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Annual Report 2007

The 2007 fiscal year was a record year for the Garden City Co-op. In the past year we doubled the previous record for total income. The Co-op made $7.36 million before income taxes and after minority interests were added as compared to the record last year of $3.75 million. Total sales, partly distorted by commodity prices, have grown from $175 million in 2006 to $238 million in 2007. Working Capital for your Co-op has grown from $2.6 million to $9 million in one year. This has been essential because the operating line from CoBank has doubled to accommodate the increasing commodity prices and volumes. These trends are all positive and allow us to continue to report that the Garden City Co-op is a strong and viable company well positioned to help you meet the many challenges you face as producers.

The positive trends I just reported are in large part due to things that have happened outside of our local operations. CHS and their profitable energy business coupled with our volume that increased to 52 million gallons of refined fuel was the major contributor to our profitability. FC Stone converted from a cooperative to a private firm and then had an initial public offering raising our investment by many multiples. We have long been blessed with profitable operations at WindRiver Grain and East Kansas Chemical and this year we again received our share of that reward.

Investment in partnerships and regional cooperatives has long been a strategy used by the Garden City Co-op. In recent years we have accelerated that investment to help “drought proof” your company to the extent possible. This investment has never been intended to cause our focus to drift from you as the member-owners and your needs. It has been an effort to allow us to remain strong and offer products and services in a consistent manner that may not have been possible if we were entirely dependant on local agricultural production and input investment.

I am both happy and concerned to report to you that our strategy worked. Our outside investments preformed at such a strong level that we had a twice record year in total income in a year when we posted a record loss in local earnings. In the last 25 years we have only had 4 years that we had to report local losses. They were 2002 through 2004 and 2007. This year in local earnings, a negative $1.78 million, was the worst followed closely by 2004 and 2002.

Some of the loss in local earnings is easily explainable as one time charges or events that are extraordinary in their nature. These include the write down of some intangibles and the very conservative approach we use to value credit risk and inventories. Our petroleum department is an example of a business model that does not fit accounting reporting requirements well. One look at the patronage rates we will be paying this year, on average 17 cents for retail and 10.5 cents for transport drop fuel, tells you this department is performing well. None of that income is reflected in our local earnings even though it is certainly part of a well thought out and well executed business plan.

Much of the loss can not be explained away as an extraordinary item though. We had a difficult year in many regards and some of those trends continue or are increasing in this current year. Our year ends on August 31 so our financial reporting generally lags the calendar year harvest by one year. With this most recent harvest such a struggle it is hard to remember a time when grain storage was plentiful and yields were small. We only need to look back one year at the 2006 harvest to find a tough harvest adversely affected by drought and disease. In 2006 we only took 63% of the grain we took in 2005 and 2006 was only 48% of our two harvests in 2007.

Our crop production department also struggled financially this year, although it is much improved over last year. The winter moisture that resulted in record harvests this year was devastating to our ability to deliver and apply fertilizer in a timely and rate-able manner. We were virtually out of the fields, waiting in the shop as you were for four months. When the weather did break we went hard but the rush dramatically affected costs by requiring us to lease more equipment and to ask more from our people in the way of overtime. Outages and allocation of fertilizer by manufacturers, difficulty in finding transportation and erratic chemical pricing by distributors posed many challenges.

Petroleum supplies were first devastated by a refinery fire to the south and then the entire state was disrupted during wheat harvest by the floods at Coffeeville. Outages and allocation problems ruled this market also. We were forced to deliver many loads from the refinery in McPherson that we normally would have pulled out of terminals in Turpin or Scott City. Given recent transportation costs you can imagine how that added to our cost of delivery. Fortunately, it did not materially affect our timeliness of delivery.

In the end, 2007 was a year of good performance in total but a very tough year on a local basis. We need to acknowledge that in some respect drought, small harvests and logistical challenges are a part of the business and can adversely affect our local profitability in the short run. We should never use those facts as excuses to keep us from attaining our goals, set very high by past generations though. They also experienced difficult times and prevailed to build the strong company we enjoy today.

We can follow our past generations lead in continuing our successful story. First, always appreciate the fine people that work at your co-op. They are responsible for much, and the new volatility that we are all struggling to understand, has made their jobs difficult. I am proud to say that we as employees remain committed to being there with the products and services you require when we said we would. Our commitment is to continue to find ways to be more helpful and supportive and be an even better supplier.

Second, we should keep the core strong. Our ability to ride out short harvests and difficult weather is found in our strong balance sheet. The Board and I are committed to improving all of the key ratios so we are strong and in control of our own destiny. As we work together to find solutions to the challenges we all face, neither the Board nor I will adopt strategies that will put the core of the Co-op at risk. I am happy to report to you that your co-op is strong and well positioned to meet your needs for the future.