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Cooperative Buying in West Virginia

Paul A. Eke

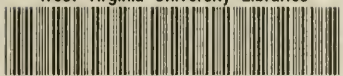
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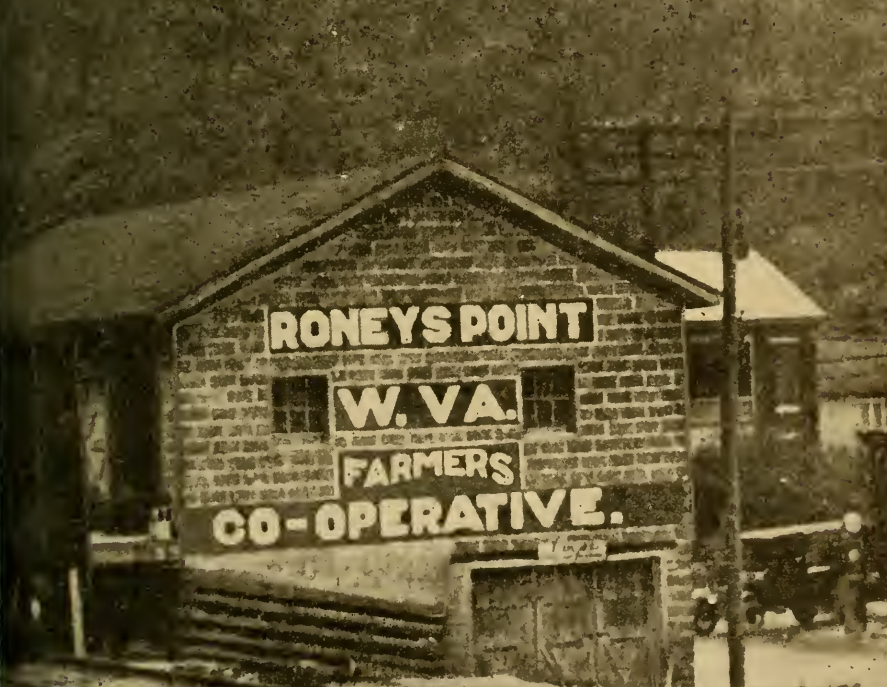
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Cooperative Buying in West Virginia

by Paul A. Eke



RONEYS POINT
W. VA.
FARMERS
CO-OPERATIVE.

Including
W. Va. Cooperative Marketing Act
of 1923

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Purposes of Farmers' Warehouses

To supply guaranteed high quality products.

To stabilize retailers margins in competitive territory.

Purposes Can Be Accomplished Best By

Fitting the services rendered to the demands and needs of the community.

Incorporating the business under the Cooperative Act of the State.

Providing sufficient capital.

Paying a fixed and nominal rate of interest on the capital stock.

Setting aside an adequate reserve fund.

Rebating regularly on the basis of patronage any remaining net profits of the business.

Handling supplies which are demanded in volume.

Handling supplies of known origin and guaranteed quality.

Buying supplies on the prevailing market when in demand.

Selling supplies at reasonable competitive prices.

Conducting the business on a cash basis.

Employing a competent well-liked manager.

Keeping an adequate system of accounts.

Cooperative Buying in West Va.

Cooperative buying has resulted in several notable improvements in the business of furnishing commodities to the farmers of West Virginia. The most significant improvements have been: First, *a supply of guaranteed high quality products*, and second, *a downward revision of the retailing margins*. Both improvements have been so advantageous to the cooperators as to set these factors up as the major purposes of the whole movement.

It is, perhaps, needless to say that these purposes should be accomplished with the minimum expenditure of both money and energy.

Experience in West Virginia has demonstrated that the purposes enumerated can be attained in many counties through simple car-door purchasing. In other counties a warehouse has accomplished them to better advantage. But even where warehouses are being operated, those warehouses which have been operated on a conservative and as nearly as possible cash basis have been in a position to accomplish these purposes much better than those doing a much larger business on a system of credit, with cut-throat prices, and extravagant services.

The real saving to the members has consisted in having a constant supply of high quality products, reasonable retailing margins, and rebates to patrons. Furthermore, patrons of non-cooperative feed stores have indirectly benefited through reduced retail margins and improved quality of supplies.

The accompanying map (Figure 1) shows the counties in which the Farm Bureau buying activities have been studied.

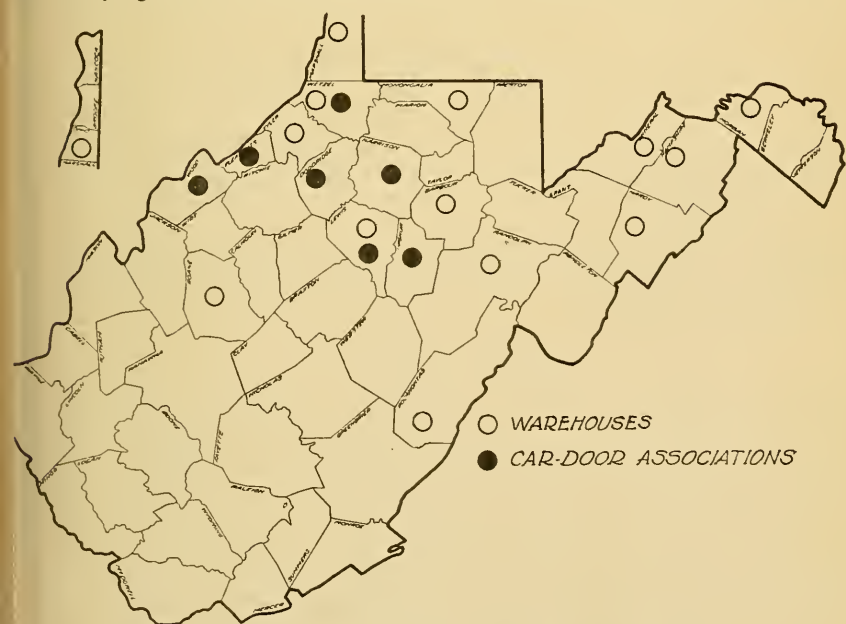


Fig. 1.—Location of the cooperative associations studied.

A study of the organizations, business practices, and difficulties of each organization has been helpful in discovering the problems common to all, and in many instances has pointed the way to their solution. This study was carried out between October 1, 1925, and January 15, 1926. A detailed schedule was filled out for each of the twenty organizations through visits to the places of business, examination of records, and interviews with county agricultural agent, farm bureau officers, and directors and managers of the various warehouses and car-door associations.

PRELIMINARY SURVEY

Before beginning any cooperative buying, either as a warehouse or car-door association, a careful and unprejudiced survey should be conducted by a reliable person or by a committee. This survey should determine, insofar as possible, the economic needs and desires of the prospective patrons. For purposes of arriving at correct decisions, the need of adequate information cannot be over-emphasized.

The preliminary survey may take the form of a number of meetings at which the readiness of the community for this kind of a business will be discussed. It may be well for the committee to call on the prospective members individually and learn the attitude of each toward the business as well as his prospective patronage. Any available records or statistics dealing with the local supply business may be consulted with profit.

From the facts revealed by this survey, decisions can be made as to the feasibility of beginning a business, the kind of organization to establish and the kind of services to extend.

Starting Business

Before starting operations local conditions should be very carefully observed, keeping firmly in mind the conditions which are absolutely necessary to the success of a cooperative business. The prospective volume of business will con-

TABLE 1.—Length of Time Which Various County Farm Bureaus in West Virginia Operated as Car-Door Associations and Warehouses Prior to December 31, 1925.

| Warehouse Number in the Order of the Date of Beginning Business | Length of Time Operated as a Car-Door Association Before Warehouse Business was Begun | Length of Time the Warehouse Business was Conducted Prior to December 31, 1925 |
|---|---|--|
| 1 | none | 7 years |
| 2 | no data | 4 years |
| 3 | 10 years | 3 years |
| 4 | 5 years | 2 years 6 months |
| 5 | 5 years | 2 years 4 months |
| 6 | 3 years | 2 years 3 months |
| 7 | 1 year | 2 years 1 month |
| 8 | 4 years | 2 years |
| 9 | 1 year | 1 year 8 months |
| 10 | 5 months | 11 months |
| 11 | 8 years | 11 months |
| 12 | 5 years | 11 months |
| 13 | 5 years | 10 months |
| 14 | 5 years | 4 months |
| 15 | 3 years | 3 months |



A humble beginning is often desirable for a cooperative warehouse. Note the discussion on pages 24 and 25.

in for primary consideration from the following points of view: (1) The supplies that the prevailing type of agriculture in the trade territory demand. (2) The quantity of these essential products that are shipped in from other sections, and during what seasons of the year (This information can often be obtained from the records of the railroad freight station). (3) The competitors in the field and the economic needs due to unsatisfactory quality of commodities and service, and unreasonable retailing margins. (4) A sufficient number of farmers willing to buy their supplies on the cooperative plan.

Other factors to be considered are the willingness and ability of the farmers to manage and finance the undertaking. Much of the foregoing information can best be obtained by personal interviews, and by free discussions at group meetings.

If a sufficient volume of business, sufficient capital, and efficient managerial ability are assured, steps may be taken in the organization of a cooperative business.

Type of Organization

After the decision to start a cooperative business, the next step is to determine what type of organization will best serve the purpose. The potential volume of business, the willingness and ability to provide finances, and the grade of service for which the patrons are willing to pay, are the deciding factors in determining whether a warehouse or car-door organization will be most desirable. In this connection it is well to bear in mind that car-door buying has served as an apprenticeship for thirteen of the fifteen warehouses under consideration. Table 1 shows that the various county farm bureaus conducted car-door buying operations for a period ranging from one to ten years, with the exception of two bureaus which operated less than one year, before warehouse businesses were organized.



Renting an available building may be more economical than building or buying a warehouse. Refer to discussion on pages 24 and 25.

Experience in the state, as shown in Tables 2 and 3, indicates that a car-door business is an elastic business which can be adapted to handling but a few carloads a year, or may be developed to handle a business of several carloads per month. For the five counties studied in Tables 2 and 3, the number of cars handled for the year ranged from 11 to 72.

TABLE 2.—Number of Carlots Handled by Five West Virginia County Farm Bureau Car-Door Associations for the Fiscal Year Prior to the Time of This Survey.

| Car-Door Associat on Number in the Order of the Date of Beginning Business | Volume of Business in Carloads | | | | |
|---|--------------------------------|-------------------|------------|---------|------|
| | Total | Feed and Flour | Fertilizer | Salt | Lime |
| 1 | 72 | 33 | 12 | 3 | 24 |
| 3 | 53 | 19 | 15 | 1 | 18 |
| 5 | 23 | 15 | 7 | No data | 1 |
| 7 | 18 | 11 | 1 | 3 | 3 |
| 4 | 11 | 4 | 3 | 1 | 3 |

TABLE 3.—Value of Commodities Purchased by Five West Virginia County Farm Bureau Car-Door Associations for the Fiscal Year Prior to the Time of This Survey.

| Car-Door Association Number in the Order of the Date of Beginning Business | Value of Commodities Purchased by the Car-Door Associations for the Fiscal Year |
|---|---|
| 1 | \$47,292.50 (11 months) |
| 2 | 25,000.00 |
| 4 | 20,000.00 |
| 5 | 15,000.00 |
| 3 | 7,000.00 |

TABLE 4.—Number of Carlots Handled by Eight West Virginia County Farm Bureau Warehouses for the Last Fiscal Year Prior to the Time of This Survey.

| Warehouse Number in the Order of the Date of Beginning Business | Volume of Business in Carloads | | | | |
|---|--------------------------------|----------------|------------|---------|---------|
| | Total | Feed and Flour | Fertilizer | Salt | Lime |
| 7 (10 months) | 110 | 63 | 14 | 3 | 30 |
| 9 | 87½ | 57 | 16 | ½ | 14 |
| 4 | 44 | 16 | 18 | 1 | 9 |
| 6 | 37 | 27 | 2 | 7 | 1 |
| 10 (7 months) | 36 | 11 | 15 | 1 | 9 |
| 1 | 28 | 3 | 19 | 2 | 4 |
| 8 (11 months) | 22 | 20 | 2 | No data | No data |
| 12 (10 months) | 15 | 7 | 6 | No data | 2 |

TABLE 5.—Value of Commodities Sold by Eleven West Virginia County Farm Bureau Warehouses for the Fiscal Year or Fraction of Year for Which Data Were Available at the Time of This Survey.

| Warehouse Number in the Order of the Date of Beginning Business | Value of Commodities Sold By the Warehouses |
|---|---|
| 3 | \$112,000.00 |
| 9 | 101,952.44 |
| 7 | 77,083.57 |
| 6 | 52,578.75 |
| 4 | 41,500.00 |
| 8 | 40,936.63 |
| 10 | 35,000.00 (7 months) |
| 5 | 26,000.00 |
| 12 | 18,000.00 (6 months) |
| 13 | 12,000.00 (8 months) |

A successful warehouse must have a certain minimum volume of business because of the constant overhead expense. Tables 4 and 5 give the volume of business of several warehouses in the state in terms of carloads and in the value of the commodities handled during the year prior to the study, and the average value of commodities purchased per month for the same period. The range in the value of the annual business has been from about \$18,000 to slightly more than \$100,000. The number of carloads handled ranged from 15 to 110. A careful study of these warehouses indicates that with the usual conditions prevailing a minimum annual business of from \$35,000 to \$50,000 is necessary in order to (1) carry the overhead expense; (2) keep an adequate stock of supplies; (3) pay a reasonable dividend on the capital stock; and (4) keep the retailing margins down to a competitive and reasonable level.

If a sufficient volume of business can be obtained for either a car-door or warehouse business, the choice between the two types of organizations must be based on:

(1) A willingness of the patrons to pay the greater costs of conducting a warehouse service.

(2) The willingness and ability of the patrons to finance a warehouse if it is chosen.

(3) The possibility of obtaining capable warehouse management.

A number of local conditions may greatly influence the foregoing factors.

One of the most important is the location and condition of the roads.

Three general conditions have been observed in the counties studied.

(1) Counties with good roads radiating from a common center have found a warehouse business possible.

(2) Counties with good roads but having several small trade centers which are rather inaccessible from a central point have found a car-door business more suitable than a warehouse.

(3) Counties with poor roads where patrons are far from a central point have found both types of organization difficult and expensive. Where volume of business is small some opportunity for temporary storage seems to be necessary. This system of temporary storage has in most cases been the source of much misunderstanding and some financial loss.

The customs and usual practices of the patrons must also be ascertained. Custom is often a good indicator of what type of service will satisfy a sufficient number of patrons. Savings made by limiting the usual services are often effective in changing these customs. This has been shown by the fact that the more successful warehouses are doing a large business almost entirely on a cash basis in spite of the customary extension of credit by competitors. Car-door buying has resulted in sufficient savings to induce a large number of farmers to accept this limited service in preference to the more complete service offered by cooperative or non-cooperative supply stores. Some of the better organized counties in the state prefer the car-door business because of the lower costs.

ORGANIZATION

If the committee in charge of the preliminary survey finds that there are actual economic needs, necessary competitive advantages, and a general willingness on the part of the farmers to organize and patronize a cooperative supply business, organization meetings will be in order.

Organization meetings widely advertised and well planned will aid materially in accomplishing the important business which is to be considered. The future success or failure of the enterprise will depend to a very large extent upon the judgment exercised at these meetings. Such matters as (1) incorporation, (2) by-laws, (3) financing, (4) business site, (5) business plan, and (6) selection of a manager, require the best talent and experience which are available.

It will prove helpful to consult a specialist in cooperative business methods prior to the organization meetings and it may be advisable to have a specialist present at the meeting to answer technical questions with regard to cooperative organization, legal matters, and business practices. Help can often be obtained free of charge by applying to the College of Agriculture, Morgantown, or the West Virginia Farm Bureau, Clarksburg, West Virginia.

First Meeting

After assembling, and a presiding officer has been selected, the following is a suggested order of business:

1. Members of the preliminary survey committee shall state their findings and present recommendations based on these findings. At least two recommendations should be given at this time: (1) the desirability of organizing a



Delivering supplies by truck is convenient in the large city dairy districts. Refer to discussion on pages 27 and 28.

supply business, and (2) if desirable to organize, whether a car-door or warehouse company is more desirable. These recommendations should be fully discussed and a vote taken. The committee may go farther at this time in its recommendations, but care must be exercised in not bringing in too many details which will come logically in the second meeting after other committees have had an opportunity to complete their work. The recommendations offered and the votes taken should be carefully recorded by by a temporary secretary.

2. If a decision is made to start a car-door business steps may then be taken to perfect an organization for the promotion of this type of service in the county. Many communities have been organized as unincorporated associations to conduct a car-door business. The County Farm Bureau has often taken the responsibility for this work and has appointed or elected a county purchasing agent and also encouraged the selection of community purchasing agents. If a separate county organization is desired, however, a committee should be appointed to prepare articles of incorporation and by-laws. The model by-laws given on pages 15 to 18, will serve the purposes very well, and may be adopted by vote of those present at the meeting. In case the model by-laws are adopted, a tentative board of directors may be elected at this time. This board can then take charge of the incorporation of the company, election of a permanent board of directors, and carry out other provisions necessary to begin business operations. In case other by-laws are desired, a committee can be appointed to draw up the by-laws and a second meeting called for discussions and adoption. Complete organization may then be carried out as previously stated.

When the company is fully organized the board of directors will take full charge of the promotion of the car-door service in the county.

3. If it is decided that a warehouse business is to be promoted, three committees should be appointed to take care of the details or organization.

(a) A committee on incorporation and by-laws.

(b) A committee on financing, stock subscription, and membership.

(c) A committee on business site and business facilities.

4. At the first meeting a rather complete discussion of cooperative principles and the state cooperative act by a specialist in cooperative business methods is very desirable. At the conclusion of this discussion a vote may be taken to determine the will of the members in respect to incorporating under the state cooperative act. It may be desirable, however, to defer the vote until the committee on incorporation has had an opportunity to be thoroughly informed with regard to the merits of the act, and of other alternatives.

Second Meeting

After the three committees appointed at the previous meeting have had an opportunity to develop carefully worked out plans of procedure, a second meeting may be called to discuss the proposals and to vote upon them. If a large number of prospective members are present, it is desirable to adopt tentative by-laws, as recommended by the committee, and to elect a tentative board of at least 5 and preferably 10 directors. This action with regard to directors and by-laws will not be binding but should be considered as carefully as if the action were final, for it will be expected that the persons who act later as incorporators and who then go through the form of legally adopting the by-laws and electing directors will follow the actions taken by the larger body of prospective members. A small body of incorporators can carry out the formal organization, including incorporation, adoption of by-laws, and election of the first directors, with more dispatch and smaller expense than can be done by a larger body of members where conditions are not always favorable to deliberate and orderly procedure. The first permanent board of directors, as soon as elected, shall proceed to the subscription of capital, the acquisition of the business site and facilities, the selection of a manager, and in general to the establishment of business operations.

A tentative subscription list may be circulated at this meeting on which is shown the names of the prospective members and the amounts of capital which each prospective member will subscribe.

Incorporation

A cooperative business which requires a large fixed capital or entails large financial obligations should by all means be incorporated. The following are the most outstanding advantages of incorporation:

1. Limits the personal liability of the members.

2. Permits the association to hold and transfer title to property of all kinds including land.

3. Gives the association a standing in court proceedings for the collection of claims and damages.

4. Gives the association a better standing in the community.

5. Adds stability to the organization and provides for its continuance over an indefinite period.

A cooperative business which is not incorporated has the following disadvantages:

1. Each member is jointly and severally liable for all obligations of the association.

2. The association cannot sue except in the names of the individual members or in the name of a person duly empowered, and if it is made a defendant in a suit only those members served with process are held.

3. The association cannot take, hold, or convey real estate by its association name.

4. The association lacks permanency, stability, responsibility, and business standing.

The Articles of Incorporation should be carefully worked out by a committee who will consult the requirements set forth in Section 6 of the State Cooperative Act. (See pages 47 and 48.)

The provisions set forth in the model by-laws on pages 15 to 18 (if these by-laws are adopted) should be followed closely in complying with the provisions of the law just referred to. If by-laws differing from the model by-laws suggested in this bulletin are desired, a specialist in cooperative organization and business practice should be consulted in the formulation of such by-laws, in order that they may conform with tested cooperative principles and practices. Furthermore, it is advisable to submit the newly formulated by-laws to a lawyer who will see that they conform to the State Cooperative Act before Articles of Incorporation based on these by-laws are adopted.

By-Laws

A good form of by-laws must have the following characteristics:

1. All provisions must conform with the State Cooperative Act.

2. The by-laws should conform with cooperative principles and the best business practices.

3. All provisions should be adapted to the needs of the particular type of business carried on by the company.

4. Some provisions may be specifically designed to meet particular local conditions.

To facilitate the adoption of legal, workable, and safe by-laws, a model form of by-laws is here submitted. These by-laws have been carefully worked out and conform with the State Cooperative Law, as it existed at the time this bulletin was published.

These by-laws are in a large part the results of a study of the experiences of more than a dozen warehouses and half as many car-door associations in West Virginia, during periods ranging from a few months to more than seven years.

The model by-laws included may save a good deal of work on the part of the incorporators and also perhaps save the company from the embarrassment of a faulty organization. Originality on the part of the organizers has no merit in the adoption of by-laws for a business in which the organizers have had no opportunity for wide experience.

When changes are desirable or necessary, they should be carefully reviewed by a specialist in cooperative business methods. It is not safe to conduct a business with by-laws which have not been submitted to men with training and experience in cooperative organization because (1) the by-laws may be illegal, (2) may provide for an unwise financing plan, (3) may be unfair and unjust to certain patrons and stockholders, (4) may result in loss of control of the company by the members and patrons. These are but a few of the difficulties encountered by some of the farmers' warehouses which have been organized in West Virginia.

Tables 6 and 7 show that there has been an attempt by the warehouses to apply cooperative principles with regard to voting and stock ownership even though most of the companies have not been incorporated under the State Cooperative Act. Several companies allow one vote for each share of common stock, relying for well distributed control on limitations placed on the number of votes allowed each person. There is always danger of a company which votes on the basis of stock ownership getting under control of a few men who will run it for their own profit instead of for service to the patrons. Such has been the experience of two companies listed in this study.

TABLE 6.—Systems of Control Employed by 14 West Virginia County Farm Bureau Warehouses.

| Warehouse Number in Order of Date of Beginning Business | System of Control of Voting Power | Number of Shares of Stock Authorized | |
|---|--|---|----------------|
| | | Common | Preferred |
| 1 | Each Farm Bureau Member One Vote | Unincorporated | Unincorporated |
| 2 | Each Shareholder One Vote | Unincorporated | Unincorporated |
| 3 | Each Common Stockholder One Vote | No data | No data |
| 4 | Each Common Stockholder One Vote | 226 | None |
| 5 | Each Common Stockholder One Vote | 220 | None |
| 6 | Each Share of Common Stock One Vote ¹ | 1,000 | None |
| 7 | Each Share of Common Stock One Vote ² | 2,000 | None |
| 8 | Each Share of Preferred Stock One Vote ³ | 72 | 2,500 |
| 9 | Each Preferred Stockholder One Vote | 1,000 | 90 |
| 10 | Each Share of Common Stock one Vote ² | 1,000 | None |
| 11 | Each Share of Common Stock one Vote ² | 600 | None |
| 12 | Each Farm Bureau Member One Vote | No Stock | No Stock |
| 13 | Each Farm Bureau Member One Vote | Unincorporated | Unincorporated |
| 14 | Each Common Stockholder One Vote | 500 | No data |

(1) Maximum number of votes by one person, 10

(2) Maximum number of votes by one person, 40

(3) Maximum number of votes by one person, 50

TABLE 7.—Limitations Provided in the By-Laws With Regard to Dividends and Stock Ownership for 14 West Virginia Warehouses.

| Warehouse Number in Order of Date of Beginning Business | Maximum Rates of Annual Dividends on Capital | | Largest Percentages of Total Authorized Capital Stock Which One Person is Permitted to Own | |
|---|--|----------------|--|----------------|
| | Common | Preferred | Common | Preferred |
| 1 | Unincorporated | Unincorporated | Unincorporated | Unincorporated |
| 2 | Unincorporated | Unincorporated | Unincorporated | Unincorporated |
| 3 | 3 percent | 6 percent | No data | No data |
| 4 | No limit | No stock | 1/2 of 1 percent | No stock |
| 5 | 6 percent | No stock | 100 percent | No stock |
| 6 | 6 percent | No stock | 1 percent | No stock |
| 7 | No limit | No stock | 2 percent | No stock |
| 8 | No stock | 6 percent | No stock | 2 percent |
| 9 | No stock | 6 percent | 1/10 of 1 percent | 100 percent |
| 10 | 6 percent | No stock | 2 percent | No stock |
| 11 | 6 percent | No stock | 6 2/3 percent | No stock |
| 12 | No stock | No stock | No stock | No stock |
| 13 | Unincorporated | Unincorporated | Unincorporated | Unincorporated |
| 14 | No stock | 6 percent | 1/5 of 1 percent | No stock |

Any company incorporated under the general incorporation act can by a simple majority vote of the stock wipe out all cooperative features contained in the by-laws. This cannot be done so easily when incorporated under the State Cooperative Act, because the cooperative features are a part of the Articles of Incorporation; and a two-thirds vote of the directors in addition to a majority vote of all the members is necessary to amend the articles. Moreover, to change property rights and interests a three-fourths vote of all the members is necessary.

SUGGESTED BY-LAWS FOR A COOPERATIVE SUPPLY COMPANY

Article I.—Name

The name of this organization shall be The _____ Cooperative Supply Company.

Article II.—Object

Its object shall be to buy and sell on the cooperative plan, articles of common use, including farm products, food supplies, fertilizers, farm machinery, repairs, and articles of domestic and personal use, or in owning or leasing real estate or any other property necessary for conducting its business or to engage in any other activities which are allowable under the cooperative laws of West Virginia whether herein specifically set forth or not.

Article III.—Stockholders

Section 1. Only persons engaged in the production of the agricultural products shall be admitted as members or be issued common stock.

Section 2. Each holder of common stock shall be a member and shall be entitled to one vote. Voting by proxy shall be prohibited.

Article IV.—Meeting of Stockholders

The annual meeting of stock holders of the company shall be held on the _____ of _____ each year at its principal place of business at _____, West Virginia, or at such other place within the said county as the Board of Directors may designate.

Special meetings of stockholders of the company may be held at such times and places as the President, or a majority of the Board of Directors, may order and if 10 percent of the stockholders file a written petition with the Board of Directors asking for a special meeting of stockholders, the same shall be arranged for by the Board of Directors and held according to the provisions for the same made in their order. One-fifth of the stockholders of the corporation entitled to vote shall constitute a quorum for the transaction of business.

Notice of all meetings of stockholders shall be given to each stockholder of record on the books of the Company by mailing a copy of such notice to his or her address as the same appears on the books of the Company at least ten days prior to such meeting; and by publication of such notice at least ten days prior to the meeting in a newspaper of general circulation in _____ County, West Virginia.

Article V.—Directors

Section 1. The affairs of the Company shall be conducted by the Board of Directors.

Section 2. The election of Directors shall take place at the annual meeting of stockholders, or if for any cause such annual meeting is not held, then a special meeting may be called for that purpose. Such election shall be by ballot, and it shall require a majority of the stockholders voting to elect. No person who is engaged in a business in competition with any business activity of the Company shall be eligible to serve as a director or employee.

Section 3. The number of directors shall be nine, divided into three classes of three Directors each, and the term of office shall be three years, or until their successors have been duly elected and qualified. Of the directors elected at the first stockholders meeting, one-third shall serve until the first annual meeting thereafter, one-third until the second annual meeting thereafter, one-third until the third annual meeting thereafter, or until their successors have been duly elected and qualified, and after the first election one-third of the Board of Directors shall be elected at each annual meeting of stockholders for a term of three years, or until their successors have been duly elected and qualified. A majority of the Board shall constitute a quorum to do business.

Section 4. The Board of Directors shall meet immediately after the annual meeting of the stockholders. Special meetings of the Board shall be held upon the call of the president or upon the written request of five members of the Board.

Section 5. The Executive Committee shall employ an auditor to audit the books of the company and make a complete report thereof to the stockholders at each annual meeting. The Board of Directors or stockholders may employ an auditor when in their judgment it may seem advisable to audit the books of the company and make a report thereof at any regular or special meeting.

Section 6. The Board of Directors shall require every person having the custody of money or anything of value to exceed \$100 on account of the corporation, to be bonded in such sum and upon such terms and conditions as shall be approved by the Board of Directors, and a failure to do so shall render the Directors personally liable to the Company for any loss resulting from such neglect.

Section 7. The Board of Directors shall at their first meeting after the annual stockholders meeting select an executive committee composed of the President and two other directors with power to transact all business of the Company when the Board of Directors is not in session, subject to the approval of the Board of Directors. The Executive Committee shall meet on the last Saturday of each month at the office of the Company, and special meetings may be called by the president. The Executive Committee shall have power to employ and discharge all employees necessary to conduct the business of the Company and to fix the compensation of each.

Section 8. The Board of Directors for sufficient reason may remove from office any member of the Executive Committee, by a two-thirds vote of all Directors. But must first give such member ten days notice and a chance to be heard. The stockholders may remove a director in like manner.

Article VI.—Officers

Section 1. The officers of the Company shall be a president and vice-president elected from the Board of Directors and a secretary-treasurer elected from the members. Such officers shall be elected by the Board of Directors for a term of one year or until their successors are elected and qualified, except that the first set of officers shall serve until the first meeting of the Board of Directors after the first annual meeting of stockholders.

Article VII.—Management

Section 1. No speculative dealings shall be engaged in or credit extended to anyone by any employee of the Company except as specifically authorized by the Executive Committee or Board of Directors.

Article VIII.—Capital, Stock, Dividends, and Surplus

Section 1 The capital stock of the Company shall be set forth in the charter of the Company.

Section 2. Only persons engaged in the production of agricultural products shall be admitted as members or shall be issued common stock. Each member shall own at least one share of common stock.

Section 3. Each customer of the Company who does not own any common stock may automatically become a member and stockholder of the Company and the equivalent of what would be due him as a patronage dividend shall be placed to his credit in a special reserve fund until it has accumulated to an amount sufficient to pay for one share of common stock. The Company shall not issue stock to a member until the stock has been fully paid for.

Section 4. The transfer of common stock to persons not engaged in the production of agricultural products is prohibited and such restrictions must be printed upon every certificate of stock subject thereto.

The Company may at any time, except when the debts of the association exceed 50 percent of the assets thereof, buy in or purchase its common stock from the members at the book value thereof, as conclusively determined by the Board of Directors and pay for it in cash within one year thereafter, less any indebtedness due the association by the sellers of the stock.

Subject to the restrictions aforesaid the Company shall buy in or purchase the common stock of deceased members, of members quitting agricultural production, and of members moving out of the trade territory.

Section 5. The sale of preferred stock of a par value of \$100 may be authorized at any annual or special stockholders meeting in conformity with the charter of the Company. The preferred stock shall be non-voting and the Board of Directors may provide a sinking fund and fix a date for retirement of the preferred stock.

Upon the dissolution of the Company any preferred stock outstanding shall have first claim as to membership liabilities.

Article IX.—Duties of Officers

Section 1. The president shall be the presiding officer at all meetings of the Board of Directors, executive committee, and stockholders. He shall be ex-officio a member of all committees. He shall sign, execute, and deliver all deeds of conveyance of real estate which the directors may order executed, and shall sign all certificates of stock of the corporation, and perform such other duties as the Board of Directors may direct. In case of absence, inability to act, or death of the president, the vice-president shall discharge the duties of the president until his return, his disability is removed, or the vacancy filled. In the absence or disability of both president and vice-president a presiding officer may be chosen at the meeting.

Section 2. The secretary-treasurer shall attend all meetings of the stockholders, the Board of Directors, and executive committee and keep in a suitable book the minutes of said meetings. He shall have charge of the records and papers of the corporation, shall have charge of and affix the corporate seal to all such documents as may require such attestation; shall issue notices of all meetings; shall countersign all certificates of stock. He shall receive all money paid to the corporation and give his receipt therefor; he shall pay out the same under the direction of the executive committee, and shall make such disposition of the funds on hand as the Board of Directors shall determine. He shall keep in a suitable book a true account of all transactions. He shall make a full detailed report of all receipts and disbursements to the executive committee and the Board of Directors at their regular meetings, and an annual report of the same to the stockholders at the annual meeting thereof and perform all the duties generally incident to his office as secretary-treasurer. His records shall be open to the inspection of any of the directors or stockholders during the business hours.

Article X.—Refunds and Surplus

Section 1. The Board of Directors before declaring any refunds or making any appropriations hereinafter mentioned, shall classify the business done to date, according to the company's net profits on each commodity or line handled so as to enable the Company to distribute the surplus refund in a just and equitable manner to the members.

Section 2. The Board of Directors of the Company is authorized, from the surplus, net profits, of the business, in harmony with the provisions of the charter and of these by-laws, to declare dividends and refunds and appropriate the net profits as follows:

First, A dividend on the preferred stock shall not exceed 8 percent for any one year, which said dividend on the preferred stock shall be cumulative.

Second, After payment of current and accumulated dividends on preferred stock, a surplus and reserve fund (to cover depreciation and possible losses and provide for facilities required in the business and the retirement of indebtedness incurred) shall be created from the net earnings of the Company by setting aside before any patronage refund is declared, not less than 5 percent nor to exceed 20 percent of the surplus net profits in any one year, according to the discretion of the Board of Directors, until such surplus and reserve fund is equal to the total amount of the paid in capital stock.

Third, After the payments of dividends and appropriation to surplus reserve funds, as aforesaid, if any surplus net profits are left the same shall be distributed as a patronage refund, to the holders of the common stock of this company, in proportion to the volume of business done by said member with the Company in each of the classifications as determined by the Board of Directors herein before provided for.

In ascertaining and determining such refund the Board of Directors shall take cognizance only of purchases by the members for their own individual use and of the sales of their own personal farm products sold by the Company.

Article XI.—Vacancies in Board

Any vacancy occurring in the Board of Directors by reason of death or otherwise, shall be filled by the Board of Directors until the next annual meeting.

Article XII.—Fiscal Year

The Fiscal year of the Company shall begin as of _____ and end as of _____.

Article XIII.—Compensation

The members of the Executive Committee may receive a compensation of _____ dollars per day for each regular and special meeting attended and in addition, _____ cents per mile for each mile traveled to and from each meeting.

Article XIV.—Amendments

These by-laws may be repealed or amended by a two-thirds vote of the stockholders present at any regular meeting, or by a two-thirds vote of the stockholders present at a special meeting held for that purpose. To change property rights and interests a three-fourths affirmative vote of all members is necessary.

Financing and Membership

The need for the committee on financing and membership will be determined by the decision to organize a warehouse. A car-door business requires working capital only and this but for a day or two when the car is being unloaded. This capital can very conveniently be supplied by the car-door purchasing agent or borrowed from a bank. For a warehouse, however, fixed capital as well as working capital must be provided, since a stock of goods must be kept, and equipment and very often real estate must be purchased.

The methods employed in raising this necessary capital is of vital importance from the standpoint of (1) sufficient capital, (2) the security of the money invested, (3) the control of the company. Several methods for raising capital have been used by the farmers' warehouses in the state. These methods may be listed as follows:

1. Collateral notes given by the members.
2. Loans from individual banks and county farm bureaus.
3. Contributions from the members.

4. Using accumulated farm bureau dues.
5. Using accumulated profits of the business.
6. Sale of stock, both common and preferred.

The sale of capital stock has been found to be the best practice whenever rather large amounts of fixed capital have been required. More than half of the farmers' warehouses in the state have sold stock in raising the fixed capital requirements. To supply real estate alone from \$1500 to \$24,000 of fixed capital have had to be raised. Furthermore, the Cooperative Act makes special provisions for capital stock which may be either preferred or common.

The law provides a number of restrictions, the most important of which are that no stockholder shall own more than one-twentieth of the common stock, and only operating farmers may be stockholders, members, and patrons. The above restrictions are not placed on the ownership of preferred stock. Convenient alternatives are thus allowed in the sale of capital stock.

Good business practice demands that enough capital stock should be sold to provide all the fixed capital required for equipment and real estate and furthermore, to provide working capital for a minimum stock of supplies. The other methods which have been listed herein should be used as temporary expedients or mere supplements to the capital raised by the sale of stock. For peak business periods additional capital may be borrowed to advantage. The success of the company depends in large part in anticipating the capital requirements and actually raising the money at the start. In order to do this the probable growth of the business must be estimated.

Once it has been decided to raise capital through the sale of stock, a committee should work out the details carefully with regard to:

1. The kind of stock.
2. The par value of the stock.
3. The number of shares to be authorized.
4. The relation of stock ownership to voting.
5. The retirement, repurchase, and assignment of stock.
6. The methods of selling the stock.

In making the foregoing suggested plans for the sale of stock, the following cooperative principles and practices should be strictly adhered to:

1. The purpose of the company is savings and service for the patrons and not profits on capital stock. The dividends on the stock shall, therefore be limited to a nominal rate, for example 6 or 8 percent.
2. The voting power shall be kept democratic; each member having but one vote regardless of the amount of stock owned.
3. Each patron shall become a member as required by the Cooperative Act and shall have some share in promoting the enterprise.
4. Each patron and member shall participate in the profits of the company through the payment of patronage dividends.*

Since each patron must be a member according to the State Cooperative Act, various devices have been suggested to comply with this provision, and also to give each member some of the responsibilities and burdens as well as the benefits of cooperation. Two plans will be suggested.

* Patronage dividends is a term used to designate the dividends paid out by cooperative companies to its members on the basis of the amount of business done with the company rather than on the basis of the amount of stock owned.

1. Some warehouse companies in the state require, as a qualification for membership, that each patron be a member in good standing of the County Farm Bureau. To make this requirement effective, these companies reserve the right to apply the patronage dividends to the payment of the annual farm bureau dues. When this plan is used the requisite capital may be raised by the sale of preferred stock in unlimited amounts to members and non-members. This stock should preferably carry no voting power and should have a fixed cumulative rate of dividends which is sufficient to induce investors to take the risks involved.

2. The other plan may be stated as follows: Stock ownership is made a qualification for membership and patronage. As a first step, common stock is sold to all prospective farmer patrons who are willing to take at least one share of stock at the time the company is being organized. Secondly, some shares of this stock will be held for sale to any patrons who may later decide to buy. Finally, in order to permit the patronage of farmers who are not willing or unable to purchase stock, a device must be worked out to make each the owner of at least one share. This is accomplished by applying the annual patronage dividend of each non-stock-holding patron as an installment on the purchase price of one share of common stock. This stock is held by the company until it shall be paid for in full. In this manner each patron becomes a stockholder and member, and more capital is raised as the business grows. There are many advantages in the use of this plan in place of the first one suggested. This plan is incorporated in the model by-laws given herein.

Since no persons but those engaged in agricultural production are permitted to be patrons and voting members, some provisions should be made for the retirement and repurchase of the stock. The by-laws should provide for the methods of carrying out these provisions in the cases of deceased members, members leaving agricultural production, and members moving out of the trade territory. The assignment of common stock should be prohibited insofar as the

TABLE 8.—Number of Stockholders and Par Values of Common and Preferred Stock of 14 West Virginia Warehouses.

| Warehouse Number in the Order of the Date of Beginning Business | Common Stock | | Preferred Stock | |
|---|------------------------|--------------------|------------------------|--------------------|
| | Number of Stockholders | Par Value of Stock | Number of Stockholders | Par Value of Stock |
| 1 | 33 (Contributors) | none | none | none |
| 2 | 49 (Shareholders) | no data | none | no data |
| 4 | 226 | Non-par | none | none |
| 5 | 25 | \$50.00 | none | none |
| 6 | 85 | \$10.00 | none | none |
| 7 | 100 | \$25.00 | none | none |
| 8 | 72 | \$ 1.00 | 90 | \$ 10.00 |
| 9 | 233 | \$ 1.00 | 77 | \$100.00 |
| 10 | 80 | \$25.00 | none | none |
| 11 | 15 | \$25.00 | none | none |
| 12 | none | none | none | none |
| 13 | none | none | none | none |
| 14 | 225 | \$ 1.00 | 37 | \$ 1.00 |

TABLE 9.—Total Amounts of Authorized Capital Stock and Paid-up Capital Stock for 14 West Virginia Warehouses.

| Warehouse Number in the Order of the Date of Beginning Business | Total Authorized Capital (Both Common and Preferred Stock) | Total Amount of Stock and Shares Paid Up |
|---|--|--|
| 1 | Unincorporated | \$ 1,015.90* |
| 2 | Unincorporated | 3,000.00 (in shares) |
| 3 | No data | No data |
| 4 | No par value | 3,146.00 |
| 5 | \$10,000.00 | 2,000.00 |
| 6 | 10,000.00 | 5,800.00 |
| 7 | 50,000.00 | 32,962.82 |
| 8 | 25,000.00 | 9,380.00 |
| 9 | 10,000.00 | 8,250.00 |
| 10 | 25,000.00 | 2,800.00 |
| 11 | 15,000.00 | 2,200.00† |
| 12 | No stock yet authorized | None |
| 13 | Unincorporated | None |
| 14 | Incomplete data | 3,500.00 |
| Average Amount for Those Reporting | \$20,714.28 | \$ 6,733.16 |

*The members loaned various sums which are being paid back in ten annual installments consisting of 14 percent of the sum contributed.

†Approximately.

law will permit, and the company should be ready to repurchase under appropriate restrictions any such stock offered for sale.

In planning the sale of stock the entire community or territory should be laid off into districts. Men or committees may then be appointed to canvass the farmers in each district. The solicitors should be favorably known in the communities. Records shall be kept of the men who refuse to buy stock and their reasons for doing so. These men may be called upon a second time by another man or committee. In no case should the solicitors be paid for the sale of stock. If this must be done, it is questionable if the farmers are yet ready to conduct a cooperative enterprise.

Table 8 shows the number of stockholders and the par value of the stock of several warehouses in operation in West Virginia. It will be noted that the number of stockholders vary from 15 to 233 and the par value of stock from \$1 to \$100. There has been a tendency to make the par value of a share of stock too small. Experiences of most cooperative companies indicate that \$50 should be the minimum for common stock and \$100 for preferred stock. Doubling these amounts has many advantages.

Table 9 shows that there are variations in the authorized capital stock of from \$10,000 to \$50,000 and an average of \$20,714.28 for the seven warehouses reporting. The paid-up stock ranges from \$2,000 to \$32,962.82 with an average of \$6,733.16 for those reporting. It will be noted that the average paid in stock is approximately one-third of the authorized capital. Most companies have found themselves without sufficient funds, therefore, every endeavor should be made to anticipate future requirements before business is begun. It is usually much easier to sell stock during the promotion period than later.

TABLE 10.—Estimated Total Amount of Capital Consisting of Working Capital and Value of Real Estate Used in the Business During the Last Fiscal Year or Part of Year, Compared to Value of Products Sold for Same Year for 9 West Virginia Warehouses.

| Warehouse Number in the Order of the Date of Beginning Business | Estimated Amounts of Working Capital Plus Real Estate Values | Estimated Average Amounts of Working Capital | Value of Real Estate Which Was Being Used for Warehouses | Value of Products Sold During Year |
|---|--|--|--|------------------------------------|
| 3 | \$69,000 | \$45,000 | \$24,000 | \$112,000 |
| 7 | 57,000 | 36,000 | 22,000 | 77,084 |
| 9 | 21,410 | 16,000 | 5,410 | 101,952 |
| 1 | 13,700 | 11,500 | 2,200 | 26,000 |
| 8 | 12,750 | 8,000 | 4,750 | 40,937 |
| 6 | 10,500 | 6,000 | 4,500 | 52,579 |
| 4 | 9,500 | 8,000 | 1,500 | 41,500 |
| 10 | 9,500 | 4,000 | no data | 35,000 (7 months) |
| 12 | 8,400 | 5,100 | 3,400 | 18,000 (6 months) |

Table 10 shows the estimated amounts of capital used by fourteen warehouses in West Virginia. The variations in the total capital employed range from

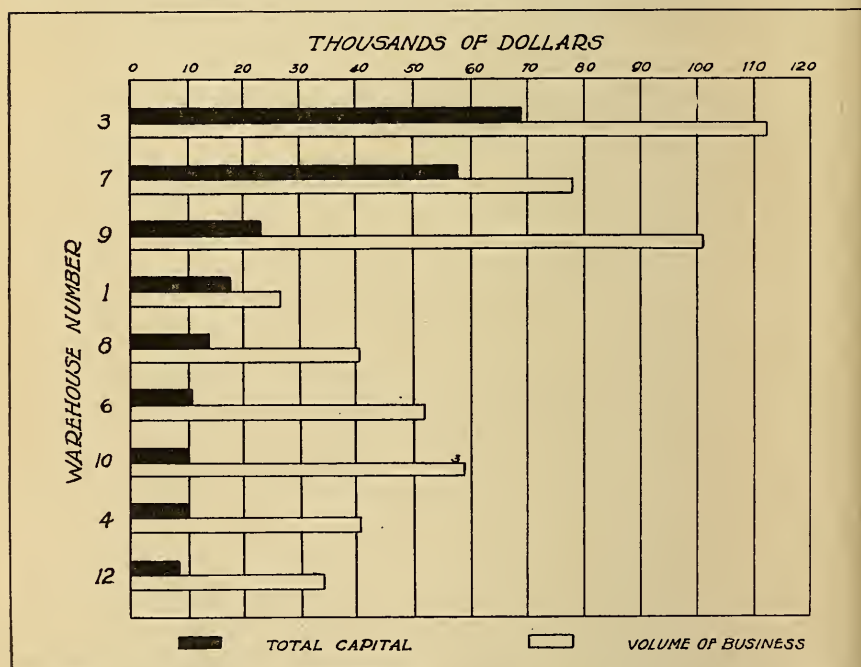


Fig. 2.—Comparison of total capital and volume of business for nine West Virginia Warehouses for the fiscal year ending June 30, 1925.¹ See Table 10 for data on which this graph is based.

¹Total capital as here used is the sum of the working capital and real estate values.

²Estimated from seven months business.

³Estimated from six months business. (Refers to warehouse No. 12.)

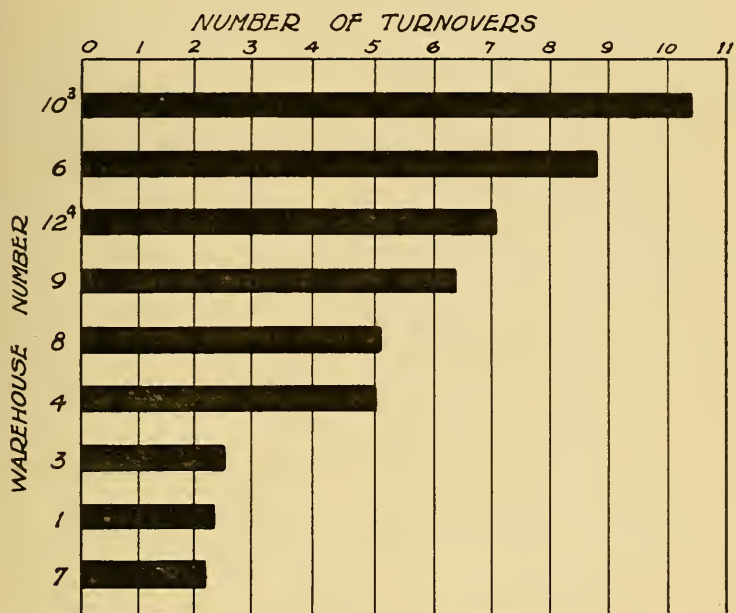


Fig. 3.—Comparison of turnovers of working capital for the nine West Virginia warehouses compared in Figure 2, for the same period of time or the fiscal year ending June 30, 1925.

\$8,400 to \$69,000. The differences in the amounts of both working capital and real estate values show similar wide variations. The relationship of the value of the real estate to the working capital ranged from about one-fifth to considerably more than one-half. This relationship is of great importance to the success of the business.

Figure 2 shows graphically the relationship between the total capital and the volume of business for each of nine warehouses for the fiscal year ending June 30, 1925. There is a wide range in the number of turnovers per year, a range of about 1 1/3 to 6 1/3 turnovers. The number of turnovers is a good indication of efficiency in the use of capital and usually of the efficiency of the business as a whole.

Figure 3 gives graphically the number of turnovers of the working capital. There is a variation of from about 2 1/5 to 10 1/3 times annually. These turnovers are good indicators of the influence of the credit policies, the stocks of goods carried and the volumes of business on the operating efficiency of each warehouse.

² Working capital consists of all capital owned and borrowed except real estate.

³ Estimated from seven months business.

⁴ Estimated from six months business.

Site and Business Facilities

The committee on site and business facilities has three alternatives, namely: (1) to rent a building, (2) to purchase an existing building, or (3) to build a new one. In making a choice the committee should very carefully consider the adaptability of the various sites available. Very often farmers fail to realize the importance of being located: (1) on a railroad spur which saves a great deal of handling of heavy supplies; (2) in the village or city which is commonly patronized by most of the prospective patrons; (3) near the place where most of the members go when in town attending to other business. Inconvenient locations have been one of the chief difficulties of a number of farmers' warehouses in the state. Expensive retail sites need not be selected, but the warehouse should not be a great distance from the retail district. In large cities expensive real estate makes the selection of a site very difficult and in many cases the selection of a site outside of the main business district, or the location in a smaller town, will be necessary.

When deciding to rent, buy, or build, some of the factors to be considered are:

1. The amount of capital available in addition to that needed for working capital.
2. The relative annual costs of each of the three alternatives in obtaining a building.
3. The possibility of buying out a competitor.
4. The time when it is most desirable to begin the business.
5. The risk involved in beginning the business may be a sufficient reason for renting a warehouse, since the business can be more quickly closed up and the assets more easily returned to those contributing them.

TABLE 11.—Real Estate Costs and Values for West Virginia Cooperative Warehouses Considered in This Study.

| Warehouse Number in the Order of the Date of Beginning Business | Original Cost of the Real Estate | Estimated Value of Warehouse Real Estate at Time of Survey |
|---|----------------------------------|--|
| 1 | \$ 2,200 | \$ 2,000 |
| 2 | 3,000 | 3,000 |
| 3 | 24,000 | 27,500 |
| 4 | 1,500 (land leased) | 1,500 |
| 5 | 1,800 | 2,000 |
| 6 | 4,500 | 6,000 |
| 7 | 21,000 | 26,000 |
| 8 | 4,750 | 4,750 |
| 9 | 5,410 | 5,410 |
| 10 | \$30 per month rent | no data |
| 11 | 2,200 | 2,200 |
| 12 | 3,400 | 4,100 |
| 13 | \$130 per year rent | no data |
| 14 | \$50 per month rent | no data |
| Average for Owned Warehouses | \$6,705.45 | \$7,678.18 |

6. The adaptability of buildings and sites available for purchase and rent.

7. The business sagacity of the committee and the favorable opportunities open at the time of organization.

Table 11 gives the original cost of the real estate of eleven farmers' warehouses in West Virginia. It will be noted that in several cases there has been a rise in the values, due in part to repairs and additions, but in a large part due to the tendency in recent years for urban real estate to advance in price.

The purpose of the warehouse business is primarily to reduce the cost of obtaining supplies and not to make a profit on advancing real estate values. These advancing values are often so highly capitalized as to prohibit the business from earning sufficiently to pay the interest charges on the price paid for the land.

Whether the decision is to build or to buy, a reliable, disinterested, experienced person should be procured to examine and appraise the property or to give reliable estimates as to the costs of building a warehouse, and to examine all plans and bids submitted by contractors.

A humble beginning is often desirable for it is quite easy to obtain larger business facilities when the volume of business warrants such expenditures. A large, expensive warehouse is often too great a burden for a struggling cooperative business which must build its business by the slow process of justifying itself through high quality products offered at retailing margins which are low enough to obtain and hold a sufficient volume of business.

BUSINESS PLAN

The business plan should be carefully worked out by the executive committee in consultation with the manager. Too often the manager is given full authority in this matter, but sharing the responsibility with the executive committee will give the manager more confidence, and a more secure position in carrying out the policies agreed upon. The manager should always be in a position to appeal to higher authority if it becomes absolutely necessary in dealing with the patrons. The following suggestions are given as a workable plan for a business operation.

Business Policy of Car-Door Associations

A car-door business is founded upon orders in advance and cash payments when the car is unloaded. This is the minimum of service which can be rendered, and any deviation from this plan will invariably increase the costs of handling. Table 12 shows the charges on the most common products handled by car-door associations. The most common handling charges amount to from 2 to 5 percent of the cost price. These charges are surprisingly low. They are from one-fifth to one-third of the usual warehouse charges.

Most associations pay the car-door agent on the tonnage basis. A few associations pay a commission based upon a certain percentage of the cost price. Both plans seem to work out satisfactorily for all parties concerned. The margins allowed the car-door agent should be sufficient to pay interest on capital advanced, to compensate for risk taken, to encourage and compensate for the use of a due amount of diligence in collecting orders at stated intervals, in keeping adequate accounts, and extending reasonable services in unloading the car.

TABLE 12.—Handling Charges for Seven West Virginia Car-Door Associations Included in This Study.

| Car-Door Association Number in the Order of the Date of Beginning Business | Handling Charges in Percentages of the Cost Prices | | | |
|--|--|--------|------------|----------|
| | Feed | Flour | Fertilizer | Lime |
| 1 | 3 to 4 | 3 to 4 | 2 to 5 | 3 |
| 2 | 3 to 4 | 3 to 4 | 2 to 5 | 3 |
| 3 | 2 | 2 | 2 | 2 |
| 4 | 1 to 5 | 1 to 5 | 2 to 5 | 1 to 5 |
| 5 | 4 | 4 | 4 | 4 |
| 6 | 3 to 4 | 3 to 4 | 4 | 4 |
| 7 | 3 to 4 | 1 | no data | 20 to 30 |

The following is a list of the products handled by five county farm bureau car-door associations in the order of total value of the amounts purchased for the fiscal year: (1) Feed and flour, (2) fertilizers, (3) lime, (4) seed, (5) salt, (6) sugar, and (7) farm machinery.

Business Policy of Warehouses

The board of directors and executive committee declare the general business policy of the company. This should be done after consultation with the manager and after due consideration of the factors involved. Specifically the board should determine:

1. Commodities to be handled.
2. Policy to be followed with regard to prices and retailing margins.
3. What types of credit accounts, if any, to permit.
4. Buying policy to be followed.
5. Services to be rendered other than selling supplies.

COMMODITIES HANDLED

The commodities which a particular warehouse should handle will depend largely upon the need for such supplies by the patrons, the volume of such supplies required, and the facilities for handling such products at reasonable margins.

The following is a list of the products handled by eleven county farm bureau warehouses in the order of the total value sold during the fiscal year: (1) Feed and flour, (2) fertilizers, (3) seed, (4) farm machinery, and hardware, (5) lime and limestone, (6) hay, (7) sugar, (8) cement, (9) spray material, (10) miscellaneous—(a) canned foods, (b) coffee, (c) oyster shells.

PRICE POLICY

All the warehouse managers consulted were convinced that the prices charged should be the same to all patrons. This has been found necessary in order to avoid complexities in carrying on the business and to avoid misunderstanding and conflict. Moreover, experiences of warehouse and cooperative store managers elsewhere have shown the wisdom of avoiding "cut-throat" prices or the plan of keeping the retailing margins so low as to barely pay the cost of doing business. It is a safe business practice to ask a fair competitive price for supplies and to rebate any profits above the costs of doing business to the patrons at the end of the fiscal year. This practice gives stability and safety to the business and tends to avoid any undue enmity and unfair tactics on the part of competitors. In the end, it results in furnishing the patrons with supplies at the actual cost of doing business. This price policy can be further commended in that it gives a tangible and clearcut advantage in the form of patronage

dividends to the members in dealing with their own company. Moreover, non-members cannot obtain the same benefits by remaining outside and continuing to purchase from the competitors.* They will, therefore, be encouraged to become members.

Table 13 gives the average retail margins for small lots at the various warehouses in the state for the last fiscal year. The average retailing margins ranged for the various kind of supplies from 9.5 percent of the cost price for seed to 20.1 percent for lime. The greatest part of the business was done in feed and flour and the margins on these products ranged from 6 to 20 percent and averaged 12.6 percent. The wide range in retailing margins by the various warehouses was largely due to the wide range in the volume of business, the kind of services extended, the nature of the competition and the price policy followed. The lower retailing margins were due in most cases to the sale of larger volumes of supplies which were called for at the warehouses and sold almost wholly on a cash basis.

The retailing margins which are necessary for any warehouse, are directly affected by the kind of service demanded. This service ranges from advanced orders with cash at the car-door to a continuous supply of a great variety of supplies delivered at the farmer's door on a credit basis.†

The most common types of service extended by the various county farm bureau business units may be listed as follows:

1. Ordered in advance and paid for at the car-door.
2. Ordered in advance, stored temporarily, and paid for when obtained.
3. Limited stock of staple supplies at the warehouse and cash demanded at the time of purchase.

TABLE 13.—Average Retailing Margins for Small Lots at the Warehouses Included in This Study for the Fiscal Year Ending June 30, 1925.

| Warehouse Number in the Order of the Date of Beginning Business | Average Retailing Margins in Percentages of the Cost Prices | | | | | |
|---|---|------------|---------|---------|---------|------------------------|
| | Feed and Flour | Fertilizer | Salt | Seed | Lime | Miscellaneous Supplies |
| 1 | 10 | 5½ | 20 | 8 | 17 | 13 |
| 2 | 8 | 8 | No data | 8 | No data | 8 |
| 3 | 15 | 4½ | 20 | 15 | 9 | 15 |
| 4 | 13 | 12 | 20 | 4 | 10 | 10 |
| 5 | 11 | 11 | 11 | 11 | No data | 11 |
| 6 | 20 | 16 | 12 | 15 | 25 | 15 |
| 7 | 10 | 17½ | No data | No data | No data | No data |
| 8 | 13 | 13 | No data | No data | No data | 8 |
| 9 | 10 | 20 | 10 | 10 | 50 | 15 |
| 10 | 10 | 10 | 10 | 5 | 10 | 10 |
| 11 | No data | 10 | No data | No data | No data | No data |
| 12 | 20 | 15 | No data | 10 | 20 | 10 |
| 13 | 12 | 10 | No data | No data | No data | No data |
| 14 | 10 | No data | No data | No data | No data | No data |
| 15 | 6 | No data | No data | No data | No data | No data |
| Average for Those Reporting | 12.6 | 11.7 | 14.2 | 9.5 | 20.1 | 11.5 |

* It has been found that most private feed dealers will not unduly lower the retailing margins in competing with a cooperative company, but will tend to keep prices about on the same general level.

† Most warehouses will order in carload lots at lower handling charges than for smaller lots, often as low as 2 to 5 percent of the cost price.

4. Limited stock of staple supplies at the warehouse and credit allowed for small amounts for short periods of time.

5. A full stock of staple supplies at the warehouse and liberal extension of credit allowed.

6. A full stock of staple and seasoned supplies at the warehouse, liberal extensions of credit allowed, and delivery made to the farms by truck.

Local conditions, custom, and competition, together with the available business capital and facilities will to a large degree determine how far the services should be carried. That additional services must be paid for must be kept constantly in mind. Warehouse services have been approximately three times as high as car-door services as practiced by the various farm bureau service units in the state. These additional services and charges are often desirable and the demands and customs of the members should be known before the business is organized.

Due to competition it is difficult to keep the margins charged uniform for different periods of time and for various kinds of supplies. Care should be exercised, however, to prevent an undue burden on some supplies and too light a burden upon others. There should be a constant effort to maintain a direct relationship between costs of handling and the retailing margins charged.

Most of the warehouses handled supplies through orders in car-lots at rates comparable to those charged by car-door associations, ranging from 1 to 5 percent.

CREDIT POLICY

To avoid the serious dangers of credit extensions, warehouses must demonstrate to the patrons that buying for cash really pays not only interest on the money but considerably more. The patrons must clearly understand that a credit business requires more capital, more costly management, and larger retailing margins. The larger margins are needed for the most part to take care of the risks and to pay for some accounts which inevitably cannot be collected. The patrons who buy for cash are constantly paying part of the expense of carrying the credit accounts of other patrons.

Moreover, selling supplies for cash or at most on thirty day accounts, gives a competitive advantage which private dealers overcome with difficulty. It can be readily understood that supplies sold on much narrower retailing margins soon induce many farmers to take advantage of these lower prices whenever they find it possible to pay cash. The prosperous and more reliable farmers will be the first to derive the benefits of buying for cash. This opportunity to buy at lower prices for cash tends to compel private competitors to lower their margins during the time when their best customers are being drawn away and only the patrons of poor and uncertain financial standing are left. Quoting a private feed store owner in competition with a cooperative warehouse: "I must go either on a cash basis or out of business." With the farmers' cooperative warehouses selling at lower margins on a cash basis, an alternative is at hand which is effective whenever supplies are being sold by private dealers on the credit basis at exorbitant margins.

The disadvantages of a cooperative company's doing a credit business may be pointed out as follows:

1. Inadequate funds for credit extensions.

2. Higher costs entailed by credit service.
3. Necessary partiality shown by the manager.
4. Difficult collections from the members who have, of course, a voice in the management of the company.
5. More experienced and higher salaried managers are required.
6. Impaired credit standing among wholesalers and often inability to take advantage of cash discounts.
7. Opportunity of influential members to obtain disproportionate amounts of supplies on credit.
8. Inability to regulate retailing margins in the trade territory because of high costs.
9. Lack of opportunity for members to take advantage of the lower costs in buying for cash.

The advantages which accrue in doing business on a cash basis are very similar to the competitive advantages enjoyed by cash and carry grocery stores. There is a place for a cash supply business in every trade territory of normal size. Farmers' cooperative warehouses are particularly adapted to carrying on this type of business. A substantial part in some instances, or even a rather small fraction of the business of a trade territory in others is sufficient to regulate retailing margins.

Table 14 shows the total amount of credit outstanding to patrons by each warehouse, and the maximum amount extended to individual patrons at the time of the survey. For the warehouses reporting credit extensions, \$800 was the smallest total amount and \$19,222.82 the largest. The amount outstanding to single individuals is for several warehouses seriously out of proportion to the amount of business done and working capital available. This practice of permitting a single individual to obtain several hundred dollars worth of supplies on credit is poor business practice and is unfair to other members of the association.

TABLE 14.—Estimated Total Amount of Credit to Patrons and the Maximum Amount of Credit to One Patron on Certain Dates, Compared to Amounts of Working Capital Used During the Fiscal Year for 12 of the Warehouses Included in This Study.

| Warehouse Number in Order of the Date of Beginning Business | Estimated Total Amount of Credit to Patrons | Maximum Amount of Credit Extended to One Patron | Estimated Amounts of Working Capital Used Last Fiscal Year |
|---|---|---|--|
| 1 | \$ 6,000.00 | \$638.46 | \$11,500.00 |
| 2 | No credit | No credit | No data |
| 3 | 17,819.00 | 800.00 | 45,000.00 |
| 4 | 3,700.00 | 499.00 | 8,000.00 |
| 5 | 2,900.00 | 325.00 | No data |
| 6 | 800.00 | Very small | 6,000.00 |
| 7 | 19,222.82 | No data | 36,000.00 |
| 8 | 3,827.85 | 200.00 | 8,000.00 |
| 9 | 7,844.50 | 800.00 | 16,000.00 |
| 10 | 2,000.00 | 125.00 | 4,000.00 |
| 11 | No data | No data | No data |
| 12 | 1,500.00 | No data | 5,100.00 |
| Average for Those Reporting | \$ 6,561.32 | \$483.92 | \$15,511.00 |

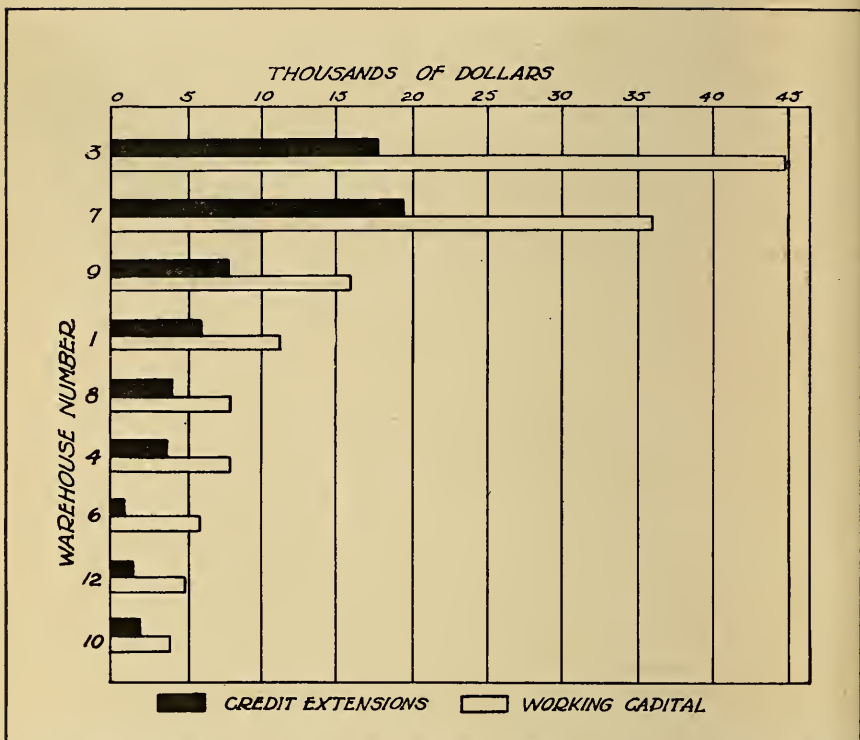


Fig. 4.—Total credit extensions to patrons on certain dates compared to average annual amounts of working capital for nine of the warehouses included in this study. See Table 14 for data on which this graph is based.

Figure 4 compares the amounts of credit extensions on certain dates to average amounts of working capital for the previous fiscal year. Credit extensions equal approximately one-half of the working capital for seven of the nine warehouses. This, however, does not indicate that all the warehouses have about the same credit policy. A few warehouses have a large percentage of their credit accounts outstanding for from four to ten months and even more than a year. Other warehouses have a rapid turnover of credit accounts by working on a 30 day basis. It can be readily understood how the length of the credit accounts determine the efficiency with which this portion of the working capital is used. Long credit accounts have proved a serious handicap in that they have:

1. Diminished the available working capital.
2. Made rapid turnovers of capital impossible.
3. Forced reductions in the stocks of supplies.
4. Impaired the confidence of the members and stockholders.
5. Made extensions of short time credit very difficult if not impossible.

Credit extensions are a constant source of worry to the directors and managers and add greatly to the complexity of the business. The problem of keeping credit extensions within bounds has been the most perplexing difficulty confronting the several warehouse managers. Several methods have been tried

to overcome the tendency to force the company to carry too large a burden of credit accounts. These include:

1. The manager is held personally liable for all credit extensions.
2. Interest is charged on all accounts after 30 days.
3. Interest bearing notes have been required on all accounts after 30 days.
4. Credit accounts have been made a special privilege extended only as a special favor under particular circumstances.
5. Professional collecting agencies have been employed to collect accounts in arrears.

Figure 5 illustrates graphically the wide differences in the credit business of nine warehouses. It will be noted that the credits outstanding on certain dates during the survey ranged from 1.52 to 24.94 percent of the volume of business for the last fiscal year. The length of the credit accounts as well as the rapidity of the stock turnover are far more important in influencing the above percentages than is the proportion of the working capital outstanding on credit accounts. It is perhaps needless to point out that the warehouses with the

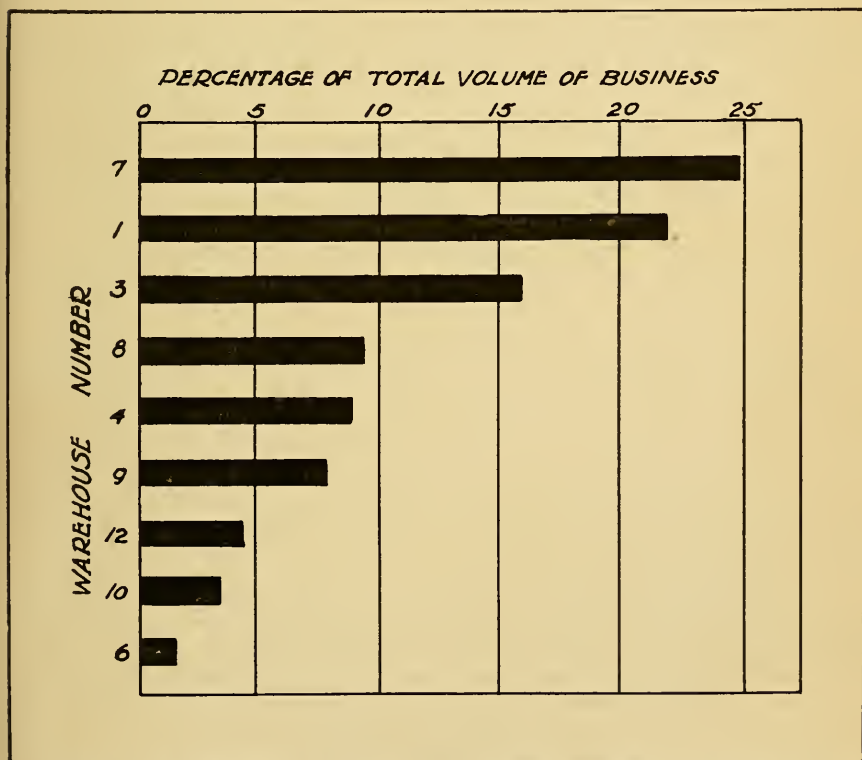


Fig. 5.—Percentages of the total volume of business for the fiscal year ending June 30, 1925, represented by outstanding credit accounts on certain dates for nine of the warehouses included in this study. Compare with Figure 4. See Tables 10 and 14 for data on which this graph is based.

three lowest percentages of credit accounts are in sound financial circumstances, while those operating on more than a 10 percent basis are, with one exception, in somewhat of a hazardous position.*

The attitude and ability of the manager is the greatest factor in keeping credit accounts within bounds. He should not, however, be given all the responsibility. The board of directors, and executive committee, should give their sanction to the refusal of credit in large amounts and for long periods of time. In fact, the executive committee should review each of the credit accounts frequently. Under certain circumstances the directors should put the business on a strictly cash basis. Constant progress toward a cash business should be the aim of farmers' cooperative supply companies.

BUYING POLICY

Ordering the stock of commodities will in most cases be left in the hands of the manager. It is possible, however, for the executive committee and officers to lay down general rules to be followed. These rules should not be too restrictive for the manager is usually in a better position to know what is required than are the directors. The following may be taken as workable and wise restrictions:

1. Advance or speculative orders far in excess of current requirements should not be placed without the consent of the executive committee. Serious losses often arise from such transactions.

2. The prices charged should be regulated by local and central market prices rather than by the cost of the supplies on hand. Experience has demonstrated that if the usual retailing margins are charged during rapidly rising prices, an insufficient amount will be obtained to compensate for unavoidable losses incurred when there are rapidly falling prices.

3. New lines of supplies should not be ordered without the consent of the executive committee because of the extra capital requirements and other complications involved.

4. Joint purchases with other retail firms and companies should be very carefully guarded since the cooperative incorporation act prohibits dealing with anyone but members who must be producers of agricultural products. For the same reason a wholesale business with general retail stores should be avoided.

5. A general policy may be carried out with regard to the purchase of certain classes of supplies. They may be classified as follows: staple supplies to be kept in stock at all times, seasonal supplies to be kept in stock for certain periods, and special supplies purchased only when specifically ordered by individual patrons.

The manager needs all his experience and business shrewdness in placing orders for high quality supplies at the lowest prices. He should build up business relationships based upon confidence and should not let temporary price advantages determine his purchases. Confidence in quality, and in consistent and prompt service are often as important as the price. In the foregoing respects a cooperatively controlled brokerage business can be of great service to the local supply warehouses and car-door agencies.†

* This company is doing a rather large wholesale business which is seldom done on a cash basis.

† The West Virginia Farm Bureau Cooperative Association is now engaged in a brokerage business for the several warehouse companies and car-door associations in the state.

SERVICES OTHER THAN SELLING COMMODITIES

Local conditions, the volume of business, and the need for types of services other than selling commodities will largely determine the course followed by the warehouse management. The following list gives various types of services which have been rendered by fourteen county farm bureau warehouses in West Virginia, arranged according to the numbers that have been assigned the warehouses and used throughout this discussion:

1. Retail locally grown seed, hay, and grain.
2. No service other than handling commodities.
3. Market small amounts of potatoes.
4. (a) Sell eggs and poultry on a commission basis.
(b) Mix feeds for patrons.
5. No service other than handling commodities.
6. Store wool on premises.
7. Use facilities for loading potatoes.
8. (a) Buy cream for cash and ship to creameries.
(b) Buy poultry, eggs, hides, calves, and potatoes for cash and ship to central markets.
(c) Use truck for outside hauling.
9. Retail locally grown seed, hay, and grain.
10. (a) Assemble wool for state wool pool.
(b) Exchange supplies for locally grown potatoes.
11. Assemble wool for wool pool.
12. (a) Buy cream for cash and ship to creameries.
(b) Act as selling agent for home canned tomatoes.
13. No service other than handling commodities.
14. (a) Buy cream for cash and ship to creameries.
(b) Furnish scales for cattle shippers.

Additional services are being rendered by the smaller and newer warehouses. It is often feasible where the volume of commodities handled is insufficient to pay over-head expenses to take on other types of business such as those listed for the warehouses included in this study. This is found convenient also where the supply business tends to be rather seasonal. In other cases some new farm enterprises have as yet no marketing agencies and this business is forced upon the management. Where the volume of supplies handled is sufficient to require the full time of the manager, however, other services are not sought, and in fact are unduly burdensome. If the additional services are rendered, additional labor must often be employed for this purpose alone. For the foregoing reasons the more successful supply companies are doing very little else than selling commodities. As a general principal, it is well to keep a cooperative business restricted to a limited number of services and lines of endeavor.

MANAGEMENT

Management problems will be treated in this discussion under the following headings: Board of directors and executive committee, manager, and accounting system.

The Board of Directors and Executive Committee

The members of a cooperative company delegate their authority to a board of directors. The State Cooperative Act is rather definite in regard to this matter; Section 12 begins with this statement: "The affairs of the association shall be managed by a board of not less than five directors, elected by the members or stockholders from their own number." Other provisions of this section may be found on page 49. The authority may be further delegated by the board of directors to an executive committee consisting usually of three members, all of whom are members of the board. This committee may assume "all the functions and powers of the board of directors subject to the general direction and control of this board." This practice permits the unified control and centralized responsibility demanded by good business practice.

The men chosen as members of the board of directors and of the executive committee should be men of integrity, the most experienced in business to be found in the organization, well-liked and respected, and actually interested in the operating success of the warehouse because of rather large and continuous patronage.

The length of term for the directors should be for more than one year, since each new director must learn the business before he can serve most efficiently. This can be accomplished by making the term of each director 3 years and by electing one director each year. This will keep the majority of the old board members over the period of any one election. It is a good business practice to keep the same directors and officers whenever they are giving good service. "Passing around the honors" usually means less efficient management. This applies even more strongly to the manager and secretary who carry on the routine business.

Reasonable compensation should be paid the directors and executive committee. Unless this is done a lack of interest, poor attendance at meetings, and too few meetings are apt to be the result. This applies especially to the executive committee which should meet at least once a month, and go over the business thoroughly with the manager. With a strong executive committee functioning, it is not necessary to have more than semi-annual or quarterly meetings of the board of directors. Meeting but a few times each year, traveling expenses are often sufficient compensation for the board of directors, but the executive committee should receive a fixed compensation besides traveling expenses for all regular and special meetings.

Too much emphasis cannot be placed upon the direct responsibility of the executive committee in keeping in close touch with the business at all times. The meetings of the executive committee should be scheduled definitely and the business handled with precision and dispatch.

The Manager

The most important function of the executive committee or board of directors is the selection of a manager. It is well to have several eligible men in mind before the company is organized. All personal preferences should be cast

aside, and the best qualified man selected. In general the manager must be well-liked by the members and patrons and at the same time be a man who will promote the business interests of the company. "It requires a man with tact, with ability to appraise human nature, and with the rare faculty of being able to decide impersonally against individual members in controversy without giving offense." He must be a man who has a deep sense of responsibility in making the cooperative venture a success. He should have knowledge of cooperative principles and practices and should be imbued with cooperative ideals. A selfish individualistic man will fail as the manager of a warehouse which is run on the cooperative principle of services to the patrons.

It is often unwise to employ a man as manager who has spent a large part of his life in similar business for himself. He cannot easily accommodate himself to the cooperative point of view. The better managers in West Virginia have come directly from the farm to the warehouse, having had some business experience earlier in life. They have as their main assets: the cooperative spirit, integrity of a high order, business conservatism, understanding and sympathy with the patrons, and a willingness and desire to learn the part of the business with which they are not familiar.

Table 15 shows the salary, months employed, and the age of the managers of eleven county farm bureau warehouses in West Virginia. It will be noted that the tenure has been rather brief thus far. This is inevitable in most cases due to the short period of the existence of the company. The salaries range from \$600 to \$2,000 per year. The most common salary is from \$1,000 to \$1,500 per year. For the smaller warehouses these salaries may be sufficient, especially in the beginning. But when a warehouse is doing a \$100,000 business annually, a salary of less than \$2,000 per year is undoubtedly too low to attract and hold the high type of management required. Good services manifested by courteous treatment, low overhead costs, prompt collections, a workable accounting system, and a growing business should be rewarded by a gradual increase in salary for the manager. He should feel that he is doing as well financially as he could do if employed elsewhere.

TABLE 15.—Salary, Months Employed, and Age of the Managers of Eleven County Farm Bureau Warehouses in West Virginia.

| Warehouse Number in the Order of the Date of Beginning Business | Annual Salary of Manager | Months in the Employ of the Company | Age of Managers |
|---|--------------------------|-------------------------------------|-----------------|
| 1 | \$1,020 | 32 | 50 |
| 3 | 1,800 | 12 | 50 |
| 4 | 1,150 | 24 | 45 |
| 6 | 1,500 | 26 | 28 |
| 7 | 2,000 | 24 | 45 |
| 8 | 1,500 | 26 | 27 |
| 9 | 1,700 | 20 | 38 |
| 10 | 1,200 | 7 | 45 |
| 12 | 600 | 12 | 65 |
| 13 | Commission basis | No data | No data |
| 14 | Commission basis | No data | No data |

The manager should be young enough to appreciate the opportunities offered him by his position. Retired or aged men seldom give satisfaction over long periods of time. Every effort should be made to keep a good manager for as long a period as he can be held by the opportunities which are made possible by the business.

Accounting System

Management cannot be thoroughly efficient without systematic records. Neither car-door associations nor warehouse companies can afford to operate without records which are reasonably complete and actually usable. Lack of knowledge and interest in the keeping of accurate records is one of the greatest weaknesses of the cooperative warehouses in the state. Much progress is being made, however, by the more successful warhouses in correcting this weakness.

In the case of cooperative companies systematic accounts are required for other reasons than that of merely efficient management. These reasons may be listed as follows:

1. The interests of a large number of people are in the hands of the management. Justice calls for permanent and complete records.
2. Complete records are necessary in order to comply with the State Cooperative Act which requires the payment of patronage dividends. To comply with this provision the amount of patronage by each member must be known.
3. Confidence of the members must be sustained by complete information with regard to all details of the business. Complete records are often necessary to allay unfounded suspicion and distrust.

Many managers are puzzled over the problem of what kind of books to keep and how to keep them. In actual practice the records of the warehouses in the state ranged from the keeping of a day book and a checking account to a complete double entry bookkeeping system which included sales slips, daybook, journal, cash book, and ledger. In place of the common cash book, some managers have recommended the adoption of an income tax record book similar to the one put out by the Greenwood Company, 712 Federal Street, Chicago, Illinois. This type of book automatically gives a monthly and annual balance form if filled out completely.

Unfortunately, accountancy cannot be learned from the various record books and experimentation in keeping records is a rather hazardous business practice. To install a system of accounting the services of an experienced accountant has, as a general rule, proved to be profitable. Moreover, it is a good plan to supply an experienced bookkeeper long enough to thoroughly familiarize the manager with the system. Often a bookkeeper may be employed on a part time basis. Where the manager is kept busy with other work due to a large volume of business, a full time assistant may be hired to keep the books. As a general principle it is never advisable to neglect the bookkeeping needs of the business even though the expense may appear to be excessive.

Making the books effective for the use of the manager, executive committee, and the board of directors requires skill on the part of the bookkeeper and considerable study on the part of those responsible for the management. Two devices for facilitating an analysis of the business are in general use, the balance

sheet and operating statement. The balance sheet should be made use of frequently for it can be calculated from rather limited records. "A balance sheet in an orderly arrangement of assets owned by a business and the claims against it, the purpose of which is to show clearly the financial condition of the business." A sample balance sheet will be found on pages 40 and 41.

An operating statement should be prepared at least once a year, and a quarterly statement is very helpful especially for a new business. The operating statement calls for accurate and adequate accounts which are costly, but even so the operating efficiency of the business is so focussed before the manager and directors as to warrant the additional labor and expense. Since the operating statement makes possible a frequent check on the profitableness of the business, and a comparison between succeeding periods and seasons, it points the way to improvements. A sample operating statement, specifically adapted to cooperative companies will be found on pages 44 and 45.

Table 16 shows the frequency of audits, the personnel of the auditors, and the number of inventories per year for the several warehouses covered by this study. An annual audit is the usual practice. Inventories are more frequent and range from 1 to 12 annually. For the cooperative companies audits are of particular significance because of the relation of confidence to the success of the enterprise. The personnel of the auditing committee should always include at least one experienced accountant. Too often an auditing committee selected from members of the company make a hasty examination because of inadequate knowledge of accountancy.

Some members of the executive committee or of the board of directors should, as a rule, be present to participate in the taking of an inventory. This has the advantage of establishing confidence and at the same time of giving the executive committee some very desirable details of the business.

Suggested Balance Sheet

On pages 40 and 41 will be found a suggested balance sheet for cooperative associations, as prepared by the Department of Agricultural Economics of the

TABLE 16.—Number of Audits and Inventories made by Twelve County Farm Bureau Warehouses During the Fiscal Year or Part of Year Covered by This Study.

| Warehouse Number in the Order of the Date of Beginning Business | Number of Audits | By Whom the Audits Were Made | Number of Inventories |
|---|------------------|------------------------------|-----------------------|
| 1 | 2 | President or Manager | 2 |
| 3 | 1 | Certified Public Accountant | 1 |
| 4 | 1 | State Extension Service | No data |
| 5 | 1 | Committee of Stockholders | 1 |
| 6 | 1 | Certified Public Accountant | 12 |
| 7 | 1 | Another Bookkeeper | 1 |
| 8 | 1 | Commercial Auditor | 2 |
| 9 | 1 | State Extension Service | 3 |
| 10 | 1 | State Extension Service | 6 |
| 12 | 1 | State Extension Service | 2 |
| 13 | None as yet | | None as yet |
| 14 | None as yet | | None as yet |

New York State College of Agriculture at Cornell University, Ithaca, New York.

The items listed on this balance sheet are explained by the department as follows:

ASSETS

1.—**CURRENT ASSETS.** Includes all assets which are normally to be converted into cash within a period of one year in the ordinary course of business.

2.—*Cash in Bank and on Hand.* All bank deposits. Cash and checks in the safe or till. Cash in transit between offices. Petty cash funds.

3.—*Trade Accounts Receivable.* Open book accounts arising only through sale of merchandise.

4.—*Bad Accounts.* An adequate estimate of the amount of probable uncollectible accounts included in 3.

5.—*Net Trade Accounts Receivable.* Deduct 4 from 3.

6.—*Other Accounts Receivable.* Open book accounts arising through any circumstances except sale of merchandise. Include no doubtful accounts.

7.—*Notes Receivable.* All notes, trade acceptances, or bankers' acceptances which the association holds in satisfaction of accounts due it, including any discounted at the bank with the association's endorsement. Enter notes of doubtful value separately under 12 or 13.

8.—*Discounted Notes.* All notes or acceptances signed by others which the association has discounted bearing its endorsement.

9.—*Net Notes Receivable.* Deduct 8 from 7.

10.—*Merchandise Inventory.* All merchandise purchased for resale, whether paid for or not. Value at cost or market, whichever is lower.

11.—*Accrued Income.* Any items of income accrued in favor of the association, such as interest accrued on notes receivable not yet due or on savings bank account, or rent accrued on property let to others.

12-13.—*Other Assets.* Any other current assets (see 1) not otherwise provided for, such as temporary investments in certificates of indebtedness or other associations or other readily marketable securities, or goods in shipment for which payment has not yet been received.

14.—*Total Current Assets.* Total of 2, 5, 6, 9, 10, 11, 12, and 13.

15.—**DEFERRED CHARGES.** Includes all services which have not been received and supplies which have not been used up, but for which payment has been made in advance.

16.—*Supplies Inventory.* Stationery, postage stamps, oil, gasoline and grease, waste, carlining materials, sacks or containers, and other supplies not held for sale.

17.—*Prepaid Insurance.* The share of insurance premiums paid proportionate to the share of time which the policies have yet to run.

18-19.—*Other Deferred Charges.* Any other deferred charges to operations (see 15) such as interest prepaid on notes payable.

20.—*Total Deferred Charges.* Total of 16, 17, 18 and 19.

21.—**DEFERRED ORGANIZATION EXPENSE.** Expenses of organization or obtaining new members, the benefits of which will last over a long enough period to justify carrying the expenditure involved as an asset to be gradually written off as expense.

22.—*Investments in Companies.* Permanent investments in securities of other companies whose business is related to your own, such as stock in a central association. If it represents a major share of the ownership of any other company, a similar balance sheet should be made out for each company so owned, and a consolidated balance sheet should be prepared.

23.—*Additional Assets.* Any assets not classifiable under any of the other asset headings. List details.

24.—**FIXED ASSETS.** Includes all assets of a relatively permanent and tangible nature.

25.—*Office Equipment.* The cost value, including freight or truckage and installation expense, of any movable office equipment owned, such as safe, desk, chairs, typewriters, and calculating machines.

26.—*Depreciation.* A liberal deduction for loss in value due to wear and tear.

27.—*Net Office Equipment.* Deduct 26 from 25.

28.—*Delivery Equipment.* Cost value of autos, horses and wagons, and accessories owned and used for delivery purposes.

29.—*Depreciation.* See 26.

30.—*Net Delivery Equipment.* Deduct 29 from 28.

- 31.—*Warehouse Equipment*. Cost value, including transportation charges and installation expense, of warehouse equipment owned, such as trucks, scales, and machinery of various kinds.
- 32.—*Depreciation*. See 26.
- 33.—*Net Warehouse Equipment*. Deduct 32 from 31.
- 34.—*Buildings*. Cost of all buildings owned for whatever purpose used.
- 35.—*Depreciation*. See 26.
- 36.—*Net Value Buildings*. Deduct 35 from 34.
- 37.—*Land*. Cost of all land owned.
- 38.—*Total Fixed Assets*. Total of 27, 30, 33, 36, and 37.
- 39.—*Total Assets*. Total of 14, 20, 21, 22, 23, and 38. In the column for percentages show what percentage each of these items is of the total, which equals 100 percent; this is to help to show how the association's money is invested in assets.

LIABILITIES

- 1.—*CURRENT LIABILITIES*. This includes all short term liabilities which become due within one year.
- 2.—*Accounts Payable*. Debts of the association which are represented only by open book accounts for merchandise purchased for resale.
- 3.—*Notes to Creditors*. Notes signed by the association or drafts accepted by the association in payment for goods purchased for resale.
- 4.—*Unsecured Bank Notes*. Notes signed by the association and given to banks for borrowings, not secured by collateral.
- 5.—*Collateral Bank Notes*. Notes signed by the association and given to banks for borrowings, secured by demand notes of members received by the association for that purpose. In the footnote indicated by the dagger (†) state the total face value of such demand notes of members held for that purpose, whether actually so used at present or not.
- 6.—*Accrued Interest*. Liabilities to the holders of the association's interest-bearing notes or mortgages on account of interest accrued but not yet payable.
- 7.—*Taxes Accrued*. An estimate of the amount of income or other taxes which is chargeable to the operations of the period ending at the date of this balance sheet.
- 8-13.—*Other Liabilities*. Any other current liabilities (see 1) such as wages earned but not paid, dividends declared, or interest accrued on Certificates of Indebtedness.
- 14.—*Total Liabilities*. Total of 2 to 13.
- 15.—*FIXED LIABILITIES*. Includes liabilities of duration of more than one year to others than members.
- 16.—*Mortgages*. Mortgages on real estate or other property owned by the association.
- 17.—*Unsecured Loans*. Long term borrowings not secured by mortgages.
- 18.—*Other Liabilities*. Any other fixed liability (see 15).
- 19.—*Total Fixed Liabilities*. Total of 16, 17, and 18.
- 20.—*MEMBERSHIP LIABILITIES*. Includes all capital represented by long term obligations to members.
- 21.—*Certificates of Indebtedness*. Face value of Certificates of Indebtedness issued to members and outstanding.
- 22.—*Certificates Unissued*. Amount deducted from accounts due members for which Certificates of Indebtedness are to be issued.
- 23.—*Certificates of Interest*. Face value of Certificates of Interest issued to members and outstanding.
- 24.—*Other Liabilities*. Any other membership liabilities (see 20).
- 25.—*Total Membership Liabilities*. Total of 21, 22, 23, and 24.
- 26.—*NET WORTH*. The owners' share in the assets of the association over and above any interest in the assets represented by Certificates of Indebtedness or Certificates of Interest.
- 27.—*Preferred Stock*. Par value of preferred capital stock issued and outstanding.
- 28.—*Common Stock*. Par value of common capital stock issued and outstanding.
- 29.—*Contingency Reserve*. The amount of capital reserved to cover any extraordinary losses not due to the ordinary operations of the association.
- 30.—*Other Items*. Any other items of net worth (see 26) not enumerated.
- 31.—*Surplus*. Unapportioned income which may be divided later.
- 32.—*Total Net Worth*. Total of 27, 28, 29, 30, and 31.
- 33.—*Total Liabilities and Capital*. Total of 14, 19, 25, and 32. If all entries have been properly made, this total should equal 39 on the assets side. In the column for percentages show what percentage each of these items is of the total, which equals 100 percent; this is to show the sources of capital used by the association.

SUGGESTED BALANCE SHEET*

ASSETS

| | | | | |
|-----|---|---------|--|------|
| 1. | CURRENT ASSETS: | | | |
| 2. | Cash in Bank and on Hand..... | \$..... | | |
| 3. | Accounts Receivable, Trade..... | \$..... | | |
| 4. | Less Allowance for Bad Accounts..... | ..... |  |  |
| 5. | Net Trade Accounts Receivable..... | ..... |  |  |
| 6. | Accounts Receivable, Other..... | ..... |  |  |
| 7. | Notes Receivable..... | ..... |  |  |
| 8. | Less Notes Receivable Discounted..... | ..... |  |  |
| 9. | Notes Receivable, Net..... | ..... |  |  |
| 10. | Merchandise Inventory..... | ..... |  |  |
| 11. | Accrued Income..... | ..... |  |  |
| 12. | ..... | ..... |  |  |
| 13. | ..... | ..... |  |  |
| 14. | Total Current Assets | \$..... | | % |
| 15. | DEFERRED CHARGES TO OPERATIONS: | | | |
| 16. | Supplies Inventory..... | ..... |  |  |
| 17. | Insurance Prepaid..... | ..... |  |  |
| 18. | ..... | ..... |  |  |
| 19. | ..... | ..... |  |  |
| 20. | Total Deferred Charges to Operations | ..... |  | % |
| 21. | DEFERRED ORGANIZATION EXPENSE..... | ..... |  | % |
| 22. | INVESTMENTS IN RELATED COMPANIES..... | ..... |  | % |
| 23. | ..... | ..... |  | % |
| 24. | FIXED ASSETS: | | | |
| 25. | Office Equipment..... | ..... |  |  |
| 26. | Less Allowance for Depreciation..... | ..... |  |  |
| 27. | Office Equipment, Net..... | ..... |  |  |
| 28. | Delivery Equipment..... | ..... |  |  |
| 29. | Less Allowance for Depreciation..... | ..... |  |  |
| 30. | Delivery Equipment, Net..... | ..... |  |  |
| 31. | Warehouse Equipment..... | ..... |  |  |
| 32. | Less Allowance for Depreciation..... | ..... |  |  |
| 33. | Warehouse Equipment, Net..... | ..... |  |  |
| 34. | Buildings..... | ..... |  |  |
| 35. | Less Allowance for Depreciation..... | ..... |  |  |
| 36. | Buildings, Net..... | ..... |  |  |
| 37. | Land..... | ..... |  |  |
| 38. | Total Fixed Assets | ..... |  | % |
| 39. | TOTAL ASSETS | \$..... | | 100% |

LIABILITIES AND CAPITAL

| | | |
|------------------------------------|---|-------------------|
| 1. CURRENT LIABILITIES: | | |
| 2. | Accounts Payable | \$ |
| 3. | Notes Payable to Trade Creditors..... | . . . . . |
| 4. | Notes Payable to Bank, Unsecured..... | . . . . . |
| 5. | Notes Payable to Bank, Collateral Demand Notes† | |
| 6. | Interest Expense Accrued..... | . . . . . |
| 7. | Taxes Accrued..... | . . . . . |
| 8. | ..... | . . . . . |
| 9. | ..... | . . . . . |
| 10. | ..... | . . . . . |
| 11. | ..... | . . . . . |
| 12. | ..... | . . . . . |
| 13. | ..... | . . . . . |
| 14. | Total Current Liabilities | \$ % |
| 15. FIXED LIABILITIES: | | |
| 16. | Mortgages Payable ..... | . . . . . |
| 17. | Unsecured Long Term Loans..... | . . . . . |
| 18. | ..... | . . . . . |
| 19. | Total Fixed Liabilities | % |
| 20. MEMBERSHIP LIABILITIES: | | |
| 21. | Certificates of Indebtedness Issued..... | . . . . . |
| 22. | Deductions for Certificates Unissued..... | . . . . . |
| 23. | Certificates of Interest Issued..... | . . . . . |
| 24. | ..... | . . . . . |
| 25. | Total Membership Liabilities | % |
| 26. NET WORTH: | | |
| 27. | Capital Stock, Preferred..... | . . . . . |
| 28. | Capital Stock, Common..... | . . . . . |
| 29. | Reserve for Contingencies..... | . . . . . |
| 30. | ..... | . . . . . |
| 31. | Surplus ..... | . . . . . |
| 32. | Total Net Worth | % |
| 33. | TOTAL LIABILITIES AND CAPITAL | \$ 100% |

†Note.—Total Demand Notes of Members held \$

Suggested Operating Statement

A suggested operating statement is given on pages 44 and 45 for cooperative producing and selling associations. This blank is the form prepared and used by the Department of Agricultural Economics of the New York State College of Agriculture at Cornell University, Ithaca, New York.

The department gives the following explanation of the items listed on the operating statement:

- 1.—*Gross Sales Produce.* Total sales of produce at billed price.
- 2.—*Allowances.* Amount of allowances made to purchasers on account of damaged produce or other claims.
- 3.—*Icing and Freight.* Cost of icing cars and freight to destination if paid by the association.
- 4.—**NET SALES.** Deduct the total of 2 and 3 from 1.
- 5.—**PAYMENTS TO MEMBERS.** The amount paid to members for the produce sold for them. Show in the space provided what percentage this item is of item 4.
- 6.—**GROSS MARGIN.** Deduct 5 from 4.
- 7.—*Gross Sales Supplies.* Total sales of merchandise at billed price.
- 8.—*Returns and Allowances.* Amount of allowances made to purchasers on account of damaged goods or quantity purchases or goods returned.
- 9.—*Cash Discounts.* Amount of discounts allowed to purchasers for prompt payment.
- 10.—**NET SALES SUPPLIES.** Deduct the total of 8 and 9 from 7.
- 11.—*Inventory.* Inventory of merchandise on hand at the beginning of the year, valued at cost or market price, whichever is lower. Do not include merchandise held on consignment.
- 12.—*Purchases.* Billed cost of merchandise purchased during the year.
- 13.—*Transportation.* Cost of getting merchandise purchased to the warehouse by freight, express, or hauling.
- 14.—*Gross Purchases.* Total of 12 and 13.
- 15.—*Returns and Allowances.* Amount of allowances received on purchases for damaged or returned goods.
- 16.—*Discounts Received.* Amount of discounts received for prompt payment on purchases of merchandise.
- 17.—*Net Cost Purchases.* Deduct the total of 15 and 16 from 14.
- 18.—*Supplies Handled.* Total of 11 and 17.
- 19.—*Final Inventory.* Inventory and merchandise on hand at end of year, valued at cost or market price, whichever is lower. Do not include merchandise held on consignment.
- 20.—**SUPPLIES SOLD.** Deduct 19 from 18. This is the net cost of the merchandise which has been sold during the year. Show in the space provided what percentage this item is of item 10.
- 21.—**GROSS MARGIN SUPPLIES.** Deduct 20 from 10.
- 22.—**TOTAL GROSS MARGIN.** Total of 6 and 21. This is the margin allowed out of which expenses must be paid, reserves set up, and working capital accumulated.
- 23.—*Manager's Salary.* Amount paid the manager for his services, exclusive of expenses (such as traveling) paid for him.
- 24.—*Labor Wages.* Total amount paid for labor.
- 25.—*Office Salaries.* Total amount paid for clerical work.
- 26.—*Unclassified Wage.* Other wages and salaries.
- 27.—*Total for Employees.* Total of 23, 24, 25, and 26.
- 28.—*Rent.* The amount paid as rent for all lands and buildings used by the association.
- 29.—*Depreciation.* If the buildings are owned instead of rented, a liberal estimate of the decrease in value due to wear and tear during the year.
- 30.—*Repairs.* The cost of all repairs to the buildings owned by the association; do not include additions or improvements in this item.
- 31.—*Insurance.* The share of the premiums for fire and storm insurance on the buildings paid for the current year only; do not include premiums paid for insurance covering any other period.
- 32.—*Taxes.* All taxes assessed or estimated to be assessed for the current year on land and buildings owned by the association.
- 33.—*Other Maintenance.* Any other expense of maintaining the land and buildings of the association.

34.—*Real Estate Expense.* The total of 28, 29, 30, 31, 32, and 33.

35.—*Equipment Depreciation.* A liberal estimate for decrease in value of equipment, such as machinery, tools, and furniture.

36.—*Equipment Repairs.* The cost of all repairs to the equipment; do not include additions or improvements in this item.

37.—*Supplies.* The cost of all warehouse and loading supplies such as sacks and twine, lumber and paper for carlining, and bulkheads, used during the year.

38.—*Demurrage.* Railroad charges for demurrage alone; do not include this in item 3 as freight.

39.—*Inspection.* Cost of inspecting produce at shipping or terminal points. If done by the employees of the association, their salaries and expenses.

40.—*Utilities.* Cost of heating and power, and charges for water and lighting service.

41.—*Communication.* Charges for telephone and telegraph service.

42.—*Office Supplies.* Cost of all office supplies, such as stationery, twine, miscellaneous supplies, and postage, used during the period.

43.—*Bank Exchange.* Charges for collection of drafts and out-of-town checks. Do not include interest on borrowed capital which should go under 49, or protest fees which should be entered separately.

44.—*Travel.* Total expenses of employees when traveling in the interest of the association.

45.—*Fees.* Amount of commission and brokerage fees paid by the association for handling the sale of its produce.

46.—*Bad Accounts.* Amount of accounts receivable uncollectible or estimated to be uncollectible.

47.—*Legal Expense.* Amount paid for legal advice and services.

48.—*Licenses.* Taxes on personal property or on the association, and license fees paid to the state.

49.—*Interest.* The amount of interest incurred for the use of borrowed capital during the year.

50, 51, 52, 53.—*Unclassified Expenses.* Any other expenses incurred in the normal operations of the business, with the larger items stated separately.

54.—*Total Office and General Expense.* Total of 35 to 53, inclusive.

55.—*TOTAL OPERATING EXPENSE.* Total of 27, 34, and 54.

56.—*NET OPERATING INCOME.* Deduct 55 from 22. This is the net amount due to members after deducting the cost of the merchandise, all operating expenses, and the amount already paid to members.

57.—*Membership Fees.* Amount paid the association by new members for the privilege of joining the association.

58.—*Annual Dues.* Amount of annual dues paid the association by its members.

59.—*Interest Income.* Interest earned on accounts or notes receivable or money loaned to others during the period.

60.—*Miscellaneous Income.* Any other items of miscellaneous income to the association.

61.—*Total Other Incomes.* Total of 57, 58, 59, and 60.

62.—*NET INCOME FOR DISTRIBUTION.* Total of 56 and 61. This is the net amount available to pay interest on Certificates of Indebtedness, dividends on stock or patronage basis, to provide a reserve for contingencies, or to be kept in the association as an operating fund represented by Certificates of Interest or Certificates of Indebtedness.

63.—*Accrued Interest.* Interest accrued on Certificates of Indebtedness during the year.

64.—*Stock Dividends.* Dividends declared on capital stock.

65.—*Patronage Dividends.* Patronage dividend declared.

66.—*Reserve.* Amount set up as a reserve for unexpected losses which are not part of the regular operating expenses of the association.

67.—*Certificates of Indebtedness.* The face value of Certificates of Indebtedness issued against deductions from payments to members on this year's business, and the amount of deductions against which Certificates will later be issued.

68.—*Certificates of Interest.* The face value of Certificates of Interest issued against the income from the business of the current year.

69.—*Total Distributed Income.* Total of 63 to 68, inclusive.

70.—*Undivided Surplus.* Deduct 69 from 62. This is the amount to be carried over to be distributed during the following year.

In the column for percentages enter the percentage which each item is of the total of items 4 and 10.

SUGGESTED OPERATING STATEMENT*

| | | | |
|--|---------|---------|---------|
| 1. Gross Sales of Produce..... | | \$..... | |
| 2. Less: Allowances to Customers..... | \$..... | | |
| 3. Icing and Freight Out..... | | | |
| 4. NET SALES OF PRODUCE..... | | | |
| 5. PAYMENTS TO MEMBERS FOR PRODUCE..... | | | |
| (.....% of Net Sales of Produce) | | | |
| 6. GROSS MARGIN ON PRODUCE..... | | | \$..... |
| 7. Gross Sales of Supplies..... | | | |
| 8. Less: Returns and Allowances..... | | | |
| 9. Cash Discounts Allowed..... | | | |
| 0. NET SALES OF SUPPLIES..... | | | |
| 1. Supplies Inventory at Beginning..... | | | |
| 2. Purchase of Supplies..... | \$..... | | |
| 3. Freight, Express, and Cartage..... | | | |
| 4. Gross Cost of Purchases..... | | | |
| 5. Less: Returns and Allowances..... | | | |
| 6. Cash Discounts Received..... | | | |
| 7. Net Cost of Purchases..... | | | |
| 8. Cost of Supplies Handled..... | | | |
| 9. Supplies Inventory at End..... | | | |
| 10. COST OF SUPPLIES SOLD | | | |
| (.....% of Net Sales of Supplies) | | | |
| 11. GROSS MARGIN ON SUPPLIES..... | | | |
| 12. TOTAL GROSS MARGIN..... | | | |
| 13. Manager's Salary..... | | | |
| 14. Wages of Labor..... | | | |
| 15. Office Salaries..... | | | |
| 16. | | | |
| 17. Total Salaries and Wages..... | | | |
| 18. Rent of Land and Buildings..... | | | |
| 19. Depreciation of Buildings..... | | | |
| 20. Repairs of Buildings..... | | | |
| 21. Insurance on Buildings..... | | | |
| 22. Taxes on Land and Buildings..... | | | |
| 23. | | | |
| 24. Total Real Estate Expense..... | | | |

| | | | |
|---|----------------|----------------|--|
| Depreciation of Equipment..... | \$..... | | |
| Repairs of Equipment..... | ..... |  |  |
| Warehouse and Loading Supplies..... | ..... |  |  |
| Demurrage ..... | ..... |  |  |
| Inspection Expense..... | ..... |  |  |
| Heat, Light, Power, and Water..... | ..... |  |  |
| Telephone and Telegraph..... | ..... |  |  |
| Office Supplies and Postage..... | ..... |  |  |
| Bank Exchange..... | ..... |  |  |
| Traveling Expense..... | ..... |  |  |
| Commissions and Brokerage..... | ..... |  |  |
| Loss from Bad Debts..... | ..... |  |  |
| Legal Expense..... | ..... |  |  |
| General Taxes and Licenses..... | ..... |  |  |
| Interest on Borrowed Capital..... | ..... |  |  |
| | | | |
| | | | |
| | | | |
| Total Office and General Expense..... | \$..... | | |
| TOTAL OPERATING EXPENSE..... | | \$..... | |
| NET OPERATING INCOME..... |  | ..... |  |
| Membership Fees..... | ..... |  |  |
| Annual Dues..... | ..... |  |  |
| Interest Income..... | ..... |  |  |
| | | | |
| Total Other Income..... |  | ..... |  |
| NET INCOME FOR DISTRIBUTION..... |  | ..... |  |
| Disposition of Net Income: | | | |
| Interest on Certificates of Indebtedness..... | ..... |  |  |
| Dividend on Capital Stock..... | ..... |  |  |
| Patronage Dividend..... | ..... |  |  |
| Carried to Reserve for Contingencies..... | ..... |  |  |
| Certificates of Indebtedness Issued..... | ..... |  |  |
| Certificates of Interest Issued..... | ..... |  |  |
| Total Distributed Income..... |  | ..... |  |
| Undivided Surplus ..... |  | ..... |  |

*Marketing Blank No. 1 for Cooperative Associations, prepared by Department of Agricultural Economics, New York State College of Agriculture at Cornell University, Ithaca, N. Y.

WEST VIRGINIA COOPERATIVE MARKETING ACT OF 1923

A BILL to amend and re-enact chapter one hundred and twenty-one of the acts of the legislature of one thousand nine hundred and twenty-one, regular session all relating to the authorization and the formation of non-profit, cooperative associations, with or without capital stock, for the purpose of encouraging the orderly marketing of agricultural products through cooperation defining the various terms used therein; enumerating the activities and powers of such an association; prescribing the rights and privileges of membership; providing for articles of incorporation, declaring what they shall contain, manner of executing and filing, method of amending same; providing for by-laws and what they may contain; providing for method of election of directors, filling of vacancies, powers and duties of directors, division into election districts, appointment of executive committees, and allotment of functions and powers; providing for officers, qualifications, election and function; regulating issuance of membership certificates of stock and payment thereof; limiting personal liability of members for debts of association; regulating voting power of members and stock holders; authorizing issuance of preferred stock, with or without right to vote, and the retirement thereof; providing for removal of officers and directors; providing for referendum to members; providing for a marketing contract, and prescribing remedies for breach of contract, including liquidated damages, fees, and all costs; authorizing injunction and general equitable remedies in the event of breach of agreement; stating presumption of control of products by landlords who have signed marketing agreements; providing for annual reports; providing that no provision of law in conflict with this act shall be construed as applying to such associations; providing that legal exemption of agricultural products in the possession of producers shall apply to such products in possession of, or under the control of, such associations; limiting the use of the word "cooperative" in names for producers, cooperative marketing activities; and prescribing a penalty for violating such inhibition; permitting associations to organize other corporations or to own stock in other corporations; providing for agreements with other cooperative associations in this or other states and stating the purposes or reasons therefor; providing that associations heretofore organized may re-organize hereunder; providing for similar rights and remedies for cooperative associations organized under generally similar laws in other states; making it a misdemeanor to induce a member to breach his marketing contract with the association, or spread false reports about it and prescribing a fine for each offense; making such offender liable to the association for a prescribed penalty therefor in a civil suit; providing liability to the association in a penal sum in certain cases for any person who knowingly solicits, persuades, or permits any member of the association to breach his marketing contract; authorizing an injunction against such warehouseman; and providing for payment of all fees and costs; and setting out the reasons for such provisions; providing that no such association shall be deemed a conspiracy or an illegal combination or monopoly; providing that marketing contracts shall not be considered illegal; providing that if any section of this act shall be declared unconstitutional, the remainder of the act shall not be thereby affected; providing that the general corporation laws of this state shall apply to such associations, except where inconsistent with express provisions hereof; providing for annual license fees; providing fees for filing articles of incorporation and amendments thereto; providing that this act may be hereafter indexed and cited as "The Cooperative Marketing Act;" and declaring an emergency to exist.

Be it enacted by the Legislature of West Virginia:

That chapter one hundred and twenty-one of the acts of the legislature of one thousand nine hundred and twenty-one be amended and re-enacted to read as follows:

Declaration of Policy

SECTION 1. In order to promote, foster, and encourage the intelligent and orderly marketing of agricultural products through cooperation; to eliminate speculation and waste; to make the distribution of agricultural products between producer and consumer as direct as can be efficiently done; to stabilize the marketing of agriculture products; and to provide for the organization and incorporation of cooperative marketing associations for the marketing of such products, this act is passed.

Definitions as Used in This Act

SECTION 2. (a) The term "agricultural products" shall include horticultural, viticultural, forestry, dairy, livestock, bee, and any other farm products.

(b) The term "member" shall include actual members of associations without capital stock and holders of common stock in associations organized with capital stock.

(c) The term "association" means any corporation organized under this act; and

(d) the term "person" shall include individuals, firms, partnerships, corporations, and associations.

Associations organized hereunder shall be deemed "non-profit," inasmuch as they are not organized to make profit for themselves, as such, or for their members, as such but only for their members as producers.

(e) For the purposes of brevity and convenience this act may be indexed, referred to and cited as "The Cooperative Marketing Act."

Who May Organize

SECTION 3. Eleven or more persons, a majority of whom are residents of this state, engaged in the production of agricultural products, may form a non-profit, cooperation association, with or without capital stock, under the provisions of this act.

Purposes

SECTION 4. An association may be organized to engage in any activity in connection with the marketing or selling of the agricultural products of its members, or with the harvesting, preserving, drying, processing, canning, packing, grading, storing, handling, shipping, or utilization thereof, or the manufacturing or marketing of the by-products thereof, or in connection with the manufacturing, selling, or supplying to its members of machinery, equipment, or supplies; or in the financing of the foregoing enumerated activities; or in any one or more of the activities specified herein.

Preliminary Investigation

SECTION 5. Every group of persons contemplating the organization of an association under this act is urged to communicate with the Dean of the College of Agriculture, West Virginia University, at Morgantown, who will inform them whatever a survey of the marketing conditions affecting the commodities proposed to be handled may indicate regarding probable success.

It is here recognized that agriculture is characterized by individual production in contrast to the group or factory system that characterizes other forms of industrial production; and that the ordinary form of corporate organization permits industrial groups to combine for the purpose of group production and the ensuing group marketing and that the public has an interest in permitting farmers to bring their industry to the high degree of efficiency and merchandising skill evidenced in the manufacturing industries; and that the public interest urgently needs to prevent the migration from the farm to the city in order to keep up farm production and to preserve the agricultural supply of the nation; and that the public interest demands that the farmer be encouraged to attain a superior and more direct system of marketing in the substitution of merchandising for the blind, unscientific, and speculative selling of crops; and that for this purpose, the farmers should obtain special guidance and instructive data from the Dean of the College of Agriculture, West Virginia University, Morgantown.

Powers

SECTION 6. Each association incorporated under this act shall have the following powers:

(a) To engage in any activity in connection with the marketing, selling, preserving, harvesting, drying, processing, manufacturing, canning, packing, grading, storing, handling, or utilization of any agricultural products produced or delivered to it by its members, or the manufacturing or marketing of the by-products thereof; or any activity in connection with the purchase, hiring or use by its members of supplies, machinery or equipment; or in the financing of any such activities; or in any one or more of the activities specified in this section. No association, however, shall handle the agricultural products of any non-member, except for storage.

(b) To borrow money without limitation as to amount of corporate indebtedness or ability; and to make advance payments and advances to members.

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

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

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

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

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

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

Members

SECTION 7. (a) Under the terms and conditions prescribed in the by-laws adopted by it, an association may admit as members, (or issue common stock to), only persons engaged in the production of the agricultural products to be handled by or through the association, including the lessees and tenants of land used for the production of such products and any lessors and landlords who receive as rent all or any part of the crop raised on the leased premises.

(b) If a member of a non-stock association be other than a natural person, such member may be represented by any individual, associate, officer, or manager or member thereof, duly authorized in writing.

(c) One association organized hereunder may become a member or stockholder of any other association or associations organized hereunder.

Articles of Incorporation

SECTION 8. Each association formed under this act must prepare and file articles of incorporation, setting forth:

(a) The name of the association.

(b) The purposes for which it is formed.

(c) The place where its principal business will be transacted.

(d) The term for which it is to exist, not exceeding fifty years.

(e) The number of directors thereof, which must be not less than five and may be any number in excess thereof; the terms of office of such directors; and the names and addresses of those who are to serve as incorporation directors for the first term, or until the election and qualification of their successors.

(f) If organized without capital stock, whether the property rights and interest of each member shall be equal or unequal; and if unequal, the general rule or rules applicable to all members by which the property rights and interests, respectively, of each member may and shall be determined and fixed; and provision for the admission of new members who shall be entitled to share in the property of the association with the old members, in accordance with such general rule or rules. This provision or paragraph of the articles of incorporation shall not be altered, amended, or repealed except by the written consent or vote of three-fourths of the members.

(g) If organized with capital stock, the amount of such stock and the number of shares into which it is divided and the par value thereof.

The capital stock may be divided into preferred and common stock. If so divided, the articles of incorporation must contain a statement of the number of shares of stock to which preference is granted and the number of shares of stock to which no preference is granted and the nature and definite extent of the preference and privileges granted to each.

The articles must be subscribed by the incorporators and acknowledged by one of them before an officer authorized by the law of the state to take and certify acknowledgements of deeds and conveyances; and shall be filed in accordance with the provisions of the general corporation law of this state; and when so filed, the said articles of incorporation, or certified copies thereof, shall be received in all the courts of this state and other places as prima facie evidence of the facts contained therein and of the due incorporation of such association. *A certified copy of the articles of incorporation shall also be filed with the Dean of the College of Agriculture, West Virginia University, Morgantown, West Virginia.*

Amendments to Articles of Incorporation

SECTION 9. The articles of incorporation may be altered or amended at any regular meeting or any special meeting called for that purpose. An amendment must first be approved by two-thirds of the directors and then adopted by a vote representing a majority of all the members of the association. Amendments to the articles of incorporation, when so adopted, shall be filed in accordance with the provisions of the general corporation law of this state.

By-Laws

SECTION 10. Each association incorporated under this act must, within thirty days after its incorporation, adopt for its government and management, a code of by-laws, not inconsistent with the powers granted by this act. A majority vote of the members or stockholders, or their written assent, is necessary to adopt such by-laws. Each association, under its by-laws, may provide for any or all of the following matters:

- (a) The time, place, and manner of calling and conducting its meetings.
- (b) The number of stockholders or members constituting a quorum.
- (c) The right of members or stockholders to vote by proxy or by mail or both; and the conditions, manner, form, and effects of such votes.
- (d) The number of directors constituting a quorum.
- (e) The qualifications, compensation, and duties and term of office of directors and officers; time of their election and the mode and manner of giving notice thereof.
- (f) Penalties for violation of the by-laws.
- (g) The amount of entrance, organization, and membership fees, if any; the manner and method of collection of the same; and the purposes for which the same may be used.
- (h) The amount which each member or stockholder shall be required to pay annually or from time to time, if at all, to carry on the business of the association; the charge, if any, to be paid by each member or stockholder for services rendered by the association to him and the time of payment and the manner of collection; and the marketing contract between the association and its members or stockholders which every member or stockholder may be required to sign.
- (i) The number and qualifications of members or stockholders of the association and the conditions precedent to membership or ownership of common stock; the method, time, and manner of permitting members to withdraw or the holders of common stock to transfer their stock; the manner of assignment and transfer of the interest of members and of the shares of common stock; the conditions upon which and time when membership of any member shall cease; the automatic suspension of the rights of a member when he ceases to be eligible for membership in the association; and the mode, manner, and effect of the expulsion of a member; the manner of determining the value of a member's interest and provision for its purchase by the association upon the death or withdrawal of a member or stockholder, or upon the expulsion of a member or forfeiture of his membership, or, at the option of the association, the purchase of a price fixed by conclusive appraisal by the board of directors. In case of the withdrawal or expulsion of a member, the board of directors shall equitably and conclusively appraise his property interests in the association and shall fix the amount thereof in money, which shall be paid to him within one year after such expulsion or withdrawal.

General and Special Meetings—How Called

SECTION 11. In its by-laws, each association shall provide for one or more regular meetings annually. The board of directors shall have the right to call a special meeting at any time; and ten percent of the members or stockholders may file a petition stating the specific business to be brought before the association and demand a special meeting at any time. Such meeting must thereupon be called by the directors. Notice of all meetings, together with a statement of the purposes thereof, shall be mailed to each member at least ten days prior to the meeting; provided, however, that the by-laws may require instead that such notice may be given by publication in a newspaper of general circulation, published at the principal place of business of the association.

Directors—Election

SECTION 12. The affairs of the association shall be managed by a board of not less than five directors, elected by the members or stockholders from their own number. The by-laws may provide that the territory in which the association has members shall be divided into districts and that the directors shall be elected according to such districts, either directly or by districtlegates elected by the members in that district. In such a case the by-laws shall specify the number of directors to be elected by each district, the manner and the method of reappointing the directors and of redistricting the territory covered by the association. The by-laws

may provide that primary elections shall be held in each district to elect the directors apportioned to such districts and that the results of all such primary elections may be ratified by the next regular meeting of the association or may be considered final as to the association. The by-laws may provide that one or more directors may be appointed by any public official or commission or by the other directors selected by the members or their delegates. Such directors shall represent primarily the interest of the general public in such associations. The directors so appointed need not be members or stockholders of the association; but shall have the same powers and rights as other directors. Such directors shall not number more than one-fifth of the entire number of directors.

An association may provide a fair remuneration for the time actually spent by its officers and directors in its service and for the service of the members of its executive committee. No director, during the term of his office, shall be a party to a contract for profit with the association differing in any way from the business relations accorded regular members or holders of common stock of the association or other, or differing from terms generally current in that district.

The by-laws may provide that no director shall occupy any position in the association, except the president and secretary on regular salary or substantially full time pay.

The by-laws may provide for an executive committee and may allot to such committee all the functions and powers of the board of directors, subject to the general direction and control of the board.

When a vacancy on the board of directors occurs other than by expiration of term, the remaining members of the board, by a majority vote, shall fill the vacancy, unless the by-laws provide for an election of directors by districts. In such a case, the board of directors shall immediately call a special meeting of the members or stockholders in that district to fill the vacancy.

Election of Officers

SECTION 13. The directors shall elect from their number a president and one or more vice-presidents. They shall also elect a secretary and a treasurer, who need not be directors or members of the association; and they may combine the two latter offices and designate the combined office as secretary-treasurer; or unite both functions and titles in one person. The treasurer may be a bank or any depository, and as such, shall not be considered as an officer, but as a function of the board of directors. In such case, the secretary shall perform the usual accounting duties of the treasurer, excepting that the funds shall be deposited only as and where authorized by the board of directors.

Officers, Employees, and Agents to Be Bonded

SECTION 14. Every officer, employee and agent handling funds or negotiable instruments or property of or for any association created hereunder shall be required to execute and deliver adequate bonds for the faithful performance of his duties and obligations.

Stock—Membership Certificates—When Issued—Voting—Liability Limitations on Transfer and Ownership

SECTION 15. When a member of an association established without capital stock has paid his membership fee in full, he shall receive a certificate of membership.

No association shall issue stock to a member until it has been fully paid for. The promissory notes of the members may be accepted by the association as full or partial payment. The association shall hold the stock as security for the payment of the note; but such retention as security shall not effect the member's right to vote.

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

No stockholder of a cooperative association shall own more than one-twentieth of the common stock of the association; and an association, in its by-laws, may limit the amount of common stock which one member may own to any amount less than one-twentieth of the common stock.

No member or stockholder shall be entitled to more than one vote, regardless of the number of shares of common stock owned by him.

Any association organized with the stock under this act may issue preferred stock, with or without the right to vote. Such stock may be sold to any person, member or non-member, and may be redeemable or retireable by the association on such terms and conditions as may

be provided for by the articles of incorporation and printed on the face of the certificate. The by-laws shall prohibit the transfer of the common stock of the association to persons not engaged in the production of agricultural products handled by the association; and such restrictions must be printed upon every certificate of stock subject thereto.

The association may, at any time, as specified in the by-laws, except when the debts of the association exceed fifty percent of the assets thereof, buy in or purchase its common stock at the book value thereof, as conclusively determined by the board of directors, and pay for it in cash within one year thereafter.

Removal of Officers or Directors

SECTION 16. Any member may bring charges against an officer or director by filing them in writing with the secretary of the association, together with a petition signed by five percent of the members, requesting the removal of the officer or director in question. The removal shall be voted upon at the next regular or special meeting of the association and, by a vote of a majority of the members, the association may remove the officer or director and fill the vacancy. The director or officer, against whom such charges have been brought shall be informed in writing of the charges previous to the meeting and shall have an opportunity at the meeting to be heard in person or by counsel and to present witnesses; and the person or persons bringing the charges against him shall have the same opportunity.

In case the by-laws provide for election of directors by districts with primary elections in each district, then the petition for removal of a director must be signed by twenty percent of the members residing in the district from which he was elected. The board of directors must call a special meeting of the members residing in that district to consider the removal of the directors; and by a vote of the majority of the members of that district, the director in question shall be removed from office.

Referendum

SECTION 17. Upon demand of one-third of the entire board of directors, made immediately and so recorded, at the same meeting at which the original motion was passed, any matter of policy that has been approved or passed by the board must be referred to the entire membership or the stockholders for decision at the next special or regular meeting; and a special meeting may be called for the purpose.

Marketing Contract

SECTION 18. The association and its members may take and execute marketing contracts, requiring the members to sell, for any period of time, not over ten years, all or any specified part of their agricultural products or specified commodities exclusively to or through the association, or any facilities to be created by the association. If they contract a sale to the association, it shall be conclusively held that title to the products passes absolutely and unreservedly, except for recorded liens, to the association upon delivery; or at any other specified time if expressly and definitely agreed in the said contract. The contract may provide, among other things, that the association may sell or resell the products delivered by its members, with or without taking title thereto; and pay over to its members the re-sale price, after deducting all necessary selling, overhead, and other costs and expenses, including interest or dividends on stock, not exceeding eight percent per annum, and reserves for retiring the stock, if any; and other proper re-serves; or any other deductions.

Remedies for Breach of Contract

SECTION 19. (a) The by-laws or the marketing contract may fix, as liquidated damages, specific sums to be paid by the members or stockholders to the association upon the breach by him of any provision of the marketing contract regarding the sale or delivery or withholding of products; and may further provide that the member will pay all costs, premiums for bonds, expenses and fees, in case any action in which it shall prevail, brought upon the contract by the association; and any such provisions shall be valid and enforceable in the courts of this state; and such clauses providing for liquidated damages shall be enforceable as such and shall not be regarded as penalties.

(b) In the event of any such breach or threatened breach of such marketing contract by a member, the association shall be entitled to an injunction to prevent the further breach of the contract and to a decree of specific performance thereof. Pending the adjudication of such an action and upon filing a verified complaint showing the breach or threatened breach, and upon filing a sufficient bond, the association may be entitled to a temporary restraining order and preliminary injunction against the member.

(c) In any action upon such marketing agreement, it shall be presumed as between the parties that the landowner or landlord or lessor claiming therein so to be, is able to control the delivery of products produced on his land by tenants or others, whose tenancy or possession or work on such land or the terms of whose tenancy or possession or labor thereon were created or changed after execution by the landowner or landlord or lessor of such a marketing agreement; and in such actions, the foregoing remedies for non-delivery or breach shall lie and be enforceable against such landowner, landlord, or lessor.

Purchasing Business of Other Associations, Persons, Firms or Corporations—Payment—Stock Issued

SECTION 20. Whenever an association, organized hereunder with preferred capital stock, shall purchase the stock or any property, or any interest in any property of any person, firm or corporation or association, it may discharge the obligations so incurred, wholly or in part, by exchanging for the acquired interest, shares of its preferred capital stock to an amount which at par value would equal the fair market value of the stock or interest so purchased, as determined by the eleven members of the board of directors. In that case the transfer to the association of the stock or interest purchased shall be equivalent to payment in cash for the share of stock issued.

Annual Reports

SECTION 21. Each association formed under this act shall prepare and make out an annual report on forms to be furnished by the Dean of the College of Agriculture, West Virginia University, Morgantown, containing the name of the association; its principal place of business; and a general statement of its business operations during the fiscal year, showing the amount of capital stock paid up and the number of stockholders of a stock association or the number of members and amount of membership fees received, if a non-stock association; the total expenses of operations; the amount of its indebtedness or liabilities, and its balance sheets.

Conflicting Laws Not to Apply

SECTION 22. Any provisions of law which are in conflict with this act shall be construed as not applying to the association herein provided for.

Any exemptions whatsoever under any and all existing laws applying to agricultural products in the possession or under the control of the individual producer, shall apply similarly and completely to such products delivered by its former members, in the possession or under the control of the association.

Limitation of the Use of Term "Cooperative"

SECTION 23. No person, firm, corporation, or association, hereafter organized applying to do business in this state as a farmers' marketing association for the sale of farm products, shall be entitled to use the word "cooperative" as part of its corporate or other business name or title, unless it has complied with the provisions of this act.

Interest in Other Corporations or Associations

SECTION 24. An association may organize, form, operate, own, control, have interest in, own stock of, or be a member of any other corporation or corporations, with or without capital stock, and engage in preserving, drying, processing, canning, packing, storing, handling, shipping, utilizing, manufacturing, or selling of the agricultural products handled by the association, or the by-products thereof.

If such corporations are warehousing corporations, they may issue legal warehouse receipts to the association against the commodities delivered by it, or to any other person and such legal warehouse receipts shall be considered as adequate collateral to the extent of the usual and current value of the commodity represented thereby. In case such warehouse is licensed or licensed and bonded under the laws of this or any other state or the United States, its warehouse receipt delivered to the association on commodities of the association or its members, or delivered by the association or its members, shall not be challenged or discriminated against because of ownership or control, wholly or in part, by the association.

Contracts and Agreements With Other Associations

SECTION 25. Any association may, upon resolution adopted by its board of directors, enter into all necessary and proper contracts and agreements and make all necessary and proper stipulations, agreements, contracts, and arrangements with any other cooperative corporation, association or associations, formed in this or in any other state, for the cooperative and more economical carrying on of its business or any part or parts thereof. Any two or more associations may, by agreement, unite in employing and using or may separately employ and use the same personnel, methods, means, and agencies for carrying on and conducting their respective business.

Rights and Remedies Apply to Similar Associations of Other States

SECTION 26. Any corporation or association heretofore or hereafter organized under generally similar laws of another state shall be allowed to carry on any proper activities, operations and functions in this state upon compliance with the general regulations applicable to foreign corporations desiring to do business in this state and all contracts which could be made by any association incorporated hereunder, made by or with such associations shall be legal and valid and enforceable in this state with all of the remedies set forth in this act.

Associations Heretofore Organized May Adopt the Provisions of This Act

SECTION 27. Any corporation or association, organized in this state under previously existing statutes, may, by a majority vote of its stockholders or members, be brought under the provisions of this act by limiting its membership and adopting the other restrictions as provided herein. It shall make out in duplicate a statement signed and sworn to by its directors to the effect that the corporation or association has, by a majority vote of the stockholders or members, decided to accept the benefits and be bound by the provisions of this act and has authorized all changes accordingly. Articles of incorporation shall be filed as required in section eight, except that they shall be signed by the members of the then board of directors. The filing fee shall be the same as for filing an amendment to articles of incorporation.

(a) Where any association may be incorporated under this act, all contracts heretofore made by or on behalf of some by the promoters thereof in anticipation of such associations becoming incorporated under the laws of this state, whether or not such contracts be made by or in the name of some corporation organized elsewhere, and when same would have been valid if entered into subsequent to the passage of this act are hereby validated as if made after the passage of this act.

Misdemeanor to Spread False Reports About the Finances or Management of Cooperative Associations

SECTION 28. Any person or persons or any corporation whose officers maliciously and knowingly spread false reports about the finances or management or activity of any cooperative association, shall be guilty of a misdemeanor and be subject to a fine of not less than one hundred dollars and not more than one thousand dollars for each such offense; and shall be liable to the association aggrieved in a civil action for damages therefor.

Warehousemen Liable for Damages for Encouraging or Permitting Delivery of Products in Violation of Marketing Agreements

SECTION 29. Any person, firm, or corporation conducting a warehouse within this state who solicits, persuades, or permits any member of any association organized hereunder to breach his marketing contract with the association by accepting or receiving such member's products for sale or for auction or for display for sale, contrary to the terms of any marketing agreement of which said person or any member of the said firm or any active officer or manager of the said corporation has knowledge or notice, shall be liable to the association aggrieved in a civil suit for damages therefor, courts of equity shall have jurisdiction to enjoin further breaches of such contracts.

Associations Are Not in Restraint of Trade

SECTION 30. No association organized hereunder and complying with the terms hereof shall be deemed to be a conspiracy or a combination in restraint of trade or an illegal monopoly; or an attempt to lessen competition or to fix prices arbitrarily nor shall the marketing contracts and agreements between the association and its members or any agreements authorized in this act be considered illegal as such or in unlawful restraint of trade or as part of a conspiracy or combination to accomplish an improper or illegal purpose.

Constitutionality

SECTION 31. If any section of this act shall be declared unconstitutional for any reason, the remainder of this act shall not be affected thereby.

Application of General Corporation Laws

SECTION 32. The provisions of the general corporation laws of this state and all powers and rights thereunder, shall apply to the associations organized hereunder, except where such provisions are in conflict with or inconsistent with the express provisions of this act.



Numerous modifications and changes in the foregoing Act have been recommended by the Codification Commission, some of which at least will likely be passed by the Legislature at its next session and become effective in due time. The Act as given herein, however, was in force at the time this bulletin was printed.

Secretary Hyde on Farm Relief

The following paragraphs are taken from an address by Arthur M. Hyde, Secretary of Agriculture, on July 4, 1929 just after the creation by Congress of the Farm Board, before the National Education Association at Atlanta, Georgia.

"One general answer to farm problems is organization—organization to control marketing, to standardize output, to eliminate the waste and duplication of a marketing and distributing system which, generally speaking, absorbs two dollars for every one dollar it returns to the farmer. Thus the farmer can approximate the position of industry, or of other groups. By the long arm of his organization, the farmer can make himself felt beyond his line fences and in the markets of the world. Through his organization, the farmer can get information as to commodity supplies, can bring his production within the limits of demand, can control the surplus problem by preventing it. By organization the farmer can take control of his own industry; reestablish the independence of his calling; win his own place in the sun of economic equality, and having won it, hold it against all the changing vicissitudes of the future.

"To assist in the organization of agriculture; to take the problems of the various farm commodities out of the realm of politics and partisan bickering, and to meet them in the realm of economics; to set up an authoritative tribunal which shall study each separate problem, and afford leadership for agriculture in all its phases; and to do this, not by subsidy nor by governmental dabbling in business, but by helping the farmer to help himself through his own organizations—this is the aim and purpose of the Farm Relief Bill.

"The board does not buy or sell. It has no right to engage in business. Its job is to foster the organization of agriculture, to finance farmer-owned and farmer-controlled cooperatives, which may buy, sell, process, or store farm commodities.

*"The board serves in exactly the same capacity as a supervising architect serves the builder of a skyscraper or a bridge. The builder must provide the necessary funds, and a proper plan. The supervising architect must find the answer to technical questions and see the job through. * * * * * The plan is made; the funds provided; the board is ready to supervise the job.*

"Rome was not built in a day, nor will agriculture be emancipated over night. Much depends upon the character and ability of the men who compose the board. But much depends, too, upon the cooperative associations which are already formed, or will hereafter, be formed. The board can not function on its own account. The initiative lies with the farm cooperative associations.

"It is not an evasion of the responsibility, but a statement of fact to say that the success of the farm bill depends upon team work between the board and the farm cooperatives, in whose aid the legislation was designed and around whom it is built."

Whether You *~* *~* Buy or Sell

Cooperation will help you to achieve greater prosperity and a more satisfying farm life.

As an individual farmer you must buy your needed supplies at the price set by others and sell your products at the price they offer.

By working and planning with your neighbors you can buy in quantities large enough to attract competitive bids for your order, reduce transportation, storage, and handling costs, and get a better quality product.

When you and your neighbors plan your production according to market demands, grade and standardize your products, and pool them, you have volume enough and the quality desired to attract large buyers and command prices that will return a profit for your efforts.

Opportunity Awaits You

As a citizen of West Virginia you can avail yourself of the advantages offered through the following cooperative enterprises which are already functioning:

- West Virginia Farm Bureau Cooperative Association
- County Farm Bureau Warehouses and Car-Door Agencies
- West Virginia Cooperative Livestock Shippers Association and allied county organizations
- West Virginia Poultry Producers Cooperative Association
- West Virginia Wool Growers Association
- West Virginia Potato Growers Cooperative Association
- West Virginia Community Demonstration Apple Packing Plant
- Mountain State Home Industries Shops, Inc.

In case these organizations do not meet the needs of your particular community or the problem that needs attention, get in touch with your county agent. It is his job to help you solve your problems, and he has the backing of the College of Agriculture and the United States Department of Agriculture to help him do it.

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