RESEARCH BULLETIN 880 APRIL 1961

Financial Structure of Agricultural Business Organizations

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FINANCIAL STRUCTURE OF AGRICULTURAL BUSINESS ORGANIZATIONS

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INTRODUCTION

Cooperatives, both consumer and agricultural producer, were started after 1800 in the United States but few survived the Civil War. After the Civil War and particularly following 1870, the Grange movement developed with great strides in the establishment of farmer-owned businesses. No very definite or very successful corporate plan of operation could be said to have evolved during the early years of the movement. The first emergence of any settled policy came in 1875 during the annual convention of the National Grange when recommendations were formally adopted endorsing the Rochdale Principles.[1]

The Rochdale Principles were named after a group of English weavers who banded together for the purpose of purchasing supplies. This latter small group of men established a set of business principles sometime after 1844 which seemed to be well adapted to the cooperative form of business. These rules and methods were:[2]

1. To sell goods at prevailing local prices
2. To restrict to a fixed rate the interest upon capital—This interest to have first claim upon the profits
3. To distribute profits (after meeting expenses and interest charges) in proportion to purchases
4. To give no credit—all purchases and sales to be paid for in cash when the goods were handed over
5. To permit both sexes to have equality in membership rights
6. To provide for each member to have one vote and no more
7. To provide for regular and frequent meetings to be held for the discussion of the society's business and for receiving suggestions for improving the society's welfare
8. To insist upon accounts to be properly kept and audited and balance sheets to be regularly presented to the members

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[1]Edwin G. Nourse, **The Legal Status of Agricultural Cooperatives,** page 35.

[2]F. Hall, and W. P. Watkins, **A Survey of the History, Principles, and Organization of the Co-operative Movement in Great Britain and Ireland, page 87.**

The above principles have been instrumental in the development of cooperative thinking in the twentieth century. Many cooperatives have attempted to adhere closely to these principles while other Ohio associations have deviated and yet operated within the framework of the Revised Code of Ohio, Section 1729-.01 to .28.

Early cooperative development was aided by the passing of state laws. One of the first states to pass a law favoring the organization of cooperatives was Michigan which in 1875 amended a law entitled "An Act to Authorize the Formation of Mechanics and Labor Men's Cooperative Association" to include agricultural and horticultural associations. This law authorized capitalization of $5,000 to $500,000 divided into shares of $5.00 to $10.00 each.[3] Thus, the majority of cooperatives organized up to the 1920's were predominately stock associations.

The first federal legislation which attempted to define a distinctive type of agricultural association not regarded as a combination in restraint of trade was the Clayton Act of 1914. This clarification became necessary as a result of the passage of the Sherman Anti-trust Act of 1890 and the resulting confusion concerning the position of the Agricultural cooperatives in relation to this law. The Congress tried in the Clayton Act to help the farmer solve his problem, but they inadvertently used the words "not having capital stock". As a result of the above concept of a pure cooperative, emphasis was placed upon the non-stock basis of financing. Powell, commenting on the method of financing during the first 15 years of the 20th century, stated:

> The most common methods of raising money to establish a non-profit association are the assessment of members, membership dues, and a contribution by each member in the proportion that his acreage or product handled through the association. After the charter is secured and the organization is formed, the usual method of securing money to erect buildings or to supply the equipment needed is to give a corporation note to a bank as security for a loan, and then to repay the bank with the money raised in any of the ways already noted. If the organization is incorporated as a stock corporation for profit, the funds may be raised by the sale of stock, by adapting the method described above, or a combination of both.[4]

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[3]Nourse, **op. cit.,** p. 39.

[4]Harold Powell, **Cooperation in Agriculture,** p. 78.

Following the passage of the Clayton Act cooperative leaders began to consider the true cooperative as having no stock and revolving the capital of its members.

The Capper Volstead Act, passed by Congress in 1922, defined the basic requirements and principles necessary to be classified as a cooperative. The Capper Volstead Act re-emphasized the roll of the stock association as a true cooperative.

The turmoil between a stock cooperative and a non-stock association aided materially in confusing the problem of financing through the use of a conglomeration of various methods of financing which has continued to the present. It would seem appropriate for cooperative leaders to re-examine methods used to finance cooperatives and analyze the future needs of these cooperatives in order to have strong, sound and durable financial structures for the next two decades.

Procedure:

Through the cooperation of the Ohio Agricultural Experiment Station and the Ohio Council of Farmer Cooperatives this study was undertaken to appraise the over-all financial management of Ohio farmer-owned cooperative agricultural business organizations with suggestions to greater financial stability. Twelve member associations of the Ohio Council of Farmer Cooperatives participated in this study by: (1) providing some funds for travel and clerical work, (2) aiding in the selection of the sample, and (3) providing data. Under the supervision of the writers these member associations were instructed to consider the following criteria in selection of the sample of cooperatives from each of their respective groups: (1) location of the cooperative within the State of Ohio, (2) high, low and average amounts of accounts receivables, (3) volume of business, (4) management, both satisfactory and unsatisfactory, and (5) methods of financing. With these requirements a sample was selected that included 15.5 percent of the cooperatives associated with the 12 member associations of the Ohio Council of Farmer Cooperatives.

The types of cooperatives and the number sampled in each type is presented in Table 1. Data were collected from 41 selected associations in the following manner: (1) a questionnaire was prepared to obtain the historical development of the capital structure of each cooperative sampled, (2) the annual audits were copied for the fiscal years of 1940-41, 1945-46, 1950-51, 1955-56 and 1956-57, and (3) the managers and directors numbering 100 were interviewed.

Table 1

Total Number and Percent of Cooperatives Sampled, by Kind, Divided Between Sample 1 and 2, Ohio 1956-57

Kind of Cooperative	Number in Sample 1	Number in Sample 2	Number in Sample 1 & 2	Number in State	Total Sample[b] As a Percent of Total
Local Elevator and Farm Supply Associations	24	27	51	202	25.0
State Elevator and Farm Supply Associations	4	0	4	4	100.0
Milk Marketing Associations	2	2	4	10[a]	40.0
Breeding Associations	2	0	2	2	100.0
Wool Marketing Association	1	0	1	1	100.0
National Farm Loan Associations	2	2	4	24	17.0
Production Credit Associations	2	2	4	11	27.0
Livestock Marketing Associations	1	1	2	2[a]	100.0
Poultry and Egg Marketing Associations	3	1	4	8	50.0
Total	41	35	76	264	29.0

[a] Major Cooperatives.
[b] Sum of Sample 1 and Sample 2 as a percentage of the total number of associations in state.

Source: Original data.

To check the reliability of the data gathered from the 41 associations a second group of 35 associations was contacted and data gathered for the fiscal year of 1956-57. This second group of 35 associations were selected by the writers based upon the area of the state served. By adding the second group of 35 associations to that of the data gathered on the 41 original associations no new forms of capital were discovered. The methods used to finance the 35 additional associations were not outstandingly different than those used by the 41 original agricultural business organizations. The content of this bulletin consists of the data gathered from the 41 original associations by selected fiscal years.

Definition of Terms:

The following are some terms that are used throughout this bulletin which may have different meanings to different people.

1. **Net Worth,** as used in this study, includes the following forms of capital; (a) common stock, (b) membership capital, (c) preferred stock, (d) surplus funds, (e) reserves or allocated reserves, (f) certificates without maturity dates, (g) allocations or book allocations, and (h) certificates with maturity dates and debenture bonds which are explained under item 6 below.

2. **State Associations,** as used in this study, refer to an association which does business throughout the state of Ohio on a wholesale level with no direct business transaction with farmers.

3. **Allocations or Book Allocations** refer to the amount of net savings, patronage refunds, allocated to patrons and members. These allocated net savings are recorded on the books of the association and retained by the association in the amounts accrued to each patron. The patron usually receives a letter after the conclusion of each fiscal year stating the amount allocated based upon the amount of business transacted with the association.

4. **Allocated reserves or reserves** are essentially the same as book allocations. These funds are allocated to the credit of the individual patron. Where reserves were treated as surplus funds they were analyzed as surplus funds.

5. **Certificates without maturity dates** were generally referred to as certificates of ownership or certificates of equity. These certificates were generally acquired through the process of allocating patronage refunds and did not possess a fixed rate of interest nor a fixed maturity date.

6. **Certificates with maturity dates** were generally referred to as Certificates of Indebtedness. These certificates possessed a fixed rate of interest and a maturity date the same as debenture bonds. The instruments studied were unsecured and junior to current creditors.[5] These certificates were generally acquired through sale to investors with only a few associations permitting acquisition through accumulation of patronage refunds.

7. **Membership capital** was generally associated with the non-stock organizations. The non-stock associations called the entrance fee

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[5]Current creditors have the first claim to assets of the association in case of dissolution.

for membership, "membership capital" but this generally referred to a fund used to pay members subscription cost for a trade journal.

8. **Type of capital or forms of capital** are terms applied to the various funds and securities used to finance associations. Examples are common stock, preferred stock, allocations, and debenture bonds.

Inclusion of Non-permanent Forms of Capital in Net Worth:

For the purpose of this study certificates with maturity dates and debenture bonds were included as a part of net worth. Some readers may disagree with this procedure because non-permanent forms of capital were generally placed in the balance sheet as long-term liabilities. However, accounting procedures were not consistent in placement of balance sheet entries between associations in either long-term liabilities or net worth.

The writers placed non-permanent forms of capital in the net worth section of the balance sheet for the following reasons:

(1) Non-permanent forms of capital competed directly with common stock and preferred stock in the acquisition of external sources of capital.
(2) Non-permanent forms of capital while possessing a terminal date were fixed in amount until maturity. Both permanent and semi-permanent forms of capital may be less permanent than non-permanent forms in that by-law provisions may require unrestricted redemption at death or at withdrawal.
(3) All non-permanent forms of capital were issued as junior to general creditors but with priority and preference over the common shareholder. This provision was the same as for most of the issued of preferred stock.
(4) Non-permanent forms of capital studied were not secured by property as was common and preferred stock.

Plan of Presentation:

The data collected from the 41 associations is presented in this bulletin in four sections. Section I is devoted to the factors affecting the capital structure of agricultural business organizations. The factors presented were considered some of the more important. Section II is devoted to the amount of various forms of capital used by the associations studied. Namely, the four state associations and the remaining 37 associations transacting business directly with farmers.

These 37 associations were further subdivided by methods of financing such as associations possessing common stock as their only stock, associations possessing a combination of common and preferred

stock, and associations possessing no stock. In addition to the above subdivisions the data of the elevator and farm supply associations were presented as a group.

Section III is devoted to the estimation of the amount of total assets, net worth and fixed assets which will be required for the fiscal years of 1960, 1965 and 1970. These estimates are presented for the 37 associations transacting business directly with farmers and the subdivisions listed above. Section IV is devoted to the summary and recommendations of the study. The writers have attempted to set forth some suggestions for financing an agricultural business organization with capital possessing a high degree of permanency.

SECTION I

FACTORS AFFECTING THE CAPITAL STRUCTURE OF SELECTED OHIO COOPERATIVES

Included in this section are some of the factors which the management and directors of these selected cooperatives considered important in the development of the capital structure of their cooperatives.

A. Patronage Refunds Received from State or Regional Associations as a Percentage of Net Income

Agricultural businesses that purchased supplies or marketed their commodities through other associations many times received patronage refunds in book allocations or stock rather than in cash. These patronage refunds received in cash or some other form from other associations were considered a part of the net savings of the local association the year in which they were received.

Shown in Table 2 and 2A are the net savings of 24 local elevator and farm supply associations of sample one and 27 similar associations of sample two for the fiscal year of 1956-57. The associations in sample one received on an average 40.8 percent and sample two 42.7 percent of their net income in the form of patronage refunds from state or regional associations.

Some of the state and regional organizations paid a maximum of 30 percent of patronage refunds in cash and the remainder in some non-cash form. Generally, these state or regional organizations were themselves on a revoving capital plan and retained the cash in their own association for a specified number of years before it was revolved in the form of cash to the local association.

Under conditions where a large percentage of the net savings were received in the form of non-cash patronage refunds (from state or regional associations) the management and directors of local associations were constantly faced with the problem of distribution of this portion of the net savings to the optimum benefit of the association.

Another problem faced by association management was the failure of patrons to realize that net saving included both income from opera-

Table 2

Patronage Refund Received: Patronage Refunds Received from State or Regional Associations as a Percentage of Net Income, 24 Selected Local Elevator and Farm Supply Associations, Ohio, 1956-57

Sample 1

(associations arranged in descending magnitude of net income)

Association Number	Net Income [a]	Patronage Refund Received [b]	Patronage Refund Received As Percentage of Net Income
1.	$129,788.56	$ 37,437.93	28.8%
2.	75,097.18	17,185.72	22.9%
3.	72,637.27	27,509.70	37.9%
4.	63,849.07	5,492.65	8.6%
5.	52,526.50	1,151.00	2.2%
6.	41,477.68	15,164.68	36.6%
7.	37,904.24	24,878.40	65.6%
8.	30,342.17	14,644.88	48.3%
9.	27,962.87	16,146.74	57.7%
10.	26,795.30	9,634.59	36.0%
11.	25,012.33	14,669.26	58.6%
12.	23,810.74	3,191.70	13.4%
13.	23,790.84	2,517.14	10.6%
14.	23,105.24	25,620.43	110.9%
15.	19,361.37	6,115.33	31.6%
16.	19,344.08	16,988.09	87.8%
17.	12,337.25	10,401.89	84.3%
18.	11,751.21	3,561.14	30.3%
19.	11,610.05	19,125.81	164.7%
20.	11,060.28	2,672.92	24.2%
21.	7,471.63	4,687.87	62.7%
22.	(576.54)[c]	4,675.85	XXX
23.	(3,025.01)[c]	6,420.37	XXX
24.	(13,216.88)[c]	8,280.79	XXX
TOTAL	$730,217.43	$298,174.88	40.8%
AVERAGE	$ 30,425.73	$ 12,423.95	XXX

[a] Net income (operating income plus all other income).
[b] Patronage refunds were a part of other income. Received from state and regional organizations and included as a part of net savings.
[c] Indicates a loss.

Source: Original data.

tions and patronage refunds from other cooperatives. As noted in Table 2, some associations suffered a net loss from operations yet showed a profit by the addition of patronage refunds.

If the state or regional association was on a revolving capital plan the problem for the local associations was not too serious providing that the amount revolved each year approximated the amount allocated. If however, the state or regional association found it impossible to revolve capital as scheduled, the local association often found it necessary to reduce the cash balance of its own current assets in order to continue to

Table 2A

Patronage Refunds Received: Patronage Refunds Received From State or Regional Associations as a Percentage of Net Worth, 27 Local Elevator and Farm Supply Associations, Ohio, 1956-1957

Sample 2

(associations arranged in descending magnitude of net income)

Association Number	Net Income[a]	Patronage Refund Received[b]	Patronage Refund Received as Percentage of Net Income
1.	$ 34,098.00	$ 7,501.00	22.0%
2.	29,938.00	2,101.00	7.0%
3.	28,357.00	-0-	-0-
4.	26,777.59	10,248.87	38.2%
5.	26,631.00	316.00	1.2%
6.	26,439.47	5,545.86	21.0%
7.	19,036.00	-0-	-0-
8.	17,695.47	15,136.80	85.8%
9.	17,424.34	9,056.14	52.0%
10.	17,346.82	-0-	-0-
11.	13,026.00	15.00	0.1%
12.	12,804.00	-0-	-0-
13.	10,074.83	1,918.00	19.0%
14.	9,303.28	1,939.58	20.8%
15.	9,224.73	3,306.29	35.8%
16.	6,740.41	15,160.88	227.2%
17.	3,927.97	19,313.12	488.5%
18.	3,369.00	-0-	-0-
19.	2,899.00	142.00	4.9%
20.	2,488.00	1,249.33	50.2%
21.	1,311.00	-0-	-0-
22.	128.75	1,733.75	1,346.6%
23.	53.51	15,627.31	2,948.5%
24.	(2,420.29) [c]	1,859.67	XXX
25.	(3,514.27) [c]	1,859.67	XXX
26.	(12,952.57) [c]	5,302.04	XXX
27.	(27,344.80 [c]	3,864.74	XXX
Total	$272,862.24	$124,016.16	45.5%
Average	$ 10,106.01	$ 4,315.37	XXX

[a] Net income includes operating income plus all other income. Patronage refunds of other income were a part.
[b] Received from state or regional organizations and included as a part of net savings.
[c] Indicates a loss.

Source: Original data.

meet dividend payments on stock and give a cash patronage refund. If the deferred patronage refunds were tied up permanently in the state or regional association, the financial position of the local association could be jeoparized. The same thing could happen if the regional or state association went bankrupt, because the local association would be faced with claims or equities to retire for which no cash would ever be received.

B. Par Value of Common and Preferred Stock Issued by Selected Stock Associations Transacting Business Directly With Farmers

1. Common Stock:

Table 3 gives the data of the 32 stock associations transacting business directly with farmers. The most frequently used par value for common stock (as the only stock) was $25.00 and $100.00. Generally speaking, those associations which issued one classification of common stock issued stock with a higher par value than where more than one classification of common stock was issued.

Table 3

Par Value of Stock: Frequency in the Use of Various Par Values of Common and Preferred Stock, by Classification, 32 Selected Stock Associations, Ohio, Fiscal Year 1956-57

Stock Classification	Number of Cooperatives							
	Par Value							
	$1.00	$5.00	$10.00	$25.00	$50.00	$100.00	No-Par	Total
	No.	No.	No.	No.	No.	No.	No.	No.
Common	1	4	1	6	2	6	1	21
Common A	-	3	8	-	-	-	-	11
Common B	-	3	8	-	-	-	-	11
Preferred	-	1	4	5	1	6	-	17
Preferred A	-	-	-	-	8	-	-	8
Preferred B	-	-	-	-	1	-	-	1

a/ Of the 41 associations, 4 were state associations and 5 were non-stock associations.

Source: Original data, Sample 1.

The par value most frequently used by associations with classifications of common stock was $10.00 with a par value of $5.00 being second. Most of the associations using stock with low par value issued more than one classification of common stock with Common A voting stock usually being limited to one or two shares per member. Common B stock was usually unlimited to the number of shares held by any one patron. The number of shares within the amount authorized issued was controlled by the board of directors.

2. Preferred Stock:

While the majority of the common stock was acquired through the process of accumulated patronage refunds, the preferred stock issued by these associations was basically sold to the investing membership or general public. The most frequently used preferred stock par value was $50.00 with $100.00 ranking second.

Local conditions determined the par value at which stock could be sold for investment purposes. Of greater importance than par value was the dividend rate paid on the specific classification of stock. Some associations issued more than one class of preferred stock, one designated as first preferred or preferred and the second as second preferred. In some instances the two classes possessed relatively fixed but different dividend rates and in other instances the interest rate was determined annually by the board of directors.

Associations tended to place little significance upon the preferred aspect and simply used this form of stock to attract patron investors and other investors other than those transacting business with the association. When directors were asked about the preference aspect of the preferred stock many replied that they "supposed" that the preferred stock holder would have some preference in case of dissolution of the organization. Perhaps here was one of the basic problems of external capital acquisition by associations. After some associations obtained the necessary capital desired from investors their feeling of responsibility for maintenance of a reasonable return lagged over the years and thus investors rejected the preferred stock of given agricultural businesses as poor investments. The local association was limited in area from which it could give service and acquire capital. Therefore, local conditions and attitudes played an important part in the development of a sound financial program for these businesses.

C. Dividend Rate Paid on Stock by 32 Selected Stock Associations During the Fiscal Year of 1956-67

1. Common Stock Dividends:

Of the 43 classes of common stock issued by the 32 selected stock cooperatives 24 were receiving no dividend payments (Table 4). The most frequently paid dividend rate was four percent and five percent second.

When more than one or two shares of stock had been ussued to individual patrons the tendency was not to pay dividends upon this capital. In other words, stock which had been acquired through the

Table 4

Dividend Rate on Stock: Frequency in the Dividend Rate Paid on Common and Preferred Stock, By Classification, 32 Selected Stock Associations, Ohio, Fiscal Year 1956-57

Stock Classification	Frequency in Percent Dividend Rate Paid				
	3 Percent	4 Percent	5 Percent	No Dividends	Total
Common	0	12	2	7	21
Common A	1	2	0	8	11
Common B	0	1	1	9	11
Preferred	3	6	6	3	17
Preferred A	0	7	1	0	8
Preferred B	0	1	0	0	1

Source: Original data, Sample 1.

process of accumulated patronage refunds over and above the amount required for membership was considered more or less as another form of allocated capital and therefore not deserving of a dividend rate. In no case studied was a dividend rate of eight percent paid upon either common or preferred stock since eight percent was the limit designated in Section 1729.03 of the Revised Code of Ohio. In some cases, the by-laws of a specific association limited the dividend rate to four percent.

2. Preferred Stock Dividends:

The dividend rate most frequently paid upon preferred stock was four percent with five percent the second. There were a lesser number of associations paying no dividends on preferred stock than in the case of common stock.

Most associations had not placed a limit in the by-laws on the maximum amount of interest that could be paid on preferred stock except the limit set by state law. When preferred stock was for sale but not selling well or at all, the management and directors interviewed indicated that they believed the dividend rate was too low or the association had not been consistent in the payments of dividends to attract buyers to their preferred stock.

The six issues of preferred stock carrying an interest rate of five percent tended to be selling better at the time of the interview than other dividend rates. It was evident that the stated dividend rate alone was not the determining factor in the purchase of preferred stock. Local faith in the ability of the association as a business unit apparently was one of the prime factors. Only one association had issued preferred stock with a cumulative provision. The majority of the remaining

associations issued preferred stock on a fixed rate of dividend but payment was based upon the ability of the association to pay as determined by the board.

D. Anticipated Sources of Funds for the Purchase or Improvement of Facilities, Equipment or Trucks

Twenty-six associations indicated that they planned to make alterations in their present facilities or equipment or planned additional facilities. The summary of the sources of funds for these expected expenditures is presented in Table 5.

The Bank for Cooperatives was the most frequently mentioned source of funds with retention of net savings in the form of allocated capital being second in importance. Credit from the parent association was mentioned as being the third most frequently expected source of funds but this source was limited to one specific group of cooperatives which had available a credit corporation as a part of the parent association.

Expected capital expenditures by these 26 associations were primarily for the purpose of permanent capital improvements. Thus if the sources of funds for these were to be obtained from a source which was

Table 5

Anticipated Sources of Capital. Anticipated Sources of Funds for Purchase or Improvement of Facilities, Equipment, or Trucks, Divided Between Stock and Non-Stock Cooperatives, 26 Selected Cooperatives, Ohio, 1956

Improvements	Bank for Cooperatives	Allocations	Credit from Parent[c]	Debentures[d]	Preferred Stock	National Organization	Reserves[e]	Increased Membership	Sale of Property
Stock Cooperatives[a]									
Permanent Improvements	9	8	2	1	2	-	1	-	-
Trucks & Truck Equipment	-	-	2	1	-	-	-	-	-
General Equipment[f]	1	2	1	-	-	-	-	1	-
Non-Stock Cooperatives[b]									
Permanent Improvements	3	-	-	-	-	1	1	-	1
Trucks & Truck Equipment	-	-	-	-	-	-	-	-	-
General Equipment	-	-	-	-	-	-	-	-	-
TOTAL	13	10	5	2	2	1	2	1	1

[a] Includes 22 stock businesses.
[b] Includes 4 non-stock businesses.
[c] Parent association has credit corporation
[d] Includes certificates with maturity dates.
[e] Reserves for depreciation.
[f] Examples: Sheller, Dryers, Grinders and other machinery.

Source: Original data, Sample 1.

relatively unstable the problem of repaying the short-term loan or redemption of short-term capital out of earnings may become a distant burden upon the association.

E. Managers' and Directors' Opinions of the Salability of Various Forms of Capital Offered by Ohio Cooperatives

Fourteen of the 37 associations transacting business directly with farmers had offered cooperative securities to the investing public during the years of 1954, 1955 and 1956 as shown in Table 6. The types of securities offered were debenture bonds and certificates with maturity dates, preferred stock and common non-voting stock.

Table 6

Salability of Securities: Salability of Various Forms of Investment Securities, 14 Agricultural Businesses Offering Securities for Sale to the General Public or Membership, Ohio 1956

Securities	Salability			
	Sell Rapidly	Sell Some	Sell Slowly	Total
Debentures and Certificates[a]	3	4	1	8
Preferred Stock	1	1	3	5
Common Stock[b]	-	2	-	2
TOTAL	4	7	4	15

[a] Included certificates with maturity dates.
[b] Non-voting common stock.

Source: Original data, Sample 1.

There were more associations offering issues of debenture bonds and certificates with maturity dates than any other form of security for external sources of capital. Preferred stock was second. Under the economic conditions at the time when these securities were sold, those possessing a fixed rate of interest and a definite maturity date tended to be more readily acceptable than preferred stock or non-voting common stock, according to the estimates of salability made by managers and directors.

Management indicated that the exact provisions of the security in question were not of prime importance but rather the faith the investor had in the association. As an example of the loss of faith, one association had issued two classifications of common stock, two classifications of preferred stock and then issued a series of debenture bonds. The

Table 7

Willingness to Invest: Opinions Expressed by 24 Managers and 76 Directors of 24 Selected Elevator and Farm Supply Business Organizations As to Whether Farmers Would Invest in Their Local Association Ohio, 1956

	Opinions	Number of Directors and Managers
1.	Yes	3
	Sub-Total	3
2.	Yes, if	
	a. (1) Farmers Need a given facility and (2) Get the facility Requested	22
	b. Dividends Rate are High Enough	8
	c. Debenture Bonds are Offered	7
	Sub-Total	37
3.	Could Sell Some	
	a. But Not Enough for Necessary Building Program	14
	b. Very Little Because of Local Conditions	9
	c. Older Farmers Would Buy, But Younger Farmers Do not Have the Money	3
	d. Think That Some Could Be Sold	5
	Sub-Total	31
4.	Doubtful if any Could Be Sold	
	a. Reluctant to Invest	8
	b. Ample Facilities in Area	1
	c. Already Have Stock	3
	d. Lack of Available Money	11
	Sub-Total	23
5.	No	
	a. Do Not Pay Dividends	1
	b. All Previous Stock Acquired Through Allocations	1
	c. People Show No Interest	4
	Sub-Total	6
	Total	100

Source: Original data, Sample 1.

firm had lost money for several years and in the years when a profit was realized it was low. Debenture bonds were selling extremely slow as had the securities offered during previous years.

F. Managers' and Directors' Opinions as to Whether Farmers Would Invest in Securities of Their Association

The managers and directors of the 24 local elevator and farm supply associations were asked their opinions as to whether farmers in their trade areas would purchase additional securities in their local cooperative.

Of these 100 persons interviewed (Table 7) only 37 persons stated that capital could be acquired through the sale of securities without too much trouble. The "if's" attached to these answers may be of greater importance than the actual number answering. These answers were: (1) if farmers need a certain facility, (2) if they receive the facility needed, which has not always happened, (3) if dividend rates are high enough to compete with other investments and (4) if debenture bonds were issued.

From the expressed opinions, the lack of interest in purchasing cooperative securities could be summarized as follows: (1) lack of investment capital in some communities, (2) lack of faith in the firm as a business entity, (3) a lower return on investment in a cooperative than a like investment in the farm firm, (4) ample facilities in a given area serving farmers, and (5) a large amount of stock and other securities held by member and patrons in relation to total assets which have been acquired through retained patronage.

SECTION II

AMOUNTS AND FORMS OF CAPITAL USED BY SELECTED COMMON STOCK, COMMON AND PREFERRED STOCK AND NON-STOCK ASSOCIATIONS

A. Introduction

Normally a given cooperative was identified with a commodity group or other business affiliations. Identification of an association with a given commodity group may aid in determining the source of income for an association but it does not identify the method by which the association is financed. For example within a given commodity group, associations can be found which are financed primarily through the issuance of common stock. Other associations within the same commodity group may be financed with a more complicated financial

structure including common stock, preferred stock, and other allocated capital, and still others may be organized as a non-stock association. It is obvious that the problems of financial management of the three above mentioned associations would not be alike.

The ideals and concept of financing held by leaders of non-stock organizations were considerably different than those held for stock organizations. To illustrate, normally the capital associated with a stock association was not revolved as readily nor as often as was the capital of an active non-stock association. Thus, the capital in the stock association remained with the firm as a legal entity for a longer period of time. More problems arose through the issuance of investment securities which were sold to the investing public than where common stock was issued primarily to the patrons of the association.

For the above reasons the writers of this bulletin have divided the 41 associations studied into the following basic groups or classifications: (1) cooperatives having common stock as their only stock (2) cooperatives having a combination of common and preferred stock, and (3) cooperatives organized as non-stock associations. Each of the three above basic classifications of associations will have other forms of capital in addition to stock.

Permanency of capital was a relative concept since each association in their by-laws provided for different redemption and transfer policies for the same form of capital. Common stock, preferred stock and surplus were considered permanent capital for the purposes of this study since these forms of capital could be made relatively permanent by provisions in the by-laws. Book allocations, allocated reserves, certificates without maturity dates and membership capital were considered semi-permanent forms of capital in this study. Semi-permanent forms of capital could be made relatively permanent by appropriate by-laws but generally a sizable percentage of allocated capital was found in this form and thus subject to a revolving capital program.

Non-permanent forms of capital were debenture bonds and certificates possessing a fixed rate of interest and definite maturity date. While the non-permanent forms of capital were normally considered long-term liabilities by some associations it must be remembered that these forms of capital, possessing a maturity date, were issued to the investing public and competed directly with other securities issued by associations to obtain external capital.

The 41 associations were divided according to their capital structure in the following manner: (1) thirteen common stock associations, (2) nineteen common and preferred stock associations, (3) five non-stock associations, and (4) four state wholesale associations. The four

wholesale associations were financed through a combination of common and preferred stock but the problems facing these associations were somewhat different because of their volume of business and the fact that they were not transacting business directly with farmers.

B. Amounts and Forms of Capital Used by Four Common and Preferred Stock State Elevator and Farm Supply Associations

The data for the four state-wide elevator and farm supply associations is summarized in Table 8. Like the local associations the state associations did not utilize more than one class of common stock until the 1950 audit data appeared. However, these state associations did begin utilizing more than one classification of preferred stock as early as the 1945 audit data.

Table 8

State Elevator and Farm Supplies: Amount and Forms of Capital Used by Four Common and Preferred Stock State Elevator and Farm Supply Associations, Ohio, Five Selected Fiscal Years

Forms of Capital	1940-41	1945-46	1950-51	1955-56	1956-57
Permanent Capital					
Common Stock	$ 94,165.00	$ 93,408.82	$ 236,410.91	$ 961,829.76	$ 1,068,239.23
Common A Stock	-0-	-0-	18,600.00	18,575.00	18,598.27
Common B Stock	-0-	-0-	3,185,150.00	3,064,650.00	3,004,026.73
Sub-total	94,165.00	93,408.82	3,440,160.91	4,045,054.76	4,090,864.23
Preferred Stock	467,543.75	199,700.00	475,100.00	369,100.00	55,000.00
Preferred A Stock	-0-	1,495,035.13	4,429,035.13	6,088,950.00	6,884,300.00
Preferred B Stock	-0-	1,654,600.00	540,900.00	85,000.00	-0-
Sub-total	476,543.75	3,349,900.00	5,445,035.73	6,543,050.00	6,939,300.00
Surplus	615,085.70	322,387.04	77,751.01	651,565.53	947,901.28
Semi-permanent Capital					
Memberships	17,613.70	-0-	-0-	-0-	-0-
Allocations	18,568.58	461,957.56	3,436,147.60	4,222,888.78	4,548,172.14
Reserves	-0-	1,025,647.83	24,117.25	77,255.40	708,718.73
Certificates[a]	-0-	-0-	-0-	2,741,679.86	2,596,196.00
Sub-total	36,182.28	1,487,605.59	3,460,264.85	7,041,824.04	7,953,086.87
Non-permanent Capital					
Debenture Bonds	-0-	-0-	1,049,700.00	8,323,539.74	4,689,604.71
Sub-total	-0-	-0-	1,049,700.00	8,323,539.74	4,689,604.71
Net Worth	1,212,976.73	5,253,301.25	13,472,912.50	26,605,034.07	24,520,657.09
Long Term Liabilities	307,107.16	1,155,000.00	2,286,077.08	5,570,284.57	7,450,627.92
Long Term Liabilities plus Net Worth	$1,520,083.89	$6,408,301.25	$15,758,989.58	$32,175,318.64	$31,971,285.01

[a] Without maturity dates.

Source: Original data, Sample 1.

During the period included in this study (Table 9) the following changes were noted in the components of the capital structure of these four associations: (1) the amount of common stock has increased; particularly due to the increased use of non-voting classifications of common stock, (2) preferred stock has tended to decrease in use, down to 28 percent of net worth in 1956-57, (3) surplus funds have decreased considerably from a maximum amount in 1940 of 50.8 percent to 3.9 percentage in 1956-57, (4) the use of allocated capital has tended to decrease, particularly during the latter portion of the period studied.

Table 9

Common and Preferred Stock State Elevator Associations: Percentage Distribution of Amount of Capital, by Forms of Capital, Four Common and Preferred Stock Elevator and Farm Supply Associations, Ohio Five Selected Fiscal Years

Forms of Capital	1940-41	1945-46	1950-51	1955-56	1956-57
Permanent Capital	Per Cent	Per cent	Per cent	Per cent	Per cent
Common Stock	7.7	1.8	1.8	3.6	4.4
Common A Stock	-0-	-0-	0.1	0.1	0.1
Common B Stock	-0-	-0-	23.6	11.5	12.2
Sub-total	7.7	1.8	25.5	15.2	16.7
Preferred Stock	38.6	3.8	3.5	1.4	0.2
Preferred A Stock	-0-	28.5	32.9	22.8	28.1
Preferred B Stock	-0-	31.5	4.0	0.3	-0-
Sub-total	38.6	63.8	40.4	24.5	28.3
Surplus	50.8	6.1	0.6	2.5	3.6
Sub-total	50.8	6.1	0.6	2.5	3.6
Semi-permanent Capital					
Memberships	1.4	-0-	-0-	-0-	-0-
Allocations	1.5	8.8	25.5	15.9	18.6
Reserves	-0-	19.5	0.2	0.3	2.9
Certificates[a]	-0-	-0-	-0-	10.3	10.6
Sub-total	2.9	28.3	25.7	26.5	32.1
Non-permanent Capital					
Debenture Bonds	-0-	-0-	7.8	31.3	19.0
Sub-total	-0-	-0-	7.8	31.3	19.0
Net Worth	XXX100.0	XXX100.0	XXX 100.0	XXX 100.0	XXX 100.0

[a] Without maturity dates.

Source: Table 8

(5) certificates of ownership have increased in use, by 1956-57 were 10.6 percent of net worth, and (6) while other forms of capital decreased the big increase has been in the use of debenture bonds. The greatest percentage of use of debenture bonds was in the 1955-56 fiscal year with 31.3 percent of net worth being in this form of capital.

The influence of the state associations upon the financial structure of local member associations was very pronounced. The management and directors of local associations often looked to the state association for legal aid and advice in the development of a financial program. Where local associations began utilizing new forms of capital invariably the suggestion for its use came from the state association or the auditor of the association. Thus, the local associations tended to copy the financial planning of the state associations without giving the financial consequences ample thought.

C. Amounts and Forms of Capital Used by 37 Selected Associations Transacting Business Directly With Farmers

The sum of the various forms of capital used by both stock and non-stock associations transacting business with farmers is presented in Tables 10 and 11. For these cooperatives the use of permanent forms of capital constituted approximately 60 to 70 percent of net worth during the 16 year period. The use of common stock has decreased in use while preferred stock has increased. Surplus funds have tended to fluctuate throughout the period with a little over 11 percent of net worth being in the form of surplus by the 1956-57 fiscal year.

Table 10

Thirty-Seven Cooperatives Amount of Capital Used by 37 Cooperatives Transacting Business Directly With Farmers, Divided by Forms and Permanency of Capital, Ohio, Five Selected Fiscal Years

Forms of Capital	1940-41[a]	1945-46	1950-51	1955-56	1956-57
Permanent Capital					
Common Stock	$1,453,553.10	$1,994,313.44	$ 3,452,577.76	$ 4,492,684.46	$ 4,713,692.08
Preferred Stock	230,348.75	319,928.75	2,009,272.22	3,144,438.29	3,428,631.68
Surplus	405,241.13	690,174.46	1,655,235.75	2,851,334.64	1,853,083.59
Sub-total	2,089,142.98	3,004,416.65	7,117,085.73	10,488,437.39	9,995,407.35
Semi-permanent Capital					
Memberships	6,103.70	39,985.20	116,567.75	169,708.59	172,515.07
Allocations	408,841.09	790,883.23	1,400,363.74	1,535,589.08	2,763,845.94
Reserves	211,476.02	908,878.17	521,534.56	359,972.94	203,166.68
Certificates[b]	630,737.48	1,861,841.69	2,268,936.64	3,320,893.78	4,326,469.85
Non-permanent Capital					
Certificates[c]	43,988.76	146,445.00	802,981.01	861,720.35	996,498.45
Debenture Bonds	-0-	-0-	59,500.00	434,450.00	646,807.50
Sub-total	43,988.76	146,445.00	862,481.01	1,296,170.35	1,643,305.95
Net Worth	$2,763,869.22	$5,012,703.34	$10,248,503.38	$15,105,452.52	$15,965,183.15

[a] 35 Cooperatives were involved in 1940 audit data.
[b] Certificates without maturity dates.
[c] Certificates with maturity dates.

Source: Original data, Sample 1.

Table 11

Thirty-Seven Associations Percentage Distribution of Forms of Capital Used by 37 Cooperatives, Ohio, Five Selected Fiscal Years

Forms of Capital	1940-41	1945-46	1950-51	1955-56	1956-57
Permanent Capital	Per cent	Per cent	Per cent	Per cent	Per cent
Common Stock	52.6	39.8	33.7	29.7	29.5
Preferred Stock	8.3	6 4	19.6	20.9	21.5
Surplus	14.7	13.8	16.2	18.8	11.6
Sub-total	75.6	60.0	69.5	69.4	62.6
Semi-permanent Capital					
Memberships	0.2	0.8	1.1	1.1	1.1
Allocations	14.8	15.8	13.7	10.2	17.3
Reserves	7.6	18.1	5.1	2.4	1.3
Certificates[a]	0.2	2.4	2.2	8.3	7.4
Sub-total	22.8	37.1	22.1	22.0	27.1
Non-permanent Capital					
Certificates[b]	1.6	2.9	7.8	5.7	6.2
Debenture Bonds	-0-	-0-	0.6	2.9	4.1
Sub-total	1.6	2.9	7.8	8.6	10.3
Net Worth	XXX 100.0	XXX 100.0	XXX 100.0	XXX 100.0	XXX 100.0

[a] Without maturity dates.
[b] With maturity dates.

Source: Table 10

Approximately 25 percent of net worth of these associations was in the form of semi-permanent capital during the latter portion of the period studied. The use of non-permanent forms of capital has increased throughout the period studied to 10 percent of net worth by the 1956-57 fiscal year.

D. Amounts and Forms of Capital Used by 13 Common Stock Associations

The data for the 13 common stock associations is found in Table 12. The associations represented in this group are eight local elevator and farm supply associations, four credit associations and one livestock

Table 12

Common Stock Cooperatives Amount of Capital Used by 13 Common Stock Cooperatives, Divided by Forms and Permanency of Capital, Ohio, Five Selected Fiscal Years

Forms of Capital	1940-41	1945-46	1950-51	1955-56	1956-57
Permanent Capital					
Common Stock	$ 834,535.48	$1,035,475 79	$1,472,412.77	$2,009,439.57	$2,187,006.75
Surplus	148,067.30	307,464.37	786,232.19	1,425,727.66	1,415,516.36
Sub-total	982,602.78	1,342,940.16	2,258,644.96	3,435,167.23	3,602,523.11
Semi-permanent Capital					
Allocations	6,735.50	6,735.50	250,950.99	423,257.19	358,667.21
Reserves	87,521.81	87,301.53	5,362.10	-0-	61,551.30
Certificates[a]	-0-	23,200.00	-0-	37,800.00	37,800.00
Sub-total	94,257.31	117,237.03	256,313.09	461,057.19	458,078.51
Non-permanent Capital					
Debenture Bonds	-0-	-0-	11,800.00	51,700.00	43,100.00
Sub-total	-0-	-0-	11,800.00	51,700.00	43,100.00
Net Worth	$1,076,860.09	$1,460,177.19	$2,526,758.05	$3,947,924.42	$4,103,641.62
Long Term Liabilities	-0-	-0-	5,000.00	96,830.00	101,577.08
Long Term Liabilities plus Net Worth	$1,076,860.09	$1,460,177.19	$2,531,758.05	$4,044,754.42	$4,205,218.70

a/ Without maturity dates.
b/ Total amount of capital defined as Net Worth in this study.

Source Original data, Sample 1.

breeding association. Forms of capital used by these associations were: (1) common stock, (2) surplus, (3) book allocations, (4) allocated reserves, (5) certificates without maturity dates (generally called certificates of ownership), and (6) debenture bonds having a fixed rate of interest and a definite maturity date.

Common stock associations surveyed (Production Credit Associations being a special case) have used only one class of common stock through the period studied. This stock possessed the voting privilege but the number of shares issued to each eligible patron generally was not limited to one or two shares. This stock was mostly obtained through the process of accumulation of patronage refunds issued (1) to admit new members and (2) to increase the amount of capital outstanding.

Surplus funds were developed through the following process, (1) retention of the net savings due non-member non-eligible patrons, (2) by taking a certain percentage (some by-laws specified not more than 25 percent of net savings) of the annual net savings and placing this amount in the surplus fund of the association, and (3) a combination of 1 and 2 above. Surplus funds were those funds upon which Federal Income Tax had been paid and were the property of the association as a legal entity. Surplus funds were entered in the audits of some associations as: surplus, contingent reserves, reserves and the like with little relationship between the name of the fund and its actual use.

The terms "allocations" and "Reserves" as used in Table 12 and subsequent tables were defined under the definition of terms. The tendency in recent years has been to use the term "allocations" instead of "reserves" when referring to the same type of capital.

Referring to Table 13, the percentage of net worth in the form of permanent forms of capital has remained approximately the same during the 16-year period studied. However, the composition of permanent capital has changed with an increase in surpluses and a like decrease in common stock utilized. From 87 to 92 percent of net worth of these associations were in permanent forms of capital during the period.

Table 13

Common Stock Cooperatives: Percentage Distribution of Capital, by Forms of Capital, 13 Common Stock Cooperatives, Ohio, Five Selected Fiscal Years

Forms of Capital	1940-41	1945-46	1950-51	1955-56	1956-57
Permanent Capital	Per cent	Per cent	Per cent	Per cent	Per cent
Common Stock	77.5	70.9	58.3	50.9	53.3
Surplus	13.7	21.1	31.1	36.1	34.5
Sub-total	91.2	92.0	89.4	87.0	87.8
Semi-permanent Capital					
Allocations	0.7	0.5	9.9	10.7	8.7
Reserves[a]	0.4	1.6	-0-	1.0	1.0
Sub-total	8.8	8.0	10.1	11.7	11.2
Non-permanent Capital					
Debenture Bonds	-0-	-0-	0.5	1.3	1.0
Sub-total	-0-	-0-	0.5	1.3	1.0
Net Worth	XXX 100.0	XXX 100.0	XXX 100.0	XXX 100.0	XXX 100.0

[a] Without maturity dates

Source: Table 12

Book allocations and reserves constituted only 6 to 11 percent of the net worth with the remaining percentages consisting of certificates without maturity dates and debenture bonds. During the fiscal periods studied these associations only used long-term liabilities up to less than three percent of net worth.

E. Amounts and Forms of Capital Used by 19 Common and Preferred Stock Associations Transacting Business Directly with Farmers

A comparison of Table 12 and 14 illustrates the point that the capital structure of common stock associations tends to be much simplier than most common and preferred stock associations. These 19 common and preferred stock associations (Table 15) consisted of 16 local elevator and farm supply; two dairy marketing and one poultry marketing.

From 1940 audits until the 1950 audits none of the 19 associations used more than one class of either common or preferred stock. Beginning with the 1950 audits, classifications of both common and preferred stock were noted. Where associations used more than one class of common stock the policy generally was to limit the number of shares of voting stock to one or two shares per member. The remaining stock was issued to the patron in common B stock.

Table 14

Common and Preferred Stock Associations. Amount of Capital Used by 19 Common and Preferred Stock Cooperatives Transacting Business Directly with Farmers, Divided by Forms and Permanency of Capital, Ohio, Five Selected Fiscal Years

Forms of Capital	1940-41	1945-46	1950-51	1955-56	1956-57
Permanent Capital					
Common Stock	$ 590,683.25	$ 958,837.65	$1,109,812.90	$1,631,344.09	$1,742,320.33
Common A Stock	-0-	-0-	175,326.65	144,625.00	142,715.00
Common B Stock	-0-	-0-	695,025.44	707,255.80	641,650.00
Sub-total	590,683.25	958,837.65	1,980,164.99	2,483,224.89	2,526,685.33
Preferred Stock	230,348.75	319,928.75	1,423,757.22	2,114,283.29	2,584,891.68
Preferred A Stock	-0-	-0-	527,105.00	978,785.00	796,120.00
Preferred B Stock	-0-	-0-	58,410.00	51,370.00	47,620.00
Sub-total	230,348.75	319,928.75	2,009,437.21	3,144,438.29	3,428,631.68
Surplus	257,173.83	382,710.09	869,003.56	489,838.14	310,141.24
Total Perm. Capital	1,078,205.83	1,661,476.49	4,858,440.77	6,117,501.32	6,265,458.25
Semi-permanent Capital					
Memberships	2,417.70	6,387.20	5,074.70	4,994.70	4,969.70
Allocations	38,005.05	81,732.42	137,451.81	693,240.62	752,140.62
Reserves	59,963.06	596,434.67	295,249.80	146,080.31	81,200.40
Certificates[a]	-0-	-0-	16,965.16	252,302.03	359,511.73
Total Semi-Perm. Capital	100,395.81	684,554.29	454,741.47	1,096,617.66	1,197,822.45
Non-Permanent Capital					
Certificates[b]	43,988.76	118,145.00	324,086.01	841,355.35	976,203.45
Debenture Bonds	-0-	-0-	47,700.00	135,300.00	191,900.00
Total Non-Perm. Capital	43,988.76	118,145.00	371,786.01	976,655.35	1,168,103.45
Net Worth[c]	$1,222,590.40	$ 2,404,175.78	$5,684,968.25	$8,190,774.33	$8,631,384.15
Long Term Liabilities	16,688.46	29,483.32	484,591.04	647,226.22	785,577.34
Long Term Liabilities plus Net Worth	$1,239,278.86	$ 2,493,659.10	$6,169,487.29	$8,838,000.55	$9,416,961.49

a/ Without maturity date.
b/ With maturity date.
c/ Net Worth as defined for this study.

Source: Original data, Sample 1.

Preferred stock was generally sold. An exception to this general statement was one association that issued common stock to eligible patrons to the limit of two shares and thereafter issued preferred stock as patronage accumulated. Non-eligible patrons received all patronage accrued to them in the form of preferred stock. Dairy marketing associations were another exception whereby accumulated patronage was applied toward the purchase of preferred stock.

Table 15

Common and Preferred Stock Associations: Percentage Distribution of Capital, by Forms of Capital, 19 Common and Preferred Stock Cooperatives, Ohio, Five Selected Fiscal Years

Forms of Capital	1940-41	1945-46	1950-51	1955-56	1956-57
Permanent Capital	Per cent	Per cent	Per cent	Per cent	Per cent
Common Stock	48.4	38.9	19.5	19.9	20.2
Common A Stock	-0-	-0-	3.1	.18	1.7
Common B Stock	-0-	-0-	12.2	8.6	7.4
Sub-total	48.4	38.9	34.8	30.3	29.3
Preferred Stock	18.8	13.0	25.0	25.8	29.9
Preferred A Stock	-0-	-0-	9.3	12.0	9.2
Preferred B Stock	-0-	-0-	1.0	0.6	0.6
Sub-total	18.8	13.0	35.3	38.4	39.7
Surplus	21.0	15.5	15.3	6.0	3.6
Sub-total	21.0	15.5	15.3	6.0	3.6
Semi-permanent Capital					
Memberships	0.2	0.3	0.1	0.1	0.1
Allocations	3.1	3.3	2.4	8.5	8.7
Reserves	4.9	24.2	5.2	1.8	0.9
Certificates[a]	-0-	-0-	0.3	3.0	4.2
Sub-total	8.2	27.8	8.0	13.4	13.9
Non-permanent Capital					
Certificates[b]	3.6	4.8	5.7	10.3	11.3
Debenture Bonds	-0-	-0-	0.9	1.6	2.2
Sub-total	3.6	4.8	6.6	11.9	13.5
Net Worth	XXX 100.0	XXX 100.0	XXX 100.0	XXX 100.0	XXX 100.0

a/ Without maturity dates.
b/ With maturity dates.

Source: Table 14

Surplus funds were developed in the same manner as in common stock associations. The use of surplus funds as a means of financing has decreased during the latter portion of the period studied, see Table 15. The amount of permanent forms of capital has fluctuated from 88 to 67 percent of net worth with common stock decreasing and preferred stock increasing in use.

The use of allocated capital in the form of allocations and reserves ranged from 8 to 27 percent of net worth with the greatest use made of this form of capital in the 1945-46 fiscal period. Based upon similar figures of other associations plus the attitude expressed by the directors of elevator associations, it was evident that when an association began to face the problem of the acquisition of additional capital the first and easiest source of funds was to retain the annual net savings.

Certificates of ownership (without maturity dates) were used only since the 1950 audit data but had increased in use to almost 5 percent of net worth by the 1956-57 fiscal year. More associations were utilizing certificates of this nature rather than placing this capital in other allocated forms.

During the period studied semi-permanent forms of capital ranged from 8 to 28 percent of net worth with approximately 14 percent being the amount used during the last two fiscal years. On the other hand, non-permanent forms of capital has increased throughout the period studied and constituted 13.5 percent of net worth by the 1956-57 fiscal year. While debenture bonds were sold to the investing public, the certificates with maturity dates (generally referred to as Certificates of Indebtedness) were acquired through the method of deductions by the milk marketing associations included in the common and preferred stock group.

F. Amounts and Forms of Capital Used By Five Selected Non-Stock Associations

The forms of capital used by non-stock cooperatives were: (1) memberships, (2) certificates without maturity dates, (3) book allocations, (4) allocated reserves, and (5) certificates with maturity dates and debenture bonds. The surplus funds shown in Table 16 were not planned, as such, but rather were a result of retained net savings which had been allocated. These surplus funds were not a normal part of the financing of the cooperative in question.

Book allocations and reserves were the most important forms of capital used by the non-stock associations. The patron was usually informed annually by letter or postcard of the amount of patronage

Table 16

Non-Stock Associations. Amount of Capital Used by Five Non-Stock Cooperatives, Divided by Forms and Permanency of Capital, Ohio, Five Selected Fiscal Years

Forms of Capital	1940-41	1945-45	1950-51	1955-56	1956-57
Permanent Capital					
Surplus	$ -0-	$ -0-	$ -0-	$ 935,768.84	$ 127,425.99
Sub-total	-0-	-0-	-0-	935,768.84	127,425.99
Semi-permanent Capital					
Memberships	3,686.00	33,598.00	111,493.05	164,714.89	167,545.37
Allocations	364,100.54	712,420.31	1,011,960.94	419,091.27	1,653,038.11
Reserves	68,297.82	225,141.97	220,922.66	213,892.63	60,414.98
Certificates[a]	-0-	98,890.09	213,505.43	965,521.14	789,630.43
Sub-total	436,084.36	1,060,050.37	1,557,882.08	1,763,219.93	2,670,628.89
Non-permanent Capital					
Certificates[b]	-0-	28,300.00	478895.00	20,310.00	20,295.00
Debenture Bonds	-0-	-0-	-0-	247,450.00	411,807.50
Sub-total	-0-	28,300.00	478,895.00	267,765.00	432,102.50
Net Worth[c]	$ 436,084.36	$1088,350.37	$2,036,777.08	$2,966,753.77	$3,230,157.38
Long Term Liabilities	2,802.96	6,000.00	3,000.00	1,000.00	1,000.00
Long Term Liabilities plus Net Worth	$ 438,887.32	$1,094,350.37	$2,039,777.08	$2,967,753.77	$3,231,157.38

a/ Without maturity dates.
b/ With maturity dates
c/ Net Worth as defined in this study.

Source: Original data, Sample 1.

accrued to his account as a result of a given years business with the association. Non-stock associations, as with the stock associations, began utilizing certificates without maturity dates by the 1945-46 fiscal audits with a steady increase in the use of this form of capital as shown in Table 17. Semi-permanent forms of capital has constituted the bulk of financing by non-stock organizations with the exception of the 1955-56 fiscal data which was an abnormal situation.

Non-permanent forms of capital have increased in use during the latter portion of the period studied. These non-permanent forms of

Table 17

Non-Stock Associations: Percentage Distribution of Capital, by Forms of Capital. Non-Stock Cooperatives, Ohio, Five Selected Fiscal Years

Forms of Capital	1940-41	1945-46	1950-51	1955-56	1956-57
Permanent Capital	Per cent	Per cent	Per cent	Per cent	Per cent
Surplus	-0-	-0-	-0-	31.6	3.9
Sub-total	-0-	-0-	-0-	31.6	3.9
Semi-permanent Capital					
Memberships	0.8	3.1	5.5	5.6	5.2
Allocations	83.5	64.5	49.7	14.1	51.2
Reserves	15.7	20.7	10.8	7.2	1.9
Certificates[a]	-0-	9.1	10.5	32.5	24.4
Sub-total	100.0	97.4	76.5	59.4	82.7
Non-permanent Capital					
Certificates[b]	-0-	2.6	23.5	0.7	0.7
Debenture Bonds	-0-	-0-	-0-	8.3	12.7
Sub-total	-0-	2.6	23.5	9.0	13.4
Net Worth	XXX 100.0	XXX 100.0	XXX 100.0	XXX 100.0	XXX 100.0

a/ Without maturity dates.
b/ With maturity dates.

Source: Table 16

capital were acquired by the three following methods: (1) through accumulation of patronage refunds, (2) deductions from marketings of patrons, and (3) sale to the investing public.

SECTION III

PROJECTED AVERAGE AMOUNTS OF TOTAL ASSETS, NET WORTH AND FIXED ASSETS OF 37 AGRICULTURAL BUSINESS ORGANIZATIONS TRANSACTING BUSINESS DIRECTLY WITH FARMERS

A. Introduction

Management and directors of associations interviewed indicated that they were concerned about the future of their respective organizations. The writers have attempted in Section III to forecast the future capital requirement of total assets, net worth, and fixed assets of the associations studied as classified. Through the process of forecasting future capital needs, farm organizations can better develop financial structures which will be required in the period of 1960 to 1970.

The method used to forecast trends of the associations studied was the plotting of historical data on arithmetic paper and projections from data by the least squares method. This has been done on Charts A through E. The assumption made in these forecasts was that inflation and the general price level will continue to increase at approximately the same rate. In addition, no major war is anticipated. The writers while projecting total assets, net worth, and fixed assets on a straight line basis to the year 1970 do expect the projected lines to level off by 1965 and remain relatively constant to 1970.

Thus, the projected average figures for total assets, net worth, and fixed assets would be somewhat smaller than indicated by the straight line.

The 37 associations transacting business directly with farmers were subdivided into groups of 13 common stock, 19 common and preferred stock, and 5 non-stock associations. The largest similar group of business organizations were the 24 local elevator and farm supply associations. These 24 local elevator and farm supply associations which included both common stock and common and preferred stock associations are presented as a separate group as was the total of the 37 associations studied.

B. Average Amount of Total Assets, Net Worth, and Fixed Assets of 37 Agricultural Business Organizations Transacting Business Directly with Farmers for the Fiscal Years of 1940-41, 1945-46, 1950-51, 1955-56 and Estimated Amounts for 1960, 1965 and 1970

All 37 associations transacting business directly with farmer patrons were included in this portion of the analysis with the average amounts of

Table 18

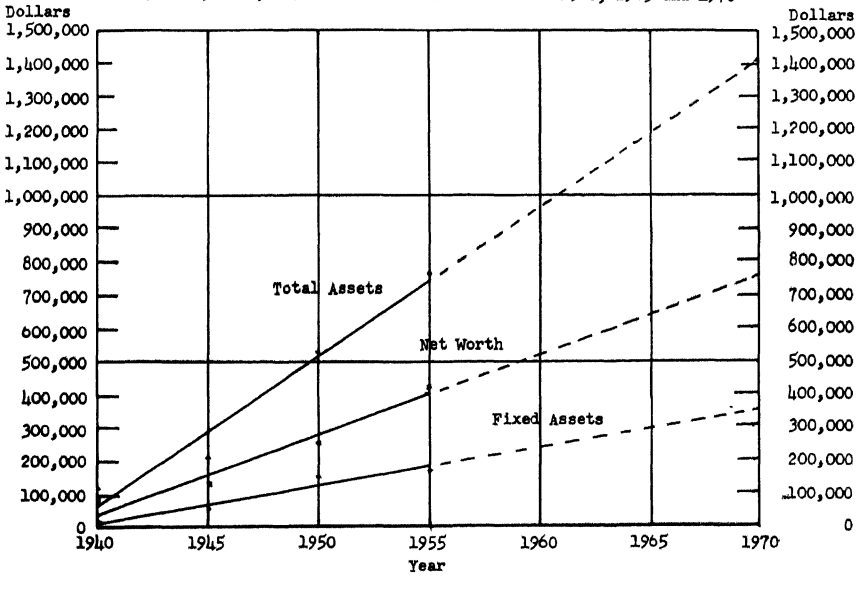
Average Amount of Total Assets, Fixed Assets, and Net Worth, 37 Agricultural Business Organizations Transacting Businesses Directly with Farmers, Ohio, 1940, 1945, 1950, 1955 and Amounts Estimated for 1960, 1965, and 1970

Year	Total Assets		Net Worth		Fixed Assets	
	Average Amount	Projected Amount	Average Amount	Projected Amount	Average Amount	Projected Amount
1940	$125,621	$ xx	$ 75,198	$ xx	$ 19,072	$ xx
1945	202,512	xx	134,197	xx	54,474	xx
1950	526,163	xx	253,422	xx	157,847	xx
1955	762,567	xx	429,394	xx	170,871	xx
1960	xx	962,836	xx	518,506	xx	240,256
1965	xx	1,186,284	xx	636,687	xx	296,132
1970	xx	1,409,732	xx	754,868.60	xx	352,008

Source: Original data, Sample 1.

Chart A

Average Amount of Total Assets, Fixed Assets and Net Worth, 37 Agricultural Business Organizations, Transacting Business Directly with Farmers, Ohio, 1940, 1945, 1950, 1955 and Amounts Estimated for 1960, 1965 and 1970



Source: Table 18.

total assets, net worth, and fixed assets[6] presented in Table 18 and in Chart A. For this group of business organizations as a whole, the total assets are expected to increase over the 1955 fiscal year by the following percentages: 26 percent by 1960, 56 percent by 1965, and 85 percent by 1970. Thus, for each dollar invested in total assets in 1955 these cooperatives are expected to have invested $1.84 by 1970.

Net worth is expected to increase in amount but at a lesser rate than for total assets. For each $100 of net worth for the fiscal year of 1955 the average for these 37 associations was expected to be $1.20 by 1960, $1.48 by 1965, and $1.76 by 1970. Net worth as a percentage of total assets is expected to be approximately 53 percent through the 1970 fiscal year which was slightly less than most of the fiscal years studied.

Projected fixed assets are expected to average approximately 25 percent of total assets. By 1970 fixed assets (as a percent of total assets) are expected to increase 3 percent. Net worth (as a percent of total assets) is expected to decrease 3 percent during the same period. This means that more of the future financing of these 37 associations will come from current liabilities and long-term loans. Another comparison to illustrate the point made above is that for every $1.00 of net worth in the fiscal year 1955 approximately 40 cents were tied up in fixed assets. By 1970 for every $1.00 in net worth, associations studied were expected to have 46½ cents tied up in fixed assets.

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[6]Fixed asset data used for analytical purposes were depreciated fixed assets as they appeared on the annual audit.

Table 19

Average Amount of Total Assets, Fixed Assets, and Net Worth, 13 Agricultural Business Organizations Having Common Stock Only, Ohio, 1940, 1945, 1950, 1955, and Amounts Estimated for 1960 and 1965

Year	Total Assets		Net Worth		Fixed Assets	
	Average Amount	Projected Amount	Average Amount	Projected Amount	Average Amount	Projected Amount
1940	$ 184,975.38	$ xx	$ 86,910.00	$ xx	$ 19,245.35	$ xx
1945	219,589.26	xx	110,844.00	xx	35,355.57	xx
1950	569,048.55	xx	189,128.47	xx	80,702.12	xx
1955	1,030,221.93	xx	310,320.83	xx	128,719.70	xx
1960	xx	1,222,258.48	xx	361,430.03	xx	159,448.08
1965	xx	1,510,778.36	xx	436,281.71	xx	196,825.04
1970	xx	1,799,298.24	xx	511,133.39	xx	234,202.00

Source: Original data, Sample 1.

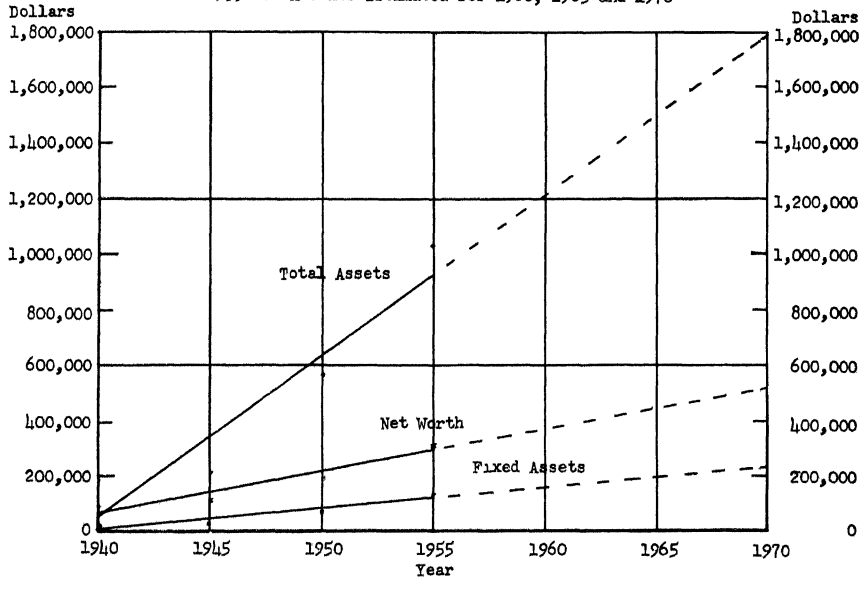
C. Average Amount of Total Assets, Net Worth and Fixed Assets of 13 Common Stock Cooperatives for the Fiscal Years of 1940-41, 1945-46, 1950-51, 1955-56 and Estimated Amounts for 1960, 1965 and 1970

The average amount of total assets, net worth and fixed assets of the 13 common stock associations is presented in Table 19 and in Chart B. The average amount of total assets for these 13 associations was slightly over $1,000,000 with 12 percent of this amount in fixed assets for the fiscal year of 1955. What amount of growth can these associations, on the average, expect by 1965 or 1970? Total assets are expected to increase 19 percent by 1960, 47 percent by 1965 and 75 percent by 1970. Thus, for each $1.00 in total assets in 1955 these associations are expected to have $1.75 by 1970.

What about the growth of net worth? The amount is not expected to increase at the same rate as total assets. Net worth is expected to increase 16 percent by 1960, 41 percent by 1965 and 65 percent by 1970 over the fiscal year of 1955. However, a comparison of net worth to total assets will better illustrate any changing relationships. Net worth was 30 percent of total assets in 1955. By 1970 it is expected to decrease to 28 percent of total assets. An important point to note is

Chart B

Average Amount of Total Assets, Fixed Assets, and Net Worth, 13 Agricultural Business Organizations having Common Stock only, Ohio, 1940, 1945, 1950, 1955 and Amounts Estimated for 1960, 1965 and 1970



Source: 19.

that net worth as a percentage of total assets has decreased from a high of 50.5 percent in 1945. This would indicate that these associations, if they follow the same trend which they have for the 16 years studied, will be utilizing a greater proportion of borrowed capital and current liabilities for operating and expansion purposes in the future.

Fixed assets represent the facilities and equipment that are necessary to transact business. The demand for capital to purchase these buildings and equipment has increased dollarwise during the period studied and is expected to increase even more in the future. For example, fixed assets are expected to increase 24 percent by 1960, 53 percent by 1965 and 82 percent by 1970 over the base period of 1955.

Throughout the period covered, fixed assets have remained basically 10 to 13 percent of total assets. During the fiscal year of 1955 fixed assets were 12.5 percent of total assets and if past trends are any indication, fixed assets are expected (by 1970) to be approximately 13 percent of total assets for the common stock associations. The common stock business organizations as a group had the lowest percentage of total assets in the form of fixed assets of any other group of cooperatives selected in this study.

D. Average Amount of Total Assets, Net Worth and Fixed Assets of 19 Common and Preferred Stock Cooperatives for the Fiscal Years of 1940-41, 1945-46, 1950-51, 1955-56 and Estimated Amounts for 1960, 1965 and 1970

The average amount of total assets, net worth and fixed assets of the 19 common and preferred stock associations is presented in Table 20 and in Chart C. The average amount of total assets for these 19 associations was approximately $650,000.00 in 1955 or a little over one-half the average amount of total assets of the common stock associations.

Table 20

Average Amount of Total Assets, Fixed Assets, and Net Worth, 19 Common and Preferred Stock Agricultural Business Organizations, Ohio, 1940, 1945, 1950, 1955, and Estimated Amounts for 1950, 1965 and 1970

	Total Assets		Net Worth		Fixed Assets	
	Average Amount	Projected Amount	Average Amount	Projected Amount	Average Amount	Projected Amount
1940	$ 83,130.85	$ xx	$ 64,374.27	$ xx	$ 32,698.72	$ xx
1945	168,608.78	xx	129,697.67	xx	58,614.37	xx
1950	441,832.24	xx	297,288.67	xx	196,604.29	xx
1955	661,260.47	xx	453,889.74	xx	270,676.54	xx
1960	xx	844,611.13	xx	570,346.93	xx	352,629.28
1965	xx	1,064,172.35	xx	703,960.67	xx	437,821.60
1970	xx	1,247,733.57	xx	837,574.41	xx	523,013.92

Source: Original data, Sample 1.

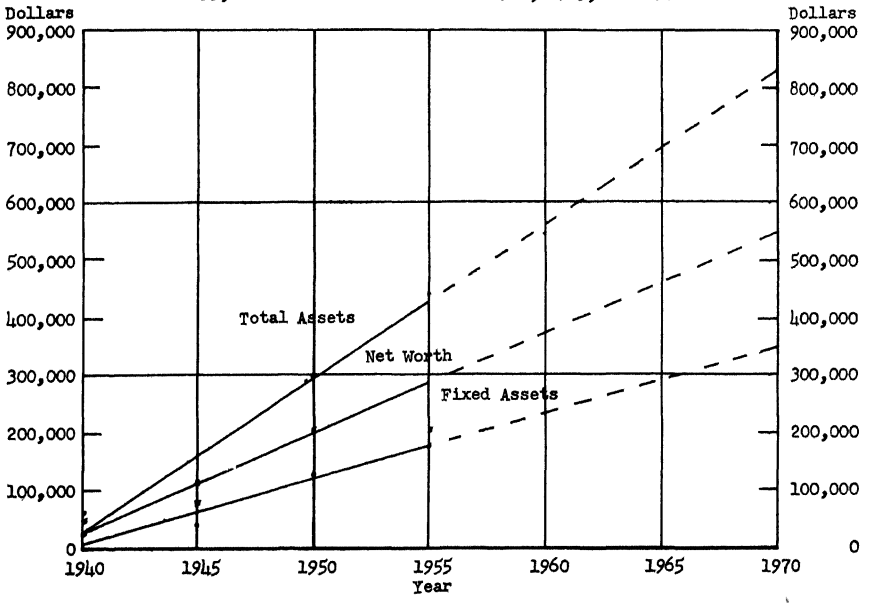
Total assets for these 19 associations are expected to increase in dollar amount over the 1955 fiscal year by the following percentages: 28 percent by 1960, 61 percent by 1965 and 89 percent by 1970. These percentage increases are higher than was indicated for the common stock associations.

Net worth as a percentage of total assets has fluctuated from a high of 77 percent in 1940 to a low of 67 percent in 1950. By the year 1970, if past trends are any indication, the percentage of net worth of total assets is expected to be 67 percent. Like the common stock associations net worth is expected to increase at a slower rate than total assets and will create the same type of problems for the common and preferred stock associations. Comparing the percentage of net worth (to total assets) between the common stock associations and the common and preferred stock associations the percentage of decrease in net worth will be considerably more pronounced for the common stock associations.

Fixed assets, as a percentage of total assets, of the 19 associations have been and are expected to be considerably higher than for the common stock associations. During the period for which actual data was collected, the percentage was from 34.8 percent in 1945 to 44.5 percent

Chart E

Average Amount of Total Assets, Fixed Assets, and Net Worth, 24 Local Elevators and Farm Supply Agricultural Business Organizations, Ohio, 1940, 1945, 1950 1955, and Amounts Estimated for 1960, 1965, and 1970



Source: Table 22.

in 1950. Expected percentage of fixed assets of total assets are slightly higher than the 1955 data with 42 percent in 1960, 41 percent in 1965 and 42 percent in 1970.

While the percentage of total assets in fixed assets was 10 to 13 percent for the common stock associations the common and preferred stock associations have had and are expected to have approximately 39 to 42 percent of total assets in fixed assets. Thus, the problem of acquisition of necessary capital to purchase, replace, and maintain facilities and equipment will continue to be important in the future.

E. Average Amount of Total Assets, Net Worth and Fixed Assets of Five Non-Stock Associations for the Fiscal Years of 1940-41, 1945-46, 1950-51, 1955-56 and Estimated Amounts for 1960, 1965 and 1970

The average amount of total assets, net worth and fixed assets of the 5 non-stock associations is presented in Table 21 and in Chart D. The average amount of total assets for these associations as of the fiscal year 1955 was $1,300,000 or higher than for the other groups mentioned previously. However, total assets are expected to increase (1955=100) more rapidly than was the case for common stock associations but at a slower rate than the common and preferred stock associations. Total assets are expected to increase over the 1955 fiscal year by the following percentages: 21 percent by 1960, 51 percent by 1965, and 82 percent by 1970.

Net worth as a percentage of total assets have fluctuated to a greater degree than for the other two groups previously mentioned.

Table 21

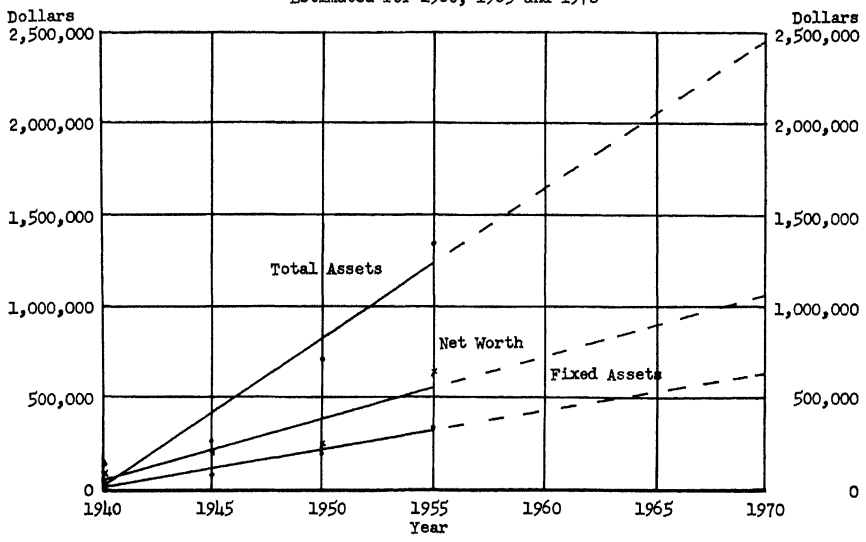
Average Amount of Total Assets, Fixed Assets, and Net Worth, 5 Non-stock Cooperatives, Ohio, 1940, 1945, 1950, 1955, and Amounts Estimated for 1960, 1965, and 1970

Year	Total Assets		Net Worth		Fixed Assets	
	Average Amount	Projected Amount	Average Amount	Projected Amount	Average Amount	Projected Amount
1940	$ 132,768	$ xx	$ 85,871	$ xx	$ 26,089	$ xx
1945	286,944	xx	212,010	xx	88,546	xx
1950	704,720	xx	253,894	xx	211,145	xx
1955	1,364,047	xx	645,903	xx	343,074	xx
1960	xx	1,650,022.56	xx	729,915.00	xx	435,601.77
1965	xx	2,061,183.66	xx	902,113.10	xx	542,957.09
1970	xx	2,472,344.76	xx	1,074,311.20	xx	650,312.41

Source: Original data, Sample 1.

Chart D

Average Amount of Total Assets, Fixed Assets, and Net Worth, 5 Non-stock Cooperatives, Ohio, 1940, 1945, 1950, 1955 and Amounts Estimated for 1960, 1965 and 1970



Source: Table 21.

The highest percentage was recorded in 1945 with 74 percent and the lowest was in 1950 with 36 percent. For the selected years ahead, 1960, 1965, and 1970, the percentage of net worth as a percentage of total assets is 44, 44 and 43 respectively. In terms of a percentage increase over the 1955 fiscal year net worth for these non-stock associations is expected to increase at about the same rate as the common stock associations but at a slower rate than the common and preferred stock associations.

Fixed assets, as a percentage of total assets, for the non-stock associations was 25 percent in the 1955 fiscal year and is expected to be 26 percent in 1960, 1965 and 1970. As a general statement, fixed assets have tended to range from 25 to 30 percent of total assets during the period studied.

F. Average Amount of Total Assets, Net Worth and Fixed Assets of 24 Local Elevator and Farm Supply Associations for the Fiscal Years of 1940-41, 1945-46, 1950-51, 1955-56 and Estimated Amounts for 1960, 1965 and 1970

The average amount of total assets, net worth and fixed assets of the 24 local elevator and farm supply associations is presented in Table

22 and in Chart E. The average amount of total assets for these 24 associations was slightly over $440,000.00 with 40 percent of this amount in fixed assets for the fiscal year of 1955. Total assets for the fiscal year of 1960, 1965 and 1970 is expected to increase over the fiscal year of 1955 by 27, 57, and 87 percent respectively. Thus, for each $1.00 invested in 1955 the expected investment in total assets will be $1.87 by 1970.

Table 22

Average Amount of Total Assets, Fixed Assets, and Net Worth, 24 Local Elevators and Farm Supply Agricultural Business Organizations, Ohio, 1940, 1945, 1950, 1955, and Estimated Amounts for 1960, 1965, and 1970

Year	Total Assets		Net Worth		Fixed Assets	
	Average Amount	Projected Amount	Average Amount	Projected Amount	Average Amount	Projected Amount
1940	$ 61,534.96	$ xx	$ 45,113.72	$ xx	$ 23,875.09	$ xx
1945	112,203.10	xx	84,015.95	xx	40,166.72	xx
1950	298,910.14	xx	203,058.51	xx	131,405.96	xx
1955	442,008.20	xx	294,080.19	xx	178,027.43	xx
1960	xx	560,696.11	xx	373,052.54	xx	231,792.85
1965	xx	693,508.86	xx	459,646.72	xx	287,162.47
1970	xx	826,321.61	xx	546,240.90	xx	342,532.09

Source: Original data, Sample 1.

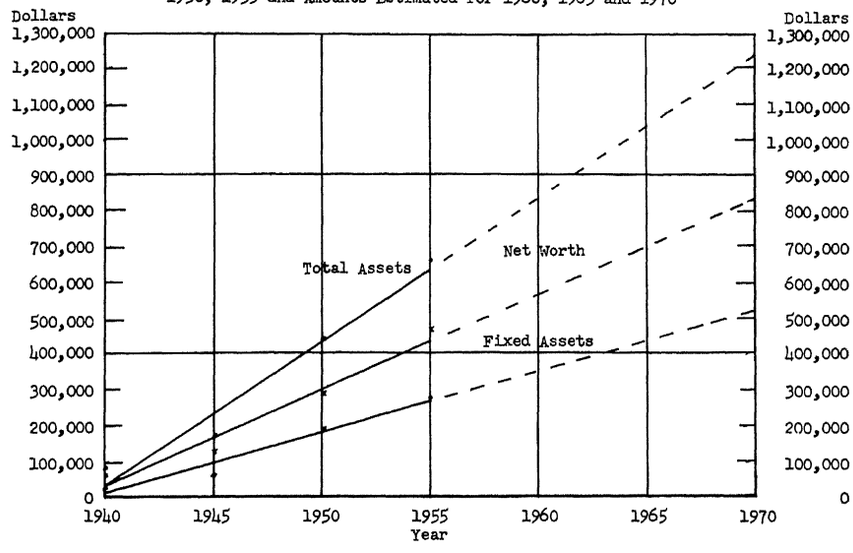
Net worth was $294,000.00 in 1955 with expected percentage increases over that fiscal year of 27 percent by 1960, 56 percent by 1965 and 85 percent by 1970. Net worth as a percentage of total assets ranged from a high of 75 percent in 1945 to a low of 67 percent in 1955. Projections into the future would indicate that approximately 66 percent of the total assets can be expected to be balanced by net worth.

The elevator and farm supply associations possess a large amount of total assets in the form of fixed assets as shown in Table 22. Throughout the period studied the amount of total assets in the form of fixed assets has tended to enter around the 40 percent marked with approximately the same percentage being projected as far in the future as 1970. More of the net worth of these 24 local elevators was invested in fixed assets than for any other grouping of cooperatives studied. In the year 1955 60 percent of net worth was in fixed assets with this percentage to increase to 63 percent b y 1970.

Some readers may raise the question whether the amount of fixed assets are high enough in relation to total assets. As stated previously, depreciated fixed assets were utilized for comparative purposes. The amount of fixed assets in relation to total assets varied considerably between types of businesses and within the same business group. For

Chart C

Average Amount of Total Assets, Fixed Assets, and Net Worth, 19 Common and Preferred Stock Agricultural Business Organizations, Ohio, 1940, 1945, 1950, 1955 and Amounts Estimated for 1960, 1965 and 1970



Source: Table 20.

purposes of comparison the following data are presented to illustrate the variation in the amount of fixed assets in relation to total assets by type of business for the fiscal year 1955-56.

SECTION IV

CONCLUSIONS AND RECOMMENDATIONS

A. Introduction

It is difficult to arrive at conclusions that will apply to all organizations without exception. During this study the writers have engaged in much discussion concerning the financing of agricultural organizations. The suggestions set forth below are based upon the writers' concept of sound financing in the future development of agricultural business associations. These financing goals may be difficult to attain for some organizations in the immediate future. For other associations a slight modification of present financial structures will start them on a sound long range financing program.

B. Development of a Market for Cooperative Securities

One of the objectives of this study was to determine the feasibility of the development of a market for cooperative securities. Cooperative securities issued by Ohio associations have primarily circulated within the community from which they originated and therefore the amount of capital available to an association was limited to the amount of local investment capital plus retained earnings.

Another problem has been the concept accepted by many cooperatives that a patron's investment in his association should remain with it only as long as he uses the services. Therefore, there has been a constant turnover of capital throughout the life of most Ohio cooperatives. In order to increase capital, cooperatives have been forced to do one or all of the following: (1) redeem in cash only the minimum amount of securities and allocations required by law, (2) increase the number of members serviced by the association, and (3) resort to direct borrowing, debenture or bond financing for external capital resources.

A short review of the methods used to capitalize Ohio associations and the general economic characteristics of these associations follows: First, most agricultural associations in the state of Ohio were relatively small in size and are known basically within the area which they serviced.

Second, earnings on investment capital have been historically low. Since cooperatives have not been considered a source of speculative investment, the interest or dividend rate paid upon investment capital has generally been high enough to attract only a small number of investors.

Third, the history of consistent payment of dividends upon invested capital has generally been insufficient to attract large amounts of capital. Boards have tended to neglect the payment of dividends to preferred stockholders and others during periods when earnings were not considered ample. This relatively poor record of dividend payments would indicate the lack of earning-power potential over a long period of time.

Fourth, many associations selling supplies to farmers have found that accounts receivable have increased in recent years to the point that financing these accounts was hampering the efficient use of capital. Many firms have failed to make these accounts show a return for the period of time outstanding. This inefficient use of capital plus the inefficient facilities have forced some associations to alter expansion programs and in some situations have forced associations to retrench business operations.

Fifth, most associations in the cooperative tradition have attempted to create a market for its own securities and investments by redeeming these funds upon conditions stated in the by-laws of the associations under the direction of the board of directors. This policy has affected the liquid assets of the associations by forcing them to retain increased cash assets and in some situations has reduced the net worth of the association at a time when additional capital was badly needed. This latter situation has caused an inefficient use of capital.

There would seem from the discussion thus far that little could be done on the local level to correct the situation of capital turnover other than adjusting present policies of handling of cooperative capital funds. When excess funds are available and the amount of outstanding capital securities too large in relation to the earning capacity of a firm then a policy of redeeming capital and creating "treasury stock" may be deemed advisable until outstanding capital comes in line with other conditions of the firm. In order to maintain a given amount of capital in the firm a minimum amount should be deemed directly from the treasury of the association. In addition, the association should embark upon a program whereby it would aid the patron desiring to leave the association to find a buyer for his securities. Certainly more can be done locally by telling the farmer members that certain individuals want to sell their securities and help them find a buyer.

Another approach to the development of a market for cooperative securities would be for the state-wide associations or perhaps regional associations to act as a sponsoring agency in selling consolidated stock or debentures to the investing public. The average economic conditions at the time of issuance of consolidated stocks or debenture bonds would govern the security and interest rate necessary to sell a given issue. This security may be in the form of the facilities of the combined associatons or the earning capacity of the combined associations. It is doubtful with the present limit upon earnings that cooperative securities will be exchanged for speculative motives but rather sold for long term income investments.

The third approach to the marketing of cooperative securities outside of the local community would be for the associations in the state of Ohio to combine in a unified effort to establish a cooperative exchange facility which would function in much the same manner as any over-the-counter market. Such an exchange could operate on a bid and offer status on a state wide basis. This procedure would permit holders of cooperative securities to offer them for sale to other investors outside of the local trade territory.

C. Conclusions

1. Where stock purchases or membership fees are a requirement for membership the par value or stated value, except in unusual situations, should not be less than $25.00 nor larger than $100.00. Neither stock nor non-stock associations should have a problem, even under competitive conditions, with higher membership fees or stock par values. In certain unusual situations, an organization may want to issue memberships or stock of lower denominations than the $25.00 lower limit mentioned above where an association is in a; (1) very competitive position and not following all points mentioned above and (2) financial development phase which would not permit payment of patronage refunds in cash or part payment in cash and the remainder in certificates of ownership. These associations should have no problems; (1) if financed by a relatively small amount of outstanding capital, (2) if they have been paying a reasonable return on this outstanding capital, (3) if they have been retaining a given portion of net savings to surplus or certificates of ownership, and (4) if they have been paying reasonable cash patronage refunds to the members.

2. A goal for an agricultural business organization should be to have permanent forms of capital equivalent to the fixed assets and investments in other cooperatives in order to withstand prolonged depressed economic conditions.

3. Forms of capital used by Ohio agricultural business associations should be made as permanent as possible with capital remaining with the association over a long period of time. This ideal could be accomplished through a stock transfer program in which the association would act as an intermediary between the buyer and seller. Associations have found that once funds were used for buildings, silos and warehouses that the financing used for structures are not readily revolved when the associations wanted to revolve certain forms of capital.

4. Farmers were unwilling to invest in associations studied for numerous reasons, see Table 7. Associations have tended to weaken themselves with middle-of-the-road policies (an example, poor credit policies) without true consideration to the long run business aspects and the maximum benefits to the loyal association members. It was evident that some directors had been elected primarily because they were "good fellows" and not because of their business ability. Some directors did not want the job in the first place. Associations must do a better job of selection of business minded directors who are interested in the business and who will cooperate with the employed management in developing sound long run policies.

5. Serious consideration should be given to the payment of a return (cash dividends) on securities issued through the accumulation of patronage refunds even though the amount may be low. If allocated capital is to be held for several years it may be of benefit to the association to consider conversion of these allocations to certificates without maturity dates (such as certificates of ownership). These certificates without maturity dates will aid in the ease of revolving (if not already on a revolving plan) or payment of dividends. If the financial program of an association is well planned there is no reason why the firm under proper management cannot pay a return to capital and yet grow in assets.

6. If an association is to be of benefit to patrons and members it is reasonable to conclude that a return on an investment in an association should at least approach that on a like investment in the ownership of a farm operation. In the latter situations it may be wiser to liquidate the association, or merge with other more successful organizations. A return (an annual dividend) on all classes of preferred stock and other securities sold to the investing public is necessary over the long run in order to continue a favorable investment climate. Through the process of utilizing surplus funds (which do not require dividends) a larger portion of the net savings are free to be applied to other distributive forms. If an association chooses to distribute the surplus in a stock split it may wish to lower the dividend rate paid.

7. As a basic principle, membership of an association can be kept current only if rather strict rules are followed concerning the length of time that a patron-member can be inactive in the association and yet maintain their voting privilege coupled with a policy of transfer of voting securities to non-voting securities. For example, an association may issue common voting stock upon the condition that the patron holding such stock must be a current patron of the association to maintain the voting privilege. Upon inactivity for a reasonable period (1 to 3 years) of time the association would automatically transfer the voting stock of the individual in question to common B non-voting investment stock or some other like security (certificate of ownership). Legal implications are involved in the distribution of surplus and reserves to be equitable to the parties concerned. Associations utilizing preferred stock should specify in the articles of incorporation whether or not preferred stockholders will participate in the surplus on liquidation. Many of the Articles of Incorporation and by-laws must be adjusted to be in line with the above principle.

8. The place of association securities possessing a fixed dividend or interest rate and maturity date may have a part in the financial program of large associations but serious question can be raised as to their use in small local associations. Future earning potential and length of time to maturity are two important factors to consider before adopting non-permanent forms of financing. Before securities are issued to the investing public, serious consideration must be given to the public relations aspect of the cooperative. Where local associations lack short term earning potential the Bank for Cooperatives offers a more desirable source for external capital.

9. The issuance of non-permanent forms of capital by some associations, such as debenture bonds and certificates with maturity dates, reflected their weakened financial position since the members and the investing public had little faith in other investment securities issued by the association. Where preferred stock (unless preference is given for earnings and liquidation) of an association could not be sold because of the loss of faith in the association as a business entity, then the question could logically be raised as to the plight of preferred stock holders when additional non-permanent forms of capital are issued.

10. In order to attain a volume of business sufficient to develop future earning potential many small associations or organizations must merge with other like associations. This should be done before the associations involved become financially unstable but rather while each is strong. The conditions of such mergers must be fair, equitable and reasonable to all interests involved.

11. Future association financing will come from two major sources; (1) largely through retention of net savings of the association and (2) external sources such as direct borrowing from the Bank for Cooperatives, commercial banks, sale of debenture bonds and certificates with maturity dates and in some situations preferred stock. This will mean that future earnings will have to be allocated in order to retire the borrowings of the firm, or the future earnings will have to be distributed into some of the financial instruments discussed later.

It is unlikely that farmers will become the major source of external financing unless returns on associations investments equal returns on other investments in agriculture.

12. Understanding of the financial structure of associations by members could not be expected to develop when little more than a few minutes yearly has been spent at the annual meetings in giving abbreviated financial reports. Failure to develop a long range financial program that was simple and could be at least partially understood by the

majority of the members was one of the contributing factors leading to poor public relations between the association and its membership.

13. Development of a market for association securities can be developed only after a reasonable return on investment has been maintained over a period of time.

14. The form in which the patronage refunds from state or regional associations is returned to the local association directly influences the development of the financial structure of the local association.

Patronage refunds to state associations from regional associations should be at least 50 percent or more in cash. If the regional association needs additional capital it should retain its net savings and build up surplus funds and allocate only a minimum amount of savings for membership stock.

If state associations need additional capital they should allocate only the absolute minimum amount to the local associations. As a goal 75 percent of patronage refunds from state or regional associations should be distributed to the local associations in the form of cash. Unless the state associations can pay at least 50 percent of earning in cash the net savings of the state association should be retained so long as capital is needed and Federal Income Tax should be paid upon these net savings.

Under the above plan the local association would receive a smaller amount of patronage refunds from state and regional associations but what patronage was received would be in cash or at least most of it in cash as a result of the current years business. Where net savings of state or regional associations are relatively high, perhaps the cutting of margins or selling at lower prices to local associations on the wholesale level would be of greater benefit for competitive purposes than a large cash patronage refund at the end of the fiscal year.

15. Patronage refunds received by the local associations from state or regional associations should be separated from the earnings from operations. Audit data should state the amount of these patronage refunds that were received in the form of paper and the amount that was received in cash. The distinction between sources of income and its liquidity should definitely be separated when presented to patrons of the association. An association may wish to go even further and issue separate securities upon the following criteria: (1) securities issued on the basis of patronage refunds received in paper from state and regional associations. At the time of writing this publication it is doubtful that many state and regional associations will pay cash for their patronage dividends issued as paper during the lifetime of many farmers who are presently members of local associations.

D. Recommendations

It has been observed that associations, regardless of the commodity group to which they belong, face the same type of problems with each form of capital utilized. Therefore, associations using one form of stock (common stock) were faced with the same problems regardless of whether they were an elevator association or a breeding association. The same was true for more complex capital structures such as one with a combination of common and preferred stock plus other forms of capital. Associations financed with no stock but rather with some form of membership fees plus other forms of capital were faced with basically the same problems.

The writers of this bulletin are approaching the financing of farmers associations upon the following basic classifications; (1) financing with common stock (2) financing with a combination of common and preferred stock and, (3) financing with no stock. The writers do not wish to convey the idea that Ohio does not have well financed agricultural business organizations. On the contrary, there are many associations that are well financed having common stock, a combination of common and preferred stock, and non-stock, but there are others that need considerable revision of their capital structure. This bulletin is directed principally to this latter group of associations.

Due to the present financial structure of many associations the transformation period, from an unstable capital structure to one of long range stability, may be long and difficult. During this period these groups will need to set definite goals and dates of accomplishment. The important thing for these associations to realize is that time will be needed and progress may be slow depending upon the quality of management and other factors of competition. However once the membership is aware of the necessity of sound financing the long range program of capital conversion can be developed with the help of all parties concerned.

1. Financing with Common Stock Only:

Financing an association with common stock or in combination with some other non-stock forms of capital has been used by Ohio associations in building simple, understandable and controllable financial structures.

The writers have chosen three general financing concepts to achieve a permanent type of capital structure. These are; (1) payment of a reasonable return (cash dividends) on membership capital, (3, 4, or 5%) (2) payment of cash patronage refunds to members on the basis of

the volume of business which they transact with the association and, (3) permit voluntary membership through purchase by eligible patrons of a pre-determined number of shares (one or more) in order to participate in the savings made by the association.

The first approach utilizes common stock in combination with surplus as illustrated in Table 23. The number of shares of common stock which an eligible patron could hold would be limited. Voting rights would be based upon one vote per eligible member and not number of shares. With a relatively small amount of common stock outstanding a reasonable return to common stock could be maintained without seriously affecting the amount of cash patronage refunds payable to the membership. Common stock would be transferable at the discretion of the board of directors.

Table 23

An Example of a Capital Structure Utilizing a Combination of Common Stock and Surplus

Forms of Capital	Voting Privilege	Permanency	Par or Stated Value	Amount
Common Stock	Voting	Permanent	$100.00	$40,000.00
Surplus	XXXX	Permanent	XXXX	$90,000.00

Source: Hypothetical.

Surplus would be accumulated by applying all net savings resulting from non-member business to the surplus fund and paying Federal income tax each year on this amount. If directors decide, a portion of member business also may be placed in the surplus fund. As time progressed, the surplus fund would increase in amount one, two, or three times the amount of common stock outstanding thus causing the book value of common stock to be higher than the par value. A high book value should be no problem since a market would be created for stock based upon; (1) a reasonable dividend return and (2) the fact that members would receive a cash patronage refund which only members would receive based on the current years business.

With a relatively small amount of stock outstanding a reasonable return (cash dividends) could be paid without materially affecting the amount of cash patronage which would be available for distribution to the membership based upon the amount of business transacted with the

association during a given fiscal year. The basic principle emphasized here is the benefit in the form of cash patronage refunds which the membership would obtain by transacting business with the association. By following the above method of financing the association would still be able to pay stockholders a reasonable return on outstanding capital.

The second approach to financing with common stock would be to place a limit on the amount the surplus fund could reach before necessitating distribution of this fund to common stockholders in the form of additional shares of common stock. For example, if the surplus of the association reaches 110 percent or more of the amount of common stock outstanding a stock dividend would be declared to increase the amount of common stock outstanding and lower the surplus fund (as shown in Table 24).

Table 24

Capital Structure of an Association Before and After a Stock Dividend Issuance

Forms of Capital	Amount	
	Before a Stock Dividend	After a Stock Dividend
Common Stock	$40,000.00	$80,000.00
Surplus	$90,000.00	$50,000.00

Source. Hypothetical.

This procedure would aid in maintaining a close relationship between the book value of common stock and the par value. The increased amount of common stock outstanding may or may not result in a larger portion of the annual net savings distributed in the form of dividends. If the same dividend rate would be maintained, then less of the net savings would be available for distribution to current patrons in the form of cash patronage refunds. If the directors would adopt a lower dividend rate, then, the above statement would have to be modified.

The third approach to the financing with common stock, as the only stock, would be to adjust the relationship between common stock outstanding and surplus funds some place between the first approach and the second approach mentioned above.

Some common stock associations have found it possible to retain all net savings (in an allocated form) and revolve these savings five to ten years later when the following conditions were present; (1) the amount

of net earnings for a given fiscal year exceeded the amount of net savings of a previous year which was to be revolved and (2) the amount of capital required had changed very little over the preceding years. Likewise, if net savings of the current year and that of the fiscal year to be revolved are the same then there was no problem. The question can be raised that if net savings from year to year remain relatively the same how can an association increase in total assets. The revolving capital plan does not adapt itself readily to growth of the enterprise when savings from year to year remain relatively the same nor does it provide for the payment of cash patronage refunds to the degree that would be possible by using surplus funds as mentioned above. One method is to lengthen the revolving period from 5 years, for example, to 7 or 10 years. But this method hasn't worked for some Ohio cooperatives since they have extended the revolving period to 20 years and now are not revolving at all.

If an association decided to finance its operations under the second approach the surplus could be distributed (when it reached a predetermined amount) in the form of certificates of ownership (without maturity dates) instead of common stock. Certificates of ownership can carry a dividend rate the same or less than common stock and can be revolved.

If external sources of capital are needed for expansion purposes (since all capital discussed here is long term financing) the small firm lacking short term earning potential should consider the use of a financial institution. Larger associations may safely utilize debenture bonds and certificates of indebtedness, which contain fixed maturity dates and interest rates, only to the amount of approximately 20 percent of the net worth of the association.

Receiving patronage refunds from state or regional associations in a non-cash form does not fit into the financing program of an association which uses common stock as the only stock. If patronage refunds are received in a non-cash form in relatively large amounts the local association should separate the earnings from operations and the patronage refunds received in non-cash forms and issue separate securities for each. This same appreciation of non-cash patronage refunds applies to illustrations in (2) and (3) which follow, namely, financing with common and preferred and non-stock associations.

2. Financing with a Combination of Common and Preferred Stock

Financing an association with a combination of both common and preferred stock offers many problems which are not faced by an association having only common stock. On the other hand, the use of pre-

ferred stock provides a relatively permanent external source of capital which is not available to an association utilizing only common stock.

The use of investment stock in some associations may or has created a conflict of interests between the common and preferred stockholders since the two groups may not be the same persons. The writers have attempted in Table 25 to utilize a ombination of common stock, preferred stock, and surplus as a means of building a capital structure which will give permanency to the financial organization of the firm.

Table 25

An Example of a Capital Structure Utilizing a Combination of Common Stock, Preferred Stock and Surplus

Forms of Capital	Voting Privilege	Permanency	Par or Stated Value	Amount
Common Stock	Voting	Permanent	$100.00	$40,000.00
Preferred Stock	Non-voting	Permanent	100.00	30,000.00
Surplus	xxxxxx	Permanent	xxxxxx	90,000.00

Source: Hypothetical.

The association, illustrated in Table 25, would create surplus funds in the same manner as in the case of the association in Table 23 with common stock being acquired in exactly the same manner. Therefore, the basic difference between Table 23 and 25 is the inclusion of preferred stock in the capital structure. The preferred stock usually is acquired through the sale of such stock to both members and local investors in an attempt to accumulate a larger amount of capital resources.

The degree of permanency of any form of capital is well determined by the wording of the by-laws and the subsequent policies adopted by the board of directors. Associations should attempt to make the forms of capital utilized as permanent as possible in an amount equivalent to fixed assets and investments in other cooperatives.

Continued investment by patrons and investors under a program of permanent capital requires the consistent payment of annual dividends at levels sufficient to attract additional funds if and when needed, (the Revised Code of Ohio places a limit of eight percent annum upon the dividend rate paid by Ohio associations organized under Sections 1729.01 to .28).

While the inclusion of preferred stock in the financial structure of a given association may be a necessity at the inception of the association, the issuance of large amounts of either common or preferred stock simply reduces the amount of annual net savings available (assuming a dividend return to these forms of capital) for patronage distribution to current members. If the above statement is true then the issuance of preferred stock has a tendency to defeat the so-called cooperative principle of patronage refunds to members on the basis of the amount of business transacted with the association.

Associations that are selling securities with fixed or varying rates of interest on dividends may find themselves in a difficult financial situation in the future if earning ability declines. All earnings may have to be distributed in interest or dividends with little or no savings for cash patronage refunds. The writers are opposed to over expansion of business organizations beyond their earning ability. It is so easy for management to become unduly optimistic and expand too much, too quickly. Declining earnings with fixed obligations creates problems that are difficult to solve. The correct amount of expansion requires good analysis and excellent business management. This applies to non-stock as well as stock associations.

As the surplus of the association increases, the preferred stock outstanding should be reduced in order to reduce the fixed obligation of dividend payments. Some associations have forgotten that present and future development of any association is primarily dependent upon the reaction of the current and future patrons to the financial advantage of transacting business with a particular association. Long time retainage of patronage refunds with little or no returns to them or to capital invested by the patron is not conducive to continued business patronage.

Associations should always have membership stock for sale to eligible producers who want to become members. Some organizations have developed large surplus funds and have not increased the amount of common stock. The result is that no stock is available to a new farmer moving into the community or to others who may want membership. The writers definitely agree that common stock should always be available to new members on a basis determined by the association directors.

Purposely omitted from the capital structure of these associations were such forms of capital as common B stock, first and second preferred stock. The use of these forms of capital do not add to the stability of the financial structure in the opinion of the writers. In some unusual situations they may be used but directors and management should thoroughly appraise the advantages and disadvantages of such financing.

3. Financing a Non-Stock Association

The capital structure of a non-stock association can be made as permanent and durable as a stock association. The by-laws of these associations should be so worded that they include membership certificates and allocates net savings in certificates of ownership or like security.[7] Most Ohio non-stock associations have retained net savings and have planned to revolve these net savings on a definite time schedule. It also can be stated that many of these associations have found it impossible to revolve net savings under the economic conditions of the 1940's and 1950's and therefore have retained the net savings for many years without returning even an amount in cash equivalent to Federal income tax paid by the patron upon these allocated funds.

Table 26

An Example of a Capital Structure Utilizing a Combination of Memberships, Certificates of Ownership and Surplus

Forms of Capital	Voting Privilege	Permanency	Par or Stated Value	Amount
Memberships	Voting	Permanent	$25.00	$20,000.00
Certificates of Ownership	Non-Voting	Permanent	XXXXX	$15,000.00
Surplus	XXXXX	Permanent	XXXXX	$80,000.00

Source: Hypothetical

The general approach to the financing of a non-stock association is similar to that of a stock association as noted in Table 25. Membership in a non-stock association preferably should be purchased for cash and not acquired through patronage refunds and should be transferable to certificates of ownership upon inactivity in the association. Net savings allocated to the patron would be placed in certificates of ownership which basically would be utilized in much the same manner as common stock in a stock association. Surplus would be acquired in the same manner and under the same conditions as in a stock association.

When a non-stock association follows the type of financing recommended here the membership of that association should carefully check the by-laws and articles of incorporation. The articles of incorporation

[7]This does not include certificates with maturity dates and debenture bonds.

should specify the property rights of the membership and in the case of the above financing the property rights should be on an unequal basis in the case of dissolution and distribution of surplus funds. This unequality should be written out clearly in the articles of incorporation. The State Cooperative Law requires it (Ohio revised Code Section 1729.06).

Type of Business	Average Total Assets	Average Fixed Assets	Fixed Assets as Percent of Total Assets	Average Net Worth
Credit	$2,592,699.00	$ 18,639.26	0.72%	$ 494,945.00
Dairy	2,130,843.00	1,027,803.50	48.2	1,530,958.50
Poultry	304,635.67	90,714.00	29.8	269,579.33
Breeding, Livestock, and Wool	1,655,619.75	461,041.25	27.8	744,808.25
Farm Supply	442,008.20	178,027.43	40.3	294,080.19

Non-stock associations can develop an adequate and sound financial structure but some non-stock associations in Ohio are very poorly financed at the time of writing this bulletin. This is due largely to the policy of wanting to revolve all earnings rather than establishing a large proportion of permanent capital. The revolving fund plan is satisfactory if the association is planning to quit business and liquidate some time in the near future. Therefore, they are not planning for permanent capital financing.

4 Use of Allocated Funds

The use of allocated funds (book allocations) have purposely been withheld from the recommendations given. This does not mean that allocated funds should not be utilized as a part of the financing of any of the three types of capital structures mentioned in this section. When an association is pressed for additional capital the use of allocated funds may become necessary. However, the use of allocated funds should be only a temporary adjustment in the capital structure since their use does not add to the permanency of net worth nor does it lend itself to the principle that current members should receive a reasonable cash patronage refund.

5. Use of Borrowed Funds

The use of borrowed funds from Commercial Banks or the Bank for Cooperatives is important from both the short and long run needs of capital development. Borrowed capital is not a part of the net worth of an association, as such, but serves as an aid to its development. Borrowed funds have to be repaid to the bank furnishing the funds. How will the association do this? In the writers' opinion permanent capital funds should be used to repay loans from financial institutions.

The writers, after analyzing the sampled associations, conclude that the use of long term borrowed funds should be used rather than allocating net savings for an indefinite period of time with no dividends paid to the patrons since many associations have a tendency to over-expand.

Investments in fixed assets many times were made by management and boards of directors upon assumptions without a thorough examination of facts and potential involved. A further check upon the desirability of a given long term expenditure is made by the Bank for Cooperatives or other lending institutions when making a loan. This check should aid in making sounder capital asset investments.

6. Revolving Method of Financing

The revolving plan of financing has been used for many years and has been heralded as the answer to the problem of financing by many cooperative leaders of yesterday and today. These leaders claim that this system permits current patrons to finance the association and retire capital invested by previous members and patrons. The associations utilizing the revolving fund method usually allocate all or part of the net savings for a definite number of years and then revolve them at the end of the time specified.

The writers agree that the principle prescribed in the revolving capital plan has merit as far as a principle is concerned, but the problems encountered by Ohio associations in developing a working revolving capital plan have been troublesome. The majority of the associations included in this study have found that it was impossible to continue a revolving capital program under the following conditions; (1) when earnings of the current fiscal years were less than the year's earnings which were to be revolved, (2) when capital requirements for current operations were greater than during the years to be revolved, and (3) when expansion or improvement programs were undertaken.

When income comes from operations only, the revolving capital plan will operate satisfactorily if net earnings of the current year equal or exceed those of the fiscal year to be revolved. If earnings decrease,

for example, the association faces the problem of curtailment of operations or operating with less capital or must resort to borrowing. Operating an efficient unit with less capital is most difficult, and in some cases impossible, when economic conditions require that a firm must be expanding in an inflationary economy. Some Ohio association were forced to drop the revolving capital plan because of the urgent need for more capital these firms have not changed their capital structure to a long term permanent financing basis, nor have they returned to the revolving capital plan.

Problems faced by the revolving capital plan tend to be greater than the advantages of the plan. An association cannot expand operations when earnings remain the same without lengthening the period of time that the capital is to be retained. Not all associations can expect increased earnings year after year over the long run. Therefore, eventually most associations will be faced with the problem of attempting to revolve a given year's allocated patronage with lower earnings of the current fiscal year, Table 27.

In the illustration of the net savings of three hypothetical associations shown in Table 27, Firm A has had generally increasing net savings, Firm B has had generally decreasing net savings and Firm C has had relatively the same level of net savings throughout the stated fiscal years. If each firm was on a five year revolving capital plan the problems encountered by each firm would be as described above. Many associations bave not experienced the situation faced by Firm A.

The writers are convinced that it is wiser to plan a cooperative association financing on a more permanent capital basis as has been illustrated and discussed previously. An association may have to use the revolving plan of retained savings that have been allocated to members in periods of expansion or other unusual situations but should plan their future financing so they will grow into a permanent plan of financing.

The writers do not wish to convey the idea that the revolving capital plan of financing will not work. In fact, there are associations in Ohio that are successfully using a revolving capital plan. But the point that must be made is that certain basic conditions must be present for successful operation of a revolving capital plan over a long period of time. Over a period of years basic conditions may and often do change which causes difficulties in the revolving capital plan.

Table 27

Example of Net Savings of Three Hypothetical Firms Used to Illustrate Revolving Fund Method of Financing

Year	Firm A	Firm B	Firm C
1945	$ 8,242	$38,115	$20,249
1946	8,992	39,747	20,476
1947	9,526	40,215	21,779
1948	11,429	44,459	21,949
1949	12,212	47,403	22,014
1950	13,462	45,189	22,137
1951	13,245	50,714	23,274
1952	16,712	45,127	22,567
1953	15,419	43,994	22,991
1954	20,675	41,749	23,451
1955	23,987	40,661	23,127
1956	27,774	37,012	22,981
1957	14,447	34,212	21,325
1958	20,153	30,254	22,998
1959	23,767	27,140	23,697

Source: Hypothetical.

Boards of directors and management must continually be alert to the changing future needs of financing their firms operations. It must also be remembered that each organization will need to face its own individual financing problems. The suggestions and principles pointed out by the writers may apply only in part to some business firms.

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