

v1.0

# With the Ranks Operating Agreement

## Summary

This Agreement has the most important rules, rights, and obligations of Members (owners) of With the Ranks LLC. It is supposed to be easy to read and understand, so we can all agree on the big picture items, but it is also a legally binding document.

## This Agreement

This Agreement may be **amended by the consent of 80% of the Members**. However, a paragraph describing a decision that must be made by unanimous consent cannot be changed without unanimous consent of the Members.

If any part of this Agreement is held by a court to be invalid or unenforceable, Members agree that the part shall be reduced in scope by the court only to the extent deemed necessary by that court to render the provision reasonable and enforceable, and the remaining provisions of this Agreement will not be affected or invalidated as a result.

**Members may adopt other rules in a document called “Owner’s Manual”** (The “Owner’s Manual” document is incorporated in this Operating Agreement by reference.)

## Steps to Becoming a Member

1. **Work** for the Cooperative for at least **6** months as an independent contractor or employee (a “Trial Member”).
2. **Submit a written request** to join the cooperative.
3. **Be approved** by a unanimous vote of Members.
4. **Accept** and sign this Agreement.

## **Important!**

Members may not sell or transfer all or any part of their membership interest.

## **Membership Termination**

**Voluntary Termination:** A Member can leave the Cooperative voluntarily after giving written notice at least **14 days in advance**.

**Involuntary Termination:** A Member may be terminated involuntarily if they are voted out by **80%** of the other Members. While the Members may terminate another Member for any reason, with or without cause, typical reasons for termination may include:

1. If a Member has not worked for the Cooperative for a period of **4** weeks.
2. If a Member is determined, by a medical professional, to be **mentally incapable of handling their own affairs**, or
3. If a Member is **deceased**.

## **Payments and Rights upon Membership Termination**

**Payment of Capital Account:** When a Member terminates their membership, voluntarily or involuntarily, the amount in Member's Capital Account becomes a loan from the Member to the Cooperative at **3%** interest. **The Cooperative must repay the loan within 3 years**. If the Member dies or cannot receive the payment, then the Cooperative will pay any beneficiary designated by the Member or by act of law.

**No Other Rights:** The terminated Member shall have no other rights to distribution or payment from the Cooperative, nor any rights of membership.

## Management

**Every Member is a Manager:** The Cooperative is managed by all the Members.

**Every Member May Sign for the Cooperative:** All Members are agents of the Cooperative and have the authority to enter into contracts on behalf of the Cooperative.

**Members are not Employees:** All Members shall participate in the profits, losses, and management of the Cooperative as co-owners and co-managers, and therefore **no Member is an employee of the Cooperative.**

**Dividing Management Among Committees:** The Members may delegate the management of certain work to committees of Members, but any major decision substantially affecting the business, Members, or finances must be made by all Members, not by committees. Examples include but are not limited to:

- Entering into an agreement with a client that WTR has not previously held a contract with
- A proposal for an added service expense of \$1000/month

## Meetings, Proposals and Voting

**Every Member Has One Vote:** Equal voting power is a core principle of cooperatives, so every Member has an equal vote.

**Bringing Proposals:** Any Member may bring a Proposal to all Members. Proposals include requests to change policy, to start a new project, to change ways of working, or to change the roles and positions of Members.

**Passing Proposals:** Decisions by Members will be passed with **80%** approval of all Members present at a meeting where Quorum is met, or, for

decisions without a meeting, with **80%** approval of all Members, unless this Agreement or another policy requires a different voting threshold. The presence of 80% of all Members shall constitute quorum at any meeting of the Members.

**Meetings and Virtual Decisions:** Decisions may be made at meetings (in-person or virtual) or in writing (by email, text, or another communication platform). Any two Members may call a meeting of all Members. All Members will be **notified of a meeting at least 3 days in advance**, unless all Members agree that less notice is ok for that meeting. All Members must meet together at least twice per year.

## **Keeping Records and Information**

**The Cooperative shall keep and make the following information and records available to all Members:**

1. **A signed copy of this Operating Agreement** and any amendments,
2. **Bookkeeping records** for all years,
3. **The LLC tax returns** for all years,
4. **Financial statements** for all years,
5. **Notes on decisions made in meetings;** and
6. **A list of Members,** past and present, their contact information, and any designated beneficiaries.

## **Member Compensation and Business Expenses**

**Payments of Business Expenses:** All external obligations and liabilities, including but not limited to subscription fees, debts, payments to independent contractors and anything else owed by the cooperative will be paid first, when due.

**Salary Goals:** The members will decide upon a salary goal per year for all members. Salary goals for each member of the cooperative are currently set as follows:

Year	Annual Salary Goal per Member
2020	\$18,750
2021	\$50,000
2022	\$65,000
2023	\$80,000
2024	\$100,000
2025	\$120,000

Salary goals are equal amongst all members of the cooperative at this time, but the cooperative may choose to create additional positions at different responsibilities and pay in the future.

**Regular Pay for All Members:** Members will be paid twice per month, up to the prorated monthly portion of the current year’s annual salary goal for full or part-time workers. This regular pay is also called “**Salary Payments.**” These payments will be made after the Cooperative has paid all obligations and liabilities and set aside the cash equivalent of the full expected amount of cash outflows for the month ahead. The Cooperative will strive to meet salary goals, but Members acknowledge that Regular Pay may not meet the prorated annual salary goal for a given pay period.

## Sharing Profits

**Profit Sharing:** At the end of every **quarterly** period, Members will calculate profits. Profits are earnings from the period that remain after payment of all business expenses and guaranteed payments. All profits will be allocated according to the following order:

1. **Retroactive Salary Goals:** Payments will be made to all members

whose cumulative salary payments have not met salary goals for their time spent being a member of the cooperative. These payments shall be made equally to all members in question and shall not exceed 10% of the equivalent salary goal for the year in which the payments are made, and must be unanimously approved by all members.

2. **Allocating Profits to Member Capital Accounts:** All other profits will be allocated to Members' Capital Accounts on the basis of Patronage. Unlike in a conventional business, where some owners get more profits based on their ownership share or percentage interest, **the Cooperative divides profits among Members on the basis of the value or quantity of each Members' work, also known as "Patronage."** Patronage is measured based on the number of months a Member has worked during a given quarter (i.e. 1/3, 2/3, and whole shares of profit) in proportion to the other Members. A Member will be presumed to have worked a given month where the Member has met applicable deadlines for projects they have accepted, regardless of whether the Member has actively performed work on a given project, unless otherwise determined by 80% or more of the Company's Members.

**Distributing Profits to Members:** At least every quarter, Members shall distribute cash to Members from the Members' Capital Accounts in an amount determined by the Members. The Cooperative shall distribute, at minimum, sufficient cash to cover Member income tax obligations (but not their self-employment tax portion) created by undisbursed profit allocations, and may, in the Members' discretion, make additional distributions in cash, promissory notes, and other property. However, the Cooperative shall not make distributions if doing so would leave the Cooperative unable to pay its obligations and liabilities.

## **Sharing Losses**

If the Cooperative has losses during a fiscal year (or quarter, if the Members

choose to allocate losses quarterly), losses are allocated to each Members' Capital Account, and **Members will share those losses equally, or as otherwise determined by the Members.** Losses are neither allocated in proportion to Patronage nor in proportion to percentage interest in the Cooperative.

**If losses reduce Capital Accounts to zero:**

In no event shall net loss be allocated to any such Member if such allocation would reduce such Member's Capital Account balance to less than zero at the end of the year. The amount of any allocation done to avoid a negative capital account balance shall be determined in the discretion of the Members of the Cooperative. See Treasury Regulation §1.704-1(b)(2)(ii)(d)(4)-(6) for more information about negative capital account balances.

**Accounting and Tax**

**Every Member will have an accounting called the "Capital Account,"**

which represents the value of the Member's share of the Cooperative's assets. Capital Accounts contain a Members' capital contributions, increased by profit allocations, and decreased by distributions and losses.

(Capital accounts will be maintained in accordance with the capital accounting rules of section 1.704(b)(2)(iv) of the Treasury Regulations.)

**The Cooperative shall be taxed as a partnership,** unless Members change this.

**Additional tax matters:** Except as otherwise provided in this Agreement, all items of Cooperative income, gain, loss, deduction and any other allocations not otherwise provided for shall be divided among the Members in the same proportions that they share profit or loss, as the case may be.

**The Members shall, individually, pay taxes on their share of business**

**income**, including quarterly self-employment tax.

**By the 15th day of the third month following the end of each fiscal year, the Cooperative shall send to each Member** (1) the information necessary to complete individual tax returns, and (2) a copy of the Cooperative's federal, state, and local income tax returns. However, if the Cooperative has obtained an extension for its business tax returns, the Cooperative shall send a copy as soon as the tax returns are finalized.

### **Commitment to being a Worker Cooperative**

At least 60% of the Workers in the business shall be Members of the Cooperative. "Workers" for the purposes of this paragraph, shall include both employees of the Company and independent contractors who have been accepted as Members, acknowledged as Trial Members of the Cooperative by its Members, or are performing services that would otherwise qualify them for membership as determined by the Members, but shall not include independent contractors who are hired to perform services unrelated to the Cooperative's core business, such as plumbers, interior designers, electricians, bookkeepers, accountants, legal service providers, etc.

### **Defending and Compensating Members**

The Company shall **compensate a Member for any expenses from lawsuits, penalties, fines, and costs of defense** if the Member incurred these expenses as a result of being a Member. This is also called "indemnification." However, the Company may not compensate or "indemnify" a Member if such expenses arose from a situation where the Member stole funds, knowingly received funds to which the Member was not entitled, intentionally committed a crime, or intentionally harmed the Company or Members.



## Closing the Cooperative

**The Cooperative can only be sold, dissolved, or reorganized with** the unanimous consent of all Members.

**If the Cooperative is sold, dissolved, or liquidated,** the Cooperative will liquidate the assets and allocate any net profit, net loss, and other items of income, gain, loss or deduction to the Members' Capital Accounts on the same basis that profits and losses are allocated according to this agreement.

The Cooperative will then make payments in the following priority order:

1. First, the Cooperative must pay off its **debts to non-Members.**
2. Second, the Cooperative must pay its **debts to Members.**
3. Third, the Cooperative must **pay each Member's Capital Account balance** to each current Member.

## Acceptance of Agreement

By signing below, the Members agree to all of the terms and conditions in this Agreement.

Date: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

NAME: \_\_\_\_\_

Date: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

NAME: \_\_\_\_\_

Date: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

NAME: \_\_\_\_\_

Date: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

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NAME: \_\_\_\_\_