

BYLAWS OF THE

VERMONT CONSUMERS' ENERGY COOPERATIVE

Article I: Organization

Section 1.1 - **Name.** The name of the organization is Vermont Consumers' Energy Cooperative.

Section 1.2 - **Purposes.** The purposes for which the Cooperative is formed are: (i) to facilitate the distribution of energy resources, including, but not limited to, propane, fuel oil, kerosene, natural gas and electricity, so as to increase the buying power and reduce the financial burdens of energy consumption on the patrons of the Cooperative, with specific recognition of low-income persons; (ii) to increase the ability of the patrons of the Cooperative, including those of low income, to participate more effectively in, and benefit from, the changing energy marketplace; (iii) to facilitate the provision of energy efficiency and energy conservation services, including but not limited to the installation or use of renewable resources, so as to reduce the financial burdens of energy consumption on the patrons of the Cooperative, with specific recognition of low-income persons; (iv) to facilitate the provision of home services related to comfort, health and safety, telecommunication and home automation to the patrons of the Cooperative; and (v) to conduct such other lawful activities as are permitted to be conducted by a cooperative association under the laws of the State of Vermont. The Cooperative shall be operated exclusively on a cooperative and nonprofit basis for the primary and mutual benefit of owners of its common shares as patrons of its goods and services.

Section 1.3 - **Nondiscrimination.** The Cooperative shall not discriminate on the basis of race, nationality, religion, age, gender, sexual orientation, political affiliation, disability or other arbitrary basis.

Section 1.4 - **Principal office.** The principal office of the Cooperative shall be located at 73 Prim Road, Suite 3, Colchester, Vermont 05446, until changed by the Board of Directors.

Article II: Ownership

Section 2.1 - **Eligibility and admission.** Ownership in the Cooperative shall be voluntary and open to any person who meets the qualifications of a class of ownership set forth in Section 2.2 below, who is within the service area of the Cooperative, whose purpose in seeking ownership is to use the services of the Cooperative, and who is willing to accept the responsibilities of ownership. Applicants will be admitted to ownership upon submitting required information and purchasing or subscribing to purchase one or more common shares at a price determined by the Board of Directors, which price may vary between classes of ownership. In case of doubtful eligibility, ownership shall be subject to approval by the Board. By obtaining ownership in the Cooperative the owner shall thereby agree to be bound by the Articles of Incorporation and these bylaws, including any amendments subsequently adopted.

Section 2.2 - **Classes of ownership.** Ownership shall be of three classes: (i) individuals and households ("consumer owners"); (ii) businesses that are operated on a cooperative or nonprofit basis ("business owners"); and (iii) individuals and households who are members of designated organizations with which the Cooperative has an affiliation agreement ("organizational owners"). Unless the context requires otherwise, use of the term "owner" or "ownership" in these bylaws without further qualification shall include owners of all classes.

Section 2.3 - **Rights.** Each owner shall be entitled to make purchases from the Cooperative on terms generally available to owners or to classes of owners. Before being admitted to ownership, or contemporaneously with such admission, each applicant shall be provided with a copy of these bylaws and a written statement of the significance of the consent provision in Section 8.5 hereof. Each owner who has attained the age of majority shall be entitled to participate in the governance of the Cooperative as set forth in these bylaws.

Section 2.4 - **Responsibilities.** Each owner shall purchase goods or services from the Cooperative on at least an annual basis, and shall keep reasonably current in payment of the share purchase requirement described in Section 2.1 above. An owner who becomes delinquent in meeting the share purchase requirement to an extent determined by the Board, or who fails to patronize the Cooperative over a period of one year, shall be placed into inactive status. The voting and other participation rights of such owner shall then be suspended. An owner in inactive status may attain good standing only upon full payment of all arrearages. References herein to the rights and entitlements of owners shall be understood to refer only to owners in good standing.

Section 2.5 - **Nontransferability.** Ownership rights and interests may not be transferred except to the Cooperative. Any attempted transfer contrary to this section shall be wholly void and shall confer no rights on the intended transferee.

Section 2.6 - **Access to information.** Owners shall be provided reasonably adequate and timely information as to the organizational and financial affairs of the Cooperative. Subject to the procedures and limitations set forth in Title 11B, Chap. 16, V.S.A., owners shall be provided access to records and reports of the Cooperative at reasonable times and for a proper purpose.

Section 2.7 - **Settlement of disputes.** In any dispute between the Cooperative and any of its owners or former owners which cannot be resolved through informal negotiation, it shall be the policy of the Cooperative to prefer the use of mediation whereby an impartial mediator may facilitate negotiations between the parties and assist them in developing a mutually acceptable settlement. No party with a grievance against the other shall have recourse to litigation until the matter is submitted to mediation and attempted to be resolved in good faith.

Section 2.8 - **Termination.** Ownership may be terminated voluntarily by an owner at any time upon notice to the Cooperative. Ownership may be terminated involuntarily only for cause by the Board, provided such person is accorded not less than fifteen days within which to respond to the charges either in person or in writing. Upon termination of ownership, all rights and interests in the Cooperative shall cease except for rights to redemption of capital funds pursuant to Articles VII and VIII of these bylaws. Termination of ownership shall not relieve the owner from any obligations or commitments incurred prior to the time of termination.

Article III: Meetings of Owners

Section 3.1 - **Annual meeting.** An annual meeting of owners shall be held at least once each year to review the activities and finances of the Cooperative, to elect directors, and to conduct such other 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 as soon as practicable upon receipt of one or more petitions signed by fifty owners or five percent of all owners, whichever is lesser, such petitions stating the business to be brought before the meeting.

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

Section 3.4 - **Notice.** Written notice of the time, date, place and the matters to be voted upon at any meeting of owners shall be mailed to each owner not less than twenty days (or not less than thirty days if notice is provided other than by first class mail) nor more than sixty days before the date of the meeting. Any business conducted at a meeting of owners other than that specified in the notice of the meeting shall be of an advisory nature only.

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 - **Lists of owners.** After the record date for notice of a meeting, the Cooperative shall prepare an alphabetical list of owners entitled to notice plus a list of

owners, if any, who are entitled to vote at the meeting but not entitled to notice of the meeting. Such list or lists shall include the names and addresses of owners and the number of votes entitled to be cast by each owner. Within two days after giving of notice and continuing through the time of the meeting, such list shall be made available for inspection by owners for a proper purpose.

Section 3.7 - **Quorum.** The presence in person or by ballot at the opening of the meeting of fifty owners or five percent of all owners, whichever is lesser, shall be necessary and sufficient to constitute a quorum for the transaction of business at any meeting of owners.

Section 3.8 - **Voting.** At all meetings of owners, each consumer and organizational owner shall have one and only one vote on each issue submitted to a vote of owners. Each business owner shall be entitled to cast no less than one nor more than nine votes in accordance with a schedule relating their annual purchases to the number of votes, as determined by the Board of Directors. Voting by proxy or by class of ownership shall not be permitted. Unless otherwise required by law or by these bylaws, issues shall be decided by having received a majority of votes cast or, in the case of more than two candidates for a single position or more than two options on a single issue, by having received the greatest number of votes cast. Meetings of owners shall be conducted generally in a manner that is consistent with parliamentary procedure.

Section 3.9 - **Written ballots.** The Board may authorize written ballots to be submitted by mail, or by electronic means, in conjunction with a meeting of owners. In such case, ballots, together with a brief statement of the qualifications of each candidate for available director positions or the text or a full description of any other issue for decision, shall be included in the notice of the meeting to which they relate. Such notice shall also indicate the number of responses needed to meet the quorum requirement, the requirements necessary to approve each matter other than election of directors, and the time by which a ballot must be received by the Cooperative in order to be counted. The results of the balloting shall be reported to owners at the meeting or by any other reasonable means.

Section 3.10 - **Issues submitted by owners.** Notices of a meeting of owners shall include any proper issues submitted by petition of fifty owners or five percent of all owners, whichever is lesser. Petitions must be received at the Cooperative not less than forty-five 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 to owners by law or by these bylaws, the business and affairs of the Cooperative shall be managed under the direction of the Board of Directors (sometimes referred to in these bylaws as "the Board"). The powers and duties of the Board shall include, but not be limited to, setting policy, engaging management and monitoring and evaluating its performance, overseeing the operations of the Cooperative, establishing budgets and fiscal controls, maintaining communication with owners and ensuring that the purposes of the Cooperative are properly carried out.

Section 4.2 - **Number and qualifications.** The Board shall consist of seven individuals. All directors shall be owners in good standing and shall not be employees of the Cooperative or have any overriding conflict of interest with the Cooperative. The Board of Directors may impose other qualifications, such as length of ownership, on perspective members.

Section 4.3 - **Nominations, election and terms.** Directors may be nominated by the Board, or by petitions signed by at least twenty owners and submitted to the Cooperative at least seventy-five days before the date of the annual meeting. There shall be no endorsements of nominees on ballots or other voting materials. Directors shall be elected by owners at the annual meeting. At the first annual meeting and periodically thereafter as may be necessary, directors shall be elected for specific one or two year terms in order to assure that no more than four terms expire in each year. At other times directors shall be elected for terms of two years. Directors shall hold office until their successors are elected or until their offices are terminated sooner in accordance with these bylaws.

Section 4.4 - **Compensation and reimbursement.** Directors may be compensated for their services as directors only as approved at a meeting of owners. Directors shall be reimbursed for actual and reasonable expenses incurred in connection with business of the Cooperative.

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

Section 4.6 - **Contracts for profit.** During her or his term of office, a director shall not be a party to a contract for profit with the Cooperative differing in any way from the business relations accorded each owner or upon terms differing from those generally current among owners.

Section 4.7 - **Conflicts of interest.** Directors shall be under an affirmative duty to disclose their perceived, actual or potential conflicts of interest in any matter under consideration by the Board. Directors having such an interest may not participate in the decision or discussion of the matter.

Section 4.8 - **Indemnification.** The Cooperative shall indemnify its current and former directors to the maximum extent permitted under the law and its Articles of Incorporation. Indemnification payments shall be made on a priority basis but only in such increments and at such times as will not jeopardize the ability of the Cooperative to pay its other obligations as they become due. Any indemnification payment or advance of expenses shall be reported to owners in writing with or before the notice of the next meeting of owners.

Section 4.9 - **Committees.** The Board may create standing or special committees to advise the Board or to exercise such authority as the Board shall designate. Members of all committees shall be appointed by the Board and may be removed or replaced by the Board whenever the best interests of the Cooperative would thereby be served. The creation of a committee and the appointment of members to it must be approved by a majority of all directors then in office. To exercise any authority of the Board a committee must be composed exclusively of directors and may take action only upon reasonable notice to all of its members and a quorum of at least three persons. An executive committee shall include the Chairman, Secretary and Treasurer. No committee shall operate to relieve the Board of any of its legal responsibilities in the oversight of the Cooperative.

Section 4.10 - **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 Cooperative; (ii) automatically upon termination of ownership in the Cooperative; (iii) by action at a meeting of owners whenever the best interests of the Cooperative would thereby be served, or (iv) for cause by the Board provided such person is accorded an adequate opportunity to respond to the charges either in person or in writing. A director who is absent from two consecutive Board meetings, unless excused by the Board for good cause, shall be presumed to have resigned.

Section 4.11 - **Vacancies.** Any vacancy among directors occurring between annual meetings may be filled by the Board until the next annual meeting of owners.

Article V: Meetings of the Board

Section 5.1 - **Convening.** The Board of Directors may determine the times and places of regular meetings. Special meetings may be called by the Chair and shall be called by the Secretary upon request of any three directors. Meetings of the Board shall be held no less frequently than once in each calendar quarter.

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 five days before the date of the meeting and oral notices shall be given in person or by a telecommunications device at least forty-eight hours before the time of the meeting.

Section 5.3 - **Quorum and voting.** The presence in person of a majority of directors

shall be necessary and sufficient to constitute a quorum for the transaction of business at any meeting of the Board. Unless otherwise required by law or by these bylaws, decisions at meetings of the Board shall be made by majority vote of those present. Meetings of the Board shall be conducted generally in a manner that is consistent with parliamentary procedure.

Section 5.4 - **Telephone conferences.** A meeting of the Board may be conducted by means of a telephone conference or other communications equipment whereby all persons participating can hear each other at the same time. Participation by such means shall constitute presence in person at such a meeting. Telephone conferences shall not be used for the purpose of excluding owners.

Section 5.5 - **Action without a meeting.** Any action required or permitted to be taken at a meeting of the Board may be taken without a meeting if the action is assented to by all directors, and such assent is evidenced in writing and filed with the minutes of meetings. Action by consent may not be used for the purpose of excluding owners.

Section 5.6 - **Open meetings.** Meetings of the Board and all committees shall be open to owners. Sessions of a meeting may be closed only to consider one or more of the following issues:

- (a) legal matters, including, but not limited to, contracts, labor relations, agreements with employees, arbitration, mediation, grievances, civil actions, or prosecutions by the state;
- (b) competitively sensitive matters, including, but not limited to, topics or information of such a nature (i) that if in the hands of a competitive entity, including, but not limited to, the Cooperative, that entity could reasonably believe that public disclosure of the information could cause the entity competitive or financial harm; or (ii) that such an entity could reasonably believe to be proprietary, privileged, confidential, or in the nature of a trade secret;
- (c) customer-specific matters that (i) communicate characteristics, qualifications, background information, or other descriptive attributes associated with a single customer, and (ii) specifically identify that customer using one or more unique references, including, but not limited to, customer name, mailing address, telecommunication numbers or addresses, designations of physical location, or account numbers; or
- (d) personnel matters, including, but not limited to, the employment, evaluation, compensation, disciplining, or dismissal of an employee.

Attendance in closed session shall be limited to the Board, key management, and, in the discretion of the Board, other staff, clerical assistants and legal counsel, and persons who are subjects of the discussion or whose information is needed. Such closed session shall be for purposes of discussion only, and no decisions shall be made in closed session. Owners may otherwise be excluded only for cause.

Article VI: Officers

Section 6.1 - **Designation and qualifications.** The principal officers of the Cooperative shall consist of Chair, Vice-Chair, Secretary, and Treasurer. The Board may combine the two latter offices and designate the combined office as that of Secretary-Treasurer. The Board may designate other officers or assistant officers. All principal officers shall be directors.

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

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

- (a) The Chair shall be responsible for presiding over all meetings of owners and the Board, coordinating the activities of the Board, presenting the annual report to owners described in section 9.2 below, and performing the acts and duties usually performed by a presiding officer;
- (b) The Vice-Chair shall be responsible for carrying out the duties of the Chair in the event of the Chair's absence, and for such other duties as the Board may

prescribe;

- (c) The Secretary shall be responsible for the recording and keeping of adequate minutes of all meetings of owners and of the Board, overseeing the issuance of notices required under these bylaws, and authenticating records of the Cooperative; and
- (d) The Treasurer shall oversee the maintenance of financial records and controls and the filing of required reports and returns, and shall present financial reports on a periodic basis as determined by the Board.

Article VII: Capital Stock

Section 7.1 - **Issuance and terms.** Common shares having a par value of \$10 per share shall only be issued to, and may only be held by, persons who are eligible for and admitted to ownership in the Cooperative. Such shares shall be issued only upon full payment of their issuing price which shall not be less than their par value. Common shares shall be entitled to no dividend or other monetary return on investment, shall not be transferable or assignable to any person other than the Cooperative, and may not be pledged or hypothecated. The voting rights of such shares shall consist exclusively of the voting rights accorded owners in these bylaws. Owners may be assessed for additional capital needs of the Cooperative upon approval by the Board of Directors.

Section 7.2 - **Certificates.** Owners shall be entitled to receive certificates evidencing their holdings. Certificates shall be signed by one or more officers of the Cooperative, and shall be numbered and registered. Any or all of the signatures on certificates may be facsimile. In case any officer who has signed or whose facsimile signature has been placed on the certificate shall have ceased to be such officer before the certificate is issued, it may be issued by the Cooperative with the same effect as if such person were an officer at the date of issue. The Cooperative may issue a replacement certificate for any certificate alleged to have been lost, stolen or destroyed without requiring the giving of a bond or other security against related losses.

Section 7.3 - **Redemption.** Upon request following termination of ownership, common shares shall be redeemed when replacement capital is secured from other owners. To the extent of amounts due and payable to the Cooperative, common shares shall be redeemable upon filing of a bankruptcy petition by or against an owner. Common shares may also be redeemed under extraordinary circumstances approved by the Board of Directors. Shares shall be redeemable at the lesser of their carrying value on the books of the Cooperative or their net book value, less a reasonable processing fee, if any, as determined by the Board. No redemption shall be made when such payment would impair the ability of the Cooperative to meet its other obligations as they become due in the usual course of its activities or would cause the Cooperative's total assets to be less than its total liabilities. Reapplication for ownership following redemption of common shares shall be subject to repayment of redemption proceeds or a waiting period or both as determined by the Board.

Section 7.4 - **Lien and offset.** The Cooperative shall have a first lien on all common shares for amounts otherwise due and payable to the Cooperative by the owner. The Cooperative 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 the owner or by anyone acting in the right of the owner.

Article VIII: Patronage Dividends

Section 8.1 - **Allocations to owners.** In order to assure that it will operate on a nonprofit basis relative to its transactions with owners, the Cooperative shall allocate and distribute to its owners its adjusted net savings from business done with them in the manner set forth in this Article. Any allocations of such a nominal amount as not to justify the expenses of distribution may, as determined by the Board, be excluded from distribution provided that they are not then or later distributed to other owners.

Section 8.2 - **Adjusted net savings.** In determining amounts distributable to owners, the net savings of the Cooperative derived from the excess or deficit of revenues over costs and expenses shall first be determined in accordance with generally accepted accounting principles. Such net savings shall then be reduced by amounts not attributable to business done with owners, by other amounts which are not allowable under federal tax laws and by such reasonable reserves for necessary business purposes as may be determined by the Board.

Section 8.3 - **Basis of allocation.** Adjusted net savings shall be allocated to each owner in the proportion that such owner's 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 Cooperative and shall be measured in terms of its dollar amount.

Section 8.4 - **Distribution and notice.** Patronage dividends shall be evidenced by written notices of allocation delivered to recipient owners within eight months and fifteen days following the close of the fiscal year. Written notices shall state the dollar amount of the allocation which constitutes a "patronage dividend" within the meaning of federal tax laws. Such written notices for each fiscal year may, as determined by the Board, be made either "qualified" or "nonqualified," within the meaning of federal tax laws. All qualified notices, except those subject to Section 8.8 hereof, shall be accompanied by checks in an amount determined by the Board which must be at least twenty percent of the total allocation.

Section 8.5 - **Consent of owners.** By obtaining or retaining ownership in the Cooperative, each owner shall thereby consent to take into account, in the manner and to the extent required by Section 1385 of the Internal Revenue Code, the stated dollar amount of any qualified written notice of allocation in the taxable year in which such notice is received.

Section 8.6 - **Retained amounts.** Patronage dividends 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 Cooperative. The Cooperative shall have a first lien on retained patronage dividends for amounts otherwise due and payable to the Cooperative by the owner. The Cooperative 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.

Section 8.7 - **Redemption.** Retained patronage dividends that are no longer needed for capital purposes of the Cooperative may be redeemed in such amounts and at such times as may be determined by the Board of Directors. At that time they shall be redeemed only in the order of the oldest outstanding amounts and only on a ratable basis among such amounts for each fiscal year. Retained patronage dividends shall be redeemed at their carrying value on the books of the Cooperative or their net book value, whichever is lesser.

Section 8.8 - **Allocation of net loss.** In the event the Cooperative shall incur a net loss in any fiscal year, such loss may be charged against retained savings or other unallocated equity accounts. 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 of shares only upon termination of ownership. Allocated net losses shall not otherwise be assessed to or collected from owners.

Article IX: Fiscal Matters

Section 9.1 - **Fiscal year.** The fiscal year of the Cooperative shall begin on the first day of July in each year and end on the last day of June of the succeeding year.

Section 9.2 - **Accountability.** Financial statements of the Cooperative for each fiscal year shall be audited or reviewed by an independent public accountant selected by the Board of Directors. The Cooperative shall prepare and submit at its annual meeting an annual report containing the name of the Cooperative, its principal place of business, a general statement of its business operations during the fiscal year, the amount of capital stock paid for and the number of shareholders, the total expenses of operation, and the amount of its assets and liabilities.

Section 9.3 - **Bonding.** All employees, officers and other agents who handle funds or securities of the Cooperative shall be covered by bonds of indemnity for faithful performance of duties in such amounts and on such terms as may be determined by the Board of Directors. Premiums on all such bonds shall be paid by the Cooperative.

Article X: Interpretation and Amendment of Bylaws

Section 10.1 - **Interpretation.** Consistent with governing law and the Cooperative's Articles of Incorporation, the Board of Directors may make and enforce reasonable interpretations of these bylaws.

Section 10.2 - **Severability.** In the event that any provision of these bylaws is determined to be invalid or unenforceable under any statute or rule of law, then such provision shall be deemed inoperative to such extent and shall be deemed modified to conform with such statute or rule of law without affecting the validity or enforceability of any other provision of these bylaws.

Section 10.3 - **Amendment.** These bylaws may be amended or repealed only 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 Vermont Consumers' Energy Cooperative is under a legal obligation to distribute patronage dividends to its owners. The distribution of patronage dividends is a means by which the net earnings (or "net savings") of the Cooperative from business done with owners is returned to them in proportion to their purchases from the Cooperative. This serves to ensure that the Cooperative operates on a cost basis in its transactions with owners. The rules and procedures for patronage dividends are set forth in detail in Article VIII of the Cooperative's bylaws.

In order to deduct patronage dividends from its taxable income, the Cooperative is required by federal tax law to obtain the consent of its owners to include such amounts in their gross incomes under certain circumstances. The Cooperative has chosen to obtain this consent through its bylaw Section 8.5. Under this bylaw provision mere obtaining or retention of ownership in the Cooperative in itself constitutes the required consent.

In effect, bylaw Section 8.5 represents your implied consent to include your patronage dividend in your gross income if and when you are required to do so under federal tax law. But federal tax law provides that patronage dividends are not taxable to recipients if they are "attributable to personal, living, or family items." (Internal Revenue Code sec. 1385(b)). For the vast majority of owners whose purchases from the Cooperative are for personal or family use, patronage dividends will therefore be nontaxable to them. Patronage dividends will be taxable to owners only to the extent that the owners use of the Cooperative's services is related to the conduct of a business operation or to transactions entered into for profit.

The foregoing explanation, which is required under federal income tax law, is distributed with the understanding that neither the Cooperative nor any person associated with it is thereby engaged in rendering legal, accounting, or other professional services. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.