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To the Graduate Council:

I am submitting herewith a thesis written by James Edmond Gee entitled "Selected Organizational and Operational Aspects of the Milan Fruit Growers' Association, Tennessee." I recommend that it be accepted for nine quarter hours of credit in partial fulfillment of the requirements for the degree of Master of Science, with a major in Agricultural Extension.

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# SELECTED ORGANIZATIONAL AND OPERATIONAL ASPECTS OF THE MILAN FRUIT GROWERS' ASSOCIATION, TENNESSEE

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A Thesis

Presented to

the Graduate Council of

The University of Tennessee

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In Partial Fulfillment

of the Requirements for the Degree

Master of Science

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by

James Edmond Gee

December 1965

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# CHAPTER I

## INTRODUCTION

Efficiency in the production, marketing, distribution and utilization of agricultural products continues to increase in the United States. There is evidence to indicate, however, that efficiency in the marketing of agricultural products has not kept pace with that made in the production of agricultural products.

Services related to the marketing, distribution and utilization of farm products today constitute the largest single segment of American agriculture. Highly specialized marketing firms now provide most of the marketing services which once were provided by the farmer. In addition, such firms are providing many new services that the individual producer could not provide (4:2).*

The Cooperative Extension Service is the informal educational arm of both the United States Department of Agriculture and of the respective State Land Grant Colleges. It has the responsibility for providing educational assistance to farmers, processors, marketing firms and consumers in an effort to help them attain greater efficiency in the marketing, distribution and utilization of agricultural products (17:9).*

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*Numbers in parentheses refer to numbered references in the bibliography; those after the colon are page numbers.

Extension recognized its responsibility in the area of marketing shortly after its establishment in 1914 (15:5). The need for greatly increased emphasis on educational work related to marketing was recognized by the Extension Service in a policy statement issued in 1959 (10:9). In recognition of this need, the Agricultural Extension staff in Gibson County, Tennessee, in cooperation with the county Extension program planning committees, incorporated objectives into the long-range and annual Extension plans which were aimed at bringing about increased efficiency in the marketing of fruits and vegetables (Gibson County Agricultural Extension Program Statement, 1960).

## I. THE PROBLEM

For many years, fruit and vegetable growers in Tennessee have experienced various kinds of difficulties in connection with the marketing of their crops. Problems encountered have been related to such aspects as supply, quality, grading, processing, advertising, promotion, and prices. In seeking solutions to these and others problems, fruit and vegetable growers, traditionally, have formed various kinds and types of marketing association. According to a study of former associations in Tennessee, a large number of such associations were not successful (1:16). In another study the most frequently mentioned causes of failure were related to inefficient organization and management, and to the use of unsound or unwise financial procedures (5:7).

Properly organized, efficiently operated grower associations can provide services of value both to the producer and to the consumer. Furthermore, it is generally believed that the incidence of failures among such associations could be greatly reduced if recommended organizational practices were understood and effectively applied (5:12).

## II. NEED FOR THE STUDY

The Milan Fruit Growers' Association was organized in 1958. Since its first year of operation, it has experienced steady growth both in members and volume of business. By 1965 approximately 50 percent of the commercial fruit and vegetable production in the county was marketed through the Association.

Prior to the present study, no attempt had been made to study individually the organizational and operational features of a successful fruit and vegetable growers' association in Tennessee. Information obtained in such a study should be of value to the officers and directors of association studied and to those of similar associations who might be interested in improving or strengthening their organizations. Likewise, it would be of essential value of Extension staff members and others responsible for planning and carrying out more effective educational programs related to the marketing of fruits and vegetables.

## III. OBJECTIVES

The study was made: 1) to describe briefly the situation which gave rise to the Association; 2) to describe the procedure followed in organizing the Association; 3) to appraise and evaluate the financial growth and development of the Association; and 4) to suggest some possible ways of improving or strengthening the Association.

## IV. PROCEDURE

Data used in making this case study of the Milan Fruit Growers' Association were obtained from several sources. Data pertaining to growers' early efforts in fruit and vegetable marketing were obtained from records available in the county Extension office, the Association's files, and from unofficial accounts of farmers who had participated in the early development of group marketing activities in the county. Information relative to organization and operational structure was obtained from other day-to-day records and corporate papers of the Association. Likewise, some useful information was obtained in personal interviews with Association officers, directors and employees. The primary sources of data used to analyze the financial growth and development of the Association were the organization's official audit reports (financial statements consisting of balance sheets and operating statements).

The financial growth and development of the Association was examined separately in terms of structure and condition. The component

percentages method was used in examining the financial structure. The financial condition of the Association studied was examined by means of multiple ratio analysis.

# CHAPTER II

## THE SITUATION GIVING RISE TO THE MILAN FRUIT GROWERS' ASSOCIATION

### I. THE GENERAL SITUATION

The county of Gibson is located in the northwestern part of West Tennessee, as shown in Figure 1, approximately 40 miles east of the Mississippi River and 40 miles south of Kentucky. Its boundaries lie about 90 miles northeast of Memphis, 130 miles west of Nashville and 250 miles south of Saint Louise, Missouri. Land varies in Gibson County from flat to rolling, to rough, with the larger amount being generally rolling. Four rives cross or bound the county. The middle fork of the Forked Deer is the boundary on the southwest and the south fork of the Obion is the boundary on the northeast. The north fork of the Forked Deer and the Rutherford fork of the Obion River split the county in a northwest to southeast direction. The bottom land along the four rivers makes up about one-fourth of the area of the county. The county terrain on the east is hilly to rough, but becomes more generally rolling towards the west. Twenty-five percent of the land is hilly to rough and fifty percent generally rolling.

Gibson County has been characterized for years as a county of small farms. The average size of the 3,974 farms in 1960 was 88.7 acres (22). According to unpublished county estimates, the average size of

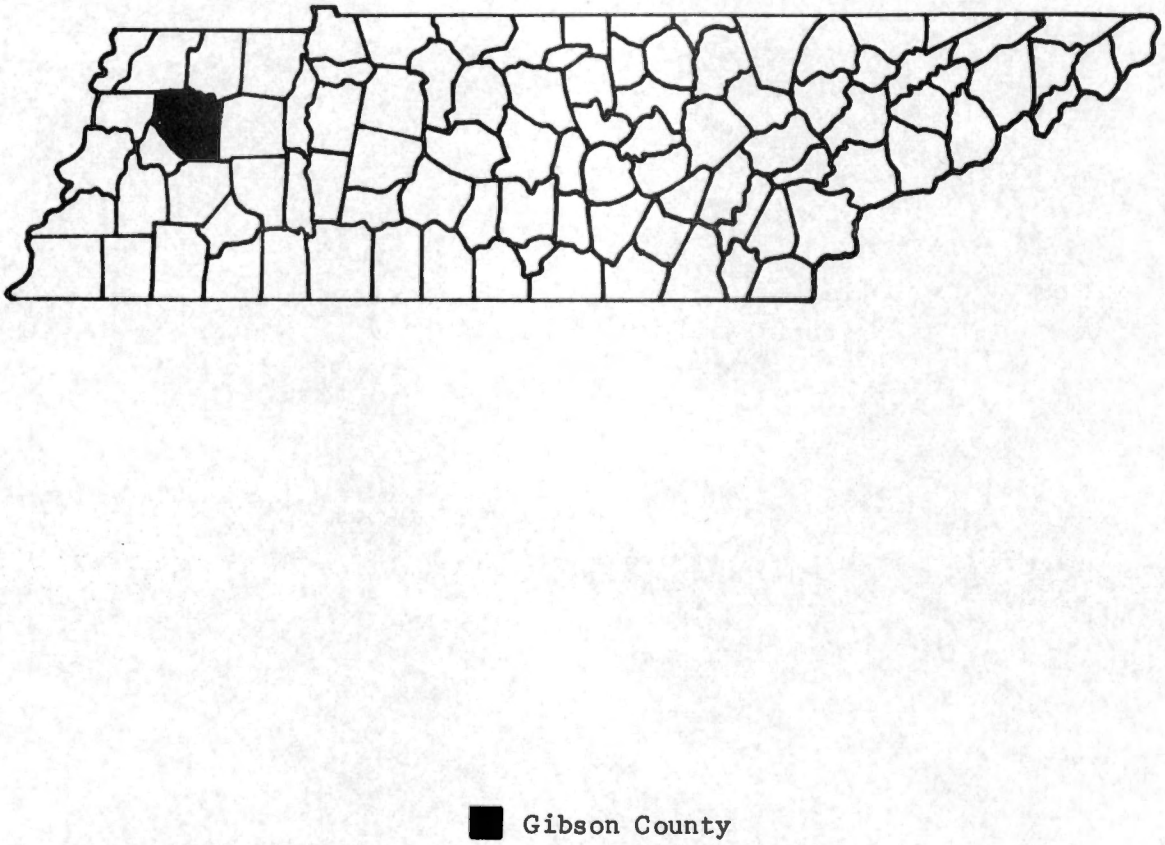



Figure 1. Location of Gibson County, Tennessee.

farms declined from 80 acres in 1880, to a low of 46 acres in 1925. However, as is shown in Table I, the size has been on a gradual increase for about twenty years. The total acreage in farms in 1959 was about the same as it was in 1940 but more than it was in 1955. The decline in size in 1955 and subsequent rise in 1959 may be explained by the fact that some of the land that was in the Milan Arsenal during World War II was released to agricultural production. Although the size of farms has been increasing as indicated above, Table I further indicates that the cropland acreage of the county has shown a steady but gradual decrease for the past twenty years. Also, there is less acreage of cropland harvested now than there was twenty years ago.

Gibson County is essentially an agricultural county. As may be seen in Table II, a total of 15,118 people of the county population are farmers or farm workers and their families. This amounts to about 34 percent of the total county population. Many more are employed in agriculturally related industries and depend indirectly on agriculture for their livelihood. As a whole, farmers in the county are mechanized and employ the latest techniques of farming. In 1959 the cash receipts from farm products sold in Gibson County amounted to approximately $18,521,537, the highest of any other Tennessee county. Three-fourths of this income was derived from the sale of crops and one-fourth from the sale of livestock and livestock products (22).

TABLE I

NUMBER, AVERAGE SIZE AND LAND IN FARMS GIBSON COUNTY, TENNESSEE 1940-1959

| Item Considered | 1940 | 1950 | 1955 | 1959 |
|---|---|---|---|---|
| Number Farms | 6,227 | 5,659 | 4,880 | 3,974 |
| Average size, Acres | 55.2 | 61.1 | 68.8 | 88.7 |
| Total Acres | 388,480 | 388,480 | 388,480 | 388,480 |
| Land In Farms, Acres | 343,583 | 346,028 | 335,781 | 344,464 |
| Cropland, Total, Acres | 268,323 | 261,333 | 253,136 | 250,647 |
| Cropland Harvested, Acres | 166,112 | 169,985 | 161,568 | 154,190 |
| Cropland Not Pastured and Not Harvested, Acres | 43,149 | 30,779 | 21,830 | 31,719 |
| Cropland Pastured, Acres | 59,062 | 60,569 | 69,738 | 64,935 |

Source: United States Department of Commerce, Bureau of the Census, Tennessee Counties, 1940, 1950, 1955 and 1959, Washington, D. C., Government Printing Office.

TABLE II

POPULATION AND LAND TENURE GIBSON COUNTY, TENNESSEE
1940-1959

| | 1940 | 1950 | 1955 | 1959 |
|---|---|---|---|---|
| Total Population | 44,835 | 48,132 | [a] | 44,699 |
| Rural Farm Population | 27,966 | 21,880 | [a] | 15,118 |
| Rural Non-farm Population | 5,274 | 10,020 | [a] | 11,666 |
| Urban Population | 11,595 | 16,232 | [a] | 17,915 |
| No. Farm Operators | 6,227 | 5,659 | 4,880 | 3,974 |
| No. Tenants | 3,238 | 2,251 | 1,802 | 1,349 |
| No. Full Owners | 2,256 | 2,577 | 2,169 | 1,684 |
| No. Part Owner and Manager | 733 | 831 | 909 | 941 |

[a]Data not available.

Source: United States Department of Commerce, Bureau of the Census, Tennessee Counties, 1940, 1950, 1955 and 1959, Washington, D. C., Government Printing Office.

# II. FRUIT AND VEGETABLE PRODUCTION AND MARKETING

## Production

The leading commercial vegetables in Tennessee are snap beans, cabbage, strawberries, and tomatoes (11:81). Although the volume of these crops is small compared with major field crops, they contribute several million dollars annually to Tennessee's cash farm receipts. The bulk of the vegetable acreage is found in concentrated areas of the state. The Gibson, Crockett and Madison area comprises the heart of Tennessee's vegetable complex with the exception of snap beans (11:81).

Gibson County has the largest acreage and production of cabbage for market. A substantial acreage also is grown in portions of adjoining Crockett and Madison counties.

In 1959 Tennessee ranked fourth in the nation in strawberry acreage and fifth in total production. Strawberries are Tennessee's most widely grown truck crop and in most years the most valuable. In 1959 it ranked eighth among all Tennessee crops in value of production. The leading commercial area is in West Tennessee, and the principal counties in the area are Crockett, Gibson, Lauderdale, and Madison (11:82).

Most of the commercial tomato crop is grown in West Tennessee. However, there are some production areas around the Tri-City Area, Knoxville, Chattanooga, Nashville and Memphis. The leading Tennessee counties producing tomatoes for the fresh market are Gibson, Crockett and Madison. Until 1958 practically all of the crop was shipped from Gibson and Madison Counties "green wrapped" for the fresh market.

Sweet potatoes have been a valuable cash crop for many years in Tennessee. Commercial production and sizeable acreages were recorded in Tennessee as far back as 1868 (11:78). In Gibson County sweet potatoes have compared favorably with tomatoes as the leading truck crop. The acreage of sweet potatoes has remained relatively constant in Gibson County, while acreage in other parts of the state has declined sharply. The crop is well adapted to mechanization and has not been as greatly affected by the labor shortage in the county as have other vegetable crops.

Table III indicates that the acreage of selected fruit and vegetable crops in Gibson County has declined since 1939 with the exception of cucumbers and peppers. Cucumber acreage declined from 81 acres in 1940 to 13 acres in 1950, then increased to 58 acres by 1959. Production of peppers has not changed significantly since 1940.

## Marketing

Traditionally most vegetables have been marketed by private transactions between the producer and the produce buyer (7:8). Brokers have been located at all shipping points in Gibson County since 1900. They purchased the produce and in most cases graded and packaged it before shipping to the terminal markets.

Producers began cooperative marketing as early as 1893 when the first strawberry cooperative was organized (2:12). Early organizations located in Gibson County were located at Rutherford, 1906; Dyer, 1914; Humboldt, 1916; and Trenton, 1922 (2:14). These organizations marketed

TABLE III

ACREAGE OF SELECTED FRUIT AND VEGETABLE CROPS, GIBSON COUNTY, TENNESSEE 1920-1959

| Item Considered | Acreage | | | | |
|---|---|---|---|---|---|
| | 1920 | 1930 | 1940 | 1950 | 1959 |
| All Vegetables | 1739 | 7249 | 6467 | 3702 | 1392 |
| Cabbage | 268 | 1885 | 2111 | 1860 | 483 |
| Tomatoes | 1234 | 4728 | 4009 | 1654 | 393 |
| Cucumbers | 2 | 3 | 81 | 13 | 58 |
| Peppers | 1 | 33 | 110 | 94 | 105 |
| Strawberries | | 1947 | 1535 | 1092 | 532 |
| Sweet Potatoes | 1434 | 3206 | 2584 | 1343 | 1046 |

Source: United States Department of Commerce, Bureau of the Census, Tennessee Counties, 1920, 1930, 1940, 1950 and 1959 (Washington, D. C.: Government Printing Office).

only strawberries. The low price of cotton in 1920 was followed by a four-year perior of organization, in which strawberry associations were formed at 16 shipping points in West Tennessee. Two of these associations were active in 1930. Periods of low priced cotton in 1914 and 1920 were both followed by increased activity in the organization of strawberry associations (2:14). Sweet potato associations also were formed as early as 1913. Early studies revealed that sweet potato acreage and producer cooperative interests were directly affected by cotton prices (1:13).

The West Tennessee Truck Growers' Association was organized in 1931. This organization grew to be the largest fruit and vegetable marketing cooperative in West Tennessee. All fruits and vegetables were marketed and grading and packing sheds were operated in Gibson, Medina, Fruitland and Humboldt. The volume of business continued to increase through 1947, which was the Association's best year. According to unofficial association records, the net sales exceeded two million dollars. The volume of business began dropping rapidly after 1947. The change in the type agriculture, which included the introduction of additional cash crops and the trend towards mechanization, were largely responsible for the decline in volume. In addition, there were two major factors that had their effect. First, the manager of long standing retired and a replacement was never employed who could gain the respect and confidence of the membership. Secondly, the board of directors did not enforce the marketing agreement with the

individual producers. Thus, the volume of produce declined to such a degree that overhead coats were prohibitive. Interest continued to decline and by 1952 it had reached such a low ebb that the remaining active membership voted to dissolve the corporation.

A period of six years elapsed before local producers and business leaders indicated any further interest in group marketing activities. Meanwhile, the food distribution industry, like other segments of the economy, was experiencing pronounced changes. The trend toward larger super-markets, and toward the decline in numbers of small groceries, and toward greater concentration of ownership and control of retail outlets had definite implications for producers (13:2). As always, farmers as individuals have very limited bargaining power in the market place. Therefore, these and other developments created renewed interest in fruit and vegetable marketing associations as a means of improving the producer's competitive position.

By 1957 local producers and businessmen had become concerned enough with the fruit and vegetable situation in the area to call a meeting to discuss what could be done to make some improvements. In addition to the changes in the food marketing industry, it was decided that the basic reasons for low prices and declining acreage in fruit and vegetable crops were: 1) the existing marketing system was inadequate; and 2) produce being marketed was inferior in quality. These two problems were interrelated, each directly affecting the other.

It was, therefore, decided that the most logical approach to improving the fruit and vegetable situation was to undertake organized group marketing.

# CHAPTER III

## ORGANIZATION OF THE MILAN FRUIT GROWERS' ASSOCIATION

It is obligatory that the organizational structure of a cooperative association be in accordance with the needs and desires of grower members and at the same time come within the legal framework of the State laws governing the form of organization desired (18:2). Organizational structure may vary among associations as long as certain legal requirements pertaining to cooperatives are met. It is not the purpose of this study to discuss the advantages and disadvantages of Tennessee laws basic to organization of cooperative associations. However, there are definite reasons why an association in Tennessee such as the Milan Fruit Growers' Association should be organized under the Cooperative Marketing Law of this state.

### I. STEPS TAKEN PRIOR TO FORMAL ORGANIZATION

Prior to organizing the association, local business and agricultural leaders had become concerned with the decline of and possibility of losing the truck cropping industry in the county. County agricultural Extension personnel were contacted by the Chamber of Commerce and, susequently, all available data on the fruit and vegetable industry in the area were presented to them. Next, a committee was appointed which was composed of representatives from the Chamber of Commerce and

fruit and vegetable growers and county Extension personnel. The function of this committee was to determine the possibilities for establishing a marketing association.

All available data relating to the conditions under which the association would operate were collected and studied by the committee. The study revealed that: 1) a substantial number of farmers (250) had past experience in fruit and vegetable production; 2) growers' individual marketing experiences had been discouraging; 3) there was sufficient interest in group marketing to form an association; 4) a majority of the larger producers would patronize such an association; and 5) a local fruit and vegetable wholesaler would agree to handle sales for the association on a commission basis.

A general meeting of all interested local growers was held and the decision to organize was made. The first year, eighteen producers signed an agreement, and organized and operated on an informal unincorporated basis. However, members of the initial study committee pointed out the disadvantages of operating such a business on an unincorporated basis, the principal one being that of unlimited liability of members.

## II. PROCEDURE FOR THE FORMAL ORGANIZATION

After operating for one season on an informal basis the Milan Fruit Growers' Association was duly organized in accordance with the Cooperative Marketing Law of Tennessee. The specific requirements for compliance with the law as shown below were followed.

> Each association formed under this chapter must prepare and file articles of incorporation, setting forth (a) the name of the association; (b) the purpose for which it is formed; (c) the place where its principal business will be transacted; (d) the term for which it is to exist, not exceeding fifty (50) years; (e) the number of directors thereof, which must be not less than five (5) and may be any number in excess thereof; the term of office of such directors; and the names and addresses of those who are to serve as incorporating directors for the first term, and/or until the election and qualification of their successors; (f) if organized without equal or unequal; and if unequal, the general rule or rules applicable to all members by which the property rights and interests, respectively, of each member may and shall be determined and fixed; and provisions for the admission of new members who shall be entitled to share in the property of the association with the old members, in accordance with such general rule or rules. This provision or paragraph of the articles of incorporation shall not be altered, amended, or repealed, except by the written consent or vote of three-fourths of the members (18:5).

Articles of Incorporation were prepared to meet the requirements of the law approved by the initial membership and incorporating directors and submitted to the Secretary of the State in June, 1959. The Charter was granted the first day of July, 1959, as shown by the legal statement taken from Charter Book 3, page 296, Gibson County, Tennessee, Register's office.

State of Tennessee
Department of State

> I, Joe C. Carr, Secretary of State of the State of Tennessee, do hereby certify that the Annexed Instrument with Certificate of acknowledgement was filed in my office and recorded on the 1st day of June, 1959, in corporation Record Book Miscellaneous A-39, page 221.
>
> In Testimony whereof, I have hereunto subscribed my Official Signature and by order of the Governor affixed the Great Seal of the State of Tennessee at the Department in the City of Nashville, this 1st day of June, A. D., 1959.
>
> Joe C. Carr

Upon being duly organized and incorporated under the appropriate state statute, the association was legally authorized to carry out operations in accordance with objectives and purposes for which it was formed.

The Association was formed for the following purposes:

> To engage in any activity in connection with the marketing or selling of the fruit and vegetable products of its members, or with the harvesting, processing, canning, packing, grading, storing, handling, shipping or utilization thereof, or supplies; or in the financing of the above enumerated activities, or in any one or more of the activities specified herein.

For a complete description of the powers of the Association as authorized by the Charter of Incorporation, see Appendix A.

The Association, after having been duly incorporated, thus became a legal person. Members' liability was no longer unlimited, but limited to their interests in the Association.

The organization committee proceeded to draft by-laws for regulating and governing the operations of the Association. These rules were presented for approval of the membership within thirty (30) days after receipt of Charter.

## III. MEMBERSHIP AND CONTROL

The by-laws of the Association set forth rules relating to membership qualifications, suspension or termination of memberships, handling of non-member business and voting privileges. Futher control is maintained by a separate marketing agreement.

Membership in the Milan Fruit Growers' Association was limited to active producers, and ownership and control of the organization was vested in their hands. The organization was to be developed and operated for the mutual advantages of the grower members. Provision was made to distribute any benefits obtained on the basis of the growers' patronage rather than on capital invested. A statement of the qualifications necessary for membership was included in the by-laws (see Appendix B). Eligibility for membership is illustrated by the following extract from the by-laws:

> Any person, firm, partnership, corporation or association, including both landlord and tenants in share tenancies, who is a bone fide producer of agricultural products in the territory in which the association is engaged in business, and who agrees to be a patron of the association, may become a member of the association by meeting such conditions as may be prescribed by the board of directors.

A grower interested in becoming a member must make written application indicating the number of acres he intends to market through the association if accepted (Appendix C). The directors then carefully study and consider the qualifications of the grower. They also reserve the right to interview prospective members personally with whom they are not thoroughly acquainted to determine their attitude toward producing quality products and cooperative marketing in general.

If application is approved and he is accepted, each new member must sign a marketing agreement in which he agrees to market his designated produce through the association. Such an agreement which outlines the mutual obligations of members and the association is an

essential requirement of a successful group marketing program. Without it the association has no assurance of a definite volume of business and, therefore, is not in a position to do effective marketing planning. Certain other rights and obligations of the two parties to the agreement are spelled out in such contracts (see Appendix D).

It should be further pointed out that, unless a marketing agreement is strictly enforced, it is worthless (9:5). In the case of the Milan Fruit Growers' Association, strict enforcement has been the policy of the board of directors. For example, soon after the organization was formed, the vice-president was found to be selling tomatoes through another market outlet, thus violating his agreement. His membership was cancelled, and he thereby forfeited all rights in the association according to the terms set forth in the agreement.

After the marketing agreement has been signed by the grower and payment of a required $5.00 membership fee has been made, he becomes a full-fledged member and is issued a certificate of membership (see Appendix E).

The importance of marketing agreements should be re-emphasized, but in the final analysis the kind of relations an organization has with its patrons depends upon how well it serves them. If unsatisfactory services are provided, an association will experience difficulty in holding its membership even with a formal contractual arrangement.

At the time of this study, the Milan Fruit Growers' Association had experienced little or no difficulty with non-compliance. However,

during the 1964 season there were indications that directors were becoming more lax in their efforts to assure membership compliance.

Suspension or Termination

Certain other requirements for remaining a member in good standing are spelled out specifically in the following excerpt from the association by-laws:

> Section 2. Suspension or termination. If, following a hearing, the board of directors shall find that a member has ceased to be a producer or that such member has not, for a period of one year, marketed his agricultural products through the association, or has moved out of the territory in which the association is operating, they may suspend his rights as a member or terminate his membership. Upon termination of membership in the association in any manner, all of the rights and interests of such member in the association shall, by that act, be cancelled and such member shall be entitled only to payment or credit for the equitable appraised value of his property rights and interests in the association, as conclusively determined by the board of directors. In determining rights and interests, all amounts allocated to each member or evidenced by certificates of any kind shall be excluded, and any such amounts shall be accounted for to members in accordance with the terms and conditions applicable thereto. No action taken hereunder shall impair the obligations or liabilities of either party under any contract which may be terminated only as provided therein.

Non-Member Business

The Association may elect to do business with non-members on the same basis as with members. However, the association may not do over 50 percent of its marketing business with non-members. This is in accordance with the by-law requirements and the cooperative marketing law of Tennessee. Only 15 percent of the business of furnishing farm business services or supplies and equipment may be with or for non-members (see Appendix B).

Voting

The affairs of the Milan Fruit Growers' Association are conducted by a member-elected board of directors. Members vote on organizational matters at annual meetings or at duly-called special meetings. Business may be transacted at any meeting where a quorum is present, a quorum being a majority of the members present. A majority of directors also are required to be present for transacting business.

According to the Tennessee Cooperative Marketing Law, voting is on a one vote per member basis (18:6). Voting by proxy is not permitted. Absent members may vote by mail on specific questions other than the removal of directors providing they are transmitted to the secretary, and provided that all members are notified in writing with an exact wording of the resolution to be voted on and a full explanation given (see Appendix B). Such ballots may be counted only in the meetings at the time the vote is taken.

## IV. MANAGEMENT

Management refers to the guidance, leadership and control of a group effort to achieve common goals. The term "management" refers to the processes which an executive carries on in conducting the affairs of a business, the "action" phase, or it may refer to the people involved in running the business, the "who" phase (14:19).

It is the responsibility and function of management to plan, direct and control the activities of the association. In management

circles incompetent or otherwise, ineffective management is most often cited as a cause of business failure. Management of people and resources involves a multiplicity of plexities. Voluminous literature is available which deals with management and related problems. Much of it deals with businesses in general. However, the general principles outlined for sound management of other businesses have application for fruit and vegetable marketing businesses (9:4).

The by-laws show the number and qualifications of directors, method of election, term of office and other specific details relating to management (see Appendix B).

Directors

The board of directors of a business association has a two-fold responsibility as follows: 1) They represent stockholders or members; and 2) they are charged by law to reasonably conduct the affairs of the business. The welfare of the association is in the hands of the directors. Certain authority may be delegated to others, but the ultimate responsibility for the conduct of the business remains with the board (6:4). In addition to their legal responsibility as delegated to them by members in the association corporate papers, boards of directors also have social and ethical responsiblities.

In non-cooperative business organization, management includes both the general or executive manager and the board of directors; in grower or farmer-controlled business association, however, members

themselves may also assume managerial responsibilities and decide on important policy questions. Thus members' responsibilities go beyond compliance with the operating rules and take on long-run implications if the members are to serve their own best interests.

In the case of the Milan Fruit Growers' Association, overall management was in the hands of the board as delegated to them by members in the corporate papers. Sales and packing were handled by an established broker on a commission basis. At the time of this study the board of directors was composed of nine members.

Some of the more important duties of the board are as follows: 1) managements of the business, 2) employment of manager (if any), 3) requirement of employee bonds where needed and provision for adequate property and liability insurances, 4) securing a competent and disinterested auditor to audit the association's book once a year, 5) carrying out all agreements of the association with members, and 6) selecting one or more banks as a depository for funds of the association.

Complete details relating to directors and other phases of management are outlined in the Association's by-laws or operating rules (see Appendix B).

Manager

At the time of this study the association was not employing the services of a general manager, as indicated above. Sales and packing

operations were handled by a broker or sales agency on a contractual basis during the marketing season. A bookkeeper was also employed. Both, however, were performing these managerial services primarily during the official marketing season which is generally from early June to mid-August. Only limited marketing activities were being performed during the remainder of the year. Consequently, these employees were not retained on a full-time basis.

Other Employees

The caretaker is a full-time employee, lives in a house furnished by the Association, and is paid by the month. During the marketing season he works in the operation where needed. In the off-season, he is in charge of the supplies that the association handles as a service for the members.

All of the other employees are temporary and work through the marketing season. They are paid by the hour. There are eight graders on each of the two tomato grading machines and four on the other machine. During the peak season, the association employs up to 100 people. They perform such jobs as unloading products, grading and packaging, assembling cartons, and loading trucks at the dock.

## V. FINANCING

Allocated membership capital retained in the organization may be returned to the patron when the board of directors decides the

organization has accumulated sufficient funds. Current deductions or withholdings of patronage refunds may be used to retire the oldest outstanding capital contributions of patrons. This procedure is known as the revolving fund plan of financing. The Milan Fruit Growers' Association incorporated the revolving capital plan in their financial structure. An important attribute of this method is that growers share in the financing of their organization on the basis of their patronage. Thus, current patrons contribute capital in the same proportions as they use the association's services.

In addition to being a convenient method for keeping ownership in the hands of current members and patrons, it is also effective in developing and maintaining loyal membership. Furthermore, the amount of equity capital retained in the organization may be adjusted each year, according to need, by controlling the rate at which the older obligations are retired.

Prior to 1963, revolving fund certificates were issued to the members for 100 percent of their share of the patronage refund. Since January 1, 1963, the revolving fund certificates have been issued for 80 percent of the members share and 20 percent was paid in cash. This change in procedure was brought about by the Revenue Act of 1963. This legislation, in general, preserved the principle of a single tax on income generated through farmer cooperatives, if certain requirements are met (12:1,2). The major requirement is that the association must have individual written consent of members to retain 80 percent of

their patronage dividend on a revolving basis. The association has this permission from all current members. All new members are required to sign necessary forms giving this permission when signing membership form (Appendix G).

In common with most business enterprises, the Milan Fruit Growers' Association relied upon external financing to help develop and expand its operation. It borrowed capital from the commercial banks in the area. Loans financed buildings and facilities and provided working capital during peaks in operation. It was the board of directors' responsibility to determine the need for borrowed funds and to initiate and follow a sound financial policy characterized by a proper balance between equity and liability capital. Furthermore, it was its responsibility to ascertain that organization credit requirements were met on favorable terms.

# CHAPTER IV

## OPERATIONAL FEATURES OF THE MILAN FRUIT GROWERS' ASSOCIATION

Operational functions of cooperatives may vary considerably among associations. The specific operations and objectives should be fitted to the needs of each individual situation. Economic need was the motivating force behind the formation of the Milan Fruit Growers' Association. The Association was created with the basic objective of improving growers' returns through united action. The specific techniques employed to achieve this objective were to develop: 1) a sound and well-organized sales program, 2) a thorough and complete grading and packaging program, 3) an educational program on quality production of fruits and vegetables, and 4) to set charges for these services commensurate with the need to properly finance the operation. Each of these techniques will be discussed below. Peculiarities in the operation, if any, will be pointed out where considered appropriate.

### I. SALES PROGRAM

Selling members' fruits and vegetables is the most important single function of the Milan Fruit Growers' Association. Additional activities, such as production of high quality fruit and vegetables, their grading and packaging, are seen to be directly related to the sales

function. Central grading and packing, for example, afford opportunities for gaining control over and regulating the quality and type of package offered buyers.

The services of an experienced sales agency with broad industry contacts were secured to be in charge of the sales program. Highly competitive fresh fruit and vegetable marketing makes it necessary for the sales manager to be well informed about the demand and prices for each specific fruit and vegetable throughout the season. The sales manager was requested to establish and maintain personal contact with the trade itself so as to assure current knowledge of the demand for each fruit and vegetable in the various separate markets. The Sales manager and the directors also were aware of and have used the trade journals, market reports and rating sheets to keep informed.

Although it has been said that variety is the spice of life, this appears to be neither true nor desirable, in fruit and vegetable marketing. Too much variation in too many things seems to be the cause of many marketing problems. For example, before the Milan Fruit Growers' Association was organized, each producer followed his own production and harvesting practices. Aside from differences in soil type and cultural practices, fertilizer practices have been proven to be particularly important. Consequently, little semblance of uniformity existed. There also was a wide variation in the varieties of fruits and vegetables grown and marketed. The Association attempted to establish a reputation for quality and performance, but conducted only

limited advertising campaigns or other promotional means of identifying their high quality products with the Milan Fruit Growers' Association, as such. At the time of the present study most of the produce was still being marketed in containers identifying only the sales agency.

Fruit and vegetable marketing has undergone vast changes in recent years. Only a few decades ago the shipment to terminal markets by rail was the predominant practice in the industry. Increasingly, large retail food distributors purchase their fruit and produce needs at shipping points directly from large producers or assembly markets (4:1). No longer does this merchandise pass through the terminal markets, but is moved directly to the food distributors' warehouse and then to the retail store where it is sold to the ultimate consumer. A majority of the Milan Fruit Growers' Association sales have been direct transactions between a chain store's produce buyer and the sales manager. These sales have involved both #1 and #2 grades of tomatoes, peppers, cucumbers, cabbage, strawberries, and sweet potatoes. The produce has then been trucked by the Association to warehouses in Louisville, St. Louis, Cincinnati, Chicago, Pittsburgh, Detroit and Atlanta. Figure 2 shows the sales area of the Milan Fruit Growers' Association.

There has been a good demand locally for the lower grades of produce. Peddler buyers have purchased the bulk of this merchandise for peddling in the Mid-South area. This method of sale is beneficial because it eliminates the transportation cost to the Association.




Distriction points:

1. St. Louis, Missouri
2. Chicago, Illinois
3. Detroit, Michigan
4. Pittsburgh, Pennsylvania
5. Cincinnati, Ohio
6. Atlanta, Georgia
7. Louisville, Kentucky

Figure 2. Sales locations of Milan Fruit Growers' Association.

Occasionally where the supply has been greater than the demand, the sales manager has been forced to consign produce to a commission firm in the terminal markets of the large cities. This sales method has not generally been favored. In most cases, off-quality produce has been moved through consignment outlets. Consignment was seen as the last resort to be used in the event that no other sales outlets were available.

At the time of the present study, the producer was paid for his produce weekly. The price he received was based on the average weekly price for the grade of fruits and vegetables he delivered less the grading, packaging and marekting charges.

## II. GRADING AND PACKAGING

Normally there is a marked improvement in the quality of fruits and vegetables which have been sorted and packed in central packing houses by experienced graders and packers instead of having been packed at the farm by the grower and members of his family. The central packing houses are largely responsible for placing a fairly well-standardized product on the market (4:34).

The Milan Fruit Growers' Association has operated as a central grading and packing facility. This facility was considered as being very essential by the incorporating directors. Since Gibson County farms are small and farmers produce and market small acreage of truck crops, they must depend on a central assembly point for grading, pack-

aging and selling. The first year, 1958, the Association used an old railroad siding packing shed for the packing operation as shown in Figure 3. A piece of grading equipment that had formerly been used in sorting mature green tomatoes was borrowed. This equipment proved very unsatisfactory as it bruised vine ripe tomatoes and so was soon discarded. The Association moved its operation the second year to an unused potato house and did all grading by hand. In 1960 the Association purchased a tract of land located on Highway 70 about 2 miles east of Milan. A metal building 60' x 120' was constructed. The building is shown in Figure 4. A committee was appointed to visit the fruit and vegetable producing area of Florida and study the types of grading equipment being used in their grading operations. Following this trip and assisted by a grading machine manufacturing company, special grading machinery was designed and constructed. One machine was designed to handle tomatoes and another for peppers, cucumbers and potatoes. These machines were designed to preserve quality and reduce labor cost. The size of the building was increased in 1964 and, by 1965, was 120' x 120'. Another grading machine was purchased to assist in handling the increase in tomato production.

On the machine designed primarily for tomatoes, the fruit is first washed by sprinklers with the use of brushes while passing on a conveyor. In the continuous process, the fruit then goes over a roller-type conveyor twenty feet long where eight graders are stationed, as shown in Figure 5. The rollers turn the fruit so that all sides can be




Figure 3. Railroad siding packing shed used by Milan Fruit Growers' Association, 1958.

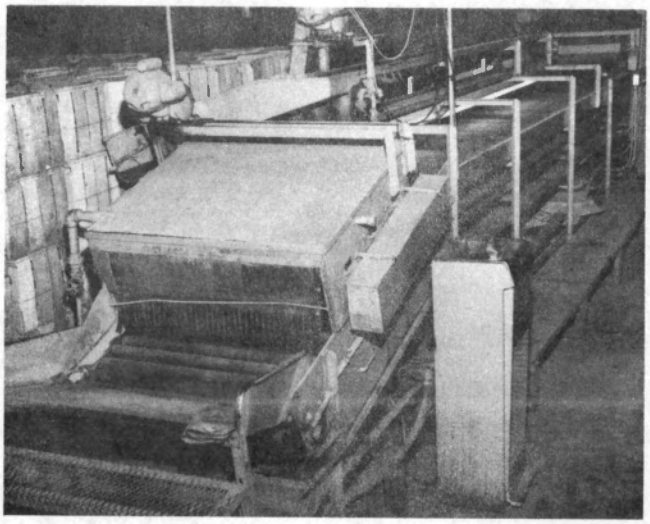



(a)

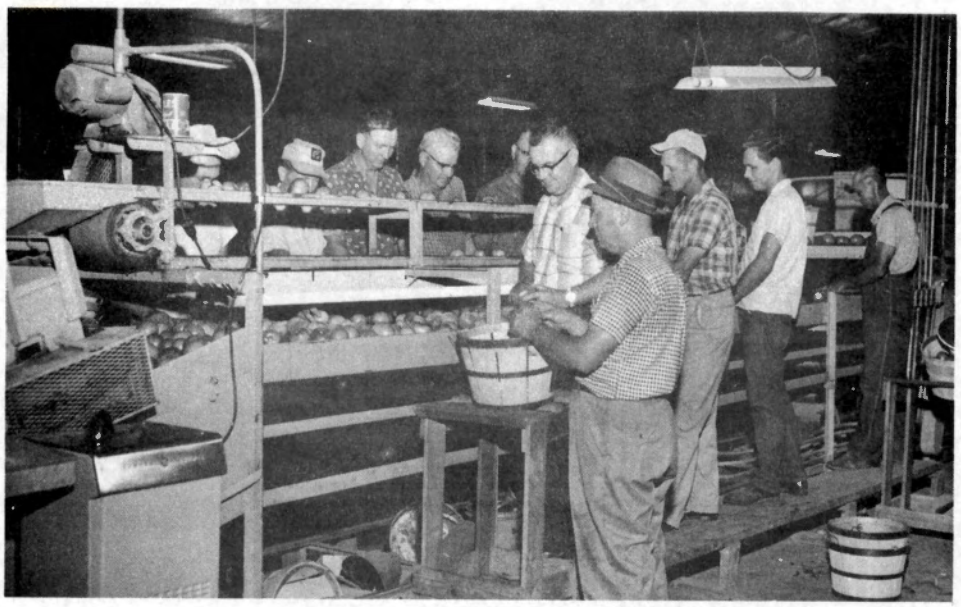



(b)

Figure 4. Grading and packaging center and headquarters building of Milan Fruit Growers' Association. (a) Building constructed in 1960; (b) addition to building in 1964.



(a)



(b)

Figure 5. Washing and grading machines of Milan Fruit Growers' Association. (a) Washing section of grading machine; (b) roller conveyor of grading section.

seen by the grader. A buffer also is a part of this operation where the fruit is dried by brushes with long bristles. The fruit then goes over a sizer belt with four sizes of holes where the fruit is sorted according to size. There are floating belts under the holes that eliminate the fall and bruises that would result. The floating belts deliver the fruit to belt conveyors where it is taken to the different size bins for packing, as shown in Figure 6. Conveyor belts then deliver the packaged produce to the loading dock.

The other machine, for peppers, cucumbers and potatoes, performs in about the same way with two notable exceptions. The produce starts out in a bath-type washer on a roller conveyor, and a waxing machine is included for potatoes and cucumbers.

The farmer is given a ticket when he unloads his produce at the central building. This ticket records the kind of produce and the number of units. Following the grading operation, he is given another ticket which states the number and size of packages of the different grades. He receives his pay based on the information on this ticket. The Association also records information in the day journal and on the individual producer's ledger sheet.

All produce handled by the Association has been graded and packaged at the central location. The manager and board of directors have put forth an all-out effort to see that all produce is uniformly graded and that all farmer members were treated fairly. Federal and State inspectors have inspected and graded strawberries at the central packing

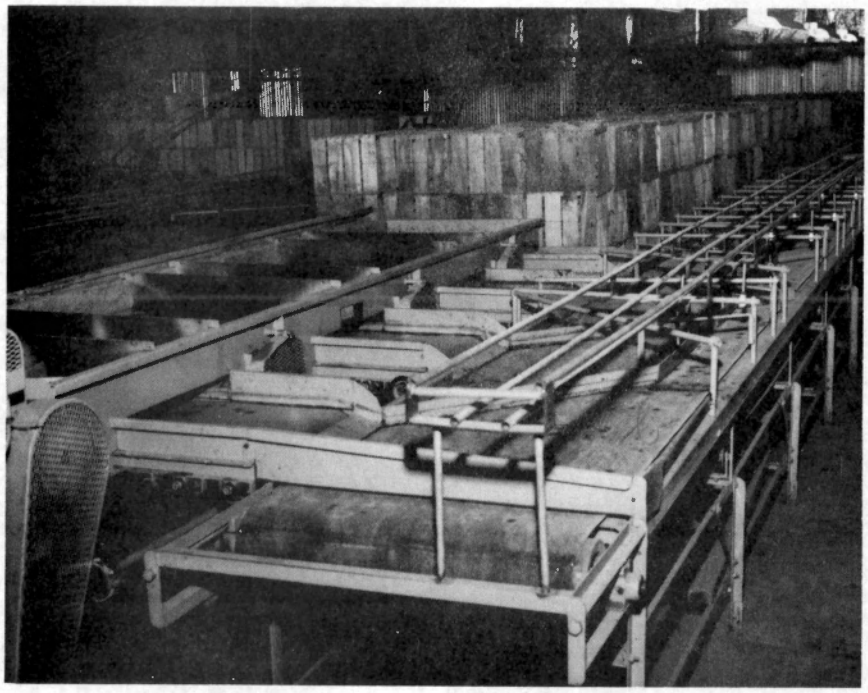


Figure 6. Sizing machine and packaging section of grading equipment of Milan Fruit Growers' Association.

building. The other produce has been inspected at the market outlets by State and Federal inspectors, but locally they have been graded and inspected by employees of the Association in the grading procedure described above.

The produce has been packaged in the kind of containers that are in greatest demand by the buyers. Strawberries have been packed and marketed in sixteen-quart crates; sweet peppers in bushel baskets; cucumbers in bushel baskets and cardboard boxes holding approximately 24 cucumbers; cabbage in 50-lb. crates and 50-lb. bags; and sweet potatoes in 1.1 bushel crates. Tomatoes, being the largest volume item of the Association, have been packed in 10-lb., 20-lb., 40-lb. boxes and ½-bushel baskets. All of the No. 1 grade tomatoes have been packed 10-lb. boxes. The No. 2 tomatoes have gone into the other containers, based on consumer preferences.

The produce has been graded according to United States specifications. The grades for the different items are:

| Item | Grades |
|---|---|
| Cabbage | US #1<br>US #2 |
| Strawberries | US #1<br>US #2<br>Combinations<br>Unclassified |
| Sweet Potatoes | US #1<br>US #2<br>US #3<br>Combination jumbo |

| Item | Grades |
|---|---|
| Sweet Peppers | US #1 |
| | US #2 |
| | US #1 Red |
| | US #1 Chocolate |
| Cucumbers | US #1 |
| | US #1 Small |
| | US #1 Large |
| | US #2 |
| Tomatoes | US #1 |
| | US #2 |
| | Ripes |
| | US #3 or Culls |

The need for careful harvesting has been found to be of great importance if the producer expects to market a high percentage of high quality fruit. The type of containers used for harvest, the stage of maturity of the produce at the time of harvest, transfer of fruit from plant to field crate, the method by which field crates are stacked, the manner in which field crates are handled from field to central building, hauling equipment and road conditions have all been identified as important factors in determining the quality and ultimate condition of the produce sold to the consumer (7:20). Marketing a lower quality product results in a loss to the grower, to the Association, and to the consumer. The producers have been encouraged to field grade their products. This tends to eliminate handling costs to the grading shed and the necessity of running very low grade produce through the grading operation, thus saving the producer and Association money.

## III. EDUCATIONAL PROGRAM ON QUALITY PRODUCTION

When the initial study committee met and analyzed all available data, one of the two basic problems identified was that the produce being marketed was inferior in quality. Since the problems relating to quality and markets were so interrelated, the leadership believed a program in either could not succeed without a corresponding program in the other. The program objective was to increase the net profit per acre of Gibson County fruit and vegetable growers by adopting recommended production and marketing practices as a means of producing uniform high quality produce. This objective was given high priority and scheduled in the Agricultural Extension Service's annual county plan.

The Agricultural Extension Service district horticultural specialist assisted the Gibson County staff with producer group meetings, method demonstrations, result demonstrations, personal contacts, tours, and experiment station field days. Radio, newspapers and television were used as other methods in disseminating the recommended production and marketing practices information.

Group meetings for producers of fruits and vegetables were held each winter and spring. These meetings were started in January, 1959. The discussions centered around such practices as land use, variety selection, plant-bed management, soil testing and fertilization, cultural practices, chemical weed control, insect and disease control and

harvesting methods. Slides, charts and experiment station data were used in explaining the recommendations of the University of Tennessee, College of Agriculture.

Method Demonstrations in soil sampling, plant-bed fumigation, plant selection and field grading were presented to small groups of producers in the field.

Result Demonstrations were established with the cooperation of several producers each year. The field trial of two or three varieties proved very helpful in comparing the characteristics under general field conditions. The fertility "Trial Acre" demonstration was very valuable in illustrating the value of following soil-test recommendations. The comparison of different herbicides was made under general field conditions. The producer was always urged to take the lead in conducting the result demonstrations.

Personal contacts with the producers were a means of continually discussing quality production. Circular letters were written to all producers on timely subjects relating to quality.

Tours were scheduled annually to observe the result demonstrations and other practices of successful producers. The annual experiment station horticultural field day was a red letter day for all county producers.

Radio programs, newspaper articles and television programs were valuable media in keeping the producers quality conscious. Successful producers and their operations were the topics of discussion on all

three media. Timely information that would influence high quality and stimulate efficient production was disseminated on weekly radio programs and in weekly newspapers.

## IV. CHARGES FOR SERVICES

The Milan Fruit Growers' Association derived income to cover operational and investment cost by charging the producer a flat rate per package for handling, grading and packaging his produce. The rates were established to cover investment, carton and labor cost and special additives for certain products. A study of cost data and the repayment schedule on the building and grading equipment was made to aid in setting the rates to charge the members. Data in Tables IV and V reveal that the costs for labor, building and equipment are the same for each commodity. The cost of the carton has varied more than any other item. The miscellaneous service charge is added to insure the rate being great enough to cover all expenses.

The transportation cost was not included in the breakdown of expenses. It was so variable the actual expense of each shipment was prorated out to the grower based on the percentage of produce he had on the truck.

Eight percent of the net was withheld as sales commission. The net was the amount left after deducting the scheduled expenses and transportation cost. This practice was in accordance with the verbal agreement made with the sales agency.

TABLE IV

SPECIFIED COSTS FOR GRADING AND PACKAGING TOMATOES AT THE MILAN GRUIT GROWERS' ASSOCIATION, 1964

| Items | Cost Cents | Item | Cost Cents |
|---|---|---|---|
| 10 lb. #1 & #2 | | 20 lb. #2 | |
| Carton | .15 | Carton | .20 |
| Labor | .10 | Labor | .10 |
| Machinery | .05 | Building | .05 |
| Building | .05 | Machinery | .05 |
| MSC | .05[a] | MSC | .05[a] |
| Total | .40 | Total | .45 |
| 1/2 bu. #2 & #3 | | 40 lb. #3 | |
| Basket | .25 | Box | .25 |
| Labor | .10 | Labor | .10 |
| Building | .05 | Building | .05 |
| Machinery | .05 | Machinery | .05 |
| MSC | .05[a] | MSC | .05[a] |
| Total | .50 | Total | .50 |
| Field Crate - #2 | | 60 lb. #2 | |
| Labor | .10 | Labor | .10 |
| Building | .05 | Building | .05 |
| Machinery | .05 | Machinery | .05 |
| MSC | .05[a] | MSC | .05[a] |
| Total | .25 | Total | .25 |

[a]These costs were included to insure all costs being covered.

TABLE V

SPECIFIED COSTS FOR GRADING AND PACKAGING SWEET PEPPERS, SWEET POTATOES, CUCUMBERS AND CABBAGE AT THE MILAN FRUIT GROWERS' ASSOCIATION, 1964

| Items | Cost | Items | Cost |
|---|---|---|---|
| | Cents | | Cents |
| **Sweet Peppers** | | **Sweet Potatoes** | |
| Bushels | | 1.1 bu. boxes | |
| Basket | .40 | Labor | .10 |
| Labor | .10 | Machinery | .05 |
| Building | .05 | Wax | .02 |
| Machinery | .05 | Label | .01 |
| Wax | .02 | Liner | .02 |
| Service charge | .05[a] | Lid to box | .07 |
| Total | .67 | Total | .27 |
| **Cucumbers** | | | |
| Carton | | Bushel | |
| Box | .18 | Basket | .40 |
| Machinery | .05 | Machinery | .05 |
| Building | .05 | Building | .05 |
| Labor | .10 | Labor | .10 |
| Wax | .01 | Wax | .02 |
| Service charge | .05[a] | Service charge | .05[a] |
| Total | .44 | Total | .67 |
| **Cabbage** | | | |
| Crates-Shed packed | | Sacks-Shed packed | |
| Crates | .43 | Sacks | .23 |
| Building | .05 | Building | .05 |
| Labor | .10 | Labor | .10 |
| Service charge | .05[a] | Service charge | .05[a] |
| Total | .63 | Total | .43 |

[a]These costs were included to insure all costs being covered.

# V. OTHER SERVICES

In addition to selling for members, the organization had added various other services in response to the needs of the grower. Supplies were purchased for members, such as seeds, plants, pesticides and field crates. The main justification for the supply operation was to provide members with good quality seeds and plants; also the number of varieties was thus controlled to a limited degree. Furthermore, the producers were more inclined to follow a recommended insect and disease control program when the appropriate pesticides were made available.

# CHAPTER V

## FINANCIAL GROWTH AND DEVELOPMENT (1900-1964)

The analyses presented in this chapter are based primarily on information from annual audits of the Milan Fruit Grower's Association for the fiscal years 1960 through 1964. Additional data for these years and for the years 1958 and 1959 were obtained from other Association records and corporate papers and from conversations with some of the officers, directors, and employees of the Association.

The Milan Fruit Growers' Association began operations in 1958, with a total of 18 members. During that year total sales amounted to $22,000, 95 percent of which came from 22 acres of tomato production, while the remaining 5 percent came from the sale of 5 acres of peppers.

Membership in the Association continued to increase and, by 1965, it had reached a total of 240. Likewise, the number of acres of fruits and vegetables grown under contract had experienced steady growth and had climbed to 500 acres. As may be seen in Figure 7, the volume of sales increased each year excepting 1962. The quality of the produce was affected by weather conditions in 1962.

## I. FINANCIAL STRUCTURE

The remainder of this cahpter is devoted to an examination of the growth and development of the Milan Fruit Growers' Association in terms of its overall financial structure and condition.

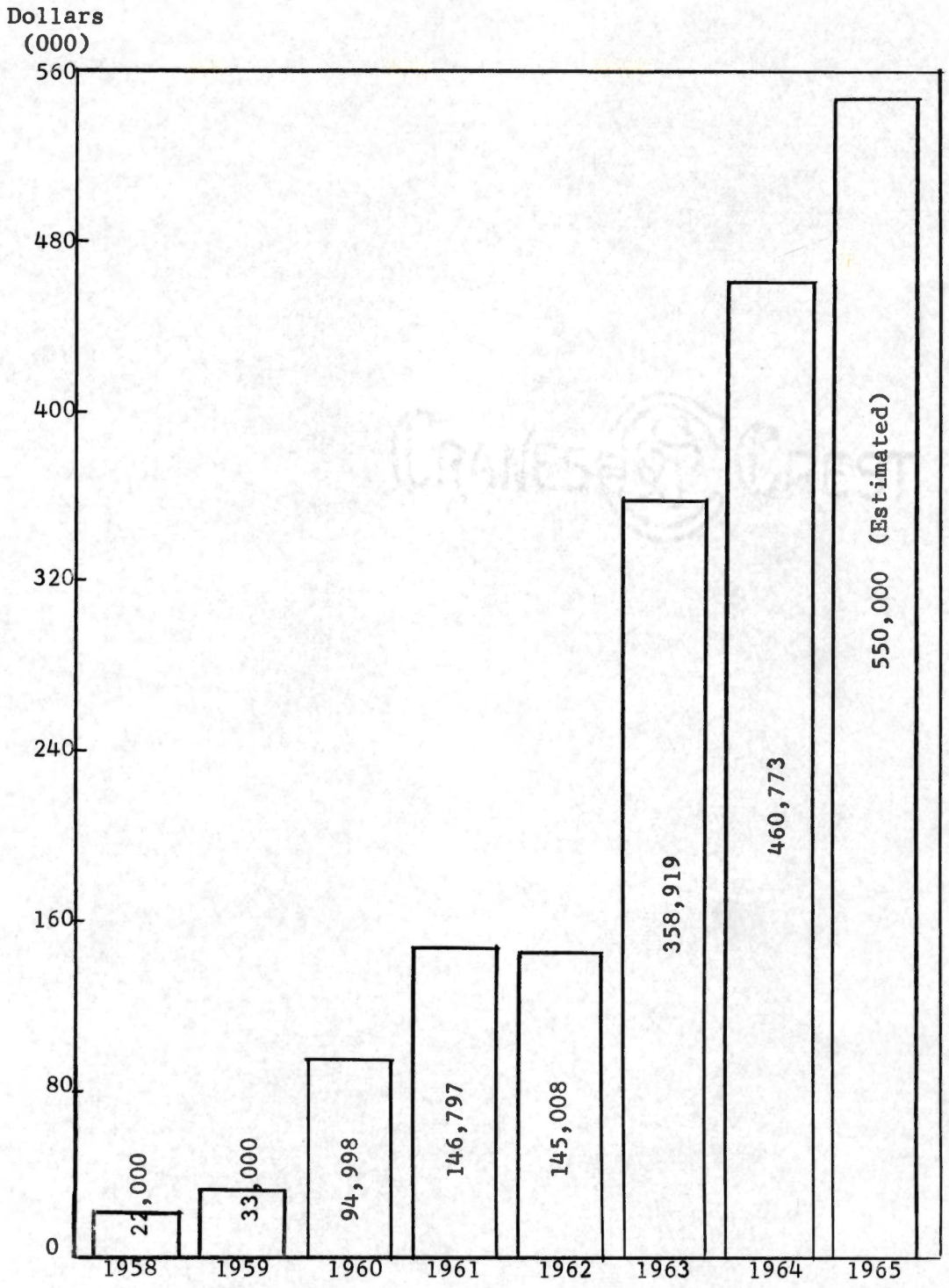



Figure 7. Total sales by years, Milan Fruit Growers Association, 1958-65.

Balance Sheet

Beginning in 1960 a financial statement, consisting of a balance sheet and an operating statement, was prepared annually for the Association. The bookkeeping system adopted was uniform, thus contributing to a more meaningful analysis.

A method known as the "component percentage method" was used in examining the financial structure. This method permitted simplification of the statements by reducing figures to a size more easily grasped, thus making it easier, particularly for the inexperienced analyst, to detect improvements or deterioration in the financial condition.

According to James Bliss (3:63) the prime objectives of the balance sheet are to show: 1) how much is invested in the business, 2) how it is invested, and 3) the sources of such capital.

The two major segments of the balance sheet are: 1) total assets, and 2) total liabilities and net worth. The asset part shows how an organization uses its capital. The liability and net worth segment indicates the sources of capital. All components, particularly the various assets, show balance in relation to total capital investment.

Assets. The distribution of total assets varies with type of association. The various asset components of the Association studied and their relation to total assets are shown in Table VI.

Current assets are those components shown on a balance sheet that are in the form of cash or can be transformed into cash quickly.

TABLE VI

DISTRIBUTION OF ASSETS, MILAN FRUIT GROWERS' ASSOCIATION, FISCAL YEARS, 1960 THROUGH 1964

| Assets | 1960 | | 1961 | | 1962 | | 1963 | | 1964 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Dollars | Percent | Dollars | Percent | Dollars | Percent | Dollars | Percent | Dollars | Percent |
| Current Assets | | | | | | | | | | |
| Cash | 2,306 | 15.0 | 6,785 | 36.5 | 3,492 | 6.4 | 9,596 | 16.3 | 388 | 0.4 |
| On Deposit | -- | -- | -- | -- | -- | -- | -- | -- | 6,065 | 8.2 |
| Deposits[a] | -- | -- | -- | -- | -- | -- | -- | -- | 500 | 0.7 |
| Accounts Receivable | -- | -- | -- | -- | 10,662 | 19.4 | 2,519 | 4.2 | 6,304 | 8.5 |
| Inventory | -- | -- | -- | -- | 991 | 1.8 | 2,508 | 4.3 | 3,646 | 4.8 |
| Total Current Assets | 2,306 | 15.0 | 6,785 | 36.5 | 15,145 | 27.6 | 14,623 | 24.8 | 16,803 | 22.6 |
| Fixed Assets | | | | | | | | | | |
| Real Estate and Equipment | 13,846 | 90.0 | 15,093 | 81.1 | 45,377 | 82.6 | 54,211 | 91.8 | 70,907 | 95.4 |
| Less Depreciation to Date | 1,139 | 7.5 | 3,429 | 18.4 | 6,288 | 11.5 | 10,435 | 17.7 | 14,141 | 19.0 |
| | 12,707 | 82.5 | 11,664 | 62.7 | 39,089 | 71.1 | 43,776 | 74.1 | 56,766 | 76.4 |
| Other Assets | | | | | | | | | | |
| Prepaid Interest | 239 | 1.6 | -- | -- | -- | -- | -- | -- | -- | -- |
| Prepaid Insurance | 140 | 0.9 | 157 | 0.8 | 644 | 1.2 | 492 | 0.8 | 492 | 0.7 |
| Prepaid Supplies | -- | -- | -- | -- | -- | -- | 100 | 0.2 | 150 | 0.2 |
| Utilities Deposit | -- | -- | -- | -- | 60 | 0.1 | 60 | 0.1 | 60 | 0.1 |
| Total Other Assets | 379 | 2.5 | 157 | 0.8 | 704 | 1.3 | 652 | 1.1 | 702 | 1.0 |
| Total Assets | 15,392 | 100.0 | 18,606 | 100.0 | 54,938 | 100.0 | 59,051 | 100.0 | 74,271 | 100.0 |

[a] Special deposit for purchase of machinery.

The proportion of total assets held in the form of current assets remained stable for the fiscal years 1960 through 1964, as shown in Table VI. In 1964 current assets amounted to $16,803 or 22.6 percent of total assets. Also, it may be seen in Table VI that the fixed assets, representing real estate, buildings and equipment, showed a steady increase from $12,707 in 1960 to $56,766 in 1964. In relation to total assets, fixed assets changed very little during that period.

Liabilities. Table VII shows the distribution of liabilities and net worth and the relationship of each component to total liabilities and net worth.

Liabilities, the part of capital supplied by creditors, were all current. The Association did not have any long-term liabilities for any of the years examined. The current liabilities showed a more favorable relationship to total capital, which includes total liabilities and net worth, for the years 1963 and 1964 than for previous years. The relationship was 30.9 and 17.4 percent, respectively, for those years. This indicated an increasing degree of ownership control and thus denoted greater financial strength.

Net worth. Net worth, sometimes referred to as equity capital, is the capital supplied by owners. A sizeable net worth is viewed with favor by investors; therefore, a substantial net worth is especially desirable when outside credit sources are operating on tight money policies. Also, the more capital supplied by owners, the less the expenses incurred from cost items such as interest.

TABLE VII

DISTRIBUTION OF LIABILITIES AND NET WORTH, MILAN FRUIT GROWERS' ASSOCIATION, FISCAL YEARS, 1960 THROUGH 1964

| Item Considered | 1960 | | 1961 | | 1962 | | 1963 | | 1964 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Dollars | Percent | Dollars | Percent | Dollars | Percent | Dollars | Percent | Dollars | Percent |
| Liabilities | | | | | | | | | | |
| Accrued Interest Payable | -- | -- | -- | -- | 319 | 0.6 | 258 | 0.4 | -- | -- |
| Notes Payable | -- | -- | -- | -- | 21,276 | 38.7 | 15,009 | 25.4 | -- | -- |
| Accounts Payable | 5,685 | 36.9 | -- | -- | 11,989 | 21.8 | -- | -- | 4,653 | 6.3 |
| Commission Payable | -- | -- | -- | -- | 1,145 | 2.2 | 2,965 | 5.0 | 8.188 | 11.0 |
| Accrued Payroll Taxes | -- | -- | -- | -- | 61 | 0.1 | 49 | 0.1 | 66 | 0.1 |
| Total Current Liabilities | 5,685 | 36.9 | -- | -- | 34,790 | 63.4 | 18,281 | 30.9 | 12,907 | 17.4 |
| Net Worth | | | | | | | | | | |
| Allocated Reserve | -- | -- | 9,706 | 52.2 | 13,589 | 24.7 | 20,147 | 34.2 | 36,638 | 49.3 |
| Current Savings | 9,707 | 63.1 | 8,900 | 47.8 | 6,558 | 11.9 | 20,623 | 34.9 | 24,726 | 33.3 |
| Total Net Worth | 9,707 | 63.1 | 18,606 | 100.0 | 20,147 | 36.6 | 40,770 | 69.1 | 61,364 | 82.6 |
| Total Liabilities and Net Worth | 15,392 | 100.0 | 18,606 | 100.0 | 54,937 | 100.0 | 59,051 | 100.0 | 74,271 | 100.0 |

Net worth for the Milan Fruit Growers' Association varied from a low of 36.6 percent of total capital in 1962 to a high of 100 percent in 1961, as shown in Table VII.

The net worth items consisted of allocated reserve (patrons' equity) and current savings. Allocated reserve was the larger of the two for all years except 1963 when it was equally divided at about 34 percent of total capital. There were no losses reported for any of the years studied.

Operating Statement

The balance sheet is an essential tool for analyzing the financial structure of an association. However, its value is considerably restricted unless it is supplemented by an operating statement. Both are included in a conventional audit report and are necessary for an analyst to examine and grasp the full situation of a business.

As may be seen in Table VIII, sales (included income from sale of produce, supplies and storage fees) increased from $94,998 in 1960 to $460,773 in 1964. The increase was continuous and steady except for the year 1962.

Data in Table VIII show the goods sold in 1964 amounted to $371,432 which was 80.6 percent of the total sales in that year. The gross margin was $89,341 or 19.4 percent of sales. Gross margins for all other years were relatively stable.

TABLE VIII

OPERATING STATEMENTS OF THE MILAN FRUIT GROWERS' ASSOCIATION, FISCAL YEARS, 1960 THROUGH 1964

| | 1960 | | 1961 | | 1962 | | 1963 | | 1964 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Dollars | Percent of Total | Dollars | Percent of Total | Dollars | Percent of Total | Dollars | Percent of Total | Dollars | Percent of Total |
| Sales | 94,998 | 100.0 | 146,797 | 100.0 | 145,008 | 100.0 | 358,919 | 100.0 | 460,773 | 100.0 |
| Cost of Goods Sold | 72,476 | 76.3 | 112,026 | 76.3 | 115,539 | 79.7 | 285,393 | 79.5 | 371,432 | 80.6 |
| Gross Margin | 22,522 | 23.7 | 34,771 | 23.7 | 29,469 | 20.3 | 73,526 | 20.5 | 89,341 | 19.4 |
| Operating Expenses | 12,815 | 13.5 | 25,871 | 17.6 | 22,914 | 15.8 | 52,903 | 14.7 | 64,615 | 14.0 |
| Net Savings | 9,707 | 10.2 | 8,900 | 6.1 | 6,555 | 4.5 | 20,623 | 5.8 | 24,726 | 5.4 |

Operating expenses showed an increase in 1961 over 1960, but began to decline slightly from 17.6 percent of sales that year to 14.0 percent in 1964.

More specific data pertaining to operating expenses are presented in Table IX. Most items of expense appeared to be in line and consistent from year to year. However, the largest item of expense, commissions, appeared to be somewhat out of line in relation to sales and other items of expense. For the 5-year period, 1960-1964, commissions, expressed as a percent of total sales were 5.10, 7.49, 5.38, 5.50 and 7.34, respectively. Calculated sales commissions for each year amounted to $4,844, $10,959, $7,755, $19,732 and $33,787, respectively.

Labor cost, although a big item did not appear out of line considering the volume of business.

Net savings, as seen in Table VIII, ranged from a high of 10.2 percent of sales in 1960, to a low of 4.5 percent in 1962. There also was a slight decline in savings from 5.8 percent in 1963, to 5.4 percent of sales in 1964. This may be explained largely by the lower cost of goods sold, or amount farmers received during the 1963 market season. If savings were allocated at the end of the operating year, the total received by farmers would be the same.

## II. FINANCIAL CONDITION

The financial condition of the Milan Fruit Growers' Association was examined by a method known as ratio analysis.

TABLE IX

OPERATING EXPENSES EXPRESSED AS A PERCENT OF TOTAL SALES, THE MILAN FRUIT GROWERS' ASSOCIATION, FISCAL YEARS 1960 THROUGH 1964

| | Percent of Total Sales by Year | | | | |
|---|---|---|---|---|---|
| Operating Expenses | 1960 ($94,998) | 1961 ($146,797) | 1962 ($145,008) | 1963 ($358,918) | 1964 ($460,773) |
| Labor | 5.27 | 5.44 | 4.79 | 4.79 | 4.29 |
| Commissions | 5.10 | 7.49 | 5.38 | 5.50 | 7.34 |
| Office Salary | 0.61 | 0.86 | 0.84 | 0.33 | -- |
| Bookkeeping expense | -- | 0.60 | 0.68 | 1.06 | 0.26 |
| Insurance | 0.20 | 0.30 | 0.56 | 0.30 | 0.22 |
| Rent | 0.12 | 0.44 | a | a | a |
| Supplies | 0.04 | 0.04 | 0.20 | 0.09 | 0.14 |
| Auditing | 0.02 | 0.09 | 0.08 | 0.04 | 0.03 |
| Interest | 0.07 | 0.10 | 0.50 | 0.39 | 0.13 |
| Utilities and telephone | 0.12 | 0.15 | 0.38 | 0.57 | 0.53 |
| Social Security expense | 0.15 | 0.18 | 0.18 | 0.17 | 0.15 |
| Taxes and licenses | 0.02 | 0.02 | 0.04 | 0.01 | -- |
| Depreciation | 1.51 | 1.57 | 2.00 | 1.32 | 0.80 |
| Repair and maintenance | 0.21 | 0.24 | 0.14 | 0.05 | 0.01 |
| Advertising | -- | -- | 0.03 | 0.08 | 0.06 |
| Miscellaneous expense | 0.06 | 0.08 | -- | -- | 0.04 |
| TOTAL | 13.50 | 17.60 | 15.80 | 14.70 | 14.00 |

[a]Association constructed new Packing House.

## Financial Ratios

In the analysis of financial statements the use of multiple ratios has become one of the major tools for appraising the financial conditions of a business organization (14:45). They are not only useful to the analysts, but also can be useful simplification tools for management of farmer-owned businesses. In using these relatively simple mathematical tools and techniques, care must be taken, however, to insure that each ratio used expressed a logical relationship; otherwise it has no meaning. Table X shows the ratios and percentages taken from the auditor's reports.

Current assets to current liabilities. This ratio, known generally as the current ratio, is one of the most frequently used ratios for testing financial condition. It is sometimes referred to as the "working capital ratio." It is considered to be a good indicator of the current solvency of a business. Short-term creditors pay particular attention to the working capital position as indicated by this ratio. The current ratio is computed by dividing current assets by current liabilities.

It is generally desirable that cooperatives maintain a ratio of current assets to current liabilities of two or three to one (22:183). However, a lower ratio may be adequate for some associations, depending on the type of operations and their requirements, or on the needs for working capital.

TABLE X

SELECTED FINANCIAL RELATIONSHIPS, THE MILAN FRUIT GROWERS' ASSOCIATION, FISCAL YEARS 1960 THROUGH 1964

| Items | Years | | | | |
|---|---|---|---|---|---|
| | 1960 | 1961 | 1962 | 1963 | 1964 |
| | Numerical Value | | | | |
| Current Assets to Current Liabilities | 0.50:1 | [a] | 0.44:1 | 0.80:1 | 1.3:1 |
| Current Assets to Total Liabilities | 0.40:1 | [a] | 0.44:1 | 0.80:1 | 1.3:1 |
| Net Worth to Fixed Assets (Book Value) | 0.76:1 | 1.59:1 | 0.52:1 | 0.93:1 | 1.08:1 |
| Sales to Fixed Asstes (Book Value) | 7.46:1 | 12.58:1 | 3.71:1 | 8.20:1 | 8.12:1 |
| Net Worth to Total Liabilities | 1.70:1 | [a] | 0.58:1 | 2.23:1 | 4.75:1 |
| Sales to Wages | 9.1:1 | 7.0:1 | 8.61:1 | 6.6:1 | 8.4:1 |
| | Percentage Value | | | | |
| Cash to Current Liabilities | 50.9 | [a] | 10.0 | 52.5 | 53.1 |
| Gross Margin on Sales | 23.7 | 23,7 | 20.3 | 20.5 | 19.4 |
| Total Expenses to Sales | 13.5 | 17.6 | 15.8 | 14.7 | 14.0 |
| Net Savings | 10.2 | 6.1 | 4.5 | 5.8 | 5.4 |
| | Dollar Value | | | | |
| Working Capital | $2222 | [a] | $17,785 | $5413 | $6853 |

[a]No liabilities.

Table X indicates that the Association studied showed an increasingly favorable working capital position from 0.50 to 1 in 1960, to 1.30 to 1 in 1964. This indicates increasing financial strength in terms of current solvency. However, this ratio may sometimes appear excessively large due to a small amount of, or no current, liabilities. In such cases it is considered less reliable. In all cases, it should be used along with other indicators and cross checks.

Current assets to total liabilities. In a period of declining economic conditions this ratio is of particular importance in the sight of long-term creditors. This is true because they view long-term indebtedness coming due within the next few years as if it were current. In such times, an organization might find it difficult to get an extension of credit if needed, unless its financial statements showed a reasonably favorable relationship between liquid assets and total liabilities.

The ratio of current assets to total liabilities is obtained by dividing current assets by total liabilities. The data presented in Table X suggest that the Association was relatively weak in this area in 1960, with a ratio of 0.4 to 1. However, each remaining year showed increasing strength, up to 1.3 to 1 in 1964.

Net worth to fixed assets. The ratio of net worth to fixed assets is obtained by dividing the total dollar value of net worth by the dollar value invested in fixed assets. This shows the relationship between the book value of fixed assets and owners' equity (net worth).

This ratio is one of the tests for over-investment in fixed assets. A relatively large ratio is generally taken by them as a sign of financial strength. However, as in interpreting all ratios, caution should be used. The physical needs of different types of associations vary. Also, fixed assets are not always stated similarly by all associations; therefore, what is a good ratio for one association might not necessarily be good for another.

The ratios for the Milan Fruit Growers' Association were somewhat erratic for the years studied. Table X shows that from 1960 through 1964, they were 0.76 to 1, 1.59 to 1, 0.52 to 1, 0.93 to 1 and 1.08 to 1, respectively. Although there was no basis for comparison or an established norm for fruit and vegetable associations, it is believed that every cooperative business organization should own enough equity capital to at least pay for the fixed investment in facilities.

Sales to fixed assets (book value). This ratio is another test for examining investment in fixed assets. It is also helpful in diagnosing or testing for insufficient sales. Generally older associations will show a higher ratio if they have not acquired additional fixed assets recently. Abrupt changes in this ratio may often be explained by substantial investments in fixed assets during any particular year.

With the exception of 1962, which can largely be explained by addition of a new building, the Association was found to be in a relatively favorable condition in this area. The ratio for 1962 was 3.71 to 1, as shown in Table X.

Net worth to total liabilities. Total liabilities are divided into total net worth to derive this ratio. It is sometimes referred to as the "net worth ratio" and is considered a good indicator of whether the owners or creditors control the business. It is, therefore, a good measure of relative financial strength.

In 1961 the Association's records showed no liabilities. Of the remaining years, 1962 showed the lowest and most unfavorable ratio, as shown in Table X. Again, however, this may be explained by the need for borrowing capital for the new building constructed during that year. The other years showed an increasingly favorable ratio and thus a strengthening financial condition in this area.

Ratio of sales to wages. Ratio of sales to wages is derived by dividing total sales by the dollar amount of expenses for wages which includes labor, office salaries, bookkeeping and sales commissions. This ratio is useful to management in examining labor efficiency. However, a good ratio of sales to wages that reflects labor efficiency for one type of association is not necessarily a good one for another. Also, when using this ratio, management should keep in mind whether or not wages are paid for the entire year or on a part-time basis.

In the case of the Milan Fruit Growers' Association, as indicated above, the marketing season usually lasts about two months; consequently, the bulk of expenses for wages was paid during that period.

The ratio of sales to wages remained relatively stable for the years studied. During the 5-year period, 1960-1964, the ratios were 9.1 to 1, 7.0 to 1, 8.6 to 1, 6.6 to 1, and 8.4 to 1 respectively.

Percent cash to current liabilities. The relationship of cash (including deposits) to current liabilities is a measure of immediate liquidity of a business. It indicates an organization's financial condition from the standpoint of ability to meet daily operating expenses.

The organization studied showed favorable relationship of 50.9, 100.0 (no liabilities), 10.0, 52.5, and 53.1 percent for 1960, 1961, 1963, and 1964 respectively, as shown in Table X. The less favorable 10.0 percent in 1962 was brought about largely by the larger than usual liabilities incurred in adding the new building mentioned above. As a whole, the Association was relatively strong in this area.

Other relationships reflecting financial condition. Gross Margin on sales, total expenses to sales, and net savings, also reflect the financial condition of the Association. The relationships, as shown in Table X, were favorable for each of the years studied.

In addition, Table X shows the working capital of the Association studied as reported in the respective financial audits. Working capital, sometimes referred to as net working capital, is the difference between total current assets and total current liabilities. Since total liabilities are the debts of the organization due within one year, the source from which to pay them logically is the current assets. Therefore, working capital or net current assets represent what would be left free and clear after all current liabilities or debts were liquidated.

The ability of a company to meet its obligations, expand its volume and take advantage of opportunities is often determined by its working capital (16:17).

At the time of the audits, the Association showed negative figures for working capital of $2,222, $17,785, $5,413, and $6,853 for the years 1960, 1962, 1963 and 1964 resepctively, as indicated in Table X. In 1961 there were no current liabilities. On the basis of the information, it would appear that management might take a close look at this area and further evaluate its position, with respect to both present Association objectives and future needs.

# CHAPTER VI

# SUMMARY AND IMPLICATIONS

## I. SUMMARY

Fruit and vegetable growers in Tennessee have experienced various kinds of difficulties in connection with the marketing of their crops. Problems encountered have been related to such aspects as supply, quality, grading, processing, advertising and prices. In seeking solutions to these and other problems, fruit and vegetable growers have formed various kinds and types of marketing associations. A large majority of these associations were unsuccessful.

Properly organized, efficiently operated grower marketing associations can provide services of value both to the producer and to the consumer. Furthermore, the incidence of failure among such associations could be greatly reduced if recommended organizational practices were understood and effectively applied.

Prior to the present study, no attempt had been made to study the organizational and operational features of a successful fruit and vegetable growers marketing association in Tennessee. The Milan Fruit Growers' Association, organized in 1958, was considered to be a successful marketing association, by marketing specialists.

This case study was made: 1) to briefly describe the situation which gave rise to the Association, 2) to describe the procedure followed in organizing the Association, 3) to appraise and evaluate the

current operations of the Association and 4) to suggest some possible ways of improving or strengthening the Association.

Data used in making this study of the Milan Fruit Growers' Association were obtained from several sources. Background statistics used in establishing the need for the Association were obtained from The United States Bureau of Census reports, records available in county Extension office, marketing reports, and through personal interviews with producers, produce brokers and civic leaders. Information pertaining to the procedure followed in organizing the Association was obtained from the Milan Chamber of Commerce files, county Extension office and the Association's records. The primary sources of information relative to the growth and development of the Association were the official audit reports and other records and reports on file in the organization's office.

Gibson has consistently ranked among the leading counties in Tennessee in terms of fruit and vegetable production. The history of group efforts in the marketing of fruits and vegetables in Gibson County began in the early 1900's. A number of different associations functioned for a few years and then failed. The last such organization to fail was the West Tennessee Truck Growers' Association. It was organized in 1931 and dissolved in 1952. Following its failure, the acreage in fruit and vegetable production declined each year until 1958 when the Milan Fruit Growers' Association was organized.

In general, the procedure used in organizing the Association conformed with the requirements of the Tennessee Cooperative Marketing

Law of 1923. It was found that the Association had experienced rapid growth both in membership and volume of business each year excepting 1962. Likewise, the financial structure and condition of the Association were found to be generally sound.

## II. IMPLICATIONS

1. The name of the Association (The Milan Fruit Growers' Association) indicated that fruit was the only produce marketed. This was misleading since most of the vegetable crops grown in the area were handled for the members. It would appear to be appropriate to consider amending the constitution and by-laws by changing the name of the Association to "The Milan Fruit and Vegetable Growers' Association."

2. This study revealed the lack of a uniform system of recording and maintaining the minutes of business meetings. Such minutes should be prepared and maintained in a properly bound volume along with the legal documents of the Association and should be accessible to the directors and members at all times. The book of minutes should serve as an official record of action taken by the board and by the membership at all meetings.

3. There was no evidence of regularly scheduled meetings of the board of directors. Because of the rapid growth and development and consequently, the increasing complexity of the Milan Fruit Growers' Association, it would seem advisable for the directors to meet regularly.

4. Only limited advertising and promotion or other means of establishing the Association's identity in the market had been conducted. Under the system of packaging and marketing used, the products marketed were likely associated with the Association's sales agency rather than the Association. The directors should consider the possibilities of a well planned and organized advertising and promotion program.

5. Although there were formal written documents that clearly outlined both members' and the Association's mutual responsibilities there was no such formal agreement with the Association's sales agency. Only an oral agreement was used. Considering the volume of business and the complex nature of its operations, a formal written contract should be executed with the sales agency to avoid any possible future misunderstandings.

6. The audit reports were relatively complete and essentially the same kind of information was reported each year. However, there were some inconsistencies in reporting certain items. Moreover, the reported sales included not only marketing, but also income from the sales of supplies, and storage of members produce. Since the marketing of members' produce is the primary function of the association, it suggested that consideration be given to a further breakdown of the different types of income so that a more complete picture of the Association's business can be readily seen.

7. Although the Association had reached an annual volume of business amounting to more than one-half million dollars, the opera-

tional management was still performed on a part-time basis, mainly during the marketing season. It would appear that consideration might be given to the possibilities of employing a full-time manager.

8. There were indications that the terms specified in the member-association marketing agreement were not being strictly adhered to by all members during the years, 1964 and 1965. In studying the history of marketing cooperatives it was observed that the failure to strictly enforce the marketing agreement was listed as one of the major causes of failure.

9. The Association's records revealed no regular or systematic method of keeping the membership well informed about their marketing business. The informed member is less likely to violate his marketing agreement and also more likely to show more pride in the organization if he feels he is definitely a part of it. A better system of keeping the members informed should be developed and adopted.

10. This study revealed no evidence of any type of training program for employees responsible for grading the fruits and vegetables marketed through the Association. A majority of the graders acquired their knowledge about grades from experience. It would appear advisable to consider a training program for such employees, since it is very important that the grading be done fairly and according to specifications.

11. Although there has been some improvement in quality produce since the Association was organized, records indicated the quality of

the fruits and vegetables marketed was still in need of improvement. Special emphasis might be placed on a continued and more intensive educational program directed toward improving quality.

12. The inability to secure adequate trained labor was observed to be a real problem with most producers. The Association might consider the possibilities of establishing a labor pool of migratory workers.

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# APPENDIXES

# APPENDIX A

## ARTICLES OF INCORPORATION OF MILAN FRUIT GROWERS' ASSOCIATION

We, the undersigned, eleven or more persons, a majority of whom are residents of the State of Tennessee, engaged in the production of agricultural products do hereby join in and subscribe to these Articles to form a non-profit cooperative association, without capital stock, pursuant to the Cooperative Marketing Laws of Tennessee, (Laws 1923, Chapter 100; Code of Tennessee, 1932, Section 3784, et seq.), and amendments thereto, to be operated for the mutual benefit of its members.

## ARTICLE I

The name of the Association shall be the Milan Fruit Growers' Association.

## ARTICLE II

### Purpose

The Association is formed for the following purposes:

To engage in any activity in connection with the marketing or selling of the fruit and vegetable products of its members, or with the harvesting, processing, canning, packing, grading, storing, handling, shipping or utilization thereof or supplies; or in the financing of the above enumerated activities; or in any one or more of the activities specified herein.

## ARTICLE III

### Power

The Association shall have the following:

(a) To engage in any activity in connection with the marketing, selling, harvesting, processing, manufacturing, packing, grading, storing, handling, or utilization of any fruit and vegetable products or delivered to it by its members, or the manufacturing, or marketing of

the by-products thereof; or in any activity in connection with the purchase, hiring or use by its members of supplies, machinery, or equipment; or in the financing of any such activities; or in any one or more of the activities specified in this section; and the Association may also perform like services for non-member producers of agricultural products in any amount not greater in value than such service performed by it for its members.

(b) To borrow money and to make advance payments and advances to members.

(c) To act as the agent or representative of any member or members in any of the above mentioned activities.

(d) To purchase or otherwise acquire; and to hold, own, and exercise all rights or ownership in; and to sell, transfer, or pledge or guarantee the payment of dividends or interest on, or the retirement or redemption of shares of the capital stock or bonds of any corporation or association engaged in any related activity or in warehousing or handling or marketing or any of the products handled by the Association.

(e) To establish reserves and to invest the funds thereof in bonds or in such other property as may be provided in the By-Laws.

(f) To buy, hold, and exercise all privileges or ownership over such real or personal property as may be necessary or convenient for the conduct and operation of any business of the Association, or incidental thereto.

(g) To establish, secure, own and develop patents, trademarks and copyrights.

(h) To do each and everything necessary, suitable or proper for the accomplishment of any one of the purposes or at attainment of any one or more of the subjects herein enumerated; or conducive to or expedient for the interest or benefit of the Association; and to contract accordingly; and in addition to exercise and possess all powers, rights and privileges necessary or incidental to the purposes for which the Association is organized or to the activities in which it is engaged; and in addition, any other rights, powers and privileges granted by the laws of the State of Tennessee to ordinary corporations, except such as are inconsistent with the express provisions of the "Cooperative Marketing Law" of Tennessee; and to do any such thing anywhere.

ARTICLE IV

Place of Business

The place where the principal business of the Association will be transacted is Milan, Tennessee.

ARTICLE V

Term

The term for which this Association shall exist was 50 years from and after the date of its incorporation.

ARTICLE VI

Directors

The number of directors of this Association shall be not less than five (5) and may be any number in excess thereof as provided in the By-Laws.

The names and addresses of those who are to serve as incoporating directors until the first annual meeting of the members or until their successors are elected and qualified are:

| NAME | ADDRESS |
|---|---|
| 1. Elmer McCoy | Route 3, Milan, Tennessee |
| 2. Leon Rochelle | Route 3, Milan, Tennessee |
| 3. Earl Bolerjack | Route 4, Milan, Tennessee |
| 4. Haywood Western | Route 4, Milan, Tennessee |
| 5. Wilburn Nelson | Route 4, Milan, Tennessee |
| 6. Allen Pafford | Route 4, Humboldt, Tennessee |
| 7. Carter Berry | Route 4, Humboldt, Tennessee |
| 8. W. G. Ross | Route 4, Milan, Tennessee |
| 9. Neal Karnes | Route 4, Milan, Tennessee |
| 10. S. T. Mangrum | Route 4, Milan, Tennessee |
| 11. James F. Jones | Route 4, Milan, Tennessee |

The by-laws shall provide a method of election of the successors to the incorporating directors whereby the term of office of approximately one-third of the directors so elected shall expire at the end of one year, approximately one-third at the end of two years, and approximately one-third at the end of three years. Thereafter, the succeeding directors shall be elected for a term of three years, or until their successors shall be elected and qualified.

ARTICLE VII

Section 1. This Association shall not have any capital stock, but shall admit applicants to membership in the association upon such uniform conditions as may be prescribed by the board of directors of the association, or in its by-laws. This association shall be operated on a cooperative basis for the mutual benefit of its members as producers, and membership in the association shall be restricted to producers, who shall patronize the association. The voting rights of the members of the association shall be equal and no member shall have more than one vote. The property rights and interests of each member in the association shall be unequal; and shall be determined and fixed in the proportion that the patronage of each member shall bear to the total patronage of all the members with the association but in determining property rights and interests all amounts allocated to each patron or evidenced by certificates of any kind shall be excluded. New members admitted to membership shall be entitled to share in the property of the association in accordance with the foregoing general rule.

ARTICLE VIII

Members' Liability

No member shall be liable for the debts of the association to an amount exceeding the sum remaining unpaid on his suscription to the capital funds or membership fee, including any unpaid balance on any promissory notes given in payment thereof.

IN WITNESS WHEREOF, we have hereunto set out hands this 29 day of May 1959.

1. Elmer McCoy
2. Leon Rochelle
3. Earle Bolerjack
4. Haywood Western
5. Wilburn Nelson

6. Allen Pafford
7. Carter Berry
8. W. G. Ross
9. Neal Karnes
10. S. T. Mangrum
11. James F. Jones

STATE OF TENNESSEE

COUNTY OF Gibson

Personally appeared before me, Lynette Sorrelle, Notary Public of the State and County aforesaid, the within named incorporators

with whom I am personnaly acquainted, and who acknowledged that they executed the within application for a Charter of Incorporation for the purpose within contained and expressed.

Witness my hand and official seal, at office at Trenton, Tennessee this the 29 day of May, 1959.

Lynette Sorrelle /s/
Notary Public

My commission expires July 8, 1961.

# APPENDIX B

## BY-LAWS OF MILAN FRUIT GROWERS' ASSOCIATION

ARTICLE I

Purposes and Powers

The purpose for which this association is formed and the powers which it may exercise are set forth in the articles of incorporation of the association.

ARTICLE II

Members and Patrons

Section 1. Qualifications of members; - Any person, firm, partnership, corporation, or association, including both landlords and tenants in share tenancies, who is a bonafide producer of agricultural products in the territory in which the association is engaged in business, and who agrees to be a patron of the association and who pays wuch membership fees and meets such other conditions as may be prescribed by the board of directors, may become a member of the association. This association shall issue a certificate of membership to each member which shall be in such form as may be prescribed by the board of directors, but shall not be transferable.

Section 2. Suspension or termination. - If, following a hearing, the board of directors shall find a member has ceased to be a producer or that such member has not, for a period of one year, marketed his agricultural products through the association, or has moved out of the territory in which the association is operating, they may suspend his rights as a member or terminate his membership. Upon termination of membership in the association in any manner, all of the rights and interests so such member in the association shall, by that act, be cancelled, and such member shall be entitled only to payment or credit for the equitable appraised value of his property rights and interests in the association, as conclusively determined by the board of directors. In determining property rights and interests all amounts allocated to each member or evidenced by certificates of any kind shall be excluded, and any such amounts shall be accounted for to members in accordance with the terms and conditions applicable thereto. No action taken hereunder shall impair the obligations or liabilities of either party under any contract which may be terminated only as provided therein.

Section 3. Non-member business. - The association, if it elects to do business with non-members, shall deal with non-member patrons in all respects on the same basis as members, but the association may not do over 50 percent of its marketing business with or for non-member producers, and the amount of business which it may do with or for patrons who are neither members nor producers, in farm business services or in the furnishing of supplies and equipment, may not exceed 15 percent of all such business.

## ARTICLE III

## Meetings

Section 1. Fiscal Year, - The fiscal year of this association shall commence on the first day of January and end on the last day of December. .

Section 2. Annual Meeting. - The annual meeting of the members of this association shall be held in the town of Milan, State of Tennessee, at 7 P. M, on 2nd Monday in Jan.. of each year, or on any date which the board of directors shall designate at least 30 days in advance of the date specified above.

Section 3. Special meetings. - Special meetings of the members of the association may be called at any time by order of the board of directors, and shall be called at any time upon the written request of at least ten (10) percent of the members, provided, however, that they file a petition stating the specific business to be brought before the association and demand a special meeting. The request shall state the time, place and object of the meeting.

Section 4. Notice of meetings. - Written or printed notice of every regular and special meeting of members shall be prepared and mailed to the last known post office address of each member not less than five (5) days before such meeting. Such notices state the time and place, and in the case of special meetings, the object or objects thereof and, in the discretion of the board of directors, may be given by publishing the same at least ten (10) days prior to the date of the meeting in a newspaper of general circulation published in the town where the principal place of business of the association is located. No business shall be transacted at special meetings other than that referred to in the call.

Section 5. Absentee voting. - Voting by proxy shall not be permitted, but absent members may vote on specific questions other than the removal of directors by ballots transmitted to the secretary by mail, and such ballots shall be counted only in the meetings at the time in which such vote is taken, provided that all members have been notified in writing, pursuant to action by the board of directors, of the exact wording of the motion or resolution upon which such vote is taken, and a copy of the same is forwarded with and attached to the vote of the member voting.

Section 6. Quorum. - Ten percent of the members shall constitute a quorum for the transaction of business at any meeting of the association except for the transaction of business concerning which a different quorum is specifically provided by law or by these by-laws; but in the event a quorum is not present such meeting may be adjourned from time to time by those present until a quorum is obtained.

Section 7. Order of business. - The order of business at the annual meeting shall be:

(1) Roll Call
(2) Proof of due notice of meeting
(3) Reading and disposal of minutes
(4) Annual reports of officers and committees
(5) Election of directors
(6) Unfinished business
(7) New business
(8) Adjournment

## ARTICLE IV

## Capital

Section 1. (a) Revolving fund certificates. - The association is authorized to issue to members and others revolving fund certificates, of a character hereafter described, to evidence capital furnished by patrons. Funds arising from the issue of such certificates shall be used for creating a revolving fund for the purpose of building up such an amount of capital as may be deemed necessary by the board of directors from time to time and for revolving such capital. Such certificates may contain such other terms and conditions not inconsistent herewith as may be prescribed from time to time by the board of directors of the association. Such certificates shall be issued in annual series, each certificate in each series upon its face being identified by the

year in which it is issued; and each series shall be retired fully or on a pro rata basis only at the discretion of the board of directors of the association, in the order of issuance by years as funds are available for that purpose.

A record of all holders of revolving fund certificates shall be kept and maintained by the association and such certificates shall be transferable only on the books of the association and with the approval of the board of directors and no transfer of certificates shall be binding upon the association unless so transferred. All other debts of the association, both secured and unsecured, shall be entitled to priority over all outstanding revolving fund certificates. Upon the dissolution or winding up of the association in any manner, after the payment of all other debts, all outstanding revolving fund certificates shall be retired in full or on a pro rata basis without priority before any distribution is made of the equities of patrons in reserves having the status of capital.

(b) Partonage capital. - This association shall be so operated that the current and active patrons of the association, members and non-members alike, will currently furnish money through their patronage for capitalizing the association and with the view of revolving the capital furnished in earlier years by the patrons and others. In order to induce patronage and to assure that this cooperative will operate on a non-profit basis relative to all its transactions with its patrons, it is obligated to account on a patronage basis or bases to all of its patrons, members and non-members alike, for all amounts received on account of the rendition of services and on account of the sale or disposition of commodities and the costs and expenses of the association in handling such commodities and in furnishing such services, and the fair part of the general operating costs and expenses of the association properly chargeable to each type of commodity or service, including valuation reserves and interest on capital of not to exceed six percent per annum. The association is hereby obligated to pay all such amounts to the patrons in cash, in revolving-fund certificates, or by credits to patrons in the capital reserve accounts of the association which are of such amounts at the moment of receipt by the association to be received with the understanding that they are furnished by the patrons as capital, and that any part of such amounts received by the association which are not evidenced by revolving-fund certificates or by credits to patrons in the capital reserve accounts of the association shall be repaid in cash within a reasonable time after the close of each fiscal year. The board of directors each year shall prescribe the amount of capital, to be evidenced by revolving-fund certificates, and the amount to be evidenced by credits to patrons in the capital reserve accounts for that year. All such amounts shall have the same status as though they had been paid to the patrons in cash in pursu-

ance of a legal obligation to do so and the patrons had then furnished corresponding amounts for capital for the association. In the event the association suffers a loss in any year, the board of directors shall prescribe the basis on which the capital contributions of patrons shall be reduced on account of any such loss, so that it will be borne by the patrons on as equitable a basis as the board of directors find practicable, but such losses shall first be charged against the capital reserve accounts. All capital furnished by deductions or otherwise under specific contracts with patrons shall be evidenced by revolving-fund certificates or credited to patrons in the capital reserve accounts of the association, and such revolving-fund certificates and credits shall be subject in all respects to the provisions of these by-laws regarding such certificates and credits.

(c) Revolving-capital. - In order to further the cooperative character of this association, the association shall revolve its capital (other than membership capital carrying voting rights), however it may be evidenced, from time to time, as funds are determined by the board of directors to be available for that purpose, but, except as herein provided, the capital that is retired in a given year, in whole or on a pro rata basis, shall be the oldest outstanding and unexhausted capital of the association. Notwithstanding any other provisions of these by-laws, the board of directors at its discretion shall have the power at any time to pay off or retire or secure a release or satisfaction of any revolving-fund certificates and capital reserve credits to compromise or settle a dispute or for the purpose of facilitating the settling of an estate in bankruptcy or otherwise, or on account of the removal from the trade territory of the association of a former patron thereof.

## ARTICLE V

## Directors and Officers

Section 1. Number and qualifications of directors. - The business of the association shall be controlled by a board of 9 directors, each of whom shall be a member of this association or an authorized representative of an incorporated member. No person shall be eligible for the office of director if he is in competition with or is affiliated with any enterprise that is in competition with the association and if a majority of the board of directors of the association find at any time following a hearing that any director is so engaged or affiliated, he shall thereupon cease to be a director.

Section 2. Election of directors. - At the first annual meeting of the members of this association, directors shall be elected to succeed the incorporating directors. 3 directors shall be elected for one year, 3 directors for two year, and 3 directors for three years, and thereafter each director shall be elected for three years. At least two members shall be nominated for each directorship. Directors shall be elected by secret ballot. The nominee who, among the nominees for each directorship, received the greatest number of votes shall be declared elected to the directorship for the ensuing term. Directors shall hold office until their successors have been elected and qualified and have entered upon the discharge of their duties. No director after having served for two consecutive terms shall be eligible to succeed himself, but after a lapse of one year shall again be eligible.

Section 3. Election of officers. - The board of directors shall meet within ten (10) days after the first election and within ten (10) days after ten each annual election and shall election by ballot a president, vice-president, secretary and treasurer, (or a secretary-treasurer), each of whom shall hold office until the election and qualification of his successor, unless earlier removed by death, resignation, or for other cause. The president and vice-president only need be members of the board of directors. Notice of such meetings is hereby dispensed with.

Section 4. Vacancies. - Whenever a vacancy occurs in the board of directors, other than from the expiration of a term of office, the remaining directors shall appoint a member to fill the vacancy until the next regular meeting of the members.

Section 5. Board meetings. - In addition to the meetings mentioned above, regular meetings of the board of directors shall be held quarterly, at such times and at such places as the board may determine.

Section 6. Special meetings. - A special meeting of the board of directors shall be held whenever called by the president or by a majority of the directors. Any and all business may be transacted at a special meeting. Each call for a special meeting shall be in writing, signed by the person or persons making the same, addressed and delivered to the secretary, and shall state the time and place of such meeting, and the matters to be acted upon.

Section 7. Notice of board meetings. - Notice of the regular or special meeting of the directors shall be mailed to each director at least three (3) days prior to the time of such meeting, or notice may be telegraphed or telephoned to each director at least twenty-four (24) hours prior to the time of such meeting.

Section 8. Compensation. - The compensation, if any, of the members of the board of directors and of the executive committee, shall be determined by the members of the association at any annual or special meetings of the association; provided, however, that no member of the board of directors, other than one who is acting as an officer of the association and receiving a regular salary therefore, shall receive compensation or allowance for services rendered the association for more than thirty (30) days in any one year, exclusive of the periods for which compensation is paid for attendance at directors' meetings or at meetings of the executive committee.

Section 9. Quorum. - A majority of the board of directors shall constitute a quorum at any meeting of the board.

## ARTICLE VI

## Duties of Directors

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

Section 2. Employment of manager. - The board of directors shall have power to employ or to authorize the employment of a manager and such other employees as may be deemed necessary, and to fix their compensation. The manager shall have charge of the business of the association under the direction of the board of directors. No director shall serve as manager.

Section 3. Bonds and insurance. - The board of directors shall require the manager and all other officers, agents and employees charged by the association with responsibility for the custody of any of its funds or negotiable instruments to give adequate bonds. Such bonds shall be furnished by a responsible bonding company and approved by the board of directors, and the cost thereof shall be paid by the association. The board of directors shall provide for the adequate insurance of the property of the association, or property which may be in the possession of the association, or stored by it, and not otherwise

adequately insured, and in addition adequate insurance covering the liability for accidents to all employees and the public.

Section 4. Audits. - At least once in each year the board of directors shall secure the services of a competent and disinterested public auditor or accountant, who shall make a careful audit of the books and accounts of the association and render a report in writing thereon, which report shall be submitted to the members of the association at their annual meeting. This report shall include at least (1) a balance sheet showing the true assets and liabilities of the association; (2) an operating statement for the fiscal period under review which shall show the gross margins on supplies purchased for patrons and the net savings or loss thereon, and the gross margins or receipts on products marketed for patrons and the net savings or loss on each of the major products so marketed, for the period under review.

Section 5. Agreements with members. - The board of directors shall have the power to carry out all agreements of the association with its members in every way advantageous to the association representing the members collectively.

Section 6. Depositary. - The board of directors shall have the power to select one or more banks to act as depositaries of the funds of the association and to determine the manner of receiving, depositing, and disbursing the funds of the association and the form of checks and the person or persons by whom same shall be signed, with the power to change such banks and the person or persons signing such checks and the form thereof at will.

## ARTICLE VII

## Executive Committee

Section 1. Power and duties. - The board of directors may in its discretion appoint from its own membership an executive committee consisting of the president and two other members of the board, determine their tenure of office and their powers and duties. The executive committee shall have such powers as may, from time to time, be prescribed by the board of directors and these duties and powers may be all of the duties and powers of the said board of directors, subject to the general direction, approval, and control of the board of directors. Copies of the minutes of any meeting of the executive committee shall be mailed to all directors within seven (7) days following such meeting.

ARTICLE VIII

Duties of Officers

Section 1. Duties of president. - The president shall (1) preside over all meetings of the association and of the board of directors, (2) call special meetings of the board of directors, (3) perform all acts and duties usually performed by an executive and presiding officer, and (4) sign all membership and revolving-fund certificates, and such other papers of the association as he may be authorized or directed to sign by the board of directors; provided, however, that the board of directors may authorize any person to sign any or all checks, contracts, and other instruments in writing on behalf of the association. The president shall perform such other duties as may be prescribed by the board of directors.

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

Section 3. Duties of secretary. - The secretary shall keep a complete record of all meetings of the association and of the board of directors and shall have general charge and supervision of the books and records, of the association. He shall sign all membership and revolving-fund certificates with the president and such other papers pertaining to the association as he may be authorized or directed to sign by the board of directors. He shall serve all notices required by law and by these by-laws and shall make a full report of all matters and business pertaining to his office to the members at the annual meeting. He shall keep the corporate seal and the book of blank membership and revolving-fund certificates, complete and counter sign all certificates issued, and affix the corporate seal to all papers requiring a seal. He shall keep complete membership and revolving-fund certificates records. He shall act as secretary of the executive committee. He shall make all reports required by law and shall perform such other duties as may be required of him by the association or the board of directors. Upon the election of his successor, the secretary shall turn over to him all books and other property belonging to the association that he may have in his possession.

Section 4. Treasurer. - The treasure shall perform such duties with respect to the finances of the association as may be prescribed by the board of directors.

## ARTICLE IX

### Duties of Manager

Section 1. In general. - Under the direction of the board of directors the manager shall have general charge of the ordinary and usual business operations of the association, including the purchasing, marketing, and handling of all products and supplies handled by the association. He shall so far as practicable, endeavor to conduct the business in such a manner that the members will receive just and fair treatment. The manager shall deposit all money belonging to the association which comes into his possession in the name of the association in a bank selected by the board of directors and if authorized to do so by the board of directors shall make all disbursements by check therefore for the ordinary and necessary expenses of the business in the manner and form prescribed by the board of directors. Upon the appointment of his successor, the manager shall deliver to him all money and property belonging to the association which he has in his possession or over which he has control.

Section 2. Duty to account. - The manager shall be required to maintain his records and accounts in such a manner that the true and correct condition of the business may be ascertained therefrom at any time. He shall render annual and periodical statements in the form and in the manner prescribed by the board of directors. He shall carefully preserve all books, documents, correspondence and records of whatever kind pertaining to the business which may come into his possession.

Section 3. Control of employees. - Subject to the approval of the board of directors, the manager shall employ, supervise, and dismiss all agents and employees of the association and fix their compensation.

## ARTICLE X

### Reserves

Section 1. Reserves. - The books and records of the association shall be kept in such a manner, by years, that the amount carried to reserves, which have the status of capital, accruing from patronage of each patron of the association may be ascertained at any time. Whenever, in a given year, the operation of the association results in a

net loss, such loss, to the extent that reserves are available, shall be charged against the same and they shall thereby be reduced accordingly. The board of directors shall prescribe the basis on which the reserve contributions of members by years shall be reduced on account of any such loss, so that it will be borne by the patrons on as equitable a basis as the board of directors find practicable. Whenever in the discretion of the board of directors the reserves are found to be in excess of the amount deemed reasonably necessary for the sound financial operations of the association, such excess shall be applied to paying off ratably, by years, the oldest unexhausted reserve contributions of patrons.

## ARTICLE XI

## Dissolution

Section 1. Upon dissolution or winding up of the association in any manner the assets of the association shall be distributed in the following order: first, to the payment of all debts; second, to the retirement at face value, or on a pro rata basis of all outstanding revolving-fund certificates; third, to the retirement of allocated reserves having the status of capital; and fourth, any balance or assets then remaining shall be distributed to the patrons on an equitable patronage basis as determined by the board of directors.

## ARTICLE XII

## Miscellaneous Provisions

Section 1. By-laws printed. - After adoption, these by-laws, preceded by the articles of incorporation, may be printed in pamphlet form and a copy thereof may be delivered to each manner and to each person who may become a member of the association.

## ARTICLE XIII

## Amendments

These by-laws may be altered or amended at any regular meeting of the members, or at any special meeting of the members if notice of

the character of the amendment proposed has been given in the notice of the meeting, by the affirmative vote of a majority or more of the members present or voting by mail.

We, the undersigned, being all the incorporators and members of the Association, do hereby assent to the foregoing by-laws and do adopt the same as the by-laws of said Association; and in witness whereof, we have hereunto subscribed our names, this 10 day of July, 1959.

1. Neal Karnes
2. Carter Berry
3. W. G. Ross
4. James F. Jones
5. Earl Bolerjack
6. Haywood Western
7. Allen Pafford
8. Wilburn Nelson
9. Leon Rochelle
10. Elmer McCoy
11. S. T. Mangrum

# APPENDIX C

## MEMBERSHIP APPLICATION FOR MILAN FRUIT GROWERS' ASSOCIATION

MILAN FRUIT GROWERS' ASSOCIATION

Date_____

I, _____ of _____ hereby apply for membership in the Milan Fruit Growers' Association. I understand that a membership agreement will be executed at a later date.

I will be interested in marketing _____ acres of Tomatoes, _____ acres of Pepper, _____ acres of Cucumbers, _____ acres of Cabbage, and _____ acres of Sweet Potatoes.

_____
Signature

# APPENDIX D

## MARKETING AGREEMENT

THIS AGREEMENT between the Milan Fruit Growers' Association, hereinafter called the "Association" and the undersigned, hereinafter called the "Grower."

WITNESSETH:

(1) The Association buys and the Grower sells to the Association all fruits and vegetables except those which the grower reserves for his own personal use, but not for sale, produced by or for him or acquired by him as landlord or lessor and the Grower agrees to deliver all such fruits and vegetables at such place or places as the Association may direct. This contract is intended by the parties to pass an absolute title to all such fruits and vegetables as soon as the same have potential existence but shall be at the risk of the Grower until delivery. The association is authorized to exercise any and all powers conferred upon it hereunder through any central agency of which this and any other similar associations are or may become members.

(2) The Association agrees to make such advances to the Grower on such fruits and vegetables hereunder upon the delivery and confirmation of sale, thereof as in the discretion of its board of directors may be justified by marketing conditions.

(3) The Association agrees to sell, either in the natural or processed state, such fruits and vegetables, together with the fruits and vegetables delivered by other growers, and to pay over ratably the net amount received therefrom as payment in full to the grower, after making deductions to cover (a) advances, interest upon advances, the cost of picking, gathering, harvesting, receiving, assembling, transporting, handling, grading, packing, inspecting, processing, financing, advertising, story, insuring, selling, and marketing such fruits and vegetables and products derived therefrom; (b) organization, operating, and maintenance expenses and purchase of stock in a central agency; (c) revolving funds for the purpose of building up such an amount of capital as may be deemed necessary by its board of directors from time to time and for revolving such capital in the manner that may be provided in Section 2 of Article IX of the By-laws of the Association, as determined from time to time by the board of directors; and (d) contingency reserves to meet the general contingencies of the business of the Association of not to exceed two percent of the gross sale price of such fruits and vegetables and products derived therefrom. The deductions made for capital purposes and for revolving such capital from time to time shall be evidenced by revolving-fund certificates in the form prescribed by the board of directors, is authorized to establish, from time to time, daily, weekly, monthly, or seasonal pools of fruits, and vegetables of the same variety, grade and quality, and all growers having fruit or vegetables in a particular pool shall ratably in the net amount received therefrom.

(4) All fruits and vegetables shall be delivered by the Grower at the earliest reasonable time after harvesting at such place as the Association may direct, and each package of fruits and vegetables delivered to the Association shall be marked for identification purposes in the manner prescribed by the Association at the Grower's expense.

(5) Any loss that the Association may suffer on account of chemical residue or inferior condition at delivery shall be charged against the Grower, individually.

(6) The Grower further agrees that the Association and the central marketing agency shall have the power to borrow money for any purpose of the Association or the central marketing agency, on the security of the fruits and vegetables delivered to the Association or the products derived therefrom or on any evidence of such products or by-products derived or cash or accounts arising from the sale thereof; and to give a lien, either legal or equitable thereon, as the absolute owner thereof; and the Association and the central marketing agency may grade, pool or commingle such fruits and vegetables or products derived therefrom of like grade and variety; and shall exercise all other rights of ownership without limitation.

(7) If the Association brings any action of any character whatsoever by reason on a breech or threatened breach hereof, the Grower shall pay all costs of court, costs for bonds, expenses of travel and all expenses arising out of or caused by the litigation, and reasonable attorney fees expended or incurred by it in such proceedings and all such costs and expenses shall be included in the judgment.

(8) It is agreed that the articles of incorporation and the by-laws, now or hereafter in effect, and this contract constitute the entire agreement between the Association and the Grower.

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

(10) By signing this agreement the Grower applies for membership in the Association and the signing hereof by the Association shall constitute an acceptance thereof.

(11) The Association or the central agency shall establish or adopt standards for fruits and vegetables and shall make rules and regulations governing the handling and shipping thereof and shall

provide inspector or grader to grade the fruits and vegetables; and the Grower agrees to be bound by such grading and to observe such rules and regulations. The Association or said central agency shall provide for the inspection of all fruits and vegetables delivered hereunder, and if any such fruits and vegetables are not in proper condition for sale they shall be sorted and prepared for sale at the expense of the Grower.

(12) After this agreement shall have been in effect one year from the date of its acceptance by the Association, either party hereto may terminate it in any year on the last day of the anniversary month in which agreement was so accepted by notifying the other party in writing of this intention; such notice to be given between the first and fifteenth of the month immediately prior to the effective date of termination. If neither of the parties hereto terminates this agreement in any year, as aforesaid, it is hereby mutually agrees that this shall constitute conclusive evidence that the parties hereto have renewed this agreement for another year.

(13) If there is a lien on any of the fruits or vegetables delivered hereunder, the Grower authorized the Association or central agency to pay the holder of said lien from the proceeds derived from the sale of such fruits or vegetables before any payment is made to the Grower hereunder.

(14) The parties agree that there are no oral or other conditions, promises, covenants, representations, or inducements in addition to or at variance with any of the terms hereof; and that this agreement represents the voluntary and clear understanding of both parties fully and completely.

Read, considered and signed at _____ this _____ day of _____ 19_____.

Growers Signature: _____
(Do not sign without reading)

_____
(Print Grower's name here)

Address _____
(R.F.D. or street number)

_____
(Town)

County _____

State _____

Accepted at _____, _____, this _____ day of _____, 19____, in accordance with a resolution of the board of directors.

Milan Fruit Growers' Association

By_____
Secretary

Acres of truck estimated to be grown in 19_____:

Vine ripe tomatoes_____ Peppers_____

# APPENDIX E

## MEMBERSHIP CERTIFICATE OF MILAN FRUIT GROWERS' ASSOCIATION

MEMBERSHIP CERTIFICATE

This is to cerfity that _____ is a member of the Milan Fruit Growers' Association and as such is entitled to the rights and privileges of membership and is likewise bound by and subject to the obligations and conditions pertaining thereto, all as set forth in the articles of incorporation, by-laws and marketing agreement, now or hereafter in effect.

This certificate and the membership and rights represented hereby are nontransferable.

In witness whereof the Milan Fruit Growers' Association has caused this certificate to be signed by its duly authorized officers, this ____ day of _____, 19_____.

By _____
President

Attest:

_____
Secretary

# APPENDIX F

## REVOLVING-FUND CERTIFICATE OF MILAN FRUIT GROWERS' ASSOCIATION

(Incorporated under the laws of the State of Tennessee)

Series _____

No. _____ Date _____

Amount $_____

This certified that of
has furnished dollars to this association as capital, subject to the following conditions:

1. This and other revolving-fund certificates of the same series are retirable in the sole discretion of the board of directors, either fully or on a pro rate basis, but certificates issued in prior years shall be entitled to priority (except as hereinafter provided) in retirement.

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

3. This certificate is transferable only on the books of association.

4. This and other certificates are subject to the by-laws of the association. All debts of the association, both secured and unsecured, shall be entitled to priority over all outstanding revolving-fund certificates. Upon dissolution or winding up of the association in any manner, after the payment of all debts, all outstanding revolving-fund certificates shall be retired in full, or on a pro rate basis without priority, before any distribution is made of the equities of patrons in reserves having the status of capital.

In witness whereof the Milan Fruit Growers' Association, has caused this certificate to be signed by its duly authorized officers, this _____ day of _____, 19_____.

MILAN FRUIT GROWERS' ASSOCIATION

By_____
President

Attest:

_____
Secretary

# APPENDIX G

## PATRON'S CONSENT AS REQUIRED BY FEDERAL INCOME TAX LAWS

The undersigned patron of the Milan Fruit Growers' Association hereby consents and agrees that the amount of any distributions hereafter made to him by said Association with respect to his patronage, which are in the form of written notices of allocation (as defined in Section 1388 of the Internal Revenue Code), will be taken into account by him at their stated dollar amounts in the manner provided in Section 1385 (a) of the Internal Revenue Code in the taxable year in which such written notices of allocation are received by him.

Dates this _____ day of _____, 19_____.

_____
Signature of Patron

Name as it appears on Social Security Card_____

Social Security Account Number_____

Complete Address_____