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Cooperatives in South Dakota

L. M. Brown

R. J. Penn

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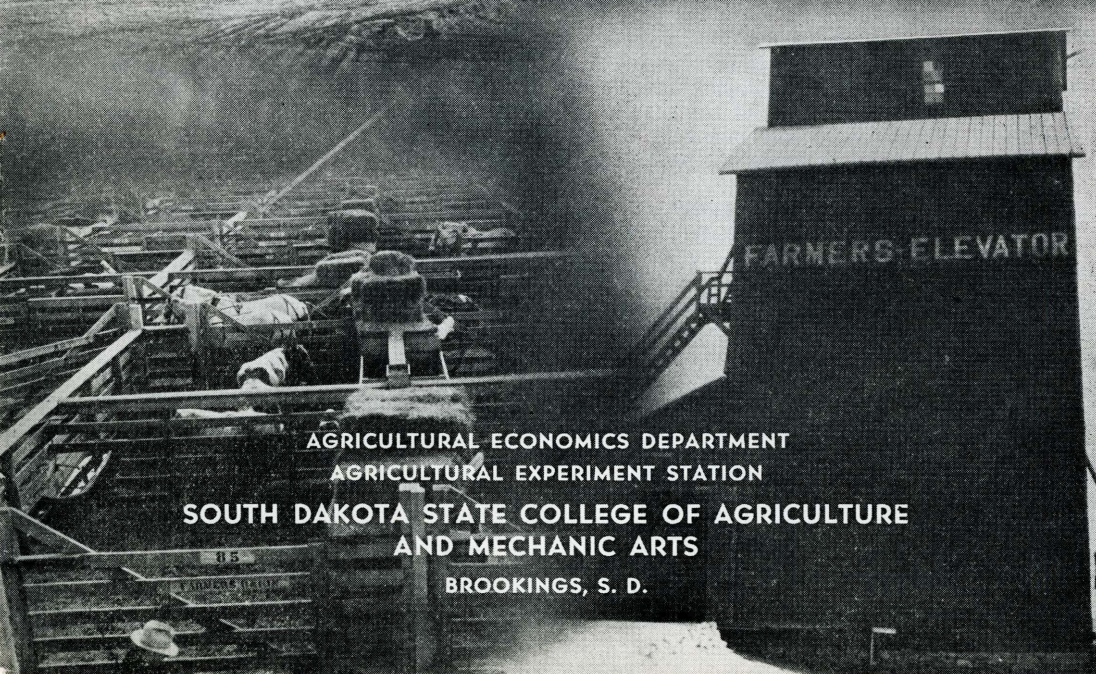
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COOPERATIVES

IN SOUTH DAKOTA



AGRICULTURAL ECONOMICS DEPARTMENT
AGRICULTURAL EXPERIMENT STATION
SOUTH DAKOTA STATE COLLEGE OF AGRICULTURE
AND MECHANIC ARTS
BROOKINGS, S. D.

Summary

Data used in this study were obtained by visiting all active cooperative associations and were, in most cases, for the fiscal year 1935-36. Information was obtained from 354 associations: 203 elevators, 51 oil stations, 40 creameries, 18 stores, 14 livestock shipping associations, 12 cream stations, 8 lumber associations and 8 miscellaneous associations.

There were 71,809 cooperative memberships, or an average of nearly one for every farm in South Dakota. The total number of cooperative patrons was 124,274.

Farmers marketed cooperatively \$19,612,682 worth of commodities, and there were purchased cooperatively \$7,367,388 worth of supplies. The total indicates that in South Dakota cooperation is important, especially to agriculture.

Organization of these associations occurred during the 50-year period, 1887 to 1937; 16 were established before 1903, 89 from 1903 to 1912, 135 from 1913 to 1922, 80 from 1923 to 1932, and 30 from 1933 to 1937. Reasons for organizing are not known, but the purpose—marketing of farm products—usually has been the same. With but few exceptions the associations “bought outright and resold” the commodities handled.

The first state cooperative law was passed in 1911, but was limited in scope. In 1913 a law entitled “Cooperative Associations,” really the first important law, was passed. Then in 1923 the “Cooperative Marketing Law” was enacted for use exclusively by producers of farm products. Of the active associations, 255 were organized under the 1913 law, 20 under the 1923 law, 52 under the general corporation laws; and 16 associations were not incorporated.

Although the associations studied are considered to be cooperatives, few could meet all the combined specifications of the federal and state governments (including requirements for federal tax exemption).

Nearly all associations, 328, could meet the one-man-one-vote requirement; that is, each member is allowed only one vote in the affairs of the business. The dividend rate on capital stock in 224 associations was limited to 8 per cent or less. With regard to control of the associations by producers, 120 required members to be producers; 17 required the stock of ineligible members to be purchased or converted into nonvoting stock; and 116 had more than 90 per cent of their voting stock owned by producers. Most of the associations, 220, did more than 50 per cent of their business with members. Lastly, few associations could meet the specification requiring all patrons to be “treated alike” in regard to patronage dividends.

Financing usually was done by the capital stock method, supplemented by loans; 306 associations had capital stock, with 184 of these having shares of the par value of \$25 or less. Sixteen associations had membership fees; these fees were \$10 or less. Many associations, especially elevators, found it necessary to borrow in order to obtain the necessary capital. The main sources of loans were private marketing agencies and individuals.

Despite the fact that 1936 was a difficult year for agriculture, cooperative associations were able to make a net profit of nearly \$800,000. Of these earnings, nearly \$500,000—a substantial sum for any type of business endeavor—was returned to the member patrons and in a few instances to nonmember patrons.

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Cooperatives in South Dakota

By L. M. Brown and R. J. Penn

Introduction

South Dakota farmers have realized that the marketing of their products and the purchasing of their supplies is almost as vital to them as the production of the products. One of the types of business organization upon which the farmer has called to do his marketing is the cooperative. As a result many cooperatives have been established. Some have served their period of usefulness and have ceased operations; others are just beginning their jobs. The information concerning these cooperatives has been rather scattered. This publication is designed to bring together some of the information and ideas which may aid those individuals interested in cooperative organizations in South Dakota. If it proves of value to those who must ultimately take the initiative in making cooperative associations going concerns, it will have accomplished its purpose.

Each cooperative association in South Dakota was visited in May or June of 1937, and information was gathered, usually for the calendar year 1936 or for the fiscal year 1935-36. Data were obtained by interviewing managers and by examining the audits or records of the associations. The Agricultural Economics Department of the Experiment Station, at South Dakota State College and the Farm Credit Administration through the Omaha Bank for Cooperatives, cooperated in obtaining these data. The data collected in this survey have been summarized and form a basis for the following research report. An attempt has been made in this report to present (1) the extent of cooperation in South Dakota, (2) the time and reason for the organization of cooperatives, (3) the legal basis of cooperation, (4) the organization and structure of the cooperatives in South Dakota, and (5) some of the operating results of South Dakota cooperatives.

This study is confined to active cooperative associations. A few organizations not strictly cooperative in nature are included because they possess some cooperative characteristics. The service type, such as insurance, telephone, and burial, are omitted. Many cooperatives, especially livestock shipping associations, could not be considered active because they had not transacted business for one or more years, although the organization still was intact and could function at any time. These associations have not been included in the following data.

Extent of Cooperation in South Dakota

Cooperatives are an important type of business organization in South Dakota. To show this importance a short summary will be given of the number, location, membership, patronage, and volume of business of cooperatives. It should be remembered, however, that no one of these factors can be used alone to judge the success of cooperation. It must be remembered, also, that the survey on which this information is based was made in a period when South Dakota farm production was seriously affected by drought.

Number and Location of Associations—There were 354 active cooperative associations in South Dakota in June, 1937. Table 1 shows the number of associations by type of business. It must be remembered that an association may have several departments and handle more than one type of farm commodity or merchandise. Consequently, in this survey the associations were grouped according to their most important department. The approximate locations of these associations are shown in Figure 1, a majority of them being located in the east one third of the state. Only two counties east of the Missouri River are without active associations, while in the west-river area there were 10 counties without active association. The number of associations in each county varied from none to 24.

Table 1—Total Membership of Cooperative Associations in South Dakota, June, 1937

Type of Business	No. of Coop. Associations	Total Membership	Average Membership
Elevators	203	27,764*	137
Oil Stations	51	14,079	276
Creameries	40	15,405	385
Stores	18	4,748	264
Livestock Shipping	14	2,184**	182
Cream Statitons	12	2,230	186
Lumber	8	815	102
Miscellaneous	8	4,584	573
Total	354	71,809	205

* One association did not answer this question.

** Two associations did not answer this question.

The active South Dakota cooperative associations were grouped into eight general types of business. It was thought impractical to have as many groups as there were individual types. Therefore, we will point out the main variations in each type of business listed, and indicate in detail what is included in the Miscellaneous classification.

Grouped with the Stores is the Farmer's Union Cooperative Brokerage Firm of Sioux Falls. This association differed from others in this group because it sold merchandise at wholesale as well as retail, and had branches in various cities throughout the state.

Included as one of the 14 livestock shipping associations is the South Dakota Cooperative Livestock Marketing Association, with its headquarters at Brookings. The organization of this association is not the same as of a local livestock shipping association. The members are scattered throughout the state, and its activities include more than the selling of sheep and lambs. It has been active during the past few years in arranging for the shipment of livestock from drought areas to areas where feed was available. This maintained livestock numbers within the state making it easier to restock than if this livestock had been sold for slaughter or in other states.

The Miscellaneous type of cooperative business is composed of three poultry associations, one cheese factory, one feed purchasing association,

one potato marketing association, the Farmers' Union Livestock Commission Firm and the Cooperative Wool Growers of South Dakota.

The Farmers' Union Livestock Commission Firm of Sioux Falls operates on the Sioux Falls market as a commission agent for its Farmers' Union members and others who wish to avail themselves of this service.

The Cooperative Wool Growers of South Dakota is a state-wide organization for marketing wool. It is affiliated with the National Wool Marketing Corporation. The Wool Growers of South Dakota markets wool by three methods: First, it conducts a pool. Second, it purchases outright. Third, it acts as an order buyer. This organization has been marketing a large percentage of wool sold in South Dakota, and in 1938 it handled 65 per cent of the total wool clip.

Membership and Patronage—The total membership of all cooperative associations in South Dakota was 71,809, or an average of 205 members in each association. Table 1 shows the total and average membership for each type of cooperative business. According to the Federal Census of 1935 there were 83,303 farms in South Dakota. The proportion of cooperative memberships to farms was nearly one (.86). Actually, however, some farmers had membership in more than one association and there were a number of nonfarmer members. Elevators had the largest total membership with 27,764, but the Miscellaneous classification had the largest average with 573 per association.

Eighty-three per cent or 59,496 of the members patronized their own associations. The estimated number of member patrons is shown in Table 2. However, total figures do not show that some associations already had reached the point where it was questionable whether they were on a cooperative basis. As time passed, members died, retired, moved out of the community, or for other reasons ceased to patronize the association, thus increasing the number of members who were neither producers nor patrons. In most cases little had been done to replace these nonproducers and nonpatrons with active producer-patron members.

**Table 2—Estimated Number of Member Patrons of
Cooperative Associations in South Dakota*
June, 1937**

Type of Business	Number of Cooperative Associations	Member Patrons	Average No. of Member Patrons	Per Cent of Members who were Patrons
Elevators	202	21,560	107	77.7
Oil Stations	51	12,526	246	89.0
Creameries	40	13,671	342	88.7
Stores	18	3,533	196	74.4
Livestock Shipping	12	2,085	174	95.5
Cream Stations	12	1,925	160	86.3
Lumber	8	650	81	79.8
Miscellaneous	8	3,564	443	77.4
Total	351	59,496	170	82.9

* Three associations did not answer this question.

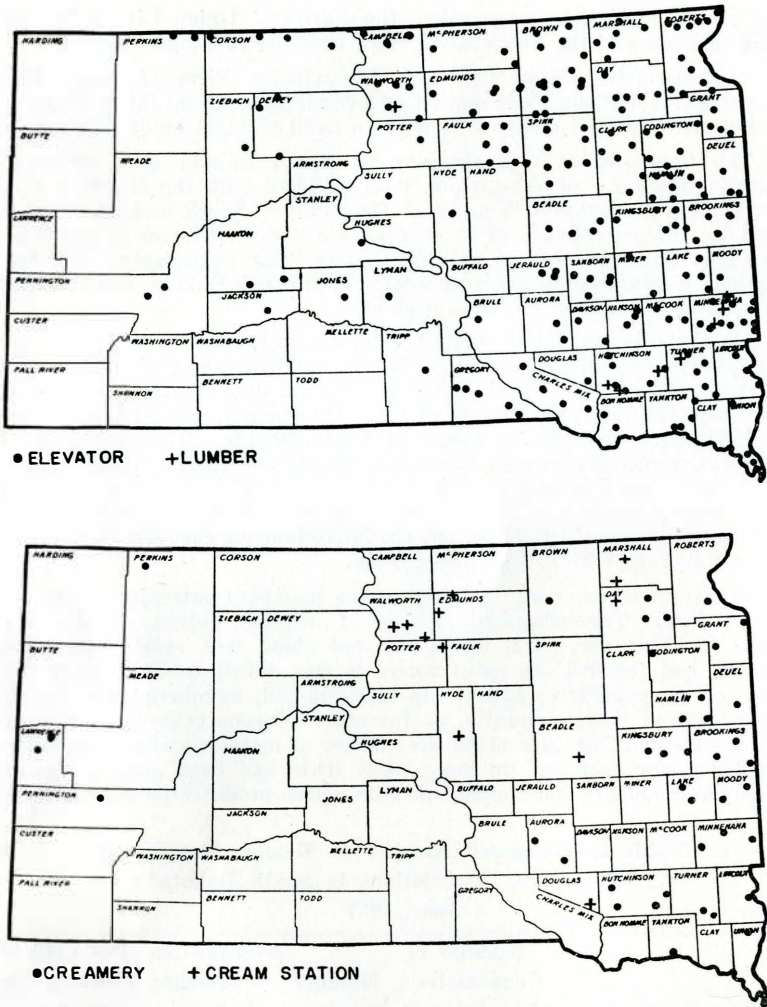


Fig. 1—Location of Active Cooperative Associations in South Dakota, June, 1937

Some associations had more nonmember than member patrons. Table 3 shows the estimated number of total patrons, which was 124,274. There were 59,496 member patrons (Table 2); thus, the remaining 64,778 patrons were nonmembers. In other words, only about 48 per cent of the patrons were members. Among these nonmember patrons there were a host of potential members who were allowing patronage dividends to accumulate until there would be an amount large enough to purchase a share of stock, at which time they would become members. These non-

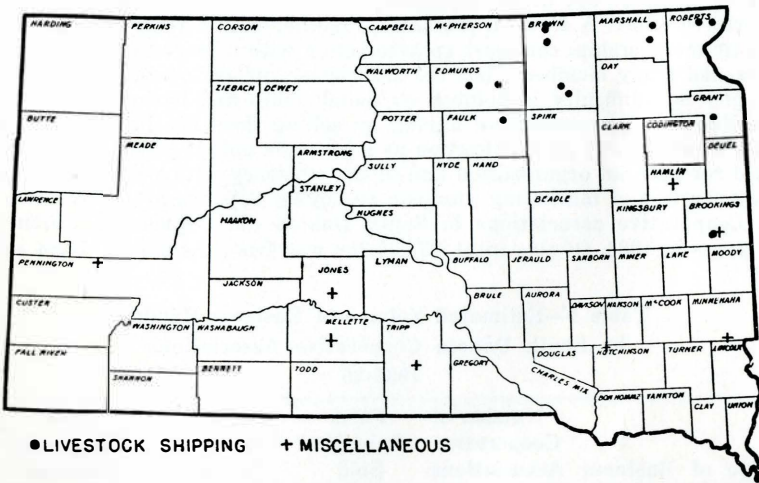


Fig. 1—(Continued). Location of Active Cooperative Associations in South Dakota, June, 1937

members were treated as members, except that they were not entitled to vote.

Possibly the main reason there are so many nonmember patrons in some cooperative associations is that active members do not see the advantage of making membership available to all eligible patrons. The members of some successful associations are not willing to share the profits with new members; in other associations the membership is not anxious to share the rights of control over the property which they have built up.

Table 3—Estimated Number of Total Patrons of
Cooperative Associations in South Dakota*
June, 1937

Type of Business	Number of Cooperative Associations	Total Patrons	Average Number of Patrons	Per Cent of Patrons who were Members
Elevators	202	52,822	261	40.8
Oil Stations	51	23,339	458	53.7
Creameries	40	26,697	667	51.2
Stores	18	7,255	403	48.7
Livestock Shipping	12	2,085	174	100.0
Cream Stations	12	2,826	236	68.1
Lumber	8	2,575	322	25.2
Miscellaneous	8	6,675	834	53.1
Total	351	124,274	354	47.9

* Three associations did not answer this question.

Volume of Business—The total amount of business and the total number of members are often improperly used to indicate the success of cooperative effort. A forceful promoter, together with a temporarily enthusiastic membership, can start an association with a large amount of business and many members; but the association, unless operated efficiently, usually has difficulty in holding its membership and business. Complete justification for cooperative buying or selling does not lie solely in its present existence; its justification as a business unit is to be found in the need for such an organization and in the efficiency with which the necessary services of marketing products or buying supplies are performed.

Cooperative associations in South Dakota did \$26,980,070 worth of business in 1936. Of this total, \$7,367,388 was from the sale of farm sup-

Table 4—Estimated Volume of Business Handled
by South Dakota Cooperative Associations*
1935-36

Type of Business	Number of Cooperative Associations	Farm Supplies Sold	Farm Products Marketed	Total Volume of Business
Elevators	201	\$3,710,450	\$8,962,932	\$12,673,382
Oil Stations	47	2,332,350	1,674	2,334,024
Creameries	40	66,764	5,563,479	5,630,243
Stores	18	1,046,754	136,201	1,182,955
Livestock Shipping	9	0	622,944	622,944
Cream Stations	11	24,862	247,389	272,251
Lumber	8	164,137	618	164,755
Miscellaneous	6	22,071	4,077,445	4,099,516
Total	340	\$7,367,388	\$19,612,682	\$26,980,070

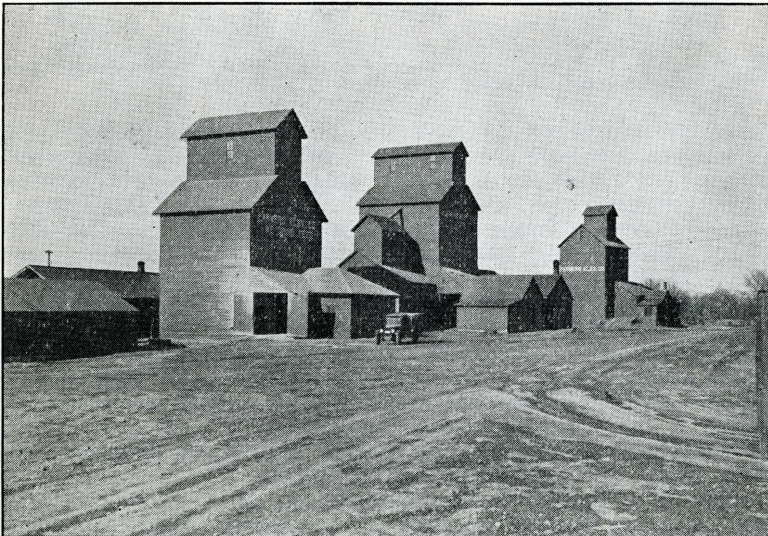
** Fourteen associations did not answer this question.

plies, and \$19,612,682 was from marketing of farm products. Table 4 shows the volume of business transacted. Elevators had the greatest volume of business, handling more than \$12,500,000 worth of products. Creameries were second, with a volume of more than \$5,500,000. The average amount of business transacted by each association was almost \$80,000.

The preceding figures represent the volume of business handled by South Dakota cooperative associations and include business from other states. The figures do not include business from South Dakota transacted with associations in other states. The Farm Credit Administration estimated there was \$977,000 worth of business from other states transacted with associations in South Dakota; also, that South Dakota did \$3,925,000 worth of business with associations in other states.¹ The largest single item in this total was livestock sold at terminal markets, which amounted to \$2,845,000.

Establishment of Cooperatives in South Dakota

The establishing of cooperative associations in South Dakota has been carried on many years. Here, however, we are concerned primarily with but two phases of the history of the farmers' cooperative movement—the time of establishment and the purpose for which the cooperative was established.



South Dakota's First Cooperative Elevator

1. Farm Credit Administration, "Preliminary Tabulations of Data Assembled from the Survey of Farmers' Cooperative Associations in the United States, 1937."

Time of Establishment—The date of establishment of cooperative associations is important because many times age is dangerous to the internal structure of the cooperative. If a cooperative is to fulfill its purpose, it must be owned by and operated for the patrons of the association. Many cases were found in which the older producer associations had a large membership which had ceased either to produce agricultural products or to patronize the association. This situation need not necessarily accompany the aging of the cooperative. However, when associations extend beyond the generation of the founders, they must recognize the problem of buying out nonpatron members and making membership available to new patrons.

One association, the Farmers' Elevator Company of Baltic, dates back to 1887. However, most of the existing cooperative associations in South Dakota, 95 per cent in fact, have originated during the period since 1903. Seventy per cent have been established since 1913, and only 31 per cent since 1923. The periods of establishment are shown in Table 5.

**Table 5. Date of Establishment of Active Cooperative Associations in South Dakota*
June, 1937**

Year of Establishment	No. of Coop. Associations	Per Cent of Total
Before 1903	16	4.6
1903 - 1912	89	25.4
1913 - 1922	135	38.6
1923 - 1932	80	22.8
1933 - 1937	30	8.6
Total	350	100.0

* Four associations did not answer this question.

The largest number of cooperatives in South Dakota now active were organized between 1913 and 1922 (Table 5). Yearly organization reached its peak in 1917. One reason for their being organized in this period may be that the cooperative by this time had been recognized as a successful method of local marketing. Another reason may be the rapid expansion in cash grain production which made possible the success of many cooperative elevators. Of course, many associations had organized and gone out of business before the summer of 1937, when this survey was made. Perhaps livestock shipping associations are the best example of this. There have been estimates of 215 to 500 livestock shipping associations in South Dakota between 1923 and 1926. By 1929 there were 125 associations in existence, and only 14 were active in 1937. The shortage of livestock, expansion of interior packing houses, and the use of trucks were a few of the causes for this decline in the number of livestock shipping associations. Hence, this development does not appear in Table 5.

Since 1922 the need for new elevators has all but disappeared. Cash crop production has not continued the phenomenal growth of the war period. Improved transportation facilities, such as better trucks and highways, have at least doubled the potential trade areas of the existing elevators. Of the cooperatives organized since 1923, a majority have been those furnishing supplies or services to the farmer.

**Table 6—Purpose of Organization
of Cooperative Associations in South Dakota
June, 1937**

Purpose of Organization	No. of Coop. Associations	Per Cent of Total
Marketing	38	10.7
Marketing and Purchasing	197	55.6
Marketing and Processing	20	5.7
Marketing, Purchasing & Processing	21	5.9
Purchasing	70	19.8
Purchasing and Marketing	8	2.3
Total	354	100.0

Many of the associations have had to renew their charters, because of the time limit or because of a change in organization. The South Dakota cooperative laws were passed in 1913 and 1923. As nine of the present associations were issued charters before 1913, they were not influenced by either of the cooperative laws; 120 of the associations received their charters between 1913 and 1923, and therefore were influenced only by the 1913 law; the remaining 205 associations received their charter between 1923 and 1937 and were influenced by both the 1913 and 1923 cooperative laws.

Purpose of Establishment—Seventy-eight per cent of the associations were organized with marketing as their primary function. In Table 6 can be seen the purpose of organization of the active associations. In many cases, the purchasing of supplies had been added as circumstances demanded. The main function of the other 22 per cent was the purchasing of farm supplies.

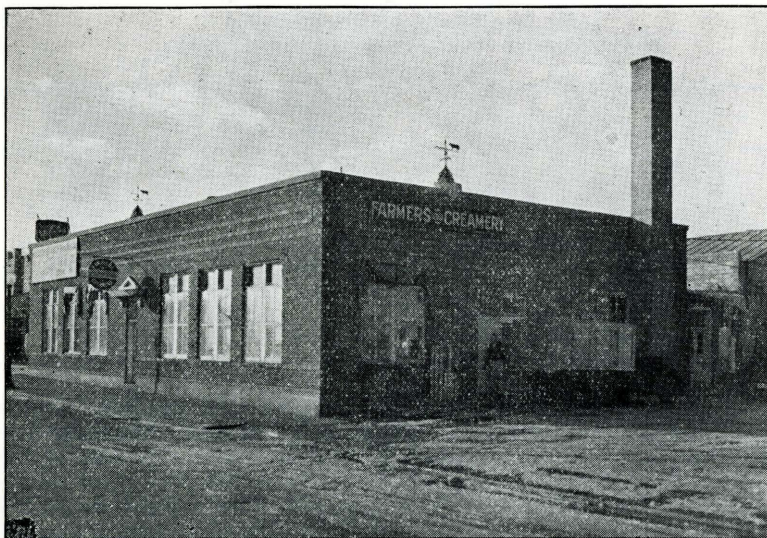
**Table 7—Types of Organization
of Cooperative Associations in South Dakota
June, 1937**

Type of Business	Type of Organization			Total
	Independ- ent*	Member of Feder- ation**	Feder- ation***	
Elevators	178	24	1	203
Oil Stations	38	13	0	51
Creameries	34	5	1	40
Stores	16	2	0	18
Livestock Shipping	13	1	0	14
Cream Stations	11	1	0	12
Lumber	8	0	0	8
Miscellaneous	7	1	0	8
Total	305	47	2	354
Per Cent of Total	86.1	13.3	0.6	100.0

* Eight associations of this type had departments that were members of federations.

** Four associations of this type had departments that were independent.

*** One association of this type had a department that was a member of a federation.



A Cooperative Creamery in South Dakota

Not all of the associations, even though organized for the same purpose, were of the same type of organization, nor used a similar method of operation. Eighty-six per cent were independent, that is, they had no parent organization or other ties; 13 per cent were members of federations; and less than 1 per cent or two associations were federations (the parent organization). Table 7 shows the organization used by each type of cooperative business.

Table 8—Method of Operation
of Cooperative Associations in South Dakota
June, 1937

Type of Business	Method of Operation		Total
	Buy Outright and Resell*	Handle on Pool** Commission	
Elevators	201	0	203
Oil Stations	50	0	51
Creameries	40	0	40
Stores	18	0	18
Livestock Shipping	0	0	14
Cream Stations	11	0	12
Lumber	8	0	8
Miscellaneous	2	2	8
Total	330	2	354
Per Cent of Total	93.2	0.6	100.0

* One association with this method of operation also had a department that pooled and there were eight associations that had departments that handled on commission.

** These associations had departments that bought outright and resold.

The associations differed also in their methods of operation. More than 93 per cent of the associations "bought outright and resold" the commodities handled, 6 per cent conducted their business on a commission basis, and less than 1 per cent or two associations "pooled" the commodities. The method by which South Dakota associations operated are shown in Table 8.

Legal Aspects

The development of legislation permitting and facilitating the operation of cooperatives according to accepted standards has been a slow process in South Dakota as well as in the United States. South Dakota was one of the states that led the federal government in recognizing the need for legislation differentiating cooperatives from other forms of business organizations. This state had passed a fairly complete and comprehensive cooperative law by 1913, but it was not until nine years later that the federal government passed a satisfactory act.

South Dakota Cooperative Specifications—The first legal provision made in South Dakota concerning cooperatives was the act passed in 1911, entitled "Cooperative Corporations." This act provided that cooperative corporations with capital stock could be formed under the general corporation laws of the state and should have all the rights and be subject to all the duties, restrictions, and liabilities of such corporations. The law itself was short and incomplete, but it did state that such associations could fix and limit the general dividends (stock dividends) to be declared and paid annually, and could pay cooperative dividends (patronage dividends) according to the amount of business done with its stockholders.²

The 1911 act proved inadequate, and in 1913 the legislature passed an act entitled, "Cooperative Associations," better known as the "General Cooperative Law," because of its broad intentions allowing industries other than agriculture to organize.³ (The 1911 law is so brief and incomplete that it is now grouped with the 1913 law.) The main features of the 1913 law, as amended up to 1937, are summarized below.

1. Five or more persons may organize an association.
2. Each stockholder is entitled to one vote only.
3. Stock ownership is limited to \$1,000 in associations of \$100,000 or less capital stock, and to 1 per cent of the stock in associations of more than \$100,000.
4. Interest on capital stock shall not exceed 10 per cent. (Eight per cent is now the maximum contract rate of interest for all contracts in South Dakota.)
5. Not less than 10 per cent of the annual net profits shall be set aside for a reserve fund, until an amount has accumulated of not less than 50 per cent of the paid-up capital stock.
6. Not less than 1 per cent nor more than 5 per cent of the annual net profits shall be set aside in an educational fund.
7. Balance of the annual net earnings, after necessary deductions are made, shall be apportioned among stockholders, or

2. South Dakota Revised Code of 1919 and 1929, and amendments, Sections 8837-8853. (South Dakota Revised Code of 1939, Vol. 1, Title 11, Part II, Chapters 11.01 and 11.1)

3. Ibid.

stockholders and patrons, in proportion to the amount of business transacted with the association.

8. The word "cooperative" shall not be used in the title of any business unless organized under Section 8839-8853, the Cooperative Associations law.

The next South Dakota cooperative law was passed in 1923. It is entitled "Cooperative Marketing Law." The law limits membership in the associations organized under this act to agricultural producers and is more strict in its requirements than the 1913 law. Its main features are summarized below.

1. Five or more agricultural producers may organize an association.
2. Each member or stockholder is entitled to one vote only.
3. Stock ownership is limited to 1/20 of the issued common stock.
4. Only producers of the products handled by the association may become members or stockholders.
5. Common stock cannot be transferred to nonproducers of the products handled.
6. Associations shall not handle agricultural products of nonproducers to an amount greater in value than is handled for members.
7. Associations shall make provision in by-laws for automatic suspension of the rights of membership when a member ceases to be eligible, and for the purchase by the association of a member's interest upon death, withdrawal, or expulsion.
8. Each association shall send an annual report to the Secretary of Agriculture of the state of South Dakota.

Which of the two South Dakota cooperative laws, 1913 or 1923, is the better is difficult to state, as the two have different purposes in mind.

Table 9—Laws under which the Active South Dakota Cooperative Associations Were Incorporated*
June, 1937

Type of Business	Cooperative Law		General Corporation		Total
	1913	1923	Laws Incorporated	Not Incorporated	
Elevators	143	10	40	0	193
Oil Stations	42	3	4	2	51
Creameries	35	2	2	0	39
Stores	13	0	3	2	18
Livestock Shipping.	6	3	0	5	14
Cream Stations	8	0	0	4	12
Lumber	5	0	3	0	8
Miscellaneous	3	2	0	3	8
Total	255	20	52	16	343
Per Cent of Total	74.3	5.8	15.2	4.7	100.0

* Nine other associations were incorporated, but did not know under which law. Two associations did not answer this question.

4. South Dakota Compiled Laws of 1929, and amendments. Sec. 8007-D to 8007-Y. (South Dakota Revised Code of 1939, Vol. 1, Title 4, Part V, Chapter 4.16.)

The main difference between the two is the membership requirements; the 1923 law was designed to be used by agricultural producers only, while the 1913 law was designed for general use.

One of the reasons for differences in organization is the time of organization; in other words, the law or laws to which the association was exposed when organizing. Of the associations active June, 1937, a total of 105 were organized before the 1913 law was passed and 240 before the 1923 law was enacted (Table 5).

In June, 1937, it was found that 255 associations had been organized under the 1913 cooperative law. Twenty associations operated under the 1923 law, and 52 under the general corporation laws. The number of associations organized under each law can be seen in Table 9. Many associations formerly under the general corporation laws had reorganized under one of the cooperative laws, and several associations contemplated such a change.

Only 16 associations were not incorporated in 1937 (Table 9). Presumably, they should be. An unincorporated association, in the eyes of the law, is comparable to a partnership arrangement in which each member is fully liable for the approved acts of the partnership. Also, a partnership has no legal entity and would have to sue or be sued in the names of its individual members. A corporation can have perpetual existence, and is not dependent on the life of any of its stockholders.

The state of South Dakota allows cooperative associations certain privileges if they fulfill the cooperative requirements. These privileges are not always consistent; for instance, associations that are organized under the Cooperative Associations Law of 1913 are exempt from paying the South Dakota net income tax,⁵ but those associations organized under the Cooperative Marketing Law of 1923 are not exempt—this is an oversight, no doubt, on the part of the legislature.

Federal Cooperative Specifications—The Capper-Volstead Act, a federal law defining cooperative associations of producers of agricultural products for the purpose of clarifying their relation to other federal laws, was passed February 22, 1922. The requirements as set up by this act are the gauge by which the federal government judges whether an organization is a cooperative. The fact that the state laws do not coincide exactly with the federal laws does not mean that South Dakota cooperatives cannot meet federal requirements. The following is quoted from the Capper-Volstead Act:⁶

“That persons engaged in the production of agricultural products as farmers, . . . may act together in associations, corporate or otherwise, with or without capital stock, . . . Such associations may have marketing agencies . . . : Provided, however, that such associations are operated for the mutual benefit of the members thereof, as such producers, and conform to one or both of the following requirements:

“First: That no member of the association is allowed more than one vote because of the amount of stock or membership capital he may own therein, or,

“Second: That the association does not pay dividends on stock or membership capital in excess of 8 per centum per annum.

5. South Dakota Laws of 1935, Ch. 205, Div. II, Sec. 15b, (e).

6. U. S. Code of 1935, Title 7, Ch. 12, Sec. 291-2.

"And in any case to the following:

"Third: That the association shall not deal in the products of nonmembers to an amount greater in value than such as are handled by it for members."

The United States congress passed the Farm Credit Act of 1933 which included a system of Banks for Cooperatives. These banks provide a specialized type of credit designed exclusively to meet the needs of co-operative associations of farmers engaged in marketing farm products, in purchasing farm supplies, and in furnishing farm business services. To be eligible to borrow from a Bank for Cooperatives, an association must meet the requirements as set up in 1933 and amended by the Farm Credit Act of 1935. The following are the requirements as interpreted by the Farm Credit Administration.⁷

1. An association in which farmers act together in processing, preparing for market, handling, or marketing the farm products of the members; and/or
2. An association in which farmers act together in purchasing, testing, grading, processing, distributing, or furnishing farm supplies; and/or
3. An association in which farmers act together in furnishing farm business services.

It is also necessary:

4. That the association be operated for the mutual benefit of its members;
5. That the association does not deal in farm products, supplies, and business services for nonmembers in an amount greater in value than its business with members;
6. That at least 90 per cent of the voting stock of a capital stock association must be held by producing members or associations of producers;
7. That the association must either limit its dividends on capital stock or membership capital to 8 per cent a year, or
8. Provide that no member may have more than one vote in the affairs of the association.

The Federal Revenue Act of 1936 provides for exemption of cooperative associations from the capital-stock, excess-profits, and undistributed-profits taxes if exempt from federal income taxes.⁸ Exemption is not automatic but is obtained only by making claim for it. The Bureau of Internal Revenue has charge of collecting the taxes, and the rules of that Bureau become vital to cooperative associations. Even though an association gains exemption, there is no assurance of future exemption, unless the association is conducted according to present requirements, and future rulings and requirements.

In substance, the conditions required for exempting a farmers' cooperative association from the payment of federal income taxes are as described below.⁹

1. An association must be organized and operated on a cooperative basis for the purpose of marketing the products of members or other producers and returning the proceeds, less neces-

7. Farm Credit Administration Cir. No. 6, Sept. 1936.

8. U. S. Revenue Act, 1936, Ch. X, Sec. 101 (12); Ch. II, Sec. 14 (e); T. D. 4666, Sec. 105, 106.

9. U. S. Revenue Act, 1936, Ch. X, Sec. 101 (12).

sary expenses, on the basis of either quantity or value of the supplies at cost, plus necessary expenses.

2. An association with capital stock must not pay dividends on such stock, directly or indirectly, in excess of the legal rate of interest in the state of incorporation or in excess of 8 per cent per year, whichever is greater.
3. Substantially all of the stock (except nonvoting preferred stock, entitled only to fixed dividends) must be owned by producers who patronize the association.
4. Any reserves or surpluses set up by the association must be required by state law, or must be reasonable reserves for necessary purposes.
5. An association shall not market products and/or purchase supplies for nonmembers in an amount greater in value than its business with members, and not more than 15 per cent of the purchases may be made for persons who are neither members nor producers.
6. In regard to an association's marketing and purchasing activities, all patrons whether members or nonmembers must be "treated alike" with reference to patronage dividends.

Organization and Structure of South Dakota Cooperatives

The structure of cooperative associations in South Dakota should be evaluated according to how well they conform to the commonly held principles of cooperation. These principles, however, are not easy to



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classify. Hence, the authors have used some of the present requirements of the federal statutes and administrative rulings applicable to agricultural cooperatives as standards by which to judge the organization and structure of South Dakota cooperatives. By grouping the provisions of the Capper-Volstead Act, the rules and regulations of the Bank for Cooperatives, and federal income tax requirements, the following list was compiled.

1. One-man-one-vote.
2. Dividend on capital stock shall not exceed 8 per cent.
3. Only agricultural producers are eligible to become members.¹⁰
4. Substantially all voting stock must be owned by producers.
- 4a Automatic suspension of membership when a member ceases to be eligible (producer), and purchase or conversion into nonvoting stock of a member's interest upon his death, withdrawal, or expulsion.
5. Associations shall not market products and/or purchase supplies for nonmembers in an amount greater in value than its business with members.
6. Not more than 15 per cent of the purchases may be made for persons who are neither members nor producers.
7. All patrons must be "treated alike" as to patronage dividends.

Table 10—Method of Voting in South Dakota
Cooperative Associations*
June, 1937

Type of Business	Method of Voting		Total
	Each Member One Vote	Each Share One Vote	
Elevators	183	19	202
Oil Stations	50	1	51
Creameries	39	1	40
Stores	16	2	18
Livestock Shipping	14	0	14
Cream Stations	12	0	12
Lumber	6	2	8
Miscellaneous	8	0	8
Total	328	25	353
Per Cent of Total	92.9	7.1	100.0

* One association did not answer this question.

1. One-man-one-vote. The principle of one vote per member regardless of the capital invested in the business is the usual method of control followed by cooperative associations. This differs from the usual corporation membership privilege of one vote for each share of stock. South Dakota associations for the most part used the one-man-one-vote provision: 328 of the associations restricted the members to one vote; 25 stock associations allowed a vote for each share. In Table 10 is shown the method of voting in each type of cooperative business. Some individuals feel

10. The requirement that members of cooperatives must be producers is not necessary for true cooperative organizations. However, it has been included since the federal regulations and one of the state laws specify that members must be producers. Cooperative regulations in the future may extend to include consumers' cooperatives.

Table 11—Maximum Dividend Rate on Capital Stock Permitted by the By-Laws of Cooperative Associations in South Dakota*
June, 1937

Type of Business	Dividend Rate			Total
	8 Per Cent or Less	More than 8 Per Cent	By-laws Silent	
Elevators	145	19	36	200
Oil Stations	34	4	3	41
Creameries	32	4	2	38
Stores	9	3	3	15
Livestock Shipping	0	0	0	0
Cream Stations	1	0	1	2
Lumber	1	0	7	8
Miscellaneous	2	0	0	2
Total	224	30	52	306
Per Cent of Total	73.2	9.8	17.0	100.0

* Forty-eight associations did not answer this question.

that voting rights should more nearly represent the volume of business done by each member.

2. Dividend on capital stock shall not exceed 8 per cent. Capital is as necessary for the efficient operation of a cooperative association as it is necessary for any type of organization. The reason returns on capital stock are limited to 8 per cent is that capital is merely hired in a cooperative association. The earnings or savings affected after a reasonable amount has been paid for the use of capital should be distributed to the members or patrons on a patronage basis. In Table 11 it is shown that the payment of dividends on stock of not to exceed 8 per cent was provided for in the by-laws of 224 of the associations; that the by-laws of 30 associations allowed payment of more than 8 per cent; and that the by-laws of 52 associations made no provision as to the rate of dividends. It is recommended that the associations whose by-laws make it possible to pay more than 8 per cent or are silent on this matter, amend their by-laws to

Table 12—South Dakota Cooperative Associations
Requiring Members to be Producers
June, 1937

Type of Business	Require Members to be Producers	Do not Require Members to be Producers	Total
Elevators	71	132	203
Oil Stations	5	46	51
Creameries	21	19	40
Stores	1	17	18
Livestock Shipping	12	2	14
Cream Stations	6	6	12
Lumber	0	8	8
Miscellaneous	4	4	8
Total	120	234	354
Per Cent of Total	33.9	66.1	100.0



Marketing Wool Cooperatively in South Dakota

set the dividends on stock at not to exceed 8 per cent. Many associations have lowered this maximum amount to 3 or 4 per cent.

3. Only producers are eligible to become members. The federal specifications for cooperative associations in the main have been designed to define, aid, and regulate producers' associations. It has been the object of the federal government to keep control in the producers' hands. By "producer" is meant a farm operator, owner, or renter, or a landlord in those cases where the rent is on a share basis. The by-laws of 120 South Dakota associations stated that only producers were eligible to

**Table 13—South Dakota Cooperative Associations
that Required Membership in a General Farm Organization*
June, 1937**

Type of Business	Membership Required**	Membership not Required	Total
Elevators	3	198	201
Oil Stations	9	42	51
Creameries	1	39	40
Stores	6	12	18
Livestock Shipping	0	14	14
Cream Stations	2	10	12
Lumber	0	8	8
Miscellaneous	2	5	7
Total	23	328	351
Per Cent of Total	6.6	93.4	100.0

* Three associations did not answer this question.

** The general farm organization is the Farmers' Union in these instances.

Table 14—Per Cent of Voting Stock in South Dakota
Cooperative Associations Owned by Producers*
June, 1937

Per Cent Owned by Producers	No. of Coop. Associations	Per Cent of Total
0 - 70	41	13.5
71 - 75	25	8.3
76 - 80	33	10.9
81 - 85	21	6.9
86 - 90	67	22.1
91 - 95	38	12.6
96 - 100	78	25.7
Total	303	100.0

* Forty-seven associations were of the nonstock type. Four associations did not answer this question.

become members. Table 12 shows the number of associations that required members to be producers. The other 234 associations allowed anyone making application to become a member. Usually the board of directors is required to pass on such new members. If an association is to meet the federal specifications or even the provisions of the 1923 South Dakota cooperative law, it must limit its membership to producers.

On the other hand, 23 associations went even a step further and required membership in a farm organization. The number of associations that made this requirement are shown in Table 13. Such practice may make it difficult for an association to have a membership large enough to insure an adequate volume.

4. Substantially all voting stock must be owned by producers. Just what "substantially" means is difficult to determine, but even at a low figure most South Dakota associations would find it difficult to comply. Table 14 shows that in only 78 associations did the producers own more than 96 per cent of the stock; that the producers in 116 associations owned more than 90 per cent; and that the producers in 204 associations

Table 15—Retirement of Voting Stock of Nonproducers
in South Dakota Cooperative Associations*
June, 1937

Type of Business	Do By-laws Provide for Retirement or Conversion of Voting Stock?		Total
	Yes	No	
Elevators	2	198	200
Oil Stations	4	37	41
Creameries	10	26	36
Stores	1	13	14
Livestock Shipping	0	2	2
Cream Stations	0	2	2
Lumber	0	8	8
Miscellaneous	0	2	2
Total	17	288	305
Per Cent of Total	5.6	94.4	100.0

* Forty-seven associations were of the nonstock type. Two associations did not answer this question.

**Table 16—Per Cent of Total Business that South Dakota
Cooperative Associations Transacted with Members*
June, 1937**

Per Cent	No. of Coop. Associations	Per Cent of Total
0 - 25	23	6.5
26 - 50	108	30.8
51 - 75	135	38.5
76 - 100	85	24.2
Total	351	100.0

* Three associations did not answer this question.

owned over 80 per cent of the stock. As little as 25 per cent of the stock of two associations was owned by producers. To meet the federal specification for income tax requirements, associations should comply with requirement 3—only producers are eligible to become members—and also with the following requirement, 4a.

4a. Automatic suspension of membership when a member ceases to be eligible, and purchase or conversion into nonvoting stock of a member's interest upon death, withdrawal, or expulsion. This requirement is made to keep the control of the association in the hands of producer patrons. Only 17 of the associations had such a provision in their by-laws. In Table 15 is shown the distribution of these 17 associations by types of business. Ninety-four per cent of the active South Dakota associations had no such provision. The rule should not be adopted just to be in line with governmental specifications. But if an association is to be a producers' organization operated for the benefit of producer patrons, the membership and voting privileges should be kept in the hands of active producers—men who have something to gain or lose with the association.

5. Associations shall not market products and/or purchase supplies for nonmembers in an amount greater in value than its business with members. The main objective of a cooperative association is to render efficient services to its members, which does not imply that nonmembers are barred from trading or receiving the services offered. However, it does mean that under most conditions membership for those persons who are eligible should be easily obtainable; if this is a fact, then it should not be difficult for an association to meet this requirement. According to Table 16, 220 of the South Dakota associations did more than half of their

**Table 17—Per Cent of Total Business that South Dakota
Cooperative Associations Transacted with Farmers*
June, 1937**

Per Cent	No. of Coop. Associations	Per Cent of Total
41 - 55	4	1.1
56 - 70	14	4.0
71 - 85	52	14.8
86 - 100	281	80.1
Total	351	100.0

* Three associations did not answer this question.

business with members, 108 did only between 26 and 50 per cent with members, while 23 did less than 25 per cent with members.

6. Not more than 15 per cent of the purchases may be made for persons who are neither members nor producers. For an association with a large active membership this requirement would not be difficult to meet. It is impossible for us to show how the South Dakota associations met this requirement. Our only approach to the problem is to refer to Table 17, which shows the amount of total business transacted with farmers. Two hundred eighty-one associations did more than 85 per cent of their business with farmers, or, in other words, less than 15 per cent of their business with nonfarmers.

7. All patrons must be "treated alike" as to patronage dividends. In a truly cooperative organization all patrons would be treated alike as to the payment of patronage dividends. If this procedure is followed the patronage dividend earned by a nonmember who is eligible for membership will be applied toward the purchase of a share of stock; and when an amount has accumulated equal to the price of a share the nonmember will become a member. However, if patronage is earned by a nonmember who is not eligible to become a member, then payment must be made in cash or perhaps in a nonvoting share of stock. By contributing the equivalent of a share of stock before receiving cash patronage dividends, the patron who is ineligible for membership will contribute to the association's capital on a basis similar to members. It is reasonable to assume that if nonmembers are given the privilege of receiving patronage dividends there will be a definite incentive to trade with the association, thereby increasing the volume and perhaps making for more efficient and economical services.

Financing the Cooperative

Cooperatives require capital for: (1) organization, (2) physical facilities, (3) operations, and in some cases (4) financing production on farms. These needs vary greatly according to the commodities handled, the type of associations, the management policies, and the general practices followed in financing production.

Numerous methods of securing the necessary capital are open to associations. The three most commonly used are: (1) sale of stock, (2) collection of membership fees, and (3) borrowing. The cooperative whose inherent purpose is to conduct operations for the benefit of its patron members, rather than for those who invest in it, has failed to arouse much interest on the part of the investing public. State and federal laws that limit the dividends upon stock increase this general lack of interest. A member, that is, a stockholder or a holder of a membership certificate, not only must have the amount of the fee, but in most instances must be a bona fide producer as well. This, too, limits the procurement of capital to a restricted class.

Capital Stock—Organizing associations on a capital stock basis is one of the oldest and most common methods of financing marketing associations. Members tend to look upon the purchase of stock both as an investment and as a membership responsibility. Capital stock is issued in the form of common and preferred stock.

Table 18—South Dakota Cooperative Associations
That Had Capital Stock*
June, 1937

Type of Business	Coop. Assns. that Had Capital Stock	Coop. Assns. that Did not Have Capital Stock	Total
Elevators	200	2	202
Oil Stations	41	10	51
Creameries	38	2	40
Stores	15	3	18
Livestock Shipping	0	14	14
Cream Stations	2	10	12
Lumber	8	0	8
Miscellaneous	2	6	8
Total	306	47	353
Per Cent of Total	86.7	13.3	100.0

* One association did not answer this question.

The sale of common stock to producers of the commodities handled is usually the method adopted in capital stock organizations, although other plans which include the sale of preferred stock are used also. Common stock carries no fixed rate of interest, the directors determining, annually, what the dividend rate shall be, within the limits prescribed by law or by-laws. One or more shares usually are required for membership and voting privileges. It is desirable in planning a cooperative to make adequate provisions to assure that the stock will be kept in the hands of active patrons at all times.

Preferred stock seldom carries any voting or membership privileges, and ordinarily specifies a fixed rate of interest. Few cooperative associations place restrictions on ownership of preferred stock; thus, holders are likely to be more interested in the association as investors than as members.

In South Dakota, 306 of the associations used the common stock

Table 19—South Dakota Cooperative Associations
That Had Borrowed Money*
1934-37

Type of Business	Associations Borrowing Money	Associations not Borrowing Money	Total
Elevators	150	51	201
Oil Stations	30	19	49
Creameries	18	22	40
Stores	7	11	18
Livestock Shipping	1	12	13
Cream Stations	3	9	12
Lumber	3	5	8
Miscellaneous	3	4	7
Total	215	133	348
Per Cent of Total	61.8	38.2	100.0

* Six associations did not answer this question.

method to obtain funds. The number of associations that had capital stock can be seen in Table 18. The cost of a share of stock should be low so it would be easy for eligible producers to become members. In South Dakota the cost of a share ranged from \$1 to \$200. The shares of \$25 or less were the most popular; 184 associations made such a charge. Fifty-seven associations had shares ranging from \$26 to \$50, while 65 associations had shares of over \$50.

Membership Fees—Some associations are organized on a nonstock basis; the members are given certificates of membership upon payment of a membership fee. Since, as a rule, no interest is paid on membership fees, this manner of financing is significant from the cost standpoint.

In South Dakota the membership fees varied from 50 cents to \$10 per person, although \$10, \$1, and \$3, in the order named, predominated. Of the 16 associations that had membership fees, four associations charged \$1 or less, seven associations charged from \$1 to \$5, and five associations charged \$10. The receipts from the sale of memberships may be ample to provide all the capital needs in an association requiring little or no permanent capital and only small amounts of working capital. In the event that large capital is needed, other means of financing must be adopted. Membership fees usually are less than the cost of a share of stock, although exceptions are found.

Table 20—Sources of Credit
of South Dakota Cooperative Associations
June, 1937

Sources	No. of Coop. Associations	Per Cent of Total
Private Marketing Agencies	65	30.2
Individuals	64	29.8
Banks for Cooperatives	34	15.8
Commercial Banks	33	15.4
Other Cooperative Associations	8	3.7
Private Supply Manufacturers	5	2.3
Miscellaneous	6	2.8
Total	215	100.0

Loans—It is unusual for cooperative associations to derive from their members sufficient funds to supply the capital required at all times. Loans from credit agencies and other sources are therefore necessary. Adequate financing is not to be interpreted as complete financing by members at all times, but as that degree of support from the members combined with loans from other agencies which will result in the highest efficiency of service.

During the three years from 1934 to 1937, 215 of the associations borrowed money, as shown in Table 19. Credit may be obtained from many sources, but private marketing agencies proved to be the most popular. Borrowing from individuals was second; from the Bank for Cooperatives, third; and from commercial banks, fourth. Table 20 shows, by sources of credit, the number of associations that borrowed.



A South Dakota Cooperative Oil Station

Operating Results

Not all cooperative associations are able to make savings or wish to make a profit. In many cases, the results of cooperation cannot be measured in dollars and cents. Some associations wish to make enough merely to pay expenses; the members benefit from the lower cost of supplies purchased or from the higher price for commodities sold. Also, it is difficult to measure in dollars and cents the benefits arising from increased services and from the influence a cooperative exerts on a community.

Table 21—Estimated Total Net Profit
of South Dakota Cooperative Associations*
June, 1937

Type of Business	No. of Coop. Associations	Total Net Profit	Average Net Profit	Per Cent of Total
Elevators	199	\$277,410	\$1,394	35.6
Oil Stations	48	185,676	3,868	23.8
Creameries	40	244,751	6,119	31.4
Stores	18	30,819	1,712	4.0
Livestock Shipping	10	4,249	425	.5
Cream Stations	10	9,719	972	1.3
Lumber	8	7,974	997	1.0
Miscellaneous	6	18,938	3,156	2.4
Total	339	\$779,536	\$2,300	100.0

* Fifteen associations did not answer this question.

Table 22—South Dakota Cooperative Associations
That Had Paid Patronage Dividends*
June, 1937

Type of Business	Had Association ever Paid Patronage Dividends?		Total
	Yes	No	
Elevators	142	59	201
Oil Stations	35	15	50
Creameries	32	8	40
Stores	14	4	18
Livestock Shipping	1	7	8
Cream Stations	12	0	12
Lumber	2	6	8
Miscellaneous	4	3	7
Total	242	102	344
Per Cent of Total	70.3	29.7	100.0

* Ten associations did not answer this question.

Net Profit—Net profit does not measure the success of a cooperative as it does that of a privately-owned business. The members of a cooperative are concerned with the net cost of the services which the association performs, rather than with the amount of net profit as such.

The cooperative associations in South Dakota made the surprisingly large net profit of \$779,536 for the year 1935-36, which was a difficult year for agriculture. Table 21 shows the total and the average net profit for each type of cooperative business. Elevators contributed the largest amount with \$277,410, or a little over 35 per cent of the total net profit. The average net profit for each of the 339 associations answering this question was \$2,300. Creameries had the largest average net profit, \$6,119, and oil stations ranked next with \$3,868 per association.

Dividends—Of the 344 cooperative associations which answered the question on patronage dividends, 242 had at some time paid out patronage dividends. This is shown in Table 22. These were distributed after the association had paid current expenses and a nominal return on all capital—including capital used in providing a place to work, necessary equip-

Table 23—Estimated Patronage Dividends Paid
by South Dakota Cooperative Associations*
1935-36

Type of Business	No. of Coop. Associations	Amount of Dividend	Average Dividend	Per Cent of Total
Elevators	26	\$110,635	\$4,255	22.2
Oil Stations	25	161,571	6,463	32.4
Creameries	23	191,364	8,320	38.4
Stores	5	15,542	3,108	3.1
Livestock Shipping	1	560	560	.1
Cream Stations	8	6,450	806	1.3
Lumber	0	0	0	0.0
Miscellaneous	2	12,534	6,267	2.5
Total	90	\$498,656	\$5,541	100.0

* Ten associations did not answer this question.

ment, and interest on borrowed money. In per cent of total, this means that over 70 per cent of the associations had been successful, some time during their history, from the standpoint of patronage dividends.

Many associations were organized before the payment of patronage dividends, especially to nonmembers, became common. Such a payment to all patrons benefits an association in several ways: First, it makes for a larger membership since nonmembers apply the dividends toward the purchase of a share of stock and thus become members. Second, it increases the volume of business, because the refund attracts business from both actual and prospective members. Third, it strengthens the organization by this influx of new blood.

In Table 23 are estimates of the amount of patronage dividends paid by each type of cooperative in the state, as of 1935-36. The total estimated patronage dividends were \$498,656 paid out by 90 associations, or an average of \$5,541 for each. Creameries paid the largest amount, \$191,364; oil stations ranked second, paying \$161,571. The average patronage dividends for each association in South Dakota was \$1,450.

Expense—It will be interesting to observe, at this point, what it cost the associations to carry on their businesses. Table 24 shows that the total operating expenses amounted to over \$2,000,000. The average expense for each association was a little over \$6,000. Cream stations had the lowest average, \$2,227, while creameries had the highest, \$12,634.

Expense per dollar of sales is a measure of efficiency of operation which depends upon volume of sales and total expense. The average for all associations was 8.6 cents. Livestock shipping associations had the lowest average expense, 5.7 cents, and lumber associations had the highest, 15.1 cents (Table 24).

Table 24—Estimated Operating Expenses
of South Dakota Cooperative Associations*
1935-36

Type of Business	No. of Coop. Associations	Total Expenses	Average Expenses	Expense per Dollar of Sales
Elevators	199	\$950,281	\$ 4,775	\$.075
Oil Stations	46	326,076	7,089	.140
Creameries	40	505,343	12,634	.090
Stores	18	106,179	5,899	.090
Livestock Shipping	11	35,800	3,255	.057
Cream Stations	9	20,042	2,227	.074
Lumber	8	24,872	3,109	.151
Miscellaneous	7	82,291	11,756	.077
Total	338	\$2,050,884	\$ 6,068	\$.086

* Sixteen associations did not answer this question.

Conclusions

We may conclude that cooperation has been an important factor in the improvement of agriculture in South Dakota. It has been a force to increase the returns on agricultural products to the producers, by combating inefficiency, reducing the margins and costs of operation, and increasing the services offered. Also, the cooperative aids in the furnishing of supplies to farmers by offering quality merchandise and efficient service at a reduced margin of profit.

While in general the cooperatives were found to be efficient, and in many cases soundly financed, there is no justification for self-satisfaction. Greater efficiency, sounder financing, and better service are aims for which to strive. Smaller associations have many difficulties because of the expense of hiring trained men for accounting, business management, and other services, which can be afforded by larger organizations.

Although the associations probably had achieved the purpose for which they were organized, there were indications that they were not making the necessary adjustments to cope with the development in their respective businesses, and had not adjusted their organization to new cooperative developments. Many associations could strengthen their organization by becoming fully cooperative. It would help others if they would replace nonpatron and nonproducer members with active producer members that would patronize the association. Some associations also would benefit by obtaining exemption from federal taxation.

Despite the great importance of keeping the membership intelligently informed, most associations had no definite method of meeting that problem except through the annual meeting. Even the annual meeting, in many cases, was little better than a meeting of the directors.

Accounting and auditing are forms of insurance for both the management and the membership and should be the desire of both parties. Accurate and adequate accounts are the basis for the improvement of business organization. Heavy losses frequently occur directly or indirectly as a result of the use of an unsatisfactory method of audit. An adequate audit by a capable accountant outside the organization, although seemingly expensive, is a necessity.