BY-Laws
of
HENDERSONVILLE FOOD COOPERATIVE

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Article I

ORGANIZATION

Section 1.1—Name. The name of the corporation is Hendersonville Food Cooperative, d.b.a. Hendersonville Community Co-op (referred to in these by-laws as “the Co-op”).

Section 1.2—Purposes. As more fully stated in its Articles of Incorporation, the purposes of the Co-op are: to bring together owners and other interested persons in a spirit of cooperation; to furnish to owners such goods and services as they may require at the lowest net cost to them; to operate a retail food store and to conduct other lawful activities; to promote and further the social and material well-being of its owners and other interested persons; to promote, research, and monitor the use of bioecological agricultural techniques in the production of nutritionally sound foods; to promote other cooperative ventures; and to inform and educate its owners and other interested persons about cooperatives. The Co-op shall be operated exclusively on a cooperative and nonprofit basis.

Section 1.3—Nondiscrimination. The Co-op shall not discriminate on the basis of race, nationality, religion, age, gender, sexual preference or other arbitrary basis.

Section 1.4—Business Office. The business office of the Co-op shall be located in the City of Hendersonville, County of Henderson, State of North Carolina.

Article II

OWNERSHIP

Section 2.1—Eligibility and admission. Ownership in the Co-op shall be voluntary and open to any household whose purpose in seeking ownership is to acquire consumer goods and services on a cooperative basis and who is willing to provide a fair share of the capital needs of the Co-op and to assume other obligations of ownership as described below.
Applicants will be admitted to ownership upon submitting required information and one payment toward the purchase price of one common share as determined by the Board of Directors. In case of doubtful eligibility, admission to ownership shall be subject to approval by the Board. All staff persons shall acquire and maintain ownership in good standing as a condition of employment.

Section 2.2—Rights. Each owner shall be entitled to make purchases from the Co-op on terms generally available to owners and to participate in the governance of the Co-op as set forth in these by-laws. Owners may also contribute services as needed by the Co-op and community and thereby be entitled to receive additional discounts.

Section 2.3—Responsibilities. Each owner shall provide a fair share of the capital needs of the Co-op through purchase of one common share. The share may be purchased with at

least one payment of the full amount of the share or in yearly increments of at least $25 per year. Each owner is responsible for advising the Co-op of any changes to the name or address of the owner household. An owner who becomes delinquent by thirty days in meeting the share purchase requirement shall be placed into inactive status. An owner in inactive status may attain good standing only upon making full payment of the amount due and paying a reinstatement fee, if any, as determined by the Board of Directors. References in these by-laws to the rights and entitlements of owners refers to households and shall be understood to include only owners in good standing.

Section 2.4—Limited transferability. Ownership status and all rights and interests of owners are personal to the owner household and, except as provided in Section 9.3 below, may not be sold or otherwise transferred. Any attempted transfer in violation of this provision shall be wholly void, and shall confer no rights upon the intended transferee.

Section 2.5—Access to information. Owners shall have access—either electronically or in print—reasonably adequate and timely information as to the organizational and financial affairs of the Co-op. Owners shall be provided access to the books and records of the Co-op at all reasonable times and for any proper purpose. Owners shall have access to electronic and printed copies of these by-laws and a written explanation of the significance of the consent provision in Section 10.6 below.

Section 2.6—Settlement of disputes. In any dispute between the Co-op and an owner or former owner that involves normal ownership transactions and that cannot be resolved through informal negotiation, it shall be the policy of the Co-op to use 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 2.7—Termination. Ownership may be terminated voluntarily by an owner at any time upon notice to the Co-op. Ownership may be terminated involuntarily only for cause by vote of owners at a duly convened meeting of owners. The owner against whom charges are brought shall be informed thereof in writing at least ten days in advance of the meeting, and shall have the opportunity to be heard at such meeting either in person or by counsel. Upon termination of ownership, all rights and interests of such person in the Co-op shall cease except for rights to redemption of capital funds pursuant to Sections 9.3 and 10.8 below.

Article III

MEETINGS OF OWNERS

Section 3.1—Regular meetings. An annual meeting of owners shall be held each year at such time after the close of each fiscal year as is determined by the Board. The purposes of the meeting shall be to review and assess the condition, operations, finances and

policies of the Co-op, to elect directors and to conduct such business as may properly come before the meeting.

Section 3.2—Special meetings. Special meetings of owners may be called by the Board and shall be called by the Secretary within thirty days of receipt of petitions signed by not less than 75 owners or 10% of the voting ownership, whichever is less, such petitions stating the business to be brought before the meeting. Owners shall not be hindered from peacefully petitioning at the Co-op's place of business.

Section 3.3—Time and place. The 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 and place and, in the case of a special meeting, the purpose or purposes of the meeting shall be mailed to each owner of record not less than thirty days nor more than sixty days before the date of the meeting. Notice shall also be posted prominently at all places of business of the Co-op.

Section 3.5—Record dates. Unless otherwise determined by the Board, only persons who are owners at the close of business on the business 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. The presence in person or, when authorized, by written ballot at the opening of the meeting of twenty-five owners or two percent of all owners, whichever is less, shall be necessary and sufficient to constitute a quorum for the transaction of business at any meeting of owners.

Section 3.7—Voting. At all meetings of owners, each owner household shall have one and only one vote on each issue submitted to a vote of owners. Voting by proxy shall not be permitted. Unless otherwise required by law or by these by-laws, issues shall be decided by plurality of votes cast in the case of contested elections of directors and by a two-thirds majority of votes cast as to other issues. The Board may authorize voting by mail or electronically in conjunction with a meeting of owners, provided that a copy of the issue to be voted upon is provided to each owner with the notice of the meeting, and votes cast by mail, electronically, or delivered to the store by the deadline set by the Board of Directors are counted together with votes cast at the meeting.

Section 3.8—Issues submitted by owners. Notices of a meeting of owners shall include any proper issues submitted by petition by not less than 75 owners or 10% of the voting ownership, whichever is less. Petitions must be received at the Co-op not less than ninety days before the date of the meeting at which they are to be presented to a vote of owners.

Article IV

BOARD OF DIRECTORS

Section 4.1—Powers and Duties. Except as to matters reserved by law to owners or exercised by owners under these by-laws, the business and affairs of the Co-op shall be directed and controlled by the Board of Directors (sometimes referred to in these by-laws as “the Board”). The powers and duties of the Board shall include, but not be limited to, overseeing the operations and finances of the Co-op, monitoring and evaluating management performance, maintaining communications with owners, and, through policy, securing good conditions of employment. It is the responsibility of the board to provide the overall governance policies to assure that the purposes of the Co-op are properly carried out, but not become involved in the operational methods to employ those policies.

Section 4.2. — Classifications and qualifications. The Board shall consist of at least seven and preferably nine consumer directors. The Board may not operate with less than seven directors. All directors shall be owners and shall not have any overriding conflict of interest with the Co-op. Consumer directors shall not be a member of the immediate family of any staff person.

Section 4.3—Nomination and election. Candidates for consumer director positions may be nominated by the Nominating Committee, by petition of owners or, if voting by mail is not used, from the floor at a meeting of owners. Petitions of owners shall be signed by fifteen owners or two percent of all owners, whichever is larger, and shall be received by the Co-op at least ninety days prior to the date of a meeting. Such nominees shall present themselves to owners through a written statement published in the newsletter of the Co-op for the month preceding the election or by an oral statement at the meeting of owners. Consumer directors shall be elected by owners at the annual meeting or a special meeting in lieu thereof.

Section 4.4—Terms. The terms of the consumer directors shall be staggered so that three shall expire in one year, three in the next year and three in the next. Periodically, to accomplish this result, one or more consumer directors shall be elected for one-year or two-year terms. Candidates with the highest vote total(s) shall fill the 3-year terms and the candidate(s) with the next highest vote total(s) shall fill the vacant seat(s) for the remainder of the term(s). Directors may serve for unlimited consecutive terms. Directors shall hold office until their successors are elected or unless their offices are sooner terminated in accordance with these by-laws.

Section 4.5—Reimbursement and compensation. Directors shall be reimbursed for **usual** expenses incurred in connection with business of the Co-op. The Board of Directors reserves the option of nominal compensation for the Board Chair and/or Directors. All decisions regarding director compensation/stipends shall be announced to the ownership in the Organic Press newsletter.

Section 4.6—Standards of conduct. All directors shall sign and abide by a Board of Directors Code of Conduct, as amended or revised by unanimous consent of the Board. Non-compliance with the Code of Conduct could be grounds for removal of a Director.

Section 4.7—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 or a committee. Directors having such an interest may not participate in the decision of the matter nor, unless the Board or Committee otherwise directs, in the discussion of the matter.

Section 4.8—Contracts for profit. No director shall participate to a material degree in the profits of any contract made with the Co-op nor shall a director compete in business with the Co-op to a material degree.

Section 4.9—Termination. The term of office of a director may be terminated prior to its expiration in any of the following ways: (i) voluntarily by a director upon notice to the President; (ii) automatically upon termination of ownership in the Co-op; (iii) automatically upon placement of ownership into inactive status, subject to reinstatement by the Board upon timely attainment of good standing; and (iv) by vote of owners, with or without cause, provided that, if cause for removal is alleged, the director is informed of the charges in writing at least ten days in advance of the meeting and is accorded the opportunity to be heard at such meeting either in person or by counsel. Failure of a Director to attend three consecutive meetings or one -third of meetings in any year without prior board approval or cause as determined by the board shall result in removal from office.

Section 4.10—Vacancies. A vacancy among consumer directors occurring by reason of removal by owners shall be filled by owners for the balance of the unexpired term. Any other vacancy among consumer directors occurring between annual meetings may be filled by the Board until the next annual meeting.

Article V

MEETINGS OF THE BOARD

Section 5.1—Convening. The Board may determine the times and places of regular meetings of the Board. Special meetings may be called by the President and shall be called by the Secretary upon request of any two directors. Except in unusual circumstances, meetings of the Board shall be held on a monthly basis.

Section 5.2—Notice. Regular meetings shall require no notice other than the resolution of the Board, 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 seven days before the date of the meeting and oral notices shall be given in person or by telephone at least three days before the date of the meeting. Notices of meetings of the Board shall also be posted in a timely manner and in a conspicuous place at all places of business of the Co-op.

Section 5.3—Quorum and decision-making. The presence in person at the opening of the meeting of a majority of all directors in office shall be necessary and sufficient to constitute a quorum for the transaction of business at any meeting of the Board. Decisions of the Board shall normally be made by consensus. If after diligent effort a consensus cannot be reached on a matter that a majority of directors present consider as requiring immediate action, then the issue shall be resolved through a two-thirds majority vote.

Section 5.4—Action without a meeting. Any action required or permitted to be taken at a meeting of the Board may be taken without a meeting if the action is recorded in the minutes of the Board meeting following the decision.

Section 5.5—Open meetings. Meetings of the Board and all committees shall be open to owners. Sessions of a meeting may be closed only as to issues of a particularly sensitive nature. Owners may otherwise be excluded only for cause.

Article VI

COMMITTEES

Section 6.1—Standing committees. Standing committees shall include the following:

a) The Nominating Committee shall obtain qualified nominees for director positions in order to assure the long-range quality and stability of the Board. The nominating committee shall follow nomination procedures for contacting and screening director nominees as adopted by the Board. No member of the nominating committee shall be eligible for nomination during the time of his or her service on the committee.

Section 6.2—Other committees. The Board may appoint other standing or special committees to advise the Board or to exercise such authority as the Board shall designate. An executive committee shall include the President, Vice President, Secretary and Treasurer. No committee shall operate to relieve the Board of any of its legal responsibilities in the oversight of the Co-op.

Section 6.3—appointment and removal. Owners of all committees shall be appointed or approved by the Board and may be removed or replaced by the Board whenever the best interests of the Co-op would thereby be served.

Article VII

OFFICERS

Section 7.1—Designation. The principal officers of the Co-op shall consist of President, Vice President, Secretary and Treasurer or Secretary-Treasurer. All principal officers shall be directors. The Board may designate other officers or assistant officers.

Section 7.2—Selection, 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 7.3—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 determined by the Board:

a) The President shall be responsible for preparing agendas for meetings, facilitating meetings, coordinating the activities of the Board and maintaining effective communication with the GM, and shall deliver a report of operations to the annual meeting of owners;

b) The Vice President shall be responsible for performing the duties of the President in his or her absence and assisting the President in the performance of his or her duties;

c) The Secretary shall be responsible for the issuance of required notices and the recording and keeping of adequate minutes of all meetings; and

d) The Treasurer shall oversee the maintenance of financial records, reporting of financial information and filing of required reports and returns, and shall make certain that a financial report be provided at the annual meeting of owners.

Article VIII

FISCAL AND POLICY MATTERS

Section 8.1—Fiscal year. The fiscal year of the Co-op shall begin on the first day of October in each year and end on the last day of September
of the succeeding year.

Section 8.2—Operating policies. The Co-op shall be operated in accordance with sound business policies insofar as they are compatible with the purposes of the Co-op. Funds of the Co-op shall be received and handled according to store policies.

Section 8.3—Education. The Board shall see that a substantive program of education and public relations is carried on continuously and promoted by the Co-op, and shall make available adequate funds for this purpose.

Section 8.4—Social activities. It is the policy of the Co-op to maintain and promote social activities for its owners.

Section 8.5—Annual reports. The Co-op shall, within sixty days after the end of each fiscal year, file an annual report of its condition, including all information required by law, with the appropriate administrative office of the District of Columbia.

Section 8.6—Insurance. Any officer, employee or other agent of the Co-op who handles funds or securities amounting to one thousand or more dollars in a year shall be covered by adequate insurance.

Section 8.7—Annual Audit. An annual audit or review of the Coop's financial records and books shall be conducted after the end of the fiscal year by a reputable accountant or certified public accountant as the Board shall decide. The results of the annual audit shall be given to the Board of Directors.

Article IX

CAPITAL STOCK

Section 9.1—Issuance. To evidence capital funds provided by owners, the Co-op maintain hard copies and electronic holdings of **common stock ownership.** Common shares may be issued only to persons eligible for and admitted to ownership in the Coop. Such shares shall be issued only upon full payment of their purchase price, as determined by the Board of Directors, which shall not be less than the par value of twelve dollars per share.

Section 9.2—Terms. Common shares shall be entitled to no dividend or other monetary return on investment. Such shares shall be nontransferable except as provided in Section

9.3 below and may not be pledged or hypothecated. The voting rights of common shares shall consist only of the participation rights accorded owners in these by-laws.

Section 9.3—Certificates. Owners shall be notified when the entire amount of their share has been paid as determined by the Board of Directors. The Co-op shall maintain hard copies and electronic holdings of owner records. **No certificates are issued**.

Section 9.4—Redemption. Upon written request following voluntary termination of ownership, the common share of the requesting owner shall be redeemed as soon as replacement capital has been secured by the Co-op from a new owner. If such replacement capital has not been secured within sixty days of notice of termination, the owner may transfer his or her share to another person, provided that such person is eligible for, and admitted to, ownership in accordance with these by-laws conditionally upon such transfer, and provided further that such person makes prior payment to the Co-op of any difference between the current share purchase requirement and the carrying value of the transferor's share on the books of the Co-op. Common shares shall also be redeemed as soon as practicable upon involuntary termination of ownership upon death of the owner and under other compelling circumstances as determined by the Board. Such shares shall be redeemable at the lesser of their carrying value on the books of the Co-op or their net book value. In the case of voluntary termination of ownership, a reasonable processing fee may be imposed, as determined by the Board. Reapplications for ownership after redemption shall be subject to full repayment of redemption proceeds and a reasonable reprocessing fee, if any, as determined by the Board.

Section 9.5—Lien and offset. The Co-op shall have a first lien on common shares to the extent of amounts due and payable to the Co-op by owners. The Co-op may, at any time after such amounts remain due and payable for thirty days, offset such amounts against accumulated payments for shares. Such offset may not be effected by owners or by anyone acting in the right of owners.

Article X

PATRONAGE DIVIDENDS

Section 10.1—Allocations. The Co-op shall allocate and distribute to its owners its adjusted net savings from business done with them in the manner set forth in this Article. 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 are entitled.

Section 10.2—Adjusted net savings. In determining amounts distributable to owners, the net savings of the Co-op derived from the excess or deficit of revenues over costs and expenses shall first be determined in accordance with generally accepted accounting principles. In arriving at adjusted net savings, such net savings shall be reduced by: (i) not less than 10 percent of such savings as a reserve fund until there is accumulated net savings of not less than fifty percent of paid-up capital stock, such additions to the

reserve fund being allocated or allocable on a patronage basis; (ii) not less than one percent of such savings as an educational fund to be used in teaching cooperation; (iii) such further amounts as are not allowable as a patronage dividend under federal tax laws; and (iv) such reasonable reserves for necessary business purposes as is determined by the Board. Any such reductions may, to the extent allowable under federal tax law, be used to meet the requirements of one or more other reductions. In determining and allocating such adjusted net savings, the Co-op shall use a single allocation unit except to the extent that, subsequent to the adoption of these by-laws, it shall engage in any new and distinct line of business.

Section 10.3—Patronage records. The Co-op will provide its own electronic or other facilities to account for patronage transactions of owners.

Section 10.4—Basis of allocation. Such adjusted net savings as is attributable to business done with owners shall be allocated to each owner in the proportion which its household patronage bears to the total of all owner patronage during the fiscal year. Patronage shall be understood to mean goods and services purchased from the Co-op and shall be measured in terms of its dollar amount.

Section 10.5—Distribution and notice. Patronage dividends shall be evidenced by written notices of allocation delivered to recipient patrons within eight months and fifteen days following the close of the fiscal year. Written notices shall state the dollar amount of the allocation that constitutes a patronage dividend within the meaning of federal tax laws. All notices to owners, except those pursuant to Section 10.9 below, shall be accompanied by checks in an amount determined by the Board that must be at least twenty percent of the total allocation. 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 patrons.

Section 10.6—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 written notice of allocation in the taxable year in which such notice is received.

Section 10.7—Retained amounts. Patronage dividends to owners that are not currently distributed by check shall be credited or charged to revolving capital accounts in the names of recipient owners. Retained patronage dividends shall accrue no dividend or interest, and shall not be transferable or assignable except with the express consent of the Coop.

The Co-op shall have a first lien on retained patronage dividends for amounts otherwise due and payable to the Co-op by the owners. The Co-op may, at any time after such amounts remain due and payable for thirty days, offset such amounts against retained patronage dividends to the extent such amounts may exceed accumulated payments for shares.

Such offset may not be effected by the owner or by anyone acting in the right of the owner. Patronage dividends to non-owners shall be credited toward the share purchase

requirement. Such persons shall not be accorded rights of owners until they have been admitted to ownership in accordance with these by-laws.

Section 10.8—Redemption. Retained patronage dividends shall be redeemed within ten years of issuance unless the Board determines that such payments would compromise the solvency or stability of the Co-op. They shall be redeemed only in the order of the oldest outstanding amounts and only on a ratable basis among amounts for each fiscal year. Retained patronage dividends of particular owners may be redeemed at the discretion of the Board upon the death of the owner or under other compelling circumstances. Retained patronage dividends shall be redeemed at their carrying value on the books of the Co-op or their net book value, whichever is less.

Section 10.9—allocation of net loss. In the event the Co-op shall incur a net loss in any fiscal year, such loss may be charged against retained savings or other unallocated owners' equity. If the net loss exceeds such amounts, or in any event if the Board so determines, the amount of such loss may either be carried forward to offset adjusted net savings of subsequent fiscal years or allocated to owners in the same manner as for adjusted net savings except that such allocation shall not exceed the total of invested capital. Any such allocated net loss shall be charged first against retained patronage dividends of prior fiscal years and then against patronage dividend allocations of subsequent fiscal years. Allocated net losses which are not so offset may be charged against the carrying value only upon termination of ownership. Allocated net losses shall not otherwise be assessed to or collected from owners.

Article XI

INDEMNIFICATION

Section 11.1—Rights. The Co-op shall, subject to the terms and conditions in this Article, indemnify its directors and officers, including those formerly holding such positions, against all liabilities and expenses to which they may actually and reasonably become subject by reason of their positions with the Co-op or their service in its behalf. Such indemnification shall include direct payment of liabilities and expenses, and shall apply whenever such person was or is a party, or is threatened to be made a party, to any threatened, pending or completed proceeding, whether civil, criminal, administrative or investigative. Payment of expenses in advance of a final disposition of the action or proceeding may be made only upon receipt by the Co-op of a contractual undertaking by or on behalf of such person to repay such amounts unless he or she shall subsequently be determined to be entitled to indemnification under this Article.

Section 11.2—Limitations. No indemnification shall be made unless the person to be indemnified is successful on the merits in defense of the action or is specifically determined to have acted in good faith and in the reasonable belief that his or her actions were in the best interests of the Co-op and, in regard to criminal proceedings, to have had no reasonable cause to believe that his or actions were unlawful. If such determination is not made in a legal proceeding related to the claim, it may be made by a quorum of

disinterested directors. If not made or able to be made by either, such determination shall be made by independent legal counsel selected at a meeting of owners. In any action or proceeding by or in the right of the Co-op or in which such person is charged with receiving an improper personal benefit, indemnification shall be provided only as to reasonable expenses and only if the person is not adjudged liable to the Co-op on such basis.

Section 11.3—Payments and insurance. Indemnification payments and advances of expenses shall be made only in such increments and at such times as will not jeopardize the ability of the Co-op to pay its other obligations as they become due. All such payments made shall be reported in writing to owners with or before the notice of the next meeting of owners. The Co-op may purchase and maintain insurance on behalf of its directors and officers against any liabilities and expenses related to their position with, or service on behalf of, the Co-op irrespective of whether the Co-op could have indemnified them under this Article against such liabilities and expenses.

Article XII

NOTICE

Section 12.1—Notice. Any notice required under these by-laws shall be deemed delivered when deposited in the United States mail, postage prepaid, with names and addresses as they appear in the records of the Co-op.

Section 12.2—waiver of notice. Any notice of a meeting required under these by-laws may be waived in writing at any time before or after the meeting for which notice is required. The attendance of any person at a meeting shall constitute a waiver of notice of the meeting except where the person attends for the express purpose of objecting to the transaction of business because the meeting is not lawfully convened.

Article XIII

INTERPRETATION AND AMENDMENT OF BY-LAWS

Section 13.1—Severability. In the event that any provision of these by-laws 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 by-laws.

Section 13.2—amendment. These by-laws may be amended or replaced at a meeting of owners, provided that the proposed amendments are stated or fully described in the notice of the meeting at which the amendments are to be adopted.

EXPLANATION OF PATRONAGE
DIVIDEND CONSENT PROVISION

The Internal Revenue Code section referred to in by-law section 10.6 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. Under by-law Section 10.6, mere acceptance or retention of ownership in the Co-op constitutes consent to such inclusion in taxable income, including the portion of the patronage dividend that is retained by the Co-op for its capital purposes.

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 an owner 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 owners of the Co-op, except where the purchases of a particular owner are for business or income-producing purposes.

713 Old Spartanburg Hwy.
Hendersonville, NC 28792
828-693-0505

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