



*Garden City Co-op, Inc.*

*106 North Sixth Street*

*P O Box 838*

*Garden City, Kansas 67846*

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## **Garden City Co-op 2012 Annual Report**

Thank you for your commitment to your Co-op. Your commitment has resulted in your Co-op overcoming some very difficult challenges to prevail and report a very successful year. We stand as a stronger and better prepared cooperative with greater liquidity and many new assets. We have a high performing and committed employee group that has worked safely together as a team to provide service to your farms.

### **Effects of the Drought**

Every member of the Garden City Co-op has been dramatically affected by the drought over the last couple of years. Its impact has been felt at the Co-op as well. Volumes are down dramatically across most products. Your Co-op had some of the largest volume years in the period immediately preceding the drought. There is no doubt that this has been one of the driest and most persistent dry spells in history. It feels worse after the good year of 2009. Here are some volume comparisons of 2011 and 2012 with 2009 as an example of the effect. These volumes are shown as a percentage of the volume in 2009.

#### Wheat

2011 – 33%

2012 – 60%

#### Corn

2011 – 61%

2012 – 50%

#### Milo

2011 – 20%

2012 – 14%

#### 2012 fertilizer volumes as a percentage of 2009

Dry Fertilizer            47%

Ammonia                 64%

Liquid                    56%

Decreased volumes in grain have an effect in the current year but also for future years. It results in your Co-op having less grain to store and market in the following years until the rains return and production returns to normal.

The good news has been increasing ag chemical and seed volumes as a result of increasing market share and not of increasing demand.

### **Investment in assets to better serve you**

The Garden City Co-op continues to invest heavily in the infrastructure to better serve you. In every division this involves adding product storage and technology to increase speed. Some examples are the recent grain expansion at Shields, Deerfield and Wolf elevators. At Shields and Deerfield both increased storage and speed were added with additional and faster legs.

There have been many other additions and improvements that are harder to see. We have added fuel storage and trucks to make sure we were a reliable supplier in an unreliable refined fuels market. The Scott City Terminal has had serious problems with consistent diesel supply and those outages tend to occur when agricultural demand is highest. You can rest assured that your Co-op has the logistical capability to keep you going in the field when others are running on the bottom of their tanks.

In our Crop Production Department we have added anhydrous ammonia storage and maximized our availability of double nurse tanks. We installed an electronic mass flow system to our liquid fertilizer blending to decrease our response time to your order to a fraction of the previous manual system. This addition of speed and capacity of our liquid system also increases our accuracy. We added new liquid capability to our Dighton Crop Production facility as well. We have added significantly to our warehousing capacity for chemical and seed.

We are excited about the improvements brought on by huge investment in the Co-op's infrastructure. The investment has been significant. In the last four years your Co-op has invested \$17.3 million in new capital assets. Most of the investment has happened in the last two years. Every single purchase was focused on providing a higher level of reliable and faster service to your farm.

### **Financial Strength of the Garden City Co-op**

\$17.3 million is a lot of investment for a company of this size even in good years. It would be appropriate for you to ask if your Co-op is still strong and can continue at this pace of investment. We are happy to report that we have maintained the strength of our balance sheet through this expansion phase. If we compare some key indicators of strength from our position at yearend 2008 to our 2012 balance sheet you may rest assured your Co-op is strong.

In the four year period that we invested \$17.3 million in capital assets our long term debt has grown from \$8.6 million to \$13.4 million. That is an increase of \$4.8 million. Since 2008 our

working capital has grown from \$8.5 million to \$12.4 million or an increase of \$3.9 million. You can see that a lot of the increase in long term debt is to preserve our liquidity and working capital position. We have chosen to continue with a very strong working capital position to make sure we have the capacity for extreme volatility in commodity markets.

The limit on our operating note at the 2008 year end was \$70 million. That is exactly the same operating note limit we have at year end 2012. The difference was that in 2008 between January and May we had increased our loan limit to \$110 million. That is very high leverage given only \$8.5 million in working capital at that time. We were saved from a dramatic challenge by our long term and committed relationship with our cooperative lender, CoBank and their foresight in strengthening their financial position and capacity before we needed them. We remain committed and thankful for CoBank but neither of us wants to be surprised by volatile markets or return to that level of leverage again.

The accounting principle name of long term debt is a little misleading for our position as well. In accounting, long term debt means anything that will not be paid off in the next year. We are retiring debt at a rapid rate and have no notes beyond the 2017 maturity that were used to finance the new elevator expansions. The majority of the term debt will be paid off in the next few years.

### **Vision for the future**

We all have a good understanding of the cyclical nature of agriculture particularly on the Western High Plains of Kansas. Markets go up and down and rains come and go. The strategy of the Garden City Co-op remains the same through the years regardless of the current circumstances. Our founder, Mr. Ackley said in 1949 that our success would be determined by the quality of our service to our members and not by outside competition. We still believe that and in agriculture, service equates to great people working with the best and safest equipment.

Our plans are to continue investment in new facilities as prudent stewardship of our balance sheet will allow. We have projects being developed to add new elevator capacity and speed along with new crop production warehouses. This all takes money and lots of it.

This year we will allocate over \$4 million in patronage. Over \$1.2 million in patronage will be paid out in cash. We have been retiring two years of deferred equity every year for a couple years. We will not be able to retire equity this year so that we may maintain our rate of investment while securing our strong financial position.

In the last four years while we were investing the \$17.3 million to better serve you we have built your equity and returned cash for use on your farms. In the period of 2009-2012 the Garden City Co-op has allocated \$20.5 million in patronage. \$6.1 million of that patronage was in cash. We have retired \$1.7 million in deferred patronage to bring us up to the stock allocated in 1991 as our oldest. The Board hopes to return to an equity retirement plan as soon as possible and understands it is part of the value proposition and a founding principle of the cooperative system.

**It only works if you are involved and committed**

It may be easy to lose heart as we wait for moisture. There are many challenges to be overcome and they appear significant when we look at them as individuals. In the midst of those challenges we find many reasons for excitement and optimism if we work together. The wheat is off to a great start and prices remain high. Your Co-op continues on a path of investment and commitment to service.