

Western Farmer

The Official Publication of the Garden City Co-op, Inc.

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December 2006

Western Farmer

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IMPORTANT

**All Garden City Co-op Locations
will be closed:**

Friday, December 22nd at noon

Saturday, December 23rd

Monday, December 25th

Friday, December 29th at noon

Saturday, December 30th

Monday, January 1st

Country Corner Holiday Hours:

Sunday, Dec. 24th (5:00 a.m.-6:00 p.m.)

Monday, December 25th - Closed

Sunday, Dec. 31st (5:30 a.m.-6:00 p.m.)

Monday, Jan. 1st - 7:00 a.m.-10:00 p.m.



87th ANNUAL MEETING

The Garden City Co-op, Inc. held its 87th Annual Meeting on Tuesday, November 28, 2006, at the Plaza Hotel in Garden City, Kansas. There were 111 voting members among those that attended the meeting.

The auditing firm of Lindburg & Vogel, Chtd. was once again engaged by the Board of Directors for the independent audit of the records of the cooperative. Ed Michel, representing the firm, confirmed the audit and reviewed financial highlights in the Annual Report including Sales \$174,708,366.83; Gross Margins \$10,722,420.62; Gross Income from Local Operations \$14,067,300.10; Total Operating Expenses \$14,040,310.45; Other Savings \$3,674,451.16; Net Savings \$3,333,673.46, Total Assets \$53,508,002.64; Total Current Liabilities \$26,116,195.93; Total Long-Term Liabilities \$5,705,668.15; Total Member's Equity \$21,686,138.56; Retained Earnings \$1,319,291.90; and Patronage Dividends \$2,014,381.56.

Boyd Lear, Board Chairman, gave the Directors Report. In reflecting on the past year, Boyd expressed how the "Moving Forward Together" mantra had come to mean more as the Garden City Co-op grew in all divisions, thus bringing in a larger group of employees to facilitate this growth, making working together even more critical. With the growth and financial stability that has come as a result of that growth, there is now the availability to return patronage to members and additional income to retire equity and build retained earnings.

87th ANNUAL MEETING (cont.)

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John McClelland, General Manager, then gave the Management Report. John revealed what has been an exciting and amazing year for the Garden City Co-op. With profits tying an all time high record of \$3.7 million set in 1999 when the railroad was sold, this year has been a year to remember. The Garden City Co-op continues to be innovative in their outside investments, returning 45.5% on equity. Also, the return on equity from regional Co-ops was 35.4%. The strength of these investments will continue to play a large role in the Garden City Co-op's future.

With the acquisition of the Sullivan Grain elevators and the Arnold Elevator, the Grain Division experienced another year of growth in geography and capacity. With 20 elevators and 24 million bushels of licensed capacity, the Grain Division has doubled in the last two years.

Crop Production's growth includes partnering with five neighboring Co-ops in starting both a new seed business, Western Cooperative Seed, and a new cash and carry fertilizer company, Western Ag Chemical. With fertilizer markets being volatile, low margins were inevitable, thus the Crop Production Division was not profitable, however, fulfilling the necessity for these products to our members served a major role in our success.

The Petroleum Division has seen a decline in the use of refined fuels and lubricants for agricultural use and has thus sought other markets for continued profitability, selling through partnerships and covering areas in Eastern Kansas, North Central Colorado and Wyoming, and Central Oklahoma. For the second consecutive year, the Garden City Co-op has been the top seller of CHS refined fuels and lubricants. This system of outside income has helped in an effort to drought-proof our Co-op.

Duane Drees, Chairman of the Nominating Committee, was called upon to handle the Board elections. Duane reported that the Nominating Committee consisted of Dwane Roth, Steve Sterling, Andy Strasser, and himself. He announced that the candidates for the two Director positions were Jerry Bolding, Michael Deaver, and Randy Richmeier. There were no nominations from the floor. Upon completion of the voting, it was announced that Michael Deaver and Randy Richmeier would be filling the two Director positions.

With regard to the By-law change, it was explained that the wording needed to be changed from conducting business in such a way that all patrons received uniform treatment to conducting business on a cooperative basis in accordance with the Kansas Cooperative Marketing Act, the Articles of Incorporation and the Bylaws.

Garden City Co-op employees who received service pins for years of service to the Co-op included: Floyd Whatley, Sulma Munoz, and Freddie Medina - 5 years; Perry Wilkinson, Belinda Martindale, Kevin Bradstreet, and Jayrene Coleman - 10 years; Ann Jackson and Kevin Dickson - 20 years; Chris Murphy and Jon Coleman - 25 years; and Guadalupe Ruiz - 30 years.

Three handmade quilts were given as door prizes to Rita Roehl, Joan Harrington, and Larry Kepley. Early redemptions of stock up to \$1,000 were given to Cedric Hands, John Biernacki, Monte Miller, Duane Drees, and Ken Horton.

Boyd Lear adjourned the meeting for refreshments.



COMMITMENT STATEMENT
"Moving Forward Together"





Happy Holidays

The employees of the
Garden City Co-op
wish you a
Merry Christmas
& a
Happy New Year!



GRAIN DIVISION NEWS

Ken Jameson, V.P. Grain Division

We want to thank everyone that delivered their hard earned bushels to us this past year. We are also excited to be able to pay those who supported us with a patronage refund of 14.04¢ cwt. on grain sold and 20.29% of storage income collected this past year; 30% to be paid in cash. What other businesses that you deal with will share their profits with you?

As the year 2006 winds down, it was once again a very busy one for your Garden City Co-op's Grain Division. We are excited about the acquisition of the four Sullivan Grain elevators and the added flexibility they will bring us over the years to come. The past 21 months have seen your Grain Division double the number of elevators to 20 and increased our licensed storage capacity to almost 24 million bushels.

Unfortunately, the harvest for 2006 didn't require all that storage space. The 2006 wheat harvest was only 57% of what we received in 2005. The 2006 corn harvest ended up at 77% of the 2005 crop, milo 80% of 2005, and soybeans at 72% of the 2005 crop. As usual, there were a variety of reasons for the smaller crops, but also as usual, they all started with the weather. The 2007 wheat crop that is in the ground now looks pretty good, but as usual, will need a drink before long.

One bright spot in 2006 was the grain markets. All commodities except soybeans reached price levels we haven't seen for ten years. Wheat started the action when world Hard Red Winter wheat stocks shrunk from poor harvests around the world, and the commodity funds jumped on board. Corn then moved to the front spot as the funds started a fuel versus food war based on future demand from the ethanol industry. Where these markets could go is anybody's guess with the huge dollars available to these funds. One thing is certain, and that is volatility in these markets which will remain a constant as long as the funds stay in. This volatility is something that has, and will continue to give you a chance to market your crops at levels we seldom see. Could corn go to \$4.00 or \$5.00, or wheat to \$5.00 or \$6.00; it's anybody's guess. If the funds pull out, they could go to \$2.00; it's that volatile. We just encourage you to watch them closely, stay in touch with us often, and together we can set up the best marketing plan for you.

All of us in the Garden City Co-op Grain Division want to wish you and your family a very merry Christmas and a happy, safe, and prosperous New Year. We look forward to earning your business again this next year. This is your company, let us work for you.

COUNTRY CORNER EAST

Country Corner East has installed new dispensers on both the gas and diesel islands. There are credit card readers on all the diesel dispensers for your convenience. Please come in and talk to Joe if you have any problems with our new dispensers. Our winter hours are 5:00 a.m. to 10:00 p.m.



GRAIN DEFERRED PAYMENTS FOR JANUARY 2007

For those of you that have grain contracts payable January 2, 2007, they will be put in the mail on December 30th unless you contact us to hold your checks.

If you have not returned a signed copy of your contract, please do so in order for us to mail your check to you on time.

If you need to sell grain before the end of the year for tax purposes, please do so by noon on December 29th. All locations (except Country Corner) will be closing at noon on Friday, December 29th and will re-open Tuesday, January 2nd, 2007.

MARKET HOTLINE

Call (620) 275-9772 (G.C.)
Call (620) 397-6068 (Dighton)

**FOR DAILY GRAIN BIDS
SEE OUR WEBSITE AT:
www.gccoop.com**



See Jayrene at Dighton for all your cell phone needs. Jayrene is located in the Dighton Office
Phone 620-397-5343

THE OUTLOOK FOR 2007 IS CHANGE!

Pete Maestas, Petroleum Manager

Yes – CHANGE seems to have become constant in our industry. As we move into 2007, the primary driver for these changes is – EMISSIONS.

As part of the EPA Clean Air Act of 1990, the "domino effect" seems to be causing significant changes across the board for every business operating diesel engines:

ULSD – Ultra Low Sulfur Diesel fuel is required to reach the substantial reductions in diesel emissions.

- * Currently, sulfur content has been reduced to 15 ppm for on-highway as of October, 2006.
- * Off-highway fuel moves to 500 ppm max in 2007.
- * By 2010, the max sulfur allowed for both on-highway and off-highway will be 15 ppm.
- * In addition to the regulations associated with the switch to ULSD – an additional issue to consider with ULSD is lower levels of lubricity. Depending on your operation – you may need to consider an additive to the ULSD you purchase that includes a lubricity component.

Engine re-design – because of the lower levels of sulfur allowed, diesel engine manufacturers must re-design engines to significantly reduce exhaust gas particulates and nitrogen oxides. These new/different engines (starting with 2007 models) will require a change in your heavy-duty motor oil.

Motor Oil – in order to create the proper balance in engine performance – your diesel engine motor oil must change in any new 2007 engines:

- * API CI-4 PLUS heavy duty engine oils are being replaced with a new category of motor oils for 2007 engines, API CJ-4. These new oils are specifically designed to protect emission control systems, comply with emission standards, and reduce engine wear. They also work to maintain oil drain intervals when used in conjunction with ULSD fuel.
- * Equipment manufacturers strongly recommend or require the use of API CJ-4 oils in 2007 engines. The good news is that these new oils are compatible with engines from earlier model years. So, in pre-2007 engines you can choose between CJ-4 and CI-4. You should confirm this with the OEM of your engines.
- * The manufacturer's of the new API CJ-4 oils are promising improved engine performance, reduced maintenance costs, and increased on road up-time.

So what's the "bottom-line" to YOU and your business with these changes driven by lower emissions? Unfortunately, in an effort to create something positive – a cleaner place for future generations to live and breathe – in addition to what seems like a constant state of change, you will have less efficient engines. It may manifest itself in lower MPG or less horsepower in an engine of the same size prior to these 2007 changes. A solution? Learn as much as you can from your OEM rep and others as you think about equipment replacement going forward in 2007. Please feel free to call the Garden City Co-op Petroleum Division to assist you with any information gathering required on your part.

Additional Changes As We Move Into 2007

Energy Prices – the situation continues to change rapidly with supply and demand. It seems like just a few years ago, the United States consumed a significantly higher percentage of the world fuel supply. Now, large countries like China and India, as examples, are growing and developing rapidly and utilizing a larger percentage of the available fuel. Combine that with events related to the political climate in the world, the effects that Mother Nature can have via severe hurricanes and their impact on production in the Gulf Coast area and there is a portion of the reasons for significantly changing fuel trends in our country.

Since our individual ability to control energy prices is somewhat limited, many owners/operators continue to look towards improvements in performance and reductions in down-time to keep operational expenses under control.

We continue to monitor spring & summer fuel contracts, check with us for contract prices.

From all the employees at The Garden City Co-op Petroleum Division:

Merry Christmas and a Prosperous New Year!

CROP PRODUCTION UPDATE

Kary Smith, Crop Production Manager

Mild weather conditions have been with us again this fall. This, along with lower fertilizer prices this year compared to last, is making this a great time to apply fertilizer for your upcoming spring crops. With good market prices, it is a good idea to begin your planning now for the best yields possible. The Garden City Co-op Crop Production Department is ready to meet all of your fertilizer needs. This year, we have two custom strip-till rigs to cover your acres more quickly. Both rigs are set up to run NH₃ only or dual application of NH₃ and dry Phos. Our minimum-till and knife rigs are available again this year as well. Give us a call today to get your acres on the list. Whether you are applying your own or have custom application needs, we are ready to meet your needs. Contact your sales manager or the Lowe office.

It is also not too early to start thinking about alfalfa fertilizing and wheat top dressing. Timely application will help to ensure that you reach maximum yield potential. Make sure when your crop breaks dormancy this spring that it has the necessary nutrients in place. Mild fall temperatures also mean a need for weed control. Don't forget to include herbicide in your tank. We will be happy to work with you to develop a plan that will meet the needs of your operation.

You will again have the opportunity to participate in a finance program that will cover fertilizer and chemical needs. You will have the option of working with Farm Plan or Rabo bank. We are glad to assist you in completing the necessary paperwork.

If you have been by the office at Lowe lately, you may have noticed our latest project. We have begun work on building additions to the chemical/seed warehouse and the bulk chemical building. Thanks to your support of your Co-op, we have outgrown our current facilities. The dirt work has almost been completed as of this writing. Stop by and check on our progress.

There is a new face in crop production. Ryan Kennedy joins us as our newest sales manager. He comes to us from Crop Quest where he was a consultant for the last six years. He is familiar with our trade area, farming practices, and many of our customers. He has become a great addition to our team.

The entire staff at Lowe would like to take this time to thank you for your past business. We also look forward to working with you in the future.

ULYSSES CROP PRODUCTION

Daron Cowan, Sales Manager - Ulysses

The Ulysses Facility is a unique location for the Garden City Co-op. We sell a full line of Land O'Lakes Purina feed and mineral. We have block and bagged salt, bagged whole corn, cracked corn, whole milo, alfalfa pellets, wood shavings, and small square bales of alfalfa and prairie hay. We give a 10% discount for any pallet quantity of block and bagged feed products. We carry a full line of livestock handling equipment. We carry metal and poly stock tanks and round bale feeders made by *Hastings*. We are the #1 volume dealer for *Blattner Livestock Equipment*. They have everything from portable corral panels to complete cattle working circle tub systems. Another way we are unique is we sell *Tophat* utility trailers, *Reyes* stock trailers, and *Butler* pickup flatbeds. We can get pretty much any trailer from 4 x 8 with a 2k axle to a 48 ft. drop deck trailer with 2-12k HD axles. All *Reyes* stock trailers are custom built. *Butler* flatbeds offer a plain flat bed, hay spike bed, and a hay arm bed. We can get trailer parts through *Redneck Trailer Supply* and do minor repair and wiring on trailers. We also sell the *Pace Edwards* roll top covers for pickups by special order. Call Daron Cowan, Sales Manager - Ulysses, if you have any questions at 620-356-1219.

CORN SEED SUPPLY SHORT FOR 2007

Chris Irvin, Seed Sales Manager

With the recent increase in corn acres, corn price, and ethanol production, corn seed supply for 2007, is going to be exceptionally tight. I wanted to be the first to tell you that if you have not booked your corn seed for 2007, now is the time to do so. I am extremely confident that 99% of all orders from Dekalb/Asgrow, Croplan Genetics, NK and Mycogen will be filled and delivered to your farm as ordered. So, if you do not receive what you ordered from WCS or any other seed company, give me a call and we will fix you up!

Attention all Western Cooperative Seed and Garden City Co-op customers: As of December 15, several varieties are already sold out. Several new varieties with Triple Stack (Roundup Ready/Corn Borer BT/Rootworm BT), and Roundup Ready/Corn Borer traits are in extremely low supply. Although several of these new triple-stacked varieties are sold out, these same varieties are available in other trait packages. To date, all orders have been filled, and we at WCS are looking forward to another exceptional year of performance with Dekalb/Asgrow, Croplan Genetics, NK and Mycogen seeds. Thanks again for all early orders, and please call with any questions that you may have.

Don't forget!! WCS is also a full line dealer of Roundup Ready alfalfa, conventional alfalfa, corn, soybeans, sunflowers, sorghum and new to 2007, cotton!!

COUNTRY CORNER SPECIALS

Country Corner is currently offering a Car Wash Special (\$3.00 off of an Ultimate Wash with a \$20.00 gas purchase). We are also offering pre-paid gift cards. They can be purchased for amounts from \$5.00 to \$100.00. They will be rechargeable if you would like to add more to the card after they have been purchased. So, if you are looking for a quick gift, come in and purchase one from us.

CORN ROOTWORM - MORE PROBLEMS / MORE OPTIONS FOR CONTROL

Fred Fisher, Crop Profit\$

Over the past few years, we have encountered a higher number of problems from corn rootworm larva feeding in continuous corn. I would suspect that the adoption of Bt corn for corn borer control has had a role in this increase. Prior to widespread use of the corn borer Bt's, most fields were sprayed for second-generation corn borer control. These same applications also controlled rootworm beetles and decreased the amount of egg lay that occurred and hence overall rootworm pressure. As Bt corn has become more widely used, the need for in season insecticide sprays has been reduced and we have seen greater numbers of rootworm beetles survive and lay eggs. Keep in mind that rootworm pressure is determined by the egg lay that occurred in the previous year. If you had very little egg lay in 2006, you'll have light larva pressure in 2007.

Control Options:

Never before have there been so many different options for control. Deciding on a solution should take into account cost and efficacy. I will attempt to evaluate efficacy.

Great

Bt for Rootworm Control – Most seed companies have this option now. Some companies are making claims that their rootworm Bt is more effective than others. I would doubt that this is really the case. The larva need to feed on the roots to die and both types of Bt are 100% effective at controlling these larva once they've started feeding. We have never seen a problem with rootworm larva control using these products.

Good

Adult Beetle Spray Programs – This method is quite reliable but it is only as good as the timing on the adults. The adults must be controlled before females begin laying eggs. This normally occurs 18 to 21 days after the start of beetle emergence. It is important to continue to monitor fields for migration back into the field of adults from bordering cornfields. Because of this, adult control programs work best when neighbors also employ this same method of control. The main drawback to this method is the fact that you need to spend money on insect control a year in advance of the problem (larva control in 2007 means you need to kill the beetles in 2006).

Fair

Planting time granular insecticide treatments or seed insecticide treatments – This method of control is probably the least reliable. The efficacy of the granular treatments is highly influenced by weather and overall larva pressure. The seed treatments are influenced mostly by larva pressure. Under light to moderate pressure, both types of treatments are probably adequate. Under heavy pressure, failures could occur.

Poor to Fair

In season insecticide (rescue treatments) – This method has been the least cost effective means of rootworm larva control. This method involves spraying on an insecticide or chemigating an insecticide at the start of larva hatch and watering the product in. In most cases, these treatments give the lowest percentage of control and only look favorable when rootworm pressure is low.



800 S. Yacca Park
Garden City, KS 67846
Office 620-272-9608
Fred Fisher Trevor Papp
Cell 620-640-1600 Cell 620-640-0349
email: fred@cdprofit.org email: trevorppp11@yahoo.com

ETHANOL

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The third piece of the origination puzzle is your local Co-op. Ken Jameson's Grain Division has doubled in size and complexity to make sure you are well represented in this new market. It will require a real knowledge and understanding of the local grain trade to make sure that the Garden City Co-op continues to be your market of choice. There is no doubt that Ken and his team has that depth.

If I could go back in time and answer the question asked of me at the annual meeting, "What impact will ethanol have on Southwest Kansas, our Co-op, and farmers?", the answer may be the same. We don't know yet. I would add that we have the best team of committed professionals working on it though. They will handle it just like we have for 87 years. They will overcome obstacles and create opportunities by "Moving Forward Together". Welcome to Garden City, Conestoga, we are glad you are here.



Happy Holidays!

PATRON NOTE PROGRAM

We continue to offer Patron Notes (Certificates of Indebtedness). Following are the series and dollars currently available to members.

<u>Note Series</u>	<u>Dollars Available</u>
1-Yr. @ 6.50%	\$ 26,940.00
2-Yr. @ 6.75%	\$439,590.00
3-Yr. @ 7.00%	\$ 1,290.00
4-Yr. @ 7.25%	\$ 1,380.00
5-Yr. @ 7.50%	\$ 0.00

To participate in the Garden City Co-op Patron Note Program, you must be a Common Stock holder and also live in the state of Kansas.

ETHANOL

We had a great question asked by a concerned producer at the Annual Meeting. "What impact will ethanol have on Southwest Kansas, our Co-op, and farmers?" That is a great question probably deserving of a much better response than I gave. In short my response was, "We don't know yet."

Everyone in the grain industry from seed companies to feedlots and flour mills is trying to figure this one out. What will we do with all of the corn at harvest if we experience a major shift from beans to corn in the Midwest? Can farmers really move production from an 11 billion bushel corn crop to 15 billion bushels as many commodity market analysts suggest is the new demand base? Even if we can grow 15 billion bushels, can the storage and transportation infrastructure of elevators, train loaders, railroads and trucks meet the challenge? How will we supply an ethanol plant in Garden City that uses 19 million bushels per year and a plant in Liberal that uses 38 million bushels per year in a feed grain deficit area?

My first reflection on all of this is-- IT'S ABOUT TIME! We have waited our whole careers as agriculturists to see the day that demand may outrun supply. The fruit of your labors may now find their true value in the market

rather than just survive under the heavy wet blanket of subsidies. It has always been truly exciting to be involved in an industry that helps feed a hungry world. Now we are playing a role in energy independence and the associated national security that comes with it. Conestoga Energy, owner of Garden City's new ethanol plant, is our local leader in that effort.

My second reflection is-- Thank Goodness for Trusted Friends. No one knows yet exactly how we will meet tomorrow's challenges and turn them into opportunities. We do know that we will be working together with our close friends at Conestoga Energy, WindRiver Grain, and neighboring Co-ops very closely. Those committed and trusting relationships will allow us to make sure that this emerging industry can be a contributor to Western Kansas' agricultural base.

Conestoga Energy has appointed Tom Willis as General Manager. I have known Tom for several years and have found him to be a dedicated individual with impeccable integrity. Tom will do a good job of prudently managing the assets of the local investors. The investors in Conestoga Energy have worked very hard to bring the new industry to town. We owe them all a debt of gratitude for



John McClelland
General Manager

taking the risk necessary to create a new market. I know Conestoga will be a real contributor to the local economy under the local board and Tom's leadership. They are attracting a very strong management team.

WindRiver Grain has long been a large contributor to the Garden City Co-op's and several other Co-ops' success. Bob Tempel and his staff will be serving as grain originators for Conestoga. They will have a big job originating that much grain at a price that rewards local producers, attracts import grain, and insures a good value for the ethanol plant. Bob is a master at forging relationships that allow many people with different agendas to work together for the common good. I know he will be successful in this new challenge as well.

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