

Look for these
Local Products
on Sale at
the Co-op!



VerMints — Burlington, Vermont

All-natural mints
\$2.29 SAVE \$1.20

Vermont Butter & Cheese Company
Websterville, Vermont

Chevre Logs All Flavors
\$3.00 /4 oz. SAVE 55¢

Dwight Milller, Dummerston, Vermont

Organic Apple Cider
\$4.99 gallon SAVE \$1.00

Miss Molly's Provisions, Hanover, NH

Vanilla or Chocolate
Frostings
\$4.99 14 oz SAVE \$1.00

Westminster Organics
Westminster West, Vermont

Organic Popcorn
99¢ lb. SAVE 70¢/lb.

Against the Grain, Brattleboro, Vermont

Gluten Free Rolls
Rosemary or Original
\$6.99 /12.5 oz SAVE \$1.00

Sweet Scoop, Portsmouth, NH

Frozen Yogurt
Vanilla, Ginger, Chocolate Fudge,
Mint Chocolate Chip or Pumpkin

\$3.49 pint SAVE \$1.10



board^{OF}directors

by Cynthia Moore

Patronage Dividends: a mutual beneficial model for consumer owned co-operatives

This article is the third in a series intended to educate Shareholders about a proposed bylaws change which, if approved by the Shareholders, will transition the BFC's current Member Discount Program to a Patronage Dividend System. The Board of Directors is currently planning to propose a special ballot to consider this change in April 2009. If approved the new system would go into effect July 1st 2009 and would only involve changing the 2% discount currently given to Shareholders at the time of purchase; worker owners will continue to receive 8% discounts for member labor. Seniors and staff will continue to receive their normal discounts at the register.

In the October Issue of *Food For Thought*, I outlined the basic mechanics of how a Patronage Dividend System would work. The purpose of this article is to provide shareholders with an illustration of how the math behind the Patronage Dividend System works so that we are all informed of the implications of the change.

As I described in the October issue of *Food For Thought*, IRS rules for co-operatives allow eligible profit to be re-invested in 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 offers us, as owners, the opportunity to re-invest profit back into the co-op at a significant tax savings to the co-op.

First let's review some basic points of a Patronage Dividend System:

1. Up to 100% of profit earned on sales to shareholders may be allocated towards patronage dividends. This amount is determined annually by the Board; because earnings allocated towards patronage are not taxable, it is desirable to allocate as much as possible to maximize tax savings.
2. A minimum of 20% of the amount allocated must be distributed to the shareholders in cash (typically check or store credit). The % that will be distributed in cash is determined annually by the Board and may vary according to the BFC's cash flow and finances, though it will never go below 20% of the total allocation.
3. The remaining portion of the dividend (up to 80%) is referred to as the Retained Allocated Patronage and is booked to the shareholders equity account and re-invested in the Co-op.
4. Patronage Dividends are allocated proportionately to shareholders based on their actual purchases. The examples below use average annual purchases as if all shareholders purchased an equal amount; individual shareholder's dividends will be based on their actual individual purchases as a percent of total sales.
5. Payouts to shareholders must be made within 8 1/2 months of the year-end, and must be redeemed or cashed within 90 days of their receipt. Failure to meet these deadlines causes the patronage dividend amount (retained and distributed) to revert to taxable profit which must be reported to the IRS (see #1 above).
6. Patronage Dividends that are handled within the guidelines are not taxable to the Co-op or Shareholders whose purchases were for their personal use. (Shareholders whose purchases were a business expense must include their patronage dividends on their tax forms).

On the facing page are some examples based on our Financials:

2007	
Total Sales	\$14,115,237
Sales to Shareholders	\$7,687,150
Average Patronage per Shareholder	\$1,655
Profit on Shareholders Patronage	\$261,785

Current Shareholder Discount System:

Taxes Paid on Profit from Shareholders Sales	\$104,787 (40.03%)
Shareholder Discounts paid at the register	\$153,743
Avg. discount/ Shareholder	\$33
Net funds available for reinvestment in the BFC	\$156,998 <i>(Profit minus Taxes)</i>

Patronage Dividend Examples:

Taxes Paid on Profit from Shareholders Sales	\$0
Shareholder Discounts paid at the register	\$0
Amount Available for Patronage Dividend Allocation	\$415,528 <i>(Profit + Discounts not paid)</i>
Average Allocation/ Shareholder	\$89 <i>(Total Available Allocation/ # of Shareholders)</i>

Assuming that the minimum 20% of the Patronage Dividend Allocation is paid in cash (See Step # 2 Above):

Total Cash Distribution to all Shareholders	\$83,106 <i>(20% of Total Allocation)</i>
Average Cash Distribution per Shareholder	\$18
Average Retained Patronage Dividend per Shareholder	\$71
Average change in cash benefit per Shareholder	\$15/year(-) <i>decrease of \$15 per year (discounts not received-cash distribution)</i>
Additional funds available for reinvestment in the BFC	\$175,424 <i>((Taxes plus Discounts not paid) minus Cash Distribution)</i>
Taxes saved by the co-op	\$104,787
Net funds available for reinvestment in the BFC	\$332,422 <i>(Profit minus Cash Distribution)</i>

Assuming a 40% Cash Distribution of the Patronage Dividend Allocation (See Step # 2 Above):

Total Cash Distribution to all Shareholders	\$166,211 <i>(40% of Eligible Profit)</i>
Cash Distribution per Shareholder	\$36
Average Retained Patronage Dividend Booked as Equity per Shareholder	\$53
Average change in cash benefit per Shareholder	\$3/year(+) <i>Increase of \$3 (cash distribution-previous discount)</i>
Additional funds available for reinvestment in the BFC	\$92,319 <i>((Taxes plus Discounts not paid) minus Cash Distribution)</i>
Taxes saved by the co-op	\$104,787
Net funds available for reinvestment in the BFC	\$249,317 <i>(Profit minus Cash Distribution)</i>

2008	
Total Sales	\$15,458,734
Sales to Shareholders	\$8,310,650
Average Patronage per Shareholder	\$1789
Profit on Shareholders Sales	\$135,521

Current Shareholder Discount System:

Taxes Paid on Profit from Shareholders Sales	\$51,661 (38.12%)
Shareholder Discounts paid at the register	\$166,213
Avg. discount/ Shareholder	\$36
Net funds available for reinvestment in the BFC	\$83,860 <i>(Profit after discounts minus Taxes)</i>

Patronage Dividend Examples:

Taxes Paid on Profit from Shareholders Sales	\$0
Shareholder Discounts paid at the register	\$0
Amount Available for Patronage Dividend Allocation	\$301,734 <i>(Profit + Discounts not paid)</i>
Average Allocation/Shareholder	\$65 <i>(Total Available Allocation/ # of Shareholders)</i>

Assuming that the minimum 20% of the Patronage Dividend Allocation is paid in cash (See Step # 2 Above):

Total Cash Distribution to all Shareholders	\$60,347 <i>(20% of Total Allocation)</i>
Average Cash Distribution per Shareholder	\$13
Average Retained Patronage Dividend per Shareholder	\$52
Average change in cash benefit per Shareholder	\$23/year(-) <i>decrease of \$23 per year (discounts not received-cash distribution)</i>
Additional funds available for reinvestment in the BFC	\$157,527 <i>((Taxes plus Discounts not paid) minus Cash Distribution)</i>
Taxes saved by the co-op	\$51,661
Net funds available for reinvestment in the BFC	\$241,387 <i>(Profit minus Cash Distribution)</i>

Assuming a 40% Cash Distribution of the Patronage Dividend Allocation (See Step # 2 Above):

Total Cash Distribution to all Shareholders	\$120,693 <i>(40% of Eligible Profit)</i>
Cash Distribution per Shareholder	\$26
Average Retained Patronage Dividend Booked as Equity per Shareholder	\$39
Average change in cash benefit per Shareholder	\$10/year(-) <i>decrease of \$10 per year (discounts not received-cash distribution)</i>
Additional funds available for reinvestment in the BFC	\$97,180 <i>((Taxes plus Discounts not paid) minus Cash Distribution)</i>
Taxes saved by the co-op	\$51,661
Net funds available for reinvestment in the BFC	\$181,040 <i>(Profit minus Cash Distribution)</i>

Note that all of these examples use average purchases (Patronage) and Patronage Dividends for the BFC's Shareholder base. Individual Shareholders discounts received and patronage dividend allocations would correspond directly to individual purchases.

As you can see from the examples above, a transition to a Patronage Dividend system would reap significant tax savings and increased funds available for reinvestment in the BFC. It is also evident that individual shareholders may experience a slight decrease in cash benefits in leaner years (and possibly increased benefits in banner years). As Shareholders, it's important that we weigh the pros and cons of the proposed change and the impact it may have on our business overall versus our individual circumstances. Over the next several months the Board of Directors will be continuing to develop materials and opportunities intended to provide Shareholders with the information needed to make informed decisions prior to the April 2009 vote.