

UNITED STATES DEPARTMENT OF LABOR

FRANCES PERKINS, Secretary

BUREAU OF LABOR STATISTICS

ISADOR LUBIN, Commissioner

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BUREAU OF LABOR STATISTICS }

COOPERATION SERIES

**ORGANIZATION AND MANAGEMENT
OF COOPERATIVE GASOLINE
AND OIL ASSOCIATIONS
(WITH MODEL BYLAWS)**



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LETTER OF TRANSMITTAL

UNITED STATES DEPARTMENT OF LABOR,
BUREAU OF LABOR STATISTICS,
Washington, September 1, 1934.

HON. FRANCES PERKINS,
Secretary of Labor.

MADAM SECRETARY: I have the honor to transmit herewith a report intended for the use of groups wishing to organize cooperative gasoline and oil associations on the Rochdale plan. This bulletin has been prepared at the request of the Consumers' Advisory Board of the National Recovery Administration.

The contents of the present report are based upon the experience of several hundred associations, mainly in the Middle West. These associations handle petroleum products and often tires, accessories, etc. Though the largest proportion of their business consists of the sale of gasoline, they call themselves "oil associations."

The Bureau takes this opportunity to acknowledge its indebtedness to Mr. Howard A. Cowden, president of the Union Oil Co. (Cooperative), North Kansas City, Mo., for the material furnished. Respectfully submitted.

ISADOR LUBIN, *Commissioner.*

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U.S. BUREAU OF LABOR STATISTICS

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WASHINGTON

OCTOBER, 1934

ORGANIZATION AND MANAGEMENT OF COOPERATIVE GASOLINE AND OIL ASSOCIATIONS

Introduction

The growth of cooperative buying associations in the United States has been a gradual one. Consumers have entered many fields of cooperative purchase and supply, an important one being the handling of petroleum products and related lines. The cooperative oil movement, started by farmers, followed the development and successful operation of their producing and marketing cooperative associations. As the number of automobiles, trucks, and tractors used by farmers increased, the volume of petroleum products consumed grew rapidly. In some of the great agricultural States the cost of petroleum products is the largest cash item in the production cost of agricultural commodities. In all States it is an important factor.

Through cooperative buying the farmers found a way to reduce this cost. Their average saving on petroleum products purchased cooperatively, during the past 5 years, has been about 15 percent. Since the beginning of this movement, about 10 years ago, interest in cooperative buying of petroleum products and related lines has spread rapidly. Cooperative gasoline filling stations are now being started by wage earners in towns and cities.

These associations, like other consumers' cooperative societies, operate in accordance with the accepted Rochdale principles. Membership in these associations is voluntary and open to all. Shares are of low denomination and may usually be paid for in installments. At meetings each member has one vote and no more, regardless of the amount of stock held. In order to insure comparative equality in the financial status of members the number of shares that may be held by any one member is limited. Capital receives interest at no more than a legal rate, it being the cooperator's idea that the owner of capital should receive a fair price for the use of this money, but no more than a fair price. It has been said that the motive power of the cooperative movement is the man and not his money, and this principle is extended to every part of the movement, federations as well

as retail societies. No group can obtain a controlling interest in a retail cooperative society; and a retail society can increase its power over the policy and operations of a cooperative wholesale society only by increasing its membership. On the other hand, the economy which results from the combination of a large number of industrial operations under one management can be obtained under the cooperative system through the method of federating societies for the purposes of wholesale trading and manufacture.

Fundamentally, the procedure of organizing a new cooperative gasoline and oil association is the same as that observed in cooperative associations of other types. This pamphlet is concerned with methods of organization for cooperative gasoline associations according to Rochdale principles. The information and conclusions here presented are based upon the experience of several hundred such associations whose methods and results have been studied.

Steps Preliminary to Organization

An essential of success of the local cooperative oil association, as of other cooperatives, is a membership thoroughly informed on the fundamentals of cooperation. The educational work should be started well in advance of the actual organizing. It is as hopeless to try to build a thriving, successful cooperative association without a background of real cooperative understanding and belief among the membership as it is to try to build a profit business by selling at cost.

Unless the cooperative oil association is to be organized in a community where there are already other strong cooperative organizations, and where the consumers generally have some realization of the possibilities of cooperation, then the first real problem is an educational one.

Too often, misunderstandings arise later because those who took the lead in organizing did not themselves have a true understanding of what cooperation really is. What can reasonably be expected should be fully understood. It is unwise policy to carry on a sensational campaign, to hold out the prospect of large savings, and to expect the whole community to become cooperative at once. True cooperation comes slowly and steadily, as those who have had experience are ready to testify. Great accomplishments must not be expected for the first year or perhaps even the second year. The organization will make progress just as fast as the consumers realize what cooperation means, and no faster. It therefore becomes the

first duty of those who take the lead in the organization of the cooperative association to teach the principles of cooperation.¹

It is suggested that from these leaders an organization committee be appointed to carry on the preliminary organization work and to handle the affairs in connection with the organization until sufficient capital has been subscribed, when the first shareholders' meeting should be held.

First Organization Meeting

When this preliminary work has been done, when sufficient capital and an adequate number of members pledged to trade at the store are assured, an organization meeting should be called, but not until then.

The business to be transacted at the meeting may include:

1. Explanation of the purposes of the meeting, and discussion
2. Adoption of temporary bylaws.
3. Election of board of directors.
4. Election of committees.
 - (a) Committee on constitution, bylaws, and incorporation.
 - (b) Committee on membership.
 - (c) Committee on education.
 - (d) Committee on business.

The conveners of the meeting should come prepared to explain in detail the purposes of the meeting and the reason for organizing a cooperative association, and they should invite all the discussion possible. If those present do not seem sufficiently interested in the idea, committees may be appointed for further canvassing or a more complete survey, but no actual organization should be attempted. However, if those present are actively in favor of proceeding with organization, regular committees should be appointed as outlined above. Tentative rules or bylaws should also be presented at this meeting so that those present may know how a cooperative association is organized. The committee then elected to take care of bylaws and incorporation will modify and enlarge the rules already approved and will take up the question of incorporation under the laws of the State. This committee should write to the secretary of state and to the nearest district cooperative league for information, and again for approval of the bylaws when completed. These precautions insure their legal correctness and their adherence to cooperative principles and practices.

¹Information in this respect is available from any one of the regional cooperative leagues, as well as from the Cooperative League of the U.S.A. These leagues are as follows: The Cooperative League of the U.S.A., 167 West Twelfth Street, New York City; Eastern States Cooperative League, 112 East Nineteenth Street, New York City; Central States Cooperative League, 1410 North Main Street, Bloomington, Ill.; Northern States Cooperative League, 458 Sexton Building, Minneapolis, Minn.

Articles of Incorporation

Associations should write to ~~the~~ secretary of state at the State capitol for a copy of the State law governing cooperative associations. Even though in many States the law under which societies must incorporate is weak from the cooperative standpoint, incorporation is advised because it protects the individual members from extra liability for the debts of the society and gives certain other legal advantages.

The number of incorporators required varies from State to State, but usually the application must bear the signatures of 3, 5, or 7 persons. Such information as the following is also required:

Proposed name of the association.

Purpose for which it is formed.

Whether it is to be a stock or a nonstock corporation.

The amount of capital stock (if a stock corporation).

The par value of a share and the number of shares to be issued.

Limitation of interest on share capital.

Limitation on number of shares to be owned by one person.

The minimum amount of stock with which the association begins business.

Limitations of voting power.

Methods of distributing surplus savings.

Time and place of annual meeting.

The name of the city, or town, and county in which the head offices are located.

The length of time the association is to remain in business.

The number of its directors with their names and addresses.

The names and addresses of the incorporators with the number of shares for which each has subscribed.²

The State usually charges a filing fee.

A seal should be designed and ordered.

Constitution and Bylaws

The form for the constitution or the articles of incorporation is usually established by the laws of the State and must be closely followed, although the details are determined by the local society to meet its own particular needs.³ It is often necessary that most of the provisions contained in the articles of incorporation be repeated in the bylaws, unless both documents are to be published together and put into the hands of all members.

² Advice on incorporation may also be procured from the various district cooperative leagues. See note 1, p. 3.

³ An analysis of the individual State cooperative laws can be obtained from the U.S. Bureau of Labor Statistics, Washington, D.C., on request.

Bylaws

Whereas the articles of incorporation establish the legal status of the society, the bylaws are the common rules governing the relations of the members, their officers, and their employees; they bind these members together in a voluntary association. The chief points to be covered in the bylaws are the following:

Name.—This should always include the word "cooperative." The word "society" or "association" is better than "company."

Purpose.

Membership.—Limitations, duties, and responsibilities.

Capital.—Total amount authorized, interest to be paid, value of the share, how subscribed and paid for, etc.

Meetings.—Date, how called and conducted, quorum, special meetings, etc.

Directors and officers.—Number, how elected, duties, disqualifications of, vacancies, meetings, etc.

Voting.

Surplus savings.—Distribution to interest, reserves, education, savings returns.

Management.

Committees.—Designation of, and duties.

Bookkeeping and auditing.

Miscellaneous provisions, such as bonding, fiscal year defined, cash sales or limitations upon credit, complaints, amendments.

Certain States ⁴ permit the incorporation of consumers' cooperative societies as membership or nonstock associations. There are some advantages in such a form of incorporation, but a central cooperative organization should be consulted before final decision is made.

Cooperative Principles

The following are the cooperative principles and methods which the association should follow:

1. One vote only for each member, regardless of number of shares held. No voting by proxy. Democratic control. Business conducted to supply the members as consumers with commodities or services for their own use.

2. Capital to receive interest (if any is declared) at not more than the current legal rate in the territory where the association is located.

3. Net surplus savings ("profits") to be returned as savings returns, or patronage refunds ("dividends"), in proportion to the patronage of each member, or to remain in the society's treasury as share or loan capital credited to the members' accounts, or to be used collectively for the general social good of the members, or to remain temporarily undivided.

⁴ Alabama, California, Nevada, New York, Oregon, Washington, and Wisconsin.

Rochdale Methods

1. Unlimited membership.
2. Business to be done for cash.
3. Appropriation, out of net savings, of a substantial sum to be placed in the reserve fund.
4. Goods to be sold at current market price—not at cost.
5. Education in the history and methods of cooperation to be carried on.
6. Efficient bookkeeping and accounting, outside audits, and regular reports to members to be required.
7. Manager, treasurer, or anyone else handling large amounts of money to be bonded.
8. Affiliation as soon as possible with the nearest district cooperative organization and the nearest cooperative wholesale.

Membership

It is very hard to give a general estimate of the number of members necessary to insure the success of a cooperative gasoline and oil association. There are many factors which enter into its success. Generally, however, it is regarded as inadvisable to start with fewer than 100 members. This is enough to insure a reasonable amount of business. The overhead expense of a new association usually remains rather stationary in amount, whether or not there is a large volume of business. In other words, the larger the volume, the lower the cost of operation per unit and the greater the saving to be made. It is recommended therefore that as many members as possible be secured before starting operations.

Share Capital

The funds of the cooperative association are raised, in the first instance, by the purchase of share capital by the members. The price per share, therefore, should not be so high that the average consumer cannot afford to purchase one or more shares. On the other hand, it should be large enough so that with an average number of members, enough capital can be raised to start operations of the association. Generally the value per share should range from not less than \$10 to not more than \$50. If the State law sets the value of a share at \$5 or at some other small sum, each member should be required to subscribe for several shares. The shares may be paid for in installments. A part of the amount subscribed should be paid in at the time the organization of the association is being planned, and at least three-quarters (but preferably all) the subscribed capital of each member should be paid up before the station is opened for

business. Cash refunds and interest on stock (and in some instances voting privileges) are usually withheld until the shares are fully paid for.

It is a fundamental of consumers' cooperation that shares shall never be given a value above their par or original value.

The number of shares that may be held by any one member should be limited; in that way instead of a few stockholders with considerable money invested, the society will have a large number of shareholders with an approximately equal investment. This assures a larger patronage from the start.

Amount of Capital Needed

The amount of capital needed will vary greatly. It depends largely upon (1) the amount and kind of equipment to be purchased, (2) whether the association is going to operate a bulk plant only or whether a service station is also to be operated.⁵ The type of service station to be purchased or constructed and the cost of ground for the service station must also be considered in this connection.

Cost of bulk-station equipment.—In most cases gasoline and oil associations start with the handling of two grades of gasoline and one grade of kerosene or distillate. If these three commodities are to be handled, the purchase of three storage tanks will be necessary. The size of the storage tanks will depend on the anticipated number of gallons to be handled. It is recommended that tanks larger than immediately needed be purchased. The minimum size of storage tanks should be 12,000 gallons.

Below is listed the equipment needed to operate a bulk plant. The prices given are f.o.b. factory prices prevailing in the Middle West; they will, however, vary from place to place and are given only to furnish an idea of the approximate cost—in short, as an indication of the probable investment required for the business.

| | |
|--|--------------|
| 3 11- by 17-foot (12,000-gallon) vertical storage tanks with $\frac{1}{4}$ -inch steel bottoms, $\frac{1}{8}$ -inch sides, and 12-gage cone tops (\$373.76 each) | \$1, 121. 28 |
| 1 50-gallon-per-minute twin rotary pump with 2-hp. 3-phase 60-cycle electric motor | 182. 50 |
| 1 set of valves and fittings to set up pump, to pump from tank car to storage tanks and from storage tanks to truck tank | 70. 60 |
| 2 truck tank-loader arms, complete (\$17.85 each) | 35. 70 |
| 1 double tank-car unloading rack | 39. 00 |
| 3 storage-tank connections (\$7.65 each) | 22. 95 |
| 1 2-way manifold to connect 2 storage tanks to 1 pump | 12. 00 |

⁵ Most cooperative oil associations have found it profitable to handle, in addition to petroleum products, tires, tubes, batteries, and auto accessories, while some handle other lines, such as paint, binder twine, fly spray, dips, and disinfectants. There is usually a wide margin of profit on these items, and they can be handled by the cooperative with a small investment and little additional overhead expense. Most of these commodities can be purchased through the National Cooperatives, Inc., Indianapolis, Ind., which owns the Co-Op trade mark, or from one of its regional members.

| | |
|--|----------|
| 200 feet of 2-inch black pipe ⁶ (\$18.80 per 100 feet)----- | \$37.60 |
| 1 600-gallon truck tank with vertical barrel carriers complete, painted and lettered----- | 339.25 |
| 1 8- by 10-foot corrugated galvanized iron pumphouse----- | 80.00 |
| 1 tank-wagon funnel----- | 1.88 |
| 2 5-gallon tank-wagon delivery buckets (\$3 each)----- | 6.00 |
| Total----- | 1,948.76 |

The above equipment may be varied to suit individual needs, but represents what the average plant uses for handling two grades of gasoline and kerosene.

Cost of service-station equipment.—Service-station equipment will also vary according to type of building, anticipated volume, etc. The following will equip an average-sized service station. The prices are f.o.b. factory prices in the Central West. Various other small items may also be needed.

| | |
|---|----------|
| 2 10-gallon visible gasoline pumps (\$88 each)----- | \$176.00 |
| 2 550-gallon underground gasoline storage tanks with fittings (\$35 each)----- | 70.00 |
| 6 30-gallon lubricating oil dispensers (\$14 each)----- | 84.00 |
| 1 ½-hp. automatic air compressor----- | 120.00 |
| 2 8-bottle service sets (\$3 each)----- | 6.00 |
| 1 radiator filler pail----- | 1.05 |
| 1 radiator hydrometer----- | 2.25 |
| Total----- | 459.30 |

Interest on Share Capital

The maximum rate of interest on capital stock should be decided upon and incorporated in the original bylaws. The rate should not be greater than the prevalent legal rate of interest for the community. In no case should it be more than 8 percent, and a lower rate is to be preferred. The rate should never vary with the surplus savings, though it may vary as the association itself needs more or less capital and thus increases or decreases this form of encouragement of investment by the members.

Before any decision is made regarding the interest rate, the cooperative law should be consulted, as some States set specific rates to be paid on capital stock.⁸

Meetings

It is customary to hold general meetings of the stockholders quarterly. It is better to hold them monthly if material for interesting discussion is available.

⁶ This item will vary to suit the location of the storage tanks.

⁷ Approximate.

⁸ Thus, the rate is set at not to exceed 5 percent in Massachusetts; at 5 percent on ordinary and 6 percent on permanent stock in Pennsylvania; at not to exceed 6 percent in New York, North Carolina, and Vermont; at not to exceed 7 percent in Michigan; at 8 percent in Montana and not to exceed 8 percent in Alaska, Minnesota, Nebraska, North Dakota, Oregon, Washington, and Wisconsin; and at not to exceed 10 percent in Iowa, Missouri, and South Dakota. In the other States this point is left to the discretion of the membership.

The annual meeting is the most important of all, for there the elections take place and the annual financial report, manager's report for the year, and other important matters come up for review.

The business transacted at all meetings usually consists of reports of officers, committees, and manager; discussion of reports; disposal of net surplus savings for the period under review, elections, and other new business. Notice of meetings should be sent out at least 10 days in advance. The date for the annual and semiannual meeting should be set late enough to allow the auditor time to prepare his report before the meeting.

The number of members constituting a quorum should be set by the bylaws. In small associations it may be 30 percent or 40 percent of the membership; in large ones it may be as low as 10 percent. In some States the minimum is established by law. Associations too large for a members' meeting should be divided into district sections, each having local autonomy and delegate representation in the central society's meetings.

Special meetings may be called from time to time, but only such business may be taken up as is specified in the call sent to the membership.

The privileges of the membership meeting should be clearly understood. While the meeting has the right to hire or discharge employees, interfere with management, or dictate the policies of the board of directors, such action on the part of the membership is unwise. Selection of the manager should be left to the board. The membership should only review the broad policies of the board and management, discuss them, and express approval or disapproval. If it disapproves, it should not attempt to dictate specific acts to either directors or manager, but it may in extreme cases recall the entire board of directors and elect a new one.

Discussion of political, religious, or other questions upon which the members of the association may be divided should not be permitted; such discussions cause internal strife and may do much harm to the organization. Cooperative associations should be neutral in these matters.

Meetings should be called by one or more of the officers. Special meetings may be called by the directors or by petition of a specified number of members.

Good speakers should be invited to address the meeting when such are available.

Following the business meeting it is always good policy to have an educational session. Let the members feel that this is their social center. It is also good practice to provide for occasional entertainments, following the business meeting, with music, dancing, movies, and refreshments.

Directors

The board of directors generally consists of from 5 to 11 members, ° elected by ballot on nominations from the floor or by a nominating committee. It is advisable for them to be chosen at the first election to serve for different periods: One-third of the directors for 1 year, one-third for 2 years, and one-third for 3 years, and at all subsequent regular elections, one-third of the board for a full 3-year term. A small board of 3 or 5 elected for short but continuous service can often act more quickly and to better advantage, but the larger board serves to hold the interest of more members.

The board should meet once a week for the first few months, and once or twice a month thereafter. The directors should always bear in mind that they are acting for the association and are responsible to the members for the loyal performance of the following duties:

1. To engage a staff to undertake the work of the association, with suitable heads of departments, or a manager over all, and to determine the duties and salaries of each.
2. To provide suitable accommodations, machinery, and plant to conduct the association's business.
3. To insure that the business is carried on in accordance with the bylaws.
4. To control all investments, whether in shares and loans or in land, property, and fixtures.
5. To administer the distribution of savings such as for interest, reserve, patronage refunds, and educational funds.
6. To consider and defray the administrative expenses, such as wages, rent, repairs, telephone, light, heat, delivery, insurance, taxes, etc., or to see that the manager takes care of these items.
7. To provide the best conditions and wages for labor in the association's employ; to demand and secure equivalent results in superior service, faithfulness, and diligence.
8. To call meetings of the membership regularly and to render all necessary reports thereto.
9. To maintain a direct and vital connection with other cooperative organizations both in this country and abroad.
10. To foster a spirit of enthusiasm for cooperative work both in the staff and in the members of the association, and to identify themselves with every good feature of cooperative activities.

Much thought should be given to the election of these directors, on whom rests heavy responsibility. They should be level-headed, shrewd persons, with administrative ability, who understand that the

° But many State laws set a minimum number which must be observed. Thus, the directors must number not less than 3 in Kentucky, Minnesota, Montana, Vermont, Washington (stock), and Wyoming; not less than 5 in Alabama (stock), Alaska, Arkansas, Connecticut, Illinois, Iowa, Kansas, Michigan, Missouri, New Jersey, New York (stock), North Carolina, North Dakota, Oklahoma, Oregon, South Dakota, and Wisconsin; not less than 5 nor more than 9 in South Carolina; and not less than 7 nor more than 9 in Alabama (nonstock); and 6, 8, or 10 in Pennsylvania. In the remaining States the matter is left, either specifically or by implication, for the membership to determine.

best happiness consists in advancing one's self by advancing the welfare of one's fellow men.

It should be definitely established that no individual on the board of directors is himself engaged directly or indirectly in the making of profit from any business running in competition with that of the cooperative society. Each director should be expected to give loyal patronage to the cooperative society and his resignation should be asked for when he is no longer loyal. He should expect no pay for attendance at meetings or for other services in behalf of the association. Some associations pay a nominal amount to directors for attendance at meetings so as to insure the presence of the full board, but the amount should not be large enough to tempt even the poorest members to seek the office for the sake of its financial rewards; \$1 or \$1.50 per meeting is enough. No director should be connected with any business which makes profits by any commerce or other transactions with the cooperative association, if such commerce or transactions are to the personal advantage of the director.

The board should be so selected that every large element within the membership is represented by at least one director. It is also well if these directors supplement one another; thus at least one should be efficient in bookkeeping, another in merchandising, another in educational and propaganda work, another in legal problems. The entire board should not be devoted purely to theoretical and educational activities of the organization. All the directors should have a good knowledge of cooperative history, principles, and practical affairs. They should be selected for their good judgment, knowledge, and ability, and not for their capacity to talk.

They should supervise the manager but they should not dictate to him in matters of merchandise to be bought, prices to be paid, clerks to be hired or fired, or fixtures to be procured or rearranged. These are matters for the manager.

Directors should not be so engrossed in the commercial aspect of cooperation that they have no time nor interest to create a cooperative atmosphere within their immediate circle. They have an opportunity to develop interest and enthusiasm in the subject of cooperation, not only among the members but also among the employees.

The directors may elect an executive committee for certain special functions or to act in their stead in emergencies. Some associations create such a committee as supplementary to the directors.

Officers

Up to the time of the final organization the meetings should be informal and run by a temporary chairman and secretary elected from the floor.

All officers should be elected from and by the board of directors rather than by the membership at large. The former are better qualified than the latter to know who will fill the various positions most efficiently.

The president should be chosen, not because of his popularity or eloquence, but because of sound judgment, executive ability, honesty, knowledge of cooperation, and devotion to its cause. He should not be autocratic. He should preside at all meetings, carry out the will of the members, and zealously watch over all affairs of the association.

The vice president takes over the responsibilities of the president in the latter's absence.

The secretary may also be treasurer in the early years of an association.¹⁰ He is usually elected by the members and his services are gratuitous. He serves as secretary both at the meetings of the directors and at members' meetings. In small associations his duties are to keep the minutes and records, attend to all correspondence, and keep watch over the bookkeeping and accounts. He should also be the custodian of the seal, the stock certificates, and the membership records. The election to these offices of men who, though honest, are deficient in knowledge of accounts and business procedure, is unwise.

The accounts should be correctly balanced by the treasurer, who may pay all bills. The treasurer should also render periodic reports to the membership. In many associations the manager pays all bills and signs checks, thus fulfilling this function of the treasurer. The checks should be countersigned by the president or other countersigning officers. The directors should fully inform themselves from week to week how the association stands in its finances.

Voting Power

Equal representation must be insured by limiting each member to one vote irrespective of his ownership of share capital. This prevents privilege, insures democracy, and provides that membership shall forever remain open to newcomers on equal terms with the founders of the society.

All subscribers to the capital stock who have paid in full for their shares should be entitled to vote, except as any member may have been deprived of this privilege by action of the board of directors for some heavy indebtedness to the store, which practically destroys the value of his share capital investment. In some States full voting

¹⁰ Except in Montana, New Jersey, New York (nonstock), and Washington (stock), where the law makes no provision for combining the two offices.

power must be granted when shares are subscribed for; and the subscriber immediately has full membership privileges. Unless the law specifically grants such privileges, however, it is well to withhold them until most of the subscribed capital has been paid in. Voting should be by show of hands or by "aye" and "no" voice, except in the case of election of directors or other matters on which there is a demand for a secret ballot.

Surplus Savings

Surplus savings are the surplus which accumulates in a cooperative association as the result of selling commodities at a price above cost. They are the difference between the net cost and the net selling price, after overhead expenses, interest, reserves, and other deductions have been made. They represent the profit in profit business. In cooperation they are also called "profit" and "earnings", but they are essentially a saving.

Properly considered, the surplus savings which accumulate in a cooperative association represent loans made to the association by the members. The members of a cooperative put together their money and buy a tank of gasoline. It is theirs and they have paid for it. When a member drives up with his car and takes away 10 gallons of the gasoline, he is taking something which is already his and for which he has already paid. He does not buy the gasoline at that time. The transaction is not a sale; one cannot buy what he already owns. Since the member wishes the business to continue, he leaves with the association again enough money to replace the 10 gallons of gasoline that he has taken. He is always paying in advance and keeping on hand in his association enough gasoline to meet his needs. And then he does something more. He adds to the money to pay for the cost of the gasoline a second amount. This is the difference between the cost and selling price. He pays this extra amount (1) because his association does not cut the price of gasoline but complies with the code and the best practices of the industry, (2) because the exact cost of the gasoline cannot be calculated at the time of each transaction, and (3) because by leaving this extra money his association builds up a surplus which may be used for expansion and other beneficial purposes. This difference between the cost price and the distributing price is essentially a loan which the member leaves with his association for the above reasons every time he takes away some gasoline or oil for his own use. His accumulated loans are returned to him at the end of a fiscal period. These loans represent what he saves by virtue of his membership in the cooperative association. When it is returned to him, it becomes a returned loan, or a savings return.

Reserve Fund

The permanent reserve fund is an extra sum added to the capital to insure the future safety of the business. A great many State laws require that cooperative associations shall establish such a reserve fund. Usually from 5 to 25 percent of the year's net savings must be added to the fund until the latter amounts to from 20 to 50 percent of the paid-in capital. Members should be encouraged to be generous to their reserve fund and the future security of their association and not be too anxious to divide among themselves at the end of the year every penny available. Experience has proven the value of substantial reserve funds and there has been a strong tendency toward exceeding the minimum amount specified in the State laws. It is not unusual for a cooperative association which has been operating over a period of years to have built up a reserve fund the amount of which is greater than the amount of capital.

Educational Fund

Experience has shown that those cooperative organizations which carry on continuous educational work are the ones which are the most successful, in both growth and net savings. The educational work proves valuable both in securing new members and in keeping alive interest among the entire membership. It is the usual practice, therefore, to set aside a small percent of the net earnings for an educational fund. Commonly this is 2½ percent of the surplus savings.¹¹

Savings Returns or Purchase Refunds

The remainder of the surplus savings, after paying the interest on share capital, making provision for reserve fund, educational fund, etc., is available as savings returns to the members.

The savings return is the payment to member patrons of their share of the surplus savings calculated upon the basis of their patronage. In profit business it is called dividends. In cooperation it is also called "patronage refunds", "patronage returns", "patronage rebates", "patronage dividends", "purchase refunds", etc. It is essentially the return of the members' savings, resulting from their patronage.

These savings returns are usually paid annually, or in some cases semiannually. Such patronage returns are based on the purchases of the members.

¹¹ Some State laws (i.e., those of Alaska, Iowa, Massachusetts, Minnesota, Montana, New York (stock), North Carolina, North Dakota, Oklahoma, Pennsylvania, South Carolina, South Dakota, Virginia, and Wisconsin) require regular additions to a special fund for this purpose.

If the membership so desires, the savings return may be paid to the members either in cash or as a trade credit. The former policy is used where the cooperative association has a sufficient amount of working capital. In cases where the working capital is small, it is the better policy not to pay out the cash, but to permit the members to trade out the amount of their surplus savings.

Business done by a cooperative association with nonmembers is profit business. Cooperative associations may make profits from nonmembers but such business has no relation to cooperation.

There are three methods of treating nonmember purchasers: (1) No returns to such patrons until they have purchased at least a small amount of stock; (2) refunds at the same rate as to members; and (3) refunds at half the rate at which members are paid. Several of the State laws have definite provisions on this point which must be met.¹² In the absence of a specific requirement in the cooperative law, however, one or the other of the last two methods named is recommended. Refunds to a nonmember should not be paid in cash, but should be credited to his account for the purchase of shares so that he may become a member.

Record of Purchases

Since the amount of savings return of each member depends upon the amount of his patronage with the cooperative association, it is important to him to know the exact amount of his purchases. There are two methods which are commonly used, one placing the responsibility with the cooperative society and the other with the member. In the first case, the association keeps an accurate ledger account for each member showing the amount of each purchase. The second method requires that the member himself keep slips given to him which show the amount of each purchase and the date, receiving his savings return on all purchase tickets which he turns back to the company at the dividend-paying time. Since a large number participate in the savings return, the first method entails considerable book-keeping; but this is sometimes considered advisable inasmuch as it insures the payment of dividends even to those who have not kept their purchase slips, thus helping to stimulate their interest in the cooperative. Probably the most satisfactory method is the use of a cash register which issues slips in duplicate or triplicate with each

¹² Thus, the laws of Alaska, Illinois, Massachusetts, Minnesota, Missouri, Montana, New York (stock), North Carolina, North Dakota, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Vermont, Virginia, Washington (stock), and Wisconsin require the distribution of patronage dividends (impliedly to nonmembers as well as members), but of these Massachusetts, Montana, New York (stock), North Carolina, Pennsylvania, Virginia, Washington (stock), and Wisconsin specifically allow payment at half the members' rate.

purchase. This check contains the amount, the date, and the member's number. One copy is given to the member and one is retained by the association.

Price Policy

As already indicated, it is the policy of most cooperative gasoline and oil associations to follow the prices established by the major oil companies. This policy has several advantages over selling at cost. Besides the impossibility of determining in advance what the actual cost would be, without this method there would be no funds to use in the creation of surpluses and for the carrying on of educational work as previously discussed.

Importance of Operation on Cash Basis

The advisability of adhering closely to buying and selling on a cash basis is of great importance. Extension of credit has been one of the most frequent causes of failure among cooperative organizations. Some of the cooperative oil associations which have been operating for several years have considered it advisable to do a credit business because of the fact that their competitors were granting credit. Experience has shown, however, that the policy is often abused and that it works to the detriment of the organization. In no event should a cooperative oil association hereafter organized establish the policy of selling for credit. There are many arguments against it. To sell for credit incurs extra expense in the keeping of records and reduces the margin of surplus saving. A larger capital is required to handle a credit business. Once the policy of extending credit is adopted it is found that too often a large percent of the working capital becomes tied up in accounts receivable, and this curtails the efficiency of the organization. In some cases it compels the society to forego cash discounts on purchases, and this likewise narrows the margin of operating savings.

It is true that there are some members to whom the extending of credit is a real convenience. Where this is necessary, it is much better that these cases be taken care of through the organization of a cooperative credit union or bank, the purpose of which is to make small loans to the members.

In the case of truck deliveries where it is impossible for the truck salesman to see his customer on each call, the policy of permitting the member to pay for the last load when the next load is delivered is often used with satisfactory results.

The handling of the business of a cooperative association on a cash basis is largely one of education. Before the cash basis of operation is adopted the members must be educated to see that the cash

method is to their advantage. It is well that these advantages be thoroughly understood, also, by the committee which has charge of the preliminary educational work and which may then work to see that all members fully understand it from the beginning.

Manager

The selection of a manager is an important factor in assuring the success of the association. He should be a man who is willing to work closely with his board of directors, one who has the courage and the ability to take the lead, and who also has good sound business judgment. Someone who has had actual business practice is much to be preferred. It is, however, of primary importance that he be a thoroughgoing cooperator. This combination of cooperative understanding with administrative ability has in the past sometimes been difficult to find but, while still rare, is being developed among many of the younger people working in cooperative societies and studying in cooperative training schools.¹⁸

It is to be preferred in most cases that the manager be someone who has a thorough knowledge of the community and a wide acquaintance among the membership. There are many instances, however, in which someone from outside the community has been selected and hired as manager, who has been a valuable asset to the association.

The manager's ability to work with and for the membership and to gain their respect and regard for his judgment is important.

The salary of the manager, as well as those of other employees, is governed largely by local conditions. It is found to be the best policy to pay as much as is paid for equal services by the profit businesses of the community.

The manager is the executive officer of the cooperative association. Upon his ability to perform efficient service rests largely the success of the society. He must be capable of managing and have an intimate knowledge of all phases of operations of the association, including the buying of all supplies under contracts made by the board of directors, keeping of the records, the proper handling of all funds of the company, and the supervision of proper selling prices—all of these either directly or by supervising others. The number

¹⁸ Such courses or institutes have been given by the Central States Cooperative League, 1410 North Main Street, Bloomington, Ill.; Northern States Cooperative League, 458 Sexton Building, Minneapolis, Minn.; Eastern States Cooperative League, 112 East Nineteenth Street, New York City; and Central Cooperative Wholesale, 1700 Winter Street, Superior, Wis. Information as to which leagues are holding or planning such courses at any given time can be obtained from The Cooperative League of the U.S.A., 167 West Twelfth Street, New York City.

of employees under his supervision is, of course, determined by the volume of business of the cooperative association.

It usually becomes his duty to hold frequent council with members. Complaints should have his personal attention, and their handling requires diplomacy and judgment. He must be alert to detect places where waste and losses occur and correct them. He is the contact man between the association and the general public. He should be able to secure and maintain loyalty among the employees and secure from them their best ideas for the future development of the organization.

Other Employees

Members and prospective members of the association form their opinion of the association from their contact with truck salesmen and other employees as well as the manager. The efficiency of the association is judged by the efficiency of the employees. The employees of a cooperative association are, therefore, more than salesmen of goods. They must think of themselves as partners of those whom they are serving and as a part of the movement which is seeking to obtain quality goods at fair prices for consumers who are buying cooperatively. Upon their ability to help make the best of relationship with their members and their prospective members largely depends the future development of the association.

Bookkeeping and Auditing

Experience has taught cooperative associations the importance of accurate and complete bookkeeping records. Societies now have the advantage of being able to secure help from one of several cooperative auditing associations which have a staff of auditors not only thoroughly informed on the problems of cooperatives but also well trained in accounting methods.¹⁴ If such services are not available, good public accountants should be secured for this purpose. It is important that, at regular intervals, a complete audit statement be sent to the members.

A complete audit should be made at least once each year, or more frequently if the committee on auditing or the board of directors deems it advisable. A quarterly audit has much in its favor.

¹⁴ The following central organizations provide auditing service, and assistance in this matter can be obtained from them:

Illinois.—Central States Cooperative League, 1410 North Main Street, Bloomington.

Minnesota.—Midland Cooperative Wholesale, Broadway and Johnson Street NE., Minneapolis; Northern States Cooperative League, 458 Sexton Building, Minneapolis.

New York.—Eastern States Cooperative League, 112 East Nineteenth Street, New York; the Cooperative League of the U.S.A., 167 West Twelfth Street, New York.

Washington.—Grange Cooperative Wholesale, Kullen Building, Seattle.

Wisconsin.—Central Cooperative Wholesale, 1700 Winter Street, Superior.

Inventory and Depreciation

A complete inventory should be taken once each month. All items should be figured at cost, except in cases in which there has been a decline in price, and there they should be figured at the market value. Care should be taken that too high a value is not placed on the stock. Adequate depreciation should be figured on all equipment, buildings, etc. The cooperative auditor or public accountant will provide information as to the proper rate of depreciation.

Surety Bonds

Each person who handles funds of the association should be bonded for an amount equal to the largest amount of money or property handled. The cooperative auditing associations are usually able to secure such bonds for cooperative associations.

Buying of Supplies

In the beginning, each local cooperative oil association operated independently of the others. As the number of cooperative oil associations increased, however, they began to pool their purchases with a view to saving for their members the wholesale as well as the retail profits. As early as 1926, they started the development of regional, or wholesale, cooperative purchasing groups. There are now a number of cooperative regional organizations dealing in the purchase of gasoline, motor oil, etc., on a wholesale basis.¹⁵ Each of these regional wholesales operates in one or more States, and there are several smaller wholesale societies which operate in a more limited territory. Just as the local associations attempt to save money for their members by group buying, so the regional organizations serve the same purpose for their members, the local cooperative associations.

The combined purchase of supplies at a lower price is the primary purpose of the regional associations. Other important functions are (1) to furnish member cooperative associations with products of known, uniform, and high quality; (2) to assist in the organization of new local associations; (3) to assist local associations with their management and organization problems; and (4) to assist in the de-

¹⁵ These wholesale associations are: Central Cooperative Wholesale, 1700 Winter Street, Superior, Wis.; Consumers Associated, Inc., Amarillo, Tex.; Farm Bureau Oil Co., 737 West Henry Street, Indianapolis, Ind.; Farmers Union Central Exchange, St. Paul, Minn.; Farmers Union Service Association, 300 Southwest Ninth Street, Des Moines, Iowa; Farmers Union State Exchange, Eleventh and Jones Streets, Omaha, Nebr.; Illinois Farm Supply Co., 608 South Dearborn Street, Chicago, Ill.; Midland Cooperative Wholesale, Broadway and Johnson Street NE., Minneapolis, Minn.; Pacific Supply Co., Portland, Oreg.; Union Oil Co. (Cooperative), 1721 Iron Street, North Kansas City, Mo.

velopment of trained and capable leadership for the cooperative oil movement.

The next logical step after the organization of the regional wholesale associations—to combine the purchasing power of the regionals in a national wholesale—was taken in 1933 with the organization of National Cooperatives, Inc. Through it seven regional wholesales have combined their purchasing power on gasoline, kerosene, distillate, grease, tires, tubes, etc., and raw materials for the making of lubricating oils. Thus the consumer members of the local associations affiliated through the regional associations with the National Cooperatives, Inc., enjoy the savings made possible by the united buying and producing power of the entire group.

Briefly, the national wholesale association (1) combines the purchasing power of the regional wholesales, (2) contracts for uniform quality material for the manufacturing of lubricating oils, (3) provides uniform cooperative brands, (4) provides uniform advertising, (5) assists in distribution of cooperative information, and (6) assists the regional wholesales in legislative matters.

The national association is affiliated with the Cooperative League of the U.S.A. and through it with the International Cooperative Alliance.

Cooperative Manufacturing

A further step has been taken by three¹⁶ of the regional associations, with the establishment of their own compounding plants. The purpose was to furnish known, high-quality oils to their consumer members, at the lowest possible cost.

¹⁶ These associations are: Union Oil Co. (Cooperative), 1721 Iron Street, North Kansas City, Mo.; Midland Cooperative Wholesale, Broadway and Johnson Street NE., Minneapolis, Minn.; and Farm Bureau Oil Co., Indianapolis, Ind.

Appendix A.—Suggested Articles of Incorporation and Bylaws for a Cooperative Gasoline and Oil Association

The following forms of articles of incorporation and bylaws are suggested as a guide to groups that contemplate organization of cooperative gasoline and oil associations. Proper modifications of and additions to the forms must be made in each case to conform to the requirements of any particular State and the provisions of the law under which the association is to be incorporated.

Articles of Incorporation of the ----- Oil
Association of -----
(State)

We, the undersigned residents of the State of -----, do hereby associate together to incorporate a cooperative association under the act of -----, and for that purpose do hereby adopt the following articles of incorporation.

ARTICLE 1. The name of this cooperative association shall be -----

ART. 2. The purpose of this association shall be to engage in the business of distributing petroleum and its products on the cooperative plan. The general nature of its business shall be to deal in, handle, process, produce, and distribute petroleum and various products and byproducts thereof; also such other commodities as are essential and necessary in the operation of the business of this association; to purchase, lease, build, construct, maintain, and operate warehouses, filling stations, pumping plants, and all other appliances and conveniences for use in connection with the purchase, sale, and production of gasoline, petroleum, lubricating oils, and all other petroleum and oil products; to hold, lease, mortgage, encumber, sell, exchange, and convey such lands and other real and personal property as the business of the association may require; to join with other cooperative associations for forming regional, State, and national marketing, service, processing, and producing organizations; and to purchase, acquire, and hold stock therein; and it shall have power and authority, either for itself or its individual members and patrons, to do and perform every act and thing necessary and proper to the conduct of the business of this association permitted by the act under which this association is organized.

ART. 3. The principal place of business of this association shall be in the city (or town) of ----- in the county of ----- and State of -----, but it may have such other offices and places of business as may be deemed advisable.

ART. 4. The term for which this association shall exist is ----- years.

ART. 5. The amount of capital stock of said association shall be ----- dollars (\$-----), which shall be divided into ----- (-----) shares of par value of ----- dollars (\$-----) each. The ownership of capital stock in this association by any individual stockholder shall not exceed the par value of \$1,000; stockholders shall be restricted to only one vote in the affairs of the association. Proxy voting is prohibited. Shares

of stock shall not be transferable except with the approval and consent of the governing board of the association. Interest (dividends) shall not be paid on outstanding or paid-up capital stock of the association in excess of 8 percent per annum, which shall be noncumulative. The net income of the association, except such amounts as by law are required to be set aside as a reserve fund or permanent surplus or as may be set aside by vote of the stockholders, available for distribution among the members or patrons, or both, as the case may be and as may be prescribed in the bylaws, shall be distributed only on the basis of patronage.

ART. 6. The names and residences of the persons forming this association are as follows, to wit:

| Names | Residences |
|-------|------------|
| ----- | ----- |
| ----- | ----- |
| ----- | ----- |

ART. 7. The government of this association and the management of its affairs shall be vested in a board of ----- directors, each of whom shall be a stockholder of the association. Directors shall be elected by ballot as prescribed in the bylaws at the annual meeting of the stockholders, which shall be held at ----- o'clock --- m. on the ----- of each year. Directors shall hold office until their successors have been elected and shall have entered upon the discharge of their duties.

The names and places of residence of the directors of this association who shall hold office until the first annual meeting are as follows:

| Names | Residences |
|-------|------------|
| ----- | ----- |
| ----- | ----- |
| ----- | ----- |

In testimony whereof we, the said incorporators, have hereunto set our hands and seals this ----- day of ----- 19-----.

In presence of ----- [SEAL]
----- [SEAL] .
----- [SEAL]

STATE OF-----

County of -----, ss:

Be it remembered that on this-----day of-----A. D. 19-----, before me, a notary public within and for said county, personally appeared -----

to me known to be the persons described in the above and foregoing instrument and whose names are subscribed thereto and severally acknowledged that they executed the same freely and voluntarily for the uses and purposes therein expressed.

Notary public-----County-----

My commission expires-----

Bylaws of the Oil Association

ARTICLE 1.—*Identity and location of association*

SECTION 1. The name of the association shall be the.....
Cooperative Oil Association.

SEC. 2. Its principal place of business shall be at.....

ARTICLE 2.—*Object of the association*

SECTION 1. The purposes of this association shall be those set forth in its articles of incorporation.

ARTICLE 3.—*Capital stock*

SECTION 1. *Authorized capital stock.*—The capital stock of this association is \$.....divided into.....shares of the par value of \$.....each.

SEC. 2. *Certificates of stock.*—Certificates of stock shall be issued to each holder of fully paid stock. Each certificate shall state the par value of the stock, the number of shares represented, and the name of the person to whom issued, and shall bear the signatures of the president and secretary and the seal of the association. Each certificate shall be numbered and issued in chronological order.

Each certificate shall bear on the face the following statements:

(1) "This certificate no., representing.....shares of stock, numbers....., is issued and accepted in accordance with and subject to the conditions and restrictions stipulated in the bylaws and amendments to the bylaws of the.....Oil Association, of....."

(2) "No stockholder in this association shall be entitled to more than one vote regardless of the number of shares held by him, nor to hold shares of a par value greater in amount than \$1,000. Interest shall not be paid on outstanding stock in excess of eight (8) percent per annum, which shall be non-cumulative. In case the holder of the stock represented by this certificate should desire to dispose thereof, the association shall have the right to purchase the same at its par value less any indebtedness then due the association, and in no event may the stock represented by this certificate be transferred without the consent and approval of the board of directors. In case the holder of the stock represented by this certificate should remove from the territory commonly served by the association or should cease to patronize it for 6 months, unless for good cause, the board of directors may purchase said share or shares for the par value thereof less any indebtedness then due the association. The foregoing conditions shall bind every person who may become the holder of this certificate."

SEC. 3. *Treasury stock.*—The treasury stock of this association shall consist of stock of the association that may be purchased or otherwise acquired by it and shall be held subject to action of the board of directors. Such stock shall not share in the apportionment of capital stock dividends and may be canceled at the discretion of the board of directors.

SEC. 4. *Certificate record and receipt.*—A record of each certificate of stock issued shall be kept on the stub thereof and each certificate shall be receipted for in the following form:

"In consideration of the issuance to me of certificate of stock no. _____ for _____ shares of the capital stock of the _____ Oil Association, of _____, I do hereby agree to all of the conditions, restrictions, limitations, and reservations stipulated in the bylaws and amendments to the bylaws of the association, and more especially to those appearing on the face of the certificate, which I have received this _____ day of _____, 19 ____

"Witness _____"

SEC. 5. *Stock transfers.*—All transfers of stock shall be made upon the books of the association upon surrender of the certificate covering the same in person by the holders of the shares or by their legal representatives, but only with the consent and approval of the board of directors, and when the stockholder is free from indebtedness to the association, all subject to the conditions stated on each certificate of stock.

ARTICLE 4.—*Membership*

SECTION 1. *Qualifications.*—Any person who may be a user of any of the products handled by the association and who resides in the territory commonly served by the association may become a member of this association by purchasing at least one share of the capital stock thereof and by meeting all other requirements of the board of directors.

SEC. 2. *Termination of membership.*—Membership may be terminated in the manner provided on the certificates of stock.

SEC. 3. *Restrictions.*—No member of this association shall be entitled to more than one vote regardless of the number of shares of stock of the association held by him, nor shall any member of the association hold shares of the association of a par value greater than \$1,000. Interest shall not be paid on outstanding or paid-up capital stock in excess of eight (8) percent per annum, which shall be noncumulative.

ARTICLE 5.—*Meetings*

SECTION 1. *Fiscal year.*—The fiscal year of this association shall commence on the first day of _____ and end on the last day of _____.

SEC. 2. *Annual meeting.*—The annual meeting of the stockholders of this association shall be held in the town of _____ State of _____ on the last _____ in _____ of each year, at _____, if not a legal holiday, but if a legal holiday, on the next business day following.

SEC. 3. *Special meetings.*—Special meetings of the stockholders of the association may be called at any time by order of the board of directors and shall be called by the president whenever ten (10) percent of the stockholders make such a request. The request shall state the object of the meeting.

SEC. 4. *Notice of meetings.*—Notice shall be given by the secretary of all meetings of the stockholders by mailing a notice thereof to each stockholder not less than ten (10) days preceding the date of the meeting. When stockholders petition for a special meeting, notice of the time, place, and purpose thereof

shall be issued within ten (10) days from and after the presentation of the petition and such special meeting shall be held within thirty (30) days from and after the date of presenting the petition.

SEC. 5. *Absent members voting.*—Voting by proxy shall not be permitted, but absent members may vote on specific questions, other than the removal of directors, by ballots transmitted to the secretary by mail, and such ballots shall be counted only in the meeting at the time at which such vote is taken; provided wording of the motion or resolution upon which such vote is taken, and a copy of the same is forwarded with and attached to the vote of the stockholder so voting.

SEC. 6. *Quorum.*—Twenty (20) percent of the stockholders shall constitute a quorum for the transaction of business at any meeting of the association except for the transaction of business concerning which a different quorum is specifically provided by law or by these bylaws. All members voting by mail shall be counted as present in determining a quorum for the consideration of a specific question on which votes may have been cast by mail.

SEC. 7. *Order of business.*—The order of business at the annual meeting and at other meetings of the association, as far as applicable, shall be :

- (1) Roll call,
- (2) Proof of due notice of meeting,
- (3) Reading of disposal of minutes,
- (4) Annual reports of officers and committees,
- (5) Election of directors,
- (6) Unfinished business,
- (7) New business,
- (8) Adjournment.

ARTICLE 6.—*Directors and officers*

SECTION 1. *Directors.*—The board of directors of this association shall consist of seven members, each of whom shall be a stockholder of this association. At the first election of directors to succeed the incorporating directors, the members shall elect two directors for 1 year, two directors for 2 years, and three directors for 3 years, and thereafter each director shall be elected for 3 years. Directors shall hold office until their successors have been elected and qualified and have entered upon the discharge of their duties.

SEC. 2. *Election of officers.*—The board of directors shall meet within ten (10) days after the first election and within ten (10) days after each annual election, and shall elect by ballot from among themselves a president, vice president, secretary, and a treasurer (or a secretary-treasurer), each of whom shall hold office until the election and qualification of his successor unless earlier removed by death, resignation, or for cause.

SEC. 3. *Vacancies.*—Any vacancy in the board of directors, other than from the expiration of a term of office, shall be filled until the next regular or special meeting of the stockholders of the association by the remaining members of the board.

SEC. 4. *Quorum.*—A majority of the board of directors shall constitute a quorum at any meeting of the board.

SEC. 5. *Compensation.*—The compensation of the directors and officers may be fixed at any annual or special meeting of the stockholders of the association.

SEC. 6. *Removal.*—Any director of the association may be removed from office for cause, by vote of not less than two-thirds of the members present, at any annual or at any special meeting called for the purpose, at which a majority of

the members shall be present. The director shall be informed in writing of the charges preferred against him at least ten (10) days before such meeting and at such meeting shall have an opportunity to be heard in person, or by counsel, and by witnesses in answer thereto.

ARTICLE 7.—*Duties of directors*

SECTION 1. *Management of business.*—The board of directors shall have general supervision and control of the business and the affairs of the association and shall make all necessary rules and regulations not inconsistent with law or with these bylaws, for the management of the business and the guidance of the officers, employees, and agents of the association. They shall have installed an accounting system which shall be adequate to the requirements of the business, and it shall be their duty to require proper records to be kept of all business transactions.

SEC. 2. *Employment of manager.*—The board of directors shall have power to employ and to dismiss a business manager, and such other employees as may be necessary or desirable, and fix their compensation. The business manager shall have charge of the business of the association under the direction of the board of directors.

SEC. 3. *Bonds and insurance.*—The board of directors shall require the manager and all other officers, agents, and employees charged by the association with responsibility for the custody of any of its funds or property to give adequate bonds. Such bonds shall be furnished by a responsible bonding company and approved by the board of directors, and the cost thereof shall be paid by the association. The board of directors shall furthermore provide for the adequate insurance of the property of the association; and in addition shall provide for adequate employers' liability insurance for all employees.

SEC. 4. *Meetings.*—The board of directors shall meet at least once every month at the principal office of the association at a time to be set by the board. Special meetings of the board shall be held upon call of the president or upon written request of three members of the board. Notice of all meetings of the board of directors shall be sent to each member thereof.

SEC. 5. *Audits.*—At least once in each year the board of directors shall obtain the services of a competent and disinterested public auditor or accountant, who during the thirty (30) days preceding the annual meeting shall make a careful audit of the books and accounts of the association and render a report in writing thereon, which report shall be submitted to the members of the association at the annual meeting. In addition, the board of directors at not less than four of their regular meetings shall examine and inquire into the accounts of the association for the purpose of ascertaining the financial condition of the association with a view to taking appropriate action in regard thereto.

ARTICLE 8.—*Duties of officers*

SECTION 1. *Duties of president.*—The president shall (1) preside over all meetings of the association and of the board of directors, (2) call special meetings of the association and of the board of directors, (3) perform all acts and duties usually performed by an executive and presiding officer, and (4) sign all stock certificates and such other papers of the association as he may be authorized or directed to sign by the board of directors, and he shall perform such other duties as may be prescribed by the board of directors.

SEC. 2. *Duties of vice president.*—In the absence or disability of the president, the vice president shall perform the duties of the president, provided,

however, that in case of death, resignation, or disability of the president, the board of directors may declare the office vacant and elect his successor.

SEC. 3. Duties of secretary.—The secretary shall keep a complete record of all meetings of the association and of the board of directors and shall have general charge and supervision of the books and records of the association. He shall sign all stock certificates with the president and such other papers pertaining to the association as he may be authorized or directed to do by the board of directors. He shall serve all notices required by law and by these by-laws and shall make a full report of all matters and business pertaining to his office to the members at the annual meeting. He shall make all reports required by law and shall perform such other duties as may be required of him by the association or the board of directors. Upon the election of his successor, the secretary shall turn over to him all books and other property belonging to the association that he may have in his possession.

SEC. 4. Treasurer.—The treasurer shall have custody of all money belonging to the association and shall keep a full and complete record of all receipts and disbursements thereof, except such receipts and disbursements as the manager may make in the conduct of the business as authorized by the board of directors. The treasurer shall pay out no money except on the order of the president and secretary. He shall make a report of the financial condition of the association at its annual meeting and at such other time as the board of directors may require. Upon the election of his successor, the treasurer shall turn over to him all money, books, and other property belonging to the association that he may have in his possession. The treasurer shall perform such other duties as he may be authorized to perform by the board of directors. The treasurer may be required to execute a bond, to be paid for by the association, to protect the association from losses occasioned by him.

ARTICLE 9.—*Duties of manager*

SECTION 1. In general.—Pursuant to the authority conferred by the board of directors and pursuant to its direction, the manager shall have general charge of the ordinary and usual business operations of the association.

SEC. 2. Duty to account.—The manager shall maintain records and accounts so that the true and correct condition of the business of the association may be ascertained therefrom at any time. He shall render annually and periodically statements in the manner and form prescribed by the board of directors. He shall carefully preserve all books, documents, correspondence, and records of every kind pertaining to the business of the association that may come into his possession.

SEC. 3. Control of help.—Subject to the approval of the board of directors, the manager shall have control over and may employ and dismiss all agents and employees of the association not specially employed by the board of directors.

ARTICLE 10.—*Distribution of income*

SECTION 1. Method of distribution.—At the end of each fiscal year, after paying the expenses of the association for operation and otherwise and after setting aside a reserve for depreciation and after providing for payments on interest or principal of long-time obligations or amortized debts of the association incurred in the conduct of the business, the board of directors shall apportion the net surplus saving or income, insofar as funds are available, in the following order and manner:

(1) By setting aside not less than _____ percent of the savings as a reserve until an amount of not less than _____ has accumulated in said reserve.

(2) By paying not to exceed eight (8) percent interest on the capital stock.

(3) By setting aside not less than _____ percent of the savings as an educational fund.

(4) The balance of such net surplus saving or income shall be apportioned among the patrons of the association in accordance with the method stated in the following section.

SEC. 2. *Methods of distributing savings returns.*—Savings returns or patronage dividends shall be paid in cash to all patrons of the association, except that in case of a patron who is eligible for membership in the association and who is not the owner of at least one share of the capital stock of the association savings returns or patronage dividends shall be credited to the account of such patron until the account shall equal the value of a share of stock, whereupon the association shall issue and deliver to such person a share of the stock of the association, who shall, upon its acceptance, be a member of the association.

SEC. 3. *Application of savings returns to indebtedness.*—Any part or the whole of the interest on capital stock or savings returns apportioned to any patron may be credited, at the discretion of the board of directors, to the indebtedness, should any exist, of the patron to the association, and in such case the patron shall be notified in writing of the amount so applied.

ARTICLE 11.—*Miscellaneous provisions*

SECTION 1. *Bylaws printed.*—After adoption, these bylaws preceded by the articles of incorporation shall be printed in pamphlet form, and a copy thereof shall be sent to each stockholder and to each person who may later acquire one or more shares of the capital stock of the association as shown on the books thereof.

SEC. 2. *Amendment of bylaws.*—These bylaws may be amended, repealed, or altered in whole or in part at any regular meeting of the association or at any special meeting thereof when notice thereof has been duly given, provided that a majority of the members present and voting, including those voting by mail, at any such meeting shall vote for such amendment, repeal, or alteration; and provided that notice of the proposed amendment shall have been published to the members at least 30 days before such action is taken.

Appendix B.—Petroleum Code, Executive Orders, and Definition of a Cooperative Association

The code of fair competition for the petroleum industry approved by the President on August 19, 1933, contained the following rules:

RULE 28. The provisions of this code shall not prevent an association, society or corporation organized or incorporated on the cooperative plan under any law of any State, territory or the District of Columbia or of the United States as defined in rule 29 of article 5 of this code from paying patronage dividends to the members or stockholders of such an organization in accordance with the provisions of the law, the articles of association, articles of incorporation and/or bylaws of such association, society, or corporation, and the payment of such patronage dividends by such cooperative organizations shall not be construed as a violation of this code, nor shall the payment or distribution of such dividends be construed under this code as an unfair method of competition; it being specifically understood that such dividends shall not be paid to nonmembers or nonstockholders.

RULE 29. All farm cooperative societies, associations, and/or corporations organized under the laws of any State, territory or District of Columbia or of the United States, membership in which is restricted to persons whose chief source of livelihood is farming or other cooperatives organized and existing on July 1, 1933, and which comply with paragraph 12, section 103, of the Revenue Act of 1932,¹ and which distribute their patronage dividends to such members only, shall be exempted from certain provisions of this article 5 as hereinbefore specified; provided, however, they shall be otherwise fully subject to the provisions of article 5.

Executive Orders Relating to Cooperative Associations

On October 23, 1933, the President of the United States signed the following Executive order:

I, Franklin D. Roosevelt, President of the United States, do hereby order that no provision in any code of fair competition, agreement, or license which has heretofore been or may hereafter be approved, prescribed, or issued pursuant to title I of the National Industrial Recovery Act, shall be so construed or applied as to prohibit the payment of patronage dividends in accordance with law to any member of any bona fide and legitimate cooperative organization, including any farmers' cooperative, duly organized under the laws of any State, territory, or the District of Columbia, or of the United States, if such patronage dividends are paid out of actual earnings of such cooperative organization and are not paid at the time when such member makes a purchase from such cooperative organization.

On February 17, 1934, the President issued another Executive order, as follows:

Whereas questions have arisen concerning the scope and meaning of Executive Order No. 6355, of October 23, 1933, defining the effect of certain provisions in codes of fair competition upon cooperative organizations; now, therefore, by virtue of and pursuant to the authority vested in me under title I of the National Recovery Act approved June 16, 1933 (48 Stat. 195), it is ordered that said Executive Order No. 6355 be, and it is hereby, supplemented and amplified as follows:

1. No provision in any code of fair competition, agreement or license which has heretofore been or may hereafter be approved, prescribed, or issued pur-

¹For the terms of this paragraph, see appendix C, p. 32.

suant to title I of the National Industrial Recovery Act shall be construed or applied so as to make it a violation of any code of fair competition to sell to or through any bona fide and legitimate cooperative organization including any farmers' cooperative, duly organized under the laws of any State, territory, or the District of Columbia, or of the United States or to sell through any intervening agency to such cooperative organization.

2. No such code of fair competition shall be construed or interpreted so as to prevent any such cooperative organization from being entitled to receive, and/or distribute to its members as patronage dividends or otherwise the proceeds or benefits directly or indirectly derived from any discount, commission, rebate, or dividend (a) ordinarily paid or allowed to other purchasers for purchases in wholesale or middleman quantities, or (b) paid or allowed pursuant to the requirements or provisions of any code of fair competition to other purchasers for purchase in wholesale or middleman quantities.

3. The Administrator for Industrial Recovery is hereby authorized to determine, after such hearings and proceedings as he may deem necessary whether, in any doubtful case, an organization is or is not a bona fide and legitimate cooperative organization entitled to the benefits and protection of this order.

Definition of a Cooperative Association

Pursuant to the second Executive order, above noted, Administrator Hugh S. Johnson issued the following definition of a cooperative association:

In any code of fair competition operating under the terms of the National Industrial Recovery Act, cooperative organizations, as determined by the Administrator of the act, to be entitled to the benefits and protection of Executive Order No. 6355 of October 23, 1933, as supplemented and amplified by Executive Order No. 6606-A of February 17, 1934, as a bona fide and legitimate cooperative organization, must comply with the following conditions, limitations, and restrictions:

1. Be duly organized under the laws of any State, territory, or the District of Columbia.

2. Allow to each member owning one fully paid share or membership one vote and only one in the determination of matters affecting the management of the organization, except as otherwise provided by the law under which such organization is incorporated; provided that a central or regional cooperative association, the membership of which is composed of cooperative associations, may provide in its bylaws for voting based upon the volume of business done by the members with the central or regional cooperative, or on the number of members in the member association.

3. Operate on a cooperative basis for the mutual benefit of its members, and all income, after providing for reasonable and adequate surplus and reserves, as determined by its board of directors, and payment of dividends on stock or membership capital of not to exceed eight (8) per centum per annum, cumulative, shall be distributed to members or shareholders on the basis of patronage at stated periods, but not more frequently than semiannually.

4. Transact business with and for and on behalf of, nonmembers to an amount not greater in value, during any fiscal year, than the business transacted with and for and on behalf of, members during the same period.

5. Permit all members and stockholders to have access to the records for the purpose of determining the salary and compensation paid officers and employees, and that no salaries or commissions are paid except for services actually rendered.

6. Distribute patronage dividends equally to all members, and/or stockholders who have complied with membership requirements, in proportion to their purchases, and/or sales; may permit accumulation of patronage dividends on nonmember business until it equals the value of a share of stock when same shall be issued; does not distribute such dividend in the form of a refund at the time of purchase; and does not evidence any such dividends by any agreement or representation to distribute any definite or specified dividend.

7. Refuse to allow or permit any organizer or organizers to take more than 3 percent of the capital raised as compensation for their organization services.

8. Conduct its affairs in the interests of the members, and no cooperative shall be controlled or managed by any noncooperative organization or organiza-

tions, person or persons to whom any surplus savings or profits or any excessive or unreasonable compensation for services, are paid; and shall not by contracts, agreements, provisions of bylaws, or articles of incorporation, or otherwise be required to buy commodities from a specified noncooperative concern.

9. Operate in accordance with the various codes of fair competition for the industries in which they operate and as provided in the Executive orders above referred to.

10. In case any of the foregoing conditions, limitations, or restrictions are in specific conflict with the cooperative law of any State, territory, or the District of Columbia, such conditions, limitations, or restrictions are waived as to cooperatives organized and operating under such law.

As the petroleum code is subject to modification and interpretation it is suggested those desiring further, up-to-date information communicate with the National Cooperatives, Inc., North Kansas City, Mo.

Appendix C.—Provisions of Revenue Act Regarding Cooperative Associations

Section 103(12) of the Revenue Act of 1928 follows, verbatim, section 231(12) of the Revenue Act of 1926 and provides as follows, regarding the tax status of cooperative associations:

The following organizations shall be exempt from taxation under this title—

(12) Farmers, fruit growers, or like associations organized and operated on a cooperative basis (a) for the purpose of marketing the products of members or other producers, and turning back to them the proceeds of sales less the necessary marketing expenses on the basis of either the quantity or the value of the products furnished by them, or (b) for the purpose of purchasing supplies and equipment for the use of members or other persons, and turning over such supplies and equipment to them at actual cost, plus necessary expenses. Exemption shall not be denied any such association because it has capital stock, if the dividend rate of such stock is fixed at not to exceed the legal rate of interest in the State of incorporation or 8 per centum per annum, whichever is greater, on the value of the consideration for which the stock was issued, and if substantially all such stock (other than nonvoting preferred stock, the owners of which are not entitled or permitted to participate, directly or indirectly, in the profits of the association upon dissolution or otherwise, beyond the fixed dividends) is owned by producers who market their products or purchase their supplies and equipment through the association; nor shall exemption be denied any such association because there is accumulated and maintained by it a reserve required by State law or a reasonable reserve for any necessary purpose. Such an association may market the products of nonmembers in an amount the value of which does not exceed the value of the products marketed for members, and may purchase supplies and equipment for nonmembers in an amount the value of which does not exceed the value of the supplies and equipment purchased for members, provided the value of the purchases made for persons who are neither members nor producers does not exceed 15 per centum of the value of all its purchases.

It will be observed that this section exempts farmers and other cooperative-marketing associations organized and operated "for the purpose of marketing the products of *members or other producers*, and turning back to *them* the proceeds of sales, less the necessary marketing expenses, on the basis of either the quantity or the value of the products furnished by them, * * *." (Italics supplied.) The clear intent of this provision of the statute is that nonmember patrons, if dealt with at all, shall be treated the same as members insofar as the distribution of patronage dividends is concerned. In other words, if products are marketed for nonmember producers the proceeds of the sales, less necessary operating expenses, must be returned to the patrons from the sale of whose goods such proceeds result, whether or not such patrons are members of the association. Therefore, a cooperative marketing association may not, without losing its exempt status, make a profit on the business transacted with nonmember patrons and divert the proceeds of such business from the patrons entitled thereto. However, where a cooperative marketing association has otherwise complied with the provisions of the statute respecting exemption, but defers the payment of patronage dividends to nonmembers, exemption will not be denied—

1. Where the bylaws of the association provide that patronage dividends, by whatever name known, are payable to the members and nonmembers alike,

and a general reserve is set up for the payment of patronage dividends to nonmembers.

2. Where the bylaws provide for the payment of patronage dividends to members, but are silent as to the payment of patronage dividends to nonmembers, but a specific credit to the individual account of each nonmember is set up on the books of the association.

3. Where the bylaws are silent as to the payment of patronage dividends to either members and/or nonmembers, but the evidence submitted shows that it has been the consistent practice of the association to make payment in cash or its equivalent of patronage dividends to members and nonmembers alike within a reasonable period after the expiration of the particular year involved.

Where, under the circumstances stated in 1, 2, and 3, above, patronage dividends are not payable until the nonmember becomes a member of the association either through the payment of the required amount in cash or the accumulation of dividends in an amount equal to the purchase price of a share of stock or membership.

Appendix D.—Suggested Forms for Records of Cooperative Gasoline and Oil Associations

The following forms are suggested for annual statements of cooperative oil associations. They indicate the type of records that should be kept. Annual statements in this form make possible a clear analysis of the business.

Balance sheet of Cooperative Oil Association, as of -----, 19--

| ASSETS | |
|--|--------------|
| Current assets: | |
| Cash on hand..... | \$ |
| Cash in banks..... | \$ |
| Accounts receivable..... | ..... |
| Less reserve for bad debts..... | ..... |
| Trade acceptances receivable..... | ..... |
| Notes receivable..... | ..... |
| Inventory: | |
| Merchandise..... | ..... |
| Drums..... | \$ |
| Investments..... | |
| Deferred charges: | |
| Prepaid expenses..... | ..... |
| Prepaid insurance..... | ..... |
| Deposits..... | |
| Meters..... | ..... |
| Contingent assets..... | |
| Fixed assets: | |
| Real estate..... | ..... |
| Buildings..... | ..... |
| Equipment..... | ..... |
| Furniture..... | ..... |
| Cars and trucks..... | ..... |
| Total..... | ..... |
| Less depreciation reserve..... | ..... |
| Total assets..... | ..... |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable..... | ..... |
| Federal tax on gas and oil..... | ..... |
| State gasoline tax..... | ..... |
| Trade acceptances..... | ..... |
| Notes payable..... | ..... |
| Accrued liabilities: | |
| Interest..... | ..... |
| Other liabilities: | |
| Mortgages..... | ..... |
| Capital liabilities: | |
| Capital stock..... | ..... |
| Surplus and undivided savings and profits..... | ..... |
| Net savings for current year..... | ..... |
| Total liabilities..... | ..... |

Statement of operations of Cooperative Oil Association, period ending..... 19..

| Commodity | Begin- ning in- ventory | Pur- chases | Total | Ending inven- tory | Cost of sales | Sales | Loss | Gain |
|----------------------|-------------------------------|----------------|-------|--------------------------|------------------|-------|------|------|
| Gasoline..... | | | | | | | | |
| Kerosene..... | | | | | | | | |
| Distillate..... | | | | | | | | |
| Lubricating oil..... | | | | | | | | |
| Grease..... | | | | | | | | |
| Miscellaneous..... | | | | | | | | |

Gross operating income..... \$.....
 Other income.....
 Total income..... \$.....

Operating expense:
 Delivery expense:
 Drivers' commissions..... \$.....
 or
 Drivers' salaries.....
 Truck expense (including fuel and oil) ..
 Salaries:
 Manager's salary and expense.....
 Office salaries.....
 Directors' fees and expense.....
 Interest, taxes, and insurance:
 Interest.....
 Taxes.....
 Insurance.....
 Depreciation and repairs:
 Depreciation.....
 Repairs.....
 Plant supplies.....
 Rent or leases.....
 Advertising and donations.....
 Light, power, water, and fuel.....
 Telegraph and telephone.....
 Office supplies.....
 Reserve for bad debts.....
 General and miscellaneous expense:
 Audit.....
 Organization expense.....
 Miscellaneous.....
 Total expense.....
 Net operating income.....
 Total.....
 Less other deductions.....
 Net savings for period.....

Stockholder ledger

Name: John Smith.

Address: Mullinville, Kans.

Cert. no. 1001; number of shares, 1; date issued, Jan. 1, 1934.

DIVIDEND RECORD

| Date | Item | Folio | Amount | | Date | Item | Folio | Amount | |
|-------------------|------------|----------|--------|----|-------------------|-----------------|----------|--------|----|
| Mar. 1, 1935..... | Check..... | CR 30... | 1 | 50 | Jan. 2, 1935..... | Stock divid. | J 1..... | 1 | 50 |
| June 1, 1935..... | Check..... | CR 50... | 34 | 50 | Jan. 2, 1935..... | Savings return. | J 2..... | 34 | 50 |

Stock account showing shrinkage and loss in handling

| Item | Gasoline | Kerosene | Distillate | Lubricating oil | Grease |
|------------------------------|----------------|----------------|----------------|-----------------|---------------|
| | <i>Gallons</i> | <i>Gallons</i> | <i>Gallons</i> | <i>Gallons</i> | <i>Pounds</i> |
| Beginning inventory..... | | | | | |
| Purchases..... | | | | | |
| Total quantity bought..... | | | | | |
| Less: | | | | | |
| Ending inventory..... | | | | | |
| Sales..... | | | | | |
| Total quantity measured..... | | | | | |
| Shrinkage (gallons)..... | | | | | |
| Shrinkage (percent)..... | | | | | |

Disposition of net savings

| | |
|------------------------------------|--------------|
| Interest on capital stock..... | \$..... |
| Savings returns..... | ..... |
| Reserve for permanent surplus..... | ..... |
| Undivided surplus..... | ..... |
| Total..... | ..... |