

HANLEY FALLS ■ COTTONWOOD ■ TAUNTON

GRANITE FALLS

**Farmers  
Cooperative  
Elevator Co.**

MINNESOTA FALLS

MONTEVIDEO ■ ECHO ■ MINNEOTA ■ GHENT

# FARMERS COOPERATIVE ELEVATOR CO.

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April, 2008

## From the Manager FCE earnings top \$2.5 million

By SCOTT DUBBELDE

Reporting to the membership at the Annual Meeting is fun when we have a year like we completed last year. We had a great year in volumes, profits and service.

Farmers Cooperative Elevator Co. (FCE) earned \$2,536,831 on sales of nearly \$179 million last fiscal year.

Total sales increased more than \$57 million, a reflection of the significantly higher grain markets from the previous year.

FCE also gained extraordinary returns from the sale of a third of their holdings in F.C. Stone Commodities, a brokerage firm held by local cooperatives which went public last year. The sale netted FCE more than \$715,000 that was included on our bottom line.

We paid about \$892,000 in cash in patronage dividends at the annual meeting, based on the amount of business each patron did with the cooperative. Additionally, FCE paid out about \$328,000 in equity retirements.

Since 1998, FCE has paid \$6.4 million in cash patronage dividends and equity retirements to our Patron/Owners.

This type of accomplishment takes a team effort.

The Seed Department, the Hardware Department, our Feed Department and Grain Department each contributed to the total. Your directors put in the countless hours at meetings and at home making key decisions in the operations. Of all the sessions we had over 2007, only one director missed one meeting and that was due to surgery.

Gerry Peterson has been a longtime, highly-respected member



**Gerry Peterson  
retires from  
FCE board**



## 2008 FCE Board of Directors

The 2008 Farmers Cooperative Elevator Co. board of directors include, from left, seated: Paul Enstad, Granite Falls area; Steve Doom, Cottonwood area; Paul Kvistad, Echo area; Brad Sunderland, Minnesota Falls area; and Alan Enevoldsen, Montevideo area. Standing, from left: Dan Stevens, Hanley Falls area; Wes Cole, Hanley Falls area, Secretary/Treasurer; Dennis Heggeseth, Minneota/Ghent area; Stan Knutson, Taunton area, Vice-President; and Mark Vandelanotte, Cottonwood area, President.

of our board who decided to retire this year. His contributions have been greatly appreciated.

Brad Sunderland was elected to Gerry's position on the board, representing the Minnesota Falls area. Alan Enevoldsen joins the board representing the Montevideo area, a new position that expands the board to 10 members.

Stan Knutson of Taunton and Steve Doom of Cottonwood were re-elected to the board.

### Market risks

The volatility that Wall Street's Index Funds have caused in certain markets such as grain and energy has multiplied our risk. John and Bill go into some details in their article in this newsletter.

Our job at FCE is to provide programs to you, our Patron/Owners, while also protecting the Farmers Cooperative Elevator Company. The challenge is to do this with a system that is fair to everyone.

I announced a change in our Grain

Purchasing Policy and Procedures at the Annual Meeting. These changes were effective March 15.

The details are on Page 3 of this newsletter.

We believe this policy is the fairest way to spread the risk, yet continue to offer you a competitive market. Upon delivery and settlement, the refundable fee is refunded. Please read these procedures. If you have any questions, contact us.

### Assistant GM

I was pleased to announce at the Annual Meeting that Bill Doyscher has been promoted to Assistant General Manager of FCE.

Bill is a very capable individual and an excellent problem solver. His education in the cooperative system is the best possible - hands-on.

He's a native of Sleepy Eye and was raised at Lake Benton. After a year at Worthington Community College, he

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# Price pendulum will be wide when it swings

By BILL DOYSCHER  
Risk Management Coordinator

Index funds have created a self-fulfilling prophecy in that they buy commodities, driving the price higher; sometimes higher than typical supply-and-demand would dictate.

This continued buying pushes prior purchases into gains in the market, therefore bolstering their own profitable positions. When the passive longs (index funds) decide to exit their positions, the market will struggle to absorb the selling involved. We can easily drop prices to a value that would be considered under the perceived norm based on supply-and-demand.

So the pendulum swings too far one way, and swings too far back the other.

Day-to-day market participants clearly understand this risk potential and are taking protection against the time when index funds start baling out of the market in massive numbers. They have passed this risk down to local cooperatives, like FCE, presenting us a challenge to set up procedures that will be fair to everyone.

Thus, the new Grain Purchasing Policy and Procedures found on Page 3.

## Market doesn't care

The single biggest argument that I get from producers in managing risk in their operations is that they do not know what their costs will be beyond this year.

The market does not care what your costs are. It only cares at what price the end user is willing to buy it. The Chicago Board of Trade and other futures markets are referred to as "price discovery tools". They are not referred to as "cost recovery tools."

Prices are high and are likely to remain high relative to past years, at least until we are well into the growing season. It takes more time and energy to market crops now than when we had loan rate commodities.



## 225 years of experience

Ten employees of FCE were recognized at the Annual Meeting for years of service. Among them, they have 225 years of experience at FCE and are working on the next milestones. Donna Olson, seated, has 35 years as a cooperative employee and works in the Hanley Falls office. Jerome Varpness, who was not available for the photo, also had 35 years and works at Cottonwood. Other employees honored included, from left: Ron Shemon and Jeff Tusberg, both 10 years and both at Cottonwood; Carol Kompelien, Hardware Hank manager, and Cheryl Laleman, Hardware Hank employee, both 15 years; Kevin Johnson, Minneota, 20 years; Steve Fry, Hanley Falls Seed Department and elevator, 25 years; and Kim Malmquist, Minnesota Falls branch manager, and John Brandts, Grain Merchandiser, both 30 years.

## Business as usual is certain to change

By JOHN BRANDTS  
Grain Merchandiser

Today's grain markets are fickle, taking radical swings that are being influenced by forces beyond normal supply-and-demand factors.

Basis remains wide.

The high cost of fuel is a factor, as are high prices encouraging a higher percentage of grain to be sold earlier in the year. This basis pressure is now being compounded by the fact that hedges in up markets must be margined. This is one of the primary reasons FCE's interest costs increased more than \$1 million last year.

It forced us to review our Grain Purchasing Policy and to revise it to reflect current market conditions. The new policy and procedure are published on Page 3.

Basis can change as quickly as the market, which is very volatile.

One reason for this volatility is the

acreage battle going on between corn, beans and wheat.

An even more major influence is the index funds. They are long by 4 billion bushels of corn, twice the projected carryout. They are 1.5 billion bushels long in soybeans, 10 times the carryout.

Bottom line is that the index funds will dictate the market. Expect changes because things won't always be business as usual.

It is nice to look back and review the excellent year we had. Our grain sales in fiscal 2007 were almost \$160 million.

Our volume was a record 38.7 million bushels of grain sold in 2007. Corn volume was 30 million bushels and bean volume was 7.9 million.

We invested more than \$840,000 last year in repairs and maintenance, keeping your facilities in great shape.

If you have any questions after you've reviewed our new Grain Purchasing Policy and Procedures, be sure to give us a call.

# FCE Grain Purchase Policy, effective March 15

The extremely volatile grain markets we are currently experiencing has impacted our marketing procedures. FCE currently has a lot of margin money invested in hedging your grain. This will come back to FCE when grain is delivered to us and shipped to the market.

The following policy changes are being put in place to provide our patrons with competitive programs to manage price risk, and to protect FCE in these highly volatile and sensitive markets.

We feel the fairest way to purchase grain after New Crop 2008 to New Crop 2009 will be by using Hedge to Arrive contracts. Another label could be Futures Fixed Contracts.

**The following policies are in effect as of March 15:**

**\* FCE will continue to buy grain through new crop 2008 delivery as usual. Producers can use forward contracts, etc.**

**\* All non-cash purchases beyond new crop delivery 2008 (January 2009) through new crop 2009 must be Hedge to Arrive contracts only. These are also known as Futures Only or Futures Fixed contracts. At this time, FCE will not purchase 2009 Forward Flat Price Contracts.**

**\* FCE operates a branch office of Country Hedging, a brokerage firm. Our office can take orders for customers who have open accounts with Country Hedging. If you do not have a brokerage account, we can establish one for you to utilize. Producers have the ability to hedge their production for 2010 and beyond using their own accounts. Producers will be required to fund their own accounts for margin calls.**

**We will also alter our Hedge to Arrive policy. These changes include:**

**\* All Hedge to Arrives will now require an upfront "Refundable Fee" of 20 cents per bushel on corn and 50 cents a bushel on soybeans.**

**\* The "Refundable Fee" will be returned at final delivery and settlement of the contract. This fee is due and payable at contract inception.**

**The Hedge to Arrive origination fee, the normal fee, will be 5 cents a bushel on 5,000-bushel contracts and 7 cents a bushel on the 1,000-bushel contracts, which are the minimum.**

**\* We no longer will allow Hedge to Arrive contracts to be rolled.**

To help clarify the change in FCE's policy, all contracts written to date keep status quo. Hedge to Arrives written prior to March 15 can be rolled, will not have a "Refundable Fee" and will have the previously agreed on origination fee. To re-emphasize, these policy changes are being established to provide our patrons with competitive programs to manage price risk, and to protect FCE in a highly volatile and sensitive market.

Will will be hosting producer marketing meetings in Minneota, Cottonwood, Granite Falls and Montevideo Tuesday, April 8, to assist our Patron/Owners with marketing their production. We will keep you posted on times and locations.

Call our office with any questions regarding these changes in grain purchasing policy.

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## 15 years of growth

By CAROL KOMPOLIEN

Our hardware store is supplied by a cooperative, much like FCE. It's called United Hardware and is owned by the dealers. United Hardware markets under the names of Hardware Hank, Trustworthy and Golden Rule. In the past 15 years that we have been a Hardware Hank store, United Hardware has grown every year.

They now have more than 1,300 store locations in 11 states.

By responding to the needs of their owners, United Hardware has offered new items at competitive prices.

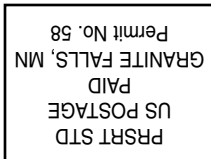
With the support of our customers and our Hardware Hank employees, we again received the President's Paint Award. We finished 52 of the top 100 United Hardware stores.



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## FCE Scholarship winners

Farmers Cooperative Elevator awards three \$500 college scholarships to students of patrons who plan to continue post high school education. This year's winners are, from left: Brittany Moorse of Minneota High School, daughter of Greg and Beth Moorse of Minneota; Paul Peterson of Renville County West High School, son of Gary and Kris Peterson of Sacred Heart; and Darcie Listul of Yellow Medicine East High School, daughter of Keith and Darlys Listul of Clarkfield.



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began working at cooperatives. He was at Minneota in 1986, went to Taunton in 1987 and became general manager of

those merged cooperatives in 1998, a position he held when those excellent businesses merged with FCE in 2000.

Bill and his wife, Sandy, have three

children: Julie, 31, Jennifer, 29, and Jonathan, 16. Bill will continue to lead our Risk Management Group as part of his duties.

## Feed mill grinds 20,000 bu. a day

By GENE GOLDENSTEIN  
Feed Department Manager

We have made several fixed asset and rolling stock improvements this past year to try and keep up with the growing demand for FCE's feed products and services.

The increased tons of milled feed purchased and delivered has allowed us to pool our business and leverage our volume to be able to pass quite a savings on to our patron/owner feed customers.

The Feed Department grinds 20,000 bushels of corn per day. This is more than 100,000 bushels of corn per week and more than 5 million bushels of corn ground per year.

Most of last year was spent trying to keep up with our increase in business: from just 380 tons of manufactured and

delivered feed per day to 750 tons.

Along with the commercial growth, a physical expansion was also necessary.

Two new grease tanks were installed and relocated to offer our customers at the Cottonwood mill their choice of white grease or animal vegetable in their swine and poultry rations. The 216-ton expansion of load-out is close to completion. This will allow us to manufacture feed for longer periods of time and then store extra feed for the next day. Instead of having to add an extra shift, it will allow the delivery trucks to run all day.

Several other additions have been made to make delivery more efficient. This includes three semi delivery trucks and an additional 12-ton tandem delivery truck making a total of eight 24-ton semi trailers, and five straight trucks ranging

from 9-ton to 16-ton capacity.

Currently the mill grinds about 20,000 bushels of corn, uses 160 tons of soybean meal, and 45 ton of dried distillers grain per day. In addition, the Hanley Falls mill makes about 45 ton per day for our beef, dairy and sheep customers.

Customer service, quality and efficiency are three things we are always striving to improve. Without the effort and hard work of every employee, we could not accomplish our goals.

The feed mill team, along with the entire FCE system, has to work together with the same goals and visions in order for our business to succeed. But most importantly, our goals and visions are designed to serve our customers who are the support and future of our business.

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