

December 3, 2012

To all Members;

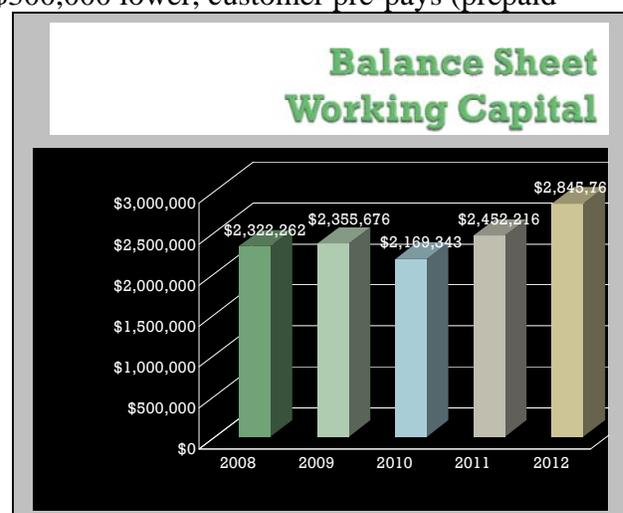
The Fruita Co-op wrapped up another year of business on August 31, 2012 and we recently held our 76<sup>th</sup> annual meeting. During the meeting we reported on the years business and elected three board members. We had a small turnout of members at the meeting but nearly 250 voting members sent in their ballots. Jack Cassidy, Bob Gobbo and Troy Waters were all elected to another term on the board of directors.

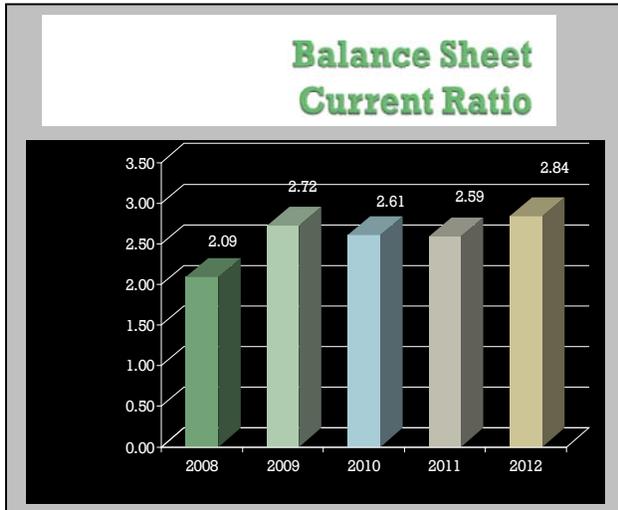
This past year was a better year for the Co-op. We had a nice increase in sales and we were able to keep expenses in check. We continue to see high unemployment rates and volatile commodity prices. Sales remain tight, as consumers are cautious in how they spend their hard earned money and expenses continue to climb. We paid all eligible equity retirement requests again this year to estates and age-qualified members. To be eligible to retire your equity you must be 65 years old and fill out an equity retirement request form.

Enclosed is a short financial statement (green sheet) with the results of our last fiscal year. As we look at the balance sheet we see our current assets are nearly \$400,000 higher than last year. This is due to a better cash position, slightly higher inventory values and lower accounts receivables. Investments are down by \$230,000 as we sold our position in CRVS, a convenience store chain on the Eastern Colorado plains. Net property & equipment is also down from last year due to increased depreciation, fewer assets purchased and the sale of the old Thunder Mountain Bean plant.

On the liabilities side of the balance sheet we see total current liabilities are almost the same as last year. However, accounts payable are nearly \$300,000 lower, customer pre-pays (prepaid fertilizer and propane) are \$120,000 higher, we have zero notes payable, accrued expenses are higher and patronage payable is double last year. All that is left of long-term liabilities is the deferred tax liability as we paid off all bank notes this year. Owners' equity increased by \$284,000 for the year leaving you, the member-owners an even stronger ownership position in the company.

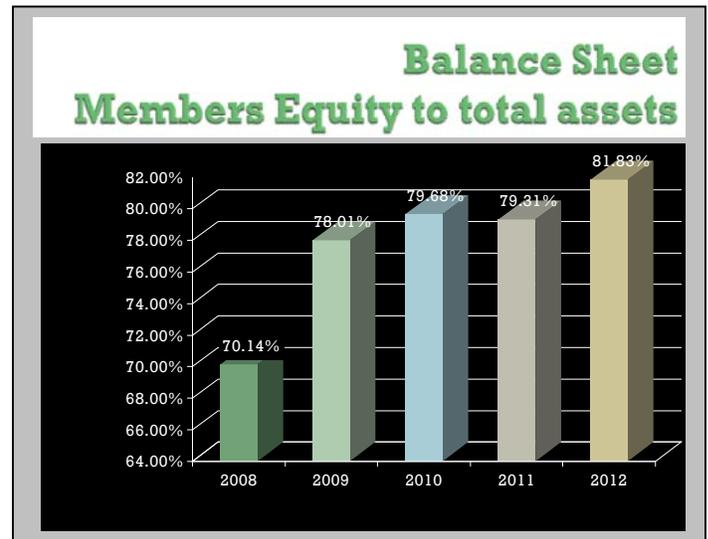
From the balance sheet we compute the working capital, current ratio and members equity percentage. Working Capital is current assets minus current liabilities. This is important as it shows our ability to pay off our short-term liabilities. One million dollars is the target level for our company. This year we have \$2,845,761 of working capital.





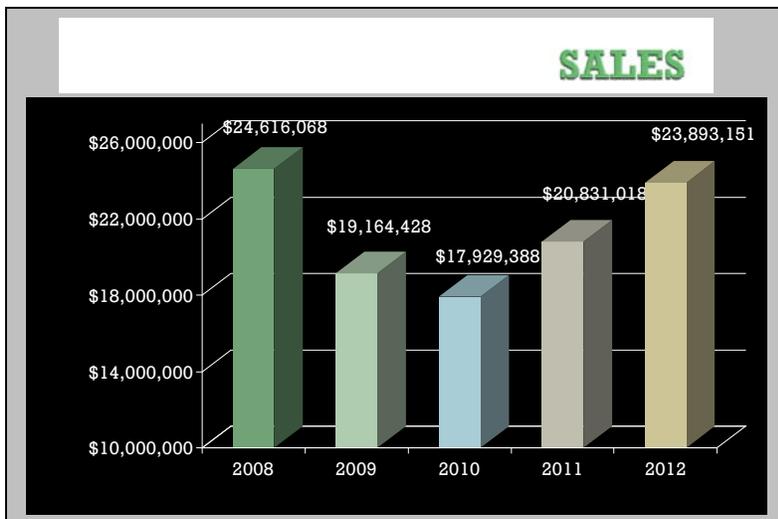
The current ratio is the ratio of current assets to current liabilities. This year we had \$2.84 of current assets for every dollar of current liabilities.

The Members Equity to total assets percentage is 81.83% this year. This is an important number for you the member owners of our company. It shows the percentage of the assets or value of the company that you own.



All of these charts reflect a very healthy company. This strong balance sheet is the anchor that keeps our company stable even in the tough economic times. The goal of the board of directors and me is to maintain the strength of our balance sheet so that we are a strong company for now and the future.

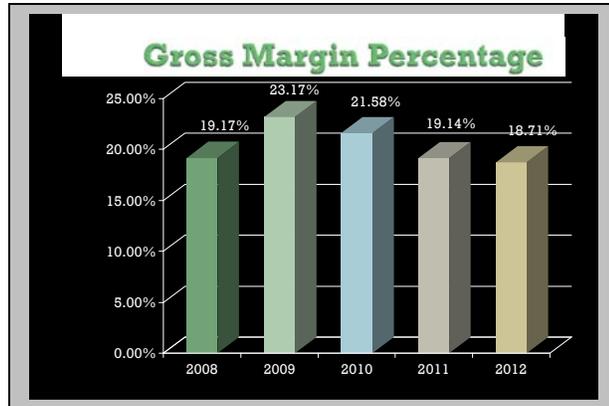
Now we look at our Income Statement. We had a 14.7% increase in sales dollars for the year. While some of this increase can be attributed to higher prices of fuels, a larger portion can be



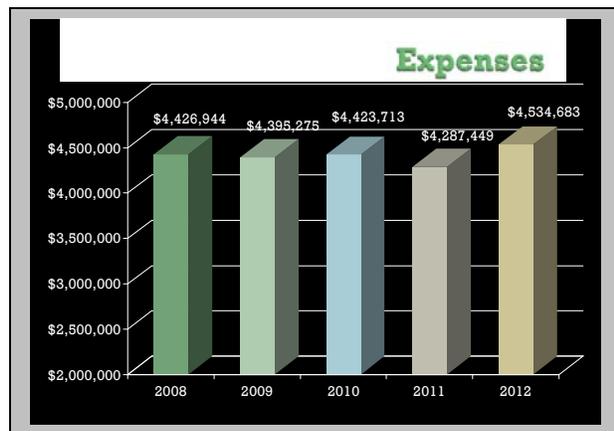
attributed to increased units and foot traffic in the stores. This weak and unstable economy has no doubt impacted every one of us. Like you, it has impacted our company as well but we are seeing some improvement. We've now had two consecutive years of double-digit growth in sales dollars.

After we take away the cost of the goods that we sell we are left with our gross margins. This year the gross margins or gross profit from the sales of our products did go up by \$483,000 over last year for a 12% increase. So we had a 15% increase in sales and a 12% increase in margins. This just means that we made slightly less profit on the items we sold during the year.

Our gross margin percentage was 18.71% this year. This is the amount of profit the company earns on every dollar of inventory it sells. So this year for every dollar we sold we retained 18.71 cents to pay for all the expenses the company incurred during the year. We try very hard to keep our prices low for our customers and leave enough to cover expenses and to return a decent patronage to our members. This is a delicate balance that the managers and I work on every day.



Our service income was \$512,714 this year and was a little bit higher than last year. This is other income that our company generates from Ace Rental, Fertilizer spreading and blending, custom chemical applications, tire shop services, car wash income, delivery, hunting licenses, interest on accounts receivable and others.

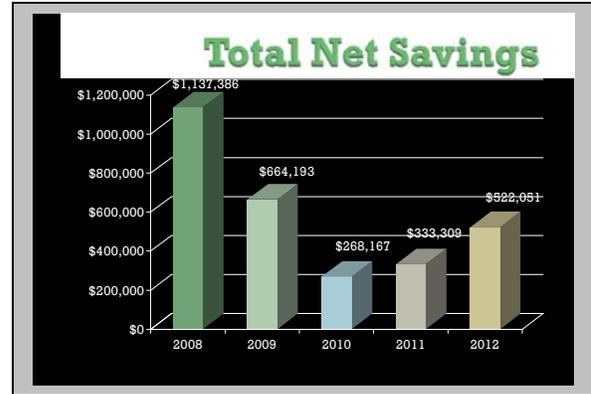


Total expenses were \$4,534,683 for the year. This was a 5.7% increase over last year. Most of the increases come from personnel costs and repairs and maintenance. I am very proud that during these tough economic times our company has not had to layoff any employees or cut any wages.

Local savings are what is left after we subtract the expenses from the gross income. This year we had \$449,247 in local savings. That is an increase of 131% for the year.

We received patronage and investment income from Ace Hardware, CHS, CoBank and other cooperatives totaling \$221,706 this year. The patronage was up and the investment income was down as we sold our share of CRVS. We also did not gain as much on the sales of assets this year. After we add in this other income we are left with total savings before taxes of \$670,953 for the year. This is also a nice increase over last year. As a cooperative we pay corporate income taxes on all non-member business and investment income. This year we will pay \$148,902 to the state and federal governments for income taxes.

The amount left after taxes is our total net savings. This is the bottom line. This year we had \$522,051 in net profit. That is a 56% increase over last year. This is a very nice achievement and is the result of a lot of hard work by our employees, managers, board of directors and the support of you, our members.



Less than half of all this year's sales came from members. So a similar portion of the net savings is available to be paid to the members as patronage. This year the board of directors chose again to pay this patronage in 100% cash and not retain any. All members receive patronage based on their purchases. These patronage checks will be sent out in December. The remaining \$307,281 of net savings goes to retained savings.

	2008	2009	2010	2011	2012
Total					
Patronage	\$423,273	\$314,230	0	\$105,658	\$214,770
Patronage to be reinvested	\$253,964	\$157,115	0	\$0	\$0
Patronage to be paid in cash	\$169,309	\$157,115	0	\$105,658	\$214,770
Retained Savings	\$714,113	\$349,963	\$268,167	\$227,651	\$307,281

I am very proud of our company's ability to make a nice profit and pay a good patronage during these tough economic times. Many businesses have closed or had huge losses and massive layoffs. Our company with the support of our member and employees and with the leadership of the board of directors is still quite strong and we continue to improve during this economic downturn.

Throughout the year our company has the pleasure of supporting a vast array

of groups and organizations. From local schools, fire departments and riding clubs, to little league, 4H & FFA we support a wide variety of people. One of the most rewarding activities we support is our youth in agriculture.

We offer education seminars throughout the year and at the county fairs we sponsor rate of gain, make donations to the fairs, and purchase many animals at the fair livestock auctions. This year we spent over \$35,000 at the county fairs in three counties. We feel this is an important role for the co-op and we plan on continuing this support in the years to come.

This year we were proud to award six area high school seniors with scholarships. Four students were awarded \$1,000 and two students were awarded \$500. These awards can be used for any agricultural related advanced education program. This year's recipients were:

- |                                   |                                      |
|-----------------------------------|--------------------------------------|
| Kayla Calvin, Fruita Monument HS  | Scott Bird, Nucla High School        |
| Taylor Hammer, Soroco High School | Teddi Larson, Fruita Monument HS     |
| Blaine Wood, Colorado Heritage    | Hannah Talbott, Palisade High School |

Our intent is to help today's youth become tomorrow's leaders in agriculture. It is a pleasure to work with such excellent young people. Their desire to prepare themselves for agricultural careers is a great benefit to our company and to the future of agriculture.



I'd like to thank all of our 61 employees for their hard work and dedication throughout the year. We have a strong management team who strive to be pro-active and are dedicated to the success of our company. Our Management Team:

Alex Kamas  
President & CEO

Carrie Green  
Controller

Carrie McFarland  
Fruita Store Manager

Tammy Dick  
Palisade Store Manager

Earl Noetzelman  
Nucla Store Manager

Brent Constable  
Fertilizer Plant Manager

Mark Liff  
Marketing/Training Manager

Jerry Alstatt  
Outside Sales

Darryl Miracle  
Commodities Manager

Marla Marchun  
Fruita Convenience Store Manager

Ryan Hunt  
Tire Shop Manager

Our employees, from the Propane and Fuel delivery drivers, Small engine mechanics, Tire shop service people and warehouse crew to the agronomy professionals, convenience store associates, administrative professionals and helpful hardware store associates in Fruita, Nucla and Palisade all strive to offer the best customer service and knowledge in our industry.

I'd also like to thank our board of directors for the dedication and service they give to our company. These eight individuals have their own farms, ranches and business to worry about, yet they work hard to ensure the stability and longevity of this company. The board meets once a month for regular board meetings and many other times throughout the year to serve on different committees.

Thank You!



Board of Directors

Stan Galley	2 year
Brad Brophy	8 years
Dan Cronk	8 years
Bob Gobbo	12 years
Troy Watters	12 years
Jack Cassidy	15 years
Kim Albertson	23 years
John Justman	37 years



We have a very knowledgeable board of directors with a combined total of 117 years of Fruita Co-op board experience.

I'd especially like to thank you, the members of the co-op. Without your support and patronage of our company we would not exist. A cooperative is a user-owned and democratically controlled business. Its basic purpose is to meet the needs of its members. The Fruita Co-op has 6,136 members and we are thankful to each and every one of you.

We are again faced with many uncertainties. We continue to see high prices and a struggling economy. We don't know what the next year will bring but we are prepared for another rough

ride. Our plan for dealing with these tough times remains unchanged.

First, we remain focused on our customers. We listen and respond to their needs. Second we will continue to protect the balance sheet. A strong balance sheet will get us through the really tough times. Third we will look for growth opportunities, but we will analyze them carefully to make sure they fit into our business plan. And finally we remain optimistic about our future and very confident about our ability to succeed.

**Our Plan**

1. Customer Focus
2. Protect the Balance Sheet and Members Ownership.
3. Conservative Growth
4. Optimistic

The Fruita Consumers Cooperative Association has been serving our communities since 1937. It has been through times of economic boom and busts. The current economy has been very tough. We continue to see high unemployment rates and volatile markets. Consumers remain very cautious in how and where they spend their money. We are honored that you choose to spend your hard earned money with us.

So as we head into another year we stand together ready to face whatever the future holds. We are ready willing and able to do whatever it takes to insure that this company remains a strong part of the communities it serves and continues to prosper in the years to come.

I hope you all have a wonderful holiday season and a healthy, happy and prosperous new year. And remember you are always welcome in Co-op Country!

All my best,

Alex Kamas  
President & CEO

