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Constant Improvement Key to Ongoing Success

BY ROGER MILLER, CEO



I am proud to report to you that your cooperative had a very successful year for the 12-month period ended July 31, 2014. The financial results can be seen in the statements contained in this report. Consolidated net income was \$6.71 million, second best in Premier's five-year history. The results show once again the benefits of being diversified at the local level among different business areas. The fruits of a better crop were harvested and the seeds of future growth were planted and nurtured.

Grain made a significant improvement from fiscal 2013 as yields improved from the drought conditions surrounding the 2012 crop. Energy continued to improve with a substantial sales increase and added customer base, while agronomy results were off slightly from the previous year even as sales volumes continued to increase. See Tim Hughes' United Prairie report for details of the year in agronomy.

Based on those results, and after considering the company's financial position and future capital needs, the Board of Directors approved a patronage distribution of \$2.2 million. The distribution will be comprised of 50% cash and 50% qualified equity credits. The rates are as follows:

CATEGORY	BASE	RATE
GRAIN PURCHASES	BUSHEL	\$ 0.02146
STORAGE	DOLLARS	10.50%
PRICE LATER	DOLLARS	10.50%
DRYING	DOLLARS	10.50%

The Board also declared a 3% dividend on first-preferred stock outstanding as of July 31, 2014, and approved the redemption of all qualified patronage equity issued in through 1997.

Altogether, Premier will be returning \$1.95 million in cash to the patrons and equity holders of your cooperative. The payments will be sent out in February of 2015.

In addition to the equity distributions, substantial capital improvements were added or initiated during the year. In total, the consolidated entity spent \$18.3 million on asset additions. These outlays will make it possible to serve members' needs as technology improves yields, speed, and capacity throughout the crop production and handling process.

GRAIN

This past fiscal year was a good one for Premier's grain department, reversing two years of lower earnings. Grain volumes were back to more normal levels during the harvest of 2013. In fact, soybean receipts were at record levels. Drying income was exceptional as the corn crop came in wetter than expected. Income from storage and price-later service charges increased significantly as well due to the higher volume levels. Grain sales bushels for the year were up 34%, resulting in an increased grain margin of \$2.43 million. Pretax income for the grain department increased \$5.36 million from fiscal year 2013.

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Constant Improvement *continued from page 1*

Several large capital projects were completed for our grain facilities. The expenditures included the construction of four grain bins, which added 1.78 million bushels of grain storage, two grain dryers, a truck scale, and numerous leg and conveyer replacements. These additions proved vital to our ability to match our patrons' capacity to deliver grain to our facilities in the fall of 2014.

Great earnings and a strong balance sheet made it possible for your company to complete these projects without increasing our long-term debt. At the end of the fiscal year, Premier's long-term debt level is low by industry standards, indicating the capacity to make significant investments in the future.

ENERGY

The decision to expand Premier's energy department is bearing fruit, as we are starting to achieve the goals set with the board in the business plan approved two years ago. Sales volume increased 61% over fiscal year 2013. Pretax earnings increased \$45,000 this year over last year. A new bulk plant was completed, increasing our storage and delivery capacity. The stage is

set for the energy division to see a large increase in sales volume and local income in fiscal year 2015.

THE FUTURE

The bumper crop harvested this past fall bodes well for another successful year in fiscal 2015. While the investments made in the previous year were critical to our ability to serve you this fall, we understand that improvements in technology will require continued investment. Plans are underway to build storage and improve our elevators at a very rapid pace and to continue the energy expansion. We also look forward to the opportunities afforded with the addition of CHS as a partner in United Prairie.

In closing, I want to express sincere gratitude and appreciation for your business and for the opportunity to serve you. I would also like to thank our employees for their commitment and efforts to make Premier a very successful company. Their desire to bring excellent service to our patrons fits our brand promise of "Serving Today, Preparing for Tomorrow." We will work hard to continue to earn your business. ○

Strong Growth, New Opportunities Highlight Year

BY TIM HUGHES, MANAGER, UNITED PRAIRIE LLC

I would like to begin my article by thanking all of our growers for their business. All of our employees and their families are thankful for your continued support. I am pleased to report that United Prairie had another successful year in 2014. Local income was over \$1.8 million and we again experienced strong growth. Crop nutrient volumes increased more than 10%, while seed and chemical sales grew almost 10%. Application and services volume grew more than 15%.



We have several projects underway to improve our performance. We are in the middle of a major renovation to improve the level of service at our Pierson facility. We are expanding the chemical building to speed up loading and efficiency. We added a million-gallon UAN tank with rail access and completely remodeled the NH3 facility to add additional storage and improve safety and efficiency. We upgraded the NH3 facility in Ivesdale, and in Dewey we added a million gallons of UAN storage to meet the needs of area customers. Finally, we are building a long overdue new office and shop at our White Heath facility. In addition to all of the structural additions, we continue to upgrade our application and transportation fleet on a regular basis to meet your needs and expectations.

This was our second year for the Innovation Farm and grower evaluation trial program. These trials allow us to evaluate new products and techniques locally, often before the products are commercially available. It helps us understand the situations where they will work best and where they won't, and maintains our commitment to enhancing your productivity. We use this data to educate ourselves and make even stronger agronomic recommendations. With much tighter margins in 2015, this information will be crucial.

NEW PARTNERSHIP

After several months of study and evaluation by the board and management

of United Prairie and the boards of directors of Premier and Topflight, we recently announced that United Prairie has invited CHS to join the United Prairie ownership group. Both cooperatives believe that the addition of CHS to the partnership will significantly benefit the patrons of Premier and Topflight as well as producers who are not currently members of either cooperative or current customers of United Prairie. Governance control will remain with Premier and Topflight. The addition of CHS is expected to provide improved leverage and access to resources for the supply of inputs, cutting-edge technology, enhanced market knowledge, and expertise in the ever-changing marketplace for farm inputs. The combination of these three cooperatives will accelerate the level of service and value we can bring to our growers.

Every year presents unique challenges and 2014 was no exception. Throughout the year it seemed we could work a few days and then rain would set in and we would wait for it to dry. We have a dedicated and committed group of employees who have a passion for serving our area growers. They all stepped up and did a great job. As we turn the page to 2015, we know it will be another year full of challenges. We look forward to meeting them. Again, on behalf of all the employees of United Prairie, thank you for your trust and support. ○

**Premier Cooperative, Inc. and Subsidiary
Consolidated Statement of Operations
Year Ended July 31, 2014**

GRAIN SALES	\$348,296,331
COST OF GRAIN SALES	337,110,383
GROSS GRAIN MARGIN	11,185,948
MERCHANDISE SALES	72,000,022
COST OF MERCHANDISE SALES	60,503,162
GROSS MERCHANDISE MARGIN	11,496,860
OTHER OPERATING INCOME	14,954,128
TOTAL GROSS INCOME	37,636,936
OPERATING EXPENSES	
PEOPLE AND RELATED	13,374,614
FACILITY	17,114,160
ADMINISTRATIVE	1,903,178
TOTAL OPERATING EXPENSES	32,391,952
GAIN ON DISPOSALS OF PROPERTY AND EQUIPMENT	983,330
NET OPERATING INCOME	6,228,314
OTHER INCOME	1,747,372
INTEREST EXPENSE	817,311
INCOME BEFORE INCOME TAXES	7,158,375
INCOME TAXES	448,932
CONSOLIDATED NET INCOME	6,709,443
INCOME TO NONCONTROLLING INTEREST	532,660
NET INCOME ATTRIBUTABLE TO CONTROLLING INTEREST	\$6,176,783

**Premier Cooperative, Inc. and Subsidiary
Consolidated Statement of Financial Position
July 31, 2014**

ASSETS	
CASH	\$ 26,864,800
MARGIN ACCOUNT EQUITY - EXCHANGE TRADED DERIVATIVES	3,276,257
MARGIN ACCOUNT EQUITY - OTC DERIVATIVES	-
MARKETABLE SECURITIES	42,463
RECEIVABLES	16,367,761
INVENTORIES	22,532,912
PREPAID EXPENSES	1,638,651
UNREALIZED GAINS ON FORWARD CONTRACTS	1,814,689
DEFERRED INCOME TAXES	153,731
TOTAL CURRENT ASSETS	72,691,264
INVESTMENTS	6,918,346
NET PROPERTY, PLANT AND EQUIPMENT	56,877,592
OTHER NONCURRENT ASSETS	27,302
	63,823,240
TOTAL ASSETS	136,514,504

LIABILITIES AND STOCKHOLDERS' EQUITY	
CHECKS DRAWN AGAINST AVAILABLE LINES OF CREDIT	5,044,401
NOTES PAYABLE - DUE WITHIN ONE YEAR	10,221,335
ACCOUNTS PAYABLE	25,684,251
UNREALIZED LOSS ON FORWARD CONTRACTS	9,576,791
OTHER PAYABLES	1,107,262
ACCRUED EXPENSES	2,591,925
TOTAL CURRENT LIABILITIES	54,225,965
LONG-TERM NOTES PAYABLE	14,752,405
PROVISION FOR UNCERTAIN TAX POSITIONS	1,858,393
OTHER LONG-TERM LIABILITIES	13,710
DEFERRED INCOME TAXES	7,138,700
TOTAL LIABILITIES	77,989,173
STOCKHOLDERS' EQUITY	
NON-CONTROLLING INTEREST	4,037,852
CAPITAL STOCK OUTSTANDING	267,025
ALLOCATED EQUITY	7,683,647
EQUITY ACQUIRED IN MERGERS	3,256,369
ACCUMULATED OTHER COMPREHENSIVE INCOME	3,975
RETAINED INCOME	43,276,463
TOTAL STOCKHOLDERS' EQUITY	58,525,331
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 136,514,504

Fuel Prices a Holiday Gift

BY DAVE KIEFFER, NORTHWEST REGIONAL OPERATIONS MANAGER AND FUEL DIVISION MANAGER



The fuel division wrapped up another successful fall, with our current expansion going very well. Part of that expansion is our new DTL (Direct To Locomotive) division. The railroad will contact us whenever they need locomotives fueled, and we will answer the call, firehouse style. That has been going well since we began the program in August. This expansion benefits our members by increasing our market leverage to secure better prices and ensure adequate supplies.

Contracting season is now upon us, and it has been quite a while since we've seen lows like this. We've been filling up all of our storage so we can offer attractive prices in the coming month. One new offering you'll definitely want to consider is our new two-year fuel contract, allowing you to lock in these low prices for the next two years with no upfront charges. Ask your fuel representative, Garrett Bruns (898-0218) or Jay Warfel (493-9198) for more information.

Our informational meetings are coming up this month and the next. In fact, we've already had one in Newman. All of our Premier sales, marketing, and operations teams will be represented as well as a Cenex® representative who will be on hand to provide technical knowledge on oil and refined fuels. Watch for more information on dates, times, and locations. ○

Thanks for your business this past year. It has been a pleasure to work with and for you.



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Analyzing a Record Harvest

BY ROGER MILLER, CEO

The harvest of 2014 was, in a word, epic. As you might expect, there were some highlights as well as some aspects we wish had gone more smoothly. First, let's talk about the good. Premier Cooperative handled 51.4 million bushels of grain in an eight-week period. That translated to 38.3 million bushels of corn and 13.1 million bushels of soybeans—crushing the previous record handles of 2013 by 5 million bushels of corn and 2.1 million bushels of beans.

Also good was the fact that we built 1.75 million bushels of additional storage space prior to harvest. We needed every bit of that storage and more. Area crops were phenomenal, demonstrating what current seed genetics can do when given the right growing conditions.

For the first two-thirds of harvest, trains were on time and we were able to keep our facilities fluid. In fact, we loaded four trains on Oct. 10 at our various locations, shipping roughly a million bushels of grain on that day. Those shipments occurred during a brief rain delay. As soon as everyone got back into the field, we took in 10.6 million bushels of grain in a six-day period. This was proof of what we've often said—you have the equipment to harvest a tremendous amount of grain in a very short period of time.

WHAT WAS THE DOWNSIDE?

As harvest progressed, however, on-time rail performance declined. We're a company that strives to serve our patrons, and I can't say enough about

the effort our employees put in to honor our service commitment and handle that volume of grain. We saw, however, that effort isn't enough if the trains don't show up.

Overall, I feel we turned in a good performance in the face of unprecedented harvest volume. As much grain as we handled, I know there is a lot more grain stored on the farm. We were helped by a drier-than-expected corn crop and the occasional rain day that gave us some time to catch up. We appreciated your willingness to work with us as our facilities began to fill up.

The size of this harvest, and the speed at which it came in, is the reason we spent more than \$11.5 million on new assets last year, and why we plan to equal or exceed that figure in the year ahead. Our board has been considering an aggressive building program, and we will be adding storage at some locations. We'll keep you informed as we finalize our plans. ○