



2017 Annual Meeting

On March 30, 2017 we held the 110th annual meeting of Community Co-op. The direction of the cooperative and some of the opportunities and challenges that it will face over the next twelve months were presented.

Looking at the three biggest challenges facing Community Coop and its members for 2017, we see a struggling ag economy, a lack of affordable health insurance for our farmers and individual members and less local and regional earning earnings for Community Co-op. As we are all aware, commodity prices for farmers are lower than we have seen in a number of years and expenses on the farm have not decreased to matched the lower income. This started back in early 2016 and appears that it will continue thru 2017. There is no real clear picture of when this down turn in the economy in agriculture will end. This will negatively impact Community Co-op and the communities we serve.

When the farm economy struggles, producers will use less fuel and be more price sensitive which will impact our sales and our margins in our bulk fuel division. They will also only repair items when they break or replace tires when they are completely worn out so this impacts our shops as well. I also suspect we will see some impact to our propane business. If the price of corn is low this fall our producers will wait as long as possible to harvest their corn which will lessen the amount of propane used for grain drying.

These are not completely new challenges to agriculture or Community Co-op, but it has been a number of years since the ag economy has been this challenged. These items will likely lessen our local earnings in 2017. These same items have impacted CHS, the regional cooperative we purchase fuel and propane from. When the financials were presented, most of the 1.4 million of income from non-local sources was from CHS. Based on the fiscal earnings for CHS from 2016, our earnings from them will be \$570,000 in 2017. This decrease in regional earnings will have a negative impact on our earnings for 2017. When we I look at our budget for 2017 we are projecting lower earnings for 2017 but this will be a short-term decline from the local earnings side. Our investment in natural gas will make up a portion of the decline in 2018 and Community Co-op will remain very strong financially going forward.

The last challenge is affordable health insurance for farmers and individuals in the ag industry. We are not going debate on where the Affordable Care Act failed and who is to blame, but the impact of what has taken place is than many individuals and farmers in Minnesota had their health insurance coverage dropped at the end of 2016. Fortunately, late in 2016 an insurance carrier came back to the market for these individuals but at a substantial premium increase of 30 to 50 percent or more. This impacts our members and all ag coop members in a very negative way especially during a struggling ag economy. But I am pleased to announce today that some cooperatives have been working together on a solution for our members in Agriculture. With a recent legislative law change in Minnesota, a new health insurance Cooperative is being formed called 40 Square. This is being structured as a 308b Cooperative that will be 51% member owned and 49% investor owned and those investors will be local and regional cooperatives. The cooperative is in the startup phase with plans to have health insurance offerings available in November 2017 that would take effect January of 2018. As more information becomes available we will get it out to the members of Community Co-op because we think this will be a great opportunity for our producers.

We finished with the opportunities for Community Co-op. Last week the Board of Directors, Roger Hermes our business advisor, Wes Griggs our banker from Co-Bank and myself had a long-range planning session for the future of Community Co-op. If you have been to the annual meeting in the last few years you are aware that Manager's Report 2017

Now if you have been to the annual meeting in the last few years you are aware that your Cooperative has been growing quickly. In the last five years Community Co-op has invested 10 million dollars on assets to serve our members and the board has approved about a million dollars for projects for 2017.



The first item is continued expansion of natural gas. Starting in April we will be running a natural gas line to the city of Gary so this will now be the sixth community we will be serving with natural gas. We are also looking at some other communities and opportunities for natural gas in 2018. We also are still growing the number of services in the other five communities we serve so we plan to add around 300 new customers to natural gas with Community Co-op in 2017. With all the growth in natural gas we were out growing the space in our office building in Mahanomen. Some of you may already be aware we sold our current office building in downtown Mahanomen in late December and are planning to build a new office building out by our Pump 24 C-Store location. The new office building will be 40x70 all on one level with offices and a meeting room on the front and storage in back. We will continue to rent space in the old office building and operate the office there until the new building is completed. Construction of the new office building will start in early May with completion around July 1st.

The next item of change is transportation relating to transport loads delivered directly to our C-stores and transport fuel farm customers. Western Co-op Transportation has been the fuel and propane transport company for Community Co-op for many years and had been very reliable, doing a very good job for us in the past. Effective March 16th of this year Western Co-op transport sold all of their assets to CHS Inc and are no longer in the energy transportation business. So, what does this mean for Community Co-op? Since the notification, we have been exploring our options and we have chosen to use CHS transportation for all of our propane deliveries and part of our gas and fuel deliveries. We are also exploring purchasing our own truck and trailer and hauling a large portion of our own product. We are just finalizing a couple of items but don't be surprised to see a fuel transport semi with Community Co-ops on the side delivering to you in the near future.

The last item is online bill paying. I know we said last year that it would be available in 2016 but we had some unforeseen problems. The original company that we were working with was unable to make their system work with our current Red River back office system. So in July of last year we were right back to where we started with nothing. But sometimes these failures can lead to better opportunities and that is what happened in this case. Over the past 6 months we have been working with Red River our back office system provider and a company out of Fargo called Intercept to build a system to work specifically with our software and work for the different demands we have as a cooperative. I am pleased to announce that the system is in initial testing and will be available within the next two months. The new online payment system, besides having the ability to pay online, will also give you the ability to look up your previous purchases online and review previous statements if you need. This system has far greater capability than what we were working with before and it allows you to sign up online from our website. We will be sending out notices when this is available and are very excited to finally provide this service to our members.

Thank you the members for your business in 2016 and we look forward to serving you in 2017. I would also like to thank the employees of Community Co-op for your service and support to the members, this is what makes the Co-ops success possible. I am very fortunate as I think I have some of the best employees to work with every day. I would also like to thank the board of directors for their guidance and leadership, you do a great job representing the members of Community Co-op and are very progressive and forward thinking in planning for the future of this great Cooperative.

Thank You!!

David Blomseth, General Manager