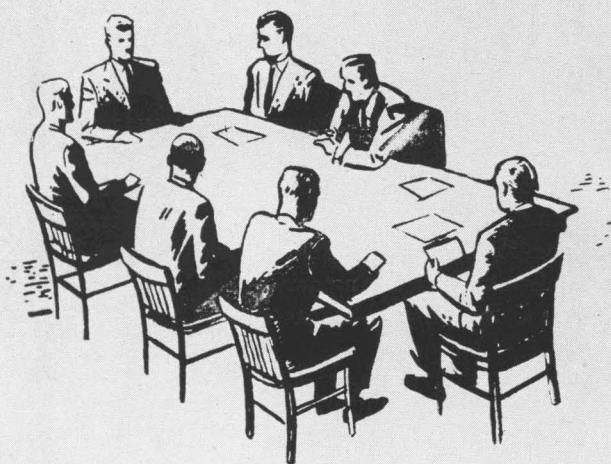


HANDBOOK FOR DIRECTORS OF FARMER COOPERATIVES



Issued by
The Agricultural Extension Service
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G. G. Gibson, Director, College Station, Texas

Handbook for
Directors of Farmer Cooperatives



TEXAS AGRICULTURAL EXTENSION SERVICE
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Handbook for Directors of Farmer Cooperatives

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This Handbook is dedicated to that courageous and persistent group of farmers and ranchmen who serve and have served as directors of Texas cooperatives. The large number of successful farm business cooperatives in the State is a tribute to their vision, resourcefulness and sound judgment.

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A Co-op Director Looks At His Job

At the annual stockholders' meeting of Green County Farmers Cooperative, John Smith, a 32 year old farmer, was elected to the board of directors. He had felt great pride when the committee appointed to tally the ballots reported that he had won over his neighbor by a good margin. It was good to know that his fellow members had confidence in his ability to see that their cooperative operated efficiently and in their interest.

Mr. Smith's feeling of gratification soon gave way to a feeling of uncertainty. He had been a member of Green County Farmers Cooperative since it was organized, but he had felt no particular responsibilities beyond patronizing the association, attending the annual membership meeting and trying to inform himself in general about the organization.

Now suddenly, he had new responsibilities. He began asking himself questions: What were his responsibilities to the members who elected him to the board? What was his responsibility to the manager of the cooperative and the other employees? What were his responsibilities to the State and Federal governments? What was his duty as a director to the creditor which had loaned money to the cooperative? What was to be his relationship to the six other directors with whom he was to serve? Did he also have a responsibility to the public?

Each year there are a thousand or more Texas farmers and ranchmen who, like John Smith, find themselves with strange and new responsibilities as directors of farmers' cooperatives. Laymen in many business matters, they are called upon to make decisions which vitally affect the welfare of perhaps 200 of their neighbors and friends. The purpose of this handbook for directors of farmer cooperatives is to help answer some of the perplexing questions faced by new and old board members.

The cooperatives of Texas are preponderantly local in scope. The discussion in this handbook will center around the local cooperative whose problems are not as complex as those of the large regional associations. The principles involved, however, apply equally well to large and small cooperatives.

Directors' Responsibilities to Members

The framers of the Constitution of the United States recognized that a large group of people cannot work out details of government as successfully as a smaller group. Therefore, the citizens elect men to represent them in the legislative bodies. Likewise, members in a cooperative elect directors to work out and refine policies for their business and to see that these policies are carried out.

It is highly important for the directors to understand clearly what their responsibilities are to these members who intrust them with their funds, their property and their organization. A conscientious director may well ask himself such questions as:

How can a director know what the members want him to do?

Members adopt articles of incorporation and by-laws in which they set out rules to govern the cooperative. Directors should follow these documents as a guide in conducting the business. Members usually express themselves at meetings and their discussions and action will help the director in making his decisions. The day to day contacts with patrons of the association and reports of the manager will usually reflect the thinking of the members. A sudden decline in patronage may be a danger signal to the director and cause him to check into the cause of dissatisfaction.

What can a director do if he finds the association's by-laws are out of date or are not being followed?

If the by-laws are obsolete and the best interests of the group require a revision, he may suggest to the board that a committee be named to prepare proposed amendments to be placed before the board and, if approved, before the members. On the other hand, if the by-laws are being ignored or overlooked, it is his duty to bring this fact to the attention of the board. Directors are agents for the members and are bound by the instruction of their principals, the members. The charter and by-laws contain a part of these instructions.

By-laws give directions for making amendments and these should be strictly followed when changes are made. Bulletin B-152, published by the Extension Service of Texas A. & M. College, gives suggested by-laws which may be helpful to associations studying their by-laws with a view to revising them.

How can directors safeguard the investment of the members in their cooperative?

Constant vigilance is required if directors would discharge their responsibility to prevent loss to the association. Some important points to watch are:

1. Seeing that adequate insurance is carried on the association's property. An insurance policy is a contract. If the association fails to observe its obligations as set forth in the policy, it may find itself without protection.
2. Article 5757, Texas Cooperative Marketing Act: "Each and all officers, employees and agents, handling funds or property of the corporations created under this Act, or any property or funds of any person placed under the control of, or in the possession of, said corporation, shall be required to execute and deliver to the corporation a bond of indemnity indemnifying the corporation and members against any fraudulent, dishonest, or unlawful act on the part of such officers and employees and other acts as provided in the by-laws of the association. In the case the officers and directors of any corporation authorized to be created under the provisions of this Act, shall fail to have all officers, employees, and agents handling such funds or property, execute the bond provided for herein, each and all of said officers and directors shall be personally liable for all losses occasioned by such failure, and which might have been recovered on said bonds." Directors must see that the required bond coverage is maintained.
3. Regular financial statements and an annual audit prepared by an independent auditor or accounting firm should be required and analyzed by the directors to see that all funds and property are properly accounted for.
4. Sound business policies are just as necessary for a cooperative as for any other business.

How much financial information about the cooperative should directors give their members?

Members expect to know at regular intervals, at least once each year, the financial condition of their cooperative. Simplified forms for presenting a balance sheet and an operating statement are given on pages 29 and 30 of this handbook.

In addition to information about the cooperative as a whole, each member is entitled to know how much his share of the year's savings is and how it is being distributed by the directors, how much is being retained in the business and for what purposes.

Can the small cooperative reduce or eliminate bookkeeping and cut expenses?

Bookkeeping is a necessary expense, especially for a cooperative. The directors and the manager must know at frequent intervals how much the association owes, how much is owing to it and the equity of its patrons. Directors should not be satisfied with less than a monthly statement of income and expense and a balance sheet during the active operating season. Patronage records are very much a part of any cooperative as it must be in a position to account to its members. The Bureau of Internal Revenue requires patronage records as proof that the association is operating as a cooperative. Directors are entirely within their rights in insisting on complete records and regular financial statements. With less, they cannot discharge their full responsibility to their members or the association's creditors.

What can directors do if members call for cash dividends?

If the association is fully capitalized, the cash refunds should be paid. If the margins are required to pay debts or to build capital, the financial needs of the association should be presented to the members. A program of member information is an important part of a good cooperative. If members are made to see that money invested in the cooperative is worth more to them than money in their pockets, they will not object to receiving certificates instead of cash. Well informed members, time after time, have voted to use the net savings in the business and to forego the cash refund. Many cooperatives now operate on the revolving capital plan, retiring the oldest stock and certificates outstanding while retaining new capital from current patronage.

Before the declaration of a refund, directors should determine that there are net margins from which refunds or dividends may be paid. Directors who authorize payment of a refund when net margins do not justify it "act at their peril." Disasters and near disasters have often resulted when directors have become over-optimistic and author-

ized refunds before having a thorough examination of the association's accounts by an independent auditor.

In arranging for an audit, what points of agreement should be reached between the directors and the auditor?

Directors should engage an independent auditor who will check to see (1) that accepted accounting procedure is used and (2) that sound business practices are being followed; (3) who will suggest needed changes and (4) review methods used in safeguarding cash and assets. They should agree on the extent of audit, the kind of report, where work will be done, examination for compliance of the cooperative with State and Federal laws and with the association's by-laws and charter, and the basis for compensation. They should plan for the auditor to meet with the board and interpret the completed report. An executive session of the board and the auditor, with no employees present, may be productive of comments and observations by the auditor which will furnish the board information which it may use as a basis for correcting defects in the organization's policies or operating personnel. A statement of auditing standards and procedure for cooperative audits has been prepared by the Texas Society of Certified Public Accountants. Copies of these recommendations may be obtained from members of the society or by writing to The Houston Bank for Cooperatives, Houston 1, Texas.

What responsibilities do directors have in determining the accuracy of the co-op's inventories?

The inventory is often the largest item in current assets, particularly of cooperatives in the farm supply business. It is just as important that inventories be accurately counted or measured and valued as that the amount of money and accounts be correctly reported. When possible, it is desirable to have the auditor supervise the taking of the inventory at the end of the fiscal year. Frequently, this cannot be done and a committee from the board of directors may be used to take inventory and to determine the salability and value of the products or goods on hand. Since the audit is a check on the performance of the manager and directors, something more than a check of inventory by employees is desirable.

Directors, particularly of supply associations, have a responsibility to see that inventories are kept "turning" and that they do not become excessive. Frequent investigation should be made to see that capital

does not remain tied up in stale stock and that the risk of falling prices is reduced to the minimum.

What is the directors' duty to patrons who qualify for membership and wish to join the association?

The by-laws usually set up the requirements for membership and provide that the directors may admit qualified patrons after they have acquired the equity necessary to pay their share of membership capital. The statutes do not force a cooperative to admit an undesirable person to membership.

Non-member business may not exceed 50% of the total and it is considered good cooperative practice to keep non-member business as low as possible.

What can directors do about members who move away or quit farming and cease to be eligible for membership?

This presents a serious problem for some of the earlier cooperatives whose organization papers provided only for common stock. Statutes and regulations governing cooperatives require that "substantially all" of the common stock or voting rights shall be held by producers of agricultural products to be eligible for Federal income tax exemption and also to be eligible borrowers from the Bank for Cooperatives.

Associations set up with common and preferred stock often issue only one share of common stock to each member and issue the remainder of his stock in preferred certificates. If such a stockholder ceases to be eligible for membership, his one share of common stock can be called in and paid off in cash or reissued as preferred stock. This can be done, however, only if in accordance with the association's by-laws.

It is important that directors review their lists of members at least once each year and remove from the list having voting rights those who are ineligible.

May directors of a cooperative make members of all patrons by resolution?

Some associations have a policy of "making a member of any patron who drives on the scales." Courts have held that such a practice

is insufficient to give the patron the legal status of a member. Bona fide membership requires, as a minimum, an application from the prospective member and acceptance by the board. Other requirements, such as signing a marketing contract or purchasing stock, may be prescribed in the by-laws.

Can directors expel a member who persists in making trouble or who refuses to live up to his contract with the association?

Yes, unless there is a by-law reserving that action to the membership. Members may be expelled but they may not be deprived of their property and equity in the association. If it becomes necessary to expel a member, the by-laws and the law of incorporation should be closely followed.

How often should directors arrange meetings of the members?

The Texas Cooperative Marketing Act provides that "In its by-laws each association shall provide for one or more regular meetings annually. The board of directors shall have the right to call a special meeting at any time, and ten per cent of the members or stockholders may file a petition stating the specific business to be brought before the association and demand a special meeting at any time. Such meeting must thereupon be called by the directors. Notice of all meetings, together with a statement of the purposes thereof, shall be mailed to each member at least ten days prior to the meeting. The by-laws may require instead that such notice may be given by publication in a newspaper of general circulation published at the principal place of business of the association."

Some co-ops have quarterly meetings for educational purposes and a few meet more often.

How can directors make membership meetings more interesting and educational to the members?

People are interested in their own business. If members do not attend the one meeting of the year when they can help shape the program of their cooperative, it is usually because they have not been made to realize that it is their business. Sometimes, members feel that the directors and manager want to run the cooperative and that neither their presence nor their vote will change the policies of the clique.

There are several ways in which cooperative membership meetings can be made more interesting, informative and democratic.

1. Members should be given a simple and understandable financial report and an explanation of the progress and plans of the association. On pages 29 to 31 are given simplified forms for a balance sheet and operating statement through which the essential figures from the audit report can be presented to the members.
2. Members are interested in the general financial condition of their cooperative, but more specifically in their part of any savings. If cash patronage refunds are not paid, it helps if members can be given some evidence of their share in the savings of the co-op, either in certificates or in a letter.
3. The election of directors should be fair, open and democratic beyond question. If a nominating committee is used, it should be instructed to suggest at least two nominees for each vacancy to be filled. A secret ballot should be insisted upon.
4. Give members a chance to talk and to criticise the management if they wish. Serious consideration should be given to any reasonable criticism offered.
5. Don't allow the meeting to be "talked to death." Talks by officers and by guest speakers should be brief and to the point.
6. A few numbers of home talent entertainment help to enliven a meeting.
7. The annual barbecue in connection with the membership meeting is becoming a custom with many cooperatives. Eating and visiting together help to knit the membership closer together and give opportunity for informal conversations between the manager and directors and the patrons.
8. Announce the meeting well in advance. Keep reminding members of it by letters, newspapers, radio and whatever means of publicity are available.

Additional suggestions may be found in Farm Credit Administration Miscellaneous Report No. 92, "Making the Most of Your Co-op Annual Meeting."

What is the responsibility of directors for giving members information about their cooperative?

Only in large cooperatives is it practicable to employ field men or educational directors to spread cooperative information among the

members. In the average association the responsibility falls on the directors and their paid workers. The manager usually makes more frequent contact with members than any other person. Directors should see that he is familiar with the principles and practices of cooperative work. Some associations send out news letters to the members from time to time. Maximum use should be made of meetings and more than one each year should be held if necessary.

If operating results have been disappointing and have resulted in loss, how much should the directors tell the members?

Confidence begets confidence. Members will take bad news if it comes to them straight. Suspicions are aroused when members get rumors instead of straight-forward reports.

Who in a cooperative has authority to act for the corporation?

The directors possess all corporate powers of the association not specifically reserved to the members. Officers and employees of the association have only such authority as the board has conferred on them.

Can members remove a director before the expiration of his term?

The Texas Cooperative Marketing Act contains the following provision: "Any member may bring charges against an officer or director by filing them in writing with the secretary of the association, together with a petition signed by ten per cent of the members, requesting the removal of the officers or director in question. The removal shall be voted upon at the next regular or special meeting of the association, and by a vote of a majority of the members, the association may remove the officer or director and fill the vacancy. The director or officer against whom such charges have been brought shall be informed in writing of the charges previous to the meeting and shall have an opportunity at the meeting to be heard in person or by counsel and to present witnesses; and the person or persons bringing the charges against him shall have the same opportunity."

What is to prevent a director from using his position as director for personal profit?

The courts often refer to cooperative directors as "agents," "fidu-

ciaries," "trustees" of the corporate property of the members. The most scrupulous good faith toward the association and its members is required. This responsibility does not necessarily guarantee the success of the cooperative. Directors should exercise the care that ordinarily prudent and diligent men would exercise under similar circumstances. They are required to act in good faith and may not acquire any interest hostile to the interests of the stockholders.

Are directors of a cooperative personally liable for their official acts?

On page 7 it is explained that directors who fail to have their responsible officers and employees bonded may be held personally liable for loss. It is a tribute to the character of cooperative directors that they are seldom required to assume personal liability. Judge L. S. Hulbert, in "Legal Phases of Cooperative Associations" says, in part: "All authorities agree that an association may recover from its directors any loss suffered because of their fraud or dishonesty. Gross negligence on the part of directors which permits other directors to defraud an association will render all of them liable. Inattention on the part of a director may render him liable to his association, at least in those instances in which attention to duty should have prevented the loss of a specific amount. Illness or other sufficient cause will excuse failure to attend board meetings."

When a director is elected from a certain district, is it his responsibility to represent the members residing in that district only?

No. He represents the corporation as a whole and works for the best interest of the cooperative and its members in all districts.

If a new board of directors is elected, is it bound by the actions of the old board?

A change in membership of the board does not repeal or cancel official actions of the board as previously constituted. Contracts entered into by the board are binding on the corporation unless it can be proved that such contracts are fraudulent. In such case, legal relief is provided.

Why must directors treat members and non-members equally?

If it is proposed to operate the cooperative as a non-profit business, it cannot make a profit off of certain patrons and pay it to others.

The charter members of associations are sometimes inclined to penalize patrons who did not help finance the co-op in its early and difficult days. They may discriminate on prices or withhold refunds or refuse to admit them to membership.

Both capital and volume of business are necessary if the cooperative is to succeed. The late comer may have bought no stock for cash, but if he brings volume of business, he will soon be making a purchase of stock by the margins he leaves in the association.

Unequal treatment of patrons in business transactions including fixing prices or allocating savings, destroys the non-profit status of a cooperative, is contrary to the purpose and the intent of the enabling statutes, and makes it liable for Federal income tax.

What fundamental rights do members have which cooperative directors should respect?

Members have the right to:

1. Elect and remove directors of the association.
2. Adopt and amend by-laws.
3. Increase or decrease the capitalization; approve loans under special circumstances; and adopt marketing contracts and other contractual arrangements between the members and the cooperative.
4. Require officers, directors, and other agents to comply with the law under which the association was set up and with its articles of incorporation, by-laws, and marketing contracts.
5. Hold directors and officers who fail so to comply liable for any losses caused members by failure.
6. Examine the association's books and records and its property, when the request is made in good faith and at a proper time.

Responsibilities of Directors to Their Manager and Employees

What is the official relationship between cooperative directors and their manager?

The board of directors as a unit is the employer—the manager, an employee, but there is much more to the relationship than that. Together, the directors and the manager make up the *management team*. Directors choose the manager, counsel with him and require of him strict accounting for the operation of the cooperative.

Can directors hire a good manager, tell him what they want done and then go home and leave the business of a cooperative to him?

A board of directors can delegate authority but it cannot escape responsibility for directing and supervising the business. It is just as much their duty to check up and see that policies are followed as it is to formulate the policies.

Will the manager feel that the directors are "policing" him when they require regular accounting and check into operating results?

Directors can play their part on the management team only if they are informed about the business. They are not discharging their responsibilities to the manager or the members if they do not make regular and careful examination of the association's affairs. The board not only makes policies, but it is charged with seeing that the policies are carried out and determining if the desired results are obtained. The board is checking up on itself and the soundness of its policies as well as on the manager.

Should directors hold frequent executive meetings?

It is doubtful if a board of directors should hold an executive session at which the manager is not present, except when discussing a change in manager or an adjustment in his salary, or when consideration is being given to the auditor's report. The manager should have first hand knowledge of the thinking and discussions of the board. The manager who is repeatedly too busy to attend board meetings is just *too busy*. He may need more help or he may need to delegate details to other employees. Mutual confidence and complete understanding between board and manager are necessary for smooth operation of a cooperative.

How can directors keep their cooperative from becoming a "one man" organization?

When a strong individual occupies the position of manager, or sometimes chairman of the board, he occasionally tends to dominate the other members of the management team. Some cooperatives adopt

a policy of requiring expenditures above a certain figure to be approved in advance by the board and of requiring regular accounting.

How can directors prevent the manager from taking over the policy making functions belonging to the board?

If the management team is to work smoothly, each member must play his part. Just as one player on a baseball nine cannot be pitcher and at the same time catcher, the board and manager of a cooperative must each perform their respective functions. Good judgment, tact, diplomacy and good humor are needed in working out the manager-director relationship. Directors should not be "yes men" or "rubber stamps," simply approving everything done or proposed by the manager. Neither should they be "bull headed" and object to every action taken or proposal made by the manager. It is just as bad when directors are "busy bodies" and try to administer details of the cooperative business. When managers try to direct or directors attempt to operate the business, they violate very fundamental principles of organization and confusion and loss to the association will result.

An alert and aggressive manager, being close to the daily operating problems, can be very helpful to the board in their policy making. He can supply them with technical information on which they can base their action. Likewise, the members of the board can help a manager by counseling with him and giving him the benefit of their collective business experience.

Why is it unwise for close relatives of directors or the manager to be steadily employed by a co-op?

Finding employees who will work efficiently and faithfully for the cooperative is probably the No. 1 job of management. It is good administration for the board to elect the manager and to permit him to choose his helpers, with the approval of the board. The board may lay down policies to guide their manager and themselves in hiring employees.

One good policy would prohibit the employment on a steady basis of a close relative of a director or the manager. Efficient business operation requires that any employee, unable or unwilling to perform his job, may be removed. Discharging a person is not easy under ordinary circumstances. When it is complicated by ties of blood or marriage, displacing a misfit employee may cause a serious rift in the organization. A good rule is: "Don't hire anyone you can't fire."

How much salary can directors afford to pay a good manager?

The manager is the "spark plug" of the cooperative. Poor managers are expensive at any salary and good ones may be cheap at high salaries. A number of associations pay a moderate fixed salary plus a percentage of the net savings above a certain amount. This gives the manager an incentive to operate the business economically. Pinching the manager's salary may result in secret arrangements between the manager and those who are willing to offer a commission "on the side" to get the business of the association.

Directors' Responsibilities to Their Creditor

Who in a cooperative has authority to borrow money, sign notes, loan agreement, mortgages, etc., in connection with obtaining a loan?

Creditors usually require a resolution from the board of directors authorizing the borrowing of money before making a loan. The actual signing of notes, deeds of trust, loan agreements, etc. is delegated by the board to its officers. Employees are often authorized to sign checks but they must be properly bonded.

What reports and information should be furnished to the creditor?

Usually a creditor will ask for financial statements at regular intervals and for an annual audit report. If the association's charter or by-laws are amended, copies of such amendments should be supplied to the creditor.

When officers of a co-op sign a note to borrow funds for the association are they personally liable for repayment of the loan?

If they sign as officers of the corporation they do not assume individual liability for the debt. Some creditors still ask directors to endorse the association's note individually, in which case they do become personally liable for repaying the loan.

What should directors do if conditions prevent the meeting of an installment or an obligation when due?

The least the board can do under such circumstances is to talk

the matter over with the creditor before the obligation is due and to arrange, if possible, an extension of the maturity. Prompt answering of important mail will help the business reputation of any cooperative. Directors are entirely within their authority if they insist that employees handle promptly all important mail, such as communications from their creditors, their insurance companies, and the Bureau of Internal Revenue.

Directors' Responsibilities to Fellow Board Members

What is the duty of a director when he finds himself in disagreement with a motion or proposal before the board?

He should speak up freely, stating his views and his reasons for disagreement. When the matter comes to a vote, he should vote his opposition unless the discussion has changed his position. After the vote, if a majority favors passage of the measure, the minority should go along with the majority and present a solid board so far as employees, the membership, and those outside the association are concerned.

If legal or moral issues are involved in a measure before the board, what should a director do?

He should attempt to show his fellow directors that the proposal is unwise and even ask for time for legal counsel. If he is voted down, the Cooperative Marketing Act provides for submitting certain matters to the membership for final decision.

How can directors hold their board meetings to reasonable length?

Members of the board are usually close friends. When friends get together, there is a temptation to visit and discuss matters which do not pertain to the association's business. The chairman of the board can reduce time consumed in visiting if he will call his group to order frequently and push the business before the board. An outline of the order of business and a definite plan for the meeting will result in accomplishing more in less time than a haphazard meeting. A suggested order of business is given on page 34 of this handbook. Some boards use committees to make preliminary investigations and thereby reduce the time required of the full board.

How important is having a quorum at board meetings?

By-laws usually provide that a majority of the directors constitute a quorum. If a quorum is not present, the board cannot take action binding the association. Any directors personally or financially interested in a matter being considered may not count in making a quorum. Directors may not vote by proxy.

How often should directors hold meetings?

This varies, of course. Meetings should be held often enough that the directors can keep closely in touch with the business. By-laws often provide for monthly meetings, but it is sometimes necessary for directors to meet every few days. Some cooperatives serving large areas use an executive committee from the board to handle matters coming up between regular board meetings. The executive committee reports its action to the board.

How long should an individual serve as director of a cooperative?

There is, of course, no single answer to this question. Some men have served as directors for many years and are still alert, active and valuable to the association. Certainly there are disadvantages in too frequent a change in directors. It takes time and study to develop a good director. On the other hand, some rotation on the board, permitting "new blood" to come into the leadership, should be made before the association suffers from "hardening of the arteries."

The cooperative corporation lives on even after its organizers and early leaders pass. The aging director can make a lasting contribution to his association by training young leadership and placing increasing responsibilities on the men who will direct the cooperative in future years.

A few associations have "junior boards" which often sit with the board, listen and participate in discussions, but whose members do not vote. This plan has possibilities for leadership training.

Should directors be paid for their time spent in attending directors' meetings?

Most successful cooperatives are built by the efforts and sacrifice of a few leaders. Many days and nights of work and planning are contributed by these men without thought of direct pay. Young organizations are often unable to pay the actual expenses of directors.

When associations reach a point where their budget will permit, it is nothing more than right that directors be reimbursed for their expenses in attending meetings. Any payments or expense allowance must be sanctioned by the membership.

What authority does the individual director have when not in a properly convened board meeting?

A director has no executive functions unless action of the board has conferred such authority on him. Only in legally convened board meetings do directors have authority to act for the cooperative. The individual director who gives directions to the manager or other employees is acting both without authority and in violation of good organization practice.

Can directors hold a board meeting by telephone or without assembling as a board?

Directors and board members can act as a board only when they are assembled as such. If they act as individuals outside of a formal meeting, they are not acting as a board. Many minor matters may be agreed upon without a formal meeting of the board. It is well to bring up such matters at the next board meeting, have the action ratified and recorded in the minutes.

What is the importance of keeping minutes of board meetings?

Minutes of board meetings should form a record of the action taken on all important business of the cooperative. Authority given to officers or employees should be clearly set forth in the minutes. The absence of a written record leads to error and misunderstanding.

Frequently, directors meet in an automobile or in the shade of a tree on the turnrow. Writing material may not be available. The secretary of the board should reduce the proceedings to writing as quickly as possible and the written record should be presented for consideration of the board at its next meeting. Otherwise, memories of action taken may differ. Minutes can play an important part in connection with contracts, loans and eligibility for exemption from Federal income tax. Minutes should be preserved in a suitable book for permanent records. By-laws, charter and the letter of exemption from the Commissioner of Internal Revenue should be copied into the minute book.

If a director ceases to be eligible for membership, does he become ineligible for the position of director?

The statutes require that a director be a stockholder or a member. He loses his directorship when he ceases to be a member.

Directors' Responsibilities to the State And Federal Governments

What responsibilities do directors have to the state?

The Texas legislature passed the "Cooperative Marketing Act," giving farmers' cooperatives legal status. This law defines cooperatives and sets forth their purposes, powers and method of government. With reference to directors, the Act reads: "The affairs of the association shall be managed by a board of not less than five directors elected by the members or stockholders from their own number." Clearly, the directors are responsible for seeing that the association complies with the various provisions of the statutes. The Cooperative Marketing Act is simply written and can be read in a half hour. Copies of the Act may be obtained without cost from the State Department of Agriculture, Austin, Texas.

What fees are due the state from a farmers' cooperative?

The Act provides for the payment to the State Department of Agriculture of an annual license fee of \$10.00, after which the association "shall be exempt from all franchise or license taxes." Cooperatives pay state, county, city and school district taxes just as the business would if it were operated for commercial purposes.

What responsibilities do directors have to the federal government?

The National Congress has also passed laws regulating cooperatives. There are many laws governing all business and it is the responsibility of the board of directors to see that the association is so operated that it observes the laws specifically applying to cooperatives and also those laws pertaining to business in general and conducts itself as a good citizen.

How can directors be sure that their association meets all requirements for exemption from federal income taxes?

An association set up by a group of farmers to provide themselves with a cooperative service on a non-profit basis should have no diffi-

culty complying with the requirements. Briefly stated, the association must meet the following requirements:

1. The organization must be a farmers', fruit growers', or like association, organized and operated on a cooperative basis for the purpose of
 - (a) Marketing the products of members or other producers,
 - or
 - (b) Purchasing supplies and equipment for the use of members or other persons.
2. Member and non-member patrons must be treated alike.
3. Value of business done with non-members must not exceed the value of business with members, and the value of purchases of supplies and equipment by persons who are neither members nor producers shall not exceed 15 percent of the value of purchases by all patrons.
4. Permanent records of the patronage and equity interests of all members and non-members must be maintained.
5. Financial reserves are restricted to those required by State laws or to those that are reasonable and necessary.
6. If the association is organized on a capital share basis, substantially all of the voting stock must be held by producers who are currently patronizing the association.
7. Dividend rate on capital shares must not exceed the legal rate of interest in the State of incorporation, or 8 percent per year, whichever is the greater, based on the value of the consideration for which the capital share was issued.
8. The legal structure of the organization must be cooperative in character and contain no provisions inconsistent with these requirements, and the association must be actually operated in the manner and for the purposes outlined in the requirements.

Once a letter of exemption has been received by an association do the directors of a cooperative have any further responsibility to the Bureau of Internal Revenue?

Yes. Exemption depends on continued operation as presented at the time the letter of exemption is written. Any important change in the operation of the cooperative should be reported to the commissioner and an annual information return, Treasury Department Form 990, is required of all exempt cooperatives.

Directors' Responsibilities to the Public

Since farmers' cooperatives are set up to serve themselves, why should directors be concerned about the attitude of the public toward them?

Public opinion is a powerful force. If the public does not have correct information about the purposes and method of operation of farmers' cooperatives, it is easily influenced by misinformation. Compared to commercial corporations, which were known to the Greeks and Romans centuries before the Christian era, farmers' cooperatives are very new. People are often suspicious of new ideas, new organizations and new methods of doing business.

Speaking generally, farmers' cooperatives have done a rather poor job of telling town and city folks that a successful cooperative is good not only for farmers who belong to it, but for the public. The benefits to non-farmers may be in a steady supply of farm products, in higher quality of produce or in more prosperous farm families with money to spend with local business men.

A continued hostile public opinion can result in legal restrictions being placed on farmers' cooperatives which will seriously hamper their operation.

How can directors give the public correct information about their cooperative?

Each board of directors must decide on how it will inform its neighbors about the cooperative. A number of Texas associations have worked out some effective plans. Many of them invite the local businessmen to the annual barbecue and arrange to have some one explain how the cooperative benefits the community. More than one has called on a local banker at the annual meeting to pass out patronage refund checks. Business men like to see their customers with extra money to spend.

One association paid its refunds in silver dollars and every business and professional man in the community was reminded many times that he, too, shared in the benefits of the cooperative.

Some associations have their manager or the chairman of the board join service clubs and other business organizations.

Friendly relations with the school superintendent and the voca-

tional agriculture teacher often bring opportunities to tell the cooperative's story to the school children.

Arrangements can often be made to have someone friendly to the cooperative appear before parent-teacher associations, church groups, women's clubs or other organizations made up largely of town and city people.

County and local newspapers are usually more friendly to cooperatives than big city newspapers. Editors can be extremely helpful to cooperatives in getting their story to the public.

Radio is being used by an increasing number of cooperatives to reach audiences of non-farm people.

Perhaps the most effective method of giving people in the community correct ideas regarding a cooperative is to have the members and all employees fully informed and prepared to give intelligent and convincing answers to the questions of those who seek information and to those who wish to be critical. Directors may wish to use a number of different methods of giving the public correct information about their cooperative. A program of this kind, to be effective, must be continuous.

To what extent should a cooperative, an organization of farmers, take part in the business life of the community?

Cooperatives are often criticized by other businesses for not participating in programs for community improvement. Too often, the facilities owned by the cooperative do not present an attractive appearance. Liberal use of paint, regular cleaning of the premises and the planting of a few shrubs and flowers will make the members as well as others in the community think more of the cooperative.

When the finances of the cooperative permit, it is usually good policy to subscribe to worthy movements to improve the community.

It is not uncommon for public spirited cooperatives to participate in programs sponsored by the county agricultural agent or the vocational teacher by helping to finance some of the educational activities of the 4-H and FFA boys.

Cooperatives are a part of the business life of the community. They enjoy certain privileges and must assume corresponding responsibilities. It is the duty of the directors to see that this is done. Cooperative directors should not however become easy marks for those soliciting funds. Any money they give away belongs to the patrons.

Can directors ignore competitive businesses in setting operating policies for their cooperative?

Occasionally this is attempted and always with bad results. The cooperative should try to remain on friendly terms with its competitors, if possible. Successful cooperatives set their charges for goods and services in line with other businesses in the field. A number of very excellent marketing cooperatives make no more than a nominal advance for produce delivered and settle with the growers only after final sale is made and deductions are made for costs, reserves, and capital building retains.

Price cutting hurts the cooperative more than it hurts the competitor. It gives the cooperative a bad name in the community and, if continued, it weakens the financial structure of the organization and makes it an easy victim of its competitors, some of whom can last much longer than the cooperative in a price war.

The cooperative has other ways to attract and hold its patrons. Let it do the best job in the community of ginning cotton, marketing grain, drying rice, packing fruit or providing high quality supplies for its patrons. Let it set the highest of standards for honest weights, fair dealing and truthful reports to its patrons. If these benefits to be received from the cooperative are kept before the patrons, they will not ask for price cutting.

What can directors do if a person makes false statements about a co-op?

Article 5761 of the Texas Cooperative Marketing Act reads: "Any person or persons or any corporation whose officers or employes knowingly induce or attempt to induce any member or stockholder of an association organized hereunder to breach his marketing contract with the association, or who maliciously and knowingly spread false reports about the finances or management thereof shall be liable to the association aggrieved thereby in a civil suit for damages suffered in three times the amount of actual damage proven for each offense."

This protection is seldom used but its existence has often had a good effect on those who would misrepresent cooperatives.

Cooperative Terms

*The meaning of words and phrases frequently used
in connection with cooperatives*

ASSOCIATION—This term is often used to designate a farmers' cooperative, society or mutual business.

COOPERATIVE—A farmers' cooperative is a group of agricultural producers incorporated to provide off-the-farm services for the members on a mutual non-profit basis. Whatever savings are effected through the association are distributed according to patronage. There is a wide variety of services performed by cooperatives, such as ginning cotton, handling and marketing grain, processing milk, purchasing feed, seed, fertilizer and other farm supplies. "Association" and "society" are often used somewhat interchangeably to denote the mutual features of a cooperative.

DIRECTOR—One of a board elected by the members of a cooperative to direct and manage the affairs of the corporation.

DIVIDEND—Refers to the rate of return paid by the cooperative on the members' invested capital. By statute this rate may not exceed 8% and in actual practice it usually runs 4% or 5%. It represents a "reasonable wage" for capital and not profit on investment. Distribution made on patronage is often called a "dividend" but "refund" is a more accurate term.

MANAGER—The executive head of a cooperative, employed and directed by the board of directors and accounting to the board.

MEMBER—The term "member" shall include actual members of the associations without capital stock and holders of common stock in associations organized with capital stock, according to the Cooperative Marketing Act. The terms "member," "stockholder" and "shareholder" are each used to designate the people who make up a farmers' cooperative and participate in its control.

MEMBER EQUITIES—Is a term often used in financial statements of cooperatives as the equivalent of "net worth" in commercial businesses. It includes such items as the members' stock, revolving fund certificates and equity in reserves.

NET MARGIN or **NET SAVING**—Represents the margins between the amount received by the cooperative and the cost of doing business.

ONE MEMBER—ONE VOTE—Is a rule generally followed in farmers' cooperatives in elections and deciding matters presented to the membership for action. Members vote as individuals, rather than as the holders of investment capital.

OPERATING STATEMENT—Is more descriptive than "profit and loss statement" when referring to the operations and margins of a cooperative.

PATRON—Has come to have a special meaning in identifying those who do business with a cooperative. A patron is more than a customer since he shares in any savings made by the cooperative. Both members and non-members are included among patrons. The patronage refund is one of the chief marks of distinction between cooperatives and commercial businesses.

PATRONAGE REFUND—Is a return to the patrons of the net saving of the cooperative on the basis of the business each did. A cooperative deliberately plans to underpay patrons for the produce it markets for them and to overcharge for farm supplies or services it purchases for them. The patronage refund is a means of returning these accumulated under and over payments to the rightful owners. "Refund" describes this operation better than "dividend" or "rebate."

PROFIT—Is a term often applied to the net margins accumulated in a cooperative. Non-profit associations naturally do not make profits for themselves, but they make profit for the farmers by increasing the net returns from produce processed and marketed and reducing the net cost of farm supplies purchased.

REVOLVING CAPITAL—A method of increasing capital by leaving patronage refunds or retains in the cooperative and issuing evidences of indebtedness to members for a certain number of years or until a certain amount of capital is acquired, after which each year's current margins are used in retiring patrons' equities in the order in which they accrued.

STOCK—Common stock, preferred stock, certificates of equity—each refer to investment in the cooperative's capital structure. Common stock usually carries the voting right while other evidences of investment do not.

----- Association

Balance Sheet as of ----- 19 -----

Assets—(What we own and have due us) -----

Cash, amounts due from patrons and the trade, inventories and supplies -----	\$ 000.00
Land, buildings, machinery, truck and equipment used in business -----	000.00
Other assets, stocks, bonds, prepaid insurance and all assets not shown above -----	000.00
TOTAL ASSETS -----	\$ 000.00

This is what we own

Liabilities—(What we owe) -----

Accounts payable, money we owe members or others for commodities, goods or services -----	\$ 000.00
Notes payable for money we owe -----	000.00
Accruals of taxes, interest, payrolls, etc. accrued but not paid -----	000.00
Fixed liabilities, mortgage or other long-term debt -----	000.00
TOTAL LIABILITIES -----	\$ 000.00

This is what we owe

Patrons' and Stockholders' Equities—
(what patrons and stockholders have invested in our association) -----

Common and Preferred stock—par value -----	\$ 000.00
Other equities, book credits, reserves, etc. -----	000.00
TOTAL LIABILITIES AND PATRONS' EQUITIES -----	\$ 000.00

This is our equity in the co-op

The association's auditor can quickly take the proper figures from his audit report and adapt this balance sheet to fit your association. It can then be copied on a blackboard in advance of the meeting or it may be duplicated and placed in the hands of each patron while it is being explained.

Statement of Operations and Margins

of _____ Association, a Marketing and Processing Cooperative

For the Year Ending _____ 19____

GROSS MARGINS or proceed from marketing and processing _____		
Marketing revenue (amount received		Our co-op's Gross Margins
from sale of products for patrons) _____	\$ 000.00	
Less: Advances made to patrons on		
products marketed _____	000.00	
		↓
Undistributed proceeds _____		\$ 000.00
 EXPENSES —(Cost of marketing) _____		
Salaries and wages _____	\$ 000.00	Our co-op's Expenses
Repairs and supplies _____	000.00	
Office Expense _____	000.00	
Sales Expense _____	000.00	
Depreciation _____	000.00	
Insurance and bonds _____	000.00	
Taxes _____	000.00	
Telephone and telegraph _____	000.00	
Other expenses _____	000.00	
Total Cost of Marketing _____		\$ 000.00
Net proceeds from marketing _____		\$ 000.00
 NET MARGINS or savings for patrons _____		
Other revenue		Our co-op's Net Margins
Interest _____	\$ 000.00	
Rent _____	000.00	
Storage _____	000.00	
Handling charges _____	000.00	
Miscellaneous _____	000.00	
		↓
Total other revenue _____		\$ 000.00
Net Margins or proceeds available		
for allocation to patrons _____		\$ 000.00

Statement of Operations and Margins

of _____ Association, a Purchasing Cooperative

For the Year Ending _____ 19____

GROSS MARGINS

<i>Patrons' purchases</i>		\$ 000.00
<i>Cost of purchases:</i>		
Inventory at beginning	\$ 000.00	
Goods purchased during period	000.00	
	<u>\$ 000.00</u>	
Less inventory at end of period	000.00	
	<u>000.00</u>	
Total cost of purchases		000.00
Gross margin on purchases		\$ 000.00

Our co-op's
Gross
Margins

EXPENSES—(Cost of operating the co-op)

<i>Less: Expenses</i>		
Salaries and wages	\$ 000.00	
Repairs and supplies	000.00	
Office expense	000.00	
Depreciation	000.00	
Insurance and bonds	000.00	
Taxes	000.00	
Telephone and Telegraph	000.00	
Other	000.00	
	<u>000.00</u>	
Total Expenses		\$ 000.00

Our co-op's
Expenses

NET MARGINS

Net Operating Margin		\$ 000.00
<i>Other Revenue</i>		
Interest	\$ 000.00	
Rent	000.00	
Miscellaneous	000.00	
	<u>000.00</u>	
Net margins available for		000.00
allocation to patrons		\$ 000.00

Our co-op's
Net
Margins

Bales Ginned	Merchandise Purchased	Produce Marketed	Total Patrons' Equities	Net Margins For Year
1940				
1941				
1942				
1943				
1944				
1945				
1946				
1947				
1948				
1949				
Total				
Average				

Some such report as is suggested by the table above may be placed on a black-board or mimeographed for distribution at a membership meeting. It gives members a chance to observe the year-to-year progress of the association. It is just as important that members have this information when the table reflects a downward trend in volume or margins as when the trend is upward.

A Director's Pledge

I pledge to do my best for the cooperative association that has elected me to serve in a position of honor and trust.

I will:

Above all things be honest and diligent.

Place the interests of the association above my own personal interests.

Give as careful attention to the affairs of the cooperative as I give to my own business.

Give the necessary time to board meetings and other deliberations.

Study the business and problems of the association, and the broader considerations that affect its welfare.

Strive for continued and increased efficiency in the association.

Be prompt and attentive at all meetings of the directors so that there is no loss of valuable time.

Do independent and careful thinking, express my honest opinion, and not be a rubber stamp.

Be open-minded and a teamworker and realize that the individual views of board members cannot always prevail.

Remember that the majority rules and that the minority must fall in line.

Present the views of the board of directors to fellow members, rather than my own, whenever I speak for the association.

Strive to keep this a members' cooperative and not let it become a directors' or manager's cooperative.

Represent the association in its entirety and not just the members from my community.

Do all in my power to have the association controlled democratically, including the election of directors.

Welcome new ideas or "new blood" as a means of keeping life in the association and the service to the patrons at a high level.

Do everything possible to inform members and patrons of established policies and programs of the association.

Be a good listener to the reactions of the members and patrons as a means of better shaping the policies of the association.

Curb emotion and apply reason and common sense to all problems.

I will not:

Consider myself indispensable.

Expect any special privileges from the association because I am a director.

Become financially interested in any business or agency that has interests adverse to those of the association.

Interfere with the management, but will limit myself to the formulation of business and management policies.

Approve the employment of close relatives of directors and executives in the association.

Discuss the affairs of the association with employees, other than the management, unless delegated by the board of directors to do so.

Carry grudges against other directors, the management, employees, members or patrons.

Prepared by W. H. Dankers, Extension Economist in Marketing, University Farm, St. Paul 8, Minnesota

***SUGGESTED ORDER OF BUSINESS FOR A
DIRECTORS' MEETING***

1. Roll Call
2. Reading and approving of minutes of the last meeting or any other unapproved minutes.
3. Report of officers and regular committees, reading of communications to the board.
4. Report of special committees.
5. Unfinished business.
6. New business
7. Good of the order
8. Adjournment

REFERENCE PUBLICATIONS

- FCA Bulletin 50, Legal Phases of Cooperative Associations, by L. S. Hulbert;
- Directors and Their Functions, by John Calhoun Baker, a publication of the Harvard Business School;
- The Board of Directors and Business Management, by Melvin T. Copeland and Andrew R. Towl, also a publication of the Harvard Business School;
- FCA Bulletin 53, Application of the Federal Income Tax to Farmers' Cooperatives, by George J. Waas and Daniel G. White;
- FCA Circular C-21, Managing Farmers' Cooperatives, by Kelsey B. Gardner;
- USDA Library List No. 41, Bibliography on Cooperation in Agriculture, and
- FCA Circular 23, Publications on Agricultural Cooperation

