

FALL 2008

SPECIAL POINTS OF INTEREST

- 2007-2008 Financial Results
- Beef Clinic Held For Local 4H & FFA Members
- 2009 Crop Input Financing
- Is Average Good Enough
- Propane Tips
- Ethanol Effects
- Fertilizer Outlook

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Dave Bowlin shown working with a group of parents and youngsters.



A Message From Larry Petersen CEO/General Manager

At this year's annual meeting held on September 11, the 2007-08 financial results were shared with almost 1000 members and guests of Heartland Co-op. The results that were achieved this past fiscal year were significant. It was reported that Heartland's total earnings for the 2008 fiscal year were over \$13 million which is the best year in the history of the Cooperative. This marks 14 consecutive years of positive earnings. To be a successful and sustainable business we need to produce consistent and ample earnings flow that can be used to purchase or replace capital assets, make debt payments, revolve retained equities, and pay current earned patronage.

Heartland Co-op Financial Summary

	2006	2007	2008
Total Sales	\$250,281,792	\$345,474,532	\$763,762,846
Local Earnings	3,402,540	4,048,391	5,519,968
Total Earnings	5,307,577	7,189,254	13,083,306
Working Capital	7,781,820	7,752,675	28,865,611
Long Term Debt	8,977,840	10,691,966	37,975,255
Expenses	35,061,054	42,757,768	72,986,755
Grain Sales,			
Bushels	59,019,803	68,696,462	108,879,146
Petroleum Sales,			
Gallons	13,949,206	16,226,083	22,578,446
Feed, Agronomy,			
& Merch.	49,943,843	61,007,163	106,479,686

The increase in sales this year was more than double last year's results. This does include a year of unparalleled commodity prices along with input product prices that were significantly higher. Also, we have to recognize the fact that the results include the full year of operations of the acquisition of Central Iowa Cooperative, Jewell and the merger of Central Counties Cooperative, Reinbeck.

Additionally, this year's results are partially affected by the merger with Farmers 4-County Cooperative of Belle Plaine that took place on February 1, of this year. Bottom line results were impacted negatively because of the absorption of final payments for retirement plans held by Central Counties and Farmers 4-Counties.

The take away from the discussion of the financials at this year's annual meeting was that Heartland's earnings and balance sheet are very strong. By almost any measurement, this was another successful year for Heartland. Member/customers should feel confident that we will be able to perform on any contractual agreement and should feel comfortable conducting business with Heartland Co-op. We sincerely appreciate the business that our members and customers have transacted with Heartland this past year.

This year the Heartland Board has decided upon allocation rates of \$.0225/bushel on grain, \$.0175/gallon on petroleum products, 1.25% on feed sales, and 2.25% on agronomy products and services. The total amount of patronage allocations declared this year amounted to \$3.72 million with 40% of that paid in cash. With this cash amount along with equity revolvment and estate payments, Heartland paid out in excess of \$2.65 million to its members this past year. Since the inception of the merged Heartland Co-op in 1993, almost \$21 million has been

paid to its members.

This year's annual meeting, director elections were held in Districts C, E, I, J and N. Elected were Doyle Drake - District C, Art Churchill - District E, Vernon Flinn - District I, Brad Olson - District J and Warren Schildroth - District N. We would like to thank all those members who allowed their names to be placed on the ballot. A special recognition goes to Vince Moye who was unsuccessful in his bid for another term. Vince was a long time Central Counties Board member who was instrumental in bringing about the merger of Central Counties and Heartland this past year. He was selected to serve on the newly formed Heartland Co-op Board and held a board seat over the past year. Also, a special thanks to the 15 members who served on the 5 district nominating committees.

At the September meeting, the Heartland Board held their election of officers. The incumbent officers were reelected to their positions. Art Churchill was elected president for the next year; Doyle Drake will serve as vice president and Vernon Flinn as secretary.

Please mark your calendar. Next year's annual meeting will be held on Tuesday, September 15, 2009. Again next year there will be two meetings on that day. The first will begin with a meal served at 12:00 noon and the evening meeting will begin with a meal at 6:30 p.m.



Feed News By Gary Mohr, Feed Sales and Marketing Manager



He discussed selection of beef calves, genetics, good nutrition and setting goals for showing calves. He also brought six calves to the Clinic so these young people could have live experience in evaluating and selecting the best animal for their project.

The Fairview Zippers and Heartland Co-op of Marengo co-hosted a Beef Clinic on September 27 for 22 local 4H and FFA members and their parents.

Dave Bowlin, Beef Specialist for Heartland Co-op was the presenter. Dave has many years of experience showing cattle and also sells show calves to buyers all over the United States.

Heartland appreciates the opportunity to work with young people in the agriculture community. We offer livestock project accounts for the sons and daughters of our customers enrolled in 4-H and FFA programs as well as additional support and incentives for them. We hope that many of these youngsters will become part of a thriving central Iowa ag economy.

Financing By Neal Tapken, Director, Credit & Collections



There has possibly never been a time when financing has been more important to your operation. Input costs have increased and your dollars

are being stretched like never before. Heartland Co-op understands the importance of purchasing at the right time and having the funds available at the right time. Once again we have teamed up with The Cooperative Finance Association (CFA) to offer you the most exciting financing options available anywhere.

2009 Crop Input Financing

Triple rate loan. Your interest rate is determined by the products you purchase.

1.00% APR below Prime Rate on funds used for Heartland Co-op prepay agreements.

1.50% APR above Prime Rate on funds used for Heartland Co-op in-season products.

2.50% APR above Prime Rate on funds used for qualified third party expenses.

Upon credit approval you will qualify for a triple rate crop loan that can be used for all Heartland Co-op products and a few select third party expenses. The application and approval process is quick and easy. All loans under \$250,000 are only required to complete a simple two page application. The application review process is handled by CFA and you will typically have a response within 48 hours.

Heartland Co-op has offered crop input financing for several years and we have witnessed the benefits it provides our customers. Many of you took advantage of the aggressive financing options last year and have benefited from variable interest rates well below 5.00% APR on your Heartland Co-op prepay purchases. Every producer that has utilized our financing programs has enjoyed the flexibility and freedom it gives them. Every purchase you make from Heartland Co-op will be automatically deducted from your CFA crop input line of credit. This gives you the freedom to worry about the more important issues of your operation. Additional qualified crop input expenses will be paid directly to the provider with your approval. You will also get the flexibility to set a maturity date as late as March 15, 2010. You make the decision; you will only pay interest on the money you use and you are not penalized if you payoff your loan early.

In addition to crop input financing, Heartland Co-op is also offering a very attractive seed financing program for 2009. This program is administered directly by Heartland Co-op and only requires a simple one page application and promissory note. Upon approval you will have access to your requested loan amount for select seed purchases from Heartland Co-op. This program has been revised this year to qualify you for both the volume and prepay discounts.

2009 Heartland Seed Financing

7.75% APR fixed

Maturity date: November 25, 2009

Product lines: Asgrow, Croplan, Dekalb, Mycogen, Stine & NK

Minimum purchase: \$5,000

Volume discounts will be taken from the cost of the seed at time of billing.

Prepay discounts available.

I encourage you to contact your Heartland Co-op salesman and discuss the benefits of these financing options and how they will fit in your program. Feel free to also contact me at 515-974-4337 if you would like more information about any of these financing options.

Market Strategies By Dean Ohrt, Director of Eastern Grain Origination

USDA November 10, 2008 Crop Report

USDA gave us a pretty much neutral report following the October report and subsequent revision of those numbers.

Corn was lowered slightly giving us a yield of 153.9 and a crop of 12.020 billion bushels. Corn ending stocks increase slightly to 1.124 billion bushels. The soybean crop was also



lowered to 2.921 billion bushels and a yield of 39.3 bushels per acre. Ending stocks are projected at 205 million bushels, unchanged from last year.

The Brazilian soybean crop was lowered 2.5 mmt to 60 mmt. World ending stocks of corn was raised to 110 mmt compared to 126 mmt last year. Wheat numbers were left very close to unchanged from last month.

The market will now turn its focus on the world economic turmoil and how it will affect demand in the coming months. Sales by producers have been very light to non-existent for the past several weeks. Soybeans spreads are reflecting very little carry while corn spreads are nearing 90% of full carry. Storage space appears to be



adequate to surplus in the eastern corn belt.

Looking Back to Beat the Averages

It is fascinating to me how each crop year takes

on a life of its own and somehow seems to surprise us and the prognosticators. The problem as one very smart guy stated is "Our knowledge is about the past and all our decisions are about the future". Our challenge is not to learn more sophisticated trading methods but how to simplify our marketing. The demands on our time are greater than ever. Even if one likes marketing, devoting the time to it that is required is difficult at best.

The goal most grain producers strive for is to be in the top third of the market range. Being average is not necessarily something we like to be. Although I quite often use the quote "Nothing wrong with being average – you are just as far from the bottom as you are from the top". No matter how hard we try, it is a huge achievement if we can achieve the average price for a given market range. Looking at the chart, we can see that using the running average can give us perspective and if used this past year, would have put us in the top 75% of the market high.

A simple tool of using averages can make a big difference in the outcome of our grain marketing.

There are a lot of market indicators built on averages and moving averages - one can always move up to the fancy stuff, but none will give you more bang for your buck than keeping track of the average market price for a given time period.

This is one of the busiest times of the year. Remember we have several folks on our staff that are available to you to help with your marketing or run marketing obstacles' for you. Have a bountiful and safe harvest.

Corn		Avg	Avg
1/2/08	9/22/08	75% of 7.99	5.98
4/2/08	7/21/08	6.65	
1/2/08	7/21/08		6.08
7/28/08	7/31/08	6.65	
1/2/08	7/1/08		6.07
8/21/08	8/25/08	6.08	
1/2/08	8/25/08		6.03
Soybeans		Avg	Avg
1/2/08	9/22/08	80% of 16.36	13.17
2/15/08	3/13/08	13.72	
1/2/08	3/13/08		12.88
5/13/08	8/1/08	14.13	
1/2/08	8/1/08		13.35
8/21/08	8/29/08	13.37	
1/2/08	8/21/08		13.28



Petroleum News By Clair Rew, Director – Petroleum Sales and Marketing



**PROPANE –
New After
Hours Propane
Emergency
Number:
1-888-588-7535**



Please use this number ONLY if you are out of gas or have a propane leak that occurs either on the weekend, holiday, or after 5:00 pm on a week day. This is an emergency number ONLY and not for ordering LP gas or any other use.

PROPANE - SAFETY TIPS

Propane is a safe energy source when handled properly. Your propane system is like any other equipment, it must be checked periodically and parts upgraded to maintain a safe system. Everyone should have their propane system and appliances checked on a regular basis for you and your family's safety. If you would like to have your propane system checked, Heartland Co-op has a trained staff of propane technicians.



Below are additional propane gas safety tips:

If You Smell a Leak

- DO get everyone out of the home and away from the area.
- DO NOT attempt to find the leak.
- DO NOT attempt to repair your appliance or light your pilot light.
- DO NOT turn on or off light switches inside the home.
- DO NOT use a telephone inside the home.

- DO NOT light matches anywhere inside or near the home.
- DO attempt to shut off the valves at the tank.
- DO call both your propane supplier and or the fire department for help from a telephone away from the home.

Gas/CO2 Detectors

- Gas/CO2 detectors are available as an extra measure to detect leaks.
- Gas detectors are only an aid and are not intended to reduce or eliminate proper safety procedures when a person smells the odor of gas, even when the alarm on the gas detector has not been activated.
- It is extremely important to follow manufacturers' instructions when installing a detector.
- When selecting a gas detector, you should choose only detectors that are listed with the Underwriters Laboratories (UL).

REFINED FUELS – WINTER FUEL BLENDING

With cold weather near it is especially important that you drain and remove all water and contaminants in your tank, clean pump screens, and change your tank filters. The water in the filter will freeze and plug the filter well before the fuel gels. If you experience this problem, check your filters before assuming the fuel has gelled. Changing filters is also important for your equipment as well. If you plan on blending fuel for use this winter, it is important that you pre-blend #1 fuel with the fuel you already have in your tank to the desired blend percentages before adding additional blended fuel.

Soy blended fuels do not have the same cold flow properties as non-blended fuels. Soy blends containing more than 5% have a cold flow pour point of 6 degrees higher for every 10% of soy. For example a B20 blend will have a 12% higher CFPP than a straight #2 fuel.

The new ultra low sulfur diesel (ULSD)

compared to low sulfur diesel (LS 500) has different cold flow properties. The cold filter plugging point (CFPP) of this diesel may take more #1 fuel to stop it from gelling. To properly blend fuel, the fuel and the additive must be above their cloud point. The cloud point of winter fuel is typically 6-12 degrees, so an easy rule of thumb is to be sure that the additive and the fuel are above their cloud point before blending.

The #1 fuel will be in short supply this winter and suppliers may have to go to other terminals across the state to keep it stocked. Please give us plenty of notice this winter if you are in need of blended fuels.

REFINED FUELS – OPERATIONAL UPDATE

Heartland continues to look for ways to reduce our refined fuel operational costs to be more efficient in order to enable us to keep your refined fuel prices lower. Recently, internal changes were made in our west region. The Rippey, Waukee, and Minburn refined fuel routes consolidated their administrative department to one location, Minburn. This enables us to minimize administrative costs, asset expenditures, and create better communication between the sales/delivery team. These changes should not affect the fuel salesman you now have or the quality of service you are currently receiving.

THANK YOU FOR YOUR BUSINESS!



Grain – Harvest 2008 By Tom Hauschel, VP Grain and Risk Management



The Grain Team at Heartland Co-op would like to thank everyone for your patience and Co-operation in working through this harvest season. The Iowa elevator system

is not built to handle the high moisture corn crop that we are experiencing this year. The quality of the crop is stressing the equipment and grain dryers resulting in higher than normal down times due to the equipment breakdowns. Lines and restricted hours are common as locations must restrict daily receipts to the capacity of the grain dryer. These restrictions are necessary because no aeration system made which will store 20+ moisture corn for extended lengths of time. Heartland Co-op will continue to monitor each location and strive to make continued improvements to the handling systems to accommodate the ever changing harvest seasons.

As of mid November soybean receipts were equal to last year and at our company wide expectations. Corn receipts however are 60% of expectations as harvest progress is hampered by wet corn and wet weather. The quality of the corn crop is a big concern this year, as high moisture corn is dried its storage and handling characteristics are compromised. High concentrations of broken kernels will result from drying high moisture corn. Poor storability and quality losses will show up in future months. Keep a watchful eye on your grain bins to avoid any preventable quality problems.

Counter Party Risk

Current financial problems in the Ethanol markets bring to light the risks associated with doing business directly with end users. One Ethanol Company's bankruptcy changes our long standing views of contracts and the validity of those contracts. Experts have stated that the bankruptcy code allows a debtor to decide whether to accept or reject contracts like grain supply contracts through the date of the confirmation of the bankruptcy plan. For example, if a farmer or elevator has corn sold below the current market price the contract will most likely be accepted, conversely if the contract price is above the current market the contract will be rejected. The farmer or elevator will have to resell the corn into the open market at current market prices, and file a claim with the bankruptcy court for the price difference. The seller then becomes an unsecured creditor with no guarantee of ever receiving the market difference claim. Make sure you know the financial condition of the companies that you are doing business with. Selling the highest price may not correlate into bring home the most cash if you are doing business with financially troubled companies.

Dave Coppess, Exec. V.P., Sales & Marketing “Helping farmers produce & market profitably”

One of Heartland’s basic efforts is stated in our brand promise...“to help farmers produce and market profitably”. We like to think we are delivering on this promise in a number of positive ways that creates new value for our customers each day.



In the agronomy area, we believe the seed plot trials that we put together each year has a tremendous impact on helping farmers select the right seed for next year’s crop, thus improving yields that go directly to the bottom-line of your farming operation.

Recently, we completed a number of these plots across our trade area. One of the best attended is in the Slater / Enterprise area.



We’ve included some of the pictures from this year’s plot tour in the Lifeline.

At the plot tour, we highlight several of our marketing programs, such as precision ag, variable rate application, RTK technology, and a host of other topics that are timely and pertinent to your success. We have a large number of suppliers on hand to answer questions about their products and discuss choices that you may wish to consider as you plan next year’s crop. Our intent is to keep these sessions brief, yet informative with the ability for follow-up with those who want more detail.



If you weren’t able to join us for one of these sessions, our Sales Agronomists are available to provide the plot data and other assistance that will help you “produce and market your next year’s crop profitably”.



Fertilizer Outlook

There is a lot of discussion in the media about fertilizer prices dropping. That’s



creating some concern for growers that are planning to fertilize this fall but are hesitating based on a perception prices may be lower next spring.

First, let me state that no one really knows what fertilizer prices will do between now and next May. However, the basic fundamentals in place at the present would indicate RETAIL fertilizer prices will be higher next spring. Let me explain why.

In the past, we always shared the fact that fertilizer prices were closely correlated to the cost of natural gas, a basic ingredient of fertilizer production. It is logical to assume that with the recent drop in crude oil prices, that natural gas and fertilizer prices will follow. Unfortunately, the relationship between fertilizer prices and input costs became dis-connected almost two years ago as world demand for fertilizer began to escalate. The countries of China, India, and Brazil have become huge consumers of fertilizer as they strive to meet the increasing demand for higher protein by their growing, middle-class population. This demand, along with a reduction of domestic fertilizer production here in the U.S. has put a tremendous strain on global fertilizer supplies. U.S. farmers are now competing on a world market for fertilizer. Thus, we’ve had a huge run-up in wholesale fertilizer prices. Retail fertilizer prices have lagged considerably behind the wholesale market, creating an unusual price inversion.

Much of the information you are hearing from the media today is a result of a correction that is currently taking place as wholesale fertilizer prices, at least urea and phosphates, hit the top of the market and are beginning

to soften. However, wholesale phosphate prices are still above current retail prices. If we re-fill our sheds at these replacement costs, the spring price will be higher than today.



In the case of urea, it has tumbled dramatically, primarily because all the retail sheds are full and some barges need to be moved off the Mississippi River before it freezes this winter. There is also some new urea production coming on-stream in the middle-east and ocean-going freight has dropped dramatically the past couple of months, so we’re seeing global supplies of urea begin to balance with demand.

What’s still important to remember here in the Midwest, is that we don’t use very much urea. Most of our nitrogen is sourced from anhydrous ammonia (NH₃) and UAN liquid nitrogen. Neither has shown much sign of softening. In fact, NH₃ producers tell us they are basically “sold out” for the fall and spring contracts are no longer being offered. Discussion of spring prices indicate replacement costs that equate to a retail price > \$1200 per ton...making current fall prices a bargain.

The bottom-line is, ag retailers have not followed the wholesale prices up at the dramatic pace they went up, and farmers should not expect retailers to follow the wholesale prices back down...at least until current inventories are depleted and replenished, at whatever cost of goods are encountered at that time. At the present, that appears to equate to higher prices for fertilizer next spring.



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Booneville
515-996-2295
800-244-8579
Cambridge
515-383-4345
Carlisle
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Grundy Center
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Panora
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800-542-7887
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