

PATRONAGE



WHAT IS PATRONAGE?

Patronage Proceeds are to a cooperative what net profit is to a regular corporation.

Patronage Certificates representing that patronage are issued to the cooperative's members.

Retained Patronage Certificates are to a cooperative what retained earnings are to a regular corporation.

HOW IS THE PATRONAGE CALCULATED AND ALLOCATED?

At the end of each year adjusted net income of the cooperative is the Patronage Proceeds. This amount is declared as Patronage Certificates subject to any adjustments (e.g. deduction of any tax loss carryovers).¹ Patronage is allocated to each member in proportion to that member's percentage of patronage participation – the total of the member's purchases of ALDA products and services excluding pass through items.

Prior to 2004 Patronage was calculated separately for each major program (e.g. import program, Giftables, Spring Flyer). Since 2004 all programs are considered as one for the purpose of patronage calculations.²

WHAT ARE THE TAX IMPLICATIONS?

The tax liability for the net income accrues to the members.³ ALDA issues a 1099 PATR to each member receiving patronage. The taxable event is when the patronage is earned. The payout of patronage, whenever that may occur, is not a taxable event.

HOW MUCH PATRONAGE IS RETAINED? WHY?

At the end of each year patronage may be paid out to members and/or retained. At minimum 20% of each year's patronage must be paid out.⁴ Up to 80% may be retained as operating capital. The 20% rule was originally established to assure that each member would receive, at minimum, a cash payout to cover any tax liabilities. The payment must be made of December 15 of each year. For the most recent year the payment was made June 24, 2008.

For many years through 2000-01 the cooperative paid out 50% of the patronage earned in cash, and retained 50%. Since then:

- 2001-02: 39% paid in cash
- 2002-03: no patronage earned
- 2003-04: no patronage earned
- 2004-05: 57% paid in cash
- 2005-06: 68% paid in cash
- 2006-07: 55% paid in cash (25% initially; 30% credited against publications)
- 2007-08: 60% paid in cash (25% initially; 35% credited against publications)

¹ By-laws Art. XI, Sec. 4

² Board resolution Oct., 2004

³ By-law amendment, 1991. See disclosure statement.

⁴ By-laws Art. XI, Sec. 6

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HOW IS RETAINED PATRONAGE REVOLVED (PAID OUT)?

The board determines when and what retained patronage is revolved (that is, redeemed and paid in cash) in the order of issuance.¹ Traditionally a seven year period has been used to revolve patronage or about \$500,000 of patronage certificates have been retained. Revolved patronage has been paid in most year in December.

WHAT IS THE 2007-08 PATRONAGE DISTRIBUTION POLICY?

1. To declare a patronage dividend that is equal to our net income less any available tax loss carryovers;
2. To pay 25% of the dividends in cash on June 24, 2008, and the balance as Patronage Certificates except as indicated below;
3. A member may elect to take 25% of the earned patronage (1/3 of the Patronage Certificate amount) as a credit against 2008 Flyer purchases;
4. A member may elect to take 25% of the earned patronage (1/3 of the Patronage Certificate amount) as a credit against 2008 holiday publication purchases.²

WHY RETAIN PATRONAGE AT ALL?

Retention of patronage is one of two primary way to provide working capital for the cooperative. (The other is accumulation of Certificates of Interest.)

Patronage policies may be used to advance the mission and programs of the cooperative. In the last two years members have been able to use current patronage in part to pay for flyer and catalog programs, providing additional incentive for participation in those programs.

Patronage retention protects the cooperative against unpaid liabilities of a member.

Capital not required for short term cash flow is invested on behalf of the members. Income from those investments is part of each year's patronage proceeds. Members who fully participate in cooperative programs get the maximum benefit of the investment income. Non-participating members and former members who hold patronage certificates do not likewise benefit. Approximately 50% of all outstanding patronage and (Certificates of Interest) is held by former members who do not benefit from those profits.

HOW IS PATRONAGE SHOWN ON OUR FINANCIAL RECORDS?

Retained Patronage Certificates are represented by account "3250-00 – Allocated Margins (Patronage)" in the Equity section of the Balance Sheet.

Patronage distributions that have been declared by the board but not yet paid are represented by account "2030-00 – Patronage Distributions" in the Liabilities section of the Balance Sheet.

Records of each (current and former) member's Patronage Certificates are maintained by the office. In total they equal the sum of the balance in the two accounts indicated.

¹ By-laws Art. XI, Sec. 6; Art.XII, Sec. 4

² Board resolution 03/13/08