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Management Report:

FCE to purchase Montevideo

By SCOTT DUBBELDE
GENERAL MANAGER
and
WAYNE LOUWAGIE
BOARD PRESIDENT

Your Farmers Cooperative Elevator (FCE) is purchasing the Montevideo elevator.

The cost will be in the neighborhood of 50 cents per storage bushels. The Montevideo location has 1.25 million bushels of upright storage, mostly concrete, and another 750,000-bushel shed.

Growth is good — when it makes sense. Like your weight, excessive growth is not always desirable. Yet, if your stature can handle it and still remain trim, expansion can lead to more strength.

That is just the situation here when the big picture is taken into consideration.

The Granite Falls Ethanol Plant is now a reality. FCE will be the sole procurement agency of grain for the \$58 million plant. It will be set up to produce 48 million gallons of ethanol a year. This will require between 16 and 17 million bushels of corn a year, a huge, new market for our member-patrons.

Originally, we had anticipated building storage at the ethanol plant site. One of the financial supporters — First National Bank of Omaha — expressed concern about liability if huge grain storage facilities were situated at the plant. Perceiving their reluctance, FCE agreed to expand its storage to meeting the ethanol's plant requirements at locations other than the ethanol plant, which will be located at the junction of Hwy. 23 and 212 east of Granite Falls.

There will be between 400,000 and 500,000 bushels of storage built at the



Scott
Dubbelde



Wayne
Louwagie

ethanol plant site, by the ethanol consortium. FCE will not own this storage, which is essentially holding tanks for the daily operations of the ethanol plant.

To meet the commitment of filling these holding tanks to meet the plant's demands, FCE agreed to add a half million bushels of storage to our Minnesota Falls location. Bids will soon be let on this project. Total, exact cost of this expansion is not known at this time, but it will cost more than 50 cents a bushel. Even with this commitment, still more storage was required.

Meanwhile, others could see the potential marketing advantages FCE could offer under this arrangement with the ethanol plant.

Patrons of the Montevideo elevator approached us, asking if they could join our cooperative and become part of this marketing opportunity.

As most of you know, Montevideo has had its financial problems in the past. It eventually ended up being two-thirds owned by Cenex/Harvest States and a third by the patrons. Yet, the storage facilities remained in good shape under the direction of Moose Zimmer, who managed the Hanley Falls FCE for three years in the mid-1980s.

While some upgrading will be need-

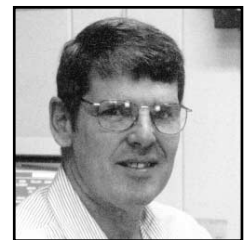
Quality of crop now in question

What a crazy growing season this has been!

First it was too dry in April and early May. Then it rained for a month. After that, the cool weather set in.

Everyone is concerned about the quality of corn to expect this year.

By
John Brandts
Grain
Merchandiser



Hopefully, the frost will stay away until this crop is mature. In any case, your local Farmers Cooperative Elevator will do everything we can to help you market your crop if the quality is not what we are used to the last few years.

For the past several weeks we have been preparing for harvest. The elevators are nearly empty, trains are ordered and dryers have been checked, ready for harvest.

Due to the late maturity of the corn crop, a number of patrons have asked about drying charges for corn and about our plans to handle this crop.

Two years ago, your elevator piled wet corn in both bunkers to accommodate the fall rush. This year we will do whatever it takes to handle your harvest needs. We hope everyone works together to handle this year's harvest.

Drying charges this year will be 3 cents per point down to 13 percent for storage, 14 percent for Price Later and 15 percent for cash or con-

Market encourages wait-and-see position

Uncertainty is running rampant with the recent frost in the upper Midwest.

Conversations with knowledgeable people in other parts of the country show a varied amount of damage, but damage nonetheless. While the market tries to assess the amount of risk premium to put into the equation, take a look at some prices to consider.

With the farm bill in place, we have a "minimum" price at which we should consider selling grain, especially this close to harvest. That price gives us a worst-case scenario if we don't get an LDP or Counter-Cyclical payment.

If the extra payments do happen to kick in, then it just enhances our price. At the current time, new crop corn is not an attractive sell. If the frost stays away, it could be a good price. But if it comes, it could be way too cheap.

The risk versus the reward says not to sell at this point. It's better to wait and see.

Soybeans also carry the same risk versus reward, but have an added factor.

This is the second year where yields could be sub-average. This makes price all the more important, and the incentive to hold off on sales until we know what size crop is there is much more attractive.

Two weeks from now will make all the difference.

By
Bill Doyscher
Risk
Manager



If you want cheap protection, buy \$2.20 December corn puts or \$5.60 November bean puts. These can be had for a few cents and will essentially "double up" LDP's if the crop is huge. Until harvest is over, though, we just won't know what the cool weather and frost has done.

USDA usually doesn't discount smaller crops until they are harvested. The most recent estimate from the USDA, issued Sept. 10, is a corn crop of 10.923 billion bushels and a soybean crop of 2.836 billion bushels. USDA is estimating a corn yield per acre of 149.4 bushels and a soybean yield of 38.5 bushels.

Remember that our Risk Management Group is one way to get information and help with your marketing. Call Ozzie or me if you'd like to hear more about the program.

This information is taken from sources which we believe are reliable, but is not guaranteed. This information is sent to you for informational purposes only. There is a risk of loss when trading commodity futures and options, and is not suitable for everyone.

BILL - CONTINUED FROM PAGE 1
tracted sales.

Shrink will remain at 1.5 percent per point. A 10-cent minimum will apply on stored or Priced Later corn for the first 100 days (three and a half months).

The corn basis for this year's new crop is extremely narrow.

For any patron who needs to sell corn this fall, an extended price contract looks attractive. Other marketing programs offered are Minimum Price Contracts, Basis Contracts and Hedge to Arrive Contracts.

If anyone is interested in these programs, contact the Hanley Falls office or any of the location managers.

We hope everyone has a safe and enjoyable harvest.

It doesn't take long

Flowing grain can draw in a person within five seconds. A high-capacity conveyor can move 5,000 bushel of grain an hour.

At that rate, a six-foot-tall person would become submerged in only 15 seconds.

Flowing grain is like fluid. Objects on the surface sink. When a single kernel is removed from the bottom of a wagon, kernels directly above it rush to fill the void.

Even if the grain has stopped flowing, submerged objects or people are difficult to extract. The force required to remove someone buried below the surface of the grain can easily exceed 2,000 pounds, the weight of a small car.

HARDWARE HANK'S SEPTEMBER SPECIALS

TEXACO Antifreeze \$5.49 per gallon	VHF/UHF/FM Antenna \$4.97	Mouse glue trap, 4 pack \$2.47
DEX COOL Antifreeze \$7.99 per gallon	VHF/UHF/FM IND Antenna \$11.97	Rat & Mouse glue trap, 2 pack \$2.77
G.E. LIGHTING F25 4-foot shop bulb 87 cents	DEWITT Natural Burlap 3x24 feet \$5.77	Remember us for your roller chain, bearings, hydraulic hose, chopper knives, chisel plow shovels and many more farm fall related items. We carry all your safety highway needs, from reflective tape to safety lighting for agricultural equipment.
F40cw commercial bulb 97 cents	Natural Burlap 3x12 feet \$3.77	
Flood or spot bulb \$2.97	Tree Wrap 3 inches by 50 feet \$1.97	
MAGNAVOX Remote Control \$9.97	TOMCAT Mouse glue trap, 2 pack \$1.50	We wish you a safe and plentiful harvest.

FARMERS CO-OP 2004-05 GRAIN POLICIES

SOYBEANS

MOISTURE DISCOUNT: 1 percent for each 1/2 point of moisture from 13.1 to 15 percent; 2 percent for each 1/2 point of moisture from 15.1 percent and up.

TEST WEIGHT: 1 cent per each 1 pound under 54 pounds.

DAMAGE	HEAT	TOTAL
Discount	Per Bu.	Per Bu.
.3 to .5%	2c	
.5 to 1.0%	4c	
1.1 to 1.5%	6c	
1.6 to 2.0%	8c	
2.1 to 2.5%	10c	3c
2.6 to 3.0%	12c	4c
3.1 to 3.5%	14c	5c
3.6 to 4.0%	16c	6c
4.1 to 4.5%	18c	7c
4.6 to 5.0%	20c	8c
5.1 to 5.5%	22c	9c
5.6 to 6.0%	24c	11c
6.1 to 6.5%	26c	13c
6.6 to 7.0%	28c	15c
7.1 to 7.5%	30c	17c
7.6 to 8.0%	32c	19c

FM: All FM over 1 percent will be considered shrink.

MUSTY/SOUR: 10 cents per bushel discount.

CORN

MOISTURE DISCOUNT: Shrink is 1.5 percent per point of moisture over 13 percent for storage, 14 percent for Price Later Contracts and Grain Bank and 15 percent for selling.

DRYING CHARGES: Drying charges are 3 cents per point from 13 percent for storage, 14 percent for Price Later and Grain Bank and 15 percent for selling.

NEW CROP FALL DELIVERED:

Warehouse receipt grains have a minimum storage charge of 10 cents for the first 100 days after delivery. Price Later Contracts have a minimum charge of 10 cents for the first 100 days after grain is delivered.

3-CENTS PER BUSHEL PER MONTH THEREAFTER.

**** ALL DISCOUNTS OR LIMITS SUBJECT TO REVISION ****

**** THESE POLICIES SUBJECT TO CHANGE AS MARKET CONDITIONS DICTATE ****

Breathless

By GARY ELLINGSON
Feed Department Manager

The price of cattle has created challenging thoughts for everyone. Selling is fun, but buying them takes your breath away.

From the feed mill's standpoint, calf creep feeding has increased dramatically over the last year. Creeping calves has become a very profitable investment. We have creep feeders for sale or "lease to own." Call us if you're looking for a creep feeder.

We'll have placed a couple around the feed mill location if you'd like to look at one.

For the cattle feeder, contact us for your "Cattle Booking Program." The timing looks right.

Hog markets are also strong and look to continue strong for the near future.

We have been active in contracting soybean meal for producers to help them capitalize on these markets. Do we think soybean meal is at a low point? No. But when we hit \$380 per ton this spring, \$180 is tempting.

The cool summer will keep everyone guessing until the combines hit the fields. That isn't too far away.

During your busy harvest season, use our answering machine to leave orders. If you have a cell phone, leave it with the order in case we have a questions. Faxed feed orders are also welcome.

The answering machine number is 507-423-5207. Our fax number is 507-423-6707.

Staff Notes

Jeff Akers has recovered and is back to work from his truck incident this spring. Everyone is glad about that. We have replaced the truck, so our fleet is complete again.

Joe Roers is leaving the feed staff. He has a good opportunity in a management position and we wish him well.

Tom Staniszewski slipped through a weakened pallet and severely damaged his knee the other day. He will be in the process of recovering over the next few weeks.

Meanwhile, everyone is pitching in to fill the gaps. We are a team and work as one. We are here to serve all your feed needs.

TEST WEIGHT:

- * 53.9 to 52 pounds: 2 cents per pound.
- * 51.9 to 50 pounds: 3 cents per pound.
- * 49.9 pounds & below: 4 cents per pound.

REGULAR DAMAGE:

- * 2 cents per 1 percent damage over 5 percent.

HEAT DAMAGE:

- * 3 percent & more: 1 cent each 1/10th.

FOREIGN MATERIAL:

- * 3.1 to 4 percent: 3 cents per percent.
- * 4.1 to 5 percent: 4 cents per percent.
- * 5.1 percent & more: 4 cents per percent.

MUSTY/SOUR: 5 cents.

OATS

MOISTURE DISCOUNT: 2 cents per 1/2 point 13.5 to 14 percent; 1 cent per 1/10th point 14 to 15 percent. ABOVE 15 PERCENT SUBJECT TO REJECTION.

TEST WEIGHT:

- * 2 cents per pound from 37.9 to 34 pounds.
- * 3 cents per pound from 33.9 to 30 pounds.
- * 4 cents per pound from 29.9 and less.

SPRING WHEAT

MOISTURE DISCOUNT: 1 percent for each 1/2 percent moisture over 13.5 percent.

DRYING CHARGE: 3 cents for each 1/2 point moisture over 15 percent.

TEST WEIGHT: 2 cents for each pound under 58 pounds down to 56 pounds; 4 cents for each pound under 56 pounds.

DAMAGE:

- * 2 cents each 1 percent from 1.1 to 5 percent.
- * 3 cents each 1 percent from 5.1 to 10 percent.
- * Protein premiums or discounts subject to market.

Base protein is 14 percent. Any other discounts subject to market.

**** THESE POLICIES SUBJECT TO CHANGE AS MARKET CONDITIONS DICTATE ****

ed to meet the new focus, the acquisition will put FCE's total storage capacity to nearly 12 million bushels. Not only will this allow FCE to meet its commitment to the ethanol plant, it gives us another rail outlet and expands our marketing territory.

It is a win-win situation for everyone.

The purchase will take place as soon as all the "t's" are crossed and all the "i's" are dotted. Moose Zimmer has agreed to remain as location manager.

Bursting at the seams

Meanwhile, our office at Hanley Falls is in need of attention. Even after minor remodeling four years ago, it is bursting at the seams with activity.

The general manager shares the small, antiquated building with offices of Bill Doyscher, John Brandts, Rob Sorbel, Sandi Woelfel and Gary Enger. This staff has done a yeoman's job in conducting a business with more than \$75 million in sales each year and managing assets of more than \$35 million.

But they are simply running out of space.

There's no space for privacy. Many important conversations are conducted in whispers or on cell phones while the staff walks outside.

The board is working on a new building to be constructed north and east of the south terminal at Hanley Falls, north of the Quonset hut. This puts the office in the area of the south terminal, where the grain receiving

2004-05 BOARD OF DIRECTORS

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and shipping is done.

The land has been purchased and construction is expected to be completed next year.

There will be no change, however, in operating procedures. Check writing and other management systems will remain the same.

Grain scheme uncovered

On a separate matter, an employee at our Cottonwood location has been terminated.

An audit of our grain disclosed an unexplained shortfall. Further investigation has determined that the shortfall was due to a fraudulent grain marketing scheme over a period of several years.

A civil lawsuit has been filed by FCE against the employee. Criminal charges are pending, at this writing.

At this time, it appears the scheme resulted in losses to FCE of more than \$750,000 over several years. These losses have already been absorbed in FCE's books, and do not affect the stated bottom line of FCE's finances.

Upon recovery of the funds —

either from the employee, bonding firms or insurance companies or a combination of all sources — the monies will be credited to FCE's balance sheet.

FCE is diligent in protecting its assets. We have at least three grain measures, a financial review and a financial audit each year.

Because of the inexact science of measuring grain, and the volumes involved, the scheme was not unearthed until this year.

The board and management are reviewing current internal practices with the auditor and will make whatever changes are necessary.

Due to the nature of this situation and legalities, more details are not available at this time.

However, be assured that FCE will recover any losses possible. All funds recovered will be returned to our patron-members as income.

Because you own FCE, we feel it is imperative that you be made aware of all the activities of your cooperative.

If you have any questions or concerns, do not hesitate in contacting us or any member of the board of directors.

Eating well

In 2001, Americans consumed an average of 65 pounds of beef, 50.6 pounds of pork and 56.1 pounds of poultry per person.