Policies are not necessarily required by state law. It is important that cooperative members and board members discuss issues together and develop their policies that fit best with their organization. Some policies in place in area cooperatives include:

Retained Equity: Some cooperatives have decided to pay out retained equity when a member leaves the organization. If the organizational finances allow; the loan has been repaid and have reserves, you could opt to pay out retained equity after a give time period, five or ten years, for example. If a number of members decide to take lump sum payments, all at the same time, it could leave the co-op reserves cash strapped. It is probably advisable to pay out retained equity in installments, over time. Discuss what time frame feels comfortable for your co-op.

$500 or under Policy: This was a policy adopted to address members leaving the co-op after a short duration with the cooperative. Some organizations have a probationary period which is long enough for both parties to decide if the organization and the person are a good fit, so if they left after a short period of time, they would not have become a member nor paid a membership fee. Discuss this as a board and make a decision that feels right for your culture and financial circumstances.

Deceased membership returned equity. It is probably wise to assist a family to settle an estate by returning retained equity in full.

Interest on retained equity: Co-ops can choose to pay interest on equity. But the trick is finding an investment that pays interest and is liquid enough for the co-op to meet its reserve needs. It probably makes sense to lower members expectations to expect no interest to be paid on retained equity.

**Patronage Refund Policy**

Once a year, a formal accounting determines Your Cooperative’s income and expenses. Income remaining after deducting all expenses is the *net margin* (profit) for the co-op. Since Circle of Care Cooperative is a worker owned business, net margins (profits) are distributed to members in proportion to how many hours worked during the year. This income returned, or refunded is called a *patronage refund*.

Payment of loans to XXX Credit Union and/or others, consistent with an established and mutually agreed upon repayment schedule, shall take priority over patronage refund payments to members.

Each year Your Cooperative will mail you a statement detailing your patronage refund (your share of the Co-op’s profits). Since the IRS considers patronage refunds as income, you must report this on your taxes. You receive an IRS Form 1099 with this information on it.

Adopted:
There are two parts to the patronage refund: (1) cash and (2) retained equity.

(1) **Cash** – By IRS law, a co-op must pay out at least 20% of the patronage refund in cash to each member. At the end of each fiscal year, based on the financial performance of Your Cooperative, the Board will determine what percentage of the refund will be paid out in cash to members.

(2) **Retained Equity** – As owners of the business, members assume the basic responsibility of providing capital to the co-op based on the number of hours worked. Members do this by leaving a portion of the patronage refund in the co-op to help keep operations on a sound financial basis. Retained equity is actually the member’s money that will be eventually paid out in cash when the member leaves the co-op.

When your membership terminates, so does your financing responsibility to the co-op. When a member voluntarily or involuntarily terminates co-op membership, the retained equity will be paid out in cash, in equal installments, over a five year period. The initial payment will equal 1/5 of the amount of the current equity at the time of termination. The amount of the remaining 4 payments will be determined after the completion of the annual audit. The remaining payments will be made the 15th of the month after the annual audit. If the accumulated retained equity is less than $500, the Board has the option to pay out the equity in full within six months of the membership termination date.” Upon the death of a member, any remaining retained equity will be fully paid in cash to the deceased’s estate. No interest will be paid on retained equity.

*Note:* A patronage refund should not be confused with a dividend on capital stock. A dividend is a distribution to a shareholder based on their investment in a corporation. A patronage refund is a distribution to co-op members based on the number of productive hours they worked for the co-op.

Adopted: