



Garden City Co-op, Inc.

106 North Sixth Street

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Annual Report 2010

2010 was a record year financially. It was three times our record for local earnings. It was another good year for total earnings that consider regional cooperative patronage and outside investments like WindRiver Grain and East Kansas Chemical. The balance sheet continues to be strong and growing.

The unusually good results are a reflection of the huge harvests and good prices that you have enjoyed for the last few years. They also indicate a growing commitment of farmers to their cooperative. We have been reinvesting these earnings and more to aggressively build infrastructure so that we have the storage and the products that you need when you need them.

Good earnings and a strong balance sheet at your local co-op are important to you as members. The earnings we generate allow us to remain strong so you can continue to depend on us as your preferred supplier. You have to be certain that your co-op has the ability to perform on its obligations to you. We also need to aggressively invest in the future by building facilities and buying equipment so that we can keep up with your increasing production. Earnings also allow us to keep our commitment to you by revolving your equity on a regular basis.

Reflecting on your cooperative business after an unusually good year can lead you to overly optimistic conclusions. For that reason, I have combined financial results from the last five years to get a more accurate trend.

In the last five years, your co-op has had total income of \$52.5 million. \$20 million of that has come from local operations, investments in WindRiver and East Kansas Chemical and other cash returning investments. We have used that income to build the strong balance sheet that it takes to deal with incredibly volatile markets and increased volume.

We have invested heavily in new facilities and equipment. In the last five years, we have spent almost \$26 million on additions and improvements of capital assets. We are in the process of building new grain facilities and are budgeted to spend another \$8.4 million in improvements in the next year. As fast and big as we spend, it seems it is not enough some days. We will continue to invest as aggressively as is prudent.

Your co-op also invests directly in your operations. Earnings that our competitors generate leave the community and in large part, the country. Earnings from your local co-op stay here at home to work on your farms and in your hometowns. In the last five years, the Garden City Co-op has allocated over \$24 million back to you. We have paid over \$7 million in cash patronage and retired almost \$2 million in old equity. If you had money invested in your co-op through your patronage before 1989, you have received all of that money in cash. You no longer need to wait for your estate to get your money out of this co-op.

As you can see, it has been a good five year period for your co-op. The challenge has been that even these remarkable earnings and investments have not been enough. We have experienced four years of back-to-back record harvests. The capital necessary to handle those volumes and volatile prices is extraordinary. Maybe it is the new reality.

I will use the 2010 corn harvest as an example. Many of you have seen the large bunker storage at the Lowe Elevator. Each bunker holds more than one million bushels of corn. It is amazing to see that volume of grain before you in a pile. A one million bushel elevator seems commonplace but seeing it all in one pile in the open allows you some perspective.

In addition to those piles of 2.2 million bushels of corn, we quick shipped more than 3.6 million bushels to feedlots and ethanol plants. As big as those piles are, we had to ship almost twice that amount to make room for your harvest. That doesn't include the amount of milo and wheat relocated to be stored or shipped at WindRiver Grain in an extremely condensed time frame.

We had five elevators quick ship between a bunker and a bunker and a half of corn each. Virtually, every elevator in the co-op moved corn and milo and all emptied out of wheat. We are in the process of building storage at four locations. They are huge and expensive and will make operations much more efficient during harvest. They will still not be enough to handle the corn harvest at those locations besides the milo, wheat and beans.

I hope that this demonstrates the growth curve our elevators are on. 20 years ago was the first year the Garden City Co-op took a million bushels of corn company-wide. This year, we have six elevators that handled between 1 million and 2.2 million bushels each.

This need for grain storage comes at a time of undependable fuel and fertilizer supplies. Again, your current demand has outgrown the infrastructures' ability to supply. We understand that you need grain storage but you also need fuel and fertilizer to produce that grain. It is not acceptable for the industry to expect you to wait until it is convenient and profitable to supply your needs. We are reminded every day of the vital role that Farmland Industries played and the challenge that we must now figure out how to continue offering you a stable supply with competitive prices.

This co-op is yours. It works best when you are informed and involved. You will prosper when you trust your co-op to help you and your neighbors accomplish together what you can't alone.

Congratulations on a good year and thank you for your continuing support and patronage.