

What Is an Employee-Owned Cooperative?

Co-op Basics for Employee Members

Prepared by the staff of
The Ohio Employee Ownership Center

An employee cooperative is a membership organization set up to market the labor and skills of its members through owning a business. It is owned by the members. Each member has one voting share. Its profits are allocated among the members on the basis of how much labor they put into the co-op. In co-ops, financial ownership is separated from share ownership, and each member has an internal account which holds his/her financial interest in the co-op.

Employee cooperatives are part of a broad family of cooperative businesses, which include agricultural coops like Land of Lakes or Welch's, which are owned by their farmer members; credit cooperatives like credit unions, which are owned by their depositor members; mutual insurance companies like Nationwide and State Farm, which are owned by their policy holder members; and consumer co-ops like some natural food stores, which are owned by their customer members.

Becoming a member

Employees will work for a period before becoming eligible to become voting members and owners. Members pay a membership fee, which may be smaller or larger depending on the capitalization needs of the cooperative. In return for the payment of the membership fee, the member receives a voting share. Future employees will also have the opportunity to become members and owners after a probationary period. Members receive the Articles of Incorporation and the Bylaws of the cooperative.

Governance

The basic procedures for the co-op are laid down in the company's articles of incorporation and bylaws. Members elect the board of directors on a one-person, one-vote basis, and the board hires the management. There's an annual membership meeting for all co-op members, and regular and special meetings may be called.

Your financial interest in the co-op

Initially, the value of your financial interest in the co-op is the value of your membership share. The value of your ownership interest will build over time, however, if the co-op makes a profit. Co-ops typically divide their profits ("net margins") among two accounts -- (1) an "unallocated reserve account" which absorbs losses if the business loses money and (2) members' accounts -- and a cash allocation to members. The board decides how each year's retained earnings are divided between the collective account and the members' accounts and members' cash allocations.

How retained earnings are allocated depends typically on the age of your co-op (new co-ops need to build their capital and pay more into their collective reserve accounts while making the minimum legal cash distribution to members), your co-op's capital needs (including paying down debt taken on to redeem shares from retiring owners selling to you), and how profitable your co-op is.

If the co-op's losses exceed the amount in the collective reserve account, the additional loss is deducted from the members' accounts.

Once the collective account reaches an adequate level to absorb eventual losses, most or all of the additional annual retained earnings are allocated to members' accounts or distributed in cash to members. Allocations among the members' accounts and cash allocation follows a labor-based formula laid down in the co-op's bylaws. The formula is based on labor input ("patronage") into the cooperative.

You can use W-2 earnings (wages, salaries, bonuses), hours worked, seniority up to a cap, or other measures of labor input. The formula is as follows: divide each member’s labor input (however measured) by the total input of all members and multiply that fraction by the total dollars being allocated among all the members’ accounts. Here’s how it works:

$$\frac{\text{Your labor input}}{\text{Total members' input}} \times \text{Total \$ to be allocated among all members} = \text{Your allocation for that year}$$

The co-op can make its allocation in what is called a “capital allocation” into your account.

Taxation

In tax terms, co-op allocations to the “unallocated reserve account” are taxed at the normal corporate income tax rate, and the taxes are paid by the cooperative. Co-op allocations to members, however, are not taxable at the corporate level (so there’s no “double taxation”) but are taxable to the members as personal income. Consequently, you need a cash distribution to pay your additional taxes.

Therefore, in new cooperatives which typically need to retain capital in the business, 60-80% of the members’ allocations are retained in the members’ accounts and 20-40% is allocated in cash to members to pay their taxes. Twenty percent is the legal minimum cash distribution because you need at least that much to pay your income tax on your capital allocation in your account in your co-op.

On the other hand, when you take your account out of the co-op, you don’t pay income tax because you paid the tax when your money went into your account originally.

Getting the value of your ownership in cash

While you can’t tap your capital account in your co-op to buy a car when you want to as you would your credit union or bank account, it is your personal property and you will eventually get the cash value in the future.

While you pay down the debt the co-op took on to buy the business from the owners by redeeming their stock, the co-op will be putting all its profits into paying down the loan. When the debt is paid off, the board of directors will determine what portion of the profits need to be kept in the business and what part can be paid out in cash to members. You shouldn’t expect to get much cash out of the co-op in these early years.

Your financial interest in the co-op includes your membership fee and annual allocations. If the co-op makes money, your account will grow every year, and the longer you work in the co-op, the bigger it will be.

Initially, members’ accounts stay in the co-op, capitalizing the co-op by buying tools, paying off borrowed money, building working capital to buy supplies, pay wages, etc. Once the co-op has adequate capital between the unallocated reserve account and the members’ accounts, it may begin to pay out a larger portion of its “net margins” or profits (assuming there are profits) to members in cash dividends each year.

Additionally, after the co-op has paid off its debt to redeem the selling owner’s shares and has adequate cash for business needs, the board can choose to “revolve” members’ accounts. That means that the board can decide to pay out to members money that was -- for example -- allocated to their accounts ten years ago. That rewards folks for their seniority in the co-op.

Here’s how it works when your co-op is fully capitalized and the board decides to “revolve” the members’ accounts:

Cindy was an original member of the co-op when it bought the company from the retiring owner ten years ago. In the following years, she got the following allocations to her capital account in the co-op (after deducting the cash she received to pay her income taxes):

Year 1 of the co-op	\$3,000
Year 2 of the co-op	\$3,500
Year 3 of the co-op	\$4,000
Year 4 of the co-op	\$1,500
Year 5 of the co-op	\$1,500
Year 6 of the co-op	\$ 0 (no profit)
Year 7 of the co-op	\$1,500
Year 8 of the co-op	\$3,500
Year 9 of the co-op	\$5,500
Year 10 of the co-op	\$4,000
Year 11 of the co-op	\$2,000

Bill joined the co-op at the beginning of year 5. In the following years, he got the following net allocations to his capital account in the co-op:

Year 5 of the co-op	\$1,500
Year 6 of the co-op	\$ 0 (no profit)
Year 7 of the co-op	\$1,500
Year 8 of the co-op	\$3,500
Year 9 of the co-op	\$5,500
Year 10 of the co-op	\$4,000
Year 11 of the co-op	\$2,000

In year 11, the co-op board determines that the co-op has been fully capitalized and can afford to revolve members' accounts on a 10-year basis. Members who have been in the co-op for all 11 years get their first year's capital allocation paid to them in cash.

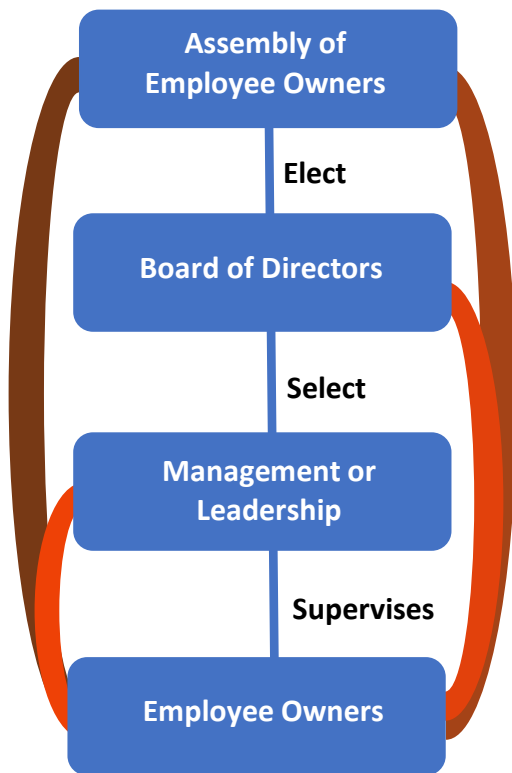
So, in year 11 Cindy gets \$3,000 in cash, representing her capital allocation in year 1. It's tax free because she paid her income tax on it when she got it 10 years ago. Bill doesn't get his account "revolved" because he didn't get a capital allocation 10 years ago since he wasn't a co-op member then. If the co-op makes money and is able to continue revolving accounts, Cindy will get her year 2 capital allocation of \$3,500 in year 12, her year 3 capital allocation of \$4,000 in year 13, etc. Bill will start getting his account "revolved" when he has been in the co-op for 10 years, i.e. in year 15. That's because he didn't become a member until year 5.

Co-ops that start revolving accounts may not do so every year, because they may have capital needs to replace old equipment or to expand the business. They may stop revolving accounts because they cease to be profitable. Or they may stop revolving accounts because they have heavy payouts at the retirement of founding members. These decisions are made by the board of directors.

There will be a mechanism through which members who leave the co-op will receive the value of their accounts. If you die, then your account passes into your estate, and the co-op will cash it out to your heirs. Your co-op's board will set the policies for these payouts.

Cooperative Governance: Articles and By-Laws In Brief

Prepared by the staff of
The Ohio Employee Ownership Center



At its core, Cooperative Governance is what makes a cooperative a cooperative. Governance is simply the rules, regulations, standards and other important stuff that define a cooperative as a different type of structure than other types of businesses.

Employee-Owned Cooperatives are democratically-controlled businesses owned and operated by their members – specifically the employee-members of the business. In employee cooperatives, each member-employee has one vote; this vote is exercised in a number of different situations, one major one being the decision-making hierarchy (or lack thereof) within the cooperative. The diagram to the left describes the base level governance structure of a worker cooperative. Many employee-owned cooperatives adjust this basic structure to fit their specific needs and circumstances. The good news is that cooperative statutes generally for a great deal of flexibility. Many cooperatives choose to expand democratic decision-making beyond just selecting the Board; some completely flatten out the hierarchy and make day to day decisions in a collaborative fashion.

Let's start our exploration by taking a look at two of the building blocks of a cooperative's democratic governance, the Articles of Incorporation, and the By-laws.

The Articles of Incorporation - Much like the title suggests, a cooperative's Articles of Incorporation is the document created when the cooperative first decides to go into business. Various states may have slightly different requirements, but the basic purpose of the Articles is essentially two-fold: 1) provides basic information - corporate name, purposes, registered agent, ownership, etc. as required by the state of incorporation; and 2) provides other information on compliance and other components required by law. In most case, the Articles need to be submitted to the proper state governing authority.

A Cooperative's Owner's Manual – The By-Laws - A cooperative's by-laws are the basic rules and regulations on how the cooperative operates. It is very similar to a political constitution, in both scope and purpose. The by-laws outline the roles and responsibilities of all of the decision-making entities in the cooperative – the Board of Directors; management/leadership; and the employee owners. The difficulty is creating a set of by-laws that are specific enough to be useful, and functional, while not hamstringing the Board, management, or employees in making the day to day business decisions. There is sometimes an overlap between the Articles and the By-laws, and many cooperatives include the Articles into the by-laws as a matter of convenience. In most jurisdictions, the By-Laws do not need to be submitted to the proper state governing authority.

In many cases employee owners are more than capable of creating their own Articles and By-Laws; Both should be prepared in consultation with, or at least reviewed by, an attorney or other legal professional.

Key Decisions – Key Components of the By-Laws

1. Qualifications for membership:

- i. What should the probationary period of employment be before a new employee becomes eligible for admission as member? (When you are setting up the co-op initially, you would usually count past employment against the probationary period.)
- ii. What should the amount of membership fee be?
- iii. What are the options for paying membership fee (such as, payroll deduction vs. cash up front)?

2. “Patronage dividends”: How will each year’s profits be allocated to members?

- i. To qualify as a co-op, the formula for allocation has to be based on labor input into the co-op.
- ii. Labor input can be measured by (1) W-2 earnings, (2) hours worked, or (3) other measures of labor input, including seniority.
- iii. You need to decide what measure (or which measures) of labor input you will use in your co-op.
- iv. You can decide on one of those above or you can “mix and match” these. You can, for example, distribute 25% of “net margins” (profits before taxes) on the basis of hours worked during the year, 25% on seniority with the company up to some cap (such as five years), and 50% on W-2 earnings. There are other options.

3. Board structure

- i. To qualify as a cooperative, a majority of the members of the board have to be elected by the members of the cooperative.
- ii. How many board members will there be? How long is their term?
- iii. You will need to specify the officers
- iv. How to provide financial protections for the owners selling to the co-op while they still have more capital in the business than other co-op members (assuming they continue working in the business for several years and become members of the co-op) or to protect their financial interest until they sell the remainder of their stock to the co-op (assuming they leave the business)

4. Annual meeting(s)

- i. When, How, Procedures
- iii. How members can call additional meetings

5. How will members be paid out & when?

- i. Members who leave
- ii. Do you want a provision that permits “revolving accounts” of members who stay?
- iii. You want to give basic guidance and leave the details to the discretion of the board which needs to evaluate the financial position of the business.

6. Mission or Vision Statements

- i. Statements of principles can help the cooperative keep the original goals and objectives of the founders in mind as they make decisions.

7. Grievance procedures

- i. Because the employees are also owners, a proper procedure for handling conflict and tough decisions is a necessity.

8. Amendment procedures

- i. Defines the process for amending the By-Laws.

9. Dissolution procedures

- i. Should the worst happen, and the cooperative needs to be shut down, how is this handled?

9. Other

- i. Additional committees, and their purpose and structure.
- ii. Provision for other policies, procedures, and/or operating rules

Sample By-Laws:
Casa Nueva Mexican Restaurant and Cantina
Athens Ohio
<http://casanueva.com/about-us/co-op-governance/by-laws/>

Article I
Corporate Affairs

1. **NAME.** The name of the corporation is Worker-Owned Restaurant Corporation, dba Casa Nueva (hereinafter referred to as the “corporation”).
2. **REGISTERED OFFICE.** The address of the registered office of the corporation is 4 West State Street, Athens, Ohio, 45701.
3. **FISCAL YEAR.** The fiscal year of the corporation shall end on the last day in December of each year.
4. **EXECUTIVE OF INSTRUMENTS.** All deeds, leases, transfers, contracts, bonds, notes and other obligations authorized to be executed on behalf of the corporation shall be signed by the President or the Treasurer except as the directors may otherwise determine.
5. **CORPORATE RECORDS.** Copies of the following documents shall be kept at the principal office of the corporation: a) the Articles of Incorporation and By-laws, b) records of all meetings of incorporators, directors, and members and c) the stock and transfer records containing the names of all members and the record address and the stock held by each. These records shall be available to members for inspection at reasonable times and for the purposes consistent with good faith exercise of membership rights and responsibilities in corporate affairs.
6. **ARTICLES OF INCORPORATION.** The Articles of Incorporation are hereby made a part of these By-laws, and the purpose of the corporation shall be set forth in the Articles of Incorporation. In the event of any inconsistency between the Articles of Incorporation and these By-laws, the provisions of the Articles of Incorporation shall be controlling. All references in these By-laws, to the Articles or Articles of Incorporation shall be construed to mean the Articles of Incorporation of the corporation as amended from time to time.

Article II
Membership and Membership Shares

1. **MEMBERSHIP ORGANIZATION.** The corporation will operate on a cooperative basis, with earnings and losses allocated on the basis of patronage in accordance with Article III and with decision making by the members in accordance with Article IV and Article VII.
2. **ELIGIBILITY.** Membership shall be limited to natural persons who: 1) patronize the corporation through contributions of their labor on a full-time or part-time basis, 2) have been approved by the Board of Directors or their designees, and 3) have paid or agreed to pay a membership fee in the amount determined by the Board of Directors. The Board and its designees will adhere to the Federal Equal Employment Opportunity Employer language.
3. **MEMBERSHIP SHARES AND MEMBERSHIP FEE.** The corporation has a single class of common voting stock, hereinafter referred to as “membership shares.” Each member shall own one and only one membership share, and only members may own such shares. The cost of a membership share shall be

determined by the Board of Directors and shall be designated as the “membership fee”. Existing members shall have no preemptive rights to membership shares issued to new members. No capital stock other than membership shares shall be given voting power, except as otherwise provided by law.

4. TRANSFER RESTRICTIONS. No membership share or interest therein may be sold, assigned or otherwise transferred, voluntarily or involuntarily, by operation of law or otherwise, except for a transfer to the corporation.

5. MEMBERSHIP TERMINATION. Upon voluntary or involuntary termination of a member’s employment by the corporation, except for temporary lay-offs or absences, his or her membership shall be terminated and the membership share shall be redeemed by the corporation for consideration determined in accordance with Article III. No member may be terminated involuntarily without written notice and a right to hearing before a body designated in the Operating Rules.

6. CERTIFICATES FOR MEMBERSHIP SHARES. Each member is entitled to a certificate representing his or her membership share in such form as prescribed by the Board of Directors. The certificate shall be signed by the President and by the Treasurer when it is issued. Each membership share shall set forth conspicuously on the face or back of the certificate: a) the full text of the restrictions prescribed in section 4, or b) a statement of the existence of such restrictions and a statement that the corporation will furnish a copy of such restrictions to the holder of such certificate upon written request and without charge. In case of loss, destruction or mutilation of a membership certificate, a duplicate certificate may be issued in its place, upon such terms as the Board of Directors may prescribe.

Article III

The Internal Capital Account

1. THE INTERNAL CAPITAL ACCOUNTS. The corporation shall have a system of internal capital accounts to reflect its net worth, and to reflect the allocation of the net worth among the members. The following definitions shall apply to terms in this Article III:

- The net worth is the difference between the assets and liabilities on the corporate books (kept according to the Generally Accepted Accounting Principles).
- The internal capital accounts consist of the individual capital accounts and the collective account. The sum of the (net credit) balances in the internal capital accounts is the net worth of the corporation.
- An individual capital account is maintained for each member, and it records the part of the net worth ultimately to be returned to each member.
- The collective account is the unindividualized portion of the net worth that is not to be returned to the individual members during the lifetime of the corporation.
- The accounting net income is the book net income for the fiscal year computed in accordance with the Generally Accepted Accounting Principles (GAAP). The accounting net income, positive or negative, is divided into the collective net income and the individual net income.
- The individual net income is sixty percent of the accounting net income. It is that part which will immediately or ultimately be allocated to the individual members as interest on the individual capital accounts or as patronage allocations.
- The collective net income is forty percent of the accounting net income. It is that part which will only affect the collective account. The collective net income minus the corporate taxes equals the self-insurance allocation.

- The corporate taxes to be subtracted from the collective net income are all those taxes including the Federal corporate income tax which havenot been treated as an expense in determining the accounting net income.
- The self insurance allocation is the collective net income minus the corporate taxes, and it is allocated to the collective account.
- The labor patronage of a member is the total number of hours worked for the corporation during the fiscal year (regardless of the rate of pay). The members' patronage is the total number of hours worked by members during the fiscal year. The total patronage is the sum of the members' patronage.
- The patronage dividend is the positive amount of net income that is allocated to members in proportion to patronage as described in Section 1381 of the Internal Revenue Code of 1954 as amended (hereinafter referred to as the IRC). It can take the form of non-qualified patronage dividends (as defined in section 1388(d) of the IRC). A non-qualified or a qualified written notice of allocation is the certificate issued to each member specifying the amount of the respective non-qualified patronage dividend allocated to the member and retained in the corporation.
- The negative patronage allocation is the negative amount allocated to the individual capital account of the members in proportion to their current labor patronage. A negative patronage allocation may result from current losses or from an allocation to the individual capital accounts from the start-up losses account.
- The patronage calculations and allocations for a fiscal year are to be completed within the payment period for the fiscal year which is defined as eight and one-half months after the end of the fiscal year.
- The individual capital account statement is an accounting statement issued to each member during the payment period for a fiscal year which details all the changes in the member's individual capital account for that fiscal year.
- The capital contributions to the internal accounts include the membership fee and any additional paid-in capital in excess of the membership fee.
- The membership fee is the cost of a membership share.
- A redemption of a written notice of allocation is a distribution of the amount of the notice in cash or other property to the member ordinarily a fixed number of years after the issuance of the notice.
- The termination distribution refers to the distribution of cash and/or notes of the indebtedness to an ex-member or an ex-member estate which is triggered by termination or retirement and which is not a payment in redemption of a written notice of allocation.
- The dissolution distribution refers to a distribution, if any, of cash or other property to members and ex-members following the sale, liquidation or dissolution of the corporation.

Article III

Section 2

2. Net Income. The accounting net income of the corporation shall be allocated among the internal capital accounts in accordance with these by-laws.

2A. Interest on Individual Capital Accounts. The individual capital accounts shall accrue interest at an annual rate of 5% compounded annually. The interest which accrues on the individual capital accounts

for a fiscal year is subtracted from the individual net income to yield net income allocated according to patronage.

2B. Patronage Allocations-General. In accordance with the law, patronage dividends shall not be declared on non-member patronage, nor shall they exceed the accounting net income.

2B1. Positive Patronage Allocations. If the individual net income, minus the interest accrued during the fiscal year on the individual capital accounts is positive, then the corporation shall declare that patronage net income as a patronage dividend in accordance with section 1381 of the IRC. The patronage dividend is the allocated amount to the members in proportion to their patronage. Each member receives a fraction of the total patronage equal to the ratio of his or her member patronage to the total members' patronage for the fiscal year.

2B1a. Written Notices of Allocations. In any proportions determined by the Board of Directors, the patronage dividend may be paid in cash, in non-qualified written notices of allocation, and/or in qualified written notices of allocation. During the payment period for the fiscal year, the corporation shall deliver to each member the cash patronage dividend and/or the written notices of allocation showing the amount of any patronage dividend for that fiscal year retained in the corporation and credited to his or her individual capital account. Unless approved by the BOD, the written notices of allocation shall be non-transferable. In the absence of such BOD approval, any transfer of allocation notices, whether voluntary or involuntary, shall be of no effect against the corporation and shall not entitle the transferee to receive payment from the corporation.

2B1b. Written Notices and Individual Accounts. The amount of patronage dividends paid to a member in non-qualified or qualified written notices of allocation shall be credited to the member's individual capital account. When allocation notices are redeemed or canceled, the member's individual capital account shall be accordingly debited. The net income treated as retained patronage dividends credited to the members' accounts may be used for any and all corporate purposes.

2B1c. Qualified Written Notices of Allocation. By becoming a member of the corporation, each member shall be deemed to have consented to include his or her taxable income any qualified written notices of allocation (within the meaning of section 1388 of the IRC), received by him or her at its stated dollar amount, in the manner provided by section 1385 of the IRC, and to pay the tax thereon. In accordance with section 1388c of the IRC at least twenty percent of each member's patronage dividend to be paid in cash and qualified written notices of allocation must be paid in cash.

2B2. Negative Patronage Allocations-General. The individual capital account of each member shall be debited with the fraction of the total negative patronage allocation equal to the ratio of his or her members' patronage for the fiscal year. If a negative patronage allocation is applied against a portion of an individual capital account represented by a written notice of allocation, the amount of the written notice is accordingly reduced to zero.

2B3. Individual Capital Account Statements. During the payment period for a fiscal year and after all internal individual capital account changes which relate to that fiscal year, each member shall be issued an individual capital account statement. This statement shall include the previous balance in the member's account, the accrued interest, the positive and/or negative patronage allocations to the account, the redemptions or distributions from the account and the resulting current balance in the member's account. If all or part of any written notices of allocation were canceled by any negative patronage allocations to the account, then the account statement shall specify the notices and amounts canceled.

2C. Collective Net Income-General. Forty percent of the accounting net income (positive or negative) is the collective net income. The collective net income minus the applicable corporate income taxes yields the self-insurance allocation to the collective account.

2C1. Federal Income Tax. As described in Subchapter T of the IRC, this corporation, as a corporation operating on a cooperative basis, shall deduct from taxable income: (a) any amount paid during the payment period for the taxable year (eight and one-half months after the end of the fiscal year) as patronage dividends paid in cash, qualified written notices of allocation, or other property (except non-qualified written notices of allocation), and (b) any amounts paid in redemption of non-qualified written notices of allocation. Otherwise, the Federal corporate income tax shall be computed as in a corporation not operating on a cooperative basis.

2C2. The Self-Insurance Allocation. Positive self-insurance allocations shall be credited to the collective account. The net income credited to the collective account may be used for any and all corporate purposes. Negative self-insurance allocations shall be debited from the collective account.

Article III

Section 3

Capital Contributions and Distributions

3A. Member Fee. Each member shall pay the corporation in cash or other property an initial membership fee, with the amount determined from time to time by Membership. The membership fee shall be credited to the member's individual capital account. Any additional capital paid in by a member in excess of the membership fee shall be credited to the member's individual capital account.

3B. Redemption of Written Notices of Allocation. All written notices of allocation credited to a member's capital account shall be redeemed in cash within four years of their date of issuance unless the BOD determines that a postponement or acceleration of the redemption is appropriate. The internal capital account credits, evidenced by written notices of allocation, shall be paid off in order of their dates of issuance, the oldest allocation notices first, except that the Board may give first priority to the estates of deceased ex-members. In determining the oldest notices, all allocation notices of the same fiscal year shall have the same priority. If any payment is not sufficient to cover all redeemable notices, a proportionate part of the dollar amount of all the redeemable notices shall be paid. When a member's allocation notice is paid off, the member's internal capital account shall be accordingly debited.

3C. Termination Distributions. Upon voluntary or involuntary termination of a member's work in the corporation (excluding temporary layoffs), his or her membership share shall automatically be deemed to have been transferred to the corporation in return for the consideration specified in this paragraph, and the membership share shall be returned to the corporation. The account balance in the terminating person's internal capital account shall be fixed after the adjustments at the end of that fiscal year and the account shall be closed to any further patronage allocations. The written notices of allocation represented in the account, plus any otherwise unpaid interest, shall be redeemed in accordance with Section

3B. After the year-end adjustments, if the portion of the account not represented by written notices of allocation has a positive balance, then that balance shall share in some combination of cash and promissory notes the BOD shall deem appropriate. The promissory notes issued, if any, shall be payable in full within four years of being issued and shall have other such terms as the BOD shall deem appropriate. After the year-end adjustments, if there is no balance in the person's individual capital account, which is

not represented by written notices, then the membership share shall be returned to the corporation for no consideration.

3D. Dissolution Distributions. On the sale of all the assets, liquidation or dissolution of the corporation, any residual assets left after the payment of all debts and individual capital accounts shall be distributed in proportion to patronage to all previous and current members, or their heirs; except that no distribution need be made to any person who fails to acknowledge, in a timely manner, receipt of notice of liquidation. It shall be deemed sufficient notice to a current or former member to send notice of liquidation by certified mail, at least 30 days before distribution of any residual assets, to the person's last known business or residence address. Any amounts unclaimed after sufficient notice shall be distributed in proportion to patronage to all previous and current members who acknowledge receipt of notice of liquidation.

Article IV Membership Meetings

1. Annual Meeting. The annual meeting of the members shall be held on the last Monday of May. The location of the annual meeting shall be fixed by the BOD or by the President. The annual meeting shall be held for the purpose of electing the BOD, and for any other lawful purpose that are: (1) prescribed by law, by the Articles of Incorporation, or by these By-Laws, or (2) specified by the President or the directors or at least 25% of the members. If the annual meeting is omitted on the day specified herein, a special meeting may be held in its place and any business transacted shall have the same effect as if transacted at the annual meeting.

2. Regular Meetings. Regular meetings of the members shall be held at such places and at such times as the President or a majority of the members may from time to time determine, provided that each member shall be given notice of the determination.

3. Special Meetings. The BOD or the President may call special meetings of the members at any time. Upon written application of 25% of the members, an officer shall call a special meeting. Special meetings may be called for any lawful purpose.

4. Notice of Meetings. A written notice of each annual, regular, or special membership meeting stating the time, place and purpose shall be given by the secretary or by the officer calling the meeting, at least four days before the meeting, to each member either: (1) in person, (2) by leaving a notice at the member's residence or usual workplace, or (3) by mailing it to the member's address as shown on the records of the corporation. Notice need not be given to a member if a written waiver of notices, executed before or after the meeting by such member, is filed with the records of the meeting. Each member shall notify the corporation of his or her current mailing address.

5. Quorum. A majority of the members at the time of the meeting shall be required to constitute a quorum at any membership meeting.

6. Voting. Each member of the record at the time of the meeting is entitled to one and only one vote on any matter requiring membership voting. Decision-making will be accomplished according to guidelines in Article VII.

7. Action at a Meeting. The President, Chairperson or other designee, as determined by the BOD, shall preside at membership meetings. When a quorum is present at a membership meeting, 51% of the members present and entitled to vote shall decide any matter to be voted upon by the members, unless a larger vote is required by law or the Articles or these By-laws. A secret ballot is required if requested by

25% of membership present at the meeting. The corporation shall not, directly or indirectly vote any share of its stock.

8. Action without Meeting. Any action to be taken by the members may be taken without a meeting if all members entitled to vote on the matter consent to the action in writing. Such written consent shall be filed with the records of the meetings of members, and shall be treated for all purposes as a vote at a meeting.

Article V

The Board of Directors

1. Powers. The Board may exercise all the powers of the corporation, including the power to issue stock, except as otherwise provided by law, by the Articles or by these By-laws. In the event of a vacancy on the Board, the remaining Board members may exercise the powers of the full Board until the vacancy is filled except as otherwise provided by law.

2. Election and Size. The number of Board members shall be seven. Board members shall be members/shareholders of the corporation. Membership shall elect Board members at the annual meeting on the last Monday of every May, or at a special member meeting held in its place. Board members shall serve one-year terms, and may be re-elected. Three Coordinators may be elected to the voting BOD as non-executive officers, unless the number of non-Coordinator Members dictates the need to put Coordinators into executive positions. The Coordinator team will serve as non-voting members of the Board.

3. Orientation Requirements. Newly elected Board of Directors members will commence their voting rights within a minimum time frame of two weeks and within a maximum time frame of one month following their election in May. The out-going Board of Director members will retain their voting responsibilities within the interim of either a minimum time frame of two weeks and a maximum time frame of one month. A competency standard consisting of an orientation training of 15 hours as described within the Governance Policies of the Casa Nueva Handbook will be fulfilled within the first quarter of a newly elected Board of Directors term. An indeterminate amount of intensive orientation training as described within the Governance Policies of the handbook for all new Board of Directors will be fulfilled within a minimum time frame of two weeks and a maximum time frame of one month.

4. Vacancies. Any vacancy in the Board, occurring between the annual membership meetings, may be filled at a special meeting of the members or at a regular membership meeting. Members elected to a vacated Board seat will serve only the remainder of the one-year term they are filling, and then be eligible for re-election at the annual meeting.

5. Enlargement of the Board. The number constituting the Board may be increased and one or more additional Board members elected at the annual meeting or any special or regular meeting of the members.

6. Tenure. Except as otherwise provided by law, by the Articles or by these By-laws, Board members shall hold office until their successors are elected. Any Board member may resign by delivering his or her written resignation to any officer or to a meeting of the Board, effective upon receipt, or at some later time specified. No Board member resigning or removed shall have any right to compensation as such Board member for any period following his or her resignation or removal or any right to damages on account of such removal, unless provided by a written agreement or by a resolution of the remaining Board members.

7. Removal. A Board member may at any time be removed from office (1) with or without cause by a vote of the majority of the members or (2) for cause by a majority of the Board members then in office. A Board member may be removed for cause only after reasonable notice and opportunity to be heard before the body proposing to remove the Board member.

8. Meetings. Regular meetings of the Board may be held at such places and times as the Board may from time to time determine. Special meetings of the Board may be called at anytime by the President or by the Secretary at the request of three or more of the directors.

9. Notice of Meetings. Notice of the time, place and purposes of any meeting of the Board shall be given to each Board member by an officer or by one of the Board members calling the meeting. Notice shall be given to each Board member in person or by telephone or by currently accepted technological means of communication sent not less than twenty-four hours before the meeting or by written notice mailed to the Board Member's last known address at least 72 hours before the meeting. Alternatively, a written notice may be posted in the Board Members place of employment at least 96 hours in advance. Notice need not be given to any Board member if a written waiver of notice, executed by the Board member before or after the meeting, is filed with the records of the meeting or to any Board member who attends the meeting without protesting lack of notice.

10. Quorum. At any meeting of the Board, four Board members then in office shall constitute a Quorum.

11. Action (Decisions) at a Meeting. Decisions made (motions sustained) by the Board will need the consenting approval of a four-person majority.

12. Action by Consent. Any action by the Board members may be taken without a meeting if all Board members then in office consent to the action in writing and the written consents are filed with the records of the Board members' meetings. Such consent shall be treated as a vote of the Board members for all purposes.

13. Committees. The Board members may elect committees and may delegate thereto some or all of their powers except those, which they are prohibited from delegating by the law, the Articles or by these By-laws. Except as the Board members may otherwise determine, any such committee may make rules for the conduct of its business.

Article VI

Officers

1. Elected officers. A President, Vice President, Treasurer and a Secretary shall be elected annually by the BOD at its first meeting following the annual membership meeting or following a special meeting held in its place thereof. The BOD at its discretion may elect other officers.

2. Qualifications. Each officer shall be a member, and all officers shall be directors. The same person may hold no more than two offices. The President may hold no more than one office.

3. Tenure. Except as otherwise provided by law, by the Articles, or by these By-laws, the term of office of the officers shall be determined by the BOD. Any officer may resign by delivering to any director his or her written resignation, effective upon receipt or at some later time specified. No officer resigning or removed shall have the right to any compensation as such officer for any period following his or her resignation or removal, unless provided by a written agreement or by a resolution of the directors. In the event that the president resigns, the Vice-President will fill the President's position until a new President is elected by the Board of Directors.

4. Removal. The Board of Directors may remove any officer with or without just cause. If an officer is removed for cause, he or she is entitled to reasonable notice and opportunity to be heard by the BOD.

5. Vacancies. If any executive office becomes vacant for any reason, the BOD shall within a reasonable time elect a successor or successors, who shall hold office for the unexpired term, except as otherwise provided by law, the Articles or by these By-laws.

6. The President. The President shall be the chief executive officer of the corporation and shall, subject to the discretion of the Board have general supervision of the business of the corporation. The President of the Board or in his or her absence, the Vice President, the Secretary or the Treasurer shall preside at all meetings of the Board. The President has the power to enter into contracts in the name of the corporation upon approval by the Board or the Membership, according to the decision-making parameters (Article VII). The President shall have such other duties and powers, as the Board shall determine from time to time.

7. Treasurer. Subject to the supervision of the directors, the Treasurer shall have: (1) general charge of the finances and custody of the funds of the corporation, (2) power to endorse for deposit or collection all notes, checks, drafts and other obligations of payments to the corporation and to accept drafts on behalf of the corporation and (3) shall cause to be kept accurate books on account, which shall be the property of the corporation. If required by the BOD, the Treasurer shall give bond for faithful performance of duty.

8. Secretary. The Secretary shall be a resident of the state of Ohio. The Secretary shall keep at his or her office or at the principal office of the corporation those documents described in Section 5 of Article I and such other documents as the BOD shall determine, and shall have such other duties and powers as determined by the Board. In the absence of the Secretary at a meeting, a temporary Secretary designated by the person presiding at such meeting shall perform the duties of the Secretary.'

9. Vice President. The vice president shall work with the president to ensure that agendas for Board and member meetings are posted. The exception to this will be special meetings (Article V, #8). The vice president shall be well versed in the president's role, and shall assume the duties of the president if he/she is unable to fulfill them. The vice president shall have such other duties and responsibilities, as the Board shall determine from time to time.

Article VII

Parameters and Method for Decision Making

1. Decisions will be made according to the principles set forth in the operating rules of the WORC.

2. Coordinator and Coordinator team decision making will have the responsibility of decisions carrying out the WORC operating rules, current operating goals and financial guidelines as outlined in the current fiscal year business plan. Individual Coordinators have the responsibility for decisions concerning a maximum total of \$5,000 in assets or revenue; \$10,000 with the consent of the financial team, including the financial cash flow manager and the BOD Treasurer.

3. The BOD will have the responsibility for decisions concerning \$10,000 to a maximum of \$20,000 in assets or revenue.

4. Membership will have the responsibility for all decisions beyond \$20,000 in assets or revenue. All decisions made by individual coordinators, coordinator teams, or the Board of Directors, regardless of decision-making authority as outlined by these by-laws or operating rules, can be brought before membership for reversal or modification following the decision-making process of the WORC.

Article VIII
Indemnification and Insurance

1. Indemnification. The corporation shall indemnify each of its directors and officers against all liabilities and expenses including amounts paid in satisfaction of judgments in compromise, or as fines and penalties, and counsel fees of reasonably incurred or paid by him or her in connection with the defense or disposition of any action, suit or other proceeding (whether civil or criminal) in which he or she may be involved, while in office or thereafter, by reason of his or her having been such a director or officer; except with respect to any matter as to which he or she shall have been adjudicated in any proceeding not to have acted in good faith in the reasonable belief that his or her action was in the best interest of the corporation, or with respect to any matter as to which he or she shall agree to be ordered by any court of competent jurisdiction to make payment to the corporation. The right of indemnification herein provided for shall be in addition to any other right which any such person may have or obtain, shall continue as to any such person who has ceased to be a director or officer and shall insure to the benefit of the heirs of any such person.

2. Insurance. The corporation may purchase insurance to cover any liability or expense reasonably incurred by members, officers or directors by reason of their having been members, officers or directors.

Article IX
Amendments

1. By Members. The members shall have the power to make, amend or repeal these By-laws by following the decision making process of the W.O.R.C., provided that the notice for such a meeting indicated a change in the By-laws was to be considered.

Article X
Operating Rules

1. Operating Rules. Membership may establish operating rules, separate from these By-laws. These Operating Rules may be added to, amended or repealed at any meeting of the members or the Board, by a decision of the quorum. The Operating Rules shall be binding on all members and directors, unless inconsistent with the law, the Articles of Incorporation or these By-laws. The Secretary shall maintain a current copy of the Operating Rules, and a copy shall be available to any member requesting a copy.