Two Rivers Cooperative

2019 Annual Report

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2019 Annual Report

Two Rivers Cooperative *- Pella, Iowa*

2018-2019 FINANCIAL STATEMENTS

OFFICERS & DIRECTORS

NAME, POSITION	TERM EXPIRES
Jerry Parker, *President*	**2019**
Scott Marshall, *Vice-President*	**2020**
Jason Ver Ploeg, *Secretary*	**2020**
Joe Rempe, *Treasurer*	**2019**
Brad Rietveld, *Director*	**2019**
Matt Overbergen, *Director*	**2020**
Bryce Kelderman, *Director*	**2021**
Greg Van Walbeek, *Director*	**2021**
Scott De Prenger, *Director*	**2021**
Tim Van Roekel, *Associate Director*	**2019**
Floyd Uitermarkt, *Associate Director*	**2020**

SUPERVISORY PERSONNEL

Tracy Gathman, *General Mananger*

ORGANIZATIONAL DATA

Incorporated	*January 1920*
Annual Meeting Date	*Within 150 Days of Close of Year*
Under Chapter 499 of the Code of	*Iowa*

Balance Sheets - August 31, 2019 and 2018

ASSETS

CURRENT ASSETS	2019	2018
Cash	$ 1,334,536	$ 1,897,482
Receivables		
Notes and Contracts	8,244	9,722
Trade – Net of Allowance for Doubtful Accounts of $24,306 (2019) and $40,674 (2018)	1,618,074	1,862,187
Grain in Transit	405,810	260,479
Other	54,092	68,262
Margin Account	163,952	572,819
Inventories		
Grain	872,908	1,103,199
Merchandise	2,765,305	3,780,922
Petroleum	887,242	310,935
Prepaid Expenses and Purchases	1,628,662	1,443,011
Total Current Assets	**9,738,825**	**11,309,018**
PROPERTY, PLANT AND EQUIPMENT		
Land	426,376	426,376
Buildings and Equipment	29,882,569	28,948,617
	30,308,945	29,374,993
Accumulated Depreciation	(17,139,630)	(15,760,449)
Undepreciated Cost	**13,169,315**	**13,614,544**
OTHER ASSETS		
Notes and Contracts	18,677	20,983
Prepaid Pension	64,402	69,991
Total Other Assets	83,079	90,974
EQUITY IN OTHER ORGANIZATIONS	5,010,565	4,929,496
TOTAL ASSETS	**$ 28,001,784**	**$ 29,944,032**

The accompanying notes are an integral part of the financial statements.

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES	2019	2018
Checks Written in Excess of Bank Balance	$ 234,564	$ 919,911
Current Maturities of Long-Term Debt	1,000,000	1,000,000
Payables		
Trade	1,774,605	1,996,725
Customer Credit Balances and Prepaid Sales	958,964	936,772
Unpaid Grain	2,046,342	2,846,741
Other	20,692	55,590
Accrued Expenses		
Property Taxes	261,786	248,706
Interest	35,188	35,139
Other	217,177	184,502
Equity Revolvement	136,060	0
Total Current Liabilities	**6,685,378**	**8,224,086**

LONG–TERM LIABILITIES		
Notes Payable – Net of Current Maturities	5,512,500	6,512,500
Deferred Income Taxes	464,783	456,433
Total Long-Term Liabilities	**5,977,283**	**6,968,933**

MEMBERS' EQUITY		
Class A Common	70,650	70,200
Class B Common	24,300	25,950
Preferred Stock Local	934,264	1,076,179
Preferred Stock Regional	1,755,486	1,780,986
Preferred Stock Non–Qualified – Local	1,751,828	1,505,250
Preferred Stock Non–Qualified – Regional	1,759,453	1,767,666
Accumulated Other Comprehensive Income	64,402	69,991
Allocated Patronage Dividends	355,000	255,000
Retained Savings	8,623,740	8,199,791
Total Members' Equity	15,339,123	14,751,013
TOTAL LIABILITIES AND MEMBERS' EQUITY	**$28,001,784**	**$29,944,032**

The accompanying notes are an integral part of the financial statements.

Statement of Savings - August 31, 2019 and 2018

	2019	2018
Sales	$ 67,639,230	$ 71,512,949
Cost of Goods Sold	61,192,462	65,220,617
Gross Savings on Sales	6,446,768	6,292,332
Other Operating Revenue	2,724,213	2,697,802
Total Gross Revenue	9,170,981	8,990,134
Operating Expenses, Including Interest	8,814,842	8,735,245
Operating Savings	356,139	254,889
Patronage Dividend Income	414,403	325,308
Savings Before Income Taxes	770,542	580,197
Income Tax Expense (Benefit)	8,350	(310,697)
Net Savings	**$ 762,192**	**$ 890,894**

DISTRIBUTION OF NET SAVINGS

Patronage Dividends		
Non–Qualified	$ 355,000	$ 255,000
Retained Savings	407,192	635,894
	$ 762,192	**$ 890,894**

The accompanying notes are an integral part of the financial statements.

Two Rivers Cooperative - Pella, Iowa

Statement of Comprehensive Income - August 31, 2019 and 2018

	2019	2018
Net Savings	$ 762,192	$ 890,894
Other Comprehensive Income (Loss)		
Frozen Pension Plan Adjustment	(5,589)	35,921
Total Comprehensive Income	**$756,603**	**$926,815**

TWO RIVERS COOPERATIVE 2019 PATRONAGE RATES

Grain Purchased - Elevator	1.1703 Cents/Bushel
Grain Purchased - Direct	.9914 Cents/Bushel
Grain Sales - Feed	.9392 Cents/Bushel
Grain Drying & Storage	5.1733%
Feed Sales & Services	1.2449%
Agronomy Sales & Services	1.6251%
Refined Fuels	1.23 Cents/Gallon
L.P.	2.4674 Cents/Gallon
Other Merchandise & Services	2.1841%

Statement of Member's Equity - August 31, 2019 and 2018

		CAPITAL STOCK	
	TOTAL	CLASS A COMMON	CLASS B COMMON
Balance – August 31, 2017	$13,873,578	$75,900	$23,750
Stock Issued	2,800	2,550	250
Estate and Retirement Program Paid	(75,409)	(1,200)	(400)
Transfers	0	(7,050)	2,350
Regional Preferred Redeemed Less Than Par	23,229	0	0
Comprehensive Income	926,815	0	0
Patronage Dividends Allocation			
Deferred – Non–Qualified	0	0	0
Balance – August 31, 2018	14,751,013	70,200	25,950
Stock Issued	1,650	1,500	150
Estate and Retirement Program Paid	(186,657)	(1,050)	(1,800)
Regional Preferred Redeemed Less Than Par	16,514	0	0
Overaccrual of Prior Year Patronage	0	0	0
Comprehensive Income	756,603	0	0
Patronage Dividends Allocation			
Deferred – Non–Qualified	0	0	0
Balance – August 31, 2019	**$15,339,123**	**$70,650**	**$24,300**

The accompanying notes are an integral part of the financial statements.

Statement of Member's Equity - August 31, 2019 and 2018

CAPITAL STOCK						
QUALIFIED		NON-QUALIFIED				
LOCAL PREFERRED	REGIONAL PREFERRED	LOCAL PREFERRED	REGIONAL PREFERRED	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	ALLOCATED PATRONAGE DIVIDENDS	RETAINED SAVINGS
$1,086,744	$1,813,018	$1,517,335	$1,782,093	$34,070	$ 0	$7,540,668
0	0	0	0	0	0	0
(15,265)	(32,032)	(12,085)	(14,427)	0	0	0
4,700	0	0	0	0	0	0
0	0	0	0	0	0	23,229
0	0	0	0	35,921	0	890,894
0	0	0	0	0	255,000	(255,000)
1,076,179	1,780,986	1,505,250	1,767,666	69,991	255,000	8,199,791
0	0	0	0	0	0	0
(141,915)	(25,500)	(8,179)	(8,213)	0	0	0
0	0	0	0	0	0	16,514
0	0	254,757	0	0	(255,000)	243
0	0	0	0	(5,589)	0	762,192
0	0	0	0	0	355,000	(355,000)
$ 934,264	**$1,755,486**	**$1,751,828**	**$1,759,453**	**$64,402**	**$ 355,000**	**$8,623,740**

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows - August 31, 2019 and 2018

CASH FLOWS FROM OPERATING ACTIVITIES	2019	2018
Net Savings	**$ 762,192**	**$ 890,894**
Adjustments to Reconcile Net Income to Net Cash		
Provided by (Used in) Operating Activities		
Patronage Dividends Income Received as Equity	(130,792)	(133,700)
Depreciation	1,428,158	1,443,484
Gain on Sale of Property, Plant and Equipment	(12,000)	(40,121)
Bad Debt Expense (Income)	(16,533)	2,352
Deferred Revenue Recognized	0	(3,662)
Deferred Income Taxes	8,350	(295,469)
Changes in Assets and Liabilities		
(Increase) Decrease in Receivables	130,963	(476,821)
(Increase) Decrease in Margin Account	408,867	(305,851)
Decrease in Inventories	669,601	742,402
Increase in Prepaid Expenses	(185,651)	(985,787)
Decrease in Payables	(1,035,225)	(1,445,556)
Increase in Accrued Expenses	45,804	113,656
Net Cash Provided by (Used in) Operating Activities	**2,073,734**	**(494,179)**

CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(1,034,771)	(2,368,607)
Change in Construction in Process	0	1,950,929
Proceeds from Sale of Property, Plant and Equipment	63,842	42,504
(Increase) Decrease in Notes and Contracts	2,306	(3,327)
Equity in Other Organizations Redeemed	49,723	25,150
Net Cash Used in Investing Activities	**(918,900)**	**(353,351)**

CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Checks Written in Excess of Bank Balance	(685,347)	805,110
Retirement of Long–Term Debt	(1,000,000)	(1,000,000)
Stock Issued	1,650	2,800
Stock Redeemed	(34,083)	(52,180)
Net Cash Used in Financing Activities	**(1,717,780)**	**(244,270)**

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows - August 31, 2019 and 2018

	2019	2018
Net Decrease in Cash	$ (562,946)	$(1,091,800)
Cash – Beginning of Year	1,897,482	2,989,282
Cash – End of Year	$1,334,536	$ 1,897,482

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	2019	2018
Cash Paid (Refunded) During the Year for:		
Interest	$ 512,120	$ 495,869
Income Taxes	0	(15,228)

SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES	2019	2018
Allocated Patronage Dividends – Non–Qualified	$ 355,000	$ 255,000

The accompanying notes are an integral part of the financial statements.

GARDINER+COMPANY
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Two Rivers Cooperative
Pella, Iowa

We have audited the accompanying financial statements of Two Rivers Cooperative, Pella, Iowa, which comprise the balance sheets as of August 31, 2019 and 2018, and the related statements of savings, comprehensive income, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Two Rivers Cooperative, Pella, Iowa, as of August 31, 2019 and 2018, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

October 29, 2019

Gardiner + Company, P.C.

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 1: Organization and Nature of Business

The Company was incorporated in 1920 under Iowa Law and is operating as a cooperative for the mutual benefit of its members. Voting common stock ownership is limited to agricultural producers on a one share–one vote premise. Net savings on business transacted by members is allocated to them on the books of the Corporation or paid to them through patronage dividends.

The Company operates a licensed public grain warehouse; provides grain marketing and related services, sells feed, petroleum and agronomy in and around Marion, Jasper and Mahaska counties in Iowa.

The Company's gross revenues were derived from

	2019	2018
Agronomy Sales and Related Services	31%	30%
Grain Sales and Related Services	29	28
Petroleum Sales and Related Services	25	27
Feed Sales and Related Services	13	14
Other Merchandise Sales and Services	2	1

Note 2: Summary of Significant Accounting Policies

The significant accounting practices and policies are summarized below.

COMPREHENSIVE INCOME REPORTING

The Company accounts for comprehensive income in accordance with the Comprehensive Income Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), which requires comprehensive income and its components to be reported when a company has items of other comprehensive income. Comprehensive income includes net income plus other comprehensive income (i.e., certain revenues, expenses, gains and losses reported as separate components of stockholders' equity rather than in net income).

RECEIVABLES, NET

Receivables are shown on the balance sheet net of the allowance for doubtful accounts for book purposes. The amount of the allowance is based on historical bad debt experience and a current evaluation of the aging and collectability of receivables. For tax purposes, uncollectible amounts are charged against current operations and no allowance for doubtful accounts is maintained.

Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the accounts receivable and the related allowance may change in the near term.

Trade receivables with credit balances have been included in the customer credit balances and prepaid sales as a current liability.

GRAIN IN TRANSIT

In accordance with industry practice on contracts, subject to final grade and weight determination at the destination point, the Company consistently records a sale at the time grain is shipped.

HEDGING

The Company generally follows a policy of hedging its grain transactions to protect gains and minimize losses due to market fluctuations. Gains and losses from these hedge transactions are reflected in the margins of the respective commodity.

INVENTORIES

Commodity inventories such as grain and fuels are valued at market (realizable value adjusted for freight, test weights, discounts and other differentials), including a provision for gains or losses on future sales and purchase commitments.

Merchandise inventories are valued at lower cost (first-in, first-out method) or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation.

PROPERTY, PLANT AND EQUIPMENT

Land, buildings and equipment are stated at cost. Depreciation methods are discussed in Note 5.

Maintenance and repairs are expensed as incurred. Expenditures for new facilities and those which increase the useful lives of the buildings and equipment are capitalized.

When assets are sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and gains or losses on the dispositions are recognized in earnings.

EQUITY IN OTHER ORGANIZATIONS

Equities in other organizations are recorded at cost, plus unredeemed patronage dividends received in the form of capital stock and other equities. Cooperative stocks are not transferable, thereby precluding any market value, but they may be used as collateral in securing loans. Patronage dividends received are recognized as income and any impairment of equities is not recognized by the Company until formal notification is received, or when there has been permanent impairment of the carrying value of the investment. Redemption of these equities is at the discretion of the various organizations.

MEMBERS' EQUITY

Common stock may be issued only to members who are agricultural producers or other users. Equities are issued and/or redeemed at par value. All equity transactions require Board of Director approval.

DEFERRED REVENUE

The Company recognizes revenues as they are earned. Amounts collected in advance of the period in which they are earned are recorded as a liability.

PATRONAGE DIVIDEND INCOME

Patronage refunds from other cooperatives are recognized as income in the year the Company receives notification from the distributing cooperative.

DISTRIBUTION OF NET SAVINGS

Net savings is allocated to patrons on a patronage basis, based on taxable income and in accordance with the articles and bylaws of the Company.

Patronage refunds to members of the cooperative may take the form of either qualified or nonqualified written notices of allocation. The terms qualified and nonqualified refer to the tax aspect of a refund. For a patronage refund to be qualified as an income tax deduction for the Company at least 20% of the refund must be paid in cash. A nonqualified refund then, is a refund where less than 20% of the refund is paid to the member in cash and does not qualify as a tax deduction for the Company.

Unallocated savings, after provision for income taxes, is accounted for as an addition to unallocated retained savings.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION

The Company provides a wide variety of products and services, from production agricultural inputs such as livestock feeds, crop nutrients, fuels and other farm supplies, to grain marketing, storage and drying services as well as feed grinding and mixing, agronomy spreading and spraying, transportation, and other agricultural related services. Sales are recorded upon transfer of title, which could occur at the time commodities are shipped or upon receipt by the customer, depending on the terms of the transaction. Service revenues are recorded once such services have been rendered.

SALES TAXES

Various entities impose a sales tax on specific categories of the Company's sales. The Company collects the sales tax from patrons and remits the entire amount to the respective taxing authorities. The Company excludes the tax collected and remitted from sales and the cost of sales, respectively.

INCOME TAXES

The Company, as a non–exempt cooperative, is taxed on non–patronage earnings and any patronage earnings not paid or allocated to patrons.

The Company evaluates uncertain tax benefits arising from tax positions taken or expected to be taken based upon the likelihood of being sustained upon examination by applicable tax authorities. If the Company determines that a tax position is more likely than not of being sustained, it recognizes the largest amount of the arising benefit that is greater than 50% likely of being realized upon settlement in the financial statements. Any tax positions taken or expected to be taken that do not pass the more likely than not test, the Company establishes reserves offsetting the benefits related to such positions. Interest and penalties, if any, are included in the current period provision for income taxes in the Company's statement of savings and are included as a current liability in the balance sheet.

DEFERRED INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The principal temporary differences are due to the use of different financial reporting and income tax methods for depreciation, bad debts, inventory capitalization and compensated absences.

LEASES

Leases which meet certain criteria are classified as capital leases, and assets and liabilities are recorded at amounts equal to the fair value of the leased properties at the beginning of the respective lease terms. Such assets are amortized evenly over the related lease terms of their economic lives. Leases which do not meet such criteria are classified as operating leases and related rentals are charged to expense as incurred.

ADVERTISING EXPENSES

The Company's advertising expenses are charged against income during the year in which they are incurred. Total advertising costs charged to expense for the years ended August 31, 2019 and 2018 are $194,354 and $195,348, respectively.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company has only limited involvement with derivative financial instruments and does not use them for trading purposes. They are used to manage well–defined commodity price risks. The Company may use futures, forward, option and swap contracts to reduce the volatility of grain and fuels. These contracts permit final settlement by delivery of the specified commodity. These contracts are not designated as hedges as defined by the Derivatives and Hedging Topic of the FASB ASC. Unrealized gains or losses are recognized in the valuation of the respective commodity's ending inventory.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fair Value Measurements and Disclosures Topic of the FASB ASC defines fair value as the price that would be received to sell an asset or paid to transfer a liability between market participants in the principal market or in the most advantageous market when no principal market exists. Market participants are assumed to be independent, knowledgeable, able and willing to transact an exchange and not under duress. Nonperformance or credit risk is considered when determining the fair value of liabilities. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized in a current or future market exchange.

Note 3: Concentrations of Risk

CREDIT RISK – FINANCIAL INSTITUTIONS

The Company had deposits with financial institutions in excess of insured limits in the amount of $1,328,201 and $1,892,202 at August 31, 2019 and 2018, respectively.

CREDIT RISK – RECEIVABLES

The Company is a locally owned agri–business supplier with facilities in Marion, Jasper and Mahaska counties. In the normal course of business, the Cooperative grants credit to customers, substantially all of whom are agricultural producers and members of the Cooperative residing and/or operating in the above–mentioned counties under standard terms without collateral. As these receivables are concentrated in the agricultural industry, collection of the receivables may be dependent upon economic returns from farm crop and livestock production. Additionally, the Company grants credit to other customers purchasing processed agricultural products in trade areas beyond the above counties. The Company's credit risks are continually reviewed and management believes that adequate allowances have been made for doubtful accounts.

CREDIT RISK – SUPPLIERS

The Company historically prepays for or makes deposits on undelivered inventories. Concentration of credit risk with respect to inventory advances, are primarily with a few major suppliers of agricultural inputs.

OFF–BALANCE SHEET RISK – COMMODITY CONTRACTS

Realized and unrealized gains and losses from futures and forward hedge contracts and commitments are included in gross savings. There is the possibility that future changes in market prices may make these contracts more or less valuable, thereby, subjecting them to market risk. Risk arises from changes in the value of these contracts and commitments and the potential inability of counterparties to perform under the terms of the contracts. There are numerous factors which may significantly influence the value of these contracts and commitments, including market volatility.including market volatility.

Note 4: Related Party Transactions

The Company, organized on a cooperative basis, conducts a substantial portion of their operations with members (owners) of the Company and has ownership interest in various regional cooperatives from whom they purchase products for resale and sell products to.

The Company sells supplies to and purchases grain from the Board of Directors and certain employees. The aggregate of these transactions is not significant to the financial statements.

The Company had trade receivables due from directors and employees of $11,602 and $48,686 as of August 31, 2019 and 2018, respectively.

The Company had patron credit balances due to directors and employees of $2,629 and $6,379 as of August 31, 2019 and 2018, respectively.

Note 5: Property, Plant and Equipment

The August 31, 2019 cost of depreciable assets by depreciation method is as follows:

	LIFE IN YEARS	STRAIGHT-LINE	DECLINING BALANCE	TOTAL
Buildings	7-50	$11,471,943	$ 0	$11,471,943
Equipment	3-33	14,449,411	141,425	14,590,836
Vehicles	3-10	3,819,790	0	3,819,790
		$29,741,144	**$141,425**	**$29,882,569**

The August 31, 2018 cost of depreciable assets by depreciation method is as follows:

	LIFE IN YEARS	STRAIGHT-LINE	DECLINING BALANCE	TOTAL
Buildings	7-50	$11,194,813	$ 0	$11,194,813
Equipment	3-33	13,840,712	141,425	13,982,137
Vehicles	3-10	3,771,667	0	3,771,667
		$28,807,192	**$141,425**	**$28,948,617**

Depreciation expense in the amount of $1,428,158 and $1,443,484 has been charged against operations for the years ended August 31, 2019 and 2018, respectively.

Note 6: Equity in Other Organizations

Equity in other cooperatives consist of purchased equities, which are valued at cost, and equities received as patronage dividend income, which are carried at face value. Losses are recognized on these investments when the Company receives formal notification of loss allocations from the investee, or when there has been permanent impairment of the carrying value of the investment. Redemption of these equities is at the discretion of the various organizations, thereby making it impracticable to estimate future cash flows from these investments.

At August 31, 2019 and 2018 the Company had equity in other cooperatives as follows:

	2019	2018
CHS, Inc.	$3,048,309	$3,085,245
Land O'Lakes, Inc.	1,183,361	1,084,848
CoBank, ACB	339,098	317,381
The Cooperative Finance Association, Inc.	230,207	230,207
Ag Processing, Inc.	197,336	197,977
Others	12,254	13,838
	$5,010,565	**$4,929,496**

Note 7: Unpaid Grain

Unpaid grain at August 31, 2019 and 2018 consisted of deferred payment, price later, priced not paid and extended price grain contracts. Deferred payment, priced not paid and extended price contracts represents grain on which title has passed to the Company with payment to be made at a later date. Price later contracts represent grain on which title has passed to the Company with a price to be fixed at a later date. The Company includes these bushels as purchases and reflects the corresponding liability based on the bid price at August 31.

The contracts as of August 31, 2019 and 2018 are summarized as follows:

	2019		2018	
PRICE LATER CONTRACTS	**BUSHELS**	**AMOUNT**	**BUSHELS**	**AMOUNT**
Corn	184,864	$ 613,287	244,743	$ 751,360
Soybeans	46,550	367,281	29,615	220,190
		980,568		**971,550**
DEFERRED PAYMENT CONTRACTS				
Corn	140,400	549,968	261,327	938,960
Soybeans	12,462	100,038	50,809	489,823
		650,006		**1,428,783**
PRICED NOT PAID CONTRACTS				
Corn	55,576	210,922	50,249	174,958
Soybeans	3,568	29,142	0	0
		240,064		**174,958**
EXTENDED PRICE CONTRACTS				
Corn	168,000	671,510	291,000	935,390
Soybeans	6,000	47,760	17,000	132,835
		719,270		**1,068,225**
LESS: ADVANCES				
		543,566		**796,775**
		$2,046,342		**$2,846,741**

Note 8: Financing Arrangements

Information regarding financing at August 31, 2019 and 2018 is as follows:

LENDER	INTEREST RATE	BALANCE 2019	BALANCE 2018	REPAYMENT BASIS
CoBank, ACB				
RI0302T01	5.39%*	$2,512,500	$2,912,500	$100,000 due quarterly thru 11-20-25; balance 02-20-26
CoBank, ACB				
RI0302T03	5.39%*	$4,000,000	$4,600,000	$150,000 due quarterly thru 11-20-21; balance 02-20-22
		6,512,500	7,512,500	
Less: Current Maturities		1,000,000	1,000,000	
Long–Term Debt		$5,512,500	$6,512,500	

Seasonal borrowings in effect at August 31, 2019 and 2018 are as follows:

LENDER	INTEREST RATE	BALANCE 2019	BALANCE 2018	REPAYMENT BASIS
CoBank, ACB-SO1	5.14%*	$0	$0	Due 06-01-20
The Cooperative Finance				
Association, Inc.	5.75%*	0	0	Due 01-15-20

*Denotes continuously variable interest rate.

The CoBank, ACB notes are secured by a first mortgage lien on all real property owned by the Company and a security agreement covering all personal property, including inventory and accounts receivable arising from the sale thereof, subject only to first mortgages and security agreements for other contracts. They are further secured by $339,098 of equity in CoBank, ACB.

The loan agreements with CoBank, ACB, contain restrictive and affirmative covenants which provide, among other things; (1) restrictions on incurring additional indebtedness, (2) making loans to any one person or entity outside the ordinary course of business, (3) limitations on the type and amount of guarantees, and (4) maintaining certain levels of working capital on a monthly and year–end basis.

Loan commitments in effect at August 31, 2019 and 2018, were as follows:

OPERATING	2019	2018
CoBank, ACB	$10,000,000	$12,000,000
The Cooperative Finance Assoc.	500,000	500,000
Term – CoBank, ACB	6,512,500	7,512,500

Aggregate annual maturities of the long–term debt outstanding at August 31, 2019, are as follows:

MATURITY DATE - YEAR ENDING AUGUST 31	
2020	$1,000,000
2021	1,000,000
2022	3,200,000
2023	400,000
2024	400,000
Thereafter	512,500
	$6,512,500

Interest expense charged to operations at August 31, 2019 and 2018 was $512,169 and $501,862, respectively.

Note 9: Capital Stock

At August 31, 2019 and 2018, capital stock consisted of the following:

	PAR VALUE	SHARES AUHORIZED	SHARES OUTSTANDING 2019	SHARES OUTSTANDING 2018
Class A Common Stock	$150	3,000	471	468
Class B Common Stock	50	2,000	486	519
Class A Preferred Stock	1	6,000,000	934,264	1,076,179
Class B Preferred Stock	1	6,000,000	865,058	870,070
Class C Preferred Stock	1	3,000,000	0	0
Class D Preferred Stock	1	3,000,000	890,428	910,916
Class E Preferred Stock	1	6,000,000	1,751,828	1,505,250
Class F Preferred Stock	1	6,000,000	1,759,453	1,767,666
Class G Preferred Stock	1	6,000,000	0	0
Class H Preferred Stock	1	6,000,000	0	0
Class I Preferred Stock	1	6,000,000	0	0
Class J Preferred Stock	1	6,000,000	0	0
Class K Preferred Stock	1	6,000,000	0	0
Class L Preferred Stock	1	6,000,000	0	0
Class M Preferred Stock	1	6,000,000	0	0
Class N Preferred Stock	1	6,000,000	0	0
Class O Preferred Stock	1	6,000,000	0	0

All stock will be issued at its par value. The Company may pay dividends not to exceed eight percent per year of par value on Classes G and H Preferred Stock, but will not pay dividends on any other class of its stock. Class A Common Stock is the only class of stock with voting rights. A person may only own one share of common stock.

Note 10: Pension Plans

Substantially all of the Company's employees participate in the Coop Retirement Plan, which is a multiple employer defined benefit plan that is funded by contributions from employer and employees and provides for monthly income for life upon retirement or upon total and permanent disability. The amount of benefits is based upon length of service and compensation. The plan is administered by United Benefits Group.

The Company intends to continue to participate in the plan indefinitely; however, it may voluntarily discontinue the plan at any time. The Company's annual contributions are consistently charged to expenses as they are due. The plan, which has no funding deficiencies, uses the aggregate cost method of valuations. Under this method, the normal cost is adjusted each year to reflect the experience under the plan, automatically spreading gains or losses over future years. The relative position of each employer associated with the plan, with respect, to the actuarial present value of accumulated benefits is not determinable.

The Company is one of approximately 400 employers that contributes to the Co–op Retirement Plan (the "Plan"), which is a defined benefit plan constituting a "multiple employer plan" under the Internal Revenue Code of 1986, as amended, and a "multiemployer plan" under the FASB Accounting Standards Master Glossary. The risks of participating in these multiemployer plans are different from single–employer plans in the following aspects:

A. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers;

B. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and

C. The Company intends to participate in the plan indefinitely, however it may voluntarily elect to discontinue the plan at any time, and may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability that could be material to the financial statements.

Note 10: Pension Plans (continued)

The Company's participation in the Plan, including administration costs, for the years ended August 31, 2019 and 2018 is outlined in the table below:

PLAN NAME	EIN	PLAN NUMBER	CONTRIBUTIONS 2019	CONTRIBUTIONS 2018
Co–op Retirement Plan	01-0689331	001	$218,568	$232,191

The Company's contributions for the years stated above constitute its total contributions made to all multiemployer plans and did not represent more than 5 percent of total contributions to the Plan as indicated in the Plan's most recently available annual report (Form 5500). There have been no significant changes that affect the comparability of 2019 and 2018 contributions. Plan–level information is included in Form 5500 and therefore is available in the public domain.

The Company participates in a 401(k) thrift plan administered by Associated Benefits Corporation. The plan covers full–time employees over 21 years of age who have completed at least four months of continuous employment. Presently, only employee contributions are being made to the plan. The Company paid administration fees for the years ended August 31, 2019 and 2018 in the amount of $12,923 and $15,005, respectively.

Prior to the merger, employees of Farmers Cooperative Exchange and its joint venture Cornerstone Feeds participated in separate defined benefit plans administered by Association Benefits Corporation. Each of these plans has been frozen and will remain frozen until each plan is terminated. The Company made no contributions to the plan for the years ended August 31, 2019 and 2018.

Termination surpluses for each of the plans for the years ended August 31, 2019 and 2018 were as follows:

	2019	2018
Farmers Cooperative Exchange	$63,320	$69,028
Cornerstone Feeds	1,082	963
	$64,402	**$69,991**

The Company made no contributions to the plan for the years ended August 31, 2019 and 2018.

The effects of any curtailments of the plan were not reasonably estimable at August 31, 2019 and 2018, and accordingly, the Company has not reflected any gains or losses.

Note 11: Income Taxes

Components of the provision for income tax benefit for the years ended August 31, 2019 and 2018 was as follows:

	2019	2018
Federal R&D Credit	$ 0	$ 5,874
State R&D Credit	0	9,354
	$ 0	**$ 15,228**
Deferred Income Tax		
Current Year Provision	$8,350	$ 88,202
Benefit Enacted Tax Rate Reduction	0	207,267
	$8,350	**$295,469**

Total income tax expense for the years ended August 31, 2019 and 2018, was less than the normal amount computed by applying the U.S. federal income tax rate to savings before income taxes primarily because of the surtax exemption, permanent timing differences, and temporary timing differences creating deferred income taxes.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred taxes are classified as current or non–current, depending on the classification of the assets and liabilities to which they relate. Deferred taxes arising from timing differences that are not related to an asset or liability are classified as current or non–current depending on the periods in which the timing differences are expected to reverse.

Note 11: Income Taxes (continued)

Amounts for deferred tax assets and liabilities at August 31, 2019 and 2018 are as follows:

DEFERRED TAX ASSETS (LIABILITIES) – NON-CURRENT	2019	2018
Depreciation	$(1,787,072)	$(1,706,575)
Non-Qualified Allocation	1,158,723	1,080,062
Net Operating Loss	118,970	118,970
Accrued Compensated Absences	27,016	24,933
Allowance for Doubtful Accounts	8,021	13,422
263A	7,467	8,572
Acquired Customer List	2,092	4,183
	$ (464,783)	**$ (456,433)**

The Company files tax returns with the Internal Revenue Service and the State of Iowa.

At August 31, 2019 the Company has available an unused net operating loss carry forward of $360,515 that may be applied against future taxable income. The carry forward will expire August 31, 2032.

The Company has available unused federal tax credits totaling $88,852. The tax credits have a twenty year carry forward and will begin to expire August 31, 2038.

Note 12: Operating Leases

The Company has various non–cancelable and cancelable operating leases on property and equipment. Total lease expense for the years ended August 31, 2019 and 2018 was $72,911 and $48,442, respectively.

Minimum future rental payments under non–cancelable operating leases having remaining terms in excess of one year as of August 31, 2019, are as follows:

YEARS ENDING AUGUST 31	
2020	$21,732
2021	21,732
	$43,464

Note 13: Fair Value Measurements

The Company determines the fair market value of its instruments as of August 31, 2019 and 2018 based on the three levels of fair value hierarchy which are:

Level 1 - Values are based on unadjusted quoted prices in active markets for identical assets or liabilities. These assets or liabilities include commodity derivative contracts on the Chicago Board of Trade.

Level 2 - Values are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities exchanged in inactive markets.

Level 3 - Values are based on unobservable inputs reflecting management's own assumptions and best estimates that market participants would use in pricing the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Note 13: Fair Value Measurements (continued)

The following table sets forth assets and liabilities measured at fair value and the respective levels to which fair value measurements are classified within the fair value hierarchy:

	FAIR VALUES AS OF AUGUST 31, 2019			
Financial Assets	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Futures Contracts – Grain	$100,588	$ 0	$0	$ 100,588
Grain Inventories	0	1,287,191	0	1,287,191
Fuel Inventories	0	310,198	0	310,198
	$100,588	**$1,597,389**	**$0**	**$1,697,977**
Financial Liabilities				
Forward Contracts – Grain	$ 0	$ 414,283	$0	$ 414,283
Forward Contracts – Fuels	0	383,324	0	383,324
Futures Contracts – Fuels	279,248	0	0	279,248
	$279,248	**$ 797,607**	**$0**	**$1,076,855**

	FAIR VALUES AS OF AUGUST 31, 2018			
Financial Assets	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Futures Contracts – Grain	$271,487	$ 0	$0	$ 271,487
Futures Contracts – Fuels	337,612	0	0	337,612
Grain Inventories	0	1,910,916	0	1,910,916
Fuel Inventories	0	401,880	0	401,880
	$609,099	**$2,312,796**	**$0**	**$2,921,895**
Financial Liabilities				
Futures Contracts – Grain	$ 0	$ 807,717	$0	$ 807,717
Futures Contracts – Fuels	0	253,057	0	253,057
	$ 0	**$1,060,774**	**$0**	**$1,060,774**

The carrying value of the Company's other financial instruments, consisting principally of cash, trade receivables, accounts payable, lines of credit and other obligations, approximates fair value due to the short–term maturity of these instruments. The carrying value of long–term borrowings approximates fair value as the interest the Company could obtain on similar debt instruments approximate the interest rates of current debt obligations. The Company's investments in other cooperatives are stated at cost. There is no established market for these investments, and it is not otherwise practical to determine the fair value of investments in cooperatives.

Note 14: Derivative Financial Instruments and Hedging Activities

The Company's purpose for entering into derivative and its overall risk management strategies are discussed in Note 2. The fair value of commodity derivatives is presented in Note 13. Additional information regarding the fair value of derivative transactions is as follows:

		FAIR VALUE AS OF AUGUST 31	
DERIVATIVE ASSETS:	BALANCE SHEET LOCATION	2019	2018
Open Futures Contracts	Margin Account	**$(178,660)**	**$609,099**

In addition, gains and losses on commodity derivatives are located in gross savings on sales in the Statements of Savings. Net gains on commodity futures contracts amounted to $842,447 and $1,346,393 for the years ended August 31, 2019 and 2018, respectively.

Note 15: Commitments and Contingencies

A. The Company is contingently liable for any weight or grade deficiencies that may occur at time of delivery on the following bushels of grain in storage under warehouse receipts or awaiting disposition at August 31, 2019:

DAILY POSITION RECORD (DPR)	CORN	OATS	SOYBEANS
Open Storage	235,017	74	113,662
Company Owned – Unpaid	548,841	0	68,580
Company Owned – Paid	(453,561)	3,757	52,386
Total Company Owned	95,280	3,757	120,966
Total Stocks Per DPR	**330,297**	**3,831**	**234,628**

B. The Company is subject to various federal and state regulations regarding the care, delivery and containment of products which the Company handles and has handled. The Company is contingently liable for any associated costs which could arise from the handling, delivery and containment of these products. These costs cannot be determined at present. While resolution of any such costs in the future may have an effect on the Company's financial results for a particular period, management believes any such future costs will not have a material adverse effect on the financial position of the Company as a whole.

C. The Company has entered into an agreement with The Cooperative Finance Association, Inc., where The Cooperative Finance Association, Inc. will provide input financing to certain company patrons. The Company agrees to perform services regarding the origination, servicing, and collection of completed documents from patrons and related parties. The Company will guarantee 0%–100% of the total non–collectible producer loan amounts, as well as 0%–100% of any expenses incurred by The Cooperative Finance Association, Inc., in the collection or attempted collection of any patron loan. Total outstanding balances as of August 31, 2019, are as follows:

Outstanding Principal Balance	$1,414,234
Accrued Interest	21,632
Guarantee Amount	489,063

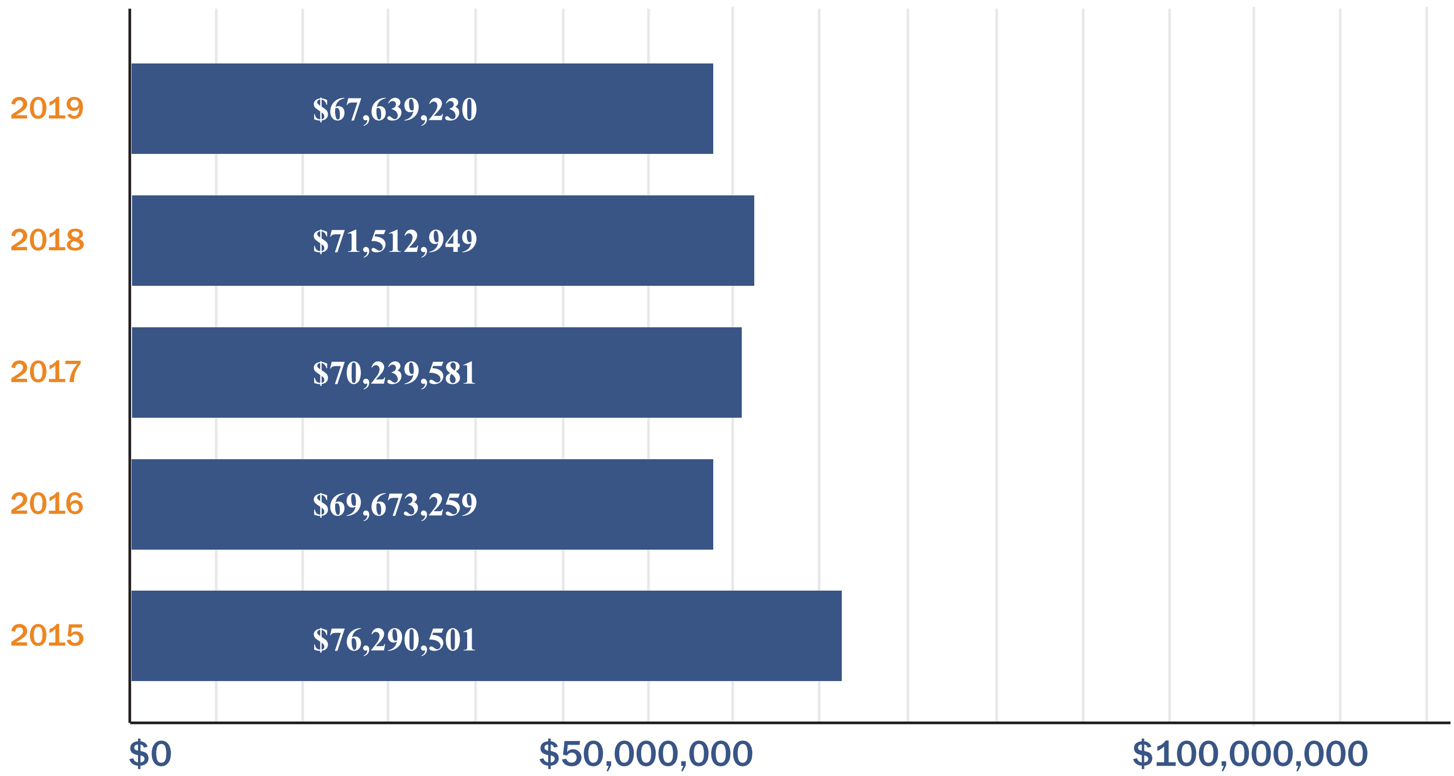
Note 16: Subsequent Events

The Company has considered the effect, if any, that events occurring after the balance sheet date and up to October 29, 2019 have on the financial statements as presented. This date coincides with the date the financial statements were available to be issued.

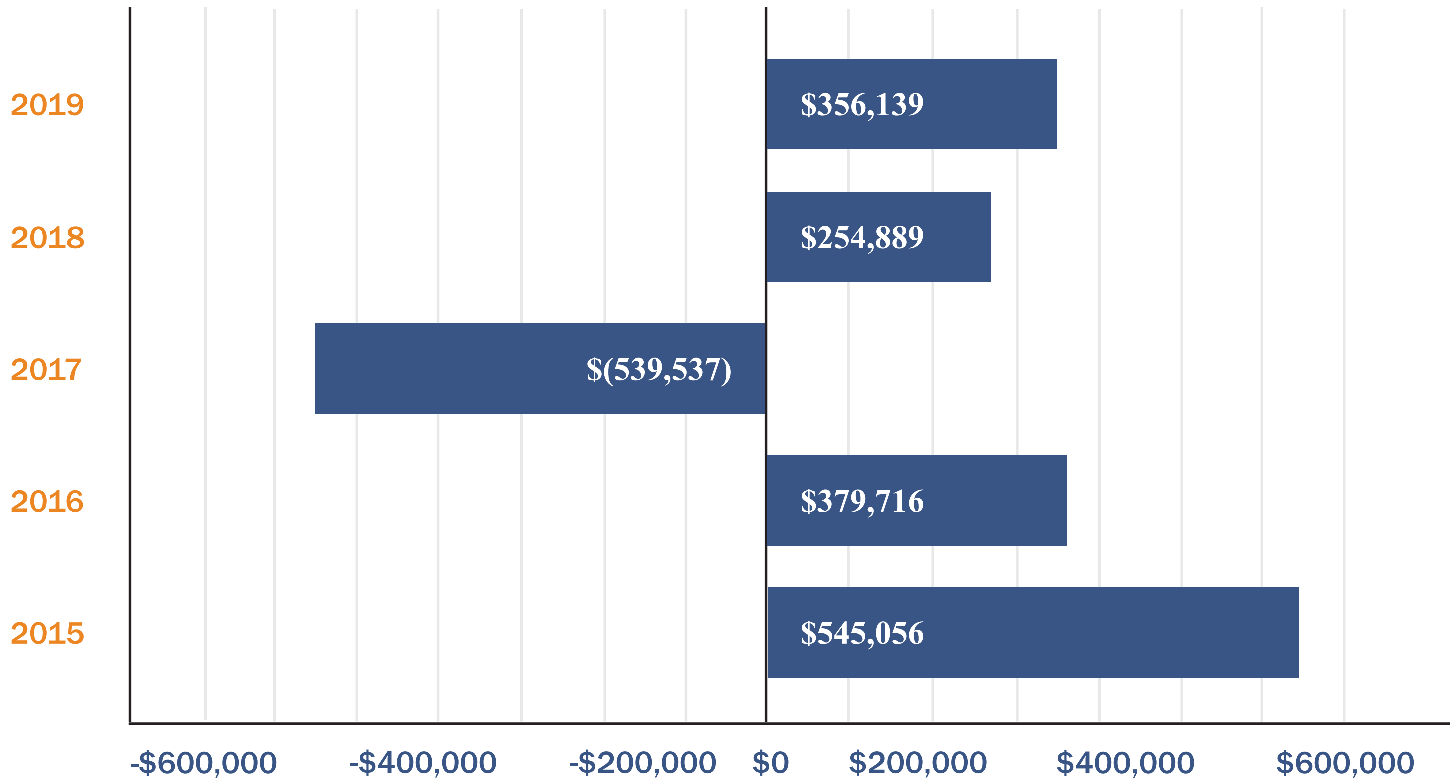
Annual Meeting - Years in Review

	2019	2018	2017	2016	2015
Total Sales	$67,639,230	$71,512,949	$70,239,581	$69,673,259	$76,290,501
Local Savings	$356,139	$254,889	-$539,537	$379,716	$545,056
Total Savings	$762,192	$890,894	$69,232	$1,348,145	$1,405,526
Total Member's Equity	$15,339,123	$14,751,013	$13,873,578	$13,591,045	$12,413,525
Cash Returned to Members	$170,143	$75,409	$40,538	$120,769	$278,069
Fixed Asset Expenditures	$1,034,771	$417,678	$3,374,612	$4,412,589	$899,497

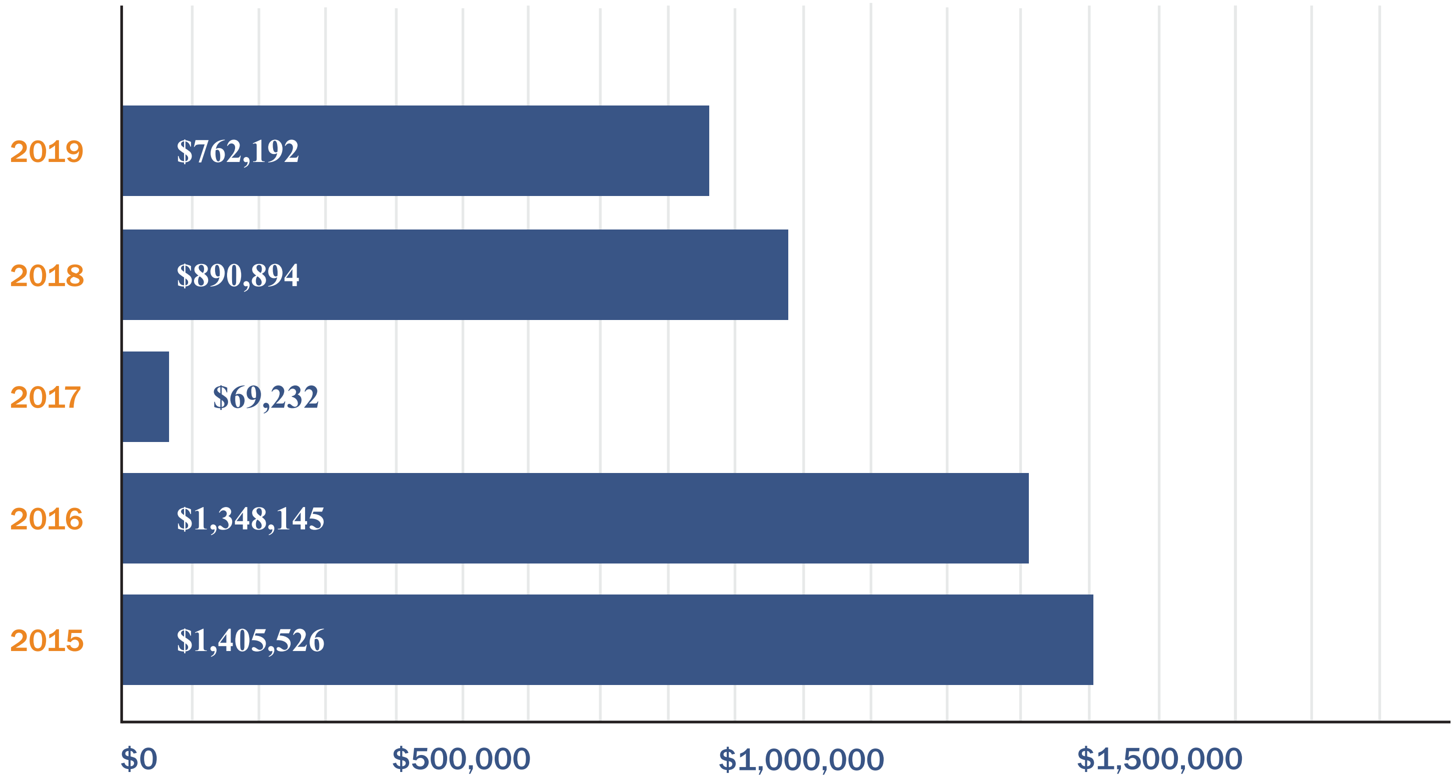
ANNUAL SALES



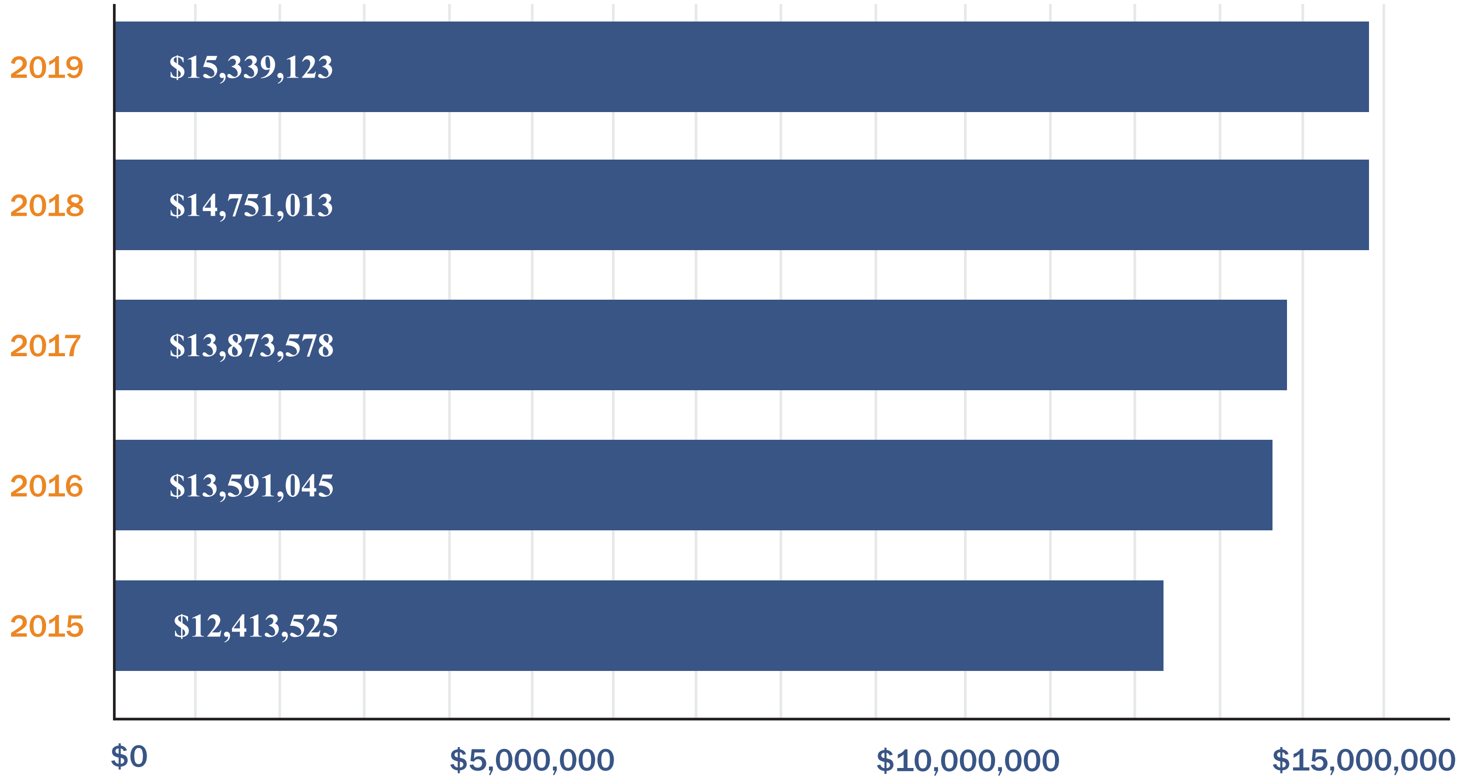
LOCAL SAVINGS



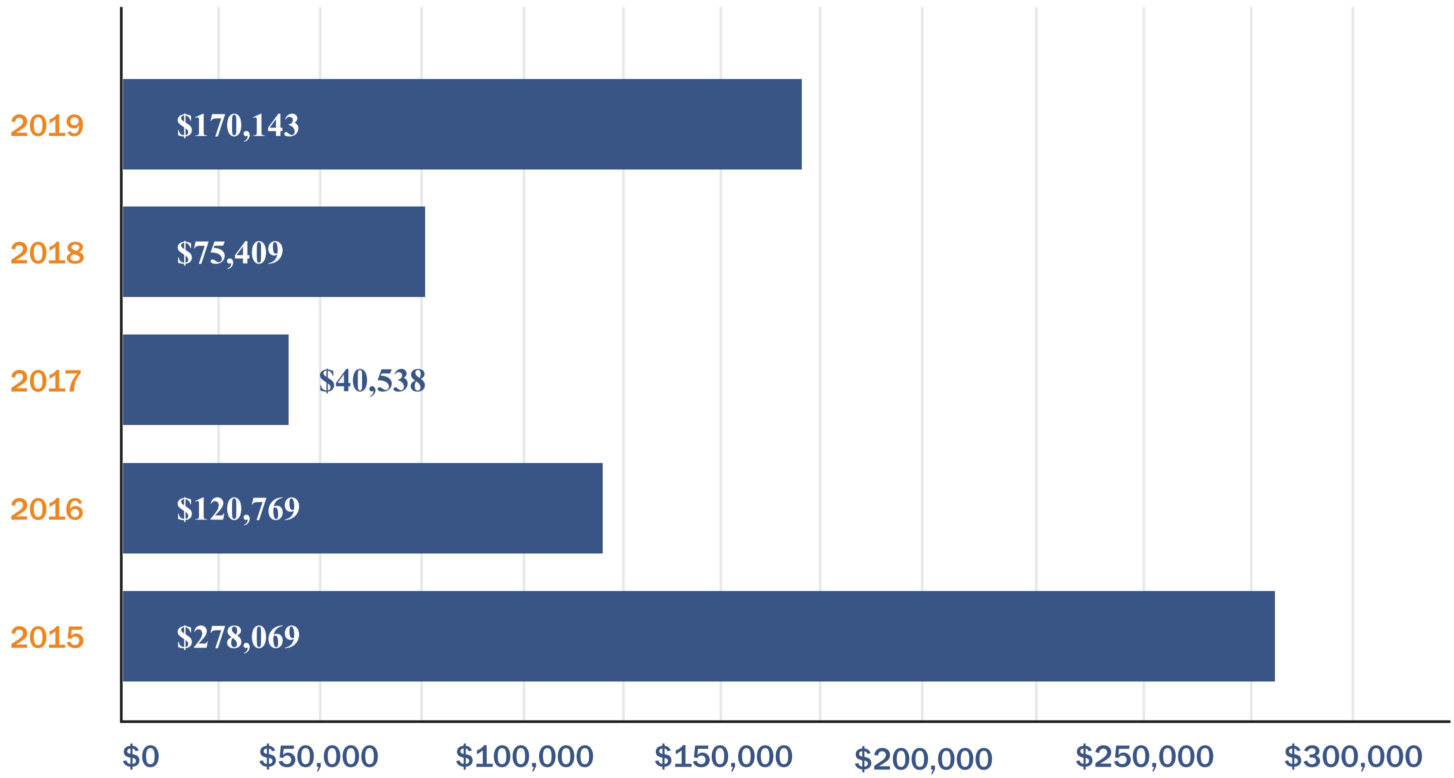
TOTAL SAVINGS



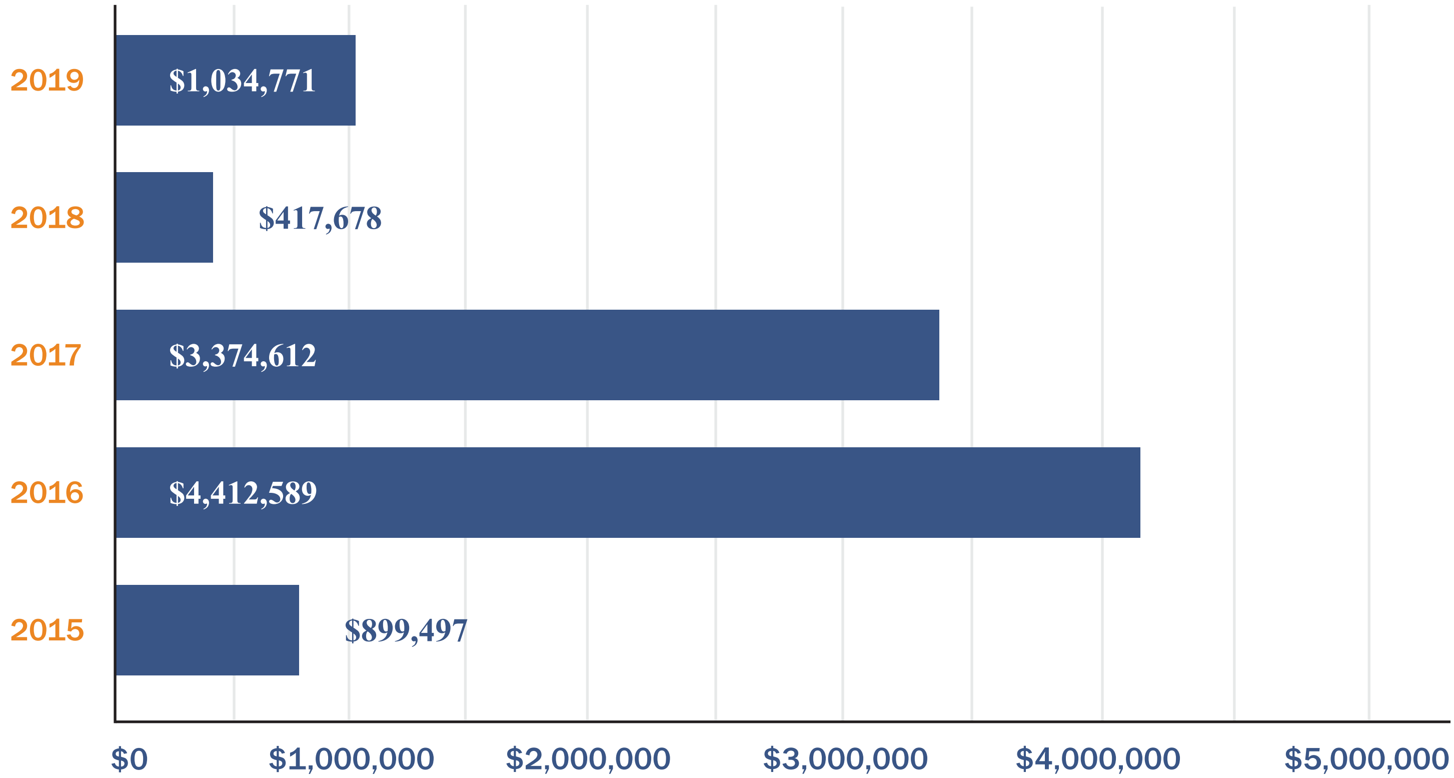
TOTAL MEMBERS' EQUITY



CASH RETURNED TO MEMBERS



ANNUAL FIXED ASSET EXPENDITURES



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2019 Annual Report

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