

# Manager's update

*By Adrian Derousseau*

Having had our 53<sup>rd</sup> annual meeting, we are off and running into the new year. It's quite a contrasting year with the large amount of grain coming in this fall. It causes some challenges, but we would take the bumper crops over a drought anytime.

I would like to give you a brief summary of the past year just in case you couldn't attend the annual meeting. On accounts receivable, most members are keeping their accounts at an average 27 days in age which is excellent. A small number of our customers seem to not understand that the cooperative cannot fund their agriculture interest. We will continue to enforce the credit policy as that is only being fair to those who do a good job of paying their account in a timely manner.

Last year was another good year for retiring equities of our members. Over \$160,000 were paid out in one year. With that payment, we are out by 12 years. Our goal is to be out by only 10 years. Very few cooperatives can say that. The possibility of further payments will be reviewed in June. If we are on budget, another couple of year's equities may be paid.

Our new budget for the 2004/2005 fiscal year is already finished. With a few breaks in the weather, we should be able to complete another successful year. It seems like every year presents its own set of challenges. We do hope next year is less challenging than the past year with the huge fire at the Crop Production Department's facilities. We are looking to moving into the new center by early spring.

The final 10% of this fall's harvest in our trade territory has been a challenge to say the least. We have moved enough grain at all our locations to handle the rest of the crop. I want to thank all members and customers who helped us clear grain from the elevators. We had to go to deferred pricing for approximately two weeks. This allowed us to load out some 300,000 bushels of grain which was just enough for us to reopen all elevators and take grain. From the beginning of harvest to date, we have moved over 5 million bushels in two months. To date, your Co-op has taken in over 12 million bushels. That's no small task by any standard. The employees should be commended by you, the owners, for this accomplishment.

The thing that has helped a great deal is that over the three years since the expansion, we have been putting a more experienced crew at each elevator. This didn't happen over night, but it is improved and we hope to have met your expectations.

With the annual meeting behind us, we are in the process of bringing the new directors up to speed. David Alderman and Roger Maxwell were elected to replace Mark Barnes and Roland Bromert on the board. They have big shoes to fill! Mark has been president and Roland has served as vice president for the past five years. The directors are quite involved since the expansion. It takes a good basic understanding of financial reports, feasibility studies, and an understanding of the constant changes that are occurring in agribusiness in order for them to make sound decisions. To stand still in this business nearly always ensures failure. We will do everything in our power to ensure that your cooperative remains successful for generations to come. Please don't take your organization for granted. You, the members and customers, have a responsibility if you want success.

Thanks for your continued use of the facilities, products, and services you provide for yourselves through your cooperative. It's appreciated. We hope you all have a great Holiday Season!

# Operations

*By Calvin Pearson*

I know several of you still have crops in the field and that makes it somewhat hard to get excited about next year. However, it is time to start thinking about what you will need for next year. For those of you who are on our Input Finance Program, it is time to renew it for next year. If you still owe on last year's loan, it will have to be paid in full before we can write another loan for next year. We can do all the loan processes for next year, but funds cannot be made available until last year's loan is paid. The Input Finance Program continues to be a big positive for farmers and the Co-op. It has continued to grow the last two years. The way it appears, it will be used by farmers even more next year. Interest rates will be a little higher than they were a year ago, but we can't control that. Our rates are based on prime and prime has increased about one and a quarter percent from last year so we will have to go up accordingly. Even at that, our rates will be very competitive with anyone out there.

Fertilizer prices are going to be higher next year and I have heard some of you talk about not planting a crop that needs fertilizing. I can certainly understand that, but I have seen years when a person puts all their eggs in one basket and it backfires. So, I hope that as you plan what you are going to be planting next year you consider all things involved before you back off of corn and milo. The extra cost of planting those crops can be made up with a good marketing plan.

Our seed business continues to grow. We have had extremely good yield results this year. I know there is going to be very high competition out there for your seed business and I hope you don't get caught up in a free seed deal that might cost you yield in the long run. I know some of the competition offer some free seed deals and it may be fine to plant that seed, but your up-front seed cost is not the item that is going to make a profit for you in the end. Asgrow and Dekalb seeds have proven themselves over the years and I feel very confident about the seed lines we have to offer. Our main goal is profitability for the grower, and the bottom line is what, to us, matters most. We don't offer a free seed program, even for new customers. All that seems to do is create a problem for the customers who have been loyal to us in the past.

I hope harvest will be over by the time you get this newsletter. I want to thank everyone for their patience and support during harvest. As you can well imagine, with the yields that we have seen this year, it was hard to keep up with the amount of grain we had to handle. There was no way that we could keep up with just one type of transportation to move the grain. We sometimes had to make tough decisions and maybe not haul out of an elevator on a certain day but rather ship from a neighboring elevator, but we really tried to keep an area open. I feel like we accomplished that for the most part and, hopefully, you didn't have to wait too long to dump your grain. We had to ship a lot of grain by rail and sometimes the cars were on time, but most of the time they weren't. We are looking at some options to ship more grain by rail in the future. If that pans out, it will enable us to handle a harvest like this better. Needless to say, we will handle a record number of bushels this year. Toward the last, it was especially hard to keep certain elevators open when the terminals were also getting full. Sometimes we had to close on the weekend, or be closed Monday morning. We tried to make the best decision each time and if a customer would work with us, we would always try to get his grain dumped somehow. It is very expensive for your Co-op to pay overtime to bring a crew in on the weekend when we don't know if we are going to be busy or not, but we tried to keep everyone happy the best we could.

Again, thanks for your support during this past year. A lot of you went out of your way to work with us during harvest and our staff and I want to thank you for that. I know some of you were grateful when we would come in on Sundays and dump your grain even if it was just one load. Our employees work a lot of hours, and they were always willing to work, even when they may have had family things planned. I want to thank our employees for all their hard work this past season.

# Grain Marketing Outlook

*By Matthew Vajnar*

Record row crop production has dropped spot soybean futures \$5 from their summer highs while corn is at harvest lows. Asian rust and BSE have added a bullish dynamic and a 50-cent rally to the soybean market.

The latest USDA Crop Report of November 12 placed corn production at 11.741 billion bushels on a yield of 160.2 bushels per acre, both records. Production and carryout were both raised 128 million bushels from the October crop report. Carryout now is estimated at 1.819 billion bushels. Some analysts have predicted carryout will eventually top 2 billion bushels. Additional bearish factors include: USDA raising Chinese corn production 4 million metric tons (157.4 million bushels), slow export demand, and an expected increase in corn acres due to increased production costs in soybeans due to the recent Asian rust outbreak.

Soybeans have rallied from recent lows on Asian rust and BSE fears. Asian rust which has been confirmed in several Delta states, was apparently brought into the U.S. during the very active hurricane season in August. Rust can cause complete defoliation in as little as two weeks and has caused up to 75 to 85% yield loss in Brazil on untreated or ineffectively treated acres. BSE or mad cow disease has also reappeared recently in a “downer” cow, rumored to be an old cow out of Florida. Soybean meal has rallied on the idea of a possible ban on meat and bone meal if the cow is confirmed positive and the cow is younger. These two issues have helped to rally soybeans despite an almost 700-million-bushel increase (3.15 billion in production) from last year. USDA estimated soybean carryout at 460 million bushels versus 112 million bushels last year. South American production is estimated to be near 20 million metric tons (734.7 million bushels) higher next year than this year at 100 million metric tons (3.67 million bushels).

Obviously, the row crop numbers are bearish in absolute terms and especially relative to last year's soybean crop failure. New-crop soybeans have the most upside potential, due to the uncertainty that Asian rust will have on planting intentions. Rallies in corn due to short covering or on the unlikely scenario of needing to buy acreage should definitely be viewed as a selling opportunity.

We are very pleased to announce we have added another person to the grain accounting staff. John Ptacnik joined Ottawa Co-op in August. He has five years experience in cooperatives, the last four years at M & M Co-op in Yuma, Colorado. He has good experience in operations and customer service. He lives in Ottawa with his wife, Ann.

Daily market comments are available on our Web site [www.ottawacoop.com](http://www.ottawacoop.com), Monday through Friday. Give us a call if we can be of service.

## **From the office**

*By Clark Wenger, Controller*

The Ottawa Co-op held its annual meeting November 17, 2004 at the High School in Ottawa. There were around 300 people in attendance. Patronage dividend checks were distributed at the meeting and the checks that were not picked up were mailed the following day. As in every past year, a copy of the Ottawa Co-op's financial position was distributed with every check. It was another successful year for your cooperative and now we set our sites on this year. Every year brings new challenges. You may have noticed that we distributed old equity redemption checks in June of this year. We are going to attempt to continue that policy in order to eliminate confusion. Redemption checks are a tax-free distribution whereas the patronage allocation is taxable. By separating the distribution of these two checks, we hope to eliminate some of the confusion which has been raised in past years.

One big item we will contend with is the rebuilding of the fertilizer plant which was completely destroyed by fire on June 5, 2004. We hope to have the new facility completed in the first quarter of 2005. The fire is considered a catastrophic event which leads to differing accounting treatment in regards to book versus tax. Since the Co-op is publicly traded, it is governed by the Financial Accounting Standards Board (FASB) with regards to the annual audit of the financial statements. For income tax purposes, the Co-op, like everyone else, is governed by the Internal Revenue Service (IRS). The IRS and FASB differ in the handling of a catastrophic event, which will lead to different amounts of income on the financial statements versus the amount of income on which taxes will have to be paid by the Ottawa Co-op. FASB requires us to show a gain on the event which is calculated by taking insurance proceeds in comparison to the amount of book value which was left on the old fertilizer building. Since the Co-op had replacement value insurance and the old fertilizer building was almost fully depreciated, this gain is going to be a fairly big number presented on the financial statements. However, the IRS requires us to net that gain against the replacement costs we incur and depreciate the difference. This will all be explained in great detail at our next annual meeting by Lindbsurg & Vogel, Chartered of Hutchinson, Kansas, the accounting firm that audits the financial statements of Ottawa Co-op.

Many of you should have noticed by now that we have moved our main grain office to the corner building south of the main office. The Co-op had outgrown this current office space and needed to expand. This old storage area made for the perfect fit. If you want to call the grain office direct, you can do so by calling 785-229-7008.

One final note, I always like to encourage our customers to let us know when addresses change. Please contact the main office if you have moved or if you have had some type of business change which would affect your business transactions with the Ottawa Co-op. We have made a big attempt to match up names with correct Taxpayer Identification numbers, or Social Security numbers. The IRS notifies the Co-op every year if they receive a mismatch in regards to this information. Some of you may receive a W-9 form occasionally. This is our effort to make sure we have accurate information. If you receive one, please fill it out and return it to the main office as soon as possible. If you know the information we have is not correct, please contact the main office and we can get a blank W-9 form to you. Thank you in advance for your cooperation. Here's to another great year at the Ottawa Co-op!

# Crop production highlights

*By Mike Selman*

Construction of the new Crop Production Center is well underway as this is written. The new facility will be 40 feet wider than the old building which will make it 140' x 140'. This additional space will allow us to store more tanks, tires, and other equipment inside out of the weather. The shop where we repair tanks and fertilizer spreaders will be moved to the northwest corner. A truck-loading dock will also be added to the north side of the building. These two additions will reduce the traffic congestion on the south end of the building that we have experienced in the past. The bulk tanks and loading pads for our sprayers will remain where they were in the building, but a few changes will be made there as well. We will be loading trucks with water from the bottom with a quick connect hose rather than over the top and will have a separate meter and hose for each bulk tank in the building. By eliminating spillage from over-the-top loading of water and constantly having to rinse our chemical weigh hopper, we should be able to significantly reduce the amount of rinse water we generate and dramatically speed up the process of loading mini-bulk tanks for customers. The office will remain in the southeast corner next to the scale. The southwest corner of the building will be used for storing packaged chemicals and fertilizer. The added room should allow us to have more inventory on hand to help during the peak-demand times of the year. The building will also be equipped with fire detection and suppression sensors and security features that will help in preventing another fire like the one we experienced in June. If the weather cooperates, the building should be enclosed during the first part of December and finished either in late January or early February. Until then, you can find us in our temporary office just a block north and a block east at 126 N. Oak.

Fertilizer for spring will be sharply higher in price than it was this past year. We are still trying to secure some price locks from the manufacturers for spring delivery, but as of now they have been reluctant to commit. The factors driving the price of fertilizer are varied. The stronger influence is coming from China and other countries that are willing to pay more for fertilizer than it is currently selling for here. The second factor which helps drive the first is that a large majority of nitrogen fertilizer is manufactured overseas, and in particular, in Israel. The fewer manufacturers currently involved have more influence on the market and the direction it takes. This is especially true of potash as it is priced higher than ever before. High natural gas prices that effect production of nitrogen fertilizer in this country are also a part of the equation, but have less impact this year than in the past. We will have pre-pay prices available for fertilizer soon and it will be competitively priced, in large part because we were able to build a second dome for storing fertilizer a year ago. The two domes we have for storing urea are valuable tools that we can use to offer growers the least-cost approach to buying their inputs.

As soon as we can get back into the fields, we will try to make up for lost time by getting pastures and hay ground fertilized as well as applying starter fertilizer that can still be incorporated. Herbicide programs for next year are just starting to come in and we should have a complete list ready soon. Even with herbicide-tolerant crops like Liberty, Clearfield, or Roundup Ready corn and Roundup Ready soybeans, a pre-emergent herbicide application followed with a post-emergent application puts the most bushels in the bin and the fewest weeds in the field.

We'll continue to run application equipment out of Ottawa and Overbrook. We have spent the last few months trying to get our equipment and facilities repaired and ready for what will be a very busy spring. We look forward to getting started. As we approach the busiest part of the year, we ask that you call us four to five days ahead so we can be at your farm the day you want us. Bulk chemicals can be delivered to any location. Visit with the branch manager in your area about what works best for your operation and we

will do all we can to make sure you have the tools you need to raise the best crop possible. We appreciate your business and look forward to providing you with the best products and services around.

# The Seed Department

*By Kenyon L. Rumford*

This has been an unusual year with the amount of rainfall we had to make our crops do so well. On the other hand, it was really a battle getting all the grain positioned so you could keep cutting. Every year, we gamble on wheat seed to see if we can get it planted in a timely manner. Well, this is the year that we had to guess on seed wheat quantities and hope we hit it right. We had several pallets left over but not as bad as it could have been. With the inventory protection we had through our supplier, it helped us out by sending the remaining pallets back.

With the unplanted wheat acres that have come open, this will mean more corn and bean acres planted in the spring. We are starting to have interest in early-cash discounts that are offered through Monsanto. November cash discounts start at 8.5%, and with that also comes a volume discount offered by the Co-op. The earlier you buy, the cheaper the seed will be for you to purchase. There are some of you who may not need to spend money until next year; the discounts will be less but still very attractive. Another advantage to ordering early is the guarantee the seed will be in stock when you need it.

As you have already heard, the cost of soybean seed has increased for this upcoming year. This is a royalty fee increase which sounds like Monsanto just wants more money from the farmers without explaining why. Monsanto spends \$1.3 million per day in research to find the best available product for you to plant in your fields. There are several people who really buck the Roundup tech fees. If they would step back and try to understand the magnitude of the technology that is being developed, they would probably sleep better at night. Ever heard the phrase, "It takes money to make money"? That is what Monsanto is doing for your seed and chemical needs. They are investing money into research in order for you to make the most bushels per acre in your farming practices. It doesn't matter what flavor of seed you buy, if it wasn't for the Monsanto research, nobody would have Roundup Ready corn or beans. Don't let the price of the seed determine if you are going to buy a certain product. Look at the yield test results comparisons and figure the bushel advantage compared to the cost of the seed.

Again this year, we are offering beans in the bulk. This not only saves time in loading and unloading but also reduces the safety factor in handling small bags or lifting the mini bulk bags over head. Last year, the seed treater was a success story for those who took advantage of this offer. The treater applies a fungicide called Apron Max. This treatment will help protect your seed in cold, wet conditions and will keep your seed from rotting. In all the replants we had last year, we had zero replants that were treated with the fungicide. Not having replants will save on seed costs but also time and equipment costs. If you are interested in talking to a few of our customers about their success, let me know and I can give you their names.

Stop in and visit with me on this year's seed varieties to see if we can save some money for you with our programs we have to offer. Come and look at our yield test results for the surrounding areas. It will show the varieties that shined and the ones that did not. We have also invested in a company weigh wagon that can be used to conduct side-by-side yield comparisons in your field. Let me know if we can set up a side-by-side this coming year at your farm.

Let us hope this year's crops will produce like this past year's. If you need anything in the way of seed, let me know.

# Feed for thought

*By Brandon M. Plaschka*

We hope this newsletter finds you safe and well. What a muddy, mucky, yucky mess! From one extreme to another— too dry, too wet — it surely seems Mother Nature can't make up her mind. I guess everything evens out in the end. Let's hope for a mild winter.

If you have been to any of the Ottawa Co-op branches lately, you have probably noticed some new feed bags and displays. We are pleased to announce the addition of the Nutrena brand of feeds from Cargill to our lineup of feeds. Nutrena is a full-line feed company whose products, services, and reputation makes them a natural fit for the Ottawa Co-op and its patrons.

With the weather conditions we have had so far this fall, please keep in mind that an animal's daily nutrient requirements go up. It takes more energy for them to maintain their body weight on a daily basis. If they are wet; it takes even more if you expect them to gain weight. This applies to all animals from your cats and dogs to horses and cattle. Feed a higher energy feed in the cold, wet months to help maintain and keep your critters healthy.

For your cattle, be sure to check out our new NutreBeef Carmelyx brand tubs. They are an excellent source of protein and energy for your cow herd. Consumption is controllable so these tubs can be used as the sole source of protein and energy, or as an addition to your regular program. These poured tubs are a great labor-saving tool. You put them out and the cows regulate the intake themselves. Watch your mailbox for a coupon to make it easier for you to get started feeding tubs. If you have been feeding them already, the coupon will be a reward for you. If you do not receive a coupon in the mail, ask your branch manager or give me a call

# From the Petroleum Department

*By Arlie K. Watts, Jr.*

Crude oil prices and crude oil futures remain high. Demand for energy products around the world continue to grow to levels never seen before. Traditionally, we see oil prices drop in November each year. I've been told that this year could be the first year in a while that a decrease, if any, may be small and not enough to give us at least pre-war prices for motor fuel, heating oil, or propane gas. Time will tell.

We, for sure, cannot outguess this market. Every week a new report comes out and informs us of build or draw in crude oil. The same report lets us know if there is a build or a draw in U.S. inventories of unleaded gasoline and distillates. If one is positive and the other is negative, the outcome is a no-change in prices. If both are negative, we go up. Both positive, we go down. Then there is the bad news or good news, which also pressures these markets.

Soy oil will gel if stored outside in cold weather if it has not been blended with diesel fuel. We have sold our inventory for this year, but we will continue to carry soy for blending in the spring of 2005. When pricing soy diesel, be sure you are getting at least 2% soy oil in order to receive all the benefits of soy diesel. One quarter of 1% is not a true soy diesel.

What about prepaid diesel for next year? We have not yet seen a decent market for locking in diesel for next year. We are watching and waiting. Demand for heating oil is currently keeping diesel prices at a high point.

There have been a lot of LP contracts with our customers this year. This is nearly always a good choice on your part. We are grateful to our customers for getting their gas contracts to us early so we could cover more gallons, if needed.

We have changed out a lot outdated regulators and performed many leak tests. We are currently running behind schedule on getting some of our customers' propane systems updated. Please be patient. We will get them changed as soon as we can.

Our tank painters had many wet days and could not paint as many tanks as needed to be done. On the other hand, we can't complain about the much-needed moisture we had this last spring and summer. We will get to those tanks next year when school is out and the weather permits.

# News from the TBA Center

*By Jarod Franks*

We want to assure you that the employees of this department are committed to providing service for our customers in supplying their tire and oil needs. The Co-op has a large number of vehicles and we also provide service for them.

Our insurance carrier has just given their approval for us to change tires on split rims again. Working with this type of rim can be very dangerous. We have gone to great length to train and make sure the personnel in the department follow strict safety guidelines as required by our insurance company. There are many rims of this type in the country and we are glad that we can provide that service again.

The price of oil has gone up substantially in the past few months. This is largely because of the cost of crude oil which recently hit new record highs of over \$55 a barrel. The cost of additive packages has also gone up. Now is the time to be planning ahead for our Annual Spring Oil Sale. It will begin February 16, 2005 and run through April 16, 2005. That will be the time to secure your supplies for the farming season ahead.

Need new tires for your vehicles? We have increased our stock of mud and snow and all-season tires so we should be able to provide tires for just about any application. Although walk-in customers are always welcome, we would be glad to have you call and set up a time that is convenient for you to come in and have us install a new set of tires. Mounting and balancing is included in the price of the tires. If you buy a set of four tires, we include free balancing and rotation for the life of the tires. This helps ensure that you get the most service from your tires. Come see us, we appreciate your business.

# **SEASON'S GREETINGS**

**THE BLESSINGS OF PEACE —**

**THE BEAUTY OF HOPE —**

**THE SPIRIT OF LOVE —**

**MAY THESE BE YOUR GIFTS**

**THIS CHRISTMAS SEASON**