

# Cedar Falls Food Co-op Bylaws

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## Article I: Organization

Section 1.1 – **Name:** The name of the Co-op is the Cedar Falls Food Co-op (referred to in these bylaws as “the Co-op”).

Section 1.2 – **Mission statement:** Cedar Falls Food Co-op, a community-centered market, provides healthy and responsibly sourced goods built on the ideals of sustainability, education, and accessibility.

Section 1.3 – **Vision:** Cedar Falls Food Co-op envisions a conscious and nurturing marketplace that cultivates a just, vibrant, and sustainable community.

Section 1.4 – **The Food Co-op Principles:** Cedar Falls Food Co-op adheres to the seven (7) cooperative principles:

- **Voluntary and Open Membership:** Co-operatives are voluntary organizations; open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
- **Democratic Member Control:** Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner.
- **Member Economic Participation:** Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.
- **Autonomy and Independence:** Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.
- **Education, Training, and Information:** Co-operatives provide education and training for their members
- **Cooperation among Cooperatives:** Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.
- **Concern for Community:** While focusing on member needs, cooperatives work for the sustainable development of communities through policies and programs accepted by the members.

Section 1.5 – **Nondiscrimination:** The Co-op shall not discriminate on the basis of race, creed, age, gender, handicap, sexual preference, marital status or other arbitrary basis.

Section 1.6 – **Fiscal year:** The fiscal period of the Co-op shall be as adopted by the Board.

## Article II: Ownership

Section 2.1 – **Member-Owners:** For the purposes of these bylaws, ‘member,’ ‘owner,’ and ‘member-owner’ are understood to be equivalent terms and can be used interchangeably. When the Articles of Incorporation and/or Bylaws refer to a ‘member’ or ‘membership’, the reference is exclusively to ‘voting’ members.

Section 2.2 – **Admission:** Persons may, upon the approval of the Board of Directors of the Co-op, become a member in good standing of the Co-op by entering in a Member Share Purchase Agreement by:

- (a) purchasing in full one (1) Class A Unit (“membership share”) of the Co-op; and
- (b) receiving from the Co-op written acceptance of membership; and
- (c) meeting other membership criteria or requirements established from time to time by the Board of Directors.

The Board of Directors may establish one (1) or more classes of non-voting memberships on terms and conditions established by the Board of Directors.

Section 2.3 – **Rights:** A member who is current on his/her Member Share Purchase Agreement is a member in good standing and has the right to make purchases from the Co-op as a member and to have one vote at any Co-op election properly called. Members shall be provided reasonably adequate and timely information as to the organizational, operational, and financial affairs of the Co-op. An owner seeking Co-op information shall be given the information upon request provided the member describes with reasonable particularity what information is desired and for what purpose the information is to be used. All such requests are subject to such reasonable restrictions or conditions as are determined by the Board to be necessary to protect confidential, personally-identifiable, or sensitive information.

Section 2.4 – **Responsibilities:** Each owner shall keep reasonably current in payment of the Member Share Purchase Agreement described in Section 2.1 and shall notify the Co-op of any change to his or her name or address. Owners may be required to purchase additional shares or fractions of shares as approved at a meeting of owners. An owner who becomes delinquent by three (3) months in meeting his or her share purchase obligation, or who fails to patronize the Co-op for a one-year (1) period of time, shall be placed into inactive status. His or her participation rights shall then be suspended. An owner in inactive status may attain good standing by recommencing current payment of the share purchase requirement or by reestablishing a patronage relationship with the Co-op. References herein to the rights and entitlements of owners shall be understood to refer only to owners in good standing.

Section 2.5 – **Settlement of disputes:** In any dispute between the Co-op and any of its owners or former owners which cannot be resolved through informal negotiation, it shall be the policy of the Co-op to prefer the use of mediation whereby an impartial mediator may facilitate negotiations between the parties and assist them in developing a mutually acceptable settlement. No party with a grievance against the other shall have recourse to litigation until the matter is submitted to mediation and attempted to be resolved in good faith.

Section 2.6 – **Transferability:** Membership (and the membership share associated with such membership) shall be non-transferable, except as in accordance with these bylaws.

Section 2.7 – **Termination:** Membership in the Co-op may be terminated by the Board of Directors at their discretion if the Board of Directors determines that a member has:

1. Become ineligible for membership for any reason; or
2. Died or ceased to exist as a legal entity and leaves no successor; or
3. The Board of Directors by resolution finds that a member has:
  - a. Intentionally or repeatedly violated any provision of the Articles, the Bylaws, or Board policies of the Co-op;
  - b. Taken actions that will impede the Co-op from accomplishing its purposes;
  - c. Taken or threatened actions that adversely affect the interests of the Co-op or its members;
  - d. Willfully obstructed any lawful purpose or activity of the Co-op; or
  - e. Breached any contract with the Co-op.

The Board of Directors may terminate the membership of a member only at a meeting of the Board of Directors, having given twenty (20) days prior written notice of which was served upon the last known mailing address of the member alleged to be ineligible by United States Certified Mail. The notice must state with reasonable particularity the grounds upon which the member is alleged to be ineligible and that the member will be entitled to be heard on the matter of termination at the meeting.

Section 2.8 – **Consequences of Membership Termination:**

If the Board of Directors finds that any membership share of the Co-op has come into the hands of any person who is not eligible to own a membership share or who has otherwise become ineligible for membership in the Co-op, the Board of Directors of the Co-op has the right, at its option:

- a. To redeem the membership share at an amount equal to the value of the consideration for which the membership share was issued; or
- b. To convert the membership share into a nonvoting certificate of interest or other nonvoting equity credit at an amount equal to the value of the consideration for which the Membership Units were issued. Upon such redemption or conversion, such ineligible holder of Membership Units will cease to be a member of the Co-op and will cease to have voting rights in the Co-op.

In exercising its right to redeem or to convert the membership share under the preceding paragraph, the Co-op may cancel the certificate or certificates of such membership share on its books if the holder fails to deliver the certificate or certificates evidencing such membership share to the cooperative. If the Co-op exercises its right to convert the membership share into a nonvoting certificate of interest or other nonvoting equity credit, the Co-op will have no obligation to redeem such nonvoting equity interest, nor shall the holder of such interest have any right to demand the redemption thereof.

Other than as provided herein, the termination of membership or other action taken by the Co-op with respect to a member or the member's membership share will not modify the obligations and liabilities of any holder thereof to the Co-op under any supply contract, service contract, or other contract between the holder and the Co-op, nor impair the rights of the Co-op under such contracts.

A non-voting membership interest may be terminated without prior notice, and the Board shall have the same options for the financial interest, if any, associated with the non-voting membership.

## Article III: Meetings of Owners

Section 3.1 – **Annual meeting:** The Board of Directors will hold an annual meeting of members within four (4) months of the end of each fiscal year. The directors shall present a state of the Co-op report including annual financial information, and the meeting shall encompass such other business as may properly come before it.

Section 3.2 – **Special meetings:** Special meetings of owners may be called by a majority vote of the full Board. The Secretary will provide notice within ten (10) business days upon receipt of petitions signed by twenty percent of all members, such petitions stating any proper business to be brought before the meeting. At least two weeks' notice must be given before the meeting is held.

Section 3.3 – **Time and place:** The date, time and place of all meetings of owners shall be determined by the Board or, in the event that the Board fails to so act, by the Secretary. Meetings shall be held at a time and place convenient to owners.

Section 3.4 – **Notice:** Written notice of the time, place, and purpose or purposes of any meeting of owners shall be distributed to each owner and posted in the store not less than fifteen days nor more than forty-five days before the date of the meeting.

Section 3.5 – **Record dates:** Unless otherwise determined by the Board, only persons who are owners at the close of business on the tenth day immediately preceding the date of distribution of notices shall be entitled to notice of any meeting of owners and to vote at such meeting.

Section 3.6 – **Quorum:** At any annual or special members' meeting, a quorum necessary for the transaction of business shall be the lesser of ten percent (10%) of total membership or fifty (50) members. In determining a quorum at a meeting, on a question submitted to a vote by mail, members present in person or represented by vote shall be counted.

Section 3.7 – **Voting:** The Board may authorize voting by mail or electronic ballot in conjunction with, or in lieu of, a meeting of members. In such event, the notice of the meeting shall include a copy of the issue to be voted upon, together with a ballot and an online link as an electronic voting option and notification of the date by which ballots must be returned. Ballots must be returned in a sealed envelope which is authenticated by the member's signature or sent electronically to a verifiable online site. If mail or electronic ballots are used in conjunction with a meeting of members, votes cast by mail shall be counted together with votes cast in person at the meeting. If mail or electronic ballots are used in lieu of a meeting of members, a quorum shall consist of the number of ballots returned. A vote cast by mail or electronic ballot shall be equivalent to presence in person by the member at a meeting of members.

Section 3.8 – **Absentee ballots:** Owners may vote by absentee ballots on any issue presented to a meeting of owners, provided that owners have previously been notified in writing of the exact motion or resolution and a copy of the same is attached to the absentee ballot. The Co-op shall make available absentee ballots for this purpose not later than twenty-one days before the date of the meeting. Absentee ballots must be received by the Co-op in person or by mail no later than the day before the date of the meeting. A vote cast by absentee ballot shall be read at the meeting of owners, and shall be equivalent to presence in person by the owner at such meeting.

Section 3.9 – **Proxies:** Owners who are unable to attend a meeting may vote by written proxy executed in favor of another owner. A proxy shall be effective only with respect to one particular meeting of owners, and no owner may hold more than one such proxy at any one time.

Section 3.10 – **Issues submitted by owners:** Notices of a meeting of owners shall include any proper issues submitted by petition of five percent of all owners. Petitions must be received by the Co-op not less than sixty days before the date of the meeting at which they are to be presented to a vote of owners.

Section 3.11 – **Communication by electronic means:** Unless otherwise required, any notice, consent, ballot, petition, or other document required or permitted by these bylaws may be delivered by electronic means, provided that, in the case where such communication expressly or impliedly requires the signature of the person submitting the communication, means are in place to reasonably assure the authenticity of the signature.

## Article IV: Board of Directors

Section 4.1 – **Powers and duties:** The Board of Directors shall govern the business and affairs of the Co-op and shall exercise all of the powers of the Co-op, except those powers that are conferred upon or reserved to the members by law, the Articles of Incorporation, or these bylaws. The Board of Directors shall adopt such policies, rules, and regulations and shall take such actions as it may deem advisable, provided that the Board of Directors does not act in a manner inconsistent with law, the Articles of Incorporation, or these Bylaws.

The board shall act for the Co-op and be responsible for:

- Engaging a general manager of its business and determining his or her duties and compensation.
- Insuring that the business is conducted in accordance with these bylaws and that the purpose and the principles of the Co-op are carried out.
- Overseeing the financial condition of the Co-op.
- Securing the soundness of the business of the Co-op by providing that all officers and employees having custody of the funds or goods shall each give sufficient bond consistent with state law.
- Providing good conditions of employment in the service of the Co-op, and for requiring efficiency, faithfulness, and diligence on the part of the staff.
- Maintaining a direct and vital connection with other cooperative organizations.
- Fostering a spirit of enthusiasm for cooperative effort, in the staff and among the members of the Co-op, and for encouraging them to identify themselves with every good feature of cooperative endeavor.
- Determining special committees of the Co-op and designating their chairmen, who shall select the additional members of such committees, subject to the approval of the board. Such committees of the Co-op shall serve for one year unless otherwise specified.

Section 4.2 – **Number and qualifications:** There shall be nine directors. All directors shall be owners, shall not be employed by the Co-op, be at least eighteen (18) years of age, and shall not have any overriding conflict of interest with the Co-op.

Section 4.3 – **Nominations, election and terms:** Except as otherwise provided herein, all directors shall serve three-year terms and until their successors are duly elected and qualified. No director shall serve more than three (3) consecutive (full or partial) terms. In order to preserve continuity of governance and the harmonious transition of the initial Board of Directors to the elected Board of Directors, the terms of the directors of the initial Board of Directors shall be staggered such that one-third of the directors (or as nearly as possible) shall be elected at the annual members' meeting following the date on which the Board of Directors determines that the initial membership in the Co-op has been established and at each annual meeting thereafter. The Board of Directors shall adopt a procedure to achieve the desired staggered effect prescribed by the bylaws. Directors shall be elected by ballot at the annual meetings. Nominations for director may be made by the board or by petition signed by at least twenty-five (25) members entitled to vote and submitted to the Secretary at least thirty (30) days before the annual meeting. The nominees receiving the highest number of votes cast shall be elected and shall take office at the adjournment of the annual meeting.



Section 4.4 – **Compensation:** Directors may be compensated only as approved at a meeting of owners. Directors shall be reimbursed for reasonable expenses incurred in connection with the performance of authorized business of the Co-op.

Section 4.5 – **Standards of conduct:** Directors shall be responsible at all times for discharging their duties in good faith, in a manner that they reasonably believe to be in the best interests of the Co-op and with the care that an ordinarily prudent person in a like position would use under similar circumstances.

Section 4.6 – **Conflicts of interest:** Directors shall be under an affirmative duty to disclose their actual or potential conflicts of interest in any matter under consideration by the Board, and such interest shall be made a matter of record in the minutes of the meeting. Directors having such an interest shall be permitted to make a statement with regard to the matter and shall then be required to leave the meeting room. A transaction in which a director has an interest shall be prohibited unless the transaction is fair to the Co-op and is approved by no less than a two-thirds ( $2/3^{\text{rds}}$ ) majority of all disinterested directors.

Section 4.7 – **Committees:** The Board may appoint special or standing committees to advise the Board or to exercise such authority as the Board shall designate. Such committees shall include at least one director. The appointment of any committee shall not relieve the Board of its responsibilities in the oversight of the Co-op.

Section 4.8 – **Termination:** The term of office of a director may be terminated prior to its expiration in any of the following ways:

- Voluntarily by a director upon notice to the Secretary (a director who is absent from three (3) consecutive Board meetings, unless excused by the Board for good cause, shall be presumed to have resigned); or
- Automatically upon termination of ownership in the Co-op; or
- For cause by a majority of all directors or by vote at a meeting of owners called in whole or part for such purpose, provided the director is accorded fair notice of the charges and an opportunity to respond in person or in writing.

Section 4.9 – **Vacancies:** Any vacancy among directors occurring between annual meetings may be filled by the Board for the remainder of the unexpired term.

## Article V: Meetings of the Board

Section 5.1 – **Meetings:** The Board of Directors may determine the times and places of its meetings, as long as meetings are held not less than once per quarter. Special meetings may be called by the President and shall be called by the Secretary upon request of any three directors.

Section 5.2 – **Notice:** Meetings called by resolution of the Board shall require no notice, it being the responsibility of absent directors to inquire as to the time of further scheduled meetings. Special meetings shall require written or oral notice to all directors. Written notice shall be delivered at least five days before the date of the meeting and oral notices shall be given in person or by a telecommunications device at least forty-eight (48) hours before the time of the meeting. Notices of meetings of the Board shall also be posted in a timely manner and in a conspicuous place in the Co-op's store, but the inadvertent failure to do so shall not affect the validity of the meeting.

Section 5.3 – **Waiver of notice:** Any notice of a meeting required under these bylaws may be waived in writing at any time before or after the meeting for which notice is required. A person who attends a meeting other than for the sole purpose of objecting to the adequacy of the notice shall be deemed to have waived any objection to the notice.

Section 5.4 – **Quorum:** The presence of a majority of directors shall be necessary and sufficient to constitute a quorum for the transaction of business at any meeting of the Board.

Section 5.5 – **Action without a meeting:** Any action required or permitted to be taken at a meeting of the Board may be taken without a meeting only if a written consent to the action is signed by all directors and filed with the minutes of meetings.

Section 5.6 – **Open meetings:** Meetings of the Board and all committees shall be open for observation and comment by owners and employees of the Co-op. Sessions of a meeting may be closed only as to matters of a particularly sensitive nature.

## Article VI: Officers

Section 6.1 - **Designation and qualifications:** The principal officers of the Co-op shall consist of President, Vice-President, Secretary, and Treasurer. The Board may designate other officers or assistant officers. The President and Past-President shall be directors.

Section 6.2 – **Election, terms, and removal:** Officers shall be elected by the Board at its first meeting following the annual meeting of owners. Officers shall serve for terms of one year or until election of their successors. Officers may be removed and replaced by the Board at any time whenever the best interests of the Co-op would thereby be served.

Section 6.3 – **Duties:** In addition to signing or attesting to formal documents on behalf of the Co-op as authorized by the Board, officers shall have the following duties and such additional duties as are determined by the Board:

1. The President shall be responsible for assuring the orderly conduct of all meetings, coordinating the activities of the Board, and maintaining effective communication with the general manager, and shall present a report of operations at the annual meeting of owners.
2. The Vice-President shall be responsible for performing the duties of the President in his or her absence or disability and, as requested, assisting the President in the performance of his or her duties.
3. The Secretary shall be responsible for the recording and keeping of adequate minutes of all meetings of the Board and of owners, issuing notices required under these bylaws, and authenticating records of the Co-op.
4. The Treasurer shall monitor the maintenance of financial records, the compilation of financial reports, and the filing of all required reports and returns, and shall present a financial report at the annual meeting of owners.

Unless the Board determines otherwise, the President shall have the authority to execute on behalf of the Co-op, and the Secretary to attest to, documents evidencing transactions authorized by the Board.

## Article VII: Membership Shares

Section 7.1 – **Issuance and terms:** To evidence capital funds provided by owners, the Co-op shall issue membership shares. Shares may be issued only to persons eligible for and admitted to ownership in the Co-op. Shares shall be issued only upon full payment of their par value in money, property or services. Shareholders shall be entitled to no dividend or other monetary return on investment.

Section 7.2 – **Certificates:** Every holder of a fully paid share shall be entitled to receive a certificate evidencing such holding. All certificates shall be signed personally or by facsimile by the President and the Secretary and shall be numbered and recorded in a stock register maintained by the Co-op. Each certificate shall contain a prominent notation that, in accordance with these bylaws, it is transferable only to the Co-op, which shall be obligated to purchase such share or shares, and that the voting rights pertain only to ownership status. The Co-op may issue a replacement certificate for any certificate alleged to have been lost, stolen or destroyed without requiring the giving of a bond or other security against related losses.

Section 7.3 – **Forfeiture:** All subscriptions for purchase of shares shall require full payment within one year of the date of subscription. If an owner fails to make full payment within the one-year (1) period and fails to correct the delinquency within thirty (30) days of the date of mailing of a notice of delinquency, all share purchase payments of such owner shall be irrevocably forfeited to the Co-op.

Section 7.4 – **Redemption:** Upon request following termination of ownership, common shares shall be redeemed when replacement capital is provided by other owners. Shares shall be redeemable at the lesser of their carrying value on the books of the Co-op or their net book value, less a reasonable processing fee, if any, as determined by the Board. Redemption proceeds shall be subject to offset by amounts due and payable to the Co-op by the owner. No redemption shall be made when such payment would impair the ability of the Co-op to meet its other obligations as they become due. Reapplications for ownership after full or partial redemption shall be subject to full repayment of redemption proceeds.

## Article VIII: Preferred Stock

Section 8.1 – **Preferred Stock:** Preferred stock of the Co-op may be issued in such amount and for such lawful consideration and at such times as the directors may determine.

Section 8.2 – **Redemption and retirement:** The Board of Directors may, at any time, redeem in whole or in part the shares of preferred stock at the redemption price per share. The order of priority of retirement of preferred stock in the event of a partial redemption shall, subject to any limitations or restrictions imposed be a matter of uncontrolled discretion of the Board of Directors and may be set in any resolution or plan contemplating such redemption.

Section 8.3 – **Transfer:** No member shall sell, assign, transfer, dispose of or encumber any share of preferred stock except to the Association except (a) by operation of law or (b) with the consent of the Board of Directors.

Section 8.4 – **Holdings:** Preferred stock held by nonmembers shall not exceed the amount held by members.

## Article IX: Patronage Dividends

Section 9.1 – **Distribution of net savings.** The realized net savings of the Co-op, to the extent attributable to the patronage of owners, shall be received and held by the Co-op for and as the property of its owners, the basis of each owner's interest therein being as set forth in this article. Such net savings shall be allocated and distributed among owners in good standing as patronage dividends in proportion to their patronage and in conformity with income tax law. In determining and allocating adjusted net savings, the Co-op shall use a single allocation unit except to the extent that, subsequent to the adoption of these bylaws, it shall engage in any new and distinct line of business.

Section 9.2 – **Exceptions:** Net savings may be reduced by such reasonable reserves for necessary business purposes as is determined by the Board. Any allocations of such a nominal amount as not to justify the expenses of distribution may, as determined by the Board, be excluded from distribution provided that they are not then or later distributed to other owners. Owners shall retain the right to waive in whole or in part, by action at a meeting of owners, any patronage dividends to which they may be entitled.

Section 9.3 – **Consent of owners:** By obtaining or retaining ownership in the Co-op, each owner shall thereby consent to take into account, in the manner and to the extent required by Section 1385 of the Internal Revenue Code, the stated dollar amount of any qualified written notice of allocation in the taxable year in which such notice is received.

Section 9.4 – **Retained amounts:** A portion of patronage dividends may be retained for the reasonable capital needs of the Co-op. Such amounts shall be credited to revolving capital accounts in the names of recipient owners, shall accrue no monetary return on investment, and shall be nontransferable. They shall be redeemed when determined by the Board to be no longer needed for capital purposes. At that time they shall be redeemed in the order of the oldest outstanding amounts and on a pro rata basis among such amounts, except that redemptions may be made payable only to owners who are then in good standing or become so within a stated period of time. Retained amounts may also be redeemed under compelling circumstances as determined by the Board. They shall be subject at all times to being offset by amounts otherwise due and payable to the Co-op.

Section 9.5 – **Allocation of net loss:** In the event the Co-op shall incur a net loss in any fiscal year, the patronage-sourced portion of such loss shall be carried forward to offset patronage-sourced income in subsequent years, and any remaining loss shall be carried back and forward to offset non-patronage-sourced income in prior and subsequent years in accordance with federal income tax law.

## Article X: Abandoned Equity

Section 10.1 – **Abandoned Equity**: Equity may be determined to be abandoned under such conditions as defined by a majority of the directors at such time when the directors deem it necessary.

## Article XI: Indemnification and Insurance

Section 11.1 – **Indemnification**: The Co-op shall indemnify each person who is or was a director, officer, manager, employee or agent of the Co-op, and any person serving at the request of the Co-op as a director, officer, manager, employee or agent of another corporation, partnership, joint venture, trust, or other enterprise, against expenses, including attorneys' fees, judgments, fines, and amounts paid in settlement actually and reasonably incurred to the extent to which such directors, officers, managers, employees or agents of the Co-op may be indemnified under the law of the State of Iowa.

Section 11.2 – **Insurance**: The Co-op shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, manager, employee, or agent of the Co-op against liability asserted against and incurred by the person in the person's capacity as a director, officer, manager, employee or agent, or arising from the person's status as a director, officer, manager, employee, or agent of the cooperative.

## Article XII: Fundamental Changes and Investments

Section 12.1 – **Merger or Consolidation:** If the terms of a merger or consolidation of which the Co-op is a party do not provide the members of the Co-op with an economic interest in the surviving entity that is substantially similar to the economic interest possessed by such members in the Co-op immediately before such merger or consolidation, the value of the consideration received shall be divided among them in the same manner as a comparable amount of net liquidation proceeds would be distributed pursuant to these bylaws. This shall not be construed to prevent issuance of differing forms of consideration to different groups of members to the extent allowed by law.

Section 12.2 – **Liquidation, Dissolution, and Winding-Up:** Subject to the Articles of Incorporation, in the event of any liquidation, dissolution or winding up of the affairs of the Co-op, whether voluntary or involuntary, all debts and liabilities of the Co-op shall be paid first according to their respective priorities. The remaining assets shall be distributed in the following manner and order of preference:

1. Outstanding membership loans;
2. To the holders of Membership Units in an amount equal to the value of the consideration for which the Membership Units were issued, without priority and on a pro rata basis if necessary;
3. To payment of the stated dollar amount of all Patrons' Equities (other than Non-Patronage Earnings Certificates), in chronological order of year beginning with the oldest outstanding Patrons' Equities first and on a pro rata basis within a year if necessary;
4. To payment of the stated dollar amount of Non-Patronage Earnings Certificates, in chronological order of year beginning with the oldest outstanding Non-Patronage Earnings Certificates first and on a pro rata basis within a year if necessary; and
5. To the patrons in accordance with their interest in Capital Reserves.

Any assets remaining after the foregoing payments have been made shall be allocated among the allocation units in the manner as the Board of Directors, having taken into consideration the origin of the amounts, shall determine to be reasonable and equitable. Amounts so allocated shall be paid to current and former owners of each such allocation unit in proportion to their patronage of the unit over the period as may be determined to be equitable and practicable by the Board of Directors. The obligation to distribute shall be construed as a preexisting duty to distribute any patronage sourced net gain realized in the winding up process to the maximum extent allowable by law.

Section 12.3 – **Investments:** The Co-op may by majority vote at a meeting of owners invest an amount not to exceed twenty-five percent of its paid-up stock and surplus funds in the stock of another corporation, or may invest any amount necessary in a cooperative association where the amount of the investment is based upon the volume of business transacted by the Co-op with such association, provided that notice of such issue is given in the notice of the meeting at which such action is to be taken.



## Article XIII: Amendments

Section 13.1 – **Amendments:** Any bylaw may be adopted, amended or repealed by a simple majority of the members present at any regular or special meeting of the members. The Board of Directors may make and amend any bylaws, which amendment is effective immediately. Provided, that any bylaw adopted or amended by said board shall be reported at the next regular member meeting; and provided, further, that any bylaw adopted or amended by said board shall be at any time subject to amendment or repeal by the members upon prior notice.

Section 13.2 – **Interpretation:** The Board of Directors shall have the power to interpret these bylaws, apply them to particular circumstances, and adopt policies in furtherance of them, provided that all such actions are reasonable and consistent with these bylaws.

Section 13.3 – **Severability:** In the event that any provision of these bylaws is determined to be invalid or unenforceable under any statute or rule of law, then such provision shall be deemed inoperative to such extent and shall be deemed modified to conform with such statute or rule of law without affecting the validity or enforceability of any other provision of these bylaws.

## Appendix: Explanation of Patronage Dividend Consent Provision

The Internal Revenue Code generally requires each person receiving a patronage dividend to include the amount of such distribution in his or her gross income in the taxable year in which it is received. Mere acceptance or retention of ownership in the Co-op constitutes consent to such inclusion in taxable income, including the portion of the patronage dividends that is retained by the Co-op for its capital needs.

The Co-op has been advised by legal counsel, however, that the general rule for inclusion in income of patronage dividends is subject to an exception that is applicable to consumer cooperatives. Under that exception, a patronage dividend is not required to be included in gross income if the owner's purchases from the Co-op related to "personal, living or family items." The patronage dividend would be taxable to a member only if his or her purchases related to the operation of a trade or business or other income-producing activities.

In effect, the consent provision is of no significance to members of the Co-op, except as to organizational owners and except where the purchases of owners who are natural persons are for business or income-producing purposes.