CFAES

CFAES CENTER FOR COOPERATIVES

CO-OP MASTERY

BEYOND COOPERATIVES 101

WORKBOOK

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THE OHIO STATE UNIVERSITY

COLLEGE OF FOOD, AGRICULTURAL, AND ENVIRONMENTAL SCIENCES

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Co-op Mastery: Beyond Cooperatives 101 Workbook

The College of Food, Agricultural, and Environmental Sciences Center for Cooperatives at The Ohio State University comprehensively integrates the teaching, research, and Extension programs of the College. The Center creates and extends knowledge to emerging and existing cooperatives in Ohio and beyond.

The Center supports undergraduate and graduate learning through coursework in agricultural economics, student research, and educational programs.

The Center disseminates research-based knowledge through technical assistance to support the decision-making of cooperative stakeholders.

The Center supports academic research on the cooperative business model and the state of cooperatives with a special focus on agricultural co-ops.

Co-op Mastery: Beyond Cooperatives 101 Workbook is a companion tool complementing an online educational resource, *Co-op Mastery: Beyond Cooperatives 101* at go.osu.edu/coopmastery, from the CFAES Center for Cooperatives. The online curriculum includes video, infographic, and audio material with information provided by cooperative experts. The educational modules provide an in-depth look at governance, finance, taxation, and other cooperative areas. The materials are designed for cooperative members, directors, developers, students, and others interested in learning more about the co-op business model. This workbook can be used by learners in conjunction with online materials to supplement learning, or used on its own to enhance understanding of the cooperative business model.

In addition to *Co-op Mastery: Beyond Cooperatives* 101, staff at the CFAES Center for Cooperatives provide education and technical assistance on the cooperative business model. Contact the Center at osucooperatives@osu.edu or 740-289-2071 ext. 111 to request education or assistance.

Acknowledgements

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The CHS Foundation (chsinc.com/stewardship) is the major giving entity of CHS Inc. (NASDAQ: CHSCP), the nation's leading farmer-owned cooperative and a global energy, grains, and foods company. As a part of the CHS stewardship focus, the CHS Foundation is committed to investing in the future of rural America, agriculture, and cooperative business through education and leadership development.

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The materials available in this workbook and on the Co-op Mastery: Beyond Co-ops 101 website are for informational purposes only and do not provide business or legal advice or opinions. The content of these resources should not be construed as, and should not be relied upon for, legal or tax advice in any particular circumstance or situation. Seek advice from an attorney or tax professional for advice on specific issues.

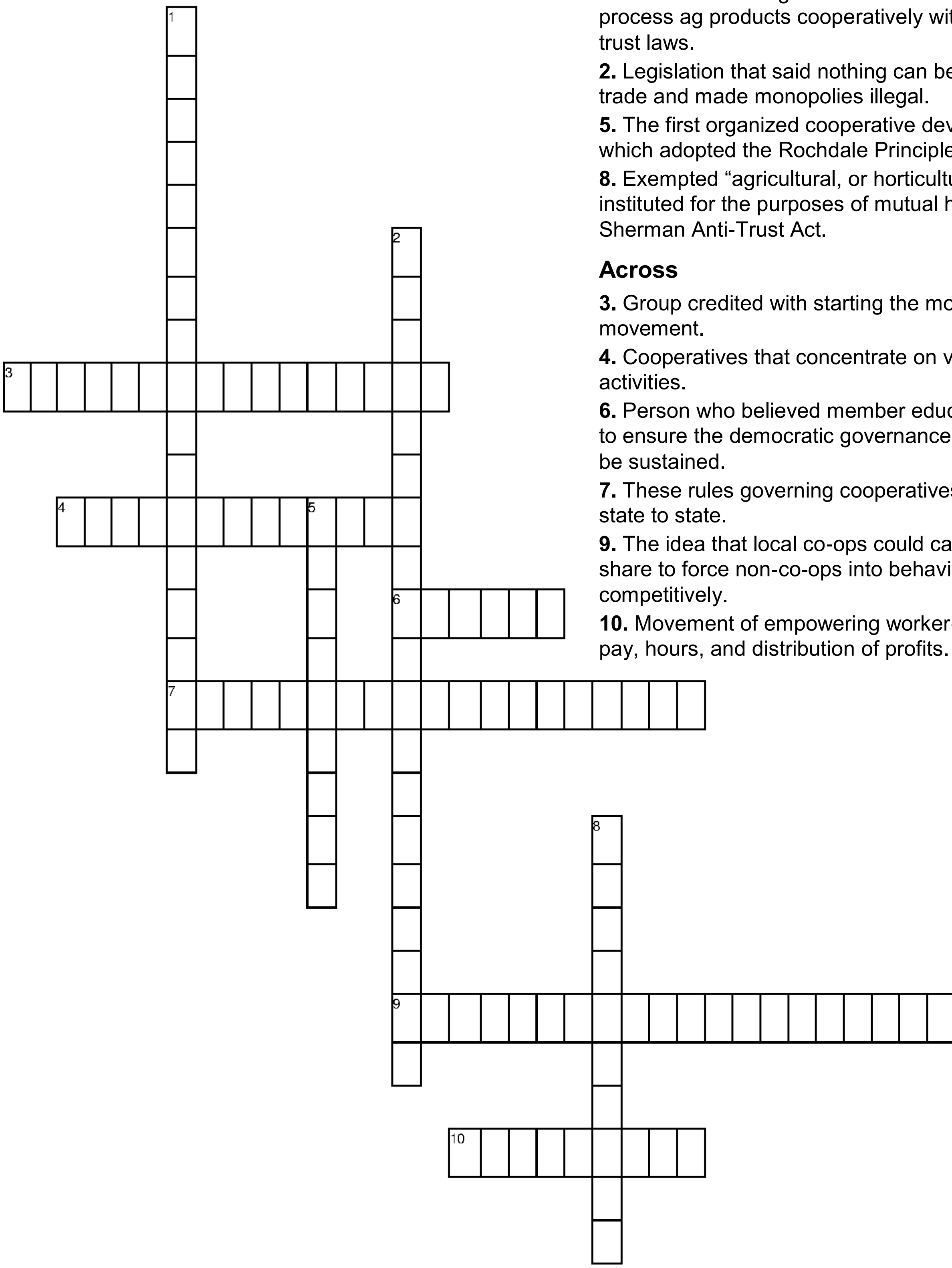
Principles of Cooperation

Search online for information about these cooperatives you might recognize. Explore their web pages to learn how they apply the seven principles of cooperation. Make some notes about what you discover.

Land O'Lakes · CHS, Inc. · Farm Credit · Welch's · Ocean Spray · Nationwide · REI Co-op

1. **Voluntary and open membership**
2. **Democratic member control**
3. **Member economic participation**
4. **Autonomy and independence**
5. **Education, training and information**
6. **Cooperation among cooperatives**
7. **Concern for community**

History and Legislation



Down

1. Authorized the right of farmers to unite and market or process ag products cooperatively without violating anti-trust laws.

2. Legislation that said nothing can be done to restrain trade and made monopolies illegal.

5. The first organized cooperative development effort which adopted the Rochdale Principles.

8. Exempted “agricultural, or horticultural organizations, instituted for the purposes of mutual help” from the Sherman Anti-Trust Act.

Across

3. Group credited with starting the modern cooperative movement.

4. Cooperatives that concentrate on value-added activities.

6. Person who believed member education was essential to ensure the democratic governance of the co-op would be sustained.

7. These rules governing cooperatives differ greatly from state to state.

9. The idea that local co-ops could capture enough market share to force non-co-ops into behaving more competitively.

10. Movement of empowering worker-owners with fair pay, hours, and distribution of profits.

Director Self-Assessment

A cooperative's directors govern the business. The directors represent members, establish policies, hire and supervise management, acquire and preserve assets, maintain the cooperative character of the business, assess the co-op's performance, and keep members informed. To ensure that directors are well-prepared for these responsibilities, they can complete the following self-assessment to identify strengths and areas for continued training. Rate each item below according to the following ratings:

Y—Yes, this is not a problem for me.

U—I feel unsure about this and could use improvement or training.

N—No, I need improvement or training in this area.

Personal Competence

1. I am able to assess my personal training needs for my role as a director.	Y	U	N
2. I fully understand the responsibilities and duties of a director, and feel competent to fulfill them.	Y	U	N
3. I am able to contribute to the productivity of meetings as an effective participant.	Y	U	N
4. I am able to attend board and committee meetings and am on time except for emergencies.	Y	U	N
5. I am able to effectively inform members and the public of the purpose, structure, financing, services, legal framework, and operations of the cooperative.	Y	U	N
6. I am able to listen and speak effectively with individuals and groups.	Y	U	N
7. I am able to prepare and present written and oral reports.	Y	U	N
8. I am able to prepare plans for carrying out activities and measure results.	Y	U	N
9. I am able to do my part in directing the affairs of the cooperative consistent with the bylaws, articles of incorporation, and other regulations and statutes.	Y	U	N
10. I am knowledgeable about the potential liabilities of being a director.	Y	U	N

Board Operations

11. I am able to work well with other directors and the management team.	Y	U	N
12. I fully understand the procedures for appointing officers to the board.	Y	U	N
13. I am able to plan, prepare, and participate to maximize group participation in board decisions.	Y	U	N
14. I am able to participate as a member or chair of a committee.	Y	U	N
15. I am able to effectively communicate my opinions and feelings to the board.	Y	U	N
16. I am able to participate in all important board discussions and fully represent my member constituents.	Y	U	N

17. I am able to analyze and recommend appropriate per diem, travel, and other allowances for directors. Y U N

Managerial Aspects

18. I am able to help establish the job description for management, including the specific duties and responsibilities. Y U N

19. I am able to participate in the recruitment, selection, and hiring of a manager. Y U N

20. I am able to participate in a performance review and appraisal of a manager. Y U N

21. I am able to participate in establishing compensation for a manager. Y U N

Finance

22. I am able to define financial objectives and develop policies to guide capital and operational financial decisions. Y U N

23. I am able to analyze and approve capital expenditure plans. Y U N

24. I am able to interpret the cooperative's financial statements and assess the viability of the cooperative. Y U N

25. I am able to understand financial ratios and analyze trends. Y U N

26. I am able to analyze budget proposals and approve the annual budget. Y U N

27. I am able to analyze proposals and participate in discussions on major financial matters. Y U N

28. I am able to compare actual financial performance to the budget. Y U N

29. I am able to analyze and participate in decisions involving the distribution of net savings or losses. Y U N

30. I am able to understand and analyze the cooperative's financial investments. Y U N

31. I am able to explain the cooperative's financial position to others when required. Y U N

32. I am able to explain the cooperative's equity redemption program to members. Y U N

33. I am able to analyze equity redemption requests and establish a redemption policy. Y U N

Policies and Planning

34. I am able to help establish objectives and policies for operations and services of the cooperative. Y U N

35. I am able to appraise the adequacy of operations and services of the cooperative. Y U N

36. I am able to understand feasibility studies and analyze proposed changes and their implications for long-term operations and member service. Y U N

37. I am able to analyze and approve annual plans for services, operations, and facilities.	Y	U	N
38. I understand the cooperative's planning system and actively participate in it.	Y	U	N
39. I am able to develop objectives in line with member needs and the cooperative's resource base and operations.	Y	U	N
40. I am able to participate in brain-storming discussions and provide ideas or strategies relevant to the cooperative's objectives.	Y	U	N
41. I am able to evaluate the effectiveness of plans.	Y	U	N
Member Relations			
42. I am able to analyze proposals and approve a program and budget for relations with members of the cooperative and the public.	Y	U	N
43. I am able to evaluate the effectiveness of the member relations program.	Y	U	N
44. I am able to communicate well with members.	Y	U	N
45. I am able to say no to members in a firm, yet tactful, manner if the situation warrants it.	Y	U	N
46. I am able to represent the cooperative at public functions when requested.	Y	U	N
47. I am able to receive ideas and expressions of concern from members and initiate appropriate action on their behalf.	Y	U	N
48. I am able to analyze and approve objectives, policies, and strategies for maintaining effective relations with the public, other cooperatives, and governmental agencies.	Y	U	N
49. I am able to encourage members to attend annual and other co-op meetings.	Y	U	N
50. I am able to establish guidelines for, and approve the annual report to, the members.	Y	U	N
51. I am able to assist in planning the annual meeting program to maximize member involvement and input.	Y	U	N
52. I am able to analyze and make decisions on membership applications.	Y	U	N
Leadership			
53. I am able to inform others of the values, principles, organization, and functions of the cooperative.	Y	U	N
54. I am able to actively support and promote cooperative activity in the community.	Y	U	N
55. I actively patronize the cooperative.	Y	U	N
56. I fully understand the qualifications for board leadership positions.	Y	U	N
57. I stay attuned to industry issues and enhance my knowledge of the issues and concerns affecting the cooperative.	Y	U	N

Module: Governance

58. I take my director role seriously and work to improve my performance. Y U N

59. I do my best to help my fellow directors and members when asked. Y U N

60. I understand that when the discussion and decision of an issue is completed, I am responsible for supporting the board's majority decision. Y U N

61. I elicit feelings of confidence, trust, and respect from fellow members. Y U N

<u>Summarize your ratings by completing the following items.</u>

Number of items receiving Y ratings: __________ Number of items receiving U ratings: __________

Number of items receiving N ratings: __________

Identify areas in which you feel you need improvement and, if possible, ideas or strategies to improve.

Item number: ____ Improve by: ____

____

Item number: ____ Improve by: ____

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Item number: ____ Improve by: ____

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Item number: ____ Improve by: ____

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Item number: ____ Improve by: ____

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Item number: ____ Improve by: ____

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Item number: ____ Improve by: ____

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Adapted from Wadsworth (2000).

Use the U.S. Department of Agriculture's publication, "Assessing Performance and Needs of Cooperative Boards of Directors," for additional resources to complete an assessment of your full co-op board as well as the productivity of meetings. Contact the CFAES Center for Cooperatives to create a specialized training program for directors based on these assessments.

Whose Job Is It?

The members of a cooperative are also owners, but the co-op's daily activities are carried out by a manager and employee team while the policies are set by a member-elected board. The various roles and responsibilities of member-owners, managers, and directors can become confusing and difficult to manage. It is important to distinguish each group's roles and authority to avoid conflicts and effectively operate the co-op. Classify the following activities, according to who in the co-op has the responsibility and authority to carry them out, for a useful guide to understanding co-op roles and responsibilities.

Change the co-op's bylaws	Members	Directors	Management
Establish a credit policy	Members	Directors	Management
Set director compensation	Members	Directors	Management
Decide to expand the co-op's building	Members	Directors	Management
Purchase a new vehicle	Members	Directors	Management
Review the manager's performance	Members	Directors	Management
Set pricing policies	Members	Directors	Management
Establish an employee training program	Members	Directors	Management
Plan an annual member meeting	Members	Directors	Management
Negotiate a marketing agreement	Members	Directors	Management
Engage an auditing firm for a review	Members	Directors	Management
Establish a director training program	Members	Directors	Management
Review annual operating procedures	Members	Directors	Management
Purchase supplies for the office	Members	Directors	Management
Provide permanent capital	Members	Directors	Management
Adjust the wages of an employee	Members	Directors	Management
Terminate a supervisor	Members	Directors	Management
Call a special membership meeting	Members	Directors	Management
Establish a per unit retain	Members	Directors	Management

Adapted from Hahn (n.d.).

In the Center's work with start-up cooperatives, it is common for newly formed co-ops to operate using volunteer member labor during the early stages of development. Although members might be serving in the role of member, director, and manager, they should be able to distinguish the roles of each so that they can be prepared to separate these responsibilities if new roles are added.

Sample Bylaws

A co-op's bylaws detail how the business will operate and address the co-op's purpose, membership, meeting procedures, governance procedures, patronage systems, equity redemption systems, processes for dissolving the co-op, and more. Co-op members, and particularly directors, should be familiar with their cooperative's bylaws. The bylaws below are from a working agricultural marketing cooperative in Ohio, followed by questions to help ensure a thorough understanding of the document.

Article One
Membership

1.1 Qualifications. Any person, firm, partnership, limited liability partnership, limited partnership, limited liability company (LLC), corporation, or association, who or which agrees to be a patron of the Association, signs and abides by a membership agreement with the Association, is a resident of Ohio, and meets such other conditions as may be prescribed by the board of directors, may become a member of the Association.

1.2 Application. All applications for membership must be approved by a majority of the board of directors. Member status is effective as of the time the board approves the application for membership.

1.3 Suspension or Termination. In the event the board of directors of the Association shall find that any member has ceased to be an eligible member under Section 1, above, the board shall give the member written notice of the violation and allow the member thirty (30) days to cure the violation. If the violation is not cured, the board shall set a hearing date within sixty (60) days of the mailing of the notice. Following the hearing, the board shall determine whether the member is eligible to retain membership or whether a suspension or termination is required in the best interests of the Association. If an affirmative vote of at least two-thirds of the directors casting votes finds for suspension or termination, such resolution shall be presented to the members, who, by an affirmative vote of a majority of member votes cast at a regular or at a special meeting held for that purpose, may suspend such member's rights as a member or terminate the membership.

1.4 Notice. Written notice may be given by mail, or email. If mailed, the notice is given when it is deposited in the U.S. Mail, with postage prepaid, addressed to the person at the person's address as it appears on the records of the Association. If notice is sent by email, notice is given when an email confirmation of delivery is received by the Association.

1.5 Cessation of Rights and Privileges. A suspended or terminated member shall have no rights or privileges, nor vote or voice in the management or affairs of the Association other than the right to participate in accordance with law in the event of dissolution.

Article Two
Meetings of Members

2.1 Annual Meeting. The annual meeting of the members of this Association shall be during the month of January at such time and in such place as the board of directors shall designate.

2.2 Special Meetings. Special meetings of the members of the Association may be called at any time by order of the board of directors and shall be called by the directors upon receipt of a written petition signed by at least fifty percent (50%) of the members entitled to vote. The petition must state the specific business to be brought before the Association and demand a special meeting at any time for consideration of such business. The directors shall designate the time and place for a special meeting.

2.3 Notice of Meetings. Written notice of every regular and special meeting of members shall be prepared and mailed to the last known post office address of each member at least ten (10) days before such meeting. Notice is given when it is deposited in the U.S. mail. Such notice shall state the nature of the business expected to be conducted and the time and place of the meeting. No business shall be transacted at any special meeting other than that referred to in the notice.

Elements **of an effective cooperative board meeting**

1. Written agenda
2. Copies of previous meeting minutes
3. Copies of financial reports
4. Copies of any new and relevant information to be discussed and presented
5. Officers understand roles and responsibilities
6. Conduct meeting utilizing parliamentary procedure as set forth by Robert's Rule of Order
7. Maintain a corporate records book that contains past minutes, bylaws, articles of incorporation, and board member information
8. Board book for each board member that contains minutes from previous meetings, by-laws, articles of incorporation, and other policy relevant information

Based on "Who Runs the Cooperative Business? Members." USDA Cooperative Information Report 45, Section 4.

2.4 Voting. Unless otherwise stated in the Articles of Incorporation, or these Bylaws, or required by applicable law, all questions shall be decided by a vote of a majority of votes cast on the question.

2.4.1 Allocation. Each Member shall be entitled to only one vote.

2.4.2 Voting Methods. Proxy voting shall be allowed. Each proxy shall be in writing, voice mail or email. All voice and emails must be received 24 hours prior to any vote and no member shall vote more than one proxy.

2.4.3 Designation of Voting Individual. If a membership is held by a partnership, corporation, or other legal entity, the member shall designate in writing the person who shall vote on behalf of the member. That designation shall remain in effect until written notice of a properly authorized change in the designated voter shall be received by the Association.

2.44 Actions Without Meeting Any action of the members or the board of directors may be taken, without a meeting, provided such actions or resolutions be reduced to writing and signed by all the members for meetings of members, or all the board of directors for meetings of the board.

2.5 Quorum. Those members present shall constitute a quorum at any properly called annual or special membership meeting.

Article Three
Directors and Officers

3.1 Number and Qualifications of Directors. The Association shall have a board of directors of seven (7) members; provided, however, if the Association has fewer than seven members, the number of directors shall equal the number of members. Each director shall be a Member of this Association in good standing.

No person shall be eligible to be a director or officer if that person is in competition with, or is affiliated with any enterprise that is in competition with, the Association. If a majority of the board of directors of the Association finds at any time that any director or officer is so engaged or affiliated and has failed to follow the provisions set forth in Article Twelve of these Bylaws dealing with conflicts of interest, the procedure for Removal of Directors and Officers as set forth in Article Three, Section 11 shall be followed, with the board requesting removal in the place of the member petition.

3.2 Nomination of Directors. Candidates for election as directors may be selected by any nominating procedure established by the Board that is reasonably open to Member participation.

3.3 Election of Directors. At the first annual meeting of the members of the Association, directors shall be elected to succeed the incorporating directors. Two (2) director(s) shall be elected for one (1) year; and two (2) directors for two (2) years; and three (3) directors for three (3) years. At each annual meeting thereafter, new directors shall be elected, for a term of three (3) years each, to succeed those directors whose terms are expiring. However, if the number of members of the Association is six or fewer, all members shall serve as directors until the next annual meeting held after membership has increased to more than six members.

All directors shall be elected by secret ballot, and the nominee(s) receiving the greatest number of votes shall be elected.

3.4 Election of Officers. The board of directors shall meet within seven (7) days after the first election and within seven (7) days after each annual election and shall elect by ballot a president, vice president, secretary, and treasurer, each of whom shall hold office until the election and qualification of a successor, unless earlier removed by death, resignation, or for cause.

The president and vice president shall be members of the board of directors. The secretary and treasurer need not be directors or members of the Association. The secretary and treasurer offices may be held by the same person, but no officer shall execute or acknowledge any instrument in more than one capacity if the instrument is required by law or by the Articles of Incorporation or the Bylaws to be executed, acknowledged, or verified by two or more officers.

3.5 Vacancies. Whenever a vacancy occurs in the board of directors, other than from the expiration of a term of office, the remaining directors, by majority vote, shall appoint a member to fill the vacancy for the remainder of the term to be elected at the next annual meeting.

If one or more officer positions become vacant, such offices shall be filled by the board of directors, through election by ballot, at either a regular or special meeting of the board.

3.6 Regular Board Meetings. In addition to the meetings mentioned above, regular meetings of the board of directors shall be held monthly, or at such other times and at such places as the board may determine.

3.7 Special Board Meetings. A special meeting of the board of directors shall be held whenever called by the president or by a majority of the directors. Only the business specified in the written notice shall be transacted at a special meeting. Each call for a special meeting shall be in writing, shall be signed by the person or persons calling the meeting, shall be addressed and delivered to the secretary, and shall state the time and place of such meeting.

3.8 Notice of Board Meetings. Oral or written notice of each meeting of the board of directors shall be given each director by, or under the supervision of, the secretary of the Association not less than 36 hours prior to the time of meeting. But such notice may be waived by all the directors, and their appearance at a meeting shall constitute a waiver of notice.

3.9 Quorum. A majority of the board of directors shall constitute a quorum at any meeting of the board.

3.10 Reimbursement and Compensation. The Association may reimburse directors for all reasonable expenses incurred in carrying out their duties and responsibilities. The compensation, if any, of the members of the board of directors shall be determined by the members of the Association at any annual or special meeting of the Association.

No director of the Association, during the term of his office, shall be a party to a contract for profit with the Association differing in any way from the business relations accorded regular members.

3.11 Removal of Directors and Officers. Whenever any director shall fail to meet the qualifications as described in Section 1 of this Article, or fails to attend three (3) consecutive board meetings, either regular or special, without just cause and provided that notice of such meetings has been given in accordance with these bylaws, then it shall be the duty of the board to remove said director and to fill the vacancy in accordance with Section 4 of this Article.

Any member of the Association may bring charges against an officer or director of the Association by filing them in writing with the secretary of the Association, together with a petition, signed by fifty percent (50%) 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 voting, the Association's membership may remove the officer or director and fill the vacancy. The director or officer against whom such charges are 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 persons bringing the charges against him shall have the same opportunity.

Article Four
Duties of Directors

4.1 Management of Business. The board of directors shall have general supervision and control of the business and the affairs of the Association and shall make all rules and regulations not inconsistent with law, the articles of incorporation, or bylaws for the management of the business and the guidance of the members, officers, employees, and agents of the Association.

4.2 Employment of Manager. The board of directors shall have power to employ, define duties, fix compensation, and dismiss a manager with or without cause at any time. The board shall authorize the employment of such other employees, agents, and counsel as it from time to time deems necessary or advisable in the interest of the Association. The manager shall have charge of the day-to-day business of the Association under the policy direction of the board of directors.

4.3 Bonds and Insurance. The board of directors may require the manager and all other officers, agents, and employees charged by the Association with responsibility for the custody of any of its funds, negotiable instruments, or other property of or for the Association to give adequate bonds. Such bonds, unless cash security is given, shall be furnished by a responsible bonding company and approved by the board of directors, and the cost shall be paid by the Association.

The board of directors shall provide for the adequate insurance of the property of the Association, or property which may be in the possession of the Association, or stored by it, and not otherwise adequately insured, and, in addition, adequate insurance covering liability for accidents to all employees and the public.

4.4 Accounting System and Audits. The board of directors shall have installed an accounting system which shall be adequate to meet the requirements of the business and shall require proper records to be kept of all business transactions.

At least once in each year the board of directors shall secure the services of a competent and disinterested certified public accountant, who shall make a full audit according to generally accepted accounting principles of the books and accounts of the Association and render a report in writing, which report shall be submitted to the directors and the manager of the Association and made available to the members of the Association.

4.5 Depository. The board of directors shall select one or more banks to act as depositories of the funds of the Association and determine the manner of receiving, depositing, and disbursing the funds of the Association and the form of checks and the person or persons by whom they shall be signed, with the power to change such banks and the person or persons signing such checks and the form at will.

4.6 Committees. The board may, at its discretion, appoint from its own membership an executive committee of two (2) members, and determine their tenure of office and their powers and duties. The board may delegate to the executive committee all or any stated portion of the functions and powers of the board, subject to the general direction, approval, and control of the board. Copies of the minutes of any meeting of the executive committee shall be mailed or emailed to all directors within seven (7) days following such meeting.

The board of directors may, at its discretion, appoint such other committees as it deems appropriate.

Article Five
Duties of Officers

5.1 President. The president shall (1) preside over all meetings of the Association and of the board of directors; (2) call special meetings of the board of directors; (3) appoint such committees as the board of directors may deem advisable for the proper conduct of the Association; and (4) perform all acts and duties usually performed by a presiding officer.

5.2 Vice President. In the absence or disability of the president, the vice president shall perform the duties of the president; provided, however, that in case of death, resignation, or disability of the president, the board of directors may declare the office vacant and elect any eligible person president.

5.3 Duties of Secretary. The secretary shall keep a complete record of all meetings of the Association and of the board of directors and shall have general charge and supervision of the books and records of the Association. The secretary shall sign papers pertaining to the Association as authorized or directed by the board of directors. The secretary shall serve all notices required by law and by these bylaws and shall make a full report of all matters and business pertaining to the office to the members at the annual meeting. The secretary shall perform such other duties as may be required by the Association or the board of directors. Upon the election of a successor, the secretary shall turn over all books and other property belonging to the Association to the successor.

5.4 Duties of Treasurer. The treasurer shall be responsible for the keeping and disbursing of all monies of the Association, and shall keep accurate books of accounts of all transactions of the Association. The treasurer shall perform such duties with respect to the finances of the Association as may be prescribed by the board of directors. At the expiration of his term of office, the treasurer shall promptly turn over to his successor all monies, property, books, records, and documents pertaining to his office or belonging to the Association.

Article Six
Patrons and Patrons' Net Margins

6.1 Operation at Cost. The Association shall at all times be operated on a cooperative service-at-cost basis for the mutual benefit of its member patrons. The term "Patron" as used in these Bylaws and in the Articles of Incorporation shall mean members doing business with this Association. Each transaction conducted on a cooperative basis between this Association and each Patron shall be a "patronage transaction" and shall include as part of its terms each provision of the Articles of Incorporation and Bylaws of this Association, whether or not referred to in the transaction. Each Patron shall be entitled to a portion of Patrons' Net Margins (patronage refunds), as provided in these Bylaws.

6.2 Computation of Net Margins. The Net Margins shall be computed on a tax basis as of the end of each fiscal year as follows:

6.2.1 Gross Receipts. Proceeds of sales of products marketed for Patrons, plus amounts received for supplies and services provided to Patrons, plus amounts received from any other source, shall be "gross receipts."

6.2.2 Net Margins. This Association shall deduct from gross receipts the sum of all costs and expenses and other charges that are excludable or deductible from this Association's gross income for the purpose of determining federal income or related taxes payable by this Association, except the amount of such taxes, the amount of non-qualified allocations redeemed, and the amount of the Patrons' Net Margins, as defined in 6.3 of these Bylaws. The gross receipts that remain after the foregoing deductions shall be called "Net Margins."

6.3 Allocation.

6.3.1 Association Net Margins. From the Net Margins, the Association shall set aside "Association Net Margins" to be applied to the Association's federal income or related taxes. The funds to pay taxes shall first come from Net Margins attributable to sources other than patronage transactions ("non-patronage source margins") to the extent allocable under federal income tax law. Any non-patronage source margins not so applied shall be set aside in the Capital Reserve.

6.3.2 Patrons' Net Margins. The balance of Net Margins after deduction of the Association Net Margins shall be the Patrons' Net Margins. The Patrons' Net Margins shall belong to the Patrons on the basis of their respective patronage transactions and may be allocated on the basis of their respective patronage of the Association and the Net Margins that resulted from the operations of the Association.

6.4 Distribution of Patrons' Net Margins.

6.4.1 Written Notice of Allocation. The Association shall distribute Patrons' Net Margins within eight and one-half (8½) months after the end of each fiscal year by written notice of the allocation. The written notice shall show the manner and amount of distribution, and the exact amount distributed in cash, or in Capital Credits (or any combination of the two). The Board of Directors may establish a plan for financing the Association that relates Patron investment to patronage transactions. Such plan may provide for the periodic adjustment of Patron investment by the application of a Patron's patronage refunds to additional investment requirements prescribed by the plan.

6.4.2 Events of Forfeiture of Refund. If the Association distributes a patronage refund to a Patron who (a) does not consent to include the patronage refund in income as provided in the Consent Bylaw; or (b) is unable to receive distribution; or (c) cannot be located for redemption of such patronage refunds, such patronage refunds shall forfeit to this Association and be added to the Capital Reserve. Patronage refunds of less than Fifty Dollars ($50) shall be treated as non -distributable Net Margins and added to the Capital Reserve.

6.5 Capital Reserve. The Association shall maintain a Capital Reserve for the purpose of providing a reserve against which it may charge losses and other charges that could be charged against the surplus of a business corporation for profit.

6.6 Loss or Losses. If the Association incurs a net loss in any fiscal year, such net loss may be charged against the Capital Reserve. If the loss exceeds the Capital Reserve or, in any event, if the Board so elects, the loss may be recovered from prior or subsequent years' Net Margins. The Board shall have no authority to make assessment for net losses against Members. This section shall not be construed to deprive the Association of the right to carry back or carry forward net operating losses in accordance with the Internal Revenue Code or Ohio taxing statutes.

Rights and responsibilities of cooperative board members

Rights

- Adopt and amend articles of incorporation and bylaws.
- Elect and, if necessary, remove directors of the business.
- Dissolve, merge, or consolidate the cooperative or form a joint venture with others.
- Require officers, directors, and other agents to comply with the law under which the business was set up, and with its articles of incorporation, bylaws, and membership contracts.
- Hold directors and officers liable for damage injurious to members.
- Examine the annual reports.

Responsibilities

- Patronize the cooperative.
- Be informed about the cooperative.
- Participate in selecting and evaluating directors.
- Provide necessary capital.
- Adopt legal papers.
- Evaluate performance of the cooperative.

Based on "Who Runs the Cooperative Business? Members."

6.7 Consent Bylaw. Each person (including individuals, partnerships, corporations, limited liability companies) who is accepted to Membership in this Association and each Member of this Association on the effective date of this Bylaw who continues as a Member shall, by such act alone, consent to include in gross income (for federal income tax purposes) the amount of any written notice of allocation (as defined in 26 U.S.C. Section 1388, the Internal Revenue Code) received from this Association with respect to his or her patronage transactions as provided in 26 U.S.C. Section 1385.

6.8 Records and Documentation. The books and records of the Association shall be set up and kept in such a manner that at the end of each fiscal year, the amount of capital, if any, so furnished by each member is clearly reflected and credited in an appropriate record to the capital account of each member.

6.9 Fiscal Year. The fiscal year of this Association shall commence on the first day of January and end on the last day of December.

Article Seven
Equity Redemption

7.1 Regular Redemption. If at any time the board of directors determines that the financial condition of the Association will not be impaired by redemption, capital credited to members' accounts may be redeemed in full or in part. Any such redemption of capital shall be made in order of priority according to the year in which the capital was furnished and credited, the capital first received by the Association being the first redeemed.

7.2 Discretionary Special Redemptions. Notwithstanding any other provision of these bylaws, the board, at its absolute discretion, shall have the power to retire any capital credited to members' accounts on such terms and conditions as may be agreed upon by the parties in any instance in which the interests of the Association and its members are deemed to be furthered thereby and funds are determined by the board to be available for such purposes.

Article Eight
Nonmember Business

This Association may conduct business with nonmembers on a non-patronage basis. However, this Association shall not market the products of nonmembers in an amount the value of which exceeds the value of the products marketed for members. It shall not purchase supplies and equipment for nonmembers in an amount the value of which exceeds the value of the supplies and equipment purchased for members.

Article Nine
Dissolution and Property Interest of Members

9.1 Voluntary Dissolution. At any member meeting held for the purpose of dissolving the Association, the members may adopt a resolution of dissolution by the affirmative vote of sixty percent (60%) of the members votes cast on the proposal. Notice of the meeting shall be given to all members, whether or not entitled to vote.

9.2 Involuntary Dissolution. The board of directors may adopt a resolution of dissolution in the following cases:

9.2.1 When the Association has been adjudged bankrupt or has made a general assignment for the benefit of creditors:

9.2.2 By leave of the court, when a receiver has been appointed in a general creditors' suit or in any suit in which the affairs of the Association are to be wound up:

9.2.3 When the Articles of Incorporation have been canceled for failing to file annual franchise or excise tax returns or to pay franchise and excise taxes and the Association has not been nor desires to be reinstated: or

9.2.4 When substantially all of the assets have been sold at judicial sale or otherwise.

The board of directors shall be responsible for seeing the appropriate state filings are made and notices given pursuant to Chapter 1729.

9.3 Disbursement of Assets. Upon dissolution, the board of directors shall disburse the Association's assets in the following order; first, to pay the Association's debts and liabilities; second, to retire all capital furnished through patronage (member capital accounts) without priority on a pro rata basis; and third, to distribute the remaining property and assets of the Association among the members and former members in the proportion in which the aggregate patronage of each member bears to the total patronage of all such members insofar as practical, unless otherwise provided by law. For the purposes of this section, "former members" shall be defined as persons who were members within the five (5) years prior to the effective date of dissolution.

Article Ten
Indemnification

The Association shall indemnify its officers, directors, employees, and agents to the fullest extent possible under the provisions of the Ohio Revised Code 1729, as it may be amended from time to time. The Association may purchase liability insurance coverage for any person serving as an officer, director, employee or agent to the extent permitted by applicable Ohio law. The directors of the Association shall be liable only as members of the Association, unless otherwise provided by law.

Article Eleven
Amendment

If notice of the character of the amendment proposed has been given in the notice of meeting, these Bylaws may be altered or amended at any regular or special meeting of the members by the affirmative vote of the majority of the member votes cast.

Article Twelve
Conflict of Interest

12.1 General policy. Recognizing that directors and officers have a duty to loyalty and fidelity to the Association and must govern the Association's affairs honestly and economically, while exercising their best care, skill and judgment for the benefit of the Association, to avoid even the appearance of impropriety, the directors and officers of the Association shall:

12.1.1 Disclose to the Board any situation wherein the director or officer has a conflicting or duality of interest that could possibly cause that person to act in other than the best interest of the Association; and

12.1.2 Follow the procedures stated in Section 2, below, governing the participation on behalf of the Association in any transaction in which the person has, or may have, a conflict of interest.

12.2 Procedure. Any director or officer having a known duality of interest or possible conflict of interest on any matter shall make a disclosure of such conflict to the other directors. Such director shall not vote or use his or her personal influence on the matter, but such director may be counted in determining the quorum for the meeting. The minutes of the meeting shall reflect the making of the disclosure, the abstention from voting and the quorum situation. Any officer having a known duality of interest or possible conflict of interest on any matter before such officer for administrative action shall report the conflict to the president or, in the case of the president, to the vice president. Such officer shall abstain from taking any administrative action on the matter. The requirements in this Section 2 shall not be construed as preventing any director or officer from briefly stating his or her position in the matter, nor from answering pertinent questions of the board or other officers.

Understanding Bylaws

It is important for cooperative directors to know and understand their cooperative's bylaws.

Respond to these questions regarding the Sample Bylaws shown on the preceding pages.

1. Who can be a member of this cooperative?

2. If a business having multiple partners is a member of the cooperative, does each partner get to vote in the cooperative? Why or why not? And if not, who gets to vote?

3. The cooperative needs to engage an accountant to file the tax returns for the business. Who is the best person to do that on behalf of the cooperative?

4. What is the process for disciplining or removing a member of this cooperative?

5. What might be an example of a conflict of interest for a cooperative board member?

Business Models 101

There are various ways to organize a business or organization that create the structure of ownership, control, and profit sharing. Some common business models include C and S corporations, non-profit organizations, limited liability companies, partnerships, and sole proprietorships. Understanding the differences between these models and their implications for business operations, taxation, and other aspects of the business is important for groups or individuals considering starting a new business.

For each of the business models listed below, find a business in your community or region that operates using that model. Discuss the purpose of the business and the main advantages and disadvantages it may experience from operating according to the specific model.

	Business	**Purpose**	**Advantages**	**Disadvantages**
Sole Proprietorship				
Partnership				
Limited Liability Company				
C or S Corporation				
Cooperative				
Non-profit organization				

Activity based on McKee & Frederick (2012).

Business Models 101

	Sole proprietor	Partnership	LLC	Corporation	Non-Profit	Co-op
Ownership	Individual	Two or more individuals or entities	One or more member individuals	One or more shareholders*	None	User members (individuals or entities)
Business purpose	Earn a return on owner investment; provide employment	Earn a return on owner investment; provide employment	Earn a return on owner investment; provide employment	Earn a return on owner investment	Provide services or information	Meet member needs; returns on member investment
Membership requirements	Determined by owner	Determined by partners	Determined by members	Stock purchase. Established in foundational documents.	Membership fee in some cases	Usually stock purchase or fee payment. Established in bylaws.
Major users	Owner investment, retained profit	Partners' investment, retained profit	Partners' investment, retained profit	Sale of stock, retained profit	Grants, contributions or fees	Membership; retained profit
Voting		Partners in proportion to investment or according to agreement	Partners in proportion to investment or according to agreement	One vote per share		Typically one vote per member
Management	Owner or hired management	All partners; in a limited partnership, general partner	Partners according to agreement or hired management	Board of directors or hired management	Board of directors or hired management	Hired management
Financing	Owner investment; retained profit	Partner investment; retained profit	Member investment; retained profit	Stock sales; retained profit	Grants; contributions; fees	Member stock/ shares; investors; retained profit
Benefits/ Profits	Proprietor	Partners in proportion to investment or by agreement	Members in proportion to investment	Shareholders in proportion to investment	Retained by organization	Members in proportion to use; preferred shareholder returns limited
Taxation	Proprietor at individual rate	Partners at individual rate	Members at individual rate or elect taxation as corporation	C Corp. on profit at corporate rate and shareholders pay individual rate on capital gains and dividends S Corp. shareholders pay individual rate on profit share and capital gains	Typically not applicable because of tax exempt status	Members pay on qualified distributions based on patronage; co-op pays corporate tax rate on nonqualified and unallocated profit, profits from nonmember business, and equity dividends

Adapted from "Business Structure Comparison" (2017) and Zueli & Cropp (n.d).

Cooperatives and Taxation

Cooperatives are subject to the same special taxes as other business types including employment, real estate, sales, personal property, excise, and franchise taxes. Cooperatives, partnerships and other business entities, are subject to single taxation on margins for the purposes of federal income taxes. This treatment means that the co-op's business has tax implications at the co-op level and member level. Use the following exercises to learn more about cooperatives and taxation.

Scenario 1

An agricultural marketing cooperative pays a producer patron $500 for her crop when she delivers it to the co-op. The cooperative markets the crop, incurring costs of $200. The cooperative sells the crop for $1,000 resulting in a margin of $300, which is returned to the patron. Twenty percent of the amount is returned as cash and the remainder as a qualified written notice of allocation.

The cooperative is able to deduct the price it paid for the member's crop, the co-op's marketing expenses, and the amount of the patronage refund paid in cash and qualified written notices from its taxable income.

The patron must include payments for products from the cooperative and the amount received from patronage refunds, as cash and qualified written notices, in her taxable income.

1. What is the co-op's taxable income in this scenario?

2. What is the patron's taxable income in this scenario?

Subchapter T of the Internal Revenue Code provides for single taxation of cooperative margins. Under Subchapter T, the net margins of a co-op are subject to single taxation if the net margins are allocated or distributed to patrons on the basis of business done with the co-op according to specific rules.

A co-op distributes net margins to members through patronage refunds either as cash or written notices of allocation, sometimes called capital credits, equity credits, or other terms to represent additional equity investment in the co-op that is credited to a specific member or patron.

Cash refunds are deductible from the co-op's income in the year the funds were earned. The refund is taxable income to the patron in the year received.

Written notices of allocation can be qualified or nonqualified. Qualified notices are deducted from the co-op's income in the year the funds were earned. The amount is taxable income to the patron in the year the notice is received. Nonqualified written notices are included in the co-op's taxable income the year the funds are earned and are taxed at the corporate rate. The patron receiving the nonqualified written notice does not pay taxes on the amount of the allocation until the funds are paid out at a future time. At the time of payout, the co-op receives a credit for the amount paid according to the Internal Revenue Code.

To qualify a patronage refund written notice of allocation, the notice must be part of a patronage refund of which twenty percent or more is paid in money or qualified check, and either

- The patron can redeem the notice for cash within ninety days of issuance, or
- The patron consented to include the value of the notice in their taxable income.

Per unit retain allocations are taxed similarly to patronage refunds, although to be considered "qualified," there is no requirement that a distribution be at least twenty percent cash.

Scenario 2

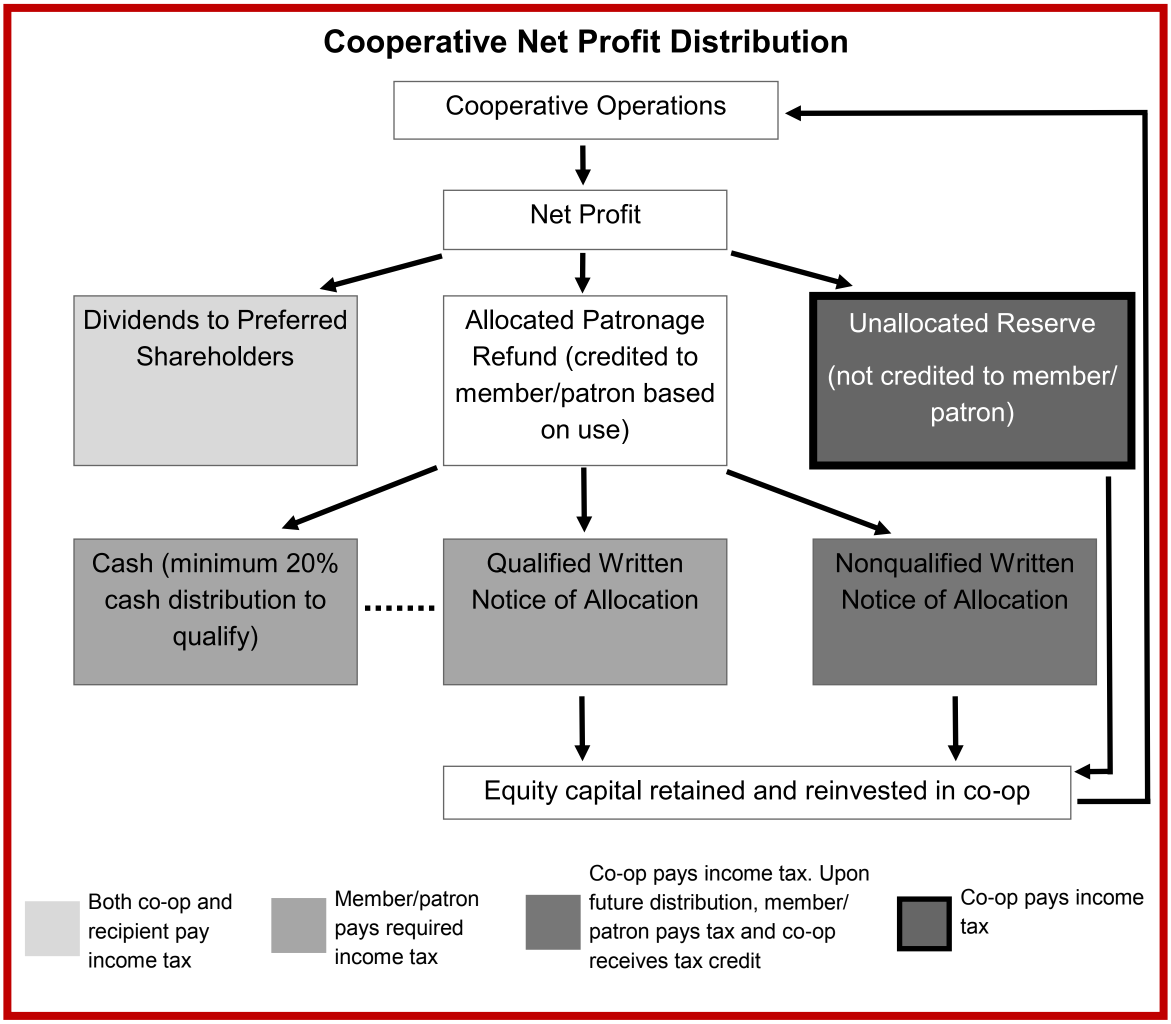
Assume that an agricultural marketing cooperative paid a producer patron $1,000 for his crop when it was delivered to the co-op. The co-op's marketing costs were $500. The crop was sold for $2,000. The resulting margin was paid to the patron as a patronage refund. Twenty percent of the refund was paid as cash, twenty percent as a qualified written notice of allocation, and the remainder as a nonqualified written notice of allocation.

1. What is the co-op's taxable income in this scenario?

2. What is the patron's taxable income?

Activity based on Frederick (1995).

Cooperatives and Taxation



Based on "Cooperatives in Wisconsin: The Power of Cooperative Action," (2014).

Section 521 cooperatives, under the Internal Revenue Code, are agricultural cooperatives that meet specific requirements of the Code and are able to utilize additional lawful deductions from taxable income, including the ability to deduct dividends paid on capital stock and non-patronage income distributed on a patronage basis. Answer the following questions and consult a co-op tax professional to explore whether a farmer co-op may receive benefits by filing for Section 521 exempt status.

Will all co-op members be agricultural producers?

Will the co-op's business activities include any functions other than marketing farm products or purchasing farm supplies?

Will the co-op do business with nonmembers? Will business with nonmembers exceed 50% of the co-op's total business?

Will nonmembers receive patronage refunds?

Sharing Benefits with Members: Cooperative Patronage Refunds

Patronage refunds are a hallmark of the cooperative business model. Surplus is returned to members based on their use of the business rather than their investment in the business as cash, additional equity in the co-op, or a combination of both. Understanding patronage refunds is critical for understanding co-op finances.

Assume the following for the exercises below.

A co-op marketing vegetables on behalf of members had $500,000 gross income from the sale of patron goods in the previous year. The co-op's cost of goods sold for patrons was $155,000 for the year. The cooperative's other expenses, including personnel costs, the costs of operating equipment, and a warehouse totaled $175,000 for the year. The co-op's net margin was $170,000.

$500,000 - ($155,000 + $175,000) = $170,000

Patronage refunds are payments to a patron from the co-op's net margins based on the quantity or value of business done with or for the patron. The co-op's net margin is the income remaining after deducting expenses.

Per unit retains are deductions by the co-op from the proceeds of sales based on the value or quantity of products marketed for a patron. Per unit retains are based on units marketed.

Patron	Sales to Co-op	% of Total Sales
A	500 units	______
B	250 units	______
C	625 units	______
D	300 units	______
E	325 units	______

In this scenario, what is the total amount of each patron's refund for the year if the board decides to allocate half of the net margin for patronage refunds?

A: ________________ B: ________________

C: ________________ D: ________________

E: ________________

Box 1

If the cooperative board decides to distribute refunds as 60% cash and 40% capital credits, how will each patron's patronage refund be distributed according to the scenario in Box 1?

A: _______cash /_________capital credit

B: _______cash /_________capital credit

C: _______cash /_________capital credit

D: _______cash /_________capital credit

E: _______cash /_________capital credit

Box 2

The cooperative board has determined that the co-op needs a new warehouse in the next five years to hold the growing volumes of vegetables being marketed for growers in the region. How might the cooperative allocate this year's net margin of $170,000 in order to help prepare for this expense while also considering members' desire to receive a patronage refund?

Box 3

Patron	Sales to Co-op	% of Total Sales
A	3,000 units	______
B	8,550 units	______
C	4,625 units	______
D	9,500 units	______
E	1,850 units	______

The board decides to distribute half of their net margins as patronage refunds distributed as 30% cash and 40% capital credits. How will each patron's refund be distributed according to this scenario?

A: _______cash /_________capital credit

B: _______cash /_________capital credit

C: _______cash /_________capital credit

D: _______cash /_________capital credit

E: _______cash /_________capital credit

Box 4

Activity based on Smith & Chesnik (2013).

Ownership of the Cooperative: Equity Redemption

A variety of systems exist for cooperatives to redeem members' equity in the business. A co-op's equity is an important part of the business's capitalization. Redeeming equity keeps the co-op financed, owned, and controlled by current users. Equity redemption systems can be classified into four types: revolving fund, percentage of all equities, base capital, and special plan. Most cooperatives use a combination of systems.

Complete the following exercises to develop a better understanding equity redemption programs.

Patron	2019 Equity	2020 Equity	2021 Equity	Total
A	$1,235	$1,010	$960	$3,205
B	$618	$400	$500	$1,518
C	$1,543	$1,550	$1,900	$4,993
D	$740	$900	$450	$2,090
E	$864	$350	$350	$1,564
Added	$5,000	$4,210	$4,160	
Total Equity (held by co-op)		$9,210	$13,370	

1. In 2019, the cooperative directors decide that additional investments in the cooperative are necessary over the next three years and that the co-op is not in a position to make equity redemptions until the end of that period. In 2022, the cooperative decides to begin redeeming members' equity using a revolving plan, but they will continue to hold $10,000 in equity for capital needs.

   A. When the co-op redeems 2019 equity, what will be the total amount redeemed?

   B. What will be the amount of 2019 equity redeemed for each member of the co-op ?

   Patron A: _______________ Patron B: _______________ Patron C: _______________

   Patron D: _______________ Patron E: _______________

   C. How long was the revolving period if the co-op begins redeeming 2019 equity in 2022?

Revolving fund—Equities are redeemed in the order they are allocated with a specified revolving period determined by the board of directors. In a 2008 study by the U.S. Department of Agriculture, this was the most popular equity redemption method among cooperatives and the average revolving period was 18 years for grain, oilseed, and farm supply cooperatives.

Percentage of Equities—The cooperative redeems a percentage of all equities and members receive the same percentage of their equity regardless of when it was allocated. This plan is ideal for co-ops with stable membership and patronage.

Base Capital—The board annually determines the capital needed to run the co-op and each member's equity is adjusted annually to meet this level according to patronage during a specified base period.

Special plan—Equity is redeemed in certain situations such as estate settlement or when a member reaches a certain age.

2. In 2022, the cooperative board decides to adopt a base capital equity redemption plan. The board determines that the co-op should retain $10,000 in equity for capital needs. The board sets the base period to determine each members' capital contribution as the average proportion of business done in 2019 and 2020, which are as follows: Patron A 24%; Patron B 11%; Patron C 42%; Patron D 15%; Patron E 6%.

   A. What amount of equity investment should each member have in the cooperative in 2021 under this scenario?

   Patron A: ________ Patron B: ________ Patron C: ________ Patron D: ________ Patron E: ________

   B. What will be the amount of each member's equity redemption in 2021 under this scenario?

   Patron A: ________ Patron B: ________ Patron C: ________ Patron D: ________ Patron E: ________

Activity based on Baarda (2007).

The Cooperative Balance Sheet

A balance sheet is a snapshot of the cooperative's financial position at a given point in time, such as the end of a month or year. The balance sheet shows the assets, liabilities, and equities of the cooperative. The balance sheet can be considered a listing of the property owned by the co-op and the claims against the co-op by lenders, suppliers, and member-owners. Use the balance sheet example below to calculate financial ratios to assess the health of a cooperative business. These ratios can inform decision-making in the co-op.

1. Many financial reports include financial statements for multiple points in time to allow for comparison. Based on the financial statement for the current year and prior year shown here, what changes might have occurred in the cooperative to account for some of the differences between years?

2. The major sources of financing for a co-op are member equity and debt. The equity-to-asset ratio shows the proportion of a co-op's assets financed by the members' equity. In the current year shown here, what is the co-op's equity-to-asset ratio?

Equity-to-assets = total equity / total assets

3. The current ratio measures the cooperative's current assets-to-current liabilities, indicating the cooperative's ability to satisfy current debts using the assets it has on hand. In the current year shown here, what is the co-op's current ratio?

Current ratio = current assets / current liabilities

4. The debt-to-assets ratio measures the proportion of the co-op's assets that are financed by debt. A higher ratio indicates higher leverage and potential financial risk. In the current year shown here, what is the co-op's debt-to-equity ratio?

Debt-to-equity = total liabilities / total equity

Balance Sheet—Financial Statement (as of date)		
Current Assets	**Current year**	**Prior year**
Cash	$62,585	$144,240
Accounts Receivable	915,000	870,000
Inventories	555,000	420,000
Total Current Assets	**$1,532,585**	**$1,434,240**
Other Assets		
Investments in Cooperatives	$570,000	$550,000
Fixed Assets		
Land, Buildings, Equipment	1,804,815	1,381,910
Less Accumulated Depreciation	(629,150)	(475,400)
Net Fixed Assets	1,175,665	906,510
Total Assets	**$3,278,250**	**$2,895,750**
Liabilities and Member Equity		
Current Liabilities		
Accounts Payable	211,125	129,000
Accrued Taxes	39,000	33,750
Accrued Expenses	27,000	21,000
Patronage Refunds Payable	41,250	52,500
Loans Payable	166,580	120,000
Total Current Liabilities	**$484,955**	**$365,250**
Long Term Liabilities		
Mortgage Loan Payable (long term)	$779,250	$634,500
Members' Equity		
Common Stock	172,500	165,000
Allocated Equity Credits	1,305,000	1,282,500
Retained Earnings	536,545	457,500
Total Equity	**$2,014,045**	**$1,905,000**
Total Liabilities and Equity	**$3,278,250**	**$2,895,750**

Wissman (1991).

Assets = Liabilities + Equity

Assets are the resources owned by the cooperative.
Liabilities are debts owed by the cooperative.
Equity is members' interest in the cooperative.

The Cooperative Income Statement

An income statement details a co-op's business transactions during a specified period of time by reporting revenue, expenses, and net income. Statements are based on the daily business of the cooperative, so it is vital to keep good records of the co-op's business.

An emerging cooperative marketing beef, poultry, and pork produced by member farmers has the following business transactions during one month of operations. Use the example transactions below to complete the income statement.

- ♦ The cooperative sold 500 pounds of beef to a regional grocer for $3.00 per pound.
- ♦ The cooperative sold 150 whole chickens at a farmers' market for $8.00 per chicken.
- ♦ The cooperative paid farmer members $7.00 per chicken for 75 chickens.
- ♦ The cooperative paid farmer members $2.50 per pound for 500 pounds of beef.
- ♦ The cooperative paid a sales manager $14.00 per hour for 25 hours of work.
- ♦ The co-op's website costs, including hosting, design, email, and other services, totaled $35.
- ♦ The cooperative sold 300 pounds of pork sausage and 500 pounds of pork bacon to a specialty meat shop for $3,500 total.
- ♦ The cooperative paid farmer members $3,100 total for pork products.
- ♦ The cooperative paid a distributor $199 for distribution services.
- ♦ The cooperative paid $100 for a new radio advertisement.
- ♦ The cooperative paid $99 to lease a walk-in freezer to store inventory.

For start-up cooperatives, good financial record keeping is crucial.

The publication, "Understanding Cooperative Bookkeeping and Financial Statements," by the U.S. Department of Agriculture includes multiple exercises on keeping accurate financial records in a daily journal and general ledger, which can be used to create financial reports like income statements, cash flow statements, and balance sheets. Start-up co-op steering committees can use these exercises to become familiar with cooperative financial records.

Income Statement (time period)		
Revenue		
	Sales	________
-	Cost of Goods	________
=	Gross Margins	________
+	Other Revenue	________
= Net Revenue		________
Expenses		
	Personnel	________
	Rent	________
	Utilities	________
	Insurance	________
	Supplies	________
	Marketing	________
	Distribution	________
	Miscellaneous	________
	Depreciation	________
	Interest	________
Total Expenses		________
Net Income		________

The co-op's expenses can be categorized as fixed costs or variable costs. Fixed costs do not vary with the co-op's level of output. Variable costs change based on the volume or level of business the co-op conducts. Operating costs are examples of variable costs because they are directly linked to the service the co-op provides and vary according to output.

A year-end income statement may detail the amount of net income that will be distributed to members as patronage cash refunds and the amount that will be retained in allocated reserves. A year-end income statement may also include an entry for income taxes owed by the cooperative.

Co-op Business Planning

As groups explore the formation of a cooperative business, a business plan can help them understand and plan how the co-op will operate, be financed, and be governed. The business plan may be used as information for potential members or as a part of an application for debt financing or other funding opportunities.

Cooperative Overview and Purpose

What is the mission and purpose of the cooperative? What mutual need will the cooperative serve?

What are the cooperative's short- and long-term goals?

Nature of the Business

What products or services does the business sell? For what market area and target audience?

Who are the members of the cooperative?

What are the key characteristics of the industry? (Industry size, types of businesses, trends, critical issues, etc.)

Governance and Management

What experience and skills will be necessary for the cooperative's directors?

What employees will be needed to operate the business? Briefly describe the strategy for hiring, compensating, and evaluating employees.

Co-op Business Planning

Governance and Management

What are the roles and responsibilities of members, directors, and management in the cooperative? Briefly describe who does what and reports to whom.

Operations

Where is the business located and conducted? Why?

What equipment and inventory items are required to start and run the business? What will be leased? What will be purchased?

How does the business source, purchase, produce, and distribute?

Describe cycles in production, delivery, sales, inventory, and finances.

Co-op Business Planning

Risk Management

How does the business manage risk? Consider financial, liability, environmental, safety, data, legal, market, and other types of risks.

What are the insurance needs of the cooperative?

Taxes and Licensing

Which local, state, and federal regulations and taxes apply to the business?

What permits and licenses will apply to the business?

Marketing Overview

Describe the industry of the cooperative, including relevant history, current status or future trends, economic impacts, types and sizes of businesses compared to the co-op, and key associations or resources.

Co-op Business Planning

Marketing

Who are the cooperative's customers and where are they located?

Describe the cooperative's products, including relevant information regarding packaging, pricing, and payments.

How does the cooperative distribute products or services to customers?

How does the co-op attract, interact with, and maintain relationships with customers?

The who, what, when, where of the co-op's marketing.

Who (customer profile):

What (message elements):

When (timing and frequency):

Where (Messaging channels):

Describe the co-op's competitive advantages and key weaknesses.

Start-up Budget to Finance the Co-op

A new cooperative will require capital to begin operating successfully. The co-op's steering committee, board, or organizers should examine the amount of capital needed to start the enterprise as well as the sources for capital, which might include member investment, debt financing, or other funding opportunities. Groups can use the following sheet to explore their start-up capital needs and the potential sources of capital, making notes about how these estimates were determined.

Expenses	Estimated Amount	Source
Building		
Rent or purchase price	____________	__________
Modification costs	____________	__________
Equipment	____________	__________
________________	____________	__________
Employees (costs prior to start)		
Manager wages	____________	__________
Employee wages	____________	__________
________________	____________	__________
Other Expenses		
Inventory	__________	__________
Legal services	__________	__________
Accounting services	__________	__________
Insurance	__________	__________
Consultants	__________	__________
Software	__________	__________
Interest (prior to start)	__________	__________
________________	__________	__________
Operating Capital		
Working capital	__________	__________
Over-run allowance	__________	__________
Total	__________	

Notes and assumptions

Projecting Income and Expenses

An important part of the business planning process for start-up businesses is preparing financial projections to assess the viability of the business. Co-op steering committees can use this template, designed for a marketing cooperative, to create a projected income statement for financial planning.

	Month of Start-Up											
	1	2	3	4	5	6	7	8	9	10	11	12
Revenue												
Sales of member goods												
Sales of non-member goods												
- Cost of goods Cost of member goods												
Cost of non-member goods												
= Gross Margin												
+ Other Revenue												
= Net Revenue												
Expenses *Personnel* Wages												
Employee Benefits												
Payroll Tax/Worker's Comp												
Occupancy Rent												
Utilities												
Administrative Accounting/Payroll												
Internet/Website Expenses												
Marketing												
Operating Supplies												
Credit Card Fees												
Depreciation												
Interest												
Other Expenses												
Total Expenses												
Net Income												

Projecting Income and Expenses

Discuss the assumptions that were made to arrive at the above financial projections.
How were these figures determined?

What are the key measurable “drivers” that will impact the cooperative’s revenue and expenses?
(Number of members, volume of sales, inventory turns, labor costs, etc.)

Becoming a Cooperative Member

Co-ops are open and voluntary enterprises that are made up of members who are able and willing to take on the rights and responsibilities of membership. Determining the process for new members to join is an important part of cooperative formation. Often, the process involves an application by a prospective member, review by the board, and payment of a membership fee or stock purchase. Groups can use the following exercise to help develop their own membership process.

After determining eligibility for co-op membership, it is time to consider the process for becoming a co-op member. Respond to these questions regarding membership processes; the example on the right shows a mock co-op membership application.

1. How will a prospective member indicate to the board of directors they are interested in co-op membership? (e.g., Contacting a director? Completing an application?)

2. What information will the board of directors need from a prospective member to determine their eligibility for membership? (e.g., Entering a marketing agreement? Proof of insurance or other certifications?)

3. If an entity can be a member of the co-op, what type of information will the board of directors require from the entity in order to become a member? (e.g., Identification of a voting representative?)

4. When the board approves membership in the cooperative, how will this membership be evidenced? (e.g., Stock certificate? Membership certificate?)

Growers Cooperative

MEMBERSHIP APPLICATION

I hereby apply for membership in and agree to abide by the articles of incorporation and bylaws of Growers Cooperative now and hereafter in effect, copies of which have been presented to me for inspection and which are maintained by the cooperative. I certify that I am a qualified member as defined in the bylaws, have tendered the membership fee, entered into a marketing agreement with the cooperative, and met such other qualifications for membership as have been explained to me and listed below:

Obtained and maintain general liability insurance (minimum $1,000,000)
Obtained and maintain farmer/growers liability Insurance (minimum $3,000,000)
Provided three references related to my ability to operate/maintain a farm

After my membership shall have been in effect for one year from the date of its acceptance by the association, either party may terminate it by notifying the other party in writing of this intention between. If neither of the parties to this agreement so notifies the other, it is mutually agreed that this shall constitute conclusive evidence that the parties have renewed this agreement for another year.

Applicant Name: ________________________________

If the member is an entity, please identify the authorized representatives of the entity:

________________________ ________________________

________________________ ________________________
Applicant's signature Date

MAIL TO: Mike Smith, Growers Cooperative
100 Main Street
City, OH 45000

(Below For Office Use Only)

ACCEPTANCE:
This certifies that __________________________ is a member of and is entitled to all benefits and privileges of membership in the association.

Date: ______________ ________________________
Board of Directors Chairperson

Building the Bylaws

A co-op's bylaws detail how the business will operate and address the co-op's purpose, membership, meeting procedures, governance procedures, patronage systems, equity redemption systems, processes for dissolving the co-op, and more. The bylaws should be consistent with statutes in the state where the co-op is incorporated. A co-op steering committee can use the following questions to guide the initial development of bylaws; it may be useful to consult an attorney familiar with co-ops before finalizing the bylaws.

What is the purpose of the co-op?	Who can be a member of the co-op? Are there different levels or types of membership?	What is the process for becoming a member?
What are the rights and responsibilities of members in the co-op?	What is the process for suspending or terminating membership in the co-op?	Will the co-op have stock options or a membership fee?
When and where are annual membership meetings held? How and when are meeting notices provided?	What is the process for calling a special membership meeting? How and when are special meeting notices provided?	How is voting conducted at membership meetings? (e.g., in person, by proxy, do entities have designated representatives?)

Building the Bylaws

How many directors will serve on the board? What are their duties and how long is their term?	How are director elections conducted?	What constitutes a quorum for conducting board business?
What are the board officer positions, duties, and length of terms? What is the process for electing board officers?	What is the process for filling a vacancy on the board of directors?	How or when will the co-op redeem members' equity?
When is the co-op's fiscal year?	Will the co-op conduct non-member business?	How are bylaws amended?

Briefly describe the process for developing and adopting the co-op's bylaws. Who will be involved? How will members be informed?

___

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Glossary and References

Allocated patronage refund: Patron's share of the cooperative's net margin, or obligation for its loss. Both cash and non-cash refunds are included. An allocated patronage refund that is structured to comply with specific requirements of the Internal Revenue Code is qualified. See Qualified allocation.[1 and 3]

Allocated equity: Capital recorded on the cooperative's books which is assigned, or allocated, to each member on a proportional basis according to use.[9]

Annual meeting: Legally required meeting of member owners to review operating results, decide policies and elect representatives to committees and boards.[2]

Annual report: A document including audited financial statements that reflect financial conditions and activity over the organization's fiscal year.[2]

Articles of incorporation and bylaws: Documents that explain how the cooperative will be organized and provide basic operating rules and provisions.[2]

Bargaining association: A type of co-op that generally does not handle members' products. Such cooperatives normally reach agreements as to price and terms of sale that cover a given season for specified products.[3]

Base capital equity redemption plan: Equity redemption system in which capital needed to run the cooperative is determined annually. Each member's equity contribution is adjusted annually according to patronage during a base period, usually the past 3 to 10 years. Underinvested members, those whose equity investments are less than their capital obligations, continue to invest. Overinvested members generally are not required to continue investing and may begin to receive at least partial redemption of excess investment.[8]

Board of directors: A group of persons elected by the members to govern the affairs of the cooperative.[2]

Capital: Durable or long-lasting inputs such as machines, buildings, equipment, land, and vehicles. Capital also means cash needed by the cooperative for daily operations and for financing durable or long-lasting inputs.[3]

Capital retain: Refers to assessments obtained per unit of product or per dollar volume collected at time of delivery or at time of purchases. The dollar amount is added to the patron equity in the cooperative.[3]

Cash refund: The percent of allocated patronage refunds distributed to the patrons in cash. Normally, a minimum of 20 percent of the patronage refund must be in cash.[3]

Centralized cooperative: Centralized cooperatives have individuals and business entities as members, have one central office, one board of directors elected by members, and a manager who supervises operations. Business may be conducted through numerous branch stores or offices staffed by employees responsible to the central management team.[7]

Common stock (voting stock): Issued to actual or prospective members of the cooperative to raise equity capital. The cooperative may issue several types of common stock such as Class A, Class B, and Class C stock. For example, Class A stock may be voting stock and may be limited to one share per member. Class B stock may represent other initial capital investment.[3]

Cooperative: A voluntarily organized business which operates at cost and is owned, capitalized, and controlled by member-patrons as users, sharing risks and benefits proportional to their participation.[3]

Credit policy: Legal policies of a cooperative with regard to the issuance of credit and management of accounts receivable.[2]

Democratic control: Members, by majority vote, determine how their cooperative will operate. Decisions are reached on a one-member, one-vote system or through proportional voting based on patronage.[1]

Dividend: A distribution to a shareholder based on investment or ownership. A patronage refund is a distribution based on use.[1]

Equity redemption: The payment of cash or other property to return a member's previously invested funds.[1]

Exempt cooperative: Farmer cooperatives which qualify under Section 521 are known as "exempt" cooperatives. See Section 521 Cooperative.

Federated cooperative: Federated cooperatives have other cooperatives as their members. Each member of a federated co-op is a separate cooperative that owns a membership share entitling it to voting rights in the federated co-op. Local cooperatives commonly form federated regional cooperatives to perform activities too complex and expensive for them to do individually.[7]

Fiscal year: A 12-month accounting period for which the organization issues an annual report on the financial position of the cooperative.[2]

Fixed asset: Investments in land, buildings, equipment, fixtures, and other tangible assets required to conduct business.[2]

Individually owned business: An owner-operator makes decisions and assumes risks. They also usually provide labor for the business and retain all profits.[3]

Investor oriented corporation: Operates as a profit-keeping enterprise. Derives capital funds by issuing shares of stock which investors purchase for their profit-making potential.[3]

Investors: Individuals or entities who purchase stock from a company with the intention of receiving financial returns on that investment.[2]

Limited partnership: Formed by two or more people, with one or more as a general partner and one or more as a limited partner. Unlike a general partnership, a limited partnership can be formed only under statutory authority. Limited partners are not liable for the partnership's debts, except to the extent of the investment they agree to make in the partnership.[3]

Limited return on equity capital: A cooperatives' priority is to provide economic benefit to members. Although co-ops are permitted by law to pay limited dividends, equity capital is a means to an end rather than an end in itself. Courts have recognized the limitation on returns on equity capital as a core concept of cooperatives for tax purposes.[3 and 5]

Local cooperative: Cooperative servicing members in a locality.[2]

Marketing cooperative: A co-op that markets member-patron's products typically by purchasing products, handling products on a separate account basis, functioning on a commission, bargaining with users for price and conditions of sale, and pooling products according to market preferences.[3]

Member: A person or entity joining a cooperative, agreeing to abide by the conditions of membership.[1]

Member equity: The capital investment of each member in the cooperative representing the portion of assets owned by the member, typically gained in the form of direct investment, retained patronage refunds, and retained per unit retains.[1]

Membership fee: A form of equity capital. Membership fees are most common when cooperatives are organized on a nonstock basis, with payment of a membership fee being comparable to purchasing a share of voting stock.[3]

Mixed Cooperatives: Mixed cooperatives have both individuals and other cooperatives as members. Both individuals and the cooperatives usually have voting rights.[7]

Net margin: Total income minus expenses.[1]

Non-cash refund: The percentage of allocated patronage refunds retained by the cooperative as equity.[3]

Nonstock cooperative: Members receive membership certificates to evidence their ownership in the cooperative, often after paying a membership fee.[3]

Non-qualified allocation: Allocations not structured to comply with specific requirements of the Internal Revenue Code. The cooperative pays tax on these monies in the year obtained. When a nonqualified allocation is redeemed, the cooperative deducts the allocation from taxable income and the patron includes it in taxable income in the year of redemption.[1]

Open membership: A cooperative principle meaning that anyone who wants to join a cooperative and who is able to use its services may do so. There should be no discrimination on political, religious, or racial grounds.[3]

Partnership: A business jointly owned by two or more people who have agreed to operate as a partnership. Partners provide or borrow capital, make decisions, and are mutually responsible for debt repayment. Partners divide the income or share the losses according to their agreement.[3]

Patron: A person who uses the services of the cooperative and agrees to share net margins in proportion to use. A patron can be a member or a non-member of the cooperative, an individual or another business.[1]

Patronage refund: A payment from a cooperative to a patron from net margins based on quantity or value of business done with or for the patron. The refund may be in the form of cash or a written notice evidencing equity investment in the cooperative.[1]

Percentage-of-all-equities redemption plan: Equity redemption system in which the cooperative redeems a percentage of all equities, with members each receiving the same percentage of their equities regardless of when allocated.[8]

Per unit retain: Refers to assessments obtained per unit of product or per dollar volume collected at time of delivery or at time of purchases. The dollar amount is added to the patron equity in the cooperative.[3]

Pooling: An averaging process wherein producers who market a commodity through a cooperative during a fixed period of time agree to share expenses and returns associated with that commodity handled during the period on a pro rata basis.[1]

Preferred stock: Called preferred stock because it has preference over common stock during liquidation. It may be purchased by members or nonmembers, often pays a dividend, but is generally nonvoting.[6]

Revolving fund plan: An equity redemption system in which earliest investments are redeemed first, on a reasonably regular schedule.[1]

Retained earnings: Refers to net earnings of the cooperative, or the excess of receipts over the cost, that is retained in the cooperative.[3]

Revolving fund equity redemption plan: Equity redemption system in which equities are redeemed in the order they are allocated. How soon equities are redeemed is usually left to the discretion of the board of directors and is subject to the cooperative's financial condition.[8]

Section 521 cooperative: A cooperative that meets specific requirements of Section 521 of the Internal Revenue Code and has received written authority from the IRS to use this tax section. Only agricultural cooperatives can qualify for Section 521 to gain additional lawful deductions from taxable income, including the ability to deduct from taxable income dividends paid on capital stock and non-patronage income distributed on a patronage basis.[1]

Service cooperative: Provides members with services such as credit, insurance, irrigation, electricity, telephone, or other services.[3]

Special equity redemption plan: Equity redemption system in which equity is redeemed in certain situations, such as: (1) estate settlement; (2) certain member age; (3) former members who have left the cooperative's trade area; (4) individuals no longer patronizing the cooperative; (5) hardship; (6) redemptions requests on an "on call" basis.[8]

Stock: Ownership stake in a cooperative either purchased outright to gain membership or earned through doing business with the cooperative. Stock types include common stock and preferred stock.[2]

Stock cooperative: Members own common or preferred stock in the cooperative.[3]

Supply cooperative: Provides members with the inputs they need for their businesses. These cooperatives are generally serviced by cooperative wholesalers that assemble the many production supplies and consumer items, which the local supply cooperative distributes.[3]

Transferable delivery rights: Rights, typically represented by non-dividend bearing, non-voting preferred stock, that entitle and obligate a member to deliver to the cooperative all of the production from specified acreage or specific quantities of product. The preferred stock and the delivery rights are transferable by the member to other producers subject to approval by the cooperative's board. Often used in a new generation cooperative.[7]

User-benefits principle: The cooperative's purpose is to provide and distribute benefits on the basis of use.[4]

User-control principle: The people who control the business are those who use it.[4]

User-owner principle: The people who own and finance the business are those who use it.[4]

Unallocated reserves: Margins that are treated just as non-cooperative firms treat earnings, by putting them into an unallocated (not assigned to members) reserve. The cooperative is responsible for paying corporate income tax on unallocated reserves.[7]

Written notice of allocation: Any capital stock, revolving fund certificate, retain certificate, certificate of indebtedness, letter of advise, or other written notice which discloses to the patron the stated dollar amount allocated to them on the cooperative's books, and which portion, if any, constitutes a patronage refund. [3]

Qualified allocation: An allocation structured to comply with specific requirements of the Internal Revenue Code. The cooperative deducts the amount of the patronage refund or per unit retain from taxable income, and the patron agrees to include it in their taxable income as if it had been paid in cash. The principal requirement for qualification is consent by the patron to include the total amount of the patronage refund or per unit retain in taxable income. Also, the cooperative must pay at least 20 percent of any covered patronage refund in cash.[1]

Qualified written notice: A written notice of allocation which the patron can redeem in cash for the face value within 90 days after the date of notice. Or, a written notice which the patron has consented to include in his taxable income upon receipt in the same manner as cash.[3]

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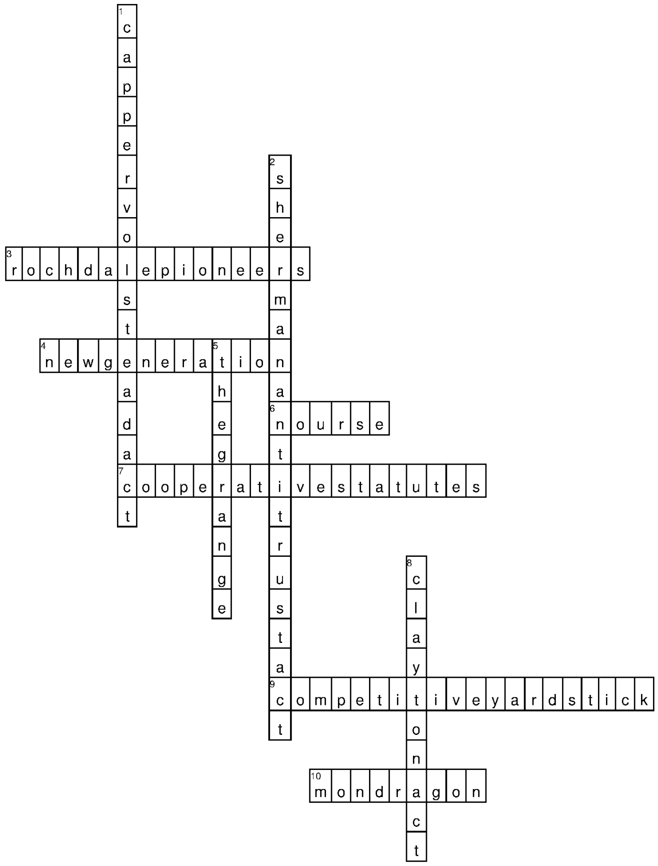
Answer Key

Page 4—History and Legislation



Page 22—Cooperatives and Taxation

Scenario 1

1. What is the co-op's taxable income in this scenario?

Income $1,000 - Deductions ($500 payment for crop +$200 marketing cost + $300 cash and qualified written notice patronage refund) = $0

2. What is the patron's taxable income in this scenario?

Income from crop $500 + Cash patronage refund $60 + Qualified written notice of allocation $240 = $800

Scenario 2

1. What is the co-op's taxable income in this scenario?

Co-op: Income $2,000 - Deductions ($1,000 payment for crop + $500 marketing costs + $100 cash patronage refund + $100 qualified written notice of allocation) = $300

2. What is the patron's taxable income?

Patron: Income from crop $1,000 + $100 cash patronage refund + $100 qualified written notice of allocation) = $1,200

Page 9—Whose Job Is It?

Change the co-op's bylaws	**Members**	Directors	Management
Establish a credit policy	Members	**Directors**	Management
Set director compensation	**Members**	**Directors**	Management
Decide to expand the co-op's building	Members	**Directors**	Management
Purchase a new vehicle	Members	Directors	**Management**
Review the manager's performance	Members	**Directors**	Management
Set pricing policies	Members	**Directors**	Management
Establish an employee training program	Members	Directors	**Management**
Plan an annual member meeting	Members	**Directors**	Management
Negotiate a marketing agreement	Members	Directors	**Management**
Engage an auditing firm for a review	Members	**Directors**	Management
Establish a director training program	Members	**Directors**	Management
Review annual operating procedures	Members	**Directors**	Management
Purchase supplies for the office	Members	Directors	**Management**
Provide permanent capital	**Members**	Directors	Management
Adjust the wages of an employee	Members	Directors	**Management**
Terminate a supervisor	Members	Directors	**Management**
Call a special membership meeting	**Members**	Directors	Management
Establish a per unit retain	Members	**Directors**	Management

Page 19—Understanding Bylaws

1. Who can be a member of this cooperative?

Any person, firm, partnership, limited liability partnership, limited partnership, limited liability company (LLC), corporation, or association, who or which agrees to be a patron of the Association, signs and abides by a membership agreement with the Association, is a resident of Ohio, and meets such other conditions as may be prescribed by the board of directors, may become a member of the Association.

2. If a business having multiple partners is a member of the cooperative, does each partner get to vote in the cooperative? Why or why not? And if not, who gets to vote?

If a membership is held by a partnership, corporation, or other legal entity, the member shall designate in writing the person who shall vote on behalf of the member. That designation shall remain in effect until written notice of a properly authorized change in the designated voter shall be received by the Association.

3. The cooperative needs to engage an accountant to file the tax returns for the business. Who is the best person to do that on behalf of the cooperative?

Because "the treasurer shall perform such duties with respect to the finances of the Association as may be prescribed by the board of directors," it would make sense for the treasurer to engage an accountant on the cooperative's behalf.

4. What is the process for disciplining or removing a member of this cooperative?

Whenever any director shall fail to meet the qualifications as described in Section 1 of this Article, or fails to attend three (3) consecutive board meetings, either regular or special, without just cause and provided that notice of such meetings has been given in accordance with these bylaws, then it shall be the duty of the board to remove said director and to fill the vacancy in accordance with Section 4 of this Article.

Any member of the Association may bring charges against an officer or director of the Association by filing them in writing with the secretary of the Association, together with a petition, signed by fifty percent (50%) 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 voting, the Association's membership may remove the officer or director and fill the vacancy. The director or officer against whom such charges are 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 persons bringing the charges against him shall have the same opportunity.

5. What might be an example of a conflict of interest for a cooperative board member?

Examples might include, but are not limited to, owning a business the cooperative might do business with, above and beyond a normal relationship with a member. For example, the cooperative is planning to build a new facility and one of the cooperative board members owns a construction company that might be considered for the construction project. The board member with the conflict of interest would be required to disclose the conflict of interest to the cooperative board and abstain from voting on the matter.

Answer Key

Page 24—Ownership of the Cooperative: Equity Systems

1. A. When the co-op redeems 2019 equity, what will be the total amount redeemed?

The board decided to retain $10,000 in equity, so $3,370 of the $5,000 (67%) added in 2019 will be redeemed in 2024.

B. What will be the amount of 2019 equity redeemed for each member of the co-op ?

Because 67% of 2019 equity will be redeemed, each patron will receive 67% of the equity they added in 2019. Patron A: $832 Patron B: $416 Patron C: $1,040 Patron D: $499 Patron E: $582

C. How long was the revolving period if the co-op begins redeeming 2019 equity in 2022?

Three-year revolving period.

2. A. What amount of equity investment should each member have in the cooperative in 2021 under this scenario?

Patron A: $2,400 Patron B: $1,100 Patron C: $4,100 Patron D: $1,600 Patron E: $800

B. What will be the amount of each member's equity redemption in 2021 under this scenario?

The redemption amount is the difference between the actual amount of equity each member has contributed to the co-op and the equity level determined by the board of directors for each member. Patron A: $805 Patron B: $418 Patron C: $893 Patron D: $490 Patron E: $564

Page 25—Cooperative Patronage

Patron	Sales to Co-op	% of Total Sales
A	500 units	25%
B	250 units	12.5%
C	625 units	31.25%
D	300 units	15%
E	325 units	16.25%

In this scenario, what is the total amount of each patron's refund for the year if the board decides to allocate half of the net margin for patronage refunds?

A: $21,250 B: $10,625 C: $26,562.50 D: $12,750

E: $13,812.50

Box 1

If the cooperative board decides to distribute refunds as 60% cash and 40% capital credits, how will each patron's patronage refund be distributed according to the scenario in Box 1?

A: $12,750 cash / $8,500 capital credit

B: $6,375 cash / $4,250 capital credit

C: $15,937.50 cash / $10,625 capital credit

D: $7,650 cash / $5,100 capital credit

E: $8,287.50 cash / $5,525 capital credit

Box 2

The cooperative board has determined that the co-op needs a new warehouse in the next five years to hold the growing volumes of vegetables being marketed for growers in the region. How might the cooperative allocate this year's net margin of $170,000 in order to help prepare for this expense while also considering members' desire to receive a patronage refund?

The directors could decide to allocate a portion of the margin to an unallocated reserve that is not credited to members' accounts. The directors could also decide to allocate a larger portion of the patronage refund to members as capital credits, retaining the capital for use by the co-op to build a new warehouse while ensuring that the capital is eventually returned to members. The directors should analyze and consider the tax implications of each of these scenarios.

Box 3

Patron	Sales to Co-op	% of Total Sales
A	3,475 units	12.4%
B	8,550 units	30.5%
C	4,625 units	16.5%
D	9,500 units	33.9%
E	1,850 units	6.6%

The board decides to distribute half of their net margins as patronage refunds distributed as 30% cash and 70% capital credits. How will each patron's refund be distributed according to this scenario?

A: $3,162 cash / $7,378 capital credit

B: $7,777.50 cash / $18,147.50 capital credit

C: $4,207.50 cash / $9,817.50 capital credit

D: $8,644.50 cash / $20,170.50 capital credit

E: $1,683 cash / $3,927 capital credit

Box 4

Page 26—The Cooperative Balance Sheet

1. *The co-op increased current assets through accounts receivable and inventory, indicating an increase in business volume. The co-op's value of fixed assets increased by approximately $500,000, which could indicate additional investments in infrastructure. Various other changes in the balance sheet would also be appropriate to discuss here.*

2. *0.61 = $2,014,045/ $3,278,250*

In 2016, agricultural marketing co-ops in the U.S. had a combined equity-to-assets ratio of 0.42. (Wadsworth & Coleman 2017)

3. *3.16 = $1,532,585/ $484,955*

In 2016, agricultural marketing co-ops in the U.S. had a combined current ratio of 1.43, supply co-ops had a ratio of 1.33, and service co-ops a ratio of 1.16. (Wadsworth & Coleman 2017)

4. *0.39 = $1,264,205/ $3,278,250*

In 2016, agricultural marketing co-ops in the U.S. had a combined debt-to-assets ratio of 0.58, while supply co-ops had a combined ratio of 0.53, and service co-ops had a combined ratio of 0.27. (Wadsworth & Coleman 2017)

Page 27—The Cooperative Income Statement

Revenue		
	Sales	*$6,200*
-	Cost of Goods	*$4,875*
=	Gross Margins	*$1,325*
+	Other Revenue	*$0*
= Net Revenue		*$1,325*
Expenses		
	Personnel	*$350*
	Rent	*$99*
	Utilities	*$0*
	Insurance	*$0*
	Supplies	*$0*
	Marketing	*$135*
	Distribution	*$199*
	Miscellaneous	*$0*
	Depreciation	*$0*
	Interest	*$0*
Total Expenses		*$783*
Net Income		*$542*

Notes

The materials available in this workbook and on the Co-op Mastery: Beyond Co-ops 101 website are for informational purposes only and do not provide business or legal advice or opinions. The content of these resources should not be construed as, and should not be relied upon for, legal or tax advice in any particular circumstance or situation. Seek advice from an attorney or tax professional for advice on specific issues.

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