Preface

This manual, a collection of articles that have been gathered from many sources, and in some cases, prepared at the Texas Agricultural Cooperative Council, evolved as a result of trying to capture the most concise papers ever written about “cooperatives” and compile them into one notebook for easy reference by those new to the concept.

There are several misconceptions about cooperatives, many of which started in grade school aligning these modern day businesses with organizations owned and controlled by the state in such countries as the old Soviet Union. That is far from the truth. Others align this business model with the many housing and food cooperatives found in larger cities throughout the U.S. These consumer type cooperatives, largely operated on a daily basis by the members themselves, are still far from the truth in how farmer owned and controlled organizations operate today in the form of high - dollar enterprises in the risky business of agriculture.

This manual is intended to be a quick reference for the new and emerging leaders to this business concept. It is a collection of the best of the best! It was not developed to be glossy, polished, or trying to impress. Instead, to be brief, to the point, and learn at your own pace with regards to elements of the co-op business model. In short, to bring those interested, up to speed in a much quicker and thorough manner. We hope you accept it with this understanding.

Just as 2 + 2 has always equaled 4, some of the articles in this manual are dated but although they were written years ago, the basic understanding has never waivered since their development in England in the 1800s. From a copyright standpoint, credit has been given appropriately and written permission has been granted by those preparing many of the papers. Many of the papers would not win a prize in the academic community, but that is not the point of the manual. Instead, to be to the point and capturing the essence of this very misunderstood business model.

As people’s appetite for consuming information changes, we took the liberty to also prepare this manual electronically. In general, we did not use page numbers in this manual, but when they are included they are appearing as they did in the original article. In short, we reprinted the articles as they originally appeared elsewhere.

Although 2015 is the initial edition of this manual and in this form, we are also developing it to possibly alter, add or subtract to its content as necessary to stay in step with the needs at the time.
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History and Structure

“The Four Basic Business Models”

These eight pages were taken from a three-ring notebook called “Taking Care of Business” and prepared by the National Council of Farmer Cooperatives, emphasizing “cooperatives” are one of the four basic business models.

“Evolution and History of the Co-op Business Model”

These eight papers were taken from a three-ring notebook developed by the Cooperative Council of North Carolina, and via four short articles, explain how the business model evolved and includes a copy of and an explanation of the one page federal law allowing farmers to collectively meet and harness their energy into one undertaking.
## METHODS OF DOING BUSINESS IN AMERICA

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The Individually Owned Business

Doing business as an individual is the oldest of all forms of business enterprise. Despite the growth of other forms of business organization, the individually owned enterprise is still the most common in this country. The farmer and the independent shop owner are typical examples.

Characteristics of individually owned business firms include the following:

1. An individual business serves the public by producing or distributing goods and services. The owner hopes to make a profit—although it doesn’t always work out that way.

2. The owner decides the business policy.

3. The owner has full responsibility for management. However, the owner may hire a manager to operate the business in keeping with policy set forth by the owner.

4. No voting is necessary to arrive at a management decision, since the owner has full responsibility.

5. The individual is the sole owner.

6. The owner supplies a substantial part, or all, of the capital requirements. However, additional capital may be borrowed.

7. The owner’s returns from the business enterprises are technically and legally unlimited. Actually there are practical limits on returns—with these influenced by the energy, initiative, and skill of the owner, and the nature of the competitive environment, for example.

8. The owner may use net returns from operation in any legal manner he or she pleases.

9. In the event of failure, the individual has unlimited liability for debts and obligations.

Pros & Cons

As in any form of business, the individual enterprise has both advantages and disadvantages.

ADVANTAGES —

It is an extremely flexible method that may be used in almost any business endeavor.

It offers opportunity to exercise individual initiative and ingenuity.

No special legal formalities are required to form an individual enterprise. Where there are legal requirements, they usually consist of the purchase of a business permit and payment of local license fees.

The individual enterprise offers opportunity for closer personal contact between the owner and customers.

DISADVANTAGES —

It is difficult for an individual business to succeed in those industries requiring large capital outlay to start and operate.

The business risk must be borne by the individual and is unlimited.

The business goes out of existence when the owner dies or retires, unless the owner makes provisions for passing it on to somebody else. It may also be terminated through the business failure of the owner.
The Partnership

A partnership business firm has two or more owners. The essential part of conducting business as a partnership lies in joint contributions of labor, capital, or both, by the partners; joint control of the operations; and a division of resulting profits or losses. The partners organize the partnership in the hope of making a profit for themselves.

Partnership Characteristics

1. A partnership serves the public by producing or distributing goods and services.

2. Some states require a partnership agreement in writing and filed with a state official. The agreement spells out the rights and responsibilities of the partners and the general purpose for which the partnership is formed.

3. The partners decide the policy for the firm.

4. Usually all partners share in the management of the firm, and each of them may act on behalf of all. They may agree, however, to delegate management authority to one or several of the partners with special skills. Examples of such skills include those in finance, sales, procurement, and accounting law.

5. Both policy and operating decisions are made by a majority vote of the partners. However, unanimous consent of all partners is required to change the basic nature of the partnership.

6. The partners jointly own the firm.

7. Each partner may contribute a portion of the capital needed. Capital contributions need not necessarily be equal. In some cases a partner’s contribution may be something other than money or tangible assets—a needed special skill, for example.

8. Returns to the partners from operations of the partnership firm are, like those of the individual business firm, technically and legally unlimited. In actual practice, returns are limited by the business skills and judgment of the partners, the nature of the competitive environment in which the firm operates, and other factors.

9. Profits (or losses) are shared by the partners in accordance with the terms of the partnership agreement. Usually this is in proportion to the capital invested or work done.

10. Each partner is personally liable for any debts or other obligations of the partnership irrespective of the contributions previously made. However, most states allow so-called limited partnerships, in which liability for certain partners is limited and spelled out in the partnership agreement.

Pros & Cons

A partnership is an attractive type of business organization when partners have insufficient capital or skill to operate individually and labor can be performed largely by the partners themselves.

On the other hand, a large number of partners may cause a partnership to become a rather unwieldy enterprise. A partnership requires good teamwork. A partnership must be reorganized and a new agreement drawn up whenever a partner leaves or a new partner joins the firm—regardless of the reason for the change.

Partnerships cease with the expiration of the agreed upon term of life. They may be renewed, of course. Finally, if the enterprise contemplated requires large amounts of capital, a partnership may not be able to generate the required amount.
The Corporation

There are two kinds of corporations—the regular corporation and the cooperative corporation. Let's consider regular corporations first.

A CORPORATION is a legal entity, an artificial person created by the State with most of the rights of a real person. Such rights include: to buy or sell goods and services, to own property, to borrow money, and to enter into binding contracts.

A corporation is treated by the law as separate and distinct from its constituent human owners. A corporation enjoys a continuing existence, notwithstanding the death, entrance, or exit of one or more of its owners.

The primary purpose of a business corporation is to make a profit for its owners. Additional characteristics include:

1. A corporation earns profits for its owners by providing goods and services to its customers.

2. General direction of the business activities of the corporation and its overall policies are the responsibility of a board of directors. The corporation owners, called stockholders, elect directors at their annual meeting. Since a corporation is an artificial person, not an actual one, it can act only through the directors, who represent the owners.

In setting policy, the corporation's directors must abide by the statement of duties and rights contained in the charter granted by the State. The charter is obtained upon application of the incorporators, the group who originally organized the corporation. Persons in this group are called charter members.

The charter states the nature of the corporation's business activities, its name and address, its right to have a seal and issue stock, and so on. Each state has a law of its own, called enabling legislation, setting forth the procedure for forming corporations.

The key elected officials of a corporation are the chairman of the board, secretary, and treasurer. The directors select these from among themselves. Additional officers may be appointed or employed as necessary. In some corporations, a president is selected as the chief operating official. In others, the chief executive may have some other title, such as general manager.

In the latter case, the key elected official may be called a president whose role is confined to chairing board of director meetings and presiding at the annual stockholder meetings.

The operating officials of a corporation carry on the day-to-day business activities. They do this in a way that will achieve the corporation activities as stated in its charter and within a framework of policy laid down by the directors. Periodically, usually monthly, the operating officials report to the board of directors. And once a year, at the annual meeting, the directors report to the stockholders. In this manner, the stockholders exercise final control over the activities of the corporation through the directors, whom they elect.

3. Owners of a corporation are called stockholders. There are two basic kinds of stock—common and preferred. Common stock is the voting stock. Each stockholder has as many votes at the annual meeting as the number of shares of common stock he or she owns. Stockholders who cannot attend the annual meeting are permitted to vote "by proxy"—that is, through an agent they name. Preferred stock does
not usually carry voting rights, but does have a prior claim for a fixed amount of the net earnings of the corporation.

4. Sale of stock—that is, shares of ownership of the corporation—is a major way of securing necessary capital. The shares of stock may be bought or sold by individuals at will. Stockholders buy stock to earn dividends on their investment. Returns on preferred stock are a set amount per share. Returns of capital invested in common stock are not limited by law, but their upper range may be limited by such factors as competition and the skill with which the corporation is managed. Net margins remaining after paying dividends on preferred stock, if any, are available for distribution to common stockholders in proportion to the number of shares held by each. However, the usual practice is to retain a portion of the net margins within the corporation to be used for reserve funds, expansion, and other corporation purposes.

5. Sale of bonds—a form of borrowing—is another method corporations use to secure necessary capital. Bonds carry a fixed rate of interest and have a due date when the corporation must pay back the amount of the bond to the bondholder. Corporations may also borrow from banks and other lending agencies.

6. The corporation, not the stockholders, is liable for all its debts and other obligations. The stockholder cannot lose more than the amount invested in his or her shares of stock in the event the corporation fails.

**Pros & Cons**

Corporations are an effective method of organizing a business firm. They make it possible to accumulate the large amount of capital needed by modern business activities and to bring it under a single control.

More business activity is carried on through corporations in our country than by all other forms of enterprise together.

The corporation is especially suitable when the activity is large-scale and when, at the same time, those involved wish to avoid the risk associated with unlimited responsibility.

A corporation permits complete separation of ownership from control when stockholders do not care to participate actively in the business affairs or when the stock is so widely held that the stockholder's position as a "partner" is unrealistic.

In such a situation, the right of the individual stockholder to vote ceases to be a method of factual or effective control. The stockholder owning just a few shares seldom takes advantage of his opportunity to vote, and the managerial group, or a small group of organized stockholders, may get control of the corporation.
The Cooperative

A cooperative is a special type of corporation.

Facts About The Cooperative

While corporations try to make a profit for their stockholders, a cooperative is organized to provide services such as buying food, supplying gasoline, selling crops, providing health care, extending credit and banking services, and others.

1. Cooperative corporations need a charter from a state government to start, just like other corporations.

2. Cooperatives raise money by investments from their owners. (In a cooperative the owners are also the customers.) In cooperatives, owner/customers are called members. The cooperative may also borrow money from banks or other lenders.

3. Cooperative member/owners elect a board of directors to make business decisions. But in a cooperative, each member usually gets one vote. (1 member = 1 vote)

4. If a cooperative makes money, the money is returned to the members of the cooperative. This is called a patronage return. The patronage return is based on a member's use of the cooperative. If a member bought $1,000.00 worth of groceries at a cooperative food store, that member might get $20.00 returned. If a member bought $500.00, that member would get $10.00. Cooperative members have limited liability like the owners of other corporations. They are protected in case of loss.

5. Like other corporations, a cooperative will continue even when its membership changes.
The Member/User-Owned Cooperative

The member/user-owned cooperative corporation, like the investor-owned corporation, is created according to rules set by state law. It is a legal person, distinct from its members, and continues to exist despite new members joining and member deaths or withdrawals. A cooperative is owned and controlled by the people using its services.

Many farmers form and join cooperative corporations. People form cooperative corporations for stores in urban communities, credit unions, mutual insurance companies, and many other businesses. For example, Associated Press is a cooperative service that gathers news from around the world for member newspapers.

Cooperative corporations have these characteristics:

1. The cooperative corporation operates as an agent. It either buys and sells goods for its members or provides some service for them. Some cooperatives manufacture and process products. Farmer marketing and purchasing cooperatives act as business agents for farmers. Consumer cooperatives buy for and distribute goods to individual members. Credit unions and organizations like group health associations provide services for members.

2. Capital for cooperative corporations may be provided by the sale of stock that has, by law, a limited return, interest rate, or dividend. In nonstock cooperatives, capital may be obtained from membership fees. Additional capital may be borrowed from members as well as other lenders. The cooperative is responsible for debts to the limit of its assets. Members are responsible only for money each has invested.

3. Cooperatives are managed by officers who are hired by the board of directors. Boards of directors are elected by the cooperative members from their membership. Directors act for members, making policies and employing persons to transact business. Unlike the investor-owned corporation, each person or member of a cooperative usually has only one vote, no matter how many shares of stock the person owns.

4. Policies are decided at the annual meeting of members. Directors are elected at this meeting to make policy decisions between annual meetings.

5. Cooperatives usually charge enough for goods and services to cover costs. Net margins left over at the close of the business year are returned to members according to the amount of business each did with the cooperative. These returns are often called patronage refunds.

6. A cooperative member's ownership becomes an asset of the member's estate at death. Cooperative operation is not affected.
**Stockholder/Member Investor: What’s the Difference?**

Imagine the following situation: Students at two different schools in your town need a place to buy school supplies. At ABC Elementary, there is a nearby business, School and Office Supply Corporation, willing to start a store in the school. In the other school, XYZ Elementary, there is no nearby business willing to operate a school store. But the principal at this school says the students may form a School Supply Cooperative to operate a store. Read how each of the stores operates. Then answer the questions that follow.

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<tr>
<th>Corporation Objective</th>
<th>Cooperative Objective</th>
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<tr>
<td>When Mr. Brown, the manager of the local branch of the School and Office Supply Corporation, heard the students at ABC School needed a school store, he offered to set up and operate one.</td>
<td>When students at XYZ School discovered there was no existing business to operate a school store for them, they were disappointed. Then the principal suggested they form a student-owned cooperative.</td>
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<tr>
<td>Even after paying the school a rental fee, hiring a part-time helper to work in the store, and paying other expenses, Mr. Brown thought he would still make a reasonable profit on the business.</td>
<td>The co-op would operate like any other business by paying the school a rental fee and hiring a parent to work in the store part-time. The students thought that if they had money left over after expenses that would be fine. More importantly, their needed school supplies would be available.</td>
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<th>Corporation Control</th>
<th>Cooperative Control</th>
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<td>After the School and Office Supply Corporation store had been open for a while, students complained of the inconvenience of the store being open only during lunch. They asked Mr. Brown to consider opening before school, too.</td>
<td>After the School Supply Cooperative had been open for a while, students complained of the inconvenience of the store being open only during lunch. They asked the other members of the co-op to consider opening the store before school, too.</td>
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<tr>
<td>Mr. Brown studied this request. He found that if he hired someone to work in the morning and at noon, his profits would not be enough to make the store worth operating. So as much as he would have liked to help, he told the students he would not open the store before school.</td>
<td>When the co-op members studied this request, they found it would increase their operating expenses. But the cooperative members felt they could still come out a little ahead. Since their main goal was to provide a service to themselves, they voted to open the store before school, too.</td>
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<th>Corporation Results</th>
<th>Cooperative Results</th>
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<tr>
<td>At the end of the school year, Mr. Brown closed the ABC School store for the summer. His careful records of income and expenses showed that the corporation made a profit of $500 after taxes. The Board of Directors of the School and Office Supply Corporation used some of this money to improve the company. The rest was divided among the stockholders in the corporation. The more money a shareholder had invested in the corporation, the larger the return.</td>
<td>At the end of the school year, the School Supply Cooperative closed its store for the summer. Careful records of income and expenses — including the cost of extra labor — showed the cooperative had $200 after taxes. The Board of Directors of the School Supply Cooperative kept some of this money to open the store next year. The rest was returned to the members of the cooperative at XYZ School. The more money a student had spent at the cooperative, the larger the amount of return.</td>
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COOPERATIVE FACT SHEET #1

Cooperation has been a way of getting things done for many years. In the early days of our country, pioneers cooperated to clear land, build barns, harvest crops, and provide services of all kinds when a family needed help. This kind of cooperation is still evident today and is a basic ingredient in our churches, schools, clubs and fraternal societies, as well as being the most essential asset of any good FFA chapter. It was out of this spirit of cooperation that the first cooperative was established on Toad Lane in Rochdale, England.

In 1844, Toad Lane in the city of Rochdale, England, was just about as unappealing as its name. It was dark, grimy and lined with warehouses. But from this black soil was to spring a plan that has since flowered all around the world. On the ground floor of one of these cotton warehouses were the modest "premises" of a certain Mr. Dunlop. For the magnificent sum of ten pounds a year, the Rochdale Equitable Pioneers' Society had rented these premises for the purpose of setting up a cooperative store.

The total capital of the society was 28 pounds. Half of it was spent in trying to make something that faintly resembled a store. The other half went for stock—a pathetically scanty supply of flour, butter, sugar and oatmeal. And on the evening of the 21st of December 1844, Mr. Samuel Ashworth, another hardy pioneer who had agreed to work for nothing if the venture collapsed, or three pence an hour if it showed a profit at the end of the quarter, swung back the great folding warehouse doors, and announced the store open for business.

The tradesmen of the town had got wind of the fact that a competitor was about to appear among them, and they clustered in Toad Lane to have a look at the inauguration ceremonies. Nor was their mood one of hearty and uncritical acclaim. But far more than the tradesmen were the doffer boys—lads of 10 to 15 who earned their few pence a week taking off full bobbins from the spindles and putting on empty ones, in the steamy sweat of the Lancashire cotton mills. After a day in that disciplined inferno, they were ready to begin any sort of riot anywhere. Toad Lane was full of them, running, screaming, jeering, and holding their sides as they pointed at Sam Ashworth, standing white-faced, but plucky, beside his attenuated piles of "flour, butter, sugar and oatmeal." Meanwhile one of the tradesmen roared that if he had brought his wheelbarrow, he could have taken the whole stock away in it. It was a ghastly few minutes. A handful of the Pioneers stood trembling in the warehouse, uncertain whether to buy or make a bolt for it. History does not record that the doffers pelted them, but laughter is often a keener weapon than paving stones. But they knew what it was to be laughed at—these weavers of Rochdale, who had dreamed dreams before—they gave their caps another pull over their eyes, they held their ground, and in the end they bought. ...And since that raw December night, three generations of doffer boys have purchased their butter and oatmeal, aye, and their caps and their boots and their jackets, at the "owd weaver's shop" that 28 pounds, and 27 men and one woman, started in Toad Lane.

Rochdale is in the heart of the Lancashire cotton belt. England built her Victorian supremacy on her coal, her shipping and her manufactured cotton, but she paid a bitter price in human life and happiness for that supremacy. Nowhere were conditions worse than in these early Lancashire mills. The hours were as long as the wages were short. Men, women, and children worked from six in the morning to eight at night for a penny or two an hour. It was not life but a living that they led. No group was more badly off than the flannel weavers. There were 1500 people in Rochdale existing on 45 cents a week in 1841, according to a Parliamentary report.
(Cooperative Fact Sheet #1 continued)

In the fall of 1843 the mills were doing a fair business in Rochdale. The weavers accordingly determined to ask for a wage increase. They appointed a delegation to stand cap in hand before the masters and plead their case. They had no union, only a united desire to move the wolf one small step farther from the door. The masters told them as usual that a wage increase would be the ruin of the industry; that it would drive capital out of the country; that it would raise prices and leave the weavers worse off than ever. It would be an awful thing indeed if capital should leave the country. But a few of them, instead of relinquishing all hope of moving the wolf, began to speculate as to the possibilities of accomplishing the same results by accepting the old wages, but lowering the cost of living—in short by making a penny go farther. And so, "at the close of the year 1843, on one of those damp, dark, dense, dismal days which no Frenchman can be got to admire, a few poor weavers nearly out of food and quite out of heart with the social state, met together to discover what they could do, to better their industrial condition. ...What should they do? They would commence the battle of life on their own account. They would (as the eloquence grew warmer) supercede tradesmen, mill owners, and capitalists; without experience, or knowledge, or funds, they would turn merchants and manufacturers.

In a few years' time, the jeers of the doffer boys had turned into rousing British cheers, while the rival tradesmen were laughing out of the other side of their mouths.

Now the thing that made the store go—apart from the unlimited devotion of its founders—was a code of cooperative principles that has come to be known as the Rochdale system.

1) Each member gets one vote to assure democratic control.

2) Interest on invested capital is limited to make possible more savings for the member-users.

3) Net margins are distributed to members in proportion to their use of the cooperative. What is left after paying the bills belongs to the member-users.

(Excerpts from The Story of Toad Lane, Stuart Chase)

Terms which are important in a study of cooperatives:

1) Mutual—Shared in common

2) Patron—A regular customer

3) Patronage Dividend—A patron's share of the net savings

4) Regional Cooperative—A cooperative owned and controlled by local cooperatives to provide a common service to the local cooperatives

5) Interregional Cooperative—A cooperative owned and controlled by regional cooperatives to provide a common service to the regional cooperatives.
It has been said that "wherever there is a human need, a cooperative can be established to meet that need."

Human needs vary a great deal from time to time, place to place, and people to people. To meet the many needs we have, we organize cooperatives as purchasing or supply cooperatives, marketing cooperatives, or as service cooperatives.

Purchasing or supply cooperatives are formed when people have a need for products which is not being met. The need is equally as great if there is a supplier of these products but the price is too high, the quality is too low, or for any other reason that does not meet the satisfaction of the people with the need for products. People use many products which they must purchase. Cooperatives can be established to purchase those products and distribute them to the member-users at the lowest possible cost and pass any net savings on to them.

Marketing our products which result from our efforts is also a need. Producers join together cooperatively to enhance their effectiveness in the market place. Individual producers have little control of their products and are dependent upon others to give them a fair price for their products. Through a marketing cooperative a producer can control his product and with other producers he can purchase facilities to process his products and maximize his net returns in the market place. Any net savings are allocated to him on the basis of the amount of business he has done with the cooperative during the year.

Other needs which people have that are not supply or marketing are classified as service needs. Thus, other types of cooperatives which can meet our human needs are service cooperatives. Service cooperatives provide a variety of services to a wide variation of people, each with a specific need. Sometimes, supply cooperatives and marketing cooperatives offer services to their member-users as well, but are called supply or marketing cooperatives because most of their activity is in supply or marketing.

If everyone in the community, state, or nation has a common need which cannot be met by the private enterprise system, including cooperatives, then we turn to our local, state, and federal government to meet that need. Taxes of all kinds, in addition to license fees, help to pay for these government services.
LEGISLATIVE BACKGROUND FOR PASSAGE OF THE CAPPER-VOLESTEAD ACT

During the fall of 1917, the National Milk Producers Federation proposed that steps be taken to establish the farmers' right to organize and operate cooperative associations without fearing conflict with the antitrust laws. Their resolution proposed that "producers and consumers are bound together by economic laws which they did not make and which they cannot repeal. Between these two are powerful agencies whose only interest it is to take such toll as they may, as products are passing from producer to consumer. These agencies, by reason of their financial strength, their perfect organization, and their far-flung financial connections, exercise an influence far greater than is warranted by their numbers or the service they perform. We therefore urge upon Congress the necessity of such an amendment to the antitrust laws as will clearly permit farmers' organizations to make collective sales of the farm, ranch, and dairy products produced by their members. Such organizations, with liberty of action, can insist that the agencies engaged in processing and distribution sell such products at prices as low as may be consistent with the cost of production and distribution."

This was the first crystallization of the drive of farmer cooperative organizations for remedial legislation relating to the antitrust laws. It was to result five years later in the passage of the Capper-Volestead Act.

In response to this resolution a bill was drafted to achieve the desired objective. The chief draftsman was John D. Miller, who as chairman of the Legislative Committee of the Dairymen's League had successfully led the fight for remedial cooperative laws in the New York State Legislature.

After the bill was drafted, Senator Arthur Capper, a Republican, agreed to sponsor the bill in the Senate. In the House, Congressman Hersman, a Democrat from California, sponsored the bill.

As could be expected, the bill met with vigorous resistance from handlers of farm products.

Hearings were held on the Hersman bill but no formal action was taken by Congress on the measure during 1919. Following the hearings, Congressman Volstead, then chairman of the House Judiciary Committee, invited Mr. Miller to his office for a conference. Mr. Volstead indicated that his committee had become convinced that some such law should be enacted, but that he had two suggestions to make. One was that the bill be sponsored in both houses by Republicans because the Republican party would probably be the dominant party in the coming session of Congress. Mr. Volstead's other suggestion was that "the prospects of having the bill pass the house would be largely increased if some provisions for the regulation of farmer cooperatives were added so that if they demanded excessive prices appropriate action could be taken by some public official."

Congressman Hersman agreed with the logic of Volstead's suggestion that he give up the sponsorship of the bill in favor of a Republican, and after a conference between Congressman Volstead and the officials of the farm organizations that were supporting the bill, Mr. Volstead consented to sponsor it in the House.
The legislative history of the Capper-Volstead Act makes it clear that it was not pushed through Congress without careful study and much debate.

**Influence of Capper-Volstead Act, 1922-1945**

Farmers and farm leaders welcomed the Capper-Volstead Act as "The Magna Charta of Cooperation." It gave the green light for the development of strong, well-organized, and well-financed cooperative marketing associations, and under its protection and guidance, cooperative marketing was to flourish as never before.

In giving federal recognition to the cooperative form of business organization, the act provided a set of workable definitions that could be used in compiling government statistics, in legislation, and in regulations relating to cooperatives. Moreover, the Capper-Volstead Act paved the way for passage of the Cooperative Marketing Act of 1926, which established a program of government research and educational assistance to farmers in developing their cooperative organizations. This act also supplemented the Capper-Volstead Act by providing that (Capper-Volstead-type cooperatives) "may acquire, exchange, interpret, and disseminate past, present, and prospective crop, market, statistical, economic, and other similar information by direct exchange between such persons, and/or such associations or federations thereof, and/or by and through a common agent created or selected by them."

It would be hard to estimate what would have occurred in cooperative development if the Capper-Volstead Act had not been passed in the form it took. One positive result of the act was to open the throttle for cooperative marketing advancement. It encouraged the formation of strong, large-scale marketing cooperatives operating either as federated or as centralized organizations.

The Capper-Volstead Act did much to gain judicial acceptance for the cooperative form of business organization.

The Capper-Volstead Act stood as a guardian to the farmers' "right to organize and operate strong cooperative marketing associations." Significantly, the act also served as a foundation for the Agricultural Marketing Act of 1929 which declared it to be the policy of Congress to promote "the effective merchandising of agricultural commodities...so that the industry of agriculture will be placed on a basis of economic equality with other industries...(3) by encouraging the organization of producers into effective associations or corporations under their own control for greater unity of effort in marketing and by promoting the establishment and financing of a farm marketing system of producer-owned and producer-controlled cooperative associations and other agencies."

It is also significant that the Federal Farm Board, 1929-1933, and the Banks for Cooperatives of the Farm Credit Administration after 1933, followed the criteria of the Capper-Volstead Act in defining associations eligible for borrowing.

(Excerpts from *Capper-Volstead Impact on Cooperative Structure, FCS #97*)
(Cooperative Fact Sheet #10 continued)

In conformity with the suggestions made by Congressman Volstead, the bill was rewritten and submitted to Senator Capper, Mr. Volstead, and the representatives of the farm organizations. After several conferences with these parties, the bill was at last drafted in substantially the form of the finally enacted Capper-Volstead Act. It was then introduced in the Senate by Mr. Capper and in the House by Mr. Volstead.

Section 1 of the bill creating the Capper-Volstead Act reads as follows:

"Be it enacted, etc., That persons engaged in the production of agricultural products as farmers, planters, ranchmen, dairymen, nut or fruit growers may act together in associations, corporate or otherwise, with or without capital stock, in collectively processing, preparing for market, handling, and marketing in interstate and foreign commerce, such products of persons so engaged. Such associations may have marketing agencies in common; and such associations and their members may make the necessary contracts and agreements to effect such purposes. Provided, however, that such associations are operated for the mutual benefit of the members thereof, as such producers, and conform to one or both of the following requirements:

"First. That no member of the association is allowed more than one vote because of the amount of stock or membership capital he may own therein, or,

"Second. That the association does not pay dividends on stock or membership capital in excess of 8 percentum per annum.

Section 2, which endeavored to meet Congressman Volstead's suggestion that some provision be made for regulating cooperatives under the act, "authorized the Secretary of Agriculture, if and when he found that farm cooperatives had unduly enhanced prices, to order them to cease and desist from enforcing such prices and if they neglected to obey such order an action at law should be instituted by the Attorney General requesting the court to enforce such order."

A great deal of effort was needed to get final passage of the bill, especially in the United States Senate.

To provide momentum for the bill, the Secretary of Agriculture called a National Agricultural Conference, June 23-27, 1922, which brought together representatives of agricultural, labor, business, and other organizations. In the opening address at this conference, President Warren G. Harding said: "American farmers are asking for, and it should be possible to afford them, ample provision of law under which they may carry on in cooperative fashion those business operations which lend themselves to that method, and which, thus handled, would bring advantage to both the farmer and his consuming public."

With this manifestation of great popular support for the Capper-Volstead bill, the Senate moved rapidly to consider the measure. After several days of debate, the bill was finally passed on February 8 in the form passed by the House with the exception of an amendment to section 1 which provided "that the association shall not deal in the products of nonmembers to an amount greater in value than such as are handled by it for members." The House quickly concurred in the Senate amendment and with the President's signature, the bill became law on February 18, 1922.
Cooperatives have a significant economic and social impact on our local, state, and national well-being. The cooperative is a financially self-supporting business which is owned and controlled by the member-users of the cooperative. For the most part, money for the operating and growth of the cooperative comes from the member-users through their patronage or use of the business. A certain portion of the net savings of the cooperative is allocated to the patrons who "plow it back" into the cooperative where it is temporarily retained for growth and operating expenses. The remainder is distributed in the form of cash to the patron. It is not possible for the cooperative to pay out 100% of the net savings in the form of cash unless the cooperative has enough assets to borrow all of the money needed for operating capital, new services, expansion, etc., or sells stock to the patrons for cash.

The portion of the patron's allocation of net savings which is retained in the cooperative is registered in the patron's name in the cooperative books and becomes part of the revolving capital system. The revolving capital system may be explained as follows:

As a member does business through his cooperative, he authorizes the cooperative to use a portion of the money the cooperative has accumulated or saved through his patronage. The money thus collected by the cooperative from its patrons is credited to the member on the cooperative books. The capital accumulated in this manner may be treated as a revolving fund. As a general rule repayment goes first to those members whose contributions are the oldest in the revolving fund.

A patron knows what portion of the cooperative savings are his by receiving a written notice from the cooperative which shows his share of the net savings. Receiving the written notice may constitute additional income to the patron even though it is not received immediately as cash. The notice is evidence of further investment in the cooperative that will be redeemed in cash at a later date. This money held in the revolving fund represents the capital which the cooperative has invested in buildings and equipment and amounts used for paying all financial obligations which the cooperative may have during the year. Most cooperatives do not pay dividends to the patrons on this capital investment because dividend payments would reduce the amount of cash available to redeem the patron's earnings of a prior year in the revolving fund or reduce the amount of cash available to pay out current earnings. Payment of dividends would slow down the payments in cash of the oldest capital held in the revolving capital fund.

Some cooperatives do pay dividends on capital, but most states set a limit on the dividend which can be paid. As we can see, the cooperative benefits the patron directly by returning his portion of the net savings back to him.
THE CAPPER-VOLSTEAD ACT

(Public—No. 146—67th Congress)
An Act to Authorize Association of Producers of Agricultural Products

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,
That persons engaged in the production of agricultural products as farmers, planters, ranchmen, dairymen, nut or
fruit growers may act together in associations, corporate or otherwise, with or without capital stock, in collectively
processing, preparing for market, handling, and marketing in interstate and foreign commerce, such products of
persons so engaged. Such associations may have marketing agencies in common; and such associations and their
members may make the necessary contracts and agreements in effect such purposes: Provided, however, That such
associations are operated for the mutual benefit of the members thereof, as such producers, and conform to one or
both of the following requirements:

First. That no member of the association is allowed more than one vote because of the amount of stock or
membership capital he may own therein, or,

Second. That the association does not pay dividends on stock or membership capital in excess of 8 per centum per
annum.

And in any case to the following:

Third. That the association shall not deal in the products of nonmembers to an amount greater in value than such
as are handled by it for members.

Sec. 2. That if the Secretary of Agriculture shall have reason to believe that any such association monopolizes or
restrains trade in interstate or foreign commerce to such an extent that the price of any agricultural product is
unduly enhanced by reason thereof, he shall serve upon such association a complaint stating his charge in that
respect, to which complaint shall be attached or contained therein, a notice of hearing, specifying a day and place
not less than thirty days after the service thereof, requiring the association to show cause why an order should not
be made directing it to cease and desist from monopolization or restraint of trade. An association so complained of
may at the time and place so fixed show cause why such order should not be entered. The evidence given on such
a hearing shall be taken under such rules and regulations as the Secretary of Agriculture may prescribe, reduced to
writing and made a part of the record therein. If upon such hearing the Secretary of Agriculture shall be of the
opinion that such association monopolizes or restrains trade in interstate or foreign commerce to such an extent that
the price of any agricultural produce is unduly enhanced thereby, he shall issue and cause to be served upon the
association an order reciting the facts found by him, directing such association to cease and desist from
monopolization or restraint of trade. On the request of such association or if such association fails or neglects for
thirty days to obey such order, the Secretary of Agriculture shall file in the district court in the judicial district in
which such association has its principal place of business a certified copy of the order and of all the records in the
proceeding, together with a petition asking that the order be enforced, and shall give notice to the Attorney General
and to said association of such filing. Such district court shall thereupon have jurisdiction to enter a decree
affirming, modifying, or setting aside said order, or enter such other decree as the court may deem equitable, and
may make rules as to pleadings and proceedings to be had in considering such order. The place of trial may, for
cause or by consent of parties, be changed as in other causes.

The facts found by the Secretary of Agriculture and recited or set forth in said order shall be prima facie evidence of
such facts, but either party may adduce additional evidence. The Department of Justice shall have charge of the
enforcement of such order. After the order is so filed in such district court and while pending for review therein
the court may issue a temporary writ of injunction forbidding such association from violating such order or any
part thereof. The court may, upon conclusion of its hearing, enforce its decree by a permanent injunction
forbidding such association from violating such order or any part thereof. The court may, upon conclusion of its
hearing, enforce its decree by a permanent injunction or other appropriate remedy. Service of such complaint and
of all notices may be made upon such association by service upon any officer or agent thereof engaged in carrying
on its business, or any attorney authorized to appear in such proceeding for such association, and such service shall
be binding upon such association, the officers, and members thereof.

Co-op 101
(Table of Contents)

A series of one and two-page papers regarding some aspect of cooperative understanding to include…

- An eight-page document on “As the Board Chairman, How Do I Manage the Board”
- A four-page Do’s and Don’t’s paper on serving as a director titled, “How to Rise Above the Crowd”
- A two-page paper on “Ten Plus Ideas for Better Board/Member Communication”
- A paper on “Cooperative Principles”
- A paper on “Cooperative Board/General Manager Roles”
- A two-page paper titled, “Universal Challenges Facing Cooperatives”
- A paper on “Steps in Organizing a Cooperative”
- A paper distinguishing between a “Centralized” and “Federated” regional cooperative
- A paper describing “Types of Membership” and “Nonexempt” vs. “Exempt” cooperatives
- A two-page paper titled “Cooperative Director’s Code of Conduct”
- A paper titled “A Creed for Cooperative Members”
- A paper titled “Common Problems Faced by New/Start Up Agricultural Cooperatives”
- A two-page paper titled “Advantages of Trading Through a Cooperative”
- A paper worksheet titled “Co-op RISK Exposure Model”
- A two-page paper titled, “Cotton—Annual Co-op Board Governance Program of Work”
- A two-page paper titled “Grain and Farm Supply—Annual Co-op Board Governance Program of Work”
- A two-page paper titled, “Parliamentary Procedure Table of Motions”
- A two-page paper titled “Distinguishing Characteristics Among Cooperative Types”
BOARD CHAIRMAN

How do I manage the Board?

With respect to:

...increasing pressure to stay competitive
...during the board meeting itself
...when the board is polarized on personalities & issues
...when dealing with anti-coop customers
...handling delicate issues with management
...staying challenged and on the cutting edge
...for the coop itself rather than for members only
...appropriate training for board members

ASK YOURSELF

- What are the 3 most important decisions the board has made in the last three years?

- What are the 3 most important decisions to be made in the next three years?

WHAT YOU CAN DO

- Make sure the right questions are on the table.
- What are the 2 or 3 strategic issues facing the company?
- Make sure the board has the right info and data.
- Make sure board members talk to members.
- Make sure every director receives training necessary for becoming a qualified director.
- Make sure every director is involved and contributes.
- Make sure every director thinks of the coop needs first.
- Keep directors excited and interested in being on the board.
HELP THEM TO REMEMBER

- Board is not the suggestion box.
- Board is not the complaint department.
- The main thing is to make sure that the main thing is really the main thing.
- Stewardship is their job. And Stewardship is the BIG and very LONG term picture.
- Wisdom is what they contribute.

STAYING COMPETITIVE

No business can survive indefinitely by selling its goods and services below cost.

In order to compete, a business must operate with a cost structure that is less than what it sells it goods and services for.

The successful business is the one that has learned how to be a low cost supplier.

STAYING COMPETITIVE

Low cost suppliers are very good at:

- Maximizing asset utilization
- Assembling and managing a highly effective and efficient human resource group.
- Being efficient managers of inventories and accounts receivable.
- Developing good business strategies.
- Knowing the real needs of their customers.
- Finding ways to deliver superior products and services to their customers.
BOARD MEETINGS

Reasons for unproductive board meetings:

* Insufficient time to review materials before the meeting.
* Insufficient member participation.
* Poor time management during the meeting.

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BOARD MEETINGS

How to get board members more involved:

* Use committees of board members:
  ...Insurance review
  ...Audit committee
  ...By-Laws committee
  ...Policies committee
  ...Member Relations committee

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BOARD MEMBER INVOLVEMENT

* Each director should serve on one or more committees.
* Committees give reports to entire board periodically throughout the year.
* Give each committee meaningful work with responsibility to the board.
* Try to provide individual assignments to members of the committee.
THE BOARD IS POLARIZED

* When humans interact—Conflict often follows.
* A group of successful people each have their own ideas about how to do things.
* Sometimes individuals don’t trust each other.
* Competing goals within the board.
* Success often breeds arrogance. (my way or the highway)

DEALING WITH CONFLICT

* Don’t avoid conflict, it causes resentment to build.
* Encourage discussion from all directors.
* Focus on business, not personal issues.
* Ultimately someone must make a decision.
* Turn assertions into questions—then really listen to answers.
* Once the group makes a decision, don’t allow complaints or second-guessing.
* If someone wants to complain about another, make certain the target of the criticism is present.

DEALING WITH CONFLICT

When conflict is de-personalized and treated as a business issue, it is possible to boost performance and create a group that is strategically aligned.

Although conflict is inevitable, smart organizations channel it into positive energy.

How the Chairman handles conflict is a powerful indicator of how successful the board will be.
ANTI-COOP CUSTOMER

This guy has a thousand reasons to hate the coop.
* Dad did not like and did not use coop.
* Coops don't pay taxes
* Coops are organized like communism
* Coops ruin private businesses
* Government laws favor coops
* Coops have unfair advantages over privates

ANTI-COOP CUSTOMER

How to handle this guy:
* Listen to what he is really saying. Does he believe it or is he "parroting"?
* Find out why he feels that way.
* Don't get emotional (even if he does).
* Don't try to answer his reasons on the spot even if you know the answer. Get back to him.
* Give him the facts for each of his objections.
* If he won't listen, don't make him angry. Part friends if possible.

DELICATE ISSUES WITH MANAGEMENT

THINGS NOT TO DO:
... Never ignore the issue, it won't go away.
... Don't try to find who's at fault—Find the solution.
... Don't discuss with anyone other than those involved.
... Don't second-guess the issue or what happened.
... Don't keep a closed mind to your view only—hear both sides.
... Look for the opportunity for both sides to gain maturity.
STAYING ON THE CUTTING EDGE

6 reasons why leaders fall off the cutting edge
1. Achieved their dream. (leaders who last keep dreaming)
2. Lose Touch. (leaders who last listen)
3. Stagnant Growth. (leaders who last keep growing)
4. The fear factor. (leaders who last, take action in spite of their fears)

STAYING ON THE CUTTING EDGE

6 reasons why leaders fall off the cutting edge
5. The sheep-recruiting leader. (leaders who last, recruit strong people)
6. Fatigue (leaders who last, pace themselves).

FOR THE COOP ITSELF

WHAT DO THE MEMBERS NEED MOST OF ALL?

... Quality and competitive products and services provided by the coop.
... Be able to count on the coop being there for them in the future.
... Being comfortable that they will get their equity from the coop when they are through farming.
FOR THE COOP ITSELF

WHAT THE BOARD MUST REMEMBER:

- A broke (out of business) coop serves no one.
- You can't sell for less than cost (for very long).
- Coop dividends are not the farmers total source of profit (they are the icing on the cake).
- Deferred dividends create liabilities (debt).
- What is best for the coop is usually best for the members.
- First and foremost your job is to ensure the business continues to be a business.
- PROFIT is a six letter word, not a four letter word.

FOR THE COOP ITSELF

- Growth from Earnings

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FOR THE COOP ITSELF

- Growth with borrowed money

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BOARD TRAINING

WHAT EVERY DIRECTOR SHOULD KNOW:
... How to read and understand the P&L and the Balance Sheet.
... The dividing line between the directors' job and that of the manager.
... How to appraise the manager's performance.
... What the members are thinking as well as their needs.
... What makes a business strong.
... Their real job is to bring WISDOM to the position.

HOW DO I MANAGE THE BOARD?
"LEADERSHIP"

WHAT IS LEADERSHIP?
... It is building a WE team, not a dictatorship.
... It is getting EVERY MEMBER of the board involved.
... It is making sure the board is focusing on the RIGHT things.
... It is being TACTFUL when dealing with individuals.
... It is injecting ENTHUSIASM into the board.
... It is making sure the board focuses on the COOP.
... It is keeping the BOARD and MANAGER working together as a team. (Not allowing the board to
How to Rise Above the Crowd

Sometimes the biggest question on a new director’s mind is “what do I do now?” Here are some suggestions gathered from cooperative managers and board members on what is expected of the very best cooperative directors.

Perhaps if we described a general manager as the arms and legs of the business, we would likewise describe the board of directors as represented by the head, giving direction, purpose, and oversight to all aspects of the business.

For a cooperative business, we could extend this metaphor further and say the directors are the very heart of the business, acting in good faith to maintain its vitality. They are selected by their peers and fellow members to protect their common interests and safeguard the value of their investment.

These directors are called on to lend their expertise and time in setting a strategic course that will enable the cooperative to flourish. They are to set policies that accomplish the mission of the cooperative while ensuring the equitable treatment of its members.

Showing due diligence in the fulfillment of their duties, the board will actively assess the performance of the cooperative, themselves, and their single hire (the general manager), making corrections as appropriate.

They are to know the inner workings of their business and its weaknesses in order to strengthen it while simultaneously watching for outside forces that could destroy it. After proper consideration of all this, they are to responsibly distribute net benefits in such a way that preserves the character and intent of the cooperative.

That is quite a job description! Its no wonder that many newly elected directors are overwhelmed with the responsibility of the position. It can be difficult to step into the role of director without a clear vision of the final result.

With this in mind, we have collected suggestions from cooperative managers and board chairmen as to the duties, expectations, and strengths of the successful director. We present these here, noting that some are particularly appropriate for board chairmen, but equally useful for all directors, especially in light of the chairman’s role as an exemplary director.

Please note that these are actual quotes from managers and board chairman. As such, there are comments that are specific as to gender and religion. The intended principles however, are applicable to all successful directors.
Expectations of Directors
1. Stay informed.
2. Be prompt to board meetings.
3. Hire and manage only one person in the co-op—the general manager.
4. Be willing for continual training.
5. Direct ALL employee-related issues to the general manager.
6. Make decisions on behalf of the co-op, not in the "farms" best interest.
7. Come prepared to give your full attention during board meetings.
8. Set the example—trade and otherwise be loyal to the co-op.
9. Train and educate yourself to have an understanding of the audit and financial statements.
10. Do whatever it takes to have a depth of understanding about the membership of the co-op.
11. Work at attending board meetings regularly.
12. Live within the policies and guidelines on such things as the credit policy.
13. Set policy and direction of the organization and then monitor.
14. To disagree in the board room is allowed, but not leaving as one voice is not.
15. Be transparent, yet professional in reporting on operations.
16. Respect and honor conflict of interest issues.
17. Develop a mindset that time spent at the co-op in meetings is an important part in the success of the co-op.
18. Have a team relationship with the general manager.
19. Most co-ops need more leadership, not the laid back approach.
20. View the management/board experience as a team relationship.
21. In difficult times, find ways to keep a positive focus.
22. Conduct frequent strategic planning exercises.
23. Question, yet support decisions of management.
24. Stay current and aware of the status of co-op operations, even if that means frequent one-on-one visits with the general manager.
25. Take an increasing responsibility over the major expenditures of the organization.
26. Make it a strategic effort to interact and transfer information to the membership.
27. Be willing to make the tough decisions, based on sound information and data, and then stick to it.
28. Take charge of participating in more regional and TACC meetings.
29. Allow the general manager to manage.
30. Take high professionalism and ethics into your responsibility.
31. Have a focus and willingness to work with fellow directors during board meetings.
32. Work at being open to change and new ways of doing business.
33. Do things to get better involved in monthly board meetings.
34. Make decisions based on numbers.
35. Leave all personnel decisions including compensation, to the general manager.
36. Have an understanding of director versus general manager roles—both limitations and responsibilities.
37. Avoid "chasing rabbits" in board meetings by being prepared and focused.
38. Be current on your individual accounts with the co-op to avoid potential embarrassment.
39. Seek value for members.

Duties of the Chairman
1. Provide shareholder value.
2. Seek professional legal, and audit counsel, when and where appropriate.
3. At random and unannounced times, inspect financial records.
4. Make sure that a wealth of information is afforded all directors so they can make an "informed" decision.
5. Manage sensitive board and co-op issues before arriving at the board meeting.
6. Take a proactive approach to not depend on the CEO as much as we traditionally do.
7. Study industry trends that apply to your company that represent threats and opportunities.
8. Counsel with select members to foster future leadership.
9. Obtain management feedback outside of the boardroom.
10. Manage the "currentness" of the bylaws.
11. Set an example of being a good listener.
12. Be a sounding board for management.
14. Monitor the strategic plan.
15. Manage the board.
16. Manage director and management conflicts.
17. Establish an annual calendar for planning and evaluation.
18. Publicly recognize and edify the CEO.
19. Communicate a vision of the organization on a regular and opportune basis.
20. Manage director conflict of interest.
21. Run interference with the board for management.
22. Articulate positions well.
23. Keep board meetings focused.
24. Be a mediator or buffer between directors and management.
25. Work hard to make appropriate people feel “included” as situations warrant.
26. It is expected of you to play a “referee” role as warranted.
27. Manage ethical conduct of directors.
28. Work hard at not being “one of the good ole boys”.
29. Manage internal controls of the organization.
30. Manage the evaluation and compensation of management.
31. Manage the effectiveness of the board.
32. Manage membership expectations.
33. Manage developmental skills and competencies of directors.
34. Stay visionary or three steps ahead... always anticipate.
35. Set an example of attitude and company culture.
36. Insist on strategic planning.
37. Be a partner with the CEO.
38. Require directors “to do their homework”.
39. Cause others to act.
40. Set director expectations higher than the rest of the membership.
41. Manage any confidentiality issues of directors.
42. Provide leadership over decision-making on issues of “farmer versus co-op” mentality.
43. After a sensitive vote, insist to the board that all should now support the decision.
44. Solicit co-op problems from the CEO and be proactive to bring these concerns to the board.
45. Encourage teamwork among the directors and CEO.
46. Call for “executive session” as necessary.
47. Practice established parliamentary procedure.
48. Identify weak directors and work to improve them.
49. Be a role model and set an example.
50. Manage “director involvement into management” issues.
51. Manage membership dissension issues.
52. Manage director and director/manager personality conflicts.
53. Handle director preferential treatment issues.
54. Support actions of management.
55. Make sure everyone has had their chance to be heard.
56. Manage director attendance issues.
57. Listen much, talk little.
58. Ask questions and encourage others to do so.
59. Encourage input.
60. Set board agendas and adhere to it.
61. Adopt company policies.
62. Manage director and management succession issues.
63. Appoint committees and their leadership.
64. Inspect facilities as warranted and announced.
65. Manage the minutes.
66. Trade 100% with the organization when allowable and manage the correction of those who don’t.
67. Keep records of assignments and follow-up.
68. Oversee that management executes policies.
69. Manage the setting of strategic goals.
70. Manage the oversight of corporate compliance.
71. Direct the hiring and firing of company management.
72. Be responsible for deciding who has access to board meetings.
73. Cause yourself to have frequent interaction with the general manager.
74. Manage the hiring and work of the auditor.
75. Hold the CEO accountable.
76. Manage the company’s banking relationship.
77. Manage the equity retirement, versus savings, versus patronage distribution issues.
78. Insure that appropriate co-op leadership is bonded.
79. Provide oversight of financial investments of the company.
80. Be informed on the operations of the co-op and its closest competitors.
81. Within your jurisdiction, monitor accounts receivables.

Admired Strengths of the Board Chairman

1. He is business-minded and as such treats the co-op as a business center.
2. He has an understanding of what it costs to do business and thus does not expect me to perform magic when it comes to spending money.
3. Leads by setting a good example.
4. He does not involve himself in the daily workings of the co-op and thereby allows employees to do their jobs.
5. He is a leader and is not easily shaken by delicate issues.
6. He takes his job very seriously and wants to make the effort to do a good job.
7. He takes time to attend meetings and to discuss issues with the general manager.
8. He is very level-headed and fair.
9. He understands the importance of change in a changing environment.
10. Very religious.
11. Cares about others before himself.
12. He takes control of the meetings and is a strong moderator.
13. Open-minded and honest.
14. He asks hard questions about problems without jumping to conclusions!
15. My chairman has the ability to keep directors working together.
16. He has the foresight and vision to change from wearing a farmer's hat to a director's hat.
17. Supports the management team.
18. He sees through problems to find solutions.
19. Is open to new ideas!
20. Is a very good listener!
21. Thoroughly understands the role of the board of directors team.
22. Does not let the meeting deteriorate to "chasing rabbits."
23. He is excellent at resolving conflicts with members.
24. He leads, but is also willing to express his opinion.
25. He is good at setting policy for the organization and supports me 100%.
26. He is thought of as a man of great wisdom.
27. Has a strong commitment to bettering the co-op.
28. He has compassion for the co-op.
29. I always know that I have his support no matter how bad the situation gets.
30. Well respected by the directors as well as the members.
31. He is mild-mannered.
32. My chairman was once a co-op general manager so he understands my daily pressures.
33. He has lots of experience.
34. He is always thinking and thinking ahead.
35. Has the ability to make suggestions and think outside the box without being pushy.
36. He is great at transferring managerial issues to the board room so that they can get properly addressed.
37. He is bold and challenges the directors.
38. While he mixes well with the directors, when it comes board meeting time, he has a tendency to distance himself so as to remove emotions and personal preferences from his decision making.
Ten Plus Ideas for Better Board / Member Communication

By Robert A. Floyd, CAE
President
Floyd Consulting Group

At a recent TSAE Communication SIG, Robert presented his “Top Ten Plus” list for better communications between an association’s board and its members.

1. Seek First To Understand, Then To Be Understood (Habit 5, The Seven Habits of Highly Effective People by Stephen Covey)  
“Most people do not listen with the intent to understand; they listen with the intent to reply.” We have a tendency to rush in and try to fix things and we often fail to take the time to diagnose, to really understand what the problem is. You have to build the skills of empathic listening on a base of character that inspires openness and trust. People want to be understood and whatever investment of time it takes to do this will bring great rewards in terms of understanding and trust...and influence.

2. Be Attentive  
Tom Peters writes, “In the age of e-mail, supercomputer power on the desktop, the Internet, and the raucous global village, attentiveness—a token of human kindness—is the greatest gift we can give someone.” Use technology wisely and effectively. You’re in the business of satisfying your members’ needs and that means giving them personal - - not electronic- - attention.

3. Face-to-Face Communications  
It is easy to get complacent with technology, but face-to-face is still the best method of communicating with the board. Less time, more work, less resources, more commitments. It is hard to do, but always well worth it when you can and when the issue is truly important. Take the company plane. Herb will appreciate the business and your board member will appreciate the extra effort.

4. Follow-up...Always  
Nothing can solidify a relationship or build trust better than doing what you say you will do. Walking your talk. Tom Peters: “How does a major project get to be a year late? One day at a time!” Return phone calls promptly. Little stuff or big stuff, always follow through and up.

5. Open Forum  
At each Board meeting schedule an hour on the agenda where board members can bring up any subject that they want to discuss. If the subject has merit, it can be referred to the appropriate staff person, committee and channeled through the normal process.

6. No Surprises  
The last thing an association executive wants to happen is to have the board read in the paper (or some other outside source) something about their association that they didn’t know before. The staff can lose all credibility. Don’t hide bad news from the board. Give it to them sooner rather than later. Don’t duck controversy or minimize difficulty. Communication should be open and honest with no hidden agendas.

7. Know The Board Inside-Out  
Board members have individual perspectives, experiences, motivations, attitudes and capabilities. The better the understanding of every board member, the more successful the staff will be in communicating and working with the board. Be aware of what is going on in the board members’ lives away from the association.

8. Treat The Board As One Of The Association’s Most Important And Precious Resources  
Make a genuine commitment to a strong board. A traditional way of thinking is the less that is heard from the board, the better! A board, however, is critical to the vitality and growth of an association. The relationship between the board and staff should be a partnership, based on trust and accountability. Douglas Edie writes “Chief Executives...tend to devote not less than 25 per cent of their time on
average to supporting their boards. And this is quality
time, not Sunday night-at-the-eleventh-hour
time."

9. Clear Agreement On What Constitutes Success
There needs to be a clear understanding between the
Chief Staff Executive and the Board on the mission,
goals and objectives of the association. Performance
targets require detailed agreement. This obviously
involves all staff. The board and chief executive must
be in agreement
on priorities.
Absence a clear
understanding of what is
expected,
communications can break
down, leading
to negative
publicity and
internal
disruption. This
principle
applies to staff
relationships
and committee
charges as well.

10. Send Thank-You Notes
Board members need positive reinforcement like the
rest of us. When they do a good job on a committee,
project or a special favor, send a thank you note. We
all like to be appreciated or receive applause and
approval. Write it out by hand, not by laser printer.
Give it the personal touch!

11. Improve The Board's Depth Of Knowledge About The
Association
An often overlooked component of successful board
communications is assuming that individual board
members are really knowledgeable about the pro-
grams, services and staff of the association. Don't
take this knowledge for granted. A “New Board
Member” orientation is a good place to start and then
keep the board informed with timely, effective,
appropriate communications. Remember, however,
board members are no different from association
executives who are bombarded with increasing
amounts of reading material while actually reading
less and less.

Keeping the board informed is hard work. It takes
time...time on the phone...time preparing effective
memos. But it has to be done.

12. Regular Communications Audit
Associations should never take for granted that they
are reaching the target audience (board, membership,
special interest group) with the right message. Regularly
assess your board communications methods,
memos, techniques, etc.
Key Questions:
• How are we doing?
• How well are we meeting your needs?

• How responsive is the staff?
• How can we serve you better as a board
member?
• What is our key strength?
Weakness? How

13. Continually
Broaden Board's
Perspective

Former ASAE
Chair Kathryn
Johnson, CAE,
notes: "One of

our obligations as association executives is to con-
tinually broaden our membership’s perspective, rather
than perpetuate self interest. I found myself asking
this question: If you’ve lost the public’s confidence,
can your membership be far behind? Associations are
in the public eye. Association executives must con-
tinually impress upon the board that the association is
part of the larger public community. We can not
isolate our decisions and actions from the broader
perspective of public involvement. This message must
be communicated both internally and externally. Start
with the board.

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Cooperative Principles

The cooperative principles provide a distinct advantage for cooperatives in a competitive environment. They are what set cooperatives apart from all other service providers.

1st Principle: Voluntary and open membership

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic member control

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights — one member, one vote — and cooperatives at other levels are organized in a democratic manner.

3rd Principle: Members’ economic participation

Members contribute equally to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. They usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing the cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4th Principle: Autonomy and independence

Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5th Principle: Education, training, and information

Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. They inform the general public — particularly young people and opinion leaders — about the nature and benefits of cooperation.

6th Principle: Cooperation among cooperatives

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.

7th Principle: Concern for community

While focusing on member needs, cooperatives work for the sustainable development of their communities through policies accepted by their members.

—The International Cooperative Alliance
Manchester, England, September 1995
Cooperative Board / General Manager Roles

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<thead>
<tr>
<th>Responsibility Involved</th>
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<td>GOVERNANCE</td>
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The Board

The General Manager
UNIVERSAL CHALLENGES FACING COOPERATIVES

1. Loose internal controls.
2. The employee that has political leverage with some of the directors over the general manager and takes advantage of it from time to time.
3. We should build financial positions in our co-ops to lessen RISK. How do you convince a membership of this policy?
4. Information technology...adapting to the younger farmers.
5. We must meet member's needs cheaper, quicker and better.
6. There are tighter supply chains in agriculture...fertilizer, fuel, etc. How do we deal with it?
7. Increased market volatility and impacts on co-ops.
8. Niches...be fast or be gone!
9. Co-op decision-making is slow, given its structure. How do you compensate and deal with it versus the independent competition?
10. Is financial return enough?
11. Cost control is a must to survive.
12. Some co-ops are missing out on alliances with other co-ops because they want to keep their own identity.
13. VOLTALITY is here to stay and will increase. We must learn to deal with it! How?
14. With respect to market volatility, how do we convince the leadership team and membership to retain more funds within the co-op?
15. What can we do to better regulate or raise expectations of board meeting attendance?
16. Changing employee culture (Today, many people will not work 24/7 for long periods).
17. Managing tradition in co-ops, but staying ahead of change.
18. Concentrate on creating "wealth" or "value" for the membership.
19. The "problem" or "ineffective" director.
20. Governing member expectations by age groups.
21. Managing the younger work force who thinks differently.
22. The new manager and the 25 year office manager dilemma who has more political leverage with the board and membership.
23. Capital accessibility---does it bother you?
24. The use of non-traditional ventures and structures (i.e. Sunray, UCG)
25. Lowering stock retirement and the value we should place on stock.
26. Director succession management and officer selection.
27. Infrastructure investment / best model for growth / criteria.
28. Director compensation.
29. Jeopardizing the business on one individual.

- over -
Universal Challenges Facing Cooperatives

30. The ripple effect of a bad economy, banking changes, transparency issues, auditing standards, etc. on a local co-op.
31. Proper use of debt.
32. Board duty of service.
33. Competitive threats...how do you deal with competition?
34. Do we need “monthly” board meetings today given all the technology?
35. Shorter product life cycles and how it impacts business.
36. Board diversity could be good!
37. Director trading with the co-op 100%.
38. Proper labor utilization.
39. Diversifying the business.
40. Crisis contingencies (terrorists, BP, fraud, etc.)
41. Staying strategic...how do you do it?
42. Do we encourage greater share of non-member business at the expense of the existing membership?
43. We must invest in intangibles (people, process, alliances).
44. Co-ops think too small.
45. Manager vs. board roles.
STEPS IN ORGANIZING A COOPERATIVE

- Determine if the concept and effort is for the right reason.
- Form a research or exploratory group to study all issues regarding a start-up venture.
- Hold a series of “interest” or group meetings *(and/or conduct membership surveys)* to determine momentum for the movement and to establish some parameters.
- Form a steering committee *(which usually becomes the initial board of directors of the group)* to keep the group moving forward and the message focused.
- Invite professional assistance to early meetings to drown co-op mistruths and myths before issues get out of hand. *(i.e. Billy Curb at the USDA Rural Business-Cooperative Service in Temple at 254-742-9775, Tommy Engelke at the Texas Agricultural Cooperative Council at 512-450-0555 in Austin, Dr. John Park at Texas A&M University at 979-845-1751 and Marc Adams at CoBank in Lubbock at 806-788-3700)*
- Conduct an economic feasibility study.
- Establish a formal board of directors.
- Develop structure parameters *(exempt vs. non-exempt, open vs. closed membership, equity levels, stock retirement, bylaws, etc.)*
- Charter the organization with the Secretary of State.
  
  Secretary of State  
  PO Box 12697  
  Austin, Texas 78711  
  (512) 463-5555  
  [www.sos.state.tx.us](http://www.sos.state.tx.us)
- Establish a clearly defined and communicated mission for the business.
- Work to create/promote/generate membership *(i.e. frequent membership meetings, etc.)*
- Hire a general manager.
- Acquire facilities.
- Conduct a general manager/board of directors strategic planning retreat.
- Hold frequent regional membership meetings to secure confidence of the patrons in the early years.
(In Texas, would include Farmers Cooperative Compress and Plains Cotton Cooperative Association in Lubbock and Dairy Farmers of America as well as Rio Grande Valley Sugar Growers in Santa Rosa, Texas)

(In Texas, would include PYCO Industries in Lubbock, Gulf Compress in Corpus Christi, Valley Co-op Oil Mill in Harlingen and all generation and transmission electric cooperatives.)
EXEMPT VS. NON-EXEMPT

Cooperatives pay all real estate, payroll, and excise taxes applicable to other types of business organizations. The treatment of farmer cooperatives in respect to the federal corporate income tax, which is levied on the income of corporations, depends primarily upon their classification as exempt or nonexempt from this tax.

NONEXEMPT cooperatives pay the federal income tax on all of their margin except amounts returned as patronage refunds in accordance with their bylaws or other contractual agreements. This exclusion of qualified patronage refunds is available to any business wishing to operate with such a cooperative feature.

EXEMPT cooperatives are not subject to federal income tax if all of their net margin (after payment of limited returns on capital, if any) are paid or allocated to patrons as qualified patronage refunds. If all of their margin is not paid or allocated, the exempt cooperative must pay the federal income tax on the remaining portion. Payments and qualified allocations are income to the patrons and are taken into account by the patrons on their individual income tax returns. Thus, the tax treatment of the margins of exempt farmer cooperative is similar to the tax treatment of income of partnerships which is taxed in the hands of the individual partners.

Only about half of the farmer cooperatives have an exempt status. These must meet rigid operating and accounting requirements and file annual reports verifying the cooperative nature of their organization.

TYPES OF MEMBERSHIP

Open…

This form of membership is how most all-traditional agricultural cooperatives originated. It basically implies that anyone meeting the membership qualifications (is an agricultural producer, pays their membership/equity/fee/stock, etc.) can become a member.

Closed…

This form of membership is not that well known, but seems to be the predominant structure in recent decades. Farmers and ranchers who structure in this format are generally the larger producers of a community who want more of a voice in the affairs of the company without the interference of many smaller members—who’s needs are much different. Membership is not usually based on biased or personal selection, rather the initial equity investment is set so high that membership becomes limited to the larger producers that can afford the initial investment required.
COOPERATIVE DIRECTORS CODE OF CONDUCT

A strong vibrant cooperative has many key elements that are functioning at a high level. These include strong membership support, exemplary management, and a visionary, cohesive board of directors. One of the key elements of an effective board of directors is establishing expectations for the board as a whole and for individual board members. This Code of Conduct represents our board’s collective expectations and by signing it I agree to adhere to these expectations. I further agree that if I find these expectations inappropriate in the future I will express my concerns to the board of directors so we as a board can address these inconsistencies.

1. I will make all decisions based on my belief of what the best interests of the cooperative and its members are. The effect these decisions will have on my individual situation will not overly influence my decision making process.

2. I understand that each director is expected to faithfully attend and participate in all meetings. This includes asking discerning questions of management and my fellow directors, seeking the opinion of my fellow directors and respecting those opinions when offered.

3. I will share my opinion on issues before the board of directors and vote according to my convictions and I will support the decisions made by the board even if they are contrary to the decisions that I would make. I will not only support those decisions in the boardroom but I will also defend those decisions outside the boardroom.

4. I recognize that as a director I am held to a higher standard than the rest of the members. I agree to patronize the cooperative whenever possible and if that is not possible I will address these concerns within the confines of the boardroom. I agree to follow all company policies including paying my account in a timely manner in accordance with my cooperative’s credit policy.

5. I agree to maintain a high level of confidentiality regarding all discussions within our boardroom. This in particular applies to all personnel matters, negotiations the cooperative may enter into with another company, any private contracts the cooperative enters into, and any matter regarding an individual patron of the cooperative.

6. I will not allow my personal feelings or agendas to influence my involvement in the decision making process of the cooperative. This includes personal attitudes toward management, staff or other employees.

7. I will not attempt to interfere in the daily operations of the cooperative. I will strive to ensure that the board serves to set policy and direction for the management staff to implement. I will support in word and action the management staff of the cooperative both in and outside the boardroom.
COOPERATIVE DIRECTORS CODE OF CONDUCT

8. I recognize that my primary fiduciary responsibility is to strive to serve the needs of our members while protecting their equity investment. I will not support any undue assumption of risk by the cooperative and will work to ensure proper guidelines and constraints have been established for management to follow. I will also ensure that processes are in place for the board to monitor adherence to these policies.

9. I will work to ensure proper advisors including attorneys and auditors are enlisted to provide professional services and I will give their advice and counsel appropriate consideration.

10. I understand that one or more directors do not have authority to act for or on behalf of the cooperative unless authorized by the board through formal board action.

If at any time I am not comfortable with how the board of directors or any individual director is functioning, I will approach the Chairman of the board to address these issues.

This Code of Conduct was developed to help establish what we expect of each other as directors. These standards are meant to apply to the board as a body as well as to individual directors. By signing this document I am pledging to my fellow directors that I understand the contents of this document and agree to follow these guidelines.

Signature

Date
A CREED FOR
COOPERATIVE MEMBERS

1. I will keep myself informed on the affairs, problems, and methods of my cooperative so as to be an intelligent and constructive member.

2. I will exert my influence to see that my cooperative has the best possible directors and officers in terms of general competence and integrity.

3. I will faithfully support my cooperative with my patronage, and encourage my friends to use it, because in volume there is strength.

4. I will help build and maintain my cooperative by contributing my share of essential capital.

5. I will insist that full information be provided me on the operations and financial condition of my cooperative, based on accurate accounting and proper auditing.

6. I will not expect miracles from my cooperative, but I will insist on receiving from it honest values and efficient services.

7. I will refrain from asking my cooperative to give me favors in the form of credit or other special services.

8. I will take pride in my cooperative and use my influence to see that it assumes its fair share of community responsibilities.

9. I will stand by my cooperative in its days of adversity and help protect it from weaknesses which come with prosperity.

10. I will always remember that my cooperative is ME, and others like ME, and that its behavior is a reflection of MY behavior.

by JOSEPH G. KNAPP, Administrator
Farmer Cooperative Service
COMMON PROBLEMS FACED BY
NEW / START-UP AGRICULTURAL COOPERATIVES

(“Generally speaking, the theory and concept of a cooperative is like motherhood and apple pie, but execution, success rate, and track record of running a new one is challenging.”)

1. Three or four of the original organizers have a hidden agenda for starting the cooperative and thus it gets organized for the wrong reasons.

2. Lack of establishing and agreeing to internal controls:
   - Poor bookkeeping.
   - No audit or one done by an unqualified practitioner.
   - No oversight of the finances.
   - No agreed upon, closely followed and adequately monitored annual operating budget.

3. No accurate economic feasibility study conducted.

4. Lack of an effective, and universally agreed upon financial commitment from the membership.

5. In order to save money, lack of obtaining legal, tax and professional counsel.

6. Not adequately and honestly communicating with the membership.

7. In the early discussions with the membership, cooperative myths were not thoroughly communicated and/or understood.

8. The board tends to meddle into management affairs in abundance.

9. In an effort to accommodate the membership with appropriate and all-encompassing director representation, the board rapidly becomes too large to be effective.

10. Lack of hiring an appropriate co-op manager and then failing to properly compensate them.

11. Lack of conducting a thorough strategic plan with the manager and director team.

12. After initial years of start-up, larger volume members (who bring about 80% of the business to the operation) no longer feel treated fairly, yet they have just one vote like all of the smaller members.

13. When a few of the directors find a more attractive economic service elsewhere, they decide to take their business to a competing interest (which causes image problems in attracting new members and maintaining the existing one).

14. Many are formed as closed cooperatives, usually being the larger farmers in the area.

15. 

16. 

ADVANTAGES OF TRADING THROUGH A COOPERATIVE

By the Texas Agricultural Cooperative Council

- Some say trading through a cooperative gives people a sense of calmness and of harking back to a more simple and peaceful time and thus is therapeutic.

- Co-ops generally offer greater expertise and service regarding products they sell and market, versus the large box and chain stores that literally sell products only and thus no sense of allegiance to the customer.

- Largely, cooperatives were started years ago to allow smaller and average size farmers the ability to compete collectively against the larger independent and multinational companies in the food and fiber industry.

- Whether it is perception or reality, many people associate quality, durability, and honesty when they trade through a co-op.

- There is a sense of “unity” and “community” in a cooperative due to the nature of joint ownership among the patrons.

- The structure has become so popular during recent turbulent decades, that although some new businesses are not chartered as a cooperative, they have copied, act like, and operate like a cooperative (i.e. independent cotton marketing pools, etc.).

- Dollars spent at the co-op generally stay in the community and are not shipped off to another state or country.

- Being a member of a co-op allows you annually to attend the business meeting of the firm to explore how it is operating financially and administratively. In an independent business you are not allowed to do so.

- For many who trade in the co-op, there is a feeling that “by doing business in the co-op, I am helping the survivability of the backbone of this country—farmers and ranchers.” It is almost a sense of duty, honor, and patriotism.

- This business structure allows a farmer or rancher to have a voice and a minimum of one vote in the affairs of the company.

- Co-ops generally formed during periods of economic adversity and as such they are born of conviction, resulting in greater staying power and loyalty of the patron.

- In a cooperative, rather than the board of directors being hand-picked by large investors, they are elected from within the members of the organization, thus handily demonstrating democratic control.

- Unlike the big box stores, upon entering a cooperative, generally speaking, you are treated with instant respect because the employees usually know you and what you are looking for.

- The joint ownership of a cooperative by numerous farmers not only spreads the risk of operating a business within a very volatile industry, but it also lowers the exposure to those producing the food and fiber.
At times, cooperatives are started due to a service not being provided in a community or that service not being provided at a competitive price. Thus, cooperatives tend to keep the competition honest in rural communities.

Being dependable in good times as well as bad is the cornerstone of a good business today. As part owner of this business in a volatile industry, you have a higher degree of confidence to trade with the firm knowing that you can depend on your own business.

Years ago, farmers were solely price-takers and to a large degree lacking marketing expertise. Today, co-ops are large enough to employ the marketing expertise in-house, thereby giving farmers greater profit and marketing security.

In an unusual yet significant display of importance, cooperatives have their own agency at USDA. It is called the “Rural Business, Cooperative Service” and is one of 19 federal agencies (i.e. Extension Service, Farm Service Agency, Natural Resource Conservation Service, etc.) within USDA.

Cooperatives are a value-added tool. They have long been regarded by many as “the extension of a farmers farming and ranching enterprise” just as a tractor, plow and land are large components of the business. In this regard, many co-op members own the food and fiber system much further up the food chain and as such reap the financial rewards as well.

Companies are in the business to make money whether they are privately owned or a large Fortune 500 firm. In the case of the cooperative, all margins made by the business are returned to the owners in an equitable manner---not to just one individual as in the case of an independent owner.
# Co-op RISK Exposure Model

## VIABILITY CHARACTERISTICS

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<tr>
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<th>Importance A – B – C</th>
<th>Score 1 – 10</th>
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<tbody>
<tr>
<td>1. <strong>GOVERNANCE</strong></td>
<td>assessment, education, attendance, balance, succession, election and voting processes, confidentiality, compensation, challenging directors, policies in place for management to operate, trading most of their business with the co-op.</td>
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<tr>
<td>2. <strong>OWNER EXPECTATIONS AND VALUE</strong></td>
<td>also satisfaction and addressing age categories.</td>
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<td>3. <strong>GOVERNMENT REGULATION</strong></td>
<td>assessment and compliance, political influence and standing.</td>
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<td>4. <strong>LABOR</strong></td>
<td>utilization, costs, succession, education, availability, age variability, quality, service-oriented, changing expectations, jeopardizing the business on one individual, evaluation and performance standards.</td>
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<tr>
<td>5. <strong>LEGAL PROTECTION AND EXPOSURE</strong></td>
<td>insurance, internal controls, audits.</td>
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<tr>
<td>6. <strong>PRUDENT GROWTH</strong></td>
<td>Criteria for evaluation, ability to finance it, core vs. diversification, relationship with bankers, capital accessibility, non-traditional ventures and structures, competitive position.</td>
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<tr>
<td>7. <strong>STAYING STRATEGIC</strong></td>
<td>methods, frequency, evaluation and assessment, board vs. management roles</td>
<td></td>
</tr>
<tr>
<td>8. <strong>BUSINESS MODEL</strong></td>
<td>flexibility, impact on RISK, raising capital, communication ability.</td>
<td></td>
</tr>
<tr>
<td>9. <strong>ASSET AND FACILITY UTILIZATION AND CURRENTNESS</strong></td>
<td>Equipment state of the art, meet efficiency standards, over or under capacity.</td>
<td></td>
</tr>
<tr>
<td>10. <strong>FINANCIAL HEALTH</strong></td>
<td>Current on stock retirement to have value, ability to retain funds for growth and risk exposure in lean years, efficiency, cost controls, ability to cash flow under a variety of scenarios, stability, price management, manageable accounts receivables.</td>
<td></td>
</tr>
</tbody>
</table>
**ANNUAL CO-OP BOARD GOVERNANCE PROGRAM OF WORK**

...Sequence of Events

**COTTON**

*Should also include goals addressed in the co-op’s strategic plan.*

**(Fiscal Year End)**

- Monitor ginning progress.
- Begin determination of repairs, expansion and improvements.

**DECEMBER**

- Monitor ginning progress.

**NOVEMBER**

- Monitor ginning progress.

**OCTOBER**

- Monitor ginning progress.

**SEPTEMBER**

- Conduct open house.
- Determine ginning charges.

**AUGUST**

- Management assessment of seasonal labor needs.
- Consider major policy changes and additions.
- Begin process to determine ginning charges.
- Attend TACC Cooperative Board Chaimen’s Conference.

**JULY**

- Board approval of budget.
- Board review of co-op insurance program.
- Conduct annual board planning retreat.
- Annual review of the co-op’s risk management policy.

**FEBRUARY**

- Appoint Nominating Committee.
- Attend TACC Director Development Program.

**MARCH**

- Attend TACC/CoBank Joint Cooperative Meeting.
- Review Rolling Three-Year Capital Improvement Plan.

**APRIL**

- Monitor planting preparation activities.
- Conduct the audit.
- Begin budget preparation process.
- Board annual visit with the banker.

**MAY**

- Determine patronage distribution.
- Board review the audit.
- Conduct annual meeting.
- Conduct director elections.
- Reorganization of the Board.
- Determine auditor for the coming year, if necessary.
- Monitoring planting preparation activities.

**JUNE**

- Monitor planting preparation activities.
- Conduct manager evaluation process.

**PREPARED BY THE TEXAS AGRICULTURAL COOPERATIVE COUNCIL**
ANNUAL CO-OP BOARD GOVERNANCE PROGRAM OF WORK

...Sequence of Events

COTTON

*Should also include goals addressed in the co-op’s strategic plan.
(Year)

ANNUAL CO-OP BOARD GOVERNANCE PROGRAM OF WORK

...Sequence of Events

GRAIN and FARM SUPPLY

*Should also include goals addressed in the co-op's strategic plan.

(Fiscal Year End)

(Year)

DECEMBER

- Annual review of the co-op risk management policy.
- _____________________________
- _____________________________
- _____________________________

JANUARY

- Quarterly review of accounts receivables position.
- Annual board review of credit policy.
- _____________________________
- _____________________________
- _____________________________

FEBRUARY

- Board meet with banker on financing needs.
- Determine repairs, expansions and improvements.
- Attend TACC Director Development Program training.
- Quarterly review of input pricing policy and issues.

MARCH

- Monitor planting preparation activities.
- Conduct annual board planning retreat.
- Board review of co-op insurance program.
- Consider major policy changes and additions.
- Attend TACC/CoBank Joint Cooperative Meeting.

APRIL

- Quarterly review of accounts receivables position.
- Monitor planting preparation activities.

MAY

- Conduct the audit.
- Quarterly review of input pricing policy and issues.

JUNE

- Appoint Nominating Committee.
- Monitor harvesting activities.
- Determine patronage distribution.
- Conduct manager evaluation process.
- Begin the budget process.

JULY

- Review Rolling Three-Year Capital Improvement Plan.
- Quarterly review of accounts receivables position.
- Monitor harvesting activities.
- Board approval of the budget.

AUGUST

- Board meet with banker on financing needs.
- Conduct the annual meeting.
- Quarterly review of input pricing policy issues.
- Attend TACC Board Chairman's Conference.
- Determine auditor for the upcoming year, if necessary.

SEPTEMBER

- Management assessment of seasonal labor needs.
- Reorganization of the Board.
- _____________________________
- _____________________________

OCTOBER

- Conduct New Officer Orientation...or delay until DDP
- Quarterly review of accounts receivables position.
- _____________________________

NOVEMBER

- Quarterly review of input pricing policy and issues.
- Monitor harvesting activities.
- _____________________________

PREPARED BY:

TExAS AGRICULTURAL COOPERATIVE COUNCIL
ANNUAL CO-OP BOARD GOVERNANCE PROGRAM OF WORK

...Sequence of Events

GRAIN
and
FARM SUPPLY

*Should also include goals addressed in the co-op’s strategic plan.
## Parliametary Procedure

### Table of Motions

<table>
<thead>
<tr>
<th>Class of Motion</th>
<th>Type of Motion</th>
<th>Second Required</th>
<th>Debatable</th>
<th>Amendable</th>
<th>In Order if Question Pending</th>
<th>Interrupt Speaker</th>
<th>Vote Required</th>
<th>Tabled</th>
<th>Reconsidered</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main</strong></td>
<td>Principle or original</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Majority</td>
<td>Yes</td>
<td>Yes</td>
<td>Introduce new business</td>
</tr>
<tr>
<td><strong>Subsidiary</strong></td>
<td>Amend</td>
<td>Yes, if motion debatable</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Majority</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td>After or modify motion</td>
</tr>
<tr>
<td></td>
<td>Amend an amendment</td>
<td>Yes, if motion debatable</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Majority</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td>After or modify amendment</td>
</tr>
<tr>
<td></td>
<td>Extend or limit debate</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>2/3</td>
<td>(1)</td>
<td>Yes</td>
<td>Adjust length of time of discussion</td>
</tr>
<tr>
<td></td>
<td>Postpone definitely</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Majority</td>
<td>(1)</td>
<td>Yes</td>
<td></td>
<td>Delay action</td>
</tr>
<tr>
<td></td>
<td>Postpone indefinitely</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Majority</td>
<td>(1)</td>
<td>No</td>
<td>Kill a motion without bringing it to a vote</td>
</tr>
<tr>
<td></td>
<td>Call for previous question</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>2/3</td>
<td>(1)</td>
<td>Yes</td>
<td>Close debate immediately and vote</td>
</tr>
<tr>
<td></td>
<td>Refer or commit</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Majority</td>
<td>(1)</td>
<td>Yes</td>
<td>Place business in hands of a committee</td>
</tr>
<tr>
<td></td>
<td>Lay on table</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Majority</td>
<td>No</td>
<td>No</td>
<td>Set aside item of business temporarily</td>
</tr>
<tr>
<td><strong>Incidental</strong></td>
<td>Appealing decision of chair</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes, but motion goes also</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td>Ensure majority agrees with ruling of chair</td>
</tr>
<tr>
<td></td>
<td>Call for a division</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>None</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Secure a counted vote</td>
</tr>
<tr>
<td></td>
<td>Divide the question</td>
<td>Yes, if subject related</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Majority</td>
<td>No</td>
<td>No</td>
<td>Consider parts separately</td>
</tr>
<tr>
<td></td>
<td>Nominate</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Place in nomination</td>
</tr>
<tr>
<td></td>
<td>Close nomination</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>2/3</td>
<td>No</td>
<td>No</td>
<td>Limit number of nominees</td>
</tr>
<tr>
<td></td>
<td>Reopen nominations</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Majority</td>
<td>No</td>
<td>No</td>
<td>Only negative vote</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Object to consideration of question</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes, 2/3 neg.</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Prevent consideration</td>
</tr>
</tbody>
</table>
# Parliamentary Procedure

## Table of Motions

<table>
<thead>
<tr>
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<th>Vote Required</th>
<th>Tabled</th>
<th>Reconsidered</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rise to point of order</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>None</td>
<td>No</td>
<td>No</td>
<td>Enforce the rules</td>
</tr>
<tr>
<td>Make a request</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Decide without</td>
<td>No</td>
<td>No</td>
<td>Secure information</td>
</tr>
<tr>
<td>Suspend the rules</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>2/3</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Facilitate business against organization rule</td>
</tr>
<tr>
<td>Method of voting</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Majority</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Determine voting procedure</td>
</tr>
<tr>
<td>Withdraw a motion</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>None</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Withdraw a motion before it is voted on</td>
</tr>
<tr>
<td><strong>Privilege</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjourn</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Majority</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>End of meeting</td>
</tr>
<tr>
<td>Take a recess</td>
<td>Yes</td>
<td>No</td>
<td>Yes, the length of time</td>
<td>Yes</td>
<td>No</td>
<td>Majority</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Provide intermission</td>
</tr>
<tr>
<td>Raise a question of privilege</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Decide without</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Obtain immediate action in emergency</td>
</tr>
<tr>
<td>Fix time to adjourn</td>
<td>Yes</td>
<td>Limited</td>
<td>Yes, to change time and place</td>
<td>Yes</td>
<td>No</td>
<td>Majority</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Set time for next meeting</td>
</tr>
<tr>
<td>Call for orders of the day</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Without or 2/3 negative</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Determine order, special orders, or abide by order</td>
</tr>
<tr>
<td><strong>Unclassified</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reconsider</td>
<td>Yes</td>
<td>Yes, if motion reconsidered debatable</td>
<td>No</td>
<td>Yes</td>
<td>Yes, if time is factor</td>
<td>Majority</td>
<td>Yes</td>
<td>No</td>
<td></td>
<td>Secure new vote on motion previously voted</td>
</tr>
<tr>
<td>Rescind</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Majority, but 2/3 if no advance notice given</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ratify or censure</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Majority</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Take from table</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Majority</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Bring before group motion previously tabled</td>
</tr>
</tbody>
</table>

*Only with motion to which it applies.
N/A – not applicable
<table>
<thead>
<tr>
<th></th>
<th>Farm Credit Cooperative</th>
<th>Agriculture Cooperative</th>
<th>Telephone Cooperative</th>
<th>Electric Cooperative</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Who May Amend Articles of Incorporation and Bylaws</strong></td>
<td>Articles of Incorporation - Members Bylaws - Board, except capitalization which requires member approval</td>
<td>Articles of Incorporation - Members Bylaws - Members</td>
<td>Articles of Incorporation - Members Bylaws - Members</td>
<td>Articles of Incorporation - Members Bylaws - Board</td>
</tr>
<tr>
<td><strong>Subject to Open Meetings</strong></td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Subject to Open Records</strong></td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Minimum Number of Directors</strong></td>
<td>As required in the Bylaws, historically 5.</td>
<td>5</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td><strong>Compensation for Directors</strong></td>
<td>Governed by Bylaws</td>
<td>Governed by Bylaws</td>
<td>No salary allowed; per diem approved by members and reimbursement allowed</td>
<td>Governed by Bylaws</td>
</tr>
<tr>
<td><strong>Payment of Patronage (Stock Retirement)</strong></td>
<td>Yes, pursuant to Bylaws and IRC. Statutory stock purchase required.</td>
<td>Yes. Pursuant to Bylaws and laws related to cooperative status</td>
<td>Yes. Pursuant to Bylaws and laws related to cooperative status</td>
<td>Yes. Per statute, can be thru cash, general rate reduction or in any manner determined by Board of Directors</td>
</tr>
<tr>
<td><strong>Membership Eligibility</strong></td>
<td>Statutory eligibility for bona fide farmers and ranchers, rural home owners, and farm-related service businesses.</td>
<td>Bylaws establish qualifications - membership can be denied</td>
<td>Bylaws can establish qualifications - required to serve if within territory</td>
<td>Bylaws can establish qualifications - required to serve if within territory</td>
</tr>
<tr>
<td>Establishment of Price</td>
<td>Farm Credit Cooperative</td>
<td>Agriculture Cooperative</td>
<td>Telephone Cooperative</td>
<td>Electric Cooperative</td>
</tr>
<tr>
<td>------------------------</td>
<td>-------------------------</td>
<td>-------------------------</td>
<td>-----------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Interest and fees determined by Board</td>
<td>Board</td>
<td>Tariffs approved by PUC (partial deregulation)</td>
<td>Tariffs based upon Board approval with court oversight</td>
<td></td>
</tr>
<tr>
<td>Boundaries of Membership</td>
<td>Generally must reside or operate in chartered territory</td>
<td>None</td>
<td>Certificated areas</td>
<td>Certificated areas</td>
</tr>
<tr>
<td>Accounting Methods and Standards</td>
<td>GAAP applies</td>
<td>Varies</td>
<td>Varies</td>
<td>Varies - if RUS, borrower have certain requirements</td>
</tr>
<tr>
<td>Financing</td>
<td>Funding from affiliated Farm Credit Bank which obtains funds on agency bond market in NY</td>
<td>Varies</td>
<td>Varies - some RUS, CoBank and RTFC</td>
<td>Varies - often RUS or CFC</td>
</tr>
<tr>
<td>Membership Base</td>
<td>Voting members are farmers and ranchers</td>
<td>Must be producers</td>
<td>Must take service in territory served</td>
<td>Must take service in territory served</td>
</tr>
<tr>
<td>Membership Size</td>
<td>Varies</td>
<td>Varies</td>
<td>Varies - approximately 1,000 to 40,000</td>
<td>Varies - approximately 1,700 to 220,000</td>
</tr>
<tr>
<td>Number of Coops Serving in Texas</td>
<td>13 associations 1 Farm Credit Bank</td>
<td>Approximately 200</td>
<td>24</td>
<td>66-Distribution 11 Generation and Transmission</td>
</tr>
<tr>
<td>Seasonal Nature of Business</td>
<td>No</td>
<td>Depends based upon Coop purpose (i.e. gin, elevator, supply)</td>
<td>None</td>
<td>Varies based upon membership makeup (i.e. residential, irrigation, seasonal, commercial)</td>
</tr>
</tbody>
</table>
Finance and Legal

Understanding Financial Integrity in Cooperatives

- A two-page paper titled “Glossary/Appendix” of financial terms used in cooperative circles
- A two-page paper titled “Balance Sheet Ratios” and how certain rations are calculated
- A three-page paper titled “Why Is Working Capital Important”
- A two-page paper detailing the “cost” associated with carrying accounts receivables

Legal Obligations of Co-op Directors

The first article details the legal role of a co-op director. It explains concepts such as - duty of care, duty of loyalty, and duty of obedience.

The second article provides a helpful summary of the legal formation of co-ops.

The third article, prepared by CoBank titled “Legal Responsibilities of Cooperative Directors,” is a two-page paper covering:
- The use of outside resources and professionals
- 25 checklist items regarding director liability
Glossary/Appendix

Assets: What the cooperative owns at one point in time.

Accounts Receivable: Percentage breakdown showing where accounts receivable were incurred.

Balance Sheet: Financial picture of the cooperative at one point in time.

Cost of Sales: The cost of acquiring all products sold during a given period.

Current Assets: Assets normally convertible to cash within a period of twelve months.

Current Liabilities: Amounts owed that are due and payable within a period of twelve months.

Expenses: The costs incurred in providing goods and services during a given period.

Fixed Assets: Long term assets owned by the cooperative; usually includes land, buildings, and equipment.

Fixed Assets to Term Liabilities: Net fixed assets divided by term liabilities.

Fixed Charge Coverage Ratio: Local savings before fixed charges (interest, term debt payments, lease payments, and taxes) divided by fixed charges.

Gross Income: Total revenue received from providing goods and services during a given period.

Gross Margins: The difference between a product’s sales price and acquisition cost.

Interest Coverage Ratio: Local savings before interest divided by total interest charges.

Inventory Turnover: The rate at which products are sold; a relationship between sales and inventories.

Investments and Other Assets: Stock in regional and other cooperatives; deferred regional patronage refunds.

Liabilities: What the cooperative owes at one point in time.

Local Savings: Total income minus total expenses.

Long Term Liabilities: All debts due after twelve months.
Members' Equity: The members' ownership or investment in the cooperative.

Members' Equity to Fixed Assets and Investments: Total members' equity divided by net fixed assets plus investments.

Net Savings: Local savings plus regional patronage refunds.

Quick Assets Ratio: Cash and current accounts receivable divided by current liabilities.

Receivables to Current Assets: Net accounts receivable divided by total current assets.

Return on Fixed Assets: Net savings divided by net fixed assets.

Return on Investment: Net savings divided by members' equity.

Sales: Total revenue from all goods sold during a given period.

Sales to Net Receivables: Total sales divided by net accounts receivable.

Sources of Funds: All capital generated during a given period.

Statement of Changes in Financial Position: The difference between two balance sheets, each recording separate moments in time.

Statement of Operations: Summary of operating activity during a given period.

Term Debt to Equity: Total term liabilities divided by members' equity.

Uses of Funds: All capital used during a given period.

Working Capital: Current assets minus current liabilities.

Working Capital Ratio: Current assets divided by current liabilities.
BALANCE SHEET RATIOS

CURRENT RATIO

Formula: \( \frac{\text{Current Assets}}{\text{Current Liabilities}} \)

Meaning: Measurement of ability to meet current obligations in a timely manner

RECEIVABLE TURNOVER

Formula: \( \frac{\text{Net Sales}}{\text{Trade Receivables}} = X \text{ turns} \)

\( \frac{365 \text{ days}}{X \text{ Turns}} = \text{Days outstanding} \)

Meaning: Represent speed of collection of receivables. Indicates effectiveness and administration of credit policy.

INVENTORY TURNOVER

Formula: \( \frac{\text{Cost of Sales}}{\text{Inventory}} = \text{X turns} \)

\( \frac{365 \text{ days}}{\text{X turns}} = \text{Days inventory in stock} \)

Meaning: Represents rapidity of inventory turnover.

SOLVENCY RATIO

Formula: \( \frac{\text{Total Members Equity}}{\text{Total Assets}} \)

Meaning: Measurement of degree to which members own the business.
Balance Sheet

As we mentioned earlier, one of the key financial statements for any business is the balance sheet. The balance sheet lists assets on the left side and liabilities and owners equity on the right. It's called a balance sheet because both sides should balance. Let's look at your balance sheet.

### Box Balance Sheet

<table>
<thead>
<tr>
<th><strong>ASSETS</strong></th>
<th><strong>LIABILITIES &amp; NET WORTH</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets:</strong></td>
<td><strong>Current Liabilities:</strong></td>
</tr>
<tr>
<td>Assets which normally convert to cash within one year, i.e., Cash Receivables Inventories</td>
<td>Debts which will be repaid within one year, i.e., Accounts payable Short-term notes and accruals</td>
</tr>
<tr>
<td><strong>Fixed Assets:</strong></td>
<td><strong>Long-Term Liabilities:</strong></td>
</tr>
<tr>
<td>Long-lived assets not intended for resale, but used to conduct business, i.e., Land, Equipment Buildings</td>
<td>Debts which will be repaid beyond one year, i.e., Long-term loans Debentures</td>
</tr>
<tr>
<td><strong>Non-Current Assets:</strong></td>
<td><strong>Net Worth:</strong></td>
</tr>
<tr>
<td>Assets which are not normally converted into cash within one year, i.e., Long-term Investment Equities in other co-ops</td>
<td>Ownership capital—difference between assets &amp; liabilities, i.e., Capital stock Retained earnings</td>
</tr>
</tbody>
</table>

**TOTAL ASSETS**  

**TOTAL LIABILITIES & NET WORTH**
Why Is Working Capital Important?

The following is a reprint of an article which appeared in Ag Extra, the newsletter of the Midwestern Division Agribusiness Banking Group of CoBank.

Knowledge of working capital is an important part of corporate financial management. It can serve as an indicator of potential financial problems, and through proper management and planning of working capital cooperatives can maximize growth and minimize future financial shortcomings.

Working capital is simply the amount of internal funds available to a company to finance normal day-to-day operations.

Sufficient working capital is a result of proper financial planning and consistent earnings of the cooperative.

Determining Working Capital

A cooperative’s working capital is current assets minus current liabilities. Current asset accounts might typically be cash, accounts receivable, inventories and other assets readily convertible to cash. Accounts receivable and inventory measures are used to show the liquidity of the current assets. The more liquid or closer to cash these assets are, the lower the amount of working capital needed. For example, if accounts receivable aging shows that most of the receivables are current, they are being converted to cash quickly. Similarly, a high inventory turnover rate shows that inventory is rapidly being turned into cash that will be available for meeting current obligations.

The working capital ratio or the current ratio (current assets divided by current liabilities) is also an indication of the cooperative’s ability to meet current obligations such as paying pending invoices, repaying seasonal loans and taking advantage of cash discounts. A reduction in this ratio can be an indicator of financial problems. A low or declining ratio may mean that a cooperative is not meeting its obligations on time and is losing cash discounts. This results in higher interest costs, lower margins and could lead to a curtailment in cooperative growth.

Working Capital Guidelines

A common guideline for measuring this working capital ratio is $1.50 of current assets for each dollar of current liabilities. However, the appropriate amount of working capital and the resulting current ratio needed can vary a great deal. For instance, if a cooperative operates a number of branches, permanent inventory levels may be considerably higher than they would be at a single location cooperative. This would require greater working capital and in turn result in a higher current ratio. Also, a marketing cooperative may require a different level of working capital than a supply or manufacturing cooperative.

1. Management’s ability to convert current assets to cash in time to pay liabilities.
2. The total sales volume of the association, and the seasonality of sales.
3. The age of the association’s accounts receivable.
4. The turnover of inventories.

Some good rules of thumb are that working capital should represent approximately seven cents for each dollar in sales, or 10 percent of non-grain sales plus two percent of grain sales.

Usually, if working capital falls below five percent of sales, it indicates improper cash flow controls and can be a signal of potential financial weaknesses such as a
shortage of operating capital or an inability to revolve seasonal loan funds. Another rule of thumb would indicate that working capital should be at least equal to the association’s lowest level of inventory and receivables. This implies that seasonal bank loans finance the swings in inventories and receivables, and are revolved to zero when inventory and receivables are low. These numbers are guidelines and actual percentages may vary for individual cooperatives. However, cooperatives who have working capital significantly below these guidelines need to begin building a working capital base in order to improve the cooperative’s financial situation.

From CoBank’s perspective, cooperatives also need working capital to support seasonal lines of credit. We look at working capital as the margin for our seasonal loans and it indicates a cooperative’s ability to repay their seasonal loans in a timely manner. In most cases working capital should be in the range of 20 to 25 percent of the seasonal loan commitments.

Just as cooperatives need to maintain adequate working capital, there are also pitfalls to excess working capital. For example, a cooperative with an unusually high percentage of working capital compared to sales or the other guidelines may not be using its assets to the fullest advantage.

Planning Working Capital

Because working capital is an extremely important part of a cooperative’s financial strength, and it is one of the early indicators of potential problems, it is important to plan for it. Acquisition and management of working capital is a process of careful planning and budgeting.

Cooperatives need to examine and analyze expansion plans and equity retirement schedules to determine how their cooperative’s working capital will be effected. Future equity retirement obligations can have a significant impact on the regular examination and analysis of expansion plans and equity retirement schedules to determine how their cooperative’s working capital will be effected. Future equity retirement obligations can have a significant impact on the ability to build or maintain working capital.

Likewise, any facility expansion or equipment replacement will put demands on planning for working capital to meet those needs. Long-term assets should generally be financed with long-term funds to avoid depleting working capital.

With these factors in mind, as well as allowances for inflation and real growth (estimate about 10 percent for each year) cooperatives will be able to set short-term goals that will allow for the building of working capital sufficient to meet their projected needs.

In order to replace assets and finance growth, cooperatives must generate an adequate level of earnings. Although the cyclical nature of agriculture does not assure earnings every year, operating losses erode working capital. Cooperatives seeking to restore working capital with a term loan from the bank will need to provide the bank with a clear picture of how the association will service the term debt from profitable operations. A working capital budget projection will give management a forewarning of what kind of earnings will be needed for the cooperative. Management’s plans for meeting these needs will show the bank a future liquidity position and provide for a sound credit package.

The planning, budgeting and management of working capital is becoming even more important as cooperatives become more diversified and sophisticated. Working capital and cash flow variables must be analyzed and management must assign priorities to the uses of working capital. Knowledge of cash flow and working capital needs should be a high priority of management.
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**Actions that Increase/Decrease Working Capital**

**Actions that INCREASE Working Capital**

1. Net Savings, Sell Equity
   - Increase Members’ Equity
   - Increase Cash
2. Borrow Term Debt
   - Increase Term Debt
   - Increase Cash
3. Depreciation, Sell Fixed Assets
   - Decrease Fixed Assets
   - Increase Cash
4. Redemption of Regional Stock
   - Decrease Investments
   - Increase Cash

**Actions that DECREASE Working Capital**

1. Operating Losses, Retire Equity
   - Decrease Members’ Equity
   - Decrease Cash
2. Term Debt Retirement
   - Decrease Term Debt
   - Decrease Cash
3. Buy Fixed Assets (Buildings/Land)
   - Increase Fixed Assets
   - Decrease Cash
4. Purchase or Earn Regional Stock
   - Increase Investments
   - Decrease Cash
VALUE OF ACCOUNTS

$1.00 IS WORTH:

90 cents when overdue three months

50 cents when overdue four months

30 cents when overdue one year

23 cents when overdue two years

15 cents when overdue three years

1 cent when overdue five years
OLD ACCOUNTS REDUCE PROFITS

If there is $5.00 profit on each $100 sale, and the interest rate on funds to carry accounts is 12.0%, 9.0% or 7.5%, the relationship between age of account and diminishing profits can be shown as follows:

PROFITS

<table>
<thead>
<tr>
<th>AGE OF ACCOUNTS IN MONTHS</th>
<th>12.0%</th>
<th>9.0%</th>
<th>7.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>One month</td>
<td>$4.05</td>
<td>$4.26</td>
<td>$4.38</td>
</tr>
<tr>
<td>Two months</td>
<td>3.10</td>
<td>3.52</td>
<td>3.77</td>
</tr>
<tr>
<td>Three months</td>
<td>2.15</td>
<td>2.78</td>
<td>3.15</td>
</tr>
<tr>
<td>Six months</td>
<td>-1.00</td>
<td>.56</td>
<td>1.30</td>
</tr>
<tr>
<td>Nine months</td>
<td>-4.00</td>
<td>-1.66</td>
<td>-.55</td>
</tr>
<tr>
<td>Twelve months</td>
<td>-7.00</td>
<td>-3.63</td>
<td>-2.50</td>
</tr>
</tbody>
</table>

Compute your own costs of selling on credit.
The Legal Role of a Director

1. Hire one staff person to manage the company ---- the CEO ---- and that person is the sole conduit to and from the board of directors and the staff.

2. A board member has very little authority over a company, but collectively as a team, the directors can move mountains and have the authority to act and direct on behalf of the business ---- usually through policy development and guidelines. They have no daily, hands on, or operational responsibility other than action through the CEO.

3. The three basic “duties” imposed and empowered upon directors ...

   A. The Duty of Care

      a. Directors are not required to make perfect decisions or error free judgements, but they are held liable to make decisions by obtaining adequate and reputable information from which to make a business decision. Some refer to this as “the business judgement rule.”

      b. Directors are not required to attend all board meetings but should and court cases have held that a reasonable number are made where judgement has been exercised as a well – informed and educated member of the leadership team and where efficient allocation of time has been given to decisions by all directors. It is also held that a director will be presumed to have knowledge of the agenda at a meeting even if they were not present for the meeting.

      c. Directors are not expected to operate the company on a day to day basis, but they are entrusted to delegate those actions via one person in the company --- the CEO.

   B. The Duty of Loyalty

      a. The directors are entrusted to exercise their powers in the interest of the company, not themselves.

      b. Directors should disclose any conflict of interest or any perception of conflict of interest and should remove themselves from the matter as situations warrant.

      c. Directors are bound by rules of confidentiality in all sensitive and appropriate matters of the organization.

   C. The Duty of Obedience

      a. Directors must uphold and obey all professional and compliance rules in the daily course of business operations. This includes operating within the authority granted to them by the bylaws, articles of incorporation, and federal and state statutes and regulations.
LEGAL FORMATION OF COOPERATIVES

Predecessors to today’s modern cooperatives were first formed in the mid-1800's in England. However, many cooperatives, as we know them today, were established in the 1920's and 1930's during a period of economic adversity. They were formed primarily for three reasons:

1) to provide services, products or marketing alternatives to member-owners that otherwise were not being provided in the area or;

2) to provide these services, products and marketing alternatives to member-owners at a more competitive price or;

3) to allow smaller farmers and industry owners the opportunity to compete against the larger entrepreneurs in the same business in a collective and bargaining fashion.

The Capper-Volstead Act, a federal law enacted in 1922, provides limited anti-trust protection to cooperative marketing associations engaged in interstate and foreign commerce. It gave producers the legislative foundation necessary to act together collectively to market their products without being in violation of existing anti-trust legislation. In Texas, agricultural cooperatives are organized and chartered under Chapter 52 of the Texas Agriculture Code, with oversight provided by the Texas Department of Agriculture.

Under Chapter 52, they are known as “Nonprofit Organizations” as cited under Section 52.003. This language states: “Because a marketing association is organized not to make money for itself or for its members as individuals but only to make money for its members as producers, the association is considered to be a non-profit organization.” In addition, co-ops are located under Section 171.069 of the state tax code.

The contemporary cooperative of today provides services and benefits to its members in proportion to the use they make of their organization rather than earning profits for the shareholders as investors. Therefore, the focus of a cooperative is to meet its members' needs in an economical, efficient manner, whereas the primary goal of an investor-oriented corporation, partnership, and sole/proprietorship is to maximize profits for the owners of the business. It is this unique linkage between the owner and the user of the cooperative business that sets it apart from its investor-oriented competition in our capitalistic system.

To be chartered under Chapter 52, several things must happen in the cooperative:

a. you must be an agricultural producer to be a member,
b. voting is by one-member, one-vote, (unless you are a citrus or grain cooperative, then proportional voting is allowed provided the membership approves).
c. a minimum of five producer-members is necessary, and
d. at least 50 percent of the cooperative business must be with members.

Although not a part of Chapter 52, the maximum rate that cooperatives can pay on preferred stock (initially equity money from the original organizers) is eight percent.
Legal Responsibilities of Cooperative Directors

USE OF PROFESSIONALS

There is no question but that business, and particularly business regulation by the government, is becoming more and more complicated. Cooperatives should not hesitate to use business professionals that are available to them. This includes auditors, attorneys, investment counselors, collection specialists and business management consultants, to mention only a few. From personal experience, it appears that cooperatives make better use of auditors than they do other professionals. Most cooperative bylaws require that the books be regularly audited and reports given to the members. In addition, the banks for cooperatives’ requirement that their borrowers provide unqualified opinion audits had done much to promote the use of auditor and accountants by cooperatives.

Often a cooperative is reluctant to use a professional because of the fear of his fees. Whenever a cooperative uses a professional, the question of fees should be thoroughly covered at the very beginning of the engagement. This will do much to alleviate later misunderstandings.

All of the professions have done considerable work on what they call "Professional Economics." This means "How can I bill my clients, be fair to both of us, and make them like it?" It probably would be good for a cooperative board of directors to understand how professionals set their fees. Bar Association studies have shown that a lawyer can expect half of his income to be needed to cover his expenses. This includes office, library, secretary, supplies, and the expensive business equipment that he is expected to use. The same studies show that the lawyer is doing well if he can bill for 1,000 hours a year. The typical 40-hour week provides for 2,000 hours in a year. The lawyer can expect half of his time to be sued for office administration, community service and similar unchargeable items. Therefore, an attorney that charges $50 an hour would expect to gross $50,000 for the year and have a net income somewhere in the neighborhood of $25,000. Law firms, of course, can redistribute these earnings by paying less to their young associates and junior partners and more to their senior partners.

A number of states have amended corporation laws to grant a kind of immunity from liability to directors who rely on good faith on the advice of certain experts in performing their duties. The principal example of this law is usually cited in Section 717 of the New York Business Corporation Law. After setting forth the directors’ duties of the corporation, this section continues with a list of areas where the directors can rely on information, reports, opinions, or statements prepared by person whom the directors believe to have professional or expert competence.
CHECKLIST FOR DIRECTOR LIABILITY

The Business Insurance publication for September 16, 1974, contained an article entitled, “Insured Moves to Prevent D & O Claims.” This article reported that the Dallas County Hospital District furnishes to each of its hospitals a list of 25 rules of conduct for directors, officers and trustees. These rules would make a good checklist for a cooperative director.

- Attend board meetings regularly.
- Exercise general supervision over the corporation’s affairs.
- Investigate and audit the corporation’s decisions.
- Bring your “business experience” and “common sense” with you to decide corporate policies.
- Pursue the warning signs that come to your attention that something is wrong.
- Insist on regular and frequent board meetings.
- Insist on meaningful board meetings with full disclosure of operating results.
- Require the corporation to employ a CPA firm to audit the corporation’s records.
- Require the corporation to engage competent legal counsel.
- Require the corporation to set up an executive committee to examine and carry out the board of directors’ policies.
- Require reports at the directors’ meetings of all committees of the corporation.
- Evaluate officer performance; review the duties of officers periodically.
- Select competent new executive officers.
- Authorize legitimate corporate indebtedness.
- Insist on policy as to retirement of directors, officers and employees at realistic age and health condition.
- Know the directors, officers and corporate organization you are asked to join.
- Adopt and follow sound business policies.
- Avoid self-serving policies.
- Avoid conflict of interest.
- Maintain a good credit standing for the corporation.
- Observe the general corporation business laws.
- Review the adequacy of the corporation’s insurance program.
- Review the fairness of the indemnification granted directors and officers of the corporations.
“The Board’s Role in Hiring a General Manager”

This 13-page paper was taken from a three-ring notebook prepared by a regional grain and farm supply co-op regarding job placements in cooperatives. It covers…

- Where to get advice and who to call when a general manager vacancy occurs
- Questions to ask, as a board, when building the parameters for the position you want filled
- Questions to ask during the interview
- How to interview candidates
- Selecting a candidate
- Introduction and orientation once hired
- A sample job description

The next paper in this segment is titled “Characteristics of the Model Co-op General Manager” and was prepared by the Texas Agricultural Cooperative Council. A board may wish to use this assessment paper when finalizing their decision on the hiring of the remaining two or three candidates for a position.

Lastly, we provided two sample performance evaluation tools!
- One is two pages and titled “2004-2005 Performance.”
- The other is a five-page sample titled “Performance Level Rating Descriptions.”
A. Who to Contact

If the General Manager position is vacated rather suddenly, the board president should immediately communicate the management vacancy to key groups (see Board Contact Worksheet which follows):

1. Notify the employees of the change
   a. Identify who is in charge of day-to-day operations
   b. Identify who has authority to issue/sign checks. Normally, changing authority to issue or sign checks is a matter for board action, unless directors have delegated this authority to the board president. Boards may want to consider such delegation, on the basis that any actions taken would be subject to board ratification at the next board meeting.

2. Notify the following as a corporate responsibility
   a. Secured creditors, CoBank
   b. Insurance and bonding companies
   c. Local bank (check writing authority)
   d. Any grain warehousing and marketing contacts. Immediate grain inventory measure-up should be considered.
   e. Other major creditors and suppliers
   r. Commodity Credit Corporation
   g. Futures trading and/or brokerage services

3. Notify patrons of the change
   a. Who is acting manager
   b. Preliminary plans for change

4. Internal checks
   a. Gets keys from old manager (if let go or quit) and/or change locks on doors.
   b. Change combination to the safe if manager leaves under distressed situation.

Note: If the departure of the General Manager is of a planned nature, such as retirement, these steps can be done very deliberately prior to his departure. But each step should be done at some time.
C. General Manager Position Analysis

As your board considers the qualifications and qualities it would like in your next general manager, consider your honest responses to the questions listed below. These responses will be critical in determining the type of general manager you will need to sustain and grow your co-op's business over the next few years.

1. What do we want the general manager to do? Be a change agent (drastically change things in order to insure survival)? Be a caretaker until a merger opportunity presents itself? Grow the business in a careful, conservative manner? Something else?

2. What are the most important issues which the general manager will have to deal with either immediately or over the next three years? Longer?

3. What are the secondary issues with which the manager will have to deal?

4. Do we have a strategic plan with a mission or mission statement that directs the general manager and staff?

5. What is our co-op’s position or market penetration in the area we serve? Do we want to increase our penetration at all costs? What is the correct level of penetration?

6. How can the co-op maintain or increase its competitive edge if we have one in the future?

7. What important characteristics of our members and the community should be considered in selecting a general manager?

8. What kind of general manager would be best able to relate?

9. What is the general image we want our co-op to have? For example, do we want to be all things to all people? Do we want to be the least cost provider in our area? Do we want to offer a full range of services at a premium price based on quality?

10. What type of general manager would best function in the co-op as it should be in the future?

11. What kind of growth or organizational changes do we anticipate or want in our co-op? How do these factors affect our decision-making?

12. Are there any major organizational changes pending? Merging with another co-op? Acquiring additional co-ops or private companies?

13. What trade-offs in general manager characteristics and qualifications are we willing to make?
A. Helpful Suggestions for Interviewing

1. Have desk name tag or badge for each board member so the interviewee can see the names clearly.

2. Determine which questions each board member will ask.

3. Ask open ended questions. For example, use "who, what, when, where and how" questions to gain additional details. You might ask follow-up, open-ended questions such as: How did it happen? Why did it work out that way? How did you feel about it? Why couldn't they do it?

4. Avoid asking any question that leads to an obvious answer.

5. Simply ask the question and then stop talking.

6. Do not ask additional information if the applicant pauses for a few moments. Give the applicant time to think and organize answers to your questions.

7. Use pauses to encourage the applicant to say more and to pick up any afterthoughts the applicant may have. Your silence may give the applicant a chance to elaborate on his answer.

8. Have questions in mind that you plan to ask and take notes.

9. Listen to what the applicant says, what he is trying to say, and what he is not saying. By listening to these points you: a) Learn what to ask next, and b) You learn something of value about the applicant. This enables you to know when to continue questions in a certain area, or when to shift to another area.

10. If you talk more than half of the time, you are not interviewing, you are being interviewed.

The interview itself:

1. The purpose of the initial interview is to obtain information that is not available from other sources, such as the application, reference checks and personal inquiries.

   The interview will be most helpful if it:
   - is planned in advance
   - follows a relative pattern
   - is conducted by directors who are prepared.

2. Be on time, have copies of questions and applicant’s resume/application for each board member.

3. Keep to the subject of interviewing (not farming).
4. Introduce board members.
5. Give a brief overview of the cooperative.
6. Ask the applicant to review background and experience.
7. Ask questions and listen.
8. Give the applicant the opportunity to ask questions of the board.
9. Closing—inform the candidate when to expect a decision on the second round of interviews, whether or not he is not selected for a second interview.
10. After the applicant is excused, each director should review any notes and personal impressions from the interview.

B. Selection of Final Candidates

Select final candidates based on interview results by comparing each candidate with the job requirements. Each board member involved in the interview process should independently determine his/her top two or three candidates. (The exact number should be determined by the interviewers prior to independent consideration.) The selection committee should then determine the top two or three candidates they want to invite for final interviews.

Communicate with selected candidates to obtain authorization/clarification to go on-site or talk to existing employment location.

Schedule final interviews and send more detailed information to the final candidates, for example: financial information, marketing information, etc.

Check finalists’ references, if not already done:

1. Check company where previously employed (directors & employees).
2. Cooperative leaders, regional employees.
3. Financial institutions (CFA, CoBank, etc.)
4. Patrons, businesses in the community, neighboring co-op managers.
F. Introduction/Orientation

1. One of the board members should assume responsibility for introductions and orientation of the new general manager on the first day and then follow up regularly for the next 30 days.

   a. Greet the manager and show him around the co-op and explain the various departments, facilities, and services offered to the customers.

   b. Introduce him to the other employees and briefly explain their respective jobs.

   c. Introduce the new manager to those customers who come in while you are going about the co-op; tell the customer something about the new manager’s background. Indicate your confidence in the new manager.

   d. See that he has opportunities to meet merchants, business and professional people in the community. This can be accomplished by inviting him along to luncheons and dinners of civic organizations to which board members might belong, or by making a special visit to someone’s office or place of business.
Job Description (Sample)

**Job Title:** General Manager

**Reports To:** Board of Directors

**Supervises:**

**Job Summary:** To provide leadership in planning, organizing, directing, controlling and decision-making for the co-op. Develops plans for board consideration. Interprets and implements association plans, policies, and programs. Establishes procedures and guidelines to provide direction for employees and maintains a favorable work environment for the employees. Upholds a favorable image for the company in the community and a communications program that informs all necessary publics on a timely basis.

**Major Duties/Responsibilities:**

1. Develops strategic, operational and financial plans and assures the achievement of the plans’ annual goals. Develops an annual operating budget and capital asset budget for board consideration. Provides the board with feasibility, efficiency and other studies (as required) on acquisitions, deletions and consolidations of facilities, equipment, and services.

2. Establishes criteria, interviews, and selects key management personnel. Organizes and establishes reporting relationships and salaries for the company within board approved policies, budgets, and guidelines. For direct reports, establishes performance standards compatible with corporate plans and annually reviews the performance of each employee and communicates the evaluation to the employee. Terminates employees for unsatisfactory performance and provides on-going coaching, counseling and training as required to improve overall productivity.

3. Ensures sound internal controls are in place to protect corporate assets at all times. Develops for board consideration company policies and programs. Monitors insurance programs, federal and state laws and regulations, and company security programs to ensure company assets are adequately protected.

4. Provides current and accurate financial, statistical and operational reports to the board to assure them the association is operating in accordance with their policies and direction.
• Monitors actual financial performance against budget.
• Collects, analyzes, interprets, and presents financial information on the condition of the cooperative to the board of directors. Informs the members, employees, and others as appropriate.
• Reviews, evaluates and initiates action when required relative to reports on accounts receivable, inventories, accounts payable, capital accounts and operating expenses. Administers the company credit policy.

5. Monitors employee benefit and compensation programs to ensure compliance with company policy, budgets, and various federal and state employment laws and regulations.

6. Coordinates department and branch operations to maximize efficiency and cooperation. Sets the climate for a highly motivated management team. Provides sound and timely decision-making.

7. Develops and implements employee, member, and public relations programs that communicate important information, encourages participation by employees in community activities and presents a favorable image for the company in the communities within its trade territory.

8. Represents the cooperative in civic and business organizations in a manner that will enhance the public image of the company.

9. Performs other duties and responsibilities as assigned.

Delegated Authorities:

1. Authority to approve capital asset and operating expenditures within budgeted limitations.

2. Authority to organize and staff the company and to establish salaries within company policy.

3. Authority to negotiate lines of credit within authorized limits.

4. Responsible for maintaining a financially sound and profitable company.

5. Responsible for maintaining security for all company assets.
## General Factors

<table>
<thead>
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<th>Rating</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 2 1</td>
<td></td>
</tr>
</tbody>
</table>

1. Tell us about your work experience.
2. What work-related organizations do you belong to?
3. What do you consider your strongest points in managing?
4. What do you think you have done particularly well in your past jobs?
5. What have you done poorly in your past jobs?
6. What are your weaknesses in managing?
7. Tell us about your experience with cooperatives and your business perception of them.
## Education

### Rating

<table>
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<th>Rating</th>
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<tr>
<td>3 = very good</td>
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<td>2 = satisfactory</td>
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<tr>
<td>1 = unsatisfactory</td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>Rating</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Tell us about your formal education.</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>What outside activities did you engage in at school?</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Did you work while in school?</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>What percent of school did you pay for?</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>What on-the-job training have you had (regional, local, cooperative, and other)?</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>How did the manager(s) you worked under help train you?</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>What formal training programs have you participated in?</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Tell us about a time you provided educational training programs and advancement for your employees.</td>
<td></td>
</tr>
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</table>
## Work Experience

<table>
<thead>
<tr>
<th></th>
<th>Rating</th>
<th>Notes</th>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>Do you have a farm background?</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>What work experience have you had? Describe.</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Tell us about your previous work in operations, sales, facilities management, product management, etc.?</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>What do you like about working in cooperatives?</td>
<td></td>
</tr>
</tbody>
</table>
| 5. | How would you describe your previous relationship with:  
- Your board of directors?  
- Your members?  
- Your employees? | |
| 6. | Why are you interested in being a cooperative manager? What appeals to you? | |
| 7. | Why do you wish to change jobs? | |

### Rating

- 3 = very good
- 2 = satisfactory
- 1 = unsatisfactory
# Business Factors

<table>
<thead>
<tr>
<th>Rating</th>
<th>Notes</th>
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<tbody>
<tr>
<td>3</td>
<td></td>
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<tr>
<td>2</td>
<td></td>
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<tr>
<td>1</td>
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</tbody>
</table>

1. Tell us about your previous budget and how you managed it.
2. How did the directors or manager measure/evaluate your performance?
3. Tell us about your A/R system.
4. Tell us about the hard assets at your present location. Did they increase or decrease?
5. What accounting experience have you had? Explain.
6. What computer experience do you have? Explain.
7. What is the present sales volume of your cooperative? Break down.
8. What is your opinion of and experience with written policies at a co-op?
9. Would you hire all employees or allow department heads to hire theirs? Please tell us about your approach to delegation. Explain.
10. Do you prefer a centralized or decentralized system? Why?
11. How do you deal with employees who disagree with you?
12. Tell us about your supervision experience.
13. How do you develop and train your employees? Tell us about a time.
14. Tell us about your leadership experience.
## Our Cooperative

<table>
<thead>
<tr>
<th>Rating</th>
<th>Notes</th>
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<tbody>
<tr>
<td>3</td>
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<tr>
<td>2</td>
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</tbody>
</table>

1. Are you acquainted with or related to anyone employed here?
3. How did you find out about this job opening?
4. Why do you want to manage this cooperative?
5. After reviewing our last audit report, what areas of the business do you think we need to work on? (If they have had time to study.)
6. Are you acquainted with this area in regard to type of crops and farming practices? Describe.
7. Are you familiar with all products and services that we offer? Explain.
<table>
<thead>
<tr>
<th>CHARACTERISTICS</th>
<th>GENERAL MANAGER</th>
<th>IDEAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Business and financially focused.</td>
<td></td>
<td>10</td>
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<tr>
<td>2. Thoroughly understands co-op uniqueness and treats the organization as an extension of a member's operation.</td>
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<tr>
<td>3. An effective communicator.</td>
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<tr>
<td>4. Demonstrated leadership capabilities.</td>
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<tr>
<td>5. Values the importance of evaluation.</td>
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<tr>
<td>6. A catalyst for vision.</td>
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<tr>
<td>7. Places a high priority on continual education and improvement.</td>
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<tr>
<td>8. A strong commitment to the co-op's board and employees.</td>
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<tr>
<td>9. Customer “understanding” is a very high priority.</td>
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</tr>
<tr>
<td>10. Committed to collective action for the good of the entire industry.</td>
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<td>10</td>
</tr>
</tbody>
</table>
2004-2005 PERFORMANCE

Tommy Engelke
Executive Vice President
Texas Agricultural Cooperative Council

Please indicate your rating on each of the following performance areas for the Executive Vice President.

MISSION STATEMENT

"The mission of the Texas Agricultural Cooperative Council is to promote, support and advance the interest and understanding of agricultural, utility and credit cooperatives and their members through legislative and regulatory efforts, education and public relations."

Please use the following rating system:

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>4</td>
<td>Outstanding: Performance consistently exceeds expected results</td>
</tr>
<tr>
<td>3</td>
<td>Successful: Performance consistently meets and exceeds some expected results</td>
</tr>
<tr>
<td>2</td>
<td>Acceptable: Performance often meets expected results, but sometimes falls short</td>
</tr>
<tr>
<td>1</td>
<td>Unsatisfactory: Performance falls substantially short of expected results</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PERFORMANCE CATEGORY</th>
<th>COMMENTS</th>
<th>RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Strategic Planning</td>
<td>Works well with the board and members to position the Council for the future.</td>
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<tr>
<td>2. Business Planning and Operating Results</td>
<td>Develops well thought out plans to accomplish goals and obtains expected results.</td>
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</tr>
<tr>
<td>3. Leadership and Professionalism</td>
<td>Provides sound leadership to the organization.</td>
<td></td>
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<tr>
<td>4. Customer Focus</td>
<td>Provides direction and leadership to achieve high member satisfaction.</td>
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</tr>
<tr>
<td>PERFORMANCE CATEGORY</td>
<td>COMMENTS</td>
<td>RATING</td>
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<tr>
<td>5. Organizational Development</td>
<td>Displays strong leadership in attracting, retaining, motivating and developing the Council's leadership and staff.</td>
<td></td>
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<tr>
<td>6. Board Relationships</td>
<td>Works well with the board to accomplish director philosophy at the Council.</td>
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<tr>
<td>7. Member Relationships</td>
<td>Maintains a positive image for the organization with members of the Council.</td>
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</tr>
<tr>
<td>8. Financial Management</td>
<td>Establishes integrity and quality in the company's financial statement, and enhances the financial position of the organization.</td>
<td></td>
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</tbody>
</table>

**Overall Performance**
Please total your individual ratings and divide by the number of ratings on your form.

---

Please use this space to make any additional comments relating to the performance of the Executive Vice President.

---

Name

Date
PERFORMANCE LEVEL RATING DESCRIPTIONS

Ratings should be completed for each applicable evaluation factor (i.e., job understanding) and for the performance summary (Part VI).

| ▲ OUTSTANDING | Employee's job performance is exceptional in comparison to job requirements, essential duties, and/or responsibilities and, if applicable, in comparison to other employees performing similar duties. Performance at this level **consistently Exceeds** expectations and makes significant contributions to the mission of the Unit. |
| ▲ HIGHLY EFFECTIVE | Employee's job performance **consistently meets** and **frequently exceeds** job requirements, essential duties and/or responsibilities. Performance at this level is considered above average in comparison to job requirements and to others performing similar duties, when applicable. |
| ▲ EFFECTIVE | Employee **consistently meets** all job requirements, essential duties, and/or responsibilities in a competent manner. This is the minimum expected level of performance for employees. |
| ▲ NEEDS IMPROVEMENT | Employee **meets some but not all** job requirements, essential duties, and responsibilities. Guidance and/or coaching are needed for improvement. |
| ▲ UNSATISFACTORY | Employee **does not meet** job requirements, essential duties and/or responsibilities for position. Immediate and significant improvement is needed. |

Please note: An employee receiving a Needs Improvement or Unsatisfactory rating should receive a specific explanation of areas needing improvement and an action plan and timetable for achieving improvement. A Needs Improvement or Unsatisfactory rating may also establish grounds for termination if previously identified problems are not corrected.
# Performance Evaluation

Employee’s Name

Title

Date of Evaluation

Review Period From to

## PART III - ESSENTIAL DUTIES AND RESPONSIBILITIES

Briefly list the essential duties and responsibilities on which the employee will be evaluated. Refer to the Position Description if available.

| 
| 
| 
| 
| 

## PART IV - EVALUATION FACTORS

Review and respond to the following evaluation factors, making specific comments in each category. Indicate by checking (✓) the appropriate performance level to the right of each evaluation factor.

### A. JOB UNDERSTANDING

<table>
<thead>
<tr>
<th></th>
<th>Outstanding</th>
<th>Highly Effective</th>
<th>Effective</th>
<th>Needs Improvement</th>
<th>Unacceptable</th>
</tr>
</thead>
</table>

1. **Job Knowledge**: Consider the extent to which job objectives, duties and responsibilities are understood.

| 
| 
| 
| 
| 

2. **Technical Knowledge**: Consider proficiency in application of methods, techniques, tasks, machines, equipment, materials, etc., necessary to accomplish work.

| 
| 
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| 
| 

### B. PRODUCTIVITY

1. **Quality of Work:** Consider the extent to which employee sets work standards and consistently achieves high results as reflected by accuracy, neatness, thoroughness, dependability, and usefulness of results.

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<thead>
<tr>
<th>Criteria</th>
<th>Outstanding</th>
<th>Highly Effective</th>
<th>Effective</th>
<th>Needs Improvement</th>
<th>Unsatisfactory</th>
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</table>

2. **Quantity of Work:** Consider how much acceptable work is produced in relation to reasonable expectations, availability of adequate resources, etc.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Outstanding</th>
<th>Highly Effective</th>
<th>Effective</th>
<th>Needs Improvement</th>
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### C. SELF-MANAGEMENT

1. **Dependability:** Consider the extent to which employee can be counted upon to maintain regular attendance, successfully carry out instructions and fulfill responsibilities, complete assignments, meet deadlines, etc.

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<thead>
<tr>
<th>Criteria</th>
<th>Outstanding</th>
<th>Highly Effective</th>
<th>Effective</th>
<th>Needs Improvement</th>
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</table>

2. **Punctuality:** Consider punctuality as it relates to job performance and reporting to work on time.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Outstanding</th>
<th>Highly Effective</th>
<th>Effective</th>
<th>Needs Improvement</th>
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</table>

3. **Use of Time & Other Resources:** Consider how time is organized and managed in meeting schedules, projects, deadlines, priorities, appointments, etc. Also consider to extent employee strives to eliminate nonessential work or personal activities, suggests cost-saving measures, uses available resources, etc.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Outstanding</th>
<th>Highly Effective</th>
<th>Effective</th>
<th>Needs Improvement</th>
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</table>
4. Interpersonal Relations: Consider the effectiveness of interpersonal relations with other employees, departments, staff and the general public. Consider the extent to which good will is maintained and a spirit of cooperation in the workplace is demonstrated.

5. Oral & Written Communications: Consider the effectiveness of oral and/or written communications as they relate to clarity, appropriateness, effect, etc.

6. Initiative & Resourcefulness: Consider the extent to which the employee is a self-starter and can handle unforeseen difficulties successfully. Also consider the employee's ability to develop new ideas, handle unusual work situations, and whether or not close supervision is required.

7. Critical Thinking & Decision Making: Consider the extent to which prior thought and analyses of facts and situations are done before initiative action and problem solving.

8. Employee Development: Consider extent employee provides development opportunities for each supervised employee, promotes professional growth, provides leadership and supervision.
List below any additional observations or concerns, which were not, addressed in Part IV. This section can be used to acknowledge and document especially noteworthy accomplishments as well as to point out areas requiring improvement or where performance is unacceptable. Provide a statement concerning what is needed to bring performance to an acceptable level.

<table>
<thead>
<tr>
<th>Outstanding</th>
<th>Highly Effective</th>
<th>Effective</th>
<th>Needs Improvement</th>
<th>Unsatisfactory</th>
</tr>
</thead>
</table>

**PART VI - PERFORMANCE SUMMARY**

Evaluate employee on the described job responsibilities based on preceding comments and ratings. Consider both strengths and limitations and the employee's overall success in fulfilling position responsibilities.

**PART VIII - EMPLOYEE COMMENTS** (attach additional page if needed)

**PART IX - ACKNOWLEDGEMENT & SIGNATURES**

I acknowledge that this performance evaluation was conducted to evaluate my performance in the specified period and to discuss future performance and development plans. Also, my supervisor and I reviewed a current copy of my Position Description. I further understand that my signature does not necessarily indicate my concurrence with the evaluation results and that I am entitled to receive a copy of my performance evaluation bearing all the required signatures. It is my understanding that a record of these results will be maintained in accordance with the current records retention schedule.

<table>
<thead>
<tr>
<th>Signature of employee</th>
<th>Date</th>
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</table>

<table>
<thead>
<tr>
<th>Signature of supervisor completing this form</th>
<th>Date</th>
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</thead>
</table>
Frequently Asked Questions

175 of the Most Asked Coop Questions

This is a 26-page document titled “Do you Know Your Cooperative” containing 175 out of a possible 191 of the most asked questions about cooperatives. Answers are given following the question. The publication was developed by the Iowa Institute of Cooperatives for their membership. A quick hit and well-organized reference for answers about cooperatives.
I. DISTINGUISHING CHARACTERISTICS

1. What is a cooperative?

A cooperative is a business organization chartered by the state as a corporation which is controlled by those who use it, and which is operated for their mutual benefit as patrons.

2. What is the relationship of the farmer cooperative to the farm activities of each of its members?

The farmer cooperative represents a part of the farm operations of each of its members. The members operate the cooperative jointly to improve their separate farm business operations.

3. What is the relationship of farmer cooperative members to one another?

By mutual agreement they have joined together to conduct some business activity which is functionally related to their separate farm operations.

4. Cooperatives are said to be non-profit organizations. Does this mean they don't make any money?

No. Generally speaking, a cooperative does not make money for itself as a business firm, but depending on the purpose of the cooperative, one of its goals is usually to make money for the members who patronize it. The cooperative increases the net farm incomes of its members by reducing the cost of the farm supplies and services purchased or it increases the net return for the farm products produced, processed and marketed. The cooperative business is like a jointly owned farm tractor - it does not make money for itself but for the farmers who own and use it.

5. What is meant by the statement that cooperatives operate at cost to members?

If the purpose of the cooperative is to market members' products or purchase their supplies and services, members pay the actual cost of the service performed by the cooperative. They share this cost on a patronage basis. When the "price" to members includes more than actual costs, a patronage settlement is made to each member proportional to his patronage at the end of the operating year. These refunds are made in order to bring the charges for the services of the cooperative down to actual cost to the members.

6. Why are cooperatives operated at cost to member-patrons?

The cooperative is owned and controlled by the farmers who use it. Farmers own their cooperative to serve themselves. Because members assume the risk and responsibilities of ownership and control, they alone are entitled to the direct benefits.

7. Does service at cost always mean that farmers can save money by doing business through their cooperative?

It depends on the purpose and goals of the cooperative. The cooperative must be as efficient as competitors in order for the cooperative members to achieve their goals. Service at cost alone does not insure that costs will be lower in the cooperative.

8. In what ways do cooperatives differ from ordinary corporations?

The conventional corporation is organized by and for the benefit of capital investors. Its purpose is to make money for these investors. Farmer cooperatives, on the other hand, are organized by and for the benefit
II. ORGANIZATIONAL STRUCTURE

9. What is the organizational structure of farmer cooperatives?

Farmer cooperatives are associations of farmers who produce, process or market their products, or who purchase their farm supplies and services on a cooperative basis.

The farmer members form their association by making legal commitments to one another and by agreeing to a set of operating procedures. These contractual arrangements are spelled out in the articles of incorporation of the cooperative.

10. What are the articles of incorporation?

The ARTICLES spell out the agreements among members through which they organize the cooperative and provide the basic rules by which it is to be operated. They can only be changed by a vote of the membership. The cooperative comes into being as soon as the articles are approved. Most cooperatives are incorporated and therefore have articles of incorporation.

11. Why do cooperatives incorporate?

A corporation is a separate business entity, an "artificial person" authorized by law, which may act as an individual in conducting business transactions. By organizing a cooperative as a corporation, farmers limit their financial liability for its actions, enable it to make contractual obligations, and give it perpetual life.

12. What is meant by limited liability?

When the cooperative is incorporated, no one member can be held liable for the debts of the cooperative beyond the limit of his actual investment in the cooperative. Stockholders in conventional corporations also have this protection.

13. What steps are necessary to incorporate a cooperative?

(1) Articles of incorporation must be drafted to conform with the state laws under which the cooperative wishes to incorporate.
(2) These articles must be approved by a vote of the membership.
(3) The original copy must be filed with the secretary of state.

14. What are the ByLaws of a cooperative?

The BYLAWS contain the more detailed operating rules of the cooperative, especially those which are likely to be changed from time to time. The BYLAWS cannot be in conflict with the articles or with the law under which the co-op is incorporated.

15. What is the basic capital structure of farmer cooperatives?

Membership in most cooperatives is usually acquired through the purchase of a single share of common stock. This is the voting share. Additional capital is obtained from members through the sale of preferred stock, by deferring patronage refunds or through the sale of other equity instruments. These additional means of raising capital don't normally have any voting rights associated with them.

16. How does a farmer become a member of a cooperative?

If the farmer is eligible under state law and under the cooperative's articles of incorporation, he or she may become a member by purchasing a share of common stock.

17. Is there a way for young farmers who can't afford the share of common stock to become a cooperative member?

Yes. Many purchasing and marketing cooperatives allow them to earn a share of common stock from their patronage refunds. In such cases, all a farmer needs to do is sign an agreement, make a small down payment, and start doing business with the cooperative. As he or she earns patronage refunds, the cost of the
share of common stock will gradually be paid. When they have earned enough patronage refunds to fully pay for a membership, they become a member. Until that time they are called a subscriber. Production and processing cooperatives may issue non-voting "delivery-right" shares which have a market value and may be used as collateral for a loan.

18. **What is a "delivery-right" share?**

Production or processing cooperatives often capitalize the company by issuing shares of non-voting stock, each of which entitles (and commits) the owner to deliver a specified quantity of raw material inputs to the co-op each year. Members may buy multiple shares to participate in the business at whatever level of volume they wish. Typically, the member is delivering to the co-op a commodity grown on the farm to which he or she wishes to add value by changing its form at the co-op and selling it at a higher price to the next step in the food chain. Examples would be bringing corn to a livestock production cooperative or bringing livestock to a processing cooperative. However, it could also be used to provide an input such as feeder pigs or replacement cows.

19. **What is a "new generation" or a "value-added" cooperative?**

The term "new generation" refers to the relatively recent development of large numbers of production and processing cooperatives in the Midwest. They are not so new in other parts of the country or in the world. This is in contrast to the more traditional Midwestern farmer cooperatives which are engaged mostly in grain marketing and supply purchasing. These have done their work without any volume commitments or delivery rights being associated with capitalizing the cooperative. Rather the primary source of capital in the traditional co-ops has been the deferring of earnings paid to members. While most companies believe they add value for their members and customers regardless of the type business they’re in, the term "value-added" in this context refers to the basic reason the production or processing cooperative was formed, which is different from the reason which caused traditional cooperatives to be formed.

20. **What is the fundamental difference between a local cooperative and a federated regional cooperative?**

The difference is primarily in the size of the geographic area served. Local cooperatives serve a limited area, sometimes a single community. Regional cooperatives serve a much larger area, often as much as several states. Regional cooperatives usually carry on more complete manufacturing, processing, or wholesaling functions, and usually have local cooperatives as members. Also, there are frequently differences in organizational structure.

21. **How are regional cooperatives classified as to membership?**

Regional cooperatives may be owned and controlled by local cooperatives. In this case, they are called "federated" cooperatives. Or they may be owned directly by individual farmers and be called "centralized" cooperatives. In this case, there are no local cooperatives, only local facilities owned by the centralized regional cooperative. Some regional cooperatives are a mixture of both types of ownership.

22. **Does farmer ownership and control make a business organization a cooperative?**

No. Farmers have formed other companies to make a profit by providing goods and services to the general public, and only incidentally to themselves. Such companies are not organized as cooperatives but as ordinary corporations. Others may be organized as limited liability companies or some type of partnership. When a group of people get together to form a business that will provide themselves with something they need for their own separate businesses, or to save money as customers, they usually will select the cooperative structure. If they select a different structure it may operate much like a cooperative.
23. Do people other than farmers ever form cooperative associations?

Yes. Examples of cooperative associations in fields other than agriculture include the following:
1. Urban consumer cooperatives.
2. Health maintenance organizations.
3. The Associated Press.
4. Wholesale purchasing cooperatives organized by retail stores.
5. Credit Unions.
6. Mutual insurance companies.
7. Telephone and electric utility cooperatives

III. METHODS OF OPERATION

24. How are cooperatives operated to provide service at cost?

Three entirely different methods are used in cooperatives to provide services to members at cost. Under all three, the prices to members are adjusted in such a way that they give the cooperative a margin large enough to cover the operating cost. Under all three, the fraction of the total cost in the cooperative which each member pays is based on the volume of business they do through the cooperative.

25. What methods do cooperatives use to give members service at cost?

1. In cooperatives which deal with members at prevailing market prices, any proceeds above actual cost are refunded to the members on the basis of their patronage. This is usually called the purchase and sale method of operation.
2. In cooperatives which are operated on a delayed settlement or pooling basis, members receive payment for their products after actual costs have been deducted. This is usually called the delayed settlement method of operation.
3. Because of the nature of their operation, a few cooperatives find it possible and advantageous to assess costs to members periodically on the basis of their patronage.

26. What is the purchase and sale method of operation?

Most traditional marketing and supply purchasing cooperatives use this method of operation. Members are paid for their farm products as they deliver them to their cooperative and pay for their farm supplies as they receive them from their cooperative. These transactions are ordinarily at prevailing market prices. This practice usually results in a margin which more than covers the costs in the cooperative. The balance after costs have been determined is the amount available for patronage refunds to the members at the end of the year. This balance is divided by the total volume for the year to determine the per unit patronage refund necessary to adjust the year’s operation to cost to members.

27. What is the delayed settlement method of operation?

Some marketing cooperatives such as grain pools and milk marketing associations use this method of operation. Members do not receive total payment for their products at the time of delivery to their cooperative. Instead, they receive partial payment on delivery and the rest after their products have been processed and/or sold by the cooperative. The price each member receives for their product is determined by subtracting the actual costs in the cooperative from the selling price received when the products were sold by the cooperative. Therefore members receive the services of their cooperative at cost in the settlement price for their products. Cooperatives which use this method of operation are sometimes called "pooling" cooperatives. "New generation" or "value-added" cooperatives also may operate like this.

28. Do cooperatives operated on a delayed settlement basis sometimes make tentative advances to members for their products?

Yes. Most "new generation" and "value-added" cooperatives operate on this basis. Other types do as well. Tentative advances are sometimes made to members at the time they deliver their products to the cooperative. Such advances are not always
based on the prevailing market price of the products, but may rather represent a part (say 50 percent) of the selling price the cooperative hopes to receive for the products. The use of tentative advances does not change the method of providing service at cost in cooperatives operated on delayed settlement basis.

29. What is the direct assessment method of operation?

In some cooperatives, such as mutual hail insurance associations and some livestock marketing cooperatives, it is advantageous for members to be assessed costs only if and as these costs occur. In these cases, members as a group share costs in their cooperative as they arise.

30. Do all successful cooperatives make patronage refunds to members at the end of the year?

No. Not all cooperatives use patronage refunds as a means of giving service to members at cost. Furthermore, cooperatives that are operated on a purchase and sale basis may depend upon using the patronage refunds for capital. So although a refund is issued it may not be issued as all cash.

31. Does each member stand the actual costs incurred by the cooperative in handling their business?

No. By their nature, cooperatives must pool or average many costs among the members. By chance it may cost more to serve one member than another, but each member pays his share of the average cost, rather than the actual direct cost of serving each of them. To some degree, volume discounts recognize the difference in the cost of serving different members. However, members prefer to have many of the costs pooled, in order to eliminate the risk of being among those for whom the actual cost of the services are very high. And, as a practical matter, such calculations would be too cumbersome and too expensive.

32. How should the cost of operating the cooperative be shared among different departments in cooperatives?

Many costs, such as the general manager's salary and office expenses, have to be divided among all the departments. But if the direct costs in each department are distinctly different, the members will probably want each department to stand on its own feet, rather than have the costs averaged among them. Otherwise, some members will have to pay more than their fair share of the actual costs of the cooperative.

33. Are members entitled to credit from their farm supply cooperative?

Only if the majority want credit and are willing to pay the additional cost of carrying it. Extending credit in cooperatives may result in unfairness, because all of the members may have to bear the cost of credit for only a few.

34. Why is it fair for cooperatives to distribute earnings and savings on the basis of patronage, rather than on the basis of investment?

Cooperatives are operated for the benefit of the membership as patrons. Members provide the basic capital needed to finance the cooperative in order to receive its benefits as users. One reason for this provision is to keep the co-op focused on member needs as users of the co-op rather than as investors in the co-op.

35. Must a farmer be a member in order to do business with a cooperative?

It depends on the purpose of the cooperative. However, only members and those who have subscribed for membership usually are eligible to receive patronage refunds, or "value-added" payments.
IV. RESPONSIBILITIES OF MEMBERS

36. What are the major responsibilities of cooperative members?

There are several major responsibilities which the members as a group must assume if they expect to receive the direct economic benefits. Among other things, the members are responsible for:
(1) Providing capital.
(2) Patronizing.
(3) Paying the costs of operation.
(4) Assuming the business risks.
(5) Control, by democratic means.
(6) Management, by electing directors who hire a manager.
(7) Keeping informed.
(8) Maintaining the organization.

37. Why must the members assume the responsibilities in their cooperative?

(1) Because the cooperative is a definite part of each member's individual farming activity, they must assume their share of these responsibilities in the cooperative, just as each of them alone must assume them in their farm business.
(2) Because the cooperative is a mutual undertaking, each member is obligated to the other members to assume their fair share of these responsibilities.

38. What is the fair way for members to share the responsibilities in their cooperative?

In general, and over the long run, members should share the responsibilities on the same basis as they share benefits; that is, in proportion to patronage. However, in the short run, beginning members may be providing less and established members more.

39. When do inequities arise in connection with the sharing of responsibilities among cooperative members?

Inequities arise whenever some of the members profit at the expense of other members. For example:
(1) When all of the members are required to bear the cost of extending credit to only a few.
(2) When patrons of one particular department of the cooperative are forced to bear a part of the costs of operating another department which they do not use.
(3) When the cooperative depends to a large extent on unallocated reserves or free surplus for its capital requirements, thus forcing present patrons to assume part of the financial responsibility which future patrons should assume. This can occur in the opposite way as well, where too little surplus forces the burden on future members.

40. What is the responsibility of each member for financing their cooperative?

Members as a group own the cooperative. Individual members should provide their proportionate share of the necessary capital. If all the capital cannot be raised in this way, the individual members must bear their proportionate share of the added cost resulting from paying interest on borrowed capital.

41. What is each member's responsibility for patronizing their cooperative?

Each member benefits most when all members maximize their participation in their cooperative. This means they must use all services provided by the cooperative that fit their farm operations. Sometimes, members do business under contracts and must assume responsibility in performance of specific contract agreements. If the cooperative is not competitive with other markets or suppliers, the member has the responsibility to effect change.

42. What is each member's responsibility for the cost of operating their cooperative?

Members share in the benefits of their cooperative in proportion to the amount of business they do with the cooperative. The actual costs of running the cooperative must be paid before anything is available for patronage refunds. Therefore, each member shares in the cost of operating the cooperative in direct proportion to their patronage. Since many of the costs are fixed, each member can reduce them for everybody by providing a maximum level of patronage.
43. What is each member's responsibility for the business risks in their cooperative?

There are business risks in the operation of any business. The cooperative is no exception. The member-patrons as a group must bear these risks in a cooperative. Members bear their share of the risks in proportion to their equity and patronage. As a sound business practice, cooperatives generally establish reserves and carry insurance policies to absorb possible future losses. In any case, a member's liability for losses is limited to their investment in it.

44. What is each member's responsibility for the control and management of their cooperative?

As owners of the cooperative, the members as a group are jointly responsible for its control and management. Every policy decision in the cooperative affects each member's farm operations. Therefore, only members, their elected directors, and their hired management are in position to make sound policy decisions in the cooperative. Unless each member takes an active part in the democratic process of controlling their cooperative, they cannot be sure that it will be operated in their mutual interest.

45. What is each member's responsibility for being informed about their cooperative?

Each member has a responsibility for keeping information on the facts about their cooperative such as: (1) the annual report, (2) the financial structure, and (3) the services available, in much the same way as they would be informed about the operation of their own farm business.

In addition, to this, each member should understand the nature and purpose, as well as the methods of organization and operation of cooperatives so that they can make effective use of the cooperative as a business tool.

46. What is each member's responsibility for maintaining the cooperative?

Members have a responsibility, both to themselves and the other members, for doing their part to maintain the cooperative as long as the cooperative is, or can be, useful to them as a business tool. Some of the specific responsibilities for maintaining the cooperative are:

1. Continuing to support the cooperative during temporary adverse conditions, such as a price war.
2. Assisting in recruiting new members into the cooperative.
3. Taking suggestions and criticism to the manager, board of directors, or the membership meetings, rather than airing them on the street corner.
4. Abiding by majority rule concerning decisions affecting the cooperative, even when personally in disagreement with majority decisions.
5. Serving conscientiously on the board of directors or committees when called upon to do so.

V. CONTROL AND MANAGEMENT

47. How is a farmer cooperative controlled and managed?

Jointly by (1) membership, (2) the board of directors, and (3) the manager.

48. What does democratic control in a cooperative mean?

It means that the member-patrons of the cooperative will control their association without undue influence from any source. They exercise this control directly and through their board of directors. It also means that each member will share in the decisions affecting the cooperative on a basis which is fair and equitable to all members.

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49. Does democratic control always mean one vote per member?

By law, voting control is shared equally by the members in most cooperatives in the United States. However, in some states, members may vote according to their volume of patronage, within specified limitations.

50. Who has final decision-making authority in the cooperative?

In general, members properly exercise their control by electing those directors they believe will do what needs to be done. The board makes the decisions on operational issues, although boards are generally unwilling to make decisions that are opposed by the members. The members may decide to fire some or all the directors. It is directors who must evaluate, hire and fire, the general manager. It is the general manager who must evaluate, hire and fire, other employees. Long experience shows that cooperatives which try to operate without these clear lines of authority and responsibility are likely to fail.

51. What kinds of decisions in the cooperative should be reserved for the membership alone?

The basic policies, including such things as:
(1) The decision to organize the cooperative in the first place, and any decision to discontinue the cooperative.
(2) Conditions of membership in the cooperative.
(3) Selection of the board of directors.
(4) Decisions requiring amendments to the articles of incorporation.
(5) Some expansion programs involving great additional membership financial responsibility.

52. Why do cooperatives hold regular annual business meetings?

Since cooperatives are controlled by the membership, there must be machinery for the members to exercise this control. The regular annual business meeting is a part of this machinery. It gives the members opportunity to set the broad policies, elect the board of directors, and to hear and evaluate a report of the year's business operations.

53. Is the regular annual business meeting the only time cooperative members can take official action as a group?

No. Special membership meetings may be called at any time by the board of directors. Official action can be taken at such meetings provided written notice is sent to all members a specified length of time in advance. By petition carrying a required number of members' signatures, the members can compel the board of directors to call a special membership meeting.

54. What are the duties of the board of directors?

Within the broad policies laid down by the membership, the board of directors is the governing body in the cooperative. Acting as a group, the directors employ the manager and establish general operating policy principles. The directors are the elected representatives of the members and are empowered to act on their behalf on items not reserved for members in the cooperative's articles of incorporation or by-laws.

55. What are the duties of the officers of the cooperative?

The officers are elected by the board of directors, and are themselves members of the board of directors. The president is responsible for calling meetings and is the presiding officer. The secretary keeps minutes of all action taken at meetings. The officers are the legal representatives of the board of directors and are required to sign stock certificates, deeds and other legal documents. No individual officer or director can lay down policies for the cooperative. The board of directors can make policy decisions only as a body. Individual board members have no authority not specifically delegated to them by the board.
56. What are the qualifications for directors and how are they selected?

Directors must be members of the cooperative. They should have a thorough understanding of cooperatives, good business judgement and the ability to work with people. They are elected by the members at the regular annual business meeting. The board generally has the authority to fill any vacancies on the board until new directors can be elected by the members.

57. How is the general manager of the cooperative selected?

The manager is a salaried employee selected by and responsible to the board of directors.

58. What are the responsibilities and authority of the general manager?

They have charge of the business operations of the cooperative. It is the responsibility of the manager to carry out the general policies laid down by the members and the board of directors and set specific operating policies within the board's general policies. They have the authority to hire and fire all other employees of the cooperative.

59. What are the qualifications of a cooperative manager?

They must have business and administrative ability, and may need technical training in the type of business carried on by the cooperative. In addition, they must have a thorough understanding of cooperatives and human relations so that they can work effectively in this type of business organization. Of course, their honesty and integrity must be above question.

60. Does the general manager have the right to vote at member meetings and at board meetings?

Not by virtue of their position as manager. In some cases, but not usually, a manager may be a member of the cooperative. In these cases, they may have voting rights as a member and may be eligible to be elected to the board of directors. Most cooperatives, as a matter of principle, do not, and should not, place the manager in a board position.

61. Should the general manager recommend and suggest policies to the members and the board of directors?

Yes. While it is not a function of the manager to set general policy principles, the manager should be expected to make recommendations to the directors and to the membership. Managers, because of their training and experience, and close contact with the business, are in a unique position to make recommendations and suggestions, and render advice on board policy matters.

62. Should other employees be responsible to the manager or directly to the board?

To the manager. The manager is responsible for the business operation of the cooperative and for carrying out the policies laid down by the board and the membership. They cannot effectively do so unless the other employees are responsible only to the management. No manager should be held accountable for employee performance if the board interferes.

63. Who should set the "price policy" in a cooperative, (1) the manager, (2) the board of directors, or (3) the members?

The manager, within the broad policies laid down by the board of directors. The manager is in the best position to know competitors' prices, needed margins to cover costs in the cooperative, and what sort of price changes can be expected. This is part of the job for which the manager is hired.

64. If a farmer has a complaint or suggestion about the cooperative, what can they do?

The cooperative is controlled by a majority of its members. If an individual can convince others of his or her view on a policy matter, the policy will be voted through at the regular annual business meeting. However, members should usually initiate suggestions...
by submitting them to the board of directors. Although alert management welcomes suggestions, individual member-patrons are not privileged to issue orders to the manager or to other employees. As a practical matter, as well as for fairness, the cooperative will not work well any other way.

65. Should the auditor be hired by and report to the board of directors or to the manager?

The board of directors. In part, the audit is a check on the efficiency and integrity of the manager, and should give the board information for use in determining the value of their manager to the membership.

66. What is meant by a "quorum" in a cooperative?

A quorum is the minimum number of members authorized by the co-op's articles and by-laws to transact business at a membership meeting, or the minimum number of directors authorized to transact business at a board meeting.

67. What is meant by "referendum" in a cooperative?

It is the procedure by which the decision of the membership is obtained on a specific action of the board of directors.

68. How is a federated regional cooperative controlled?

The control of a federated regional cooperative is on the same basis as control of a local cooperative - by its membership. The members of a federated regional cooperative are mostly local cooperatives rather than individual farmers. Each local cooperative elects a delegate to represent that cooperative at meetings of the regional organization. The delegates elect a board of directors. Directors may be either farmers or local coop managers.

VI. METHODS OF FINANCING

69. Who must assume the financial responsibility in a cooperative?

The members, as a group. Since member-patrons own and control their cooperative, and receive its benefits, they cannot expect others to assume the financial responsibility for them.

70. Does this mean that members must provide all of the capital needed by their cooperative?

No. A part of the financial responsibility may be handled by providing the security and by paying the interest necessary to borrow from others. In fact, it would often not be financially wise to use all member capital.

71. Do all members have an equal responsibility for financing their cooperative?

No. The responsibility each member has for financing the cooperative is roughly proportional to the use they make or expect to make of the cooperative.

72. What are the methods members may use to provide capital for their cooperative?

(1) Ownership capital.
   (a) Permanent capital.
       2. Preferred stock.
       3. Unallocated reserves and surplus.
       4. "Delivery-right" shares in a closed or "new generation" cooperative.
   (b) Revolving capital.
       1. Deferred patronage refunds.
       2. Patronage deductions (capital retains).

(2) Debt capital.
   (a) Certificates of indebtedness.
   (b) Building or promissory notes.
   (c) Debenture and other bonds.
73. **What is meant by ownership capital?**

Ownership capital is contributed by the members approximately in proportion to their use of the cooperative. It usually does not bear interest or pay dividends because members receive the benefits on a patronage basis. Ownership capital is the risk bearing capital.

74. **What is permanent capital?**

Permanent capital is ownership capital which remains in the cooperative permanently. The permanent capital originally contributed by the members remains in the cooperative as long as they continue to be members. The permanent capital in unallocated reserves and surplus remains in the cooperative unless it is dissolved.

75. **What is meant by "common stock" in a cooperative?**

In practically all cooperatives it is necessary to purchase a share of common stock in order to become a member. This capital usually does not draw interest and is not returned to the member as long as they are a member of the association. This is the share that provides a member with their single vote. The capital acquired in this way is usually insufficient to meet the total requirements of the cooperative.

76. **What is the source of the capital in unallocated reserves and surplus?**

This capital is created out of net operating proceeds gained from business done by non-members and/or by adding a small amount to annual operating costs and setting it aside to serve as a cushion. The cooperative pays income taxes on these amounts.

77. **Is the use of unallocated capital reserves or surplus a desirable way to finance cooperatives?**

It is necessary to have reasonable unallocated capital reserves or surplus to make the cooperative financially secure. But if reserves and surplus are used as the primary method of financing in cooperatives, they are objectionable because individual members have no direct claim to their share of this capital unless the cooperative is dissolved. This practice is sound only for conventional, non-cooperative corporations, where the amount of surplus is reflected in the market value of common stock.

78. **What is "preferred" stock?**

Preferred stock represents one type of ownership capital. It may, in some cases, draw a fixed annual interest dividend. This interest rate, in a cooperative, may not exceed the current maximum legal interest rate. Preferred stock usually does not have a maturity date; it is repaid or sold by direction or by permission of the board of directors. Preferred stock carries no vote and may sometimes be held by non-members as well as members. However, it is very common in Iowa farmer cooperatives for deferred patronage to be allocated to members in the form of preferred stock. This type of preferred stock pays no interest and is redeemed to all members at the same rate. It's an alternative to an equity revolving plan.

79. **What is meant by debt capital (supplied by members)?**

This is capital obtained through the sale of various types of securities that bear a fixed rate of interest. These securities are usually purchased by members (and non-members) who are willing to furnish capital for the operation of the cooperative. Some of these securities have a maturity date while others do not. In either case, arrangements can usually be made for redemption. The value of these securities does not fluctuate but remains at the par value for which issued. If debt instruments are sold to non-members, more stringent securities regulations may apply.

80. **What are certificates of indebtedness?**

Certificates of indebtedness represent a type of debt capital frequently used in cooperatives. They draw a fixed annual interest rate. They usually carry a due or repayment date, ranging from 5 to 50 years from the date of issue. They may be held by non-members as well as members.
81. What are "building notes"? Are other kinds of promissory notes used by cooperatives?

Building notes are a type of promissory note held by members (and non-members) of cooperatives. They are usually issued to finance building or expansion programs. They have a maturity date varying from 5 to 50 years, and draw a fixed annual interest rate.

Other types of promissory notes are also used in many cooperatives. Some are long-term notes which use certain fixed assets of the cooperative as security. Others are short-term notes with maturity dates of one year or less from the date of issue. They are used primarily for working capital. All promissory notes draw a fixed annual interest rate and have a definite maturity date.

82. What are debenture bonds? Are other kinds of bonds used by cooperatives?

Debenture bonds are yet another type of debt capital held by cooperative members (and non-members). They are very much like certificates of indebtedness and building notes, and also have a maturity date and draw a fixed annual interest rate. Debenture bonds are secured by specified fixed assets of the cooperative.

Other bonds are also used by some cooperatives. They have a maturity date and draw a fixed interest rate. They usually are secured by the total assets of the cooperative rather than by specified fixed assets.

83. What is meant by revolving capital?

This is capital furnished by member-patrons and used in the cooperative for a period of time after which it is returned to the members who furnished it.

84. What is the source of the capital that is put into the revolving fund?

In cooperatives which operate at prevailing market prices, it comes from patronage refunds which have been allocated to members and left in the cooperative as capital. These are usually called deferred patronage refunds. In cooperatives which are operated on a delayed settlement basis, revolving fund capital comes from "patronage deductions" of so much per unit from the price members receive for their products.

85. What determines the requirements, methods and length of time necessary in payment of revolving fund capital (deferred patronage refunds)?

The total capital needed by the cooperative and the amount provided by other ways will determine the method and time of payment of deferred patronage refunds allocated to the revolving fund. The cooperative pays deferred patronage refunds allocated to the revolving fund as prescribed in state law, in the articles of incorporation, or by-laws of the association. The board of directors determines the timing of payments. Individual patrons can't withdraw their capital at will.

86. What are some of the principal advantages of financing with revolving capital?

(1) Members contribute capital to the cooperative in the same proportion they use the cooperative.
(2) It permits beginning members to join with minimal up-front investment.
(3) Ownership is maintained in the hands of current member-patrons.
(4) It permits members to acquire increased ownership in their cooperative. While this usually means gradual cooperative growth, it insures sound growth. The cooperative must make savings or profits for its members, otherwise expansion financed by revolving capital could not take place.
(5) Once this plan is put into operation, a minimum of administrative cost is necessary for maintaining the capital required.
(6) This plan reduces operating costs by avoiding the necessity of paying interest to attract debt capital.

87. What are some of the principal disadvantages of financing with revolving capital?

(1) The period required for the fund to revolve cannot be maintained where continuous expansion takes place, unless some other
method is used to obtain capital for expansion. (2) Members sometimes object to this method because of the tax treatment of the most commonly used types of deferred patronage refunds. (3) The plan may permit expansion of the cooperative without the explicit approval of the members. (4) A cooperative, in order to succeed, requires a capital base, part of which must be supplied by members. Members sometimes forget this need, expecting their total investment to be revolved immediately. (5) This plan may become unworkable and unacceptable to the members if the capital requirements of the cooperative make a long revolving period necessary. (6) Established members may become “over-capitalized” while beginning members are still building an equity position.

88. Is it a good idea for the cooperative to borrow money from outside sources?

Most cooperatives borrow some money, especially to meet seasonal needs or when it becomes possible for them to use this money in the business to increase savings or profits for their member-patrons. There are cases when it is inefficient for the cooperative to be debt free.

89. What are some of the outside sources from which cooperatives can borrow capital?

(1) The bank for cooperatives (CoBank). (2) Local banks. (3) Other lending agencies such as loan associations and insurance companies. (4) Private individuals.

90. What is the difference between the Class A common stock and the Class B common stock in traditional Iowa farmer cooperatives?

Under Iowa cooperative law, both represent permanent ownership capital in the cooperative. Likewise, both are a condition of membership. However, Class A common stock may be held only by agricultural producers. People other than agricultural producers who want to become members of the cooperative must purchase a share of Class B common stock. Class B common stock carries all rights and responsibilities in the cooperative except the right to vote. Note: In some credit cooperatives the reverse is true. Class B common stock is held by agricultural producers and has a vote, while Class A common stock is held by others and has no vote.

91. What is the difference between common stock and preferred stock in Iowa cooperatives?

Common stock is a condition of membership; it is the voting stock. It usually draws no dividend. Preferred stock may represent money invested in the cooperative association by members (and sometimes others). This type of preferred stock may draw fixed interest. Several shares of preferred stock may be held by one person, but preferred stock carries no vote. Other preferred stock is actually deferred patronage, pays no interest and carries no vote.

92. What is the difference between the common stock in Iowa cooperatives and common stock in conventional corporations?

In a *conventional corporation*, the number of shares of common stock an individual may hold is not limited. Each share of stock entitles the owner to one vote. The earnings or profits of the corporation are distributed as dividends to its common stockholders on the basis of the number of shares each owns.

The purchasing of common stock is the means of acquiring membership in a cooperative. Usually only one share can be purchased. It is also a means of providing part of the necessary capital to finance the cooperative.

93. What method of providing member capital is best suited to the needs of cooperatives?

No one method alone is likely to meet all of the requirements of an ideal financial plan. There are advantages and disadvantages of each method. Usually some combination of several methods proves most satisfactory.
VII. ACCOUNTING AND AUDITING

94. What are the principal features of cooperative accounting?

(1) An accurate record must be kept of each member's purchase and sales through the cooperative.
(2) Accurate departmental cost accounts are usually required in cooperatives with more than one department.
(3) Member and non-member business must be separated in a cooperative.
(4) Capital in the business which originates from operating proceeds gained by doing business with members is allocated to member-patrons in a cooperative.
(5) Cooperatives are obliged to notify each member-patron of the amount of their patronage refund allocation.
(6) A monthly balance sheet and operating statement is usually required in a cooperative.
(7) The amount by which the assets exceed liabilities is shown as member equity (member ownership) on a cooperative balance sheet. In a conventional business corporation this amount would be called net worth.
(8) A detailed annual statement must be presented to the membership in a cooperative.

95. Why is it necessary for the cooperative to keep an accurate record of all patronage?

After deducting the cost of operating the business and setting up necessary reserves, the net proceeds are the property of the member-patrons and are allocated to them in proportion to the patronage of each. This cannot be done unless accurate patronage records are kept.

96. Why is departmental accounting usually necessary in a cooperative?

Operating costs and margins usually vary between different departments. Since individual members do not make equal use of all departments, departmental accounting may be necessary to be fair to all members.

97. Why are the net proceeds, which are left in the cooperative as capital, allocated to the member-patrons?

Each individual member-patron has a definite equity in such capital. Unless it is definitely allocated and disclosed, they have no individual claim to a share of this capital.

98. Why is the farmer cooperative obliged to notify member-patrons of the amount of their patronage refund allocation?

Such allocations are the actual property of each individual member-patron, and, as such, may be subject to income tax.

99. Why must some cooperatives keep separate records of member and non-member business?

Under some cooperative laws non-members cannot be paid patronage refunds, then all such earnings on non-member business may be subject to federal and state corporate income tax. These two factors require keeping separate records for member and non-member business. Non-members assume none of the responsibilities of membership and none of the risks of ownership.

100. Why is a monthly balance sheet and operating statement usually required in a cooperative?

These statements are required so that the management and board of directors can adequately understand and supervise the operations of the cooperative.

101. Why doesn't a cooperative balance sheet show net worth?

The cooperative itself has no net worth. The difference between assets and liabilities in a cooperative is the property of the member-patrons. This amount is properly shown as member equity in the balance sheet.
102. Why is a detailed annual statement required in a cooperative?

Members, as owners and patrons of the cooperative, must have this information in order to understand and appraise the past year's business operation. Such statements may also be required by law.

103. Why should a cooperative member study the annual balance sheet and operating statement of their cooperative?

The cooperative is a definite part of each member's farm business. They allocate capital resources to this part of their farm operations just as they do to "crop production", "livestock production", or to any other department of their farm. Only through careful study of the financial statements of the cooperative can members make an appraisal of cooperative operations.

104. In what ways are the accounting practices of cooperatives similar to those used in other types of business?

Since the cooperative is a business corporation, many of the same kinds of books and records used in other businesses are used in cooperatives. Most of the principles of general accounting also apply to cooperative accounting. Most cooperatives, like other business corporations, use daily journals, general ledgers, accounts receivable records, payroll records, and tax records. These things are done electronically on computers.

105. What is a daily journal?

It is a running daily record of the transactions in every department of the cooperative. Columns are provided in the daily journal for various commodities or types of products handled. Individual transactions are posted daily from purchase and sales tickets and check stubs. A more detailed record is usually required in cooperatives than required by most other businesses.

106. What is a general ledger?

Monthly totals of the various columns in the daily journal are posted in the general ledger. This gives a summary of the business transactions month by month, and provides a basis for the preparation of a monthly balance sheet and operating statement. An accurate and up-to-date general ledger is necessary for preparing statements for the board of directors and an annual audit for the membership.

107. Why is an annual audit, made by a professional accountant, essential in a cooperative?

(1) As a means of furnishing the members (who are owners of the business) with a complete, verified, and unbiased report of the cooperative's operations for the year, thus enabling them to make an accurate appraisal of their costs and benefits of doing business cooperatively.
(2) As a tool of management (board of directors and management) to make an accurate appraisal of the cooperative's operation. Management can thus determine policy for more effective use of all cooperative resources including facilities, capital and personnel.
(3) The audit also helps to keep the cooperative accounting system in compliance with generally accepted accounting practices and existing tax laws.

VIII. LEGAL ASPECTS

108. Under what laws are cooperatives incorporated?

Except for some credit cooperatives which are incorporated under federal laws, all cooperatives are incorporated under state laws. Most states have special laws under which cooperatives may be incorporated.
109. Why are special state laws sometimes provided for the incorporation of cooperatives?

A cooperative is a distinctive type of business corporation. The laws under which conventional, for-profit corporations are incorporated sometimes do not fit the methods of organization and operation used by cooperative corporations.

110. What are some of the important provisions of the laws under which cooperatives are incorporated?

In addition to giving them specific legal recognition, the laws state the methods of organization and operation required in order to be incorporated as a cooperative. Some of the more important of these provisions are as follows:
1. The association must be operated for the benefit of the owners as patrons.
2. Net proceeds must be distributed on a patronage basis, after reasonable reserves have been provided.
3. Interest dividends on invested capital may be limited.
4. Eligibility requirements and the procedure for becoming a member may be specified.
5. The control must rest with the members. The method of sharing this control by the members may be specified.
6. The method of electing the board of directors may be specified and their responsibilities outlined.

111. Are cooperative laws uniform in all states?

No. While they all provide the benefits of incorporation, and contain the same general requirements, no two state laws are exactly alike. Examples of differences include: (1) Methods of acquiring membership. (2) Methods of voting. (3) Requirements as to capital reserves. (4) Requirements as to charter renewal. (5) Requirements as to methods of financing. (6) Requirements as to non-member business.

112. What is the legal relationship between the law under which a cooperative is incorporated, its articles of incorporation, and its by-laws?

The law outlines the general powers, privileges, requirements, and organizational structure for cooperatives incorporated under it. The articles of incorporation are written to fit a particular cooperative, and are more specific than the law. The articles must not be in conflict with any provision of the law. The by-laws contain still more detail and must not conflict with any provision in the articles of incorporation or the law.

In case of conflict, the articles of incorporation take precedence over the by-laws, and the law under which the cooperative is incorporated takes precedence over the articles of incorporation.

113. Are incorporated cooperatives subject to the provisions of general state laws governing the issuance of stocks and securities?

Generally speaking, cooperative corporations are subject to the laws regarding the type and amount of stock and other securities that may be sold, and the registration of these securities. However, cooperatives which sell securities only to members may qualify for special exemptions.

114. How can an incorporated cooperative be dissolved?

Generally an incorporated cooperative may be dissolved by: (1) a voluntary act of its members, (2) bankruptcy, (3) by failure to file annual corporation reports with secretary of state and pay the necessary filing fee, or (4) failure to renew its charter by the expiration date, if there is one.

115. How are the assets of a cooperative corporation distributed in the event of dissolution?

In cooperatives, assets are to be distributed according to the priority set by the state laws and the articles of incorporation.
116. What are the important Federal laws affecting farmer cooperatives?

The Federal laws affecting cooperatives can be divided into two groups: those affecting the organization of cooperatives, and those affecting their operation.
1. Organization:
   Sherman Anti-Trust Act, 1890
   Clayton Act, 1914
   Capper-Volstead Act, 1922
2. Operations:
   United States Warehouse Act, 1916
   Packers and Stockyards Act, 1921
   Grain Futures Act, 1922
   Motor Carrier Act, 1935
   Robinson-Patman Act, 1936

117. What is the Sherman Anti-Trust Act of 1890 and what is its importance to cooperatives?

This act prohibits the association or combination of business units for restraint of trade, and provides for legal action against businesses acting in any way to restrain trade. The organizing of cooperatives is not in conflict with this act. Cooperatives which act in restraint of trade can be prosecuted under it.

118. What is the Clayton Act of 1914 and what is its importance to cooperatives?

The Clayton Act clarifies and expands the Sherman Anti-Trust Act. It is primarily written to legalize labor unions, but also explicitly legalizes the existence of non-stock cooperatives, a type rarely used anymore. It did not clarify the position of stock cooperatives.

119. What is the Capper-Volstead Act of 1922 and what is its importance to cooperatives?

The Capper-Volstead Act clearly legalized stock cooperatives under the Sherman Anti-Trust Act. It set up definite requirements for cooperatives in order to come under its provisions. This act did not repeal either the Sherman Act or the Clayton Act, and cooperatives which act in restraint of trade can be prosecuted under them.

120. What requirements must farmer cooperatives meet in order to qualify under the Capper-Volstead Act and what is the significance of these requirements?

The Act applies to agricultural marketing cooperatives. Other kinds of cooperatives, such as farm supply co-ops, are not mentioned but the requirements laid down in this act have set the pattern for the others too.

The important requirements provided for in the Capper-Volstead Act are as follows: (1) Each member is allowed one vote or, if voting is on the basis of shares of stock held, the dividends on that stock shall not exceed 8 percent; (2) the non-member business may not exceed that of members; (3) voting members must be agricultural producers; and (4) the association must operate for the benefit of its members as patrons.

These requirements are significant not only because they define cooperatives for the administration of this Act, but also because they provide the basis for the definition of cooperatives used by the Farm Credit Administration.

121. What is the United States Warehouse Act of 1916 and what is its importance to cooperatives?

This Act permits grain elevators to store agricultural commodities in federally licensed warehouses, and use the warehouse receipts as collateral for obtaining working capital. This was very beneficial to both cooperative and non-cooperative elevators.

122. What is the Packers and Stockyards Act of 1921 and what is its importance to cooperatives?

This Act provides for the public regulation of commission companies and regulates the commission charges. The Act assured cooperatives the right to transact business in the central market exchanges even though they pay patronage refunds. It also regulates those cooperatives engaged in meat processing.
123. What is the Grain Futures Act of 1922 and what is its importance to cooperatives?

This Act prevents grain exchanges from excluding grain cooperatives from active membership in the grain exchanges. This Act was changed to the Commodity Exchange Act in 1927.

124. What is the Motor Carrier Act of 1935 and what is its importance to cooperatives?

This Act regulates motor trucks. The motor vehicles owned and operated by farmer cooperatives are exempt from many of the regulatory provisions of this Act.

125. What is the Robinson-Patman Act of 1936 and what is its importance to cooperatives?

This Act was designed to prevent business firms from discriminating between customers. While transactions by cooperatives with third parties are covered by the Act, it specifically provides that patronage refunds paid by cooperatives to members does not represent discrimination.

IX. TAXATION OF COOPERATIVES

126. What is the public policy regarding the tax treatment of farmer cooperatives?

Formerly, qualifying farmer cooperatives were not required to pay certain federal taxes, such as corporate income taxes, the stamp tax on securities, the excise tax on capital stock, and the excess profits tax. Part of the reason for this treatment was due to the fact that most farmer cooperatives did not have comparable securities and corporate income which could be taxed, and also because Congress wished to encourage the organization of farmer cooperatives. Subsequent legislation has eliminated most of the differences in the tax treatment of cooperatives as compared to conventional corporations.

127. At present, what is the difference between the tax treatment of farmer cooperatives and that of conventional corporations?

Cooperatives pay all of the same taxes at all the same rates as conventional corporations, except that they do not pay corporate income taxes on patronage refunds paid or allocated to members. On the other hand, corporations which operate for profit pay corporate income taxes on all net income, regardless of whether or not paid to stockholders. If, however, corporations operate on a cooperative basis and refund net margins back to customers rather than to stockholders, they need not pay tax on that income either.

128. What is the legal basis for patronage refunds as income to the member, rather than as corporate income to the cooperative?

Congress amended the Internal Revenue Code in 1962 to give cooperatives an income tax deduction for qualified patronage refunds. Prior to that time, taxation of cooperatives was determined under a series of court decisions.

129. Are cooperatives able to obtain exemption from filing federal income tax returns in the same manner as churches, schools, and other non-commercial organizations?

Until passage of the 1951 Revenue Act, farmer cooperatives meeting rigid requirements could apply for and receive a letter of exemption from filing federal corporate income tax returns. While this section of the Internal Revenue Code has not been repealed, it was modified by the passage of the 1951 and 1954 Revenue Acts so that the form which exempt cooperatives are now required to file is virtually the same as a tax return. Except for dividends on stock, such cooperatives are required to pay federal corporate income tax on any operating proceeds which are not allocated to patrons.
130. What is the "exemption" offered under Section 521 of the Internal Revenue Code of 1954 and what are its requirements?

The exemption is from income tax, except for earnings kept in reserve and not paid or allocated to members. Earnings which are not allocated are subject to federal corporate income tax, even in "exempt" cooperatives.

The requirements are as follows:

(1) The voting stock must be held by agricultural producers.
(2) At least 50% of the business must be transacted with members.
(3) Reserves or surpluses, retained in the cooperative, must not exceed an amount deemed to be reasonable and necessary. (However, any additions to such reserves which are not allocated are subject to federal corporate income tax, even in "exempt" cooperatives.)
(4) Dividends on capital stock must not exceed 8%, or the legal interest rate in the state where incorporated, whichever is greater.
(5) If any business is transacted with non-members, the non-members must receive patronage refunds at the same rate as members.
(6) "Exempt" cooperatives must not do more than 15% of their purchasing business with persons who are neither members nor producers.
(7) They must prove that they meet all the requirements for "exemption" each taxable year.

131. What is the difference in the corporate income tax treatment of non-exempt cooperatives, and that of "exempt" cooperatives?

Very little. Both "exempt" and non-exempt cooperatives must now pay corporate income tax on any reserves, including those required by state law, which are not allocated and disclosed to patrons. Neither must pay corporate income tax on amounts allocated to patrons. However, "exempt" cooperatives are not required to pay corporate income taxes on the following: (1) dividends on stock, (2) income from non-operational sources or incidental income, (3) capital gains income, and (4) income from government business. Non-exempt cooperatives must pay corporate income tax on such income.

132. What is the difference in the Federal Income Tax treatment of non-exempt cooperative corporations and that of conventional corporations?

Except for the fact that the non-exempt cooperatives more often make obligatory patronage refunds, there is no difference. Both are subject to double taxation on any income distributed as interest dividends on invested capital; both are subject to single taxation on unallocated income retained in the business, and neither must pay corporate income tax on earnings distributed to patrons where a prior contractual obligation exists to make such distributions. Because of their nature, cooperatives use patronage refunds much more extensively than ordinary corporations.

Part Two -- Development and Function of Farmer Cooperatives

X. HISTORY & DEVELOPMENT OF COOPERATIVES

133. Into what periods is the history of farmer cooperatives in the United States usually divided?

The development of farmer cooperatives in the United States is usually divided into four distinct periods as follows:

(1) Organization of early local cooperatives by detached groups of farmers. (1810-1870)
(2) Organization of local cooperatives by the Grange. (1870-1880)
(3) Organization of local cooperatives at a constantly increasing rate, and organization of early regional cooperatives. (1880-1920)
(4) Reorganization of local cooperatives and continued expansion through regional cooperatives. (1920 to present)
(5) Organization of "closed" or "new generation" production and processing cooperatives based on delivery rights and owned directly by farmers. (1975 to present)
134. How can the early period of farmer cooperative organization (1810-1870) be described?

This period started with the organization of two dairy cooperatives - a cooperative creamery at Goshen, Connecticut and a cooperative cheese plant at South Trenton, New York - about 1810. Following these, many different commodity cooperatives were organized throughout the Northeastern States, Cotton Belt, Upper Mississippi Valley, and the Far West. They were mutual benefit enterprises operating without the advantage of special legislation. While many were short-lived, a few are still in existence.

135. How can the period of organization of local cooperatives by the Grange (1870-1880) be described?

Beginning in 1871, the National Grange became very active in organizing local cooperative buying and selling clubs among farmers. The cooperative activities sponsored by the Grange expanded rapidly. The real significance of the Granger period of cooperative development lies in the fact that farmers were provided with a plan and were given an opportunity to demonstrate the value of group action in marketing and purchasing.

136. How can the period from 1880 to 1920 be described?

This period can be described as follows:

(1) 1880 to 1890.
Scattered cooperatives for marketing farm products were organized. Some of them are still in existence. A few examples include: cooperative elevator at Marcus, Iowa, 1887, and at Rockwell, Iowa in 1889; fruit marketing cooperatives in California, Florida, and New York; livestock marketing cooperatives in the Midwest, a wool growers cooperative in Indiana, and a tobacco growers cooperative in New England. By 1890, there were about 1,000 active farmer cooperatives; over 700 of these were handling dairy products, about 100 grain, and about 100 fruits and vegetables.

(2) 1890 to 1920.
(a) During this period the number of active local cooperatives increased to more than 12,000. Two general farm organizations, the Farmers Union and the American Society for Equity, stimulated this growth. Cooperatives became established in nearly all states for the handling of all major farm products. Land grant university extension services and the Farm Bureau were also very active in organizing cooperatives.
(b) Several early regional cooperative federations were organized during this period. Examples of some of the earliest regionals include: Sunkist Growers, Inc. of California, 1895; Chautauqua and Erie Gracp Growers Cooperative Association, Inc. of New York, 1897; and the Farmers Grain Dealers Association of Iowa, 1904. Several other regional cooperatives that are still in operation were organized during the period 1910 to 1920.

137. How can the period from 1920 to the present be described?

The development of cooperatives during this period fits logically into five areas:
(1) Reorganization and consolidation of local cooperatives. During this period the number of local cooperatives has decreased and the volume of business has increased due to expansion of individual cooperatives and consolidation. As compared to cooperative marketing, cooperative purchasing has become increasingly important.
(2) Organization and expansion of regional cooperatives. A great many new regional cooperatives, both in the marketing and purchasing field, have been organized during this period. Regionals have not only expanded in size, but have also extended their business activities into processing and manufacturing. In more recent times, regional cooperatives have been consolidating.
(3) Formation of state-wide and national organizations. Many organizations for
cooperative education, public relations and legislative activity have been organized during this period. An example at the national level is the National Council of Farmer Cooperatives. State organizations initiated in this period include state councils of cooperatives in a majority of states. An example of this is the Iowa Institute for Cooperatives.

(4) Development of many new laws affecting farmer cooperatives. The legal framework for the organization and operation of cooperatives have been clarified and improved during this period. Three important Federal legislative acts were passed. They include: The Capper-Volstead Act, 1922; Cooperative Marketing Act, 1926; and the Agricultural Marketing Act, 1929. During this period cooperative laws have been put in the statutes of the states and several territorial possessions of the United States. Many states have passed laws attempting to retard structural change in agriculture. "Corporate farming laws," they are called. As an unintended consequence, these laws have often made it more difficult for farmers to adapt effectively to change.

(5) Development and rapid growth in use of "closed" or "new generation" cooperatives so farmers can gain additional income and diversification by retaining ownership of their commodities through additional stages of production and processing.

138. What were the first laws authorizing the incorporation of cooperatives in the United States?

A mutual cooperative fire insurance law was passed in New York in 1857. Michigan passed a law authorizing "the formation of mechanic's and laboring men's cooperative associations" in 1856, and amended it to include agricultural cooperatives in 1875. Other early state cooperative laws include: Massachusetts, 1866; New York, 1867; Pennsylvania, 1868; Connecticut, 1870; Minnesota, 1870; New Jersey, 1875; California, 1878; Tennessee, 1882; Ohio, 1884; Kansas, 1887; and Wisconsin, 1887. The first Iowa cooperative law was passed in 1915.

139. Have changes been made in these early state laws for incorporating cooperatives?

Yes. Most states have either amended their original laws, or passed new laws at least once. Iowa has had three laws, one in 1915, one in 1921, a law passed in 1935 which is still used, and a new law passed in 1996. While many state laws have been patterned after the Kentucky law of 1922, considerable differences still exist among the laws of the different states.

140. What developments have taken place in cooperative marketing and purchasing in the United States since 1920?

(1) Number of cooperatives. The number of marketing cooperatives increased from about 6,500 in 1921, to peak over 10,500 in 1930, and then gradually decreased to a few under 4,700 in 1976. The number of purchasing cooperatives has increased from about 900 in 1924, to peak over 3,300 in 1958 and then decreased to 1,900 in 1997.

(2) Number of members. The number of members of both marketing and purchasing cooperatives constantly increased until - in marketing cooperatives the increase has been from about 600,000 in 1915 to well over 4,200,000 in 1954. Since then the number has decreased to 1,500,000 as a result of the decrease in the number of farmers. Purchasing cooperatives increased from about 60,000 in 1915 to about 3,250,000 in 1954, but declined to 1,600,000 in 1997.

(3) Volume of business. Although there have been variations from year to year, the general trend of the dollar volume of business in both marketing and purchasing cooperatives has been definitely upward. The volume of business done by marketing cooperatives increased from just over 1 billion dollars in 1921 to almost 86 billion dollars in 1997. The volume of business in purchasing cooperatives increased from just under 58 million dollars in 1921, to about 37 billion dollars in 1997.
141. What developments have taken place in Iowa Cooperatives since 1930?

(1) Number of members.
Over the years, the number of members in marketing cooperatives has gone up and down from a high of 249,000 in 1934 to the current low at 111,000 in 1997. Membership in purchasing cooperatives increased from 28,000 in 1930 to 172,000 in 1954, declined to 149,000 in 1976 and declined further to 75,000 in 1997.

(2) Volume of business.
The volume of business in marketing cooperatives was almost 175 million dollars in 1930, but decreased to less than 107 million by 1935. Following the Great Depression, it increased to 3.3 billion in 1976 and reached 8.3 billion in 1997. The volume of business in purchasing cooperatives decreased from 11.2 million dollars in 1930 to 10 million in 1940 but has shown a substantial increase since then, particularly in recent years. The total volume reached 1.3 billion dollars in 1976 and 4 billion dollars in 1997.

142. What has been the trend since 1930 in Iowa’s rank among the states in volume of cooperative business?

In 1997, Iowa ranked first in total volume of cooperative business with Minnesota, California, Wisconsin, Illinois and Nebraska following in order. Iowa was fourth in 1930. For grain marketing volume, Iowa was first in 1997 coming from third in 1930. In dairy marketing, Iowa ranked fifth in 1997, up from seventh in 1930. Iowa’s volume in cooperative purchasing put it first in 1997, coming up from seventh in 1930.

143. What important trends are evident in the history and development of cooperatives in the United States?

(1) Increased use of highly-skilled technical people as managers and key employees.
(2) Increased use of auxiliary departments (particularly in regions) for servicing their main enterprises. Examples include auditing, traffic management, membership education, testing and laboratory services, marketing research, and reorganization.

(3) Steady increase in cooperative purchasing of farm supplies relative to cooperative marketing of farm products. The volume of cooperative purchasing was 2% of the total volume of cooperative business in 1930, and over 29% of the total in 1997.

(4) Cooperatives, particularly regionals, are adding more and more functions in the marketing system. Marketing cooperatives are processing farm products more completely and are carrying them to the final consumer. Purchasing cooperatives went into manufacturing and are carrying their activities nearer to the source of raw materials.

(5) Production cooperatives, owned directly by farmers, are organizing to conduct jointly-owned farming and animal raising operations. Some go all the way to the grocery shelf or to the consumer.

144. In what fields have farmer cooperatives developed most successfully?

Farm cooperatives have developed in all areas along the chain from basic production to the consumer and in supplying inputs to each step in it.

145. What is a marketing cooperative?

A marketing cooperative is one that performs the function of marketing farm commodities and processing food products for its member-patrons. Examples include grain elevators, dairy, livestock marketing, grain processing, and meat processing cooperatives.

146. What is a purchasing cooperative?

A purchasing cooperative is one that performs the function of purchasing at wholesale and manufacturing farm supplies needed by its member-patrons. Examples include petroleum, feed, and fertilizer. Farm supply purchasing cooperatives are sometimes wrongly called consumer cooperatives. A consumer cooperative is one that is operated by and for the benefit of consumers to help them
reduce their living costs or raise their standard of living from the income they have to spend. Farm supply cooperatives are producer cooperatives rather than consumer cooperatives.

147. What is a service cooperative?

A service cooperative is one that performs the function of providing services needed by member-patrons in their individual business activities. Examples include electric cooperatives, artificial breeding cooperatives, credit cooperatives, and insurance cooperatives.

148. What is a production cooperative?

There are many familiar types of farmer cooperatives such as grain marketing, dairy and farm supply. Production cooperatives are newer on the Midwestern scene and, as the name implies, are engaged in agricultural production as their primary business. In a production co-op, a group of farmers has pooled their resources to engage in production together, perhaps in addition to the volume they may raise on their individual farms or as a means of diversifying into different enterprises.

149. What conditions are necessary in order for a cooperative to be successful?

In addition to sound organization and operation, it is essential that there be an economic need for the cooperative. Members must be continually aware of this economic need.

150. What are the conditions which would indicate a need for a farmer cooperative?

(1) Quality products or services not available from existing dealers.
(2) Existing middlemen charges too high-

(a) Excessive profits.
(b) Needless duplication of services.
(c) Charges for services not wanted.
(3) Unfavorable profit position for farmer in the overall farm-to-consumer chain.
(4) Disparity in market or bargaining power.
(5) Lack of access to markets.

151. Can cooperatives eliminate the costs of middlemen's services?

No. Although the cost may sometimes be excessive, most middlemen perform necessary and useful functions. By taking over some of these functions through their cooperative, members may be able to reduce some of these costs, but not eliminate them.

152. What determines whether or not cooperatives can reduce the cost of middlemen's services?

The cooperative must be able to perform the services needed by members more efficiently than other agencies in order to reduce costs to members.

153. What production, marketing, purchasing, and processing costs can successful cooperatives reduce?

Examples include those due to:
(1) High profits and margins.
(2) Excessive merchandising costs.
(3) Inefficiencies of small size.
(4) Duplication of services.
(5) Poor management ability.

154. In what ways do cooperatives safeguard our private enterprise system?

By entering fields of business activity where existing competition has failed to do a satisfactory job, cooperatives have a tendency to make our private enterprise system work better. To the extent that they bring about efficiency in this way, cooperatives help preserve our private enterprise system by guarding against government control or tendencies toward socialism.

155. What is meant by the statement, "cooperatives create competition"?

When cooperatives enter fields of business activity where existing competition has failed to do a satisfactory job, they have a tendency to force competitors to reduce their margins. As cooperatives continue to be "pace-setters" in the fields where they function, they create competition and improve the marketing
system much more than the percentage of business done through cooperatives would indicate.

156. What is meant by the statement, "cooperatives are a safety-valve in our economy"?

Cooperatives enable groups of business firms who are forced to bear the costs of inefficiencies in our private enterprise system to pool their efforts and overcome these inefficiencies by performing services for themselves. Since they do provide a means for such businessmen to help themselves, cooperatives reduce the tendency of turning to government for help, of creating self-interest pressure groups, or of resorting to revolutionary action.

157. Do cooperatives drive their competitors out of business?

Cooperatives doing business at market prices will not drive competitors out of business more than other businesses do. Both efficient cooperatives and other efficient businesses may drive their less efficient competitors out of business. However, if the competitors of the cooperative render the services as efficiently as the cooperative, they won't be driven out of business.

158. Should a cooperative be set up to compete with businesses already serving a particular community?

It depends on whether the service, quality, and prices of the other businesses indicate a need for the cooperative.

159. How can cooperatives be "pace-setters" if they deal with their members at prevailing market prices?

Dealing with members strictly at prevailing market prices can be overdone. Where margins are obviously wide, cooperatives often reduce these margins by adjusting prices to members at the time of transaction. However, if the price policy to members didn't allow for sufficient margin over expected costs to compensate and replace invested capital in the cooperative, patrons would have little incentive to become members. The actual net price or cost to member-patrons in a cooperative is determined by the patronage refund as well as the price at the time of transaction.

160. Why don't farmers turn to the government for protection against high margins rather than organize cooperatives to reduce them?

They sometimes do, e.g., Federal milk orders for protection against high handling margins on fluid milk. However, as long as they have a means of eliminating inefficiencies themselves, farmers are usually reluctant to become dependent on the government. Cooperatives help to keep the spirit of self-reliance alive.

161. Is there a possibility that members may expect their cooperatives to solve all sorts of problems which cooperatives, regardless of how successful, cannot solve?

Yes. It is important to recognize the limitations as well as the possibilities of cooperatives. For example, cooperatives are not an effective tool for solving such problems as: (1) holding up the general farm price level in times of depression, (2) controlling inflation, (3) controlling agricultural production, (4) maintaining markets for farm products in the face of declining consumer demand, or (5) preventing or reversing structural change in agriculture caused by new technology, economic forces, or government policy. Cooperatives can help members adjust to the changes.

162. Is there a danger that farmer cooperatives will get too large?

Not as long as they continue to serve an economic need, and as long as the members can finance them and have the ability to make sound business decisions in the cooperative. If members definitely want their cooperative, and are willing and able to support and control it, size alone is not a limiting factor.
163. Are cooperatives helping to safeguard the "family farm"?

Through their cooperatives, farmers are often able to increase their bargaining power, add to their incomes, lower their risks, and lower their costs per unit in marketing and processing farm products, and purchasing farm supplies. Doing so enables small farmers to obtain the efficiency of large size and still retain their individual identity. Such efficiencies are probably necessary in many instances in order to prevent large corporate farms from replacing family farms. There are lots of incentives for cooperatives to find ways to assist family farms because that's who owns cooperatives. Their futures are tied together.

164. What determines the size of the patronage refund declared in a cooperative?

(1) Operating efficiency. Operating efficiency is determined by the volume of business handled, by the ability of the board of directors and manager, by the amount of business risk involved, and by the kind of plant and equipment.
(2) Competition within the industry. When the gross margins of competitors of the cooperative are wide, indicating a definite need for the cooperative, patronage refunds will ordinarily be large.
(3) Price policy to members. An important factor is whether the price to members at the time of transaction is above, the same as, or below competitive prices in the industry.
(4) Capital structure in the cooperative. The higher the percentage of capital in the cooperative which is furnished interest-free by the members, the higher the patronage refunds will be.
(5) Amount added to unallocated reserves. The larger the amount added to unallocated reserves or free surplus in a given year, the smaller the patronage refund will be for that year.

165. Is the size of the patronage refund to the members an accurate measure of cooperative benefits?

No. Actually it is impossible to measure all the benefits of the cooperative. The benefits must be measured in terms of the effect the cooperative has on the total net income of farmer-members as compared to what their net income would be without the cooperative.

166. Will a successful cooperative benefit farmers in the community who are not members or patrons of the cooperative?

A successful cooperative, by forcing competitors to reduce margins and give better service, will give non-members the benefit of better prices and services even though they do not use the services of the cooperative directly.

167. Why are purchasing cooperatives more likely to handle quality products than their competitors?

Since cooperatives are operated by and for member-patrons, the quality of the products handled will be determined primarily by their usefulness to the farmer, rather than by the handling margins on them.

168. In what ways can cooperatives improve the farming practices of members?

(1) By encouraging the production of quality farm products that fit consumer demand.
(2) By providing the opportunity for farmer-members to share ideas and experiences.
(3) By providing quality production supplies and services at reasonable cost.
(4) By making available the latest information and results from all areas of agricultural research.

169. In what ways do cooperatives provide leadership training for their members?

All members have an opportunity to take part in membership meetings; and some serve on committees, boards of directors, and in important positions with regional cooperatives. These opportunities for self-expression and experience develop farm leaders that are more
effective and useful to many organizations and activities outside the cooperative.

170. Are farmers who belong to a cooperative more likely to take an active interest in community affairs?

Yes. When farmers own and operate a business in town, they are likely to be more interested in affairs of concern to the town. As members of a cooperative come in contact with other members and business people, they are likely to become more interested in the affairs of the community.

171. How will a successful cooperative be of financial benefit to the community?

Cooperatives, both local and regional, return their savings to local member-patrons. Thus cooperative savings are distributed among a large group of local people. Some other businesses in the community are owned and operated for the benefit of relatively few people, people who often live far from, and have little interest directly in, the community.

172. What financial benefits does a successful cooperative offer the merchants in the town where it is located?

By increasing the income of the farmers in the community, a successful cooperative increases their local purchasing power. Most of this increase finds its way into the cash registers of the local merchants. Also, while in town to patronize their cooperative, members usually patronize local merchants.

173. Why do local cooperatives organize and operate regional cooperatives?

Often local cooperatives can render greater benefits to their members by extending their business activities to the wholesale, processing and manufacturing levels. When local cooperatives are not large enough to enter these fields alone, they join with other local cooperatives to own and operate regional cooperatives. The benefits of the regional cooperatives are returned to the local cooperative on a patronage basis, thus increasing the savings which the local cooperative can return to its members.

174. Why does a successful cooperative need to become more efficient as time goes on in order to continue to be of benefit to its members?

As a successful cooperative is able to set the competitive pace and thus reduce the handling charges of competitors, margins in the industry will be reduced. This challenges the cooperative to become more efficient in order to continue to provide good service.

XII. PUBLIC POLICY AFFECTING COOPERATIVES

175. To what extent has public policy been important to the growth and development of cooperatives?

The federal government, as well as state governments, has maintained a favorable policy toward cooperatives. All of the following reflect a public policy and have been important to the development of cooperatives:

1. Passage of enabling legislation by the states.
2. Enactment of federal laws governing the organization and operation of cooperatives.
3. Enactment of federal legislation providing for government assistance to farm cooperatives.
4. Laws, administrative rulings, and court decisions regarding the tax treatment of farmer cooperatives.