

Keweenaw Cooperative, Inc.

Cooperative Plan for Patronage Refunds & Member Capital Accumulation, Redemption, and Forfeiture

As authorized by the Bylaws and prescribed by the Board

Adopted 2022 09 14

Amended: 2023 08 09

PLEASE RETAIN FOR YOUR RECORDS

This policy, authorized by the **Bylaws Article 7 — Cooperative Plan**, provides uniform treatment and additional governance for patronage refunds and the accumulation, redemption, and forfeiture of Member Capital.

Should any items specified below be determined to violate the most current version of the Bylaws, especially Article 7 — Cooperative Plan, the Bylaws shall prevail and said items shall be null and void.

Section 1: Overview

The Members of a Cooperative are the legal owners of the corporation, and like all such owners they have a stake in the financial performance of the corporation as well as a responsibility for providing the financial capital needed to operate the business.

The Board is responsible for fair and equitable allocation of any net proceeds to the Members, and does so by declaring Patronage Refunds to Members in profitable years, based on their participation levels. While the Board cannot control whether or not there will be profits to declare a Patronage Refund, it is responsible for deciding the exact terms of a Refund based on the Co-op's current and projected need for working capital (and in accordance with this policy).

Members, as the Owners, also provide equity capital to the Co-op as a condition of Membership. Such capital provided by Members is held in the name of each individual contributor, and this policy also governs how the Cooperative will collect, hold, and eventually return that "Member Capital" to those who own it.

In regard to that Member Capital, the Board is responsible for *accumulating* sufficient Member Capital to finance the business, *redeeming* it back to Members when the Co-op has a financial surplus, and *forfeiting* it to the corporation when necessary. In general, these three activities can be further understood as follows:

Accumulation: Member Capital can be accumulated from individual Members in three distinct categories:

1. Cash directly paid in by all Members.
2. Retained cash that is otherwise due back to individual Members as Patronage Refunds based on their shopping levels.

3. Special cash amounts collected during transactions with Members. Within each category, there may be multiple subcategories of Capital being tracked for each Member, which are further explained in Section 2.

Redemption: Accumulated Member Capital is not intended to be held indefinitely. This policy also defines fair, equitable, and fiscally prudent structures for the redemption of Member Capital back to the people who own it. Redemption may come after termination of Membership and/or on a “revolving” basis for specific classes of capital held by current as well as former Members (e.g. the redemption of an entire year of retained patronage refunds that was allocated to all active Members in that year).

Forfeiture: At such time that the Board authorizes the redemption of Member Capital, any such Capital held by former or current Members who fail to respond to their redemption notice can be subject to forfeiture after a waiting period of five years. Members may also voluntarily forfeit their Capital to the Cooperative. Forfeited Capital is taxable income to the Co-op in the same manner as a donation.

Section 2: Categories of Member Capital

Member Capital shall be allocated to individual Members in the following ways according to its category of *accumulation*:

1. By cash directly paid in by Members:
 - Initial Owner Investment: Capital that has been directly collected from prospective Members as a requirement to initiate and continue Membership.
 - Special Assessments: Capital that is paid in by all Members according to a uniform resolution of the Board of Directors.
2. By retaining cash due back to Members as Patronage Refunds:
 - Retained Patronage Refunds: Any portion of qualified or non-qualified patronage dividends not distributed as cash to Members but instead retained in their name.
3. By special cash amounts collected during transactions with Members:
 - Per-Unit Retains: Transaction-based contributions of Member Capital that are collected from individual Members on the basis of each Member’s activity level and/or type of business activity, such as unit volumes of particular products or similar delineations established by Board resolution.

Section 3: Patronage Refunds

In addition to the requirements listed in the [Bylaws](#) for Patronage Refunds, the following shall apply:

1. To qualify for a Patronage Refund, Owners must be current Members in Good Standing *at the time Patronage Refunds are declared by the Board.*
2. Non-Members who request a Patronage Refund based on their applicable purchases (in accordance with Michigan law) must:
 - a. Make their request by January 15 for Refunds based on the prior fiscal year
 - b. Apply for and be accepted to Membership by February 15
3. The Board shall declare the amount of net proceeds to be deemed patronage income, any Patronage Refund de minimis amount, and all related Patronage Refund matters by means of their Annual Resolution for Patronage Income and Refunds.
4. The Board shall declare the manner of computation of Patronage Refunds (taxable income vs. book income) by means of a Standing Resolution.
5. The Board shall declare any specific categories of Non-Patronage Transactions by means of a Standing Resolution.
6. The Board shall declare any intended operating reserves from Patronage Transactions net income by means of an Annual Resolution adopted before the first day of the applicable fiscal year.
7. The Board shall declare any separate allocation units or pools for specified goods, services, departments, or functions by means of a Standing Resolution.
8. The Board shall declare any disposition of capital assets as either Patronage Transactions or Nonpatronage Transactions by means of their Annual Resolution for Patronage Income and Refunds.
9. The Board shall assign to Members any net proceeds attributable to Nonpatronage Transactions by means of their Annual Resolution for Patronage Income and Refunds.

Section 4: Accumulation of Member Capital

The Co-op will accumulate Member Capital in any or all of the ways described above, as determined by this policy and any applicable Board resolutions.

All forms of Member Capital will be allocated to Members by means of the unique Owner Number assigned to their Membership, so as to provide proper accounting and redemption in accordance with this policy. Member Capital that is retained after termination of membership shall continue to be tracked according to the Owner Number originally assigned to it, until such time as it is fully redeemed or forfeited according to this policy.

Furthermore, for each subcategory of Member Capital the following shall apply respectively:

1. Initial Owner Investments will be an amount declared by a Standing Board Resolution for each specific Membership Class, and will be collected and allocated to such Members as their "Initial Owner Investment." No interest, dividends, or other return will be paid on this capital.

2. Special Assessments must be declared by Standing Board Resolution and allocated in either of two possible ways:
 - a. Special Assessments may be declared and collected to uniformly increase the amount required for each Member's Initial Owner Investment. When instituted for such a reason, the assessment amount will be consolidated with each current member's Initial Owner Investment. No interest, dividends, or other return will be paid on this capital.
 - b. Special Assessments may be declared and collected to raise capital for specific other purposes, as specified by Board resolution. Such amounts will be allocated to membership as "Special Assessments" and may be further tracked in subcategories for redemption on a revolving basis. No interest, dividends, or other return will be paid on this capital.
3. Retained Patronage Refunds shall be declared and collected in accordance with Section III of this Policy. Such amounts will be allocated to Members as their "Retained Patronage Refunds" and also identified by year for future redemption on a revolving basis. No interest, dividends, or other return will be paid on this capital.
4. Per Unit Retains may be declared and collected by a Standing Resolution of the Board, shall be allocated to Members as such, and may be further tracked in subcategories for redemption on a revolving basis. No interest, dividends, or other return will be paid on this capital.

Section 5: Reallocation of Member Capital

The Board may, in its sole discretion, allow Members to request reallocations of their Retained Patronage Refunds and/or Per Unit Retains toward any Special Assessments that increase the Initial Owner Investment for all Members.

Section 6: Redemption of Member Capital

The Board of Directors will authorize redemption of Member Capital only as financial conditions permit. The plan of funding the redemption of Member Capital is as follows:

1. Authorization

All capital redemptions are subject to authorization by the Board of Directors in accordance with the Articles of Incorporation, Bylaws, this policy, and any applicable Board resolutions.
2. Funding

Member Capital redemptions are limited to the balance of funds that the Board has expressly allocated and authorized for this purpose as a **Capital**

Redemption Fund. No redemption of Member Capital will occur except from the Capital Redemption Fund. In its sole judgment the Board may, but is not obligated to, allocate funds to the Capital Redemption Fund as the Co-op's financial condition permits. The Board will only add funds to the Capital Redemption Fund that are in excess of amounts that should, in the Board's judgment, be retained to meet the Co-op's current and anticipated requirements for working capital, debt service, operations, capital expenditures, and capital reserves.

3. Payment

Member Capital redemptions for Terminated Memberships will be paid in cash. Redemptions under revolving plans may be paid either in cash or in-store credit.

4. Redemption Priorities & Process

The Board recognizes the Bylaws requirement that Capital for Terminated Memberships must be redeemed no later than ten years after termination, and efforts will be made to redeem such Capital in an even more timely manner, both as financial conditions permit and with fair, equitable, and uniform treatment for all Members.

The Board shall authorize Member Capital redemptions in one of two ways:

- A. By means of the **Board's Consent Agenda**, specifically and only for those forms of Capital identified by Management as one of the following types:
- i. Redemption requests for allocated Capital predating the Co-op's 2010 re-incorporation under Ohio law. Such capital may also be applied to a new Membership.
 - ii. Memberships terminated ten or more years prior — All Associated Capital still held by the Co-op.
 - iii. Voluntarily Terminated Memberships in Good Standing — Initial Owner Investments only.

Redemptions by means of the Board's Consent Agenda will only be awarded if reserves in the Capital Redemption Fund are sufficient.

- B. By means of a Special Action **Board Resolution**, for all other specific categories and subcategories of Member Capital as identified by the Board, including but not limited to the following:
- i. Revolving Plan Redemptions for all current and former Members (see further detail on Revolving Plan Redemptions below)
 - ii. Memberships Voluntarily Terminated
 - Suspended Memberships — Initial Owner Investments
 - Memberships in Good Standing — Retained Patronage Refunds and/or other forms of accumulated Capital
 - Suspended Memberships — Retained Patronage Refunds and/or other forms of accumulated Capital

- iii. Memberships Involuntarily Terminated
 - iv. Any other identified forms or classes of Member Capital
- Redemptions declared by Board Resolution will only be awarded if reserves in the Capital Redemption Fund are sufficient, in the Board's sole discretion, for anticipated redemptions authorized by said Board Resolution.

5. Redemption by Revolving Plan

For Member Capital held by current and former Members that is redeemable on a "revolving basis" (generally this would be Retained Patronage Refunds and Per-Unit Retains), the general plan will be to award such redemptions on the basis of earliest first date of accumulation (i.e., first in – first out). Revolving Plan distributions will be declared by Board Resolution and will only be awarded if reserves in the Capital Redemption Fund are sufficient, in the Board's sole discretion, for anticipated redemptions under the specified plan.

6. Redemption for Deceased Members who Hold Individual Memberships.

Termination of Individual Memberships and corresponding requests for Capital Redemption may be filed by the deceased Member's personal representative, subject to all other aspects of this policy.

7. Redemption Requests Prior to Michigan Incorporation.

Subject to and in accordance with all other aspects of this policy, including the equivalencies for transfer of Member Capital described in a separate Section of this policy, all prior requests for Member Capital Redemption under Ohio Incorporation shall be considered to have been made on that same date for the sake of the Michigan Incorporation, and shall be honored accordingly under this policy.

Section 7: Transfer of Member Capital from Ohio Incorporation to Michigan Incorporation

The value of Members' Common Stock Shares under Ohio incorporation has been allocated and categorized as their Initial Owner Investment under Michigan Incorporation. Retained Patronage Refunds under Ohio Incorporation has likewise been converted to Retained Patronage Refunds under Michigan Incorporation. No other categories of Capital were in existence under Ohio Incorporation other than capital allocated to non-Members predating Ohio Incorporation, which remains available for such non-Member holders to apply to a new Membership.

Section 8: Notice and Transfer of Member Capital

Each holder of Member Capital in the Co-op is responsible for keeping the Co-op informed of the holder's current address, legal status, and availability to receive proceeds of Member Capital redemption. A corporate holder of Member Capital (including an LLC or other formally organized entity that is not a natural person) that

dissolves or otherwise winds up its affairs must inform the Co-op of the dissolution and who received the Member Capital in liquidation. Holders of Member Capital may not transfer their interests without formal consent of the Board.

Section 9: Forfeiture of Member Capital

Forfeiture of Member Capital may take effect in either of two ways, both of which may be authorized by the Board via their Consent Agenda as follows:

1. Voluntary Forfeiture. As presented by Co-op Management on the Consent Agenda, any current or former Members who wish to voluntarily forfeit their Member Capital may do so in writing on a form prepared by Management.
2. Involuntary Forfeiture. At such times as the Board passes a special Resolution for redemption of Member Capital, Management shall send notice to all affected holders detailing the intention to redeem said capital, the amount thereof, the need to verify their mailing address, and the option of voluntary forfeiture. Holders of redeemable Capital who fail to respond to said notice within five years shall be deemed to have forfeited all specified Capital to the Co-op.