

Far Western Chapter



NATIONAL DIRECTOR'S REPORT

Matt Connors

Your national board of directors held its mid-year meeting in conjunction with the January 2004 NCFE conference in Phoenix. As you know from the letter sent by NSAC national president Bob Beerup (see also the article by Bob in this newsletter), the Board took the significant step of voting to close the national office in Virginia and outsourcing that function to Advanced Management Concepts in Dayton, Ohio.

I would like to offer the perspectives of the Far Western Chapter's national directors, including Rich French, Don Butwill, and myself. As you know, the national organization is facing much the same issues as our local chapter. Cooperative consolidations and closures and the resulting demand to reduce costs has led to a decline in NSAC membership. A year ago August, the National Board began consideration of a number of steps we might take to meet these challenges, including the possibility of outsourcing our administrative functions to reduce costs and expand services.

A subcommittee was chosen and a number of management firms were interviewed. After completing its analysis and reference checks, the committee recommended that AMC be selected.

The decision to change was not based on the performance or enthusiasm of Barbra Hickey and her staff, which has been outstanding. Rather, it was an economic decision for the best long-term interests of the Association. We were faced with the prospect of increasing dues and raising the fee to attend the annual conference, which we felt would lead to further declines in membership. Simply put, it was time to retool the administration function to better fit our situation. It was a difficult decision for each of us as we all have a great deal of respect for Barbra and her staff. However, we feel this was the best long-term decision.

There were other topics discussed and issues aired. The following is a summary of the highlights.

Bill Erlenbush, NSAC Vice President and Chairman of the Membership Committee, reported that membership at December 31, 2003 was 1,647, virtually the same as the previous year. This is the

first time in a number of years we have not witnessed a decline, a milestone that could not have been achieved without the hard work of many. Outstanding efforts led to growth in the Electric, Mid-Central, Mississippi Valley, North Central, Pacific Northwest, and South Atlantic Chapters. Great job!

A select committee reported as the Planning Ad Hoc Task Force. This group, chaired by Ed Bercot of the Texas Chapter, includes our very own Richard French. The Task Force reported the results of the recent survey of NSAC members. Some of the conclusions reached by the Task Force from the member survey and input from past national presidents are as follows:

- NSAC generally seems to be meeting the needs of its members. Consequently, the Task Force believes NSAC need not change its mission or how it conducts business.
- There may be opportunities to fine-tune the national meeting. We should consider changing the national meeting to the second half of July, starting on Thursday at noon and finishing on Saturday.
- While NSAC seems to be meeting the educational needs of our members (79% of the survey respondents indicated NSAC was their primary source of coop training and education), we should consider adding more substantive accounting and auditing topics in lieu of so many general subjects.
- Although we replace many of the members lost each year, membership decline continues to be a huge issue. Attempts to involve both the National Office and local chapters have not resulted in a significant net increase in members. There is no "silver bullet."
- 76% per cent of our members are the only NSAC members in their organizations.

The Task Force will soon evaluate various scenarios to project long-term revenues and expenses of NSAC.

The Accounting and Auditing Committee met to discuss the (then) upcoming January 27 meeting with the FASB staff and Board Members at FASB headquarters in Connecticut. The key issue continues to be the implementation of FASB 150. Although implementation for nonpublic companies is currently suspended, the FASB remains keenly interested in the topic; implications for cooperatives

Far Western Chapter



holding retains could be significant. NSAC continues to represent our industry on this critical issue.



The Midwest Chapter Host Committee for the upcoming annual meeting gave a presentation. The meeting will be held August 2 through 4 in Denver, Colorado,

and promises a value added-agenda in a terrific setting. The conference will be at the Omni Interlocken, which is centrally located at the base of the majestic Rockies near Boulder, Estes Park, and many other attractions.

See other awe-inspiring pictures at: http://www.omnihotels.com/hotels/default.asp?h_id=48.

Conference topics will include audit committee governance issues, new accounting pronouncements, the latest in tax issues, and much more. To respond to the concerns of members concerning the cost of attending the national meeting, the Board of Directors voted to reduce the early registration fee for members attending both the Tax and General sessions by \$90 from the previous year! This special rate of \$495 is only for members who register early for both sessions. I strongly encourage you to consider attending for both the excellent program and the tremendous networking opportunities.

David Cummings, our National Secretary & Treasurer presented the preliminary financials for the year ended December 31, 2003, showing a projected profit of approximately \$50,000 from operations! The Board adopted a budget for the next year, which shows us essentially breaking even. Dues will not change in the upcoming year, and funds have been set aside to make website improvements.

The Board approved the strategic plan for 2004 essentially as it was proposed at the August 2003 meeting. The five-point plan targets improved financial performance, chapter membership goals,

having NSAC serve as an industry advocate to regulatory bodies such as FASB, developing a five-year strategic plan, and outreach to potential collaborators to our current membership base. Substantial progress has been already made on many of these goals.

Finally, the Board approved a resolution honoring longtime NSAC member Bernie Carlson, who recently passed away after a lengthy battle with cancer. Bernie was a leader in the organization and the industry; his sense of humor and zest for life will be sorely missed.

I appreciate the opportunity to serve as your national director. If you have any questions, comments, or suggestions, please feel free to contact me.

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MANAGEMENT CHANGE COMING SOON *NSAC National President Bob Beerup*

Each NSAC member should have recently received notice that your national Board of Directors has decided to engage an outside association management firm to assume NSAC's management function. The target date to complete the transition to the new management firm is April 1, 2004. This change will result in the closure of our office in Springfield, VA, and the termination of our employment of Barb Hickey and Debbie Kay.

Barb has been our Executive Director since 1988. Many of us have known Barb and worked closely with her since she initially came on board with NSAC. We will be sorry to sever our relationship. Barb has been as dedicated to NSAC, and to serving the individual member, as anyone could hope for. Her work ethic is exemplary. Debbie has been with us two years, and is also dedicated and hard working.

The decision to make this change was based solely on financial considerations. While we can't be absolutely certain of the long-term expense reductions, our best projections suggest that we can reduce expenses by as much as \$75,000 per

Far Western Chapter



year after the first year. We will not realize the savings in 2004 due to the expense related to closing down the existing office and transitioning to the new management firm. Also, since the new management firm does not take over until April 1, we will not realize the full benefit of the lowered expense structure for a full 12 months in 2004.

While this change is probably something of a surprise to many of our members, your Board of Directors has been debating the pros and cons of such a move for a couple of years. The possibility of outsourcing the management function first came up in budget discussions as we were looking for ways to balance the budget. We identified several possible providers of association management services and sent them requests for proposals. A small group from the Executive Committee followed up on all the proposals that were submitted.

Over a couple of years, we continued to investigate the qualifications of the firms that submitted proposals and eventually narrowed down the field to two providers in August 2003. Between August and December, we concentrated our efforts on these two firms. Of the final two firms, one bid was much lower than the bid from the other finalist. We visited the low bidder's office and invited them to meet with the Executive Committee and the full Board of Directors at our January meetings.

The firm we have selected is Advanced Management Concepts ("AMC") of Dayton, Ohio. AMC has been in the association management business since 1984. You can learn more about AMC by visiting their web site at amc@advmgmtconcepts.com.

There are two significant advantages to using a management firm such as AMC. Because they have a larger number of employees and a larger number of clients over which to spread their costs, we gain some economies of scale. When we have clerical work that needs to be done, we can get it handled at clerical wages. With a two-person internal staff, we ended up having some clerical work being done by the Executive Director at a much higher salary scale. Also, because AMC has a larger staff, they have various specialists we couldn't afford with an internal labor force. We end up having more resources available and having various tasks performed by people who are

appropriately qualified (and compensated), but not overqualified.

Another advantage is that our management fee covers occupancy and equipment costs as well as salaries and related costs, so we don't have to worry about software updates, hardware maintenance, depreciation, office and equipment leases, etc.

AMC's management plan calls for them to designate an Executive Director and an Association Executive. The Executive Director will also serve as Executive Director for three other accounting-related associations, so we will in effect be getting (and paying for) a 1/4-time Executive Director. The full-time Association Executive will probably be more equivalent to our existing Membership Manager than to our existing Executive Director. The management fee also includes part of the time of other AMC staff on an as-needed basis. For example, they have an in-house accounting person to take care of our accounting and financial reporting needs. They have someone on staff with a higher level of technical computer skills than we now have. They also have clerical people for tasks such as mailings.

We will continue to have our own dedicated telephone line, so when someone calls our phone number it will be answered "NSAC." And, with the larger total staff in the office, there should be someone available to answer simple questions or take a message even if our designated Executive Director and Association Executive are not available. We do not anticipate that this move will in any way be detrimental to maintaining our identity.

We anticipate that AMC will be able to provide significant assistance in further developing our web site. AMC has an ongoing relationship with a webmaster provider in the Dayton area. This provider handles web site design and maintenance for most, if not all, of AMC's other clients. We expect to significantly enhance the value of our web site in the near future.

We think there will be some indirect advantages to NSAC as a result of AMC's association with three other accounting-related organizations. While our designated staff are not accountants themselves

Far Western Chapter



and don't know much about coops yet, they are involved in the communications and educational activities of these other accounting-related organizations. When one of these organizations identifies a hot topic, publishes a particularly good newsletter article, or identifies a good annual meeting topic or speaker, AMC can share that information with its other accounting clients.

AMC also is extensively involved in planning meetings similar to our annual meeting. They handle meetings that are both larger and smaller than ours. They have planned meetings all over the US as well as outside the US. While they really won't do anything for us that our existing staff doesn't do, they are very well experienced and should be able to pick up our meeting planning function readily.

Most of us are accustomed to being well acquainted with our Executive Director and other staff. We are accustomed to having someone on the other end of the phone who knows us by name and can put a face with the name. We hope AMC can begin to develop the personal relationship fairly quickly, but it can't be completely replaced overnight.

Because of our regard for Barb and Debbie, this was not an easy or pleasant decision for the Board. However, we are convinced this will be in the best interests of NSAC in the long term. Otherwise, we wouldn't have decided to make the change.

If you have any questions, concerns, or comments, feel free to contact your chapter's national Board member or national president Bob Beerup.

SUCCESS FACTORS FOR VALUE-ADDED NEW GENERATION COOPERATIVES

Rodney B. Holcomb, Dept. of Agricultural Economics, Oklahoma State University

Philip Kenkel, Dept. of Agricultural Economics, Oklahoma State University

Agricultural producers have long sought to capture a greater share of the downstream value their commodities create. Many recent efforts to vertically integrate into processing activities have involved the formation of New Generation

Cooperatives (NGCs). New generation cooperatives have many of the characteristics of traditional cooperatives but are normally more restrictive in membership, finance, and marketing. Some of these NGCs have succeeded in industries where others have failed.

The proliferation of NGCs has created a need to identify and understand the factors critical to the success of these ventures. In order to address this need, Oklahoma State University conducted a national survey of NGC managers. Highlights from the survey results are presented in this publication.

Ingredients to Success

A number of authors have attempted to describe the process of developing a successful NGC and to identify possible pitfalls and causes of business failures. Obviously the factors with the most impact on success will vary from industry to industry. The characteristics of the products, such as branding recognition and product uniqueness, is very important to a livestock NGC where a brand name product is very unimportant to an ethanol plant. However, there are some key factors to success that have been identified. Commonly identified ingredients to success include:

- A motivated core group of producers
- Identifying a strategic advantage
- Detailed, unbiased feasibility assessment and business plan
- Well timed equity drive resulting in an adequate capital base
- Legally binding membership and marketing agreements
- Qualified manager

Additional insights into the elements of a successful NGC comes from the survey of NGC managers. A list of 72 NGCs was compiled from the Illinois Institute for Rural Affairs' (IIRA) "Directory of New Generation Cooperatives," and additional firms identified from discussions with extension personnel and an Internet search. Fifty usable responses were received for a 75 percent response rate. The results for the survey are provided in Table 1. (Rated on a scale of 1 = most important to 10 = least important.)

Far Western Chapter



Table 1: New Generation Cooperative Managers' Ranking of Critical Success Factors

Category	Average Ranking	Most Important Factor within Category
Planning/ Development	3.7	Local Champion
Financing/ Costs	3.8	Member Capital
Managerial	4.0	Manager's Industry Knowledge
Operational	4.7	Strong Marketing Effort
Strategic	5.6	Business Strategy

The responding NGC managers ranked the top overall factor to be planning and development. Among items within that category managers ranked having a local champion pushing for the cooperative as the top ingredient for success. The second place ranking of the Financing and cost category confirms that an adequate capital base is also essential for the success of a new cooperative project. The third place ranking of category relating to management ability and the manager's knowledge of the industry emphasizes the importance of the project manager. Managers rated the operational category which related to marketing strategies fourth and the strategic category which encompassed issues such as business strategies round out the top five.

Summary

NGCs can make important contributions to agricultural producers and to rural areas. There is obviously no single factor that is responsible for the success of a NGC or other value-added venture. The results of a national survey of NGC managers identified several factors as key ingredients to success. The managers responding to the survey emphasized the importance of a solid business strategy, a strong member capital base, and a knowledgeable and experienced manager. While there is no single recipe for NGC success, detailed planning, adequate equity, and capable management appear to be the key ingredients.

Reprinted from "AgMRC Action," November 2003, by permission of Ag Marketing Resource Center. Please visit www.agmrc.org for more information on

new generation cooperatives and other resources.

TIDBITS

News from around the Far Western Chapter

Welcome Bob Bergsten back to the Far Western chapter! Bob recently retired after 24 years with CoBank, but didn't stay out of the saddle long. He is now President and Chief Credit Officer of Tri-State Livestock Credit Corporation, a Sacramento based credit corporation owned by several livestock cooperatives.

Long-time Far Western Chapter member Jason Cardinet has joined the CPA firm of Bartig, Basler & Ray in Roseville, California, as a shareholder. Jason was formerly Managing Director of Tax in the Sacramento office of Deloitte & Touche. He can be reached at Bartig, Basler & Ray, 1520 Eureka Road, Suite 100, Roseville, CA 95661. His office number is (916) 784-7800; email is jcardinet@bbr.net.

You'll be happy to hear that Bud Flach is feeling much better, well enough to be back out on the golf course a bit. Bud has retired his NSAC membership, but can be reached at: BudF_Retired@yahoo.com.

The quarterly NSAC publication "Scoop" will no longer be sent with the chapter newsletters. It is now available online at <http://www.nsacoop.org/pubs.html>.

If you have news about yourself, your cooperative, or anything else of interest to NSAC members, please let us know. We are also interested in articles that have run in your cooperative's newsletters or other company publications. Contact newsletter editor Brent Morrison at Brent@Morrisonco.net, or call (530) 893-4764.

Far Western Chapter



New Members

We would like to welcome the following new members to the Far Western Chapter:

Mr. Robert Bergsten

Tri-State Livestock Credit Corporation
3600 American River Dr., Ste. 250
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Do you know someone who might benefit from NSAC membership? Someone who could use:

- Continuing education?
- Basic cooperative education?
- Conferences and networking?
- Quarterly cooperative news?

Contact Steve Sutter, Far Western Chapter Membership Chair, Matson & Isom Accountancy Corp., P.O. Box 1638, Chico, CA 95927-1638. Phone (530) 891-6474; email: ssutter@matson-isom.com

Far Western Chapter



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Additional Committee Chairs for 2004 include:

Early Bird Prizes – Debra Donaghy
Golf – Todd Landry
Newsletter – Brent Morrison
Cooperative Education – Dan Nutley
Publicity, Printing and Registration – Jim Merrill
2004 Time & Place – Doug Buehrle
2005 Time & Place (National) – Dan Nutley

The NSAC Board of Directors has approved a policy to permit approved organizations to present graphics, text, and/or artwork promoting their businesses in **The Cooperative Accountant** and certain other publications. In exchange, these organizations are asked to support NSAC as follows:

- One-half page presentation in each of four consecutive quarterly issues of **The Cooperative Accountant**, as well as the **Membership Directory & Resource Guide** - \$1,000
- Full page presentation in each of four consecutive quarterly issues of **The Cooperative Accountant**, as well as the **Membership Directory & Resource Guide** - \$2,000

To promote your business in our future publications, please contact Debbie Kay, NSAC Membership Manager.



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