest.
- G. A Director with a potential conflict of interest will recuse himself/herself from any Board discussion or action in that subject or issue and may not be present while any action is taken by the Board.

## **VI. ENFORCEMENT OF POLICY COMPLIANCE**

Any situation involving a possible violation of either the letter or spirit of this policy shall immediately be disclosed in complete detail to the President and CEO if by an Officer or Key Employee other than the President and CEO, or to the Board Chairman or Vice-Chairman if by a Director or the President and CEO, or to legal counsel if by the Chairman or Vice-Chairman. The potential violation shall be referred to the legal counsel of the Board for review and opinion. The opinion of the legal counsel will be followed by the Board. The President and CEO or the Board, as appropriate, shall allow the individual involved an opportunity to comment orally or in writing regarding the situation. If the Director, Officer or Key Employee does not comply with this policy, the legal counsel will be requested to offer an opinion that includes a recommendation regarding any exception. The President and CEO or the Board will follow the opinion of legal counsel. In the event an exemption is not granted, the President and CEO or the Board must provide the Director, Officer or Key Employee an opportunity to comply with this policy within thirty (30) days. If the Director or President and CEO does not comply with this policy within thirty (30) days, the Board will accept his/her immediate resignation or will vote to remove the Director from office or terminate the President and CEO. If the Officer or Key Employee does not comply with this policy within thirty (30) days, the Officer or Key Employee shall be terminated.

## **VII. RESPONSIBILITY**

The President and CEO shall periodically take steps reasonably calculated to inform directors, officers and/or key employees of the content of this policy. A copy of this policy shall be provided to every candidate seeking to become a member of the Board of Directors, to every officer, and to every key employee

Reference: BP 900

Adopted: 12/22/75

Revised: 05/28/81      10/27/88      07/01/98      06/24/99      01/21/10  
07/14/11      03/15/12      07/17/14      04/28/16



**CONFLICT OF INTEREST COMPLIANCE STATEMENT**  
(To be signed by each Director, Officer and Key Employee)

I, \_\_\_\_\_, hereby acknowledge receiving copies of Board Policy No. 108, Qualifications, Standards of Conduct and Conflict of Interest Policy for Directors, Officers and Key Employees, which I have read and understand. I also have read and understand the definitions of “Close Relatives” as set forth in Policy 108 and Shelby Energy’s Bylaws. If I am an Officer or Key Employee, I have read and understood the contents of Board Policy No. 900, Employment of Personnel. I further certify that I am in compliance with the obligations required of me under these policies. Please also check statement 1 or 2 below.

\_\_\_\_\_ 1. I do not have a personal relationship or business interest with any vendor with which Shelby Energy Cooperative, Inc. does business. OR

\_\_\_\_\_ 2. I have the following relationship(s) that could be considered a conflict of interest or impair my independence with regard to transactions between Shelby Energy Cooperative, Inc. and the vendor.

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Signature: \_\_\_\_\_

Date: \_\_\_\_\_