
Cooperative Financial Conditions Recommendations

Report with recommendations relating to requirements for
cooperatives to report on financial conditions

2024 Minn. Laws Chap. 127 Art. 38 Sec. 70

1/15/2025

Minnesota Department of Agriculture
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Executive Summary

During the 2024 Minnesota legislative session the following language was passed:

Sec. 70. **REPORT REQUIRED; COOPERATIVE FINANCIAL REPORTING.**

“The commissioner of agriculture shall convene a cooperative financial reporting workgroup, which must include producers who sell to a cooperative and representatives from cooperative management. The commissioner shall develop recommendations relating to requirements for cooperatives to report on financial conditions and report back with recommendations to the legislative committees with jurisdiction over agriculture by January 3, 2025. Participating stakeholders must be given an opportunity to include written testimony to the legislative committees in the commissioner's report.” ([2024 Minn. Laws Chap. 127 Art. 38 Sec. 70](#))

To meet this report requirement, the Minnesota Department of Agriculture (MDA) conducted two virtual meetings, one with producers/members and one with cooperative managers and staff, regarding financial reporting obligations of cooperatives. The MDA enlisted the help of Kevin Edberg, former executive director of Cooperative Development Services, who facilitated the workgroup meetings. The MDA determined that the focus of the recommendations should pertain only to cooperatives owned by agricultural producers. Recommendations will not pertain to any other type of cooperative (e.g. consumer-owned rural electric cooperatives or grocery cooperatives, etc.). Additionally, workgroup attendees were given the opportunity to provide written testimony, which is found at the end of this report.

Background

Minnesota has two statutes that deal with cooperatives, 308A, the traditional statute, and 308B, which is similar but permits a non-patron class of investor-owners. The statutes do not address the specific forms of financial information; however, Minnesota Statutes Section 308A.611, subd. 3 states: The officers must submit reports to the members at the regular members' meeting covering the business of the cooperative for the previous fiscal year that show the condition of the cooperative at the close of the fiscal year.

Similarly, Minnesota Statutes Section 308B.245 requires that cooperatives maintain appropriate accounting records, and that they shall keep a copy of all financial statements prepared for periods ending during the last fiscal year at their principal office.

Minnesota Statutes section 308B.245 also states: Except as otherwise limited by this chapter, the board of a cooperative shall have discretion to determine what records are appropriate for the purposes of the cooperative, the length of time records are to be retained, and policies relating to the confidentiality, disclosure, inspection, and copying of the records of the cooperative.

Minnesota has more cooperative businesses than any other state, with four of the 11 largest U.S. cooperatives headquartered in Minnesota. Nine of the largest 100 U.S. cooperatives call Minnesota home.

Workgroup Input

The MDA conducted two virtual meetings to complete this legislative report. The sessions were led by Kevin Edberg, former executive director of Cooperative Development Services. At the start of both sessions, Mr. Edberg and MDA staff summarized the definitions of a cooperative, existing financial reporting requirements for cooperatives in Minnesota, and then allowed time for questions and discussion. Both Minnesota Statutes Chapters 308A and 308B have language that requires co-ops to provide financial information to member-owners, typically at annual general meetings.

Comments and recommendations

The following comments and recommendations were captured from producers/members:

- Grain producers would like to have independent audits consisting of inventories, account receivables, and allocated and non-allocated patronage. Patrons selling to the cooperative have no idea of cooperative's account receivables. When you have deferred grain payments, it causes the producer to wonder how the cooperative is doing. Year-end audits are helpful and very important.
- Dairy producer emphasized that some producers have their retirement/equity fund in cooperatives, and if a cooperative goes under, the producer is left with nothing. Producer-retained earnings and accumulated (but yet unpaid) patronage are core parts of the value of their farming enterprises.
- Producers brought up that large cooperatives' financial statements include all aspects of their business, so it is hard for producers to see how their specific part of the co-op is doing financially. For instance, separating dairy from the cropping side would be helpful.
- Producers alleged intimidation of board members or producers if they asked too many questions or sought information. It is difficult for dairy producers to move from one cooperative to another. If a producer is threatened by a cooperative, insinuating the co-op will no longer pick up a producer's milk if the producer continues to ask questions, it creates a difficult atmosphere for the producer.
- Producers are asking for more transparency, and they felt that the more transparent the cooperative was, the better. Different cooperatives report differently, with some more transparent than others. Producers would like to see a standardized reporting system for all.
- Producers would like co-ops to provide some standardized information to producers, believing things can be hidden in large financial statements. Co-ops can take equity from producers with very little communication as to why and how.
- Independent audits are important. However, producers want more details, such as accounts receivable, to have confidence of cooperative financial standing.
- The 1980s failure of cooperatives remains a concern for some farmers; those co-ops too big to fail can still fail.
- Producers believe that if you can't see the numbers, you can't ask proper questions and understand a cooperative's financial standing, especially in a large co-op where the divisions are not broken out sufficiently on a consolidated balance sheet to assess solvency.
- There is concern of retaliation from cooperatives when requesting financials or information. In some industries, such as dairy, it's very difficult to switch cooperatives.
- Milk check transparency in Minnesota several years ago allowed owners to compare and benchmark their payments.

The following comments and recommendations were captured from the cooperative managers/staff:

- Co-ops already have requirements to provide financial reporting, stating that obligation already exists.
- Common practices of balance sheets and income statements is generally enough for a farmer to determine if a cooperative is financially secure to deliver product.
- Practice of reporting already exists.
- If the state chooses to make new requirements, it will need to make sure that it understands the reach of its legislation, including interaction with federal requirements and other states. Some cooperatives are also required to disclose financials due to federal regulations.
- Cooperatives believe they are already doing what is required for producers to make reasonable estimations based on what is provided.
- Federally regulated co-ops (lenders/financial institutions) have different requirements and already must share their finances publicly. Many farmers are members of co-ops not based in Minnesota, so there is a need to be thoughtful on the reach of legislation beyond state borders.
- Cooperatives are democratically controlled and self-governed, so there are already mechanisms in place to propose additional financial disclosures. Co-ops are already supplying their members with their financials.
- There is some concern with financials getting to competitors. So, some co-ops use non-disclosure agreements to protect that information. Providing information to non-members does expose the business to competitive pressure, and it can have a negative effect on the viability of business to its competitors.
- If more financial information is provided to the state, what happens to the information and does a cooperative have to provide it? Requirement could be duplicative of existing annual reporting.
- Cooperative structure is democratic, led by a self-governing board that can propose financial disclosures changes to financials that members receive.

Recommendations

The MDA does not recommend additional requirements for cooperatives to report on financial conditions due to existing statutes and the democratic principles of cooperatives.

It was noted that the dairy cooperative industry was the only sector where farmers had financial transparency concerns. There are limited places that a farmer can sell their milk, and their industry is unique when compared to crop production. It should be noted that the size and breadth of the organization may determine the involvement and communication between the cooperative and members. For instance, it is likely producer-members of larger, national cooperatives have less perceived control of the cooperative compared to members of local cooperatives. However, in these large cooperatives, it is possible that farmer-members do not have as much agency through elections. A common theme found in discussions was that the information provided to cooperative members should be sufficient for a producer to know if the entity is solvent enough to protect payments for commodity delivery.

We recommend continued financial transparency for patron members and encourage farmers having issues with their cooperative to contact the MDA or the Minnesota Attorney General's Office.

Written Testimony

Included with this report are the following three stakeholder letters:

- Todd Malecha
- Minnesota Milk
- Rich Sobalvarro

December 12, 2024
Todd Malecha
Malecha Enterprises
14542 County Road 33
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To: Michelle Medina
MDA Commissioners Office

Subject: The Importance of Uniform and Transparent Financial reporting by Individual Cooperative Business Units

I am providing you with a brief letter. I would encourage you to please call or email me for in-depth explanations. I intended to provide you with hundreds of pages of in-depth information on why financial transparency is so vitally important and I was told that due to privacy concerns I am unable to provide the indepth information.

We belong to seven different co-ops. Every one of them will provide us with their financial statements except one which is the Land O Lakes Co-op.

In 2022, Land O Lakes had record losses in the Dairy Division while the other co-ops in the industry were profitable and financially stable. Land O Lakes for the first time in their 101 years of existence had to take equity from the dairy farmers so they could stay in business.

Last year, every LOL Dairy Division members' equity was used to keep this division in operation. Just from us alone, the amount was **\$58,903.93** which is part of our built-up equity. This is to be paid out to us in the next 10 years.

When the First District Association Co-op had their annual meeting, they shared with us that LOL had taken over **\$2M** from them.

Not too long-ago Bernie Madoff was against financial transparency. Is the same happening with the LOL executive teams? The information that I wanted to share is absolutely shocking.

As I close, the questions to be answered are: "Why is Land O Lakes not sharing the financials? What are they not wanting to share when other co-ops are able to have full financial transparency?"

Sincerely,

Todd Malecha

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Minnesota Milk Comments on Cooperative Financial Reporting Committee, submitted by executive director Lucas Sjostrom on January 3, 2025:

Minnesota Milk is interested in the success of our dairy farmers, and with that our dairy cooperatives and processors. As such, we want any changes in financial reporting for cooperatives to be fruitful for transparency to farmers/owners, but not any changes, requirements or recommendations that are only extra work without moving to further actionable transparency.

As the Minnesota Department of Agriculture considers changes, we ask them to understand the following: In the past four years, as cited in evidence of the Federal Milk Marketing Order hearing of 2023-2024, Minnesota Milk received the following calls, several of which were Minnesota patrons and/or processing entities. We are paraphrasing the text to protect the farmers:

1. I have 15 days to find a new milk market. My private processor just sent me a letter and I have nowhere to go.
2. I have 30 days to find a new milk market. My private processor lost their market, and I have nowhere to go.
3. My cooperative has let a farm go for animal welfare practices, which they seemed to ignore for several years. The farm is now out of business.
4. My cooperative is insisting that my verbal statement, which was only a hint that I might be shopping around for another milk buyer, was my official notice that I was leaving the cooperative. Effectively, they dropped me 20 days after I explained I would be looking around, but I only found out today, 10 days later. I hope I can get on another truck in the next 10 days.
5. I think my plant has listed large negative PPDs on my milk check without actually pooling their milk.
6. My cooperative gave me a contract that states I can no longer speak publicly about my milk, any disparagement of the cooperative results in my departure, and there's no due process to fight these. I have no options but to sign the contract because I have nowhere to go if I want to keep milking cows.
7. My cooperative is paying about \$3.00 per hundredweight behind my neighbors, but although I want to ask questions and make change, I believe calling my cooperative board member could result in my immediate dismissal as a farmer.
8. I have almost all my feed up for the year, but my cooperative just sent me a letter that they will be tripling my hauling costs to true costs of hauling with 15 days notice. I'm so far away from a plant, along with other farmers in my area, that I need to be done milking cows. How could they give their own cooperative members such little notice?

Advancing the Success of Minnesota Dairy Farms



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9. My cooperative thinks my milk had foreign matter but both myself and my milk hauler believe it was just a gasket that had made its way into the milk tank. The cooperative immediately suspended me with no opportunity for appeal.
10. My private processor, a fluid milk bottler, called last night and said they don't need my milk. We didn't have a written contract. I've found a depooled cheese plant instead. What are the protections within for me getting paid?

It is now possible, as the market swings, that processors could get similar calls of a farm "jumping ship," however due to the production supply chain it's far less likely. That said, as farms grow to become larger percentages of processing plants, this could put plants – especially smaller plants – in immediate peril. However, as milk is traded on an open market, with some work it could be possible to contract supply with some legal backing.

I thank you for the opportunity to participate in the committee.

Local cooperatives provide full copies of their audited financials to all persons, even non-members, who attend the cooperative's regular member meeting. Those meetings must occur at least annually. At those meetings, the financial statements of the cooperative are reviewed by the cooperative's auditor, and the auditor, the cooperative's CEO/General Manager and typically the cooperative's CFO all answer questions about the financial statements. Local cooperative's financial statements are generally available to the public and are always available to the cooperative's members. Most cooperatives also have their financial statements on the cooperative's website, often even on that portion of the website available to the general public. It is common to see printed stacks of a cooperative's annual audit on the reception desk at the entrance to cooperatives, available to anyone who desires a copy. Regional cooperatives such as Land O Lakes and CHS may have different practices relating to their financials.

The comment that "it's very difficult to switch cooperatives" is at odds with the realities of cooperative membership. To "switch" cooperatives a person or corporation simply starts doing business with another cooperative; nothing binds a member to a local cooperative. Membership in a cooperative is accomplished simply by conducting a minimum amount of business with the cooperative annually. I assume that whoever made this comment is referring to efforts to sell milk to a dairy cooperative. There are a limited number of dairy cooperatives in the state as compared to the several hundred local agricultural cooperatives. The statement is very misleading about cooperative membership.

Rich Sobalvarro
CEO & General Counsel
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