

DO NOT REMOVE FROM
ACCOUNTING DEPARTMENT

AUDITOR'S REPORT
FEDERAL RESERVE BANK OF MINNEAPOLIS
FOR THE YEAR
1939

TO THE DIRECTORS:

Through the presentation of the following comparative tables and schedules, with accompanying comments, we have attempted to inform the Directors of the results of our 1939 operations and to indicate the probable trend of 1940 earnings and expenses.

The marked improvement in the earning rate on Government securities during the second half of 1939 enabled us to complete the year with better current earnings than for the previous year, but with a smaller profit from the sale of Governments from System Account. We were unable to provide anything this year out of earnings for addition to "Reserve for Contingencies" but did reduce the book value of our Land \$100,000. With maintenance of the present rate on the amount of Governments held during the first part of January, all our needs in 1940 would be comfortably covered. Our 1940 Budget estimates are approximately \$8,000 higher than the actual costs of 1939.

Fiscal duties for the Commodity Credit Corporation rapidly expanded and contracted twice during the year. Reimbursable expenses were approximately \$100,000 more than in 1938. Of the other larger functions, the cash collections had an increase in volume although there was a decrease in the number of W.P.A. checks handled. Some expansion took place in currency transactions and safe-keeping volume was less.

The daily average of member bank balances increased \$14,576,000 to \$136,241,000 in 1939 with the Treasury average balance \$34,071,000 in 1938 and \$44,763,000 for the year just closed. Our notes in circulation were \$141,427,000 on December 31 which was an increase of \$4,570,000 during the year.

The "Frequency of Audits" approved by our Board has been carried out and the audits performed at Minneapolis and Helena indicate that our operations are being efficiently conducted.

Respectfully submitted,


Auditor.

January 1, 1940.

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COMPARATIVE STATEMENT OF RESOURCES

FEDERAL RESERVE BANK OF MINNEAPOLIS AND HELENA BRANCH
(After closing entries)

	<u>December 31, 1939</u>	<u>December 31, 1938</u>
Cash Reserves:		
Gold certificates with F. R. Agent	\$ 147,500,000.00	\$ 143,500,000.00
Redemption fund - F. R. Notes	219,218.21	605,582.12
Inter-district settlement fund	<u>111,066,127.10</u>	<u>97,952,227.50</u>
Total gold certificate reserves	\$ 258,785,345.31	\$ 242,057,809.62
Other cash	<u>9,267,700.13</u>	<u>7,786,155.24</u>
Total cash reserves.....	\$ 268,053,045.44	\$ 249,843,964.86
Bills and Securities:		
Bills secured by U.S. Government obligations, direct or fully guaranteed	50,000.00	43,000.00
Bills otherwise secured and unsecured	215,837.19	90,657.72
Bills bought in open market	-	1,903.25
Industrial advances	742,802.12	964,090.22
U. S. Government securities	<u>67,441,000.00</u>	<u>56,815,500.00</u>
Total bills and securities	\$ 68,449,639.31	\$ 57,915,151.19
Due from Foreign banks	480.53	1,992.60
F.R. Notes of other Federal Reserve Banks ...	1,316,500.00	1,427,900.00
Uncollected Items:		
Transit items	19,717,285.77	16,007,617.60
Exchanges for clearing house	565,122.36	350,699.77
Other cash items	<u>512,555.37</u>	<u>530,604.20</u>
Total uncollected items	\$ 20,794,963.50	16,888,921.57
Bank premises	1,395,854.45	1,524,700.89
Miscellaneous Assets:		
Premium on securities	1,189,799.23	661,906.47
Interest Accrued	235,773.58	169,290.29
Reimbursable expenditures	23,872.81	34,366.59
Deferred charges	12,812.16	18,351.32
Miscellaneous assets acquired in settlement of claims account failed banks.....	4,292.09	9,521.38
Industrial Advances past due three months..	153,052.14	191,540.06
All other resources	<u>2,673.23</u>	<u>10,970.04</u>
Total miscellaneous assets	\$ 1,622,275.24	\$ 1,095,946.15
TOTAL RESOURCES	\$ 361,632,758.47	\$ 328,698,577.26

COMPARATIVE STATEMENT OF LIABILITIES
FEDERAL RESERVE BANK OF MINNEAPOLIS AND HELENA BRANCH
(After closing entries)

	<u>December 31, 1939</u>	<u>December 31, 1938</u>
F. R. notes in actual circulation	\$ 141,427,335.00	\$ 136,856,785.00
Deposits:		
U. S. Treasurer - General account	24,451,701.64	43,294,457.46
Members - Reserve account	154,787,739.93	113,567,601.59
Due to foreign banks	9,346,174.34	4,587,160.14
Other deposits	6,105,600.19	3,778,731.19
Total deposits	\$ 194,691,216.10	\$ 165,227,950.38
 Deferred availability items	 \$ 16,361,873.70	 17,479,914.81
Miscellaneous Liabilities:		
Sundry items payable	\$ 73,722.53	84,857.77
Unearned discount	760.05	563.47
All other	12,170.69	9,152.99
Total miscellaneous liabilities	\$ 86,653.27	\$ 94,574.23
 Capital stock paid in	 \$ 2,931,150.00	 \$ 2,903,350.00
Surplus Fund - Section 7	3,152,420.27	3,153,413.69
Surplus Fund - Section 13-b	1,000,683.96	1,001,162.98
Reserves for contingencies	1,981,426.17	1,981,426.17
TOTAL LIABILITIES	\$ 361,632,758.47	\$ 328,698,577.26

COMPARATIVE STATEMENT OF GROSS EARNINGS

FEDERAL RESERVE BANK OF MINNEAPOLIS AND HELENA BRANCH

Earnings from	Minneapolis 1939	Helena Branch 1939	Combined 1939	Combined 1938
Discounted bills	1,470.41	173.56	1,643.97	2,659.35
Purchased bills	11.08		11.08	6.54
Industrial advances	50,206.13		50,206.13	52,879.36
Commitments to make industrial advances	1,294.52		1,294.52	1,704.33
U. S. Government securities	1,069,781.82		1,069,781.82	1,018,540.19
Deficient reserve penalties	726.75	58.90	785.65	566.42
Interest received on past-due paper of closed banks				15,788.08
Interest on past-due industrial advances	8,312.02		8,312.02	7,579.43
Sale of waste paper, money bags, etc.	75.97		75.97	64.35
Service charges on collection items returned unpaid	25.35		25.35	28.65
Monthly letters sold				6.00
Commissions on bills bought for foreign banks				6.72
Interest on Hungarian Credits	481.70		481.70	533.85
Clearing house fines	53.00		53.00	44.00
Interest received on personal loans to employees	50.80		50.80	
Interest on misc. assets acquired account Industrial adv.	57.64		57.64	
Savings in registration fees, etc. on registered mail shipments for member banks	1,805.95		1,805.95	
All other	14.04		14.04	64.35
Total Earnings	1,134,367.18	232.46	1,134,599.64	1,100,471.62

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EARNINGS

Earned at Minneapolis	\$ 1,134,367.18	
Earned at Helena	232.46	\$ 1,134,599.64

The above total of our current earnings for 1939 represents an increase of 3.1% over the 1938 total current earnings. Up to the close of November our earnings were less than for the corresponding 11 months of 1938. During the last quarter of 1939 the interest received from Governments was nearly 58% greater than for the 1938 quarter, with the result that our current earnings for the complete year exceeded those of 1938 by \$34,128.02.

Since 1932 much the greater part of our income has come from interest obtained on investments in United States securities. For 1939 the gross amount of interest received on Governments was \$1,069,781.82 or 94.3% of the total earnings. In 1938 this percentage was 92.6%. The daily average of such securities held in 1939 was \$75,280,616, compared to \$75,413,276 held one year earlier. The proportion allotted us in System Account during the first half of 1939 was considerably lower than for the like period of 1938, but during the closing months the daily average for the two years was nearly equalized.

We began the year 1939 with a participation of \$80,454,500 in System Account and of this amount \$17,766,000 represented Treasury Bills, \$26,385,500 Treasury Bonds and \$36,303,000 Treasury Notes. The quarterly System adjustments were not as severe as in the previous year. During September bond holdings increased followed by some reduction in notes and the elimination of all Treasury Bills in December. Our participation in System Account on January 1, 1939, December 31, 1939 and on January 1, 1940 after the recent allotments, was as follows:

	<u>January 1, 1939</u>	<u>December 31, 1939</u>	<u>January 1, 1940</u>
United States Bonds	\$ 26,385,500	\$ 36,677,000	\$ 39,947,500
United States Notes	36,303,000	30,764,000	33,508,500
U.S. Treasury Bills	17,766,000	None	None
	\$ 80,454,500	\$ 67,441,000	\$ 73,456,000

The System holdings on January 1, 1940 were \$2,484,270,000 and our portion of the total holdings was 2.956%. Prior to the close of the year our participation was 2.71%.

With one exception (June), there was an improvement each month during 1939 in the earning rate on Government securities. The rate improved more rapidly during the closing months with the greater volume of longer term bonds and the elimination of Treasury Bills. In January the average earning rate had been 1.316%, increasing to 1.706% in December and giving a daily average rate of 1.421% in 1939.

EARNINGS - Cont'd

compared to 1.351% in 1938. With the readjustment of allotments on January 1, 1940 the earning rate will be 1.747%. This means we are earning \$3,515.04 daily on our Government holdings, compared to \$2,893.21 earned daily one year ago. Before the addition of \$6,015,000 to our holdings on January 1, 1940 the amount earned daily was \$3,227.16.

The profit received from paper discounted for member banks continued to be a very small part of our earnings amounting to only \$1,643.97 for the year and the smallest amount received since 1936. At Minneapolis the daily average of member discounts was \$70,727, with the Helena average \$10,858. We had some paper under discount during each month at Head Office, but Helena had none during the first two months and the closing month of the year. Because of some 10-b loans the average rate was 1.642%. There has been no change in the normal discount rate of $1\frac{1}{8}\%$ established August 24, 1937.

On the small amount of purchased paper which we participated in through New York, we had earnings of \$11.08. This represented income on investments made through foreign banks, our portion being \$1,903.25, and since eliminated.

Industrial advances were at the lowest point of the year in December with outstanding current advances \$743,000 on December 31 and a daily average of \$837,000 in 1939. Earnings on current advances were \$50,206.13, compared to \$52,879.36 in 1938 when the daily average was \$896,000. There was little change during the year from the amount of advances shown past due at the beginning of 1939. On December 31, 1938 the past due total was \$231,540.06, since reduced to \$226,052.14 at the close of 1939. Payments on account of past due interest amounted to \$8,312.02. The commissions received on commitments to make industrial advances were reduced from \$1,704.33 in 1938 to \$1,294.52 for the year just closed. We also obtained \$57.64 interest on a contract covering the sale of assets acquired in connection with an industrial advance. Gross earnings from industrial advances amounted to \$59,870.31. One year ago gross earnings were \$62,209.97. Bank funds used in making industrial advances made up 13.060% with Treasury funds supplied by Surplus (13b) making up 86.940%. Our participation in 1938 was 21.102%.

Although total earning assets were lower during the last half of 1939, the improved rate on Governments gave us better earnings. For the complete year earning assets showed a daily average of \$76,364,000 and an average earning rate

EARNINGS - Cont'd

of 1.471%. In the previous year the average of earning assets was \$76,647,000 and the rate 1.404%.

Miscellaneous sources of revenue added \$11,614.30 to our earnings in 1939, the most important being \$8,312.02 of past due interest on industrial advances. Through consolidations of shipments of securities for member banks, we were able to effect a savings in registration fees of \$1,805.95, this savings being treated as earnings. Other minor amounts making up the above total included deficient reserve penalties \$785.65; sale of waste paper, money bags, etc. \$75.97; service charges on collection items returned unpaid \$25.35; interest on Hungarian credits \$481.70; clearing house fines \$53.00; interest on personal loans to employees \$50.80; all other \$14.04.

COMPARATIVE STATEMENT
CURRENT EXPENSES OF THE FEDERAL RESERVE BANK OF MINNEAPOLIS AND HELENA BRANCH

	Minneapolis 1939	Helena Branch 1939	Combined 1939	Combined 1938
Salaries: Officers	83,884.25	13,495.42	97,379.67	99,062.53
Employees	356,642.03	38,400.47	395,042.50	412,480.24
Retirement System contributions for current service . .	21,552.70	2,575.74	24,128.44	25,525.47
Legal fees	9,091.46	20.00	9,111.46	11,851.73
Directors' fees and expenses	7,213.46	1,959.40	9,172.86	11,764.70
Federal Advisory Council	1,323.45		1,323.45	1,261.05
Traveling expenses	19,232.49	2,362.90	21,595.39	23,272.81
Postage and expressage	104,220.13	15,148.57	119,368.70	112,722.65
Telephone and telegraph	9,587.15	4,355.71	13,942.86	16,092.98
Printing, stationery and supplies	20,119.21	2,825.36	22,944.57	26,229.03
Insurance on currency and security shipments	6,632.63	855.80	7,488.43	7,192.31
Other Insurance	16,390.53	1,142.63	17,533.16	18,757.60
Taxes on bank premises	67,360.00	2,207.25	69,567.25	69,270.14
Depreciation on bank building	31,155.60	3,180.84	34,336.44	27,423.99
Light, heat, power, and water	18,108.04	1,514.18	19,622.22	16,981.30
Repairs and alterations to bank building	14,535.35	574.27	15,109.62	11,855.30
Rent				375.00
Furniture and equipment	9,679.20	5,658.09	15,337.29	11,537.95
All other	29,743.10	3,148.81	32,891.91	33,138.67
Total Operating Expenses	826,470.78	99,425.44	925,896.22	936,795.45
Received from Government agencies for				
Rental of space	18,268.42	1,659.00	19,927.42	12,701.04
Rental of furniture and equipment	4,536.49	358.26	4,894.75	2,893.21
Net Operating Expenses	803,665.87	97,408.18	901,074.05	921,201.20
Board Assessment	36,796.66	-	36,796.66	39,435.42
Federal Reserve Currency:				
Original cost, including shipping charges	30,751.78	-	30,751.78	46,619.34
Cost of redemption	6,116.56	-	6,116.56	4,667.35
Total Current Expenses	877,330.87	97,408.18	974,739.05	1,011,923.31

51,154.3
69,270
431,110
101,192.3

EXPENSES

Minneapolis	\$ 877,330.87	
Helena	<u>97,408.18</u>	\$ 974,739.05

For the first year since 1932 our total current expenses have been below \$1,000,000. Compared to 1938 a reduction has been shown at Minneapolis of \$35,822.19 and at Helena of \$1,362.07. The Budget prepared at the beginning of 1939 estimated the Minneapolis costs would be \$892,697 and those of Helena \$97,079.

As in previous years salaries and note costs are the two items most likely to upset estimates. The rapid expansion and sudden contraction of fiscal duties makes it difficult to determine the number of regular bank employees who may be assigned to reimbursable work. Demand for our notes is affected in several ways, with volume of the issue of silver certificates and the destruction of our notes exercising considerable control over the supply required. Our estimates for note printing run for fiscal years which begin July 1, while Budget figures are for calendar years. Other items show variations from estimates and from the 1938 expenses, but the two items mentioned supplied most of the saving in comparison with 1938 costs. Two other items had an important bearing on reduced expense. These are the rentals received from space used in fiscal work and the payments by fiscal agencies for rent of bank owned equipment. Formerly these payments were treated as income, but are now used to reduce the expense total.

At Helena it has been possible to estimate recoveries from fiscal agencies more closely and no note costs are borne by the Branch. As the old building was occupied during part of 1938, comparison may not be as accurate as will be possible by the close of 1940. Through officers and clerks, all or partially reimbursed by the Reconstruction Finance Corporation and the Commodity Credit Corporation and charges for space and equipment rental, the Branch was able to show a lower expense total than in 1938. The amounts reimbursed on officers and employees salaries were \$3,654.46 greater than in the previous year.

In preparing our Budget figures for 1939 it was estimated that the various fiscal agencies would make reimbursement to us for \$182,831 of services at Minneapolis and \$19,625 at Helena. The amounts paid and to be recovered were \$246,765.47 at Minneapolis and \$22,435.29 at Helena. While some of the additional payments served to reduce our bank costs, the major portion of the added expense was due to the employment of temporary help and had no bearing on our regular bank pay roll.

EXPENSES - Cont'd

SALARIES

Minneapolis	\$ 440,526.28	
Helena	<u>51,895.89</u>	\$ 492,422.17

Reduction from 1938 Payments

In payments to officers	\$ 1,682.86
In payments to employees	<u>17,437.74</u>
Total decrease for 1939.....	\$ 19,120.60

Decrease at Minneapolis	\$ 15,432.81
Decrease at Helena	<u>3,687.79</u>
Total decrease for 1939.....	\$ 19,120.60

The pay roll basis at the beginning of 1939, other than for reimbursable fiscal work, indicated a reduction of approximately \$20,000 in salaries compared to 1938, so that this estimate was fairly close. On December 31 we had a total of 418 employees, of which 377 were attached to Head Office. Of this number 19 Minneapolis employees were released at the close of the year due to the falling off of volume in the Commodity Credit Corporation division which had furnished temporary work to a large number of persons for various periods during the year. On January 1, 1940 we had 222 men employees and 136 women employees at Minneapolis, with 27 men and 14 women at Helena. Compared to one year ago changes in personnel were as follows:

<u>Minneapolis</u>	<u>1939</u>	<u>1938</u>
Men employees	222	215
Women employees	<u>136</u>	<u>113</u>
	358	328
<u>Helena</u>		
Men employees	27	26
Women employees	<u>14</u>	<u>13</u>
	41	39
Total employees	399	367

There has been an increase of 13 persons during the past year in the banking departments at Minneapolis and 17 have been added to fiscal departments. The expansion in fiscal duties is indicated from the fact that 191 persons at Minneapolis were all or partially reimbursed by fiscal agents during December, 1939, compared to 155 similarly employed in December, 1938. The Wage and Hour Law has caused some rearranging of schedules and it was necessary to add a few transit employees and make at least one addition to the guard force to avoid paying overtime.

No dismissal payments were made in 1939, but in December a payment of \$966.65 (4 months salary) was made to Joseph Person who had previously been removed from our personnel.

EXPENSES - Cont'd

RETIREMENT SYSTEM

Current Service Contributions

Minneapolis	\$ 21,552.70	
Helena	<u>2,575.74</u>	\$ 24,128.44

Above amounts are contributed by the Bank and the total is \$1,397.03 less than the payments in 1938. For the first half of 1938 the rate of payment was 5.28% of the monthly pay roll. From July 1, 1938 to June 30, 1939 this rate was 5.21% and since has been at the rate of 5.13%. Current payments have been in effect since March 1, 1934. All payments prior to that date have been made by the Bank.

LEGAL FEES

Minneapolis	\$ 9,091.46	
Helena	<u>20.00</u>	\$ 9,111.46

Salary of counsel at Minneapolis made up \$9,000 of our payment, the balance of \$91.46 being expended to protect our interests in several small matters at closed banks. At Helena \$20 was paid for legal opinion in connection with taxes on fixtures.

DIRECTORS' FEES AND EXPENSES

Minneapolis	\$ 7,213.46	
Helena	<u>1,959.40</u>	\$ 9,172.86

The curtailment of Discount Committee meetings in 1939 made possible a substantial decrease in payments to directors, this one service costing \$3,910 less than in 1938 at Minneapolis. Some other items showed increases but the net decrease was \$3,109.19. At Helena payments to directors were \$517.35 greater because of fuller attendance and heavier travel costs.

MINNEAPOLIS DIRECTORS' EXPENSE

Regular meetings	\$ 4,503.35
Attendance at Member Bank Conference	228.45
Executive Committee meeting	760.15
Audit Committee meetings	403.00
Discount Committee meetings	740.00
Meetings of Chairmen at Washington	373.98
Entertainment of Directors	75.00
Luncheons for Directors	123.18
Luncheons for Discount Committee	2.65
Luncheons for Executive Committee	<u>3.70</u>
	\$ 7,213.46
Helena Board meetings and luncheons	<u>1,959.40</u>
Total	\$ 9,172.86

EXPENSES - Cont'd

FEDERAL ADVISORY COUNCIL

\$ 1,323.45

Four meetings were attended during the year by our representative. The amount (also) includes meeting expense and our portion of the salary of the secretary of the Council.

TRAVELING EXPENSES

Minneapolis	\$ 19,232.49	
Helena	<u>2,362.90</u>	\$ 21,595.39

Total travel expense is approximately \$1,700 less than in 1938, such costs being \$2,569.64 lower at Head Office and \$892.22 greater at the Branch. One year ago expense of industrial loan investigations and payments made to the Industrial Advisory Committee were \$5,012.44. Lowering of these payments to \$2,921.75 during the past year has made possible the reduction in total expense. The annual visits of our officers to banks of the District have cost less than in 1938 with attendance at group meetings and conferences costing more. Travel in connection with memberships has also been heavier than in previous years. Costs of showing the bank movie were reduced over \$500 in 1939. Expenses of the year for travel have been classified as follows:

MINNEAPOLIS TRAVEL EXPENSES

Showing Bank movie	\$ 32.35
Industrial loan investigations	1,964.38
Industrial Advisory Committee expense	957.37
Bank examinations	5,331.68
Visiting banks of the district	5,244.21
Group meetings and conventions	1,530.77
Closed Bank representatives	890.47
Presidents' Conferences	600.98
Open Market Committee meetings	109.10
Retirement Committee meetings	410.93
Auditors' Conference	283.25
Conventions outside our District	422.34
Employees attending A.I.B. Convention	254.46
Graduate School of Banking (Lysen)	150.15
Talks before various groups	339.61
Arranging transit operations at banks	118.69
Obtaining statistical information	253.46
Miscellaneous	<u>338.29</u>
	\$ 19,232.49

HELENA TRAVEL EXPENSES

Attending member bank conference at Minneapolis	\$ 117.50
Montana Bankers Convention	97.90
American Bankers' Association Convention	106.15
Visiting banks and contacting prospective members	1,203.57
Expense of Head Office auditors	477.78
Per diem allowed Branch auditor	<u>360.00</u>
	\$ 2,362.90

EXPENSES - Cont'd

POSTAGE AND EXPRESSAGE

Minneapolis	\$ 104,220.13	
Helena	<u>15,148.57</u>	\$ 119,368.70

Next to salaries our mail and shipping expenses require the heaviest expenditures, with the 1939 total the highest yet experienced. Compared to 1938 the increase at Minneapolis was \$6,341.03. The Minneapolis expense was incurred for the following purposes:

Postage	<u>1939</u>	<u>1938</u>
Absorbed on incoming currency shipments	\$ 26,603.47	\$ 26,009.64
Placed on outgoing currency shipments	17,353.15	15,767.36
Placed on outgoing coin shipments	5,984.99	5,417.08
Net amount used on ordinary mail	40,568.75	40,074.45
Postage used on security shipments	508.88	<u>1,017.35</u>
	<u>\$ 91,019.24</u>	\$ 86,251.18
 <u>Expressage</u>		
Absorbed on incoming currency shipments	\$ 84.49	\$ 76.68
Absorbed on incoming coin shipments	5,850.55	6,048.21
Government checks sent by express	492.67	410.37
Checks to member banks by express	2,849.02	3,645.41
Paid Brink's Inc., for hauling (one year)	3,600.00	807.69 *
Auto expense and miscellaneous	324.16	639.56
	<u>\$ 13,200.89</u>	\$ 11,627.92
 Total Postage and Expressage	 \$ 104,220.13	 \$ 97,879.10

* Payment from October 10, 1938 to January 1, 1939.

The postage required on money shipments in 1939 was \$49,941.61 and \$2,747.53 more than needed in 1938. On ordinary mail \$53,299.20 was needed, or nearly \$4,000 more than in 1938, but more postage was used during the year just closed in connection with fiscal matters and the reimbursement was \$12,730.45, compared to \$9,374.09 in 1938. The excess of recoveries over postage used on shipments of securities was credited to Miscellaneous Earnings in 1939 and used to reduce expense in 1938. The net credit amounted to \$1,297.07 last year compared to \$1,017.35 in 1938.

Fewer checks were sent to member banks by express than one year ago. The cost of hauling money and securities shows an increase of \$2,800 over 1938. Our arrangement with Brink's Inc. was continued throughout 1939 and had only been in effect since October 10 during 1938. The change has worked satisfactorily, reduced guard expense and eliminated the necessity for purchasing a new armored truck.

At Helena postage and expressage showed a net increase of \$305.02. Money costs were \$372.34 greater and ordinary mail \$311.38 greater. Expressage charges assumed on money were \$694 compared to \$822.39 one year ago. All other costs under this classification were \$835.13 in 1939 and \$1,073.05 in 1938.

EXPENSES - Cont'd

TELEPHONE AND TELEGRAPH

Minneapolis	\$ 9,587.15	
Helena	<u>4,355.71</u>	\$ 13,942.86

The further use of teletype machines by other Federal Reserve Banks helped the general cost of the private wire system and our payment for private wire expense was \$916 less than for 1938. A larger percentage of messages sent over the private wire reduced payments to the commercial companies \$637 compared to the previous year. By arranging the handling of our St. Paul telephone messages through an outlying exchange, we received reduced rates and refunds totaling \$443.92.

At Helena there has been some increase in telephone costs during past two years because the Branch makes use of the local telephone company's equipment for internal calls. Through elimination of a switchboard operator, and convenience of the new plan, money has been saved. Telegraph expense has been closely watched at Helena, the fluctuations of recent years depending on the demand for services by our member banks. Total telegraph and telephone expense was \$96.48 greater than the 1938 total.

PRINTING, STATIONERY AND SUPPLIES

Minneapolis	\$ 20,119.21	
Helena	<u>2,825.36</u>	\$ 22,944.57

Payments for the above items were \$2,739.46 less at Minneapolis than in 1938 and at Helena the reduction was \$545. It has been customary for several years to charge off in December substantial amounts for printing, stationery and supplies ordered but for which bills will not be submitted until January. For 11 months in 1939 there was small change from one year ago, but amounts charged in December were \$3,058.23 compared to \$5,883.08 charged in December one year ago. There has been an upward trend in stationery and printing prices for most of the year and this seems likely to continue. Fiscal agencies reimbursed us for \$6,686.86 of supplies during the year compared to \$5,244.10 in 1938.

Helena payments were normal for banking department needs, but recoveries from the Reconstruction Finance Corporation and Commodity Credit Corporation were \$547.72 compared to \$365.07 one year earlier.

INSURANCE ON CURRENCY AND SECURITY SHIPMENTS

Minneapolis	\$ 6,632.63	
Helena	<u>855.80</u>	\$ 7,488.43

There was little change in the insurance charges absorbed on money shipments from one year ago, the reduction in the amount charged on incoming shipments being offset by the increase in the outgoing volume. One year ago the insurance

EXPENSES - Cont'd

recoveries on security shipments exceeded the payments by \$137.77. For the year just passed we had net charges of \$153.64. On August 1, 1939 the cost of insuring currency and coin shipments was reduced from 4 3/4 cents per thousand to 4 1/4 cents per thousand.

At Helena \$873.10 was paid for insuring money shipments in 1939, or \$40.19 less than last year. On securities there was a net credit of \$17.30, compared to a small net charge of \$6.14 in 1938.

OTHER INSURANCE

Minneapolis	\$	16,390.53	
Helena		<u>1,142.63</u>	\$ 17,533.16

Our payments for insurance at Minneapolis during 1938 and 1939 are classified below. These charges should show a further decrease in 1940 because the yearly premium on our Blanket Bond was lowered to \$10,286.25 in October, 1939. The 1939 payment for this bond was \$1,200 less than in 1938. The fire and tornado policy which we have carried on our property for three years expired on January 1, 1940 and we will be refunded approximately \$1,300 of the original premium of \$2,250. One-third of the amount refunded, or \$433, will be credited to 1940 expense and the balance credited to Profit and Loss.

The Branch payments for insurance of \$1,142.63 are \$276.25 greater than in 1938. A new burglary and robbery policy requiring payment of \$192.88 accounts for most of the increase.

MINNEAPOLIS

	<u>1939</u>	<u>1938</u>
Special police bonds	\$ 130.00	\$ 125.00
Group Life	1,437.40	1,398.48
Workmen's Compensation	1,030.76	1,161.31
Non-ownership Auto Liability	381.35	308.98
Collision insurance - Officers and employees	127.18	151.17
Bankers' Blanket Bond	11,559.66	12,760.36
Premises and Elevator Liability	330.12	362.13
Fire and Tornado	750.00	804.95
Steam Boiler	129.95	63.36
Burglary of Securities	216.60	195.93
Fidelity bonds (Agent and alternates)	250.00	260.14
Auto liability on bank owned cars	197.51	299.41
Camera Property Floater & Fire on Film	53.18	
	<u>\$ 16,593.71</u>	<u>\$ 17,891.22</u>
Less: Dividend on Group Life for policy year ending April 1, 1939	203.18	-
	<u>\$ 16,390.53</u>	<u>\$ 17,891.22</u>

In order that the Directors may be informed as to the type and amount of insurance carried at Minneapolis and Helena, with the premiums and maturities, the following table will show the coverage in effect at this time.

SUMMARY OF INSURANCE POLICIES CARRIED BY BANK AT MINNEAPOLIS - 1939

INSURER	COVERAGE	AMOUNT OF POLICY	PREMIUM	DATE OF POLICY	EXPIRATION DATE
St. Paul-Mercury	Bankers blanket bond (covers Head Office and Branch)	\$ 1,000,000	\$ 10,286.25	8-1-39	8-1-40
Hartford	Burglary of securities (covers Head Office only)	9,000,000	518.60	1-1-38	1-1-41
Travelers	Burglary of securities (covers Head Office only)	1,000,000	43.68	2-7-39	1-1-41
Fidelity & Deposit	Fidelity bond - Walter C. Coffey, Federal Reserve Agent	100,000	100.00	12-22-39	12-22-40
"	" - H.G.McConnell, Ass't Federal Reserve Agent	50,000	50.00	7-13-39	7-13-40
"	" - H.C.Timberlake, Alternate for Ass't F.R. Agent	50,000	50.00	7-22-39	7-22-40
"	" - John Johnson, " " " " " "	50,000	50.00	9-22-39	9-22-40
Travelers	Public Liability - Premises, elevators, etc.	50/100M	990.41	12-1-38	12-1-41
"	Public Liability - Cafeteria	10,000	135.13	5-1-37	5-1-40
Hartford	Workmen's Compensation	Statutory limits	1,261.71	12-31-38	12-31-39
Firemen's Mutual	Building & Contents - Fire etc.(covers Head Office & Br.) *	500,000	2,250.00	1-1-37	1-1-40
Hartford	Steam boiler " " "	50,000	494.24	5-1-38	5-1-41
Travelers	Property floater on motion picture camera and equipment	2,178	43.55	11-8-39	11-8-40
Travelers	Fire insurance on bank film	4,000	9.63	11-12-39	11-12-40
Travelers	Chevrolet automobile - Liab., P.D., Fire, Theft, etc.	5/50/100M	82.44	1-6-39	1-6-40
Travelers	Ford delivery sedan - " " " " "	5/50/100M	133.07	3-3-39	3-3-40
Travelers	Automobile - Non-ownership liability	5/50/100M	381.35	11-2-39	11-2-40

SUMMARY OF INSURANCE POLICIES CARRIED BY BANK AT HELENA - 1939

Standard Accident	Automobile - Non-ownership liability	\$ 5/300M	78.86	3-5-39	3-5-40
Westchester	Chevrolet - Armored truck, Fire and theft	1,500	13.93	3-5-39	3-5-40
Firemen's Mutual	New Building & Contents-Fire etc. (Rider on H.O. policy)	100,000	600.00	12-16-37	1-1-40
"	New Building - Sabotage, vandalism, malicious mischief (Rider on Head Office policy)	25,000	30.00	12-6-37	1-1-40
"	New Building & Contents-Earthquake (Rider on H.O. policy)	50,000	185.00	4-25-38	5-1-40
Globe & Republic	Old Building - All direct loss or damage by fire, 70% Co-ins.	17,000	100.13	5-5-39	5-5-42
Travelers	Burglary & Robbery (Securities only - excess over million dollar Blanket Bond, held at Head Office)	500,000	868.00	3-4-39	3-4-42
U.S.Fid.& Guaranty	Public Liability - Premises, elevators, etc.	500,000	195.61	1-25-39	1-25-42
Hartford	Steam Boiler (Rider on Head Office Policy)	50,000	83.00	5-1-38	5-1-41
U.S.Fid.& Guaranty	Workmen's Compensation	Statutory limits	242.44	1-25-39	1-25-40
Equitable Life	Group life - Contributory (Insures each officer and employee in amount equal to one year's salary or \$5,000, whichever is lower. Expires at the 65th birthday. Includes total and permanent disability prior to age 60. Premium rate 83¢ per thousand per month of which 60¢ is paid by officers and employees and 23¢ by bank. Dividends, if any, go to the bank.)				

* Includes sabotage, vandalism and malicious mischief.

EXPENSES - Cont'd

TAXES ON BANK PREMISES

Minneapolis	\$ 67,360.00	
Helena	<u>2,207.25</u>	\$ 69,567.25

The amount charged expense for 1939 taxes at Minneapolis to be paid in 1940 is the same as in 1938. Appraised value of the land is \$432,000 and building \$1,252,000, or a total of \$1,684,000. Assessed value is \$673,600 and the rate 100 mills. There will probably be a small amount of special taxes in addition.

At Helena the tax payment was on the new property only. Taxes on the old property amounted to \$323.76 and were paid by a charge to Profit and Loss at the Head Office. In 1938 the payment for the portion of the building completed at the time of the assessment was \$812.69, with \$1,097.45 assessed on the old property.

DEPRECIATION ON BANK BUILDING

Minneapolis	\$ 31,155.60	
Helena	<u>3,180.84</u>	\$ 34,336.44

Normal depreciation at Minneapolis is \$25,665.60 which is 2% of estimated replacement cost. The additional charge of \$5,490 represents the cost of two new oil burners. Under Board ruling, we are permitted to charge off during the current year the full amount of replacements if not in excess of 10 per cent of the original cost of Fixed Machinery and Equipment. *No. add to Reserve*

Depreciation at Helena was double the amount charged in 1938, because the premises were occupied but six months in 1938.

LIGHT, HEAT, POWER AND WATER

Minneapolis	\$ 18,108.04	
Helena	<u>1,514.18</u>	\$ 19,622.22

Compared to 1938 there has been an increase of \$2,700 at Minneapolis. It was estimated earlier in the year that our lighting costs due to new equipment and greater use of current would average \$300 monthly higher in 1939. The total for light and power was \$13,126.69 during the past year compared to \$9,545.09 in 1938. Fuel oil required in 1939 was 70,236 gallons for which we paid \$3,321.59. The amount purchased in the previous year was 96,230 gallons at a cost of \$4,922.63. Through the installation of new oil burners in October we were able to burn a lower grade of oil at a saving of approximately one-half cent per gallon. The low pressure boilers reduce the quantity of oil necessary. Our oil expenditures during the last quarter of 1939 were \$1,246.79 compared to \$2,589 for the like period

EXPENSES - Cont'd

LIGHT, HEAT, POWER AND WATER - Cont'd

of 1938. Use of city water cost \$819.56 in 1939 and \$494.50 in 1938. Sewage disposal which brought a new charge in the latter part of 1938 cost us \$665.15 for all of 1939, compared to a payment of \$289.73 for approximately five months in 1938.

A reliable comparison at Helena of heating and lighting costs with 1938 may not be made because both buildings were occupied for part of 1938 and light was included in the rental expense paid for temporary quarters used prior to occupying the new building. In December the heating expense was \$77.77 compared to \$64.75 in November. Cost of light was \$43.95 in December and \$51.82 for November. For the full year 1939 these expenses were as follows: Light \$700.67; heat \$693.23; power \$51.43; water \$63.85.

REPAIRS AND ALTERATIONS

Minneapolis	\$	14,535.35	
Helena		<u>574.27</u>	\$ 15,109.62

The amount required at Minneapolis was substantially greater than in 1938 with over one-half the total used for labor and materials in changing and repairing the outside walls. After occupying these premises for fifteen years we must expect a moderate increase in the amounts needed each year for repairs. More items make up the 1939 total which were classified as follows:

Elevator maintenance contract	\$	2,166.00
Overhauling steam pump		113.75
Installing sink in duplicating room		104.00
Furnishing and installing boiler for hot water plant		465.00
Acousti-Celotex ceiling for ground floor room		353.00
Lights on ground floor room		127.80
2 Filters for drinking water		165.00
Rewinding air-conditioning motor		115.80
Painting smoke-stack and flag pole		47.00
Connecting city water to compressor		73.00
Furnishing and installing 8 lavatories		302.00
Engineering service installing oil burners		150.00
Labor and material used in repairing outside walls		7,994.43
Labor and material used in air-conditioning changes		1,055.20
Cage work on 5th level of vault		290.00
Light fixtures for recreation room		51.35
Misc. materials purchased for making repairs by our own workmen		<u>1,182.31</u>
	\$	14,755.64
Less: Unused portion of amount reserved in December 1938 for plastering		<u>220.29</u>
	\$	14,535.35

HELENA

Repainting vault	\$	206.29
Construction of concrete retaining wall		238.00
Miscellaneous small items		<u>129.98</u>
	\$	574.27

EXPENSES - Cont'd

FURNITURE AND EQUIPMENT

Minneapolis	\$ 9,679.20	
Helena	<u>5,658.09</u>	\$ 15,337.29

Of the Head Office purchases \$4,569.74 were paid for in December, the only important items being \$2,864 for eight Monroe Adding machines not yet delivered. One year ago the amount expended for furniture and equipment at Minneapolis was \$8,216.89.

Helena purchases were \$2,337.03 greater than in 1938, with \$2,461.22 of the year's purchases coming in December when \$1,924.37 was needed for filing equipment.

Classification of 1939 purchases is given below:

MINNEAPOLIS

National time card machine		\$ 161.52
Tables		128.68
Chairs		1,037.11
Desks		589.57
Cafeteria equipment		357.00
Shelving, files and filing equipment		1,809.97
Coin counter		529.11
Speed attachment for bill counter		175.66
Scales		136.52
Ford truck		485.64
Venetian blinds		319.87
Endorsing machine		478.47
2 Remington Typewriters		194.52
8 Monroe adding machines		2,864.00
Misc. items (None over \$100)		<u>598.97</u>
		\$ 9,866.61
Less:		
Articles sold	\$ 102.45	
Bal. of amounts reserved, not used	<u>84.96</u>	<u>187.41</u>
		\$ 9,679.20

HELENA

Files, filing cases and equipment	\$ 2,177.17
Monroe calculator	337.75
Electric time stamp	70.76
Tape-shooter for wrapping	48.65
2 Walnut desks and 2 chairs	75.00
Chevrolet truck and armored body	1,745.50
Mechanical equipment for shop	169.95
2 Burroughs adding machines	782.55
Misc. small items	<u>250.76</u>
	\$ 5,658.09

MISCELLANEOUS EXPENSES

Minneapolis	\$ 29,743.10	
Helena	<u>3,148.81</u>	\$ 32,891.91

Miscellaneous items at Minneapolis were \$1,253.02 higher than in 1938.

There are a number of miscellaneous costs for which we are partially reimbursed, such as rental of furniture and equipment, medical supplies and physical examinations.

EXPENSES - Cont'd

MISCELLANEOUS EXPENSES - Cont'd

etc., with the amounts shown below representing the net cost to the bank. The larger items were as follows: Rental, repairs and maintenance of furniture and equipment \$2,871.29; outside protection, vault inspection \$257.66; outside laundry and cleaning \$1,597.22; local transportation \$289.15; postage meter rental \$308.24; copies of bank examination reports \$3,700; commercial agency reports \$882.28; medical services and physical examinations \$1,080.97; cafeteria, net expense \$3,179.28; entertainment of bankers and others not in bank's employ \$2,158.63; officers' and employees' dinners \$171.80; employees' education, American Institute of Banking and other \$2,263; donation to Federal Reserve Club \$1,516.15; memberships American Bankers Association \$250; State and other bankers' associations \$340; Credit Men's Associations \$205; donation Police and Firemen's Benevolent Association \$150; Christmas donations \$117.50; Photographs for personnel records \$163.50; Member Bank Conference \$4,132.37; our share of the loss of operating Foreign Department Federal Reserve Bank, New York, \$2,882.98; preparation and presentation of material for radio broadcast \$449.14; commissions on collection of closed bank paper \$206.50.

Helena miscellaneous items in excess of \$100 covered the following:

Rental, repairs and maintenance of furniture and equipment \$718.08; outside protection, vault inspection \$401.27; post office box and postage meter rental \$208.87; copies of bank examination reports \$202.50; employees' education \$223.65; donation to Federal Reserve Club \$300.00; membership State Bankers' Association \$210; photographs of new building for member banks \$452.08.

REIMBURSABLE EXPENSES

Minneapolis	\$ 246,765.47 *	
Helena	<u>22,435.29</u>	\$ 269,200.76

Amounts received from fiscal agencies were much higher at Minneapolis and Helena than in 1938 when the totals were \$161,314.78 and \$6,818.42, respectively, a total of \$168,163.20 and over \$100,000 less than the 1939 total. Practically all of the increase at Minneapolis resulted from expansion in services for the Commodity Credit Corporation. At Helena no duties were performed for the latter corporation in 1938 with \$10,882.05 the amount reimbursed in 1939. Other fiscal services were minor.

* Includes \$948.37 of leased wire expense recovered from member banks.

EXPENSES - Cont'd

RECOVERIES FROM FISCAL AGENCIES - MINNEAPOLIS

Treasury Department:	
U. S. Government Issues	\$ 21,787.27
U. S. Savings Bonds	27,395.79
Work Relief Checks	20,011.57
Reconstruction Finance Corporation	50,549.76
Commodity Credit Corporation	111,396.77
Federal Farm Mortgage Corporation	4,296.01
Federal Land Banks	1,763.49
Federal Intermediate Credit Banks	2.20
U. S. Housing Authority	1,007.54
Federal Housing Administration	7.20
Federal Emergency Adm. of Public Works	672.24
Federal Home Loan Banks and Home Owners' Loan Corporation	6,791.34
Federal Crop Insurance Corporation	135.92
Recoveries from Member Banks - Leased wire service	948.37
Total	\$ 246,765.47

RECOVERIES FROM FISCAL AGENCIES - HELENA

Reconstruction Finance Corporation	\$ 11,296.07
Commodity Credit Corporation	10,882.05
Federal Farm Mortgage Corporation	153.45
Federal Home Loan Banks and Home Owners' Loan Corporation	103.72
Total	\$ 22,435.29

ASSESSMENT FOR EXPENSES OF THE BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

Minneapolis \$ 36,796.66

Our assessment for Board expenses was less than for 1937 or 1938 and on the basis of assessment fixed for first half of 1940 a further reduction is in prospect. The payment in 1939 was \$2,638.76 below that of 1938. For the first six months of 1940 we will pay the Board \$17,710.64. During the like period of 1939 this payment was \$18,491.77.

FEDERAL RESERVE CURRENCY

Original cost and shipping charges \$30,751.78

There was a very material saving in printing costs for our notes compared to 1938. Such costs made up \$23,000 of the above total with similar costs \$39,384 in the previous year. Shipping expense to Minneapolis and Helena from Washington amounted to \$3,326.08 in 1939 and \$3,408.81 in 1938. Surcharges of \$4,156 were paid in the year just closed and \$3,554.20 in 1938. Salaries of the Issue and Redemption Division are also included in above total amounting to \$269.70 in 1939 and \$272.33 in 1938. Total costs of Federal reserve currency were \$15,867.56 less than in 1938.

EXPENSES - Cont'd

FEDERAL RESERVE CURRENCY - Cont'd

Helena pays no part of the expense of printing or shipping our notes.

FEDERAL RESERVE CURRENCY

Cost of redemption including shipping charges \$6,116.56

During 1939 we reserved \$150 per month for nine months and \$100 per month the remainder of the year to pay Redemption Agency expense and at the close of the year the balance was \$819.36. Charges making up the complete redemption classification in 1939 covered the following:

Amount accrued during year for Redemption Division (Paid for year ending June 30, 1939 \$1,103.91)	\$ 1,650.00
Paid Federal Reserve Board our share expense Issue and Redemption Division	1,207.15
Insurance on our fit notes from other Federal Reserve Banks	597.48
Postage on fit Federal Reserve Notes to other Federal Reserve Banks	2,105.79
Express charges on our cancelled notes to Washington	278.60
Shipping charges on fit notes to other Federal Reserve Banks by Helena	<u>277.54</u>
	\$ 6,116.56

PROFIT AND LOSS ACCOUNT OF
FEDERAL RESERVE BANK OF MINNEAPOLIS DURING 1939

	<u>Total</u>	<u>Head Office</u>	<u>Helena Branch</u>
Current earnings	\$ 1,134,599.64	\$ 1,134,367.18	\$ 232.46
Current expenses	974,739.05	877,330.87	97,408.18
Current Net Earnings	\$ 159,860.59	\$ 257,036.31	\$ 97,175.72
 <u>Additions to Current Net Earnings</u>			
Withdrawn from reserves for losses on Hungarian credits	\$ 5,188.98	5,188.98	
Profit on U.S. Government Securities sold - Net	139,647.90	139,647.90	
Profit on sale of other real estate	960.30	960.30	
Net Income from other real estate	138.40	575.83	437.43
Profit on transactions in foreign exchange	707.68	707.68	
Sale of fixed machinery and equipment	158.00	158.00	
Sale of scrap material	157.15	17.15	140.00
Forfeiture of option to purchase old Branch building at Helena	50.00		50.00
Profit on mutilated currency and coin	172.21	156.47	15.74
Recovery on transit items previously charged to profit and loss	46.56	46.56	
TOTAL ADDITIONS	\$ 147,227.18	\$ 147,458.87	\$ 231.69
 <u>Deductions from Current Net Earnings</u>			
Charge-off on carrying value of bank premises	\$ 100,000.00	\$ 100,000.00	\$
Added to reserve for losses on industrial loans	33,000.00	33,000.00	
Loss on counterfeit currency and coin	129.31	126.31	3.00
Discount on foreign currency and coin	33.45	33.15	.30
Interest paid on account of adjustments not connected with earning assets	9.54	9.54	
Losses on personal loans to employees	31.35	31.35	
Difference Account	451.17	491.28	40.11
TOTAL DEDUCTIONS	\$ 133,654.82	\$ 133,691.63	\$ 36.81
Net additions to current net earnings	\$ 13,572.36	\$ 13,767.24	\$ 194.88
Net Earnings	\$ 173,432.95	\$ 270,803.55	\$ 97,370.60
Dividends paid	\$ 174,905.39		
Withdrawn from Surplus (Section 7)	\$ 993.42		
Withdrawn from Surplus (Section 13b)	\$ 479.02		

DIVIDENDS

Cumulative dividends at the rate of six per centum per annum on paid in capital stock as of December 31, 1938	\$ 4,339,763.78
Dividends paid during 1939	174,905.39
Total dividends paid since organization	\$ 4,514,669.17

FRANCHISE TAX

Total of franchise tax payments to the United States Government since organization	\$ 5,202,898.50
These payments were made out of earnings during the period 1918 to 1932. The Federal Reserve Act as amended by Section 4 of the Banking Act of 1933 no longer provides for payment of a franchise tax.	

SURPLUS, (SECTION 7)

Balance in Surplus (Section 7) December 31, 1938	\$ 3,153,413.69
December 30, 1939 - Withdrawn from Surplus;	
Net Loss for the year 1939	993.42
	\$ 3,152,420.27

SURPLUS, (SECTION 13b)

Balance in Surplus (Section 13b) December 31, 1938	\$ 1,001,162.98
December 30, 1939 - Withdrawn from Surplus;	
Net Loss for the year 1939	479.02
	\$ 1,000,683.96

RESERVES

(Other than Reserve for Depreciation Bank Premises)

Total reserves at beginning of year	\$ 2,149,696.67
Credits during year:	
Added to reserve for losses on past due industrial advances	\$ 33,000.00
	\$ 33,000.00
Debits during year:	
Losses on miscellaneous assets acquired in settlement of claims account failed banks	\$ 6,906.39
Withdrawn from reserve for losses on Hungarian credits and transferred to profit and loss account	5,188.98
	\$ 12,095.37
Net Credits to Reserves	\$ 20,904.63
Total Reserves at End of Year	\$ 2,170,601.30
Reserves at end of year for:	
Contingencies created from net profits prior to 1937	\$ 1,701,246.18
Contingencies created from surplus during 1937 and thereafter	280,179.99
Total reserves for Contingencies	\$ 1,981,426.17
Other Reserves at End of Year for:	
Losses on miscellaneous assets acquired in settlement of claims account failed banks	\$ 74,093.61
Losses on past due industrial advances	73,000.00
Losses on Hungarian Credits	42,081.52
Total Reserves at End of Year	\$ 2,170,601.30

PROFIT AND LOSS

There was an increase of \$34,128.62 in current earnings for the past year and a decrease in expenses of \$37,184.26 but the current net earnings of \$159,860.59 were insufficient to cover all needs. Although considerably less than in 1938, the profit from System sales of United States securities amounted to \$139,647.90. One year ago this profit was \$281,350.93 which permitted us, after all other requirements were filled, to add \$198,061.26 to "Reserve for Contingencies." No additions to such reserve were made at the close of 1939, the preference being for a reduction of \$100,000 in the carrying value of the land at Minneapolis.

Apart from the profit on sales of Governments no important additions were made to earnings, the largest item being \$5,188.98 withdrawn from "Reserve for Losses on Hungarian Credits" with sufficient remaining in the account to provide for expected losses. One year ago the amount reserved for "Losses on Hungarian Credits" was reduced \$5,225.12 and the amount remaining in the account on December 31, 1939 is \$42,081.52. From the sale of other real estate acquired in settlement of claims account failed banks, we obtained \$960.30. Income and expense resulting from property taken over by the Bank gave a net credit of \$138.40 for the year. Costs in connection with the Helena property were \$437.43, of which \$323.76 represented 1939 taxes. Our share of the profit on conversion of sterling exchange into dollars was \$707.68. From the sale of scrap metal at Minneapolis and window grilles at Helena we obtained \$157.15; sales of fans and other equipment \$158; profit on mutilated coin sold for bullion \$172.21; forfeiture of option to purchase old Branch building \$50; recovery on transit items previously charged off \$46.56.

With \$1,134,599.64 of current earnings and \$147,227.18 in credits direct to Profit and Loss, we had \$1,281,826.82 of gross earnings. These earnings were applied as follows:

CURRENT EXPENSES

Minneapolis	\$ 877,330.87	
Helena	<u>97,408.18</u>	\$ 974,739.05

Our estimates for 1939 costs were closer to the actual expenditures than usual. Payments at Minneapolis were \$15,366.13 less than the estimates with Helena payments exceeding estimates by only \$329.18. The fluctuation in the number of employees on fiscal work and the expansion and contraction in the space required for carrying on fiscal operations make reimbursement difficult to estimate.

PROFIT AND LOSS - Cont'd

as will be realized in comparing fiscal costs for the past two years. Subject to final change, the 1940 budget figures show an estimated net expense of \$889,627 at Minneapolis and \$93,505 at Helena.

SPECIAL CHARGE-OFF ON LAND

Minneapolis	\$ 100,000
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Under approval of the Board of Governors this reduction, the first in twenty years, was made at the close of the year. The land was purchased for \$600,000 in 1919 and at the close of that year the book value was reduced to \$500,000. The best opinion we can obtain gives our land an approximate value of \$400,000.

<u>RESERVE FOR LOSSES ON INDUSTRIAL ADVANCES</u>	\$ 33,000
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Including \$15,000 reserved at the close of 1937 and \$25,000 reserved one year ago, there is a total of \$73,000 reserved for possible loss in connection with advance made the Northwestern Oil Company, Superior, Wisconsin. The original amount of \$225,000 had been reduced to \$190,482.22 at the close of 1938. On December 31, 1939 the balance of principal was \$188,982.22. Including past due paper of the above company, the total of past due industrial advances was \$226,052.14 at the close of 1939.

LOSS ON COUNTERFEIT CURRENCY AND COIN

Minneapolis	\$ 126.31	
Helena	<u>3.00</u>	\$ 129.31

Counterfeit notes not found on first handling at Minneapolis were eleven in number and \$100 in amount. Counterfeit coin returned by banks and others was \$26.31 at Minneapolis and \$3. at Helena.

DISCOUNT ON CANADIAN CURRENCY

Minneapolis	\$ 33.15	
Helena	<u>.30</u>	\$ 33.45

This amount was absorbed on small amounts of currency, the discount on which we preferred not to charge back to member banks, or on bills which passed our tellers.

LOSSES ON PERSONAL LOANS TO EMPLOYEES

Minneapolis	\$ 31.35
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Between the period from April 15, 1923 to January 21, 1939 we had losses

PROFIT AND LOSS - Cont'd

of \$1,256.50 on loans to employees who could not be financed in any other way. During the same period the interest received on advances to employees totaled \$1,225.15 and this was applied to reduce the loss to the above amount.

DIFFERENCE ACCOUNTS

Minneapolis	Debit	\$ 491.28	
Helena	Credit	<u>40.11</u>	\$ 451.17 Net Debit

<u>Minneapolis Shortages</u>		<u>Helena Overages</u>	
Currency and Coin	\$ 131.68	Currency and coin	\$ 6.51
Transit and clearings	344.28	Transit and clearings	33.60
General	15.32		
	<u>\$ 491.28</u>		<u>\$ 40.11</u>

One year ago we had net overages at Minneapolis of \$44.30 and at Helena of \$23.62.

DIVIDENDS PAID

\$ 174,905.39

Capital stock holdings of member banks in this institution were \$2,931,150 on December 31, 1939. Average daily amount of stock held during the year brought payments to members of the above dividend. One year ago the dividend payment was \$174,231.27 from average holdings of \$2,903,850. Banks holding stock at the close of 1939 numbered 468, an increase of six banks for the year.

Total dividends paid since organization \$4,514,669.17.

TRANSFER FROM SURPLUS, (SECTION 13-b)

Gross earnings from industrial advances were \$59,870.31 and gross expenses \$27,421.29. After providing for the expense of handling these loans and reserving \$33,000 for probable loss, it was necessary to draw on Surplus for \$550.98. As the Bank participated in 13% of these advances \$71.96 of this deficit was absorbed by the bank and \$479.02 was charged against funds provided by the Treasury (Surplus 13-b). After this withdrawal Surplus 13-b on December 31, 1939 amounted to \$1,000,683.96.

TRANSFER FROM SURPLUS, (SECTION 7)

Net loss for the year to the Bank after providing for all costs, including depreciation, and reserves amounted to \$993.42. This covered \$71.96 loss in connection with industrial loans and \$921.46 loss in the total required for all other purposes. Surplus, Section 7, at the close of 1939 amounted to \$3,152,420.27.

FEDERAL RESERVE BANK OF MINNEAPOLIS - HEAD OFFICE
 REPORT OF AUDITS - YEAR 1939

	<u>Dates of Audits</u>
<u>CASH</u>	
Cash in Vault - Bank Officers' Reserve	3-8, 5-24, 8-31, 11-9
Cash with Tellers	3-8, 5-24, 8-31, 11-9
F.R. Notes in Transit from Other Federal Reserve Banks	Currently
F.R. Notes forwarded for Redemption	Currently
Other Cash in Transit	3-8, 5-24, 8-31, 11-9
Redemption Fund - F.R. Notes	Monthly
Inter-District Settlement Fund	Weekly
F.R. Agent's Gold Certificate Fund	3-8, 5-24, 8-31, 11-9
Unissued F.R. Currency held by F.R. Agent	3-8, 5-24, 8-31, 11-9
Currency Received account of Non-Member Banks	Currently
<u>EARNING ASSETS</u>	
Bills Discounted	3-11, 8-7, 11-14
Industrial Advances	3-11, 8-7, 11-14
Participation in System Open Market Acct. U.S. Secur.	3-11, 8-7, 11-14
Participation in Investments through Foreign Banks	3-11, 8-7, 11-14
Participation in Foreign Loans on Gold	3-11, 8-7, 11-14
<u>UNCOLLECTED ITEMS</u>	
Transit Items - F.R. Banks	2-28, 5-15, 8-21, 12-7
Transit Items - District 9	2-28, 5-15, 8-21, 12-7
Exchanges for Clearing House	2-28, 5-15, 6-22, 8-21, 12-7
Federal Returns and Other Deductions	2-28, 5-15, 6-22, 8-21, 12-7
Return Items - Member and Non-Member Banks	2-28, 5-15, 6-22, 8-21, 12-7
Government Suspense Account	2-28, 5-15, 8-21, 12-12
Misc. Vault Coupons - In process of collection	2-6, 5-26, 9-11
Coupons on Hand	4-8, 8-3, 10-9
Due from Branch	2-28, 5-15, 8-21, 12-7
Checks and Other Cash Items	2-28, 5-15, 6-22, 8-21, 12-7
<u>MISCELLANEOUS ASSETS</u>	
Misc. Assets acquired acct. Industrial Advances	3-11, 8-7, 11-14
Industrial Advances past due Three Months	3-11, 8-7, 11-14
Other Bills and Securities past due Three Months	3-11, 8-7, 11-14
Misc. Assets acquired in Settlement of Claims account Closed Banks	6-27
Claims account Closed Banks	6-27
Advances to protect Collateral	6-27
Other Real Estate	6-27
Fiscal Agency Expenses Reimbursable	Currently
Interest accrued on U.S. Securities	3-11, 8-7, 11-14
Interest accrued on Bills and Advances	Currently
Premium on Securities	3-11, 8-7, 11-14
Overdrafts	Currently
Coupons paid before Maturity	7-11, 11-6
Deferred Charges	Currently
Difference Accounts	Currently
Sundry Items Receivable	Currently
Suspense Account - General	Currently
Cost of Federal Reserve Currency	Currently
Other Current Expenses	Currently
Dividends accrued since Closing Books	Currently
Profit and Loss	Currently
<u>BANK PREMISES</u>	
Land	Currently
Buildings	Currently
Fixed Machinery and Equipment	Currently
<u>FEDERAL RESERVE NOTES</u>	
Federal Reserve Notes Outstanding	3-8, 5-24, 8-31, 11-9
<u>DEPOSITS</u>	
Member Bank Reserve Accounts	Monthly
Non-member Clearing Accounts	Monthly
U.S. Treasurer - General Account	Monthly
Foreign Banks	3-11, 8-7, 11-14
Officers' Checks	Monthly
Federal Reserve Exchange Drafts	Monthly
Other Deposits	Monthly

FEDERAL RESERVE BANK OF MINNEAPOLIS - HEAD OFFICE
 REPORT OF AUDITS - YEAR 1939

	<u>Dates of Audits</u>
<u>DEFERRED AVAILABILITY ITEMS</u>	
Deferred Credits - Member and Non-Member Banks	Monthly
Deferred Credits - Other Federal Reserve Banks	2-28, 5-15, 8-21, 12-7
Deferred Credits - Government Items	2-28, 5-15, 8-21, 12-12
Deferred Credits - Misc. Vault Coupons	2-6, 5-26, 9-11
Deferred Credits - Non-Cash Collections	2-6, 5-26, 9-11
<u>CAPITAL STOCK AND SURPLUS</u>	
Capital Stock Paid in	Currently
Surplus Fund (Section 7)	Currently
Surplus Fund (Section 13-b)	Currently
<u>RESERVES FOR:</u>	
Contingencies	Currently
Valuation Reserves:	
Bank Premises	Currently
Hungarian Credits	Currently
Industrial Loans	Currently
Misc. Assets - Failed Banks	Currently
<u>EARNINGS FROM:</u>	
Bills Discounted	Currently
Industrial Advances	Currently
Commitments to make Industrial Advances	Currently
Participation in System Open Market Acct. U.S. Secur.	3-11, 8-7, 11-14
Investments through Foreign Banks	3-11, 8-7, 11-14
Deficient Reserve Penalties	Currently
Miscellaneous	Currently
<u>MISCELLANEOUS LIABILITIES</u>	
Unearned Discount - Bills Discounted	Currently
Unearned Discount - Bills Purchased	Currently
Unearned Commitment Fees	Currently
Discount on Securities	3-11, 8-7, 11-14
Accrued Dividends Unpaid	Currently
Sundry Items Payable	Currently
Suspense Account - General	Currently
<u>MISCELLANEOUS OPERATIONS AND ACCOUNTS SUBJECT TO AUDIT</u>	
<u>COLLATERAL AND CUSTODIES</u>	
Securities held as Collateral for:	
Bills Discounted	3-27, 5-1, 10-2
Industrial Advances	3-27, 5-1, 10-2
War Loan Deposits	3-27, 5-1, 10-2
Securities held in Safekeeping	3-27, 5-1, 10-2
Cash Held in Custody for Treasury Department	3-8, 5-24, 8-31 (11-9 none held)
<u>FISCAL AGENCY OPERATIONS</u>	
Subscriptions to and Allotments of U.S. Securities	Currently
Balances due from Depository Banks	3-27, 10-2
Securities on Hand	3-21, 8-14, 11-27
Securities in Process of Redemption, Exchange, Transfer of Registration, Etc., - Due from Treasury	3-27, 10-2
Securities Delivered	Currently
Coupon Securities Redeemed	Currently
Reports to Treasury Department - Checked	Monthly
Purchase and Sale Transactions	Monthly
RECONSTRUCTION FINANCE CORPORATION	1-18
NON-CASH COLLECTIONS	2-6, 5-26, 9-11
BALANCE SHEET AUDIT OF HELENA BRANCH	4-17

FEDERAL RESERVE BANK OF MINNEAPOLIS - HELENA BRANCH
 REPORT OF AUDITS - YEAR 1939

CASH

Dates of Audits

Cash in Vault - Officers' Reserve	1-17, 2-11, 3-9, 5-10, 6-28, 7-24, 8-16, 9-27, 10-26, 11-21, 12-19
Cash with Tellers	1-17, 2-11, 3-9, 5-10, 6-28, 7-24, 8-16, 9-27, 10-26, 11-21, 12-19
Federal Reserve Notes in Transit	Currently

EARNING ASSETS

Bills Discounted	5-12, 6-17, 7-8, 8-25, 9-30, 10-17, 11-17
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UNCOLLECTED ITEMS

Transit Items-Federal Reserve Banks	1-11, 2-11, 3-13, 6-13, 7-17, 8-8, 10-19, 12-11
Transit Items-Montana Division	1-11, 2-11, 3-13, 6-13, 7-17, 8-8, 10-19, 12-11
Exchanges for Clearing House	1-11, 2-11, 3-13, 6-13, 7-17, 8-8, 10-19, 12-11
Federal Returns & Other Deductions	1-11, 2-11, 3-13, 6-13, 7-17, 8-8, 10-19, 12-11
Return Items-Member & Nonmember Banks	1-11, 2-11, 3-13, 6-13, 7-17, 8-8, 10-19, 12-11
Government Suspense Account	2-11, 6-13, 11-25
Coupons on Hand	1-20, 2-11, 3-13, 6-13, 7-13, 8-14, 9-29, 10-26, 11-7, 12-12
Checks and Other Cash Items	1-11, 2-11, 3-13, 6-13, 7-17, 8-8, 10-19, 12-11

MISCELLANEOUS ASSETS

Fiscal Agency Expenses Reimbursable	Currently
Overdrafts	Currently
Deferred Charges	Currently
Difference Accounts	Currently
Suspense Account - General	Currently
Expenses	Currently

DEPOSITS

Member Bank Reserve Accounts	Monthly
Nonmember Clearing Accounts	Monthly
Officers' Checks	Monthly

DEFERRED AVAILABILITY ITEMS

Deferred Credits:	
Member and Nonmember Banks	Monthly
Other Federal Reserve Banks	2-11, 3-19, 6-21, 8-22, 10-19, 12-11
Government items	2-11, 6-13, 7-27, 8-22, 10-18, 11-25, 12-11
Non-Cash Collections	2-11, 5-26, 11-7

EARNINGS FROM:

Bills Discounted	Currently
Deficient Reserve Penalties	Currently

MISCELLANEOUS LIABILITIES

Unearned Discount - Bills Discounted	Currently
Sundry Items Payable	Currently
Suspense Account - General	Currently

MISCELLANEOUS OPERATIONS AND
 ACCOUNTS SUBJECT TO AUDIT

Non-Cash Collections	2-11, 5-26, 11-7
Cash Held in Custody for Treasury Department	1-17, 3-15, 5-24, 6-7, 7-24, 8-2, 9-25, 10-18, 11-24, 12-13

BANK PREMISES - YEAR 1939

	<u>Total</u>	<u>Head Office</u>	<u>Helena Branch</u>
		<u>Land</u>	
Gross Book Value:			
Beginning of year	\$ 510,520.66	\$ 500,520.66	\$ 10,000.00
Additions during year	-	-	-
Deductions during year	100,000.00	100,000.00	-
Net book value end of Year	\$ 410,520.66	\$ 400,520.66	\$ 10,000.00

	<u>Bank Building</u>		
Gross Book Value:			
Beginning of year	\$ 1,358,281.50	\$ 1,283,281.50	\$ 75,000.00
Additions during year	-	-	-
Deductions during year	-	-	-
End of Year	\$ 1,358,281.50	\$ 1,283,281.50	\$ 75,000.00

Reserve for Depreciation:			
Beginning of year	\$ 360,068.76	\$ 359,318.76	\$ 750.00
Credits to Reserve:			
Normal Depreciation	27,165.60	25,665.60	1,500.00
Other	-	-	-
Debits to Reserve	-	-	-
End of Year	\$ 387,234.36	\$ 384,984.36	\$ 2,250.00
Net book value end of year	\$ 971,047.14	\$ 898,297.14	\$ 72,750.00

	<u>Fixed Machinery and Equipment</u>		
Gross Book Value:			
Beginning of year	\$ 676,396.23	\$ 659,588.35	\$ 16,807.88
Additions during year	5,490.00	5,490.00	-
Deductions during year	840.00	840.00	-
End of Year	\$ 681,046.23	\$ 664,238.35	\$ 16,807.88

Reserve for Depreciation:			
Beginning of year	\$ 660,428.74	\$ 659,588.35	\$ 840.39
Credits to Reserve:			
Normal Depreciation	7,170.84	5,490.00	1,680.84
Other	-	-	-
Debits to Reserve	840.00	840.00	-
End of Year	\$ 666,759.58	\$ 664,238.35	\$ 2,521.23
Net book value end of year	\$ 14,286.65	-	\$ 14,286.65

BANK PREMISES - MINNEAPOLIS

During the year 1939 considerable work was done through alterations and repairs and new installations of equipment in our building. Practically the whole building was replastered and painted from top to bottom. The boiler room was cleaned and painted. A new hot water boiler and new oil burners were installed. Air conditioning changes required new ducts on the second floor. Filters were installed to remove the taste from the water and have proven very satisfactory.

The top section of the outer wall was removed and covered with copper sheeting. The inner side of the wall was also cleaned and waterproofed. The kitchen and cafeteria were thoroughly cleaned and some additions made to the equipment.

Except for the painting of the smoke stack and the flag pole, all redecorating was done by our own workmen. Changes in electrical arrangements and installations were carried out by our electricians and the making and repairing of all wooden furniture was done in our basement workshop. The building is in good condition at the present time. Detail of the repairs and alterations and the cost is shown in the expense classification. The expense of material and work required in making repairs and alterations was \$14,535.35 compared to \$11,411.67 in 1938. The light, heat, power and water total cost is higher than in 1938 because of the improved lighting arrangements and the increased usage of current. Water costs are higher because of the charge for sewage disposal. Fuel oil costs were lower in 1939 and a further reduction will be in evidence in 1940 through the changing over from a high to a low pressure heating system and a saving of 1/2 cent per gallon in cost of fuel oil.

Total building operating costs at Minneapolis after deducting \$18,268.42 for rent from fiscal agencies was \$153,971.27 compared to \$148,370.52 in 1938. To the reasons previously given for this increase should be added a larger depreciation charge explained below.

DEPRECIATION AT MINNEAPOLIS

The normal depreciation on our building has been figured for 15 years at 2% on an estimated replacement value of \$1,283,281.50, or \$25,665.60. At the close of 1939 depreciation of \$384,984.36 had been accumulated giving a net book value of \$898,297.14 to our Bank building. Full cover for the original cost of fixed machinery and equipment had been provided by the close of 1934. During 1939 we

DEPRECIATION AT MINNEAPOLIS - Cont'd

added \$5,490 to Fixed Machinery covering the cost of two new oil burners and then increased the depreciation account the full amount of the purchase by a charge to Expense. The reserve for depreciation of Fixed Machinery and Equipment amounted to \$664,238.35 on December 31, 1939.

DEPRECIATION AT HELENA

No changes were made in the gross book value of the Branch property since December, 1938. At that time the land value was reduced to \$10,000 and the building account reduced to an estimated replacement value of \$75,000 with \$16,807.88 allocated to Fixed Machinery and Equipment. Depreciation for six months in 1938 was provided at the end of 1938 and the full year's allowance of 2% on building and 10% on fixed machinery and equipment reserved at the close of 1939. After providing these reserves the net book value of the Helena property was as follows:

Land	\$ 10,000.00
Bank Building	72,750.00
Fixed Machinery and Equipment	14,286.65
	<u>\$ 97,036.65</u>

BANK PREMISES - TAXES

(See under Expense)

LOANS, REDISCOUNTS AND ACCEPTANCES

During the year 1939, 25 banks have taken advantage of the rediscount and loan privileges, borrowing an aggregate amount of \$1,129,710.94 for a total of 168 items. The same number of banks were accommodated in 1938 for an aggregate amount of \$2,339,025.15 for a total number of 214 items. No Twin City bank was among those accommodated. On December 31, 1939 loans and rediscounts amounted to \$150,377.19 as compared to \$133,657.72 at the end of 1938, and \$174,980.81 at the end of 1937. There was no time during the year 1939 that banks were entirely out of our debt. The discount rate has remained at $1\frac{1}{2}\%$ during the entire year.

The activities of the Industrial Loan Division commenced in August, 1934, advances for working capital being made to industrial and commercial enterprises. Under the Act such advances may be made for a period of not exceeding five years. Interest charged by the Federal Reserve Bank of Minneapolis on such loans is six per cent.

The volume of activity in industrial loans decreased considerably in 1939, during which year 25 advances were made in the aggregate amount of \$308,780.16, with participating institutions taking \$8,840.00 of this amount, leaving a net advanced by the Federal Reserve Bank of \$299,940.16. However, the number 25 includes several advances to each of three borrowers, and the amount of \$308,780.16 includes disbursement of \$118,500 and \$86,240 in each of two loans. Repayments on advances during the year reduced the balance \$526,716.18, leaving a net balance of \$968,854.26 on December 31. Repayment of eight loans in the amount of \$33,200.05 (our share) appears to have been through refinancing. Commitments made in accordance with the provisions of Section 13-b amounted to \$151,444.75 in 1939, and the contingent liability resulting from such commitments at the end of the year was \$62,129.48.

In addition to advances made and commitments given during 1939, two loans totaling \$12,500.00 were recommended favorably by the Industrial Advisory Committee and approved by the Discount Committee. These loans will probably be disbursed in the near future.

Included in the total of \$968,854.26 in industrial advances is \$226,052.14 of past due paper, with a loan to the Northwestern Oil Company in the amount of \$188,982.22 the principal past due advance. The original amount of this loan was \$225,000. Against possible losses a reserve of \$73,000 has been set up during the past three years.

DAILY AVERAGE HOLDINGS OF EARNING ASSETS

	Bills Dis- counted	Bills Purchased	Industrial Advances	U. S. Secur- ities	Federal Int. Credit Bank Debentures	Municipal Warrants	Foreign Loans on Gold	Commitments to make Industrial Advances	Total
1939	\$ 81,585	\$ 1,517	\$ 836,798	\$ 75,280,616	\$	\$	\$ 36,747	\$ 126,590	\$ 76,363,854
1938	166,644	1,903	896,491	75,413,276			206	168,430	76,646,950
1937	271,071	60,465	723,050	83,024,195			1,635	60,538	84,140,954
1936	47,206	60,864	1,314,784	82,208,224			6,308	94,390	83,731,776
1935	48,594	69,523	1,936,117	72,398,064			1,469	92,568	74,546,335
1934	531,212	589,438	265,476	65,803,357		2,545	14,093		67,206,121
1933	6,267,577	2,936,456		58,209,321		64,520			67,477,874
1932	11,933,801	1,649,414		43,724,651	68,904	152,197			57,528,967
1931	4,818,935	7,607,324		26,761,330	158,671	97,671	6,275		39,450,206
1930	4,042,859	7,870,007		22,786,786		34,220			34,733,872

AVERAGE RATE OF EARNINGS ON EARNING ASSETS

	Bills Dis- counted	Bills Purchased	Industrial Advances	U. S. Secur- ities	Federal Int. Credit Bank Debentures	Municipal Warrants	Foreign Loans on Gold	Commitments to make Industrial Advances	Total
1939	1.642%	.730%	6.000%	1.421%			.008%	1.023%	1.471%
1938	1.596	.344	6.000	1.351			1.171	1.012	1.404
1937	1.755	.767	6.000	1.557			1.463	1.052	1.595
1936	2.008	.921	6.000	1.539			1.595	1.038	1.609
1935	2.090	.844	6.000	1.785			1.555	1.009	1.893
1934	2.942	.547	6.000	2.046		3.500%	1.500		2.056
1933	3.538	1.280		2.027		3.500			2.219
1932	3.507	3.961		2.107	2.773%	3.500			2.455
1931	3.500	1.748		2.233	2.598	3.500	1.779		2.299
1930	4.265	2.904		3.280		3.877			3.310

Discount rate raised May 14, 1929 to 5%
 Discount rate lowered February 8, 1930 to 4½%
 Discount rate lowered April 15, 1930 to 4%
 Discount rate lowered September 12, 1930 to 3½%
 Discount rate lowered March 16, 1934 to 3%
 Discount rate lowered January 8, 1935 to 2½%
 Discount rate lowered May 14, 1935 to 2%
 Discount rate lowered August 24, 1937 to 1½%

F A I L E D B A N K S

I N D E B T E D N E S S

No banks suspended during 1939 that were indebted to us.

Principal liability December 31, 1939	\$ 78,365.70
Estimated value of collateral to apply on this balance	<u>4,500.00</u>
Estimated Loss (Against \$74,093.61 reserve)	\$ 73,865.70

C O L L E C T I O N S

Collections for 1939 in reduction of original liability	\$ 5,398.26
In addition, overpayments of original liability which will be applied on recovery of expense	3,936.35
Collections on real estate contracts	<u>1,152.30</u>
Total collections for 1939	\$ 10,486.91

E X P E N S E

Cost of field operations for year 1939	\$ 764.68
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C H A R G E S T O S P E C I A L R E S E R V E

Aggregate charges to special reserve at close of 1938	\$ 253,909.32
Charges for 1939	<u>6,906.39</u>
Total charges to special reserve	\$ 260,815.71
Probable future charges	<u>73,865.70</u>
	\$ 334,681.41

C L A S S I F I E D W O R T H L E S S
T R A N S F E R R E D T O S A F E K E E P I N G

Notes classified as worthless and transferred to safekeeping during the year	\$ 288,809.43
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R E A L E S T A T E

We own 19 pieces of real estate carried on our books at \$19.00 consisting of 18 farms (improved and unimproved) and one small-town house, which properties are situated in North and South Dakota and Montana. One farm has been lost by foreclosure of the first mortgage. Some years back in an endeavor to protect our collateral, we acquired this real estate. Collections on contracts for sale of portions of this real estate were made as follows:

First National Bank, Pollock, S. Dak. a/c S. S. Olmstead	\$ 110.00
First National Bank, Cutbank, Montana Paisley Land	820.00
Opheim State Bank, Opheim, Montana W. C. Kahle	222.30
	<u>\$ 1,152.30</u>

An interest in seven other farms is carried in "additional collateral", which were acquired from the so-called Doty Trust in connection with the closing of the First National Bank at Medina, N. Dak. Title to these is in the name of the Ajax Land Company, in which corporation the Federal Reserve Bank holds 142.2 shares of a total of 1,000 outstanding.

CHECK COLLECTION FUNCTION

(Minneapolis only)

The Check Collection Department handled 30,351,227 cash items totaling \$4,361,580,798.96 during the year 1939, which was 337,634 items more than the number handled during 1938. The figures given below are the number and amount of items handled, the average number of employees and the total expense of the Check Collection Function, which includes Government and Work Relief Checks for the years 1938 and 1939:

<u>Year</u>	<u>Number of Items</u>	<u>Amount</u>	<u>Average Number of Employees</u>	<u>Total Expense</u>
1939	30,351,227	\$ 4,361,580,798.96	64.85	\$ 92,990.90
1938	30,013,593	4,673,484,397.49	63.98	94,969.80

Last year we reported that the number of cash items handled during 1938 was the highest in the history of the Check Collection Department and in 1939 we established an all-time record by handling 337,634 items more than last year.

The following table indicates the number of items handled by the subdivisions of the Check Collection Function for the years 1938 and 1939:

<u>Items Handled on</u>	<u>1938</u>	<u>1939</u>
Twin City Banks (Clearings)	4,319,958	4,340,156
Member and Non-member Banks	16,122,831	16,478,225
Other Federal Reserve Districts	3,942,524	3,856,904
Direct to Member banks other F. R. Districts	56,774	65,826
To Helena Branch, Helena, Montana	111,101	124,806
Treasurer of the United States	2,160,554	2,630,485
U. S. Government Work Relief Checks	3,299,851	2,854,825
	<u>30,013,593</u>	<u>30,351,227</u>

The cost of handling 100 items in three units of this function for the years 1938 and 1939 follows:

<u>Year</u>	<u>City Checks (Clearings)</u>	<u>Country Checks (Outgoing)</u>	<u>Return Items</u>
1939	15.7 cents	20.5 cents	\$ 1.15
1938	17.4 cents	21.4 cents	1.14

The average number of items handled per person per day in these three units during the years 1938 and 1939 follows:

<u>Year</u>	<u>City Checks (Clearings)</u>	<u>Country Checks (Outgoing)</u>	<u>Return Items</u>
1939	2,872	1,999	460
1938	2,815	2,017	498

During 1939 we handled 262,449 return items totaling \$27,991,837.15 compared to 282,958 items totaling \$26,024,793.50 in 1938. Included in these figures are non-par items sent us in error, non-cash items forwarded to us as cash items,

CHECK COLLECTION FUNCTION - Cont'd

items returned by drawee banks for various reasons and other items returned to depositors.

The daily average number of cash letters received and sent, the number of banks reported closed, number voluntarily liquidated, number reopened and the number added to or removed from our par list during the years 1938 and 1939 are given below.

Year	Head Office only		Ninth Federal Reserve District				
	Letters Received daily	Letters sent daily	Banks reported closed	Banks voluntarily liquidated	Banks Reported reopened	Banks added to our par list	Banks re-moved from par list
1939	1,152	907	5	3	0	1	7
1938	1,235	913	22	9	0	0	12

During the year 1939 we reduced our total expense by \$1,978.90 compared to 1938.

NON-CASH COLLECTIONS

(Head Office Only)

During the year 1939 we handled 27,778 more grain drafts than in 1938. In May and June, 1939, we handled 26,494 more grain drafts than for the same months of 1938, whereas in August and September of 1939 the volume handled was 26,499 less than for the same months in 1938. Most of the increase for 1939 occurred during November and December when 25,166 more items were handled than for the same period in 1938. A total of 751,834 city collections including grain drafts were handled during 1939.

Country Collections handled during 1939 numbered 62,657, as compared to 66,507 for 1938. In January, June, August, and October of 1939 we handled more country items than in 1938. A decrease was noted in each of the remaining months of 1939.

Coupon and country security collections showed a total decrease of 125 items for the year.

Member banks forwarded 7,007 collections totaling \$15,760,936.37 direct to other Federal Reserve Banks for their credit with us during 1939 and 5,933 items totaling \$14,620,080.48 during 1938.

NON-CASH COLLECTIONS - Cont'd

COMPARISON OF NUMBER OF ITEMS RECEIVED FOR COLLECTION

<u>City Collections</u>		<u>Country Collections</u>		<u>Security Collections</u>	
<u>1938</u>	<u>1939</u>	<u>1938</u>	<u>1939</u>	<u>1938</u>	<u>1939</u>
728,118	751,834	66,507	62,657	38,912	38,787
1938	\$ 225,310,000		\$ 44,605,000		\$ 22,628,000
1939	255,064,000		39,575,000		27,578,000

BANK EXAMINATION DEPARTMENT

There were on December 31, 1939, eighty-one State member banks. Each State member bank in this district received at least one examination by examiners for the Federal Reserve Bank of Minneapolis during the calendar year 1939.

As of the end of the year, eleven State member banks were exercising trust powers. Ten regular examinations and one membership examination were made. Eighty-five national banks held permits to exercise full or limited trust powers, and during the past year fifty of them were exercising certain of these powers. The trust examiner reviewed eighty-two reports of examination made by the Comptroller of the Currency.

Two applications by national banks with respect to fiduciary powers were received during 1939, one for additional powers, which was approved by the Board at Washington, and one for limited powers, which application was still pending on December 31, 1939. Application for surrender of trust powers of one national bank was received and forwarded to the Board, and that application, together with two similar applications that were pending on December 31, 1938, was approved.

The examinations by this Department in the various States were as follows:

	<u>State Banks</u>
Michigan	12
Minnesota	19
Montana	25
South Dakota	24
Wisconsin	4
	<u>84</u>

Examination of Holding Company Affiliates

No examinations were made of holding company affiliates during the year.

STATE BANK APPLICATIONS FOR MEMBERSHIP - 1939

Fourteen applications for membership in the Federal Reserve System were received from State banks during the year. Applications of the following banks were

BANK EXAMINATION DEPARTMENT - Cont'd

approved by the Board at Washington and membership in the System completed: The Newberry State Bank, Newberry, Michigan; South Range State Bank, South Range, Michigan; Farmers State Bank of Lakefield, Lakefield, Minnesota; Farmers State Bank of Madelia, Incorporated, Madelia, Minnesota; Fidelity State Bank, Minneapolis, Minnesota; State Bank of Rockville, Rockville, Minnesota; Welcome State Bank, Welcome, Minnesota; Farmers State Bank of West Concord, West Concord, Minnesota; Powder River County Bank, Broadus, Montana; Citizens Bank, Vermillion, South Dakota; and Security Bank, Webster, South Dakota.

The application for membership of the American State Bank of Moorhead, Moorhead, Minnesota, received in 1938, and that of the State Bank of Northfield, Northfield, Minnesota, received in 1939, are being held in abeyance. The application for membership of the Bark River State Bank, Bark River, Michigan was approved by the Board at Washington but membership was incomplete on December 31, 1939. Application of the Union Savings Bank, Sioux Falls, South Dakota was forwarded to Washington but approval by the Board had not been received at the close of the year.

Status of Applications for Membership Which Were on Hand December 31, 1938

Total number on hand	1	
Held in abeyance	<u>1</u>	1

Status of Applications for Membership Received During 1939

Total number received		14
Admitted to membership	11	
Held in abeyance	1	
Incomplete	<u>2</u>	14

OFFICE WORK

Reports of Examination of National Banks

Number of reports received from the Chief National Bank Examiner's Office766
(The cost of these reports was \$3,830 for the calendar year.)

Eighty-nine (89) duplicate copies of the reports of examination of Montana national banks were received from the Chief Examiner's Office, and the cost of those additional copies was \$200.25 for the year.

Reports of Examination of State Member Banks

The number of reports of examination received from the various State Banking Departments in the Ninth District during 1939 of State member banks examined independently by them was as follows:

Minnesota	11
Montana	9
South Dakota	4
Wisconsin	1

Reports of Earnings and Dividends, Reports of Condition and Related Reports

Approximately 4,380 reports of earnings and dividends, reports of condition

BANK EXAMINATION DEPARTMENT - Cont'd

and related reports were received, checked, and recorded.

Applications for Permission to Exercise Fiduciary Powers Received, etc.

Application of the following bank for additional trust powers was approved by the Board at Washington:

<u>Name of Bank</u>	<u>Location</u>	<u>Date Approved</u>
Fergus Falls National Bank and Trust Company	Fergus Falls, Minnesota	2-1-39

Application of the following bank for limited fiduciary powers was received during 1939:

<u>Name of Bank</u>	<u>Location</u>	<u>Date Received</u>
The Miners' First National Bank	Ishpeming, Michigan	12-16-39

Applications of the following banks for surrender of trust powers were forwarded to the Board at Washington and approved:

<u>Name of Bank</u>	<u>Location</u>	<u>Date Approved</u>
First National Bank	Lake Linden, Michigan	4-20-39
First National Bank of Alger County	Munising, Michigan	11-25-39
Deuel County National Bank	Clear Lake, South Dakota	3-1-39

Re Clayton Act

In consideration of Section 8 of the Clayton Act and the Board's Regulation I, examiners' reports are analyzed and records maintained with a view of ascertaining any relationships that are not in conformity with the law. No apparent violations have been noted.

Applications for Adjustment of Holdings, etc. of Federal Reserve Bank Stock

During the year two hundred nineteen applications for adjustment of holdings of Federal Reserve Bank stock were received from member banks; stock was also issued to eleven new State bank members. Five applications for total surrender of stock by member banks were received, three from national banks in voluntary liquidation, one from an insolvent national bank, and one from a State member bank withdrawing from membership. The Examination Department handles applications for adjustment, for new stock, and for cancellation of stock.

Applications for National Charters

No applications for national bank charters were referred to this office for recommendation during the year.

BANK EXAMINATION DEPARTMENT - Cont'd

BANK CHANGES IN 1939
(Per Stock Book Records)

Total number of member banks in the district January 1, 1939	462
New national banks organized	0
State banks admitted	<u>11</u>
	473
National banks absorbed by other national banks	1
National banks absorbed by nonmember State institutions	1
National banks liquidated	2
State member banks withdrawn	<u>1</u>
	<u>5</u>
Total number of member banks holding stock in the Federal Reserve Bank of Minneapolis at the end of the year	468

Membership

At the close of the year there were 468 member banks in this district, as compared with 462 member banks at the beginning of the year. There was a net loss of 4 national banks and a net gain of 10 State banks. The total membership at the close of the year was divided into 387 national banks and 81 State banks.

State Bank Membership According to States

<u>State</u>	<u>No. of State Bank Members 1-1-39</u>	<u>No. of State Banks Withdraw- ing from Member- ship During Year</u>	<u>No. of State Banks Admitted During Year</u>	<u>No. of State Bank Members 12-31-39</u>
Michigan	9	0	2	11
Minnesota	13	1	6	18
Montana	24	0	1	25
North Dakota	0	0	0	0
South Dakota	21	0	2	23
Wisconsin	<u>4</u>	<u>0</u>	<u>0</u>	<u>4</u>
	71	1	11	81

MEMBER BANKS SEVERING CONNECTIONS WITH THIS FEDERAL RESERVE BANK DURING 1939

NATIONAL BANKS ABSORBED BY OTHER NATIONAL BANKS

<u>Date</u>	<u>Name of Bank</u>	<u>Location</u>	<u>No. of Shares Surrendered</u>
5-25-39	The Commercial National Bank of (Absorbed by First National Bank of The Black Hills, Rapid City, Rapid City, South Dakota)	Sturgis, South Dakota	33

NATIONAL BANKS ABSORBED BY NONMEMBER STATE INSTITUTIONS

1-5-39	First National Bank in (Absorbed by The State Bank of Phillips, Phillips, Wisconsin)	Phillips, Wisconsin	34
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NATIONAL BANKS LIQUIDATED

2-23-39	The First National Bank of (Insolvency)	Preston, Minnesota	33
10-5-39	The Farmers National Bank of	Vienna, South Dakota	17

STATE MEMBER BANK WITHDRAWALS

2-6-39	State Bank of Aurora	Aurora, Minnesota	23
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NUMBER OF MEMBER BANKS IN ACTUAL OPERATION DECEMBER 31, 1939

National banks	386
State Banks	<u>81</u>
Total	467

REPORT OF SAFEKEEPING DEPARTMENT FOR THE
YEAR 1939

Securities held in our custody for safekeeping and for collateral purposes, exclusive of unissued stock held for the Treasury Department and other governmental agencies, dropped substantially in 1938 and slightly in 1939 from an all time high total in 1937. During 1937, our high total was \$431,373,149.81; 1938 \$398,013,765.52; while during 1939, our high figure was \$395,025,196.94. The low total for the year 1938 was \$346,690,989.81, while the low for 1939 was \$346,119,773.97 on October 31. The figures at the close of 1939 showed a decrease of \$20,630,245.27 compared to the close of 1938, as indicated in the statement at the bottom of this page.

The total government and miscellaneous securities held free in safekeeping for our member banks decreased \$38,934,137.17 in 1939, while the total of pledged securities increased \$21,242,275.20. During 1939 the total United States Savings Bonds held for individuals, firms, corporations, and non-member banks increased \$3,375,650, compared with an increase the previous year of \$3,552,300. Approximately \$6,000,000 was reduction of stocks held as sub-collateral account Reconstruction Finance Corporation. Balance was retirement by banks of preferred stock which we held for Reconstruction Finance Corporation. During 1938, we issued 1,123 safekeeping receipts covering U. S. Savings Bonds, while during 1939 we issued 1,927. This indicates quite an increase of U. S. Savings Bonds deposited with us in the past two years compared to 817 during 1937 and only 795 total during the year 1935 and 1936.

In 1939, we received 48,193 pieces compared to 48,911 in 1938, and delivered 51,105 pieces compared to 48,184 the previous year. The number of coupons clipped last year was 236,621 as compared to 255,887 the year before.

COMPARATIVE STATEMENT OF SECURITIES HELD
DECEMBER 31, 1938 and 1939
(Minneapolis only)

	<u>Dec. 31, 1939</u>	<u>Dec. 31, 1938</u>
Government and miscellaneous securities held in safekeeping for members	\$ 181,835,885.47	\$ 220,770,022.64
Securities pledged to secure public deposits	128,191,707.73	106,949,432.53
U.S. Savings bonds held for individuals, firms, corporations, and non-member banks	12,508,100.00	9,132,450.00
Securities held for U.S. Govt. officials	6,034,900.00	5,507,900.00
Securities held for Public Works Administration	1,778,495.00	737,242.00
Securities held for Reconstruction Finance Corp.	22,040,498.97	29,353,996.82
Collateral to War Loan Deposits	1,533,850.00	1,689,750.00
Collateral to Discounts, Rediscounts and Industrial Advances	<u>523,737.33</u>	<u>936,625.78</u>
	\$ 354,447,174.50	\$ 375,077,419.77

FEDERAL RESERVE NOTES

The Agent's records show the total of our outstanding notes to be \$146,847,275 on December 31, 1939. Our own tellers had \$5,420,000 of our notes on the same date, making the total notes in circulation at the close of the year \$141,427,000 which was a gain of \$4,570,000 in 1939. During the previous year our circulation contracted \$712,000. At the beginning of 1936 our circulation was \$110,500,000, increasing over \$25,000,000 that year. In the next three years the gain was \$5,300,000.

The extent to which silver certificates and legal tender notes are taking the place of our own issue is shown from the fact that (our total circulation is higher now than in 1936, although) \$58,050,000 was issued to the Bank by the Agent in 1936 compared to \$35,045,000 issued during 1939. ? For three years no 5's have been issued by the Agent because the Government's own issues have been sufficient. Our requirement of notes the past year was the lowest obtained from the Agent since 1916. The curtailment of our own \$5 notes and the heavy receipts of silver certificate 5's from the Treasury brought about a further substantial lowering in the amount of notes destroyed with \$30,899,760 thus taken out of circulation compared to \$36,434,605 in 1938.

Another result of the replacement of our \$5 notes by Treasury issues is in materially lower printing costs during 1938 and 1939. Although the dollar value of circulation has increased during the past year, the number of notes has decreased. Nearly \$5,000,000 less in 10's were issued during 1939 than in 1938. The 10's destroyed in 1939 amounted to \$17,500,000 or \$1,140,000 more than was issued. The issue of 20's was \$14,960,000, or \$3,300,000 more than the amount destroyed. The percentages of all denominations of our notes higher than 10's showed increases in 1939. Receipts of 5's in 1939 from the Treasury amounted to \$20,400,000 compared to \$18,360,000 in 1938. All receipts of Treasury issues including 1's were \$43,480,000 last year and \$39,500,000 in 1938.

At the close of 1939 the Agent had on hand at Minneapolis \$55,850,000 in our Federal reserve notes of which \$7,160,000 consisted of 10's and 20's. The supply held in Washington, printed and paid for, is \$141,480,000 compared to \$135,620,000 held one year ago. The amount of 10's and 20's included in the present supply is \$97,680,000 which based on present demand is sufficient for three years.

FEDERAL RESERVE NOTES RECEIVED AND ISSUED BY AGENT DURING 1939

IN HANDS OF AGENT DECEMBER 31, 1938

	<u>NEW</u>	<u>FIT-FOR-USE</u>	<u>TOTAL</u>
Fives	\$ 10,400,000	\$ 0	\$ 10,400,000
Tens	3,440,000	0	3,440,000
Twenties	4,640,000	0	4,640,000
Fifties	12,825,000	650,000	13,475,000
Hundreds	10,240,000	1,550,000	11,790,000
Five Hundreds	6,700,000	150,000	6,850,000
Thousands	6,200,000	0	6,200,000
Total	<u>\$ 54,445,000</u>	<u>\$ 2,350,000</u>	<u>\$ 56,795,000</u>

	<u>RECEIVED FROM COMPTROLLER NEW</u>	<u>RETURNED BY BANK FIT-FOR-USE</u>	<u>TOTAL RECEIVED</u>
Fives	0	0	0
Tens	16,000,000	0	16,000,000
Twenties	14,400,000	0	14,400,000
Fifties	1,000,000	0	1,000,000
Hundreds	1,200,000	0	1,200,000
Five Hundreds	500,000	0	500,000
Thousands	1,000,000	0	1,000,000
Total	<u>\$ 34,100,000</u>	<u>0</u>	<u>\$ 34,100,000</u>

ISSUED TO BANK

	<u>NEW</u>	<u>FIT-FOR-USE</u>	<u>TOTAL</u>
Fives	0	0	0
Tens	16,360,000	0	16,360,000
Twenties	14,960,000	0	14,960,000
Fifties	50,000	575,000	625,000
Hundreds	500,000	1,550,000	2,050,000
Five Hundreds	100,000	150,000	250,000
Thousands	800,000	0	800,000
Total	<u>\$ 32,770,000</u>	<u>\$ 2,275,000</u>	<u>\$ 35,045,000</u>

IN HANDS OF AGENT DECEMBER 30, 1939

	<u>NEW</u>	<u>FIT-FOR-USE</u>	<u>TOTAL</u>
Fives	10,400,000	0	10,400,000
Tens	3,080,000	0	3,080,000
Twenties	4,080,000	0	4,080,000
Fifties	13,775,000	75,000	13,850,000
Hundreds	10,940,000	0	10,940,000
Five Hundreds	7,100,000	0	7,100,000
Thousands	6,400,000	0	6,400,000
Total	<u>\$ 55,775,000</u>	<u>\$ 75,000</u>	<u>\$ 55,850,000</u>

RATIO OF ISSUES BY DENOMINATIONS

	<u>1939</u>	<u>1938</u>	<u>1937</u>	<u>1936</u>	<u>1935</u>
Fives	0.	0.	.50	4.09	1.47
Tens	46.68	54.50	55.84	49.63	51.66
Twenties	42.69	36.08	36.43	37.69	38.76
Fifties	1.78	2.13	1.37	2.28	2.02
Hundreds	5.85	5.29	4.09	4.67	3.79
Five Hundreds	.72	.65	.53	.43	.76
Thousands	2.28	1.35	1.24	1.21	1.54
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

FEDERAL RESERVE NOTES ISSUED TO BANK

COMPARATIVE BY MONTHS 1939-1935

	<u>1939</u>	<u>1938</u>	<u>1937</u>	<u>1936</u>	<u>1935</u>
January	\$ 1,040,000	\$ 1,320,000	\$ 865,000	\$ 1,190,000	\$ 1,000,000
February	315,000	3,680,000	3,660,000	3,540,000	3,770,000
March	2,480,000	3,580,000	4,290,000	4,185,000	1,984,000
April	3,650,000	5,000,000	4,720,000	3,795,000	2,688,000
May	2,700,000	740,000	3,080,000	3,100,000	2,550,000
June	800,000	1,600,000	2,420,000	10,505,000	2,300,000
July	3,000,000	3,030,000	2,570,000	4,275,000	1,625,000
August	2,950,000	2,650,000	3,930,000	5,930,000	4,470,000
September	4,580,000	4,060,000	4,780,000	3,680,000	6,380,000
October	4,770,000	3,705,000	3,120,000	5,330,000	4,660,000
November	3,490,000	4,210,000	3,100,000	6,260,000	4,325,000
December	5,270,000	5,175,000	3,760,000	6,260,000	5,110,000
Total for Year	\$35,045,000	\$38,750,000	\$40,295,000	\$58,050,000	\$40,862,000

FEDERAL RESERVE NOTES DESTROYED AT WASHINGTON

COMPARATIVE BY MONTHS 1939-1935

	<u>1939</u>	<u>1938</u>	<u>1937</u>	<u>1936</u>	<u>1935</u>
January	\$ 3,415,050	\$ 3,306,380	\$ 2,449,950	\$ 2,928,505	\$ 2,920,050
February	2,049,820	2,619,410	1,923,970	1,568,905	2,038,050
March	2,741,840	3,032,750	2,147,635	2,378,850	2,357,250
April	2,572,650	2,475,200	2,089,050	2,069,250	2,326,850
May	3,024,450	3,919,050	2,594,450	2,629,000	2,640,200
June	3,337,950	2,851,300	2,678,935	2,338,850	2,237,650
July	2,567,350	3,329,495	2,650,500	2,390,050	2,894,800
August	2,470,250	3,155,100	2,978,200	2,352,650	2,282,275
September	1,903,100	2,790,000	3,764,450	2,591,180	2,754,400
October	2,924,400	3,102,800	3,676,450	2,702,650	2,833,050
November	1,908,150	3,354,120	3,070,200	2,957,950	2,671,650
December	1,984,750	2,499,000	3,794,585	2,440,450	2,321,550
Total for Year	\$30,899,760	\$36,434,605	\$33,818,375	\$29,348,290	\$30,277,775

FEDERAL RESERVE NOTES ISSUED AND DESTROYED SINCE ORGANIZATION

	<u>Issued to Bank</u>	<u>Destroyed at Washington</u>
1914	\$ 260,000	\$ 0
1915	13,742,000	0
1916	9,880,000	895,955
1917	42,230,000	8,988,095
1918	57,140,000	9,421,540
1919	39,990,000	36,771,805
1920	39,450,000	40,766,785
1921	39,265,000	49,748,580
1922	43,360,000	32,784,320
1923	40,205,000	27,320,330
1924	52,030,000	28,173,395
1925	44,330,500	30,108,355
1926	46,702,000	31,835,950
1927	36,694,500	23,970,335
1928	40,015,000	26,808,035
1929	73,754,000	55,134,950
1930	39,052,000	43,217,265
1931	42,180,000	19,595,995
1932	55,905,000	19,894,830
1933	81,665,000	23,359,460
1934	48,400,000	31,467,940
1935	40,862,000	30,277,775
1936	58,050,000	29,348,290
1937	40,295,000	33,818,375
1938	38,750,000	36,434,605
1939	35,045,000	30,899,760
TOTAL	\$1,099,252,000	\$701,042,725

ISSUE, REISSUE AND DESTRUCTION OF FEDERAL RESERVE NOTES
SINCE OPENING OF BANK AS OF DECEMBER 30, 1939

	<u>Received from Comptroller</u>	<u>Returned to Agent by Bank</u>	<u>Total</u>
Fives	\$201,400,000	\$ 42,000,000	\$243,400,000
Tens	321,840,000	84,250,000	406,090,000
Twenties	279,200,000	86,400,000	365,600,000
Fifties	29,800,000	9,965,000	39,765,000
Hundreds	44,400,000	18,035,000	62,435,000
Five Hundreds	11,900,000	2,944,000	14,844,000
Thousands	15,200,000	7,768,000	22,968,000
Total	<u>\$903,740,000</u>	<u>\$251,362,000</u>	<u>\$1,155,102,000</u>

ISSUED TO BANK

	<u>NEW</u>	<u>Fit-For-Use</u>	<u>Total</u>
Fives	\$191,000,000	\$ 42,000,000	\$233,000,000
Tens	318,760,000	84,250,000	403,010,000
Twenties	275,120,000	86,400,000	361,520,000
Fifties	16,025,000	9,890,000	25,915,000
Hundreds	33,460,000	18,035,000	51,495,000
Five Hundreds	4,800,000	2,944,000	7,744,000
Thousands	8,800,000	7,768,000	16,568,000
Total	<u>\$847,965,000</u>	<u>\$251,287,000</u>	<u>\$1,099,252,000</u>

DESTROYED AT WASHINGTON

	<u>Returned by Agent</u>	<u>Returned by Treasurer</u>	<u>Returned by Minneapolis</u>	<u>Returned by Other Fed. Res. Banks</u>	<u>Total</u>
Fives	\$ 4,260,000	\$ 4,588,235	\$ 99,206,900	\$ 81,342,680	\$189,397,815
Tens	2,545,000	6,310,310	141,079,000	117,734,990	267,669,300
Twenties	1,020,000	6,259,160	94,583,600	107,542,900	209,405,660
Fifties	25,000	557,300	6,110,000	4,414,250	11,106,550
Hundreds	30,000	1,066,400	9,450,000	6,959,000	17,505,400
Five Hundreds	0	136,500	1,579,500	838,000	2,554,000
Thousands	0	248,000	2,040,000	1,116,000	3,404,000
Total	<u>\$7,880,000</u>	<u>\$19,165,905</u>	<u>\$354,049,000</u>	<u>\$319,947,820</u>	<u>\$701,042,725</u>

	<u>In Hands of Agent December 30, 1939</u>	<u>Outstanding December 30, 1939</u>
Fives	\$10,400,000	\$ 1,602,185
Tens	3,080,000	51,090,700
Twenties	4,080,000	65,714,340
Fifties	13,850,000	4,843,450
Hundreds	10,940,000	15,954,600
Five Hundreds	7,100,000	2,246,000
Thousands	6,400,000	5,396,000
Total	<u>\$55,850,000</u>	<u>\$146,847,275</u>

TRANSFER AND CODE DEPARTMENT
(Minneapolis Only)

The Transfer Department handled 19,520 transfers amounting to \$1,789,997,000 during 1939, compared to 18,981 transfers totaling \$1,508,642,000 in 1938. This represents increase of 539 transactions and an increase in amount of \$281,355,000.

The number and amount of incoming and outgoing wire transfers handled during the past five years were as follows:

Year	<u>Outgoing Wire Transfers</u>		<u>Incoming Wire Transfers</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
1939	5,985	\$ 399,640,000	5,930	\$ 966,115,000
1938	5,488	310,498,000	6,029	830,279,000
1937	6,566	360,148,000	7,411	1,038,897,000
1936	6,111	370,723,000	6,624	914,381,000
1935	5,666	344,724,000	5,870	724,422,000

Messages coded and decoded during 1939, other than transfers, numbered 12,626, compared to 13,627 in 1938.

TELEGRAPH UNIT
(Minneapolis Only)

During 1939 we sent 234,977 words over the Federal Reserve System leased wires, in comparison with 299,122 in 1938.

COMPARISON OF MEMBER BANK BALANCES
(Thousands only, 000 omitted)

	Dec. 31, 1939	Dec. 31, 1938	Dec. 31, 1937	Dec. 31, 1936	Dec. 31, 1935
Michigan	\$ 6,799	\$ 5,854	\$ 6,329	\$ 5,146	\$ 3,485
Minnesota	109,465	77,349	86,458	80,885	58,772
Montana	19,860	15,854	16,009	15,876	17,068
North Dakota	4,584	3,861	5,266	5,175	6,137
South Dakota	8,607	6,899	8,015	9,578	7,297
Wisconsin	5,473	3,950	4,729	3,871	3,469
	<u>\$154,788</u>	<u>\$113,767</u>	<u>\$126,806</u>	<u>\$120,531</u>	<u>\$ 96,228</u>

AVERAGE BALANCES

	<u>1939</u>	<u>1938</u>
Member Bank Balances	\$ 136,241,000	\$ 121,665,000
U. S. Treasurer's Balance	44,763,000	34,071,000
	<u>\$ 181,004,000</u>	<u>\$ 155,736,000</u>

DEFICIENT RESERVE PENALTIES

	<u>Minneapolis</u> <u>1939</u>	<u>Helena</u> <u>1939</u>	<u>Combined</u> <u>1939</u>	<u>Combined</u> <u>1938</u>
Amount of Penalties	\$ 726.75	\$ 58.90	\$ 785.65	\$ 566.42
Number of banks penalized	83	8	91	133
Maximum penalty rate	3½%	3½%	3½%	3½%

REPORT OF BANK AND PUBLIC RELATIONS ACTIVITIES
AT THE FEDERAL RESERVE BANK OF MINNEAPOLIS
DURING 1939

Twelve bank officers and other representatives travelled 78,546 miles on public relations work during 1939 at a travel cost of \$6,998.68. They attended six state bankers' association conventions, 70 other bankers' meetings; delivered 42 addresses (including seven radio addresses) to an estimated known audience of 3,584 people; and made 771 visits at member banks and 972 visits at non-member banks in the district, every bank in the district having been visited at least once by one of our officers.

The attendance at showings of the Federal Reserve Bank movie during 1939 was 13,693. The bank continued its cooperation with the Wisconsin Bankers' Association with regard to showings of the Federal Reserve movie.

A Member Bank Conference was held on March 25, 1939, the principal speakers being Dr. J. H. Riddle, Economist, Bankers' Trust Company, New York City, and Dr. William J. Hale, Chemist and Research Consultant of the Dow Chemical Company, Midland, Michigan. The entertainment features of the conference consisted of luncheon, dinner, and complimentary tickets to the Ice Follies. Seven hundred and thirty-two bank officers and directors attended the conference.

In December WCCO commenced a series of eleven weekly broadcasts featuring dramatic incidents in connection with Federal Reserve activities. The first three broadcasts dramatized the wire transfer of funds, the destruction of worn-out currency, and the supplying of an adequate volume of currency for Christmas and holiday trade.

In October representatives of the Federal Reserve Bank took part in the second annual Minnesota Bankers' Conference held at the University of Minnesota.

In August a weekly digest of news items of interest to bankers was inaugurated and mailed to all member banks in the district.

A comparative statement of operating ratios for 1937 and 1938 was sent to each member bank in the district. In addition, operating ratios were computed for the State banks of North Dakota at the request of the North Dakota Bankers' Association and a number of other special tabulations of these ratios were furnished upon request.

Twelve issues of the Monthly Review were printed and distributed to a mailing list which, in December, consisted of 6250 names.

FISCAL AGENCY FUNCTIONS - 1939

Volume of Operations

New issues, redemptions and exchanges of various United States Government securities, including United States Savings bonds and Adjusted Service bonds aggregated 136,048 pieces and amounted to \$274,176,825.00 as compared with 149,395 pieces amounting to \$257,797,575.00 in 1938.

We handled 772 purchases and 3,762 sales of Government securities totaling \$24,786,100; for delivery or payment, or both; we handled for banks and trust companies 809 transactions in Government securities amounting to \$136,488.275. There were also 1,675 transactions of miscellaneous general market securities cleared through us aggregating \$9,613,072.33. Altogether, of these various transactions, there were 7,018, totaling \$170,887,247.33, as compared to 8,893 totaling \$198,625,575 in 1938.

Deliveries of 19,577 pieces totaling \$96,287,126.00 were made on purchases and resale transactions for other than our own account. In addition, on exchange transactions, such as denominational exchange, the exchange of coupon for registered securities, etc., 16,617 pieces were delivered, amounting to \$80,983,400.00. The total number of pieces delivered was 36,194 amounting to \$177,270,526.00 in comparison with 45,384 totaling \$204,295,508.00 during the preceding year.

New issues, redemptions and exchanges of securities of Governmental Agencies during 1939 numbered 36,883 pieces amounting to \$50,422,550.00 as compared with 9,501 pieces amounting to \$10,881,825.00 in 1938. In addition, on exchange transactions such as denominational exchanges, the exchange of coupon for registered securities, etc. 4,056 pieces of securities of Governmental Agencies were delivered amounting to \$6,812,950.00 as compared with 3,996 pieces amounting to \$4,687,075.00 in 1938.

The total number of individual securities received and delivered by the Fiscal Agency Department (including securities of Governmental Agencies) during 1939 was 213,181 totaling \$508,682,851.00, as compared with 208,275 totaling \$477,659,984.00 in 1938.

We redeemed 340,868 Government coupons amounting to \$9,923,595.97 during the past year, as compared to 343,157 coupons totaling \$10,521,239.55 during 1938. We also redeemed 242,421 Governmental Agency coupons amounting to \$2,841,414.85 during 1939, as compared to 279,425 totaling \$3,224,366.36 in 1938.

FISCAL AGENCY FUNCTIONS - Cont'd

Other Services

During 1939 we received 15,525 individual orders for United States Savings bonds representing 31,657 pieces, amounting to \$12,533,350.00 as compared with 10,725 individual orders representing 22,227 pieces, amounting to \$8,204,450.00 during 1938. This increase is approximately 45%, about the same as for the entire country. Incidentally, Minnesota holds sixth place in volume of such bonds issued to date.

We received for redemption 37,138 Adjusted Service bonds amounting to \$1,856,900.00, as compared with 59,969 pieces amounting to \$2,998,450.00 during 1938, also 38,307 United States Savings bonds amounting to \$8,957,650, as compared with 30,232 pieces amounting to \$7,027,200.00 during 1938.

During the year we issued 26,121 United States Treasury checks in payment of Adjusted Service bonds, United States Savings bonds and other Public Debt redemptions, as compared with 31,921 checks during 1938.

We are performing certain services as Fiscal Agent in connection with securities for the following:

- United States of America
- Farm Credit Administration
- Federal Farm Mortgage Corporation
- Federal Land Banks
- The Twelve Federal Intermediate Credit Banks
- Home Owners' Loan Corporation
- Reconstruction Finance Corporation
- Commodity Credit Corporation
- Federal Home Loan Banks
- Federal Housing Administration
- United States Housing Authority
- United States Maritime Commission

Without inclusion of Treasury bills there were eight offerings of United States Government securities during 1939. Four of such issues were long term and four short term. We received and handled 1,770 individual subscriptions, contained in 1,052 different applications, aggregating \$121,216,800. The amount allotted on these subscriptions was \$51,123,200. During 1938, 4,558 individual subscriptions were submitted in 2,281 different applications covering eight similar offerings and \$69,867,100 was allotted.

Although there was the same number of offerings in 1939 as in 1938, the decrease in the number of subscriptions and amount in 1939 is due to the fact that there were seven exchange offerings and only one cash offering as compared to four cash offerings in 1938 in addition to the exchange offerings.

In addition to the above, there were eight offerings by the various

FISCAL AGENCY FUNCTIONS - Cont'd

government agencies on which we received 1,513 individual subscriptions contained in 1,148 different applications, aggregating \$164,588,850. The amount allotted on these subscriptions was \$22,394,850. During 1938, on similar offerings, 343 individual subscriptions were submitted in 264 different applications covering three offerings and \$4,957,000 was allotted.

During 1939, 68 tenders amounting to \$31,750,000 were received by this Agency on 52 offerings of Treasury bills. Of these, 38 tenders ranging from par to a discount of .03 per cent and amounting to \$30,353,000, were accepted. During 1938, 53 tenders amounting to \$25,083,000 were received, and 19 tenders totaling \$14,956,000 were accepted on the 57 offerings of Treasury bills made that year.

At the close of 1939 there were 110 banks and trust companies in this district which were designated as special depositories of public moneys, as compared with a like number in 1938.

Including the weekly circular giving current market quotations on the outstanding Government issues, 134 circular letters were sent to banks and trust companies in the district during 1939 in connection with Fiscal Agency operations, as compared to 123 circulars in 1938.

CURRENCY AND COIN
(Minneapolis only)

VOLUME OF CURRENCY TRANSACTIONS AND SHIPPING CHARGES ABSORBED
FOR THE YEARS 1939, 1938 AND 1937

<u>Twin City Member Banks</u>	<u>1939</u>	<u>1938</u>	<u>1937</u>
Currency received by us:			
Amount	\$ 66,240,755.00	69,087,113.00	88,575,862.00
Number of their shipments	2,899	3,121	3,299
Currency delivered by us:			
Amount	\$ 81,375,700.00	79,137,540.00	95,174,600.00
Number of our shipments	1,550	1,523	1,482
<u>OTHER MEMBER AND NON-MEMBER BANKS</u>			
Currency received by us:			
Amount	\$ 69,546,558.00	65,961,575.00	68,144,810.00
Shipping charges absorbed	30,218.95	30,303.04	30,409.13
Number of their shipments	14,524	14,300	13,972
Currency shipped by us:			
Amount	\$ 67,429,354.00	63,347,672.00	78,823,888.00
Amount of our shipping costs	20,057.57	17,810.30	19,681.73
Number of our shipments	19,288	18,175	20,852

CURRENCY AND COIN - Cont'd

Coin Received by us from Member and Non-Member Banks

	<u>1939</u>	<u>1938</u>	<u>1937</u>
Amount	\$ 3,165,557.00	3,071,126.00	3,445,070.00
Shipping charges absorbed	5,850.55	6,048.21	5,453.44
Number of shipments	1,955	2,019	2,698

Coin Shipped by us to Member and Non-Member Banks

Amount	\$ 3,009,162.00	2,479,108.00	2,633,532.00
Shipping charges absorbed	6,079.25	5,423.19	5,903.28
Number of shipments	6,993	6,830	6,947

COMPARATIVE NUMBER OF NOTES RECEIVED AND SORTED

Receiving and Sorting Costs	\$ 15,865.07	16,329.41	19,213.84
Average number of receiving tellers and sorters	9.32	9.28	10.90
Number of notes received and counted	37,778,300	37,324,504	43,367,625
Average number of notes sorted daily by each employee	13,422	13,318	13,131
Our average currency receiving and sorting costs per each 1000 notes	42¢	44¢	46¢

COMPARATIVE AMOUNT OF COINS RECEIVED

Expenses	\$ 3,408.49	3,634.01	3,167.69
Average number of coin tellers	1.67	1.78	1.57
Number of coins received and sorted	30,244,252	28,085,483	20,620,499
Average number of coins handled by each employee daily	59,968	52,246	43,347
Unit cost per 1000 coins	11¢	13¢	15¢

RECONSTRUCTION FINANCE CORPORATION

The Reconstruction Finance Corporation activities handled by us were considerably increased this year, particularly since last spring, at which time liquidation of C. C. C. loans on 1938 wheat began and continued for about four months. These loans aggregated 38,310 in number and approximated \$17,100,000 in amount. The greater portion of these notes were taken up by the makers through settlements based on market values, which arrangement enabled the producers of the wheat to redeem their obligations at less than the amounts borrowed and realize a profit. Those notes, which were not disposed of as outlined above, were either extended until March 31, 1940, or canceled by delivery of the collateral grain to the Commodity Credit Corporation.

Disbursement of wheat loans on the 1939 crop was begun this fall. Such loans now purchased aggregate 4,337 in number and amount to approximately \$1,250,000. In addition, we are holding 957 wheat notes in safe-keeping for the account of various Lending Agencies which desire to receive the proceeds of such notes some time prior to or not later than April 30, 1940. The Minneapolis Loan Agency estimates that in this district, Montana not included, at least 75,000 loans have been made on 1939 wheat. Because of the recent advance in wheat prices the Commodity Credit Corporation has called off the safe-keeping program it had set up for 1939 wheat loans, apparently expecting the producers would pay off a considerable number of such loans in the Lending Agencies which hold them. If wheat prices, however, do not remain high enough to permit the producers to make a profit in excess of the loan values set by the Commodity Credit Corporation, we can expect a considerable volume of business when the Corporation resumes its safe-keeping program.

During the year we disbursed Commodity Credit Corporation corn loans on the 1938 crop in the number of 31,249 and in the approximate amount of \$11,800,000. Liquidations and extensions of these loans are being handled here instead of at Chicago, which handled the entire liquidation of loans made on 1937 corn. The great majority of these notes are either being extended or renewed until August 1, 1940. The remainder are being canceled through delivery of the pledged corn, in which cases we transfer to Chicago for disposition. All loans on corn raised in 1939 are to be handled through the Chicago Agency.

Loans are being made to eligible producers of rye raised during 1939.

Heretofore, Commodity Credit Corporation loans on grain were confined to wheat

RECONSTRUCTION FINANCE CORPORATION - Cont'd

and corn. We had disbursed approximately \$522,000 on 2,537 rye notes as of the end of this year.

The number of employees working in this department reached a high of 172 last spring and on December 31 had decreased to 72.

LOAN BALANCES, ADVANCES, ETC. ON BOOKS AS OF
DECEMBER 31, 1939

Banks, Trust Companies and Mortgage Loan Companies	\$ 571,112.51
Industrial and Commercial Businesses	2,355,857.49
Drainage, Levee and Irrigation	836,266.08
Preferred Stock of Banks	10,446,162.00
Secured by Preferred Stock (Issued to Stockholders)	193,407.38
Debentures of Banks	5,815,966.31
Bonds (from Public Works Administration)	4,350,685.21
U.S. Treasury Obligations (Accepted Account Preferred stock and Debenture payments)	3,135,100.00
The R.F.C. Mortgage Company (Direct Loans)	304,163.44
The R.F.C. Mortgage Company (Federal Housing Loans purchased)	65,657.23
Disaster Loan Corporation	69,955.79
Federal National Mortgage Association (F.H.A. Loans purchased)	759,945.46
Commodity Credit Corporation (1938 Corn)	7,941,513.69
Commodity Credit Corporation (1938 Wheat)	1,675,794.76
Commodity Credit Corporation (1939 Wheat) *	1,174,457.51
Commodity Credit Corporation (1939 Rye)	506,763.61
Miscellaneous	<u>521,089.90</u>
TOTAL	\$ 40,723,898.37

* Major portion of such loans still in hands of the Lending Agencies, not included in this figure.

PUBLIC WORKS ADMINISTRATION

Comparatively few blocks of bonds were purchased through us during 1939. The Reconstruction Finance Corporation has purchased most of this Agency's holdings. Its balance of bonds now held with us total \$1,778,400.00.

FEDERAL CROP INSURANCE CORPORATION

We are now acting as Custodian for this Government agency, which deposits warehouse receipts for wheat with us for safekeeping. During the year 1,518 receipts were placed in our custody and 296 receipts were withdrawn therefrom.

UNITED STATES HOUSING AUTHORITY

During the year we began to function as fiscal agent and custodian for this Government agency. The number of transactions handled during 1939 were few in number and the total disbursement amounts to \$225,000.00. This amount is part of three commitments totaling \$1,250,000.00 made by the United States Housing Authority.