

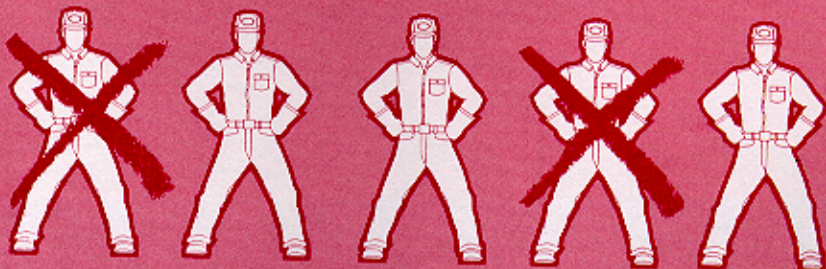
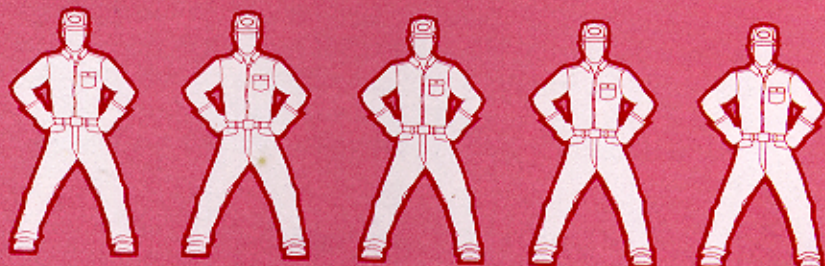


United States  
Department of  
Agriculture

Agricultural  
Cooperative  
Service

Cooperative  
Information  
Report 37

# Keeping Cooperative Membership Rolls Current



# Abstract

## **Keeping Cooperative Membership Rolls Current**

*Donald A. Frederick  
Attorney-Adviser  
Cooperative Services Division  
Agricultural Cooperative Service  
U.S. Department of Agriculture*

This report analyzes the problems inactive members pose for the cooperative character, legal status, and management efficiency of an agricultural cooperative. Bylaws and policies to correct any weaknesses in a cooperative's current approach to inactive members are discussed and examples provided.

Key Words: Bylaws, cooperatives, equity, law, members, structure

Cooperative Information Report Number 37

Issued January 1989

Reviewed and Approved for Reprinting October 1991

# Preface

Many cooperatives have a far greater number of inactive members than can be attributed to crop failure, illness, a decision not to produce a crop marketed by a particular cooperative, and other temporary conditions that make patronage impossible. Inactive members make it difficult for a cooperative to operate in accordance with cooperative principles. They may bring into question a cooperative's compliance with its incorporation statute, laws providing antitrust protection and preferable tax status, and other legal priorities. They may also reduce management efficiency.

Previous studies document the extent of inactive memberships. This report focuses on the problems created and suggests measures to correct weaknesses in individual cooperative programs concerning inactive members. Many of the ideas were gathered from written and personal contacts with managers and professional advisers of farmer cooperatives.

Some issues, such as the extent of the fiduciary duty of current cooperative leaders to former and inactive members, are in a state of review and possible evolution. Cooperatives will have to continue to be alert for developments in this area for some time to come.

# Contents

HIGHLIGHTS .....	iv
EXTENT OF INACTIVE MEMBERSHIPS .....	<b>2</b>
CONFLICTS WITH COOPERATIVE PRINCIPLES .....	3
<b>User Control</b> .....	3
Benefits Distributed in Proportion to Use .....	4
User Financing .....	<b>5</b>
QUALIFYING FOR COOPERATIVE LEGAL STATUS ..	<b>5</b>
State Statutes and Organizational Documents .....	<b>5</b>
Antitrust Protection .....	7
Section 521 Tax Status .....	9
ORGANIZATIONAL AND OPERATIONAL CONCERNS ..	<b>11</b>
Restructuring .....	<b>12</b>
Investment for Expansion .....	<b>12</b>
Cash Patronage Refunds .....	13
Dissenters' Rights .....	14
Distribution of Surpluses upon Liquidation .....	14
Escheat .....	16
The Absolute Majority Rule .....	16
Excessive Administrative Costs .....	17
PROBLEMS WITH PURGING INACTIVE MEMBERS ...	<b>17</b>
CORRECTIVE MEASURES .....	18
Automatic Termination .....	19
Procedural Safeguards .....	20
Equity Redemption .....	22
CONCLUSION - A COOPERATIVE SUCCESS STORY ..	<b>27</b>

# Highlights

A cooperative is a business owned and controlled by people using its services. Previous studies have shown that about 20 percent of farmer cooperative memberships are held by persons who have left farming or quit patronizing the cooperative.

This report summarizes various problems cooperatives can cause for themselves by not keeping their membership rolls current and discusses corrective measures that may be adopted where appropriate.

Cooperative principles require purging of inactive members as part of a systematic program that ensures control is vested in users, benefits are distributed in proportion to use, and current users accept their obligation to finance current operations.

Statutes important to most cooperatives require termination of inactive memberships. Compliance with State cooperative incorporation laws, the Capper-Volstead Act, and other statutes favorable to "associations of producers" occurs only when persons who are no longer producers are systematically removed from the membership. Cooperatives using Section 521 of the Internal Revenue Code must make sure that at least 85 percent of their members are both agricultural producers and patrons of the cooperative during each tax year.

Numerous organizational and operational problems can result from inactive **memberships**. Many are financial in nature. Current and former patrons may **disagree over** how to use limited funds. This can lead to divisive battles over proposed investments for new services, the extent patronage refunds shall be distributed in cash, and equity redemption practices.

Inactive members with dissenters' rights may threaten to drain the cooperative's equity if restructuring is proposed. They may even press for the liquidation of a cooperative in good financial health and, if liquidation occurs, complicate distribution of assets remaining after obligations are paid. Inability to locate inactive members can lead to unclaimed funds being defaulted to the State government under escheat laws.

Problems not directly related to finance can also arise. Inactive members may make it difficult to pass measures requiring an affirmative vote of a relatively high percentage of all members. And inactive members can absorb valuable management time handling matters such as mailings, keeping records accurate, and implementing promotional programs.

Cooperatives that do initiate a plan to update the membership must prepare to deal with disgruntled persons stripped of their membership, especially if their investments are not redeemed; possible mistakes in selecting memberships to terminate; and short-term administrative expenses.

Any cooperative with the appropriate dedication can update its membership list and keep it current. It will adopt bylaws and policies that serve as a basis for terminating the membership of a person who leaves farming or quits patronizing the cooperative, provide procedural safeguards to ensure termination is justified, and outline how the financial relationship between the former member and the cooperative will be resolved. Sample bylaws and policies are included to serve as a starting point for cooperatives to implement a plan suited to their individual situation.

# Keeping Cooperative Membership Rolls Current

Donald A. Frederick

*Attorney-Adviser*

*Cooperative Services Division  
Agricultural Cooperative Service  
U.S. Department of Agriculture*

As cooperatives position themselves for the highly competitive markets foreseen in the 1990's and beyond, much attention is being paid to growth strategies, business combinations, and other responses to changes in their external environment. Cooperatives must begin now to strengthen their internal organization and operation as well. One internal weakness many cooperatives should be addressing is the presence of inactive and ineligible members.<sup>1</sup> These memberships can call into question the cooperative character, legal status, and managerial efficiency of any association where they exist in significant numbers.

This report is intended to make leaders aware of problems and issues that may confront cooperatives with inappropriate persons holding member status. It covers two separate but related situations.

- Persons who meet the eligibility requirements to be a member of a particular cooperative but have stopped patronizing the cooperative. An example is a farmer-member of an agricultural cooperative who takes his business elsewhere while retaining his cooperative membership.
- Persons who no longer meet the eligibility standards for membership. This would include a farmer who ceases production but retains his membership in a cooperative obligated to be an "association of producers. "

The report discusses the extent of inactive and ineligible memberships

---

<sup>1</sup>Whenever used in this report, a member is defined as a person entitled to vote in cooperative affairs, the key criterion for legal purposes.

in agricultural cooperatives and analyzes the impact of these members on a cooperative's adherence to cooperative principles, its qualification for legal benefits, and managerial decisionmaking. It presents corrective measures cooperatives may adopt to keep their membership rolls current.

## EXTENT OF INACTIVE MEMBERSHIPS

Although cooperative principles, and some of the legal requirements based on them, suggest current patronage is required of all members, complete compliance with such a standard will usually be impractical. Farmer-members of an agricultural cooperative may find themselves unable to use their cooperative, perhaps for an entire business year, because of crop failure, a decision not to produce a crop marketed by a particular cooperative in a given year, or sickness or disability.

However, data collected during the annual Agricultural Cooperative Service (ACS) survey of farm marketing, supply, and service cooperatives indicate many such organizations have substantially more members who do not use their services than can be attributed to temporary conditions.

Nationwide in 1986, there were about **4,400,000** memberships in farmer cooperatives and **3,560,000** of these memberships were used. Thus, 19 percent of the memberships were held by persons who did not use the services of the cooperative at all for the year.<sup>2</sup> Since 1981, the first year this information was collected, the percentage of memberships reported as inactive has fluctuated between 19 and 22 percent.<sup>3</sup>

---

<sup>2</sup>Ralph Richardson, et al., *Farmer Cooperative Statistics*, 1986, Agricultural Cooperative Service, USDA, ACS Service Report No. 19 (December 1987), p. 10. Memberships are counted because many farmers belong to more than one cooperative and patronize one or more but not all in a given year. The fact that a member may have patronized another cooperative does not alleviate the problem of inactive status created for a cooperative not patronized.

<sup>3</sup>These results are virtually identical with those of the only previous comparable study our research discovered, a statewide survey of Kansas cooperatives for 1957 that found 18.6 percent of cooperative memberships were held by inactive patrons and one-fourth of all cooperatives in the State had more than 25 percent inactive members. Milton L. Manual, *Retiring Control and Equities of Inactive Co-op Members*, Agricultural Experiment Station, Kansas State College, Circular 346 (1957). While hardly conclusive proof, this indicates the level of inactive memberships has remained fairly constant for some time.



No data is available on the number of cooperative memberships held by persons ineligible for membership. As the main criterion for membership in an agricultural cooperative is to be an agricultural producer, it is reasonable to assume most ineligible members are persons who have ceased farming.

Terminating the voting member status of inactive members will also purge most, if not all, of the ineligible memberships and alleviate problems created by either situation.

## **CONFLICTS WITH COOPERATIVE PRINCIPLES**

A cooperative is a business in which the owners and the users are the same people; they are the members. A cooperative is distinguished from other businesses by its adherence to a set of operating rules, called cooperative principles. While other businesses seek to maximize earnings for the benefit of investors, these principles direct cooperatives toward their unique objective of providing services to members at cost.

While not all lists of cooperative principles are identical, these concepts are generally included:

- A cooperative is owned and controlled by those who use its services.
- Benefits are distributed to those who patronize the cooperative in proportion to use.
- Cooperatives are financed by patrons in proportion to use.

These principles are more than an academic exercise. They have been accepted by State and Federal legislators and are the basis for key statutes determining the legal status of cooperatives. This, in turn, means they play an important role in the way a cooperative is managed.

### **User Control**

The principle of control by member-users, often referred to as democratic control, requires not only that members actively patronize

the cooperative when they join, but also that they do so on a regular basis throughout the term of their membership. When a member stops using the services of the cooperative, the principle suggests the membership should be reviewed and, if there are no extenuating circumstances, it should be terminated. As Nellis Briscoe of Oklahoma State University pointed out:

“Democratic control is one of the basic characteristics of a true cooperative association. The control as well as the ownership of the cooperative should be in the hands of the member-patrons. To adhere to this principle it is also essential to retire voting rights of members who, for various reasons, cease to patronize their association.”<sup>4</sup>

Roy supported this view when he wrote, “Ownership and control should always be vested with active patrons.”<sup>5</sup>

Most cooperatives check the eligibility of an applicant for membership, including compliance with any requirement that the applicant be a producer of goods marketed by the cooperative or otherwise be in a business that will use the services of the cooperative. Thus, they are reasonably sure the applicant is eligible for membership and will begin as an active patron.

However, over time every member’s situation will change. They will die, cease farming, take their business elsewhere, move from the area served, or for some other reason no longer be an active user of the cooperative. All too often this is ignored by cooperatives. Former patrons with membership status retain their right to vote, and control may gradually slip from the hands of the active patrons. This can call into question the cooperative character of the association.

## **Benefits Distributed in Proportion to Use**

If former patrons are allowed to vote, they are in position to press for

---

<sup>4</sup>Nellis Briscoe, et al., *Retirement of Control and Ownership Equities of Inactive Cooperative Members*, Agricultural Experiment Station, Oklahoma State University, Bulletin B-659, (1968), p. 10.

<sup>5</sup>Ewell Roy, *Cooperatives: Development, Principles and Management*, (Danville, IL: The Interstate Printers and Publishers, Inc., 1976), p. 341.

the use of earnings to redeem retained patronage and to pay high dividends on retained patronage not redeemed. This can not only reduce funds available for paying patronage refunds on current business but also deplete the assets of the organization. These issues are explored in more detail in the section on organizational and operational problems.

## **User Financing**

Inactive members are most likely to assert their voting power if the cooperative continues to rely on their retained patronage to finance operations that benefit only current users. An effective equity redemption program that, to the extent practicable, provides for a systematic transfer of the responsibility for financing the cooperative from former to current users, relieves tension and augments this principle. Equity redemption is discussed in more detail in the corrective measures section of this report.

## **QUALIFYING FOR COOPERATIVE LEGAL STATUS**

### **State Statutes and Organizational Documents**

While it might appear self-evident that a member is anyone accepted into membership by a cooperative, legal parameters must be met to ensure only eligible persons are cooperative members. These are found in State statutes that authorize the organization and incorporation of cooperatives and the articles and bylaws of individual organizations.

Baarda identified and classified 86 cooperative acts farmers may use to form a **cooperative**.<sup>6</sup> Every State has at least one such law. The general business incorporation statutes of the States are also available to organizers of cooperatives.

Many farmer cooperatives are organized under special agricultural cooperative acts that require all members be persons engaged in production of agricultural products and associations of such producers.<sup>7</sup>

<sup>6</sup>James Baarda, *State Incorporation Statutes for Farmer Cooperatives*, Agricultural Cooperative Service, USDA, Cooperative Information Report No. 30 (October 1982), (hereinafter, *State Statutes*).

<sup>7</sup>*Ibid.*, 10.03.05. Forty-eight of the statutes studied, found in 42 States, have this requirement.

The more general statutes give cooperatives considerable discretion to establish eligibility standards for membership. Applicable criteria are usually placed in the articles and bylaws. These may include listing the classes of individuals and business entities eligible to join, such as producers and producer associations, and any investment requirements.

Associations organized under farmer cooperative statutes usually also include membership requirements in their articles or bylaws. These organizational documents are as binding on a cooperative as a statute, and must be just as diligently applied to prevent loss of legal benefits and risk of liability.

Checking the eligibility status of a person when he applies for membership is not enough to ensure compliance with these statutes, articles, and bylaws. Unless cooperatives regularly remove persons who quit farming from their membership rolls, they may not be in technical compliance with their incorporation statute and organizational documents, and may be at some risk with regard to any benefits conferred on associations organized as cooperatives. Also, directors may be exposed to personal liability for losses resulting from actions of the business that exceed its authority when it does not operate as required by its incorporation statute and organizational papers.

**Producer defined** An important prerequisite to ensuring that only eligible persons hold membership in a cooperative is the ability to identify ineligible applicants and members. In a farmer cooperative, this usually means distinguishing between producers and nonproducers.

A producer is someone directly involved in actual production and who bears a risk of production. An owner-operator of a farming enterprise is clearly an agricultural producer.

Processors and packers to whom farmers sell their goods, but who are not involved in actual production, are not producers even when they bear part of the risk of production.<sup>8</sup>

---

<sup>8</sup>*National Broiler Marketing Assn. v. United States* (1968). Integrated poultry operators who do not own a breeder flock, a hatchery, or a grow-out facility, but rely entirely on independent contract growers to raise chickens for them to process, were found not to be directly involved in agricultural production and therefore are not agricultural producers.

The situation most likely to require interpretation involves a typical farming enterprise where ownership and operation are separated. The Internal Revenue Service (IRS), in response to a specific request to define a producer in the context of Section 521 of the Internal Revenue Code, provided this useful rule:

“A person is a producer if, as an owner or tenant, he bears the risk of production, cultivates, operates, or manages a farm for gain or profit-in short, if he is engaged in the trade or business of farming. A person who receives a rental (either in cash or in kind) which is based upon farm production is engaged in the trade or business of farming, and hence is a producer. Generally, a person who receives a fixed rental or other fixed compensation (without reference to production) is not a producer.”<sup>9</sup>

Examples included in the ruling indicate that if there is no question that the enterprise is involved in agricultural production, then **the** key test is whether the individual whose eligibility is under review bears the risk of production.

- If both the landlord and tenant share the crop, both are producers.
- If the landlord receives a fixed rent, only the tenant is a producer.
- If the farm is operated by a manager paid a fixed salary, even though he makes most of the managerial decisions, he is not a producer .
- A profitmaking corporation that has some farm land in production to raise farm crops for sale is a producer.

## **Antitrust Protection**

The Capper-Volstead Act is frequently referred to as the **Magna Charta** of cooperative marketing. It provides “persons engaged in the production of agricultural products” limited protection from antitrust liability.<sup>10</sup> Without this act agreements on price and other joint **market-**

---

<sup>9</sup>Revenue Ruling 67422, 1972 C.B. 217.

<sup>10</sup>7 U.S.C. §§291-292.

ing activities of farmers would face close scrutiny under antitrust laws.<sup>11</sup>

In 1978, the United States Supreme Court denied Capper-Volstead protection to the National Broiler Marketing Association (NBMA) because the association could not prove all of its integrated poultry processing members were farmer producers. The court said:

“In order for NBMA to enjoy the limited exemption of the Capper-Volstead Act, and, as a consequence, to avoid liability under the antitrust laws for its collective activity, *all* its members must be qualified to act collectively. It is not enough that a typical member qualify, or even that most of NBMA’s members qualify.”<sup>12</sup>

This decision is consistent with an earlier opinion denying Capper-Volstead protection to a citrus growers association because 15 percent of its members were nonfarmer processors.<sup>13</sup>

One court has distinguished **these** cases, which involved processor participation in farmer cooperatives, from that of an association of producers that permitted some persons with no interest in agricultural marketing to be members. The court held that a cooperative that only marketed for “true producers” did not lose Capper-Volstead Act protection because it had a “small number of nonfarmers (as members). . . largely because of ignorance or sloppiness on the part of (the cooperative) in policing its membership rolls.”<sup>14</sup>

This decision should not be interpreted by marketing cooperatives as a blank check to ignore the need to regularly remove ineligible persons from the membership rolls. The court twice mentioned that shortly after it began its marketing program, and before the litigation began, the association adopted and generally enforced a bylaw making it clear

---

<sup>11</sup>See, e.g.; *Fairdale Farms v. Yankee Milk*, 635 F.2d 1037 (2nd Cir. 1980), cert. denied, 454 U.S. 818 (1981).

<sup>12</sup>*National Broiler Marketing Association v. United States*, 436 U.S. 816, 822-823 (1978).

<sup>13</sup>*Case-Swayne Co. v. Sunkist Growers*, 389 U.S. 384 (1967).

<sup>14</sup>*Alexander v. National Farmers Organization*, 687 F.2d 1173, 1185 (8th Cir. 1982), cert. denied, 461 U.S. 937 (1983).

that any member who quit farming automatically ceased to be a member and his or her membership agreement became null and void. Only a few nonproducers were members for a brief period of time.

## Section 521 Tax Status

Cooperatives that must make certain membership is limited to agricultural producers who annually patronize the association are those that take advantage of section 521 tax status.

Most cooperative income tax rules are set out in Subchapter T of the Internal Revenue Code. Subchapter T permits any corporation “operating on a cooperative basis” to deduct qualified patronage refunds and per-unit retains, and redemptions of nonqualified **allocations**.<sup>15</sup>

Subchapter T is based directly on the cooperative principle that benefits, in this case margins, are distributed to users in proportion to patronage, not investment. It also implements the principle that cooperatives are financed by users in proportion to use. Because subchapter T tax treatment is available to any corporation, there are no restrictions on who may be a member of a cooperative using its provisions.

Membership composition and patronage can be very important, however, to an association wishing to claim additional deductions available to cooperatives meeting qualification standards set out in Section 521 of the **Code**.<sup>16</sup> Section 521 cooperatives can deduct dividends on capital stock and patronage-based distributions of earnings from business with the United States and from nonpatronage sources. <sup>17</sup>

A cooperative qualifies for these deductions only if it is a “farmers’ cooperative” and, among other things, if it has capital stock, “substantially all such stock (other than nonvoting preferred stock,. . .) is owned by producers who market their products or purchase their supplies and equipment through the **association**.”<sup>18</sup>

---

<sup>15</sup>IRC, §§1381-1388. See specifically, IRC, #1382(b).

<sup>16</sup>IRC, §521.

<sup>17</sup>IRC, §1382(c).

<sup>18</sup>IRC, §521(b)(2).

This standard has remained unchanged since its original enactment in 1926.<sup>19</sup> It received little attention until 1969 when a U.S. Court of Appeals ruled IRS could require substantially all stockholders to be more than mere farmers; they must “currently and actively patronize the cooperative.”<sup>20</sup>

The court also encouraged IRS to clarify the meaning of the “substantially all” test. IRS responded in 1973 with a ruling that the “substantially all” test is satisfied if at least 85 percent of the capital stock is held by producers, and those producers currently and actively patronize the cooperative.<sup>21</sup>

Although cooperatives argued that the 85-percent rule is too rigid to be applied in all circumstances, two court decisions held the standard reasonable. The first found a cooperative not in compliance although 83.75 percent of voting stock was held by active current patrons.\*\* In the other, the court cautioned against applying the 85-percent rule too rigidly because it may not be appropriate in all factual contexts, but held that an association did not qualify with an 84.78-percent compliance rate.<sup>23</sup>

A Federal court has established the guideline for determining who is to be counted in measuring compliance with the 85-percent test. The court found the traditional legal test, actual ownership of a share of stock, was not the best standard to apply to a cooperative. Instead, it ruled the proper test was the right to vote at the next annual meeting after the end of each fiscal year.<sup>24</sup>

---

<sup>19</sup>Revenue Act of 1926, 44 Stat. 4041 (1926).

<sup>20</sup>*Co-operative Grain & Supply Co. v. Commissioner*, 407 F.2d 1158, 1162 (8th Cir. 1969).

<sup>21</sup>Rev. Rul. 73-248, 1973-I C.B. 295.

<sup>22</sup>*West Central Cooperative v. United Stares*, 758 F.2d 1269 (8th Cir. 1985).

<sup>23</sup>*Farmers Cooperative Company*, 85 T.C. 36 (1985). IRS has tried to apply another restriction on the “substantially all” test, that each stock owner must market more than 50 percent of his products and/or purchase more than 50 percent of his supplies through the cooperative to be considered a producer who markets products or purchases supplies through the association for purposes of section 521(b)(2). Rev. Proc. 73-39, 1973-I C.B. 502. A subsequent opinion in this case held that standard invalid. *Farmers Cooperative Company v. Commissioner*, 89 T.C. No. 47, slip op. at 5 (Sept. 29, 1987).

<sup>24</sup>*Farmers Cooperative Company v. Commissioner*, 822 F.2d 774 (8th Cir. 1987).



Thus, farmer cooperatives that wish to qualify for section 521 tax status have time after the end of their fiscal year to both add new **patron**-members to the voting membership roll and delete inactive patrons before the annual meeting to bring themselves into compliance with the “substantially all” requirement.

Such cooperatives must diligently monitor the patronage activity of all stock owners. They must keep good records that show who owns all voting stock and the extent of business conducted through the cooperative each year. They will have to take steps to cancel the voting privileges of persons who do not patronize the association during each year.

In summary, the potential for special legal difficulties exists for cooperatives that do **not** keep membership rolls current if they are incorporated under a State farmer cooperative law or have an article or bylaw requiring members be producers and/or active patrons, provide marketing services for their members, or have section 521 tax status. Several other laws confer both rights and responsibilities on “**associations of producers.**”<sup>25</sup> Cooperatives that do not terminate the memberships of inactive and ineligible persons run a risk of losing benefits or incurring liability for violating such statutes that apply to them.

Just because a farmer stops patronizing a cooperative doesn't mean he or she is no longer a producer. But when a member stops using the services of a cooperative, regular contact usually ceases. Soon the cooperative doesn't know whether the person is still a producer. The only prudent management policy is to adopt a program to cancel inactive memberships.

## **ORGANIZATIONAL AND OPERATIONAL CONCERNS**

Maintenance of an association's cooperative character and favorable legal status are not the only incentives for keeping membership rolls current. The need to adopt sound management practices is another. Managers and advisers of cooperatives, contacted during the **develop-**

---

<sup>25</sup>See, e.g.: the Cooperative Marketing Act, 7 U.S.C. §§451-457 (1926); the Agricultural Marketing Agreement Act, 7 U.S.C. §608 (1937); the Commodity Credit Corporation Act, 15 U.S.C. §714j (1948); the Agricultural Fair Practices Act, 7 U.S.C. §§2301-2306 (1967); and the Perishable Agricultural Commodities Act, 7 U.S.C. §499e(c)(12), (1984).

ment of this report, related numerous problems that have confronted cooperatives that did not purge inactive members. Other cooperatives should consider taking steps to avoid these situations.

It is not surprising that **the** majority of the reported problems centered on money. The recent distressed state of agriculture has increased the competition for limited assets of cooperatives. But even in bounteous times, current and former patrons have disagreed about the proper use of available resources.

## **Restructuring**

The changing structure of agriculture, finance, transportation and distribution, and other external factors affecting cooperatives is leading to structural change among cooperatives. Often this cooperative restructuring takes the form of merger or consolidation among cooperatives.

Member approval is required for most such reorganizations to occur. Former patrons who retain voting rights in the cooperative have, at times, presented a serious obstacle to consummation of a restructuring plan.

They may view the cooperative as more of a social organization than a business, and see no reason to let others join **the** club. This can be a special problem where the proposed affiliation is with a cooperative whose members are of a different ethnic or religious background. Younger active farmers may be willing to overlook cultural differences to build a stronger business organization, older retired members don't always see the need for such interaction.

Former patrons can also have a valid business reason for being concerned about a merger or consolidation. If they have unresolved equity investments in a cooperative, they may feel the restructuring threatens the likelihood that those investments will be redeemed in a reasonable period of time. This is the first of several problems discussed that can be minimized through adoption of an equity redemption program.

## **Investment for Expansion**

The opportunity, or necessity, to invest in plant and equipment to **fur-**

ther cooperative business can lead to a divisive battle over funds available to finance that investment. Current patrons usually favor the proposed investment as a way to improve their farm income.

Former patron-shareholders, with unrevolved equity investments, may forcefully seek to use the funds to redeem their equities.

When the cooperative has an established equity redemption program, the former patrons may not actively oppose using funds to strengthen the ongoing cooperative effort because they are confident their investment will be redeemed within the usual time frame.

However, if the cooperative has a spotty or indifferent record on equity redemption, a bloc vote against a proposed investment by former patrons should not be surprising, and it may slow or even defeat the investment effort and weaken the association.

### **Cash Patronage Refunds**

A cooperative that does not have an immediate need to invest margins can also face dissension over allocation of resources.

The Internal Revenue Code requires cooperatives that use the traditional method of building member equity, qualified written notices of allocation, to distribute only 20 percent of their patronage refunds in cash. Cooperatives that use per-unit retains and non-qualified written notices are not required to distribute any cash to current patrons.

But current members may have legitimate needs for sizable cash payouts. Low income members may need cash to cover expenses if they are to stay in farming.

Members with high taxable income, who receive qualified written notices of allocation and per-unit retain certificates, will face a negative cash flow if they do not receive enough cash to pay taxes owed on their allocated equities. This can lead them to stop patronizing the cooperative. As they are often high volume patrons, the ability of the association to service remaining members efficiently is affected.

Inactive members have pressured leaders to use available funds to

redeem patronage paper issued in earlier years. If inactive members have enough power in the cooperative, they can make it difficult to return benefits on the basis of current patronage and to provide financial incentives for active members to continue patronizing the cooperative.

## **Dissenters' Rights**

Some State cooperative statutes allow member-shareholders who dissent from a merger or consolidation decision to withdraw from the cooperative and have their equities redeemed.<sup>26</sup> This can limit the flexibility of a cooperative to restructure.

Former patrons whose memberships have been terminated and voting stock redeemed may be foreclosed from exercising dissenters' rights, even if they continued to hold other equities in the cooperative.

Thus cooperatives incorporated under these statutes may be better able to make changes in structure to meet the needs of the association if inactive members are removed from the membership rolls on a regular basis.

## **Distribution of Surpluses upon Liquidation**

Historically, cooperatives have only dissolved and liquidated upon bankruptcy. However, in recent years the members of a few associations have voted to cease operations when the cooperative's assets far exceeded liabilities. This has resulted from urbanization that has made farming difficult and the desire of members to convert the paper value of their business into cash.

Inactive members with retained equity investments can be expected to vote for liquidation as a way to get their money out of the association. This can influence the outcome of a decision that may have important implications for new and future farmers who would benefit from continuation of the cooperative.

---

<sup>26</sup>State Statutes, 16.09. Cooperative members in other States may have dissenters' rights under the general corporate law of their States.

An issue of prime importance in this situation is who will share in assets remaining after liabilities are paid and allocated equities redeemed. The historical rule, in effect when State law is silent on the subject, is summarized in *Legal Phases of Farmer Cooperatives*:

“At common law, on the dissolution of a **nonstock** cooperative, only the persons who are then members are entitled to share in the distribution of the assets remaining after the payment of its debts. In an association formed with stock, only stockholders at the time of the dissolution are entitled to share in the net assets of the association. In a **nonstock** association, at common law, the distribution is made on a pro rata basis, whereas in a stock association the distribution is made on a stock basis. (citations omitted)”\*7

Many State cooperative statutes do cover apportionment of surplus assets at dissolution. Several mention alternative methods. These include authorizing a specific article or bylaw on the subject, and basing the distribution on members’ or stockholders’ property interests, stock ownership, or past patronage.<sup>28</sup>

Except where a specific method is required by State law, the courts will usually enforce a bylaw setting out how any funds remaining at dissolution, after all obligations are paid, will be distributed. This is particularly true if the bylaw is adopted well before the dissolution process begins.

In those instances where no specific plan is set out in State cooperative law or the bylaws, State general corporation law will often be applied. Like common law, it will usually call for distribution based on some measure of investment.

A cooperative that wants to control its own affairs in this situation should have an appropriate bylaw.

---

<sup>27</sup>*Legal Phases of Farmer Cooperatives*, Farmer Cooperative Service, USDA, **FCS** Information 100 (May 1976), pp. 108-109.

<sup>28</sup>*State Statutes*, 17.03.02.

## Escheat

Unclaimed property, or escheat, laws now in effect in most States, provide that any financial assets owed by a business to another person, and not claimed within a fixed period of time, shall become the property of the State. The rationale of these laws is that unclaimed property should not be a windfall to the holder, but should be turned over to the State for the benefit of all citizens.

Escheat laws usually cause problems for cooperatives that do not keep membership rolls current, redeem equities of former patrons within a reasonable period of time, or keep accurate records of the location of holders of old equities. When an effort is made to redeem the old equities, the former patrons cannot be located. In time, the State asserts ownership over the unclaimed funds.

As applied to unclaimed patronage distributions, a reasonable argument can be made for retention by the cooperative to benefit the patron group, rather than seizure for the benefit of all citizens of the State.

A few States permit cooperatives to avoid escheat by following specific procedures to attempt to locate missing payees.<sup>29</sup> At least two others, Arizona and Wisconsin, permit cooperatives to use unclaimed funds for educational purposes.

Losses of patrons' funds to the State can be minimized in all instances by an effective program to keep membership rolls and financial obligations as current as possible.

## The Absolute Majority Rule

Many cooperative membership decisions are made by a simple, or larger, majority of the members present and/or voting. However, State statutes and cooperative articles of incorporation and bylaws often require some decisions be made by simple or larger majority of all stockholder-members. Sometimes called the absolute majority rule, this

---

<sup>29</sup>At the time of publication, these included Alaska, North Dakota, Oregon, South Dakota, and Washington. Cooperatives in other States are working to secure similar legislation.

requirement most often applies to votes to amend articles and bylaws; remove directors and officers; and approve structural reorganizations including merger, consolidation, disposition of assets, and dissolution.

If the absolute majority rule is in effect, every shareholder member who is inactive and who does not vote, even if unreachable, is a *de facto* “no” vote. Current member-patrons can be denied the opportunity to make changes in the cooperative that may be essential to its continued viability.

Other procedural tests may also be based on a percentage of total shareholder-members, including the proportion of the membership that must be present to comply with any quorum requirement and must sign a petition to force the leadership to call a special member meeting. Inactive members can negate important rights of currently active members in these areas as well.

### **Excessive Administrative Costs**

Every mailing, computer entry, and ledger page costs money. Keeping former patrons on the membership roll can add significantly to a cooperative’s administrative expenses. This can be especially true if the association decides to automate its member records and must include a large number of inactive accounts.

A careful review of the list can also uncover costly duplication, such as the same member-shareholder being listed separately as “Rodney,” “Rod,” and “R.J.” or multiple listing for different members of the same family that holds a single membership in the cooperative.

Some supply cooperatives hold “member only” sales, preview nights, and other promotions. Limiting membership to current patrons lowers the cost of promoting such events and ensures that the benefit of being able to participate in these functions is available only to those producers who support the cooperative on a regular basis.

### **PROBLEMS WITH PURGING INACTIVE MEMBERS**

While the research that preceded this report disclosed several compelling reasons to terminate inactive memberships, it also disclosed some

reasons to move cautiously when considering such a policy.

Persons who are terminated may take offense at being stricken from the voting member list. They may tell others that the cooperative is ungrateful for their past support. If their equities are not redeemed they may say, with some justification, that the cooperative is interested in their money but not in them.

Unless great care is taken as records are adjusted, mistakes will be made in changing the status of accounts. For example, active members may be inadvertently dropped from the roll if the records fail to properly reflect a change in the name of the account. This frequently occurs when a farm ownership structure changes.

Updating the membership roster can result in a short-term increase in administrative expense. Files must be corrected, checks issued for the cost of the shares of stock, stock certificates retrieved and canceled, and so forth. Staff may need to be educated on the importance of carefully carrying out this activity.

## **CORRECTIVE MEASURES**

It should be recognized at the outset that many different practices, properly employed, can help keep the membership rolls of a cooperative current. The objective should be to adopt practices that get maximum results with minimum ill effects.

Most State statutes support efforts of cooperatives to purge inactive members. They frequently refer to suspension and expulsion of members in the context of a bylaw provision, usually permissive. Baarda found 36 of the 84 statutes studied indicate cessation of membership rights may be made automatic when the member ceases to be eligible for membership. Thirty-seven statutes permit the association to establish the manner of expulsion. Fifty-one specifically permit writing procedures for termination into the bylaws.<sup>30</sup>

Although the applicable statute of incorporation may not authorize the

---

<sup>30</sup>State Statutes. 10.09.02.



specific approach a cooperative wants to adopt, as a general rule the association is free to choose any reasonable scheme not expressly prohibited.

The cornerstone of an effective program to keep the membership roll current is a set of bylaws that anticipate problems before they become difficult to handle. Bylaws should be considered that require termination of a member who ceases to be a producer or simply stops patronizing the cooperative, provide procedural safeguards to ensure termination is justified, and explain the effect of a termination on the financial relationship between the former member and the cooperative.

### **Automatic Termination**

Cooperatives incorporated under State farmer cooperative laws, marketing cooperatives anxious to protect their access to the antitrust protection, and cooperatives that want to qualify under other laws beneficial to “associations of producers” must make sure only producers of agricultural products hold membership.

These associations should have a bylaw automatically terminating a membership if a person stops farming. It might read:

“The membership of any member of the cooperative who ceases to be actively engaged in the production of agricultural products shall be terminated automatically.”<sup>31</sup>

A cooperative with section 521 tax status should have a bylaw unequivocally terminating membership status if the member fails to patronize the association for a single fiscal year.

A bylaw that covers this situation might read:

“The membership of any member of the cooperative who does not market product through, or purchase supplies from, the cooperative

---

<sup>31</sup>The sample bylaws in this report are provided as examples only. An attorney should be consulted before any new bylaw is adopted to make sure the provision(s) both reflect the desires of the membership and comply with applicable legal requirements.

during any fiscal year of the cooperative shall, at the expiration of said 1 -year period, be terminated automatically. ”

This bylaw provides a reasonable time frame to accommodate the member who must stop using the cooperative, but hopes or plans to resume patronizing after an undetermined period. The language allows a member who has stopped using the cooperative to resume patronizing it within a period of up to nearly 2 years depending on when patronage ceased during the previous year without reapplying for membership and securing board approval, paying a second membership fee, or meeting other conditions imposed on new members. It permits a member forced to temporarily stop using the cooperative to continue voting and holding office.

Some cooperatives without section 521 tax status review the patronage status of their members every year and purge those members who have not done business with the association for 2 years. While a single year test might be preferable, a 2-year cycle is probably adequate to satisfy requirements, other than those found in section 52 1, for a current membership roll.

## **Procedural Safeguards**

While the bylaws noted above automatically terminate a membership if certain conditions exist, the association should take positive steps to implement them. Otherwise, some members may be erroneously purged while inactive patrons may continue to participate in control of the association simply because no one realizes they shouldn't be doing so.

A cooperative that wants to treat its members fairly, and wants to minimize the possibility of a lawsuit by a terminated member alleging arbitrary and capricious conduct, will adopt procedural safeguards to ensure members under review have an opportunity to show that conditions for termination have not been met. These include notifying the member that eligibility is under review; offering the member an opportunity to submit evidence, in writing or during a meeting with the board, that termination is improper; and an official board vote on the termination.

A bylaw on this matter might read:

“If the cooperative has reason to believe a member is no longer a producer of agricultural products, has ceased to be a current and active patron of the cooperative, or for any other reason no longer meets the qualifications for membership, then the cooperative shall notify the member that membership status is under review. The member shall have an opportunity to appear before the board of directors to discuss this status, submit a written statement, or offer other evidence. If the board subsequently finds the member no longer meets the qualifications of membership, the membership is **terminated**.”<sup>32</sup>

While a bylaw is the proper vehicle to establish that the membership roll will be ‘kept current and appropriate procedural protections provided, the implementation plan may be in a less formal document, such as a board policy.

The board policy might call for several steps to make certain the process is fair and does not lead to any erroneous terminations. These steps might include:

1. Before each meeting of the board of directors, the manager will prepare a list of members that the manager has reason to believe are no longer producers of agricultural products or are, for any other reason, no longer eligible for membership.
2. After the end of each fiscal year, the manager will prepare a list of members who have not done business with the association during that fiscal year.
3. The directors shall review the lists prepared by the manager and make additions or deletions they deem appropriate.

---

<sup>32</sup>It is common for cooperatives with this type of bylaw to include references to other specific conduct that will lead to a review of membership status such as violation of any bylaw, violation of any provision of a marketing agreement, failure to make any payment due the cooperative, and any conduct detrimental to the purposes of the cooperative. For a more detailed discussion of the legal consequences to a cooperative when an expulsion occurs, see John D. Copeland, “Expulsion of Members by Agricultural Cooperatives,” 1 *Journal of Agricultural Cooperation* 76 (1986).

4. The board shall instruct the manager to send a written notice to each member on the lists. The notice shall point out that association records indicate the member may no longer be eligible to belong to the cooperative and the reason(s) why the status of the membership is being reviewed.

The notice shall encourage a response from the recipient. It shall invite the member to meet with the board to show cause why membership should not be terminated and state **the** time and place where the member may be heard.

5. Members who do not intend to contest the termination should be encouraged to notify the association that they no longer wish to be member-patrons. As an inducement, they may be assured this will speed the refund of the purchase price of their share of common voting stock.

6. Members who are in otherwise good standing, but have ceased farming or ceased patronizing the cooperative, should be made to feel welcome to rejoin the cooperative if, at some later date, they are once again interested in patronizing its services.

Cooperatives with such a procedure report it imposes only a modest burden on directors. Most inactive members are no longer interested in the services provided by the association and either ignore the notice or provide a polite response accepting the termination.

## **Equity Redemption**

Ideally, a cooperative would be in a position to redeem all investments of each member at the time the membership ceases for any reason. In the real world, this is rarely the case.

Most cooperatives must continually strive to accumulate sufficient equity capital. This means directors must constantly balance the desire of present and former members to recover for personal use their investments in the cooperative with the need of the organization as a whole for a strong balance sheet.

It is common for a member to make a small payment when joining a

cooperative. This may either be a membership fee, witnessed by a membership certificate, or the cost of a share of voting common stock that may or may not be represented by a formal stock certificate. This initial payment usually provides the member with a right to vote on issues presented to **the** membership.

If the member makes any sizable use of the services of **the** cooperative for any length of time, the retained patronage refunds and per-unit retains may soon be substantially larger than the initial cash payment. Retained patronage based investments usually do not result in any additional voting rights.

The legal requirements for keeping membership rolls current, discussed above, evolve from the public policy perception that if a cooperative is to enjoy certain legal benefits, then it must be controlled by persons currently using its services. Thus, the reason the membership must be terminated is to rescind the voting rights of the ineligible or inactive member.

Because the right to vote is tied only to the modest initial payment, and not to patronage based investments, it is usually not an undue burden on a cooperative to refund the initial payment of a terminated member. This should make it clear that **the** former member's status has changed and the former member no longer has a say in the affairs of the cooperative.

**Patronage-Based Investments** The issue of when to redeem patronage-based investments is often more difficult to resolve. No Federal or State law requires a cooperative to adopt a systematic program to redeem retained patronage-based investments. Treatment of equity redemption varies considerably from State to **State**.<sup>33</sup>

Most statutes leave redemption decisions to the judgment of the board of directors. Cooperatives justify this rule by pointing out that if members who stop patronizing the cooperative could force immediate redemption, the financial health of the association would be in constant

---

<sup>33</sup>The subject of equity redemption is thoroughly discussed in another Agricultural Cooperative Service report, *Equity Redemption, Issues and Alternatives for Farmer Cooperatives*. Agricultural Cooperative Service. USDA. ACS Research Report No. 23 (1982).

peril. For this reason, the courts have given cooperatives substantial discretion in designing plans to redeem equity investments of former members.” This is true even when the party seeking to force redemption is generally accorded favored status under the law, such as the estate of a deceased former **member**<sup>35</sup> and a trustee in bankruptcy.<sup>36</sup>

A few State statutes do require prompt redemption of retained equities in special situations, including when the membership is terminated, as well as when a member dies or just **withdraws**.<sup>37</sup> A cooperative covered by one of those statutes must make sure it has adequate reserves to comply in those instances where redemption is required.

Even when not mandated by State law, it is a sound cooperative practice to have a workable plan to redeem patronage equities. This is essential if the organization is to comply with the principle that cooperatives are financed by those who use its services.

In addition, cooperative leaders, especially directors, have an obligation to manage the assets of the cooperative so that all persons to whom they owe a fiduciary duty are treated fairly. In the past, the scope of this duty has been generally limited to active member patrons. However, some courts appear to be broadening that duty to include former patrons who still have an equity investment in the cooperative. <sup>38</sup>

General adoption on this expanded fiduciary duty would not mean **ter-**

---

<sup>34</sup>*Lake Region Packing Association, Inc. v. Furze*, 327 So.2d 212 (Fla. 1976). The court made it clear that while the discretion is substantial, an abuse of that discretion will not be tolerated. 327 So.2d at 217. See also, *Atchinson County Farmers Union Co-op v. Turnbull*, 736 P.2d 917 (Ran. 1987).

<sup>35</sup>*Claassen v. Fanners Grain Cooperative*, 490 P.2d 376 (Ran. 1971); *Evanenko v. Fanners Union Elevator*, 191 N.W.2d 258 (N.D. 1971).

<sup>36</sup>*In re Schauer*, 835 F.2d 1222 (8th Cir. 1987); *In re Axvig*, 68 BR 910 (Bankr. N.D. 1987); *In re Cosner*, 3 BR 445 (Bankr. Ore. 1980). But see contrary decision forcing interregional cooperatives to offset equity with debt owed it by bankrupt regional. *Universal Cooperatives v. FCX, No. 88-1525* (4th Cir., August 11, 1988).

<sup>37</sup>*Equity Redemption*, at 119.

<sup>38</sup>*HAJMM Company v. House of Raeford Farms, No. 86-CVS-131* (Sup. Ct., County of Scotland, N.C., decided Dec. 17, 1987); *Farmers Union Oil Co. of Sun River, Montana v. CENEX, No. BDV-84-831* (Mont. 8th D., Cascade County, decided Feb. 4, 1988).

minated members will have a right to immediate redemption of retained **investments**<sup>39</sup>, but rather that cooperatives may not arbitrarily disregard interests of former patrons when allocating the financial resources of the **association**.<sup>40</sup>

**Implementation** Properly drafted and implemented bylaws are the best vehicle for establishing a plan to redeem patronage based equities of current and former patrons.

When developing its plan, a cooperative will usually want to start with the policy of redeeming all similar equities at the same time, and redeeming those equities that have been outstanding the longest before redeeming more recently issued equities. Under this scheme equities of current and former patrons are redeemed simultaneously.

A bylaw establishing such a program might read:

“If at any time the board determines that the financial condition of the association will not be impaired thereby, the capital then credited to patrons’ accounts may be retired in full or in part. Any such retirement of capital shall be made in order of priority according to the year in which the capital is furnished and credited, the capital first received by the association being first retired. If the association only retires a portion of the capital acquired during a given year, it shall retire an equal proportion of the capital acquired from all patrons of that year. ”

While this wording may appear vague, it is necessary to give directors the flexibility they need to assess each year the ability of the association to redeem outstanding equities without impairing the financial strength of the cooperative. Courts found an abuse of discretion when a cooperative did not strictly adhere to a bylaw providing for redemption of outstanding equities when specified conditions were met<sup>41</sup>, and voided a bylaw amendment that disadvantaged former member patrons

---

<sup>39</sup>*Whitney v. National Grape Co-operative Association, No. C-83-668-AAM* (E.D. Wash. Apr. 9 1987); *aff’d* CA No 87-3854 (9th Cir., March 14, 1988).

<sup>40</sup>Fiduciary duty and related issues pertaining to director responsibility and liability are explained in *Director Liability in Agricultural Cooperatives*, Agricultural Cooperative Service, USDA, Cooperative Information Report 34 (1984).

<sup>41</sup>*Driver v. Producers Cooperative, Inc., 345 S.W.2d 16* (Ark. 1961).

by removing an equity redemption obligation.<sup>42</sup>

*Special Circumstances* Some cooperatives have adopted bylaws giving preference to one or more classes of former patrons in the redemption of patronage based equities. These may involve estates of deceased patrons, patrons who move from the area served by the cooperative, patrons who retire (sometimes combined with a minimum age requirement), and bankruptcy situations.

A bylaw permitting such priority redemption might read:

“Notwithstanding any other provision of these bylaws, the board, at its discretion, shall have the power to retire any capital credited to patrons’ accounts when it has been determined a patron (insert *special conditions*) and funds are available for such purposes.”

*Less Than Face Value Redemptions* While not a strategy to be used without good cause, IRS has granted favorable tax treatment to a cooperative redemption of patronage equities at less than their stated value upon issuance. The equity holders were allowed an ordinary income loss deduction, in the year of redemption, for the difference between the stated amount included in income for the year the notice was issued and the amount received upon redemption.<sup>43</sup> The cooperative realizes taxable income on the difference, reportable in the year of redemption.<sup>44</sup>

This discussion of financial reconciliation has assumed the cooperative adopts a first-in first-out revolving fund equity redemption program. This is the plan used by most cooperatives, but that does not mean it is the best plan available. Alternative programs, including base capital and percentage-of-all-equities plans, are discussed in the *Equity Redemption* report cited above. A cooperative that adopts an alternative plan will, of course, have to adopt bylaws reflecting the characteristics of the plan utilized.

---

<sup>42</sup>*Lambert v. Fisherman’s Dock Cooperative, Inc.*, 297 A.2d 566 (N.J. 1972).

<sup>43</sup>Rev. Rul. 70-64, 1970-1 C.B. 36; IRS PLR 8812019, Dec. 16, 1987.

<sup>44</sup>IRS PLR 7743054, July 28, 1977.



## CONCLUSION ▪ A COOPERATIVE SUCCESS STORY

While the task may seem unduly burdensome, if approached with resolve and preparation it can be accomplished even if the situation seems totally out of hand. Here is the story of one cooperative that achieved real results.

This service cooperative was organized shortly after World War II. There were reasonable turnovers in active patrons until the 1960's when reduced needs for its services led to years of no margins and patron defections. The association didn't bother to cancel memberships during its formative years, and was afraid to when its volume fell substantially in later years.

When business and memberships picked up during the early 1970's, the association had never terminated any former patrons and saw no reason to start when business was on the rebound. The association simply kept ignoring both former patrons and their retained equities.

When a new management team took over in the late 1970's, it wanted to automate the association's records. Much to its dismay, it found that the cooperative had not only 6,000 active members but also 46,000 inactive members. It decided that efficient management of the association required that membership rolls be brought up to date.

First, it sent a letter to the last known address of every person on its membership roll. This took nearly 6 years to complete. Fifty-five percent of the letters were returned by the postal service, stamped undeliverable.

Active members of the cooperative were grouped in geographic districts. Next, the cooperative printed a special newsletter for each district, listing the names of all members it could not locate whose last known address was in that district, and sent it to the active member patrons of each district. Members were asked to notify the association of anyone they knew on the lists. This led to contacts with a small number of additional inactive members.

As the current dollar value of the equity holdings of most inactive members was minimal, the association redeemed the entire investment

of all the former patrons it could locate. When the cooperative decided it could not devote any more resources to the discovery of inactive members, the board passed a resolution canceling the memberships of all remaining inactive members.

The applicable State escheat law did not apply to membership stock, but did apply to retained patronage investments. While the association made the required payments to the State, it continued to redeem any old patronage paper that was delivered to it.

While this is an extreme example, it shows that a cooperative with even a severe inactive member presence can update its membership roll if it makes the effort a priority project. In view of the strong philosophical, legal, and operational arguments for adopting a program to eliminate inactive and ineligible members, it should be considered by all cooperatives.

**U.S. Department of Agriculture  
Agricultural Cooperative Service  
P.O. Box 96576  
Washington, D.C. 20090-6576**

Agricultural Cooperative Service (ACS) provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The agency (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.

ACS publishes research and educational materials and issues Farmer Cooperatives magazine. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, age, marital status, handicap, or national origin.