



# *Garden City Co-op, Inc.*

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## **Annual Report 2009**

2009 is our 90<sup>th</sup> year. It was a good year for your Co-op. It was a year that showed your commitment to your Co-op was well founded and paid rewards. The good results did not happen by accident. It was the result of a dedicated group of employees that worked very hard on your behalf. It was the result of a dedicated Board of Directors that built on the strong foundation laid by former Directors and Managers. We need to be very appreciative of those that have gone before us and built the fine organization that we enjoy today. Isaac Newton said, "If I see further it is only because I stand on the shoulders of giants." That is certainly true of the Garden City Co-op and the committed membership we have today. We owe our success this year and in the future to the members that built this organization around the principle that we can achieve more by working together than alone.

It is fitting that two of our former leaders received recognition this past year as we celebrate our 90<sup>th</sup> anniversary. The Herb Clutter family was remembered in a beautiful ceremony in the Holcomb City Park in September with the dedication of a garden area and memorial plaque. Former General Manager Harley Foulks was inducted into the Kansas Co-op Hall of Fame in March. Both of these men have been long recognized as leaders and givers to their communities and industries. It is appropriate that the recognition was formalized so that their leadership may serve as an inspiration to those that follow for many years to come.

2009 was successful in spite of the volatility and deflating grain, petroleum, fertilizer and chemical markets. It was a very difficult environment for you as producers. It made for a big challenge for your Co-op as well. We need to make sure you have pricing and supply options in every market we deal in. We also need to make sure that we have adequate inventory of all supplies so that we can meet your needs regardless of whether you choose to contract or participate in the spot market. Volatility and deflation made that a difficult task. An example of that challenge is reflected in the fertilizer write down shown in our operating statement.

2009 was successful because we were able to make significant improvements in many key financial areas. These major areas have been a focus of the Board. Improvements in these key areas will enhance the service we can provide and the security of your investment.

## **Improvements in Financial Position**

- Liquidity – Improved working capital from \$8.4 million to \$12 million
- Ratio of Current Assets to Current Liabilities – Improved from 1.08 to 1.54
- Long Term debt to Member Equity – only 21%
- Income that can be allocated or paid to members – \$4.75 million

The strength of your Co-op's financial statements is very important to you as customers and owners. It allows you to have the confidence that your Co-op will always be able to perform on our commitments to you in grain, crop production and petroleum. Planning and executing your farm's marketing plan does you no good if you don't have confidence in the party on the other side having the willingness and ability to stand behind their commitments.

The improved strength of our financial statements also allows us to begin to plan to build new facilities. Your Board has directed management to make the necessary plans to add grain storage and handling capacity to some elevators that are being overwhelmed by the blessings of huge harvests. We all understand the importance of being able to handle and hold your crops in an efficient manner. Over the next few years we intend to make significant improvements in our ability to serve you at harvest time. If things go according to our planned timetable, the first of the new storage should be in service by the 2010 fall harvest.

It is important for a Co-op to be prudent with its equity so that they remain strong and able to add assets. It is also a cornerstone of our Co-op to return that deferred equity to members in order that money may be used in your own farm operations. We are happy to have sent members checks fulfilling a portion of that obligation in November. The \$388,940 that we returned to you is a complete return of all equity held in your Co-op that was issued prior to 1988.

The bylaw change you approved two years ago allows us to return all deferred equity to members. Before the change we always withheld \$2,000 per member as permanent capital only to be paid to your estate. It is no longer necessary to die to get your money out of your Co-op. This is important to younger members as well. By keeping ownership in the hands of members currently using your Co-op we insure that the decisions made will be the best for your farm. We hope to be able to accelerate the deferred equity redemption in future years.

I hope that you agree that your Co-op is well financed and well positioned for the future. Your Board and Management clearly have your farm's best interest in mind. We can only continue down this path as this rate of progress as long as we can continue to be financially successful.

A couple of our divisions have led the way in that pursuit of success. Your Grain Division was able to cut interest costs substantially while controlling costs and providing the best in marketing options to you. You will be rewarded for their efforts by a 21.31¢ per cwt. patronage allocation for grain sold to your Co-op. We will also return 27.32% of your storage paid as patronage.

Your Petroleum Department also performed extremely well. The Garden City Co-op was the largest customer of CHS/CENEX Energy again this year. That volume is important for both you as farmers and to the financial strength of your Co-op. We will return 10.7% of your petroleum purchases or more than an average of 20¢ per gallon in patronage to you. This goes to every member buying fuel and lubricants whether off a transport or through bobtail bulk delivery. Our past business with CHS is now paying dividends for us as we will receive in excess of \$1 million per year in deferred equity redemptions for the foreseeable future. This is money that we can use to continue to strengthen our financial statements, build storage and retire your deferred equity.

I hope you share my excitement for our 2009 year-end and how it positions us to serve you in the future. Thank you for your commitment to your Co-op. For 90 years the Garden City Co-op has prospered because our members understood the strength of a solid Co-op. I want to thank two groups that are also responsible for this success. It is a pleasure to serve your Board of Directors. They are a dedicated group that is able to dig through volumes of material and get to the meat of an issue quickly. They are demanding in their expectations but yet feel they are part of the team and push us all to be the best we can. They are selfless in their service and truly committed to your Co-op.

The second group is your Co-op employees. It is an honor to serve with this group. In a time when lots of companies struggle with the quality of employees and their motivation, it is a privilege to report that you have a knowledgeable and committed group. I think you all know that already. Whether it is keeping an elevator open late to accommodate you or going the extra mile to make sure you receive the fuel, fertilizer or chemical that is crucial to your farm, these people get it done. They do it in a pleasant manner and they accomplish it efficiently. Because they do, we are able to dream big dreams and see them go up in concrete to serve you, and out in checks to reward you.

They are a great group and I am glad when I see you acknowledge their efforts. Please help me thank both groups.

Congratulations on another successful year at your Co-op. That makes 90 of them and still counting.