

DIRECTORY

Main Office

507-726-6455
800-622-2910

Darfur

507-877-5011
800-658-2475

Elysian

507-267-4305
866-317-3136

Janesville

Agronomy

507-234-5155
507-835-1720
866-458-9886

Grain/Feed/Petro

507-234-5610
507-835-3646
800-201-3646

Lake Crystal

Grain

507-726-2051
800-451-3984

Agronomy

507-726-2057

Petro-Propane

507-726-6455

LaSalle

507-375-3468
507-642-3300
507-439-6385
888-544-7687

Madelia

Agronomy/Petro

507-642-3276
800-245-5857

Elevator/Hwy 60

507-642-8896

Nicollet

507-232-3453
800-720-3453

Vernon Center

Agronomy

507-549-3056

Grain/Feed

507-549-3722

888-501-5947

Waldorf

507-239-2172
800-569-1321

Director's Report



DAN JONES
Board Chairman

Merry Christmas from your board of directors!

Crystal Valley's annual meeting is scheduled for Thursday, February 17, 2011 at the Verizon Center in downtown Mankato. We will begin by serving a meal at 6:00 pm, followed by the business meeting at 7:00 pm.

The financial audit report will be presented by the accounting firm of Gardiner-Thomsen, Certified Public Accountants, Des Moines, Iowa. Annual reports will be given by the board and management. Elections will be held for the three director positions. Board members whose terms are up this year are Mark Christensen of Madelia, Dan Jones of Lake Crystal, and Dale Wills of Nicollet. All three are seeking reelection to the board; however, persons interested in serving on the board should contact a current board member or a member of the nominating committee: Brian Wallace (507-381-4286) or Lance Mikkelson (507-375-4931 or 507-327-0843).

PATRONAGE

Patronage dividend checks for business done with Crystal Valley in fiscal year 2010 (September 1, 2009 through August 31, 2010) will be mailed out just prior to the annual meeting in February. We will be paying out 40% of the total patronage in cash with the remaining 60% being placed in the patron's deferred equity account.

Patronage dividends are based on local net earnings from operations and are calculated on

an individual departmental basis. For fiscal year 2010, departmental profits were earned and dividends will be paid in the agronomy, grain, bulk petroleum, and propane divisions, but not the feed department.

Revolvement of past years' deferred equities will again take place in August of the coming year. Last August, we returned over \$2.6 million of deferred equity in cash. With continued strong financial performance, we hope to revolve a similar amount this year. Member estates are returned in full as presented to the board at their monthly meetings.

NEW CONSTRUCTION

The new dry fertilizer plant and equipment at Madelia performed really well this fall. Strong winds on October 20-21 blew down the new partially constructed shop building at the Madelia Hwy 60 location. This has delayed the completion date by several weeks. Construction is ongoing for the new grain flat storage building at our Madelia grain terminal. A late spring/early summer completion date is targeted for that project.

THANK YOU

Finally, on behalf of the entire board, we thank you for your business, loyalty, and support this past year. We take seriously the trust you place in us to safeguard our members' equities and maintain a valuable, financially sound cooperative to serve our patrons well into the future.

Thanks also go to our entire staff of dedicated, hard-working employees who made 2010 a successful year. We wish all of you the very best for your families, homes, farms, and businesses in 2011. *Thank you.*

Crystal Valley



Annual Meeting Notice

February 17, 2011

Verizon Center - Mankato, MN

6:00PM Meal - 7:00PM Business Meeting

STATEMENT OF SAVINGS

	For the year ended August 31, 2010	For the year ended August 31, 2009
SALES	\$199,227,649	\$239,063,002
Cost of Goods Sold	179,721,850	218,087,621
Gross Savings on Sales	19,505,799	20,975,381
Other Operating Revenue	11,805,328	10,957,893
Total Gross Revenue	31,356,127	31,933,274
Operating Expenses, Including Interest	26,738,950	27,379,474
OPERATING SAVINGS	4,617,177	4,553,800
Patronage Dividend Income	1,321,097	3,102,865
Gain (Loss) on Sale of Marketable Securities	920	(1,857)
Savings before Income Tax	5,939,194	7,654,808
Income Tax	214,506	1,100,805
NET SAVINGS	\$5,724,688	\$6,554,003
DISTRIBUTION OF NET SAVINGS		
Patronage Dividends		
Cash – 40%	\$1,471,222	\$1,524,258
Deferred – 40%	2,206,834	2,286,388
TOTAL PATRONAGE	3,678,056	3,810,646
Retained Savings	2,046,632	2,743,357
TOTAL	\$5,724,688	\$6,554,003

PATRONAGE RATES

	2010	2009
Propane Department	9.2341 cents/gallon	9.6626 cents/gallon
Grain Department	3.7848 cents/bushel	3.1631 cents/bushel
Feed Department	–	–
Agronomy Department	3.6224%	3.5946%
Petroleum Department	1.4929 cents/gallon	–

BALANCE SHEET

	As of August 31, 2010	As of August 31, 2009
ASSETS		
Current Assets	58,744,434	52,608,631
Property, Plant and Equipment	32,098,028	24,274,593
Investments in other Organizations	15,695,027	15,811,070
TOTAL	\$106,537,489	\$92,694,294
LIABILITIES AND MEMBERS' EQUITY		
Current Liabilities	50,541,601	42,828,787
Long-Term Liabilities	5,557,692	1,111,254
Deferred Income Taxes	279,888	206,881
Members' Equity	50,158,308	48,547,372
TOTAL	\$106,537,489	\$92,694,294

Manager's Report



ROGER KIENZOLZ
General Manager

Merry Christmas and Happy New Year wishes to all of you! Winter and snow came early to us in mid-November, and I'm afraid it is here to stay for a while. We can be grateful for a great fall harvest and good weather to get the field work done.

Another successful year for Crystal Valley is in the books. A summary of the financial statements are presented to the left for your review.

Total sales were just under \$200 million, a \$40 million decrease from 2009. Lower commodity and input prices across the board were the primary reason for the decline. Unit sales volumes were up in fertilizer, seed, and propane; about even in grain and feed; and down slightly in gasoline and diesel fuel.

Local net savings from operations were \$4,617,177, up a small amount from 2009. Patronage income from our regional cooperative business partners was \$1.3 million down considerably from the \$3.1 million received in 2009. Net savings before income taxes came in at \$5,939,194 compared to \$7,654,808 in 2009, with nearly the entire difference stemming from the reduced patronage from regional coops.

Due to the usage of IRS Section 199 tax deductions by Crystal Valley, we were able to reduce our income taxes by over \$870,000. We will also be passing on to our grain patrons some additional Section 199 tax deductions in calendar year 2011 based on their fiscal year 2010 grain bushels sold to Crystal Valley (Further details will be sent to those affected in a letter from our controller, Todd Wihlm). Therefore, net savings after taxes were \$5,724,688 versus \$6,554,003 a year ago.

A total of \$3,678,056 in patronage dividends will be distributed to our patrons in February of the coming year. Of this amount, 40% (\$1,471,222) will be paid out in cash, and the remaining 60% (\$2,206,834) will be allocated to our patrons deferred equity accounts.

Patronage rates are determined by divisional departmental earnings and are calculated by the department's profitability as a whole, not by the individual products or service categories. The chart on page 2 lists the rates for propane,

continued on page 3

Manager's Report

grain, agronomy and petroleum (refined fuels). The feed division is still suffering from bad debt losses incurred during the feed 2008-09 livestock industry crisis. It should be noted, however, that the feed division has absorbed all of its own bad debt losses and that none of the write-offs have spilled over to diminish the patronage income of the other departments.

Crystal Valley's balance sheet continues to grow and remain extremely strong. Members' equities increased again from \$48.5 million to \$50.2 million. We invested a total of \$12 million in fixed assets last year: \$8 million for the major dry fertilizer plant project and \$4 million on rolling stock and other facility and equipment improvements. As you can see, we only took on additional \$4.5 million of term debt while financing the bulk of these investments from working capital and cash flow. At 11%, our long-term debt to equity ratio remains very low. A complete copy of Crystal Valley's annual report will be handed out at the annual meeting on February 17 and will be available at any of our company locations.

With our major accounting software change, we continue to experience a few glitches in our invoicing and customer statements. We greatly appreciate your patience and cooperation as we work with our software providers to iron out these discrepancies. We will get there.

Many thanks to you, our patrons, and our team of dedicated employees for making 2010 another successful year.

Section 199 Update

Todd Wihlm, CFO

For our tax year ending August 31, 2010, Crystal Valley Cooperative will again be taking the Section 199 tax deduction. This will allow the cooperative to take advantage of special Internal Revenue Service rules related to Section 199 that are only available to agricultural cooperatives.

During 2010, the IRS issued several private letter rulings related to Grain Cooperatives and Section 199. The IRS has clarified that payments to members for grain is considered a Section 1382 Per Unit Retain Paid in Money (PURPIM). This means that whether or not your cooperative calculates the Section 199 deduction, your grain sales to us are not qualifying Domestic Production Gross Receipts. Please consider this rule as you plan for your 2010 income taxes

As with last year, you will receive a 1099-PATR for calendar year 2010 showing your cash grain sales to us in box 3. Please note that your box 3 cash grain sales figure will be based on calendar year 2010. Please contact us should you have any questions.

LAND O' LAKES FOUNDATION MEMBER COOP MATCH PROGRAM

Do you know of a worthy local non-profit organization looking for project funding? Land O' Lakes will match dollar for dollar \$7,624 on up to 11 projects funded by Crystal Valley. Additional funds are available for donations to local food pantries. Successful applicants must meet the principles of the Land O' Lakes Foundation and may not fund individuals or scholarships. Contact Megan at megan.roberts@crystalvalley.coop for more information or to obtain an application.



GLENN THOMPSON
Energy Manager

Energy Report

Volatility

Crude oil in the first week of December 2010 hit over \$89.00 a barrel. This is a high that was last seen in September/October of 2008. At that time, LP prices were over \$2.00 per gallon, gasoline was around \$3.60 per gallon and farm diesel

was around \$3.80 per gallon. But by May of 2009, crude was back in the mid \$50.00 a barrel range and LP was around \$1.39 per gallon, gasoline was around \$2.10 a gallon, and farm diesel was around \$1.80 a gallon. Volatility is here to stay in the energy market. The RFD program with fuel tank monitoring and average pricing can help mitigate some of that price volatility.

RFD Fuel Delivery System

Tired of gambling on the fuel market?

Imagine ordering fuel without wondering if the fuel price will drop after you place your order. RFD offers a valuable risk management tool. With average monthly pricing, rather than paying the price posted on the day your fuel is delivered, you're charged the average price for the entire month. The RFD system can help take the gamble out of buying fuel on the "right" day.

Installs in progress!

By now, most of our customers should be aware of what the RFD system is and how it can benefit them. We are currently installing monitors and could use the help of our customers. If you have questions or are ready for your monitors to be installed please give one of our sales representatives a call. We have currently over half of our gallons monitored. If you are not yet on a monitor,



DARIN WILMES
Energy Sales



JAKE COLE
Energy Sales



BILL LANDIN
Energy Sales

we can use your help to let us know that you are ready to install.

RFD Start Date

The RFD program is still set to kick off on **January 1, 2011**. Our staff and drivers are currently training to make sure the transition goes as smoothly as possible. Thank you for your support!

Please call with any questions and help us to set up a date for your fuel monitor installs!

Darin Wilmes (507) 995-2892 • Jake Cole (507) 995-7290 • Bill Landin (507) 995-4455



BILL ANDERSON
Loan Officer

Profitable Planning with AgQuest

As I write this article, many of our farmer producers are in the planning process for 2011 and worrying about taxes for the past year 2010. What a good position to be in—paying taxes means you had a good and profitable year in 2010!

Seriously, profits in 2010 means that investment in your operation now is a prudent thing to do. Machinery, tiling, better financial tracking (computers) are all essential today. Not only are input costs on the rise but so are the costs of new iron and land. We are seeing interest rates slowly pushing upward as the threat of inflation and increased national debt becomes more real. Locking input costs and securing operating financing will become more important as time goes on.

That is where AgQuest comes in. We are here to help with machinery loans, operating loans, and re-financing your real estate debt to take advantages of lower interest rates while we still have them. AgQuest is your full service agricultural financing company. Together, as partners with Crystal Valley Cooperative, we become a strong partner that you can rely on year after year. Financing with the people who care about your success just makes good business sense. Spreading your loans around from the implement dealers, local banks, to other institutions makes it hard to track and construct cash flows. At AgQuest, we can help do this for you and help you through the tough times that may be ahead. That is where having a good partner pays off.

Contact me, Bill Anderson, the loan officer at Crystal Valley at 507-327-7776 for all your financial questions.



WILL BOWERS
Feed Manager

Feed Report

Greetings from the feed department. Thank you for your patience and support during the recent billing changes. We appreciate it.

PROPOSED REGULATION CHANGES

If the livestock industry has not had enough issues and problems over the last couple years, we are now facing some potential problems from the proposed rule changes by the USDA's Grain Inspection, Packers, and Stockyards Administration (GIPSA). The original intent of the rule is to improve fairness in the marketing of livestock and poultry, but because of the vagueness and openness of the language in the proposal, the opposite may be accomplished.

A few of the more major issues from the proposed rule changes are:

- The government is requesting to be involved with contracts between swine contractors and growers, packers and producers. The government will make the decisions of what is a fair contract, not the marketplace. In addition, private contracts would be made public on the GIPSA website. These changes will likely result in litigation, additional administrative work, and overall confusion for those involved.
- Packers will have to justify their prices. This may sound reasonable but there are potential unintended consequences of this rule. Packers may not reward producers for quality animals and value added programs could go by the wayside. Packers may simply pay the same price for all animals to skip the complicated documentation process.
- Packer to packer sales would be eliminated. The current rules already monitor and regulate these relationships to make sure price fixing isn't occurring.
- According to a recent economic analysis of the GIPSA rule, additional costs caused by the rule changes will likely lead to greater vertical integration, increased job loss in rural America, and higher costs to consumers.

National Pork Producer Council President Sam Carney has said, "It's a solution in search of a problem. The markets work, and we don't need the government trying to 'fix' it. The GIPSA

rule is overly broad and very vague. It would inject uncertainty into the market, stifle innovation and lead to less not more competition in the livestock industry."

The proposed rule takes away a risk management tool. The rule doesn't say that marketing agreements aren't allowed, but it unintentionally leads to this through more and more regulation.

PROFESSIONAL AG MARKETING

As I mentioned in an earlier newsletter, Crystal Valley is now working with Professional Ag Marketing to help you with Financial Risk Management. Pat Von Tersch and Jeff Hoogenboom will work with you to:

- Develop a sustainable, disciplined strategy to insure profits and reduce risk.
- Set realistic goals for acceptable rate of return on investment.

When setting these goals, Pat and Jeff will work with you to make sure goals accurately reflect a return to all costs, including opportunity costs. They want the customer to be engaged in the entire process.

We have put on three producer meetings in our area over the last couple of months and encourage anybody that is interested in talking with Pat or Jeff to get in contact with their salesperson or give me a call. Jeff and Pat are in our area and available to talk with you now.

FEED MILL IMPROVEMENTS

We are moving forward with the addition of an 18 bin and tote micro table and the complete automation of the Janesville mill. These additions will be tied to a computer system that will accurately weigh and batch products with consistency and precision. We are also finally bringing all the receiving of ingredients over to the mill (no more dumping ingredients on the grain side). The feed division is very excited about this project and wants to thank the board and you, the patron, for your continued support.

As always if you have any input, questions or suggestions please give me a call. It is a great pleasure to serve you and we look forward to serving you in the future.

Thank you for your business in 2010.

*Happy Holidays from
Crystal Valley*

**In observance of the holidays, we will be closed
December 24 and December 31.**

Have a safe and wonderful season!



JEFF SPENCE
Grain Manager

Grain Report

2010 harvest was a very fast and unusual one with almost perfect weather, except for the huge rain event that began the season in September. The large amount of rain did cause some unexpected problems. When the river flooded, barges were not able to travel up the Mississippi. This forced beans into Mankato

processors from Minnesota and Wisconsin locations that otherwise would have sent their beans down the river. With more beans being hauled into Mankato area processors, waiting lines became very long, up to 8 hours at times. The nonstop good weather also caused a few problems. Because it did not rain during bean harvest, we had no breaks to help catch up with shipping grain. During this period of good weather, we had one of the Madelia location's main house leg's gearbox go out. It was unfortunately a brand of gearbox that is no longer in business, so we had to have the gearbox replacement parts manufactured. To prevent this prolonged breakdown from happening again, we now have these parts on hand and, in the future, will not have to wait to have them made. From bean harvest we went right into corn harvest, again with no break to help us catch up. There was very little need to dry corn, so harvest went really fast. With the exceptional quality of the grain, it did not take long to put the crop away. We handled about 17% more beans at harvest time this year than last year, with all locations having an increase in handle. Corn handle was a decrease in handle of 7%, with 2 locations up in handle and 3 locations down.

Another unusual thing about this past harvest was the prices for both corn and beans continued to increase almost every day. The corn and bean yields were not as good as expected, especially in the east part of the country. Some areas had too much rain and too much heat at night to create high yields. In November

the markets cooled off. There could be a number of reasons for this. The funds sold off some of their length in November when the dollar started rising again due to the financial problems in Europe. However, they still have a rather large position which could be a problem in early January when they need to reposition their commodity accounts. They are long about 100,000 contracts or about 500,000,000 bushels, which will need to be sold the first part of January. Another thing to consider is congress. Will congress reinstate the \$0.45 a gallon blends credit for ethanol or will they let the blend credit and the tariff on ethanol expire on January first? If they let the blend credit expire, there will be 2 billion gallons worth of RINS credits that could be used in place of ethanol and that would mean up to 700,000,000 bushels of corn we would not need for ethanol. Much of the world's crops are still experiencing weather problems. Here in the USA the winter wheat corn areas are very dry. In Argentina, they are in a La Nina year and dry. The Former Soviet Union is also very dry. In Australia, they have had too much rain during harvest and may not be able to get the whole crop out. In January, the USDA will come out with final production numbers for corn and beans for 2010. These numbers could certainly cause some fireworks and then there will be a battle for acres between corn, beans, wheat, and cotton this spring. Do not forget about the Chinese possibly coming into the market, not only continuing to purchase beans but to also purchase corn. I am looking for the markets to be very volatile for the next year or more. With so many issues coming at the markets, please let us know what we can do to help with your marketing needs.

The contractor is continuing to work on the new grain storage building in Madelia, and we are hoping to see it completed by early summer. If you would like to see the progress you can go to our web page and click on the construction line and see a continuously updating picture of the storage building construction.



RYAN BRANDTS
Grain Marketer

Grain Marketing Report

During the last 30 days, we have experienced significant shifts in the grain markets. December 2010 corn futures traded over \$6.00, faded nearly a full dollar, and then regained 50¢. While corn receded, we witnessed farmer grain sales come to a screeching halt while livestock producers bought much of

their anticipated feed needs. These changes can be seen in the basis around the country. It's hard to believe that corn basis is stronger today with better than \$5.00 futures than last summer when we had \$3.50 futures! During these drastic price swings, we also witnessed the U.S. dollar bottom and gain value. The cheaper our dollar, the cheaper our grain is to the rest of the world. Although China is buying our soybeans at a pace that

makes our record U.S. bean crop look small, they have yet to take an interest in our corn. Most analysts believe it will only be a matter of time before they buy, and if they do, who knows where prices will go. Everything seems to point to higher prices going into January. This seems eerily familiar to last year at this time when everyone was talking about China and the funds coming into the market after the 1st of the year. We're not suggesting that the trend is over, but merely reminding producers that neither China, nor the funds, share their billion dollar secrets. As we go into the New Year be cautious. Thank you for your business so far, and we hope you continue to consider Crystal Valley for your marketing needs.



CHRISTIAN EBERHART
Grain Marketer



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GARY HULKE
 Credit Manager

Credit Report

COMMUNICATION

According to economic reports, the overall economy is supposed to be slowly improving. Your personal economy may or may not be improving primarily depending on employment. When your personal economy is struggling regarding your Crystal Valley account, communication with the credit manager is very important. By communicating with me, we can attempt to work through the situation together. There may be some opportunities that have worked for others that I can share with you. When there is no communication, we don't know why there is a problem.

CROP YEAR 2011 FINANCING

Farmers, the next few months are a great time to line up your financing for crop year 2011 inputs. Your agronomy sales representative can work through your planting, fertilizing, and crop protection needs. If you are interested in a possible source of funding, you may contact Bill Anderson, our AgQuest relationship manager to look at your options. Bill may be reached at (507) 327-7776.

PAYMENT DUE DATES

Due dates on statements are an important part of getting payments in on time. In order for Crystal Valley to provide the service you expect, your payments need to be in our office on

or before the due date. A post mark on the envelope with the same date as the due date, or close to it, does not arrive at our office in time to get processed before we finish up month-end processing. Please send your payments well in advance of the due date.

ENERGY ASSISTANCE

With the heating season upon us, the ability to finance your home heating needs is crucial. If you are wondering how you will be able to afford to heat your home this winter, you may qualify for assistance from the Minnesota Valley Action Council. The information below shows the income guidelines and contact information for the program.

MINNESOTA VALLEY ACTION COUNCIL ENERGY ASSISTANCE PROGRAM

For more information call 1-800-767-7139.

Household Size	Gross income for previous three months
1	\$5,655 (1885 / per month)
2	\$7,395 (2465 / per month)
3	\$9,135 (3045 / per month)
4	\$10,875 (3625 / per month)
5	\$12,615 (4205 / per month)
6	\$14,355 (4785 / per month)