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AGRICULTURAL EXTENSION DIVISION
UNIVERSITY OF MINNESOTA

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MINNESOTA FARM BUSINESS NOTES

No. 136

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Prepared by the Division of Agricultural Economics
University Farm, St. Paul, Minnesota

COOPERATIVE OIL ASSOCIATIONS

Prepared by L. L. Ullyot

The first cooperative oil association established in Minnesota to re-tail gasoline, kerosene, and lubricating oils, as the principal commodities, was organized at Cottonwood in 1921. The following year, the Central Cooperative Association at Owatonna was formed. Eight associations were organized in 1924, six in 1925, twenty-six in 1926 and eight in 1927. At the present time, there are approximately 150 cooperative oil associations in the state.

An analysis of the financial and operating statements of many of these associations shows clearly that cooperative oil associations are among the most successful types of cooperative endeavor in Minnesota.

Financial Condition

Data showing the financial condition of sixteen representative cooperative oil associations in Minnesota on December 31, 1933, are given in the following table:

Table 1

Condensed Balance Sheet of Sixteen Representative
Minnesota Cooperative Oil Associations
as of December 31, 1933

	Total	Average per association	Per cent of total assets
Assets:			
Current	\$305,235	\$19,077	58.8
Investments	20,312	1,270	3.9
Fixed	174,026	10,877	33.5
Other	19,784	1,236	3.8
Total assets	519,358	32,460	100.0
Liabilities:			
Current	36,861	2,304	7.1
Fixed	none	none	none
Total liabilities	36,861	2,304	7.1
Net Worth:			
Capital stock	185,953	11,622	35.8
Surplus	296,544	18,534	57.1
Total net worth	482,497	30,156	92.9
Total liabilities and net worth	519,358	32,460	100.0

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University of Minnesota, cooperating with U.S. Department of Agriculture.

The average of the total assets (value of the property and property rights) of these associations on December 31, 1933, was \$32,460. Current assets (cash, accounts and notes receivable, accrued interest receivable, and inventories of petroleum products) constituted 58.8 per cent of the total assets. Investments (stocks held in other organizations and certificates of indebtedness) represented 3.9 per cent of the total assets. Fixed assets (land and the depreciated value of buildings and equipment) comprised 33.5 per cent of the total assets. Other assets (prepaid insurance, inventories of supplies, and similar items not otherwise classified) were 3.8 per cent of the total assets.

The average of the total current liabilities (accounts and notes payable, accrued taxes, salaries and interest) was \$2,304, or the equivalent of 7.1 per cent of the total assets. These associations had no fixed liabilities such as mortgages.

The net worth of an organization, that is the outstanding capital stock and surplus, represents the claims of the stockholders against the assets of the business. The average net worth of these associations on December 31, 1933, was \$30,156, or 92.9 per cent of the total assets. Capital stock represented 38.5 per cent and surplus 61.5 per cent of the total net worth. In other words, on the average, each dollar invested in capital stock in these sixteen associations was worth \$2.59.

Another significant relationship is that between current assets and current liabilities. This ratio was 8.29 which means that these companies had available \$8.29 in cash and other assets readily convertible into cash, to pay each dollar owed to creditors.

Business Operations

A summary of the business operations of these associations for the year ending December 31, 1933, is shown in Table 2.

Table 2

Condensed Income and Expense Statement of Sixteen Representative Minnesota Cooperative Oil Associations for the Year Ending December 31, 1933

	Total	Average per association	Per cent of sales
Sales of petroleum products	\$990,317	\$61,895	100.0
Cost of petroleum products sold	<u>724,894</u>	<u>45,306</u>	<u>73.2</u>
Gross income	265,423	15,589	26.8
Operating expenses	<u>168,707</u>	<u>10,514</u>	<u>17.0</u>
Net operating income	96,716	6,045	9.8
Other income	<u>11,751</u>	<u>734</u>	<u>1.1</u>
Total	108,467	6,779	10.9
Other deductions	<u>4,223</u>	<u>264</u>	<u>.4</u>
Net earnings for the year	104,244	6,515	10.5

The total sales of petroleum products of these sixteen associations amounted to \$990,317. The average for each association was \$61,895. The total

cost of the petroleum products sold was 73.2 per cent of the total sales. The average gross margin was 26.8 per cent of the total sales. This may seem relatively high but the cooperative oil companies follow the policy of selling their products at the regular retail prices and distributing part of the earnings in the form of patronage dividends. Operating expenses averaged 17.0 per cent of total sales. The gross operating margin less operating expenses left an average net operating income of 9.8 per cent of total sales.

Many of these associations have income other than that from the sales of the principal commodities. Such income is made up of interest earned, purchase discounts taken, and income from sidelines. Other income amounted to 1.1 per cent of the total sales. Similarly, these associations have deductions from income which are not ordinarily classified as operating expense. They include such items as interest expense, sales discounts and other non-operating costs. These other deductions amounted to .4 per cent of the total sales.

The average net earnings of these associations was \$6,515, or 10.5 per cent of the total sales. These earnings are used to increase the surplus and to pay dividends on capital stock and patronage dividends.

One difficulty encountered by some farmers' purchasing associations, is that they are unable to obtain a sufficient volume of business to permit of economical operations. That farmers' cooperative oil associations are meeting with more general success than some other buying enterprises probably is due in a large measure to the fact that they usually have a satisfactory volume. The supplies which they handle represent an important item among the purchases of many farmers, consequently they have sufficient interest in the business to give their organization the necessary support. The oil associations also usually have considerable non-member patronage which adds to the volume and is a factor in the payment of patronage dividends. Operations are fairly well standardized in the case of oil associations and this is of advantage in the management and direction of their affairs. While cooperative oil associations have not been free from difficulties arising from the extension of credit to patrons, this problem has not affected them as seriously as has been the case with some other types of buying associations.

MINNESOTA FARM PRICES FOR MARCH 1934

Prepared by Adena E. Terras

The index number of Minnesota farm prices for the month of March 1934 was 54.1. When the average of farm prices of the three Marches 1924-25-26 is represented by 100, the indexes for March of each year from 1924 to date are as follows:

March 1924 - 84.0	March 1930 - 97.3
" 1925 - 105.0	" 1931 - 68.0
" 1926 - 111.4	" 1932 - 47.4
" 1927 - 108.9	" 1933 - 35.5*
" 1928 - 101.2	" 1934 - 54.1*
" 1929 - 107.6	

*Preliminary

The price index of 54.1 for the past month is the net result of increases and decreases in the prices of farm products in March 1934 over the average of March 1924-25-26 weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index,
March 15, 1934, with Comparisons*

	Mar. 15, 1934	Feb. 15, 1934	Mar. 15, 1933	Av. Mar. 1924-25- 26	% Mar. 15, 1934 is of Feb. 15, 1934	% Mar. 15, 1934 is of Mar. 15, 1933	% Mar. 15, 1934 is of 1924-25- 26
Wheat	\$.74	\$.75	\$.36	\$1.38	99	206	54
Corn	.36	.36	.14	.65	100	257	55
Oats	.28	.29	.10	.36	97	280	78
Barley	.49	.50	.16	.60	98	306	82
Rye	.48	.50	.21	.84	96	229	57
Flax	1.63	1.68	.93	2.44	97	175	67
Potatoes	.65	.65	.23	.83	100	283	78
Hogs	3.70	3.70	3.15	9.97	100	117	37
Cattle	3.65	3.65	3.25	5.90	100	112	62
Calves	5.00	5.00	4.35	9.16	100	115	55
Lambs-sheep	7.16	7.18	4.15	11.53	100	173	62
Chickens	.080	.075	.073	.173	107	110	46
Eggs	.13	.14	.09	.20	93	144	65
Butterfat	.25	.23	.17	.46	109	147	54
Hay	7.82	7.60	5.76	11.08	103	136	71
Milk	1.23	1.27	.82	2.13	97	150	58

*Except for milk, these are the average prices for Minnesota as reported by the United States Department of Agriculture.

Indexes and Ratios of Minnesota Agriculture*

	Mar. 1934	Feb. 1934	Mar. 1933	Av. Mar. 1924-26
U.S. farm price index	53.9	54.3	35.5	100.0
Minnesota farm price index	54.1	54.3	35.5	100.0
U.S. purchasing power of farm products	68.8	70.2	54.3	100.0
Minnesota purchasing power of farm products	69.0	70.2	54.3	100.0
U.S. hog-corn ratio	8.2	8.5	15.6	12.2
Minnesota hog-corn ratio	10.3	10.3	22.5	15.6
Minnesota egg-grain ratio	13.9	14.8	22.2	12.9
Minnesota butterfat-farm grain ratio	29.4	26.3	54.8	39.8

*Explanations of the computation of these data are given in Farm Business Notes No. 126.