Understanding Cooperative Terminology

Terms Describing Cooperative Principles

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Open Membership: Open membership, as used in cooperative principles, means that anyone who wants to join a cooperative and can use its services may do so. There should be no discrimination on political, religious, or racial grounds.

Democratic Control: Cooperatives are owned and controlled by their member-patrons rather than by the investing public. Each member-patron has one vote regardless of the volume of purchases made or products marketed.

Limited Return on Equity Capital: Cooperatives are permitted under law to pay limited dividends, but their priority is to provide economic benefits to their members. Cooperatives recognize that capital, together with management, labor, and the products handled, are necessary resources for operating their business. Equity capital, however, is a means to an end and not an end in itself.

Patronage Refund: A cooperative's proceeds, usually called net savings, are returned to members in proportion to their use of the cooperative—that is, according to the amount they bought or sold to the cooperative.

Continuous Education: Members must understand how their cooperative works and the importance of their own patronage and support. Cooperative members, officers, employees, and the general public should receive continuous education in the principles and techniques of cooperation.

Terms Describing Forms of Business Organization

Individually Owned Business: The owner-operators make the decisions and assume the risk; they are the entrepreneurs and usually provide the labor and retain all profits.

Partnership: Jointly owned by two or more people who have agreed to operate as a partnership. Together, they provide or borrow the capital, reach decisions by mutual agreement, and are mutually responsible for repayment of debts. They divide the income or share the losses among themselves according to the original agreement.

Limited Partnership: Formed by two or more people: with one or more as a general partner, and with one or more as a limited partner. Unlike a general partnership, a limited partnership can be formed only under statutory authority. Limited partners are not liable for the partnership's debts, except to the extent of the investment that they agreed to make in the partnership.

Corporation: Divided into two categories: (1) the investor-oriented and profit-keeping enterprise, and (2) the member-oriented corporation or cooperative.

Investor-oriented Corporation: Operates as a profit-keeping enterprise. It derives its capital funds by issuing shares of stock which investors buy for their profit-making potential.

Cooperative Corporation: A voluntarily organized business which operates at cost and is owned, capitalized, and controlled by member-patrons as users, sharing risks and benefits proportional to their participation.

Terms Used to Classify Agricultural Cooperatives by Function Performed

Marketing Cooperative: Usually markets member-patrons' products by purchasing products outright, handling products on a separate account basis, functioning on a commission, bargaining with users for price and conditions of sale, and pooling products according to market preferences.

Supply Cooperative: Provides farmer-members with the many inputs (seed, feed, fertilizer, chemicals, etc.) they need for their farming operations. These cooperatives are generally serviced by cooperative wholesalers that assemble the many production supplies and consumer items which the local supply cooperative distributes.

Service Cooperative: Provides members with services such as credit, insurance, irrigation, electricity, telephone, artificial breeding, cow testing, and grazing.

Bargaining Association: Generally does not handle members' products. Such cooperatives normally reach agreements as to price and terms of sale that cover a given season for specified products.

Terms Describing Economic and Legal Cooperative Structure

Local Associations: Generally operate from a trading center and have individuals as their members. These are primarily local cooperatives where members know each other and all have the same marketing and production problems.

Federated Cooperatives: Best describes as a cooperative of existing local associations. Patrons do not hold direct memberships in federated cooperatives; instead the local cooperatives are members of federated cooperatives. Federated cooperatives are controlled entirely by the locals.

Centralized Associations: Dispenses with autonomous local associations, unlike the federated association. Control and authority are centralized in the headquarters' organization, whereas in the federated association control is decentralized in the autonomous local associations.

Super-federations: Formed when two or more co-op federations and/or centralized associations come together. These super-federations are organized primarily for large-scale mining, manufacturing, and industrial purposes.

Open Membership: Cooperatives with the open membership principle allow anyone who wants to join the cooperative and can use its services to do so.

Closed Membership: Cooperatives with limited or closed membership either limit the number of members they feel they can serve or the total volume of business they can receive.

Stock Cooperative: In a stock cooperative, members own common or preferred stock in the cooperative.

Nonstock Cooperative: In a nonstock (membership) association, members have membership certificates, often showing that they paid a membership fee.

Incorporated Cooperative: Generally operates under special state laws that specify a minimum number of members required to incorporate; conditions to be included in the articles of incorporation and bylaws; the state official or department with which the articles of incorporation are to be filed; fees required; general powers, rights and obligations of the co-op members; voting rights of stockholders and members; terms and conditions of membership; nonmember relationships; general provisions about distribution of savings or net margins; and capital structure (stock or nonstock) and interest rate to be paid on capital.

Terms in Cooperative Finance

Capital: Durable or long-lasting inputs such as machines, buildings, equipment, land, and vehicles. Capital also means cash needed by the cooperative for day-to-day operations and for financing durable or long-lasting inputs.

Equity Capital: The portion of assets owned by members. It serves as a measure of members' interest in their cooperative and their desire to support it. Creditors use it to indicate whether they should lend a cooperative the capital it requests.

Common Stock (Voting Stock): Issued to actual or prospective members of the cooperative to raise equity capital. The cooperative may issue several kinds of common stock (A, B, and C). Class A common stock, for example, may be voting stock and may be limited to one share per member. Class B stock could represent other initial capital investments of members. In some instances, per unit capital investments and deferred patronage refunds are identified as Class C common stock.

Preferred Stock: Preferred over common stock because of fewer risks and assurance of paying dividends. Usually, it is nonvoting. It may be dividend or interest-bearing and either cumulative or non-cumulative.

Membership Fees: A form of equity capital. They are most common when cooperatives are organized on a nonstock basis, with payment of a membership fee being comparable to purchasing a share of voting stock.

Patronage Refund: The proceeds of a cooperative (net margin) are returned to members in proportion to their use of the cooperative—that is, they bought or sold to the cooperative.

Patronage Dividends: Paid on stock and other equity. Such dividends may be paid out to funds that have accumulated over one or more years, or that have been borrowed to meet dividend obligations.

Allocated Patronage Refund: The "net" earnings of a cooperative that are returned to patrons based on the amount of business done with the cooperative during the accounting period. Both cash and non-cash refunds are included.

Allocated Equity: The non-cash refund that which has been credited to a member's equity account.

Cash Refund: The percent of allocated patronage refunds distributed to the patrons in cash. Normally, a minimum of 20 percent of the patronage refund must be in cash.

Retained Earnings: Retained earnings refers to net earnings of the cooperative, or the excess of receipts over the cost that is retained.

Capital Retain: Refers to assessments obtained per unit of product or per dollar volume collected at time of delivery or at time of purchases. The dollar amount is added to the patron equity in the cooperative.

Non-cash Refund: The percentage of allocated patronage refunds retained by the cooperative as equity.

Written Notice of Allocation: Any capital stock, revolving fund certificate, retained certificate, certificate of indebtness, letter of advice, or other written notice which discloses to the patron the stated dollar amount allocated to him on the cooperative's books and which portion, if any, constitutes a patronage refund.

Qualified Written Notice: A written notice of allocation which the patron can redeem in cash for the face value within 90 days after the date of notice. Or, a written notice which the patron has consented to include in his taxable income upon receipt in the same manner as cash.

Terms Describing the Financial Status of Cooperatives

Current Ratio: Current assets divided by current liabilities. It is a measure of the ability of the association to meet its yearly current obligation.

Leverage: Term debt divided by net worth or equity.

Liquidity: The ability to repay short-term debt (current liabilities). One measure of liquidity is the current ratio.

Present Value: The value today of a dollar to be received at some point in the future discounted by some rate. For example, the value today of $1.00 to be received 10 years from now discounted at 10 percent is 38.6 cents.

Solvency: A measure of the ability to repay long-term debt. One measure is the ratio net worth divided by total assets.

Acid Ratio: Current assets less inventory and accounts receivable more than 60 days old, divided by current liabilities, gives the acid ratio. This ratio is more demanding than the current ratio because it takes into account two practical conditions: (1) inventories cannot always readily be converted into cash, and (2) accounts receivable vary in collectibility, becoming less collectible with age.

Inventory Turnover: Cost of purchases by patrons divided by the closing inventory gives the inventory turnover ratio (i.e., $1,498,200/$265,100= 5.65). This ratio shows that the cooperative, over the years, has realized $5.65 in sales for each $1 of inventory it had at the end of the year.

Gross Margin: Net purchases or sales for patrons less the cost of patron's purchases (cost of sales) give gross margins. This ratio shows the cooperative's ability to meet operating costs and to realize savings for members.

Net Margins: What remains after all operating costs are paid and other income and expenses are taken into account. This ratio shows the ability of the cooperative to realize savings on its operations for patrons.

The Oklahoma Cooperative Extension Service
Bringing the University to You!

The Cooperative Extension Service is the largest, most successful informal educational organization in the world. It is a nationwide system funded and guided by a partnership of federal, state, and local governments that delivers information to help people help themselves through the land-grant university system.

Extension carries out programs in the broad categories of agriculture, natural resources and environment; family and consumer sciences; 4-H and other youth; and community resource development. Extension staff members live and work among the people they serve to help stimulate and educate Americans to plan ahead and cope with their problems.

Some characteristics of the Cooperative Extension system are:

- The federal, state, and local governments cooperatively share in its financial support and program direction.
- It is administered by the land-grant university as designated by the state legislature through an Extension director.
- Extension programs are nonpolitical, objective, and research-based information.
- It provides practical, problem-oriented education for people of all ages. It is designated to take the knowledge of the university to those persons who do not or cannot participate in the formal classroom instruction of the university.
- It utilizes research from university, government, and other sources to help people make their own decisions.
- More than a million volunteers help multiply the impact of the Extension professional staff.
- It dispenses no funds to the public.
- It is not a regulatory agency, but it does inform people of regulations and of their options in meeting them.
- Local programs are developed and carried out in full recognition of national problems and goals.
- The Extension staff educates people through personal contacts, meetings, demonstrations, and the mass media.
- Extension has the built-in flexibility to adjust its programs and subject matter to meet new needs. Activities shift from year to year as citizen groups and Extension workers close to the problems advise changes.

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