

*Handbook  
for Directors  
of  
Farmer Cooperatives*



THE AGRICULTURAL AND MECHANICAL COLLEGE OF TEXAS  
TEXAS AGRICULTURAL EXTENSION SERVICE  
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This handbook is dedicated to that courageous and persistent group of farmers and ranchmen who serve as directors of Texas cooperatives. The large number of successful agricultural cooperatives in the State is a tribute to their vision, resourcefulness and sound judgement.

Each year thousands of Texas farmers and ranchmen, upon election to a director's position in their cooperative, find themselves with strange and new responsibilities. As laymen in many business matters, they are called upon to make decisions which vitally affect the welfare of their stockholder-members.

Cooperatives in Texas are largely local in scope. The discussion in this handbook will center around the local cooperative, although the principles involved apply equally well to large or small associations.

This bulletin is a revision of the original manuscript prepared by Robert W. Cooper, former Extension economist in farm organization.

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# Hankbook for Directors of Agricultural Cooperatives

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## A CO-OP DIRECTOR LOOKS AT HIS JOB

The directors, as a group, possess all corporate powers of the association not specifically reserved to the members. They employ the manager, establish specific operating policies, and supervise the management of the cooperative. The directors are the elected representatives of the members.

It is an honor and a privilege to serve on a board of directors of a cooperative because it is evidence of the respect and trust by fellow members and because it gives you an opportunity to demonstrate your ability and good judgment in the development of a successful business enterprise.

To merit the continuation of that honor and privilege, you assume a number of duties and you fulfill them to the best of your ability. It is your job to become qualified for the job as director, to make your meetings count, to keep a sharp eye on the business and to keep your members alert and fully informed.

The success of a cooperative depends first on the membership and on its interest and patronage. The responsibility for policy making and management guidance rests with the board of directors. Operations and the execution of management policy are delegated to the manager and his staff. Areas of responsibility and lines of authority should be fully understood and carefully observed by membership, directors, managers and employees.



## **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 small group. Therefore, the citizens elect men to represent them in the legislative bodies. Likewise, members in a co-operative elect directors to work out and refine policies for their business and see that they are carried out.

It is highly important for the directors to understand clearly what their responsibilities are to these members who entrust 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 bylaws in which they set forth rules governing the cooperative. Directors are given the authority by the membership to operate only within the limits set forth in the articles of incorporation and bylaws.

### ***What can a director do if he finds the association's bylaws are out of date or are not being followed?***

If the bylaws are obsolete and the best interests of the stockholder-members 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 stockholder-members. On the other hand, if the bylaws are being ignored or overlooked, it is his duty to bring this fact to the attention of the board.

Bylaws include a section on procedure necessary for making amendments. This procedure should be strictly followed when changes are made. B-152, *Farmers' Cooperative Handbook*, gives suggested bylaws which may be helpful to cooperatives studying their bylaws with a view to revising them.

MP-310, *How to Amend the Charter and Bylaws of a Farmers' Cooperative Association*, also gives helpful information. Both publications are available from your local county agricultural agent.

### ***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 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. The Texas Cooperative Marketing Act, Article 5757 of the Texas Statutes, provides that: "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 bylaws of the association. In the case the officers and directors of the 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. Periodic financial statements during the year prepared by the bookkeeper and a detailed audit at the end of the cooperative's fiscal year, prepared by an independent auditor, should be required by the board of directors. These should include a statement of inventories and should be analyzed carefully by the director 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 a statement of operation are given in the last section of this handbook.

In addition to information about the cooperative as a whole, each member must be notified in writing of his share of the year's savings. The directors are responsible for selecting an equitable method of allocating these savings. The member is entitled to know how the savings are to be allocated, the amount being retained in the business and for what purposes.

### ***Can a small cooperative eliminate or reduce bookkeeping and cut expenses?***

Complete records of all business transactions are even more essential for a cooperative than for other types of business firms. Lack of adequate records to give correct or timely information to members may cause dissatisfaction.

Directors should require that monthly statements be made. The statements should set forth the current financial condition, income and expenses, at least during the active part of the operating season. An audit at the end of the fiscal year by an independent auditor usually is considered a must—in fact, the bylaws of many associations require that the directors employ the services of a competent auditor.

It is true that some small cooperatives cannot justify a full-time bookkeeper. In such cases an arrangement could be made with a local accounting firm or auditor to "keep the books" by regular weekly or monthly visits to the office of the association for the purpose of bringing the books up to date.

### ***What can the directors do if members insist on receiving patronage refunds in cash?***

If the association has all the capital it needs, its net margins each year should be distributed in accordance with the bylaws. Ordinarily, net margins are used to pay (1) cash patronage refunds, (2) dividends on outstanding stock and (3) retirement of outstanding stock. If the cooperative is growing to provide services to an increasing number of members, or expanding to provide more services, the need for new capital might continue year after year. Even a cooperative that has all the capital it needs has to think about returning the capital investment of members who move, retire or die. This means that some new

capital is needed each year. An orderly method of revolving fund financing usually will solve the problem of additional capital.

Before the declaration of a cash refund, directors should determine that there are net margins from which these refunds may be paid. Directors who authorized payment of a cash refund when net margins do not justify it "act in peril." Disasters and near disasters have often resulted when directors have become overly optimistic and authorized cash refunds before having a thorough examination of the association's accounts by an independent auditor.

***In arranging for an audit, what agreements should the directors and the auditor reach?***

Directors should engage an independent auditor who will check to see (1) that accepted accounting procedures are used, (2) that sound business practices are being followed, (3) that the inventory is correct and (4) that the auditor will verify all accounts receivable. The methods used in safeguarding cash and assets should be reviewed with the auditor. They should be in agreement as to the extent of audit, the kind of report, where work will be done, examination for compliance by the cooperative with state and federal laws and with the association's bylaws and charter and the cost of the audit. It should be agreed that the auditor will meet with the board and interpret the completed report. An executive meeting 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 and accounts receivable?***

The inventory is often the largest item in current assets. Inventories should be counted or measured and valued accurately. When possible, it is desirable to have the auditor supervise the taking of the inventory at the end of the fiscal year. If this cannot be done, a com-

mittee from the board of directors should be used to take the 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 have a responsibility to see that inventories are kept "turning" and that they do not become excessive. Frequent investigations should be made to see that capital does not remain tied up in stale stock or stock "out of condition" and that the risk of falling prices is reduced to the minimum.

The auditor should check on all accounts receivable to determine their real value. The directors should review these accounts outstanding, and if necessary, determine what changes in their credit policy should be put into effect. Many cooperatives weaken their financial condition by failing to maintain an effective credit control policy.

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

The bylaws 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. A cooperative cannot be forced to admit a person to membership.

Nonmember business may not exceed 50 percent of the total and it is considered good cooperative practice to keep nonmember business as low as possible. Purchasing associations must not make purchases for nonmember-nonproducer (nonfarmers) in excess of 15 percent of the total volume of purchasing business.

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

Associations set up with common and preferred stock often issue only one share of common stock to each member and issue the remainder of that member's 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 bylaws. Model bylaws, which include this procedure, can be found in B-152, *Farmers' Cooperative Handbook*.

Directors should review their list of members at least annually and remove the names of persons who are ineligible for membership. Membership should be limited, as far as possible, to persons patronizing the association.

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

Bonafide membership requires, as a minimum, a written or verbal 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 bylaws.

***Can directors expel a member who refuses to live up to his contract with the association?***

Yes, members may be expelled, but they may not be deprived of their property and equities in the association. If it becomes necessary to expel a member, provisions of the bylaws and of the State law under which the cooperative is incorporated, should be followed to the letter. See Article V, Section 2, of model bylaws in B-152, page 24.

***How often should directors arrange meetings of the members?***

The Texas Cooperative Marketing Act provides that "in its bylaws 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 percent 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 meetings must 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 10 days prior to the meeting. The bylaws 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 for the members?***

If members do not attend the one meeting of the year when they can help shape the program of their cooperative, usually it is 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 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 are interested in the financial condition of their cooperative, and they should be given an understandable financial report and an explanation of the progress and plans of the association. Simplified forms for a balance sheet and operating statement through which the essential figures from the audit report can be presented to the members are given in the last section of this handbook.

2. 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 used.

3. Give members a chance to talk and to criticize the management if they wish. Serious consideration should be given to any reasonable criticism offered.

4. Don't allow the meeting to be "talked to death." Talks by officers and by guest speakers should be brief and to the point.

5. Some home talent entertainment helps to enliven a meeting. 4-H or F.F.A. Cooperative demonstrations may be planned in advance.

6. An annual barbecue in connection with the membership meeting is becoming a custom with many cooperatives. Eating and visiting together help to knit the membership more closely together and give an opportunity for informal conversations between the manager, the directors and the patrons.

7. Be sure to announce the meeting well in advance. Keep reminding members of it by letters, newspapers, radio or other means available.

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

The membership should be kept informed on the operations and financial condition of their association. This is a responsibility of the board of directors, who often delegate a major portion of this responsibility to the employees of the association. Members are kept

informed through personal contacts with the directors and employees, at membership meetings and the use of newsletters or other means.

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

Yes, by all means. The members, as stockholders, have every right to know the financial condition of their association. Suspicions often are aroused when members get rumors instead of straightforward reports.

***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 10 percent of the members, requesting the removal of the officer 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," "fiduciaries," "trustees" of the corporate property of the members. The most scrupulous good faith toward the association and its members is required. Directors are required to act in good faith and are liable to the association for any unjust profits made by them personally through improper dealings with the association or its properties.

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

It has been explained previously 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."

Directors are not liable, ordinarily, for losses brought about by errors of judgment in good faith.

***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 in itself 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 were entered into fraudulently. In such case, legal relief is provided.

Policies established by the old board of directors can be revised or changed completely by the new board if deemed necessary and are in the best interests of the stockholder-members.

***Why must directors treat members and nonmembers equally?***

If the cooperative is to operate as a nonprofit business, it must treat all patrons alike.

Unequal treatment of patrons in business transactions, including fixing prices or allocating savings, destroys the nonprofit status of a cooperative, is contrary to the purpose and the intent of the enabling statutes, and can destroy its permission to deduct allocated margins when reporting and paying the federal corporate 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 bylaws.
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, bylaws and marketing contracts.
5. Demand restitution from directors and officers for losses brought about by their wrongful or improper acts.
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. Together, the directors and the manager make up the *management team*. Directors have the responsibility of prescribing the policies under which the hired employees are to function and seeing that such policies are carried out.

***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 establishing policies, directing and supervising the business. It is their duty to see that policies are followed carefully.

***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 unless they make regular examinations of the association's affairs. The board is charged with seeing that the policies are carried out and determining if the desired results are obtained; therefore it is proper for it to require management to submit to the board full and complete reports covering the operations of the association.

An alert manager will not wait for the directors to ask for or demand financial statements. The manager should come prepared at every meeting of the directors to give them a complete report of business transactions since the last meeting. A statement of the financial condition as of a recent date is also necessary.

***Should the manager be present at all board of directors meetings?***

Yes, the manager should meet with the directors unless the board wants to discuss privately matters concerning the manager's performance. The manager should not be present when the auditor discusses his report on the association.

The manager should have first-hand knowledge of the thinking and discussions of the board on all other matters. Mutual confidence and complete understanding between board and manager are necessary for smooth operations 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 president of the association, he may tend to dominate the other members of the management team.

The collective judgment of five or seven men is more likely to be right than the opinion of one man. If one man is to make the decisions and the others merely agree, the purpose of having a board of several men is defeated. A majority of the directors can curb the “dictator” by firm action.

***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. Good judgment, tact and diplomacy 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. Directors should not be "busybodies" and try to administer details of the cooperative's business. When managers try to direct or directors attempt to manage the day-to-day business, they violate every fundamental principle of organization. Confusion and loss to the association usually result.

An alert and aggressive manager, always close to the daily operating problems, can be helpful to the board in its policy-making by supplying directors with technical information on which they can base their decisions. Likewise, the members of the board can help a manager by counseling with him and giving him the benefit of their collective business experience.

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

A good policy would be to 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, 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?***

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. A good rule of thumb is to "pay what it takes to get the kind of management needed to do the best job."

## **DIRECTORS' RESPONSIBILITIES TO CREDITORS**

***Who in a cooperative has authority to borrow money; sign notes, loan agreements, 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 often are 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. Directors must see to it that all financial statements are accurate. Some creditors also require a copy of the association's bylaws and charter.

***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 and the loan has been authorized by the board of directors, they do not assume individual liability for the debt. Some creditors may ask directors to sign or endorse the association's note individually. If they do so, they assume individual responsibility and 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. A responsibility of directors is to see that the association abides by all contracts in force and fulfills all obligations to creditors.

## **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 according to his convictions. If a majority favors passage of the measure, the minority should go along if possible with the majority and present a solid board so far as employees, the membership and those outside the association are concerned. When complete disagreement results, the minutes of the board meeting should reflect the vote and expression of each individual board member.

### ***If legal or moral issues are involved in a measure before the board, what should a director do if he opposes the measure?***

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. The individual director can protect himself from blame by insisting that his vote be recorded in the minutes of the board meeting.

### ***How can directors limit their board meetings to a reasonable length of time?***

The chairman of the board can save time in the meeting if he will call his group to order and push the business before the board. An outline of the order of business and a definite plan for the meeting will reduce time. A suggested order of business appears in the last section 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?***

Bylaws usually provide that a majority of the directors constitutes a quorum. If a quorum is not present, the board cannot take action binding the association. Any directors personally or financially inter-

ested in a matter being considered may not count in making a quorum. Directors may not vote by proxy.

### ***How often should directors hold meetings?***

Meetings should be held sufficiently often to enable the directors to keep closely in touch with the business. Bylaws often provide for monthly meetings, but sometimes it is necessary for directors to meet more frequently. Some cooperatives serving large areas use an executive committee selected from the board to handle matters coming up between regular board meetings. The executive committee reports its action to the board for ratification.

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

There is 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. 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."

There are disadvantages in too frequent a change in directors. It takes time and experience to develop a good director.

The cooperative 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 sit in on board meetings, but have no voting rights. This plan has possibilities for leadership training.

### ***Under what conditions should a director resign from the board?***

This is largely a personal decision unless the subject is covered in the bylaws. If he becomes financially interested in a business competing with the cooperative, he should resign from the board. If he moves away from the territory served by the cooperative or if he no longer patronizes it, he should resign to make room for an active member to the directorship. In general, a director should remain on the board only as long as he continues to actively serve the association.



Some bylaws contain provisions setting up the qualifications of directors and declaring the office vacant when the individual ceases to meet the requirements.

***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 often are unable to pay the actual expenses of directors. When associations reach a point where their budget will permit, the directors usually are reimbursed for their expenses in attending board meetings and, in many instances, receive a per diem allowance. The payment of a per diem allowance should be authorized 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 practices.

***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. Such matters should be ratified the next board meeting and recorded in the minutes.

***What is the importance of keeping minutes of board meetings?***

The minutes constitute the official record of the action taken by the board on all business matters of the cooperative. They should be written clearly and accurately and should be maintained permanently. The absence of accurate minutes leads to error and misunderstanding.



The minutes should be recorded by the secretary and should be read and approved by the board of directors. Bylaws, charter and the letter of exemption from the Commissioner of Internal Revenue should be copied into the minutes 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 member. When he ceases to be a member of the association, he is no longer eligible to serve as a director.

## **DIRECTORS' RESPONSIBILITIES TO THE STATE AND FEDERAL GOVERNMENTS**

***What responsibilities do directors have to the state?***

Legal status is granted agricultural cooperatives in Texas when they incorporate under the provisions of the "Cooperative Marketing Act." This law defines cooperatives and sets forth their purposes, powers and method of government.

The Texas Secretary of State has ruled that the Texas Non-Profit Corporation Act applies to agricultural cooperatives when it does not directly conflict with the Cooperative Marketing Act. Therefore, the requirements of that act for the designation of a registered agent and registered address must be met when the Articles of Incorporation are submitted to obtain a charter.

The directors are responsible for seeing that the association complies with the various provisions of the statutes. The Cooperative Marketing Act is written simply and can be read in half an 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 payment to the State Department of Agriculture of an annual license fee of \$10, after which the association "shall be exempt from all franchise or license taxes." Cooperatives are required to pay state, county, city, school and other district taxes, the same as are other businesses.

### ***What responsibilities do directors have to the Federal Government?***

It is the responsibility of the board of directors to see that the cooperative operates in accordance with all applicable federal laws and regulations.

### ***Are agricultural cooperatives exempted from paying Federal income taxes?***

No. The Revenue Act of 1962 removes the theory of exemption and asserts that a tax must be paid either by the patron or by the cooperative business firm. The principal of a single tax on cooperative net margins was retained by the act.

Agricultural cooperatives holding so-called "letters of exemption" may deduct from net margins all cash and non-cash allocations. Cooperatives that do not qualify for this "letter of exemption" may deduct only cash allocations from net margins when paying the federal corporate income tax.

### ***How can directors be sure that their association meets all requirements for the matter of exemption?***

Briefly stated, a cooperative must meet the following requirements to qualify for a "letter of exemption":

1. The association must be owned by producers of agricultural commodities. Substantially all voting rights must be owned by actual producers who patronize the association.
2. The association must not do more business with nonmembers than with members.
3. The rate of dividends (or interest) on capital shares must not exceed 8 percent or the legal interest rate of the State, whichever is greater.
4. Operations must be of a mutual nature with nonmembers treated equally with members in business dealing and in the distribution of savings.
5. Patronage records must be maintained and permanently preserved.

6. Purchasing associations must not make purchases for nonmembers who are also nonproducers (not farmers) in excess of 15 percent of the total volume of business.

7. Valuation reserves may be established by cooperative associations in like manner and to the same extent as such reserves may be established by other businesses. Capital reserves, however, must be allocated on a patronage basis to be nontaxable to the cooperative.

8. The legal structure of the association must be cooperative in principle.

9. Patronage refunds must be allocated and distributed to patrons under a binding obligation to do so.

10. Notice of the allocations and distribution must be given to the patrons in writing.

Many difficulties between cooperatives and the Internal Revenue Service result from failure to answer correspondence and make prompt reports. When farmers go into business, they must be businesslike. Officers and employees should be instructed to reply to all important mail.

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

Yes. The status evidenced by the letter of exemption depends on the continued operation of the association in the manner represented in its application for the letter. Any important change in the operation of the cooperative should be reported to the commissioner. Be sure to file the association's letter of exemption in a safe place. It is a valuable paper.

An annual tax return is required of all cooperatives. Additionally, all payments of dividends, interest and patronage refunds amounting to \$10 or more annually per recipient must be reported both to the Internal Revenue Service and to the recipient. The \$10 applies separately, however, to each category. To complete these reports, the cooperative will need the patron's account number—social security number in case of an individual; employer identification number in the case of a business entity.

## **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?***

If the public does not have correct information relating to the purposes and operations of farmers' cooperatives, it can be easily influenced by misinformation. People often misunderstand new ideas, new organizations and new methods of doing business.

Farmer cooperatives generally have done a poor job of telling urban folks that a successful cooperative is good not only for farmers who belong to it, but for the community. The benefits to nonfarmers may be reflected by a steady supply of farm products, in higher quality of produce or in more prosperous farm families with money to spend with local businessmen.

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

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 are 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 must be continuous to be effective.

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 their annual barbecue and arrange to have someone 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. Businessmen 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 encourage their manager or chairman of the board to join service clubs and other business organizations.

Friendly relations with the school superintendent and the vocational agriculture teacher often bring opportunities to tell the cooperative's story to the school children.

Remember, the cooperative must be a part of the community it serves.

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

Cooperatives often are 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 upkeep of the premises and the planting of shrubs and flowers will make the members as well as others in the community think more of the cooperative.

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

Cooperatives are a part of the business life of the community and should assume their share of corresponding responsibilities.

***Do other businesses use the cooperative principle?***

Yes, there are many more mutual and nonprofit corporations among businessmen on main street than among farmers. A few examples are the Railway Express Agency, owned cooperatively by a large number of railroads, the Associated Press, owned as a nonprofit corporation by many newspapers and numerous associations of grocery stores, drugstores, hardware stores, etc. which own their wholesale supply businesses or which provide insurance service, collection service, etc., on a cooperative basis. Railroads have their union ticket office and cooperative switching service. Banks have their clearing houses operated "at cost."

A congressional committee reported some 300,000 mutual, nonprofit and cooperative businesses in the U. S., all taxed on the same basis as the 6,000 federal "income tax exempt" farmer cooperatives. Few businessmen realize that they use the cooperative plan to such a large extent.

***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 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, weakens the financial structure of the organization. It also becomes an easy victim of its competitors, some of whom can last 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. The cooperative is owned by the people who use it.

***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 employees 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 seldom is used but its existence has had a good effect on those who would misrepresent cooperatives.

STATEMENT OF FINANCIAL CONDITION

(Name and Address of Association)

As of \_\_\_\_\_ 19\_\_\_\_

ASSETS (What we own)

Cash, amounts due from patrons and others, and inventories _____	\$ 0000.00	
Land, buildings, machinery, trucks and other facilities (book value) _____	0000.00	
Equities in other cooperatives, bonds, prepaid expenses and all other assets _____	0000.00	
Total assets (what we own) _____		\$ 0000.00

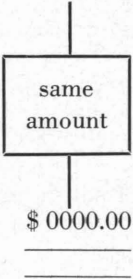
LIABILITIES (What we owe creditors)

Accounts payable to creditors, patrons, and others for supplies, commodities and services ..	0000.00	
Notes payable (short term) _____	0000.00	
Expenses accrued but not yet due _____	0000.00	
Mortgage payable (long term) _____	0000.00	
Total liabilities (what we owe) _____		\$ 0000.00

NET WORTH (What we own minus what we owe creditors) _____	\$ 0000.00
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Represented by equities of members and patrons:

Common stock outstanding _____	\$ 0000.00	
Preferred stock outstanding _____	0000.00	
Allocated equities, reserves, book credits ----	0000.00	
Unallocated contingency reserve; surplus ---	0000.00	
Total net worth _____		\$ 0000.00





# STATEMENT OF OPERATIONS

(Marketing Cooperative)

(Name and Address of Association)

For year ending \_\_\_\_\_ 19 \_\_\_\_

## SALES, REVENUES, EXPENSES, PAYMENTS AND MARGINS

Sales of patrons products _____	\$	000.00
Less—operating and selling expenses:		
(itemized as desired) _____	\$	000.00
		000.00

Net sales receipts from marketing _____		000.00
---	--	--------

Add

Other revenue:

(itemized as desired) _____	000.00	000.00
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Total net amount due patrons _____		000.00
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Deduct—payments to patrons

for products delivered _____		000.00
------------------------------	--	--------

Undistributed net sales receipts

(net margin) _____	\$	000.00
--------------------	----	--------

## DISPOSITION OF UNDISTRIBUTED NET SALES RECEIPTS (Not Margin):

Added to unallocated contingency reserve__	\$	000.00
--	----	--------

Federal income tax on addition to reserves _____	\$	000.00
--	----	--------

Dividends on preferred stock @ _____ %		000.00
--	--	--------

Patronage refund allocations:

To be paid in cash _____	\$	000.00
--------------------------	----	--------

By additional shares of preferred stock__	000.00	
---	--------	--

In allocated and notified book credits __	000.00	000.00
---	--------	--------

Total disposition of undistributed net sales

receipts (net margin) _____	\$	000.00
-----------------------------	----	--------

same  
amount



## STATEMENT OF OPERATIONS

(Purchasing Cooperative)

(Name and Address of Association)

For the year ending -----19----

### SALES, REVENUES, COSTS, EXPENSES AND MARGINS

Patrons' purchases -----	\$	000.00
Cost of patrons' purchases -----		000.00
		<hr/>
Gross margin on patrons' purchases ----		000.00
Other revenues:		
(Itemized as desired) -----	\$	000.00
		<hr/>
Total gross margin -----		000.00
Less—operating expenses		
(Itemized as desired) -----	\$	000.00
		<hr/>
Net margin -----	\$	000.00
		<hr/>
		<hr/>

### DISPOSITION OF NET MARGINS

Added to unallocated contingency reserve	\$	000.00
Federal income tax on addition to reserve		000.00
Dividends on preferred stock @ ----%		000.00
Patronage refund allocations:		
To be paid in cash -----	\$	000.00
By additional shares of preferred stock		000.00
In allocated and notified book credits		000.00
		<hr/>
Total disposition of net margins -----	\$	000.00
		<hr/>
		<hr/>

same  
amount

## COMPARATIVE REPORT FOR MEMBERS

Year	Bales ginned (Number)	Merchandise purchased (Dollars)	Produce marketed (Dollars)	Total patrons' equities (Dollars)	Net margins for year (Dollars)
1954					
1955					
1956					
1957					
1958					
1959					
1960					
1961					
1962					
1963					
Total					
Average					

Some such report as is suggested by the form 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 DIRECTORS' 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.