



# board<sup>OF</sup>directors

by Cynthia Moore

## Patronage Dividends: a mutually beneficial model for consumer owned Co-operatives

In the September issue of *Food For Thought*, John Hatton introduced the idea that the Board of Directors is considering recommending a bylaw amendment, which if approved by the shareholders (via a special ballot next spring), will transition the BFC from the current Shareholder Discount system to a Patronage Dividend System. This article is one of a series in which we will provide information about the proposed change to enable all of us to make informed decisions about our Co-op's financial structure.

Before I outline the mechanics of how Patronage Dividends would work, I want to offer a few words about why I believe the shareholders of the BFC should support this change. As owner/shareholders of the Co-op, we have a responsibility and opportunity to help ensure the Co-op's longevity and financial health. As owners, we have the opportunity to contribute in many ways to the Co-op, while reaping the benefits of working cooperatively with others in our community to achieve common goals (as outlined in the BFC's Ends statement). Like all business owners, it's important that we step back to take a long view of the future of the Co-op that includes consideration of some of the behind the scenes factors that could potentially impact our business. These include the need for safe and efficient working conditions for the staff, the potential threat to the Co-op from competing supermarkets and the proposed "Super Walmart," the rising costs of maintaining obsolete mechanical systems, as well as the desire to fulfill the vision of our 100 year vision for a regenerative marketplace.

As owners, we have a stake in the future of our business. The IRS rules for Co-operatives allow eligible profit to be re-invested into the Co-op by its member-owners on a tax-free basis. While the current discount system provides instant gratification to shoppers in the form of a 2% discount at the time of purchase, a patronage dividend system would offer us, as owners, the opportunity to re-invest profit back into the Co-op at a significant tax savings to the Co-op. Those tax dollars saved (think tens of thousands) can be leveraged by the BFC to build our business to meet the needs of our community. If we adopt the Patronage Dividend system in lieu of the shareholder discount system, we will be voting to support and invest in our Co-op's long-term future, while ensuring that we can continue to benefit from its success.

### How a Patronage Dividend System Works: Preliminary Steps

A couple of important pieces need to be put in place before a change to Patronage Dividends can be implemented.

- 1) First and foremost, bylaw changes need to be adopted by the BFC Shareholders prior to the beginning of the year in which Patronage Dividends would be implemented. A special ballot would be scheduled for late spring of 2009.

The Third Cooperative Principle is about Shareholder Economic Participation. In a consumer-owned cooperative, shareholders contribute equitably to and democratically control the capital of the cooperative.

- 2) If the bylaw amendment is approved, a new Point of Sale system and database

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to track sales by shareholder will be implemented prior to the beginning of the new fiscal year.

### Beginning July 1, 2009:

Your purchase totals would be tracked through the cash register. The total amount of your purchases over the year equals your Patronage, and would be used to determine how much of a dividend you would be entitled to receive. Although the 2% shareholder discount would no longer be given at the time of purchase, working shareholders would continue to receive 8% shareholder labor discounts, and seniors and staff would continue to receive their normal discounts at the register.

“Patronage Dividends create a mutually beneficial relationship, one that encourages and rewards member investment. Members can trust that the Co-op is not unduly profiting from their purchases because surpluses are returned in proportion to those purchases. The Co-op can trust the members support the business and will wait for their benefit until after all sales and costs for the year are accounted for.” (Member Economic Participation, CBL 300, Cooperative Development Services)

### At the close of the fiscal year (June 30, 2010):

- 1) **The amount of Eligible Profit available is determined according to IRS rules.** Financial Statements are prepared demonstrating the Co-op's performance for the year. Two of the main numbers needed to determine eligible profit are net income and the % of shareholder sales vs. non-shareholder sales. Non-shareholder sales are not eligible for patronage dividends, and any profit earned on those sales is taxable. By contrast, **the amount of Eligible Profit allocated to Patronage Dividends is not taxable to the Co-op or its shareholders.**
- 2) **The Board of Directors determines what percentage of the Eligible Profit to pay out in the form of a dividend to the Shareholders.** In accordance with IRS tax law, the minimum amount that must be paid out is 20% of the total Eligible Profit.
- 3) **The Board of Directors must also decide how to distribute the paid out portion of the Patronage Dividend.** This is typically done either by store credit (which can be redeemed for a check at the shareholders request), or by check.
- 4) **The cash (actually check or store credit) portion of their Patronage Dividend is distributed to shareholders along with notices explaining how funds were allocated.**
- 5) **The remaining, retained portion of the Eligible Profit is booked to individual allocated equity accounts in shareholder/owners names based on their annual patronage.** This portion of the Patronage Dividend represents the ownership's capital investment in our Co-op, and is not taxable by the IRS.

### Ongoing Investment

Retained earnings are re-invested in the Co-op and can be used to continue to grow and support the Co-op to meet the needs of its owners and the community.

In the next issue of *Food For Thought*, we will include some examples of how the dividend calculations might look given various scenarios.

# video/dvd rentals

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### Some movies of note:

Married Life  
Then She Found Me  
Baby Mama  
88 minutes  
The Love Guru  
Made of Honor  
Snow Angels  
Speed Racer  
Young @ Heart  
Leatherheads  
Sex and the City  
Forgetting Sarah Marshall  
Iron Man  
Nim's Island  
Smart People  
Hanna Montana Best of Both Worlds  
Miss Pettigrew Lives for a Day  
What Happens in Vegas  
The Counterfeiters  
Vantage Point  
In Bruges  
The Bank Job  
Penelope  
21  
Shine a Light  
Weeds Season 3  
Cassandra's Dream  
Semi-Pro  
The Bucket List  
The Other Boleyn Girl  
Be Kind Rewind  
Under the Same Moon  
Definetely Maybe  
In Bruges  
Persepolis  
The Spiderwick Chronicles

This month's recommended movie is *Hanna Montana Best of Both Worlds*. This is a good documentary and concert film, with good fun for Hanna Montana fans. This performance is professional and does the job for a Disney good time.