

UNITED
COOPERATIVE™
R E L Y O N U S

81st Annual Report

2016





David A. Cramer
United Cooperative
President and Chief Executive Officer

From the CEO

To our patron member owners:

2016 proved to be a year of uncertainty, with increased economic pressures in all sectors of agriculture, lower milk prices and lower crop prices created pressure at the farm gate. Fertilizer, feed ingredients and energy prices were down, while volumes of fertilizer, feed and grain were up. Your cooperative's investment in ethanol businesses returned well, but faced pressures from global market changes. Despite these economic challenges, the year ended strong.

Revenues for 2016 were \$633 million. United Cooperative's core cooperative businesses of feed, grain, agronomy and energy generated \$25 million in profits, down \$2 million from 2015. The investment United Cooperative made in ethanol contributed \$14 million to our net income in 2016, up from the \$11 million this investment returned the year before. Patronage from regional cooperatives was down one million from 2015, at \$6 million dollars. All combined, United Cooperative had a total net income before income taxes in 2016 of \$45.5 million dollars, virtually unchanged from 2015.

With those profitable numbers, United Cooperative is returning \$28.7 million in total patronage to members. Forty percent of this patronage, or \$11.5 million, will be distributed in cash to our patron member owners in April, while 60%, or \$17.2 million, will be retained in equity credits. In addition, we plan to continue to revolve stock in October, retire stock at age 77 and pay all estates as requested.

Your cooperative invested millions in cooperative building projects in 2016 to benefit member access and profitability. Construction was completed on two feed manufacturing facilities at Wilton and Shawano. These state-of-the-art facilities enable your cooperative to serve your needs and customize feed mixes that maximize producer profitability.

Improving grain receiving capability and increasing storage capacity was also a focus for United Cooperative in 2016. We completed construction at Westfield on a complete grain receiving and drying system. In addition to the construction of a 595,000-bushel bin, the project included two, 1,200-bushel dump pits combined with an additional 20,000 bushels per hour receiving capacity. The site also added additional gas capacity to supply the new 4,700 bushels per hour tower dryer. At Rock Springs, United Cooperative completed a 1.2-million-bushel storage bin.

In 2016 your cooperative continued to improve agronomy facilities by constructing a new 4,650-ton dry fertilizer plant along with a new liquid facility at Auroraville. These local investments will enable better service and a reliable supply of products for years to come. United Cooperative also finalized the new 24-hour fuel pumping station at Hillsboro. The station now offers diesel as well as three grades of gasoline. In addition, a new maintenance shop was built just outside of Hillsboro across from the agronomy plant that was completed in Spring 2016.

At the end of the year, your board of directors signed a letter of intent to merge with Greenville Cooperative, Greenville, Wis. The merger was approved by Greenville members in March, and was effective April 1, 2017.

Your cooperative serves many communities throughout Wisconsin, and we take pride in giving back through community giving and scholarships for youth. United Cooperative awarded 48 \$1000 scholarships to high school seniors, and provided an additional \$100,000 in giving to rural health and safety, youth and food initiatives in the communities where we do business.

After you review the financial numbers, I hope you are as proud as I am to represent United Cooperative. Thank you for your continued partnership and for your business. I know all United Cooperative employees are looking forward to serving new and existing patron members in 2017 and beyond.

Cooperatively yours,

A handwritten signature in black ink that reads "David Cramer". The signature is fluid and cursive, with a long horizontal line extending from the end.

David Cramer
United Cooperative President and Chief Executive Officer

Officers and directors

Howard Bohl	Chairman
Gary Nolden	Vice Chairman
Robin Craker	Secretary
David A. Cramer	Treasurer
Duane Hinchley	Director
Anthony Schadt	Director
Brad Krueger	Director
Greg Tauchen	Director
Rod Leiterman	Director
Peter Mlsna	Director



The 2016 United Cooperative Board of Directors: front row, left to right, Gary Nolden, Prairie du Sac, vice chairman; Howard Bohl, Beaver Dam, chairman; Robin Craker, Reedsburg, secretary; and Rod Leiterman, Denmark. Back row, left to right, Brad Krueger, Shawano; Greg Tauchen, Bonduel; David Cramer, Beaver Dam, treasurer; Duane Hinchley, Cambridge; Anthony Schadt, Watertown; and Peter Mlsna, Hillsboro.

Personnel

David A. Cramer, President and Chief Executive Officer

Additional information

Date of incorporation.....	Jan. 27, 1936
Fiscal year end.....	Dec. 31
Annual meeting date.....	Set by board of directors
This year's <i>annual meeting date</i>	<i>April 10, 2017</i>

In 2016, your cooperative ...

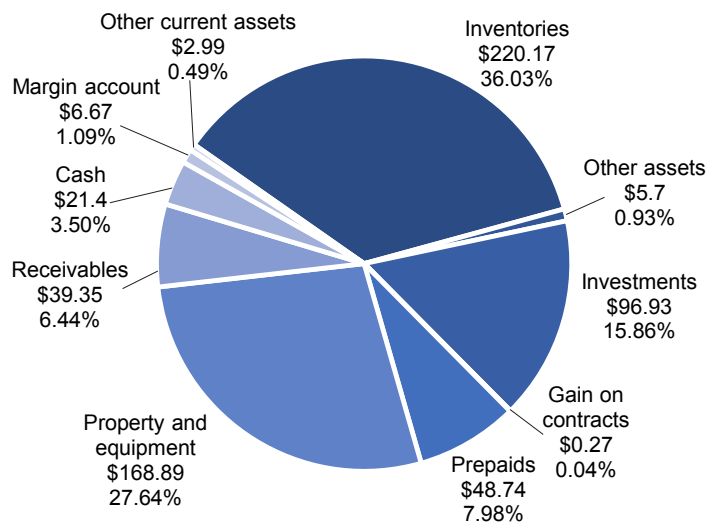
- Returned over \$28 million in total patronage to members: Forty percent of this patronage, or \$11.3 million, was distributed in cash to patron member owners; 60% or \$16.9 million, was retained in equity credits
- Paid \$7.4 million in stock revolvment
- Began manufacturing feed in two, state-of-the-art feed mills at Wilton and Shawano
- Awarded \$48,000 in scholarships to high school seniors
- Improved grain receiving with the completion of two, 1,200-bushel dump pits combined with an additional 20,000 bushels per hour receiving capacity and drying with a 4,700 bushel per hour dryer at Westfield
- Completed a 1.2 million-bushel storage bin at Rock Springs
- Completed a 24-hour fuel pumping station at Hillsboro – it now offers diesel fuel as well as three grades of gasoline.
- Completed a maintenance shop at Hillsboro
- Completed dry and liquid agronomy plants at Auroraville
- Completed several major blacktopping projects at United Cooperative facilities.
- Provided \$38,000 to 35 local food pantries (in partnership with Land O'Lakes Foundation matching funds)
- Ranked 54th on USDA's Top 100 list of Agricultural Cooperatives in the United States by Rural Cooperatives magazine in 2016
- Ranked 25th on the list of Top 100 Agronomy Companies in the United States by CropLife Magazine
- Began an innovative United Cooperative University program to develop managers and employees

Balance Sheet

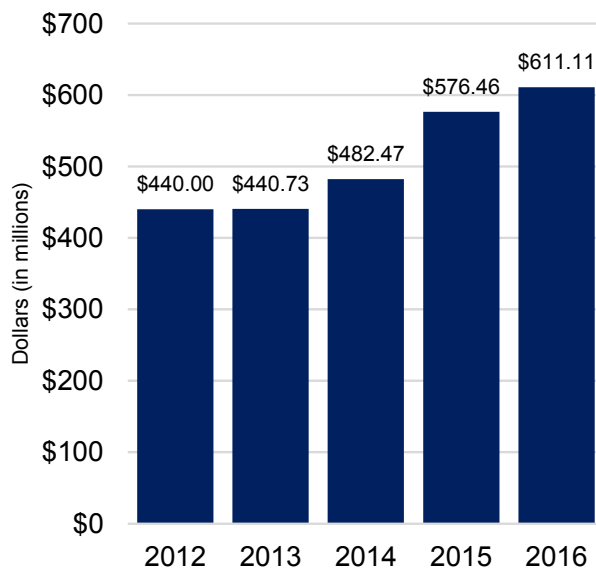
	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$21,399,484	\$21,531,597
Receivables, net	39,351,199	31,612,188
Inventories	220,169,389	189,416,589
Margin account	6,665,781	5,922,171
Unrealized gain on forward contracts	270,843	268,946
Prepaid expenses	48,743,707	64,209,164
Other current assets	<u>2,993,283</u>	<u>4,240,998</u>
Total current assets	339,593,686	317,201,653
Investments and other assets		
Investments	96,925,169	93,510,967
Other assets	<u>5,704,048</u>	<u>6,647,856</u>
Total investments and other assets	102,629,217	100,158,823
Property and equipment	308,879,719	279,966,909
Less accumulated depreciation	<u>(139,998,858)</u>	<u>(120,867,634)</u>
Net property and equipment	168,890,861	159,099,275
Total assets	\$611,113,764	\$576,459,751
Current liabilities		
Notes payable	\$ -	\$2,427,829
Current maturities of long-term debt	394,905	1,551,367
Accounts payable	18,899,512	18,150,021
Grain payables	30,287,771	25,032,567
Patron credit balances	4,740,476	3,182,091
Unrealized loss of forward contracts	413,963	485,215
Accrued expenses	8,687,517	8,095,099
Taxes payable	2,226,146	2,370,472
Patronage refunds payable in cash	11,492,000	11,290,000
Patron prepayments	56,348,040	56,220,142
Remediation payable	467,000	516,000
Income taxes payable	1,687,469	-
Other	<u>21,729,449</u>	<u>11,379,031</u>
Total current liabilities	157,374,248	140,699,834
Long-term liabilities		
Long-term debt, less current maturities above	70,403,403	80,410,805
Deferred compensation	259,914	306,543
Remediation payable	94,000	186,500
Deferred income taxes	<u>4,348,000</u>	<u>4,246,000</u>
Total long-term liabilities	75,105,317	85,149,848
Total liabilities	\$232,479,565	\$225,849,683
Patron equities		
Preferred equities	116,942,994	106,862,366
Equity credits	107,420,448	99,825,028
Patronage refunds payable in equity	17,238,000	16,935,000
General reserve	<u>137,032,757</u>	<u>126,987,675</u>
Total patron equities	378,634,199	350,610,069
Total liabilities and equities	\$611,113,764	\$576,459,751

Assets

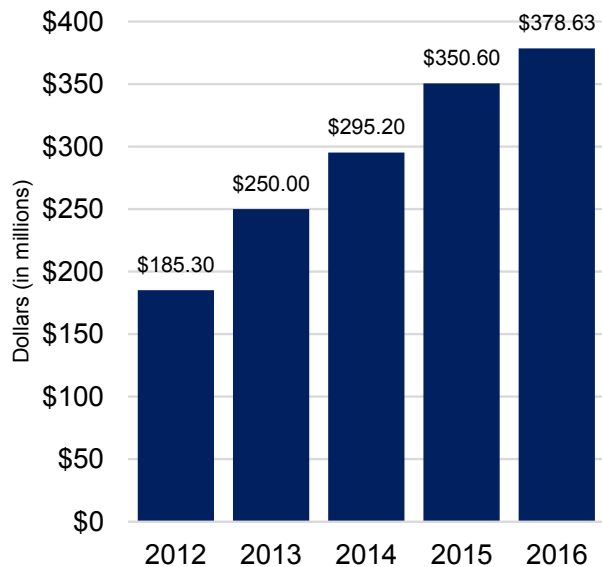
\$611,113,764
(in millions and percentage)



Total Assets

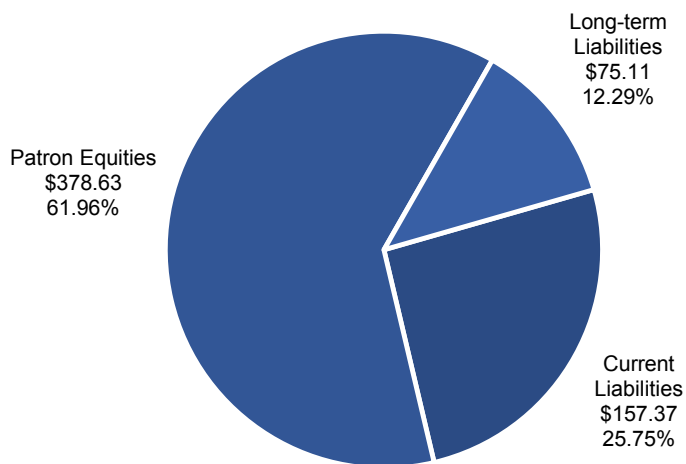


Patron Equities



Liabilities and Patron Equities

(in millions and percentage)



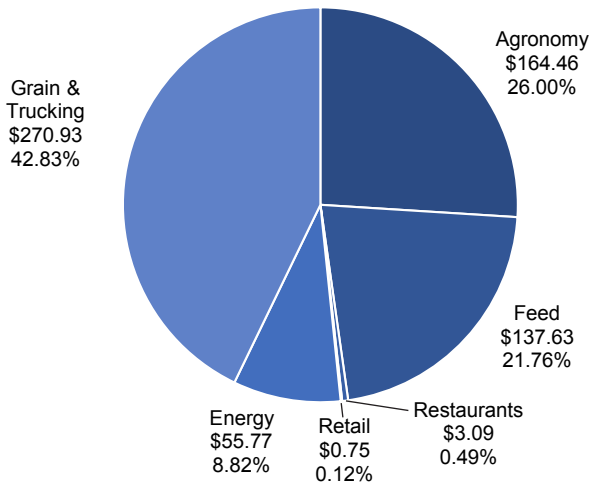
United Cooperative added 1.2-million-bushels of grain storage at Rock Springs improving grain handling capability and increasing bin storage capacity to 4.41 million bushels.

Statement of Operations

	2016		2015	
Sales	\$632,620,425	100.00%	\$582,052,843	100.00%
Less discounts	<u>(2,385,728)</u>	<u>(0.38)</u>	<u>(2,305,448)</u>	<u>(0.40)</u>
Net sales	630,234,697	99.62	579,747,395	99.60
Cost of sales	<u>529,523,431</u>	<u>83.70</u>	<u>489,027,670</u>	<u>84.01</u>
Gross margin	100,711,266	15.92	90,719,725	15.59
Operating expenses				
Merchandising expenses				
Salaries and wages	35,080,569		31,461,697	
Less: wages reimbursed	<u>(5,954,891)</u>		<u>(6,275,493)</u>	
Payroll taxes	2,163,145		2,104,175	
Employee insurance	4,269,117		3,476,621	
Pension expense	787,707		707,200	
Vehicle expense	5,693,703		5,271,206	
Supplies and licenses	1,209,511		1,137,464	
Utilities	2,363,592		2,192,726	
Repairs and maintenance	1,704,408		1,878,167	
Advertising	207,177		183,266	
Merchandising fee	122,984		124,038	
Corn dryer expense	1,150,542		1,089,063	
Bean roasting expense	28,005		30,193	
Employee training and travel	67,372		103,390	
Fieldmen	211,645		284,766	
Miscellaneous	<u>(56,342)</u>		<u>(24,757)</u>	
<i>Total merchandising expense</i>	49,048,244	7.75	43,743,722	7.52
<i>Total administrative expense</i>	1,253,737	0.20	1,169,391	0.20
General				
Depreciation and amortization	21,370,752		16,065,656	
Insurance	2,301,807		1,862,115	
Property taxes	2,067,440		1,726,043	
Education, rent and miscellaneous	<u>312,465</u>		<u>266,313</u>	
<i>Total general expenses</i>	26,052,464	4.12	19,920,127	3.42
Interest and other expenses (income)				
Gain on removal of property and equipment	(286,628)		(468,374)	
Finance charges income	(562,867)		(447,217)	
Purchase discounts	(669,483)		(760,667)	
Other revenue	(1,597,856)		(1,754,479)	
Interest expense	892,451		642,085	
Provision for doubtful accounts	-		-	
Collection and other expense	<u>1,222,666</u>		<u>1,503,721</u>	
<i>Total interest and other expenses (income)</i>	(1,001,717)	(0.16)	(1,284,928)	(0.22)
Net operating expenses	75,352,728	11.91	63,548,312	10.92
Local net margin	25,358,538	4.01	27,171,413	4.67
Income from affiliates	14,150,184	2.24	11,329,036	1.95
Patronage refunds received	<u>6,045,227</u>	<u>0.95</u>	<u>7,041,671</u>	<u>1.21</u>
<i>Net margin before income taxes</i>	45,553,949	7.20	45,542,120	7.82
Income taxes	<u>4,150,000</u>	<u>0.66</u>	<u>4,200,000</u>	<u>0.72</u>
Net margin	\$41,403,949	6.54%	\$41,342,120	7.10%

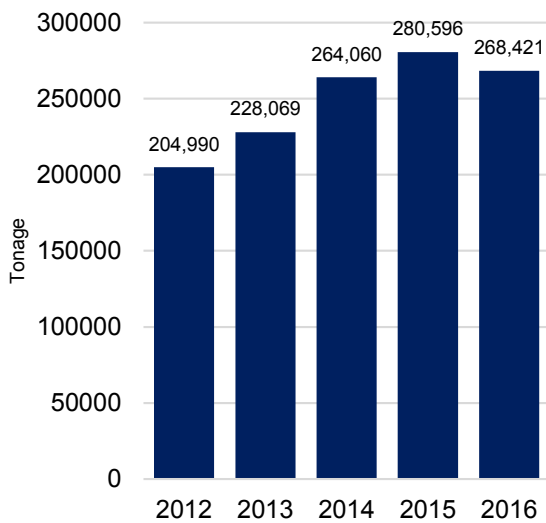
Total Sales

\$632,620,425
(in millions and percentage)

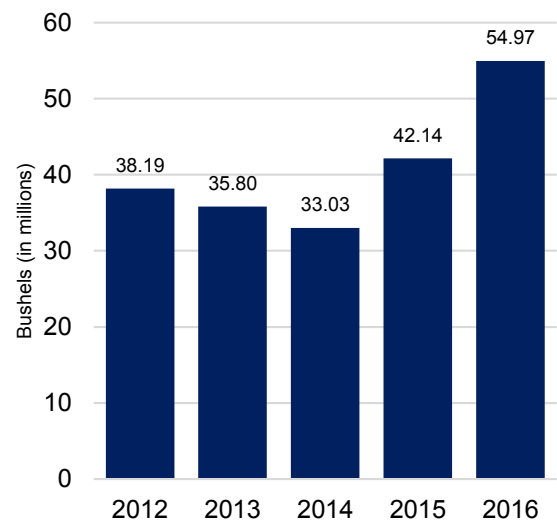


A state-of-the-art feed manufacturing facility was built at Wilton to serve producers in western Wisconsin, southeast Minnesota and northeast Iowa. The mill features a 26-ingredient microsystem and texturized calf blender that allows the cooperative to create custom feed solutions for farmers.

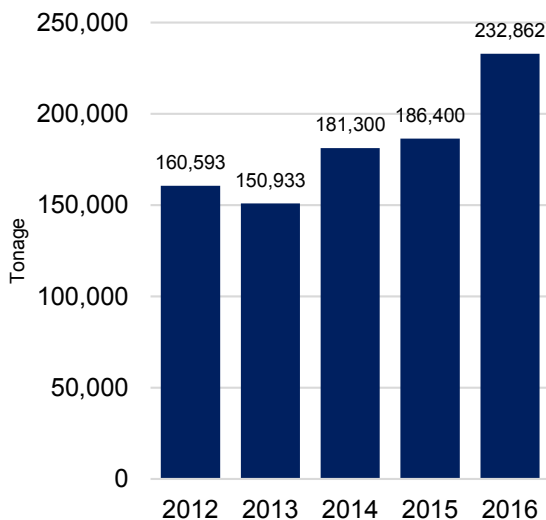
Feed Volume



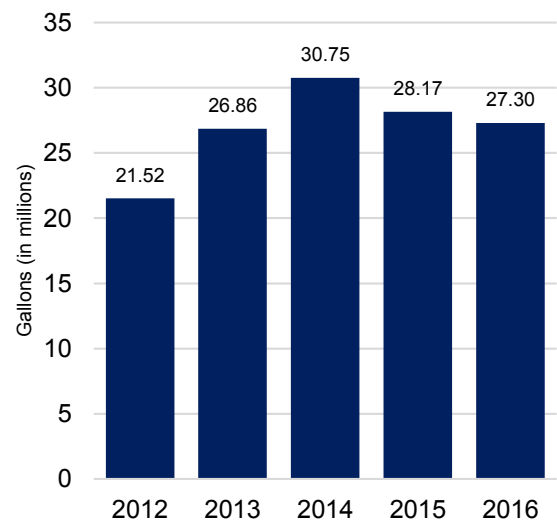
Grain Volume



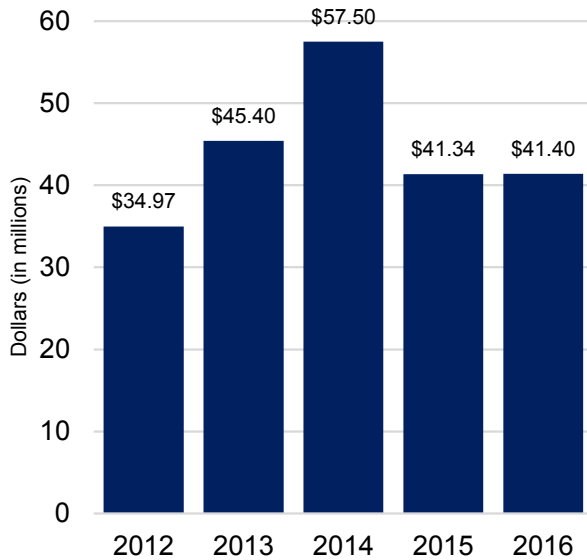
Fertilizer Volume



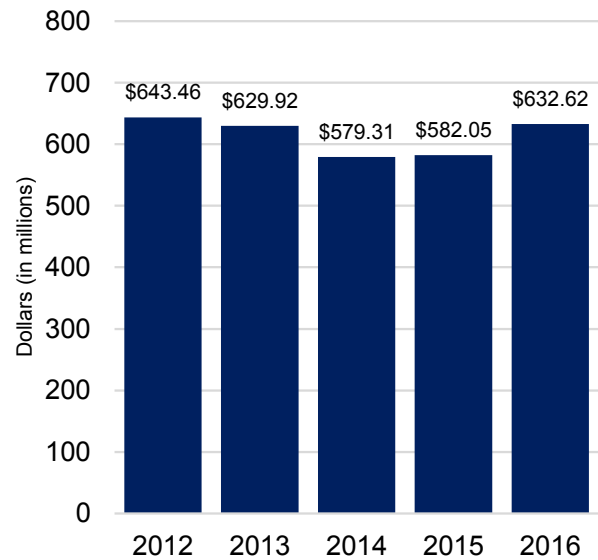
Fuel Volume



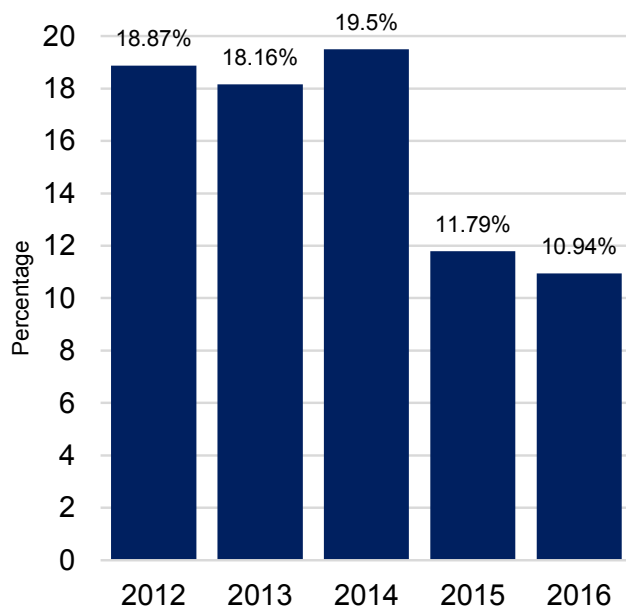
Net income total for five years



Annual Sales



Return on Equity



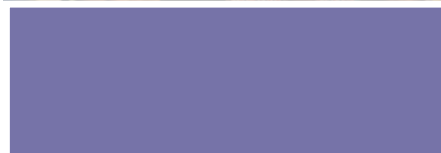
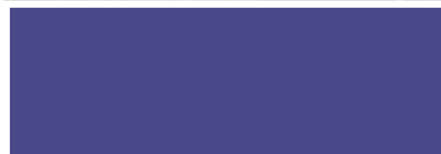
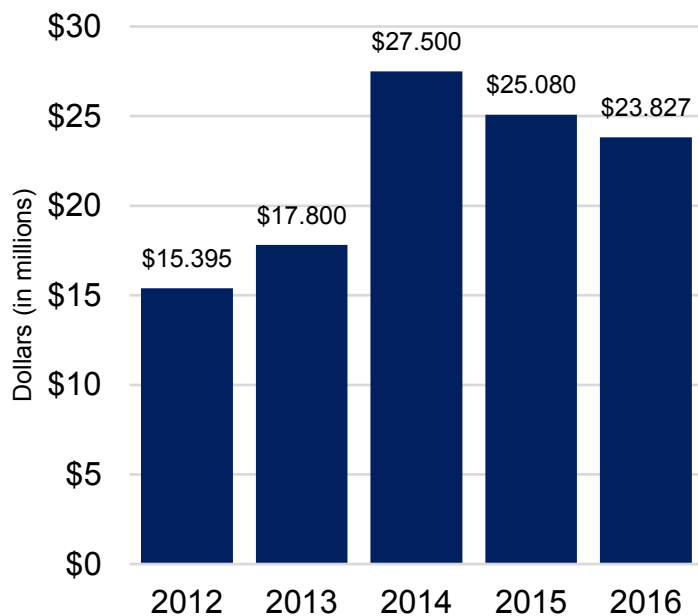
United Cooperative provides producers with a variety of agronomic products and services, and invests in the expert people and equipment to handle the work.

Net margin based on an average sale of \$100

	<u>2016</u>	<u>2015</u>
Sales	\$100.00	\$100.00
Less discount	(0.38)	(0.40)
Cost of sales	<u>83.70</u>	<u>84.01</u>
Gross margin	15.92	15.59
Merchandising expense	7.75	7.52
Administrative expense	0.20	0.20
General expense	4.12	3.42
Interest and other expense	<u>(0.16)</u>	<u>(0.22)</u>
<i>Total operating expenses</i>	11.91	10.92
Local net	4.01	4.67
Income from affiliates	2.24	1.94
Patronage refunds received	0.95	1.21
Income taxes	<u>(0.66)</u>	<u>(0.72)</u>
Net margin*	\$6.54	\$7.10

**Net margin used for debt repayment, capital expenditures, and equity retirements*

Cash returned to members in five years



Relying on United Cooperative means relying on our dedicated, experienced staff. Our employees are our greatest asset and are here to help your operation succeed.

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United Cooperative locations

Corporate Office	920-887-1756	Pickett Agronomy/Energy	920-589-2311
Auroraville Grain	920-361-3361	Pickett Cenex C-Store	920-589-2311
Auroraville Grain North	920-361-4854	Ponderosa, Beaver Dam	920-885-2755
Baraboo Ash St. Cenex C-Store	608-356-2703	Ponderosa, Hartford	262-673-2248
Baraboo Hwy. 12 Cenex Pump 24, exit 215	608-356-2703	Poynette Cenex C-Store	608-635-7002
Beaver Dam Cenex C-Store	920-887-1756	Prairie du Sac Agronomy	608-643-2348
Beaver Dam Feed	920-885-5522	Pulaski Ace Hardware	920-822-6396
Coleman Agronomy	920-897-4010	Pulaski Agronomy	920-822-3341
Deerfield Agronomy and Energy	608-764-5454	Pulaski Energy and Office	920-822-3235
Denmark Feed/Grain/Agronomy/Energy	920-863-2171	Reedsburg Agronomy and Energy	608-524-2822
Denmark Cenex C-Store	920-863-2171	Reedsburg Cenex C-Store	608-524-6115
Gresham Grain (in-season)	715-853-3118	Ripon Grain North	920-748-7488
Hartford Feed/Grain/Agron/Energy/C-store	262-673-8960	Ripon Grain South	920-748-7999
Hillsboro Office/Energy/Feed/Farm Supply	608-489-2231	Rock Springs Grain	608-524-5246
Hillsboro Grain	608-489-4120	Sauk City Feed and Grain	608-643-3345
Hillsboro Agronomy	608-489-3444	Shawano Agronomy	715-524-8812
Horicon Grain	920-485-9707	Shawano Energy and Office	715-526-3197
Hustisford Cenex C-Store	920-349-3989	Shawano Feed and Grain	715-526-6115
Johnson Creek Agronomy	920-699-4990	South Beaver Dam Grain and Agronomy	920-887-7671
Johnson Creek Grain	920-699-2771	Watertown Energy	920-262-6770
Kendall Cenex Fastris C-Store	608-463-7872	Westfield Agronomy	608-296-3237
Mayville Agronomy and Energy	920-387-2410	Wilton Cenex Fastris C-Store	608-435-6977
Oconto Falls	920-846-4775	Wilton Feed/Energy/Farm Supply	608-435-6421
Ontario Cenex Fastris C-Store	608-337-4525	Wonewoc Cenex Fastris C-Store	608-464-7191
Oshkosh Agronomy and Grain	920-233-2261	Wyocena Cenex C-Store	608-429-9262

Visit our Website

Learn more about our locations, the employees at United Cooperative, the services and manufacturing ability we provide, and our distribution of agricultural and energy products at www.unitedcooperative.com.



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