



Organizing a **Cooperative Cotton Gin**

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Contents

	Page
Characteristics of cooperative gins.....	1
Ownership by producer-patrons.....	2
Control by member-patrons.....	2
Adequate charges and conservative prices maintained.....	3
Capital dividends limited.....	5
Patronage dividends distributed.....	5
Analysis of local conditions.....	7
Volume of cotton and number of gins.....	8
Existing rates, prices, and services.....	9
Extent and nature of competition.....	10
Farmers' understanding of cooperatives.....	10
Financial condition of farmers.....	11
Competent management.....	12
Adequate and modern ginning facilities.....	13
Capital structure and dividend policy.....	13
Types of capital structure.....	13
Sources of capital.....	15
Revolving capital.....	16
Determining net income.....	17
Allocating net income.....	19
Distributing patronage allocations.....	21
Legal basis.....	22
Organization procedure.....	24
Duties of the committees.....	25
Appendix A.—Suggested organization forms.....	29
Organization agreement:	
Stock associations.....	30
Nonstock associations.....	31
Ginning agreement.....	33
Articles of incorporation:	
Stock associations.....	35
Nonstock associations.....	38
Bylaws:	
Stock associations.....	41
Nonstock associations.....	49
Common stock certificate.....	59
Transfer of common stock.....	59
Preferred stock certificate.....	60
Transfer of preferred stock.....	60
Membership certificate.....	61
Revolving fund certificate.....	61
Waiver of notice of first meeting of members.....	62
Waiver of notice of first meeting of directors.....	62
Minutes of first meeting of members.....	63
Minutes of first meeting of board of directors.....	64
Appendix B:	
Section 103, Revenue Act of 1938.....	66
Excerpts from the Farm Credit Act of 1933, as amended.....	66

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Organizing a Cooperative Cotton Gin

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SEVERAL important preliminary steps must be taken before a cooperative association is incorporated. Frequently the underlying principles of a cooperative organization must be explained to prospective members. Local conditions also must be analyzed to determine the need for a cooperative gin and to consider the possibilities of its success.

The idea of starting a local cooperative gin usually originates with one individual. The responsibility for completing the organization, in most cases, must be assumed either by him or by a small group of producers who have become interested. The general purpose of this publication is to provide information and suggestions that will help this group to decide whether or not a cooperative gin is needed in their community and, if it is needed, to assist them in completing the organization.

The specific purposes of this circular are: (1) To enumerate some desirable features of a cooperative gin; (2) to discuss factors that are important in determining whether or not a cooperative is needed; (3) to recommend a financial structure and dividend policy; (4) to outline the steps of organization procedure; and (5) to suggest some general forms as a guide in preparing the organization papers.

CHARACTERISTICS OF COOPERATIVE GINS

THE characteristics of a cooperative gin are similar to those of a gin owned by an individual cotton producer and used to gin his own cotton exclusively. In both cases ginning may be considered a part of the production of cotton. Although the practices of cooperative cotton gins are necessarily modified by the local conditions under which they operate, some features which have been found

NOTE.—Acknowledgment is made of the assistance of L. S. Hulbert, Assistant General Counsel, and E. Marks, Assistant Attorney, Farm Credit Administration, in drafting the suggested organization forms included in this publication.

desirable may be stated as follows:¹ (1) Ownership by producer-patrons; (2) control by member-patrons; (3) adequate charges and conservative prices maintained; (4) capital dividends limited; and (5) patronage dividends distributed.

The cooperative marketing statutes of the various States provide the legal basis for the realization of these cooperative characteristics.

OWNERSHIP BY PRODUCER-PATRONS

Ownership of a gin plant requires an investment of capital. Practically all the capital of a cooperative gin should be supplied in time by the members and patrons if it is to continue to operate successfully. Although a part of the original capital requirements may be borrowed, the initial investment of the members should be sufficiently large to enable the cooperative to assume normal business risks. Since the financial risk which an individual member has under the cooperative statutes generally does not exceed the amount of his paid-in and subscribed capital, the combined investment of all the members should be sufficiently large to give the association a sound financial structure. From the standpoint of the members themselves, a substantial investment of capital indicates interest in the undertaking and tends to insure loyalty.

The amount of capital originally supplied by each member should be as nearly in proportion to his anticipated patronage as possible. Since the benefits of cooperative ginning are in proportion to the use made of the services of the association, the same rule should be applied to the invested capital. A long-time financial program, such as a revolving capital plan, will tend to maintain this relationship.

CONTROL BY MEMBER-PATRONS

Democratic control by members who are also patrons is a recognized principle of cooperative gins. Regardless of how much or how little a member has invested in the capital of the association, he has—with a few exceptions—only one vote. Under some cooperative statutes such a practice is mandatory. In the States which permit other bases of voting, most cooperative gins follow the one-man one-vote principle. Under some conditions, however, voting on the basis of patronage may be preferable.

Membership in a cooperative gin is personal rather than financial. The investments of members are made, not to realize a return on capital as such, but to obtain efficient ginning service at minimum cost. Members of a cooperative gin receive benefits primarily as patrons,

¹ Christensen, C. L.; Hobson, Asher; Bakken, H. H.; Froker, E. K.; and Schaars, M. A. *COOPERATION, PRINCIPLES AND PRACTICES*. Wis. Univ. Extension Service Spec. Circ. 128 pp., illus. 1926.



Weighing cotton in the field.

not as investors, and therefore, should control the gin because they are patrons.²

Control of the business operations of a cooperative gin is necessarily indirect. Members determine the general policies of the association by adopting and amending the bylaws. They also elect the board of directors. Since the members elect all or part of the directors each year and are also in frequent contact with them, the directors usually are responsive to the views of the members.

ADEQUATE CHARGES AND CONSERVATIVE PRICES MAINTAINED

As a rule cooperative gins charge the same rate for ginning and wrapping and pay the same prices for cottonseed and other products that prevail at nearby commercial gins. In numerous instances, however, cooperative gins have refused to become involved in rate cutting and price wars. They charged a higher rate for ginning and paid a lower initial price for cottonseed and other products than competing commercial gins. A cooperative gin whose capital and patronage are derived from its members cannot do more or less than render ginning services at actual cost, and pay the resale price less handling costs for cottonseed and other products handled.³

When the initial charges for ginning and wrapping are higher than the cost of providing these services, and the prices paid or advanced for cottonseed and cotton are below the prices received for these products, a net income will result. If this income is then distributed in proportion to the business contributed, the member will pay the actual cost of ginning and wrapping and receive the resale price less handling costs for cottonseed and cotton.

² Robotka, F., and Laughlin, G. C. COOPERATIVE ORGANIZATION OF IOWA FARMERS' CREAMERIES. F. C. A. Bull. No. 14, 92 pp., illus. 1937.

³ Paulson, W. E. SOME PROBLEMS IN THE SUCCESSFUL OPERATION OF COOPERATIVE COTTON GINS. Southwestern Social Science Quarterly. v. 28. June 1937.

On the other hand, if the cooperative charges its patrons, who also furnish its capital, lower rates for ginning and wrapping than the cost of performing these services, and pays more for cottonseed and cotton than is received for these products, a loss will be sustained. This loss will reduce the net worth of the association. This reduction of net worth will offset any apparent gain from low ginning rates or excessively high prices for products. Again the result is that the ultimate rate for ginning will be the cost, and the price obtained for cottonseed will be the resale price less handling costs. However, if an association has patrons who do not furnish any capital, losses from inadequate ginning charges or overpayments for products will benefit them at the expense of those who furnish the capital.

Regardless of the policy followed with respect to rates and prices, the members of a cooperative gin who furnish both the capital and the patronage will obtain these services at cost. They can no more make a profit on their own business as such than an individual farmer, owning and operating a gin plant to handle his own cotton exclusively, can make a profit by charging himself extremely low ginning rates and paying himself excessively high prices for cottonseed and cotton.

The rates and prices established by a cooperative gin association should be such as to avoid losses from price changes and other normal business risks. By this means the members share these risks in proportion to their patronage in the same way as they share the benefits from cooperation.

Benefits from cooperative gins also may be realized in improved ginning services. A cotton producer is interested in the net value of

Weighing a bale of seed cotton at the gin.



the lint and the seed above the cost of ginning. If the existing ginning facilities in a community are such that the value of the lint is reduced through improper ginning, a well-equipped cooperatively owned gin plant might pay substantial returns in quality of service, even though its rates were higher than those of the other gins.

Benefits cannot be measured on a temporary basis. After a cooperative gin is established, consideration should be given to the ginning conditions that might exist in its absence. Competing gins for a time may charge ginning rates that are below cost, or pay excess prices for cottonseed and cotton, to force the cooperative to do likewise, or to attract its members. If the cooperative does either of these things, it may fail. Charges and prices profitable to the commercial gins then may be reestablished.

CAPITAL DIVIDENDS LIMITED

Limitation of dividends on invested capital is one of the basic principles of cooperatives. It has stood the test of time and experience since it was first adopted by the original Rochdale pioneers nearly a century ago.

The legal basis for limiting returns on capital is definitely established. The cooperative statutes generally place a limit of 8 percent or less on capital dividends. In order to obtain the benefits of the Capper-Volstead Act, a Federal statute applicable to cooperatives that do interstate or foreign business, farmers cooperatives must either limit dividends on capital to 8 percent, or restrict voting to one vote per member. Likewise, one of the primary requirements for exemption from Federal income taxes is that dividends on capital stock shall not exceed 8 percent per annum.

State and Federal laws specify only the maximum return that may be paid on invested capital, but cooperative associations may set a lower rate. The tendency during recent years among cooperative gins has been to lower materially the returns on capital. Many associations have limited dividends on capital to 6 percent; others to 4 percent; and still others have eliminated dividends on invested capital.

PATRONAGE DIVIDENDS DISTRIBUTED

Patronage dividends are the tangible evidence of the financial benefits of a cooperative gin to its patrons. They are the means by which the initial charges for ginning and wrapping are reduced to cost, and the initial prices paid for cottonseed and other products are adjusted to the final sales price less handling costs. Since dividends on stock are limited, capital is hired in somewhat the same way as labor and receives its fixed return before patronage dividends. Any

general reserves out of income, such as statutory, educational, and contingency reserves, are also set aside before patronage returns are determined. Although patronage dividends come last in the claim on income, they get all that is left.

The ability of a cooperative gin to distribute patronage dividends depends largely on three factors: (1) Adequate volume in relation to the size of gin plant; (2) initial ginning charges sufficiently high to more than cover operating expenses and initial prices or advances for cottonseed and other products less than resale prices; and (3) efficient and economical operation.

Distribution of income on the basis of patronage is not limited to cash distributions. If all or part of the net income is used to retire indebtedness, to purchase additional facilities, or for any other capital purpose, payment of patronage dividends may be made in shares of stock or other certificates, or set up to the credit of patrons' capital accounts.

When all or part of the net income of a cooperative is used for capital purposes, the patrons make an additional investment. Each patron's additional investment is the amount by which his cash patronage dividends would be increased if none of the income was retained for capital purposes. The use of net income for capital purposes is often necessary. The interest of each patron in this additional investment, however, should be recognized.

Nonmember business is important with respect to patronage dividends. Its extent is generally limited by cooperative statutes to not more than half of the total business. Some State laws prohibit nonmember business; other States permit associations to do business with nonmembers if the amount of such business does not exceed in value the business done with members. In order to obtain exemption from the filing of Federal income-tax returns and paying Federal income taxes, a cooperative must treat nonmembers the same as members with respect to patronage dividends.⁴

As previously indicated, however, payment of patronage dividends need not be made in cash but may be deferred by issuing nonvoting preferred stock or revolving certificates to members and nonmembers alike. If nonmembers are willing and eligible to become members, all of their dividends may be applied first to the purchase of a share of common stock or a membership. Such a plan for nonmembers offers a means of increasing the membership and the volume of the gin, thereby perpetuating its existence.

A cooperative that does an appreciable amount of nonmember business but distributes all its returns among its members tends to

⁴ Knapp, J. G., and Lister, J. H. COOPERATIVE PURCHASING OF FARM SUPPLIES. F. C. A. Bull. No. 1. 92 pp., illus. 1935. pp. 86-92.



An interior view showing the gin stands.

partake of the nature of a profit organization. Its members as owners are commercial ginners, especially since the competitive practices necessary to attract and to hold nonmember business will be similar to those employed by commercial ginners.

ANALYSIS OF LOCAL CONDITIONS

A COOPERATIVE gin should not be incorporated until an analysis has been made of local conditions affecting its chances for success. Is there a real economic need for a cooperative gin? ⁵ Will the members support it by investing capital and contributing patronage? What are the opportunities for economical and efficient operation? These and other pertinent questions should be answered satisfactorily before an organization campaign is begun. An extensive field survey usually is not necessary, as most of these questions can be answered through informal discussion among the group interested in the organization. If any active cooperative gins are located within a reasonable distance, it may be found helpful to consult them. County agents and other extension workers of the State Agricultural College, as well as the district banks for cooperatives, are often able to contribute advice and suggestions.

Some of the important factors to be considered in determining the need and the opportunity for a cooperative gin are: (1) Volume of cotton and number of gins; (2) existing rates, prices, and services;

⁵ Sanders, S. D. THE FARMERS' COOPERATIVE YARDSTICK. F. C. A. Circ. No. 17. 15 pp., illus. 1937.

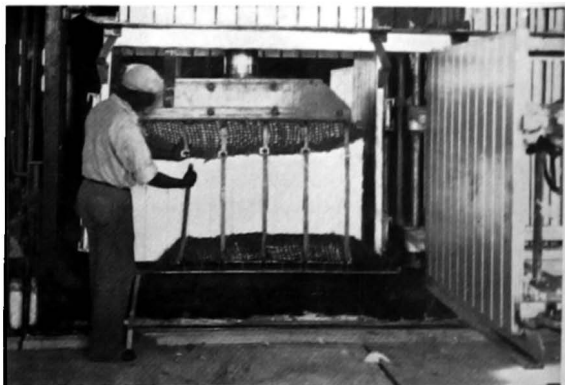
(3) extent and nature of competition; (4) farmers understanding of cooperatives; (5) financial condition of farmers; (6) need for competent management; and (7) need for adequate and modern ginning facilities.

VOLUME OF COTTON AND NUMBER OF GINS

In analyzing the possibilities for a cooperative gin, it is important to consider the volume of cotton to be ginned in the community in relation to the number of gin plants. Figures on bales ginned and number of active gin plants in the county may be obtained from the annual bulletins of the Bureau of the Census, United States Department of Commerce. These figures may be supplemented by local ginning records. Although a cooperative gin seldom can expect to handle all the cotton produced in its territory, the local and the county ginnings indicate the maximum volume. Certainly no organization should be formed if the total volume available is extremely small.

Ginning figures for the county also will indicate the variation in production from year to year. The volume of cotton produced by members of a cooperative gin may be expected to vary in much the same degree as the production of the county. Wide variation in volume between one year and another makes it difficult to select a gin plant of the most economical size. The trend of production for several previous years may indicate the volume to be expected during the next few years. Since the investment required to purchase a gin plant is relatively large and the plant is to be utilized over a number

"Tie-ing out" a bale of cotton in the gin.



of years, the possibilities of future cotton production are as important as the present volume. Special attention should be given to the possible effects of various programs for cotton acreage allotments and control on future trends in production.

The cotton production per farm should be given consideration. Low production per farm means that a relatively large membership will be needed to obtain adequate volume. A large membership not only increases membership and management problems, but adds to the cost of bookkeeping. The benefits to small producers may not compensate for the obligations of membership.

The total number of bales ginned in a county or a local community during any 1 year, or the production per farm, is of less significance than the average bales per active gin plant. Recent studies of cooperative gins have shown that a minimum seasonal volume of at least 500 bales per gin stand is needed for economical operation. The ginning expenses per unit are usually excessively high if the annual volume is much below 500 bales per gin stand. On this basis a 4-stand plant should have a minimum volume of 2,000 bales, and a 5-stand plant 2,500 bales.

EXISTING RATES, PRICES, AND SERVICES

Existing ginning facilities may be adequate, but this does not mean that a cooperative gin is not needed. The prevailing rates and the quality of ginning services, as well as prices paid for cottonseed or other products, must also be considered. The establishment of a cooperative gin may be justified if the ginning rates charged and prices paid for cottonseed by existing commercial gins are unreasonable. All these rates and prices must be considered in determining if the net result is equitable. For example, the ginning rates may be extremely low but the margin on cottonseed excessively high.

Analysis of the reasonableness of these rates and prices is difficult. Much helpful information may be obtained by contacting other cooperative gins. Some indication of the margin realized by local gins on cottonseed may be obtained by comparing local prices for cottonseed at the gin with carlot prices quoted at nearby oil mills. In making such comparisons the cost of loading, transportation, and losses from waste and shrinkage must be considered. Studies⁶ of the expenses of cooperative gins in Texas and Oklahoma during 1933-34 show that, even with an adequate volume, ginning rates below 25 cents per 100 pounds of seed cotton do not allow any ma-

⁶ Paulson, W. E. COSTS, INCOME AND FINANCIAL STATUS OF COOPERATIVE GINS OF TEXAS, 1933-34. TEXAS AGR. EXPT. STA. 33 pp., illus., 1935. (Mimeographed.)

Weaver, O. T., and Herrmann, O. W. ANALYSIS OF THE BUSINESS OPERATION OF COOPERATIVE COTTON GINS IN OKLAHOMA, 1933-34. F. C. A. BULL. NO. 12. 96 pp., illus., 1937.

terial income from ginning. A rate of 25 cents, however, may be either too high or too low for other areas where conditions are different.

A point that often is overlooked in analyzing ginning rates is that certain operating expenses will be incurred whether the service is performed by a cooperative or a commercial gin. If there is any difference, the cooperative will have more expenses.⁷ For example, a cooperative gin will have to keep more detailed records than a privately owned gin. A cooperative gin frequently spends more for management than a commercial gin, as the latter may be operated as a side line to other business activities.

It is possible that the charges and prices of local commercial gins may be reasonable, but a cooperative gin may be needed because the available ginning services are poor or inadequate. In fact, a poor quality of ginning service may be expected if the prevailing ginning rates are too low. If the lint is damaged in ginning, the savings from the low ginning charges may be more than offset by the reduced value of the cotton.

EXTENT AND NATURE OF COMPETITION

The local competitive conditions should be considered before starting a cooperative gin. A cooperative gin may be needed because either too much or too little competition exists among commercial gins. Lack of competition is often reflected in high ginning rates and low prices for cottonseed. On the other hand, rate cutting and seed-price fights between commercial gins frequently result in poor ginning service and unethical trade practices.

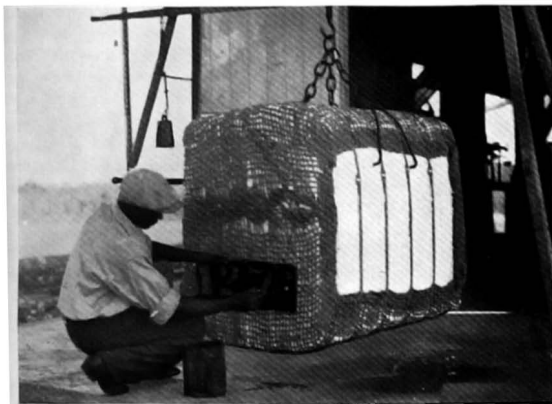
Experiences of numerous cooperative gins have shown that their participation in ginning-rate fights and price wars in buying seed or cotton is often disastrous. If any difference exists between the rates and prices between a cooperative and a commercial gin, the cooperative should be conservative and charge higher ginning rates and pay, or rather advance, relatively low initial prices for cottonseed or other products bought.

Even if it were possible for a cooperative gin to charge rates and pay prices to exactly equal the costs of these services, such a policy would eventually defeat its purpose, since the members would not be aware of the benefits obtained. In most cases competitors would meet these charges and prices, and all cotton producers would benefit equally with the members of the cooperative.

FARMERS' UNDERSTANDING OF COOPERATIVES

Membership support must be based on an understanding of the long-time benefits of cooperative endeavor to the extent that tem-

⁷ Hulbert, L. S. ORGANIZATION OF COOPERATIVE ASSOCIATIONS. Farm Credit Administration. 26 pp., illus. 1935. (Mimeographed.)



Weighing and marking a bale after ginning.

porary price concessions by competitors will not influence the members. Members must know that a cooperative gin requires considerable capital which, in the ordinary course of events, they must furnish; that a cooperative gin has expenses and over a period of years cannot do more than furnish ginning services at cost; and that the maximum price the gin can pay for cottonseed or other products cannot exceed the net price which may be realized from these products. If the members of a cooperative gin are properly informed, the initial charges and the prices will not be a matter of primary consideration as all net income will be returned to them as cash patronage dividends or as increased equities in the association. Assuming that a cooperative gin is efficiently and honestly operated, the initial charges and the prices are of secondary importance.

FINANCIAL CONDITION OF FARMERS

Although all the members of a cooperative gin should be farmers, land ownership is not an essential qualification for membership in a cooperative gin. A substantial portion of the membership, however, should be reasonably well-established and successful farmers in the community. A farmer who moves from one community to another every year or two is not a good prospect for membership. Membership studies of cooperative associations, however, have shown that established tenants make equally as good members as farm owners.⁸

⁸ Jones, J. W. MEMBERSHIP RELATIONS OF COOPERATIVE ASSOCIATIONS. F. C. A. Bull. No. 9, 111 pp. 1930.

When a cooperative buys a gin plant it means that a group of farmers invest in a business to gin their own cotton. Some cooperative gins have been started without the members furnishing any initial capital. Such a policy, however, has proved unsound in many cases. The interest and the loyalty of a member usually are indicated by his willingness to assume some financial responsibility. A considerable amount of actual cash is necessary to buy a gin plant. A member who is able but unwilling to furnish his part will likely be among the first to leave the association if competitors offer any special price inducements.

COMPETENT MANAGEMENT

Lack of competent management is often a major limitation to the success of cooperative gins. As ginning is seasonal, it may be impractical to offer a competent manager continuous employment at a salary consistent with the responsibilities of the position. The directors of some cooperative gins select a manager who will accept a low salary rather than one at a higher salary who is better qualified. In many cases the lowest paid manager is not the most economical one to employ. An inefficient manager may lose the association more than the amount saved by hiring him as compared to a more qualified man at a higher salary. Some cooperative gins have handled the management problem successfully by hiring one of their members who has had previous experience in operating a gin. This should not be done, however, unless he is qualified for the position. The hiring of relatives of the directors, or of the manager, for any position should be prohibited, except possibly for short periods. (See appendix A, by-laws, art. VII, sec. 2.)

The weakest part of many cooperative gin associations is the inadequacy of their records. Too often it is assumed that anyone who can write and add can keep books. This is decidedly not true for a cooperative gin. A record must be kept of the invested capital of each member; also a record must be kept of the amount of business done by each member with each department. In addition to these detailed individual records, accepted accounting principles⁹ and procedure must be followed from the beginning in recording subscriptions and payments to capital, and in setting up accounts with fixed assets, if the books are to indicate the true financial condition of the association. Likewise, the operating accounts must be kept accurately if an equitable distribution of net income is to be made at the end of each season's operations.

Many cooperative gins have found it desirable to employ a competent public accountant to set up a system of accounting; to super-

⁹ Weaver, O. T. ACCOUNTING PRINCIPLES FOR COOPERATIVE COTTON GIN ASSOCIATIONS. F. C. A. Bull. No. 2. 92 pp., illus. 1935.

vise it during the active ginning season; and to make an audit at the close of the fiscal year. The time which an auditor can save in checking the records of a system he has installed and supervised usually will more than offset the cost of this extra service.

ADEQUATE AND MODERN GINNING FACILITIES

Before completing the organization of a cooperative gin, specifications and prices on new plants and tentative prices on used gin plants that can be bought should be obtained. Generally a newly organized cooperative should purchase a local gin plant if it is in serviceable condition and can be bought at a reasonable price. This not only lessens the competitive situation but allows the local gin owner an opportunity to liquidate his investment. Before final arrangements are made to purchase a used plant, a competent gin appraiser should be employed to determine its mechanical condition and value.

Some cooperative gin organizations have found it desirable to lease rather than to buy a gin plant. Such a plan permits the association to begin operations with a limited amount of paid-in capital. However, since the actual ownership of a gin plant gives a cooperative more permanency and stability than a lease arrangement, plans should be made to acquire a plant eventually. Sometimes a gin plant may be leased with an option to buy. In this case all or at least part of the net income should be retained in order to accumulate capital for the initial payment when that plant or another plant is purchased.

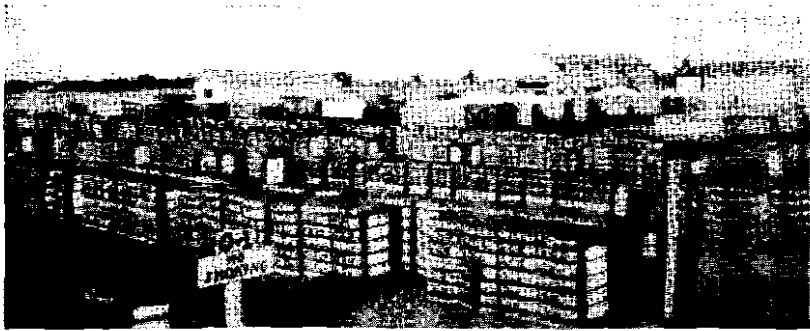
If the used facilities that can be purchased or leased are worn out or inadequate, or if such facilities cannot be acquired at a fair and reasonable price, a new plant should be bought. New gin machinery is not only more modern and serviceable, but it also has a psychological advantage in arousing pride of ownership and greater confidence in quality of service.

CAPITAL STRUCTURE AND DIVIDEND POLICY

THE capital requirements of a cooperative gin depend largely on the cost of its facilities. A second-hand gin plant that is in serviceable condition will cost \$10,000 or more. New plants may cost from \$20,000 to \$40,000, depending on the size of the plant, the kind of power, and the extra equipment needed.

TYPES OF CAPITAL STRUCTURE

The operations of a cooperative gin are adapted to either a stock or a nonstock type of capital structure. Numerous cooperative gins are operating successfully under each of these types. The provisions of the State cooperative statutes and the wishes of the members should determine whether the stock or the nonstock plan is used.



Bale cotton awaiting shipment at a cooperative gin in California.

Suggested articles of incorporation and bylaws, and other organization forms, for both stock and nonstock associations are included in appendix A. The capital stock forms provide for both common and preferred stock; the nonstock forms, for both membership and revolving fund certificates. Two classes of stock, or two kinds of certificates, allow voting rights to be incident to one and prior ownership rights in case of liquidation to the other. Capital stock associations may also issue revolving fund certificates in lieu of or in addition to the preferred stock. If this is done, appropriate provisions covering this matter should be included in the bylaws. The provisions in the suggested nonstock bylaws (p. 50) may be readily adapted for use by capital stock associations. With comparable provisions in the articles of incorporation and bylaws, almost identical results should be obtained under either a stock or a nonstock plan.

Capital stock associations may be organized to issue either one or two classes of stock. If two classes of stock are used only one share of common stock would be needed by each member to establish membership and voting rights. The par value of this stock should be low so that membership may be acquired easily. A par value of \$5 or even \$1 per share is preferable to higher values. If only one share of common stock is owned by each member, and the par value is low, dividends on this stock would not be necessary, and it could be more easily transferred or retired.

A major portion of the capital would be raised by the sale of preferred stock. Generally, preferred stock is nonvoting and may be issued or transferred to nonmembers or nonproducers, as well as to members. This stock usually has a preference as to dividends and assets in the event of liquidation. Dividends on preferred stock should be noncumulative, and limited to 8 percent a year. The par value should be low in order to facilitate transfer and retirement and to avoid, insofar as possible, the issuance of fractional shares. A par value of \$1 per share is often used by cooperative gins. Any number of shares may be issued in the same stock certificate.

Nonstock associations that issue membership and revolving fund certificates are similar to stock associations that issue common and preferred stock. Membership certificates, like common stock, should have a low value and should be retired when a member withdraws.¹⁰ Revolving fund certificates have many of the characteristics of preferred stock. They have certain advantages over preferred stock as they may be issued for odd amounts as contrasted to the authorized par value of preferred stock, and are more adapted to partial retirements.

SOURCES OF CAPITAL

A cooperative gin may obtain capital from four general sources: (1) Sale of stock, membership or revolving fund certificates (2) borrowing (3) income from operations, and (4) per-unit retains,¹¹ or investments by patrons, for each bale of cotton ginned.

Practically all the original capital raised at the time a cooperative gin is organized is obtained by selling stock or other certificates to members. The members as a group should subscribe for capital at the time of organization equal to at least 40 percent of the cost of the gin plant. As much as possible of this amount should be paid in cash, and bankable notes executed for the balance.

The investment of each member should be in proportion to the volume of business which he expects to furnish. For example, if \$10,000 is the amount of initial capital to be raised by members in making a 40-percent payment on a \$25,000 gin plant, and the association expects to gin 2,500 bales per year, each member should subscribe \$4 capital for each bale which he expects to gin. This proportionate investment may be maintained year after year by the use of a revolving plan of financing.

Borrowing is a means of raising temporary capital. Most cooperative gins usually borrow half or more of the original capital needed to purchase a gin plant. Loans or credit are obtained from banks for cooperatives, commercial banks, gin machinery companies, cottonseed oil mills, former owners of gins, or other sources, and are generally secured by a first mortgage on the gin plant. If the association is successful and continues to operate, practically all of this borrowed capital will be replaced by additional investments by members and other patrons.

The district banks for cooperatives are authorized to make loans, up to 60 percent of the value of the security offered, to assist farmers'

¹⁰ In some instances, associations have deemed it advisable where consistent with law to provide that, in the event a member withdraws or is expelled from the association, he is not entitled to anything on account of his membership certificate or property rights and interests in the association.

¹¹ Sanders, S. D. ORGANIZING A FARMERS' COOPERATIVE. F. C. A. Circ. No. C-165. 42 pp. 1938. pp. 7-10.

cooperative associations in purchasing physical facilities such as gin plants.¹² These loans are usually amortized over a period of 5 to 10 years, and payments made monthly during the ginning season on a per-bale rate. These per-bale rates are usually between \$1 and \$2.

Another source of capital furnished indirectly by the patrons is income from operations. The use of income to pay off indebtedness, or to otherwise build capital, means that the patrons make an additional investment in the association. Even though each patron's share in this increased equity is not recognized, and goes to increase undivided surplus or reserves, it is a part of the association's capital. Capital accumulated in this manner should be evidenced each year by issuing shares of stock, other certificates, or book credits in lieu of cash patronage dividends. Unless this is done, the patrons who forego cash patronage dividends during these years will not receive proper credit for their investment in the association.

The fourth source of capital—per-unit retains—is comparatively new to cooperative gins, although it has been used for a long time by some of the marketing associations. A number of cooperative gins in California, organized between 1935 and 1939, have demonstrated that per-unit retains as a source of capital are equally as satisfactory for gins as for other cooperatives.

This plan for raising capital, as applied to cooperative gins, provides for a small investment in the capital of the association each time a patron gins a bale of cotton. For example, patrons pay the association 5 cents per 100 pounds of seed cotton, or \$1 per bale in addition to ginning charges. This per-unit payment, however, is not an expense or a cost to the patron but is an investment in the capital of the association. Funds from these investments by patrons are used to repay an equal amount of borrowed capital. At the end of the fiscal year each patron is issued preferred stock or some other certificates showing the total amount of these per-unit payments for capital.

REVOLVING CAPITAL

After an adequate amount of capital has been accumulated, and the fixed indebtedness paid off, funds derived from per-unit retains or retained earnings may be used each year to retire an equal amount of the oldest outstanding preferred stock or revolving fund certificates. The larger the total amount retained each year, the shorter the period required to revolve the capital. For example an association with \$20,000 capital could revolve it in 5 years after all indebtedness is paid by retaining a total of \$4,000 annually, or in 10 years by retaining \$2,000 annually.

¹² Sec. 7, Agricultural Marketing Act as amended (U. S. C. title 12, sec. 1141E.)



A small three-stand cooperative gin in Mississippi.

If some new capital is obtained from patrons each year and an equal amount of the first issued capital retired, the capital of the association would be revolved among the patrons and the amount furnished by each patron would tend to be in proportion to the business which he does with the association. New members would furnish their part of the capital as they patronized the association. Should a member withdraw, or for any other reason cease to patronize the association, it would not be necessary to buy his preferred stock or revolving fund certificates. It would be retired year by year in the same order and manner as if he continued to patronize the association.

DETERMINING NET INCOME

The accurate determination of net income becomes increasingly important if a revolving plan of financing is used. If the net income is overstated each year and additional shares of stock or other certificates distributed on that basis, the association is in effect "watering" its stock. That is, the face value of outstanding capital eventually will exceed the net assets of the association. Likewise, the payment of cash patronage dividends in excess of net income, regardless of whether or not a revolving capital plan is used, will result in an impairment of capital.

Net income from operations is sometimes confused with the amount of cash on hand at the end of the year. A cash balance on hand does not always indicate that a net income has been made; neither does the absence of a cash balance always mean that a loss has been sustained. A net income from operations results only when the association has charged its patrons more for its services than the total cost incurred in performing these services.

Interest and taxes, for example, that are accrued at the end of a fiscal year, even though not due, are as much a part of that year's expenses as if already paid. Likewise, the cost of the repairs necessary to restore the gin machinery and the equipment to a reasonable operating condition are chargeable to the current year's operations. On the other hand, the unused portion of insurance and bond premiums paid before the close of the fiscal year is chargeable to the following year's operations.

Depreciation on buildings and machinery, though not represented by a cash outlay, is an operating expense each year. It has been defined as "an allowance to meet losses (expenses) already incurred in fact, but indefinite in amount." A gin plant will wear out in time, or at least become too obsolete for economical use. The entire cost of replacing the plant is not an expense at the time the replacement is made. A part of this expense belongs to the operations of each year during the life of the plant. Depreciation is a means of charging a part of the original cost of the facilities to the expenses of each year's operations. By charging depreciation each year the cost of the facilities is recovered from operations by the time the replacements are necessary. Assets are thereby kept in the business that might otherwise be declared as dividends if no depreciation expense were charged and the income correspondingly overstated. When the replacements are made, the cost is a capitalizable expenditure to be in turn depreciated over the years it will be used.

The income from each department should be determined separately. This is desirable not only for intelligent management of the business but also to provide for an equitable distribution of patronage returns at the end of each fiscal year. Consideration should be given to the

Although most of the seed cotton is brought to the gin in trucks or trailers, the team and wagon still persist.



items of expense that are to be charged against each department. All direct expenses, of course, would be charged against the department for which incurred. Since ginning and wrapping are the primary activities, it is generally considered preferable to charge all overhead expenses such as management, office expense, advertising, and interest on indebtedness to this department. However, a portion of some of these expenses may be prorated arbitrarily among the various departments.

ALLOCATING NET INCOME

After the net income has been determined, the board of directors should decide on the different purposes for which it is to be used. The articles of incorporation and bylaws, as well as the State cooperative statute, usually contain some general provisions with respect to the disposition of net income. Definite disposition should be made of all net income each year. Generally, the three purposes for which income is utilized are (1) a small portion to a general reserve or surplus; (2) a dividend not to exceed 8 percent on outstanding capital; and (3) a dividend on the basis of patronage.

The allocation of net income to any of the above uses should be distinguished from a transfer of cash funds. For example, the allocation of a portion of net income to a general reserve does not mean that an amount of cash is set aside. It merely withholds that amount of the income from being declared as dividends. Likewise, the directors may declare a dividend on outstanding capital or a patronage dividend, and specify that payment be made to the patrons by issuing stock or other certificates to them.

A general reserve is a part of net worth. The individual interests of members or patrons in it is subject to determination from annual patronage records, or actually may be determined and set up on the books as reserve credits. In either case the total reserve, as well as the individual interests, may be absorbed or wiped out by any losses sustained by the association, as title to the reserve is in the association and it is subject to the rights of creditors.

The cooperative statutes of some States contain provisions regarding the percentage of each year's income which may or must be set aside as a general reserve until the total amount of such reserve equals a stated percentage of the outstanding capital. Even though not required by statute, not less than 5 percent of each year's income should be allocated to a general reserve. This policy should be continued at least until a reserve has been accumulated that would enable the association to withstand any probable losses without impairing the capital evidenced by shares of stock or other certificates.

In the event that no losses are sustained, and the total amount of the general reserve is built up until it is sufficiently large to protect the

outstanding capital, the association may either discontinue the annual additions to this reserve, or may begin to revolve the interest of members in it. The interest of members in the general reserve may be revolved in much the same way as the preferred stock or the revolving fund certificates. The association would pay off each year the interest of patrons in any unexhausted portion of the oldest of these annual reserves, and continue to set up additions to the general reserve out of the current year's income.

Paying a limited dividend on outstanding capital tends to produce equality among the members since some may have invested more than others.¹² If the amount of capital invested by each member were exactly in proportion to his patronage, dividends on stock would not be necessary; but this is seldom true, even when associations revolve their capital.

After provision has been made for the general reserve and for a reasonable rate of return on invested capital, all of the remaining net income should be allocated as patronage dividends. In order to apportion patronage dividends separately by departments, it will be necessary first to deduct from the net income of each department a proportionate or arbitrary amount of the income set aside as a general reserve, and also that for dividends on invested capital. The procedure may be illustrated by the following example:

ALLOCATION OF NET INCOME

[Realized from ginning 2,000 bales of cotton, and related activities]

Item	Ginning and wrapping	Cotton- seed	Bale cotton	Total
Net income above all expenses.....	\$3, 300	\$2, 500	\$200	\$6, 000
Less:				
10 percent to reserve.....	330	250	20	600
4 percent dividend on \$10,000 capital.....	220	167	13	400
For patronage returns.....	2, 750	2, 083	167	5, 000
	Hundred pounds of seed cotton	Tons	Bales	
Quantities handled.....	34, 400	850	334	-----
Patronage return per unit.....	\$0. 08	\$2. 45	\$0. 50	-----

¹² Hulbert, L. S. LEGAL PHASES OF COOPERATIVE ASSOCIATIONS. U. S. Dept. Agr. Bull. No. 1105. 1920.

The income for patronage returns would be apportioned to the patrons according to the amount of business contributed by each patron to each department.¹⁴ The income from ginning and wrapping may be apportioned in several ways. Pounds of seed cotton ginned, or total dollars paid for ginning and wrapping are considered more equitable than 500-pound equivalent bales or running bales. Generally the allocation should be made on the same unit basis as ginning charges. The income from cottonseed should be apportioned on a quantity basis. The income from selling cotton is usually prorated on a per-bale basis but the number of pounds of lint, or 500-pound-equivalent bales, would perhaps be more equitable.

The total amount to be allocated to any one patron in the above illustration would be the sum of his part of the income from each of the three departments. For example, a patron who ginned 15,000 pounds of seed cotton (10 bales), and sold the association 4 tons of cottonseed and 5 bales of cotton would get the following patronage allocation:

Ginning 15,000 pounds at 8 cents per hundred pounds.....	\$12. 00
4 tons cottonseed sold at \$2.45 per ton	9. 80
5 bales of cotton sold at 50 cents per bale.....	2. 50
Total patronage allocation.....	24. 30

In the event that a loss is sustained in one department, it would either be deducted from the income of one or more of the profitable departments before making the patronage distributions, or apportioned to those who patronized the unprofitable department and deducted from their part of the returns from profitable departments.

DISTRIBUTING PATRONAGE ALLOCATIONS

The amount of patronage allocations distributed in cash would depend largely on the financial condition of the association. The first of the patronage allocations to a nonmember should be applied to payment for one share of common stock or a membership certificate. A percentage of the amount remaining to the credit of each patron may be retained for capital purposes. These retained patronage allocations and any per unit capital retains made at the time each bale of cotton is ginned should be distributed in preferred stock or other certificates. The balance of the patronage allocation of each patron would then be paid to him in cash.

To illustrate the method of distribution suggested in article X, section 2, of the bylaws (appendix A) the following example is given. Assume that the \$5,000 available for patronage returns of the association, illustrated on page 20, has been allocated to the patrons by

¹⁴ Paulson, W. E., and Baggett, R. T. BASIS OF COMPUTING PATRONAGE DIVIDEND OF COOPERATIVE COTTON GINS. *Journal of Farm Economics*. 19: 4 (878-885).

departments and is to be distributed as follows: (1) By issuing a share of common stock or a membership certificate to each of four non-member patrons, (2) by retaining 60 percent of the balance for capital purposes, and (3) by paying the remaining balance in cash. The total amount distributed in each way would be:

(1) Common stock or membership certificates	\$40
(2) Preferred stock or revolving certificates	2, 976
(3) Cash	1, 984
Total	5, 000

The amount of preferred stock or revolving certificates to be distributed to any one patron would be 60 percent of his patronage allocation after the deduction, if any, is made for the one share of common stock or a membership certificate.

On this basis, if the individual patron whose patronage allocation was \$24.30, in the illustration on page 21 was already a paid-up member, he would receive \$14.58 in credits on preferred stock or revolving certificates, and \$9.72 in cash. On the other hand, if this patron was one of the four nonmembers, he would receive one \$10 share of common stock or a membership certificate, \$8.58 in credits on preferred stock or revolving certificates, and \$5.72 in cash. If the non-member was ineligible for membership, he would be treated in the same manner as a fully paid member and would receive \$14.58 in credits on preferred stock and \$9.72 in cash.

In making cash distributions it is good business on the part of the association to offset past-due accounts, notes, stock subscriptions, and other current obligations of the patron. This practice should not be followed, however, for that part of the patronage distribution to be made in credits on preferred stock. Such a procedure is, in effect, the same as paying that patron his dividends in cash, as the obligation of the patron is canceled, and in addition he does not make a capital investment in proportion to that made by other patrons. From the standpoint of increasing the membership of the association, however, the practice of applying all the patronage allocation to the payment of one share of common stock or a membership certificate is justifiable.

LEGAL BASIS

EACH cotton-producing State has one or more cooperative statutes which afford farmers a legal basis for organizing cooperative associations. In those States that have more than one cooperative law, the alternate provisions of each law should be compared in order to select the one most desirable for the incorporation and operation of a cooperative cotton gin. Copies of these laws may be obtained by consulting an attorney or by writing to the proper State official, usually the Secretary of State.



Several cooperative cotton gin associations operate two gin plants.

Although there are wide variations in the provisions of the cooperative laws of the different States, they generally will specify the following: (1) Minimum number of members required to incorporate; (2) subjects that must be covered in the articles of incorporation; (3) the particular State official or department with which the articles of incorporation must be filed; (4) fees required; (5) general powers, rights, and obligations; (6) voting rights of members; (7) terms and conditions of membership; (8) nonmember relationships, (9) general provisions with respect to distribution of income; and (10) capital structure, stock or nonstock, and if stock, the classes (common and preferred); eligibility for ownership; provisions for transfer; voting rights; dividend rates; and rights on liquidation.

In addition to the requirements of State laws pertaining to cooperation, certain Federal statutes should also be considered. A cooperative association that meets the definition given in Section 15 of the Agricultural Marketing Act, as amended (49 Stat. 317), is eligible to borrow from a bank for cooperatives.

If a farmers' cooperative association complies with the necessary conditions, it may obtain exemption from the payment of Federal income taxes (26 U. S. C. 103) (also p. 66 of this circular). An association which is exempt from the payment of income taxes is also entitled to exemption from the payment of capital-stock taxes (26 U. S. C. 1358) excess profit taxes (26 U. S. C. 341), and stamp taxes on shares of stock (26 U. S. C. 907). This exemption is not automatically conferred on a cooperative association, but an association must apply therefor to the collector of internal revenue for the district in which it is located. A special form (Internal Revenue 1028)

will be provided for this purpose by the collector on request. Each association, however, is required to operate before making this application, since it is necessary for it to establish not only that it is properly organized as a cooperative, but also that it is being operated as such.

ORGANIZATION PROCEDURE

ONE of the best ways of ascertaining if a cooperative gin should be established is to hold a meeting or meetings of farmers, called by those who are sponsoring it to consider and discuss this matter. At such a meeting the chairman should encourage a frank discussion of the project by all present. Among the points to be discussed are: (1) The number of farmers who are or should be interested, and the prospective number of bales of cotton which probably would be delivered for ginning; (2) the amount of capital required, and the amount of subscriptions which probably could be obtained; (3) the size, equipment, cost, and make of gin machinery required; and (4) the principles and practices that should be followed by a cooperative gin and the benefits that might be derived.

If the information obtained at such a meeting or meetings is unfavorable to the establishment of a cooperative gin, the project should be abandoned. On the other hand, if the information is favorable, it would be in order to name a committee or possibly several committees to look after the details of organizing the association. If more than one were deemed desirable, the following committees might be appointed: (1) Committee on organization; (2) subscription and survey committee; (3) gin-plant committee; and (4) special committees on other problems.

Seed cotton waiting to be ginned at one of the older cooperative gins in Texas.



DUTIES OF THE COMMITTEES

All these committees should work closely together in carrying out their assignments, and to that end it may be desirable to have one or more of the committeemen serve on all the committees. The committee on organization should have general charge of organizing the association and should be responsible for having the organization papers prepared. These would include: (1) Organization agreement; (2) ginning agreement; (3) articles of incorporation; (4) waivers of notice and consent to holding meetings; and (5) bylaws.

The services of an attorney should be engaged for drafting these papers. Inasmuch as one object of the organization agreement is to ascertain definitely if a cooperative gin association should be organized, it should be drafted first. If farmers controlling a sufficient amount of cotton to justify the incorporation of a cooperative gin sign the organization agreement, the other papers required for its organization should then be prepared. In appendix A of this publication will be found suggested forms for each type of organization paper.¹⁵ These forms are submitted only as guides and must be altered, modified, and checked to meet local factors and conditions, and the legal requirements of the State in which the cooperative association is to be incorporated. It is assumed, of course, that in the preparation of the various organization papers and in other matters the views of a majority of the prospective members will be reflected, insofar as they are consistent with law.

A sufficient number of copies of the organization agreement should be made available to the members of the subscription and survey committee as soon as possible in order that they may begin their work of making surveys and taking subscriptions. The forms of organization agreements given in appendix A (pp. 30-33) provide for subscriptions for a stated amount of common and preferred stock, or memberships and revolving fund certificates, and for a statement of the amount of cash and notes which the subscriber is to give in payment thereof, and for information showing the average cotton acreage and production of each subscriber. It may be deemed advisable to ask for other information such as the distance that each subscriber will be from the gin, and whether the subscriber is the owner of the farm which he occupies.

The gin plant committee will make inquiries regarding the possibilities of acquiring an existing gin plant; will correspond with manufacturers of gin machinery for the purpose of getting offers, and will

¹⁵ Forms have been provided for both stock and nonstock associations. The organization committee should determine the type of corporation which is best suited to the business needs of the association to be organized.

also investigate the desirability of various locations for a gin. It will be remembered that the committee should not attempt to make any binding agreements because it is not certain whether the association will actually be incorporated and, moreover, any agreements of the committee ordinarily would not be binding until they are ratified or adopted by the association.

Members of the subscription and survey committee should begin their work as soon as copies of the organization agreement are available. If the area to be covered is large, or the prospective members scattered, it may be advisable to assign two-men teams to specified localities, such as school districts or other geographic areas. The members of this committee should be well informed regarding information already obtained and the tentative plans for the association. It is all-important that they have a thorough understanding of the provisions and procedure under which a cooperative gin should operate. The solicitation of prospective members should be done on a frank, straightforward business basis and care should be exercised to avoid making representations or promises that are doubtful of fulfillment.

If the organization committee is able to obtain signatures to the organization agreement within the stated time limit, subscribing for the minimum amount of capital and pledging the minimum bales of cotton for ginning, all as set forth in the organization agreement, the organization committee should take prompt steps to have the association incorporated. In this connection, it will be remembered that articles of incorporation must conform strictly to the statute under which the association is to be incorporated. Again, every provision called for by this statute must be covered in the articles of incorporation.

In most States, the persons who are to act as incorporators of an association must be producers of agricultural products and nearly all the cooperative acts provide that the names and addresses of the first board of directors shall be included in the articles of incorporation. Usually the incorporators, or a part of them, are also named in the articles of incorporation as members of the first board of directors. Under some statutes the articles of incorporation are also required to state the persons who will constitute the first officers.

Following the filing of record of the articles of incorporation, it is in order in most of the States for those persons named therein as incorporators to hold a meeting (for form of waiver of notice, see appendix A, p. 62) as the charter members of the association for the purpose of adopting bylaws.¹⁶

¹⁶ *Bristol Bank & Trust Co. v. Jonesboro Banking & Trust Co. et al.*, 101 Tenn. 545, 48 S. W. 228; *Low v. Connecticut & P. R. R. Co.*, 45 N. H. 370; *Vermont Central Railroad Co. v. Claves*, 21 Vt. 20.

Nearly all the statutes under which cooperative associations are incorporated provide that a majority vote of the members or their written assent is necessary for the adoption of bylaws. The persons named in the articles of incorporation as incorporators are generally regarded as members of the association on the filing of the articles of incorporation; while further action is usually required to make members of other persons who have subscribed for capital, or who have agreed to become members. For convenience in the organization of cooperative associations the charter members usually adopt the original bylaws. In the form of bylaws (appendix A, pp. 41-58), provision is made to have each incorporator sign the bylaws for the purpose of assenting thereto. This should be done at the meeting for the adoption of the bylaws. A form of minutes for this meeting will be found on p. 63. Under some statutes, bylaws are adopted by the incorporators as incorporators, and if an association is incorporated under such a statute the forms shown on pages 62 and 63 should be changed accordingly. Likewise, if the first board of directors is not named in the articles of incorporation and the incorporators are authorized to elect them, the forms should reflect this fact.

After the bylaws of the association have been adopted, the board of directors named in the articles of incorporation should hold a meeting. This meeting is usually held in pursuance of a waiver of notice of meeting (appendix A, p. 62). Among the things which should be acted upon by the board of directors at this meeting (suggested minutes of which appear on p. 64) are the following:

- (1) Election of officers specified in the bylaws.
- (2) Instructions to the president and secretary to obtain and issue stock certificates in case of stock associations, or membership and revolving certificates in case of nonstock associations.
- (3) Authorization of the president and secretary to have copies of the articles of incorporation and bylaws printed and distributed to members.
- (4) Adoption of the form of ginning agreement.
- (5) Acceptance of all subscription agreements for capital stock of the association, in case it is organized with capital stock, and applications for membership and subscriptions to revolving fund certificates, in case of nonstock associations; authorization of the president and secretary to enter into ginning agreements with subscribers to common stock or applicants for membership; and authorization of the officers to obtain additional subscriptions for capital stock (applications for membership and subscription to revolving fund certificates in case of nonstock associations) and signatures to ginning agreements.
- (6) Selection of a depository bank.

(7) Designation of officers or employees who are to be authorized to sign checks.

(8) Arrangements for the bonding of officers and employees in accordance with the bylaws.

(9) Instructions to the secretary to obtain a corporate seal as provided in the bylaws.

(10) Transaction of any other business relating to such matters as insurance and the employment of a manager and other employees.

APPENDIX A

SUGGESTED ORGANIZATION FORMS ¹⁷

FORMS designed for use in organizing a cooperative gin association with common and preferred stock, and alternate forms for organizing a nonstock association are included in this section of the publication. The ownership of common stock is restricted to one share for each producer. Consequently, the principle of one vote for each member is preserved, even in those States where each share of common capital stock carries a vote. The preferred stock carries no vote, and any number of shares may be held by anyone.

On pages 30-31 is a suggested form of organization agreement to be used by stock corporations, and on pages 31-33 a form to be used by nonstock corporations. An organization agreement is not indispensable to the formation of a cooperative gin association and in practice such associations are generally organized without the use of it. If such an agreement is not used other means must be employed to ascertain if the facts justify the formation of an association. Again, when deemed advisable, a form of organization agreement less comprehensive than the ones included herein may be used.

The form of ginning agreement which the organization agreement required to be attached thereto should convey to prospective members of the association who sign the organization agreement an understanding of substantially the form of agreement that they will be required to execute when the organization of the association is completed. The same form may be used for nonstock as well as stock associations. It follows that the ginning agreement which the board of directors finally adopts should not differ materially from the form attached to the organization agreement. On pages 33-34 is a form of ginning agreement which should be helpful in preparing such an agreement.

All of the forms suggested are intended primarily to illustrate the character of provisions deemed appropriate for cooperative associations operating gins, due consideration being given to the fact that such associations are local institutions which operate with relatively small memberships and over a comparatively small area for only a few months in each year; and these forms in any given State must be adapted to the statutory requirements thereof by a competent attorney.

In forming a cooperative gin, it is necessary to see that State laws applicable to the sale of stock, popularly known as "blue sky" laws are complied with, and to see that the association has the minimum paid-in capital required by law, and that stock subscribers pay at least the minimum required by law on their stock subscriptions.

Particular attention is directed to the provisions of articles X and XI of the suggested bylaws for stock corporations, which provide for the revolving capital plan of financing, and which involve the issuance of preferred stock to evidence retentions for capital purposes, and the retirement thereof as funds are available for that purpose, and the corresponding provisions appearing in the suggested bylaws for nonstock associations. In lieu of issuing preferred stock to evidence retentions, a revolving fund certificate may be used. Revolving fund certificates have certain advantages in that they may be issued to evidence any specific sum of money, and in this respect, differ from preferred stock certificates, which have a prescribed par value. Likewise, it may be found simpler to retire revolving fund certificates on a pro-rata basis by making partial payments which are endorsed on the back of the certificate than it is to retire preferred stock certificates on a

¹⁷ The essential provisions of these forms have been tested by U. H. Prickett in giving organization assistance to cooperative cotton gin associations in the Tenth Farm Credit District.

pro rata basis by partial payments. Also, in States where preferred stock carries a right to vote, it is necessary to use revolving fund certificates in order to prohibit nonmembers from voting. It is not necessary to issue either stock certificates or revolving fund certificates to evidence retentions for capital purposes as an association may rely on proper book entries, but generally speaking, the declaration of a patronage dividend which is evidenced by some form of a certificate is preferable.

ORGANIZATION AGREEMENT ¹⁰

for Cooperative Gin at

We, the undersigned, all of whom are residents of the State of, engaged in the production of cotton, together with signers of agreements identical herewith, to promote, foster, and encourage the ginning of cotton cooperatively, propose to organize a cooperative gin association at, with capital stock under the laws of the State of, and to acquire suitable facilities therefor by purchasing

(Here describe property to be acquired)

at a cost of not exceeding \$.....

The undersigned, each for himself and collectively for the express benefit of and for the association to be organized and in consideration of the premises and of the subscriptions of others to agreements identical herewith, hereby covenant and agree with each other as follows:

(1) The association shall be organized with suitable articles of incorporation and bylaws, under the guidance of an organization committee, consisting of the following persons:

Name	Address
.....	
.....	
.....	
.....	

If any member or members of this committee shall resign or be unable to act, the remainder of the committee may elect a successor to fill any such vacancy or the committee may increase its membership if deemed necessary.

(2) The organization committee shall keep a full, true and detailed account of all receipts and of all expenditures of every kind and shall have such accounts audited and render a written report thereof to the board of directors of the association, when organized, and shall thereupon turn over to the association any balance remaining in its hands free of obligation. If it is not so organized, such unexpended balance shall be prorated among those who contributed thereto.

(3) The amount of the capital stock shall be \$....., divided into shares of common stock, each of the par value of \$....., and shares of preferred stock, each of the par value of \$.....

(4) The undersigned agree to purchase and do hereby subscribe for the amount and kind of capital stock set opposite our respective names, and agree to pay for same as follows:

(Here insert the plan of stock payment to be used)

(5) If, on or before, 19....., bona fide subscriptions from acceptable parties to the common and preferred stock of the

¹⁰ For stock associations.

association shall equal the sum of \$..... and producers of cotton whose average annual production aggregates at least bales of cotton, have agreed to execute ginning agreements covering their cotton crops, the organization committee shall forthwith proceed to file the articles of incorporation and to have the organization of the association completed; subject, however, to the foregoing conditions only; the undersigned agree that their signatures hereto are irrevocable and they so agree in order to induce others to sign this or similar agreements for their mutual benefit.

(6) Acceptance of this agreement by the association shall be deemed conclusive upon the mailing of notice to that effect to the undersigned, at our respective addresses listed hereon, and such notice shall be conclusively established by the affidavit of the secretary of the association. Upon receipt of such notice, the undersigned shall promptly tender to the association the respective amounts subscribed for common and preferred stock or the initial payments required thereon.

(7) The undersigned represent that the average annual acres of cotton harvested and the average annual bales produced for the past years are set forth opposite our respective names.

(8) The undersigned agree that we will become members of the association when formed by executing ginning agreements, the terms of which shall be similar to the terms contained in the form attached hereto and made a part hereof.

In witness whereof, we have hereunto set our hands as of this day of, 19.....

Signature	Address	Stock subscription		Cotton crop (5-year average)	
		Shares, common	Shares, preferred	Acres grown	Bales made
.....					
.....					
.....					
.....					
.....					
.....					

ORGANIZATION AGREEMENT ¹⁰

for Cooperative Gin at

We, the undersigned, all of whom are residents of the State of, engaged in the production of cotton, together with signers of agreements identical herewith, to promote, foster, and encourage the ginning of cotton cooperatively, propose to organize a cooperative gin association at, without capital stock under the laws of the State of, and to acquire suitable facilities therefor by purchasing

(Here describe property to be acquired)

at a cost of not exceeding \$.....

¹⁰ For nonstock associations.

The undersigned, each for himself and collectively for the express benefit of and for the association to be organized and in consideration of the premises and of the subscriptions of others to agreements identical herewith, hereby covenant and agree with each other as follows:

(1) The association shall be organized with suitable articles of incorporation and bylaws, under the guidance of an organization committee, consisting of the following persons:

Name	Address
.....	
.....	
.....	
.....	

If any member or members of this committee shall resign or be unable to act, the remainder of the committee may elect a successor to fill any such vacancy or the committee may increase its membership if deemed necessary.

(2) The organization committee shall keep a full, true and detailed account of all receipts and of all expenditures of every kind and shall have such accounts audited and render a written report thereof to the board of directors of the association, when organized, and shall thereupon turn over to the association any balance remaining in its hands free of obligation. If it is not so organized, such unexpended balance shall be prorated among those who contributed thereto.

(3) The undersigned hereby apply for membership in the association and subscribe for revolving fund certificates in the amount set opposite our respective names, and agree to pay for same as follows:

(Here insert the plan of payment to be used)

(4) If, on or before, 19...., bona fide applications for membership in the association, and subscriptions for revolving fund certificates from acceptable parties shall equal the sum of \$....., and producers of cotton whose average annual production aggregates at least bales of cotton have agreed to execute ginning agreements covering their cotton crops, the organization committee shall forthwith proceed to file the articles of incorporation and to have the organization of the association completed; subject, however, to the foregoing conditions only; the undersigned agree that their signatures hereto are irrevocable and they so agree in order to induce others to sign this or similar agreements for their mutual benefit.

(5) Acceptance of this agreement by the association shall be deemed conclusive upon the mailing of notice to that effect to the undersigned, at their respective addresses listed hereon, and such notice shall be conclusively established by the affidavit of the secretary of the association. Upon receipt of such notice, the undersigned shall promptly tender to the association the respective amounts subscribed for membership and revolving fund certificates or the initial payments required thereon.

(6) The undersigned represent that the average annual acres of cotton harvested and the average annual bales produced for the past years are set forth opposite their respective names.

(7) The undersigned agree that they will become members of the association when formed by executing ginning agreements, the terms of which shall be similar to the terms contained in the form attached hereto and made a part hereof.

In witness whereof, we have hereunto set our hands as of this day of, 19....

Signature	Address	Capital subscription		Cotton crop (6-year average)	
		Membership certificate	Revolving fund certificate	Acres grown	Bales made

GINNING AGREEMENT

This agreement, between the Association, hereinafter called the "Association," and the undersigned, hereinafter called the "Grower,"

WITNESSETH:

(1) The Grower agrees to deliver to the Association for ginning all cotton produced by or for him, and to sell to the Association or otherwise deliver to it for marketing or for processing, either through its own facilities or by a cooperative oil mill all the seed from said cotton, except cottonseed retained for planting or home use, or which, on request of the Grower, shall be excepted herefrom by order of the board of directors of the Association.

(2) The Grower hereby expressly authorizes and directs the board of directors of the Association to fix the charges for ginning, wrapping, drying, or otherwise processing or handling cotton and cottonseed, the price to be paid for cottonseed, and the amount to be paid per bale to the Association by Grower for capital purposes which shall be evidenced as provided in the bylaws, and shall not exceed \$..... per bale of cotton ginned; and the Association shall make such advances on cottonseed, other than that purchased by the Association, as may be found practicable.

(3) The Association may borrow money for its own account and pledge all of such cottonseed as security therefor without limitation and the Association is authorized to sell such cottonseed when and as it deems best.

(4) The Association may enter into agreements with other growers differing in terms from those contained herein, but consistent with the bylaws of the Association, without invalidating this agreement provided that the Grower, at his request, may execute a similar agreement as a substitute for this contract.

(5) Inasmuch as the remedy at law would be inadequate and inasmuch as it would be impracticable and extremely difficult to determine the actual damage resulting to the Association should the Grower fail to deliver his cotton hereunder, regardless of the cause of such failure, the Grower hereby agrees to pay to the Association for all cotton delivered elsewhere for ginning by or for him, other than in accordance with the terms hereof, the sum of cents per on all cotton so delivered, as liquidated damages for the breach of this contract; all parties agreeing that this contract is one of a series dependent for its true value

----- Association,
By -----,
President.
By -----,
Secretary.

²¹ See footnote 20.

ARTICLES OF INCORPORATION ²²

of

Association ²³

We, the undersigned, all of whom are residents and citizens of the State of _____, engaged in the production of agricultural products, do hereby voluntarily associate ourselves together for the purpose of organizing, incorporating, and operating a cooperative association with capital stock under the provisions of _____

of the State of _____, and amendments thereto, with all the rights, powers, privileges, benefits, and immunities given or permitted corporations so formed; and for that purpose hereby adopt these articles of incorporation:

ARTICLE I

The name ²⁴ of the association shall be _____

ARTICLE II

The association is formed for the purpose of engaging in the following activities:

(a) Ginning, wrapping, and otherwise processing cotton, and/or processing cottonseed and other farm products.

(b) Buying, selling, storing, shipping, hauling, and otherwise handling cotton, cottonseed and cottonseed products, and/or other farm products and the by-products thereof.

(c) Buying, selling, dealing in, and handling (1) bagging, ties, and all other supplies necessary and incidental to ginning cotton, (2) any articles, materials, and supplies used in processing and/or handling other farm products, or the byproducts thereof, and (3) any farm materials, supplies, and equipment.

ARTICLE III

The association shall have the following powers:

(a) To transact business with nonmembers, provided the business transacted with such nonmembers is not greater in value than that transacted with its members.²⁵

(b) To act as the agent or representative of any patron or patrons in any of the activities mentioned in article II hereof.

(c) To buy, acquire, hold, own, lease, give as security, sell and otherwise dispose of, and exercise all privileges of ownership over real and personal property of any character, and/or interest therein, as may be deemed necessary or desirable for the conduct of the business of the association, or incidental thereto.

(d) To borrow money for any purpose of the association without limitation, and to issue notes, bonds, debentures, or other obligations therefor which may be secured in any manner permitted by law.²⁶

²² For stock associations.

²³ Articles of incorporation must meet strictly the requirements of the law of the State in which an association is being incorporated and this form must be changed accordingly.

²⁴ Some States have restrictions regarding names, and particularly on the use of the word "cooperative."

²⁵ In some States this provision must be omitted or modified to meet the requirements of the statute.

²⁶ Under some statutes the maximum amount of corporate indebtedness that may be incurred must be stated in the articles of incorporation.

(e) To buy, hold, retire, and dispose of its own capital stock in accordance with the law.

(f) To establish reserves and invest the funds thereof, or any other funds of the association, in bonds or in such other property as may be specified in the bylaws.

(g) To guarantee, endorse, purchase or otherwise acquire, hold, sell, assign, transfer, mortgage, pledge, or otherwise dispose of shares of stock, bonds, or other evidences of indebtedness of any corporation or association engaged in any related activity, and to vote, cooperate, and share in the management or control of such organization, its activities and affairs.

(h) To participate by membership, stock ownership, contract or otherwise, in the management of cooperative agencies for the furthering of any of the purposes of this association.

(i) To do each and every thing necessary, suitable or proper for the accomplishment of any of the purposes or the attainment of any one or more of the objects herein enumerated; or conducive to or expedient for the interest or benefit of the association; and to contract accordingly; and in addition, to exercise and possess all powers, rights, and privileges, necessary or incidental to the purposes for which the association is organized, or to the activities in which it is engaged, and to have and exercise all the powers, privileges, and rights granted, authorized or allowed to associations organized under and amendments thereto, and all other powers, privileges, and rights authorized or allowed to corporations by other laws of the State of insofar as they are not in conflict with the express provisions of the law under which the association is organized.

ARTICLE IV

The association shall have its principal place of business in the City of , County of , State of

ARTICLE V

The term for which this association shall exist is years from and after the date of its incorporation.¹⁷

ARTICLE VI

The management of the business and affairs of the association shall be vested in a board of directors consisting of ¹⁸ members, each of whom shall be a holder in good standing of one fully paid share of common stock of the association. Directors shall be elected at each annual meeting of the stockholders of the association, for terms ending at the next annual meeting, and unless sooner removed by death, resignation, or for cause, they shall hold office until their successors have been elected and qualified. The names¹⁹ and addresses of those who are to serve as incorporating directors until the first annual meeting of the stockholders, or until their successors are elected and qualified are:

¹⁷ If the act under which the association is organized permits perpetual existence, this article may read: "This association shall have perpetual existence."

¹⁸ If the statute under which an association is to be incorporated will permit, it is preferable to state in the articles of incorporation only the minimum number of directors that the association will have, providing in the bylaws, which may be more easily amended, for the actual number.

¹⁹ Some statutes do not require that the names of the original directors be given in the articles of incorporation.

Name

Address

ARTICLE VII

SECTION 1. The amount of the authorized capital stock shall be _____ Dollars (\$ _____), divided into _____ shares of common stock, each of the par value of _____ Dollars and _____ shares of preferred stock, each of the par value of _____ Dollars.

SEC. 2. The common stock of the association shall only be issued or transferred to, or held by producers of agricultural products who agree to patronize the association, in accordance with uniform terms and conditions prescribed thereby in a ginning agreement, and no person, firm, or corporation shall own or hold at any one time more than one share of such common stock, or shall have more than one vote at meetings of the stockholders.²⁰ The common stock shall not bear dividends. The common stock shall only be transferred upon approval of the board of directors. No purported transfer of common stock shall pass any right or privilege on account of such stock, or any vote or voice in the control or management of the association unless the recipient thereof is eligible, as herein defined, to hold such stock, and such transfer is approved by the board of directors. The voting rights of any holder of common stock who ceases to be eligible to hold such stock, or who violates any of the terms and conditions of the uniform ginning agreement, bylaws, or rules and regulations of the association, or who fails to observe any obligation or duty to the association, may be suspended by action of the board of directors following a hearing held as provided in the bylaws. In any case in which the voting rights of any holder of common stock have been suspended by the board of directors, the association shall have the right, at its option (a) to purchase such stock at its book or par value, whichever is less, as determined by the board of directors of the association, (b) to require the transfer of any such stock at such book or par value to any person or association eligible to hold the same or (c) to require such holder of any such stock to convert the same into shares of preferred stock of equal par value.

In exercising its right to purchase or require the transfer or conversion into preferred stock of common stock, if such holder fails to deliver the certificate or certificates evidencing the same, the association may cancel such certificate or certificates on its books and issue a new certificate or certificates of common or preferred stock, as the case may be, to the party entitled thereto.

SEC. 3. The preferred stock of the association shall bear noncumulative dividends not exceeding _____ percent per annum, if earned and when declared by the board of directors; and such dividends shall have preference over any and all other dividends or distributions declared in any year. At the discretion of the board of directors, all dividends on preferred stock, or any part thereof, may be paid in additional certificates of preferred stock and/or credits on preferred stock. The preferred stock shall carry no voting rights²¹ and such stock, or any part thereof, may be redeemed or retired upon call of the board of directors from time to time provided said stock is called and retired in the same order as originally issued. All such preferred stock so retired shall be paid for

²⁰ It may be deemed desirable to authorize voting on a patronage basis in those States where this is permitted.

²¹ In some States, all stock carries a right to vote.

in cash at the par value thereof, plus any dividend declared thereon and unpaid; and such stock shall not bear dividends after the date fixed in the call for its retirement. Upon distribution of the assets of the association in the event of dissolution or liquidation, the holders of preferred stock shall be entitled to receive the par value of their preferred stock, plus any dividend declared thereon and unpaid, before any distribution is made on common stock.

SEC. 4. All transfers of stock shall be made on the books of the association only on surrender of the certificate covering the same by the holder thereof, or by attorney properly authorized. The association shall have a lien on all stock, and on any dividends declared thereon, for all indebtedness of the holder thereof to the association. In the event of dissolution or liquidation of the association, no holder of stock shall be entitled to receive any distribution of the assets on such stock in excess of the par value thereof, plus any dividend declared thereon and unpaid; and any assets remaining after the payment of all debts, and the retirement of all stock and credits on stock, at par value, shall be distributed on a patronage basis as provided in the bylaws.

In testimony whereof, we have hereunto set our hands this

day of, 19.....

(The statutory form of acknowledgment should be added and the required number of incorporators should acknowledge)

ARTICLES OF INCORPORATION ³²

of

Association ³³

We, the undersigned, all of whom are residents and citizens of the State of, engaged in the production of agricultural products, do hereby voluntarily associate ourselves together for the purpose of organizing, incorporating, and operating a cooperative association without capital stock under the provisions of

of the State of, and amendments thereto, with all the rights, powers, privileges, benefits, and immunities given or permitted corporations so formed; and for that purpose hereby adopt these Articles of Incorporation:

ARTICLE I

The name ³⁴ of the association shall be

ARTICLE II

The association is formed for the purpose of engaging in the following activities:

(a) Ginning, wrapping, and otherwise processing cotton, and/or processing cottonseed and other farm products.

³² For nonstock associations.

³³ Articles of incorporation must strictly meet the requirements of the law of the State in which an association is being incorporated and this form must be changed accordingly.

³⁴ Some States have restrictions regarding names, and particularly on the use of the word "cooperative."

(b) Buying, selling, storing, shipping, hauling, and otherwise handling cotton, cottonseed, and cottonseed products and/or other farm products and the by-products thereof.

(c) Buying, selling, dealing in, and handling (1) bagging, ties, and all other supplies necessary and incidental to ginning cotton, (2) any articles, materials, and supplies used in processing and/or handling other farm products, or the byproducts thereof, and (3) any farm materials, supplies, and equipment.

ARTICLE III

The association shall have the following powers:

(a) To transact business with nonmembers, provided the business transacted with such nonmembers is not greater in value than that transacted with its members.³⁵

(b) To act as the agent or representative of any patron or patrons in any of the activities mentioned in Article II hereof.

(c) To buy, acquire, hold, own, lease, give as security, sell, and otherwise dispose of, and exercise all privileges of ownership over real and personal property of any character, and/or interest therein, as may be deemed necessary or desirable for the conduct of the business of the association, or incidental thereto.

(d) To borrow money for any purpose of the association without limitation, and to issue notes, bonds, debentures, or other obligations therefor which may be secured in any manner permitted by law.³⁶

(e) To buy, hold, retire, and dispose of its own capital obligations in accordance with the law.

(f) To establish reserves and invest the funds thereof, or any other funds of the association, in bonds or in such other property as may be specified in the bylaws.

(g) To guarantee, endorse, purchase, or otherwise acquire, hold, sell, assign, transfer, mortgage, pledge, or otherwise dispose of shares of stock, bonds, or other evidences of indebtedness of any corporation or association engaged in any related activity, and to vote, cooperate, and share in the management or control of such organization, its activities, and affairs.

(h) To participate by membership, stock ownership, contract or otherwise, in the management of cooperative agencies for the furthering of any of the purposes of this association.

(i) To do each and every thing necessary, suitable, or proper for the accomplishment of any of the purposes or the attainment of any one or more of the objects herein enumerated; or conducive to or expedient for the interest or benefit of the association; and to contract accordingly; and in addition, to exercise and possess all powers, rights, and privileges, necessary or incidental to the purposes for which the association is organized, or to the activities in which it is engaged, and to have and exercise all the powers, privileges, and rights granted, authorized, or allowed to associations organized under and amendments thereto, and all other powers, privileges, and rights authorized or allowed to corporations by other laws of the State of, insofar as they are not in conflict with the express provisions of the law under which the association is organized.

³⁵ In some States this provision must be omitted or modified to meet the requirements of the statute.

³⁶ Under some statutes the maximum amount of corporate indebtedness that may be incurred must be stated in the articles of incorporation.

ARTICLE IV

The association shall have its principal place of business in the City of _____, County of _____, State of _____.

ARTICLE V

The term for which this association shall exist is _____³⁷ years from and after the date of its incorporation.

ARTICLE VI

The management of the business and affairs of the association shall be vested in a board of directors consisting of _____³⁸ members, each of whom shall be a member in good standing of the association. Directors shall be elected at each annual meeting of the members of the association for terms ending at the next annual meeting, and unless sooner removed by death, resignation, or for cause, they shall hold office until their successors have been elected and qualified. The names³⁹ and addresses of those who are to serve as incorporating directors until the first annual meeting of the members, or until their successors are elected and qualified are:

Name	Address
_____	_____
_____	_____

ARTICLE VII

The association shall not have any capital stock, but shall admit applicants to membership in the association upon such uniform conditions as may be prescribed by the board of directors of the association, and in its bylaws. The association shall be operated on a cooperative basis, for the mutual benefit of its members as producers, and only producers of cotton may be admitted to membership. The voting power of the members of the association shall be equal, and each member shall have one vote only.⁴⁰

The property rights and interests of each member in the association shall be unequal; and shall be determined and fixed in the proportion that the patronage of each member shall bear to the total patronage of all the members with the association. New members admitted to membership shall be entitled to share in the property of the association in accordance with the foregoing general rule.

In testimony whereof, we have hereunto set our hands this _____ day of _____, 19____.

(The statutory form of acknowledgment should be added and the required number of incorporators should acknowledge)

³⁷ If the act under which the association is organized permits perpetual existence, this article may read: "This association shall have perpetual existence."

³⁸ If the statute under which an association is to be incorporated will permit, it is preferable to state in the articles of incorporation only the minimum number of directors that the association will have, providing in the bylaws, which may be more easily amended, for the actual number.

³⁹ Some statutes do not require that the names of the original directors be given in the articles of incorporation.

⁴⁰ It may be deemed desirable to authorize voting on a patronage basis in those States where this is permitted.

BYLAWS ⁴¹

of the

ARTICLE I

POWERS AND PURPOSES

The powers and purposes of this association are those set forth in the articles of incorporation. The articles of incorporation shall control in the event of any conflict between its provisions and any part of these bylaws.

ARTICLE II

CAPITAL STOCK

The authorized capital stock of the association as set forth in the articles of incorporation shall have such voting rights, bear such dividends, and be issued, transferred, redeemed, or retired as provided in article VII of said articles of incorporation. Sections 2 and 4 of article VII of the articles of incorporation shall be printed verbatim on each certificate of common stock and sections 3 and 4 of article VII of the articles of incorporation shall be printed verbatim on each certificate of preferred stock.

ARTICLE III

MEMBERSHIP

SECTION 1. *Qualifications.*—Any person, firm, or corporation, including landlords who receive as rent a part of the crop raised on leased premises, engaged in the production of agricultural products may, subject to the approval of the board of directors, become a member of this association by acquiring one share of the common stock thereof, and by entering into a ginning agreement with the association in the form prescribed by the board of directors.

SEC. 2. *Suspension of voting rights.*—The voting rights of any holder of common stock who ceases to be eligible to hold such stock or who violates any of the terms and conditions of the uniform ginning agreement, bylaws, or rules and regulations of the association, or who fails to observe any obligation or duty of a holder of such stock, may be suspended by a majority vote of the board of directors; provided, however, that before the voting rights are suspended for any cause, the board of directors shall hold a meeting for the purpose of hearing and receiving evidence of the charges preferred against him; and at such meeting, he shall have the right to present witnesses and be heard in person or by counsel in answer thereto; and the person bringing the charges against him shall have the same opportunity. Notice of such meeting, containing a statement of the charges preferred against a holder of common stock, shall be mailed to such holder at least ten days previous to the date of the meeting. A holder of common stock whose voting rights have been suspended by the board of directors shall thereafter be deemed a member not in good standing, and as such, ineligible to serve the association as a director or officer thereof.

⁴¹ For stock associations.

In any case in which the voting rights of any holder of common stock have been suspended by the board of directors, the association shall have the right, at its option (a) to purchase such stock at its book or par value, whichever is less, as determined by the board of directors of the association, (b) to require the transfer of any such stock at such book or par value to any person or association eligible to hold the same, or (c) to require such holder of any such stock to convert the same into shares of preferred stock of equal par value.

In exercising its right to purchase or require the transfer or conversion of common stock into preferred stock, if such holder fails to deliver the certificate or certificates evidencing the same, the association may cancel such certificate or certificates on its books and issue a new certificate or certificates of common or preferred stock, as the case may be, to the party entitled thereto. The suspension of voting rights of any holder of common stock in the association or the disposition of the common stock held by any stockholder in the manner provided above shall not impair the obligations or liabilities of the association or of such stockholder under any contract which may be terminated only as provided therein, or the right of such stockholder to receive payment of any revolving fund certificates which he may hold in the same order and manner as other members of the association.

ARTICLE IV

NONMEMBER PATRONS

The association may transact business with nonmembers, provided the business transacted with such nonmembers is not greater in value than that transacted with its members.⁴³

ARTICLE V

STOCKHOLDERS' MEETINGS

SECTION 1. Annual meeting.—The annual meeting of the stockholders of this association shall be held in its office in the town of _____, at _____ o'clock ____ M., on the _____ in _____ of each year, if not a legal holiday, and if a legal holiday, on the next business day following; provided that the board of directors may upon due notice change the place for holding any annual meeting to any place within the said town, and may change the date to any day within 15 days of the date specified, and the time of day to any other reasonable time.

SEC. 2. Special meetings.—Special meetings of the stockholders of this association may be held at any time when called in the manner as hereinafter provided. The board of directors shall designate the date, time, and place for holding all special meetings, but such place shall be in the town of _____. Special meetings may be called at any time by the board of directors and shall be called by said board upon receipt of a written request containing a statement of the specific business to be considered, signed by at least _____ percent of the holders of fully paid-up common stock, provided that in no case shall the required number of signatures to such request be less than _____; and upon receipt of such request the board of directors shall order a meeting held within 30 days from the date of such receipt. The purpose of every special meeting shall be stated in the notice thereof, and no business shall be transacted thereat except such as is specified in the notice.

SEC. 3. Notice of meetings.—Written or printed notice of all meetings of the stockholders, stating the nature, time, place, and purpose thereof, shall be mailed to each holder of fully paid-up common stock at the address shown on the books

⁴³ In some States, this provision must be omitted or modified to meet the requirements of the statute.

of the association, or handed to such stockholder, at least days prior to the time for holding the meeting.

SEC. 4. *Voting rights and quorum.*—Only holders of fully paid-up common stock in good standing shall have the right to vote at meetings of the stockholders, and no holder of such stock shall have more than one vote. ⁴³ percent of the holders of fully paid-up common stock, present in person, shall constitute a quorum for the transaction of business at any meeting of the stockholders of this association; and a vote of the majority of such stockholders present at such meeting shall be sufficient to pass or reject any measure properly placed before the meeting, except for the transaction of business for which a different quorum and a different vote is specifically provided by statute or by these bylaws.

SEC. 5. *Voting by proxy.*⁴⁴—Voting by proxy is prohibited.

SEC. 6. *Order of business.*—The order of business at the annual meeting and at other meetings of the stockholders, as far as practicable, shall be:

- (1) Calling meeting to order.
- (2) Proof of due notice of meeting.
- (3) Proof of quorum.
- (4) Reading and action on any unapproved minutes.
- (5) Reports of officers and committees.
- (6) Election of directors.
- (7) Unfinished business.
- (8) New business.
- (9) Adjournment.

ARTICLE VI

BOARD OF DIRECTORS

SECTION 1. *Number and qualifications.*—The business and affairs of this association shall be conducted and managed by a board of directors consisting of members, each of whom shall be a member in good standing of the association and the owner of one fully paid-up share of common stock. No persons engaged in business in competition with the association shall be eligible to serve as a director, and if a majority of the board of directors finds at any time following a hearing that any director is so engaged or affiliated, he shall thereupon cease to be a director.

SEC. 2. *Election and term of office.*—Directors shall be elected at each annual meeting of the stockholders for terms ending at the next annual meeting. And, unless they shall resign, die, become disqualified, or be removed in the manner provided in section 6 hereof, they shall hold office until their successors have been elected and qualified.

SEC. 3. *Meetings.*—As soon as practicable and within 10 days following the annual meeting of the stockholders each year, the board of directors elected thereat shall hold a regular meeting at such time and place in the town of, as may be designated by the president. Special meetings of the board may be held at any time when called in the manner hereinafter provided. Such special meetings shall be called upon order of the president, or upon written request of a majority of the directors. The president or directors in ordering the call shall designate the date, time, and place for holding the meeting, but such place shall be in the town of

⁴³ If permitted by law the number of stockholders necessary to constitute a quorum should be small, in order that meetings may not fail for lack of a quorum.

⁴⁴ The right of a stockholder to vote by proxy is granted in some States.

Any business of the association may be transacted at any special meeting of the board whether or not such business is stated in the call.

SEC. 4. *Notice of meetings.*—Written notice of regular and special meetings, stating the time, place, and purpose thereof, shall be mailed or handed to each director at least days prior to the time for holding the meeting; provided, however, that directors may waive, in writing, notice of any meeting.

SEC. 5. *Vacancies.*—Vacancies in the board of directors, other than by expiration of term, shall be filled by a majority vote of the remaining directors in office. Directors to fill such vacancies shall be elected for the unexpired term of those whom they succeed.

SEC. 6. *Removal of directors.*—Whenever the board of directors shall find, following a hearing, that any director of the association has ceased to be eligible for the office of director, as defined in section 1 of this article, his membership on the board of directors shall terminate. Any director of the association may be removed from office by a vote of a majority of the holders of fully paid-up common stock in good standing, attending any special meeting called for that purpose, at which a majority of such stockholders are present. Special meetings of the stockholders for voting upon the removal of a director shall be called only when a holder of common stock brings charges against such director by filing them in writing, with the secretary of the association, together with a petition signed by percent of the holders of common stock, in good standing, requesting the removal of the director in question. The director against whom such charges have been brought shall be informed in writing of the charges at least days previous to the meeting and shall have an opportunity at the meeting to present witnesses and be heard in person or by counsel in answer thereto; and the person or persons bringing the charges against him shall have the same opportunity. Any vacancy created by such termination or removal from office shall be filled in the manner provided in section 5 hereof.

SEC. 7. *Quorum.*—A majority of the members of the board of directors shall constitute a quorum for the transaction of business at any meeting of the board except for the transactions of business in which a different vote is specifically provided by statute or by these bylaws, but no measure shall be effective unless approved by a majority of the entire membership of the board.⁴⁴

SEC. 8. *Compensation, employment and contracts.*—The members of the board of directors shall receive no compensation for their services as members of the board, but may receive a reasonable per diem to cover necessary expenses while engaged in the business of the association. No member of the board of directors during his term of office, shall have any contract, arrangement, or agreement for profit with the association differing in terms or purposes from contracts, arrangements, and agreements accorded other members.

ARTICLE VII

DUTIES AND POWERS OF DIRECTORS

SECTION 1. *Management of business.*—The board of directors shall have general supervision and control of the business and affairs of the association and shall make all rules and regulations, not inconsistent with law or with these bylaws, for the management of the business and guidance of the officers, employees and agents of the association. They shall have installed an accounting system which

⁴⁴ In some instances it may be deemed advisable to include a bylaw reading as follows: "*Referendum.*—Upon demand of one-third of the entire board of directors, any matter that has been approved or passed by the board must be referred for decision to a special meeting of the stockholders, which shall be called for that purpose, or to the annual meeting if same is to be held within 30 days from such demand. The decision on such matter at said meeting shall be binding upon the board of directors."

shall be adequate to the requirements of the business, and it shall be their duty to require proper records to be kept of all business transactions.

SEC. 2. *Employees.*—The board of directors shall have the power to employ and dismiss, or to authorize the employment and dismissal of a manager and such other employees as may be deemed necessary and to fix their compensation, provided, however, that members of the board of directors and members of their immediate families and members of the immediate families of the officers and of the manager shall not be employed by the association for more than 30 days in any year, unless such employment is unanimously approved by the board of directors. The manager shall have charge of the business of the association under the direction of the board of directors. No director shall serve as manager unless unanimously approved by the board of directors.

SEC. 3. *Bonds and insurance.*—The board of directors shall require the manager and all other officers, agents, and employees that may have custody of any of its funds or negotiable instruments to give adequate bonds. Such bonds, unless cash security is given, shall be furnished by a responsible bonding company and approved by the board of directors, and the cost thereof shall be paid by the association. The board of directors shall provide adequate insurance covering loss of, or damage to, the property of the association and property in its possession and custody for which it is liable, by fire, tornado, or windstorm, and in addition insurance covering liability for accidents to all employees and the public.

SEC. 4. *Ginning agreements.*—The board of directors shall prescribe and adopt the form of ginning agreement to be entered into by the association with its members for periods of not to exceed ----- years, but may provide for the annual renewal thereof. The board of directors shall have the power to carry out such ginning agreements in every way advantageous to the association, representing the producers collectively. A separate service agreement may be adopted, in the discretion of the board of directors, for each activity in which the association may engage.

SEC. 5. *Depository.*—The board of directors shall have the power to select one or more banks to act as depositories of the funds of the association and to determine the manner of receiving, depositing, and disbursing the funds of the association and the form of checks and the person or persons by whom same shall be signed, with the power to change such banks and the person or persons signing such checks and the form thereof at will.

SEC. 6. *Borrowing money.*—The officers of the association who are authorized to do so by the board of directors of the association may borrow money for and on behalf of the association for any association purpose on open account or otherwise, with or without security, in such amounts and upon such terms and conditions as may from time to time appear advisable, subject to any legal requirements applicable thereto.*

SEC. 7. *Investments.*—The board of directors shall have the right and power to invest any funds of the association not needed in the operation of the business, including reserve funds, in bonds or in such other property as it may deem advisable.

SEC. 8. *General powers of board of directors.*—The board of directors of the association shall have the power and authority consistent with law, the articles of incorporation and these bylaws to provide for the carrying out of the contracts and agreements of the association and to authorize officers thereof to enter into contracts and agreements on behalf of the association and to authorize any and all acts that are deemed conducive to furthering the purposes for which the association is formed, except that the board of directors shall not have authority to sell and

* In some States there are statutory restrictions which must be met on the mortgaging of property.

convey the real property, machinery, or equipment of the association without being authorized by a meeting of the holders in good standing of fully paid-up common stock unless such conveyance is for the purpose of securing an indebtedness or the sale is of machinery, or equipment not used in the operation of the business, or unless the sale is made for replacement purposes.⁴⁷

ARTICLE VIII

OFFICERS

SECTION 1. *Officers and qualifications.*—The officers of the association shall be a president and a vice president, each of whom shall be a member of the board of directors; a secretary-treasurer, or a secretary and a treasurer, who may or may not be directors or stockholders of the association; and such other officers as the board of directors deems necessary.⁴⁸ No compensation shall be paid to any officer but he may receive a reasonable per diem to cover only necessary expenses while engaged in the business of the association.

SEC. 2. *Election and term of office.*—All officers shall be elected by the board of directors for terms not extending beyond the first regular meeting of the board of directors following the next annual meeting of the stockholders and, unless sooner removed by death, resignation, or for cause, they shall hold office until their successors have been elected and qualified.

SEC. 3. *Removal of officers.*—Any officer of the association required to be a member thereof, whose right to vote as a member of the association has been suspended or who has ceased to be qualified to act as a director of the association, shall thereupon cease to be an officer. The board of directors may remove any officer by a majority vote at any meeting of the board; and the stockholders may remove any officer in the same manner as directors may be removed as provided in section 6 of article VI hereof.

ARTICLE IX

DUTIES OF OFFICERS

SECTION 1. *Duties of president.*—The president shall preside over all meetings of the stockholders and the board of directors; call special meetings of the board of directors; perform all acts and duties usually performed by an executive and presiding officer; serve as an ex-officio member of all committees of the association; sign all stock certificates and such other documents and papers as he may be authorized to sign by the board of directors; provided, the board of directors may authorize any person to sign any or all checks, contracts, and other instruments in writing on behalf of the association. The president shall perform such other duties as may be prescribed by the board of directors.

SEC. 2. *Duties of vice president.*—In the absence or disability of the president, the vice president shall perform the duties of the president; provided, however, that in case of death, resignation, disqualification or disability of the president, the board of directors may declare the office vacant and elect his successor.

SEC. 3. *Duties of secretary-treasurer.*—The secretary-treasurer shall keep a complete record of all meetings of the stockholders and of the board of directors. He shall have general charge and supervision of the books and records of the association, and shall perform such duties with respect to the finances of the association as may be prescribed by the board of directors. He shall sign all stock certificates and such other papers pertaining to the association as he may

⁴⁷ In some States there are statutory restrictions which must be met on the mortgaging of property.

⁴⁸ See statutory provisions on election and qualifications of officers.

be authorized or directed to do by the board of directors. He shall serve all notices required by law and these bylaws and shall make a full report of all matters and business pertaining to his office to the stockholders at the annual meeting. He shall provide for the keeping of detailed and proper stock and patron records. He shall keep the corporate seal and affix said seal to all papers requiring a seal. He shall make all reports required by law, and shall perform such other duties as may be required of him by the association or the board of directors. Upon the election of his successor, the secretary-treasurer shall turn over to him all books and other property belonging to the association that he may have in his possession. If the offices of secretary and treasurer are held by different persons, the board of directors shall prescribe the duties and responsibilities of each.

SEC. 4. *Duties of other officers.*—Any other officers elected to offices created by the board of directors shall perform such duties with respect to such offices as may be prescribed by the board of directors.

ARTICLE X

DETERMINATION AND DISTRIBUTION OF INCOME

SECTION 1. *Audits.*—The board of directors shall have a complete audit made of the books and accounts of the association for the fiscal year ending of each year, and for that purpose shall employ a competent and disinterested public auditor or accountant, who shall render a report in writing thereon, which report shall be submitted to the members at their annual meeting. In addition to a balance sheet and a statement of the total net income, such report shall show separately the net earnings or losses from ginning and wrapping cotton, from handling cottonseed, and from all other activities of the association by departments as classified by the board of directors, after all salaries, taxes, licenses, insurance and bond premiums, interest, depreciation, repairs necessary and incidental to restore the physical properties to reasonable operating condition, and all other expenses have been paid or provided for to the close of the fiscal year.

SEC. 2. *Allocation and distribution of net income.*—The total net income so determined shall be allocated and distributed in the following order and manner:

(a) An amount of the net income equal to not less than percent thereof shall be set aside for the purpose of establishing, building up, and maintaining a general reserve of not less than percent of the aggregate par value of outstanding stock.⁴⁹

(b) An amount not exceeding percent of the par value of preferred stock outstanding shall be set aside for payment of dividends on such stock.

(c) The amounts set aside for the general reserve and for payment of dividends on preferred stock shall be deducted pro rata from the income of each department of the association and the balance of the net income then shown for each department shall be allocated to the patrons of each of the departments on the basis of their patronage.

(d) From the net amount allocated to each nonmember patron, eligible for membership in the association and approved by the board of directors, there shall first be deducted the par value of one share of common stock, or the unpaid balance due thereon; and when any such patron has complied with all the conditions for membership, a certificate for common stock paid for in this manner shall be issued to him.

⁴⁹ Statutory requirements concerning reserves should be complied with.

(e) ⁴⁰ At least percent of the amount, as determined by the board of directors, then remaining to the credit of each patron shall be retained by the association for capital purposes and distributed to him in credits on preferred stock, and the association shall issue certificates for all such shares of preferred stock fully paid for in this manner.

(f) Any remaining balance of the patronage allocations of each patron may then be paid to him in cash.

SEC. 3. *Interest of patrons in general reserve.*—The books of the association shall be kept in such manner that the interest of each patron in the amount carried to the general reserve each year may be ascertained at any time. In the event of a net loss in the operation of the association for any one year, such loss shall be charged against these annual reserves in an equitable manner, as determined by the board of directors. Whenever the total amount of the general reserve exceeds percent of the aggregate par value of outstanding stock, the board of directors may apply such excess to paying off ratably by years the oldest unexhausted interests of the patrons therein.

SEC. 4. *Application of cash distributions to indebtedness.*—Any part or all of the cash dividends on capital stock, cash patronage distributions, and/or cash payments for retirement of stock payable to any stockholder or patron may be applied, at the discretion of the board of directors, to the payment of any indebtedness of such stockholder or patron to the association that may be due.

ARTICLE XI

ISSUANCE AND REDEMPTION OF PREFERRED STOCK

At the end of each fiscal year the board of directors shall issue to each patron preferred stock to evidence amounts paid in by such patrons on a per bale basis for capital purposes, as provided in section 2 of the ginning agreement, and on account of patronage dividends payable in the form of preferred stock, in accordance with section 2 of article X of these bylaws.

Whenever, in the opinion of the board of directors, the capital funds of the association are in excess of the amount deemed necessary for its sound financial operation, the board of directors shall call for redemption, and redeem or retire, in accordance with section 3 of article VII of the articles of incorporation, an amount of oldest outstanding preferred stock in the same order as originally issued, equal to the amount of such excess, provided that no stock shall be retired unless the stock outstanding thereafter shall at least equal 40 percent of the original cost of the fixed facilities and permanent additions thereto.

ARTICLE XII

DISTRIBUTION OF ASSETS ON LIQUIDATION

In the event of the dissolution or liquidation of the association, any assets remaining after the payment of all debts, insofar as they are sufficient for that purpose, shall be distributed in the following order and manner:

⁴⁰ If it is desired to retain a fixed amount per bale instead of a percentage of net income for capital purposes, the following should be substituted for subsection (e):

At least for each bale ginned for each patron shall be deducted from the amount then remaining to his credit and shall be retained by the association for capital purposes; but if such amount is insufficient to permit of such deductions all such amount shall be so retained and distributed to the respective patrons in credits on preferred stock, and the association shall issue certificates for all such shares of preferred stock fully paid for in this manner.

(1) All outstanding preferred stock and credits on preferred stock shall be retired in full.

(2) All outstanding common stock and credits on common stock shall be retired in full.

(3) Unexhausted interests of members and patrons in general reserves shall be retired ratably on an equitable basis, as determined by the board of directors.

(4) The remaining assets shall be distributed to the patrons of the association on as equitable a patronage basis as the board of directors finds practicable.

ARTICLE XIII

FISCAL YEAR

The fiscal year of the association shall begin on the first day of _____ and end on the last day of _____ of each year.

ARTICLE XIV

SEAL

The seal of the association shall contain these words and figures: "_____ Association, Incorporated 19____," in circular form, the impress of which is placed hereon.

ARTICLE XV

These bylaws may be altered or amended by a vote of the majority of the holders of fully paid-up common stock in good standing at any annual or special meeting of the stockholders at which a quorum is present, but notice of the proposed change shall be given in the notice of the meeting.

We, the undersigned, being all the incorporators and stockholders of the _____ Association, do hereby assent to the foregoing bylaws and adopt the same as the bylaws of said association.

In testimony whereof, we have set our hands this _____, 19____.

BYLAWS ⁵¹

of the

ARTICLE I

POWERS AND PURPOSES

The powers and purposes of this association are those set forth in the articles of incorporation. The articles of incorporation shall control in the event of any conflict between its provisions and any part of these bylaws.

⁵¹ Nonstock associations.

ARTICLE II

CAPITAL STRUCTURE

SECTION 1. *Membership fees.*—The fee for becoming a member of the association shall be \$.....

SEC. 2. *Revolving Fund Certificates.*¹¹—The association is authorized to issue and sell to members and others revolving fund certificates of a character hereafter described for the purpose of raising capital funds with which to carry on its business; and in order to further the cooperative character of the association, and to provide a means whereby its current and active members will finance the association, the association is authorized to issue revolving fund certificates evidencing deductions made for capital purposes pursuant to agreements with its members and/or patronage dividends which are in whole or in part so paid at the end of each fiscal year.

Funds evidenced by such certificates shall be used for creating a revolving fund for the purpose of building up such an amount of capital as may be deemed necessary by the board of directors from time to time, and for revolving such capital; and such funds, or funds derived from any other source, shall, when in the opinion of the board of directors of the association such funds are not necessary for the proper financing of the operations of the association, be devoted to the refunding of the oldest outstanding series of certificates. Such certificates may contain such other terms and conditions not inconsistent herewith as may be prescribed from time to time by the board of directors of the association.

Such certificates shall be issued in annual series, each certificate in each series upon its face being identified by the year in which it is issued, and each series shall be retired fully or on a pro rata basis only at the discretion of the board of directors in the order of issuance by years, as funds are available for that purpose. Such revolving fund certificates shall bear such rates of interest and only such rates of interest (in no event to exceed 6 percent per annum) as the board of directors in its sole discretion may from time to time prescribe, without any obligation on the part of the board of directors and the association to pay interest on such certificates. A record of all holders of revolving fund certificates shall be kept and maintained by the association and such certificates shall be transferable only on the books of the association, and no transfer of certificates shall be binding upon the association unless so transferred.

Notwithstanding any of the foregoing provisions, the board of directors shall have the power from time to time and at any time to pay off or retire or secure a release or satisfaction of any revolving fund certificate to compromise or settle a dispute between a holder thereof and the association.

All other debts of the association, both secured and unsecured, shall be entitled to priority over all outstanding revolving fund certificates. Upon the dissolution or winding up of the association in any manner, after the payment of all other debts, all outstanding revolving fund certificates shall be retired in full or on a pro rata basis without priority before any liquidation dividends are declared on membership certificates or on account of property interests or reserves.

ARTICLE III

MEMBERSHIP

SECTION 1. *Qualifications.*—Any person, firm, or corporation, including landlords who receive as rent a part of the crop raised on leased premises, engaged

¹¹ For suggested form, see p. 61.

in the production of agricultural products may, subject to the approval of the board of directors and upon payment of the membership fee of \$....., become a member of this association by entering into a ginning agreement with the association in the form prescribed by the board of directors.

SEC. 2. Suspension or Termination.—The voting rights of any member who ceases to be eligible for membership in the association or who violates any of the terms and conditions of the uniform ginning agreement, bylaws or rules and regulations of the association, or who fails to observe any obligation or duty of a member may be suspended by a majority vote of the board of directors; provided, however, that before the voting rights are suspended for any cause the board of directors shall hold a meeting for the purpose of hearing and receiving evidence of the charges preferred against him, and at such meeting he shall have a right to present witnesses and be heard in person or by counsel in answer thereto; and the person bringing the charges against him shall have the same opportunity. Notice of such meeting, containing a statement of the charges preferred against a member, shall be mailed to such member at least 10 days previous to the date of the meeting. A member whose voting rights have been suspended by the board of directors shall thereafter be deemed a member not in good standing and as such ineligible to serve the association as a director or officer thereof.

Upon resignation or termination of membership in the association in any manner, all of the rights and interests of such member in the association shall, by that act, be canceled and such member shall be entitled only to payment or credit for the face value of his membership certificate and the equitable appraised value of his property rights and interests in the association as conclusively determined by the board of directors.³³

ARTICLE IV

NONMEMBER-PATRONS

The association may transact business with nonmembers, provided the business transacted with such nonmembers is not greater in value than that transacted with its members.³⁴

ARTICLE V

MEETINGS

SECTION 1. Annual meeting.—The annual meeting of the members of this association shall be held in its office in the town of, at o'clock M., on the in of each year, if not a legal holiday, and if a legal holiday, on the

³³ If State statutes provide a time of payment for property interests of retiring member, these requirements should be added.

In order to avoid the embarrassment that might result from having to pay members the amount of their property interest in the association, consideration should be given in those States where the statutes so permit to the substitution of the following in lieu of this sentence:

In the event of termination of a membership, regardless of how terminated, the association shall not become or be liable for the payment of any amount whatsoever as the value of the membership and property rights and interests in the association of the member whose membership is terminated, and each member is received into membership upon the express agreement on the part of such member, and upon the condition, that the value of the property rights and interests of such member in the association is nothing, and that in the event of termination, whether by expulsion or otherwise, such member shall not be entitled to be paid anything as or for the value thereof. The resignation or termination of membership in the association of a member in any manner shall not impair the obligations or liabilities of the association or of such member under any contract which may be terminated only as provided therein, or the right of such member to receive payment for any revolving fund certificates which he may hold in the same order and manner as other members of the association.

³⁴ In some States, this provision must be omitted or modified to meet the requirements of the statute.

next business day following; provided that the board of directors may upon due notice change the place for holding any annual meeting to any place within the said town, and may change the date to any day within 15 days of the date specified, and the time of day to any other reasonable time.

Sec. 2. *Special meetings.*—Special meetings of the members of this association may be held at any time when called in manner as hereinafter provided. The board of directors shall designate the date, time, and place for holding all special meetings, but such place shall be in the town of Special meetings may be called at any time by the board of directors, and shall be called by said board upon receipt of a written request containing a statement of the specific business to be considered, signed by at least percent of the members, provided that in no case shall the required number of signatures to such request be less than; and upon receipt of such request the board of directors shall order a meeting held within 30 days from the date of such receipt. The purpose of every special meeting shall be stated in the notice thereof and no business shall be transacted thereat except such as is specified in the notice.

Sec. 3. *Notice of meetings.*—Written or printed notice of all meetings, stating the nature, time, place and purpose thereof, shall be mailed to each member at the address shown on the books of the association, or handed to such member at least days prior to the time for holding the meeting.

Sec. 4. *Voting rights and quorum.*—Only members in good standing shall have the right to vote at meetings of the members, and no member shall have more than one vote.^M percent of the members, present in person, shall constitute a quorum for the transaction of business at any meeting of this association and a vote of the majority of such members present at such meeting shall be sufficient to pass or reject any measure properly placed before the meeting, except for the transaction of business for which a different quorum and a different vote is specifically provided by statute or by these bylaws.

Sec. 5. *Voting by proxy.*^M—Voting by proxy is prohibited.

Sec. 6. *Order of business.*—The order of business at the annual meeting and at other meetings of the members, as far as practicable, shall be—

1. Calling meeting to order.
2. Proof of due notice of meeting.
3. Proof of quorum.
4. Reading and action on any unapproved minutes.
5. Reports of officers and committees.
6. Election of directors.
7. Unfinished business.
8. New business.
9. Adjournment.

ARTICLE VI

BOARD OF DIRECTORS

SECTION 1. *Number and qualifications.*—The business and affairs of this association shall be conducted and managed by a board of directors consisting of members, each of whom shall be a member in good standing of the association. No person engaged in business in competition with the association shall be eligible to serve as a director, and if a majority of the board of directors find at any time following a hearing that any director is so engaged or affiliated, he shall thereupon cease to be a director.

^M If permitted by law, the number of members necessary to constitute a quorum should be small in order that meetings may not fail for lack of a quorum.

^M The right of a member to vote by proxy is granted in some States.

SEC. 2. Election and term of office.—Directors shall be elected at each annual meeting of members for terms ending at the next annual meeting; and, unless they shall resign, die, become disqualified or be removed in the manner provided in section 6 hereof, they shall hold office until their successors have been elected and qualified.

SEC. 3. Meetings.—As soon as practicable and within 10 days following the annual meeting of the members each year, the board of directors elected thereat shall hold a regular meeting at such time and place in the town of _____, as may be designated by the president. Special meetings of the board may be held at any time when called in the manner hereinafter provided. Such special meetings shall be called upon order of the president, or upon written request of a majority of the directors. The president or directors in ordering the call shall designate the date, time, and place for holding the meeting, but such place shall be in the town of _____. Any business of the association may be transacted at any special meeting of the board whether or not such business is stated in the call.

SEC. 4. Notice of meetings.—Written notice of regular and special meetings, stating the time, place, and purpose thereof, shall be mailed or handed to each director at least _____ days prior to the time for holding the meeting; provided, however, that directors may waive, in writing, notice of any meeting.

SEC. 5. Vacancies.—Vacancies in the board of directors, other than by expiration of term, shall be filled by a majority vote of the remaining directors in office. Directors to fill such vacancies shall be elected for the unexpired term of those whom they succeed.

SEC. 6. Removal of directors.—Whenever the board of directors shall find following a hearing that any director of the association has ceased to be eligible for the office of director, as defined in section 1 of this article, his membership on the board of directors shall terminate. Any director of the association may be removed from office by a vote of a majority of the members in good standing, attending any special meeting called for that purpose, at which a majority of such members are present. Special meetings of the members for voting upon the removal of a director shall be called only when a member brings charges against such director by filing them, in writing, with the secretary of the association, together with a petition signed by _____ percent of the members, in good standing, requesting the removal of the directors in question. The director against whom such charges have been brought shall be informed in writing of the charges at least _____ days previous to the meeting and shall have an opportunity at the meeting to present witnesses and be heard in person or by counsel in answer thereto; and the person or persons bringing the charges against him shall have the same opportunity. Any vacancy created by such termination or removal from office shall be filled in the manner provided in section 5 hereof.

SEC. 7. Quorum.—A majority of the members of the board of directors shall constitute a quorum for the transaction of business at any meeting of the board; except for the transactions of business for which a different vote is specifically provided, by statute or by these bylaws, but no measure shall be effective unless approved by a majority of the entire membership of the board.⁴⁷

SEC. 8. Compensation, employment, and contracts.—The members of the board of directors shall receive no compensation for their services as members of the board, but may receive a reasonable per diem to cover necessary expenses while engaged in the business of the association. No member of the board of directors

⁴⁷ In some instances it may be deemed advisable to include a bylaw reading as follows: "*Referendum.*—Upon demand of one-third of the entire board of directors, any matter that has been approved or passed by the board must be referred for decision to a special meeting of the members, which shall be called for that purpose, or to the annual meeting if same is to be held within thirty (30) days from such demand. The decision on such matter at said meeting shall be binding upon the board of directors."

during his term of office, shall have any contract, arrangement, or agreement for profit with the association differing in terms or purpose from contracts, arrangements, and agreements accorded other members.

ARTICLE VII

DUTIES AND POWERS OF DIRECTORS

SECTION 1. *Management of business.*—The board of directors shall have general supervision and control of the business and affairs of the association and shall make all rules and regulations, not inconsistent with law or with these bylaws, for the management of the business and guidance of the officers, employees and agents of the association. They shall have installed an accounting system which shall be adequate to the requirements of the business, and it shall be their duty to require proper records to be kept of all business transactions.

SEC. 2. *Employees.*—The board of directors shall have the power to employ and dismiss, or to authorize the employment and dismissal of a manager and such other employees as may be deemed necessary and to fix their compensation, provided, however, that members of the board of directors and members of their immediate families and members of the immediate families of the officers and of the manager shall not be employed by the association for more than 30 days in any year, unless such employment is unanimously approved by the board of directors. The manager shall have charge of the business of the association under the direction of the board of directors. No director shall serve as manager unless unanimously approved by the board of directors.

SEC. 3. *Bonds and insurance.*—The board of directors shall require the manager and all other officers, agents, and employees that may have custody of any of its funds or negotiable instruments to give adequate bonds. Such bonds, unless cash security is given, shall be furnished by a responsible bonding company and approved by the board of directors, and the cost thereof shall be paid by the association. The board of directors shall provide adequate insurance covering loss of, or damage to the property of the association and property in its possession and custody for which it is liable, by fire, tornado, or windstorm, and in addition insurance covering liability for accidents to all employees and the public.

SEC. 4. *Ginning agreements.*—The board of directors shall prescribe and adopt the form of ginning agreement to be entered into by the association with its members for periods of not to exceed years, but may provide for the annual renewal thereof. The board of directors shall have the power to carry out such ginning agreements in every way advantageous to the association, representing the producers collectively. A separate service agreement may be adopted, in the discretion of the board of directors, for each activity in which the association may engage.

SEC. 5. *Depository.*—The board of directors shall have the power to select one or more banks to act as depositories of the funds of the association and to determine the manner of receiving, depositing, and disbursing the funds of the association and the form of checks and the persons or person by whom same shall be signed, with the power to change such banks and the person or persons signing such checks and the form thereof at will.

SEC. 6. *Borrowing money.*—The officers of the association who are authorized to do so by the board of directors of the association may borrow money for and on behalf of the association for any association purpose on open account or otherwise, with or without security, in such amounts and upon such terms and conditions as may from time to time appear advisable, subject to any legal requirements applicable thereto.²²

²² In some States there are statutory restrictions which must be met on the mortgaging of property.

SEC. 7. *Investments.*—The board of directors shall have the right and power to invest any funds of the association not needed in the operation of the business, including reserve funds, in bonds or in such other property as it may deem advisable.

SEC. 8. *General powers of board of directors.*—The board of directors of the association shall have the power and authority consistent with law, the articles of incorporation, and these bylaws to provide for the carrying out of the contracts and agreements of the association and to authorize officers thereof to enter into contracts and agreements on behalf of the association and to authorize any and all acts that are deemed conducive to furthering the purposes for which the association is formed, except that the board of directors shall not have authority to sell and convey the real property, machinery, or equipment of the association without being authorized by a meeting of the members in good standing of the association, unless such conveyance is for the purpose of securing indebtedness or the sale is of machinery, or equipment not used in the operation of the business, or unless the sale is made for replacement purposes.⁵⁵

ARTICLE VIII

OFFICERS

SECTION 1. *Officers and qualifications.*—The officers of the association shall be a president and a vice president, each of whom shall be a member of the board of directors; a secretary-treasurer, or a secretary and a treasurer, who may or may not be directors or members of the association; and such other officers as the board of directors deems necessary.⁵⁶ No compensation shall be paid to any officer but he may receive a reasonable per diem to cover only necessary expenses while engaged in the business of the association.

SEC. 2. *Election and term of office.*—All officers shall be elected by the board of directors for terms not extending beyond the first regular meeting of the board of directors following the next annual meeting of the stockholders and, unless sooner removed by death, resignation, or for cause, they shall hold office until their successors have been elected and qualified.

SEC. 3. *Removal of officers.*—Any officer of the association required to be a member thereof, whose right to vote as a member of the association has been suspended or who has ceased to be qualified to act as a director of the association, shall thereupon cease to be an officer. The board of directors may remove any officer by a majority vote at any meeting of the board; and the members may remove any officer in the same manner as directors may be removed, as provided in section 6 of article VI hereof.

ARTICLE IX

DUTIES OF OFFICERS

SECTION 1. *Duties of president.*—The president shall preside over all meetings of the members and the board of directors; call special meetings of the board of directors; perform all acts and duties usually performed by an executive and presiding officer; serve as an ex-officio member of all committees of the association; sign all membership and other certificates, and such other documents and papers as he may be authorized to sign by the board of directors; provided, the board of directors may authorize any person to sign any or all checks, contracts, and other

⁵⁵ See footnote 58.

⁵⁶ See statutory provisions on election and qualifications of officers.

instruments in writing on behalf of the association. The president shall perform such other duties as may be prescribed by the board of directors.

SEC. 2. Duties of vice president.—In the absence or disability of the president, the vice president shall perform the duties of the president, provided, however, that in case of death, resignation, disqualification or disability of the president, the board of directors may declare the office vacant and elect his successor.

SEC. 3. Duties of secretary-treasurer.—The secretary-treasurer shall keep a complete record of all meetings of the members and of the board of directors. He shall have general charge and supervision of the books and records of the association, and shall perform such duties with respect to the finances of the association as may be prescribed by the board of directors. He shall sign all membership and other certificates and such other papers pertaining to the association as he may be authorized or directed to do by the board of directors. He shall serve all notices required by law and these bylaws and shall make a full report of all matters and business pertaining to his office to the members at the annual meeting. He shall provide for the keeping of detailed and proper membership and patron records. He shall keep the corporate seal and affix said seal to all papers requiring a seal. He shall make all reports required by law, and shall perform such other duties as may be required of him by the association or the board of directors. Upon the election of his successor, the secretary-treasurer shall turn over to him all books and other property belonging to the association that he may have in his possession. If the offices of secretary and treasurer are held by different persons, the board of directors shall prescribe the duties and responsibilities of each.

SEC. 4. Duties of other officers.—Any other officers elected to offices created by the board of directors shall perform such duties with respect to such offices as may be prescribed by the board of directors.

ARTICLE X

DETERMINATION AND DISTRIBUTION OF INCOME

SECTION 1. Audits.—The board of directors shall have a complete audit made of the books and accounts of the association for the fiscal year ending of each year, and for that purpose shall employ a competent and disinterested public auditor or accountant, who shall render a report in writing thereon, which report shall be submitted to the members at their annual meeting. In addition to a balance sheet and a statement of the total net income, such report shall show separately the net earnings or the losses from ginning and wrapping cotton, from handling cottonseed, and from all other activities of the association by departments as classified by the board of directors, after all salaries, taxes, licenses, insurance and bond premiums, interest, depreciation, repairs necessary and incidental to restore the physical properties to reasonable operating condition, and all other expenses have been paid or provided for to the close of the fiscal year.

Sec. 2. Allocation and distribution of net income.—The total net income so determined shall be allocated and distributed in the following order and manner:

(a) An amount of the net income equal to not less than percent thereof shall be set aside for the purpose of establishing, building up, and maintaining a general reserve of not less than percent of the face value of all outstanding membership and revolving fund certificates.⁶¹

(b) An amount sufficient to pay interest charges, if any, on revolving fund certificates at the rate prescribed by the board of directors shall be set aside.

(c) The amounts set aside for the general reserve and for payment of interest on revolving fund certificates shall be deducted pro rata from the income of each department of the association and the balance of the net income then shown for

⁶¹ Statutory requirements concerning reserves should be complied with.

each department shall be allocated to the patrons of each of the departments on the basis of their patronage.

(d) From the net amount allocated to each nonmember patron, eligible for membership in the association and approved by the board of directors, there shall first be deducted a membership fee of \$....., or the unpaid balance due thereon; and when any such patron has complied with all the conditions for membership, a membership certificate paid for in this manner shall be issued to him.

(e) ²² At least percent of the amount, as determined by the board of directors, then remaining to the credit of each patron shall be retained by the association for capital purposes and distributed to him in the form of revolving fund certificates.

(f) Any remaining balance of the patronage allocations of each patron may then be paid to him in cash.

SEC. 3. *Interest of patrons in general reserve.*—The books of the association shall be kept in such manner that the interest of each patron in the amount carried to the general reserve each year may be ascertained at any time. In the event of a net loss in the operation of the association for any 1 year, such loss shall be charged against these annual reserves, in an equitable manner as determined by the board of directors. Whenever the total amount of the general reserve exceeds percent of the face value of all outstanding membership and revolving fund certificates, the board of directors may apply such excess to paying off ratably by years the oldest unexhausted interests of the patrons therein.

SEC. 4. *Application of cash distributions to indebtedness.*—Any part or all of the interest on revolving fund certificates, cash patronage distributions, and/or cash payments for retirement of membership or property rights and interests of any member or patron may be applied, at the discretion of the board of directors, to the payment of any indebtedness of such member or patron to the association that may be due.

ARTICLE XI

ISSUANCE AND REDEMPTION OF REVOLVING FUND CERTIFICATES

At the end of each fiscal year the board of directors shall issue to each patron revolving fund certificates to evidence the amounts paid in by such patrons, on a per bale basis, for capital purposes, as provided in section 2 of the ginning agreement, and on account of any patronage dividends payable in the form of revolving fund certificates in accordance with section 2 of article X of these bylaws.

Whenever, in the opinion of the board of directors, the capital funds of the association are in excess of that amount necessary for its sound financial operation, the board of directors shall call for redemption, and redeem or retire, an amount of oldest outstanding revolving fund certificates in the same order as originally issued, equal to the amount of such excess, provided that no revolving fund certificates shall be retired unless the amount of revolving fund certificates outstanding thereafter shall at least equal 40 percent of the original cost of the fixed facilities and permanent additions thereto.

²² If it is desired to retain a fixed amount per bale instead of a percentage of net income for capital purposes, the following should be substituted for subsection (e):

At least \$..... for each bale ginned for each patron shall be deducted from the amount then remaining to his credit and shall be retained by the association for capital purposes, but if such amount is insufficient to permit of such deductions all such amount shall be so retained, and distributed to the respective patrons in the form of revolving fund certificates.

ARTICLE XII

DISTRIBUTION OF ASSETS ON LIQUIDATION

In the event of the dissolution or liquidation of the association, any assets remaining after the payment of all debts, insofar as they are sufficient for that purpose, shall be distributed in the following order and manner:

- (1) All outstanding revolving fund certificates shall be retired in full.
- (2) All outstanding membership certificates shall be retired in full.
- (3) Unexhausted interests of members and patrons in general reserves shall be retired ratably on an equitable basis, as determined by the board of directors.
- (4) The remaining assets shall be distributed to the patrons of the association on as equitable a patronage basis as the board of directors finds practicable.

ARTICLE XIII

FISCAL YEAR

The fiscal year of the association shall begin on the 1st day of
 and end on the last day of of each year.

ARTICLE XIV

SEAL

The seal of the association shall contain these words and figures: ".....
 Association, Incorporated 19..," in circular
 form, the impress of which is placed hereon.

ARTICLE XV

These bylaws may be altered or amended by a vote of the majority of the members in good standing at any annual or special meeting of the members at which a quorum is present, but notice of the proposed change shall be given in the notice of the meeting.

We, the undersigned, being all the incorporators and members of the
 Association, do hereby assent to the foregoing bylaws and adopt the same as the bylaws of said association.

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

.....

COMMON STOCK CERTIFICATE

Incorporated in _____
 No. _____ One share

 (Name of association)

 (Address)

Authorized capital, \$ _____

Common stock, _____ shares Preferred stock, _____ shares
 Par value, \$ _____ per share Par value, \$ _____ per share

This certifies that _____ is the owner of one share
 of common stock, of a par value of _____ Dollars (\$ _____)
 of _____

transferable on the books of the association on the surrender of this certificate,
 properly endorsed, by the holder thereof, or by attorney properly authorized,
 which stock is subject to the following conditions:

(Here insert sections 2 and 4 of article VII of the articles of incorporation)

This certificate of common stock is subject to preference given to preferred
 stock in the articles of incorporation of the association, and the holder hereof
 accepts the same subject to such preference, and is also subject to all the other
 terms and conditions of the articles of incorporation and the bylaws now in effect
 or hereafter adopted.

In witness whereof the said association has caused this certificate to be signed
 by its duly authorized officers and its corporate seal to be hereunto affixed.

This _____ day of _____, 19____

 President.

Attest:

 Secretary.

TRANSFER OF COMMON STOCK

(To be printed on back of stock certificates)

For value received, and with consent of the board of directors, the undersigned
 hereby sells, assigns, and transfers unto _____
 _____ shares of common stock represented by the within certificate, and
 does hereby irrevocably constitute and appoint _____
 to transfer the said stock on the books of the within-named corporation with
 full power of substitution in the premises, this _____
 day of _____, 19____

In the presence of:

NOTE.—The signature of this assignment must correspond with the name as written upon the face of the
 certificate in every particular without alteration or enlargement or any change whatever.

FARM CREDIT ADMINISTRATION

PREFERRED STOCK CERTIFICATE

Incorporated in
 No. shares

 (Name of association)

.....
 (Address)
 Authorized capital, \$
 Common stock, ... shares Preferred stock, ... shares
 Par value, \$ per share Par value, \$ per share
 This certifies that is the owner
 of shares of preferred stock, each of a par value of
 Dollars (\$), in the

..... (Name of association) (Town)
, transferable on the books of the association
 (State)

on the surrender of this certificate, properly endorsed, by the holder thereof, or
 by attorney properly authorized, which stock is subject to the following condi-
 tions:

(Here insert sections 3 and 4 of article VII of the articles of incorporation)

In witness whereof the said association has caused this certificate to be signed
 by its duly authorized officers and its corporate seal to be hereunto affixed.

This day of, 19.....

.....
 President.

Attest:

.....
 Secretary.

TRANSFER OF PREFERRED STOCK

(To be printed on back of stock certificates)

For value received the undersigned this day
 of, 19....., hereby sells, assigns, and trans-
 fers unto shares of preferred
 stock represented by the within certificate, and does hereby irrevocably consti-
 tute and appoint to transfer the said stock
 on the books of the within-named corporation with full power of substitution in
 the premises.

In the presence of:

NOTICE.—The signature to this assignment must correspond with the name as written upon the face of
 the certificate in every particular without alteration or enlargement, or any change whatever.

MEMBERSHIP CERTIFICATE

This is to certify that is a member of the Association, and as such is entitled to the rights and privileges of membership and is likewise bound by and subject to the obligations and conditions pertaining thereto, all as set forth in the articles of incorporation, bylaws and ginning agreement, now or hereafter in effect. Said member has paid a membership fee of \$.....

This certificate and the membership and rights represented hereby are non-assignable and nontransferable.

In witness whereof, the Association has caused this certificate to be signed by its duly authorized officers and its corporate seal to be hereto affixed this day of, 19.....

[SEAL]

By
President.

Attest:

By
Secretary.

REVOLVING FUND CERTIFICATE

(Series 19.....)

No. Amount, \$ Date

This certifies that of
(Name) (Address)
..... is entitled to receive the amount of dollars from the
..... on account of capital furnished, or
(Name of association)

patronage dividends or deductions for revolving fund purposes pursuant to its bylaws or ginning agreement, subject to the following conditions:

1. This and other revolving fund certificates of the same series are retireable in the sole discretion of the board of directors, either fully or on a pro rata basis, but certificates issued in prior years shall be entitled to priority in retirement, except in liquidation.

2. The amount stated in this certificate shall bear only such rate of interest, if any, as the board of directors may fix from time to time, in no event to exceed 6 percent per annum.

3. This certificate is transferable only on the books of the association; and may be retired or transferred only upon delivery thereof to the association, properly indorsed.

4. This and other revolving fund certificates shall be junior and subordinate to all other debts of the association, both secured and unsecured. Upon the winding up or liquidation of the association in any manner, after full payment to all of its other creditors, all revolving-fund certificates shall then be retired in full or on a pro-rata basis, without priority.

In witness whereof the has caused
(Name of association)
this certificate to be signed by its duly authorized officers and to be sealed with its seal, this day of, 19.....

WAIVER OF NOTICE OF FIRST MEETING OF MEMBERS

We, the undersigned, being all of the incorporators of the

(Name of

....., of
 association) (Town) (State)

constituting all of the present members of such association, hereby waive notice of a meeting of the members and consent to the holding of a meeting of such members at o'clock M. on the day of 19....., at

(Place of meeting)

in for the
 (Town) (State)

purpose of adopting bylaws for the government of the association and transacting any other business that may properly come before the meeting.

Witness our signatures this day of

....., 19

.....

WAIVER OF NOTICE OF FIRST MEETING OF DIRECTORS

We, the undersigned, being all of the directors of

(Name of association)

.....
 (Town) (State)

hereby waive notice of a meeting of the directors and consent to the holding of a meeting of such directors at o'clock M. on

(Day)

..... the day of

....., 19....., at

(Place of meeting)

(Town)

..... for the purpose of elect-

(State)

ing officers of the association to serve during the ensuing year, adopting the form of ginning agreement, and transacting any other business that may properly come before said meeting.

Witness our signatures this day of

....., 19

.....

MINUTES OF FIRST MEETING OF MEMBERS

The first meeting of the members, consisting of the incorporators of _____
 _____ (Name of
 _____ was held at _____ o'clock _____ M. on

 _____ association)
 the _____ day of _____,
 19 _____, at _____, in _____,
 _____ (Place of meeting) (Town)

_____ (State) The chair called for proof of notice of the
 meeting, whereupon _____ presented a waiver of
 notice and consent to hold the meeting signed by all of the members of the asso-
 ciation, which waiver and consent was in the following form:

(Copy waiver of notice and consent to meeting)

The chair ruled that the meeting was properly called and it was ascertained that
 _____ members of the association constituting a quorum, were present.
 The chair reported that the articles of incorporation of the association were filed
 on the _____ day of _____,
 19 _____, at _____ o'clock in the _____ noon, in the office of the Secre-
 tary of State of the State of _____, and presented a
 copy of said articles of incorporation, which was read, and on motion duly made,
 seconded and carried, was directed to be entered in full in the minute book. A
 draft of proposed bylaws for the government of the association was presented by
 _____ and was read to the meeting and discussed
 section by section and as a whole, and was unanimously adopted. Each member
 affixed his signature to the bylaws and the secretary was instructed to spread the
 bylaws on the minutes of this meeting.

(Here insert record of any other business that may have been transacted)

There being no further business to come before the meeting, on motion duly
 made, seconded and unanimously adopted, the meeting was adjourned.

Temporary chairman.

Temporary secretary.

MINUTES OF FIRST MEETING OF BOARD OF DIRECTORS

The first meeting of the board of directors of the _____
 _____ (Name of association)

_____, _____ (Town) _____, _____ (State)

was held at _____ o'clock _____ M. on _____
 _____ (Day)

_____, 19_____, at _____, in _____
 _____ (Place of meeting)

_____, _____ (Town) _____, _____ (State)

Upon convening, _____ was elected temporary chairman and _____ temporary secretary of the meeting, and each assumed his office.

The chair called for proof of notice of the meeting, whereupon _____ presented a waiver of notice and consent to holding the meeting, signed by all of the directors of the association, which waiver and consent was as follows:

(Copy waiver of notice, and consent to holding meeting)

Upon roll call of the directors of the association, the following answered present:

(Record the names of all directors present)

The chair ruled that proper and legal notice of the meeting had been given and that a quorum was present, and announced that the meeting was open for transacting business.

The chair stated that the meeting was called for the purpose of electing officers of the association for the ensuing year and transacting any other business that might properly come before the meeting.

Upon motion duly made and seconded, the following officers were unanimously elected to serve at the discretion of the board until the time of the first regular meeting of the board to be held as soon as practicable following the first annual meeting of the members:

(Record the names of the officers elected and the title of office)

Following the election of the officers, the president took the chair, and the secretary-treasurer assumed the duties of secretary of the meeting.

Upon motion duly made and seconded, the following resolution was adopted:

Resolved,^a that the president and secretary be and they are hereby authorized to have prepared and to issue certificates of stock in form as submitted to this meeting, and each in form as follows:

(Here insert proper form of certificate of common stock and form of certificate of preferred stock)

Upon motion duly made and seconded, the following resolution was adopted:

Resolved, that the president and secretary be and they are hereby authorized

^a If the association is formed without stock, the resolution should be changed to authorize the issuance of certificates of membership.

to have printed a sufficient number of copies of the articles of incorporation and bylaws, so that a copy thereof may be delivered to each member, and each person who may later become a member of the association.

Upon motion duly made and seconded, the following resolution was adopted:

Resolved, that the ginning agreement, in form as submitted to this meeting, a copy of which appears hereafter, is hereby adopted:

(Here insert form of ginning agreement)

Upon motion duly made and seconded, the following resolution was adopted:

Resolved, that all subscriptions for stock ⁴⁴ in the association appearing on the list submitted by the secretary, be accepted, and that the president and secretary be and they hereby are directed to enter into ginning agreements with all subscribers for common stock, and to carry out the terms and conditions thereof, and to solicit additional subscriptions for stock, and signatures to the ginning agreement, for submission to the board of directors for approval.

Upon motion duly made and seconded, the following resolution was adopted:

Resolved, that the ----- Bank be selected as a depository for the funds of the association.

Upon motion duly made and seconded, the following resolution was adopted:

Resolved, that all checks drawn upon the ----- Bank, for withdrawal of funds of the association on deposit therewith, be signed by the secretary-treasurer and countersigned by either the president or the vice president.

Upon motion duly made and seconded, the following resolution was adopted:

Resolved, that the secretary-treasurer is hereby authorized to receive all funds paid the association, endorse all checks, drafts, and other like instruments, and deposit the same to the account of the association in ----- Bank.

Upon motion duly made and seconded, the following resolution was adopted:

Resolved, that the president and secretary be and they hereby are authorized and directed to obtain fidelity bond coverage in the amounts stated herein on the following officers, agents, and employees as required by the bylaws; and that such bonds be submitted to the board of directors for approval at its next meeting.

Name----- Office----- Amount of bond-----

(Similar resolutions may be adopted, providing for the insurance of the property of the association, upon its acquisition, and for adequate insurance covering other liabilities, and authorizing the employment of a manager and other employees)

There being no further business to come before the meeting, on motion duly made, seconded, and unanimously adopted, the meeting adjourned.

-----,
President.

Secretary.

⁴⁴ If the association is organized without capital stock, revise accordingly.

APPENDIX B

IN ORDER for a cooperative association of producers to be exempt from the payment of Federal income taxes, it must meet and be operated in a manner consistent with the terms and conditions of paragraph 12 of section 103 of the Federal Revenue Act of 1938, which reads as follows:

(12) Farmers', fruit growers', or like associations organized and operated on a cooperative basis (a) for the purpose of marketing the products of members or other producers, and turning back to them the proceeds of the sales, less the necessary marketing expenses, on the basis of either the quantity or the value of the products furnished by them, or (b) for the purpose of purchasing supplies and equipment for the use of members or other persons, and turning over such supplies and equipment to them at actual cost, plus necessary expenses. Exemption shall not be denied any such association because it has capital stock, if the dividend rate of such stock is fixed at not to exceed the legal rate of interest in the State of incorporation or 8 per centum per annum, whichever is greater, on the value of the consideration for which the stock was issued, and if substantially all such stock (other than nonvoting preferred stock, the owners of which are not entitled or permitted to participate, directly or indirectly, in the profits of the association, upon dissolution or otherwise, beyond the fixed dividends) is owned by producers who market their products or purchase their supplies and equipment through the association; nor shall exemption be denied any such association because there is accumulated and maintained by it a reserve required by State law or a reasonable reserve for any necessary purpose. Such an association may market the products of nonmembers in an amount the value of which does not exceed the value of the products marketed for members, and may purchase supplies and equipment for nonmembers in an amount the value of which does not exceed the value of the supplies and equipment purchased for members, provided the value of the purchases made for persons who are neither members nor producers does not exceed 15 per centum of the value of all its purchases. Business done for the United States or any of its agencies shall be disregarded in determining the right to exemption under this paragraph (52 Stat. 480, title 26 U. S. C. sec. 103, par. 12).

In order for a cooperative association of producers to be eligible to borrow from a bank for cooperatives, it must meet and be operated in a manner consistent with the terms and conditions of section 15 of the Agricultural Marketing Act, as amended, which reads as follows:

* * * As used in this act the term "Cooperative Association" means any association in which farmers act together in processing, preparing for market, handling, and/or marketing the farm products of persons so engaged, and also means any association in which farmers act together in purchasing, testing, grading, processing, distributing, and/or furnishing farm supplies and/or farm business services: *Provided, however,* That such associations are operated for the mutual benefit of the members thereof as such producers or purchasers and conform to one or both of the following requirements:

First. That no member of the association is allowed more than one vote because of the amount of stock or membership capital he may own therein; and

Second. That the association does not pay dividends on stock or membership capital in excess of 8 per centum per annum. And in any case the following:

Third. That the association shall not deal in farm products, farm supplies, and farm business services with or for nonmembers in an amount greater in value than the total amount of such business transacted by it with or for members. * * * (49 Stat. 317, title 12 U. S. C. sec. 1141j).

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