Rural COOPERATIVES

November/December 2015

Marketing 'a taste of place'

Ag co-ops set sales & income records

Top 100 Ag Co-ops: how they stack up

USDA United States Department of Agriculture

Commentary

Co-ops: a bipartisan bridge

By Judy Ziewacz

Editor's note: *A recent inductee of the Cooperative Hall of Fame, Ziewacz has been a champion for cooperative development for more than 40 years. She has served as executive director of the Cooperative Development Foundation, where she led the charge for the creation of the "dotCoop" Internet domain, and played a key role in establishing CooperationWorks!, a national skills-enhancement network for co-op development specialists, among her many other accomplishments. She is currently serving as interim president of the National Cooperative Business Association.*

Cooperatives are a bipartisan bridge that draws support from people all across the political spectrum. I say this from experience, as a person who has lobbied at the state and federal levels on behalf of all cooperatives. Regardless of whether one's political philosophy leans toward a free market with little government involvement, or instead champions the use of public resources to improve the lives of all U.S. citizens, co-ops are embraced as a powerful, self-help business model.

Cooperatives that serve rural communities have benefited from public investment to start their operations and, once established, to function successfully in the U.S. and global markets. There is no better place to look for examples of this than the cooperatives fostered through programs at the U.S. Department of Agriculture (USDA).

Starting with the Federal Farm Loan Act of 1916, Congress established a cooperative system of Federal Land Banks and farm loan associations. In 1933, the system was expanded with the establishment of the Farm Credit System, which included Banks for Cooperatives. These member-run financial co-ops provided financing to farmers when investor-owned banks found it difficult to lend to an industry with a "boom and bust" economic cycle.

USDA's early support for cooperatives culminated in 1926 with the passage of the Cooperative Marketing Act, approved with bipartisan support. Under authority of this Act, USDA collects market information about cooperatives and provides research, education and technical assistance to help form cooperatives and strengthen the operations of existing co-ops.

The cooperative system the Act helped to build still flourishes today, marketing fruits and vegetables, milk, grain and oilseeds, cotton and virtually every other type of ag product produced across the nation. USDA's co-op education and research work today is performed by the Cooperative Programs office of USDA Rural Development.

Another highly visible, extensive federal cooperative program was created by the passage of the Rural Electrification Act in the 1930s. Since rural communities are characterized by low-density population, remote distances and lack of access to capital and markets, free-market principles did not provide the needed incentive for investor-owned utilities to deliver electricity to remote parts of the nation. In other words, serving rural America would not be profitable enough to satisfy their investors.

To fill the gap, the federal government created the Rural Electrification Administration (REA) to provide low-interest financing for the creation of rural electric cooperatives and, later, rural telephone cooperatives. With that start-up capital from REA, about 630 rural electric cooperatives were launched by 1940. Today, there are about 1,000 rural electric co-ops that continue to deliver electricity to 35 million rural residents. Many of these co-ops are also delivering broadband and other advanced technology to their member-owners. It is a government-investment success story with few rivals.

Housing programs that serve urban areas have seen similar successes. For rural communities, cooperatives have been used to create horizontal and vertical linkages that overcome the barriers to economic development. Urban communities attempting to address poverty have a different set of challenges but could benefit from smart investment in self-help, member-owned businesses.

Too often today, our state and federal governments have become locked into policy positions that result in partisan gridlock. Coupling smart financing and investments — rather than entitlements — with programs that create organizations based on self-help and member-ownership should be a strategy to renew bipartisan solutions to the daunting challenges of income inequality, delivery of human services and the creation or retention of jobs that are owned and controlled by members of the community.

Since I live in Wisconsin, I will conclude by pointing to another bipartisan success story that is our state's pride and joy: the Green Bay Packers. The Wisconsin cooperative community claims them as a cooperative. There is no economic, profit-driven reason for the Packers to stay and play in a city of only about 100,000 people, other than their community ownership. That, I think, is something people of all political persuations in the state agree is a good thing. ■

Features

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Tom Vilsack, Secretary of Agriculture

Lisa Mensah, Under Secretary, USDA Rural Development

Dan Campbell, Editor

Stephen Hall / KOTA, Design

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ON THE COVER: Wisconsin ginseng is grown under canopies that create shade, replicating forest conditions. The state's crop has special attributes valued by consumers worldwide, but protecting that marketing edge has sometimes been difficult. Photo courtesy Wisconsin Ginseng Board

Four In a Row!

Dairy, livestock sales help ag co-ops set fourth consecutive revenue record

By Carolyn Liebrand, James Wadsworth, Charita Coleman

Editor's note: *This article presents highlights from a forthcoming USDA report, with results from the 2014 survey of rural farmer, rancher and fishery cooperatives. The authors would like to thank all U.S. ag cooperatives for their continued participation in this annual survey, which — among many other benefits — helps to demonstrate the important role ag co-ops play in the nation's economy.*

Table 1
U.S. agricultural cooperatives, comparison of 2014 and 2013

Item	2014	2013	Difference	Change
	................Billion $		....	Percent
Income Statement)				
Marketing	147.731	144.615	3.116	2.2
Farm supplies	92.624	95.933	(3.309)	(3.4)
Service	4.184	3.575	0.609	17.0
Total sales	244.539	244.123	0.416	0.2
Patronage income	1.066	1.224	(0.158)	(12.9)
Non-operating income	1.065	0.772	0.292	37.9
Total business volume[1]	246.670	246.120	0.550	0.2
Net income (*After taxes*)	6.466	5.548	0.917	16.5
Balance sheet				
Assets	87.083	82.558	4.525	5.5
Liabilities	49.487	47.923	1.564	3.3
Equity	37.596	34.636	2.961	8.5
Liabilities and net worth	87.083	82.558	4.525	5.5
Employees (*Thousand*)				
Full-time	135.6	136.2	(0.6)	(0.4)
Part-time, seasonal	55.7	54.5	1.2	2.2
Total	191.3	190.6	0.6	0.3
Membership (*Million*)	2.0	2.0	0.0	1.0
Cooperatives (*Number*)	2,106	2,186	(80)	(3.7)

[1]*Sum of total sales, patronage income, and non-operating income.*

USDA's annual survey of the nation's 2,106 farmer, rancher and fishery cooperatives showed that U.S. ag co-ops set new records for sales and net income in 2014, with total sales of $244.5 billion, up by $416 million from 2013 (Table 1). This change was led by increased dairy and livestock sales, as well as progress in several other commodities. Net income (after taxes) of $6.5 billion was up significantly, having increased 16.5 percent from

2013. This surpassed the previous net income record of $5.6 billion set in 2012.

"Producer- and user-owned cooperatives are essential to the U.S. economy and to rural America, delivering supplies to farmers and ranchers and helping them market their products, supplying telecommunications and energy to rural communities, and providing financial and other important services," Agriculture Secretary Tom Vilsack said. "The nation's co-ops play a vital role in strengthening our economy as generated income is either reinvested, or returned to the member-owners who spend it in local communities."

Total business volume — comprised of sales, other operating revenue, patronage income and non-operating income — was also a record $246.7

billion in 2014, marking the 4th year in a row that U.S. ag co-ops have set a new record for revenue.

Marketing sales, service income up; supply sales dip

Dairy product sales by co-ops increased more than $9.4 billion in 2014. Livestock sales also showed strong growth, climbing by $1.6 billion since 2013 (Table 2). Nuts, poultry and tobacco sales were also up significantly from 2013. The trends were mixed for other commodity sectors, the net result being that total co-op sales of ag products hit $138.3 billion, a $2.5 billion gain over 2013. Service and other income also increased, rising from $5.6 billion to $6.3 billion in 2014, a jump of 13.3 percent.

Supply sales, however, declined from $67.2 billion in 2013 to $65.6 billion in 2014. Drops in feed and fertilizer sales were the major factors, offsetting increased sales of petroleum, seed and crop protectants.

Combined balance sheet shows strength

Total assets of ag co-ops were valued at $87.1 billion in 2014, an increase of $4.5 billion (5.5 percent). Liabilities increased by 3.3 percent. Member-owners' equity was $37.6 billion (or 43 percent of assets), an increase of almost $3 billion, or 8.5 percent, from 2013. This continues the upward trend of recent years, with 2014 member equity reflecting a 25-percent gain since 2012. Fixed assets (property, plant and equipment) owned by farm co-ops — including everything from grain elevators and farm supply stores to major food and beverage processing plants — also continued to show increases in 2014, rising to $21.4 billion. That's up 6 percent from $20.2 billion in 2013.

Job numbers up, memberships hold steady

Total employment in ag co-ops increased slightly, to just more than 191,000, an increase of less than 1 percent. The increase was due to additional part-time and seasonal employees (up 2.2 percent) in 2014, while the number of full-time employees fell very slightly.

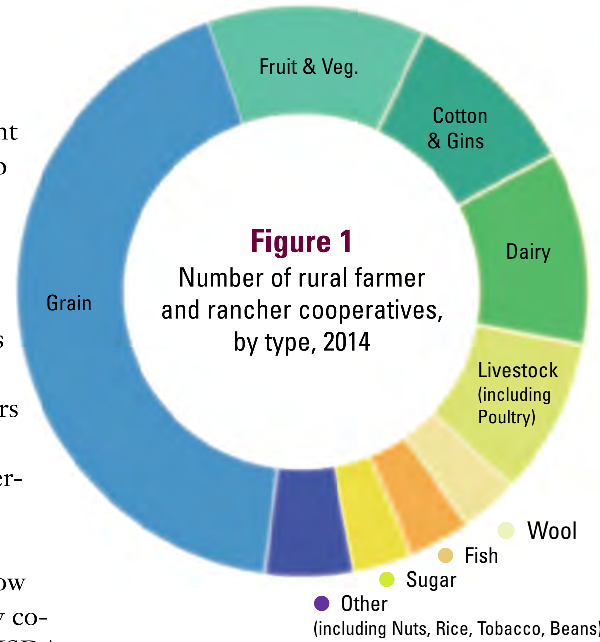
Producers held just under 2 million memberships in cooperatives in 2014, up 1 percent from 2013. The number of co-op memberships is slightly less than the number of U.S. farms (2,084,000 in 2014). This does not mean that every farmer is a member of an ag co-op. Previous studies have found that many farmers and ranchers are members of several cooperatives, so farm numbers and cooperative memberships are not strictly comparable.

The number of farmer co-ops continues to decline; there are now 2,106 farmer, rancher and fishery co-ops, down from 2,186 in 2013. USDA research conducted last year indicated that the major reason for the decrease in co-ops is consolidation within the ag co-op sector. "Most local co-ops have merged, and then merged again, often forming 'super locals' and even larger regional cooperatives," reported USDA ag economist E. Eldon Eversull, the author of the study.

Cooperative structural characteristics

Most of the nation's cooperatives are centralized cooperatives, mostly local co-ops with individual farmer, rancher or fishery members. A few centralized co-ops operate over multi-state areas and provide more vertically integrated services, such as processing products or manufacturing feed. Table 3 shows that the number of centralized co-ops dropped by 80, down 3.8 percent, in 2014. The number of federated and mixed co-ops remained stable. Federated cooperatives are co-ops where two or more member associations have organized to market products, purchase supplies or perform bargaining functions. Mixed co-ops have a mixture of direct farmer or rancher producers and co-op associations as member-owners.

Further analysis conducted for 2014 found that 1,114 co-ops predominately marketed farm products, while farm supply sales were the main source of revenue for 876 co-ops. Another 116 co-ops earned most of their revenue from services they provided (such as harvesting or agronomy service).



There were 81 fewer marketing co-ops and 4 fewer service co-ops than in 2013, while there were 5 more supply co-ops. Care must be taken when interpreting such changes, because USDA categorizes co-ops based on the predominance of their sales. Thus, a co-op may be classified as a marketing co-op one year, but as a farm supply co-op the next year, reflecting a shift in the proportion of its sales (the most common example being ag production sales vs. grain sales).

Figure 1 breaks out the proportion of marketing cooperatives that predominantly marketed a specific item (grain, fruit/vegetable, cotton/gins, dairy, livestock, wool, fish, sugar and "other"). It shows that grain marketing is the most common cooperative marketing activity, followed by fruit/vegetable, cotton/gins, dairy and livestock.

However, many cooperatives have diverse operations, conducting two or three of these primary functions for members. These co-ops may market their members' products (most often this would be crops, milk, livestock, poultry and fish — with some co-ops also processing them into value-added products) while also selling them farm production supplies and providing them with a variety of services.

For example, 1,334 co-ops marketed some amount of members' agricultural products in 2014. This means that 220 co-ops classified as a supply or service cooperative also market members' ag products. Marketing member products is the major source of revenue for 84 percent of co-ops that marketed any ag products for members.

Likewise, for 58 percent of the 1,506 co-ops that sold farm supplies in 2014, farm supply sales were their major revenue source. But only 7 percent of the 1,654 co-ops with service receipts earned a majority of their revenue from services.

Six states are home to the headquarters of more than 100 ag co-ops: Minnesota, Texas, North Dakota, Wisconsin, California and Illinois. Forty percent of all co-ops are headquartered in these six states. Nearly all the cotton ginning co-ops are headquartered in Texas or California. However, all 50 states are home to at least one farmer or rancher co-op headquarters.

Co-ops remain vital to rural America

With their diverse operations, agricultural co-ops remain a major marketing arm for farm production and a substantial provider of inputs and services for their member-owners in every state. Their performance in 2014 gives ample evidence that the time-tested, member-owned co-op business structure remains as relevant as ever. A strong agricultural co-op sector is a key part of a healthy national economy. ■

Table 2
U.S. ag co-ops net[1] business volume, 2014 and 2013

Item	2014	2013	Difference	Change
	................Billion $		....	*Percent*
Products marketed:				
Bean and pea (dry edible)	0.234	0.243	(0.009)	(3.6)
Cotton	2.250	2.616	(0.366)	(14.0)
Cottonseed	0.377	0.370	0.007	1.9
Dairy	49.636	40.184	9.452	23.5
Fish	0.215	0.185	0.030	6.5
Fruit and vegetable	5.848	5.890	(0.043)	(0.7)
Grain and oilseed	57.898	66.252	(8.354)	(12.6)
Livestock	4.947	3.345	1.602	47.9
Nut	1.566	1.334	0.232	17.4
Poultry	1.353	0.727	0.626	86.2
Rice	0.935	1.732	(0.797)	(46.0)
Sugar	5.146	6.030	(0.884)	(14.7)
Tobacco	0.339	0.137	0.202	147.3
Wool	0.005	0.005	0.000	(4.1)
Other marketing	7.590	6.759	0.831	12.3
Total marketing	**138.340**	**135.810**	**2.529**	**1.9**
Supplies purchased:				
Crop protectants	7.504	7.332	0.172	2.3
Feed	10.800	12.717	(1.918)	(15.1)
Fertilizer	13.116	14.016	(0.900)	(6.4)
Petroleum	25.558	24.397	1.161	4.8
Seed	3.444	3.357	0.086	2.6
Other supplies	5.217	5.356	(0.139)	(2.6)
Total supplies	**65.638**	**67.175**	**(1.538)**	**(2.3)**
Services and other income[2]	6.315	5.572	0.743	13.3
Total business	**210.293**	**208.557**	**1.735**	**0.8**

[1] *Net of inter-cooperative business.*
[2] *Includes service receipts, patronage refunds received and non-operating income.*

Table 3
Numbers of ag co-ops by structure and type, 2014 and 2013

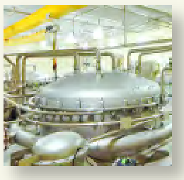
Structure	2014	2013	Number	Percent
			CHANGE	
Centralized	2,050	2,130	(80)	(3.8)
Federated	37	37	0	–
Mixed[1]	19	19	0	–
Totals	**2,106**	**2,186**	**(80)**	**(3.7)**
Type[2]				
Marketing	1,114	1,195	(81)	(6.8)
Supply	876	871	5	0.1
Service	116	120	(4)	(3.3)
Totals	**2,106**	**2,186**	**(80)**	**(3.7)**

[1] *Mixed includes marketing agencies-in-common.*
[2] *Co-ops primarily handling a commodity, selling farm supplies, or providing services (co-ops may fit one category one year and be in a different one the next given that it is the predominance of sales that defines the category).*

Top 100 Ag Co-ops

Net income up 21 percent; revenue rises $2.3 billion for nation's largest co-ops

By James Wadsworth, Carolyn Liebrand, Charita Coleman
USDA Cooperative Programs
E-mail: james.wadsworth@wdc.usda.gov



The nation's 100 largest agricultural cooperatives reported record revenue (or business volume) of $176.6 billion in 2014, an increase of $2.3 billion (1.3 percent) from 2013, when total revenue was more than $174 billion (Table 1). Net income of the Top 100 co-ops was also a record, increasing by 21 percent in 2014, to a high of $4.3 billion, $738 million more than the $3.5 billion of 2013. The previous record high for net income was set in 2012.

The total business volume of the Top 100 co-ops represent 71.6 percent of the $247 billion recorded by all agricultural cooperatives for 2014, a slightly larger share than in 2013. Total business volume is comprised of gross sales, service and other operating income, cash patronage from other co-ops and non-operating income (which may include inter-cooperative business).

Total assets of the nation's Top 100

CHS Inc.'s soy processing plant at Fairmont, Minn., helped the co-op reap nearly $42.9 billion in 2014 revenue. CHS remains not only the nation's largest ag co-op, but the largest U.S. co-op of any kind. Photo by David Lundquist, courtesy CHS Inc.

co-ops reached $57 billion in 2014, a 6-percent increase from 2013 (Table 2). Total assets of the Top 100 co-ops represent 65.4 percent of the total assets of all agricultural co-ops in 2014. Equity allocated to members was $15 billion in 2014, an increase of 5 percent since 2013.

The cooperatives are ranked according to their total business volume in 2014. The first seven co-ops were the same ones as last year, although the second- and third-ranked co-ops changed positions (Table 5). Seven co-ops that were in the Top 100 in 2013 dropped off the list in 2014, and another came off it due to having merged into another co-op. Thus, there are eight new co-ops on the 2014 list.

"Mixed" co-ops largest sector

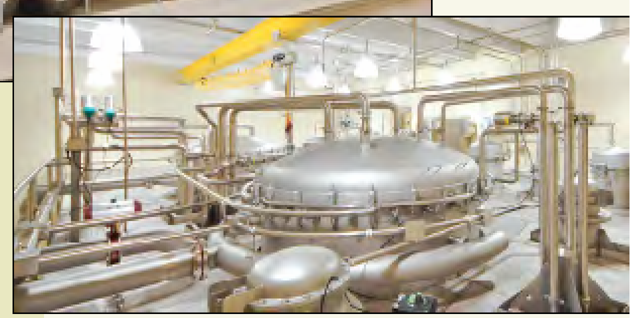
There are 35 "mixed" co-ops in the Top 100. These cooperatives are identified as "mixed" because they

Continental Dairy Products "top riser"

Of the co-ops in the Top 100 in 2013, Continental Dairy Products, Artesia, N.M., moved up the most in 2014, rising 31 places, from 87th to 56th place. Continental merged with Select Milk Producers (No. 28) on Sept. 1, 2014, so this will be its last appearance on the Top 100 as a separate business. Both Continental and Select had 2014 fiscal years that ended before the merger. Together, the two co-ops would have ranked 15th in 2014. Both co-ops had previously used the same management office in New Mexico.

Continental Dairy Products makes nonfat powdered milk, condensed skim milk and condensed skim cream. It is owned by dairy farmers in Michigan, Indiana and Ohio, exports 70 percent of its total production volume of milk and attributes 38.5 percent of its annual sales to exports. Mexico was its first foreign market, but it has since expanded exports to 12 countries.

Mike McCloskey, the co-op's CEO, told *Ag Web/Farm Journal* that the merger facilitates milk marketing strategies, eliminates market confusion with regard to identity by presenting one face to the market, and expands geographic coverage and influence for the combined entity. The ultimate goal of Select, he says, is to provide its producers a competitive pay-price while creating long-term value for its owners. The merger additionally expands future borrowing capacities, decreases financing costs, provides access to capital markets and creates increased potential for expanding the customer base of the combined operations.



Tanker trucks deliver milk to Continental Dairy Products' plant in Michigan. Fueled by growth in export markets, the co-op climbed 31 places on the Top 100, from 87th to 56th place, making it the "top riser" for the year. Lower photo, inside the processing plant. Photos courtesy Continental Dairy Products

Continental's milk-processing plant and development company in Coopersville, Mich., was honored as the 2014 Michigan Ag Exporter of the Year by the state's Department of Agricultural and Rural Development. That award noted that Continental Dairy Facilities LLC achieved triple-digit growth in exports last year.

"The Exporter of the Year Award is a tremendous achievement for Continental Dairy," Lakeshore Advantage President Jennifer Owens said. "It had a 700-percent increase in exports in one year. This company's success proves the power of the global market. Continental is one of many food processors in the region that is taking a forward-thinking approach to growing its industry."

derived significant amounts of revenue both from supply sales and marketing of agricultural products (see table 4). Dairy cooperatives were the next most highly represented sector on the Top 100 – 21 cooperatives had a majority of their total sales from dairy products, primarily milk.

Rounding out the list are 11 grain, 10 farm supply, 8 fruit/vegetable and 6 sugar cooperatives. There were 9 “other” co-ops (including 4 livestock, 2 cotton, 2 rice and 1 nut) in the Top 100.

Thirteen co-ops that were in the Top 100 in 2013 moved up in rank by 10 or more places in 2014. Five of these were dairy co-ops, three were grain, two livestock and one each of mixed, supply and fruit/vegetable.

Iowa home to most Top 100 co-ops

Fifteen of the Top 100 agricultural co-ops are headquartered in Iowa, the most of any state. Minnesota is home to the second most Top 100 co-ops, with 12 headquartered in the state. Nebraska is next with 9, followed by Illinois with 6 and California and Wisconsin, both with 5 (Table 4). Indiana, Missouri and Ohio each have 4 Top 100 co-ops, while Kansas is home to 3.

Thirty-one states are home to the headquarters of at least one Top 100 ag co-op. It is important to note that many of the Top 100 co-ops have members and operations in multiple states, even nationwide. The state where the headquarters is located does not necessarily mean most of the co-op's business is conducted there.

CHS Inc., Inver Grove Heights, Minn. — an energy, farm supply, grain and food co-op — has been the nation's largest agricultural co-op during the past decade. In 2014, its total business volume was $42.9 billion. Due to its merger with Dairylea Cooperative, Ithaca, N.Y., Dairy Farmers of America, Kansas City, Mo., moved into second place, with total business volume of $17.9 billion. Land O' Lakes Inc., Saint Paul, Minn., is now in third place, with total business volume of $15.3 billion.

Table 1
Condensed income statement for Top 100 ag co-ops, 2014 and 2013

	2014	2013	Difference	Change
	.... *$ billions*		*Number*	*Percent*
Total revenue	173.558	171.910	1.648	1.0
Cost of goods sold	160.680	158.280	2.400	1.5
Gross margin	12.878	13.620	(0.742)	(5.4)
Service & other operating income	2.074	1.570	0.504	32.1
Gross revenue	14.953	15.190	(0.237)	(1.6)
Expenses				
Wages	5.189	5.540	0.351	(6.3)
Depreciation	1.479	1.390	0.089	6.4
Interest expense	0.732	0.690	0.042	6.0
Other expenses	3.984	4.550	(0.566)	(12.4)
Total expenses	11.383	12.170	(0.787)	(6.5)
Net operating margin	3.569	3.020	0.549	18.2
Other revenues				
Patronage from other co-ops	0.372	0.410	(0.038)	(9.4)
Non-operating income	0.598	0.450	0.148	32.8
Net income before taxes	4.539	3.880	0.659	17.0
Taxes	0.271	0.360	(0.089)	(24.8)
Net income	4.268	3.530	0.738	20.9
Total gross business volume*	176.602	174.340	2.262	1.3

*Total gross business volume is the sum of total revenues, service and other operating income, patronage from other co-ops, and non-operating income (may include inter-cooperative business volume).

Table 2
Abbreviated balance sheet for Top 100 ag co-ops, 2014 & 2013

	2014	2013	Difference	Change
	.... *$ billions*		*Number*	*Percent*
Current assets	34.583	33.050	1.533	4.64
Investments in other co-ops	2.817	2.170	0.647	29.80
Property, plant & equipment	13.627	13.410	0.217	1.62
Other assets	5.968	5.140	0.828	16.12
Total assets	56.994	53.760	3.234	6.02
Current liabilities	23.689	22.650	1.039	4.59
Long-term liabilities	10.488	10.220	0.268	2.62
Total liabilities	34.177	32.870	1.307	3.98
Allocated equity	14.998	14.270	0.728	5.10
Retained earnings	7.819	6.620	1.199	18.11
Total equity	22.817	20.890	1.927	9.22
Total liabilities and equity	56.994	53.760	3.234	6.02

Record revenue and net income

For the fourth straight year, total business volume for the Top 100 cooperatives hit a record high, ending 2014 at $176.6 billion (Figure 1). Total business volume for the Top 100 has increased from $83 billion in 2005 to $176.6 billion in 2014, a compound annual growth rate of 9 percent per year.

Sales increased by 1 percent from 2013 to 2014, up $1.6 billion, to finish at $173.6 billion (Table 1). Cost of goods sold by the Top 100 co-ops increased by 1.5 percent over 2013, up slightly more than total sales. For marketing cooperatives — such as dairy, fruit/vegetable, cotton, sugar and grain co-ops — the cost of goods sold usually represent payments to members for their product.

Gross margins decreased by 5.4 percent, declining from $13.6 billion in 2013 to $12.9 billion in 2014. But service revenue increased substantially, up 32 percent, to $2.1 billion, compared to $1.6 billion in 2013. The Top 100 co-ops saw a 1.6-percent dip in gross revenue, dropping $237 million to finish at $14.9 billion for 2014.

Net operating margins of the Top 100 increased 18.2 percent, to $3.6 billion in 2014. This reflects a decrease in total expenses of $787 million, which in turn offset the $237-million decrease in gross revenues. Patronage income from other cooperatives decreased 9.4 percent, to $372 million, but non-operating income increased by 32.8 percent, from $450 million in 2013 to $598 million in 2014.

Net income before taxes was $4.5 billion, a 17-percent increase from 2013. Taxes decreased 25 percent, providing net income of $4.3 billion for the Top 100 in 2014, a 21-percent increase over the $3.5 billion of 2013. Figure 2 illustrates the trend in net income since 2005, showing 2014 as the highest income year on record. Over this period, the net income of the Top 100 realized a compound annual growth rate of 15 percent.

Assets and net worth increase

The total asset base for the Top 100 grew by $3.2 billion, to $57 billion, from 2013 to 2014, an increase of 6 percent (Table 2). Total assets were $26 billion in 2005, showing that during the past 10 years, assets of the Top 100 had a compound annual growth rate of 9 percent.

Figure 1—Top 100 co-ops' total business volume, 2005–2014

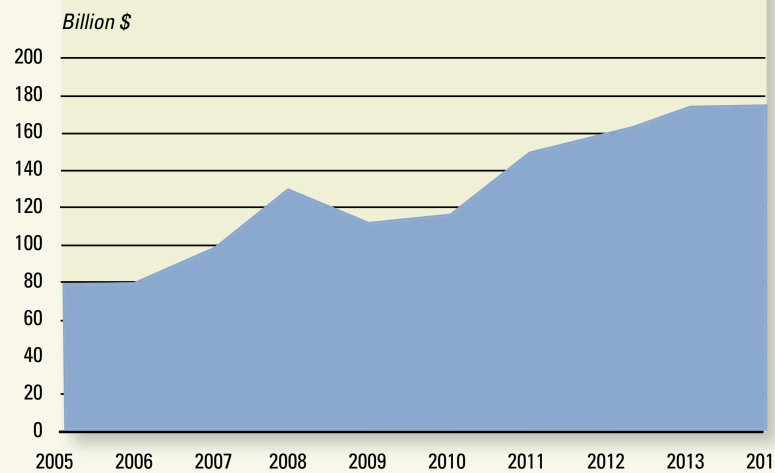
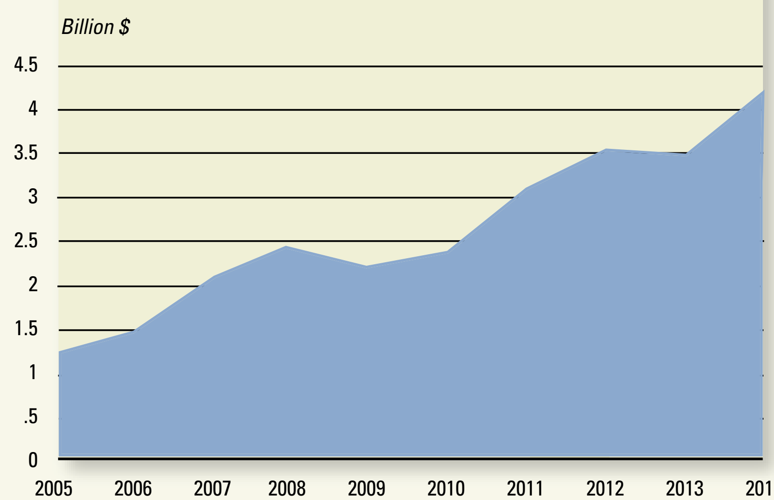


Figure 2—Top 100 co-ops' net income, 2005–2014



With $5.2 billion in 2014 revenue, Ag Processing Inc., Omaha, Neb., remains in 5th place on the Top 100.

In addition to delivering quality products and services, Growmark is committed to supporting ag and co-op education. It remains in fourth place on the Top 100. Photo courtesy Growmark

Table 3
Combined Financial Ratios, Top 100 Ag Co-ops

	2014	2013
	Ratio	
Current ratio	1.46	1.46
Debt-to-assets	0.60	0.61
Long-term-debt-to-equity	0.46	0.49
Times interest earned	7.20	6.62
Fixed asset turnover	12.74	12.84
	Percent	
Gross profit margin	7.4	7.9
Net operating margin	2.1	1.8
Return on total assets	9.3	8.5
Return on member equity	28.5	24.7

The largest 100 co-ops ended 2014 with $34.6 billion in current assets, up about 5 percent from 2013. Investments in other co-ops increased by 29.8 percent, to $2.8 billion, up from $2.2 billion. Fixed assets (property, plant and equipment) increased slightly, from $13.4 billion in 2013 to $13.6 billion in 2014. Other assets increased by 16 percent, to almost $6 billion, up from $5.1 billion in 2013.

Current liabilities increased by 5 percent, to $23.7 billion in 2014. Total liabilities increased slightly, to $34.2 billion, an increase of $1.3 billion from 2013. Equity allocated to members rose by 5 percent, to $15 billion for 2014 compared to $14.3 billion in 2013. However, retained earnings increased 18 percent, ending the year at $7.8 billion. This resulted in a net worth for the Top 100 of $22.8 billion for 2014, up 9 percent from 2013.

Little change in financial strength

Table 3 provides the combined financial ratios for the largest 100 ag co-ops. The current ratio for 2014 was the same as 2013: 1.46. The current ratio is a liquidity ratio that measures a cooperative's ability to meet short-term obligations. So, for the Top 100 co-ops, current assets are 1.46 times current liabilities. The debt-to-asset ratio illustrates the percentage of business assets that are financed by debt. The ratio remained essentially the same, at 0.6 percent for 2013 and 2014, meaning that the proportion of assets financed by equity did not change substantially.

Long-term debt and equity are generally used to finance long-term

Table 4
Cooperative types for Top 100 ag co-op analysis; co-op headquarters by state

Type of co-op	Type definition
Supply	Derive at least 75% of their total revenue from farm supply sales.
Mixed	Derive between 25% and 75% of total revenue from farm supply sales; remainder from marketing.
Grain	Derive at least 75% of total revenue from grain marketing.
Dairy	Market members' raw milk; some also manufacture products such as cheese and ice cream.
Sugar	Refine sugar beets and cane into sugar; market sugar and related byproducts.
Fruit and Vegetable	Generally further process and market fruits or vegetables, rather than marketing raw products.
Other	Includes co-ops that market livestock, rice, cotton and nuts.

	2014	2013
	Number of Top 100 co-ops	
Type of co-op		
Mixed	35	33
Dairy	21	22
Grain	11	17
Supply	10	6
Fruit and vegetable	8	7
Sugar	6	8
Other (livestock, rice, cotton, nuts)	9	7
Total	100	100
State of headquarters		
Iowa	15	16
Minnesota	12	13
Nebraska	9	9
Illinois	6	5
Wisconsin	5	5
California	5	4
Indiana	4	4
Missouri	4	4
Ohio	4	4
Kansas	3	4
Other 21 states	33	32
Total	100	100

assets. The long-term debt-to-equity ratio dipped from 0.49 in 2013 to 0.46 in 2014, meaning that slightly less long-term debt was used for financing assets.

The times-interest-earned ratio shows how many times a cooperative can cover its interest charges on a pre-tax basis. Generally, a high ratio is positive, because it means that the co-op can meet its debt obligations. Conversely, a low value may imply trouble meeting debt obligations. However, a high ratio can also mean that the cooperative is paying down too much debt with earnings that could be used elsewhere in the business, or for revolving member equity. In 2014, the ratio was 7.2, higher than in 2013.

The fixed-asset turnover ratio measures how well a co-op uses its assets to generate income. As a general rule, those co-ops with high amounts of fixed capital, such as processing co-ops, will have a lower fixed-asset turnover ratio than some of those that provide mostly marketing or bargaining services. The Top 100 fixed-asset ratio averaged 12.7 in 2014, about the same as in 2013.

Profitability ratios change slightly

Profitability ratios are important for any business, as an unprofitable business will obviously not survive for very long. However, co-ops are in a unique position in that they try to operate as close to cost as possible. For example, a co-op's gross margins will usually be somewhat lower than a non-cooperative business of the same industry.

Between 2013 and 2014, co-op gross profit margins (gross margins divided by sales revenue) decreased slightly, from 7.9 to 7.4 percent. However, net operating margins increased slightly, from 1.8 percent to 2.1 percent in 2014. Return on total assets measures co-op income (before interest and taxes) against total assets. This ratio increased for the Top 100 co-ops from 8.5 percent in 2013 to 9.3 percent in 2014.

Return on member's equity measures net income after taxes against allocated equity, thus showing return to members' equity alone. In 2014, the return on members' equity was 28.5 percent, up from 24.7 percent in 2013.

Many reasons for Top 100 changes

Tracking the Top 100 co-ops' performance year-to-year provides insight into trends and economic forces impacting co-ops, and their members and employees. The various financial ratios discussed may also serves as a yardstick that all co-ops can compare their own status to.

In 2014, the increase in total business volume and the significant increase in net income gave many of these Top 100 co-ops some financial flexibility to use funds to shore up their financial foundation, to provide patronage refunds or to revolve equity to enhance members' economic well-being, or to invest in other ways to improve operations and structure.

The operations of the nation's 100 largest agricultural cooperatives represent a wide diversity of agricultural businesses. As such, it is difficult to point to two or three reasons for the changes that occurred in the list. There are many reasons that a co-op's rank, total business volume, revenue, expenses and income change on a year-to-year basis; these factors will vary depending upon the sector the cooperative operates in.

Total business volume changes can be influenced by:

- Cooperative-sector structural changes (e.g., mergers, acquisitions, dissolutions);
- Prices and sales volume of commodities and products;
- Cooperative policies;
- State and national trade and farm programs;
- Farm input costs;
- Energy sector performance;
- Food-price fluctuations;
- Economic peaks and valleys, and
- Weather conditions.

It is important to keep these factors in mind when assessing the rank and performance of the Top 100 U.S. agricultural co-ops. ■

It all starts on the farm: Rocky and Liz Gingg (right) and family – including their two daughters, sons-in-law and grandchildren – are Dairy Farmers of America (DFA) members who run a large dairy farm near Friona, Texas. DFA moved up from third to second place on the Top 100, due in part to a merger with Dairylea. Photo courtesy DFA

Table 5—Top 100 Agriculture Cooperatives, 2014 and 2013

2014 RANK	2013 RANK	NAME	TYPE	2014 REVENUE	2013 REVENUE	2014 ASSETS	2013 ASSETS
					$ Billion		
1	1	CHS Inc. Inver Grove Heights, Minn.	Mixed (Energy, Supply, Food, Grain)	42.886	44.480	15.147	13.504
2	3	Dairy Farmers of America Kansas City, Mo.	Dairy	17.856	12.879	3.404	2.641
3	2	Land O'Lakes Inc. Saint Paul, Minn.	Mixed (Supply, Dairy, Food)	15.276	14.287	6.992	6.758
4	4	GROWMARK, Inc. Bloomington, Ill.	Supply	10.433	10.236	2.459	2.366
5	5	Ag Processing Inc. Omaha, Neb.	Mixed (Supply, Grain)	5.200	5.678	1.376	1.348
6	6	California Dairies Inc. Artesia, Calif.	Dairy	4.642	3.857	1.112	0.894
7	7	United Suppliers, Inc. Eldora, Iowa	Supply	2.642	2.673	1.129	1.097
8	10	Northwest Dairy Association Seattle, Wash.	Dairy	2.595	2.243	0.644	0.632
9		Name withheld by request					
10	12	Associated Milk Producers Inc. New Ulm, Minn.	Dairy	2.170	1.784	0.312	0.315
11	9	Southern States Cooperative Inc. Richmond, Va.	Supply	2.107	2.248	0.525	0.550
12	13	Foremost Farms USA, Cooperative Baraboo, Wis.	Dairy	1.983	1.762	0.430	0.409
13	15	Prairie Farms Dairy Inc. Carlinville, Ill.	Dairy	1.881	1.725	0.738	0.727
14		Name withheld by request					
15	17	Ocean Spray Cranberries Inc. Lakeville-Middleboro, Mass.	Fruit	1.642	1.659	1.712	1.584
16	27	Producers Livestock Omaha, Neb.	Other (Livestock)	1.573	1.152	0.271	0.149
17	11	South Dakota Wheat Growers Assn. Aberdeen, S.D.	Mixed (Grain, Supply)	1.534	2.132	0.658	0.696
18	21	MFA Oil Company Columbia, Mo.	Supply	1.521	1.522	0.439	0.412
19	20	Maryland & Virginia Milk Producers Co-op Association, Reston, Va.	Dairy	1.523	1.373	0.164	0.165
20	19	MFA Incorporated Columbia, Mo.	Mixed (Supply, Grain, Livestock)	1.521	1.522	0.439	0.412

Table 5—Top 100 Agriculture Cooperatives, 2014 and 2013

2014 RANK	2013 RANK	NAME	TYPE	2014 REVENUE	2013 REVENUE	2014 ASSETS	2013 ASSETS
					$ Billion		
21	25	Blue Diamond Growers Sacramento, Calif.	Other (Nut)	1.497	1.196	0.478	0.410
22	18	American Crystal Sugar Company Moorhead, Minn.	Sugar	1.388	1.603	0.883	0.951
23	–	United Producers Inc. Columbus, Ohio	Other (Livestock)	1.240	0.360	0.047	0.039
24	32	Sunkist Growers Inc. Valencia, Calif.	Fruit	1.234	1.081	0.212	0.215
25	22	Riceland Foods Inc. Stuttgart, Ark.	Other (Rice)	1.162	1.315	0.562	0.579
26	34	Michigan Milk Producers Assn. Novi, Mich.	Dairy	1.153	0.957	0.203	0.173
27	35	Agri-Mark Inc. Lawrence, Mass.	Dairy	1.143	0.954	0.384	0.345
28	39	Select Milk Producers Inc. (merged with #56 in 2014) Artesia, N.M.	Dairy	1.057	0.907	0.123	0.186
29	44	United Dairymen of Arizona Tempe, Ariz.	Dairy	1.038	0.837	0.177	0.197
30	24	Heartland Co-op West Des Moines, Iowa	Mixed (Grain, Supply)	0.983	1.232	0.255	0.251
31	37	Cooperative Regions of Organic Producer Pools, La Farge, Wis.	Dairy	0.972	0.930	0.241	0.235
32	28	Co-Alliance, LLP Avon, Ind.	Mixed (Supply, Grain)	0.965	1.147	0.330	0.293
33	38	Snake River Sugar Company Hastings, Neb.	Sugar	0.903	0.926	0.763	0.864
34	31	Plains Cotton Cooperative Assn. Lubbock, Texas	Other (Cotton)	0.892	1.084	0.108	0.173
35	26	Innovative Ag Services Co. Monticello, Iowa	Mixed (Supply, Grain)	0.889	1.193	0.248	0.231
36	30	Aurora Cooperative Elevator Company, Aurora, Neb.	Mixed (Supply, Grain)	0.882	1.098	0.483	0.471
37	36	Farmers Grain Terminal Inc. Greenville, Miss.	Grain	0.881	0.934	0.137	0.125
38	42	Lone Star Milk Producers Inc. Windthorst, Texas	Dairy	0.875	0.867	0.135	0.097
39	29	Staple Cotton Cooperative Assn. Greenwood, Miss.	Other (Cotton)	0.865	1.143	0.328	0.243
40	47	Upstate Niagara Cooperative Inc. Buffalo, N.Y.	Dairy	0.864	0.759	0.258	0.244

Table 5—Top 100 Agriculture Cooperatives, 2014 and 2013

2014 RANK	2013 RANK	NAME	TYPE	2014 REVENUE	2013 REVENUE	2014 ASSETS	2013 ASSETS
					$ Billion		
41	43	Farmers Cooperative Dorchester, Neb.	Mixed (Grain, Supply)	0.862	0.864	0.251	0.236
42	23	Farmers Cooperative Company Ames, Iowa	Mixed (Grain, Supply)	0.837	1.236	0.310	0.338
43	33	Cooperative Producers Inc. Hastings, Neb.	Mixed (Grain, Supply)	0.809	1.068	0.268	0.243
44	50	Central Valley Ag Cooperative O'Neill, Neb.	Mixed (Grain, Supply)	0.787	0.684	0.275	0.255
45	60	Equity Cooperative Livestock Sales Assn. Baraboo, Wis.	Other (Livestock)	0.774	0.620	0.041	0.032
46	40	North Central Farmers Elevator Ipswich, S.D.	Mixed (Grain, Supply)	0.767	0.879	0.276	0.267
47	45	Tennessee Farmers Cooperative La Vergne, Tenn.	Supply	0.764	0.800	0.313	0.286
48	54	Tillamook County Creamery Association Tillamook, Ore.	Dairy	0.763	0.679	0.427	0.406
49	58	First District Association Litchfield, Minn.	Dairy	0.747	0.629	0.148	0.133
50	41	West Central Cooperative Ralston, Iowa	Mixed (Grain, Supply)	0.691	0.870	0.335	0.303
51	46	NEW Cooperative Inc. Fort Dodge, Iowa	Mixed (Grain, Supply)	0.690	0.774	0.286	0.272
52	81	Hopkinsville Elevator Company Inc. Hopkinsville, Ky.	Grain	0.660	0.495	0.188	0.153
53	48	Trupointe Cooperative Piqua, Ohio	Mixed (Grain, Supply)	0.651	0.737	0.217	0.197
54	59	Citrus World Inc. (Florida's Natural Growers) Lake Wales, Fla.	Fruit	0.643	0.627	0.364	0.370
55	49	United Farmers Cooperative (merged #44 in 2014) York, Neb.	Grain	0.640	0.732	0.131	0.153
56	87	Continental Dairy Products Inc. (merged with #28 in 2014) Artesia, N.M.	Dairy	0.636	0.451	0.163	0.152
57	57	United Cooperative Beaver Dam, Wis.	Mixed (Supply, Grain)	0.625	0.630	0.482	0.441
58	61	Louisiana Sugar Cane Products Inc. Breaux Bridge, La.	Sugar	0.618	0.618	0.128	0.128
59		Name withheld by request					
60	66	NFO Inc. Ames, Iowa	Dairy	0.607	0.565	0.035	0.027

Table 5—Top 100 Agriculture Cooperatives, 2014 and 2013

2014 RANK	2013 RANK	NAME	TYPE	2014 REVENUE	2013 REVENUE	2014 ASSETS	2013 ASSETS
					$ Billion		
61	53	Frenchman Valley Farmers Cooperative Inc. Imperial, Neb.	Mixed (Grain, Supply)	0.603	0.715	0.222	0.247
62	63	Alabama Farmers Cooperative Inc. Decatur, Ala.	Mixed (Supply, Grain, Fish, Cotton)	0.594	0.602	0.267	0.250
63	71	Pacific Coast Producers Lodi, Calif.	Fruit & Vegetable	0.591	0.534	0.345	0.345
64	56	Heritage Cooperative Inc. West Mansfield, Ohio	Grain	0.550	0.636	0.152	0.133
65	64	Producers Rice Mill Inc. Stuttgart, Ark.	Other (Rice)	0.548	0.571	0.243	0.250
66	52	Sunrise Cooperative Inc. Fremont, Ohio	Mixed (Grain, Supply)	0.544	0.719	0.171	0.200
67	79	Ray-Carroll County Grain Growers Inc. Richmond, Mo.	Grain	0.539	0.501	0.146	0.120
68	80	Horizon Resources Williston, N.D.	Supply	0.528	0.499	0.183	0.155
69	84	Mid-Kansas Cooperative Association Moundridge, Kan.	Grain	0.524	0.462	0.206	0.228
70	91	Bongards Creameries Bongards, Minn.	Dairy	0.516	0.440	0.141	0.103
71	–	Sunrise Ag Service Company Virginia, Ill.	Mixed (Supply, Grain)	0.498	0.362	0.138	0.127
72	68	River Valley Cooperative Eldridge, Iowa	Mixed (Grain, Supply)	0.498	0.561	0.126	0.120
73	51	Watonwan Farm Service Company Truman, Minn.	Mixed (Grain, Supply)	0.489	0.721	0.148	0.142
74	70	Farmway Co-op Inc. Beloit, Kan.	Grain	0.484	0.535	0.189	0.198
75	82	West Central Ag Services Ulen, Minn.	Grain	0.475	0.475	0.231	0.231
76	62	Michigan Sugar Company Bay City, Mich.	Sugar	0.470	0.611	0.290	0.290
77	76	New Vision Cooperative Worthington, Minn.	Mixed (Grain, Supply)	0.469	0.512	0.149	0.152
78	72	Landmark Services Cooperative Cottage Grove, Wis.	Mixed (Supply, Grain)	0.468	0.519	0.219	0.194
79	99	Gateway FS Inc. Red Bud, Ill.	Mixed (Grain, Supply)	0.465	0.405	0.106	0.112
80	69	Meadowland Farmers Cooperative Lamberton, Minn.	Grain	0.463	0.535	0.153	0.174

Table 5—Top 100 Agriculture Cooperatives, 2014 and 2013

2014 RANK	2013 RANK	NAME	TYPE	2014 REVENUE	2013 REVENUE	2014 ASSETS	2013 ASSETS
					$ Billion		
81		Name withheld by request					
82	95	Swiss Valley Farms Cooperative Davenport, Iowa	Dairy	0.440	0.432	0.126	0.108
83	85	Premier Cooperative Inc. Champaign, Ill.	Grain	0.438	0.458	0.137	0.131
84	–	Saint Albans Cooperative Creamery Inc. Saint Albans, Vt.	Dairy	0.437	0.387	0.056	0.045
85	74	Farmers Cooperative Society Sioux Center, Iowa	Mixed (Grain, Supply)	0.437	0.514	0.170	0.157
86	86	Harvest Land Co-op Richmond, Ind.	Mixed (Supply, Grain)	0.435	0.455	0.127	0.120
87		Name withheld by request					
88		Name withheld by request					
89	100	Tree Top Inc. Selah, Wash.	Fruit	0.425	0.400	0.323	0.329
90	–	Producers Livestock Marketing Assn. N. Salt Lake, Utah	Other (Livestock)	0.408	0.368	0.045	0.036
91	73	First Cooperative Association Cherokee, Iowa	Mixed (Grain, Supply)	0.407	0.516	0.125	0.126
92	67	Key Cooperative Roland, Iowa	Mixed (Grain, Supply)	0.403	0.563	0.124	0.127
93	–	Sun-Maid Growers of California Kingsburg, Calif.	Fruit	0.390	0.361	0.222	0.211
94	65	Southern Minnesota Beet Sugar Cooperative Renville, Minn.	Sugar	0.389	0.570	0.323	0.366
95	89	Five Star Cooperative New Hampton, Iowa	Mixed (Grain, Supply)	0.387	0.446	0.101	0.104
96	75	Gold-Eagle Cooperative Goldfield, Iowa	Mixed (Grain, Supply)	0.386	0.513	0.103	0.117
97	–	Effingham Equity Effingham, Ill.	Supply	0.371	0.334	0.199	0.176
98	–	Moroni Feed Company/Norbest Moroni, Utah	Mixed (Poultry, Supply)	0.371	0.137	0.050	0.036
99	–	Agriland FS Inc. Winterset, Iowa	Supply	0.362	0.368	0.148	0.144
100	78	Frontier Ag Inc. Oakley, Kan.	Mixed (Grain, Supply)	0.355	0.509	0.155	0.167

A Taste of Place

Wisconsin ginseng exemplifies controversy over terroir *branding*

By Thomas W. Gray, Ph.D.
Rural Sociologist
USDA Cooperative Programs
e-mail: Thomas.Gray@usda.gov

Most U.S. ginseng root is grown around Marathon, Wis., where the attributes of the soil, water and climate help impart unique traits that are especially valued in the important Asian marketplace. Photos courtesy Ginseng Board of Wisconsin

Wisconsin Ginseng (WG) is a unique product primarily grown around Marathon, Wis. Its limited production area and specialized growing conditions give it certain marketing and "rural development" advantages, although these special attributes also raise questions concerning product labeling, competitive infringement and counterfeiting, rural development and farm income potential, as well as related policy dilemmas.

This article draws upon concepts of "terroir" (defined below), geographic indications, and American Origin Products (AOPs) to explain both ginseng's rural development advantages and some of the challenges facing the U.S. ginseng industry.

Types of ginseng

There are two basic kinds of ginseng: American and Asian. Nearly 90 percent of the American ginseng is grown in Wisconsin, and most of that is produced near Marathon, in the north-central part of the state.

Ginseng is sought in the market as a tea with a unique taste and for its purported medicinal qualities. Some of these purported efficacies include treatment for general exhaustion, type II diabetes, cardiovascular risk factors and relief of cancer symptoms, as well use as an aphrodisiac in some parts of Asia. While many of these benefits have not been scientifically validated, a study done at the Mayo Clinic in 2012 found that it was effective in the treatment of fatigue in cancer patients (Ginseng Board of Wisconsin).

The Wisconsin form of ginseng is particularly attractive to consumers for the: (1) the distinct, bitter taste sought by many tea lovers, and (2) very high concentrations of ginsenosides — the active medicinal ingredients of ginseng.

Terroir and product premiums

Products such as Wisconsin ginseng are said to have a terroir, a French term that literally means "of the land," or "expression of place." Terroir may also refer to the historically unique skills and know-how related to production and craft-manufacture.

Champagne, as a terroir product, can only be labeled "Champagne" if it comes from the Champagne region of France. However this labeling is not due simply to lines on a map. In gastronomic terms, a terroir is an expression of the grape vineyards themselves and the various growing conditions inherent within the Champagne region. It is the weather, the soil, the geology and the aging (among other factors) that produce the characteristics of Champagne.

Vidalia onions are a similar product. The low sulfur content of the soils in the Vidalia region of central Georgia produces a relatively sweet onion. The growing conditions around Marathon — e.g., climate, geography, geology and, in particular, the mineral makeup of the soil — give Wisconsin ginseng its distinctive features. Similar U.S. products include Idaho potatoes, Missouri northern pecans, Kona coffee, New Mexico native chilies, Virginia-Carolina peanuts, and Napa Valley wines, among many others.

Generally, products with *terroir* characteristics sell for a premium in the market place.

Wisconsin ginseng is no exception. In a 10-year average, from 1997-2007, the export price of U.S. cultivated ginseng was $19.30 per pound, while wild ginseng averaged $84.50 per pound" (Cheng and Mitchell). It was estimated in 2013 that a contract between Wisconsin Ginseng and Herb Cooperative (WGHC) and a major Chinese pharmaceutical company could result in as much as $200 million in sales during the following 10 years (Wang).

Products such as Wisconsin ginseng are said to have a terroir, *a French term that literally means "of the land," or "expression of place."*

Product counterfeiting challenges

Ginseng production and market development in Wisconsin began in the early 1900s. There were as many as 1,400 ginseng producers in the state producing 2.4 million pounds of product worth $125 million in 1990.

However, these lucrative returns, with no protections, opened the door to fraudulent labeling by un-ethical competitors. Ginseng roots and products were often labeled as "Wisconsin Ginseng" when in reality they originated in other areas.

By 2005, there were only 140 Wisconsin growers producing 500,000 pounds of ginseng valued at $15 million. Causes of the market collapse were complex. Lack of marketing efforts to oppose competitors in Asia and Canada were seen as significant. However, price depression due to counterfeiting was also understood as a major source of market disruption and failure (Weege).

Wisconsin ginseng seal, Ginseng Board

In 1991, the Ginseng Board of Wisconsin (board) initiated the Wisconsin Ginseng Seal program in an

Author's note: *Portions of this article rely heavily on a paper by Cheng and Mitchel (2009). This article is adapted from an earlier paper by Gray, "Wisconsin Ginseng," published in* The Cooperative Accountant, *with permission from the National Society of Accountants for Cooperatives.*

attempt to ensure product quality and to provide consumers with a means for identifying authentic Wisconsin ginseng. The seal was designed, in part, to certify that packaged ginseng products contain 100 percent pure Wisconsin ginseng, grown and harvested in the state.

The Board was originally formed in 1986 as a nonprofit organization under marketing order provisions of the Wisconsin Department of Agriculture. Its functions included advertising, sales promotion, maintaining product and plant quality, and product protection. Seal development was part of its function.

The Board has drawn some criticism for lack of effective oversight in administering the seal program. The criticism focused on the fact that subscribers were not required to renew their memberships after the first year. Further, after paying the initial licensing fees, many did not renew.

Many distributers continued to use the Wisconsin seal for ginseng products regardless of origin. Canadian and Chinese ginseng was often labeled Wisconsin Ginseng.

Without proper monitoring and oversight, development of the seal actually facilitated a market for product "knock-offs," contributing to the market failure for authentic Wisconsin ginseng.

Wisconsin Ginseng and Herb Cooperative

The Wisconsin Ginseng and Herb Cooperative (GHC) was formed in 2006 to offset some of these and other market challenges. GHC provides market information for producers, promotes product innovation and gives producers bargaining power to facilitate marketing and sales.

In an agreement with the Ginseng Board, the co-op was licensed to use the seal and to make marketing arrangements with other organizations involving its use. Further, in keeping with the traditions of the Wisconsin cooperative community, producers were able to stand together against the "take it or leave it" market positions of dealers.

In keeping with the traditions of the Wisconsin cooperative community, producers were able to stand together against the "take it or leave it" market positions of dealers.

While the biggest use for ginseng is as a tea, it is also processed into many other forms and products.

One of the co-op's first marketing actions was to sign a distribution agreement with Eu Yan San (EYS), a 120-year-old Asian firm specializing in Chinese medicinal products. The agreement gave EYS exclusive rights to use the Wisconsin Ginseng Seal in Asia, and nullified agreements with earlier seal subscribers. EYS also contracted to buy major portions of the Wisconsin crop for a number of years in the future.

More recently, GHC developed distributor relationships with Tong Ren Tang, a Chinese firm with more than 1,000 outlets in Asia, and with Juien Guien Trading Co., the sole distributor of Wisconsin Ginseng in Taiwan. Other distributors include Prince of Peace Enterprises, a U.S. firm serving Asian markets in the United States, and Great Neck Healthy Food Co., a U.S. firm serving markets on the East Coast.

Beyond the use of the Wisconsin seal, GHC has also been active in the development of various value-added products, including ginseng capsules, ginseng powder and ginseng tea bags, as well as a variety of raw-root ginseng preparations. Each of these distributing firms has authority to sell Wisconsin Ginseng with the Wisconsin Ginseng Seal.

GHC has found that using a small number of distributors (four to five) helps facilitate management of oversight and monitoring to better protect the proprietary value of the product.

Market recovery slow

While market gains have been made, the industry has yet to recover to its 1990 levels of production.

In 2015, there were 183 Wisconsin growers who produced 600,000 pounds of ginseng, worth $45 million. These grower numbers are up from 140 producers in 2005, when sales were just $15 million.

In "Status of the Wisconsin Ginseng Industry," Cheng and Mitchell suggest that the slow recovery is mainly the result of low prices, due in part to competition with the Canadian, Chinese and, more recently, Korean ginseng industries. According to Merle Weege, president of the American Origin Products Association, some of the depressed price problems are also due to continued mislabeling issues.

American Origin Products Association (AOPA)

The American Origin Products Association (AOPA) was initially formed in 2011 and gained recognition in 2012 as a nonprofit 501 (c) (6) trade association. It was organized to address the various problems confronted by U.S. *terroir* products generally, including Wisconsin Ginseng. AOPA also promotes rural development as a collateral goal (Weege, Barham).

To meet AOPA qualifications, a product must be "embedded within its region of origin," i.e., it must be an "expression of place," as in having a *terroir*. It must also meet certain broad qualifying environmental and/or social standards, including:

- *Environmental* — referring to the location and conditions where the product is found or can be produced, and/or
- *Social* — designating a set of special skills producers use in production that give the product a distinctive and recognizable character.

Rural development promise

Once identified and properly developed (and protected), American Origin Products (AOP) can have a series of favorable rural development impacts (Barham).

• The products are geographically embedded. Therefore, jobs associated with AOP development are also "embedded" (unlike jobs linked to "foot-loose" industries). "They are jobs that stay."

• AOP farm sales can produce premiums that improve farm income, contributing to farm solvency and the multiple secondary and tertiary spending impacts from farming.

• AOPs can become a basis for rural tourism, including farm visits and farm stays; local festivals can be held that highlight AOP farm products and become an identifying part of local/regional restaurant cuisine.

• AOPs can help preserve and enhance local heritage and local skills associated with production of the product. They help build regional self-awareness and reputation while boosting tourism.

• Commercial success can produce export income that flows back to the region.

The Napa Valley wine area is perhaps the best example of this kind of place-based economic and rural development. A study by Stonebridge Research found that the Napa Valley wine industry had a $42.4 billion impact on the U.S. economy in 2008. A similar study (cited by Barham, et al.) found that the Idaho potato industry generated $4 billion in economic activity in the state and created approximately 35,000 direct and indirect jobs.

Geographic indications as a source of controversy

Protection of the intellectual property rights associated with these products continues to be an issue and helped spur the formation of the AOPA. Patrick Koles of the Idaho Potato Commission reports that his organization spent $1 million each year for 13 years while pursuing a mislabeling case. It is not likely that any formative or small organization would ever be able to launch this kind of expensive defense of a label. But a trademark of any kind, if not defended, is a mark lost (Koles).

The AOPA argues that the best mechanism to protect these products would be a legally instituted geographic indication (GI) system, similar to that used in the European Union. The 1995 Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) defined "geographic indications" as system for identifying "a good as originating in the territory of a member, or a region or locality in that territory, where a given quality, reputation or other characteristics of the good is essentially attributable to its geographic origin."

Members of the European Union (EU) continue to develop GIs following this definition, with the understanding that they are "distinct products" requiring: (1) a separate labeling system and (2) an accompanying government enforcement and protection system against frauds, pirating, and counterfeiting." The EU aggressively negotiates GI protections with non-member countries, helping lower enforcement costs (See a more detailed explanation at: http://ec.europa.eu/agriculture/quality/.)

The U.S. Patent and Trade Office (USPTO) argues that there is sufficient protection of these products, either of domestic or foreign origin, within the existing U.S. trademark system. However, obtaining and enforcing certification mark protection for GIs is costly. Furthermore, the U.S. government's international negotiations on intellectual property have not focused on agricultural GIs. (For a more detailed explanation from the USPTO perspective, see "Cotton" at http://www.uspto.gov/web/offices/dcom/olia/globalip/ps/gi/faqs.pdf.

To start a new GI system would require expansion of various functions, including:

- Clearly identifying whether an authentic product exists;
- Mapping regional boundaries of the product;
- Determining product reputation;
- Parsing out how products are currently protected through the existing trademark system, and
- Incurring the various costs of enforcement.

International trading issues are further complicated by products raised within a land of immigrants, such as the United States. Many people brought skills and their products with them from the "old country" and have used names, pictures, references and "old world" products and methods of production for decades, or even

continued on page 51

Dairy co-ops encouraged by Senate's stand on use of cheese names

While some see the potential for co-ops and other producer groups to benefit from establishing regional identities for their products (see page 20), there is also concern in the U.S. dairy industry and other commodity sectors regarding the European Union's moves to try to limit use of some place-based product names. Many cheese names originally were derived from European places where they were first made, but which have long since (sometimes over hundreds of years) taken on "generic" food-class meanings.

So the National Milk Producers Federation (NMPF) — which represents the majority of U.S. dairy co-ops on legislative and legal issues — expressed its support when a bipartisan majority of the U.S. Senate urged the rejecting of European Union efforts to restrict the use of common food names, including many well-known cheeses.

In a letter to U.S. Trade Representative (USTR) Michael Froman and U.S. Agriculture Secretary Tom Vilsack, more than 50 U.S. senators urged the U.S. government to "fight back against EU efforts to restrict how U.S. companies market cheese and other foods," according to NMPF. "Under the guise of protecting European geographical indications (GIs), the EU has been using free trade agreements to prevent cheese makers in the United States and around the world from using common food names, such as parmesan, feta, havarti, muenster and others."

The U.S. Dairy Export Council (USDEC) joined NMPF in applauding the Senate's strong statement in support of the U.S. dairy industry, as it comes at a critical time in the development of a free trade agreement between the U.S. and the EU.

The letter, coauthored by Sens. Chuck Schumer of New York and Pat Toomey of Pennsylvania, expressed opposition to the EU's gratuitous use of GIs as a protectionist measure and condemned the resulting barriers to trade that are growing in key U.S. export markets. The senators asked that USTR and USDA work aggressively against the EU's efforts to restrict commonly used cheese names because they would harm the ability of U.S. businesses to compete domestically or internationally.

"Over the past five years, U.S. cheese exports have been growing by an average of 40 percent annually, leading to a record high of $1.4 billion in U.S. cheese sales abroad last year," says Tom Suber, president of USDEC. "Last year, the United States became the largest single country cheese exporter in the world. So it's vital to ensure that unfounded barriers to trade do not hinder this continued growth path for our industry."

"For consumers, both here and abroad, the consequences of limiting familiar food names to just a few regional suppliers would be higher costs, fewer choices and greater confusion," says Jim Mulhern, president and CEO of NMPF. "No one country has any right to own common food names for their exclusive use. U.S. businesses should have the opportunity to offer their award-winning products and let consumers decide what they want to buy."

"This is why the work of the Consortium for Common Food Names (CCFN), an independent organization USDEC founded two years ago, is so important," adds Suber. "CCFN allows those with similar concerns about this issue in various countries to unite in order to promote a more commonsense and pro-trade approach to GI policies."

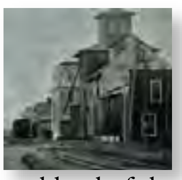
Mulhern agrees, asserting: "It is American food companies that have helped popularize many cheeses with Old World origins, leading to increased sales for all. The Senate's message about the threat to U.S. dairy farmers and cheese makers posed by this outrageous proposed trade barrier reinforces the importance of our work." ■

Cooperative Elevator Company's plant in Ruth, Mich., (right) and a view, circa 1960, of a co-op elevator in Pigeon, Mich. Photos courtesy Cooperative Elevator Co.

Thumbs Up

Michigan's Cooperative Elevator Co. is celebrating 100 years of service

Editor's note: *Portions of this article are excerpted from one that appeared in the* Huron Daily Tribune.



Cooperative Elevator Co. in the Michigan Thumb region is celebrating something in November that few businesses ever achieve: it will mark its 100th year in business. The co-op was formed Nov. 26, 1915, by local farmers who purchased the buildings and land of the Pigeon Milling Co. for $25,000. Elevator storage capacity at the time was 30,000 bushels.

Today, grain storage capacity is more than 21.2 million bushels, and the co-op has 1,115 Michigan farmer-patrons and 153 employees.

The co-op threw its "anniversary party" this summer, well ahead of the actual Nov. 26 birthday, to take advantage of the "lull between our farmers being in the field with wheat and bean harvests," says Sue Gottschalk, the co-op's administrative assistant and chair of the 100th anniversary committee.

The event was held on the grounds of the Thumb Octagon Barn Agricultural Museum in Gagetown, Mich. Several buildings and exhibits were open for touring, with a video history of the co-op shown in one building. More than 1,250 people attended the day's activities.

That the co-op continues to do business after 100 years is a tribute to its "growers, stockholders, employees and vendors in agribusiness," says Michael T. Wehner, vice president of finance and the interim president. The co-op ships grain and dry edible beans across the globe, with Mexico, Italy and England among the primary export destinations.

Michigan U.S. Senator Debbie Stabenow was the luncheon speaker. She said there is no riskier business than farming, yet farmers are some of the nation's most important people. "It's farmers in America that will be feeding the world," she said. "Congratulations on 100 years." ■

Among the milestone years in the co-op's 100 years are:

1916 – 1918 These are difficult times for the new co-op, as it is undercapitalized when launched. Milling operations and feed sales are the main businesses. The co-op is also supplying coal and kerosene.

1930 The cooperative ventures into the fuel oil business and opens a small, two-pump gas station as "the internal combustion engine for automobiles and farm tractors appear to be here to stay." Sales volume from oil and gas hits $14,500.00.

Depression years — The cooperative enjoys steady growth, despite the economic ravages of the Depression.

1950 The co-op's first concrete silos, with 160,000 bushels of capacity, are built in front of the original site of the milling operations. These are the first continuous-poured concrete structure silos in the region.

1976 A new grain facility is built, along with improved loading facilities for unit trains. Elevator capacity is now at 1.6 million bushels.

1985 The Sebewaing Farmers Co-op and Co-op Elevator Co. merge. The stockholder base is now slightly over 1,000, with 59 employees; storage capacity is 8.2 million bushels.

1990 Elkton Co-op Farm Produce Co. unifies with Co-op Elevator Co., bringing storage capacity to more than 11.1 million bushels.

2003 The co-op is now the largest grain, feed and bean processing company in Michigan, and one of the largest in the United States.

2005 Co-op Quality Feeds Inc. is formed, and the co-op joins forces with Kalmbach Feeds Inc.

2013 The co-op is serving 1,110 patrons, who receive a cash patronage payout of $4.2 million. A new receiving station, a second scale, new storage bins and a new rail-load-out system are added, among other additions. Storage capacity is 19.9 million bushels.

2013 – 2015 At Elkton, a 9,000-ton fertilizer dome is added to the two existing domes; the grain facility there now has a 30,000-bushel-per hour pit capacity. This positions the co-op as the fastest, most efficient state-of-the-art plant in the Michigan Thumb. The board approves $10 million for further capital expenditures.

Read about more co-op milestones at: http://www.coopelev.com/.

For Services, Not for Sale

How taxation policies affect demutualization of cooperatives

By Bruce J. Reynolds, Ag Economist
USDA Cooperative Programs
e-mail: bruce.reynolds@wdc.usda.gov

The services and benefits provided to the founders of cooperatives continue to benefit new generations of members. As of 2015, 173 farmer cooperatives have reached the century mark for longevity. Projections are that there will be a twofold increase of 100-year-old co-ops during the next five years (Eversull).

Farmer co-ops are now fewer in number than in earlier decades, many having merged with other co-ops while some went out of business. Another category of organizational change is the conversion of co-ops to investor-owned businesses, a process often called “a demutualization.”

The buying and selling of businesses is a part of the dynamics of a market economy. This process is often applauded when inefficient firms are acquired and improved with new management and restructuring. Yet, such efficiency gains are questionable in many cases in regard to demutualization (Chaddad). In addition, recent evidence of buyouts among non-cooperative businesses shows that the targeted firms are often efficient and profitable. The gains for new owners stem from monetizing assets with debt and eliminating worker retirement and other benefits (Appelbaum). Efficient co-ops have also been targeted for acquisitions.

When members deal with outside investors to capture the capitalized value of a co-op through demutualization, they may, in some cases, be gaining from the endowments and contributions of founders and retired members. From then on, investor-owners may reduce availability of services. Furthermore, demutualization may foreclose the benefits of a co-op for future members.

Demutualization is, in some cases, the most effective way to sustain a business. Taxation and regulatory policies can be designed so that demutualization may occur for weak performing co-ops and not be otherwise incentivized to take place.

Taxation and other regulatory policies for cooperatives can unintentionally increase incentives to demutualize, or — to the contrary — can be designed to discourage such conversions (Chaddad). Since 2004, taxation rule changes offer some tax-advantaged ways to use non-member earnings to diminish incentives for demutualization.

Another method to preserve high-value co-ops is to regulate the distribution of unallocated reserves. This latter control is widely used by co-ops in Western Europe and in Quebec, but aspects of this method actually existed in some limited instances for U.S. farmer co-ops prior to 1951 tax reforms.

This article reviews two approaches for how co-ops can exercise some control over demutualization. First, tax rules from 2004 are examined as to how they can be applied for supporting longevity. The second approach explains historical and current uses of indivisible reserves (IR) as a means to prevent the loss of successful co-ops.

Paying dividends on stock

Member patronage equity is a major source of internal financing that a co-op can deduct from its taxable earnings. Yet, this equity is redeemed to members at face value, which leads to questions about receiving a return for the period of time such stock is held by a cooperative. When members don’t receive a return via a stock dividend, they may pressure their cooperatives to redeem equity sooner.

In response, co-ops may try to limit their exposure to equity redemption by increasing their unallocated reserves with earnings from non-patronage business. When an unallocated reserve becomes substantial and the earnings of a co-op are relatively high, outside investors have incentive to offer a demutualization.

Unallocated reserves are a form of permanent capital that may strengthen the financial balance sheet of cooperatives. The allocation of earnings as member equity, based on their

patronage, lacks permanence in the sense that it is revolved back to members over varying periods of time and cannot be converted to marketable securities.

Prior to 2004, co-ops wanting to pay stock dividends had to allocate on a pro rata basis the amounts paid from income between patronage and non-patronage sources (Frederick 2005). The use of patronage income to pay stock dividends reduced the amount that could be allocated to the members' equity account. Less income to be allocated to member equity reduced the amount of a co-op's deduction of taxable income (Kenkel). Section 312 of the American Job Creation Act of 2004 repealed the dividend allocation rule. Now dividends can be paid entirely from non-patronage sourced income that would otherwise be added to unallocated reserves. To comply with this tax ruling, cooperatives must authorize payment of stock dividends in either their articles of incorporation or bylaws (Frederick 2005).

Members are the loyal customer base that is a major part of the enterprise value of co-ops. Paying dividends on member stock provides a financial return for the value of member patronage loyalty.

Financial flexibility

The repeal of the dividend allocation rule offers opportunities to increase the value of patronage equity and reduce incentives for demutualization. First, by paying dividends on allocated stock, co-op members will have less urgency in having their equity redeemed. Second, the 2004 change prevents unallocated reserves from becoming disproportionally large relative to allocated equity. Instead of adding to unallocated reserves with non-patronage business earnings, co-ops may instead use it to pay stock dividends.

Furthermore, the need for large reserves to provide permanent capital is reduced if members are paid dividends on their patronage stock. By paying dividends, members may want to hold their stock longer, and such equity can be regarded as semi-permanent capital (Kenkel). This semi-permanent capital can reduce the need for permanent capital.

Lastly, the 2004 change may also reduce redemption pressures by providing a means to convert the allocated equity of retired members to preferred stock. Instead of redeeming retired member accounts in full, retirees may welcome holding some of their equity as dividend-paying stock. Voting rights can be limited to active members when retirees have their allocated equity redeemed or converted to preferred stock, or in combination with both options.

Making demutualization less easy, with policies that lower the one-time gains, can contribute to sustaining co-ops for future generations.

Indivisible reserves

U.S. farmer co-ops have unallocated reserves from the retained earnings of non-member business. These reserves are a form of permanent capital because they are not distributed to members. If a farmer cooperative goes out of business, whatever remains as unallocated equity is distributed to members based on their percentage of allocated equity.

In a demutualization, the unallocated reserve remains for the new owners and is a part of the transaction value of a farmer co-op. While the major value of a demutualized co-op is primarily its business capabilities and brand-name, its financial reserves are important. Should reserves be unavailable, as is the case in Western Europe and Quebec, potential gains for investors in buying-out co-ops are diminished.

In the United States, nonprofit co-ops organized under section 501(c)(3) of the tax code may specify all assets be donated to charity in the event of dissolution or if the co-op is bought-out by a for-profit business. Land ownership by co-ops for manufactured homeowners are frequently organized under such terms.

In several countries of Western Europe and Quebec, portions of permanent capital of for-profit worker cooperatives are designated as indivisible reserves. These reserves are subject to very low levels of taxation because of their role in maintaining solvency and earnings stability for co-ops. There is also an appreciation for the role of indivisible reserves in reducing incentives for demutualization where members capitalize on the contributions made by earlier generations of a membership. In the event of either dissolution or demutualization, indivisible reserves are distributed to other co-ops or to organizations serving co-op development and education.

Non-transferability of reserves to members has occurred, to a limited extent, for U.S. farmer co-ops. This background is worth considering when questioning the assumption that indivisible reserves policy is just an idea from Europe and would not work in the context of U.S. cooperative laws and historical practice.

Reserves in the United States, pre-1951

From the 1920s through the New Deal Era, most cooperatives were regarded as tax exempt (Frederick 2001). Unallocated reserves of farmer co-ops were not subject to taxation prior to 1951. Indivisible reserves in some of the Western European countries had also been tax exempt, although in recent decades special lower tax rates are applied (Giszpenc).

However, to be indivisible, reserves must be non-transferrable to individual members or to investors. Most farmer co-op by-laws specify that unallocated reserves be available for distribution to members in the event of dissolution (Baarda). While there has been no official U.S. policy for reserves to be indivisible, there was movement in that direction from the decisions in several court cases.

From the earliest Revenue Acts of 1916 and 1921, most farmer cooperatives were exempt from taxation on allocated member equity and on reserves that were retained strictly for operating capital needs. A series of federal legislative changes and interpretations in court cases during 1920-1944 gradually imposed limits on how unallocated reserves could be distributed.

The Revenue Act of 1924 replaced the term "member" with "producer" in farmer cooperative tax law. This revision reflected the growth of non-member business. Given this growth, lawmakers did not want cooperative members to profit at the expense of non-members and equal treatment was required to have tax exemption status (Packel) (Baarda).

Tax exemption status requires that an entity not be operated for profit. A court ruled in 1937 to deny a cooperative tax exemptions if it continued to pay patronage refunds to members but not to non-members (Farmers Union Cooperative vs. Commissioner). Following that ruling, some co-ops tried to automatically have all patrons become members, yet this practice was disallowed in another case (Packel). Furthermore, requiring membership was not allowed by many state statutes (Baarda).

Paying cash dividends to non-members did not resolve unequal treatment if a portion of earnings from their patronage were diverted to unallocated reserves. Such reserves were permanent capital that would only benefit members.

In the Fertile Cooperative Dairy Association (FCDA) vs. Huston case from 1940, the court said: "Where part of the proceeds from non-members' products is used …. to create or maintain a surplus and to make additions to capital assets of the association without allowing nonmembers a proportionate distributive interest in the permanent value contributed thereby, the association is not exempt from income, excess profits and capital stock taxes, since to that extent the association is being operated for profit to its members, as against nonmember patrons" (FCDA vs. Huston.). Based on this court ruling, a co-op could retain tax exemption by establishing non-transferability of unallocated reserves to members and investors.

In looking at these pre-1951 issues, Israel Packel observed that if unallocated reserves of dissolved or demutualized co-ops were not to end up going to the state: "This might be accomplished by a charter provision that reserves and surplus upon liquidation should go to some charitable or public purpose." Such a charter would establish indivisible reserves. This direction in legal reasoning for cooperatives became unrealizable with the Revenue Act of 1951.

The Revenue Act of 1951 maintained single tax status for member allocated equity, but cooperatives were henceforth taxed on earnings retained in unallocated reserves. Under this Act, co-ops were treated as tax pass-through organizations rather than tax-exempt ones (Frederick 2001). This reform also reduced the legal significance of previous court rulings regarding equal treatment for non-members, since co-ops were no longer regarded as nonprofit organizations.

Disincentives for buy-outs

The increasing number of co-ops reaching 100 years is a testament to their value across generations. But many co-ops that have been efficiently operating for decades can easily and quickly become demutualized when buy-out offers have an immediate salience to members. Making demutualization less easy, with policies that lower the one-time gains, can contribute to sustaining co-ops for future generations.

Two policies can provide disincentives for buy-outs. The payment of dividends on member and preferred stock — made more tax advantaged since 2004 — reduces the pressures for rapid redemption of member equity. Dividend payments also provide an avenue for using the earnings from non-patronage business, rather than adding them to unallocated reserves. Yet, unallocated reserves are an important source of permanent capital.

The second policy for reducing incentives to demutualize is to make unallocated reserves indivisible. Such reserves would then not be available to investors who would otherwise regard it as adding to the enterprise value of a co-op to be targeted for acquisition.

Cooperatives offer a public benefit by improving the economic well-being of farmers and by anchoring the local economy of many rural communities. Such public benefits are recognized in many European countries and in Quebec with policies for indivisible reserves. U.S. co-op tax law history involves court rulings that have restricted the distribution of unallocated reserves. Although these rulings had been concerned with unequal treatment of non-members, they were consistent with an indivisible reserves policy. U.S. tax laws for co-ops could be revised to accommodate the practice of indivisible reserves.

Paying dividends on member stock and establishing indivisible reserves are complementary in fortifying a co-op to sustain in the future. Too much permanent capital in the form of unallocated reserves may attract demutualization offers from outside investors. Paying dividends makes member equity semi-permanent and lowers reserve needs.

When unallocated reserves are relatively low, the possibility of their unavailability to members with an indivisible reserves policy would be a slight sacrifice. In the event of a dissolution or demutualization, a reserve that is indivisible can be transferred to the community to recognize the contributions of past generations of members. ■

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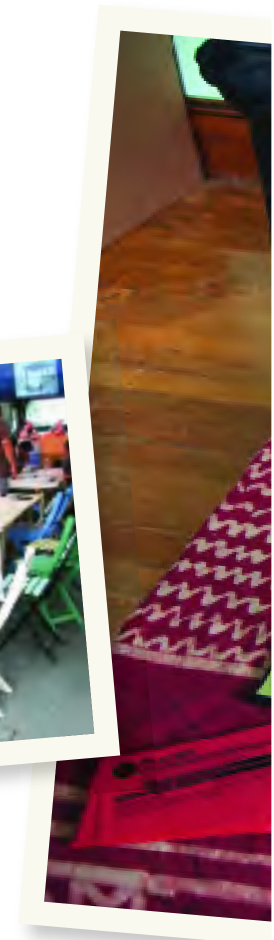
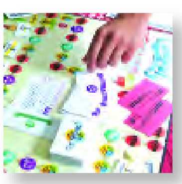
Game On!



Co-opoly board game is equal parts co-op education and fun

By Brian Van Slyke

Editor's note: *Van Slyke is director of communications and products at The Toolbox For Education and Social Action (TESA).*



It's hard to believe that it's been nearly four years since we first released *Co-opoly: The Game of Cooperatives* into the world. Back in November of 2011, we'd just spent several years traveling around the country, bringing our ever-evolving prototypes of the board game to co-op conferences and gatherings. Co-op experts and enthusiasts gave us wonderful feedback, helping us fine tune the prototypes into both an extraordinarily fun game as well as a powerful tool for building the cooperative movement.

We even started our own worker-owned cooperative to, in part, publish the game: The Toolbox for Education and Social Action (TESA). (You can find us online at toolboxfored.org).

In August of 2011, we ran a crowdfunding campaign to raise the necessary funds to print and construct the final version of *Co-opoly*. We wanted to ensure that we could produce the game within the United States, using sustainable resources and (primarily) the services of other cooperatives.

Constructing a board game in this way is far from typical. Most board games are manufactured overseas, often by poorly paid workers. Thankfully, the cooperative community agreed that our approach was the right way to do it. We raised roughly $20,000 from contributions made by cooperative developers and cooperatives, as well as from individual members of co-ops and general supporters.

Played worldwide

Now, as we approach the end of 2015, we can truly say that because of the co-op community's support, *Co-opoly* has become the game of the cooperative movement. (You can find the game at http://store.toolboxfored.org/co-opoly-the-game-of-co-operatives/ and watch videos about how to play it.) It's even had global success. We've distributed the game to roughly 30 countries, and it's now in its second pressing. We're also working with partners around the world to localize the game and translate it into about 10 different languages.

A large part of *Co-opoly's* success is that it is actually a fun game. It's not just a powerful educational tool about running a cooperative, cooperating with each other and building the cooperative movement. Independently of all that, players laugh and shout and converse and have heart-pounding fun.

The gameplay in *Co-opoly* is also cooperative, meaning everyone wins or everyone loses together. Players start by founding a co-op. They can come up with something completely real, such as a farm or a cafe; or they can choose something entirely outrageous, like an art school for dragons.

Then, as they play, the game "teases out" a story about their chosen co-op.

Irrefutable photographic evidence (facing page) that Co-opoly *really is a fun way to learn about co-ops! The game is published by a worker-owned co-op: Toolbox for Education and Social Action (TESA). Photos courtesy TESA*

People can even play it as their own real-life cooperative! A number of co-ops have used the game with new or prospective members and co-op employees to show these people what it's like to be a part of a co-op.

Everyone also starts the game by randomly drawing a character card. These cards decide who you play the game as — someone with kids or without; someone who is well off or not; someone who is younger or older. Just as in real life, players go through *Co-opoly* with different interests. This means that, throughout, players have to balance the needs of the cooperative and the individuals. If the entire co-op goes bankrupt, or a single player does, then everyone loses.

Around the board

In true cooperative fashion, players move around the board with a single piece that represents the entire co-op.

There are several types of spaces that players will land on. First are the World spaces, where players draw cards that cause small good or bad things to happen to their co-op and their characters: a pipe bursts, there's a positive review of the co-op in a newspaper, a community event is held, a character gets sick. Sometimes the group has to make a small decision together because of these cards.

Then there are the Resource spaces, where the cooperative has the opportunity to buy things such as health care, advertising, new equipment, etc. While these can have a major benefit (e.g., protection from events such as illness or having to pay for damage to the co-op), they are also quite costly.

Then there are the Work spaces, which are the most numerous spaces, as well as the most fun. These are how the co-op earns points (the currency of the game). Here, players will engage in mini-games, sometimes known as "party games." These include acting something out, drawing something, or trying to get other players to guess a word by describing it.

But all of this has to be done before the timer runs out. If the chosen player gets the rest of the co-op to guess the word or phrase on his or her card, then the co-op wins points. If they fail, the co-op loses points. This is where a lot of Co-opoly's laughter and high-fives happen.

Finally, there are the Challenge spaces. Here, the co-op draws cards that force it into big hurdles or great opportunities. Examples are a big box

TESA is creating other tools and resources to work along with Co-opoly *for use in cooperative development and education. These include workshops, curriculum, handbooks and more.*

Players have to balance the needs of the cooperative and the individuals. If the entire co-op goes bankrupt, or a single player does, then everyone loses.

store undercutting the co-op's prices, an economic meltdown, the launch of a new product or service, or the co-op becoming more environmentally sustainable. These are all things that could ultimately make or break the co-op, so the group has to figure out and agree on the best course of action.

Eventually, players win the game by starting another cooperative in their community — but doing so requires a lot of collaboration and teamwork.

Valuable outreach tool

Over the years, we've heard from people all around the country — and even around the world — who've used *Co-opoly* for many dynamic purposes, such as a father who told us that *Co-opoly* was his children's new favorite game because they were always getting mad at each other while playing other board games.

Co-opoly has also been a resource that co-op developers have used with those they are helping start or improve cooperatives. It's been used as an outreach tool for co-ops while running membership drives. It's been a training tool for co-ops welcoming new members. It's been an advocacy resource for those working to build a more cooperative economy, and so much more.

Through all of this, *Co-opoly* has reached tens of thousands of people across the globe with the cooperative message.

But in many ways, TESA is only getting started with *Co-opoly*'s potential. Right now, thanks to a grant from the CHS Foundation, we'll be giving away 100 copies of *Co-opoly* to cooperative developers and those engaging youth with cooperatives. We'll also be gathering some of these people for a symposium on strategies for employing the game in cooperative outreach and development.

Finally, we're building a fresh batch of tools and resources to go alongside of *Co-opoly* for greater use in cooperative development. This means workshops, curriculum, handbooks and more.

At its core, *Co-opoly* is a way to bring people together with cooperation as the backdrop. It's a great training and outreach tool (for Co-op Month and beyond), as well as something that can be used just for building community and relationships. We're so thankful for the outpouring of support from the cooperative movement that made this game possible.

Now, we encourage even more cooperatives, supporters and developers to use this tested tool within their co-op education efforts. And, of course, we at TESA are always happy to discuss with you how to put *Co-opoly* to use within your community. ■

In the Spotlight

Carl Casale, President & CEO, CHS Inc.

Carl Casale became president and CEO of CHS — a leading energy, grains and foods company and the nation's largest member-owned cooperative — in January 2011. He previously was executive vice president and chief financial officer for Monsanto Co. Casale currently serves as director on the boards of the Ventura Foods LLC, Ecolab Inc., the National Council of Farmer Cooperatives and the Minnesota Business Partnership. He holds a bachelor's degree in agricultural economics from Oregon State University and an executive Master of Business Administration from Washington University, St. Louis, Mo.

Carl Casale's strong communications skills helped him earn the CEO Communicator of the Year award from the Co-op Communicators Assoc. Photo by David Lundquist, courtesy CHS

Question: *How has CHS Inc. become the nation's largest member-owned cooperative?*
Casale: CHS has doubled in size over the past five years as the result of an unwavering objective. Each day we get up and ask ourselves, "How can we help our owners grow?" As we evaluate opportunities to grow or expand current businesses, or enter into new ones, that's our litmus test. We only pursue opportunities where we can add value for the farmers and cooperatives who own us. That approach has led us to complete, announce or plan $11 billion in investments between 2011 and the end of this decade, all while generating record cash returns to our owners and remaining financially strong.

Q. *What industry comprises the major proportion of your core business?*

We describe ourselves as a farmer-owned cooperative in the energy, grains, food and food ingredients businesses. While the exact percentages may vary year-to-year — since our revenues are driven by commodity energy, grain and fertilizer prices — in general, we think of ourselves as fairly evenly split between agricultural and energy businesses.

Q. *How did your previous experience help you transition five years ago to president and chief executive officer of CHS?*

My entire career has been focused on farmers and agriculture, so the move to CHS was a natural one for me. My family still farms in Oregon's Willamette Valley, so I grew up with farming and cooperatives. My wife and I operate a blueberry farm in that area, relying on co-op support to help our business succeed.

Q. *How does CHS enable farmers to have the potential to expand and grow in the market?*

Cooperatives allow individuals or businesses to accomplish together what they can't do alone. CHS delivers that for our farmer- and cooperative-owners in numerous ways, from petroleum refining, to further processing of grains and oilseeds, to providing access to global markets.

Q. *How does CHS access the value chain for its members?*

Today, CHS adds value at every step of the agricultural production chain. We provide energy, crop inputs and services from the day a seed is planted until the crop leaves the field for marketing and further processing. Our diverse platform in energy, fertilizer, grains, food and food ingredients enables us to leverage the full spectrum of the CHS enterprise for our owners. Today, we're doing that for many of the crops our owners raise.

In wheat, we're an owner of and supplier to Ardent Mills, North America's leading miller. In soybeans, we have our own value-added processing operations, along with 50 percent ownership Ventura Foods, the nation's largest manufacturer and packager of vegetable oil-based food products. More recently, we've extended added value to corn with the acquisition of two top-performing, well-positioned Illinois ethanol plants that put not only ethanol, but also distillers dried grain solubles (DDGS) and corn oil into the marketplace. We provide similar value-added opportunities for the sunflowers and canola some of our owners raise.

Q. *Why is CHS relevant to farmers?*

Our goal is to be relevant every day and to pursue growth and change that

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Legal Corner

Combining Charity with Profit

L3Cs seen as a potentially valuable type of hybrid LLC to promote social good

By Meegan Reilly Moriarty
USDA Cooperative Programs

Editor's note: *This article is not intended to serve as legal advice, but rather as an overall look at one form of business entity that readers may want to further explore. Individuals considering forming an LLC or L3C should consult with an attorney.*

Cooperatives and businesses in general have a dizzying array of ways to operate. They can incorporate under the state cooperative statute or under general incorporation statutes. They can operate as limited liability companies (LLC). Some businesses that essentially operate as cooperatives organize as charitable organizations. Some businesses operate as benefit corporations or social purpose corporations. And some businesses organize as low-profit limited liability companies.

Low-profit limited liability companies (L3Cs) are business entities that have been developed in recent years with the primary purpose of serving a social good. L3Cs are designed so directors can avoid fiduciary liability for failing to follow a strict profit motive.

But, just as important, legislation creating L3Cs was drafted with the goal of attracting funding from foundations. L3C legislation is in effect in eight states (Illinois, Louisiana, Maine, Michigan, Rhode Island, Utah, Vermont and Wyoming) and for the Crow Indian Nation of Montana, the Oglala Sioux Tribe and the Navajo Nation.

L3Cs vs. LLCs

L3Cs are a form of limited liability company (LLC). The model legislation creating L3Cs was intended to amend existing state LLC laws to make it clear that L3Cs are a subset of the LLC business model.

LLCs offer many benefits: they limit liability for their members, they can elect partnership or corporate status for federal tax purposes and they are cost effective to start. Just as importantly, their operating documents can be drafted to provide great flexibility in how the LLC operates. Indeed, the operating agreement can stipulate that the LLC operate for a charitable or educational purpose.

So, if LLCs are so flexible, why create L3Cs?

L3Cs were created to provide a streamlined way for a charitable business that offers a below-market rate of return to get a loan or equity funding from foundations and private investors, according to the creator of the L3C, Robert Lang, founder of Americans for Community Development. Nonprofits can get funding from private donors and foundations but are limited in their ability to attract capital.

Recognizing the value of attracting both charitable and private investor dollars, Lang created the L3C as a kind of "hybrid" entity that could further a charitable purpose while still being a for-profit entity. This entity could potentially provide a modest return on investment to foundations, and — with proper capital structuring — provide an even bigger return for private investors, according to Lang.

Foundation funding

Marcus Owens, a former Internal Revenue Service (IRS) exempt-organization attorney who drafted the L3C model legislation, deliberately synched the L3C requirements with rules that apply to private foundations. The aim was to make it easier for private foundation managers to invest in L3Cs.

Private foundations are tax-exempt charitable organizations that are usually created by a financial donor who hires individuals to manage the foundation funds. Under tax rules, private foundations are required to make grants and other distributions each year to further the foundation's charitable purpose. These grants, distributions and other expenditures are made to satisfy the requirement under Internal Revenue Code (IRC) section 4942 that the foundation pay out 5 percent of its assets annually.

Foundations must be very careful about how they use their money, because IRC section 4944 imposes a steep excise tax on private foundations and on foundation managers that make investments that jeopardize the foundation's charitable purpose. Additional excise taxes are imposed on foundations and managers when investments are not removed from jeopardy in a timely fashion.

Furthermore, foundations are prohibited from making certain "taxable expenditures," under IRC section 4945. Often, foundations play it safe when satisfying their 5-percent payout requirement by granting their money to charitable organizations that are exempt from tax under IRC section 501(c)(3). However, under a special exception to the general rules on jeopardizing investments, IRC section 4944 allows foundations to make special program-related investments (PRIs) to meet the payout requirement and potentially earn a modest rate of return.

The rules for PRIs are strict:

• First, the primary purpose of the PRI must be to further the foundation's charitable or educational goals as defined under IRC section 170(c)(2)(B).

• Second, no significant purpose of the PRI can be the production of income or the appreciation of property.

• Third, the PRI must not be made for political purposes.

To determine whether a significant purpose of the investment is the production of income or appreciation of property, IRS regulations have clarifying guidance. If a profit-motivated investor would make the investment on the same terms as the private foundation, regulation section 53.4944-3(a)(2)(iii) says it may not be a qualifying PRI and the foundation likely would be liable for the excise tax.

The IRS demands that foundations make PRIs with great care and then monitor them closely to fulfill their "expenditure responsibility" under IRC section 4945(d)(4)(B) and (h). Under the expenditure responsibility, PRIs are not "taxable expenditures" so long as foundation managers establish procedures to ensure the funds are used for the foundation's exempt purpose, get reports from the recipient of the PRI, and report on the PRI to the Treasury Secretary on Form 990PF.

Various types of PRIs

PRIs can take many forms. They can be loans with below-market interest rates or purchases of equity capital. Examples in proposed IRC regulations include investments in joint ventures with for-profit companies that further the foundation's charitable interest. Proposed regulations also permit foundations to have both an equity and debt interest. The Internal Revenue Service has also issued private letter rulings approving PRIs involving both debt and equity.

L3Cs explicitly follow the PRI rules. According to Lang, state statutes creating L3Cs all have the following language:

A limited liability company that is a low-profit limited liability company must be organized for a business purpose that satisfies, and is at all times operated to satisfy, each of the following requirements:

(a) The limited liability company (i) significantly furthers the accomplishment of one or more purposes set forth in Section 170(c)(2)(B) of the Internal Revenue Code, and (ii) would not have been formed but for the entity's relationship to the accomplishment of such one or more purposes;

(b) No significant purpose of the limited liability company is the production of income or the appreciation of property; provided, however, that the fact that the entity produces significant income or capital appreciation shall not, in the absence of other factors, be conclusive evidence of a significant purpose involving the production of income or the appreciation of property; and

(c) No purpose of the limited liability

L3Cs provide a streamlined way for a charitable business that offers a below-market rate of return to get a loan or equity funding from foundations and private investors.

L3Cs provide brand recognition for those shopping for foundation dollars.

company is to accomplish one or more political or legislative purposes within the meaning of section 170(c)(2)(D) of the Internal Revenue Code of 1986, as amended. http://www. americansfor communitydevelopment.org

Lang envisions attracting foundation and private capital to L3Cs through a "tranched" (layered) capital structure. Under the tranched structure, foundations can provide the first level of capital to the L3C, earn a modest (perhaps 1 percent) rate of return, and assume the greatest risk. Socially motivated investors — such as banks, corporations and trusts seeking to fulfill their Community Reinvestment Act obligations — could provide the second layer of capitalization, earning a less-than-market rate of return (perhaps between 2 to 5 percent) and assuming slightly less risk. Market-driven investors, such as pension funds, could provide the third level of capitalization, earning a market rate of return (say 6 percent) and assuming the least risk.

To make L3Cs even more user-friendly, Lang is hoping federal legislation will be enacted to require the IRS to issue expedited rulings to PRI recipients. Proposed legislation — the Philanthropic Facilitation Act — was introduced in 2011 and 2013 but failed to move forward. Americans for Community Development has found sponsors in both the Senate and the House, who plan to again introduce the bill. The federal legislation would also require PRI recipients to issue reports to help foundation managers and the public monitor the PRI.

Problems with the "tranched" structure?

Despite the foundation-friendly laws and the pending federal legislation, foundations have not been quick to direct PRI dollars toward L3Cs. North Carolina has repealed its L3C legislation as part of an effort to simplify state LLC legislation and remove provisions that the legislature sees as unneeded. And some practitioners have expressed concern about the tranched capital structure advocated by Lang.

For example, in an April 19, 2012 letter to Steve Simon, the Assistant Minority Leader of the Minnesota House of Representatives, the American Bar Association (ABA) Business Section complained that the L3C is not a better recipient for foundation funds than other business vehicles. In particular, ABA complained about the tranched structure:

Using a program related investment as part of the type of tranched financing promoted by L3C advocates portends serious risk of improper "private benefit" — i.e., using charitable assets to the benefit of private interests such as for-profit investors. "Private benefit" transactions are improper for a private foundation and imperil a foundation's tax-exempt status.

Ronald Schultz, senior technical advisor with the IRS Tax Exempt and Government Entities Division, seemed to have similar concerns at a 2009 American Institute of Certified Public Accountants conference. He cautioned that L3Cs were new structures and that the Internal Revenue Service was still considering unanswered tax questions related to PRIs and L3Cs. Owens, now with the law firm of Loeb & Loeb, countered in a July 2009 letter that extensive guidance on the tax treatment of PRI investment with for-profit entities including LLCs exists in the form of regulations and private letter rulings.

Higher tolerance of dual charity and profit purpose

The recently issued IRS Notice 2015-62, which applies to mission-related investments (MRIs), and not PRIs, may demonstrate a liberalization of IRS' thinking regarding some investments by foundations. The notice was provided to give guidance for when a foundation invests its corpus or ongoing funds in a way that is (unlike PRIs) primarily intended to generate income for the foundation.

MRIs run the risk of jeopardizing the foundation's purpose and incurring an excise tax if the foundation manager does not exercise ordinary business care and prudence in making them. Notice 2015-62 clarifies that foundation managers are not required to select only investments that offer the highest rate of return, the lowest risk, or the greatest liquidity to avoid jeopardizing the foundation's purpose and incurring an excise tax. They can also choose investments that further the foundation's charitable purpose, even if the expected rate of return is less than what the foundation might get from another investment.

Permitted PRIs

Now that the IRS appears to be gaining comfort with foundation investments that have a charitable purpose, what specific types of PRIs is it likely to permit?

The regulations, proposed regulations and IRS private letter rulings on PRIs give some guidance regarding types of PRIs and the controls foundations should retain over the investments. Examples in the regulations approve equity investments and loans with below-market rates for comparable risks. Foundations may make investments in a variety of different enterprises to, for example, provide a market outlet for low-income farmers, rehabilitate deteriorated urban areas and construct low-income housing.

The proposed regulations describe entities that can receive PRIs and provide examples of a variety of charitable purposes. Foundations can provide loans to individuals, tax-exempt organizations and for-profit organizations; they can make equity investments in for-profit companies; and they can engage in credit enhancement arrangements. The potential for a high rate of return does not automatically disqualify the PRI under the regulations. Further, a foundation may have a qualified PRI that involves both a debt and equity interest.

The proposed regulations approve PRIs for a number of charitable purposes in the United States and abroad, including developing drugs, advancing science, combating environmental deterioration, alleviating the effects of natural disasters, providing training and assistance to farmers, creating educational programs for socially disadvantaged people, establishing daycare centers and promoting the arts.

Taxpayers are permitted to rely on the examples in the proposed regulations before they are finalized (proposed regulation section 53.4944-3(b) and (c)).

While a private letter ruling only applies to the taxpayer who requests the ruling, it can provide insight as to how the IRS views the law. In a letter ruling, IRS approved a PRI with a cap on the investment rate of return that is lower than what profit-motivated investors would accept (PLR 200136026).

It is important to note that the proposed regulations indicate that the absence of a cap is not disqualifying. Example 12 in proposed regulation section 53.4944-3(b) states that the potential of a high rate of return on an investment does not by itself prevent the investment from being a PRI.

IRS has approved PRIs when the foundation and the entity it invests with enter into an agreement that grants the foundation significant control. For example, IRS approved a PRI when the recipient entity agreed to only make investment choices approved by the foundation. The entity also agreed to provide detailed financial reports to the foundation, including descriptions of how it furthered the foundation's charitable purpose and the amount of progress toward that purpose. Further, the entity agreed to return to the foundation funds not used to further its exempt purpose (PLR 200136026).

Additionally, when an entity becomes self-sufficient, the IRS appears to look favorably on agreement provisions that call for the foundation to end its investment (PLR 200610020 and PLR 8710076). The IRS also appears to look favorably upon situations where the entity receiving the PRI has as part of its operating agreement a purpose that conforms to the foundation's purpose and which prohibits activities that the foundation also prohibits. Further, the entity, an LLC, had to gain the approval of the foundation before changing its operating agreement. (PLR 200610020).

What do L3Cs add?

Some of these rulings and regulatory examples involved PRIs made to LLCs, some involved PRIs made to corporations, but none of the rulings involve L3Cs. If PRIs can be made to a number of different types of entities, why go to the trouble of forming an L3C?

Unlike LLCs, L3Cs cannot change their operating agreement or bylaws to change their purpose. Operating under state law as an L3C ensures that managers will have a continuing fiduciary responsibility to further a charitable purpose, thus providing assurance to foundations and other stakeholders.

Further, L3Cs provide brand recognition for those shopping for foundation dollars. Over time, if enough people avail themselves of L3Cs, a predictable regulatory framework may develop.

Attracting foundation capital

Individuals looking for PRIs could organize under one of the state law L3C statutes or form an LLC and draft the operating agreement to include foundation-friendly language that traces the PRI federal tax rules. Under either construct, it would make sense to include language stating the charitable purpose under which the entity would operate.

The entity must be willing to provide reports to the foundation with detailed financial information, to consider capping investment returns to the foundation, to give the foundation control over investment choices, and possibly to create a target investment return which would trigger divestment of the foundation. The foundation should be a member of the L3C or LLC, and should require that the L3C or LLC return funds if it is discovered that the funds did not further its exempt purpose.

Foundation managers may want to get a private letter ruling regarding the PRI or an attorney tax opinion letter. The tax opinion letter could help managers avoid the excise tax for knowingly participating in making a jeopardizing investment, but the manager could still be liable for failure to use reasonable care in evaluating whether the investment furthers the foundation's purpose under regulation section 53.4944-1(a)(2). Foundations should approach tranched financing schemes with caution and the awareness of the need to monitor the scheme closely. ■

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Newsline

Co-op developments, coast to coast

Send co-op news items to: dan.campbell@wdc.USDA.gov

$140 million expansion planned for Southwest Cheese

Plans are being made for a $140 million expansion of the Southwest Cheese plant in Clovis, N.M. The expansion, which is expected to be completed in two years, will increase milk processing capacity by almost 30 percent and create an additional 50 jobs.

The joint venture between Glanbia and the dairy cooperatives of the Greater Southwest Agency, which includes Dairy Farmers of America and Select Milk Producers, currently processes more than 220 truckloads of milk per day, making it one of the largest single-site manufacturers of quality cheese and whey protein in the world.

"Since the commissioning of the plant in 2005, the partnership has been extremely successful," says Glanbia Global Ingredients CEO Brian Phelan. "With this expansion, we are making a significant commitment to our employees, our producers, our customers, our local community and the economy of New Mexico as we seek to capture further domestic and international cheese and whey market share."

The plant will supply some of the world's leading food companies and meet cheese and whey demand both domestically and internationally. The expansion will increase Southwest Cheese employee numbers to more than 400 in Clovis.

Expansion at Southwest Cheese near Clovis, N.M., will boost the workforce to more than 400. Photo courtesy Southwest Cheese

CoBank sees higher domestic nitrogen fertilizer production

The U.S. nitrogen fertilizer market stands at the cusp of transformative growth, as domestic producers are set to boost production in response to lower natural gas prices, according to a new CoBank research report. The reversal ends a steep, two-decade contraction in U.S. production during which three-quarters of all domestic plants closed and cheaper imports flooded into the U.S. to take their place and dominate the market.

The report, "The Evolving U.S. Nitrogen Landscape," describes how U.S. demand for nitrogen has remained steady at about 20 million tons per year since the mid-1990s. While demand is expected to remain flat, the nation's current low natural gas prices have reinvigorated the domestic nitrogen fertilizer industry. As a result, virtually all of the major U.S. players are contemplating fertilizer plant expansions or, in some cases, new greenfield projects. No new nitrogen fertilizer plant has been built in the United States during the past 15 years.

"The landscape of domestic nitrogen production is changing, and a substantial amount of new domestic ammonia capacity will be coming online during the next two or three years," says Luke Brummel, CoBank's industry analyst and the report's author.

Another recent CoBank study shows that U.S. natural gas demand is growing at the fastest pace since the early 1970s, and demand growth has now supplanted supply growth as the cornerstone for the outlook of the U.S. natural gas industry over the next five years.

The report, "U.S. Natural Gas Outlook Through 2020: Demand Is the New Captain of the Ship," points out that the promise of low-cost, reliable natural gas supplies has spurred major investments by all end-users. As a result, the demand for U.S. natural gas will grow 25 percent over the next five years, with gas exports accounting for over half the growth.

Land O'Lakes investing in Africa

Land O'Lakes Inc. and Villa Crop Protection of South Africa have announced a partnership that will capitalize on the growth potential of the South African agricultural market. The two organizations are joining complementary portfolios of productivity-enhancing crop input products and services to help all sizes of farms sustainably improve their yields. This is Land O'Lakes' first commercial investment in Africa and reflects the cooperative's accelerated growth in its international business.

With the deal, Land O'Lakes, through its South African subsidiary, assumes a 52.5 percent ownership stake in Villa Crop Protection. The existing Villa Crop Protection management team will continue to lead the business. People and product expertise from Land O'Lakes' crop inputs business, Winfield Solutions LLC, will support and assist existing operations.

"South Africa has a dynamic and growing agriculture industry, and we are proud to be entering this country with a local market leader in crop protection," says Chris Policinski, president and CEO of Land O'Lakes, adding that the co-op has been involved in international development efforts, including Africa, for 35 years.

NCFC revamps website

The National Council of Farmer Cooperatives (NCFC) has redesigned its website: www.ncfc.org. It now features a clean, modern design with an easy-to-navigate interface for users. It highlights the wide range of issues NCFC works on in behalf of America's farmer-owned cooperatives.

The reorganized website will provide members and visitors with even more relevant and easy-to-find information on the current legislative and regulatory issues impacting farmer co-ops. On the "Issues Page," information — including issue briefs, press releases, letters, testimonies and comments — are organized into eight issue areas. These include: Agricultural Policy & Risk Management, Capper-Volstead Act, Environment & Energy, Food & Nutrition, International Affairs, Labor & Infrastructure, Rural Development and Tax & Accounting.

The redesign also includes an upgrade to the Membership Map, found on the "About" page of the site. The map showcases each of NCFC's co-op members from across the country.

"We are in a technological age with a wealth of information right at our fingertips. We wanted to make sure information about NCFC, our farmer co-op members and the issues we work on is easily accessible," says Chuck Conner, president and CEO of NCFC.

Tom Liebe new CEO at Co-op Network

Tom Liebe has been hired as president and CEO of Cooperative

Network, the statewide association for cooperatives in Minnesota and Wisconsin. He succeeds recently retired Bill Oemichen. Liebe was previously senior vice president of advocacy with the Wisconsin Credit Union League, which is among the Network's more than 400 members. He started his new duties Nov. 9, coinciding with the Network's annual meeting in Bloomington, Minn.

During his 11 years with the Credit Union League, Liebe was instrumental in developing an innovative activist program of grassroots credit union lobbyists and successfully advocated for pro-credit union legislation and rules. Cooperative Network has worked closely with Liebe over the years to amplify the credit union and cooperative voice on issues related to taxation, regulation and business lending.

Liebe has more than 20 years' experience in government relations, advocacy and trade association management. Prior to The League, he worked with Broydrick and Associates, the largest lobbying firm in Wisconsin, and served as a legislative liaison with the Wisconsin Department of Agriculture, Trade and Consumer Protection.

USDA provides $5.8 million for co-op development

U.S. Agriculture Under Secretary for Rural Development Lisa Mensah in October awarded 30 grants totaling $5.8 million to help rural cooperatives create jobs and support business expansion. The funds are being provided through the Rural Cooperative Development Grant (RCDG) program, which helps fund nonprofit groups, such as rural cooperative development centers and higher education institutions that provide support to co-ops.

"The cooperative business model has been very successful in improving the economies of our rural communities," Mensah said. "As we celebrate October as National Cooperative Month, we are pleased to bring a spotlight to these worthy groups." Rural Business-Cooperative Service Acting Administrator Sam Rikkers made the announcement on Mensah's behalf during a speech to members of the National Cooperative Bank.

Development Centers can use RCDG funds for feasibility studies, strategic planning, leadership and operations training, as well as business plan development. As part of this grant program, recipients are required to contribute matching funds that equal 25 percent of total project costs.

Projects in 22 states are receiving RCDG funding. Among the recipients is the Cooperative Development Foundation, based in Washington, D.C., which will receive a $119,000 grant to provide technical assistance to organize and develop home health care cooperatives in rural Virginia, turning care workers into owners. In the long term, these efforts will help improve the quality of home care for rural residents.

The Latino Economic Development Center (LEDC) in Minneapolis, Minn., will receive a $200,000 technical assistance grant to help rural Latino farmers form cooperatives to promote economic development. LEDC has trained Latino farmers in cooperative organization and management, including farm equipment sharing, which enables them to move from migrant work to year-round positions, creating pathways for low-wage farmworkers to become farm owners.

For a full list of the grants winners, visit: www.rurdev.usda.gov. Since the start of the Obama administration, USDA has funded 230 cooperative grants worth $44.4 million to support projects in 39 states. This funding has benefited more than 2,600 businesses.

DFA breaks ground for new Kansas plant

Dairy Farmers of America (DFA) has announced plans to build a dairy ingredients plant in Garden City, Kan. In a ceremony at its 156-acre site in Garden City, representatives from the cooperative were joined by Kansas Governor Sam Brownback, city and state officials and the area's dairy farmers to break ground on the facility. The state-of-the-art plant will produce whole, skim and nonfat dry milk powder, as well as cream. The plant is a partnership between DFA and 12 of its member farms in southwest Kansas.

Slated for operation by the end of 2017, the 214,000-square-foot plant will bring 60 new, full-time jobs to the area. Once complete, the plant will receive 4 million pounds of milk a day from regional dairy farms. This will help support the industry's continued growth in southwest Kansas and will meet the rising demand for U.S. dairy foods, both domestically and globally.

"The construction of this plant not only fits with our global ingredients strategy, but also provides a local home for DFA members' milk in the southwest region, which was much needed as many local farms were sending their milk to other areas of the country," says Michael Lichte, vice president for dairy marketing and business planning at DFA.

Members reject plan to expand ethanol plant

A plan to invest $146 million to expand a co-op ethanol plant in Claremont, Minn., was narrowly rejected in a member vote in October. Leaders of the Al-Corn Clean Fuel cooperative expressed surprise at the defeat of the plan, which would have more than doubled the plant's production, to more than 120 million gallons annually. The board is considering developing a revised plan for future consideration by the co-op's 470 farmer-owners, according to press reports.

To raise the capital for the expansion, farmer-owners had been asked to approve increasing the co-op's number of authorized shares, which were also needed to secure more bushels of corn for delivery. At least 50 percent of the plant's supply must come from shareholders in order for the business to retain cooperative status for taxation purposes.

The expansion would involve modernizing the 20-year-old facility to achieve greater economies of scale and keep the plant competitive in a quickly expanding industry, according to a report in the *Owatonna People's Press*. In a press release, CEO Randall Doyal said he was "shocked and surprised" by the outcome. He told the newspaper that Al-Corn will identify what could have been done differently to gain a majority of members support.

USDA providing $17 million to train 'next-gen' farmers

USDA's National Institute of Food and Agriculture (NIFA) on Oct. 30 announced the availability of $17.7 million in grants to help train, educate and enhance the sustainability of the next generation of agricultural producers through the Beginning Farmer and Rancher Development Program (BFRDP). "As the average age of farmers in the United States continues to rise, we recognize the need for new programs to address the needs of the next generation of beginning farmers and ranchers" says Sonny Ramaswamy, NIFA director. "We see these new ranchers and farmers as a critical force in sustaining food security, food safety and many other aspects of agriculture that positively impact the societal challenges facing our growing population."

The BFRDP is an education, training, technical assistance and outreach program designed to help farmers, ranchers and managers of non-industrial private forest land — specifically those who are aiming to start farming and those who have been farming or ranching for 10 or fewer years. A competitive grant selection process will review proposals from organizations that are conducting or will conduct programs to help beginning farmers and ranchers. Applications are due Jan. 21, 2016.

The two priority application types are standard and Educational Enhancement Team (EET) projects. Standard project applications should focus on long-term goals that enhance the sustainability of beginning farmers and ranchers through education, training, mentoring and outreach programs that enhance self-employment in farming, ranching and forestry opportunities. Goals for EET projects should be to identify gaps in beginning farmer and rancher training by evaluating all existing programs, and to develop and conduct train-the-trainer projects to address these gaps. All applicants are required to provide funds or in-kind support from non-federal sources in an amount that is at least equal to 25 percent of the federal funds requested.

Ohio co-op merger rejected

A proposed merger between the Heritage and Legacy Farmer Cooperatives in Ohio was rejected by members in September, according to a

REI: Give thanks outdoors!

REI is keeping all of its sporting goods stores and facilities closed on both Thanksgiving Thursday and Friday this year. The $2.2 billion specialty outdoor retail cooperative will pay its 12,000 employees to not work on Nov. 27.

In a letter addressed to the co-op's 5.5 million members, REI – the nation's largest consumer co-op and specialty outdoor retailer – says the doors will be closed Nov. 27 at all 143 of its retail locations, headquarters and two distribution centers. Instead of reporting to work, the co-op is paying its staff "so they can do what they love most: be outside."

"We're closing our doors, paying our employees to get out there, and inviting America to 'OptOutside' with us because we love great gear, but we are even more passionate about the experiences it unlocks," says Jerry Stritzke, president and CEO of REI. In his letter to members, Stritzke quotes outdoor visionary John Muir, who in 1901 said: "Thousands of tired, nerve-shaken, over-civilized people are beginning to find out that going to the mountains is going home."

"We believe that a life lived outdoors is a life well lived, and we aspire to be stewards of our great outdoors," Stritzke continues. In 2015 alone, REI has fulfilled the co-op principle of commitment to community by giving $5.9 million to more than 300 nonprofits to take care of 1,000 outdoor spaces in communities across America. REI has invested more than $60 million in the outdoor community.

The REI sporting goods store in Seattle will be among the co-op's 143 stores that will be closed the day after Thanksgiving, when employees will be on paid leave and encouraged to enjoy the outdoors. Photo courtesy REI

Jerry Stritzke, president of the REI sporting goods co-op, on a recent climb up Mount Rainer in Washington. Photo courtesy REI report in *The Courier* newspaper. It quoted statements published on the websites of the two cooperatives, noting that while Heritage Cooperative members approved the merger, Legacy Farmers Cooperative members rejected the proposal, which required 60 percent approval by both of the cooperatives' members.

Legacy Farmers Cooperative, based in Findlay, serves north-central Ohio, with 19 locations and more than 2,500 members. Heritage Cooperative, based in West Mansfield, covers 20 counties in central Ohio, with 30 locations that serve more than 3,500 members.

The merger proposal came less than two years after Legacy Farmers Cooperative was created by the merger of Blanchard Valley Farmers Cooperative and Deshler Farmers Elevator Co. Heritage Cooperative was formed previously with the merger of Farmers Commission Co. and Champaign Landmark.

Canada's co-ops provide $54 billion boost to economy

Recent research shows that Canadian co-ops contribute $54 billion to the nation's economy and support more than 600,000 jobs. The Measuring the Co-operative Difference Research Network (MCDRN) conducted economic impact analyses on the cooperative sector for the years 2009 and 2010. The results showed that cooperatives, credit unions and cooperative insurance enterprises had a direct economic impact of $22 billion in 2010, and, through indirect and induced spin-offs, this impact multiplies to more than $54 billion. This represented 3.4 percent of the total economic activity in Canada in 2010.

Further, nearly 270,000 full-time jobs were created in the sector and, through spin-off effects, this activity supported over 614,000 jobs in many sectors throughout the country. Co-operatives between 2009 and 2010 also created jobs at nearly five times the rate of the broader economy.

Digging in: Swiss Valley officials and guests participate in the ceremonial start of a major expansion at the co-op's plant in Luana, Iowa.

Swiss Valley begins $20 million expansion at Luana

Swiss Valley Farms held a groundbreaking ceremony in September for a $20.6 million technological update and expansion at its Luana, Iowa, facility. The project will improve cheese manufacturing operating equipment. It includes replacing current press vats with a moulding system solution, installation of additional system automation, press tunnels and new buffer tanks. It also includes a 49,000-square-foot expansion, which will allow room for new equipment and additional warehousing space.

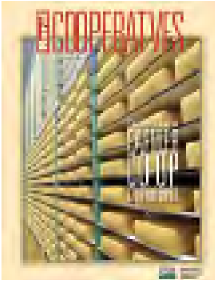
The expansion is expected to be completed in late 2016 and will result in increased capacity and efficiency, giving the company the flexibility to produce new cheese varieties and sizes. This will also increase the production of cream cheese and whey. "At this time of low prices for dairy farmers and a need for more processing capability in the Midwest, this expansion is happening at a very good time!" says Swiss Valley Farms Board Chairperson Pam Bolin.

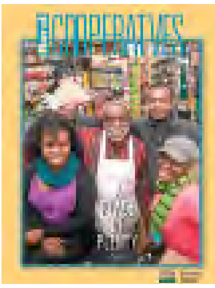
NCBA working to boost Dominican beef, dairy industries

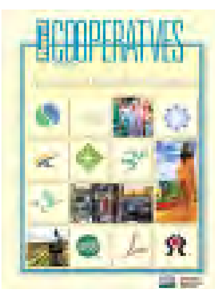
NCBA (National Cooperative Business Association) CLUSA recently signed a $16.2 million cooperative agreement with USDA (under the USDA Food for Progress Act) to implement a project in the dairy and beef sectors in the Dominican Republic. The five-year project, called the Safe Agriculture/Food Export (SAFE) program, will be implemented through 2020 and work with dairy and beef producers to improve agricultural productivity for livestock and expand exports and trade.

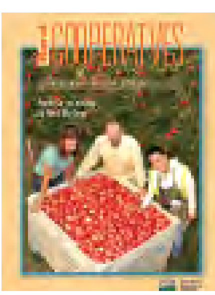
The SAFE program marks NCBA CLUSA's return to the Dominican Republic after projects there in the 1980s. Working with smallholder livestock owners with 100 head of cattle or less, NCBA CLUSA will partner with milk and beef processing centers to train farmers on improved herd management and production techniques. For the dairy sector, pasture management, animal nutrition, herd management, and sanitary milking and milk handling practices will be emphasized.

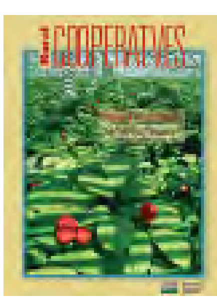
Training for beef producers will include improved pasture seed and feed, artificial insemination, herd management, nutrition, and the use of veterinary pharmaceuticals. Training will be held through agriculture extension agents at farm field schools. ■











2015 Article Index

Information appearing in *Rural Cooperatives* magazine during calendar year 2015 has been indexed to help you find past articles. Articles are indexed by issue and page number. Back issues can be found on-line at: http://www.rd.usda.gov/publications/rural-cooperatives-magazine

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generations.

Establishment of a GI system ultimately centers around issues of protection of intellectual property, protection of consumers from confusion, and "fairness." Being required to give up use of product-identity names that have been available for generations creates its own "fairness questions," which are as yet still being negotiated through the World Trade Organization.

Controversial possibilities

American Origin Products hold promise for rural areas seeking place-based product development as a way to stimulate economic growth.

The Napa Valley wine district is perhaps the quintessential example of a *terroir* originated product that generates billions of dollars of economic impact nationally and locally. Wisconsin ginseng — as well as Idaho potatoes, Kona coffee, New Mexico native chilies, Vidalia onions, Maine lobsters, Missouri northern pecans, Virginia-Carolina peanuts (see Reynolds, 2007) and others — hold promise for generating the secondary and tertiary impacts from on-farm sales, rural tourism and local cuisine development — even if unlikely to ever match the scale of Napa Valley wines.

Whether these products will be able to negotiate through the controversies regarding product protection and trade issues remains an open question.

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In the Spotlight

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not only keeps CHS relevant, but also provides choices that keep our member cooperatives and producer-owners relevant, too. That means delivering the products, market access and services that add value; investing in current and future opportunities; and delivering financial performance that keeps us strong and able to return cash to our owners. It also means making sure producers, member cooperatives and CHS work together to build a strong cooperative system for next generations.

Q. *How does CHS' involvement in a broad array of markets, such as global energy, grains and foods businesses, benefit the cooperative and its owners?*

Our goal is to add value for our farmer and cooperative members by operating all of our businesses efficiently and profitably. In a global marketplace, that means selling what farmers raise to customers in 65 countries around the world as grain, food ingredients and, increasingly, products like ethanol. Here at home, our two petroleum refineries produce the diesel fuel our farmers need, as well as gasoline and other products we move into consumer and commercial markets.

Q. *Does CHS offer cooperative membership internationally?*

While we have operations in 25 countries — and source grain from farmers in Canada, Europe's Black Sea and Danube regions, South America and Australia — we don't have international cooperative members. Co-op law varies in every country, so that's something we would need to address in considering such a step.

Q. *How will technology drive the future of agriculture?*

Technology has made a tremendous difference for producers and all of agriculture in recent decades. That includes advances in machinery, crop input technology and other components of precision agriculture that increase production efficiency and yields and enhance environmental stewardship. Data — how it is collected, how it is used and by whom — is the new frontier. All of this will play a role as we support producers and our member cooperatives in meeting increased global food demand. ■

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