

Patronage Dividend Model Policy Final

November 24, 2025

1. Purpose and Authority

This Patronage Dividend Policy (“Policy”) establishes how the Cambridge Food Co-op (“the Co-op”) allocates and distributes patronage refunds, also known as patronage dividends, to its members in accordance with Section 521 of the Internal Revenue Code and New York Cooperative Corporations Law §67-§69.

The purpose of this policy is to:

- Align the Co-op’s operations with cooperative principles, ensuring that surplus revenue generated by the membership is shared equitably among members based on their patronage (purchases), and
- Replace all standing percentage-based member discounts with an annual, profit-based distribution model that supports the long-term financial sustainability of the Co-op.

2. Membership Fee and Equity Structure

2.1 Annual Membership Fee

- The Co-op will maintain a \$40 annual membership fee for each member household or individual.
- This fee covers administrative and operational costs associated with maintaining membership records, voting eligibility, and participation in member programs.
- This annual fee is not an equity investment and does not need to be held in escrow. It is recognized as earned income upon receipt.

2.2 Member Equity (Future Provision)

- The Co-op may, at its discretion and subject to membership approval, create a separate Member Equity Account or capital contribution program to raise capital for expansion or facility improvements.
- Participation in such an equity program would be separate from and in addition to the \$40 annual membership fee.

3. Patronage Dividend Structure

3.1 Basis of Allocation

- Patronage dividends will be distributed only from net earnings derived from member transactions after the close of the fiscal year and after the deduction of:
 1. All organizational expenses
 2. Interest and debt service

3. Reasonable reserves for depreciation, cash flow, capital improvement, and contingencies as determined by the Board of Directors
- The remaining Net Margins from Member Business will be allocated to members in proportion to each member's total purchases during that fiscal year.

3.2 Determination of Patronage Amount

- In accordance with IRC §1382(b), the Board of Directors will determine, no later than 8 ½ months after the fiscal year end, whether a patronage dividend will be declared and the total amount to be distributed, to preserve the Co-op's eligibility for deduction of such allocations.
- The Board has discretion to distribute all or part of the eligible net margins as cash or store credit.

3.3 De Minimis Threshold

- Patronage allocations under \$5.00 in value may, at the Board's discretion, be aggregated and retained by the Co-op as general revenue.

4. Timing and Form of Distribution

- Patronage dividends will be issued with the timeframe permitted by Section 1382 of the Internal Revenue Code, ensuring they qualify as deductible patronage refunds for the Co-op and taxable income to the member in the year received.

- Distributions may be made by:

- Check
- In-store credit
- Or a combination thereof, as determined necessary by the Board.

- At least 20% of any declared dividend will be distributed in cash or in-store credit, and the remainder (if applicable) may be retained as future credits.

5. Member Status and Eligibility

- Only members in good standing – those who have paid the annual \$40 fee and are current on any obligations – will be eligible for a patronage dividend.
- Purchases made under a single household membership are aggregated under that account.
- Purchases made by non-members are not eligible for patronage allocations.

6. Member Withdrawal, Death, or Inactivity

6.1 Withdrawal or Termination

- A member may withdraw at any time by written notice to the Co-op.
- Upon withdrawal, the member:
 - Forfeits eligibility for any future patronage distributions, and

- Retains no interest, claim, or refund of past membership fees or prior retained patronage.

6.2 Death of a Member

- In the event of a member's death, any unpaid patronage allocations previously declared by the Board will be payable to the member's designated beneficiary or estate.

6.3 Inactivity

- A membership will be deemed inactive if no purchases occur for 18 consecutive months.
- The Co-op may terminate inactive memberships after reasonable notice, retaining any unclaimed retained patronage as general cooperative funds.

7. Accounting and Recordkeeping

- Patronage dividends declared by the Board but not yet distributed shall be recorded as a Deferred Patronage Refund Liability until paid or otherwise resolved.
- The Co-op will maintain individual member records showing:
 - Annual purchases,
 - Patronage allocation amount,
 - Any retained patronage balances.
- Retained patronage may be reclassified as General Reserve Funds after three years if unclaimed or if the member becomes inactive.

8. Tax Treatment and Compliance

- The Co-op intends that patronage dividends qualify as deductible patronage refunds under IRC §1382(b).
- The Co-op will NOT need to issue IRS Form 1099-PATR to the members because we will file IRS Form 3941 "Consumer Cooperative Exemption" in the first-year dividends are distributed.
- Patronage dividends will NOT be considered taxable income for our members.

9. Implementation and Amendment

- This policy will take effect upon approval by membership vote following recommendation of the Board of Directors.
- The Board may review and amend this policy as necessary to comply with changes in law, accounting standards, and/or cooperative best practices.

10. Summary Statement

Under this new model:

- The \$40 annual membership fee stays the same and is not refundable.

- Members no longer receive automatic discounts; instead, they share in the Co-op's profits each year based on their spending.
- Dividends are distributed only when the Co-op operates profitably and after essential expenses and reserves are funded.
- Members who leave the Co-op do not receive a refund of prior fees or past retained dividends, except those already declared by the Board.

This model aligns the Co-op with modern cooperative standards and creates a fair, financially sustainable foundation for the years ahead.