

Rural COOPERATIVES

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**Co-ops promote
on-farm meat processing**

Page 4

When co-op principles collide

By Adam Schwartz

Editor's note: Adam Schwartz is the vice president of public affairs and member services at the National Cooperative Business Association in Washington, D.C. He has served co-ops in a variety of roles for the past 18 years. He welcomes comments on the issues raised here, or other co-op topics, and can be reached at: aschwartz@ncba.coop, or (202) 383-5456. For a more detailed discussion of the co-op principles, visit: www.ncba.coop/ncba/about-co-ops/co-op-principles.



One of the great strengths of the cooperative movement is that no matter what sector we serve — from a rural co-op serving farm communities to an urban co-op in metropolitan areas — all cooperatives share the same seven guiding principles:

1. Voluntary and open membership;
2. Democratic member control;
3. Member economic participation;
4. Autonomy and independence;
5. Education, training and information;
6. Cooperation among cooperatives;
7. Concern for community.

When we are faced with an ethical dilemma, defined as a choice between two appropriate paths, cooperative members, management and boards can consult and reflect on our principles to give us guidance as to the “right thing” to do.

But, what do we do when principles come into conflict with each other or offer conflicting advice? What principle offers advice in such a case?

One of the great benefits of cooperatives is that they are autonomous and independent (the fourth co-op principle). One of the great challenges that co-ops face is also that each co-op is autonomous and independent.

Consider the case of a co-op wrestling over the question of where to source a particular service. Two vendors have bid on the project. Both vendors have demonstrated the quality of their service. One vendor (not a co-op) has offered a better price than did the other vendor, which is a cooperative.

When the board meets to discuss the bids, two board

members articulate the principles that collide. One board member has the view that the co-op exists to serve its members and seeks to create policies that set it forth on that autonomous path — member first, member last, member always. After all, that is why the co-op was created. This member advocates taking the lower bid because it is more cost-effective. The board's fiduciary responsibility to the members should trump other priorities, this director says.

The other board member advocates that buying from another co-op should take precedence. This board member seeks to create a more cooperative economy and believes that the best way to accomplish that goal is for co-ops to practice the sixth principle — cooperation among cooperatives — and thus it should be a priority to do business with other co-ops, even if it sometimes “costs” the co-op a little more money to do so.

How should a cooperative resolve such a conflict?

Ideally, for guidance, cooperatives will have in place policies to allow staff or management to act in accordance with the seven principles. If the issue is truly one of strategic importance, the board — as a reflection of the membership — should decide. On rare occasions, the board may need to take the issue to the membership, especially if it involves a true change in the nature of the co-op requiring an amendment to the bylaws.

There is a growing acceptance of using a “triple bottom line” when determining the course of action taken by cooperatives. This involves the standard bottom line of revenues and expenses. But two additional and equally important measures are also considered: the impact the business is having on the community and on the environment. This is a true measuring stick to ascertain the full impact of a business.

By following the sixth principle, cooperatives can improve their portion of the economy and ensure the financial well-being of cooperative businesses across the country. Currently, cooperatives contribute about \$650 billion annually to the U.S. economy (according to a study published by the USDA and the University of Wisconsin Center for Cooperatives), an impressive figure, but just a small percentage of the overall economy.

By working together and by making the commitment to

continued on page 37

Features

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p.4



p. 8



p. 20

4 Going Mobile

Co-ops operate traveling slaughter units to help grow local foods movement

By *Stephen Thompson*

8 Illinois Green Pastures Fiber Cooperative

Co-op connects craft makers with locally produced fiber

By *Anne Todd*

12 "Not just a job, but a future"

Goal of Evergreen family of worker co-ops is to help struggling neighborhoods prosper

By *Dan Campbell*

20 Cooperative Food Hubs

Food hubs fill the 'missing middle,' helping small producers tap local markets

By *Alan Borst*

24 Why the asset-building movement matters for rural co-op members

By *Heather McCulloch*

26 Fifth Season Cooperative

Having progressed from conception to incorporation, fledgling Wisconsin co-op faces crucial questions

By *Courtney Berner*

30 Co-op Month celebrated at USDA

Departments

- 2 COMMENTARY
- 11 LEGAL CORNER
- 17 MANAGEMENT TIP
- 18 UTILITY CO-OP CONNECTION
- 32 NEWSLINE
- 40 2010 ARTICLE INDEX

ON THE COVER: On-farm processing for beef and poultry producers is an option in areas served by mobile slaughtering units, many of them operated by producer cooperatives. This better allows producers to market to local food markets, resulting in substantially higher prices for some.



By Stephen Thompson
Assistant Editor



Times are tough for small livestock and poultry producers. The consolidation of the meat industry has resulted in the closing of hundreds of slaughter and packing plants, and some of the ones still in operation often don't cater to small, specialty or niche producers. Many of these packers require high minimum head counts for slaughter, and they're often too far away to make trucking of relatively small shipments of animals to them economically feasible. In addition, high feed and other costs aren't matched by the prices producers get for their live animals.

At the same time, interest in buying from specialty meat producers is growing among consumers,

restaurateurs and retailers. Grass-fed or organically raised beef and free-range poultry are seen by some consumers as both more flavorful and healthier than conventionally raised equivalents. The local food movement encourages consumers to buy their foods from nearby producers wherever possible. The U.S. Department of Agriculture (USDA) is supporting this movement with its Know Your Farmer, Know Your Food initiative, which promotes farmers' markets and other outlets for locally grown foods.

The issue, then, for many small producers, is not finding the market so

much as it is converting their live animals into a product that can take advantage of it.

A promising answer to this question is the mobile slaughterhouse — a slaughter facility mounted on a trailer that comes to the farmer. Its advantages are many, including low capital costs, convenience, low processing costs and the marketing advantage of being able to say that your animals are slaughtered on your own property. Mobile slaughter units also don't attract the same kind of concern that brick-and-mortar facilities arouse among neighbors — the “not-in-my-backyard” problem.



Opportunity for co-ops

As a result, mobile slaughter units have become a growing movement across the United States. A number of small service cooperatives have been set up to take advantage of the new technology.

Going Mobile

Co-ops operate traveling slaughter units to help grow local foods movement



“We get about a 50-percent net gain over marketing live cattle.”

The seed of the movement was planted in the late 1990s at Broken Arrow Ranch in Texas, a hunting establishment where customers pay to hunt exotic animals, such as African antelope. The ranch developed a slaughtering trailer to process the carcasses.

Not long afterwards, a group of livestock producers in northwest Washington was looking for a way to start producing meat for local markets. They found the answer in Broken Arrow's trailer.

The group went to a local nonprofit organization, the Lopez Community Land Trust, which focuses on sustainable rural development, for help. The Lopez Trust in turn hired Bruce Dunlop, a sheep farmer and former chemical engineer, to develop a slaughter trailer. Island Grown Farmers Cooperative was formed to administer the slaughter, cutting and packing services. The initial membership fee was \$600.

The initiative was made possible by new U.S. Food and Drug Administration regulations under the rubric of Hazard Analysis & Critical Control Points (HACCP). Instead of establishing rigid requirements, as with previous approaches to regulation,

HACCP seeks to work with food processors to develop appropriate plans for facilities that meet sanitary rules and other requirements. The new protocol is a more flexible regulatory approach that allows for innovation and unique circumstances.

When finished in 2002, the mobile slaughter unit was installed in a 32-foot goose-neck trailer, at a cost of \$150,000. Financing was provided by private donations and grants from various agencies, including a \$50,000 Rural Business Opportunity Grant provided by USDA Rural Development. The unit is owned by the Trust, which leases it to the cooperative. Dunlop estimates that the trailer alone would today cost \$195,000, plus another \$15,000 to \$20,000 for small equipment.

Facility meets all regulations

The mobile facility is fully compliant with federal regulations, and all of its products are USDA inspected. A small office space is provided for the inspector. The facility can slaughter up to 10 head of cattle per day, at a cost to the farmer of \$105 per animal. Up to 40 sheep or 24 pigs can be handled daily, at prices of \$37 and \$53 each, respectively.

Labor accounts for 70 percent of operating costs. Because the unit was financed with grants and donations, there is no loan or investment to be repaid; the fees need only cover overhead, labor and similar costs.

However, Dunlop says that such a unit could easily repay its purchase costs in a few years.

Cutting and wrapping services are provided by the co-op in a brick-and-mortar facility which can also produce sausages. However, marketing is handled individually by member-producers. The cooperative has six employees, including two butchers who handle slaughtering, and three meat cutters. Dunlop has stayed on as a member of the board of directors.

The slaughtering is done on the producer's property, usually in an open field. The trailer carries a supply of potable water for the slaughter process and for cleanup. If it's done often in one location, the producer may also have to provide a concrete drainage pad with a sump for runoff.

If done only occasionally on a farm or ranch, the operation can be carried out directly on the grass. The animal is killed on the ground and allowed to bleed out. It's then winched into the trailer, cleaned, dressed and hung in a refrigerated compartment in the trailer. At the end of the day, the carcasses can be transported to the cooperative's packing facility or the farmers can make their own arrangements.

Offal and hides are taken away with the truck; any other waste is composted. Dunlop says composting works well.

“It kills the pathogens, it's inexpensive and there's little odor,” he



Black Angus cattle are one of the more popular beef breeds in the United States. Inset photo: Mobile processing units such as this, which travel to farms and ranches, were inspired by a rig developed in Texas in the 1990s to process wild game.

notes. Except where production volume requires a sump, the blood and water go directly on the ground. Overall, he says, operations have little environmental impact, especially since the location of the trailer can be changed with each visit.

While making the mobile slaughterhouse possible, the HACCP approval process presented its own hurdles, Dunlop says. "It was a shift from approving everything ahead of time to evaluating things as it went along."

The process requires a written plan, which is then evaluated for problems and modified. In the case of the new slaughter unit, equipment and procedures had to be tried out by slaughtering a few animals at a time, making changes until both the co-op and the inspectors were comfortable with the process.

Dunlop says that things were complicated by the fact that inspectors were just learning the new procedures when the co-op sought approval. But, he says that they were open to new ideas and willing to work with the cooperative to reach a satisfactory conclusion. "Someone doing it now can build on our experience," he says. "They wouldn't have to go through all that."

Puget Sound co-op boosts local sales

Not far away, another group of Washington livestock producers took advantage of Island Grown's pioneering work to establish their own processing cooperative. Puget Sound Meat Producers Cooperative has been operating for just over a year, with a roll of 60 voting members in nine contiguous counties, and another 30 associate members.

Perry Schermerhorn, president of the co-op, says the idea for the cooperative occurred to Cheryl Ouellete, a local hog farmer looking for ways to add value to her product. Selling butchered meat instead of live hogs seemed the natural solution. But the local slaughterhouse had closed,

meaning that the nearest processing facility was hundreds of miles away in Oregon.

With the big population centers of Seattle and Tacoma nearby, a market for locally grown meats was assured — if the meat carried USDA inspection stamps. Island Grown's approach seemed like the answer.

The first exploratory meeting, in February 2008, drew 80 local producers, and with the help of the Washington State Small Business Assistance Center at Green River Community College, a business plan was put together and the idea pitched to the Pierce Conservation District board of directors, which approved \$200,000 in funds to build the trailer in June 2008.

The cooperative itself was set up that November, and in June 2009 the mobile processing unit was delivered. Puget Sound's unit is based on the Island

Grown design, but larger. Built on a 45-foot semi-trailer, it has bigger storage facilities and the ability to process more animals at a time.

The Puget Sound co-op works a little differently than the Island Grown co-op. Instead of making appointments to slaughter at each customer's farm, the slaughter unit operates at three venues on a weekly, or semi-weekly, schedule. Producers transport their animals to the most convenient location. Members can purchase a special class of stock to have priority in scheduling. Two of the locations are on members' property; the third is provided at no cost by a local landowner.

The cooperative doesn't offer cutting and wrapping services. Those are provided by private packing facilities in nearby Rochester and Bremerton.

Schermerhorn says the cooperative has the capacity for about 140 new

Assistance for new mobile slaughter efforts

Interest in mobile slaughter units is growing across the country. At least nine poultry units and a similar number of red meat slaughter trailers are now operating in various states. Seminars on the subject attract crowds. A recent session held jointly by the Colorado and Wyoming state agriculture departments drew 150 people from states as far away as New York, Ohio and California.

There are hurdles to overcome in starting a mobile unit, including regulatory and permitting issues and financing. But much of the pioneering work has already been done. Producers interested in starting such an operation can call upon a range of information and assistance resources.

The Niche Meat Processor Assistance Network website, www.nichemeatprocessing.org, offers a wealth of information on regulations, design and construction, management, financing and other issues. The site offers links to a number of "webinars," including one led by Island Grown's Bruce Dunlop, on the various issues. It also offers a spreadsheet feasibility calculator put together by Kathleen Painter, an analyst at the University of Idaho.

The Food Safety and Inspection Service offers a "Mobile Slaughter Compliance Guide" on its website for both red meat and poultry operations, and has declared its interest in promoting small processors.

USDA Rural Development offers a number of financial programs that may be helpful, and has extensive educational materials to help producers learn about starting a cooperative. It can also offer technical assistance. To learn more, visit: www.rurdev.usda.gov, or call your USDA Rural Development office and ask to talk to a business and co-op programs specialist: 1-800-670-6553.

members; the slaughter unit currently operates at about 25 percent of capacity. Members each market their own products. Some retail their products directly at farmers' markets and similar venues. This sales strategy, Schermerhorn says, offers the highest margins: 50 to 100 percent.

Other producers have contracts to provide high-quality meats to restaurants, local food stores and even to food co-ops. They typically garner markups of 10 to 30 percent. Overall, Schermerhorn says, "We get about a 50-percent net gain over marketing live cattle."

Montana co-op focuses on poultry

Growers of four-legged livestock aren't the only producers who can use mobile slaughter units. The Montana Poultry Growers Cooperative built on the experience of Island Grown, with appropriate modifications. With the help of Farms for Families, a nonprofit that promotes locally grown foods, and other organizations, including USDA Rural Development's Cooperative Services, the co-op developed a mobile slaughter unit for poultry.

Jan Tusick, the president of the cooperative, recalls that the project had its own snags and problems — most involving licensing.

Processing poultry is simpler than slaughtering sheep and cattle, and can be done fairly easily by the grower with the proper equipment, obviating the need for employees to do the slaughtering. Also, USDA inspection isn't necessary under two USDA Food Safety and Inspection Service (FSIS) exemptions: one for producers who process 1,000 birds or less each year, and another for those who process up to 20,000 birds annually — provided that certain requirements are met, including proper sanitary practices.

The cooperative chose to operate under the 1,000-bird exemption, which is slightly less rigorous. Under that rule, producers must own and raise their birds and must process them on their own property. They must sell directly



Instead of making on-farm visits, some mobile processing rigs make weekly or semi-weekly rounds of centrally located sites, where producers meet them with their livestock. USDA photo

to customers; they are not allowed to sell to resellers, such as grocery stores.

The effort faced a snag, however, because Montana state law didn't recognize mobile slaughterhouses. Grow Montana, a pro-local-food lobbying group, successfully petitioned the Montana state legislature to pass a law in 2005 allowing inspection by the state. After the state Department of Livestock promulgated regulations in accordance with the new law, the effort was ready to go ahead.

It took several years to develop the mobile facility, but finally, in June 2010, it was approved and ready to go. It consists of a small truck and trailer, with the trailer containing the slaughter facilities and the truck having chilling and storage capabilities. The unit travels around the state to producer-members, who call the cooperative to reserve its use.

The cooperative also offers training in slaughtering in accordance with government requirements. Meanwhile, the cooperative is pursuing ways of developing the market for locally raised poultry, including customer education and developing heritage breeds.

North Carolina co-op promotes sustainable farming

Meanwhile, across the country in North Carolina, different problems have resulted in another approach to slaughtering poultry. NC Choices is a nonprofit initiative of the Center for Environmental Farming Systems, itself a program of several North Carolina universities and the state's department of agriculture. Its purpose is to promote "sustainable" local meat production, and it provides networking and technical assistance to develop markets

continued on page 38

Illinois Green Pastures Fiber Cooperative

Co-op connects craft makers with locally produced fiber

By Anne Todd, Contributing Editor



Natasha Lehrer and her mother, Donna, of Big Rock, Ill., are sheep producers who are deeply passionate about shepherding and fiber arts, including spinning and knitting. Both daughter and mother had a desire to raise the visibility of, and expand opportunities for, their fellow fiber producers in Illinois. So, in July 2006, Natasha, then only 19 years old, wrote and submitted a grant application to USDA Rural Development in hopes of obtaining funds to help start the Illinois Green Pastures Fiber Cooperative to market and promote Illinois animal-fiber products.

The following September, the co-op was awarded a \$180,000 Small Minority Producer Grant (now known as the Small, Socially Disadvantaged Producer Grant Program) – the first such grant ever made by USDA Rural Development in Illinois. The grant helped launch the co-op, funding its advertising, educational programs and development of its website: <http://www.illinoisgreenpastures.org>.

Donna served as the president of the Green Pastures board of directors during the inaugural year of the co-op, and Natasha was on the board in the early years. More recently, they have chosen to step back and let others take the lead in managing the co-op. However, they continue to serve as consultants to the members, both on the best uses and characteristics of the various fibers and on ways to market that fiber.

Marketing events: from 30 to 30,000

The fiber shows that the Lehrers and other co-op

members take part in can range from small events, where only about 30 people attend, to huge shows that attract crowds of 30,000. The Lehrers advise members on pricing and other ways to showcase their wares, depending on the type of event.

Of the co-op, Donna Lehrer says: “I did not want to be a middleman. We wanted to offer a place where co-op members could sell and we could educate people on the wonderful Illinois fiber available.”

In addition to being founding members of the Green Pastures Co-op, Natasha and Donna own and operate Esther’s Place, <http://www.esthersplacefibers.com>, a community-oriented fibers arts studio in Big Rock. Esther’s Place offers classes in knitting, spinning, weaving, dyeing, felting and other fiber-related arts. It also boasts a large selection of fibers and yarns for sale, all of which are locally grown, and offers a selection of craft-making supplies and notions. Natasha also applied for grant assistance through USDA Rural Development in 2005 on behalf of Esther’s Place, and was awarded a Value-Added Producer Grant of \$24,125, which helped launch the business.

The Lehrer family has a flock of Cheviot sheep, a long-wool breed that produces dense fleece that is ideal for felting. Like the Lehrers, most members of the Green Pastures co-op harvest fiber primarily from various breeds of sheep, but there are also Illinois fiber producers that raise angora rabbits, llamas and alpacas.

The raw wool sells for as low as 16 cents per pound, with white merino wool earning about 65 cents per pound. However, finished clothing, accessories or artwork created from the raw product can sell for up to \$30 per pound, and spinning the softest fleece into yarn can yield up to \$60 to

The Illinois Green Pastures Fiber Cooperative (IGPFC) sells its members' home-grown wool products at marketing events of all types and sizes. Here, Sandy Schrader (left) and Kathy McClure prepare to meet customers during the Fiber in the Park fair at Sandwich, Ill. Photo courtesy IGPFC.



Co-op Q&A

\$65 per pound (minus the cost of shearing and processing).

Unaware of value-added potential

Prior to the launch of the co-op, most Illinois sheep producers were not aware of the value-added potential of their raw wool that could be achieved just by spinning it into yarn. Because raw, sheared wool nets only \$1.20 per pound, very few Illinois shepherds attached any particular value to it, especially considering the cost of shearing and processing. In fact, about a third of the shepherds in the state would just shear the wool and burn it.

But the Lehrers and other members of the Green Pastures co-op are working slowly and steadily to educate producers about the value of spinning the raw fiber into yarn, and also about the benefits of tapping into the fibers arts business, which is growing.

“Shepherding is hard work, but it’s rewarding, says Natasha Lehrer. “I’m proud that the Green Pastures co-op is helping Illinois wool producers, more and more, to connect to the broader world of the fiber arts.” ■


Editor’s note: Contributing Editor Anne Todd recently interviewed Jane Zeien, president of the board of the Illinois Green Pastures Fiber Cooperative, and Judy Maierhofer, board member, to learn more about the co-op’s operations and mission.

Question: Green Pastures just had its fourth anniversary this past July. How has the co-op grown and changed since the group first had the idea of developing the fiber marketing co-op?

Jane Zeien: “The co-op started with a few members within a close geographical area. It has grown to include members across the state, more than doubling the number of members, to 30.”

Question: What steps has Green Pastures taken to increase marketing of members’ products?

Jane Zeien: “Many new marketing avenues have been started. More fiber shows have been added to the schedule, increasing the direct contact with fiber artists



“For our cooperative, the communications committee is even more important than a membership committee.”

who are looking for quality products. An additional retail outlet has been added to increase exposure in a different region of the state.”

Question: What has been the biggest challenge facing the co-op? And the biggest obstacle overcome?

Jane Zeien: “The biggest challenge for Green Pastures continues to be marketing. Increasing awareness of the wonderful fiber products the co-op members produce is a major goal of the co-op. Another challenge is to attract more members to join the co-op, increasing the variety of fiber that can be offered.”

Question: Any new marketing efforts planned?

Jane Zeien: “The co-op was represented at the Bishop Hill Fiber Guild’s 30th annual Spin-In on Oct. 16 in Kewanee, Ill. The Spin-In is for spinners and knitters. It was a day filled with fiber workshops, and there were also opportunities for us to showcase the co-op, our products and to network with artisans and other fiber producers.”

Question: Where do you see Green Pastures going in the future? What do you hope to achieve with the co-op in the future?

Jane Zeien: “Members of the co-op are passionate about their animals and the fiber they produce. We will continue to provide top-quality fiber to the fiber industry. The co-op provides members with a way to preserve the lifestyle they love and help preserve rural America. As the demand for fiber increases, there will be more of a demand for the animals, thus increasing American agriculture.”

Question: How far back with Green Pastures do you go, and what do you like best about belonging to the co-op?

Judy Maierhofer: “I’ve been with the co-op for about four years. I joined right after the first 12 founding members joined. I’ve worked with fiber arts my whole life. My grandmother taught me how to spin as a child. And I’ve been shepherding for almost 30 years now. What I like best about the co-op is that it gets us all talking about outlets for our products and connects us to shop owners and artists so that we can sell our product.”

Question: Being a shepherd is demanding, but it seems to be

a passion for you and other shepherds. What makes you stick with it?

Judy Maierhofer: “It is a lot of work, but if you love doing it, it’s not really work. And I love the sheep. Plus, sheep are lower maintenance than other livestock, like horses or cattle. They can handle it if I get home late.”

Question: Tell us about how you got started and the breed of sheep you work with.

Judy Maierhofer: “I’ve been a shepherd for almost 30 years. I got started with Navajo Churros in 1989, when I agreed to help foster a few Churros that were originally part of a flock in New Mexico. There was a terrible drought at the time, and shepherds there were looking for farmers who could rescue the sheep, which were dying. A rescue program was set up between New Mexico, Arizona and Illinois. I have about 25 Navajo Churros now.

“Navajo Churros are known for having coarse fiber that is used for rugs. But this isn’t really accurate. The boys have a type of mane that is coarse, but the body hair is fine. Also, there is a lot of color variation in their wool. All the colors you see in human hair, you will also see in Navajo Churros.”

Question: In what ways do you participate with the co-op?

Judy Maierhofer: “In addition to being on the board, I help keep everyone aware of all the fiber festivals and shows that run from April through October.”

Question: How does the co-op communicate with members?

Judy Maierhofer: “The co-op sends out its newsletter over the Internet, and we are also working on a monthly “FYI” to alert members about upcoming shows and sales. The co-op also sends out monthly checks to members from the proceeds of product sales at the events. For our cooperative, the communications committee is even more important than a membership committee.”

Question: What would you like to see the Green Pastures co-op take on in the future?

Judy Maierhofer: “I’d like to see us get our products into more shops and give members more outlets for their products and sales. I’d also like us to get more into the Chicago art market, because fiber arts are hot in the fine arts right now.” ■

Legal Corner

Financial and legal aspects of succession planning for family-owned businesses

By Stephanie M. Smith,
Senior Legal Advisor
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As discussed in a prior Legal Corner article about business succession planning (“succession planning,” hereafter), succession planning is key to protecting your company, your family and your employees against monetary burden that could leave your business in financial and legal ruins. For example, if you plan to turn over your business to your children, you have to think about the heavy gift taxes they will face. If you die, your heirs can suffer an equally prohibitive estate tax.

This is a huge issue for many rural communities, and it can have related impacts on members of farmer cooperatives. In addition to their farms, many co-op members also have related businesses (such as custom harvesting or crop application services, etc.) that may operate as family businesses.

If you want to sell your business to employees, either an employee stock option program or a worker cooperative can be organized. (see the January-February 2009 issue of *Rural Cooperatives* for more on this topic). Lastly, you may decide to sell your firm to a chain or a local competitor. So, where does a business owner start?

Critical issues to consider

- **Valuation** — No matter who inherits your business, it is critical that you get an accurate valuation of your

business. Such a valuation encompasses tangible assets such as real estate and buildings, machinery and equipment, as well as intangibles such as employee loyalty, manufacturing processes, customer base and business reputation, patents on products and new technologies. A business valuation is also a way to predict your company’s future. Using your firm’s historical and financial records and your judgment as owner, work with your valuation firm to calculate whether your business will grow or decline, future inflation rates and anticipated costs and expenses of running the operation.

- **Ownership and control** — A family-owned business is often held and controlled by husband, wife (or both), or a number of siblings. Other, non-family, closely held businesses often have a more complicated system of ownership and control. Along with ownership comes control over compensation, benefits, hiring/firing, management and short- and long-term business goals.

- **Management Succession** — A family business must be viewed in terms of the way in which management decisions are made for non-family businesses. Non-family businesses make decisions according to performance of their employees and reward them accordingly. Those who are unproductive are terminated.

However, a family-owned business usually makes decisions based upon the value of family members as people, regardless of whether their performance is satisfactory or not. If

“blood is thicker than water,” a concerted effort must then be made to identify and train the appropriate family members to be the successors to manage the business.

You may also have to consider non-family members as successors if they prove to be the key people to ensuring the sustainability of the business. In some cases, short-term successors are appointed while long-term successors complete the necessary training. Overall, the relative strengths and weaknesses of the family members must be carefully considered in determining the management restructuring that must take place.

- **Tax Planning** — The cash-flow consequences of succession planning are crucial to success. This is an area where the team approach of professionals can really bring value to the process. In the area of estate and gift taxes, questions need to be raised regarding lifetime transfers or transfers at death.

Should there be “carry over” basis (gifting) or “stepped up” basis (transfers at death)? What will be the death tax cost to transfer the business and how will finances be arranged to meet the obligations? In the area of income tax planning, what will the capital gains be if the entity is sold to outside parties? Are there ways that this gain can be deferred or eliminated, perhaps with charitable tax planning? What income will the retiring owners need, and what income levels will successors expect in

continued on page 39



“Not just a job, but a future”

Goal of Evergreen family of worker co-ops is to help struggling neighborhoods prosper

By Dan Campbell, editor

Cleveland Rocks! — according to the theme song of the long-running Drew Carey TV comedy show. But not all of its neighborhoods rock equally, at least when it comes to jobs and economic opportunity.

The business district of downtown Cleveland has undergone a dramatic revival in the past 15 years or so, with popular new attractions such as the Rock and Roll Hall of Fame, the East 4th Street food and entertainment district and new downtown stadiums and an arena for its professional sports teams helping to lay to rest those put-downs about the city being “the mistake on the lake.” Yet the poor

neighborhoods that surround the University Circle area — the cultural center of the city — have not shared in this revival.

These neighborhoods are home to about 43,000 people, who suffer from an unemployment rate near 40 percent. The median annual income is less than \$18,500. Vacant lots, deteriorated buildings, water shut-offs and foreclosure signs are common here.

This contrasts sharply with University Circle, which has a vibrant core of major health, cultural and educational institutions, as well as some major international businesses that together employ tens of thousands of people in good-paying jobs.

“But University Circle has been radically disconnected from the poor neighborhoods surrounding it,” Ted

Howard, director of The Democracy Collaborative, told attendees at the 2010 ACE (Association of Cooperative Educators) Institute in Cleveland last summer. “So the question has been: How do we break down this barrier and create opportunity for the people of the surrounding neighborhoods?”

Laundry and solar co-ops launched

A key part of the answer, Cleveland is hoping, is a network of worker-owned cooperatives. The first two of these co-ops were launched in October of 2009. The Evergreen Laundry Cooperative is serving several large health-care institutions in the University Circle area, while Ohio Cooperative Solar is installing solar panels on the roofs of large institutions

Facing page: Worker-owners of the Ohio Solar Cooperative (OSC) have installed solar collector panels on the roofs of some of Cleveland's largest government buildings and hospitals. Photo courtesy OSC. Below: Medrick Addison (right) is a worker-supervisor who helps keep operations running smoothly at the Evergreen Laundry Cooperative. Bottom: The skyline of downtown Cleveland has undergone an economic revival in recent years, unlike some of its nearby neighborhoods. USDA photos by Dan Campbell.

and businesses.

Many of the worker-owners of these co-ops are people who in the past have had to struggle to find any kind of decent job, including some who have had to overcome records of incarceration and substance abuse. For them, just to find a steady job in their depressed neighborhoods is an accomplishment, let alone a job in which they are part owners and can accumulate equity. For them, these new co-



ops offer a second chance, not just for a job, but a future.

Next year, a third Evergreen cooperative, Green City Growers Cooperative, plans to break ground on one of the nation's largest urban food production greenhouses. The Neighborhood Voice, a free, student-operated online and print publication, is also part of the Evergreen family of cooperatives. It will publish monthly, reaching about 100,000 residents and employees in the Greater University Circle.

Ultimately, the hope is that there will be dozens of worker-owned co-ops operating under the Evergreen umbrella in Cleveland, transforming and lifting the economy in much the same way that the worker-owned cooperatives have done in the Mondragon region of northern Spain. There, the Basque people began 50 years ago with one small worker co-op and a handful of jobs. Today, it encompasses a

large, diverse network of worker co-ops that provide more than 100,000 good jobs, according to James Anderson of the Ohio Employee Ownership Center (OEOC), which helped spearhead the launch of the Evergreen project. He and Howard provided the ACE conference attendees with an overview of how it was done.

Planting seeds

In December 2006, The Democracy Collaborative — a research and policy center based at the University of Maryland that focuses on community wealth-building strategies — held a community-wealth roundtable in Cleveland to explore innovative ways to help break the cycle of poverty in the Greater University Circle area. It attracted 45 participants who represented a broad array of thinking and talents, including university faculty members, community development experts, leaders of Employee Stock Ownership Plans, chamber of commerce leaders and the CEO of a hospital, among others.

As a result of this meeting, the Cleveland Foundation — the region's largest philanthropy — asked Howard and his colleagues to help develop a new economic inclusion plan for the Greater University Circle area — one that would offer a different approach from the failed efforts of the past.

“We were lucky to have the Ohio Employee Ownership Center (OEOC) just down the road and access to low-cost capital, the lack of which is the biggest restraint on the spread of the co-op movement,” Howard said. He recalled a conversation with the leader of an economic Empowerment Zone that had been created years earlier to direct more financial resources into the Greater University Circle area. Despite the expenditure of some \$34 million in these neighborhoods under that effort, “there was virtually nothing left behind afterward. It just didn't stick — it did not make a difference.”

The consensus was to instead try attacking the problem with a business development strategy. “We wanted to create for-profit businesses, owned both by workers from the community and the institutions that are their customers,” Howard said. These worker-owned businesses would pay living wages and offer the opportunity for wealth building through the accumulation of equity in the businesses.

“We wanted to root capital in the community so that it would not get up and leave. Worker-owners of a business are not going to offshore their own jobs,” Howard said.

To help refine the strategy, 120 people were interviewed over the ensuing six months — most of them leaders of large institutions and businesses of the University Circle area who were eyed as the primary customers of the new co-ops. “It was determined that there was a huge economic opportunity

to source business locally. Evergreen emerged from this,” Howard said.

Institutional buying power key to strategy

When looking for someone to organize and launch the first Evergreen business, Howard recalled that the late John Logue, founder of OEOC said: “This project cannot be allowed to fail, so we must have Jim Anderson on board.” This was a tribute to the business acumen and organizational savvy of Anderson, who formerly led the Republic Storage system in Canton, Ohio, and had a long professional career working with employee-owned firms.

Anderson served as the CEO of the Evergreen Cooperative Laundry for the first year of the effort, but turned over the leadership role in August to a management team of co-op members, in keeping with a goal that the co-op should provide a career ladder that allows employees to climb into senior management.

The strategy from the start has been to focus on tapping the purchasing powers of the large institutions of University Circle. These “anchor institutions” purchase goods and services worth about \$3 billion annually (exclusive of payroll and construction). Yet, virtually none of their purchases were being made in the area. Buying locally was not a significant part of their institutional business model. So there was a huge untapped potential for them to do more business locally.

A parallel focus of this effort has been to launch “green” businesses that operate in an environmentally benign manner. Evergreen Cooperative Laundry, Anderson says, “is the greenest laundry in northeast Ohio, probably in the entire state.” Heat and water used in the operation is recycled, harsh chemicals are kept to a minimum and the operation is housed in a LEED (Leadership in Energy and Environmental Design) silver building — an internationally recognized “green building” certification system.

It took \$5.7 million to launch the

laundry co-op. Of that, about \$2.5 million was for equipment, \$1.5 million to refurbish the building and most of the balance was to cover the early operating losses. The business plan calls for the co-op to break even within 18 months, and it has been running ahead of schedule. The building is leased from



Evergreen does the majority of its business with large health-care institutions in the University Circle area.

Enterprise Cleveland, a local nonprofit, and the co-op has first right of refusal if there is a sale of the property.

The first \$750,000 raised for the Evergreen project came in the form of a long-term, 1-percent interest loan from the Cleveland Foundation. That money was then used to leverage the rest of the \$5.7 million. Next on board was the city of Cleveland, which provided a \$1.5 million loan from its Housing and Urban Development 108 funds.

“This gave the project legitimate legs, so we could go to other lending institutions,” Anderson recalled. “Those investments created credibility for us.”

The co-op then got more funds from two commercial banks and qualified for a \$250,000 loan from the Commonwealth Revolving Loan Fund (which had been established by the Ohio Employee Ownership Center at Kent State University). A New Markets Tax Credit allocation from US Bank was also negotiated.

The Evergreen Cooperative Development Fund was created as the financing entity for the family of co-ops. The plan calls for this fund to grow from \$5 million at present to about \$50 million. Evergreen Business Services is the corporate entity that supplies “back office” services to all the

co-ops; it houses the CEOs, human resources and finance offices.

Community on board

As the laundry co-op neared opening day “there was a lot of excitement in the neighborhood about it,” said Medrick Addison, a worker-supervisor with the laundry who was one of the first two employees hired. “There was also some negative feedback at first; but once people understood what we were doing, they got behind us.”

The desperate need for good jobs in the area was underscored by the co-op receiving about 500 applications for the first dozen jobs. “We pay a significantly higher wage” than for comparable jobs, Addison noted. Evergreen also provides its worker-owners with a no-cost health package.

The laundry currently employs about 25 people, but hopes to expand to 35 workers in the near future. Plans call for 50 workers to be co-op members by the time it reaches its “mature” level of operation, when it will be cleaning 10 million pounds of laundry annually.

Each new employee goes through a six-month trial period, after which the other members vote on whether to accept them into the co-op. “You have to prove yourself to your fellow workers, because you are essentially choosing to go into business with them,” Addison said. Once a worker becomes a co-op member, he or she qualifies for a \$2-an-hour bonus and for benefits.

When the business becomes profitable, 10 percent of profits will go back to the Evergreen Development Fund to help start other co-ops; 80 percent of the rest of the profits are to be distributed among the members, of which 20 percent is to be paid in cash.

Members have to invest \$3,000 for a share of co-op ownership, but they can pay that off at 50 cents per hour, deducted from their pay increase. As the company earns profits, earnings will be placed annually in worker capital accounts. The goal is to generate up to \$65,000 in co-op equity for a worker who stays on the job eight years. This

money belongs to the worker, and when they leave the company or retire, they take it with them.

New co-op business ideas are being developed, including: a worker-owned co-op that would refurbish houses in the neighborhoods; recycling companies; and a business to turn hospital medical waste into energy. “We want to keep the money circulating locally — to stop it leaking out of northeast Ohio,” Anderson said.

Keeping customers satisfied

The future success of the co-op rests with keeping customers satisfied — especially the large health-care institutions that account for most of its business. Whenever the co-op receives any kind of quality-control complaint, Addison personally visits the customer to find out what happened and ensure that the problem is addressed.

“If there is a problem for a customer, we do not let it fester — we get it fixed,” he said.

One seat on the board of directors of the laundry is reserved for a customer. The other directors include two co-op members and two more appointed by the Evergreen Cooperative Corporation, the co-op network’s “holding company.” No lenders sit on the board, and the bylaws have been set up to ensure that the co-op is never demutualized.

Many people in the area have been through various job-training programs in the past, only to find there were no jobs for them when they completed the training. So this project sounded much more attractive: a good job from day one. Training is still part of the picture, but it involves much more than simply how to do the work.

Worker training, provided by the Ohio Employee Ownership Center, includes personal financial literacy classes. Once that study is completed, the training shifts into basic worker co-op issues, such as knowing when a worker-owner needs to “wear the owner hat vs. the worker hat.” Training also includes business financial literacy. In all, it is about a one-year program,

Solar co-op will double Ohio’s PV-energy output

As of the summer of 2010, there were only two megawatts of installed solar power in Ohio. With just the orders it already has on its books, that total will be expanded by an additional three megawatts by 2012, thanks to the work of just one business: Ohio Cooperative Solar (OCS), a member of the Evergreen family of worker-owned co-ops.

OCS owns and/or installs photovoltaic (PV) solar panels on large institutional, government and commercial buildings. Customers of the co-op to date include Cleveland Clinic, University Hospitals, Case Western Reserve University, the city of Cleveland and the Cleveland Housing Network.

The co-op offers two types of contracts. It can sell and install the PV equipment to a building owner, who then is responsible for arranging tax



credits and working with its utility company and securing insurance coverage and maintenance service. Or the co-op will maintain ownership of the PV equipment and take care of all the related arrangements. It then sells the electricity via a power-purchase agreement. These typically involve a 15-year equipment lease arrangement.

The co-op has about 25 worker-owners at this time, but hopes to expand to 75 to 100 at maturity. The rules of membership, equity accumulation and most other bylaws are basically the same for the solar co-op as the laundry co-op.

A solar panel array that can generate 100 kilowatts of electricity costs \$500,000, installed. Proper installation is critical, so panels must be attached to the roof in a manner that stands up to high winds and winter conditions, and should avoid placements subject to shadowing.

When the weather doesn’t permit solar panel installations, workers keep busy doing home weatherization work. This program uses federal government assistance to help low-income and handicapped homeowners acquire new or repaired furnaces, hot-water heaters, wall/attic insulation and weather stripping/caulking for doors. There are 38 million qualified households nationwide, notes co-op CEO Stephen J Kiel.

The average low-income household spends about 17 percent of its income on energy, according to the co-op. After a home is weatherized, the average household saves \$350 in energy savings in just the first year. ■

with classes held every other week.

Calling the Evergreen effort both exciting and daunting, Anderson said that while it is worth celebrating key accomplishments to date, “it is way too early to celebrate” this effort as an ultimate success story. “We have miles to go.”

Ultimately, the success of worker co-

ops such as these depends upon building a culture of ownership, says Howard. Thus, he takes heart from a brief exchange heard after a group from Pittsburgh — including two union representatives from a laundry there — recently toured Evergreen. One of the union representatives said: “This laundry is sure superior to the one we

work for.” An Evergreen co-op member responded: “That’s the difference; we don’t work ‘for’ this business, we own it and we work for ourselves.”

Editor’s note: To view a video about Evergreen and learn more about this economic development strategy, visit: www.community-wealth.org.” ■

Urban farming strides forward with new greenhouse cooperative

If things go according to plan, Cleveland residents will soon be eating a lot more home-grown lettuce, herbs and spinach. As in about 5 million heads of lettuce and 300,000 pounds of herbs annually, grown in one of the economically depressed neighborhoods surrounding the University Circle area.

The newest addition to the Evergreen family of worker-owned co-ops is Green City Growers Cooperative, which plans to break ground this March on a five-acre hydroponic (meaning the crop is grown without soil) greenhouse operation, on 11-acres that will be one of the nation’s largest urban food production greenhouses. The co-op hopes to be growing its first crop by November 2011.

In addition to the greenhouse, the \$18 million project will include a 16,000-square-foot packing house. The greenhouse will have four separate climate zones, giving it the capacity to change its crop mix, depending on customer demand.

The project will include a 1.5 megawatt wind turbine that will provide about 40 percent of the operation’s annual power needs. Rainwater will be reclaimed from the roof, and dual layers of energy curtains on the roof and sidewalls will reduce its energy needs. Crops have been chosen that can be grown in colder temperatures than other hydroponic greenhouse vegetables, again lowering the energy demand.

As with the other Evergreen co-ops, the underlying goal of this business is job creation and wealth-building opportunity for the co-op members, but it will achieve this by providing healthy, locally-produced food for city dwellers.

Longer shelf-life

The co-op will grow varieties of specialty lettuce, not iceberg lettuce, and thus will not compete with area farmers. The crops grown by the co-op will instead reduce the amount of lettuce typically trucked in from 2,000 miles away. Not only will that reduce the carbon footprint of the food consumed, but it will provide local buyers with produce that has an extra seven days of shelf life.

Mary Donnell, who holds an MBA and a master’s degree in

horticultural science and has been working in the field for 20 years, is the project director (she will become the initial CEO once the co-op is in operation). She says the greenhouse operation will be a good fit for Cleveland, which is considered to be a national leader in the promotion of local food consumption and production.

Initial plans are to market the co-op’s produce to the food-service industry, area grocery stores and some of the major



Hydroponic lettuces are grown in greenhouses without the use of soil.

institutions in the University Circle area. The co-op will have 35 to 40 worker-owners, who will be hired from University Circle neighborhoods.

Some of the initial funds for the project came from a HUD grant and loan package, which targets the remediation of brownfield sites. When interviewed in late October, Donnell noted the final pieces of the financing picture were falling into place. If commercial-scale urban farming and food production continue to be a trend, Donnell recommends modifications be made to USDA programs so that the USDA can offer the same help to urban farmers as it does to rural farmers. ■

Management Tip

The most important thing I have learned about running a co-op

Editor's note: Larry Swalheim is retiring at the end of this year as CEO of Landmark Services Cooperative in Wisconsin. Since being named CEO in 1991, Swalheim helped Landmark grow from a one-location cooperative to one of the largest co-ops in Wisconsin. He guided Landmark through several strategic partnerships and mergers that boosted the co-op's annual sales from \$25 million to more than \$300 million. The co-op provides agronomy, energy, animal nutrition, grain, retail and transportation products and services to more than 15,000 members in a territory that ranges from east-central Wisconsin to northern Illinois.

Several other recently retired (or about to retire) co-op leaders have also been asked to comment on what important lesson(s) they learned about running a co-op. Their responses will appear in future issues. Other leaders of co-ops, large or small, are also welcome to submit their thoughts on this question. Just send an e-mail to: dan.campbell@wdc.usda.gov.

By Larry Swalheim



I have had the privilege of being a part of the leadership team at Landmark Service Cooperative for nearly 24 years. During that time, I have had the opportunity to learn from our board, our employees and our members on the importance of communication, collaboration and commitment in creating a sustainable, successful cooperative business.

Communication is the cornerstone on which a cooperative stands. To be a successful leader in this unique business

continued on page 38

Making Landmark a leader

In the past two decades under Larry Swalheim's leadership, Landmark has been a leader in many areas, including:

- Marketing grain to U.S. and world markets with Wisconsin's only 100-car rail terminal;
- Expanding Landmark locations from 1 to 16, and the number of employees from 80 to nearly 400.
- Creating a team of 16 animal nutritionists who provide technical services and risk management support to some of the region's largest dairies;
- Implementing state-of-the-art precision agriculture technology and creating its own producer input financing company, Verity Resources.
- Being awarded two National Environmental Respect Awards for its agronomy locations, two CHS/Cenex Star Energy Awards for energy sales and management, and earning several Land O'Lakes Quality Awards for dairy feed production.

Swalheim has also been actively involved in cooperative education and community outreach while serving as CEO. In recent years, he has traveled to the Ukraine and Moldova (both former Soviet republics) and to the Philippines as part of the United States Agency for International Development, which teaches cooperative leadership and principles to under-served rural areas around the globe.

In addition, he currently serves as the president of the National Co-op 401K Plan (a retirement program designed to enhance the long-term financial security of co-op employees nationally), chairs the University of Wisconsin Center for Cooperatives Advisory Committee, is a director for Wisconsin Community Bank and was recently appointed as a member of Thrive, an economic development enterprise for the eight-county Madison region.

"Without Larry's guidance, we could not provide the wide variety of products and services at competitive prices to our patrons that we do today," says John Blaska, Landmark's board president.

An avid world traveler who recently completed a trip to Antarctica, Swalheim says he feels that this is the right time for him to step back. "Now is the time. Landmark is financially strong, with the best management team we have ever had. This leaves me with the feeling that the momentum of this company will keep moving forward at full speed."



Larry Swalheim helped increase Landmark Cooperative's sales from \$25 million to \$300 million during his tenure as CEO.

Utility Co-op Connection

Cooperatives delivering broadband to rural Missouri communities



Ralls Electric Cooperative received \$19 million in American Recovery and Reinvestment Act funds from USDA to expand broadband service in its rural Missouri service territory. Photo courtesy Ralls Electric Cooperative

By Anne Mayberry
Public Affairs
USDA Rural Development

During the next year, hundreds of projects to deliver broadband to rural areas will break ground nationwide in an effort to provide rural consumers with the technology necessary to compete in today's economy. Ralls County Electric Cooperative in Missouri is among the utility co-ops striving to bring broadband service to its members.

It received a \$19.1 million award as part of the U.S. Department of Agriculture's \$2.5 billion in American Recovery and Reinvestment Act

(Recovery Act) funding. These funds will help the Ralls co-op build more than 1,200 miles of high-speed fiber optic cable to 5,000 homes, businesses, public safety facilities and community entities in rural northeast Missouri. The work, part of a five-year initiative launched by Missouri Governor Jay Nixon, is expected to expand broadband accessibility to more than 90 percent of the state's total population, up from the current 79.7 percent.

Agriculture Secretary Tom Vilsack noted that these broadband projects offer rural residents access to the tools they need to attract new businesses, jobs, health care and educational opportunities. "Bringing broadband to rural America provides a gateway for businesses and key anchor institutions

— such as libraries, schools, public safety and community centers — to provide services to thousands of Americans." In addition to expanding educational, health and businesses services for the area, the project is expected to create 35 to 40 new jobs in the short term and has the potential to create more than 1,300 jobs in the future.

Leveling the playing field

Ralls County Electric Cooperative Manager Dan Strode understands the magnitude of the change that high-speed Internet access can deliver. "Broadband has so many applications for homes, schools and businesses that will help bring the future to this community. Ralls was the last county in

Missouri to have a public library. It will take years to stock that with the books and publications found in urban libraries. Internet access will help level that playing field and open this county up to the world, bringing us tremendous opportunities.”

Broadband service can also play a big part in rural health care and education. “We can deliver telemedicine service from urban areas, and residents will have access to more health care information,” Strode says. “We cannot afford to hire foreign language teachers. But with the Internet, schools can visit foreign countries and learn about other parts of the world. We will be able to provide [home and business] security services for our residents. To see a movie, we now have to drive 18 miles. Broadband will change all of that.”

According to analysis released by the National Economic Council last year, overall Recovery Act investments in broadband are expected to create tens of thousands of jobs in the near term and will expand economic development and job opportunities in communities that would otherwise not benefit from the knowledge-based economy.

Recovery Act broadband projects help reduce the cost of private investment, attract Internet service providers to new areas, improve digital literacy among students and workers and create new opportunities in employment, education, health care and business.

Strode is optimistic that in addition to the increased services that broadband access routinely delivers, Ralls County may benefit from additional economic development. “Our plan is to use 10 percent of the net cash flow for economic development. We want to ensure that along with this service, we will grow businesses in our area.”

Broadband, Strode notes, allows people to work from their homes and expands access to a variety of markets and services.

“The smart grid — which right now is still a concept — will require larger capacity for data and more speed,”

Strode says. “Automated meter reading and other services that require two-way communication with consumers are in our plans. This broadband project will allow us to continue to become more sophisticated and offer more applications to make more efficient use of electricity. This is how broadband will create jobs. The need for those skilled in technology, for example, will grow. Some of the uses for our economic development funds — incubator start-ups — have not yet been invented.”

Studies show impact of broadband

Strode’s ideas are supported by studies that indicate investment in rural broadband boosts economic growth, promotes new businesses and increases the growth of existing firms. For example, USDA’s Economic Research Service notes that “rural counties with broadband Internet service in 2000 had greater subsequent employment and income growth than similar rural counties without service.”

Construction of Ralls County’s new broadband network began in March 2010 and is scheduled to be completed by May 2013. The first customers are expected to have broadband access during the first portion of 2011. “We have already had a community currently not in the planned service territory ask to be included in future build-out,” Strode says. “We want to make sure our business assumptions are realistic before we expand. And we are sharing our non-proprietary information as this project rolls out. We want to provide a model to show other counties how they might duplicate this.”

Providing telecommunications service is not entirely new to Missouri electric cooperative utilities. Barry Hart, executive vice president and CEO of the Association of Missouri Cooperatives, explains that nearly 15 years ago, the large electric cooperatives that handle generation and transmission made the decision to install fiber to help ensure communications reliability.

“A variety of businesses and organizations expressed an interest in working with the cooperatives for broadband access,” Hart says. The seventh cooperative principal, he notes, is concern for community. “The cooperation between the communities and cooperatives is what helped provide the ‘middle mile’ broadband service that today makes broadband connectivity possible in many of these areas,” Hart says.

Broadband service is also not new to Ralls County Electric Co-op. Strode recalls that in 2005, the co-op offered wireless service to members. “We had eight power locations, but could only reach one out of every four who requested service.” The region’s terrain — rocky bluffs and dense forests — limited the signal. “Seven kilobytes was typical. This project will deliver 10 megabytes, up and down,” he says.

Better service, better economy

Increased bandwidth is critical to the co-op’s operations.

“We are using broadband for distance learning,” Hart says. “Each month, we deliver our electric safety training program over the Internet. The transition has reduced statewide travel among the cooperative’s main offices and district offices.

“It’s exciting to see how this technology, which is rapidly evolving, will help us deliver better services to our members,” Hart says.

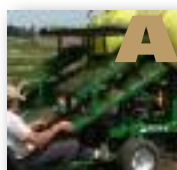
Strode explains that cooperatives work for the people in their communities and are in business to provide a vital service.

For example, a \$10 million investment in an urban area might generate a 25-percent return, he notes. “That same investment in rural areas might provide a 6-percent return. And the returns we do make go to those who own us: our communities. We do not have the same profit motive, and that can make or break a lot of companies. Because we’re small and rural, being a co-op makes a difference.” ■

Cooperative Food Hubs

*Food hubs fill the ‘missing middle,’
helping small producers tap local markets*

By Alan Borst
Agricultural Economist
Cooperative Programs
USDA Rural Development



A food hub is a facility that is central to producers and has a business management structure that facilitates the aggregation, storage, processing, distribution or marketing of locally or regionally produced food products. Food hubs differ from decentralized markets, where producers and consumers are directly linked — as occurs at farmers’ markets, community supported agriculture (CSA) associations, produce stands or any other direct sales arrangements by individual farmers.

A food hub functions as an intermediary that — by pooling producers and consumers — adds value to the marketing of produce and facilitates the development of a local food supply chain. Food hubs serve as aggregation points through which smaller producers can collectively market to larger buyers that they would otherwise not have access to. Food hubs, for example, can purchase sufficient liability insurance to enter institutional food markets.

These facilities provide storage and logistics services for both buyers and sellers. The development of food hubs has been driven by idea that there is a “missing middle” in



Bob Raymond of Village Creek Farm (facing page) grows salad-mix crops in a hoophouse in Lansing, Iowa. Below: Glen Elsbernd of G It's Fresh farm in Ridgeway, Iowa, uses a vintage tractor and cultivator to control weeds without chemicals. Both are members of the GROWN Locally Cooperative, which was started in northeastern Iowa in 2000 to increase access to the institutional food market for small farms. Photos courtesy GROWN Locally Cooperative



local food infrastructure in most regions across the country. Food hubs identify and capitalize upon such gaps by developing and operating the needed infrastructure.

Consumers have become increasingly concerned about the sources of their food, with a sizeable market niche having developed for locally produced foods. Smaller producers have been searching for market outlets that provide better returns for their produce.

The cooperative model of business is one way through which such aggregation has been organized by both producers and consumers. Cooperatively organized food hubs can be distinguished from other business models, such as hubs organized by an individual grower, the government or an intermediary, such as retailers.

A 2008 study from Cardiff University in the United Kingdom analyzed producer cooperative food hubs. It concluded that cooperatives are likely to be established as mechanisms to enable profit generation from the activities of member-owners, rather than through the food hub identity.

A potential strength of co-op food hubs, the university study found, is that they are able to draw upon the expertise and resources of their membership. Co-ops also promote collaboration and understanding of each member's skills and business attributes in ways that may lead to greater resilience. This depends upon the sharing of priorities among cooperative members. Producer-cooperative hubs are able to specialize in marketing while allowing their membership to focus on food production.

Producer cooperative food hubs

An example of a mature producer cooperative food hub is the New North Florida Marketing Cooperative (NNFC), which was established by a group of African-American farmers in 1995. Their goal was to provide marketing services to their membership, helping them to collectively sell produce to markets such as local school districts, and — ultimately — to increase the volume of produce.

After six years of operations, the co-op had greatly expanded sales to 15 school districts in Florida, Georgia, Alabama and Mississippi. It currently provides food for about 200,000 students.

NNFC has adapted to meet the needs of its membership and its customer base. Since 2002, the cooperative has functioned as a coalition that promotes networking functions by facilitating connections between farmers and schools. NNFC has established a niche market and has been able to negotiate a price that is fair to the school district and profitable for its membership. As part of its marketing and promotion, the cooperative developed posters showing the life cycle of a crop — from planting to harvesting.

Another example of a producer cooperative food hub is GROWN Locally, which is described in a University of Wisconsin Extension publication, available online at:

www.cias.wisc.edu/wp-content/uploads/2010/01/grown_locally.pdf. This co-op was started in 2000 by a group of small growers in northeastern Iowa with the goal of reducing competition between farms and increasing their access to institutional markets through product aggregation and co-branding. There are now 22 members.

The cooperative is now focused on the institutional market. Its institutional clients prefer to receive as few deliveries as possible. Therefore, the co-op has



Members of New North Florida Marketing Cooperative sell their produce to area school districts.

been aggregating products for these customers.

GROWN Locally is exploring the development of a processed-vegetable product line for the cooperative's institutional clientele. The co-op has recently partnered with an entrepreneur who plans to convert a restaurant into a licensed processing facility and CSA packing and distribution hub.

Bringing in professional management

Over time, GROWN Locally discovered that it was more cost effective to hire a professional manager than to rely on volunteer members, interns or inexperienced staff to oversee its administrative tasks. In 2008, the cooperative hired a full-time coordinator with a background in business management and marketing to

coordinate pre-season planning, pricing and distribution. This allows growers to focus on production.

The University of Wisconsin Extension report concluded that cooperative food hubs need to develop or hire skilled management: "The co-op model offers a horizontal leadership structure. Without clear responsibilities and delegation, however, this model can result in disorganization, leadership imbalance and fatigue." The charge has been made that cooperative food hubs can suffer from the model of management by consensus.

Because their farms are small-scale operations, many of GROWN Locally's members cannot afford the certification and infrastructure necessary to formally complete certifications needed by their institutional buyers. As a result, GROWN Locally plans to adopt a post-harvest handling program for some of its members that may involve third-party certification.

GROWN Locally has found that pre-season production planning has helped its membership to better meet market demand. GROWN Locally's members plan production ahead of the growing season, based on customer demand. Prices are then set to reflect the membership's costs of production.

Consumer cooperative food hubs

In 2008, Marina Michahelles completed a thesis (at the University of Vermont) in which she studied the role of consumer cooperatives as local food hubs in the Northeast. Interviews were conducted with co-op managers and workers on the question of barriers to local food sourcing. Among the findings were that:

- Interest in local food has been growing in the last few years;
- The relatively high cost of local products is not an issue when co-op customers understand where the discrepancies come from;



The Wedge is one of the largest single food store co-ops in the nation, with \$30 million in retail and \$12 million in wholesale receipts last year. Photo courtesy The Wedge

- Sometimes access to local food has been a problem in the off-season, but the demand is year around;
- Consumer co-ops have had to compete with farmer’s markets, CSA farming associations and farm stands, as well as natural food grocers and larger food retail outlets, such as Whole Foods;
- There is a lack of cooperation among consumer co-ops and between co-ops and other organizations that has limited their effectiveness as food hubs.

The Wedge hitting stride

An example of a mature consumer-

owned cooperative food hub is the 36-year-old Wedge in Minneapolis. According to the *Minneapolis Star-Tribune*, the Wedge is one of the largest single-store natural foods cooperatives in the United States, with \$30 million in retail sales in its last fiscal year, and another \$12 million in wholesale markets.

It has been consistently profitable since the late 1980s. The Wedge has done particularly well this year, refunding 80 percent of its member-generated profits. The grocery co-op’s annual patronage refund to its members has hit \$1 million for the first time, marking one of the largest such

distributions in the country.

In 2007, the Wedge purchased one of its long-standing grower suppliers. The farm is currently in full production under the supervision of an experienced manager. It is now the Wedge’s primary supplier of organic produce. The farm also serves as an organic farming education site.

Both farmers and consumers have used the cooperative model of business successfully to organize food hubs to expand market opportunities for smaller agricultural producers, create rural jobs and increase local food sales. ■

Why the asset-building movement

By Heather McCulloch,
Principal/Asset Building Strategies



ver the course of the last 20 years, a national “asset-building” movement has grown rapidly in communities across the

United States. The movement is focused on building the financial security of working families through a broad range of practical strategies and public policies that enable low- and moderate-income individuals to save, invest and preserve financial assets.

To date, rural co-ops and other shared-ownership strategies haven’t been part of this national dialogue because the movement has been largely focused on individual ownership. This article offers readers an introduction to asset-building policy and practice with a focus on why it’s relevant to rural cooperatives. It also makes a case for why co-op leaders should engage with asset-building leaders to identify and advance common policy and practical goals.

What are assets and why do they matter?

There’s been a growing national dialogue about the importance of financial assets — cash savings, stocks and bonds, as well as home, business and real estate equity — in building the financial security of low- and moderate-income working families. While income is critical to enabling families to get by day-to-day, assets enable them to weather financial crises, invest in their children and their community, plan for a secure retirement and pass resources on to future generations.

Even before the recent recession, however, U.S. families were experiencing unprecedented levels of financial insecurity. Nearly one in four households was “asset poor,” meaning they had insufficient assets to survive, even at the poverty level, for more than three months if they experienced a job

loss or other income disruption. The economic crisis has only made matters worse as it has pushed millions of middle class families into income and asset poverty.

History of asset-building movement

The asset-building movement started in the mid-1990s with a national demonstration project focused on one strategy: Individual Development Accounts (IDAs). These are matched savings accounts that enable low-income individuals to save for a home, business or post-secondary education. The demonstration showed that low-income families would save if given appropriate incentives, similar to those offered to wealthier families through the tax code. The success of IDAs laid the foundation for a broader asset-building movement that has advanced a range of practical strategies and public policies to support low- and moderate-income families to access financial education and services, save, invest and preserve financial assets.

Over time, the movement has grown to include an array of stakeholders, including: local, state and national nonprofits; elected officials and public agencies; foundations; financial institutions and their regulators, and even the Federal Reserve. The growth of the movement has been fuelled by several factors, including:

- Increasing understanding of the importance of financial assets in enabling families to move to long-term economic security;
- Concern about the wealth gap, which, before the recession, was greater than at any time since before the Great Depression;
- And the fact that, today, the issues of concern to the asset-building movement — financial education, accessible and affordable financial products, home and business ownership, access to health insurance, foreclosure prevention and retirement security — are all of major concern to most working families.

Editor’s note:

Heather McCulloch is the founder and principal of Asset Building Strategies, a consulting firm in California that advances policies and strategies to support low-wealth families to build financial assets. She is a co-author of the report “Expanding Asset Building Opportunities Through Shared Ownership” and has authored numerous other publications on trends and emerging opportunities relevant to asset-building practitioners, funders and advocates. For more information, go to: www.AssetBuildingStrategies.com. The following article is based on remarks she made at the most recent ACE (Association of Cooperative Educators) conference, in Cleveland, Ohio.

matters for rural co-op members

Building bridges between asset building and shared ownership

With more than \$3 trillion in assets under their control, the nation's 29,000 cooperatives — including rural and urban cooperatives as well as credit unions — play a significant role in building the wealth of member farmers, ranchers and fishers and co-op workers. For the most part, however, they've been off of the radar screen of the asset-building movement.

Now is the time to make the connection between the shared-ownership and asset-building movements in a way that benefits all stakeholders. Reaching out to, and educating, asset-building supporters about the wealth-building value of rural cooperatives could bring new attention, skills and resources to rural communities.

Rural co-op members could benefit from learning about — and connecting to — a range of asset-building strategies that would strengthen the financial security of member families and workers. Furthermore, building members' individual assets should help to strengthen the long-term sustainability of cooperatives, making it less likely they would be susceptible to demutualization proposals.

At the same time, the asset-building movement would benefit from the participation of these cooperative members and their workers, who represent an important new constituency from rural areas.

One national asset-building funder has been working to make the connection between the movements. In 2008, the Annie E. Casey Foundation published a framing paper and convened national leaders of the asset-building and various shared-ownership movements — including rural co-op supporters — to help them determine how to build bridges between the movements in a way that would help them to identify and advance common goals (Editor's note: the author has consulted with the Annie E. Casey Foundation on this effort since 2008).

In 2009, the Foundation supported two national working groups — one focused on shared home ownership, the other on shared business ownership — to encourage collaboration in the areas of public policy, practice, research and information sharing. This year, the foundation has been supporting efforts to educate people involved in asset building about the wealth-building potential of shared ownership strategies through media outreach, webinars and presentations at workshops and conferences.

Where do we go from here?

If we agree that the asset-building movement has much to learn about the wealth-building potential of rural cooperatives, and that the rural cooperative movement has much to gain from engaging with the asset-building movement, the next question to ask is: Where do we go from here?

For starters, rural co-op leaders could quickly get up to speed on asset-building policy, practice, research, trends and funding sources by exploring the following resources:

- Asset Funders Network (www.assetfunders.org);
- Center for Social Development at Washington University (www.csd.wustl.edu);
- CFED (www.cfed.org);
- Democracy Collaborative/Community Wealth Building Program (www.community-wealth.org);
- Institute on Assets and Social Policy at Brandeis (www.iasp.brandeis.edu);
- New America Foundation/Asset Building Program (www.assetbuilding.org).

In addition, rural co-op leaders could explore other ways to make the connection to asset-building practitioners, advocates and funders. For example, asset-building coalitions are now operating in more than 40 states, and an increasing number of county and regional coalitions are emerging. These coalitions are advancing a broad range of policies and practices that support low-wealth families to build financial assets. They offer opportunities for rural cooperative leaders to network with new partners and leverage resources.

National asset-building intermediaries also offer unique opportunities. CFED, one of the nation's leading national asset-building intermediaries, recently launched its "Innovators-in-Residence" program, which offers a \$50,000 stipend and technical support to individuals with new ideas about how to take strong asset-building strategies to scale. New America Foundation, another national intermediary, hosts a blog that includes guest postings about ways to expand the national dialogue about asset-building policies, practice, trends and opportunities.

Rural cooperative development may not be a new idea, but it is a powerful wealth-building strategy that deserves the attention of the asset-building field. Now is an opportune time for rural cooperative leaders to make their voices heard.



“The most difficult challenge throughout the process was keeping the vision alive. It was

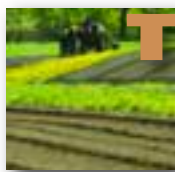
Fifth Season Cooperative



Having progressed from conception to incorporation, fledgling Wisconsin co-op faces crucial questions

By Courtney Berner,
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Editor's note: The Fifth Season Cooperative is a newly launched, multi-stakeholder cooperative in Viroqua, Wis., that provides the infrastructure and coordination needed to help rebuild the region's food system. This case study follows the co-op's development from the initial idea to the signing of the articles of incorporation in August 2010.



The Fifth Season Cooperative is in the center of Wisconsin's Driftless geological area, which includes parts of Wisconsin, Iowa, Minnesota and Illinois.

This region was never glaciated, and thus has striking topography consisting of forested hills, steep valleys and clear streams, as well as a

variety of ecosystems including grassland, forest, prairie and wetlands.

“This striking topography, however, makes agriculture in this region particularly challenging. The hills make for a breathtaking landscape, but they also limit the amount of productive land on farms. Farms in the Kickapoo Watershed are smaller than farms in the rest of the state. In Vernon County, for instance, the average farm size is 177 acres, compared to the state average of 228 acres,” according to a food assessment study of the area.

Despite these challenges, agriculture has long been the dominant industry in the region, which has enjoyed a rich variety of farmers and agricultural traditions over the years, from the Norwegian immigrants in the 1800s to the Amish families who settled more recently.

Despite the region's wealth of agricultural resources (Vernon County alone has more than

critical that people continued to be excited and feel ownership over the project..."



Co-op members sign the articles of incorporation (facing page) for the new Fifth Season Cooperative in southwest Wisconsin. Its mission is to encourage the development of a sustainable local food system. Photos courtesy Fifth Season Cooperative

200 organic farms), concerns have grown in recent years regarding its community food security. The Food Security Learning Center defines community food security as “a food system in which all community residents are able to obtain a safe, culturally appropriate, nutritionally sound diet through an economically and environmentally sustainable food system that promotes community self-reliance and social justice.”

While southwest Wisconsin produces large quantities of high-quality food, much of that food leaves the region for larger cities, including Madison, Milwaukee, Chicago and the Twin Cities. In 2007, the Valley Stewardship Network (VSN) launched a Food and Farm Initiative (FFI) in response to these concerns regarding local food security in southwest Wisconsin. The mission of FFI is to encourage the development of a sustainable, equitable local food system by:

- Engaging and educating a broad network of county residents;
- Improving access to healthy, local foods for all members of the community, especially the low-income population;
- Strengthening the economic viability of regional agriculture; and
- Addressing market barriers for local producers.

As part of the FFI, VSN conducted an 18-month community food assessment of Vernon County to better understand the county’s food assets, opportunities and needs and to identify the best strategies for improving food security. In Vernon County, the community food assessment served as a foundation for stakeholders to

identify projects, policies and partnerships to meet the aforementioned goals of a sustainable food system.

Farmland in the Driftless Region

Following the completion of the Vernon County Community Food Assessment, economist Ken Meter of the Crossroads Resource Center completed a rural economic assessment of southwest Wisconsin, based on the results of the food assessment, and reported the results to the communities in the region. Meter’s data, coupled with the findings of the FFI Community Food Assessment, revealed several important food system facts:

- Southwest Wisconsin is home to a great number of small- to medium-scale farms that have the capacity to produce high-quality foods.
- There is a multimillion-dollar local food market waiting to be further developed, as indicated by the \$208 million that consumers here spend annually buying food from outside the region.
- Producers in southwest Wisconsin lack access to the structured coordination and processing, marketing and distribution infrastructure necessary to increase producer capacity.
- Southwest Wisconsin boasts strong nonprofit, producer, business and institutional partners that are committed to improving the local food system.

The findings of these studies led the Vernon Economic Development Association (VEDA) to apply for a 2009 Buy Local Buy Wisconsin Grant (BLBW) that would support the infrastructure, coordination and

education necessary to strengthen producer capacity and increase consumption of local food in SW Wisconsin. They decided that a multi-stakeholder cooperative is the best business model to meet the region's needs for four key reasons:

- They could model the cooperative after the Producers & Buyers Co-op in Chippewa Valley, which had already proven to be a viable model.
- VEDA began discussions months before that included buyers and producers. Having laid the groundwork for a model that brought

- Cooperative experts from the region encouraged VEDA to use a cooperative model and offered their advice and support.

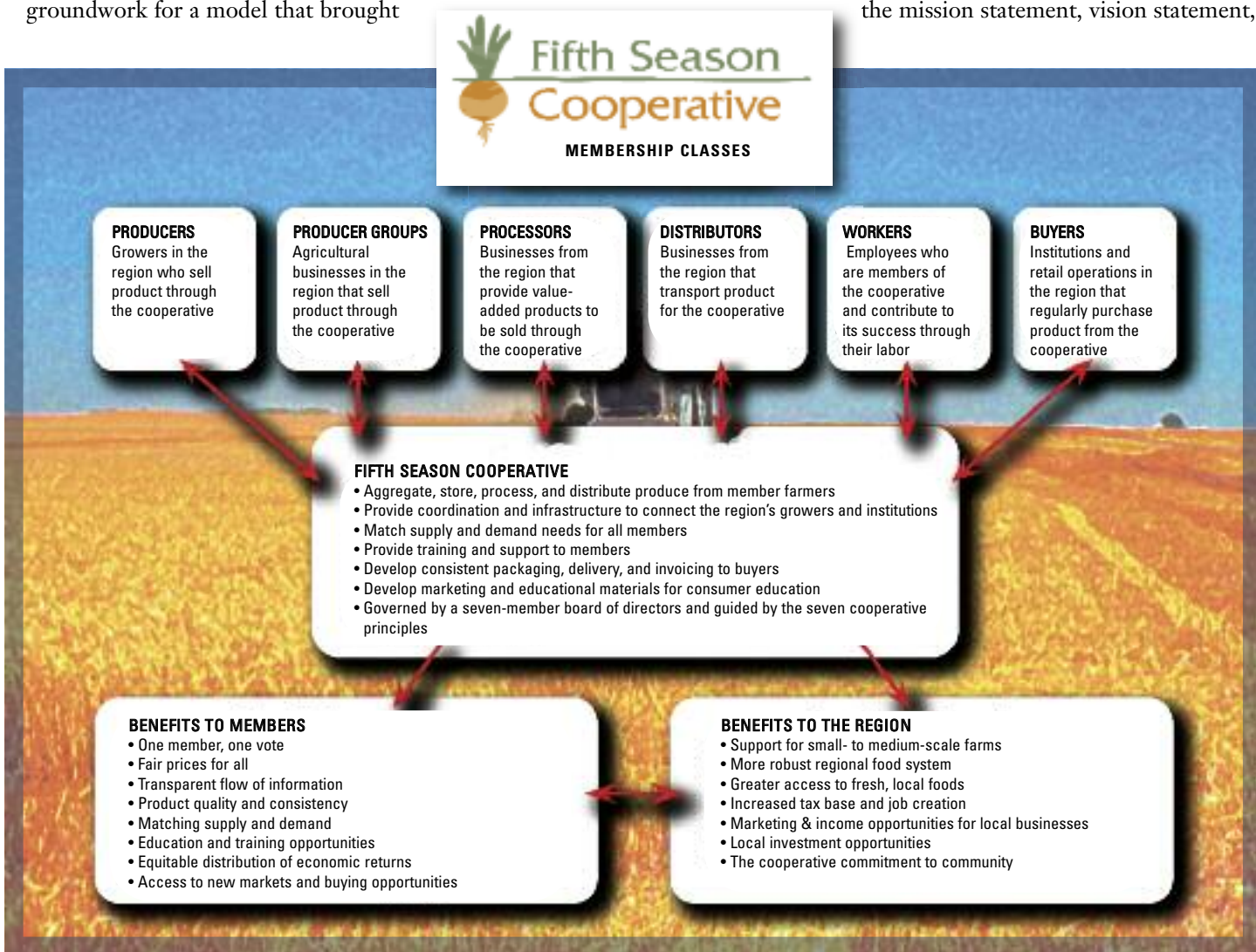
Co-op start up

VEDA was awarded the BLBW grant in 2010 and action was immediately taken to make the vision a reality. Executive Director Sue Noble formed two committees to begin the formal planning process: a slush group and a steering committee.

The slush group was comprised of

Rasikas, general manager of the Viroqua Food Co-op; Marilyn Volden, director of Food and Nutrition Programs for Viroqua Public Schools; Brian Wickert, owner of EZ Farms, and Cecil Wright, director of Sustainable Giving at Organic Valley.

This group met often and dealt with the minute details of putting together a cooperative organization. One of the most difficult tasks this group undertook was articulating and building consensus around the various documents that defined the cooperative: the mission statement, vision statement,



everyone to the same table, they had confidence that a cooperative would work.

- Organic Valley, the nation's largest organic food cooperative, offered to donate \$10,000 as a cash match to the BLBW grant.

key players who were highly invested in the project and had relevant expertise. The group included Margaret Bau, a cooperative development specialist with USDA Rural Development; Sue Noble, VEDA executive director; Nicole Penick, Buy Local coordinator; Jan

and bylaws.

Sue Noble also formed a larger steering committee that met about once a month. The purpose of these meetings was to inform the larger group of the progress being made and to make decisions regarding the actions

and proposals of the Slush Group. Most of the attendees of these meetings were either potential co-op members or were somehow invested in rebuilding the regional food system.

Once the key organizational and legal documents were in order, the next major task was recruiting members for the interim board of directors. An organization's first board is vital to its success, so Noble spent a lot of time making sure the first board included key stakeholders from each member class. An advisory council was also formed to help the board navigate the process of starting a new cooperative.

Noble emphasized that keeping Rasikas and Wright as key advisers in this process was essential. Along with Bau, they have offered invaluable guidance on budgeting, vision development and cooperative governance. Noble noted that the most difficult challenge throughout the process was keeping the vision alive.

"It was critical that people continued to be excited and feel ownership over the project even though they didn't attend every meeting," she says. "Facilitation of the process was key."

Co-op structure

The Fifth Season Cooperative's multi-stakeholder organization is a unique business structure in the United States. The cooperative has six member classes that span the entire supply chain. The list includes producers, producer groups, processors, distributors, buyers, and workers.

Producers are growers in the region who sell produce, meat or dairy. Processors are businesses from the region that make value-added products. Producer groups are agricultural businesses in the region that aggregate and sell produce, meat or dairy. Distributors are businesses from the region that transport agricultural products. Buyers may include institutions and retail operations in the region that purchase product from the co-op. Workers may become members and contribute to the success of the cooperative through their labor.

Shuttered factory to see new life as food hub

Wisconsin Governor Jim Doyle on Sept. 30 announced a \$2 million Economic Development Administration award to the Vernon Economic Development Association (VEDA) and the City of Viroqua for a food processing and distribution center in Viroqua. The grant will help VEDA turn a 100,000-square-foot former factory into a regional hub for food processing, storage and distribution.

In addition to providing much-needed storage for regional farmers, the building will also include rental space for local food businesses and a home for the newly incorporated Fifth Season Cooperative.

"This facility is a tremendous resource to the agricultural industry in our region. It provides the aggregation, processing and distribution infrastructure to help small producers increase their market opportunities and business capacity," Susan Noble, executive director of VEDA said. "We're creating jobs, increasing the tax base and engaging our own local entrepreneurs to grow the economy." ■

There is currently one employee, Nicole Penick, who is serving as the project coordinator. The membership classes represent the key players in the food system at the local level, thereby putting the entire supply chain at one table. The motivations behind this organizational structure are to keep local dollars circulating in the community and to develop long-term relationships between growers and buyers that lead to fair pricing and fair treatment of all members of the supply chain.

Moving forward

The Fifth Season Cooperative is at an important junction. The co-op has filed its articles of incorporation and is now an official entity. There is an interim board of directors in place that is leading the way until the formal board is elected at the first annual meeting. This interim board has a lot of decisions to make that greatly influence Fifth Season's operations, objectives, and success. There are four questions that the interim board will have to resolve:

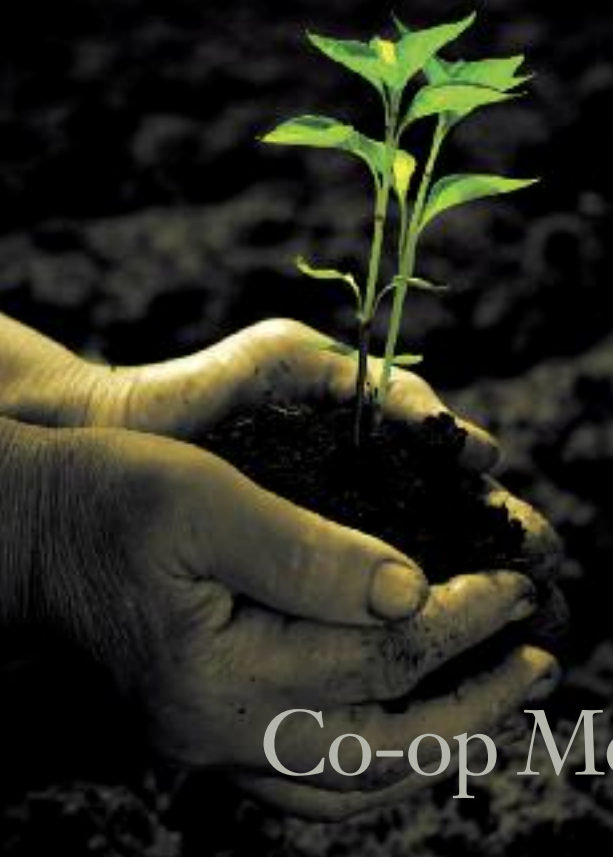
Membership — In order to be successful and fulfill its mission, Fifth Season needs to recruit diverse classes of members. What is the motivation for someone to join Fifth Season? How does Fifth Season make the case that

joining the co-op is a good investment?

Pricing — Determining prices that each member considers fair will be a critical challenge for the interim board. As a multi-stakeholder cooperative that includes every level of the supply chain, how will Fifth Season set prices with which all members are satisfied?

Raising Capital — The Vernon Economic Development Association was awarded \$40,000 over two years to start a cooperative; however, the grant does not cover all of Fifth Season's expenses for the first two years. As the co-op is in the start-up phase and working toward building membership and revenue, it needs additional capital to fund operations and capital expenditures. How will this cooperative be financed? How does the co-op build equity?

Organic vs. conventional — There are more than 220 organic farms in Vernon County alone as well as many conventional growers in the region. Should the cooperative be exclusively organic or should it sell both conventional and organic products? The answers to these related questions have ripple effects as they affect pricing, membership, marketing, and the overall functioning of the organization. ■



Co-op leaders and USDA officials gathered in the courtyard at USDA headquarters in Washington, D.C., in October for a special Co-op Month salute. Below, Rural Utilities Service Administrator Jonathan Adelstein addresses the gathering, as did (facing page) Under Secretary for Rural Development Dallas Tonsager and Rural Business-Cooperative Service Administrator Judy Canales. USDA photos by Bob Nichols



Co-op Month celebrated at USDA



Co-op Month was celebrated at USDA headquarters in Washington, D.C., in early October with a program and reception attended by about 100 co-op leaders and government officials, during which a special Co-op Month proclamation, signed by Agriculture Secretary Tom Vilsack (see sidebar), was released. President Barack Obama also sent a special message saluting cooperatives, read by Rural Business-Cooperative Programs Administrator Judy Canales.

President Obama's letter said: "When Americans work together for a common purpose, we can change lives of others in sustainable ways. Thousands of cooperatives across our country work towards this fundamental goal, delivering goods and services that impact countless individuals and communities. As you celebrate this successful, diverse business model during National Cooperative Month, I hope you take pride in your work to

support and build local economies and strengthen our nation."

Featured speakers included Dr. Brent Heuth, from the University of Wisconsin Center for Cooperatives, who provided a snapshot of the nation's cooperative sector, which includes 29,000 cooperatives that have a \$650 billion annual impact on the U.S. economy. Gary Stooksbury, CEO of Aiken Electric cooperative, spoke on behalf of the South Carolina Power Team/Palmetto Economic Development Corporation, which is a consortium of utility co-ops that are pooling their efforts to attract new business to the state and to create jobs.

Rick Beckler, director of hospitality at Sacred Heart Hospital of Eau Claire, Wis., told the story of the Producers and Buyers Cooperative, which is helping small farmers tap the local food market with contracts to supply homegrown foods to area health care facilities. Steve Flick, board president of Missouri's Show Me Energy Cooperative, described how this

biomass energy co-op is taking wood and crop waste and turning it into fuel pellets. Madeline Schultz, of the Iowa Co-op Extension Service, provided an overview of a new website (www.eXtension.org) designed to spread understanding of the cooperative model of business.

Under Secretary for Rural Development Dallas Tonsager and Canales also met with a smaller group of co-op leaders to better focus the attention of USDA on key issues facing cooperatives. Tonsager stressed USDA's commitment to:

- Developing local food systems;
- Expanding broadband service;
- Developing renewable energy resources;
- Support for the Great Outdoors initiative;
- Maintenance of the ecosystem.

Some of the issues raised by cooperative leaders included:

- The need to address the future electricity requirements of rural America;



- The need to attract new, young talent into the cooperative academic community;
- Further educating and providing technical assistance to co-ops on how to sell “brand identities” of their products;
- Creating a rural/urban linkage for the development of advanced food systems;
- Providing advice to cooperatives on how they can work in urban areas to develop agriculture centers (within the confines of statutory regulations).

Andrew Jermolowicz, USDA's acting deputy administrator for Cooperative Programs, provided in-depth information about the Value-Added Producer Grant program and the expansion of the program to include local farming initiatives. He indicated that there has been an upsurge in applications. Available funding for the program was greatly expanded this year.

■

Office of the Secretary
Washington, D.C.
NATIONAL COOPERATIVE MONTH
October 2010

By the Secretary of Agriculture of the United States of America

A PROCLAMATION

WHEREAS the Nation's 29,000 cooperatives have an impact of more than \$650 billion annually on the U.S. economy and are operated for the benefit of their members, rather than outside investors, in the spirit of member ownership and member control; and

WHEREAS cooperatives are a highly flexible, self-help business model that enable producers and consumers to engage in activities as diverse as processing and marketing crops and obtaining farm supplies; developing renewable energy projects, food stores and childcare centers; and providing credit and financial services, insurance, electricity and telecommunications services to their member owners; and

WHEREAS cooperatives own more than \$3 trillion in assets and employ more than 850,000 people, and are especially effective at helping to add value to the goods and services produced in rural America, helping to keep more dollars “at home”; and

WHEREAS one of the key guiding principles of the cooperative movement is service to community, and thus cooperatives operate in a manner that strengthens the communities in which their members live and work; and

WHEREAS the U.S. Department of Agriculture supports the Nation's agricultural and utility cooperatives with financial programs, educational materials, statistical information, research, technical, and development assistance;

NOW, THEREFORE, in recognition of the vital role cooperatives play in the Nation's economy and the impact they have on improving economic opportunity and the quality of life in rural America, I, Thomas J. Vilsack, Secretary of the United States Department of Agriculture, do hereby proclaim October 2010 as National Cooperative Month. I encourage people everywhere to learn more about cooperatives and celebrate their accomplishments with appropriate ceremonies and activities.

IN WITNESS WHEREOF, I have hereunto set my hand this 5th day of October 2010, the two-hundred thirty-fifth year of the Independence of the United States of America.

THOMAS J. VILSACK
Secretary

Newsline

Co-op developments, coast to coast

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

USDA announces funding for co-ops

Agriculture Under Secretary for Rural Development Dallas Tonsager in October announced support to help rural cooperatives expand economic activity in their communities. Tonsager made the announcement on behalf of Agriculture Secretary Tom Vilsack during a speech in Washington marking October as National Cooperative Month.

“President Obama and Secretary Vilsack have recognized the importance of America’s rural cooperatives during Cooperative Month. Rural cooperatives not only provide thousands of jobs, they invigorate local communities and businesses,” Tonsager said. “The grants I am announcing today will help these recipients continue their work. Their success underscores the importance of the cooperative system as a successful business model.”

The funding is being provided through USDA’s Rural Cooperative Development Grant (RCDG) program. Tonsager highlighted several cooperative projects and acknowledged the efforts of co-op officials from across the country. One of the cooperatives, Farm to Table, plans to use a \$142,000 grant to improve economic conditions in rural New Mexico. It will collaborate with New Mexico’s oldest member-owned cooperative — La Montanita — on a best-practices curriculum for food system cooperative development, and on a new loan investment initiative for food systems businesses.

The Mississippi Association of Cooperatives will use its grant funds to provide small and minority farmers with

development assistance. The Center focuses the vast majority of its efforts on the most distressed rural areas of the state. The group helps minority farmers establish financially sound businesses.

The California Center for Cooperative Development will receive a \$225,000 grant to develop new cooperatives, promote community-supported agriculture, strengthen the marketing of small farm production, and develop systems to link growers with regional consumers. The Center also plans to improve the economic condition of local farmers by helping them form cooperatives to enhance their marketplace position.

For a full list of the fund recipients, visit the newsroom at: www.rurdev.usda.gov.

DFA issues \$26 million in patronage

Dairy Farmers of America (DFA) has allocated \$26.4 million in 2009 patronage earnings to its members, with \$7.6 million distributed in cash and the balance allocated to members’ equity accounts. The amount of patronage a member receives each year is based on the amount of member milk marketed through the cooperative. This allocation equals 7 cents per hundredweight of milk marketed in 2009.

In keeping with DFA’s base capital plan, members who have achieved the established base capital level will receive 100 percent of their share of earnings in cash. Those who have not will receive a portion of their earnings in cash, with the balance added to their capital accounts.

In other DFA news, members, management and staff took a break from an annual training conference in September to help launch the development of two community gardens in the Ninth Ward of New Orleans.



Dairy Farmers of America

The activity was coordinated and managed by HandsOn New Orleans through a partnership with NOLA Green Roots, a greenspace development organization.

“With the help of 250 volunteers, we were able to transform two lots into community gardens in the matter of a few hours,” said Kertrina Watson Lewis, executive director for HandsOn New Orleans. The community gardens will supply Ninth Ward residents with a variety of fresh herbs, fruits and vegetables, as well as serve as a positive social hub.

Vilsack announces renewable energy initiatives

As part of the Obama Administration’s effort to promote production of fuel from renewable sources, create jobs and mitigate the effects of climate change, Agriculture Secretary Tom Vilsack announced a series of measures in a speech at the National Press Club in Washington, D.C. “Domestic production of renewable energy, including biofuels, is a national imperative and that’s why USDA is working to assist in

2011 Co-op Hall of Fame inductees named

Five outstanding cooperative leaders are being inducted into the Cooperative Hall of Fame. The 2011 inductees include: agri-business leader Noel Estenson; international cooperative developers Gloria and Stanley Kuehn; former congressman and credit union leader Daniel A. Mica; and civil rights leader and cooperative developer Shirley Sherrod.

These cooperative leaders will be recognized at the annual Cooperative Hall of Fame dinner and induction ceremony at the National Press Club in Washington, D.C., May 4. In addition to the event, a public forum will be held in conjunction with the dinner on the afternoon of May 4, also at the National Press Club. The forum will feature current and future Hall of Fame inductees in moderated panel discussions about the role of cooperatives in the U.S. and world economies.

"The roster of the Cooperative Hall of Fame tells the story of the U.S. cooperative community through the lives and accomplishments of extraordinary individuals. Induction to the Hall of Fame is reserved for those who have made genuinely heroic contributions to the cooperative community," says Gasper Kovach, Jr., board chair of the Cooperative Development Foundation (CDF), which administers the Hall of Fame. Kovach pointed out that only 147 individuals have been inducted since the Hall of Fame was established in 1974.

Those selected for induction in 2011 include:

- **Noel Estenson** — A visionary leader, Estenson saw the value of new business structures, including joint ventures and mergers, as a means of creating operating efficiencies that built stronger cooperative organizations. In the early 1980s, he was responsible for a ground-breaking joint venture between Cenex and Land O'Lakes that eliminated duplication in both cooperatives' agricultural supply and energy operations. Later, as CEO of Cenex, he joined forces with Harvest States Cooperative. The resulting merger created CHS Inc., the largest cooperative in the United States, which markets domestically and internationally. Estenson served as CEO of CHS until his retirement in 2000.
- **Gloria & Stanley Kuehn** — Working as a family team of cooperative developers, the Kuehns have over 25 years of experience working internationally with small farmers to

grow non-traditional and organic crops to meet new and growing markets. Their work in El Salvador and Nicaragua was done through Stanley's capacity as country director in the National Cooperative Business Association's (NCBA) international program operation, known internationally as CLUSA. Now working with the World Council of Credit Unions (WOCCU) they are helping to establish rural credit unions, first in Kenya and now in Ethiopia.

- **Daniel A. Mica** — Mica's 14-year tenure (1996-2010) as president and CEO of the Credit Union National Association (CUNA) represented a period of significant accomplishment for the credit union movement. This former member of Congress led a proactive legal defense and legislative/regulatory agenda that won landmark battles for credit unions and made CUNA into one of the most respected trade associations in Washington, D.C. In addition to putting programs in place that raised the movement's political stature in Washington and strengthened its grassroots networks, Mica is also a savvy communicator who is credited with

boosting the credit union's visibility in the national media, leading to greater consumer awareness and increased membership growth.

- **Shirley Sherrod** — A veteran of the civil rights movement, Sherrod found a way to achieve economic justice and rural land ownership for small and lower income farmers through collective farming and cooperative development. As co-founder of a 6,000-acre, black-owned cooperative and land trust that was forced into foreclosure, she was a party to the recently successful class action lawsuit against USDA for discriminatory lending practices. After the foreclosure, she joined the Georgia field staff of the Federation of Southern Cooperatives/Land Assistance Fund, where she spent the next three decades helping small farmers, developing rural cooperatives and building economically viable rural communities. In July 2009, she was appointed as the USDA Rural Development Georgia state director by the Obama Administration, serving in the position until July 2010.

The Cooperative Hall of Fame gallery is on display in NCBA's offices in Washington, D.C.; it also can be visited on the Web at: www.heroes.coop. For dinner attendance or sponsorship information, contact CDF at (703) 302-8097 or tbuen@cdf.coop.



developing a biofuels industry in every corner of the nation,” Vilsack said. “By producing more biofuels in America, we will create jobs, combat global warming, replace our dependence on foreign oil and build a stronger foundation for the 21st century economy.”

Vilsack announced several measures, including the publication of a final rule to implement the Biomass Crop Assistance Program (BCAP). Under the BCAP final rule, USDA will resume making payments to eligible producers. The program had operated as a pilot, pending publication of the final rule. Authorized in the Food, Conservation and Energy Act of 2008, BCAP is designed to ensure that a sufficiently large base of new, non-food, non-feed biomass crops is established in anticipation of future demand for renewable energy consumption.

The BCAP final regulation reflects policies developed as a result of more than 24,000 comments received on previous Federal Register notices and a proposed rule, and knowledge gained by implementing a portion of the program in 2009.

BCAP uses a dual approach to support the production of renewable energy. First, BCAP provides assistance for the establishment and production of eligible renewable biomass crops within specified project areas. Producers who enter into BCAP contracts may receive payments of up to 75 percent of the cost of establishing eligible perennial crops. Further, they can receive payments for up to five years for annual or non-woody perennial crops and up to 15 years for woody perennial crops. USDA’s Farm Service Agency (FSA) is accepting project area proposals and, after project area proposals have been approved, eligible producers may participate by enrolling at their FSA county office.

In addition, BCAP also assists agricultural and forest landowners and operators by providing matching payments for the transportation of certain eligible materials that are sold to qualified biomass conversion facilities.

The facilities convert the materials into heat, power, biobased products or advanced biofuels.

The Secretary also announced jointly with the Federal Aviation Administration (FAA) a five-year agreement to develop aviation fuel from forest and crop residues and other “green” feedstocks in order to decrease dependence on foreign oil and stabilize aviation fuel costs.

Information about state contacts for USDA energy programs is available at: www.usda.gov/documents/USDA_Bioenergy_Resources.xlsx.

AMPI returning \$12.9 million to owners

The dairy farmer-owners of Associated Milk Producers Inc. (AMPI) will share \$12.9 million this year as a result of the cooperative’s consistent earnings. The cash will be paid to individuals based on the amount of milk they marketed through AMPI. Members who are age 65 and retired from dairying can receive their cooperative equity through an accelerated, five-year distribution.

“Once again, AMPI is delivering on its mission of maximizing the return on milk marketed and equity invested for its dairy farmer-owners,” said AMPI President and CEO Ed Welch. “These payments are one more way AMPI’s farmer-owners should measure their dairy marketing cooperative’s performance.”

Revenue for NCB Co-op 100 tops \$175 billion

The nation’s 100 largest cooperatives — including co-ops from all business sectors — had revenue of \$175.6 billion for 2009, according to NCB (formerly National Cooperative Bank). The NCB Co-op 100 debuted in 1991, when the revenue for the top 100 co-ops was \$81.4 billion.

“The dollar amount, even though slightly lower than last year, highlights the benefits of a cooperative’s adaptable structure, ultimately enabling these organizations to prosper and serve their members even in the most difficult of

[economic] climates,” says Charles E. Snyder, president and CEO of NCB. “As a bank created and focused on providing financing to the cooperative community, we’re proud to have been instrumental in the expansion of these businesses over the past 30 years.”

The top two revenue producers (and their 2009 revenue) for each of the business sectors tracked by the NCB Co-op 100 were:



■ Agriculture:

- CHS Inc., Saint Paul, Minn., \$25.7 billion; CHS maintained its first place position as the nation’s largest co-op for all sectors;
- Land O’Lakes Inc., Saint Paul, Minn., \$10.4 billion;

■ Grocery:

- Wakefern, Elizabeth, N.J., \$9.3 billion;
- Associated Wholesale Grocers, Kansas City, Kan., \$7 billion;

■ Hardware & Lumber:

- ACE Hardware, Oakbrook, Ill., \$3.5 billion;
- Do It Best Corp., Fort Wayne, Ind., \$2.4 billion;

■ Finance:

- Agribank, FSB, Saint Paul, Minn., \$3.8 billion;
- Navy Federal Credit Union, Merrifield, Va., \$2.9 billion;

■ Health Care:

- HealthPartners, Inc., South Bloomington, Minn., \$3.3 billion;
- Group Health Cooperative, Seattle, Wash., \$3 billion;

■ Energy & Communications:

- National Cable Television Cooperative Inc., Lenexa, Kan., \$1.9 billion;
- Basin Electric Power Cooperative, Bismarck, N.D., \$1.4 billion.

Cooperatives and their members often fair better in challenging times than investor-owned firms, due to their adaptable structure and governing body, according to NCB. Since cooperatives are controlled by their members, the individuals who use and benefit from the goods and services provided, the cooperative can more readily readjust to market conditions than many of its investor-backed counterparts, it notes.

The entire NCB Co-op 100 report is available under the publications section at: www.ncb.coop.

Prairie Farms launches 'Farmer-Owned' campaign

Prairie Farms, owned by a cooperative of more than 700 dairy farm families, has introduced the "Farmer Owned" campaign at a time when food miles — the distance

between where a food originates and the consumer — are becoming increasingly relevant to consumers. "Reducing food miles benefits both the environment and local economies; consumer support for locally produced products has doubled in the past five years," the co-op said in announcing the program.

In an effort to raise consumer awareness of the company's local, farmer-owned heritage, Prairie Farms says it updated its logo and packaging to identify its products as coming from local, farmer-owned dairy producers. "The new direction emphasizes the values of our farm families and our commitment to being good citizens in the community," says Ed Mullins, CEO of Prairie Farms Dairy. "The packaging artwork has a distinctive personality and will clearly stand out on retailers'

shelves from competing national and private-label brands."

The new logo maintains the traditional red lettering for the company name, and a gold "Farmer Owned" banner above the logo builds on brand strength. A farm scene reinforces the farmer-owned brand messaging.

Prairie Farms timed an integrated advertising campaign with the release of the updated packaging. The messaging includes a new tag line: "Farm fresh quality, from our family to yours," as well as lifestyle imagery of farm families.

Prairie Farms has also introduced two new flavors of 16-ounce sour cream dips: Jalapeño Fiesta and Bacon Cheddar. The packaging for these products reflects the "Farmer-Owned" campaign.

Audrey Malan among ACE honorees



Audrey Malan — a cooperative developer with more than 20 years experience working with start-up and established producer, consumer and worker cooperatives and related organizations — is the 2010 recipient of the Association of Cooperative Educators (ACE) Outstanding Contribution to Cooperative Education and Training Award. She received the honor during the ACE 2010 Institute in Cleveland, Ohio.

Malan served as executive director of CooperationWorks!, a national organization of cooperative development centers and practitioners, from the early 2000s to late 2007. She remains involved with co-ops as a developer, trainer and consultant based in Dayton, Wyo.

She was instrumental in the development of "The Art & Science of Developing a New Cooperative Business" program for co-op developers in Canada and the United States. She continues as the program marketer and as an instructor. She is also co-author of two publications that have contributed to successful co-op development and education: "Steps to Starting a Marketing Cooperative" and "Steps to Starting a Worker Cooperative." Both were published by the University of California Center for Cooperatives.

"Audrey is dedicated to social change through the cooperative model," says ACE Executive Director Bill Patrie. He also commended her for leadership in communicating to

varied audiences, including government officials, about the impact of cooperatives in rural America.

Other ACE award winners included:

— **The Ohio Employee Ownership Center (OEOC)**, received the ACE Contribution Award to recognize its work in organizing tours and speakers for the ACE Institute, and for sharing its experience creating the groundbreaking Evergreen Cooperative business model for worker-owner co-ops (also see page 12);

— **Jen Heneberry** of the Ontario Cooperative Association, a co-op development manager who has used many media to reach different target audiences, earned the William Hlushko Award for Young Cooperative Educators (for those under age 36).

— **Bob Cohen**, CEO of the Braintree Business Development Center — a nonprofit serving business start-ups and emerging companies in North Central Ohio — as well as program coordinator of the new Cooperative Development Center at Kent State University, received the Reginald J. Cressman ACE Award for his work to educate employees and help to create new worker-owner cooperatives.

More information on the 2010 ACE Institute (in English, French and Spanish) is posted on: www.2010ACEInstitute.com. ACE links educators, researchers, cooperative members and cooperative developers across cooperative sectors and national borders to enhance cooperative development, strengthen cooperatives, promote professionalism and improve public understanding.

NMPF animal care program accepting farm signup

The National Dairy FARM (Farmers Assuring Responsible Management) program, created by the National Milk Producers Federation (NMPF), is now accepting enrollment in the Animal Care Program. This is a voluntary, nationwide program designed to bring consistency and uniformity to animal care through education, on-farm evaluations and objective third-party verification.

The second phase of the implementation process has now been launched, which includes the start of on-farm evaluations for participating producers. A participation fee is a shared responsibility for all participants of the National Dairy FARM Animal Care Program to fund the enrollment

of on-farm data in a private database, as well as to pay for third-party verification of the program. While support for the development of educational training materials has been available from the national dairy check-off, such funding sources cannot be drawn upon for third-party verification, according to NMPF.

“Producers can participate independently or through their cooperative or processor. Producers who are affiliated with a cooperative or proprietary processor should contact their representative to see if their milk marketing organization is participating in the program or to encourage them to join in,” said Betsy Flores, NMPF director of regulatory affairs. Participation information can be found at www.nationaldairyfarm.com.

Ocean Spray, Disney alliance will promote Craisins

Ocean Spray has announced a partnership with Walt Disney Parks and Resorts that will bring the Ocean Spray cranberry to a number of retail points at Disney parks. Disney will now offer Craisins dried cranberries at various retail locations, including theme parks, cruise ships, meeting rooms and hotels. The product will also be used in new signature salads and cranberry muffins and sold at fruit cart stands and kiosks inside the theme parks.

The companies are also joining together to launch a special, co-branded version of Craisins packaging featuring Chip ‘n Dale, Disney’s cartoon chipmunks, that will be used on Ocean Spray products sold on Disney properties.

Nebraska’s Open Harvest co-op celebrates 35 years

Claude and Prudence Coccodrilli remember packaging cheese, nut butters, and dried fruit in the tiny basement of the original Open Harvest in Lincoln, Neb. “We affectionately referred to it as ‘the hole,’” Claude recalls, with a laugh. The couple has been members of the co-op since they moved to Lincoln from Philadelphia in 1980.

Back then, the natural foods grocery occupied a 500-square-foot space at 27th and Randolph Streets. Rent was \$50 a month. The place ran on nearly 50 hours of volunteer work a day. “It was a labor of love,” says Claude.

This summer, Open Harvest celebrated 35 years of business. A veteran of the co-op movement that sprouted in the 1960s, it is one of the oldest natural foods co-ops in the country. Everyone is welcome to shop at Open Harvest, which boasts 3,300 members, employs 70 people, and carries the products of 80 local farmers and suppliers. The co-op generates \$4 million in annual sales. During the past 35 years, more than 10,000 people have been co-op members. The grocery



The Open Harvest natural foods cooperative in Lincoln, Neb., is celebrating its 35th anniversary. Photo courtesy Open Harvest

carries one of the largest selections of natural and organic food, produce, meats and supplements in Lincoln.

The store expanded to nearly 10,000 square feet at its South Street Plaza location in 2009. This “green” renovation project used local firms to do the work. Nearly 90 members loaned more than \$200,000 to supplement the Union Bank loan that financed the expansion.

Open Harvest kicked off anniversary festivities July 13 with a store-wide Local

Foods Sale. Local farmers and vendors showcased their goods and did in-store demos later in the month. Shoppers could register to win a free bag of groceries and other prizes. Nostalgia buffs watched a continuous PowerPoint slideshow of the early days at the Randolph Street store, the 1990 grand opening at South Street and the Grand Expansion Opening last October. Open Harvest got its start in 1971 in a garage when a dozen or so households



“Ocean Spray is proud to form one of the largest partnerships of its kind in our history, with such a world class organization as Disney, that shares our wholesome, good-for-you focus,” said Randy Papadellis, CEO of Ocean Spray. The company will build cranberry bog displays during Disney’s California Food & Wine Festival, held April 29 to

June 12, 2011, and the Epcot International Food & Wine Festival in fall 2011. Third-, fourth- and fifth-generation cranberry growers will travel with 2,000 pounds of fresh cranberries from rural areas around the country to share their passion and personal farming histories while recreating the wonders of the harvest for families visiting the parks.

Eastland now chair, Allen new CEO at Staplcotn

After 24 years in the post, Woods E. Eastland has retired as president and CEO of Staple Cotton Cooperative Association (Staplcotn) and Staple Cotton Discount Corporation (Stapldiscount). He will, however, remain in the co-op’s leadership, assuming the board chairmanship, the same position he had held before being

named CEO.

Eastland succeeds Chairman Ben Lamensdorf, who had held the post since 2003. The board has selected Meredith Allen as the new president and CEO. Allen had been serving as executive vice president of Staplcotn and Stapldiscount. Allen joined Staplcotn in 1985 as the head of the domestic sales department., where he was responsible for directing all marketing activities in domestic and foreign markets, as well as developing new markets.

Founded in 1921, Staplcotn, in Greenwood, Miss., is the oldest cotton marketing cooperative in the United States. It currently has more than 13,000 farm accounts in an 11-state area in the mid-South and Southeast, as well as a warehousing operation with 14 locations in four states. ■

started a buying club to purchase bulk and natural foods. They called their venture “People’s Food Co-op.” (“Starseed Food Conspiracy” was also considered as a name.) Three years later, the name was changed to “Our Store” and the location moved to the basement of Trinity Methodist Church. The co-op then had about 250 members.

In 1975, the co-op was renamed Open Harvest and moved to 27th & Randolph. KZUM Community Radio began broadcasting from the basement in 1978. Co-op membership grew by the hundreds. By the late 1980s the store was bursting at the seams.

In 1990, Open Harvest moved to its current location at 1618 South Street, with 5,000 square feet of space (the rent was \$4,000 per month). Staff and members hauled everything over in their pickups and cars.

But Open Harvest has been much more than a grocery store to the Coccodrillis. “It’s not only our lifeline for food and nutrition and vitamins and supplements, but we’ve met people through Open Harvest who have become lifelong friends,” says Claude. “For us, it’s been a lifetime experience. We

couldn’t pigeonhole our Open Harvest experience because it’s had a ripple effect in so many aspects of our lives.”

The co-op board and staff are working on a 25-year strategic plan, and a new crop of young, energetic managers are up and coming. General Manager Jim Nelson, who steered the co-op through its expansion process, is retiring at year’s end. Merchandising Manager Kelsi Swanson, 28, who has been with the co-op for close to four years, will step up as new general manager. Swanson’s parents are longtime co-op members. In fact, Kelsi’s mother, Terri Swanson, remembers stopping by the co-op when she was pregnant with Kelsi and new to town. She quickly befriended Margot, who was cashiering at the time, and became a member and volunteer at the co-op. Kelsi says that it is now a family joke that she worked at the co-op before she was even born.

“I like the fact that over the years we’ve been able to accomplish what none of us could have done alone,” Conrad reflects. “It’s definitely been a group effort. A labor of love.” ■

Commentary

continued from page 2

buy from other cooperatives, we could increase that percentage significantly. Doing so would have profound economic and social benefits for cooperatives, their members and the communities they serve.

As the best business model for economic and social progress, cooperatives are ideally suited to be well served by the triple bottom line measurement of finances, community and environmental impact. The absence of outside shareholders with voting rights allows cooperatives to focus on the members and community.

When the character Gordon Gecko uttered the infamous line “Greed is good” in the 1984 film *Wall Street*, we knew in our hearts and minds that this was not right (ironically, as I write this, a sequel to this film was recently released). We who work for co-ops are fortunate to work in a business model that promotes economic fairness, because the owners are the people using the goods and services. We need to look no further than our seven principles to give us the guidance we need. ■

Going Mobile

continued from page 7

for locally grown pasture-raised meats.

Casey McKissick is the coordinator of NC Choices and a small poultry farmer in Old Fort, in the western part of the state near Asheville. His inspiration was to use mobile slaughterhouses as a temporary measure to help develop the market for locally grown meats. “Around here,” he says, “the small farmer is getting demand for his poultry. People want to see where their meat comes from. But taking your birds to a modern slaughterhouse means a round-trip of four and half hours. That’ll just kill your profit.”

Some small local red meat processors are willing to work with small farmers, but none processed poultry. In any case, McKissick says, “they’re ‘mom and pop’ operations that haven’t progressed from the 1940s. They need to get up to speed. If they don’t, the farmers won’t come back.”

Thus, McKissick found himself dealing with a chicken-and-egg situation: existing small processing facilities didn’t have the incentive to

upgrade their operations because there was no market. But without decent processing available, farmers had no incentive to expand their production.

Trailer-mounted facilities seemed the ideal solution. “North Carolina uses federal meat-processing guidelines,” he says. “And FSIS exempts the slaughter of up to 20,000 birds at a time, if proper sanitary guidelines are met.” He says the North Carolina authorities point out that there has never been a complaint about the sanitary quality of farm-processed meat and poultry in the state.

McKissick’s approach was minimalist compared to the Montana Poultry Growers Cooperative. Under the auspices of a local 14-member marketing cooperative called Foothills Family Farms, he obtained a grant of \$5,000 to construct an open-air poultry slaughter facility on a farm trailer, using non-commercial equipment. Members and other farmers can rent the trailer for \$45 a day.

Farmers processed about \$30,000 worth of meat the first year,” he says. “And it took off from there.”

A local nonprofit is working to construct a federally inspected poultry-

processing facility, using USDA Rural Development funding. “The difference is the enormous amount of time and effort you have to go through to get it inspected,” he says.

In the meantime, McKissick is talking to anyone who’s interested in setting up a mobile facility, and his minimal design has been already been copied by other farmers.

“If I had my druthers, there’d be about 10 or 15 of these things around the state,” he says. “People from nearby states, including Georgia, Florida, and Tennessee, have shown interest, too. But they say their state laws don’t permit such an approach.”

McKissick thinks a similar approach to red meat production would be more complicated. “Slaughtering on the farm, in a no-stress situation, that’d be good for marketing,” he says. “But because of the prevalence of red meat cut-and-wrap facilities in North Carolina, the real opportunity for us is in exempt poultry units.”

He, like many small meat producers, is hoping mobile slaughter trailers may be a way out of the livestock price squeeze. ■

Management Tip

continued from page 17

environment, you must engage in active, transparent communication with your board, your employees and, ultimately, your membership.

Our board meets once each year for a strategic planning session to create a game plan for the future of Landmark. In addition, we have developed a GO (Growth and Opportunity) Committee, made up of key members of our management team, that meets year round to discover and develop new business opportunities.

We try to ensure that the voices from the entire Landmark team are heard throughout the strategic planning process, so that we create an

environment where honest feedback is encouraged and acted upon. That honest feedback is where the spirit of collaboration at Landmark is born. By listening to the individual voices of our cooperative, we use that collaborative knowledge to build a better business model.

Each person that is a part of Landmark — whether he or she is in a leadership position, an employee or a producer — has a viewpoint that is valuable in making Landmark both profitable and focused on meeting the needs of its members. Listening to the collective voices of all of our people allows us to be a more dynamic company that is better able to find and implement innovative solutions to the issues our producers face. This ability to “stay ahead of the game” is what has

allowed us to achieve the success we have seen over the past several decades.

As an agricultural cooperative, we have made a commitment to the long-term profitability of both our business and that of our growers. This commitment to the “big picture” is reflected in our mission statement and in the values that each member of our leadership team uses to make decisions regarding the future of our cooperative.

In addition, our members have made a commitment to the success of the cooperative by supporting us with their business and loyalty. This three-way street of communication, collaboration and commitment keeps our board, our staff and our membership fully engaged with each other and allows us to stay in unison in the ever-changing and ever-expanding agriculture industry. ■

Legal Corner

continued from page 11

their new roles?

These questions should be answered by competent legal and accounting professionals who work with estate and tax planning issues.

What will be the "death-tax" cost to transfer the business...?

Legal framework

Once the financial issues as discussed above are taken into consideration, it must be determined how you will transfer your **farm or other family business** to the next generation. The structure of your company will be a factor in determining your choice of the transfer method.

- **The Transfer** — If you are a sole proprietor and want to keep your company in the family, you need to think about federal estate and gift taxes. Or, if you plan to sell your company to a family member so you can retire, you need to make provisions through insurance policies to help your successor finance the purchase as well as pay for the ensuing taxes.

If you are in a partnership, you need to ask yourself whether the percentage of the business would automatically transfer to your spouse or offspring upon your death or, as part of the partnership agreement, is your partner supposed to buy out your shares. If you have chosen the latter arrangement, you need to take out enough life insurance to provide your partner with adequate funds to pay for the purchase.

In a closely held corporation, stockholders may stipulate that, upon their death, their shares will automatically transfer to their surviving spouse or children. However, if the shareholder's heirs subsequently want to

sell their stock, sufficient provisions should be made so remaining shareholders have enough cash for the buy-out.

In a cooperative, the bylaws would dictate the agreed-upon transfer terms and requirements for its members to determine how, and to whom, cooperative shares are to be transferred upon the death of a member.

- **Put it in writing** — With a family-owned business, the family dynamic cannot be understated. If you have children, the issue of who gets what and who runs the business is a major issue to address. If you do not have your wishes in writing, they may be disregarded. Various family members may have an incorrect interpretation of what is supposed to happen with the business. If you have not indicated the plan in writing, it will likely end up being argued in court, with a judge trying to figure it out. The final decision may not reflect your desire.

In order to incorporate the terms of your transfer, you may arrange for the transfer via a family limited partnership (FLP).

- **Family Limited Partnership** — Many estate advisors say the best way to protect your assets while having income tax flexibility is to form an FLP. An FLP allows you to transfer your financial and investment real estate into the partnership in return for 2 percent general partner interests and 98 percent limited partner interests. You would then begin the process of making gifts of the limited partnership units to your children or trusts for their benefit. But because you retain the 2 percent general partnership interest, you are in control.

By this arrangement, gift and estate taxes may be reduced, which may produce favorable tax results. However, the Internal Revenue Service and the courts are creating fairly specific rules for businesses to follow to avoid any unforeseen tax consequences. The problems usually arise over the issue of whether the creator of the FLP has retained an impermissible level of

control over supposedly "gifted" assets. Thus, if the FLP is not correctly designed or administered, or if ownership of the interests is not properly protected, asset protection goals may be jeopardized.

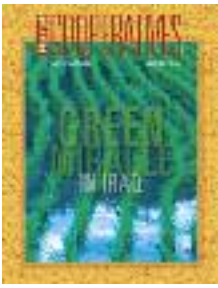
Get help, take action!

Keep in mind that many issues arise when a family-owned business embarks upon its possible succession. These include:

- **Lifetime sale:** Should the business be sold during the owner's lifetime?
- **Continuance after death:** Should the business be continued after the owner's death?
- **Ownership of business:** Who will own the business after the succession of the business?
- **Control of business:** Who will control the business after the change of ownership?
- **Treatment of children:** Will the owner's children be treated equally in the distribution of the owner's estate either before death or after death?
- **Treatment of owner:** What provisions will be made for the present owner after transfer of the business?

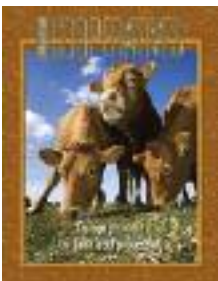
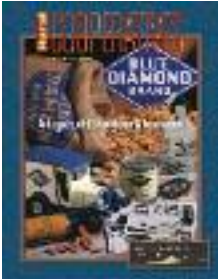
Before making a final decision, consult legal and financial advisors who are aware of the complexity and sensitivity in business succession planning. They should be able to work as a team with your estate planner to determine the estate tax and other transfer costs, need for liquidity, buy-sell funding requirements, FLP parameters and the likelihood of sale of the business to outside parties.

However, the skills of your advisors or the importance to your family of business succession planning are meaningless unless you take action. The most important aspect of business succession planning is for the owners to become convinced that they need to take positive steps to avoid having their family business disappear due to a lack of planning. Do not let that happen to your family business — design a succession plan that will successfully move your business from one generation to the next! ■



2010 Article Index

Information appearing in *Rural Cooperatives* magazine during calendar year 2010 has been indexed to help you find past articles. Articles are indexed by issue and page. Back issues can be found online at: www.rurdev.usda.gov/rbs/pub/openmag.htm. To order a free hard copy, e-mail: coopinfo@wdc.usda.gov, or call (202) 720-8381.



TITLE FEATURES	ISSUE—PAGE
AFC sees 4-H, FFA as key to future of ag	May/June 16
Ag competition workshop schedule	May/June 9
Ag co-op sales and income second highest on record	Sept./Oct. 4
An American Farmer in Afghanistan	
Equity Livestock co-op member says volunteer stint challenging, but also rewarding	July/Aug. 34
Assistance for new mobile slaughter efforts	Nov./Dec. 6
Better Beginnings	
FarmStart offers a helping hand to new farmers and ag co-ops	March/April 8
Biofuel Prometheus	
Like its namesake, Promethean Biofuels hopes to better mankind with new energy source	Sept./Oct. 36
Blue Diamond: 100-year time capsule	May/June 6
California Center for Cooperative Development	Sept./Oct. 30
California experiencing surge in food co-ops	Sept./Oct. 30
Campbell County Beef Association	Sept./Oct. 18
Canadian farmers see benefits of local farm machinery co-ops	Sept./Oct. 12
CCA honors go to Krisle, Brooks, Dumont	July/Aug. 27
CCA Winners: Why we compete	July/Aug. 18
Celebrating the greatest public-private partnership	May/June 17
Cellulosic biofuel development must balance need to maintain soil quality	March/April 19
Chipping In	
Austrian co-ops play role in making nation a leader in wood biomass energy production	Sept./Oct. 6
Cool. Funny. Sweet!	
America Crystal designer-tees wow members & judges	July/Aug. 24
Co-op builds community around food	Sept./Oct. 34
Co-op Month celebrated at USDA	Nov./Dec. 30
Cooperative Development Institute	Sept./Oct. 24
Cooperative Food Hubs	
Food hubs fill the 'missing middle,' helping small producers tap local markets	Nov./Dec. 20
Co-ops Can Thrive In Uncertain Times	
Farmer Co-op Conference sees opportunity for co-ops that adapt to structural changes	Jan./Feb. 18
Communications plays a major role in co-op's success	May/June 8
Community Wind	
Maine island community lowering energy costs with wind-power project	March/April 20
Controlling Counterparty Risk	
How country elevators can protect against the downside	March/April 24
Cowiche Growers: dedicated to producing quality fruit and spreading co-op concepts	Sept./Oct. 15
Dairy co-op survey reveals financial performance trends	Jan./Feb. 22
Despite market challenges, AGP enjoys strong earnings	May/June 38
Dillard built stronger MMPA, able to adapt to market trends	May/June 36
Doing it right: TFC Communications	July/Aug. 22
Everything under the Nebraska sun	Sept./Oct. 22
Examples of state co-op council activities:	Jan./Feb. 31
eXtending Co-op Knowledge	
Extension Service website to include co-op education area	Sept./Oct. 35
Fifth Season Cooperative	

Having progressed from conception to incorporation, fledgling co-op faces questions	Nov./Dec. 26
50 Years at the Top	
Founded to salvage blemished fruit, Tree Top today is industry leader for apple products	July/Aug. 14
Filling the Gap	
At 25, Arthur Capper Co-op Center a major force for co-op education	May/June 10
Flour Power	
NW wheat growers find success with eco-marketing strategy	Jan./Feb. 12
Food for Thought	
Winning print ad helps horse owners realize that economy and quality can ride together	July/Aug. 26
Functional types of dairy cooperatives	Jan./Feb. 24
Galarneau new MMPA leader	May/June 36
Get Ready	
Co-op Month is coming — what outreach effort will your co-op make?	July/Aug. 10
Going Mobile	
Co-ops operate traveling slaughter units to help grow local foods movement	Nov./Dec. 4
A Green Miracle	
Co-op playing key role as Iraq rebuilds farm sector	Jan./Feb. 4
Grow Food, Grow Hope	
Local food, new skills sprout in Ohio community gardens	July/Aug. 36
Heat by the Bushel	
New co-ops supplying members with corn for home-heating fuel	May/June 27
Horizons-themed report a winner for Aurora	July/Aug. 23
Illinois Green Pastures Fiber Cooperative	
Co-op connects craft makers with locally produced fiber	Nov./Dec. 8
Indiana Cooperative Development Center	Sept./Oct. 19
Iraqi women learn poultry production from USDA advisor	Jan./Feb. 7
Justice, USDA set workshop dates	Jan./Feb. 35
Kentucky Center for Agriculture & Rural Development	Sept./Oct. 17
Key messages for Co-op Month	July/Aug. 12
Keystone Development Center	Sept./Oct. 28
La Coop federee: a strong network for farmers and consumers	Sept./Oct. 12
La Montanita Food Co-op	Sept./Oct. 33
Laughery Village Co-op meeting need for local food	Sept./Oct. 19
A Legacy of Cooperation & Innovation	
Blue Diamond: 100th anniversary as co-op that made U.S. world leader for almonds	May/June 4
Look Who's Minding the Store	
Student-run supply co-ops short-lived, but the concepts they teach live on	Sept./Oct. 13
Making Hay with 'Bailout'	
'Cooperative America' theme inspires TFC's Publication of the Year winner	July/Aug. 21
Making Landmark a leader	Nov./Dec. 17
Merger creates Farm Credit East	March/April 10
MidAtlantic Food Cooperative	Sept./Oct. 29
Milling co-op crucial to Maine's organic dairy farms	Sept./Oct. 25
Montana Cooperative Development Center	Sept./Oct. 26
Nebraska Cooperative Development Center	Sept./Oct. 21
"Not just a job, but a future"	
Goal of Evergreen family of worker co-ops is to help struggling neighborhoods prosper	Nov./Dec. 12
Ohio Cooperative Development Center	Sept./Oct. 31
\$122 billion in '08 sales sets record for Top 100	May/June 24
Organic dairy market also hurt by low prices	Jan./Feb. 15
Organic farmers increasingly turn to co-op business model	May/June 34
Out of Darkness	
Against industry opposition, REA helped 'wire' farms, rural areas at remarkable rate	May/June 18
Paradise Home Care Co-op meets critical need	Sept./Oct. 16
People's Gardens sprouting nationwide	July/Aug. 39
Project Pathway	
4-H sees science, technology as crucial to building competitive workforce	May/June 14
Purchasing cooperative provides savings for members	Sept./Oct. 32
Reality Check	
Year-to-year comparison failed to tell story, so CHS annual report provides perspective	July/Aug. 18

Regional Network Boosts Competitiveness	
Diverse interests in Minnesota come together to tap new business opportunities, markets	March/April 26
Rural Capital Network: small team, big results	March/April 27
Rural Electric and Telecommunications Development Center	Sept./Oct. 20
Shuttered factory to see new life as food hub	Nov./Dec. 29
Solar co-op will double Ohio's PV-energy output	Nov./Dec. 15
Something's new at Iowa's NEW Co-op	July/Aug. 31
State cooperative councils adapting to help members in turbulent times	Jan./Feb. 28
Students and co-op leaders reap lasting benefits from program	May/June 13
Sustaining Their Industry	
Sugar growers are example of how co-ops can help producers strengthen their position	July/Aug. 4
Taking Root	
Co-op Month special section	Sept./Oct. 14
Tree Top Milestones	July/Aug. 16
The Little Co-op That Could	
Vermont food co-op overcomes initial skepticism to win hearts (and wallets) of city	March/April 12
Time to Upgrade Your Communications?	July/Aug. 28
2011 Co-op Hall of Fame inductees named	Nov./Dec. 33
Uniquely Cooperative: Equity Redemption	
Survey tracks trends in how co-ops redeem member equity	May/June 30
United Nations declares 2012 International Year of Cooperatives	March/April 31
United's new communicator also a 'logo cop'	July/Aug. 29
Urban farming strides forward with new greenhouse cooperative	Nov./Dec. 16
Urban revitalization, beautification are goals of Urban Roots co-op	July/Aug. 40
Value Added Agriculture Development Center	Sept./Oct. 27
What Cooperatives Do	
Market access, countervailing power and yardstick roles enhance economic efficiency	March/April 4
Why the asset-building movement matters for rural co-op members	Nov./Dec. 24

MAGAZINE DEPARTMENTS

CO-OP DEVELOPMENT ACTION

AREC strives to help struggling poultry producers	March/April 28
High Plains Food helps consumers gain access to local/regional foods	May/June 32
University course promotes co-op development to meet community needs	Jan./Feb. 16

COMMENTARY

Communications: the critical link	July/Aug. 2
Co-op business model well suited for next-generation biofuel development	March/April 2
Co-op movement gaining momentum	Sept./Oct. 2
Co-op role in rural development	Jan./Feb. 2
USDA: committed to co-ops	May/June 2
When co-op principles collide	Nov./Dec. 2

LEGAL CORNER

Capper-Volstead Q&A	May/June 9
Co-ops faced numerous challenges in 2009	Jan./Feb. 11
Financial and legal aspects of succession planning for family-owned businesses	Nov./Dec. 11
Succession planning for family-owned businesses is critical for rural America	July/Aug. 9

MANAGEMENT TIP

The most important thing I learned about running a co-op	Nov./Dec. 17
--	--------------

NEWSLINE (Co-op Developments coast to coast)

Flint Energies supports methane gas project	Jan./Feb. 32
Agri-Mark sends \$2 million to struggling dairy farmers	
Almond shipments jump 23 percent	
Spearman appointed to FCA board	
Dairy leader Tom Camerllo dies	
Korten to address ACE conference	
\$564 million for advanced bio-refineries	
DotCoop announces Global Award winners	
CHS crafts long-term direction	

NCBA theme: Transforming the Economy with Co-ops
 New leadership program for co-op executives
 Riceland sets sales record
 Justice, USDA set workshop dates

Charles Ling named USDA Economist of the YearMarch/April 30
 LO'L reports record net earnings
 CooperationWorks! slates spring training
 USDA helping Dakota co-op expand broadband service
 CoBank reports record earnings, issues \$269 million in patronage
 USDA, Navy sign renewable energy agreement
 Michigan Milk leader Jack Barnes dies
 Blue Diamond CEO to retire at end of '10
 Simmons to lead Oregon bargaining association
 Morris Foundation receives \$10,000 rural leadership grant
 NCFC: Workshops focus should include how co-ops level playing field for producers
 Bob Dylan grants co-op song use
 NMPF: USDA decision on bottlers levels playing field for dairy farmers

SDWG launches \$66 million projectMay/June 37
 Southern States reports sales of \$1.8 billion
 Ag co-ops have billion-dollar impact in Texas, study finds
 Farm Credit net income tops \$2.8 billion in 2009
 Robert Beasley remembered
 USDA grants promote rural development
 Local co-ops approve mergers
 Mooney new chairman of DFA
 UVEC celebrates wind-power project
 Strong sales for Agri-Mark boost member returns
 USDA expands support for broadband

Three co-ops form fertilizer ventureJuly/Aug. 42
 CountryMark acquires assets of Core Minerals
 Evergreen FS takes over Towanda Grain
 Johnson to retire from CHS
 Heartland Co-op to buy four Iowa elevators
 NCFC files Capper-Volstead-related court brief
 GROWMARK CEO Davisson to retire
 David Cramer saluted
 MoArk reaches settlement in egg lawsuit
 Swiss Valley upgrades one plant, sells another
 Michigan cheese makers unite
 Broadband projects to create jobs, opportunity
 Kansas co-ops offer help after elevator collapse

Northwest Dairy merges with Country Classic DairiesSept./Oct. 38
 Co-op community mourns passing of Rod Nilsestuen
 Growmark reports sales of \$6 billion
 Florida Farm Credit associations pursue merger
 Farm Credit launches new website
 Biofuels not a major food price factor
 Jansen to lead Blue Diamond
 Swiss Valley acquires Faribault Dairy, forms cheese venture
 Farmers market numbers soar
 Farmer Co-op Conference in Colorado, Dec. 6-7
 Co-op testimony stressed need for trade programs

USDA announces funding for co-opsNov./Dec. 32
 Audrey Malan among ACE honorees
 DFA issues \$26 million in patronage
 Vilsack announces renewable energy initiatives
 Revenue for NCB Co-op 100 tops \$175 billion
 AMPI returning \$12.9 million to owners
 Prairie Farms launches 'Farmer-Owned' campaign
 NMPF animal care program accepting farm sign-up
 Ocean Spray, Disney alliance will promote Craisins
 Eastland now chair, Allen new CEO at Staplcotn
 Nebraska's Open Harvest co-op celebrates 35 years

PAGE FROM THE PAST

Concentraton in world marketsMarch/April 39
 Consolidations, technology, politics to impact co-op financial institutionsJan./Feb. 43
 Farmers Exchange grows steadily over 30 yearsMay/June 46
 Fingers and NeedlesMarch/April 39

How to get attendance at meetingsJan./Feb. 42
 Pendleton Grain: co-op in motionMarch/April 38
 Saving an industry: plant closure leads Michigan growers to form turkey co-opMay/June 46
 U.S. Dutch co-ops enter world trade marketsMarch/April 38
 Vertical integration is key for Moroni Feed CompanyJan./Feb. 42

UTILITY CO-OP CONNECTION

Cooperatives delivering broadband to rural Missouri communitiesNov./Dec. 18
 Electricity service transformed rural AmericaMarch/April 11
 EJ Water Co-op provides vital service in rural IllinoisJan./Feb. 26
 NRCO helping rural electrics pursue renewable energySept./Oct. 10

SUBJECTS

Anniversaries

Celebrating the greatest public-private partnershipMay/June 17
 50 Years at the Top
 Founded to salvage blemished fruit, Tree Top today is industry leader for apple productsJuly/Aug. 14
 A Legacy of Cooperation & Innovation
 Blue Diamond: 100th anniversary as co-op that made U.S. world leader for almondsMay/June 4
 Out of Darkness
 Against industry opposition, REA helped 'wire' farms, rural areas at remarkable rateMay/June 18

Bargaining

Sustaining Their Industry
 Sugar growers are example of how co-ops can help producers strengthen their positionJuly/Aug. 4

Beginning Farmers

Better Beginnings
 FarmStart offers a helping hand to new farmers and ag co-opsMarch/April 8

Communications

CCA honors go to Krisle, Brooks, DumontJuly/Aug. 27
 Communications plays a major role in co-op's successMay/June 8
 Communications: the critical linkJuly/Aug. 2
 Cool. Funny. Sweet!
 America Crystal designer-tees wow members & judgesJuly/Aug. 24
 Doing it right: TFC CommunicationsJuly/Aug. 22
 Examples of state co-op council activities:Jan./Feb. 31
 Food for Thought
 Winning print ad helps horse owners realize that economy and quality can ride togetherJuly/Aug. 26
 Get Ready
 Co-op Month is coming — what outreach effort will your co-op make?July/Aug. 10
 Horizons-themed report a winner for AuroraJuly/Aug. 23
 Making Hay with 'Bailout'
 'Cooperative America' theme inspires TFC's Publication of the Year winnerJuly/Aug. 21
 Reality Check
 Year-to-year comparison failed to tell story, so CHS annual report provides perspectiveJuly/Aug. 18
 Something's new at Iowa's NEW Co-opJuly/Aug. 31
 State cooperative councils adapting to help members in turbulent timesJan./Feb. 28
 United's new communicator also a 'logo cop'July/Aug. 29

Community

Community Wind
 Maine island community lowering energy costs with wind-power projectMarch/April 20
 The Little Co-op That Could
 Vermont food co-op overcomes initial skepticism to win hearts (and wallets) of cityMarch/April 12
 University course promotes co-op development to meet community needsJan./Feb. 16

Conferences

- Cellulosic biofuel development must balance need to maintain soil qualityMarch/April 19
- Co-ops Can Thrive in Uncertain Times
Farmer Co-op Conference sees opportunity for co-ops that adapt to structural changesJan./Feb. 18
- Tour helps co-op concepts come alive for future cooperative leadersMarch/April 16

Co-op Centers

- Filling the Gap
At 25, Arthur Capper Co-op Center a major force for co-op educationMay/June 10

Co-op Development

- An American Farmer in Afghanistan
Equity Livestock co-op member says volunteer stint challenging, but also rewardingJuly/Aug. 34
- AREC strives to help struggling poultry producersMarch/April 28
- California Center for Cooperative DevelopmentSept./Oct. 30
- Cooperative Development InstituteSept./Oct. 24
- Everything under the Nebraska sunSept./Oct. 22
- Fifth Season Cooperative
Having progressed from conception to incorporation, fledgling co-op faces questionsNov./Dec. 26
- High Plains Food helps consumers gain access to local/regional foodsMay/June 32
- Indiana Cooperative Development CenterSept./Oct. 19
- Kentucky Center for Agriculture & Rural DevelopmentSept./Oct. 17
- Keystone Development CenterSept./Oct. 28
- MidAtlantic Food CooperativeSept./Oct. 29
- Montana Cooperative Development CenterSept./Oct. 26
- Nebraska Cooperative Development CenterSept./Oct. 21
- “Not just a job, but a future”
Goal of Evergreen family of worker co-ops is to help struggling neighborhoods prosperNov./Dec. 12
- Ohio Cooperative Development CenterSept./Oct. 31
- Rural Electric and Telecommunications Development CenterSept./Oct. 20
- Taking Root
Co-op Month special sectionSept./Oct. 14
- The Little Co-op That Could
Vermont food co-op overcomes initial skepticism to win hearts (and wallets) of cityMarch/April 12
- University course promotes co-op development to meet community needsJan./Feb. 16
- Value Added Agriculture Development CenterSept./Oct. 27

Co-op Month

- Co-op Month celebrated at USDANov./Dec. 30
- Get Ready
Co-op Month is coming – what outreach effort will your co-op make?July/Aug. 10
- Key messages for Co-op MonthJuly/Aug. 12

Co-op Principles/Advantages/Impact

- Cooperative Food Hubs
Food hubs fill the ‘missing middle,’ helping small producers tap local marketsNov./Dec. 20
- Uniquely Cooperative: Equity Redemption
Survey tracks trends in how co-ops redeem member equityMay/June 30
- What Cooperatives Do
Market access, countervailing power and yardstick roles enhance economic efficiencyMarch/April 4

Crafts

- Illinois Green Pastures Fiber Cooperative
Co-op connects craft makers with locally produced fiberNov./Dec. 8

Credit

- A ‘Green Miracle’Jan./Feb. 4
- Better Beginnings
FarmStart offers a helping hand to new farmers and ag co-opsMarch/April 8
- Merger creates Farm Credit EastMarch/April 10

Regional Network Boosts Competitiveness

- Diverse interests in Minnesota come together to tap new business opportunities, marketsMarch/April 26

Dairy

- Dairy co-op survey reveals financial performance trendsJan./Feb. 22
- Dillard built stronger MMPA, able to adapt to market trendsMay/June 36
- Functional types of dairy cooperativesJan./Feb. 24
- Galarneau new MMPA leaderMay/June 36
- Organic dairy market also hurt by low pricesJan./Feb. 15

Directors/Governance

- Aligning member interests and democratic controlJan./Feb. 8

Education

- AFC sees 4-H, FFA as key to future of agMay/June 16
- Audrey Malan among ACE honoreesNov./Dec. 35
- Co-op Month celebrated at USDANov./Dec. 30
- Examples of state co-op council activities:Jan./Feb. 31
- eXtending Co-op Knowledge
Extension Service website to include co-op education areaSept./Oct. 35
- Filling the Gap
At 25, Arthur Capper Co-op Center a major force for co-op educationMay/June 10
- Get Ready
Co-op Month is coming – what outreach effort will your co-op make?July/Aug. 10
- Key messages for Co-op MonthJuly/Aug. 12
- Look Who’s Minding the Store
Student-run supply co-ops short-lived, but the concepts they teach live onSept./Oct. 13
- Project Pathway
4-H sees science, technology as crucial to building competitive workforceMay/June 14
- State cooperative councils adapting to help members in turbulent timesJan./Feb. 28
- Students and co-op leaders reap lasting benefits from programMay/June 13
- Tour helps co-op concepts ‘come alive’ for future cooperative leadersMarch/April 16
- What Cooperatives Do
Market access, countervailing power and yardstick roles enhance economic efficiencyMarch/April 4

Environment

- Chipping In
Austrian co-ops play role in making nation a leader in wood biomass energy productionSept./Oct. 6
- Flour Power
NW wheat growers find success with eco-marketing strategyJan./Feb. 12
- “Not just a job, but a future”
Goal of Evergreen family of worker co-ops is to help struggling neighborhoods prosperNov./Dec. 12
- Solar co-op will double Ohio’s PV-energy outputNov./Dec. 15
- Urban farming strides forward with new greenhouse cooperativeNov./Dec. 16

Farm Supply and Services

- Ag co-op sales and income second highest on recordSept./Oct. 4
- Canadian farmers see benefits of local farm machinery co-opsSept./Oct. 12
- Making Landmark a leaderNov./Dec. 17
- \$122 billion in ‘08 sales sets record for Top 100May/June 24
- Something’s new at Iowa’s NEW Co-opJuly/Aug. 31
- The most important thing I learned about running a co-opNov./Dec. 17
- United’s new communicator also a ‘logo cop’July/Aug. 29

Finance/Tax/Legal

- Controlling Counterparty Risk
How country elevators can protect against the downsideMarch/April 24
- Heat by the Bushel
New co-ops supplying members with corn for home-heating fuelMay/June 27
- “Not just a job, but a future”
Goal of Evergreen family of worker co-ops is to help struggling neighborhoods prosperNov./Dec. 12
- Regional Network Boosts Competitiveness
Diverse interests in Minnesota come together to tap new business opportunities, marketsMarch/April 26

Uniquely Cooperative: Equity Redemption
Survey tracks trends in how co-ops redeem member equity . . .May/June 30
Why the asset-building movement matters for co-op members . . .Nov./Dec. 24

Food Co-ops

California experiencing surge in food co-ops . . .Sept./Oct. 30
Co-op builds community around food . . .Sept./Oct. 34
La Montanita Food Co-op . . .Sept./Oct. 33
MidAtlantic Food Cooperative . . .Sept./Oct. 29
The Little Co-op That Could
Vermont food co-op overcomes initial skepticism to
win hearts (and wallets) of city . . .March/April 12

Foreign Co-ops

Aligning member interests and democratic control . . .Jan./Feb. 8
An American Farmer in Afghanistan
Equity Livestock co-op member says volunteer stint
challenging, but also rewarding . . .July/Aug. 34
Canadian farmers see benefits of local farm machinery co-ops . . .Sept./Oct. 12
Chipping In
Austrian co-ops play role in making nation a leader in
wood biomass energy production . . .Sept./Oct. 6
A Green Miracle
Co-op playing key role as Iraq rebuilds farm sector . . .Jan./Feb. 4
Iraqi women learn poultry production from USDA advisor . . .Jan./Feb. 7
La Coop federee: a strong network for farmers and consumers . . .Sept./Oct. 12

Forestry

Chipping In
Austrian co-ops play role in making nation a leader in
wood biomass energy production . . .Sept./Oct. 6

Fruits, Nuts, Vegetables

Cowiche Growers: dedicated to producing quality
fruit and spreading co-op concepts . . .Sept./Oct. 15
50 Years at the Top
Founded to salvage blemished fruit, Tree Top today
is industry leader for apple products . . .July/Aug. 14
A Legacy of Cooperation & Innovation
Blue Diamond: 100th anniversary as co-op that made
U.S. world leader for almonds . . .May/June 4

Gardens/Garden Supply

Grow Food, Grow Hope
Local food, new skills sprout in Ohio community gardens . . .July/Aug. 36
People's Gardens sprouting nationwide . . .July/Aug. 39
Urban revitalization, beautification are goals of Urban
Roots co-op . . .July/Aug. 40

Grain

Milling co-op crucial to Maine's organic dairy farms . . .Sept./Oct. 25
Something's new at Iowa's NEW Co-op . . .July/Aug. 31
United's new communicator also a 'logo cop' . . .July/Aug. 29

Health & Home Services

Paradise Home Care Co-op meets critical need . . .Sept./Oct. 16

Housing

University promotes co-op development to meet needs . . .Jan./Feb. 16

Legal/Legislative

Capper-Volstead Q&A . . .May/June 9
Celebrating the greatest public-private partnership . . .May/June 17
Communications plays a major role in co-op's success . . .May/June 8
Electricity service transformed rural America . . .March/April 11
Examples of state co-op council activities: . . .Jan./Feb. 31
Financial and legal aspects of succession planning for
family-owned businesses . . .Nov./Dec. 11
Justice, USDA set workshop dates . . .Jan./Feb. 35
Out of Darkness
Against industry opposition, REA helped 'wire' farms,
rural areas at remarkable rate . . .May/June 18
State cooperative councils adapting to help members in
turbulent times . . .Jan./Feb. 28
Succession planning for family-owned businesses is critical
for rural America . . .July/Aug. 9

Livestock & Poultry

AREC strives to help struggling poultry producers . . .March/April 28
Assistance for new mobile slaughter efforts . . .Nov./Dec. 6
Campbell County Beef Association . . .Sept./Oct. 18
Going Mobile
Co-ops operate traveling slaughter units to help grow
local foods movement . . .Nov./Dec. 4
Illinois Green Pastures Fiber Cooperative
Co-op connects craft makers with locally produced fiber . . .Nov./Dec. 8
Iraqi women learn poultry production from USDA advisor . . .Jan./Feb. 7

Management

Dillard built stronger MMPA, able to adapt to market trends . . .May/June 36
Galarneau new MMPA leader . . .May/June 36
Making Landmark a leader . . .Nov./Dec. 17
The most important thing I learned about running a co-op . . .Nov./Dec. 17
Why the asset-building movement matters for co-op members . . .Nov./Dec. 24

Marketing

Ag co-op sales and income second highest on record . . .Sept./Oct. 4
Controlling Counterparty Risk
How country elevators can protect against the downside . . .March/April 24
Cooperative Food Hubs
Food hubs fill the 'missing middle,' helping small
producers tap local markets . . .Nov./Dec. 20
Co-ops Can Thrive in Uncertain Times
Farmer Co-op Conference sees opportunity for co-ops
that adapt to structural changes . . .Jan./Feb. 18
Dairy co-op survey reveals financial performance trends . . .Jan./Feb. 22
Fifth Season Cooperative
Having progressed from conception to incorporation,
fledgling co-op faces questions . . .Nov./Dec. 26
50 Years at the Top
Founded to salvage blemished fruit, Tree Top today is
industry leader for apple products . . .July/Aug. 14
Flour Power
NW wheat growers find success with eco-marketing strategy . . .Jan./Feb. 12
Going Mobile
Co-ops operate traveling slaughter units to help grow
local foods movement . . .Nov./Dec. 4
A Legacy of Cooperation & Innovation
Blue Diamond: 100th anniversary as co-op that made U.S.
world leader for almonds . . .May/June 4
Making Landmark a leader . . .Nov./Dec. 17
\$122 billion in '08 sales sets record for Top 100 . . .May/June 24
Organic farmers increasingly turn to cooperative business model . . .May/June 34
Sustaining Their Industry
Sugar growers are example of how co-ops can help
producers strengthen their position . . .July/Aug. 4

Mergers

Merger creates Farm Credit East . . .March/April 10

Purchasing Co-ops

Purchasing cooperative provides savings for members . . .Sept./Oct. 32

Renewable Energy

Biofuel Prometheus
Like its namesake, Promethean Biofuels hopes to better
mankind with new energy source . . .Sept./Oct. 36
Cellulosic biofuel development must balance need to
maintain soil quality . . .March/April 19
Chipping In
Austrian co-ops play role in making nation a leader in
wood biomass energy production . . .Sept./Oct. 6
Community Wind
Maine island community lowering energy costs with
wind-power project . . .March/April 20
Co-op business model well suited for next-generation
biofuel development . . .March/April 2
Co-ops Can Thrive In Uncertain Times
Farmer Co-op Conference sees opportunity for co-ops
that adapt to structural changes . . .Jan./Feb. 18
Heat by the Bushel
New co-ops supplying members with corn for
home-heating fuel . . .May/June 27

NRCO helping rural electrics pursue renewable energySept./Oct. 10

State Co-op Councils

Examples of state co-op council activitiesJan./Feb. 31
State councils adapting to help members in turbulent timesJan./Feb. 28
State and regional cooperative councils in the U.S.Jan./Feb.30

Statistics

Ag co-op sales and income second highest on recordSept./Oct. 4
Dairy co-op survey reveals financial performance trendsJan./Feb. 22
\$122 billion in '08 sales sets record for Top 100May/June 24

Sugar

Sustaining Their Industry
Sugar growers are example of how co-ops can help
producers strengthen their positionJuly/Aug. 4

Sustainable/Local/Organic

Cooperative Food Hubs
Food hubs fill the 'missing middle,' helping small
producers tap local marketsNov./Dec. 20
Fifth Season Cooperative
Having progressed from conception to incorporation,
fledgling co-op faces questionsNov./Dec. 26
Grow Food, Grow Hope
Local food, new skills sprout in Ohio community gardensJuly/Aug. 36
High Plains Food helps consumers gain access to local/regional
foodsMay/June 32
Laughery Village Co-op meeting need for local foodSept./Oct. 19
Milling co-op crucial to Maine's organic dairy farmsSept./Oct. 25
Organic dairy market also hurt by low pricesJan./Feb. 15
Organic farmers increasingly turn to co-op business modelMay/June 34
Shuttered factory to see new life as food hubNov./Dec. 29

Technology

Biofuel Prometheus
Like its namesake, Promethean Biofuels hopes to better
mankind with new energy sourceSept./Oct. 36
Cooperatives delivering broadband to rural Missouri
communitiesNov./Dec. 18
Heat by the Bushel
New co-ops supplying members with corn for home-heating
fuelMay/June 27
Project Pathway
4-H sees science, technology as crucial to building
competitive workforceMay/June 14

Utility Co-ops

Celebrating the greatest public-private partnershipMay/June 17
Cooperatives delivering broadband to rural Missouri
communitiesNov./Dec. 18
Electricity service transformed rural AmericaMarch/April 11
EJ Water Co-op provides vital service in rural IllinoisJan./Feb. 26
Out of Darkness
Against industry opposition, REA helped 'wire' farms,
rural areas at remarkable rateMay/June 18

Value Added

A Legacy of Cooperation & Innovation
Blue Diamond: 100th anniversary as co-op that made
U.S. world leader for almondsMay/June 4
Cooperative Food Hubs
Food hubs fill the 'missing middle,' helping small producers tap local
marketsNov./Dec. 20
50 Years at the Top
Founded to salvage blemished fruit, Tree Top today is
industry leader for apple productsJuly/Aug. 14
Flour Power
NW wheat growers find success with eco-marketing strategy .Jan./Feb. 12
Going Mobile
Co-ops operate traveling slaughter units to help grow
local foods movementNov./Dec. 4
Illinois Green Pastures Fiber Cooperative
Co-op connects craft makers with locally produced fiberNov./Dec. 8

Worker-owned co-ops

Chipping In
Austrian co-ops play role in making nation a leader in
wood biomass energy productionSept./Oct. 6
"Not just a job, but a future"
Goal of Evergreen family of worker co-ops is to help
struggling neighborhoods prosperNov./Dec. 12
Solar co-op will double Ohio's PV-energy outputNov./Dec. 15
Urban farming strides forward with new greenhouse cooperative .Nov./Dec. 16

AUTHORS

Allen, Gray

A Legacy of Cooperation & Innovation
Blue Diamond: 100th anniversary as co-op that made
U.S. world leader for almondsMay/June 4

Bagley, Scott

Chipping In
Austrian co-ops play role in making nation a leader in
wood biomass energy productionSept./Oct. 6

Barrett, Seleise

Filling the Gap
At 25, Arthur Capper Co-op Center a major force
for co-op educationMay/June 10

Berner, Courtney

Fifth Season Cooperative
Having progressed from conception to incorporation,
fledgling co-op faces questionsNov./Dec. 26

Borst, Alan

Community Wind
Maine island community lowering energy costs with
wind-power projectMarch/April 20
Cooperative Food Hubs
Food hubs fill the 'missing middle,' helping small
producers tap local marketsNov./Dec. 20
Organic farmers increasingly turn to co-op business modelMay/June 34

Campbell, Dan

Communications: the critical linkJuly/Aug. 2
"Not just a job, but a future"
Goal of Evergreen family of worker co-ops is to help
struggling neighborhoods prosperNov./Dec. 12
The Little Co-op That Could
Vermont food co-op overcomes initial skepticism to
win hearts (and wallets) of cityMarch/April 12
Urban farming strides forward with new greenhouse co-opNov./Dec. 16

Canales, Judy

Co-op role in rural developmentJan./Feb. 2

Chesnick, David

\$122 billion in '08 sales sets record for Top 100May/June 24

Clamp, Christina

University course promotes co-op development to meet needs ...Jan./Feb. 16

English, Glenn

Celebrating the greatest public-private partnershipMay/June 17

Erickson, Jim

Project Pathway
4-H sees science, technology as crucial to building
competitive workforceMay/June 14

Eversull, E. Eldon

Uniquely Cooperative: Equity Redemption
Survey tracks trends in how co-ops redeem member equity ...May/June 30

Goheen, Alicia

Filling the Gap
At 25, Arthur Capper Co-op Center a major force
for co-op educationMay/June 10

Habenstreit, Linda C. A Green Miracle Co-op playing key role as Iraq rebuilds farm sector	Jan./Feb. 4	Roemer, George An American Farmer in Afghanistan Equity Livestock co-op member says volunteer stint is challenging, but also rewarding	July/Aug. 34
Harris, Peter Aligning member interests and democratic control	Jan./Feb. 8	Schwartz, Adam When co-op principles collide	Nov./Dec. 2
Holcombe, Gloria Filling the Gap At 25, Arthur Capper Co-op Center a major force for co-op education	May/June 10	Simon, George L. Organic dairy market also hurt by low prices	Jan./Feb. 15
Lebel, Colette Canadian farmers see benefits of local farm machinery co-ops	Sept./Oct. 12	Smith, Stephanie M. Capper-Volstead Q&A	May/June 9
Liebrand, Carolyn Dairy co-op survey reveals financial performance trends	Jan./Feb. 22	Co-ops faced numerous challenges in 2009	Jan./Feb. 11
Ling, K. Charles What Cooperatives Do Market access, countervailing power and yardstick roles enhance economic efficiency	March/April 4	Financial and legal aspects of succession planning for family-owned businesses	Nov./Dec. 11
Mayberry, Anne Cooperatives delivering broadband to rural Missouri communities	Nov./Dec. 18	Succession planning for family-owned businesses is critical for rural America	July/Aug. 9
Electricity service transformed rural America	March/April 11	Spicer, Lynette eXtending Co-op Knowledge Extension Service website to include co-op education area	Sept./Oct. 35
EJ Water Co-op provides vital service in rural Illinois	Jan./Feb. 26	Swalheim, Larry The most important thing I have learned about running a co-op	Nov./Dec. 17
Out of Darkness Against industry opposition, REA helped 'wire' farms, rural areas at remarkable rate	May/June 18	Thompson, Stephen Better Beginnings FarmStart offers a helping hand to new farmers and ag co-ops	March/April 8
NRCO helping rural electricians pursue renewable energy	Sept./Oct. 10	Biofuel Prometheus Like its namesake, Promethean Biofuels hopes to better mankind with new energy source	Sept./Oct. 36
McCulloch, Heather Why the asset-building movement matters for rural co-op members	Nov./Dec. 24	Cellulosic biofuel development must balance need to maintain soil quality	March/April 19
Mikkelson, Susann High Plains Food helps consumers gain access to local/regional foods	May/June 32	Flour Power NW wheat growers find success with eco-marketing strategy	Jan./Feb. 12
Miller, Maria Tour helps co-op concepts 'come alive' for future cooperative leaders	March/April 16	Going Mobile Co-ops operate traveling slaughter units to help grow local foods movement	Nov./Dec. 4
Miracle, Sharon 50 Years at the Top Founded to salvage blemished fruit, Tree Top today is industry leader for apple products	July/Aug. 14	Heat by the Bushel New co-ops supplying members with corn for home-heating fuel	May/June 27
Narduzzo, Paul Controlling Counterparty Risk How country elevators can protect against the downside	March/April 24	Todd, Anne Co-op Q&A (with Illinois Green Pastures Co-op)	Nov./Dec. 9
Parker, Bob Chipping In Austrian co-ops play role in making nation a leader in wood biomass energy production	Sept./Oct. 6	Grow Food, Grow Hope Local food, new skills sprout in Ohio community gardens	July/Aug. 36
Pike, Sarah M. AREC strives to help struggling poultry producers	March/April 28	Illinois Green Pastures Fiber Cooperative Co-op connects craft makers with locally produced fiber	Nov./Dec. 8
Pitman, Lynn Co-ops Can Thrive in Uncertain Times Farmer Co-op Conference sees opportunity for co-ops that adapt to structural changes	Jan./Feb. 18	Regional Network Boosts Competitiveness Diverse interests in Minnesota come together to tap new business opportunities, markets	March/April 26
Reynolds, Bruce Sustaining Their Industry Sugar growers an example of how co-ops can help producers strengthen their position	July/Aug. 4	Tonsager, Dallas Co-op business model well suited for next-generation biofuel development	March/April 2
		Co-op Movement Gaining Momentum	Sept./Oct. 2
		Vilsack, Tom USDA: Committed to Co-ops	May/June 2
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