



INDEX INFORMATION

Understanding Cooperatives Instructor's Guide

Introduction

This instructor's guide, Understanding Cooperatives, is designed for use by secondary and adult teachers of agricultural education courses. It is also readily adaptable for use by post-secondary instructors, as well as for other cooperative educators. The units are designed to be generic in content, and should be supplemented with local, State, or company examples and situations.

All informational and reference materials are included in electronic format on this CD. However, teacher and student references in the Cooperative Information Report (CIR) series are available in hard copies at no charge upon request from USDA Rural Development's Cooperative Programs.

All PowerPoint slides corresponding to the lesson guides may be used as is, or readapted as the instructor wishes to fit into any cooperative education program.

For each Unit, all the applicable teaching documents (i.e., the unit's introduction and directions, discussion guide, index, handouts, case study exercises, and quizzes) are included in .pdf format for easy printing by the instructor. The .pdf file is included on the main page of the Unit.

Instructional Units

Unit 1 - The American Business Enterprise System. Teaches the student how businesses are organized in the United States, identifies the characteristics of each form of business, and discusses how the members and/or owners benefit from each.

Unit 2 - Cooperative Business Principles. Identifies the basic concepts that separate a cooperative business from other business forms and explores cooperative principles.

Unit 3 - The Structure of Cooperatives. Teaches the traditional areas that classify cooperatives by financial, geographical, control, and functional structures. The unit also explores a variety of other structural arrangements modern cooperatives are using in today's changing economic environment.

Unit 4 - Finance and Taxation of Cooperatives. Teaches about cooperative financing and how cooperatives are taxed. Special emphasis is placed on the different methods used by members to finance their cooperative business.

Unit 5 - The Cooperative Business Team: Members and Directors - Policy & Control. Teaches the rights and responsibilities of cooperative members as they participate in the cooperative either in their role as a member/patron, or as an elected director of the cooperative.

Unit 6 - The Cooperative Business Team: Manager and Employees - Coordination & Operations. Teaches the responsibilities of cooperative managers and employees. Instruction centers on the separation of function between management and employees.

Unit 7 - Mini Cooperative Business Experience. Applying knowledge from the previous units, students work within the framework of a select service or marketing project. Beginning with the pre-organization activities and ending with the distribution of earned income, the instruction becomes more than just classroom exercises.

Main Index

Instructional Units

Unit 1 - The American Enterprise System

Unit 2 - Cooperative Business Principles

Unit 3 - The Structure of Cooperatives

Unit 4 - Finance and Taxation of Cooperatives

Unit 5 - The Cooperative Business Team: Members and Directors - Policy & Control

Unit 6 - The Cooperative Business Team: Manager and Employees - Coordination & Operations

Unit 7 - Mini Cooperative Business Experience

References

PowerPoint Slides

In each unit, the instructor follows the discussion guide, using corresponding PowerPoint slides, handouts (exercises in some cases), and references. The Instructor may administer a quiz to complete the unit where applicable and discuss answers.

Revision Information

The **Understanding Cooperatives** teaching package was first developed in 1989 by USDA's Agricultural Cooperative Service and consisted of a package of lesson plans, handouts, overhead slides, reference publications and a video. The program was then revised in 1997 to reflect feedback from educators using the materials. This latest revision of Understanding Cooperatives was undertaken to update some of the materials and information offered and to reflect changes in reference materials. The package is now entirely contained on this CD, except for the video of "How to Start a Cooperative."

This latest revision was completed in April 2008 by James Wadsworth, Cooperative Programs, USDA Rural Development. james.wadsworth@wdc.usda.gov

Craig Scroggs, Cooperative Specialist, Georgia State Rural Development Office, was the main reviewer of these teaching units and offered valuable suggestions and edits.



Reference List

Cooperative Reports:

[CIR 5](#): Cooperatives in Agribusiness

[CIR 7](#): How to Start a Cooperative

[CIR 55](#): Co-ops 101

[CIR 11](#): Cooperatives: What They Are and the Roles of Directors, Members, Management, and Employees

[CIR 61](#): The Circle of Responsibilities of Cooperative Boards

[CIR 62](#): Cooperative Boards: Asking Necessary Questions

[CIR 45, Section 1](#): The American System of Business

[CIR 45, Section 2](#): Cooperative Business Principles

[CIR 45, Section 3](#): The American System of Business

[CIR 45, Section 4](#): Who Runs the Cooperative Business: Members

[CIR 45, Section 5](#): Who Runs the Cooperative Business: Directors

[CIR 45, Section 6](#): Who Runs the Cooperative Business: General Manager and Employees

[CIR 45, Section 7](#): Financing Cooperatives

[CIR 45, Section 8](#): Income Tax Treatment of Cooperatives

Hard copies of these publications can be ordered from: coopinfo@wdc.usda.gov

PowerPoint Presentations:

[Unit 1 PowerPoint Slides](#)

S 1.1 Principles of Our Business System

S 1.2 Individually Owned

S 1.3 Partnership

S 1.4 Investor-Owned Corporation

S 1.5 Cooperative Corporation

S 1.6 Hybrid-Limited Liability Company

S 1.7 Comparison of Am. Bus. Types

S 1.8 Ownership/Profit Incentive

[Unit 2 PowerPoint Slides](#)

S 2.1 Cooperative Definition Reviewed

S 2.2 Definition of a Principle

S 2.3 - S 2.5 Contemporary Cooperative Principles

S 2.6 - S 2.7 Rochdale Principles

S 2.8 - S 2.9 Traditional Cooperative Principles

S 2.10 Quote (Abraham Lincoln)

S 2.11 Contemporary Principles Explained

S 2.12 International Cooperative Alliance

Reference List (continued)

[Unit 3 PowerPoint Slides](#)

- S 3.1 Cooperative Structure Types
- S 3.2 - S 3.3 Financial Structures
- S 3.4 - S 3.5 Geographic Territory Served
- S 3.6 - S 3.8 Governance or Control Structures
- S 3.9 Cooperative Functions
- S 3.10 Marketing Cooperatives
- S 3.11 Purchasing (Supply) Cooperatives
- S 3.12 Rural Service Cooperatives
- S 3.13 - S 3.15 Other Structural Arrangements
- S 3.16 New Generation Cooperatives

[Unit 4 PowerPoint Slides](#)

- S 4.1 Who Finances the Business (Members)
- S 4.2 Common Stock
- S 4.3 Preferred Stock
- S 4.3 Transferable Delivery Rights
- S 4.5 Who Finances the Business (Owners)
- S 4.6 Retained Patronage, Per-Unit Retains, Equity Redemption
- S 4.7 Who Finances the Business (Creditors)
- S 4.8 How Cooperatives are Taxed
- S 4.9 Taxation Example
- S 4.10 Single Tax Treatment
- S 4.12 Flow of Funds to Finance a Business
- S 4.13 Flow of Funds Exhibit

[Unit 5 PowerPoint Slides](#)

- (CIR 11, Chapters 1 & 2)
- S 5.1 - S 5.10 Members
- S 5.11 - S 5.28 Directors

[Unit 6 PowerPoint Slides](#)

- (from CIR 11, Chapters 3 & 4)
- S 6.1 - S 6.11 Cooperative Manager
- S 6.12 - S 6.23 Cooperative Employees
- S 6.24 Key People in a Cooperative

[Unit 7 PowerPoint Slides](#)

Seventeen slides correspond to the Handouts of Unit 7.

Video (optional):

Supplemental Reference: Video - What Co-op Directors Do, VHS 24 minutes



Unit 1 - The American Business Enterprise System

Objective

The objective of this unit is to teach the student how to: 1) recognize how businesses are organized in the United States, 2) identify the characteristics of each form of business, and 3) discuss how the members/owners benefit from each.

After completion, the student should:

1. Be able to write a short paragraph describing the "Free" or "Private" enterprise system in America.
2. Have a working knowledge of the four basic principles of the U.S. business system.
3. Know the four basic ways American businesses are generally organized.
4. Be aware of the two subdivisions of a corporation.
5. Be able to discuss the characteristics of the methods of doing business.

Instructor Directions

1. Become familiar with the discussion guide and reference materials.
2. Lead the discussion using PowerPoint slides and/or the selected references provided. The discussion guides serve as an outline.
3. If possible, invite representatives from the differing types of business ownerships to speak to the class as resource people. Give the provided handout to the students. The students should complete the handout as each speaker is asked the appropriate questions. (or you can instruct the students to fill it out as an exercise)
4. An alternative to #3, if time and circumstances permit, would be an on site visit to each (or some) of the types of businesses. Students should then complete the handout from the information gained during the field trip(s).

Unit 1 – Index and References

Teaching Tools

Instructor Discussion Guide
Handout 1 - Characteristics of American Business Structures
Quiz 1
Quiz 1 Answers
Unit 1 PowerPoint Slides
S 1.1 Principles of Our Business System
S 1.2 Individually Owned
S 1.3 Partnership
S 1.4 Investor-Owned Corporation
S 1.5 Cooperative Corporation
S 1.6 Hybrid-Limited Liability Company
S 1.7 Comparison of Am. Bus. Types
S 1.8 Ownership/Profit Incentive

Teacher References

CIR 55: Co-ops 101
CIR 5: Cooperatives in Agribusiness
CIR 11: Cooperatives: What They Are and the Roles of Directors, Members, Management, and Employees (chapter 1)
CIR 11 Chapter 1 PowerPoint
CIR 45, Section 1: The American System of Business

Student References

CIR 5: Cooperatives in Agribusiness
CIR 11: Cooperatives: What They Are and the Roles of Directors, Members, Management, and Employees (chapter 1)
CIR 45, Section 1: The American System of Business

Unit 1 - Instructor Discussion Guide

Corresponding slides are in parenthesis with associated discussion points, denoted "S" for slide and by number.

1. The American System of Business is often described as the "FREE" or "PRIVATE" enterprise system.

American businesses can make certain decisions "FREE" of government regulation and they are "PRIVATE" profit-potential businesses.

2. Class exercise – consider: is the system being really free or private? (have the class think about this)

In their thinking they should consider taxes and laws regulating business, such as: trade laws, tariffs, and reports necessary that reveal almost all aspects of a business.

3. What are the four basic principles our business system is based on? (S 1.1)

- a) Freedom of choice
- b) Private property rights
- c) Profit motives of owner
- d) Owner control

4. What are the three basic types of business forms? (S 1.2, 1.3, 1.4)

- a) Individually owned
- b) Partnership
- c) Corporation

5. Corporations are divided into two types. (S 1.4, 1.5)

- a) General corporations
 - 1) Investor oriented
- b) Cooperative corporations
 - 1) Member owned

6. A hybrid-type business structure has become popular of late, particularly in agriculture: (S 1.6)

- a) It's a hybrid of a partnership and a corporation, combining certain characteristics of each.
- b) It's the Limited Liability Company

7. Examine the characteristics of the five business structures with doing business with respect to the following: (S 1.7)

- a) Control
 - 1) Who votes and controls
 - 2) Requirements to be a voter
 - 3) How many votes per voter
- b) Ownership
 - 1) How many votes per voter
- c) Benefits

Unit 1 – Instructor Discussion Guide (continued)

- 1) Why is net income generated
 - 2) What is income tax obligation
8. Examine the profit motives for the ownership of each of the business forms? (S 1-8)
9. Which business form is most common? Why?
- a) Individually owned
 - b) Because it is the oldest, simplest, and most numerous form of business.

Have students fill out handout during guest speaker presentations or during open class discussion.

Have students take Quiz 1 and then discuss answers.

Handout 1 – Characteristics of American Business Structures

	Individually Owned	Partnership	Investor-owned Corporation	Cooperative Corporation	Limited Liability Company
1. Who owns?					
2. Who uses services?					
3. Who votes?					
4. Who determines policy?					
5. Who determines policy?					
6. Who manages?					
7. Who gets profits?					
8. Who finances?					
9. What is the extent of owner risk?					
10. Give an example					

Quiz 1

True/False (Write true or false for each statement.)

- _____ 1. Individually owned, partnerships, corporations, cooperative corporations, and LLC's help to provide our communities with needed goods and services.
- _____ 2. Cooperatives eliminate the profit motive among members.
- _____ 3. If an individually owned business firm were to fail, it would not be possible for the owner to lose more than he/she invested in the business.
- _____ 4. Cooperatives are owned and controlled by members.
- _____ 5. In a cooperative, capital is generally supplied by investors seeking profits.
- _____ 6. In an investor-oriented corporation, profits are shared in direct relation to the amount of stock owned.
- _____ 7. In partnerships, income is distributed among partners according to the percentage of business each one owns.
- _____ 8. In a cooperative, net earnings are returned to members based on how much the member patronized the cooperative.
- _____ 9. Both the investor-oriented corporation and the cooperative corporation must be legally chartered to do business.
- _____ 10. Cooperatives are common in such areas of business as: insurance, credit, agriculture, consumer goods, and rural electricity.

(Short answer section)

11. Our American system of business is often described as the _____ or _____ enterprise system.
12. List and briefly explain the four basic principles of the American business system.
 - a)
 - b)
 - c)
 - d)
13. List the four basic forms of business in America.
 - a)
 - b)
 - c)
 - d)
14. Corporations are divided into two types. What are those two types?
 - a)
 - b)
15. What hybrid business structure is becoming increasingly common?

16. Name a cooperative in your hometown, or a nearby town. _____

Quiz 1 Answers

True/False (Write true or false for each statement.)

- True 1. Individually owned, partnerships, corporations, cooperative corporations, and LLC's help to provide our communities with needed goods and services.
- False 2. Cooperatives eliminate the profit motive among members.
- False 3. If an individually owned business firm were to fail, it would not be possible for the owner to lose more than he/she invested in the business.
- True 4. Cooperatives are owned and controlled by members.
- False 5. In a cooperative, capital is generally supplied by investors seeking profits.
- True 6. In an investor-oriented corporation, profits are shared in direct relation to the amount of stock owned.
- True 7. In partnerships, income is distributed among partners according to the percentage of business each one owns.
- True 8. In a cooperative, net earnings are returned to members based on how much the member patronized the cooperative.
- True 9. Both the investor-oriented corporation and the cooperative corporation must be legally chartered to do business.
- True 10. Cooperatives are common in such areas of business as: insurance, credit, agriculture, consumer goods, and rural electricity.
11. Our American system of business is often described as the free or private enterprise system.
12. List and briefly explain the four basic principles of the American business system.
- Freedom of choice
 - Private property rights
 - Profit motives of owner
 - Owner control
13. List the four basic forms of business in America.
- Individually owned
 - Partnership
 - Corporation
14. Corporations are divided into two types. What are those two types?
- Investor-owned corporations
 - Cooperative corporations
15. What hybrid business structure is becoming increasingly common?
- The limited liability company
16. Name a cooperative in your hometown, or a nearby town. (Open group discussion question - select some students to provide their answer and discuss.)



Unit 2 – Cooperative Business Principles

Objective

The objective of this unit is to teach the student the basic principles on which the cooperative form of business operates.

After completion, the student should:

1. Be able to provide a definition of a cooperative and gain an understanding of what a cooperative principle is.
2. Be able to recite the two-word contemporary principles that distinguish a cooperative from other businesses.
3. Be able to identify and understand the historic Rochdale principles.
4. Be able to explain what each of the three contemporary principles mean.
5. Have gained exposure to the Statement of Cooperative Identity and principles of the International Cooperative Alliance (ICA).

Instructor Directions

1. Become familiar with the discussion guide, reference materials, and quiz.
2. Lead the discussion using the PowerPoint slides and/or the selected references provided. The discussion guide serves as an outline.
3. Identify a cooperative in your area, and research those principles that are practiced and the reasons why. This can be done by interviewing the manager and others, as well as by looking at a copy of the cooperative's bylaws.

Unit 2 – Index and References

Teaching Tools

Instructor Discussion Guide

Handout 2 - International Cooperative Alliance (ICA): Statement on the Cooperative Identity

Quiz 2

Quiz 2 Answers

Unit 2 PowerPoint Slides

S 2.1 Cooperative Definition Reviewed

S 2.2 Definition of a Principle

S 2.3 - S 2.5 Contemporary Cooperative Principles

S 2.6 - S 2.7 Rochdale Principles

S 2.8 - S 2.9 Traditional Cooperative Principles

S 2.10 Quote (Abraham Lincoln)

S 2.11 Contemporary Principles Explained

S 2.12 International Cooperative Alliance

Teacher References

CIR 55: Co-ops 101

CIR 5: Cooperatives in Agribusiness

CIR 11: Cooperatives: What They Are and the Roles of Directors, Members, Management, and Employees (chapter 1)

CIR 11 Chapter 1 PowerPoint

CIR 45, Section 2: Cooperative Business Principles

International Cooperative Alliance Website: <http://www.coop.org/ica/info/enprinciples.html>

Student References

CIR 5: Cooperatives in Agribusiness

CIR 11: Cooperatives: What They Are and the Roles of Directors, Members, Management, and Employees

CIR 45, Section 2: Cooperative Business Principles

Unit 2 - Instructor Discussion Guide

Corresponding slides are in parenthesis with associated discussion points, denoted "S" for slide and by number.

I. Definition of a cooperative (S 2.1 & S 2.2)

1. A cooperative is a business owned and controlled by persons who use its services. Benefits are derived and distributed equitably on the basis of use.

It is mainly distinguished from other business forms by three contemporary principles (a principle is a basic idea defining special characteristics).

2. Cooperative Principles (S 2.3, S 2.4, & S 2.5)

a) The User-Owner Principle: The people who own and finance the cooperative are those that use the cooperative.

b) The User-Control Principle: The people who control the cooperative are those that use the cooperative.

c) The User-Benefit Principle: the cooperative's sole purpose is to provide and distribute benefits to its users on the basis of their use.

3. These principles generally define how cooperatives operate. Cooperative principles have been in existence and working for people over a long period of time. Historically, the first set of operating principles were developed by a group in England called the Rochdale pioneers. While dated, the Rochdale principles are still reflected in today's modern cooperative principles.

II. The Rochdale Principles. (S 2.6 & S 2.7)

a) Current day principles evolved from "Rules of Conduct and Points of Organization," put forth by the Rochdale Equitable Pioneers Society, Rochdale, England; probably for the first time in its Annual Almanac of 1860.

b) There were twelve features/principles of the original Rochdale cooperative:

- 1) Voting is by members on democratic basis.
- 2) Membership is open.
- 3) Equity is provided by patrons.
- 4) Equity ownership share of individual patrons is limited.
- 5) Net income is distributed to patrons as refunds on a cost basis.
- 6) Return on equity capital is limited.
- 7) Exchange of goods and services at market prices.
- 8) Duty to educate.
- 9) Cash trading only.
- 10) Assume no unusual risk.
- 11) Political and religious neutrality.
- 12) Equality of the sexes in membership.

Unit 2 – Instructor Discussion Guide (continued)

III. Review of Four Traditional Cooperative Principles (S 2.8 & S 2.9)

Allows for a greater understanding of cooperative operations:

- a) Service at cost - surpluses returned to members
- b) Obligational responsibility and benefits received are in proportion to use
- c) Limited return on equity capital - value of services most important
- d) Democratic control - one member, one vote, or proportional voting systems

IV. Three Contemporary Cooperative Principles Further Explained (S 2.10 & S 2.11)

- a) Abraham Lincoln said, "Important principles may and must be flexible."
- b) Contemporary principles are simple and avoid including specific points some may consider policies or practices. At the same time, they implicitly encompass an array of practices.
- c) Contemporary principles of user-control, user-owned, user-benefit
 - 1) User-control - voting is by members on a democratic or proportional basis.
 - 2) User-owned - equity is provided by patrons.
 - 3) User-benefit - net earnings are distributed to patrons as refunds on a cost basis.

V. Introduction to the International Cooperative Alliance (S 2.12 & Handout 2)

Have students take Quiz 2 and then discuss answers.

Handout 2 – International Cooperative Alliance (ICA)

STATEMENT ON THE COOPERATIVE IDENTITY

Definition: A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

Values: Cooperatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

Principles: The co-operative principles are guidelines by which co-operatives put their values into practice.

1st Principle: Voluntary and Open Membership - Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic Member Control – Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner.

3rd Principle: Member Economic Participation - Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence - Cooperatives are autonomous, self-help organizations controlled by their members. If they enter to agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle: Education, Training and Information - Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of cooperation.

6th Principle: Co-operation among Co-operatives - Cooperatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community - Cooperatives work for the sustainable development of their communities through policies approved by their members.

International Cooperative Alliance Website: <http://www.coop.org/ica/info/enprinciples.html>

Quiz 2

1. Describe in your own words what the following principles mean.
 - a) Service at cost:

 - b) Financial obligation and benefits proportional to use:

 - c) Limited return on equity capital:

 - d) Democratic control:

2. The three contemporary cooperative principles that distinguish a cooperative business from other business forms in the United States are (complete with one word answer)
 - a) User-_____
 - b) User-_____
 - c) User-_____

3. From the list below, identify by number the original 12 features that are known as the "Rochdale Principles."
 - a) Rochdale Principles (circle the correct 12):
 - 1) Voting by members on a democratic basis.
 - 2) Membership is closed.
 - 3) Return on equity capital is limited.
 - 4) Assume no unusual risk.
 - 5) Membership is open.
 - 6) Duty to educate.
 - 7) Equity is borrowed from a bank.
 - 8) Net earnings are distributed to patrons as refunds on a cost basis.
 - 9) Political/religious neutrality.
 - 10) Equity is provided by patrons.
 - 11) Women only as patrons.
 - 12) Cash trading only.
 - 13) Equity ownership share of individual patrons is limited.
 - 14) Equality of the sexes in membership.
 - 15) Exchange of goods and services at market prices.

Quiz 2 (continued)

b) The Rochdale pioneers were associated with what country? _____

4. How many principles are listed in the International Cooperative Alliance (ICA) statement of cooperative identity?

a. _____

b. Name one of the ICA principles that most significantly differs from the Rochdale, traditional, and contemporary cooperative principles that were discussed.

Quiz 2 Answers

1. Instructor should evaluate answers according to reference materials provided and manner in which concepts were taught.
2. (Can be in any order)
 - a) User-Owned
 - b) User-Controlled
 - c) User-Benefits
3. a) 1, 3, 4, 5, 6, 8, 9, 10, 12, 13, 14, 15
b) England
4. a) 7
b) Autonomy and independence; cooperation among cooperatives; or concern for community



Unit 3 - The Structure of Cooperatives

Objective

The objective of this unit is to teach the student the various cooperative structures based on the five classified areas.

After completion, the student should:

1. Understand the five areas that classify cooperative structure.
2. Know the two types of financial structures for cooperatives.
3. Be able to match the correct structural classifications for each of the categories of geographic region, control, and functions performed.
4. Be able to match the definition of other structural arrangements with the proper classification.

Instructor Directions

1. Become familiar with the information provided as well as listed reference materials.
2. Lead the discussion using PowerPoint slides and/or selected references provided. The instructor discussion guide serves as an outline.
3. Have each student identify a cooperative in the area, and research the structural organization by interviewing the local manager and others. Then each student should give a report detailing her/his findings.

Unit 3 - Index and References

Teaching Tools

Instructor Discussion Guide

Quiz 3

Quiz 3 Answers

Unit 3 PowerPoint Slides

S 3.1 Cooperative Structure Types

S 3.2 Financial Structures – Stock

S 3.3 Financial Structures – Nonstock

S 3.4 Geographic Territory Served Structures – Local, Super Local, Regional

S 3.5 Geographic Territory Served Structures – Interegional and International

S 3.6 Governance or Control Structures – Centralized

S 3.7 Governance or Control Structures – Federated

S 3.8 Governance or Control Structures– Mixed

S 3.9 Cooperative Functions

S 3.10 Marketing Cooperatives

S 3.11 Purchasing (Supply) Cooperative Functions

S 3.12 Rural Service Cooperative Functions

S 3.13 Other Structural Arrangements

S 3.14 Other Structural Arrangements (cont.)

S 3.15 Other Structural Arrangements (cont.)

S 3.16 New Generation Cooperatives

Teacher References

CIR 55: Co-ops 101

CIR 5: Cooperatives in Agribusiness

CIR 11: Cooperatives: What They Are and the Roles of Directors, Members, Management, and Employees (chapter 1)

CIR 11 Chapter 1 PowerPoint

CIR 45, Section 3: The American System of Business

Student References

CIR 5: Cooperatives in Agribusiness

CIR 11: Cooperatives: What They Are and the Roles of Directors, Members, Management, and Employees (chapter 1)

CIR 45, Section 3: The American System of Business

Unit 3 - Instructor Discussion Guide

Corresponding slides are in parenthesis with associated discussion points, denoted "S" for slide and by number.

I. Cooperatives exist in nearly every business sector, and are organized in a variety of ways. Like other businesses in our economy, they range in size from organizations with only a few member owners to massive and complex organizations involving thousands of member owners. The way a cooperative is organized determines how it is operated, managed, and controlled by its members.

II. Structure can be classified into five areas. (S 3.1)

- a) Financial structure
- b) Geographic area served
- c) Governance or control structure
- d) Functions performed
- e) Other structural arrangements

III. Financial Structures. (S 3.2 & S 3.3)

- a) Stock cooperatives
- b) Nonstock cooperatives

IV. Geographic or Territory Served Structures. (S 3.4 & S 3.5)

- a) Local cooperatives
- b) Regional cooperatives
- c) Interregional or national cooperatives
- d) International cooperatives

V. Governance or Control Structure. (S 3.6, S 3.7, & S 3.8)

- a) Centralized
- b) Federated
- c) Mixed (combination)

VI. Functions performed by cooperatives also designate their structure. Those three classifications and subgroups are: (S 3.9, S 3.10, S 3.11, & S 3.12)

- a) Marketing
 - 1) Bargain
 - 2) Process or assemble
 - 3) Sell products

Unit 3 – Instructor Discussion Guide (continued)

b) Purchasing (also supply)

- 1) Purchase in volume
- 2) Manufacture
- 3) Process or formulate
- 4) Distribute

c) Selected service

VII. Other structural arrangements include: (S 3.13, S 3.14, & S 3.15)

- a) Subsidiary corporation
- b) Marketing agency-in-common
- c) Joint venture
- d) Contract agent
- e) Private dealers

VIII. New Generation Cooperative – contemporary cooperative structure with the mission to add value to a raw product and market that end product for increased membership benefit (S 3.16).

- a) Finite (closed) membership
- b) Membership shares tied to delivery (of raw product) rights
- c) Membership shares can appreciate/depreciate and be traded

Have students take Quiz 3 and then discuss answers.

Quiz 3

1. List three of the five areas that classify cooperative structure.
 - a)
 - b)
 - c)
2. List the two types of financial structures for cooperatives.
 - a)
 - b)
3. From the list on the right, place the proper letter under the correct heading that identifies the structural classification for each category.

1) Geographic area	a) Regional
	b) Centralized
	c) Marketing
2) Governance or control	d) Interregional or national
	e) Supply
	f) Local
3) Functions performed	g) Combination
	h) Selected service
	i) International
	j) Federated

Quiz 3 (continued)

4. Match the definition below (letters) with the correct structural arrangement listed.

_____ Subsidiary

_____ Contract agent

_____ Joint venture

_____ Private dealers

_____ Marketing agency in common

_____ Holding company

a) Corporation organized, owned, and controlled either directly or through trustees by a parent cooperative.

b) Association of two or more participants, persons, partnerships, corporations, or cooperatives to carry on a specific economic operation, enterprise, or venture.

c) A corporate entity with a controlling ownership in one or more operating companies.

d) As a franchise, this person keeps the records. If the franchise makes money, and pays patronage refunds, these go to the patrons, and the individual is paid a commission on sales.

e) A county or community cooperative may organize, owning nothing but contracts, and pays money to hire an agent to handle the goods and keep records. Patronage refunds are paid on the basis of records turned over.

f) Organized by two or more marketing cooperatives to market the output of member cooperatives.

5. Characteristics of new generation cooperatives: (fill in the blanks)

a) A new generation cooperative _____ to raw products.

b) Membership in a new generation cooperative is _____.

c) Membership shares can _____ or _____ and can be _____.

Quiz 3 Answers

- List three of the five areas that classify cooperative structure.
Students should include three of the following:
 - Financial structure
 - Geographic area served
 - Governance or control structure
 - Functions performed
 - Other structural arrangements
- List the two types of financial structures for cooperatives.
 - Stock cooperatives
 - Nonstock cooperatives
- From the list on the right, place the proper letter under the correct heading that identifies the structural classification for each category.
 - Geographic area: a, d, f, i
 - Regional
 - Centralized
 - Marketing
 - Interregional or national
 - Supply
 - Local
 - Combination
 - Selected service
 - International
 - Federated
 - Governance or control: b, g, j
 - Functions performed: c, e, h
- Match the definition below (letters) with the correct structural arrangement listed.

__a__ Subsidiary	__e__ Contract agent
__b__ Joint venture	__d__ Private dealers
__f__ Marketing agency in common	__c__ Holding company

 - Corporation organized, owned, and controlled either directly or through trustees by a parent cooperative.
 - Association of two or more participants, persons, partnerships, corporations, or cooperatives to carry on a specific economic operation, enterprise, or venture.
 - A corporate entity with a controlling ownership in one or more operating companies.
 - As a franchise, this person keeps the records. If the franchise makes money, and pays patronage refunds, these go to the patrons, and the individual is paid a commission on sales.
 - A county or community cooperative may organize, owning nothing but contracts, and pays money to hire an agent to handle the goods and keep records. Patronage refunds are paid on the basis of records turned over.

Quiz 3 Answers (continued)

- f) Organized by two or more marketing cooperatives to market the output of member cooperatives.
5. Characteristics of new generation cooperatives: (fill in the blanks)
- a) A new generation cooperative adds value to raw products.
 - b) Membership in a new generation cooperative is closed or finite.
 - c) Membership shares can appreciate or depreciate and can be traded.



Unit 4 - Finance and Taxation of Cooperatives

Objective

The objective of this unit is to teach the student how a cooperative is financed and taxed.

After completion, the student should:

1. Be able to explain the difference between the two forms of capital – debt and equity.
2. Be able to explain how equity capital is provided.
3. Be able to describe the various ways a cooperative can obtain borrowed capital.
4. Be able to explain the single tax principle and how it works for cooperatives.
5. Be able to trace the flow of cash through a cooperative business.

Instructor Directions

1. Become familiar with the information provided as well as the reference materials.
2. Lead the discussion using PowerPoint slides and/or selected references provided. The discussion guide serves as an outline.
3. Identify a cooperative in the area, and research its financing characteristics by interviewing the local manager and others.
4. Trace the cash flow through a cooperative business.

Unit 4 – Index and References

Teaching Tools

Instructor Discussion Guide

Quiz 4

Quiz 4 Answers

Unit 4 PowerPoint Slides

S 4.1 Who Finances the Business (Members)

S 4.2 Common Stock

S 4.3 Preferred Stock

S 4.3 Transferable Delivery Rights

S 4.5 Who Finances the Business (Owners)

S 4.6 Retained Patronage, Per-Unit Retains, Equity Redemption

S 4.7 Who Finances the Business (Creditors)

S 4.8 How Cooperatives are Taxed

S 4.9 Taxation Example

S 4.10 Single Tax Treatment

S 4.12 Flow of Funds to Finance a Business

S 4.13 Flow of Funds Exhibit

Teacher References

CIR 55: Co-ops 101

CIR 45, Section 7: Financing Cooperatives

CIR 45, Section 8: Income Tax Treatment of Cooperatives

Student References

CIR 5: Cooperatives in Agribusiness

CIR 45, Section 7: Financing Cooperatives

CIR 45, Section 8: Income Tax Treatment of Cooperatives

Unit 4 - Instructor Discussion Guide

Corresponding slides are in parenthesis with associated discussion points, denoted "S" for slide and by number.

I. Who finances the business – owners (S 4.1)

Members as owners—members of a cooperative must capitalize its business. Members meet this obligation by the purchase of:

a) Common Stock (S 4.2)

- 1) Common stock is the voting stock—usually one member one vote. However some cooperatives vote on a proportional basis.

b) Preferred Stock (S 4.3)

- 1) Preferred stock may be sold by the cooperative to provide additional capitalization.
 - (a) Has preference over common stock during liquidation.
 - (b) May be purchased by either members or nonmembers.
 - (c) May pay a limited dividend.
 - (d) Has no voting privileges.

c) Transferable Delivery Rights (S 4.4)

- 1) Purchase of long-term delivery rights.
 - (a) The right to deliver a specified quantity of production for value-added processing.
 - (b) The obligation to deliver a specified quantity of production for value-added processing.
- 2) The delivery right is usually tied to the purchase of shares of preferred stock (e.g., 1 share of stock provides the right and obligation to deliver 1,000 bushels of corn).
- 3) Sale of long-term deliver rights.
 - (a) Producer may sell the stock and its delivery rights to other qualified producers with board approval at whatever price they agree to accept, which can be more or less than the original price of the stock.

II. Who Finances the Business (Users) (S 4.5)

Members as users of the cooperative's services—it is the responsibility of members to capitalize the business. In addition to the purchase of stock or delivery rights, members supply additional equity by retained patronage and per-unit retains.

Members as financiers also have their equity redeemed.

a) Retained Patronage (S 4.6)

- 1) Proceeds from net income generated by the business distributed as patronage.
 - (a) Usually 20 percent is paid in cash.
 - (b) 80 percent as allocated retained patronage—percentage of allocation is a board of director decision.

b) Per-Units Retains (S 4.6)

- 1) Based on the physical units handled by the cooperative for the members or dollar volume (examples):
 - (a) 10 cents per box,

Unit 4 – Instructor Discussion Guide (continued)

- (b) \$1 per cwt/ \$1 per \$100 of sales.
- c) Equity Redemption (S 4.6)
 - 1) Oldest retained patronage or per-unit retains are redeemed first—assures that current users of the cooperative are largely the ones financing it.
 - 2) Equity account balances must be adequate to finance the cooperative.
 - (a) Timeliness of redemption is determined by the board.

III. Who Finances The Business (Creditors) (S 4.7)

Cooperatives may borrow debt capital from traditional and nontraditional sources. Debt capital has a fixed rate of interest (money cost) and a fixed repayment date. The less a cooperative has to pay as interest on its debt capital, the greater the amount of patronage refunds it can allocate to its patrons.

- a) Sources of long-term credit:
 - CoBank, Denver, CO
 - National Cooperative Bank, Washington, DC
 - Insurance Companies
 - Commercial Banking System
 - State governments
 - Sale of commercial paper
 - Leasing
- b) Sources of short-term credit:
 - Commercial Banking System
 - Credit Unions
 - Suppliers
 - CoBank, Denver, CO
 - National Cooperative Bank, Washington, DC

IV. How Cooperatives are Taxed (S 4.8 & S 4.9)

How qualified retained equity affects the cooperative and the member. The cooperative deducts patronage paid to members from its taxable income during the year the profits are earned. Members include the patronage (both cash paid to them and the amount retained by the cooperative) received from the cooperative in their taxable income. The member pays the tax on the net earning of the cooperative that he/she receives.

V. How Cooperatives are Taxed (S 4.10 & S 4.11)

Single tax treatment is accomplished by permitting a cooperative to deduct patronage refunds distributed.

- a) Distributed to Members/users.
 - 1) Based on volume of business (\$ or Units) done with the cooperative.
 - 2) From the cooperative's earnings done with or for all members/users.
- b) Income earned from business with nonmembers.
 - 1) Is subject to federal tax at the cooperative level when earned.

Unit 4 – Instructor Discussion Guide (continued)

2) If paid out to member/users, they are responsible for a second tax liability.

VI. Flow of Funds to Finance a Cooperative Business (S 4.12 & S 4.13)

Cash comes into cooperative businesses from:

- Equity investments by members.
- Purchase of common stock.
- Purchase of preferred stock or delivery shares.
- Membership fees.
- Sales of fixed assets.
- Sales of inventory.
- Collection of accounts receivables.
- Depreciation is a noncash expense.
- Creditors (e.g., 30 days terms of purchases).
- Advances on products marketed.

Cash flows out of the business:

- Purchases of fixed assets.
- Purchases of inventory.
- Advances on products purchased.
- Paying accounts payable.
- Customer credit (e.g., granting 30 days credit to customers).

Have students complete Quiz 4 and then discuss answers.

Quiz 4

1. List two ways cooperative member-owners help to capitalize their business.
 - a)
 - b)
2. Explain in a short paragraph the difference between retained patronage and per-unit retains.
3. Explain in a short paragraph the difference between equity capital and debt capital.
4. List three sources of long-term credit for cooperatives
 - a)
 - b)
 - c)
5. The statement "cooperatives do not pay taxes" is not true because:
6. Explain the single tax principle, and how it works for cooperatives.
7. Classify the following area as either a cash source (S) or cash use (U) in a cooperative business.
 - _____ Sale of fixed assets
 - _____ Members purchase common stock
 - _____ Giving customers credit
 - _____ Buying inventory
 - _____ Sale of inventory
 - _____ Purchasing members production
 - _____ Collecting accounts receivable
 - _____ Nonmembers purchase preferred stock
 - _____ Suppliers give 30 day credit
 - _____ Paying accounts receivables
8. Thought question for extra credit. Why can the business expense depreciation be considered as a source of cash in the cooperative's cashflow?

Quiz 4 Answers

1. Cooperative members capitalize their business by purchasing:
 - a. Common Stock
 - b. Preferred Stock
 - c. Transferable Delivery Rights
2. Retained patronage refers to the proceeds from net income generated by the cooperative allocated to users and then kept in the business.

Per-unit retains is capital kept by the cooperative based on the volume or units handled by the cooperative for the users.

3. Equity capital is supplied by the members and usually does not have a specific due date or regular rate of interest. Debt capital is borrowed money and generally has a due date and an assigned rate of interest.
4. Sources of long-term credit are:
 - Commercial banks
 - National Cooperative Bank
 - CoBank
 - Commercial paper
 - Leasing
 - Capital stock purchased by member or nonmembers
 - Insurance companies
 - State governments
5. Cooperatives do pay taxes, which include:
 - Personal property tax
 - Social security tax
 - Fuel tax
 - Sales tax
 - Real estate tax
 - Excise tax

The liability for taxes on net earnings (profit) for business operations is transferred to members when the net earnings are allocated to the members, otherwise the cooperative pays the tax.

6. The single tax principle means the profits of the business are taxed only one time either at the business level or at the member level.
7. (S) Sources of cash (U) Uses of cash for the business
 - (S) Sale of fixed assets
 - (S) Members purchase common stock
 - (U) Giving customers credit
 - (U) Buying inventory
 - (S) Sale of inventory
 - (U) Purchasing members' production
 - (S) Collecting accounts receivable
 - (S) Nonmembers purchase preferred stock
 - (S) Suppliers give 30 day credit
 - (U) Paying accounts receivables

Quiz 4 Answers (continued)

8. Depreciation is classified as an expense when determining the profitability of the business. The operating statement and balance sheet show depreciation as an expense. However, depreciation expense isn't paid in cash like other expenses such as salary and wages or the electric bill.



Unit 5 – The Cooperative Business Team: Members and Directors - Policy & Control

Objective

The objective of this unit is to teach the student the role of members and the responsibilities of directors for setting the policies of the cooperative and providing control.

After completion, the student should:

1. Be able to identify the responsibilities of cooperative members.
2. Identify the responsibilities of the directors in a cooperative.
3. Understand and explain the duties of a cooperative director.
4. Be able to understand organized steps toward making a business decision.

Instructor Directions

1. Become familiar with the information provided as well as the suggested reference materials.
2. Lead the discussion using the PowerPoint slides and selected references provided. A discussion guide serves as an outline. (CIR 61 and CIR 62 should also be used as references for more advanced students.)
3. Distribute the student case study, review the problem solving techniques, and prepare to discuss student solutions.
4. If possible, make contact with the cooperatives in your area, and arrange for a cooperative member or director to speak to the class about their role in their cooperative.

Unit 5 – Index and References

Teaching Tools

Instructor Discussion Guide
Case Study 5 - The Busy Director
Case Study Solution 5
Quiz 5
Quiz 5 Answers
Unit 5 PowerPoint Slides
(CIR 11, Chapters 1 & 2)
S 5.1 - S 5.10 Members
S 5.11 - S 5.28 Directors

Teacher References

CIR 11: Cooperatives What They Are and the Role of Members, Directors, Management, and Employees (Chapters 2 and 3 used in this unit).
CIR 45, Section 4: Who Runs the Cooperative Business: Members
CIR 45, Section 5: Who Runs the Cooperative Business: Directors
CIR 61: The Circle of Responsibilities of Cooperative Boards
CIR 62: Cooperative Boards: Asking Necessary Questions
Supplemental Reference: Video - What Co-op Directors Do, VHS 24 minutes

Student References

CIR 11: Cooperatives What They Are and the Role of Members, Directors, Management, and Employees (Chapters 2 and 3 used in this unit).
CIR 45, Section 4: Who Runs the Cooperative Business: Members
CIR 45, Section 5: Who Runs the Cooperative Business: Directors

Unit 5 - Instructor Discussion Guide

Corresponding slides are in parenthesis with associated discussion points, denoted “S” for slide and by number.

I. Members Make Cooperatives Work - CIR 11, Chapter 2 (S 5.1)

- a) Members exercise their responsibilities (S 5.2)
 - 1) Commit to products, services, maintaining control, financing (S 5.3)
 - 2) Use the cooperative as much as possible (S 5.4)
 - 3) Carry out their ownership and control duties (S 5.5)
 - 4) Legal responsibilities are pertinent (S 5.6)
 - 5) Know and understand their cooperative’s attributes (S 5.7)
 - 6) Finance the cooperative a number of ways (S 5.9)
 - 7) Member use is important for a variety of reasons (S 5.10)

II. The Cooperative Director - CIR 11, Chapter 3 (S 5.11)

- a) Directors – have important responsibilities (S 5.12)
- b) Selecting directors – traits and what to look for (S 5.13 & S 5.14)
- c) Potential directors – election requirements (S 5.15 & S 5.17)
- d) Directors have primary control (S 5.17)
- e) Directors responsibilities differ from those of management (S 5.18)
- f) A look at nine overall responsibilities (S 5.19)
- g) Responsibilities in greater detail (S 5.20)
 - 1) They safeguard cooperative assets (S 5.21)
 - 2) They hire, give authority to, and appraise the manager (S 5.22)
 - 3) They set, review, and update cooperative policies (S 5.23)
 - 4) They distribute members’ financial benefits ultimately controlling the cooperative’s balance sheet (S 5.24)
 - 5) They plan by knowing and evaluating the cooperative’s business, setting goals, developing strategies, and monitoring progress (S 5.25)
 - 6) They evaluate themselves for self improvement, stronger board performance, and more productive meetings (S 5.26)
 - 7) They choose officers to lead the board (S 5.27)
 - 8) They appoint necessary committees to improve board effectiveness (S 5.28)

Divide students into groups and have them complete Case Study 5 and then discuss solution.

Have students complete Quiz 5 and then discuss answers.

Case Study 5 – The Busy Director

A very prominent local citizen and farmer owning a large farm is a member of your board of directors. He is one who can pull strings and get almost anything done locally. However, he almost never attends a board meeting because of his many interests and yet he refuses to resign. What action does your board take?

To complete this exercise, work through the 5 business decision steps outlined below.

Step 1. Identify the problem – It is important to understand what the major problem or issue is. Briefly (in one sentence) describe the major problem:

Sub-problems or issues stemming from the major problem should be identified. They include:

Step 2. Gather information – What information is needed to properly assess the situation and develop alternative solutions to the problem/issue?

Step 3. List potential alternative solutions – It is often important to list a number of alternatives to a problem and then evaluate them. Alternative solutions include:

Step 4. Select the best alternative (or combination of more than one) and make a decision – After identifying any alternative solutions, decide on the best course of action to take. Remember, sometimes the best course of action will involve a combination of the strong points of various identified alternatives. The best course of action is:

Step 5. Put the decision into action – What steps/actions should be taken to effectively implement the best alternative. Implementing the decision will involve:

Case Study 5 Solution - The Busy Director

Step 1. Identify the problem – It is important to understand what the major problem or issue is. The major problem is:

- The director is not living up to his important responsibilities as a director.

Sub-problems or issues stemming from the major problem should be identified. Some include:

- A partial board is making decisions and developing cooperative policy and thus, not all members are being properly or adequately represented.
- By not showing for meetings, the director is being disruptive to normal board procedures and disrespecting board decision-making policies.
- The director is showing disdain for the cooperative and his fellow members by not letting another member take his place on the board.
- The director is not using his talent for getting things done to help the cooperative.

Step 2. Gather information – What information is needed to properly assess the situation and develop alternative solutions to the problem/issue?

- Does the director have other (personal) things going on in his life that are keeping him from attending board meetings and fulfilling his responsibilities as a director?
- Does the director have other professional meetings to attend or other business commitments that are conflicting with the cooperative's board meeting schedule?

Step 3. List potential alternative solutions – It is often important to list a number of alternatives to a problem and then evaluate them. Alternative solutions include:

1. Continue in the current mode. (Not very palatable due to the continuing disruption of attendance in board meetings and the lack of member representation for the absent director's constituents).
2. Change the meeting time to better fit the director's schedule. (Only a good option if the director indeed has other commitments that have been keeping him from attending the cooperative's board meetings and it isn't merely because of attitude).
3. Give the director a set period of time to improve his attendance and participation. (This may be a necessary step for the goodwill of fairness before proceeding with a more serious action if the director does not have other conflicts and simply does not care to improve).
4. Board – fully discuss and then pass a motion to follow the cooperative's policy and bylaws for removing the director and filling his seat. (This alternative is only warranted after finding the director has no conflicts and is not interested in changing his ways. That it's his attitude causing the absenteeism. This action may have political repercussions among the membership in the cooperative so it would need to be handled in a careful and communicative manner. Using this alternative in conjunction with alternative 3 might help with the internal cooperative politics that might occur.)

Step 4. Select the best alternative (or combination of more than one) and make a decision – After identifying any alternative solutions, decide on the best course of action to take. Remember, sometimes the best course of action will involve a combination of the strong points of various identified alternatives. The best course of action is:

Case Study 5 Solution - The Busy Director (continued)

Two scenarios and solutions given each one.

Board finds that the director has other commitments and it's not merely an attitude problem. Choose alternative 2: change the board meeting time (if feasible to all) and communicate to the director that he is now expected to attend meetings and be active.

Board finds that the director does not have other commitments, but rather simply misses meetings given his mood or other personal priorities. Choose alternatives 3 & 4: first give the director a chance to improve his attendance. After a set time-period passes, if the director has not improved or changed, proceed with a board motion to follow cooperative policy and bylaws to remove him and fill his seat.

Step 5. Put the decision into action – Develop the steps/actions to be taken to effectively implement the best alternative. Implementing the decision will involve:

Strong communications – no matter what solution is ultimately chosen, communications with the director, among the board, and with members must be clear and extensive. Communicate (backed by written documentation) clearly with the absent director, in the fact/information finding phase, and in moving forward with the appropriate solution. All cooperative parties must understand the situation and what is occurring.

Put the ultimate decision into action in a defined time period. The board must not hesitate to act in the manner it chooses.

Quiz 5

1. List the three overall responsibilities of a member in a cooperative.
 - a)
 - b)
 - c)

2. Write YES in front of five member responsibilities in a cooperative.
 - _____ a) Understand the cooperative
 - _____ b) Staff the cooperative
 - _____ c) Select and evaluate directors
 - _____ d) Help obtain new members
 - _____ e) Report to the board of directors
 - _____ f) Adopt legal papers
 - _____ g) Carry out employee performance evaluations
 - _____ h) Provide necessary financial capital

3. In the following list, write YES in front of statements that describe responsibilities of cooperative directors. (Hint: There should be six yeses.)
 - _____ a) Adopt long-range/strategic plans
 - _____ b) Staff the cooperative
 - _____ c) Approve distribution of equities
 - _____ d) Direct the day-to-day business activities
 - _____ e) Employ a competent manager
 - _____ f) Appoint an outside auditing firm
 - _____ g) Carry out performance evaluations of employees
 - _____ h) Decide on the distribution of the cooperative's net earnings
 - _____ i) Require that accurate accounts and records be kept
 - _____ j) Decide on what employees will be used to carry out cooperative strategic plans

4. True/False: write true or false in front of each statement.
 - _____ 1. Members approve or hire all cooperative employees.
 - _____ 2. The board chair is elected by the members.
 - _____ 3. All members in good standing may vote in director selection.
 - _____ 4. Directors hire all cooperative employees.
 - _____ 5. The board chair is elected by the directors.
 - _____ 6. All co-op directors are co-op members.
 - _____ 7. All problems have only one correct solution.
 - _____ 8. A good director will support the cooperative with all of their business.
 - _____ 9. A strong political affiliation is important for a director.
 - _____ 10. Any member in good standing could be elected as a director.

5. Write a short paragraph stating what you, as a cooperative director, would be responsible for.

Quiz 5 Answers

- List the three overall responsibilities of a member in a cooperative.
 - Commit to and use the cooperative
 - Own and control the cooperative
 - Finance the cooperative according to membership and use
- Write YES in front of five member responsibilities in a cooperative. (Answer: a, c, d, f, h)
 - Yes a) Understand the cooperative
 - b) Staff the cooperative
 - Yes c) Select and evaluate directors
 - Yes d) Help obtain new members
 - e) Report to the board of directors
 - Yes f) Adopt legal papers
 - g) Carry out employee performance evaluations
 - Yes h) Provide necessary financial capital
- In the following list, write YES in front of statements that describe responsibilities of cooperative directors.
(Answer: a, c, e, f, h, i)
 - Yes a) Adopt long-range/strategic plans
 - b) Staff the cooperative
 - Yes c) Approve distribution of equities
 - d) Direct the day-to-day business activities
 - Yes e) Employ a competent manager
 - Yes f) Appoint an outside auditing firm
 - g) Carry out performance evaluations of employees
 - Yes h) Decide on the distribution of the cooperative's net earnings
 - Yes i) Require that accurate accounts and records be kept
 - j) Decide on what employees will be used to carry out cooperative strategic plans
- True/False (Answer: True: 3, 5, 6, 8, 10; False: 1, 2, 4, 7, 9)
 - False 1. Members approve or hire all cooperative employees.
 - False 2. The board chair is elected by the members.
 - True 3. All members in good standing may vote in director selection.
 - False 4. Directors hire all cooperative employees.
 - True 5. The board chair is elected by the directors.
 - True 6. All co-op directors are co-op members (except that some cooperatives allow outside directors).
 - False 7. All problems have only one correct solution.
 - True 8. A good director will support the cooperative with all of their business.
 - False 9. A strong political affiliation is important for a director.
 - True 10. Any member in good standing could be elected as a director.
- Write a short paragraph stating what you, as a cooperative director, would be responsible for.

A director, as a part of the board, should—preserve the cooperative character, safeguard assets, hire the general manager/CEO, set policies, distribute benefits (patronage refunds & equities), plan for the future (strategic planning), evaluate the general manager/CEO, elect board officers, and appoint committees.



Unit 6 - The Cooperative Business Team: Manager and Employees - Coordination & Operations

Objective

The objective of this unit is to teach the student the roles and responsibilities of the cooperative manager and employees in the coordination and operations of a cooperative.

After completion, the student should:

1. Understand and explain the responsibilities of a manager in a cooperative.
2. Understand and explain the responsibilities of an employee in a cooperative.
3. Identify the differences between the primary job tasks of the manager and job tasks of cooperative employees.
4. Fully understand the key people in a cooperative system.

Instructor Directions

1. Become familiar with the instructional information provided as well as the suggested reference materials.
2. Lead the discussion using the PowerPoint slides and selected references provided. The discussion guide serves as an outline. There are three handouts provided for further discussion.
3. If possible, make contact with the cooperatives in your area, and arrange for a cooperative manager or employee to speak to the class/workshop about their role in their cooperative.

Unit 6 – Index and References

Teaching Tools

Instructor Discussion Guide

Handout 6.1 - Responsibilities of Key People

Handout 6.2 - The Business Team and Related Responsibility, Authority, and Accountability

Handout 6.3 - Decisionmaking in a Cooperative

Case Study 6 - Expansion of a Cooperative Business (optional exercise)

Case Study 6 Answers

Quiz 6

Quiz 6 Answers

Unit 6 PowerPoint Slides

(from CIR 11, Chapters 3 & 4)

S 6.1 - S 6.11 Cooperative Manager

S 6.12 - S 6.23 Cooperative Employees

S 6.24 Key People in a Cooperative

Teacher References

CIR 11: Cooperatives What They Are and the Role of Members, Directors, Management, and Employees (Chapters 3 and 4 used in this unit).

CIR 45, Section 6: Who Runs the Cooperative Business: General Manager and Employees

Student References

CIR 11: Cooperatives What They Are and the Role of Members, Directors, Management, and Employees (Chapters 3 and 4 used in this unit).

CIR 45, Section 6: Who Runs the Cooperative Business: General Manager and Employees

Unit 6 – Instructor Discussion Guide

Corresponding slides are in parenthesis with associated discussion points, denoted “S” for slide and by number.

- I. What the Cooperative Manager Does - reference CIR 11, Chapter 3 (S 6.1)
 - a) The Manager (S 6.2)
 - 1) Understands the cooperative's purpose and follows board policy (S 6.3)
 - 2) Advises the board (S 6.4)
 - 3) Controls daily operations (S 6.5)
 - 4) Hires staff (S 6.6)
 - 5) Sets tactical goals in line with long-range plans (S 6.7)
 - 6) Reports to the board (S 6.8)
 - 7) Reports to members (S 6.9)
 - 8) Represents the cooperative (S 6.10)
 - b) Cooperative Manager - A Unique Position (S 6.11)

- II. What Cooperative Employees Do - reference CIR 11, Chapter 5 (S 6.12)
 - a) Employees are the Glue that Binds Members to their Business (6.13)
 - b) Cooperative Employee Responsibilities (S 6.14)
 - 1) Promote the cooperative
 - 2) Deliver supplies
 - 3) Handle members' products
 - 4) Order and maintain inventories
 - 5) Keep accurate records
 - 6) Recommend products/services
 - 7) Handle complaints
 - 8) Represent the cooperative
 - 9) Maintain facilities
 - c) Cooperatives Need Quality Cooperative Employees (S 6.15)
 - 1) They understand the cooperative (S 6.16)
 - 2) They follow cooperative policies and rules (S 6.17)
 - 3) They respect all customers/members and treat them fairly (S 6.18)
 - 4) They are well trained (S 6.19)
 - 5) They communicate well (S 6.20)
 - 6) They properly maintain member-owner assets (S 6.21)
 - 7) They often participate in community activities (S 6.22)
 - 8) They maintain personal appearance (S 6.23)

- III. Review: Key People in a Cooperative (S 6.24)
 - a) Key People Make up the Business Team
 - 1) Members - as the user owners
 - 2) Directors - as the policy-making body
 - 3) Manager - as the supervisor
 - 4) Employees - as the work force
 - b) Review different aspect of key people - distribute and discuss handouts
 - 1) Responsibilities of Key People ([Handout 6.1](#))

Unit 6 – Instructor Discussion Guide (continued)

- 2) The Business Team and Related Responsibility, Authority, and Accountability ([Handout 6.2](#))
- 3) Decisionmaking in a Cooperative ([Handout 6.3](#))

Optional Exercise: Divide students into groups and have them complete [Case Study 6](#). Then openly discuss solution.

Have students complete Quiz 6 and then discuss answers.

Handout 6.1 - Responsibilities of Key People

Members	Directors	Manager	Employees
1) Understand the cooperative	1) Function as trustees for members in safeguarding their assets in the cooperative	1) Manage or direct daily business activities	1) Perform duties of service to members
2) Adopt legal papers	2) Determine objectives and general policies	2) Set goals and make short-range plans	2) Understand the relationship to member owners
3) Select and evaluate directors	3) Adopt long-range plans	3) Implement board policy	3) Understand the purpose and objectives of the cooperative
4) Provide necessary capital	4) Employ a competent manager	4) Employ and discharge employees	4) Favorably represent the cooperative
5) Use and support the cooperative	5) Preserve the cooperative character of the organization	5) Organize and coordinate internal activities and subordinates	
6) Participate in affairs	6) Require accounts and records	6) Control daily operations	
7) Provide information	7) Appoint an outside auditing firm		
8) Help obtain new members	8) Control the total operation		
	9) Distribute cooperative's net income		
	10) Approve distribution of equities		

Handout 6.2 - The Business Team and Related Responsibility, Authority, and Accountability

Business Team	Group Responsibility	Authority	Accountability to
Members	For overall democratic control of the cooperative	All authority not delegated in the articles and bylaws to directors	Themselves
Board of Directors	For specified democratic control of the cooperative as defined in articles and bylaws	All authority not delegated to the general manager as day to day operational authority	The membership and the State and Federal government laws and regulations
General Manager (CEO)	For operational management and control not reserved for the board of directors in the bylaws by board policy	Day to day authority not delegated to department heads/assistant managers	The board of directors
Department Head/Assistant Manager	For operational management of department or business unit not reserved by the general manager	Day to day authority as delegated by general manager	The general manager

Handout 6.3 – Decisionmaking in a Cooperative

Members	Board of Directors	Manager
<ul style="list-style-type: none"> • Selection and election of directors • Change articles of incorporation • Change bylaws • Consolidation with another cooperative • Merger with another cooperative • Dissolution • Sale of major assets • Recall directors • Adoption of resolutions 	<ul style="list-style-type: none"> • Selection and compensation of general manager • Purchase of major fixed assets • Credit policy • Selection of auditor and attorney • Levels of long- and short-term debt • Lines of major business activity • Policy on affiliation with regional cooperative • Authority given to management • Long-term or strategic plans • Approval of budget • Equity management • Cash patronage refunds • Sources of short- and long-term credit • Long-term leases and contracts 	<ul style="list-style-type: none"> • Maintenance of fixed assets • Selection and compensation of employees • Interpretation of government regulations • Day-to-day operations • Marketing of products for members • Allocation of expenditures within budget approved by board • Inventory management • Personnel assignments and evaluation • Credit decisions (within board policy) • Setting pricing and margins within budget and board policy • Accounting and management information • Patron complaints

Case Study 6 - Expansion of a Cooperative Business

A successful grain-marketing cooperative with a strong and experienced general manager (Mr. Johnson) has decided to enter the fertilizer and chemical business by purchasing an existing private company (FertX Inc.) in town. The acquisition deal is set and ready to proceed.

The manager (Mr. Blum) of FertX, Inc. is very popular in the community. Many of the cooperative's members have been purchasing their fertilizer and chemicals from FertX, Inc. over the years.

Mr. Blum is very knowledgeable about fertilizer and pesticides, but does not fully understand how cooperatives operate. Mr. Johnson, the cooperative's general manager, has experience in the fertilizer and chemical business from when he previously managed a different cooperative.

The general consensus of the board of directors is to try to retain the popular manager of FertX, Inc., and the employees, if possible. The directors think the employees can be used in other parts of the cooperative's operations.

Questions

- 1. How was the decision made for the cooperative to acquire FertX, Inc.?**
- 2. Who develops the cooperative's overall goal for completing the acquisition? What is that goal? Are there any sub-goals that should be defined? If so, what are they?**
- 3. What issues/problems might arise from trying to bring the manager and all the employees of FertX, Inc. into the cooperative when the acquisition takes place (identify the pros and cons)?**
- 4. Who makes the decision as to what employees from FertX, Inc., should be retained by the cooperative when the operations of the two businesses are combined?**
- 5. What other actions should take place to ensure an effective and efficient blending of operations, employees, and member services?**

Case Study 6 Solution - Expansion of a Cooperative Business

1. How was the decision made for the cooperative to acquire FertX, Inc.?

- **First, the board of directors, after studying and discussing the potential purchase with input from the general manager and others, made the decision to proceed with the acquisition and bring it to the membership.**
- **Then, a quorum of the cooperative's membership (at the annual meeting, or at a special meeting) voted in favor (according to what the bylaws specify) of the acquisition.**

2. Who develops the cooperative's overall goal for completing the acquisition? What is that goal? Are there any sub-goals that should be defined? If so, what are they?

- **The board of directors develops the goal.**
- **Overall goal - a smooth transition of all operations and employees into the cooperative in a manner that will create maximum efficiency, effective overall management, and enhanced member benefits and service.**
- **Sub-goals - to maintain quality management and member service in the fertilizer and chemical business, which is new to the cooperative. To retain the business of most or all of FertX, Inc.'s clientele and volume, in addition to gaining new business and volume from members.**

3. What issues/problems might arise from trying to bring the manager and all the employees of FertX, Inc. into the cooperative when the acquisition takes place (identify the pros and cons)?

- **If Mr. Blum is brought into the cooperative in an assistant management-type position, his lack of cooperative knowledge could be a negative factor. There could also be some conflict between Mr. Blum and Mr. Johnson since both are experienced managers and only one (Mr. Johnson) will be the boss.**
- **The employees from FertX, Inc., will likely feel out of their element and will need training if they are shifted to different positions other than fertilizer and chemicals in the cooperative. Their lack of cooperative principle experience and knowledge could also be an issue.**
- **The cooperative could end up with too many employees creating an overlap of duties and also resulting in increased wage costs for the cooperative.**

4. Who makes the decision as to what employees from FertX, Inc. should be retained by the cooperative when the operations of the two businesses are combined?

- **As general manager, Mr. Johnson has the ultimate authority to decide how many and which employees from FertX, Inc. should be brought into the cooperative. However, the board of directors might provide Mr. Johnson with some input on what they know of the employees given that some of them did business with FertX, Inc. The board might provide some input on how many employees they think should be retained given the cooperative's employment policy (if such a policy is in place, it might be prudent to revisit it).**

- **Once Mr. Johnson has made his personnel decisions (based on information, interviews, and operational structure planning), the board must give him ultimate authority to hire and manage the employees, as is his charge as general manager.**

5. What other actions should take place to ensure an effective and efficient blending of operations, employees, and member services?

- **Mr. Johnson and the board should collect as much information about the new business and employees that they can prior to making all the decision necessary when combining operations. Such information will help Mr. Johnson with making more effective hiring and delegation of employee decisions and will assist the board in its policy making and longer range planning of the cooperative that will now include greater assets, services, and a more complex structure.**
- **The new employees (including Mr. Blum if he is retained) that the cooperative keeps from FertX, Inc. should be educated about cooperatives, cooperative principles, and the unique structure, governance, and operations of cooperatives.**

Quiz 6

1. List the four key groups of people in a cooperative.
 - a)
 - b)
 - c)
 - d)

2. List six major responsibilities of the cooperative manager.
 - a)
 - b)
 - c)
 - d)
 - e)

3. Write a short paragraph stating what you, as a cooperative employee, would be responsible for while doing your job.

Quiz 6 Answers

1. List the four key groups of people in a cooperative.
 - a) Members
 - b) Directors
 - c) Manager
 - d) Employees

2. List six major responsibilities of the cooperative manager.
 - a) Implement board policy
 - b) Advise the board
 - c) Manage daily operations
 - d) Hire and train staff
 - e) Set short- and long-term tactical goals in line with long-range plans
 - Report to the board of directors
 - Report to members
 - represent the cooperative(And any others the Instructor deems acceptable)

3. Write a short paragraph stating what you, as a cooperative employee, would be responsible for while doing your job.

(Student's answer should include some of the following information.)

As an employee, I would need to fully understand the cooperative, follow the cooperative's policies and rules, respect customers and members and treat them fairly, communicate to the best of my ability, maintain assets and equipment, participate in community activities when possible, and maintain my personal appearance. In addition, I would promote the cooperative, deliver supplies, handle members' products, order and maintain inventories, keep accurate records, recommend products and services, handle complaints from patrons, and maintain the facilities.



Unit 7 - Mini Cooperative Business Experience

Objective

The objective of this unit is for the student to acquire a basic knowledge and understanding of economic and business principles through the use of a "Learn By Doing" activity.

After completion, the student should:

1. Have a basic understanding of how to organize and operate a business.
2. Be familiar with the basic legal and financial documents needed to operate a cooperative business.
3. Have a basic understanding of how a cooperative functions and operates.
4. Be aware of how economic concepts apply to her/"his life.

Instructor Directions

1. Become familiar with the instructional information provided as well as the suggested reference materials.
2. Lead the activity using the handouts and/or suggested references. Follow the discussion guide questions and outline.
3. To maximize the learning experience, the instructor must act as a consultant to the business. This means the students must make the decisions and NOT the instructor. Thus, to demonstrate and make economic and business principles "come alive," the instructor must allow the students to make mistakes.
4. One of the roles the instructor should play is that of the government. The instructor is responsible for determining the environment in which the MINI COOPERATIVE must operate. Before organizing the MINI COOPERATIVE, the instructor must decide what rules or guidelines are necessary to conduct this activity. These rules or guidelines become laws that must be followed. As the activity progresses, the instructor may need to change or add laws as the situation warrants. This is one of the ways the instructor may program in various problems and situations that demonstrate economic and business principles. It prevents the simulation from becoming unrealistic.

Instructor Directions (continued)

NOTE: Make laws only when they are absolutely necessary to maintain good public relations in keeping the MINI COOPERATIVE within educational goals. The instructor must be able to distinguish between decisions made by the students that are acceptable and are not acceptable. It is important that students be permitted to make mistakes. Often mistakes provide valuable educational lessons for the participants.

Some of the "laws" you might want to consider are:

1. Eligibility for membership (target audience).
2. Age students must be to be elected and serve on the board of directors.
3. How long the MINI COOPERATIVE will operate.
4. Type and/or extent of activities the cooperative will undertake.
5. Financial reports required.
6. Limits on profits, patronage refunds, and dividends.

NOTE: Make laws only when they are absolutely necessary to maintain good public relations in keeping the MINI COOPERATIVE within educational goals. The instructor must be able to distinguish between decisions made by the students that are acceptable and are not acceptable. It is important that students be permitted to make mistakes. Often mistakes provide valuable educational lessons for the participants.

Unit 7 – Index and References

Teaching Tools

Instructor Discussion Guide

Handout 7.1 - Planning Meeting Agenda

Handout 7.2 - Articles of Incorporation

Handout 7.3 - Bylaws

Handout 7.4 - Ideas for Cooperative Projects and Activities

Handout 7.5 - Committee Work Descriptions

Handout 7.6 - Organizational Meeting Agenda

Handout 7.7 - First Board Meeting Agenda

Handout 7.8 - Vacancy Announcement (general manager position)

Handout 7.9 - Application Form (for manager position)

Handout 7.10 - Agenda for Membership and Board Meetings

Handout 7.11 - Membership Meeting Ideas

Handout 7.12 - Stock Certificate Example

Handout 7.13 - Membership Certificates

Handout 7.14 - Treasurer's Report

Handout 7.15 - Operating Statement

Handout 7.16 - Balance Sheet

Handout 7.17 - Final Meeting Agenda

Unit 7 PowerPoint Slides

Seventeen slides correspond to the Handouts.

Teacher References

CIR 7: How to Start a Cooperative

Video Reference: How to Start a Cooperative (VHS Color, 31 minutes)

Student References

CIR 7: How to Start a Cooperative

Unit 7 - Instructor Discussion Guide

Numbers in parenthesis refer to associated handouts (PowerPoint slides coincide with handouts to help with Instructor explanations).

- I. Procedure for organizing and operating the MINI COOPERATIVE:
 - a) Call a planning meeting of 8 to 15 persons representing the target audience.
 - b) At the planning meeting: ([Handout 7.1](#))
 - 1) Explain the MINI COOPERATIVE and some activities it could conduct.
 - 2) Determine if the group is interested in organizing a MINI COOPERATIVE.
 - 3) Elect a temporary chairperson, secretary, and treasurer.
 - 4) Hand out and discuss a proposed copy of the Articles of Incorporation and Bylaws. ([Handout 7.2](#) and [Handout 7.3](#))
 - 5) Discuss projects or activities that could be conducted. ([Handout 7.4](#))
 - 6) Suggest the amount of "earnest money" to be collected.
 - 7) Set date, time, and place for the organizational meeting.
 - 8) Discuss the need to appoint Steering Committees in the areas of bylaws, marketing, and membership. ([Handout 7.5](#))
 - 9) Provide a receipt book for the "earnest money" to the membership committee.
 - c) Publicize the organizational meeting. Send extra copies of notice to planning committee members.
 - d) Meet with temporary chairperson to plan the organizational meeting.
 - 1) Review agenda.
 - 2) Review parliamentary procedure, if appropriate.
 - e) Hold an organizational meeting. ([Handout 7.6](#))
 - f) Hold a board of directors meeting as soon as possible after the organizational meeting. ([Handout 7.7](#))
 - g) Hold additional board meetings as necessary.
 - h) Work with the manager on organizing activities and projects. ([Handout 7.8](#) and [Handout 7.9](#))
 - i) Work with the board on planning membership meetings. ([Handout 7.10](#) and [Handout 7.11](#))
 - j) Have board discuss with members stock and membership certificates ([Handout 7.12](#) and [Handout 7.13](#))
 - k) Procedure for dissolving the MINI COOPERATIVE:
 - 1) Have board of directors appoint an auditor (usually not a student).
 - 2) Treasurer provides report to auditor ([Handout 7.14](#))
 - 3) Auditor audits the books and prepares a balance sheet and operating statement ([Handout 7.15](#) and [Handout 7.16](#)).
 - 3) Board of directors meet and declare a patronage refund or dividend based on the auditor's report.
 - 4) If any funds are left after declaring patronage refund or dividend, the board should decide how these funds will be spent (see bylaws for guidelines).
 - 5) Final membership meeting. ([Handout 7.17](#))

Handout 7.1 - Planning Meeting Agenda

1. Call meeting to order.
2. Discuss ideas and purposes of the MINI COOPERATIVE as a learning experience.
3. Motion to organize.
4. Elect temporary chairman, secretary, and treasurer.
5. Decide who may belong.
6. Appoint steering committees in the areas of marketing, membership, and bylaws.
7. Set guidelines for the amount of money to be collected as "earnest money."
8. Set date, time, and place for the organizational meeting.
9. Have each committee meet.
10. Adjourn.

Handout 7.2 - Articles of Incorporation

Articles of Incorporation

_____ (name of business)
_____ (address)

ARTICLE I - Name

The name of the cooperative shall be _____.

ARTICLE II - Purposes

This cooperative is formed for the following purposes: To purchase, market, and sell for and to members, any supplies, refreshments, or services desired by the membership; to conduct any other business authorized or allowed by cooperatives organized under the laws of the State of _____; and to conduct these activities on a cooperative basis for the mutual benefit of members.

ARTICLE III - Powers, Limitations

This cooperative shall have the following powers:

1. To borrow money; to give a lien on any of its assets as security for loans; and to make advance payments.
2. To act as the agent of any member or members in any of the activities mentioned in Article II hereof.
3. To advertise and develop markets for items handled by the cooperative.
4. To buy, lease, hold, and exercise all privileges of ownership over such property as may be necessary for conducting the business of the cooperative.
5. To have and exercise, in addition to the foregoing, all powers, privileges, and rights conferred on ordinary corporations by the laws of this nation.

ARTICLE IV - Place of Business

The cooperative shall have its principal place of business in the city of _____, county of _____, and state of _____.

ARTICLE V - Duration

This cooperative shall start _____ 20 ____ and terminate on 20 ____.

ARTICLE VI - Directors

The board of directors of the cooperative shall consist of not fewer than _____ members elected from the membership of the cooperative.

ARTICLE VII - Membership

Any person _____ (specify restriction, i.e., age, group), regardless of race, color, sex, or national origin, shall be entitled to membership.

ARTICLE VIII - Capital Stock

Section 1. The authorized capital stock of the cooperative shall be _____ shares of common stock with a par value of \$_____ per share.

Section 2. The common stock of the cooperative shall be issued to and held by member patrons of said cooperative and no person, firm, or corporation shall own or hold at any time more than one share of such common stock or shall have more than one vote in transacting business of the said cooperative. The transfer of said common stock must be approved by the board of directors.

Handout 7.2 - Articles of Incorporation (continued)

IN TESTIMONY WHEREOF, We duly elected board members set our hands on this _____ day
of _____, 20____.

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Handout 7.3 - Bylaws

Bylaws

_____ (name of cooperative)

ARTICLE I - Purposes and Powers

The purposes for which _____ (name of cooperative) is formed and the powers which it may exercise are set forth in the Articles of Incorporation.

ARTICLE II - Membership

Section 1. Qualifications. Any person (specify any restrictions, i.e., age, group, etc.), regardless of race, color, sex, or national origin, and who agrees to be a patron of the cooperative, and who pays such membership fees and meets such other conditions as prescribed by the board of directors, may become a member of the cooperative. This cooperative shall issue a certificate of membership to each member, which shall be in the form prescribed by the board of directors but shall not be transferable.

Section 2. Suspension or Termination. If, after a hearing, the board of directors finds that a member has ceased to be an eligible member, it may suspend his/her rights as a member or terminate his/her membership. Upon termination of membership in the cooperative, all rights and interests of such member in the cooperative shall cease and such a member shall be entitled only to payment or credit not to exceed the par value of his/her common stock certificate.

ARTICLE III - Meeting of Members

Section 1. Annual Meeting. The annual meeting will be held _____ (specify time and date).

Section 2. Membership Meetings. Membership meetings of the cooperative will be held _____ (specify when, e.g., second Monday of each month).

Section 3. Special Meetings. Special meetings of the members of the cooperative may be called at any time by order of the board of directors.

Section 4. Notice of Membership and Special Meetings. Oral, written, or printed notice of every membership and special meeting of members shall be prepared and given, announced, or mailed to each member not less than (specify length of time) before such meeting. Such notice shall state the objectives, the time, and the place of the meeting. At special meetings, no business shall be transacted other than that referred to in the meeting notice.

Section 5. Voting. Each member shall be entitled to only one vote upon each matter submitted to a vote at a meeting of the members. All questions shall be decided by a vote of a majority of the members voting thereon. Voting by proxy (shall or shall not) be permitted.

Section 6. Quorum. Fifty-one percent of the members present shall constitute a quorum.

ARTICLE IV - Directors and Officers

Section 1. Number and Qualifications of Directors. The cooperative shall have a board of ____ members. Each director shall be a member of the cooperative in good standing. If two-thirds of the members at a regular meeting find, following a hearing, that any director is not performing duties adequately, that person shall cease to be a director.

Handout 7.3 – Bylaws (continued)

Section 2. Election of Directors. At the organizational or annual meeting of the members of the cooperative, directors shall be elected. (specify how directors will be elected, i.e., at large, representing groups or geographic areas, etc.). All directors shall be elected by secret ballot.

Section 3. Term of Office. The term of office shall be _____ (length of time).

Section 4. Adult Resource. At least one adult shall be invited to serve as a resource person to the board of directors.

Section 5. Election of Officers. The board of directors shall meet within (specify time) after the organizational or annual meeting and shall elect by ballot a president, vice president, secretary, and treasurer, each of whom shall hold office until the election and qualification of his/her successor unless earlier removed by death, resignation, or for cause. An officer may be removed at any time by a two-thirds vote of the board of directors. When an office is vacated by death, resignation, or removed for cause, the board of directors at its next meeting shall elect by ballot a successor.

Section 6. Duties of Officers and Manager. The duties of the president shall be to preside at all director meetings, preside at all cooperative member meetings, and such other duties as may be prescribed by the board.

The vice president shall work with and act in the absence of the president.

The secretary shall see that the membership roll is in order and keep the minutes of all board and membership meetings.

The treasurer shall keep the record of all business transactions and provide the auditor all financial information necessary for preparing the final operating statement and balance sheet at dissolution of the cooperative.

The manager shall perform such duties and shall exercise such authority as the board may assign to him/her. This person shall be responsible for the efficient conduct of business operations. He/she shall render reports in the form and manner prescribed by the board. He/she shall appoint, supervise, and dismiss any staff carrying out the functions of the cooperative.

Section 7. Vacancies. Whenever a vacancy occurs on the board of directors, other than the expiration of a term of office, the remaining directors shall appoint a member to fill the vacancy until the next regular membership meeting. At the next membership meeting _____ (specify how the vacancy will be filled). The election shall be conducted by secret ballot.

Section 8. Board Meetings. In addition to meetings mentioned above, the meetings of the board of directors shall be held at such times and places as the board or president and secretary may determine upon oral or written notice, not fewer than (specify length of time) before the meeting.

Section 9. Compensation. No member of the board shall occupy any position in the cooperative on a regular salary.

Section 10. Quorum. A majority of the board of directors shall constitute a quorum at any meeting of the board.

Handout 7.3 – Bylaws (continued)

ARTICLE V - Duties of Directors

Section 1. General Powers. The board shall direct the business affairs of the cooperative and shall exercise all the powers of the cooperative except such as are reserved by law, the articles of incorporation, or these bylaws conferred upon or reserved to the members. The board shall not adopt such policies, rules, and regulations inconsistent with law, the articles of incorporation, or these bylaws.

Section 2. Appointment of a Manager. The board of directors shall have the power to appoint a manager, define his/her duties, and fix compensation. The manager shall not be a member of the board of directors.

Section 3. Auditor. The board of directors shall appoint an adult auditor to audit the treasurer's books and present a certified operating statement and balance sheet to the directors.

ARTICLE VI - Dissolution

Upon the dissolution of this cooperative, all debts and liabilities of this cooperative shall be paid according to their respective priorities.

Distribution of savings may be made at the recommendation of the board of directors and subject to the majority vote of the members on all or any portion of the savings and may be distributed in any of the following ways:

1. Declare patronage savings be returned to all patrons in proportion to their use.
2. Declare patronage savings be returned only to those patrons who are members of the cooperative in proportion to their use.
3. Declare an equal patronage savings be returned only to those patrons who are members of the cooperative.
4. Set aside funds toward a banquet or some other activities determined by membership at the time of dissolution.
5. Any combination of the above listed.

Upon unanimous recommendation of the board of directors and unanimous vote of the membership, all or any part of the membership fees and/or net margin and/or savings of this cooperative may be given to any worthwhile cause in keeping with the purpose of the _____ (name of sponsoring group) .

ARTICLE VII - Amendments

Bylaws may be amended or altered at any regular or special meeting of the members called for that purpose, by a majority of the members voting thereon.

Handout 7.4 - Ideas for Cooperative Projects and Activities*

Garden seed sale

Citrus fruit sale

Flower arrangement/corsage sale

Crafts sale

Auction to sell members' exhibits

Candy/nuts/bake sale

*Money normally used for high salesperson could be the maximum amount available for patronage refund with each participating member receiving money based on participation.

Handout 7.5 - Committee Work Descriptions

Marketing Committee - this committee shall study the various projects that the group is interested in and will then make a recommendation at the organizational meeting as to which project or projects should be undertaken. This committee may find it necessary to conduct a survey to assess the need for the projects being considered.

Membership Committee - this committee will encourage eligible persons to attend the organizational meeting. This committee is responsible for collecting the "earnest money" and for handing out receipts to those providing the "earnest money" equity.

Bylaws Committee - this committee will read and discuss the bylaws and make recommendations necessary to make them complete; e.g., when membership meetings will be held, the number on the board of directors, etc.

Handout 7.6 - Organizational Meeting Agenda

1. Call meeting to order (temporary chairperson who was selected at planning meeting).
2. Read the minutes of the earlier planning meeting.
3. Provide an explanation of the organizational meeting's purpose.
4. Committee reports.
 - a. Marketing committee.
 - b. Membership committee.
 - c. Bylaws committee.
5. Motion to organize.
6. Approve bylaws.
7. Set the membership fee.
8. Elect the board of directors.
9. Set time and place for organization meeting of the board of directors.
10. Other items. (optional)
 - a. Select name and logo for business.
 - b. Discuss an educational program to implement.
 - c. Other business.
11. Adjourn.

Handout 7.7 - First Board Meeting Agenda

1. Call meeting to order (temporary chairperson).
2. Introduction of board members.
3. Elect officers of board.
4. Officers take elected positions (President then runs meeting).
5. Discuss need for incorporating and approve stock certificate and membership card.
6. Discuss need for a manager.
7. Authorize hiring a manager.
8. Discuss hiring procedure.
9. Set any policies.
10. Plan next membership meeting.
11. Other items related to the operation of the cooperative.
12. Adjourn.

Handout 7.8 - Vacancy Announcement (for manager position)

POSITION: Manager

POSITION LOCATION: _____ (address of cooperative office)

NATURE OF POSITION: To provide leadership for conducting the activities of _____.
In carrying out these duties, the individual is responsible to the board of directors of the cooperative.

SPECIFIC DUTIES INCLUDE:

1. Carry out plans of the board of directors and follow its policies.
2. Maintain good relations between the cooperative and its members.
3. Report to the board of directors at board meetings about the activities of the cooperative and outline any special problems or items that need board consideration.
4. Appoint and supervise staff as needed to carry out the operations of _____.

BASIC ELIGIBILITY REQUIREMENTS:

Preference will be given to candidates who have experience in organizing and conducting activities, events, and business enterprises.

SALARY: Commensurate with experience

EQUAL EMPLOYMENT OPPORTUNITY: Applicants will be considered without discrimination for any non-merit reason such as race, color, religion, sex, national origin, politics, marital status, age, or membership in an employee organization.

RETURN APPLICATION TO: _____ (name of person to receive applications)

_____ (name of business)

_____ (address)

APPLICATIONS MUST BE RECEIVED BY: _____ (date)

Handout 7.10 - Agenda for Membership and Board Meetings

1. Call to order (President).
2. Reading of minutes (Secretary).
3. Treasurer's report (Treasurer).
4. Manager's report (Manager).
5. Committee reports (Chair of each committee).
6. Old business.
7. New business.
8. Adjourn.
9. Educational program.

Handout 7.11 - Membership Meeting Ideas

1. Video or PowerPoint presentation relating to cooperatives and business.
2. Invite local cooperative manager to discuss the duties and responsibilities of being a manager.
3. Invite director of nearby co-op to discuss the duties and responsibilities of being a director.
4. Field trips to local businesses (cooperative and/or proprietary).
5. Work sessions on projects.
6. Speaker on preparing for a job interview.
7. Program on careers.
8. Invite local banker to discuss how to write a check, different types of savings accounts, balancing a checkbook, services provided by banks, how a bank functions, etc.
9. Program on developing a marketing and advertising program.
10. Speaker on how new products are developed and test marketed.

Handout 7.12 - Stock Certificate Example

<i>Stock Certificate for</i>	
<hr/>	
Serial Number	Number of Shares
<hr/>	
<p>This is to certify that _____ is the owner of _____ fully paid and non-assessable share(s), par value of \$_____ each, of the common stock of the _____. This certificate and the share(s) represented hereby, are subject to all terms, conditions, and limitations of the Articles of Incorporation and all amendments hereto. In witness whereof, the said cooperative has caused the certificate to be signed by its authorized officers and its cooperative seal to be hereto affixed.</p>	
<p>This _____ day of _____ A.D. 20_____</p>	
_____ President	_____ Secretary

Handout 7.13 - Membership Certificates

<p style="text-align: center;"><i>Membership Certificate</i></p> <p>Year _____ No. _____ This certifies that _____ is a member of _____ Cooperative and is entitled to all rights, benefits, and privileges of the organization.</p> <p>_____ President Secretary</p>	<p style="text-align: center;"><i>Membership Certificate</i></p> <p>Year _____ No. _____ This certifies that _____ is a member of _____ Cooperative and is entitled to all rights, benefits, and privileges of the organization.</p> <p>_____ President Secretary</p>
<p style="text-align: center;"><i>Membership Certificate</i></p> <p>Year _____ No. _____ This certifies that _____ is a member of _____ Cooperative and is entitled to all rights, benefits, and privileges of the organization.</p> <p>_____ President Secretary</p>	<p style="text-align: center;"><i>Membership Certificate</i></p> <p>Year _____ No. _____ This certifies that _____ is a member of _____ Cooperative and is entitled to all rights, benefits, and privileges of the organization.</p> <p>_____ President Secretary</p>
<p style="text-align: center;"><i>Membership Certificate</i></p> <p>Year _____ No. _____ This certifies that _____ is a member of _____ Cooperative and is entitled to all rights, benefits, and privileges of the organization.</p> <p>_____ President Secretary</p>	<p style="text-align: center;"><i>Membership Certificate</i></p> <p>Year _____ No. _____ This certifies that _____ is a member of _____ Cooperative and is entitled to all rights, benefits, and privileges of the organization.</p> <p>_____ President Secretary</p>

Handout 7.14 - Treasurer's Report

Balance as of _____

Receipts:

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Total Receipts _____

Expenses:

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Total Expenses _____

Handout 7.15 - Operating Statement

Operating Statement

_____ (name of business)

_____ (city)

_____, 20__ to _____, 20__ (period covered by statement)

Income

*Sales _____

*Less cost of Sales _____

Gross Margins _____

Expenses (list expenses involved in operating business)

Printing tickets _____

Receipt books _____

Posterboard and pens _____

Advertising _____

Telephone _____

Salaries & wages _____

Legal & auditing fees _____

Travel _____

Taxes _____

Depreciation _____

Repairs _____

Insurance _____

Miscellaneous _____

Total Operating Expenses _____

Net Income _____

Handout 7.16 - Balance Sheet

Balance Sheet

_____ (name of cooperative)

_____ (city)

_____, 20____
(date)

Assets

Current assets

Cash _____

Accounts receivable _____

Inventory _____

Prepayments _____

Total current assets _____

Other assets

Investments _____

Total other assets _____

Fixed assets

Land _____

Buildings _____

Equipment _____

Less depreciation _____

Total fixed assets _____

TOTAL ASSETS _____

Liabilities & Capital Equities

Current liabilities

Accounts payable _____

Accrued expenses _____

Short term loans _____

Patronage refund pay _____

Total current liabilities _____

Fixed liabilities

Long term loan _____

Total fixed liabilities _____

Total liabilities _____

Handout 7.16 - Balance Sheet (continued)

Net worth or members' equity

Capital stock _____

Allocated reserves _____

Total members' equity _____

**TOTAL LIABILITIES AND
MEMBERS' EQUITY** _____

Handout 7.17 - Final Meeting Agenda

1. Call meeting to order.
2. Reading of minutes.
3. Treasurer's report.
4. Auditor's report.
5. Manager's report.
6. President's report.
7. Committee reports.
8. Old business.
9. New business.
10. Motion on how to disperse any remaining funds.
11. Motion to dissolve.
12. Adjourn.