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# How to Start a Cooperative



## **Preface**

This guide outlines the process of organizing and financing a cooperative business. Rather than being a complete handbook, this publication represents the most important elements to consider when forming a cooperative. It lists what special expertise is necessary, and where to look for help.

Earlier versions of this publication emphasized working with groups of agricultural producers to develop markets and sources of supply for farm operators. This version has been broadened to also include non-farm cooperative applications. The cooperative business structure, already shown to be successful in agriculture, also has been useful in helping others obtain desired benefits or provide needed services in areas like housing, utilities, finance, health care, child care, and small business support.

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Galen Rapp and Gerald Ely

## Contents

Who Sparks a Cooperative?	1
What Is a Cooperative Business?	1
Distinctive Features	1
Why Cooperatives Are Organized	2
Marketing Activities	2
Purchasing Supplies/Services	3
Organizing Steps	3
Leadership and Advisers	4
Exploratory Meeting	5
Member-User Survey	6
Market, Supply Sources, Cost Analysis	6
Feasibility Analysis	7
Capitalizing the Cooperative	7
Common Stock	8
Preferred Stock	8
Membership Certificates	8
Capital Certificates	8
Stock or Nonstock Structure	8
The Member Investment	8
Sources of Debt Capital	9
Projecting Capital Needs	9
Legal Considerations	9
Legal Papers	10
Articles of Incorporation	10

## Contents

Bylaws	10
Membership Application	10
Marketing and Purchasing Agreements	11
Revolving Fund Certificates	11
Charter Member Meeting	11
Implementing the Business Plan	12
Membership Drive	12
Acquiring Capital	13
Manager Selection	14
Acquiring Facilities	14
General Rules for Success	14
Use Advisers and Committees Effectively	14
Keep Members Involved and Informed	15
Maintain Good Board-Manager Relations	15
Conduct Businesslike Meetings	16
Follow Sound Business Practices	16
Forge Links With Other Cooperatives	16
Common Pitfalls To Avoid	16

# How To Start a Cooperative

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## Who Sparks a Cooperative?

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A compelling need and a few community leaders can spark the idea of forming a cooperative. Usually, these leaders have an economic need or desire a service they believe a cooperative can provide. They also know others who have similar interests.

These leaders can be small business owners, manufacturers, growers, artisans, or citizens who lack, or are losing, a market for their products, satisfactory sources of production supplies, or services related to their occupation. Or they may wish to secure some other needed service or develop sources of additional income.

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## What Is a Cooperative Business?

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A cooperative is a business owned and controlled by the people who use its services. They finance and operate the business or service for their mutual benefit. By working together, they can reach an objective that would be unattainable if acting alone.

The purpose of the cooperative is to provide greater benefits to the members such as increasing individual income or enhancing a member's way of living by providing important needed services. The cooperative, for instance, may be the vehicle to obtaining improved markets or providing sources of supplies or other services otherwise unavailable if members acted alone.

### Distinctive Features

In many respects, cooperatives resemble other businesses. They have similar physical facilities, perform similar functions, and must follow sound busi-

ness practices. They usually incorporate under State laws and require bylaws and other necessary legal papers. Members elect a board of directors to represent their interests. The board sets policy and hires a manager to run the cooperative's day-to-day business.

Even though cooperatives are similar to many other businesses, they are distinctively different. Some differences are found in the cooperative's purpose, ownership, control, and distribution of benefits. Cooperatives follow three principles that define or identify their distinctive characteristics:

- user-owned,
- user-controlled, and
- user-benefited.

The user-owned principle means the people who own and finance the cooperative are those who use it. "Use" usually means buying supplies, marketing products, or using services of the cooperative business.

Members finance the cooperative through different methods: 1) by a direct contribution through a membership fee or purchase of stock; 2) by an agreement to withhold a portion of net earnings (profit); or 3) by assessments based on units of product sold or purchased.

For instance, a tomato grower would be assessed a fee such as 10 cents for every box marketed through the cooperative. These assessments, generally referred to as per-unit retains, help finance the cooperative's operations.

The user-controlled principle (also called democratic control) says those who use the cooperative also control it by electing a board of directors and voting on major organizational issues. This is generally done on a one-member, one-vote basis, although some cooperatives may use proportional voting based on use of the cooperative.

The user-benefited principle says that the cooper-

ative's sole purpose is to provide and distribute benefits to members on the basis of their use. Members unite in a cooperative to receive services otherwise not available, to purchase quality supplies, to increase market access, or for other mutually beneficial reasons. Members also benefit from distribution of net earnings or profit based on the individual's business volume with the cooperative.

To operate under these distinctive principles, an important practice, particularly for new cooperatives, is to conduct continuing member education. This is especially important for attracting and recruiting new members. It is also necessary because the cooperative's membership continually changes. Older members retire and new ones join.

Keeping owners informed is an important practice for any business, but vital in a cooperative for at least three reasons:

- (1) The democratic control principle, exercised through majority rule, requires that the entire ownership (members) be informed and involved to assure that enlightened decisions are made;
- (2) Members must indicate their needs and accept the accompanying financial responsibilities before the cooperative can fulfill those needs; and
- (3) Some people are not familiar with the cooperative form of business. The educational system in the United States contains little, if any, information about cooperatives. So, the cooperative, itself, must become the educational institution.

## Why Cooperatives Are Organized

People organize cooperatives to improve their income or economic position or to provide a needed service. This may be achieved through one or more of the following:

### Marketing Activities

*Improve bargaining power*— Combining the volume of several members leverages their position when dealing with other businesses.

- **California:** The California Canning Peach Association is a cooperative bargaining association based in Lafayette. Peach growers contract their production to processors. The grower-owned cooperative bargains with the largest processors for grower price and delivery schedule. Members realize significant additional money per ton for their peaches than growers who market on an individual basis. The cooperative also keeps growers advised on

projected market volume and other conditions that may effect their operations.

*Reduce costs*— Volume purchasing reduces the purchase price of needed supplies. Earnings of the cooperative returned to individual members lower their net costs.

- **Maine:** St. Mary's General Hospital in Lewiston, a 230-bed rural health care facility, is a member of Synernet, a cooperative that serves 20 hospitals. In one year, St. Mary's saved more than \$479,000 by purchasing fuel oil, medical supplies, laboratory products, food, film, pharmaceutical, and services through the cooperative. These savings helped health care providers stretch limited resources.

*Obtain market access or broaden market opportunities*— Value is added to products by processing or offering larger quantities of an assured type and quality to attract more buyers.

- **Oregon:** Tillamook County Creamery Association was organized in 1909 as a quality control organization for 25 cheese factories operating in Tillamook County, an area 30 miles wide and 60 miles long between the Pacific Ocean and the Coastal Range Mountains. During the past years, the 25 cooperatives have consolidated into a single cooperative. Tillamook produces and sells more than 45 million pounds of cheese a year. Sales are mainly in the Pacific Coast States of Oregon, Washington, and California, with an ever-growing volume going to all parts of the United States. Due to the emphasis the cooperative places on family farm operations, young dairy producers have been encouraged to stay on the farm and continue to build on the foundation laid by earlier generations.

*Improve product or service quality*— Member satisfaction is built by adding value to products, competition the cooperative provides, and improved facilities, equipment, and services.

- **Iowa:** Frontier Cooperative at Norway started out in a van in 1976. Its mission was to provide low-cost organic herbs and spices to its members. Today, with 5,400 members, Frontier is a solidly managed cooperative that's become the Nation's premier distributor of organic seasonings. Developing new products rates high on the cooperative's list, such as Frontier Pure

Lager, an organic beer, as well as encapsulated herb products.

- **North Carolina:** Watermark Association of Artisans was formed in 1978 by 35 rural women near Elizabeth City. They pooled their efforts to sell baskets, quilts, and other handmade gift items. Today, the 750 member-artisans produce decorative wooden products, rocking horses, antique quilts, rag dolls, teddy bears, duck decoys, wreathes, and baskets which are marketed around the world. About three-fourths of the members are from low-income backgrounds. Many are single, unemployed mothers with few job skills.

### Purchasing Supplies/Services

*Obtain products or services otherwise unavailable—*

Cooperatives often provide services or products that would not attract other private businesses.

- **Oregon:** Members of Blue Water Harvesters Cooperative in Port Oxford harvest sea urchins. They depended on several private firms to extract and clear package “roe” for export to Japan. In recent years, all of these firms ceased operations. The watermen were left without a processing facility. So, the cooperative purchased a processing facility which enabled members to continue their livelihood through cooperative action.
- **Michigan:** Frankfort is a small city of 1,500 on the shores of Lake Michigan. Many older residents wanted the comfort and convenience of retirement living, but didn’t want to leave the area. Initially, 54 couples moved into an especially designed, new elderly housing cooperative close to the center of the community. The new cooperative is the latest example of an emerging trend in providing affordable senior citizen housing facilities that are ideally suited to small rural communities.
- **Flexible manufacturing networks—** These are a mechanism for small manufacturing enterprises in local geographical areas. By joining under a cooperative umbrella, members achieve certain shared objectives that might be otherwise impossible to achieve on their own. Through networks, members share costs for market research, environmental compliance, or technical training for employees. Joint production development and market penetration are also feasible objectives.
- **Farm Credit System—** This nationwide net-

work of cooperative lending institutions provides credit and financially related services to farmers, ranchers, and their cooperatives. In existence for more than 75 years, the System is the largest provider of agricultural credit in the United States. The System specializes in low-cost financing for agricultural enterprises and rural utilities. Its expertise is unequalled by any other lender.

- **Obtain market access or broaden market opportunities—** Value is added to products by processing or offering larger quantities of an assured type and quality to attract more buyers.
- **Franchise Purchasing Cooperatives—** Individually owned units are organized to gain economy of scale in purchasing goods and services. Some have formed insurance companies, established leasing programs, or developed financing programs for members’ equipment. Benefits are derived not only from savings through group purchasing, but also from sharing earnings based on each member’s business volume with the cooperative.

*Reduce Cost/Increase Income—* Reducing the cooperative’s operating costs increases the amount of earnings available for distribution to members to boost their income.

- **Missouri:** Glasgow Cooperative, Inc., was organized in 1923 as a farm supply purchasing association. It serves farmers in a 15-mile radius of Glasgow. In its 70-year history, it has returned nearly 8 percent of the gross sales in patronage back to the members. The cooperative also has an excellent history of revolving member equities. Both activities have reduced the cost of providing farm supplies to the members.

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## Organizing Steps

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Starting a cooperative is a complex project. A small group of prospective members discuss a common need and develop an idea of how to fulfill it. Depending on the situation generating the idea, a new cooperative may be welcomed with enthusiasm or may be met with vigorous competitive opposition.

If opposed, leaders must be prepared to react to various strategies of competitors such as price changes to retain potential cooperative members’ business; bet-

ter contract terms or canceled contracts; attempts to influence lenders against providing credit; and even publicity, misstatements, and rumors attacking the cooperative business concept.

Regardless of the business climate for the proposed cooperative, leaders must demonstrate a combination of expertise, enthusiasm, practicality, dedication, and determination to see that the project is completed.

Figure 1 summarizes the sequence of events leading to the formation of a cooperative.

## Leadership and Advisers

Responsibility for starting a cooperative and see-

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### Figure 1—Sequence of Events Outline

1. Invite leading potential member-users to meet and discuss issues. Identify the economic need a cooperative might fill.
2. Conduct an exploratory meeting with potential member-users. If the group votes to continue, select a steering committee.
3. Survey prospective members to determine the potential use of a cooperative.
4. Discuss survey results at a second general meeting of all potential members and vote on whether to proceed.
5. Conduct a needs or use cost analysis.
6. Discuss results of the cost analysis at a third general meeting. Vote by secret ballot on whether to proceed.
7. Conduct a feasibility analysis and develop a business plan.
8. Present results of the feasibility analysis at the fourth general meeting. If participants agree to proceed, decide whether to keep or change the steering committee members.
9. Prepare legal papers and incorporate.
10. Call a meeting of charter members and all potential members to review and adopt the proposed bylaws. Elect a board of directors.
11. Convene the first meeting of the board and elect officers. Assign responsibilities to implement the business plan.
12. Conduct a membership drive.
13. Acquire capital and develop a loan application package.
14. Hire the manager.
15. Acquire facilities.
16. Begin operations.

ing the project through rests mostly with the leadership group. Leaders begin by discussing their idea at one or more small group meetings with other prospective members or users. If the group supports the idea, the next step is to seek the advice of someone familiar with cooperatives.

Specialized help is needed throughout the various stages of starting a cooperative. Leaders need someone familiar with the cooperative-forming process to work with them step by step concerning legal, economic, and financial aspects.

Depending on the resources available and interest found among sources of specialized help, the group should request a person from one of the organizations to serve as an adviser.

- **Business and cooperative specialists** are needed. Most States have Rural Development offices and many have a cooperative development specialist on the staff who can help you get started. They can recommend other specialized services and talents that will be needed during organization stages.

Other resource people are available from county Extension Service offices or land-grant universities, State cooperative councils, Centers for Cooperatives, National Cooperative Bank, area offices of CoBank, St. Paul Bank of Cooperatives, or an established cooperative in your area. USDA's Rural Business-Cooperative Service in Washington, DC, also assists groups seeking to develop cooperatives by conducting feasibility studies, providing educational services, and helping with implementation.

- **Legal counsel**, preferably an attorney familiar with State cooperative statutes, is needed. Among sources to check for one are State Extension specialists working with cooperatives, the State cooperative council, CoBank, St. Paul Bank for Cooperatives, National Cooperative Bank, National Society for Cooperative Accountants, USDA's Cooperative Services, or an established cooperative in the area.

An attorney prepares the organization papers or checks the legality of those written by someone else. Early expertise is needed to acquire property, make capitalization plans, borrow money, and write agreements and contracts. Even after the cooperative is operating, an attorney should be retained who can help ensure the organization conforms to applicable laws.

- **Financial counsel** from some financial institution should be sought early regarding anticipated capital needs and methods of financing.



This institution can provide advice on designing the feasibility study to meet requirements of a lending agent. Staff specialists on finance and accounting matters can also advise the cooperative. An independent accounting firm that has the knowledge of cooperative operations should be hired to establish the bookkeeping system, tax records, and a plan for revolving capital prior to sale of stock or collection or handling of members' money. Later, the board will need to hire an outside accounting firm to conduct the annual audit.

- **Technical advice** may be needed periodically from a variety of technicians and persons experienced in cooperative business operations.

### Exploratory Meeting

To determine the level of interest in starting and supporting a cooperative, invite potential members to a general meeting. Announce the meeting date, time, and place via newspapers, radio, telephone, at other meetings, by letter, or word of mouth. Invite outside advisers.

The leadership group should develop an agenda and select a presiding officer who can conduct a business meeting. Sometimes, an adviser can act as chair or help answer questions. Primary agenda items should include:

- What is the need;
- Possible solutions;
- Cooperative principles and terminology;
- Cooperative operating practices;
- Advantages and disadvantages of a cooperative;
- General risk capital equity and financial requirements; and
- Various forms of member-user commitment needed.

One approach is to have one member of the leadership group discuss the need and another summarize how the proposed cooperative might solve it. In addition, a representative of a successful cooperative might explain its operations, benefits, and limitations.

Allow plenty of time for discussion. Prospective members should be encouraged to express their views and ask questions. All issues raised should be addressed, although answers may be delayed until later meetings when more information becomes available.

### Cooperative Bulletins

Answers to some of the frequently asked questions may be found in an array of cooperative bulletins published by USDA's Rural Business-Cooperative Service (Appendix VII, Helpful References).

1. What is a cooperative and how is it different from other business?
2. Who controls a cooperative?
3. What is the risk investment (equity) and why is it needed?
4. How much is my initial investment (equity capital)?
5. Will my investment (equity) requirement be determined by volume or by number of members?
6. Can we simply cosign a bank note instead of raising a cash investment (equity)? What risks are involved in cosigning?
7. How much money can I lose if the cooperative fails?
8. Can I sell my stock and other investments (equities) and get out of the cooperative whenever I want? Can I sell it to whomever I want?
9. What are marketing or purchasing agreements and why are they needed? How long do they last? If I can't meet the terms of the agreement, do I have to pay a penalty?
10. What are net margins and net earnings?
11. What are patronage refunds and retained patronage refunds?
12. Why can't the cooperative pay 100 percent cash patronage refunds?
13. Why do we have to pay income taxes on our patronage refunds, particularly the retained portion, if we don't actually receive money?
14. What are per-unit capital retains and what's their purpose?
15. When will the cooperative refund my retained allocations and per-unit retain? Will I be able to get this money when I retire? Will my estate be able to get it after I die?
16. Can we restrict cooperative membership?
17. If a cooperative is supposed to help its members, why are prices at the cooperative no better and sometimes worse than prices elsewhere?

### *Steering Committee Formation and Duties—*

If the group wants a more detailed study after discussion is completed, it should select a steering committee. This group should have a keen interest in the cooperative, be well-respected within the community, and have sound business judgment. Committee members often become the initial organizers and members of the cooperative's first board of directors.

The first function is to select officers of the steering committee, usually at the close of the general informational meeting. Next, establish a deadline for completing a business analysis, including a target date for surveying potential members. Periodic progress meetings retain interest of prospective members.

The steering committee, with the help of one or more advisers, determines if a cooperative is feasible. First, it judges whether the proposed cooperative is likely to succeed and benefit its members. Second, if the proposal passes this test, the committee prepares a specific, detailed business plan for the new cooperative.

Assistance from specialists in law, accounting, finance, economics, engineering, and cooperative business operations is critical during the business analysis phase.

Economic need is fundamental to the formation and successful operation of any cooperative. The committee should examine what products or services the cooperative could provide, those needed from other sources, and whether costs would be reduced or quality improved. Intangible functions also should be considered. Will the cooperative provide a needed service, preserve a market, stabilize prices, or encourage more orderly marketing?

Is the projected initial investment (equity) within the financial ability of the potential members involved?

The committee should consider alternatives to starting a new cooperative. Could similar services be provided by another nearby cooperative, either directly or by establishing a branch? If forming a new cooperative is the best alternative, the group should consider linking with regional cooperatives to obtain additional benefits.

A new cooperative should initially limit services to avoid elaborate or costly facilities above those absolutely needed. If successful, services can later be expanded.

### **Member-User Survey**

Formal survey techniques are best for estimating potential membership. The adviser usually drafts the survey questionnaire for the steering committee to review. Appendix I carries a sample questionnaire, but the following list gives a general idea of the needed information:

1. Volume of need or use in an appropriate unit of measure for the most recent or typical year;
2. Member-user experience and capabilities—years in present location, overall success, demand specific to the cooperative venture, and production and marketing success;
3. Variety of products or services to be offered or needed;
4. Period of need or services;
5. Current unit value—sales price or cost per unit;

6. Member-user—location of use or need;
7. Familiarity with and use of other cooperatives and willingness to join, finance, and use one.

While the questionnaire is being prepared, the steering committee should develop a list of potentially interested members. When the questionnaire is completed and approved, the committee interviews potential members.

Steering committee members might travel with the adviser or advisers to locate potential users or otherwise fix locations on a map. But the adviser, not committee members, should conduct the survey interview to preserve confidentiality of information provided. Such occasions should be carefully assessed beforehand.

The adviser should also discuss and answer questions about the proposed cooperative venture. Surveys also can be conducted at scheduled group meetings at a central location.

Estimates of both membership and volume should be conservative. Not all persons interested will join initially and some may wait to join later. And, unfortunately, not all who join will make the fullest use of the cooperative's services.

The adviser analyzes the survey, prepares a report, and presents it to the steering committee. The results and implications are then discussed at a meeting of all persons surveyed. Survey results should reveal how potential members identify the economic need and the degree of interest in a cooperative to fulfill that need. The survey should indicate the level of support in terms of business volume and if financial commitment is sufficient to organize and successfully operate the cooperative. The final action at this meeting is a vote on whether to continue.

### **Market, Supply Sources, Cost Analysis**

A vote to continue challenges the steering committee and adviser to identify suitable markets, sources of supply, and service providers and their requirements. Here are some ways to gain this information:

1. Use previous research and industry common knowledge.
2. Survey market, supply, or service provider sources. Although the advisor should be primarily responsible for developing the questionnaire, this phase should be a joint effort. Contact users of the services, potential buyers or suppliers, to determine their requirements.
3. Ask State and/or Federal offices (such as the Rural

Development offices, Extension Service, or community action agencies), universities, cooperative centers, commodity organizations, or private consulting firms to conduct the research and use their findings.

The adviser analyzes the survey results. This process may determine the scope of the cooperative's activities. Contacts are then made, either by the adviser or steering committee members, with engineers, equipment dealers, real estate agents, and others for cost estimates on establishing and operating the cooperative's physical facilities.

The adviser reports on the potential markets or supply sources to the steering committee. Once the report is approved, the steering committee calls the third general meeting. The adviser presents the preliminary market or supply estimation and cost analysis. Both are subject to change.

After the market or supply report is discussed and accepted, the group should vote by secret ballot on whether to continue the organizational process. By now, the steering committee and adviser should have a good idea of the minimum volume of business, number of members, and financial commitment needed to justify starting the cooperative. Where support is questionable, the token investment should be refunded.

Supporters should sign a premembership agreement (Appendix III). This agreement helps determine the extent of serious interest in the proposed cooperative. The signer agrees to join, patronize, and furnish a specific amount of initial risk capital.

Initial investment by members should be in proportion to their intended use of the cooperative, but start at a minimal amount such as 10 percent of potential risk capital (equity) needed to operate. This goal should be met before continuing organizational efforts.

Potential members should be given a written statement about how their investment will be used and procedures for returning unused funds if the project is terminated or the individual later decides not to join. The money should be deposited in an interest-bearing account and records kept of investments and expenditures. Generally, this money is used for organizational costs like supplies, postage, phone bills, and attorney fees.

## **Feasibility Analysis**

The emerging picture of the size and scope of the cooperative now permits the adviser and the steering committee to develop basic operating assumptions. Together, they consider facilities needed, operating costs, capitalization, and financial requirements.

An important part of the feasibility analysis is to

review the sensitivity of the business to changes in volume or operating costs. For example, what impact will a 25-percent decrease in product sales, perhaps due to adverse weather, have on profitability? Other key factors might include wage rates, operating efficiencies, interest rates, etc.

The adviser determines operating efficiencies, estimates labor needs, develops service and payment schedules, and gathers other cost data. The steering committee will have to contract with an engineering firm or equipment dealer, for instance, to obtain specialized data on facilities, equipment, and labor costs.

Facilities needed may include land, buildings, and equipment. The committee bases estimates on the expected business volume by the probable members, plus some allowance for future expansion. The cost of buying or leasing existing facilities and equipment should be investigated. Professionals and skilled technicians should be consulted to determine the need for new facilities and assess the value of any existing facilities being considered.

Operating costs include employee salaries, utilities, taxes, depreciation, interest, and costs of office and other supplies. The adviser, with help of the committee, determines what items to include and their probable cost, based on operating assumptions. If the operating revenues for the projected volume of business show little or no margins over estimated costs, the committee should project the volume needed to produce acceptable margins. In most businesses, per-unit operating costs tend to decline as the volume increases.

A cooperative's lowest possible operating costs occur when its members furnish it with the maximum amount of business it can handle.

## **Capitalizing the Cooperative**

Capitalization is the amount and source of money needed to start and operate the cooperative. The committee recommends a plan of capitalization including: (1) determine whether the capital structure is to be stock or nonstock; (2) estimate the amount of member investment (risk capital); and (3) estimate the amount and source of borrowed money needed (debt capital).

While many State incorporation statutes permit organizing as either a stock or nonstock cooperative, a number limit them to agricultural producers. In a stock cooperative, members are issued stock certificates as evidence of their membership and capital investment. More than one type of stock may be issued.

### **Common Stock—**

Stock cooperatives issue shares of common stock to show membership and voting rights. Common stock may be divided into classes. Each class may have different par values and carry different voting privileges. Usually, cooperatives don't pay interest on common stock.

### **Preferred Stock—**

Preferred nonvoting stock may be issued to both nonmembers and members for additional capital investment. This stock may be divided into classes. Each has different par value and/or other conditions. Interest paid on preferred stock may be limited by State statute and redemption determined by the board of directors. If the cooperative is changing structure or going out of business, preferred stock is paid before the common stock.

### **Membership Certificates—**

If the cooperative is organized as a nonstock organization, usually membership and capital certificates are insured. This certificate is issued when membership fees are paid and establishes voting rights in the cooperative. The amount of capital collected from membership fees is usually considered as incidental to capitalizing of the cooperative. Membership certificates are generally noninterest bearing.

### **Capital Certificates—**

Capital certificates of a nonstock cooperative are the equivalent of preferred stock issued by a stock cooperative. They are sold in various denominations, may bear interest, and may or may not have a due date. They have no voting privileges and may be owned by nonmembers.

The combination of membership fees, sale of capital certificates, and capital certificates issued for retained patronage are sources of risk capital (equity) for nonstock cooperatives. (Certificates issued for retained patronage may carry a due date to implement systematic rotation.)

### **Stock or Nonstock Structure?—**

A new cooperative may choose either method for structuring risk capital. A stock structure is more easily understood by most potential members. If organizing as a nonstock cooperative, more member education may be needed to explain the risk capital structure described in the bylaws.

### **The Member Investment**

Investing risk capital is a basic member responsibility. The initial investment required (equity capital)

from each member will be determined by the projected cost of facilities, estimated daily volume of business, cash flow requirements, projected number of members, and their volume or use of the business.

Members' initial risk capital investment should be large enough for them to realize they have a financial stake in the business to protect. If the investment (equity) requirement is based on volume (vs number of members), the investment should be in proportion to their expected use. Those who wish to contribute more than their share may purchase preferred stock or capital certificates that earn fixed dividends, but carry no additional voting privileges. Members may also provide short-term debt capital in the form of certificates of investment.

Members provide additional amounts of risk (equity) capital as they use their cooperative. One method is through per-unit capital retains. The cooperative deducts from transactions an amount based on the value or quantity of services provided or products marketed. Another method is to retain part of the cooperative's net earnings at the end of each business year. Under both of these methods, the risk capital (equity) investments are credited to members' equity account in the cooperative's accounting system.

Like other businesses, cooperatives must build financial reserves. These can be used both to carry them through times when operating expenses exceed income and to financial growth. Sometimes, part of these reserves is dedicated to a specific purpose, such as covering uncollectible accounts (bad debts). Another portion may be set aside to fund a new facility or the startup of a new member service.

Accumulated reserves relieve the pressure on the cooperative to borrow money or reduce important services through tough times. And they lessen the likelihood the cooperative will have to ask the members for a direct investment of additional risk capital to meet unexpected needs.

As part of the capitalization plan, the steering committee estimates the amount of reserves that will be needed and the method of obtaining them. State law should be checked for rules on reserve levels or methods of accumulation.

The membership fee or payment for a share of stock is usually retained by the cooperative, at least until the membership is terminated. However, another element of the capitalization plan should be a strategy for revolving member equity capital related to business done with the cooperative, retained patronage refunds, and per-unit retains. When the cooperative's equity is sufficient to meet its needs, a portion of each

year's income should be used to redeem the oldest patronage-based equity.

This equity is replaced by funds retained from the current year's patrons. The schedule for revolving equity is set by the board of directors. A systematic equity redemption program keeps the cooperative financed by current users in proportion to their use.

### **Sources of Debt Capital**

How much debt capital the cooperative can borrow depends on how much risk (equity) capital members initially invest, cash flow, quality of management, and the degree of risk in the venture. Members should contribute equity capital amounting to at least half the total capital requirements. But, it usually takes several years of operations to reach this goal.

Long-term credit is the usual way of acquiring part of the money to finance land, buildings, and equipment. The period of the fixed asset loan depends on a number of factors, but it is usually related to the facility's projected life.

The committee should explore various sources of long-term loans and recommend the source that can supply the financing best suited to the proposed cooperative. Among sources of facility loans are State offices of USDA's Rural Development, CoBank, St. Paul Bank for Cooperatives, National Cooperative Bank, programs of commercial banks, credit unions, and insurance companies. Other financial arrangements may be available that are temporary or unique to the new cooperative venture.

Operating capital may be obtained through short-term loans (1 year or less) after the cooperative becomes established. A new cooperative, however, can obtain only part of its operating funds from short-term loans. Member equity must make up the balance.

Sources of short-term credit include credit unions, commercial banks, banks for cooperatives in the Farm Credit System, and the National Cooperative Bank. The committee should explore all sources and recommend the lender that best meets the requirements of the proposed cooperative

### **Projecting Capital Needs**

The adviser prepares a feasibility analysis report that outlines all assumptions and income and expense projections based on standard financing practices and presents it to the steering committee. The report is reviewed and revised to develop a realistic business plan that can be approved by potential members and implemented without significant change.

This report is discussed at a fourth general meet-

ing of potential members. It should cover the cooperative's purpose, goals, and economic functions, including assumptions and financial projections for startup and at least the first 3 years of operations. Specific topics include:

1. Volume projections;
2. Risk capital (equity) investment requirements—initial and continuing;
3. Financing projections, including tables for monthly cash flows, annual projections of operating statements, balance sheets, and a statement of cash flow;
4. Financial package and method of capitalization;
5. Payment schedules;
6. Projected patronage refunds—cash and retained; and
7. Implementation schedule.

Financial projections may include "best" and "worst" case scenarios to demonstrate sensitivity to changes in operating assumptions.

By now, most specific operational plans have been determined. Yet to be decided is the selection of a manager, facility location, and subjects to be covered in the articles of incorporation and bylaws.

If members elect to continue the process, the steering committee is instructed to arrange for incorporation and carry out the business plan.

### **Legal Considerations**

Organizing committee members should become acquainted with legal aspects of cooperatives by studying laws applicable to them and businesses generally (Appendix VII).

Every State has one or more laws authorizing the formation of cooperative corporations, although a number of them are restricted to agricultural producers. Copies may be obtained from an attorney, the Secretary of State, or State Corporation Commissioner.

Several Federal laws are especially important for cooperatives. The Capper-Volstead Act of 1922, sometimes called the "Magna Charta" of farmer marketing cooperatives, recognizes the rights of producers to act together in handling, processing, and marketing their production without violating antitrust law. Producers may also form marketing agencies in common. But even though cooperatives have this organizational protection, their operations are subject to the same antitrust laws as other businesses.

The Farm Credit Act of 1971 defines a cooperative that is eligible to borrow from the banks for cooperatives in the Farm Credit System and the conditions the cooperative must meet. The National Consumer

Cooperative Bank Act created a similar financial institution, the National Cooperative Bank, to serve non-farm cooperatives.

The Internal Revenue Code describes the tax treatment of cooperatives and their patrons and tax reporting requirements.

### **Legal Papers—**

Perhaps the most important process, other than determining the business feasibility, is drafting articles of incorporation and bylaws. Other legal documents include the membership application, membership or stock certificate, revolving fund certificate, marketing/purchasing agreements, and meeting notices and waivers of notice (Appendix III). Also review *Sample Legal Documents for Cooperatives* (CIR 40).

### **Articles of Incorporation—**

Incorporation is usually the best method of organizing. Each State has special enabling laws under which cooperatives may incorporate. It may be preferable to incorporate under the State's general corporation enabling act, but structure bylaws to operate as a cooperative.

Incorporation gives the cooperative a distinct legal standing. Members generally are not personally liable for the debts of an incorporated organization beyond the amount of their investment. The articles indicate the nature of the cooperative business. The articles should specify rather broad operating authority when incorporating even though services may be limited at the beginning.

These articles usually contain the name of the cooperative, principal place of business, purposes and powers of the association, proposed duration of the association, names of the incorporators (in most States), and information about the capital structure. In some States, the names of the first officers of the association must be included.

Filing the articles of incorporation (usually with the Secretary of State) activates the cooperative corporation. After the organizing committee approves the articles, the attorney files for the corporation charter and includes the recording fees. Once chartered by the State, the cooperative should promptly adopt bylaws.

### **Bylaws—**

They state how the cooperative will conduct business and must be consistent with both State statutes and the articles of incorporation.

Bylaws usually have membership requirements and lists rights and responsibilities of members;

grounds and procedures for member expulsion; how to call and conduct membership meetings, methods of voting, how directors and officers are elected or removed, and their number, duties, terms of office, and compensation; time and place of director meetings; dates of the fiscal year; requirement to conduct business on a cooperative basis; how net margins will be distributed; process for redemption of members' equity; a consent provision that members will include the face value of written notices of allocation and per-unit retain certificates as income in the year they are received; distribution of nonpatronage income; handling of losses; treating nonmember business; dissolution of the cooperative; indemnification of directors; and the process for amending the bylaws.

Also covered is how the board is structured to represent the membership, given geographical distribution and size of the membership and the scope of business and function of the cooperative. Directors may be selected to represent districts based on membership density, to reflect commodities or services to be handled, or some other basis that provides equitable representation. The organizing committee's recommended management structure should include the basis for director representation, voting methods, and board officers, and their terms.

For marketing cooperatives that lack a marketing agreement, the bylaws specify the extent of members' obligation to market through the cooperative. They outline the terms and conditions under which the products will be marketed and accounting procedures.

The committee prepares the articles and bylaws with the help of an attorney so provisions comply with laws of the State in which the cooperative is incorporated. The committee's role also is to assure the bylaw provisions will not conflict with operating procedures.

### **Membership Application—**

This form has five main parts: applicant's statement asking to become a member of the cooperative, signature of the applicant, statement of cooperative acceptance of applicant, signatures of the president and secretary, and a statement of the duty and intent of the member.

The application, signed by the member and approved by the board of directors, is the legal proof that a patron is a member. A cooperative should have a completed membership application on file from every member. Membership and the amount of business done with members and nonmembers are important factors for certain antitrust and taxation provisions.

A membership certificate may be issued to each

member as evidence of entitlement to all of the rights, benefits, and privileges of the association.

### ***Marketing and Purchasing Agreements—***

In the marketing agreement, the association agrees to accept specified products of stated or better quality, to market them to the best of its ability, and to return to members all marketing proceeds less deductions for expenses and continuing capital needs. A similar contract with members can be structured for service and supply cooperatives.

This continuing or self-renewing agreement should specify that after it has been in force for some initial period, it should continue indefinitely unless the member (or the cooperative) states in writing a desire to cancel or modify it. A cancellation request must be made during a specified annual period as noted in the contract.

An agreement ensures sufficient control over products or services to be delivered so the cooperative can function. This is especially helpful in the first few years of operation when the cooperative is establishing its reputation as a responsible and successful business. Marketing and purchasing agreements have helped some cooperatives get needed outside financial help.

In some cases, cooperatives that use contractual agreements must file them with the State Government.

### ***Revolving Fund Certificates—***

When a cooperative retains funds from business with or for patrons as capital investments, it issues a written patronage refund certificate or a similar document to the member as a receipt for capital investments that will eventually be revolved or redeemed. Meanwhile, the retain is used to finance the business. Member investments may be deductions based on per-unit of product handled or services used, reinvested patronage refunds, or original capital subscriptions, if a non-stock cooperative.

### **Charter Member Meeting**

According to most statutes under which cooperatives are organized, articles and bylaws must be adopted by a majority vote of the members or stockholders.

For convenience in organizing, only the persons named in the articles of incorporation, called the charter members, must vote to adopt the bylaws. These persons are regarded as members or stockholders as soon as the articles of incorporation are filed. A good practice, however, is to invite everyone who has signed a premembership agreement to the meeting to ratify the bylaws.

A temporary presiding officer conducts this first meeting and reports that the articles of incorporation have been filed. A draft of the proposed bylaws is presented, discussed, and adopted as read or amended.

Further action is usually needed to accept those members or stockholders who have subscribed for stock or agreed to become members but are not named in the articles of incorporation. Under some statutes, however, the incorporators can adopt the bylaws as incorporators rather than as members or stockholders.

If members of the first board of directors have not been named in the articles of incorporation, they should be elected at this meeting.

Here are some suggestions for selecting the first board of directors:

- use a nominating committee to develop a panel of candidates for the board;
- select only members as candidates;
- nominate two candidates for each position; and
- vote by secret ballot.

### **Implementing the Business Plan**

Once the bylaws have been adopted, the board of directors should meet as soon as possible to avoid having to send out legal notices of it to directors. Directors approve various resolutions designed to make the cooperative an operational business and ready to serve members.

Officers of the cooperative are elected and directors assigned to individual or committee responsibilities to implement the business plan. Members may be assigned to committees, but at least one board member should be on each committee to enhance communications. Target dates are established for important events such as groundbreaking, construction completion, dedication or open house, and full-capacity operations.

The board needs to act immediately on some specific items:

- conduct a membership drive;
- adopt a form of membership application or stock subscription;
- adopt the forms for contractual agreement if used;
- acquire capital;
- select a bank in which to deposit funds;
- initiate steps to hire a manager;
- authorize officers or employees to handle cooperative funds and issue checks;
- design and install an accounting system.
- provide for bookkeeping and auditing services;

- print the articles of incorporation, bylaws, and other member documents for distribution to all members;
- bond officers and employees in accordance with bylaws; and
- pick a business location and seek bids for facilities and equipment.

A director training schedule should be established to discuss topics such as legal liability, cooperative finance, management supervision, and member relations. Session topics for the entire membership should include member responsibilities, cooperative operating policies, and tax treatment of patronage refunds.

### **Membership Drive**

A new cooperative must have enough members to start operation and justify its existence. Additional members may be needed to financially strengthen the association or increase its volume.

Cooperatives that provide supplies and services normally have open membership. Those that process and market or bargain for price and contractual agreement or offer limited services may have a selective membership policy. Members should feel a responsibility to recommend others believed to be qualified users. That's why it's important for members to understand what their cooperative is, how it operates, its benefits, and its limitations.

People join cooperatives primarily for economic benefits—services and increased income. Most people want to be shown the advantages of cooperative membership. If those benefits are not evident, few prospects will join and even if they do, they probably won't regularly patronize the cooperative.

New members may be asked to join by purchasing stock or paying a membership fee and signing an application. The applicant should get a receipt for funds collected. The cooperative must followup with membership and stock certificates and related material.

Accurate accounting of money is an extremely sensitive issue. The cooperative should retain an independent accounting firm to assist in recording funds prior to any sale of stock or the collection of substantial amounts of money.

### **Acquiring Capital**

Starting a new cooperative can create a need for substantial capital. A problem develops when trying to operate with limited membership equity capital and sizable total capital requirements. Therefore, member

equity must be carefully weighed against projected cooperative capital needs.

Methods for acquiring capital and classification of financial instruments are covered under the "Feasibility Analysis" section. The task of financing a new cooperative with member equity alone is usually impossible. Therefore, additional sources for funds are needed. Local area banks are good possibilities. Others are the cooperative banks in the Farm Credit System, the National Cooperative Bank, State Rural Development offices, and other governmental funds, depending on what may be available at the time. Another option may be to sell preferred stock to members and others in the community.

The best source of financing for a cooperative is from members. The more financing members provide, the less the cooperative business will need to borrow from other sources. Usually, cooperatives sell common or preferred stock to members to raise capital. The common stock is usually tied to voting rights, but there are several types. For example, class A could be designated as voting stock and limited to one share per member while class B could be nonvoting stock that members could purchase based on their anticipated volume of business.

Preferred stock also can be sold to outside investors and members. Although owners of preferred stock have no voting rights, this stock carries less risk than common stock. Members of the community in which the cooperative is to be located may purchase preferred stock to keep the cooperative as a local business.

Conservatively estimate the amount of capital raised from preferred stock sales. Some States limit dividends that can be paid on both common and preferred, thereby making preferred stock unattractive to outside investors. Stock sale programs should be carefully reviewed by an attorney to ensure conformance with State and Federal security laws.

Commercial banks, particularly those in the area where the cooperative will operate, are an important source for loans. Personnel of these banks already are familiar with the economy in the area and probably know many of the cooperative's prospective members. These banks also offer a variety of banking services the cooperative will need once it begins operations. New cooperatives often can get loans with the help of Federal Government agencies or other guarantees.

Farm Credit System banks, particularly the St. Paul Bank for Cooperatives and CoBank, both of which are nationally chartered, are major sources of credit to newly organized and established agricultural and rural



utility cooperatives and their members. Farm Credit System banks make loans to cooperatives to purchase fixed assets and operating loans. Individual farmers borrow funds to purchase land and to finance farm operations. The system is used also to finance members' share of equity capital for a new or expanding marketing, purchasing, or related service cooperative.

National Cooperative Bank is another source for loans and startup financing. Its financing activities are directed primarily to nonagricultural cooperatives including consumer, worker, retailer-owned, health, housing, and other types of cooperatives. Funds may be available for certain types of cooperatives, including those in rural communities.

Cooperative leaders need to carefully develop the loan application to make a good first impression on the potential lender. Lenders will insist on seeing certain key documents before considering a loan request. Special expertise is important in helping prepare these documents, including that of an economist, marketing specialist, attorney, certified public accountant, and perhaps others whose specialty is related to the activities proposed for the cooperative.

The most requested documents are:

### ***Projected Volume of Business—***

The best source for these projections comes from the potential member survey conducted as a part of the feasibility study. If the business is seasonal, it is important to accurately characterize how production or purchasing and sales occur to determine the appropriate facility and equipment needs.

### ***Market Information—***

Lenders don't want to finance a proposed business without a market. They want to know who the customers are, if markets have been located, and expected prices and volumes.

### ***Cash Flow—***

Projected cash flow (Appendix IV) information may be the most important to the lender. It gives a continuous month-by-month cash income and expense prediction. Key items in the final analysis are the net cash flow for the month and the ending cash balance. Lenders are particularly concerned with the net ending cash balance. Does the cooperative have sufficient funds to operate and pay bills? Should more equity capital be injected? Is additional borrowed capital needed, particularly for operating during heavy seasonal periods? Can controllable expenses be reduced during periods of low income? Are cash reserves adequate to overcome

adverse market swings? And, most importantly, can the cooperative repay its loans? Most lenders want 3-year projections.

### ***Operating Statement—***

For a new cooperative, the projected operating statement provides an expected picture of operations for one or more years (Appendix IV). It contains information on sources of income as well as expenses. The key figure is the "bottom line" that indicates whether net margins (profits) are anticipated. A monthly operating statement provides information to lenders and assists the board in making major policy and management decisions.

### ***Balance Sheet—***

For the newly formed cooperative seeking financing from outside sources, the projected balance sheet is extremely important (Appendix VI). It projects the future value of the cooperative and indicates its solvency and ability to satisfy creditors' claims when due. In summary, it lists the cooperative's assets, liabilities, and net worth.

Schedule of fixed asset costs and depreciation.

Lenders look for collateral to secure their loans. A condensed listing (Appendix V) quickly conveys what the cooperative needs to purchase or lease. To assure the lender that depreciation has been accurately noted, it is also desirable to outline in table form the classes of assets, cost, life expectancy, and annual depreciation.

### ***Loan Package—***

A summary of scheduled financing needs and sources saves the lender time in assembling the various pieces of data for analysis. It should show major items for which loans and member equity will be spent (Appendix VI). These items are extracted from the projected cash flow data. A brief resume of the designated manager should be included in the documents given to the potential lender. If a person has not been chosen, the manager's job description should be included.

### ***Manager Selection***

Selecting the manager is one of the most critical task for the board of directors. The success of the cooperative depends more on the manager than any other individual. The manager directs the day-to-day operations.

The organizing committee begins the task of manager selection by developing a position description. A supplemental statement should indicate the relationship and responsibilities of a manager and the board of directors in a cooperative.

Long and varied lists have been compiled of qualities to seek in a manager, but three areas are suggested—education, experience, and ability to work with people. Manager candidates need to be judged in these areas from three perspectives—commodity expertise, business requirements generally, and knowledge of cooperatives in particular because of their unique characteristics.

Finding a manager with both education and experience with cooperatives is important for several reasons. Unlike investor-owned corporations, a cooperative manager should not participate in cooperative ownership. Career decisions could conflict with ownership interests. Cooperatives do not offer managers stock options or profit sharing, although some cooperatives have incentive plans. The candidate needs to understand the special nature of the cooperative's patrons because they're both customers and owners. This dual relationship adds a unique dimension to a candidate's requirements to work with people on a daily business basis.

Good managers are hard to find, especially for cooperatives. The best source is often other cooperatives. Leads may be obtained by contacting the managers of other cooperatives, directors of State cooperative councils, national cooperative organizations, the advisers who helped form the cooperative, and employment agencies.

### **Acquiring Facilities**

The job that probably takes the most foresight, analysis, judgment, and timing is acquiring a business site, building, machinery and equipment, and other supplies. The steering committee's business analysis is the blueprint. The newly selected manager should participate in facility decisions.

Facilities should be located conveniently for members but enable establishing good distribution links with suppliers, markets, and other business services.

Directors need to study facility requirements thoroughly. Their decisions will influence the cooperative's operations for many years. It's important to avoid using so much capital for fixed facilities and startup that cash flow is jeopardized.

A useful planning tool is an acquisition schedule and budget. It would list items in the logical order they should be acquired, based on need, delivery time, loan requirements, funds available, and other factors. This should be built into the cash flow projection for the startup period. Changes to this plan should be analyzed before enactment.

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## **General Rules for Success**

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Several basic rules for successful formation of a cooperative apply to more than one step of the process and to continuing operations. Some rules are unique to the cooperative form of business. They include effective use of advisers and committees, keeping members informed and involved, maintaining good board/manager relations, following sound business practices, conducting businesslike meetings, and forging links with other cooperatives.

### **Use Advisers and Committees Effectively**

Organizing human resources and effectively using their expertise is central to any successful business. Maximum participation by potential members is crucial to the success of the cooperative.

Selecting potential members with an eye for expertise is important in setting up the general steering committee. Finding true specialists may not be possible among the leaders interested in organizing a cooperative. However, some may have an interest in areas that enables them to better understand the "language" of technical advisers.

It's important to have an adviser on cooperative organization work with others in helping them apply their expertise to the cooperative situation whenever it differs from other forms of business.

Subcommittees used in the formation process should focus on membership, facilities, site selection, finance, legal documents, and communications. In some cases, one or more of these can be combined.

Committees also are useful in the ongoing management of the cooperative. Committees within the board can specialize in the same areas used in the formation process. Additional temporary or permanent committees might include advisory groups for youth and young member activities, education and training, long-term planning, commodities and services, member and public relations, and legislative affairs.

### **Keep Members Informed and Involved**

Member responsibilities start with the conception of the cooperative and remain throughout its life to assure successful organization, sound management, and operation.

The communications and education function needs to be an integral activity of the management team. It requires the assistance, knowledge, and involvement of cooperative staff and member leadership groups. Effective communications and education

programs require financial support and must be backed by specific board and management policies.

When members are involved and informed about the cooperative, they measure their needs in terms of dollars and are more willing to invest in and patronize the cooperative. Cooperative members should be intimately familiar with it and assume a positive, broad role in its management and direction:

- understand its purpose, objectives, benefits, limitations, operations, finances, and long-term plans,
- read and understand the articles of incorporation and bylaws,
- know that laws limit their rights or powers and those of their board of directors,
- understand that bylaws or policies of the elected directors may further limit their operations by establishing member obligations, regulations, and quality controls exceeding those prescribed by legal statutes and provide equity (risk) capital for the cooperative business.

Most cooperatives have a small beginning and find it necessary to borrow. Later, as they become established and business services expand, they generally find it neither necessary nor wise to rely on only member capital to meet all financial needs. The member or equity capital is used as a base to apply for a loan.

In summary, members' participation in affairs of their cooperative increases their feeling of ownership and responsibility for its success.

### **Maintain Good Board-Manager Relations**

The differing responsibilities of the board of directors and the manager must be clearly understood and carried out.

Directors represent members and are legally responsible for the performance and conduct of the cooperative. All corporate powers of the cooperative, other than those specifically conferred on members, are vested in its directors and outlined in the bylaws and in State and Federal legal statutes.

Directors' three major responsibilities are to set policies, employ and evaluate the general manager's ability to carry them out, and provide adequate financing for the cooperative.

The board also has some specific management responsibilities such as functioning as trustees for the members in safeguarding their assets in the cooperative; setting goals, objectives, and general policies; adopting long-term strategic plans; employing a competent manager and evaluating performance; preserv-

ing the cooperative character of the organization; establishing an accurate accounting system; adopting an annual operating budget; appointing an outside firm to perform an annual audit; controlling the total operation; and authorizing distribution of cooperative net earnings and redemption of members' equities.

The board, in turn, delegates responsibility for daily operations to a hired general manager or chief executive officer. The general manager hires or discharges employees, including department heads, who with the manager comprise the hired management staff or team.

Responsibilities of hired management include managing or directing daily business activities; carrying out policies set by the board; setting goals and making short-term plans; employing, training, and discharging employees; organizing and coordinating internal activities in compliance with cooperative goals and objectives and board policies; keeping complete accounts and records and developing an annual operating budget; and providing the board with periodic reports.

Questions often arise as to the division of responsibilities between the board and hired management. Sometimes they overlap and an exact division cannot be made. Some factors to consider are: the time period—long-term decisions are the responsibility of the board while management makes short-term decisions; idea decisions are usually introduced by the board and actual decisions implemented by management; decisions involving policy are the responsibility of the board, and cooperative functions are handled by management; broad primary control activities usually concern the board, while secondary controls pertaining to short-run operations are the responsibility of management. When it comes to staffing, the board hires the manager who, in turn, selects the staff of the cooperative.

Use of policy and procedure manuals and job descriptions along with frank discussions of questions when they arise can help maintain an understanding of the division of responsibility.

### **Conduct Businesslike Meetings**

A cooperative is a business so its meetings should be conducted in a businesslike manner.

Policy should be established for determining a reasonable quorum for membership and board meetings. A quorum is the specific or minimum percentage of members required to be present to conduct official business. Quorum requirements are sometimes written into State statutes, but should be discussed in

the bylaws. As membership expands, the percentage quorum increases the actual number needed. Setting the quorum too high increases the risk of not getting enough member participants to deal with business matters needing attention.

Parliamentary procedure is appropriate for orderly democratic group action. It enables the chair to lead a group smoothly and efficiently in determining the wishes of the majority while protecting the rights of the minority.

A good meeting just doesn't happen. It results in carrying out several successive steps: planning ahead, involving members, following a published agenda, and following through on meeting actions.

### **Follow Sound Business Practices**

The major challenge to cooperative members, the board of directors, and operating management occurs after business operations begin. Many of the startup responsibilities continue after the cooperative begins operating.

For example, it's critical to operate on a sound business basis to avoid year-end losses. Requirements include developing and installing a double-entry accounting system, preparing financial reports including operating and capital improvement budgets, reporting to the membership in a clear and timely manner, and conducting long-term planning.

Beyond complete and accurate documentation of income and expenses, a cooperative must keep exact member records. They account for members' initial and subsequent investments and member purchasing, marketing, and/or services used to determine patronage allocations from net earnings. Members also need these records for their own personal accounts, particularly for income tax purposes.

The management staff prepares periodic operating statements and balance sheets to inform the board and members on how the cooperative is performing and its financial condition. A full report is typically issued annually, with abbreviated monthly or quarterly reports for board use. Reports should come often enough for the board to satisfactorily monitor business activities, take appropriate actions, and to keep members informed on how their cooperative is progressing. An annual independent audit serves as an outside appraisal of the cooperative's financial condition, a check on the business and accounting procedures, and how the cooperative has conformed with tax and other legal requirements.

Once the cooperative is organized and operating, members need to consider how they want it to grow.

That takes both short- and long-term strategic planning. Long-term planning, which looks 3-to-5 years ahead, usually gets inadequate attention. But this is becoming more important because of more rapid technological, economic, and social changes. Planning involves developing a vision and mission statement, appraising the future, assessing the external and internal business environment, defining desired goals with stated objectives, and developing a course of action to reach them.

### **Forge Links With Other Cooperatives**

An early exercise to determine whether to start a new cooperative was to investigate the alternative of linking with an existing cooperative that could expand its service territory. Even if starting a new cooperative is the best course of action, the search for beneficial links with other cooperatives should continue.

Alliances with regional cooperatives or other businesses may be valuable sources for supplies, marketing outlets, and related services. Membership in State and national cooperative associations can keep the new cooperative abreast of what others around the country are doing. These associations can be sources of education and training programs, legislative and public relations support activities, and help identify sources of special expertise.

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### **Avoiding Potential Pitfalls**

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New organizations are most vulnerable in their early formative years. Here are some tips for new cooperatives to avoid potential pitfalls:

1. Lack of clearly identified mission—A new cooperative shouldn't be formed just for the sake of forming one. The potential member-user must identify a clear mission statement with definite goals and objectives.
2. Inadequate Planning—Detailed plans for reaching defined goals and the mission are important. In-depth surveys of the potential member-user needs coupled with business feasibility studies are necessary. Stop the organizational process if there isn't sufficient interest in the cooperative by potential member-users or if it isn't a sound business venture. The human cost in time and organization expense may be better used elsewhere.

3. Failure to use experienced advisors and consultants—Most persons interested in becoming member-users of a new cooperative haven't had cooperative business development experience. Using resources persons experienced in cooperative development can save a lot of wasted motion and expense.
4. Lack of member leadership—Calling on the services of experienced resource persons can't replace leadership from the organizing group. Decisions must come from the potential member-user group and its selected leadership. Professional resource persons should never be in decisionmaking positions.
5. Lack of member commitment—To be successful, the new cooperative must have the broad-based support of the potential member-users. The support of lenders, attorneys, accountants, cooperative specialists, and a few leaders won't make the cooperative a business success.
6. Lack of competent management—Most cooperative members are busy operating and managing their own businesses and lack experience in cooperative management. The directors hire experienced and qualified management to increase the chances for business success.
7. Failure to identify and minimize risks—The risk in starting a new business can be reduced if identified early in the organizational process. Careful study of the competition, Federal, State, and local Government regulations, industry trends, environmental issues, and alternative business practices helps to reduce risk.
8. Poor assumptions—Often, potential member-users and cooperative leaders overestimate the volume of business and underestimate the costs of operations. Anticipated business success that ends in failure places the organizers in a "bad light." Quality business assumptions tempered with a dose of pessimism often proves to be judicious.
9. Lack of financing—Regardless of the amount of time spent in financial projection, most new businesses are underfinanced. Inefficiencies in startup operations, competition, complying with regulations, and delays often are the causes. Often, the first months of business operations and even the first years are not profitable, so adequate financing is important to survive this period.
10. Inadequate communications—Keeping the membership, suppliers, and financiers informed is critical during the organization and early life of the cooperative. Lack of or incorrect information can create apathy or suspicion. The directors and management must decide to whom and how communications are to be directed.
 

Considerable time and effort are spent in starting a new cooperative. Avoiding the pitfalls experienced by others helps to increase your effort to be successful.

**Sample Member–User Questionnaire**

Prepare an introductory letter to accompany the survey and state the purpose. Stress that the data will be kept confidential and used only for the stated purpose.

**Producer Survey: XYZ Vegetable Cooperative**

While you are not required to respond, your help is needed to provide data for a new vegetable marketing cooperative. All answers will be treated confidentially.

1. Contact person for the farm \_\_\_\_\_  
 Address \_\_\_\_\_ Phone \_\_\_\_\_

2. Farm location—see attached map – County \_\_\_\_\_ Grid No. \_\_\_\_\_

3. How much of your vegetable acreage is irrigated? \_\_\_\_\_ acres.

4. Give type and capacity for any of the following facilities and equipment you own.  
*type and capacity*

Cooling facilities \_\_\_\_\_

Packing equipment \_\_\_\_\_

Refrigerated truck \_\_\_\_\_

Nonrefrigerated truck \_\_\_\_\_  
 (over 1 ton) \_\_\_\_\_

Mechanical harvester \_\_\_\_\_

5. Check the following supplies or services you are interested in obtaining from the proposed cooperative if a competitive fee is established.

\_\_\_\_\_ Packing containers

\_\_\_\_\_ Vegetable marketing

\_\_\_\_\_ Vegetable packing

\_\_\_\_\_ Seeds

\_\_\_\_\_ Plants

\_\_\_\_\_ Other (specify)

6. Are you willing to follow the proposed cooperative’s recommendations on varieties to plant and cultural and harvesting practices?

Yes \_\_\_ No \_\_\_

7. Banks generally require cooperative owners to raise 35 to 50 percent of the needed capital. Assuming the cooperative appears feasible, are you willing to make an initial cash investment in it in proportion to your intended use?

Yes \_\_\_ No \_\_\_

What is the maximum amount you are willing to invest?

8. Per-unit retains are a capital investment that is deducted from patron's sales proceeds in proportion to the volume of products they market through the cooperative. Are you willing to finance the cooperative with per-unit retains?

Yes \_\_\_ No \_\_\_

**Appendix I**  
*continued*

9. A delayed producer payment is one way of reducing equity for operating capital. Are you willing to accept a delayed crop payment in lieu of a larger initial cash equity investment?  
Yes \_\_\_ No \_\_\_

If yes, for how long? \_\_\_ days

10. In a pool, producers are grouped by type and grade over a selected period of time (week, month, or season). Producers are paid the average price the cooperative receives for the pooled products less packing and marketing fees. Are you willing to market your vegetables on a pooled basis?  
Yes \_\_\_ No \_\_\_

11. Are you willing to sign a marketing agreement to sell all or a fixed quantity (acreage) of your vegetables through the proposed cooperative?  
Yes \_\_\_ No \_\_\_

12. Where do you plan to market your vegetables in the current year (by percentage of production)?  
a. Roadside stands \_\_\_ percent  
b. Farmers' markets \_\_\_ percent  
c. Other markets (specify) \_\_\_\_\_ percent

13. Please record production and marketing data in the accompanying table.

Crop	Months usually harvested	Major markets in 199X	Harvested or to be planted					Volume sold		Acreage you plan to sell through cooperative in 199Y	Acreage you plan to contract with cooperative in 199Y	Experience in production
			199V	199W	199X	199Y	199Z	199V	199W			
Asparagus	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Broccoli	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Cabbage	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Cauliflower	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Eggplant	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Greens	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Peppers	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
String beans	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Summer squash	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Sweet corn	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Tomatoes	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
Winter squash	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____

<sup>1</sup> A—Roadside stands. B—Farmers' markets. C—Other markets—as detailed to question 12.

<sup>2</sup> 199X is current year.

- I. Preface
  - A. How the project started.
  - B. Who is involved.
- II. Contents listing.
- III. Summary of findings
- IV. Main text.
  - A. Introductory statement of the economic situation leading to the proposed cooperative.
  - B. Producer survey results.
  - C. Estimated volume of business.
  - D. Marketing alternatives.
  - E. Operating procedures.
  - F. Financing projections.
  - G. Financial alternatives.
  - H. Organizational structure.
    - I. Operating policies.
    - J. Projected startup date.
  - K. Summary of estimated benefits.



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**Sample Legal Document Outlines**

**Premembership Agreement**

1. Statement of purposes for which new cooperative is to be formed.
2. Description of steering organization committee and its powers.
3. Statement of what new cooperative's bylaws will provide when formed.
4. Notice that steering committee may call meeting of prospective members.
5. Duties of steering committee to keep records and make accounting to cooperative when formed.
6. Subscription agreement for membership certificate or stock.
7. Agreement to sign marketing agreement if cooperative is to have one.

**Articles of Incorporation**

of \_\_\_\_\_ Association

We, the undersigned, all of whom are residents and citizens of the State of \_\_\_\_\_, engaged in the production of agricultural products, do hereby voluntarily associate ourselves for the purpose of forming a cooperative association, (with/without) capital stock, under the provisions of the \_\_\_\_\_ Cooperative Marketing Act of the State of \_\_\_\_\_.

Article I— Name

Article II— Purposes

Article III— Powers; Limitations

Section 1. Powers

Section 2. Limitations

Article IV— Place of Business

Article V— Period of Duration

Article VI— Directors

Article VII— Membership (for nonstock cooperative) or

Article VII— Capital Stock (for stock cooperative)

Section 1. Authorized Amounts; Classes.

Section 2. Common Stock.

Section 3. Preferred Stock.

In testimony whereof, we have hereunto set our hands this \_\_\_\_ day of \_\_\_\_\_, 19\_\_.

State of

County of \_\_\_\_ SS.

**Appendix III**  
*continued*

Before me, a notary public, within and for said county and State, on this \_\_\_ day of \_\_\_\_\_, 19\_\_ , personally appeared \_\_\_\_\_, known to me to be one of the identical persons who executed the within and foregoing instrument, and acknowledged to me that he/she had executed the same as a free and voluntary act and deed for the uses and purposes therein set forth.

Witness my hand and official seal the day and year set forth.

Notary Public \_\_\_\_\_  
In and for the County of \_\_\_\_\_, State of \_\_\_\_\_ .  
My Commission expires \_\_\_\_\_

**Bylaws**

Article I — Membership

Section 1. Qualifications.

Section 2. Suspension or Termination.

Article II — Meetings of Members

Section 1. Annual Meetings.

Section 2. Special Meetings.

Section 3. Notice of Meetings.

Section 4. Voting.

Section 5. Quorum.

Section 6. Order of Business.

Determination of quorum.

Proof of due notice of meeting.

Reading and disposition of minutes.

Annual reports of officers and committees.

Unfinished business.

New business.

Election of directors.

Adjournment.

Article III — Directors and Officers

Section 1. Number and Qualifications of Directors.

Section 2. Election of Directors.

Section 3. Election of Officers.

Section 4. Vacancies.

Section 5. Board Meetings.

Section 6. Special Meetings.

Section 7. Notice of Board Meetings.

Section 8. Compensation.

## Appendix III

*continued*

Section 9. Quorum.

Article IV — Duties of Directors

Section 1. General Powers.

Section 2. Employment of Manager.

Section 3. Bonds and Insurance.

Section 4. Accounting System and Audit.

Article V — Duties of Officers and Manager

Section 1. Duties of President.

Section 2. Duties of Vice President.

Section 3. Duties of Secretary.

Section 4. Duties of Treasurer.

Section 5. Duties of Manager.

Article VI — Executive Committee and Other Committees

Section 1. Powers and Duties.

Section 2. Other Committees.

Article VII — Membership Certificates

If the association is organized with capital stock, the outline might read:

Article VII — Stock Certificates

Section 1. Common Stock.

Section 2. Other Committees.

Article VIII — Operation at Cost and Patrons' Capital

Section 1. Service at Cost.

Section 2. Refunds and Patrons' Capital.

Section 3. Revolving Capital.

Section 4. Transfer.

Section 5. Consent.

Section 6. Consent Notification to Members and Prospective Members.

Article IX — Dissolution and Property Interest of Members

Article X — Unclaimed Money

Article XI — Fiscal Year

Article XII — Miscellaneous Provisions

Section 1. Waiver of Notice

Section 2. Bylaws Printed.

Section 3. Seal.

Article XIII — Amendments

We, the undersigned, being all of the incorporators and members of the \_\_\_\_\_ association, do hereby assent to the foregoing bylaws and do adopt the same as the bylaws of said association; and in witness whereof, we have hereunto subscribed our names, this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_.

**Appendix III**  
*continued*

**Membership Application and Marketing Contract**

THIS AGREEMENT between the \_\_\_\_\_, Inc., hereinafter referred to as the Association, and the undersigned Producer, witnesseth:

*The Producer*

1. Applies for membership in the Association, and if accepted as a member, agrees to be bound by its articles of incorporation, bylaws, rules, and regulations as now or hereafter adopted.
2. Appoints the Association as agent to sell all the \_\_\_\_\_ of marketable quality produced on any farm in control of or operated by the Producer, except that required for consumption on the farm.
3. Will deliver such products at such times and to such places in unadulterated form under such conditions as may be prescribed by proper authorities.
4. Will notify the Association of any lien on the products delivered hereunder, and authorizes the Association to pay the holder of said lien from the net proceeds derived from the sale of such products before any payment is made to the Producer hereunder.
5. Will provide capital in such amounts and in such a manner as may be provided in the bylaws.

*The Association:*

1. Accepts the application of Producer for membership in the Association.
2. Agrees to act as agent for the marketing of products of Producer as herein provided.
3. Will dispose of Producer's products in a manner deemed to be most advantageous for its members.
4. Will account to the Producer in accordance with this contract for all amounts received from the sale of products as herein provided.
5. Will reflect in an appropriate capital account the capital received from each patron.

The *Producer and the Association* mutually agree that the Association shall have the power:

1. To establish various plans for making returns to the Producer.
2. To blend or pool proceeds from sales of products of the Producer with the proceeds of the sales of products of other Producers, and to account to or settle with Producer therefore in accordance with established plans.
3. To process or cause to be processed products of the Producer and dispose of the same in the manner deemed most advantageous to its members.
4. To collect from buyers of products the purchase price therefore and to remit the same to Producer under a plan authorized by this contract after making uniform deductions deemed adequate for all necessary expenses and for capital purposes.

In case of a breach of this contract by the Producer, the actual damage to the Association and other producers cannot be determined. Therefore, Producer agrees to pay to the Association as liquidated damages for such breach, the sum of \_\_\_\_\_ dollars (\_\_\_\_\_) per \_\_\_\_\_ on all products that would have been delivered had the Producer not breached the said contract.

And the Association shall further be entitled to equitable relief by injunction or otherwise to prevent any such breach or threatened breach thereof and the payment of all costs of litigation in connection with the exercise of any or all of the remedies available to the Association.

**Appendix III**  
*continued*

This contract shall remain in effect for an initial term of (\_\_\_\_\_) years from the date hereof. Following the initial term, the contract may be cancelled by notice given in writing by either party to the other within ten (10) days after any yearly anniversary date, and such cancellation shall become effective on the last day of the second calendar month following the month during which such notice is given.

Date \_\_\_\_\_  
Producer's signature \_\_\_\_\_ (\_\_\_\_\_)  
*Print name here*

Address \_\_\_\_\_  
\_\_\_\_\_  
(R.F.D. or Street No.) (Town) (State and Zip Code)

Social Security No. \_\_\_\_\_ County \_\_\_\_\_  
Accepted this day of \_\_\_\_\_, 19\_\_ .  
\_\_\_\_\_, Inc.  
By \_\_\_\_\_, Pres.  
By \_\_\_\_\_, Secy.

(Some State laws provide for filling or recording cooperative marketing contracts in a county recorder's office to give notice to third parties that the contract exists. And acknowledgment if the contract is to be filed or recorded.)

**Membership Certificate**

This certifies that \_\_\_\_\_ of \_\_\_\_\_  
is a member of \_\_\_\_\_ Association and is entitled to all  
of the rights, benefits, and privileges of the Association.

Date \_\_\_\_\_ .  
\_\_\_\_\_  
(President)

**Waiver of Notice of First Meeting of Board of Directors**

*We, the undersigned, being all the directors of*

\_\_\_\_\_  
(Name of association)  
\_\_\_\_\_  
(State) (Town)

hereby waive notice of a meeting of such directors at \_\_\_\_\_ o'clock am./pm. on  
\_\_\_\_\_ the \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_, at  
\_\_\_\_\_ in \_\_\_\_\_, \_\_\_\_\_  
(Place of meeting) (Town) (State)

for the purpose of electing officers of the association to serve during the ensuing  
year, adopting the form of marketing contract, and hereunto subscribed our names,  
this \_\_\_\_\_ day of \_\_\_\_\_, 19\_\_ .

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Sample Projected Financial Statements— Examples of Gross Margins and Commission Fees

Table 1— Projected cash flow, fiscal year ending July 31, 19\_\_

Item	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Total
<i>Dollars</i>													
Cash received:													
Product sales	x	x	x	x	x	x	x	x	x	x	x	x	x
Capital retain assessment	x	x	x	x	x	x	x	x	x	x	x	x	x
Commission fees	x	x	x	x	x	x	x	x	x	x	x	x	x
Supply sales	x	x	x	x	x	x	x	x	x	x	x	x	x
Interest income	x	x	x	x	x	x	x	x	x	x	x	x	x
Operating loan	x	x	x	x	x	x	x	x	x	x	x	x	x
Facility loan	x	x	x	x	x	x	x	x	x	x	x	x	x
<b>Total cash received</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>
Cash disbursed:													
Fixed assets	x	x	x	x	x	x	x	x	x	x	x	x	x
Product purchases	x	x	x	x	x	x	x	x	x	x	x	x	x
Supply purchases	x	x	x	x	x	x	x	x	x	x	x	x	x
Wages	x	x	x	x	x	x	x	x	x	x	x	x	x
Packing	x	x	x	x	x	x	x	x	x	x	x	x	x
Inspection fees	x	x	x	x	x	x	x	x	x	x	x	x	x
Insurance	x	x	x	x	x	x	x	x	x	x	x	x	x
Transportation	x	x	x	x	x	x	x	x	x	x	x	x	x
Utilities	x	x	x	x	x	x	x	x	x	x	x	x	x
Maintenance	x	x	x	x	x	x	x	x	x	x	x	x	x
Office supplies	x	x	x	x	x	x	x	x	x	x	x	x	x
Legal fees & audit	x	x	x	x	x	x	x	x	x	x	x	x	x
Brokerage fees	x	x	x	x	x	x	x	x	x	x	x	x	x
Taxes & licenses	x	x	x	x	x	x	x	x	x	x	x	x	x
Loan repayment	x	x	x	x	x	x	x	x	x	x	x	x	x
Facility loan-principal	x	x	x	x	x	x	x	x	x	x	x	x	x
Facility loan-interest	x	x	x	x	x	x	x	x	x	x	x	x	x
Inventory-principal	x	x	x	x	x	x	x	x	x	x	x	x	x
Inventory-interest	x	x	x	x	x	x	x	x	x	x	x	x	x
<b>Total cash disbursed</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>
Net cash flow	x	x	x	x	x	x	x	x	x	x	x	x	x
Cash balance, previous year	x	x	x	x	x	x	x	x	x	x	x	x	x
Ending cash balance	x	x	x	x	x	x	x	x	x	x	x	x	x

**Appendix IV**  
*continued*

Table 2— **Projected operating statement, year ending July 31, 19\_\_**

Item	Dollars
Income:	
Product sales	x
Supply sales	x
Commission fees	x
Total sales	x
Cost of products sold	x x
Cost of supplies sold	x
Gross margin	x
Other income (interest)	x
Total Revenue	x
Expenses:	
Wages	x
Packaging	x
Inspection fees	x
Insurance	x
Transportation	x
Utilities	x
Maintenance	x
Office supplies	x
Legal fees & audit	x
Brokerage fees	x
Taxes & licenses	x
Subtotal	x
Interest-inventory	x
Interest-operating loan	x
Depreciation	x
Total Expenses	x
Net margin	x
Allocation of net margin	x
Cash refund payable	x
Allocated reserve	x

**Appendix IV**  
*continued*

Table 3— Projected balance sheet, as of July 31, 19\_\_

Item	Dollars
<b>ASSETS</b>	
Current:	
Cash	x
Inventory	x
Accounts receivable	x
Prepaid insurance	x
Interest receivable	x
Total current	x
Fixed:	
Land, buildings, equipment and organizational costs	x
Less reserve for depreciation	x
Net fixed assets	x
Total assets	x
<b>LIABILITIES AND MEMBER EQUITY</b>	
Current liabilities:	
Inventory loan	x
Facility loan	x
Interest payable	x
Patronage refund payable	x
Accounts payable	x
Total current	x
Long term liabilities:	
Facility loan	x
Total long term	x
Member equity:	
Stock purchased	x
Allocated earnings	x
Unallocated earnings	x
Per unit capital retains	x
Total member equity	x
Total liabilities and member equity	x



**Appendix IV**  
*continued*

Table 4— **Projected source and use of funds statement, year ending July 31, 19\_\_**

Item	Dollars
<b>SOURCE OF FUNDS</b>	
Operations:	
Net margin	x
Depreciation	x
Per unit capital retains	x
Facility loan	x
Operating loan	x
Inventory loan	x
Total sources	x
<b>USE OF FUNDS</b>	
Patronage refunds payable in cash	x
Additions to fixed assets	x
Additions to investments	x
Deferred charges	x
Loan principal paid	x
Net increase in working capital	x
Total uses	x
Changes in working capital:	
Change in current assets:	
Cash and certificates of deposit	x
Accounts receivable	x
Accrued interest payable	x
Operating loan payable	x
Term loan payable	x
Net change in current liabilities	x
Net change in working capital	x

## Appendix V

### Sample schedule of fixed asset costs and depreciation

Item	Cost	Annual depreciation
	<i>Dollars</i>	
Land	x	NA
Less timber sale	x	NA
Total land, net	x	NA
Buildings and equipment	x	x
Buildings (18 year life):	x	x
Erected building, site preparation	x	x
Engineering	x	x
Equipment installed (12 year life)	x	x
Total buildings and equipment	x	x
Organizational expense (5 year life)	x	x
Total fixed assets	x	x

NA = Not applicable

## Appendix VI

### Sample schedule of financing needs and sources

Total provided	Item	Fixed assets	Inventory capital	Operating capital
	<i>Dollars</i>			
Total capital	x	x	x	x
Equity	x	x	x	x
Borrowed funds:	x	x	x	x
Bank loan	x	x	x	x
Long-term notes	x	x	x	x

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### Helpful References

Rural Cooperative Publications. CIR 4, 2005

Cooperatives in Agribusiness. CIR 5, 2002

What Are Patronage Refunds? CIR 9, Reprinted 1993

Cooperatives: What They Are and the Role of Members, Directors, Managers, and Employees. CIR 11, 2001

Organizing and Conducting Cooperatives' Annual Meetings. CIR 21, 1992

Tax Treatment of Farmer Cooperatives. CIR 23, Revised 1995

Director Liability in Agricultural Cooperatives. CIR 34, Reprinted 1996

Understanding Capper-Volstead. CIR 35, 1985

Sample Policies for Cooperatives. CIR 39, Reprinted 1993

Sample Legal Documents for Cooperatives. CIR 40, Reprinted 1995

Understanding Cooperatives. CIR 45, Sect. 1-14 (Educational Series), 1994-95

Do Yourself a Favor: Join a Cooperative. CIR 54, 1996

Understanding Cooperative Bookkeeping and Financial Statements. CIR 57, 1998

The Circle of Responsibilities for Co-op Boards. CIR 61, 2003

Cooperative Directors: Asking Necessary Questions. CIR 62, 2003

Nominating, Electing & Compensating Co-op Directors. CIR 63, 2005

Creating 'Co-op Fever': A Rural Developer's Guide to Forming Cooperatives. SR 54, 1998

Cooperative Feasibility Study Guide. SR 58, 2000

These and other USDA Rural Development Cooperative Programs publications are available free by writing to:

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Rural Development  
Rural Business-Cooperative Service  
Cooperative Programs**

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Cooperative Programs (1) helps farmers and other rural residents develop cooperatives to obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs. RBS also publishes research and educational materials and issues *Rural Cooperatives* magazine ([www.rurdev.usda.gov/rbs/pub/openmag.htm](http://www.rurdev.usda.gov/rbs/pub/openmag.htm)).

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