



BUILDING TOMORROW TOGETHER

2020 ANNUAL REPORT

**Ag
Valley**
CO-OP

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LETTER TO SHAREHOLDERS

The 2019-2020 fiscal year was one of change and challenge for Ag Valley Cooperative, and we have mentioned many times that we are happy to get that year behind us. As we look at 2020 and beyond, the Board and Management team is extremely encouraged by what is going on at Ag Valley. The future of your cooperative is bright.



Last year, we faced some unprecedented operational challenges ranging from a trade war with China to record rainfall. The fiscal year-end financial results in this report are difficult to report, but it is made easier knowing that the challenges that led to those results are behind us. While our balance sheet continues to be strong and is positioned well to handle the lack of profitability that we have experienced, your Board and Management team realize that trend needs to change for Ag Valley to continue to be relevant to you. We have positioned Ag Valley Co-op to be successful this next year, and we will continue to make the adjustments necessary to make sure that success continues year after year.

Operationally, your cooperative performed well this past year. Sales dollars and sales volumes are up over last year, and expenses are trending down. The significant investments that we have made in grain and fertilizer facilities over the past several years continue to bring value and are a prime example of why the cooperative system is such a great system. We are an extension of your farming operation and the ability for us to invest in those assets that bring value to your operations, have products and services available for you in times of uncertainty, and assume risk in a volatile market situation, allow you to concentrate on managing and operating your farms. That is what the cooperative system was designed for, and we are proud to be your partner in production agriculture.

As we think about the issues that are affecting everyone today, we are constantly reminded of the strength and resiliency of the cooperative business model. Ag Valley Co-op and the entire cooperative system were founded to withstand the economic, financial, and social pressures that we are facing today. The seven cooperative principles help guide our business model, and specifically, **#5 Education, Training and Information**, **#6 Cooperation Among Cooperatives**, and **#7 Concern For Community**, all directly address the pressures we are facing today. Please remember that you are part of a cooperative system that was uniquely designed and built to help you get through challenging times.

We are stronger collectively, and we can accomplish great things by building tomorrow together.

Thank you,



Jeff Krejdl
CEO/General Manager



Tom Hansen
President

ABOUT AG VALLEY



Ag Valley Cooperative is committed to the financial strength and long-term success of its members' farms and businesses. The organization serves **2,417 members** across **17 locations** in Nebraska and Kansas and has since 1953. As a member-owned cooperative, members' success is critical to the success of the business.

Ag Valley employs **250 individuals** in careers across its administrative offices, grain, feed, fuel and agronomy departments. Cooperative retirement funds, employee benefits package and fair pay allow staff and members to reinvest in local businesses and the economy.

An active supporter of local agricultural youth groups, community events and schools, Ag Valley has awarded more than **\$86,000 in scholarships** for local high school students. Last year, the cooperative helped local 4-H and FFA programs with more than **\$90,000 in support** local for community fundraisers and benefits.

Ag Valley is one of the largest taxpayers in the counties in which it operates. Last year alone, Ag Valley paid \$1,030,000 in property taxes, helping local communities and schools. With a payroll greater than \$16 million, Ag Valley employees are reinvesting in the small, local economies where they live and do business.

AG VALLEY BOARD OF DIRECTORS

The Ag Valley Cooperative board of directors is honored to represent the interests of the community. Elections take place annually and all active members, those that have done business with the cooperative in the previous 12 months, are eligible to submit nominations and vote.

OFFICERS

Tom Hansen
President; Wellfleet, NE

Drew tenBensel
Vice President; Arapahoe, NE

Lavern Banzhaf
Secretary; Cambridge, NE

DIRECTORS

Dale Cramer
Cambridge, NE

Leon Ehrke
Stamford, NE

Curtis Lowry
Almena, KS

Dennis McConville
Indianola, NE

Mark McGreer
Big Springs, NE

Mark Miller
North Platte, NE

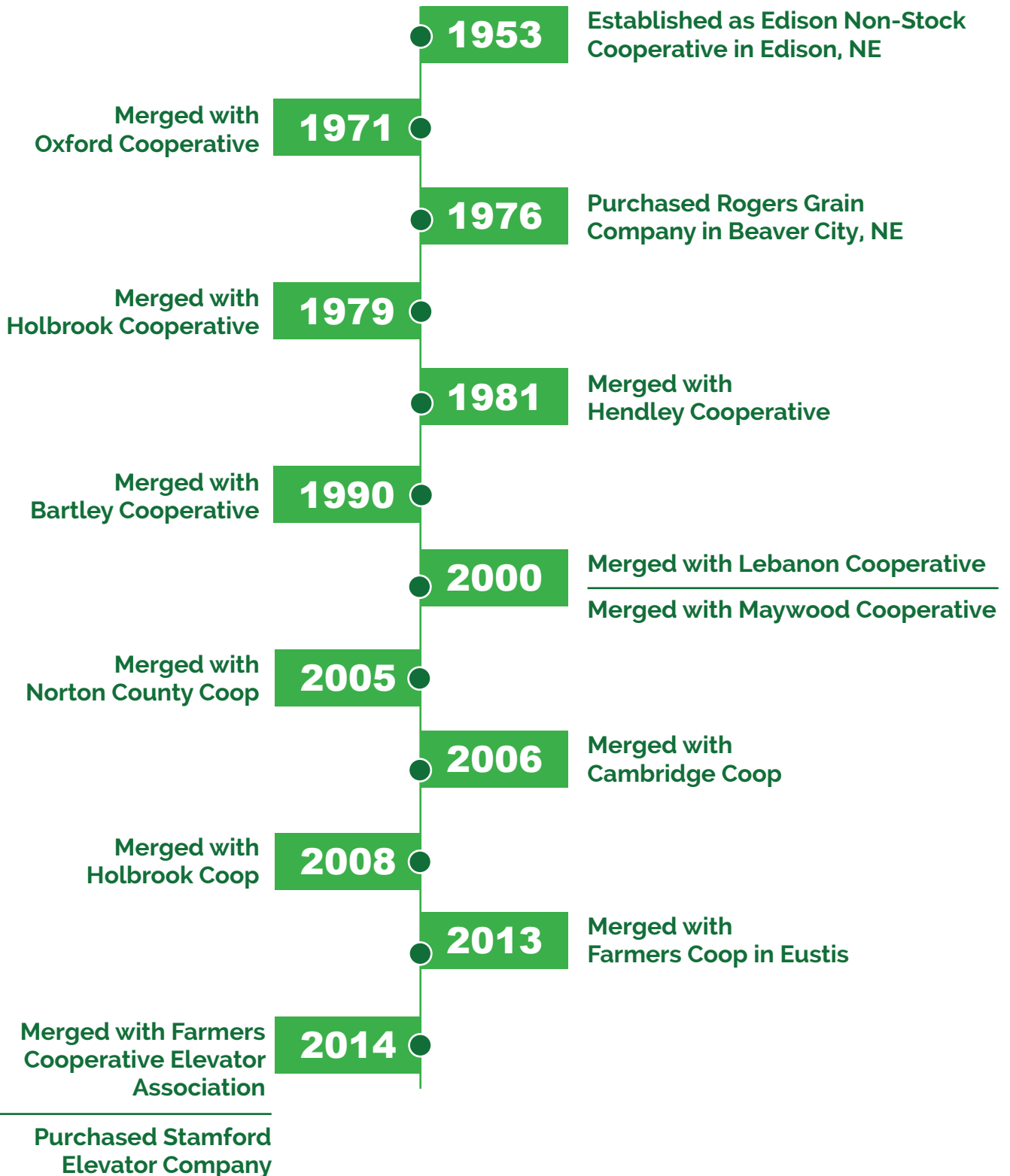
Doug Snyder
McCook, NE

Travis Theobald
Beaver City, NE

ASSOCIATE

Chris Tanner
Norton, KS

HISTORY OF AG VALLEY





FINANCIALS

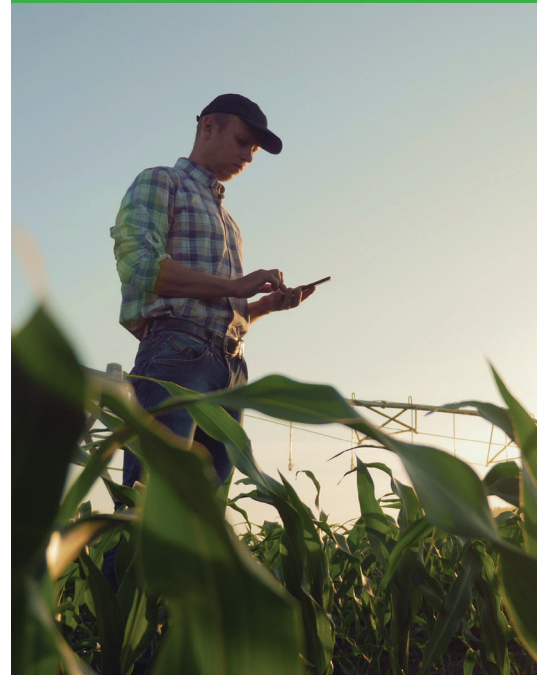
Ag Valley Cooperative takes its fiscal responsibility seriously and is constantly evaluating ways to improve operations, profitability, products and services.

Ag Valley has a strong balance sheet with strategically positioned assets. In the 16 years prior to 2019, the cooperative had strong local earnings and a robust cash patronage record, paying out more than \$18 million since 2002. Unfortunately, 2019 and 2020 saw a series of financial hardships befall the organization related to weather, fire, storage and other losses. To financially recover, the organization has made significant efforts to ensure a return to profitability.

Ag Valley recognizes its members have options when it comes to marketing grain and buying agricultural inputs and will continue to work hard every day to serve our members' best interests.

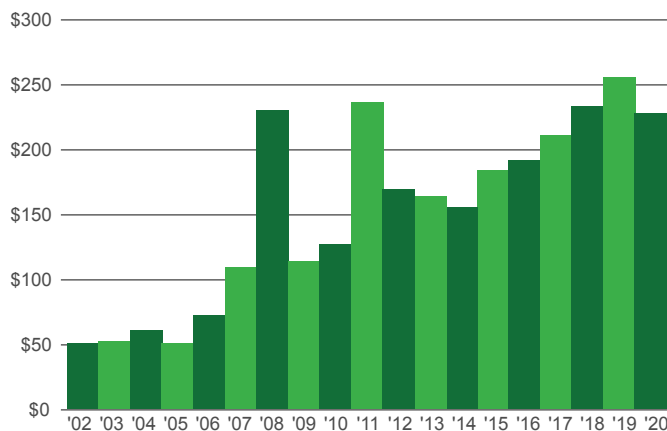
A BROADER VIEW

Despite recent hurdles, the history of Ag Valley over the last two decades demonstrates an organization that is strong, profitable, and perhaps most importantly, resilient.



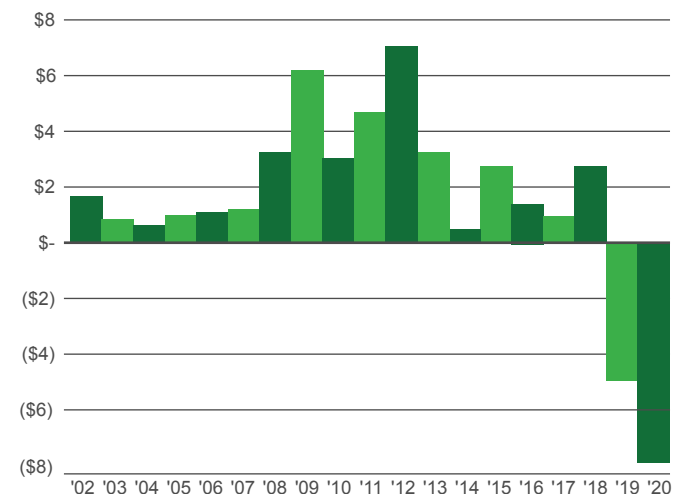
TOTAL ASSETS

in millions



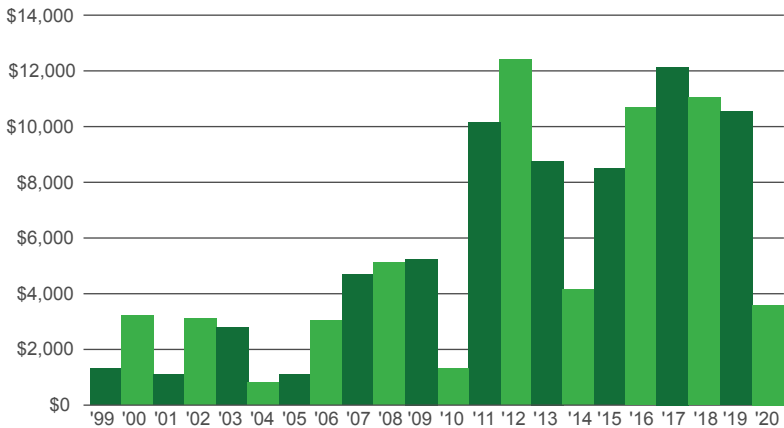
LOCAL SAVINGS

in millions



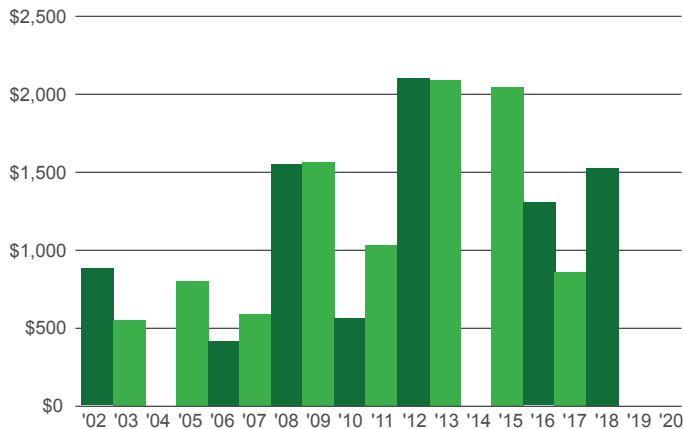
CAPITAL ASSET ADDITIONS

in thousands



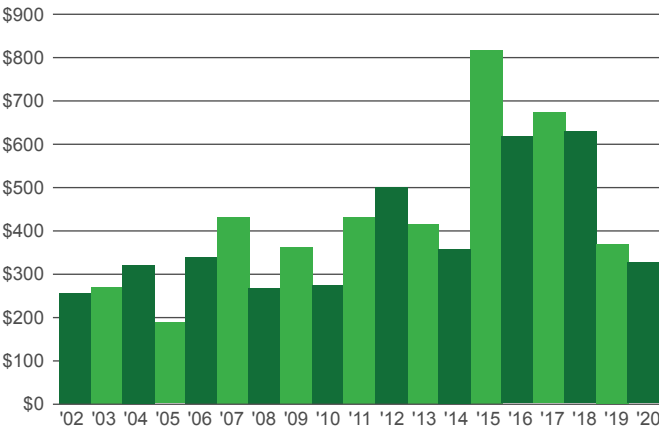
CASH PATRONAGE

in thousands



EQUITY RETIREMENT & ESTATE PAYMENT PROGRAM

in thousands



STATEMENTS OF OPERATIONS

Analysis of the income statement demonstrates Ag Valley's ongoing recovery from the unfortunate circumstances of 2019 and 2020.

Storage income increased as a result of a large wheat harvest and producers holding on to their production later into the year. In turn, shuttle train incentives rose to accommodate the higher volumes of grain shipments. Feed processing and delivery increased and shows our emphasis on Ag Valley branded and manufactured products.

Station service has decreased year over year and will be the catalyst for re-evaluation of the value that brings to our members moving forward. Fertilizer and chemical application, along with chemical rebates, decreased reflecting lower chemical sales and weather-related application timelines.

STATEMENTS OF OPERATIONS Years Ended February 29, 2020 and 28, 2019

	2020	2019
Grain Sales	\$ 222,297,801	\$ 179,969,956
Supply Sales	94,936,632	97,045,457
TOTAL SALES	\$ 317,234,433	\$ 277,015,413
Cost of Goods Sold	291,849,280	246,462,274
GROSS SAVINGS ON SALES	\$ 25,385,153	\$ 30,553,139
Other Operating Revenue		
Grain Services	5,618,683	4,949,658
Agronomy Services	3,255,583	3,175,180
Feed Services	486,271	451,903
Station Services	171,167	187,931
Trucking Income	1,270,870	1,315,722
Water Resource Income	-	23,112
Finance Charges & Interest	491,297	397,885
Gain on Sale of Property, Plant, & Equipment	50,144	-
All Other	338,018	385,692
TOTAL OTHER OPERATING REVENUE	\$ 11,682,033	\$ 10,887,083
TOTAL GROSS REVENUE	\$ 37,067,186	\$ 41,440,222
Operating Expenses		
Payroll & Related Benefits	\$ 15,897,066	\$ 17,104,275
Depreciation	7,522,916	7,320,959
Interest	5,608,464	4,963,932
Insurance	1,926,917	1,660,113
Property Taxes	1,029,266	852,706
Repairs & Plant Supplies	4,030,807	4,155,569
Rent & Lease	1,038,202	1,096,279
Truck Expense	1,308,759	1,467,214
Utilities	2,619,284	2,264,749
Water Resource Expense	-	7,765
Bad Debt Expense	84,774	445,102
Loss on Disposal of Property, Plant, and Equipment	-	1,062,488
All Other	3,811,295	3,800,513
TOTAL OPERATING EXPENSES	\$ 44,877,750	\$ 46,201,664
Operating Loss	\$ (7,810,564)	\$ (4,761,442)
Patronage Dividend Income	6,632,745	2,832,170
Gain on Involuntary Conversion	1,052,692	-
Income Tax Benefit	(6,280)	(290,180)
NET LOSS	\$ (118,847)	\$ (1,639,092)



Total operating expense were down approximately \$200,000 year over year.

A reduction in personnel and associated expenses of roughly \$1.3 million contributed, which also lowered retirement expenses. Savings were recognized from the initial months of a new health insurance plan and a decrease in the retirement rate passed in January.

Depreciation expenses rose around \$200,000 related to assets that we have strategically added over the past decade. Effective utilization of those assets, including facility and equipment upgrades, helped reduced repair costs and should demonstrate an ongoing return on those investments.

Interest expenses were higher reflecting the amount of grain we carried through the summer. A reduction in grain inventory by \$25 million compared to last year will allow a reduction in interest expenses for the coming year.

Business insurance expenses were up due to market-wide, industry agnostic premium increases and, locally, as a result of claims filed following the soybean bin fire in Edison. Property taxes increased particularly in Harlan county due to the 2018 construction of the Orleans facility.

Grain handling and utilities costs rose, reflecting weather related expenses for carrying corn and operating dryers and fans through the summer. Newly implemented operational efficiencies should mitigate the risk of similar expenses in the future.

Station and shop supplies were down as were expenses related to advertising, dues and donations. Strategic prioritization of marketing funds will allow the organization to continue investing where warranted while managing costs.

Bad debt expense decreased significantly; and the majority of the expense this year was related to a single bankruptcy account. Ag Valley was able to collect more than \$90,000 from previously written off accounts which demonstrates our ongoing effort of protecting your equity by having solid credit management practices in place.

Legal, audit and professional fees increased overall with legal and audit fees steady. Professional fees increased due to investments in a Land O' Lakes engagement survey and some employee recruitment firm expenses. Such fees are expected to decrease in the future.

BALANCE SHEETS

Despite the losses we have experienced the last couple of years, our balance sheet remains strong. Total assets are \$226 million which are down from last year. That decrease is directly related to a reduction in grain inventory. Agronomy, fuel and feed inventories are consistent with the prior year and our investments in the regional cooperatives we do business with increased this past year. Our liabilities consist of our operating line of credit with CoBank. Those are the funds that we use to finance the day to day operations of your cooperative. Grain contracts payable and the prepaid money that you have entrusted us with for your crop inputs make up the rest of the majority of our current liabilities. Members' equity stayed consistent with the previous year and represents your ownership in Ag Valley Cooperative.

BALANCE SHEETS: ASSETS February 29, 2020 and 28, 2019

	2020	2019
CURRENT ASSETS		
Cash	\$ 500,901	\$ 836,753
Receivables		
Notes	1,105,588	1,720
Trade - Net of Allowance for Doubtful Accounts of \$240,000 and \$240,000	3,898,343	5,509,423
Grain in Transit	2,216,893	2,480,444
Accrued Storage & Drying	2,514,002	2,969,005
Other	512,390	966,138
Margin Deposits	1,315,177	-
Inventories		
Grain	73,661,735	102,878,046
Feed	1,305,270	1,361,214
Agronomy	39,174,382	38,248,954
Petroleum	1,637,974	1,589,788
Deposits on Undelivered Inventories	6,472,313	8,218,594
Prepaid Expenses	1,144,253	661,738
TOTAL CURRENT ASSETS	\$ 135,459,221	\$ 165,721,817
PROPERTY, PLANT AND EQUIPMENT		
Land	\$ 2,629,403	\$ 2,710,208
Buildings	64,308,514	63,802,126
Equipment	65,081,946	64,465,580
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 132,019,863	\$ 130,977,914
Accumulated Depreciation	(67,673,419)	(62,261,272)
Undepreciated Cost	64,346,444	68,716,642
Construction in Process	58,305	30,489
NET PROPERTY, PLANT AND EQUIPMENT	\$ 64,404,749	\$ 68,747,131
OTHER ASSETS		
Notes Receivable	\$ 6,299	\$ 5,996
Prepaid Expenses	45,000	-
Deferred Income Taxes	672,830	666,550
TOTAL OTHER ASSETS	\$ 724,129	\$ 672,546
EQUITY IN OTHER ORGANIZATIONS	\$ 25,427,840	\$ 21,660,362
TOTAL ASSETS	\$ 226,015,939	\$ 256,801,856

BALANCE SHEETS: LIABILITIES AND MEMBERS' EQUITY

February 29, 2020 and 28, 2019

	2020	2019
CURRENT LIABILITIES		
Checks Written in Excess of Bank Balance	\$ 2,804,298	\$ 3,583,541
Current Maturities of Long-Term Debt		
Notes & Contracts Payable	3,000,000	4,000,000
Capital Lease Payable	391,250	376,645
Notes Payable - Seasonal	79,624,004	99,700,856
Payables		
Trade	2,760,754	2,790,638
Grain	12,602,727	12,443,275
Patron Credit Balances	13,252,518	18,691,881
Margin Deposits	-	129,838
Prepaid Storage	3,172	1,250
Accrued Expenses		
Interest	525,016	633,698
Property Taxes	1,091,316	912,930
Other	1,413,041	1,450,317
TOTAL CURRENT LIABILITIES	\$ 117,468,096	\$ 144,714,869
LONG TERM LIABILITIES – Net of Current Maturities		
Notes & Contracts Payable	\$ 27,000,000	\$ 30,000,000
Capital Lease Payable	827,353	1,108,042
Unearned Revenue	-	417
TOTAL LONG-TERM LIABILITIES	\$ 27,827,353	\$ 31,108,459
MEMBERS' EQUITY		
Memberships	\$ 174,600	\$ 273,200
Certificates of Participation	275,900	177,200
Members' Equity Credits	25,261,525	25,400,818
Acquisition Equity	\$ 3,879,715	\$ 3,879,715
Retained Savings	51,128,750	51,247,595
TOTAL MEMBERS' EQUITY	\$ 80,720,490	\$ 80,978,528
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 226,015,939	\$ 256,801,856

MEMBERS EQUITY

The members equity statement represents your ownership in Ag Valley Cooperative. While the circumstances of this year will not allow us to retire equity, rest assured that we are working hard to put Ag Valley in a position to do that in the future. The Board and Management is committed to designing an equity management plan that brings value to the deferred equity you have in Ag Valley and allows us to redeem that on a more timely basis while also allowing us to continue to invest in the assets and services that bring value to your farming operations.

STATEMENTS OF MEMBERS' EQUITY

Years Ended February 29, 2020 and 28, 2019

	Total	Memberships	Certificates Of Participation	Members' Equity Credits	Equity from Acquisition	Retained Savings
BALANCE - FEBRUARY 28, 2018	\$ 82,985,343	\$ 272,900	\$ 134,400	\$ 25,815,763	\$ 3,879,715	\$ 52,882,565
Transfers	-	700	(700)	-	-	-
Redemptions	(369,767)	(3,400)	(600)	(365,820)	-	53
Overaccrual Prior Year Patronage Dividends	2,044	3,000	44,100	(49,125)	-	4,069
2019 Net Savings (Loss)	(1,639,092)	-	-	-	-	(1,639,092)
Distribution of Net Savings:						
Qualified Patronage Dividends - Cash	-	-	-	-	-	-
Non-Qualified Patronage Dividends - Deferred	-	-	-	-	-	-
BALANCE - FEBRUARY 28, 2019	\$ 80,978,528	\$ 273,200	\$ 177,200	\$ 25,400,818	\$ 3,879,715	\$ 51,247,595
Transfers	2	(97,200)	99,300	(2,100)	-	2
Redemptions	(139,193)	(1,400)	(600)	(137,193)	-	-
2019 Net Savings (Loss)	(118,847)	-	-	-	-	(118,847)
Distribution of Net Savings:						
Qualified Patronage Dividends - Cash	-	-	-	-	-	-
Non-Qualified Patronage Dividends - Deferred	-	-	-	-	-	-
BALANCE - FEBRUARY 29, 2020	\$ 80,720,490	\$ 174,600	\$ 275,900	\$ 25,261,525	\$ 3,879,715	\$ 51,128,750

CHANGES IN FINANCIAL POSITION

Year over year, the organization had a loss of \$118,847. While this is disappointing, the majority can be attributed to damaged corn losses, an unfortunate situation that we are well positioned to prevent from reoccurring.

Leadership and governance teams continue to closely monitor our financial position. Our goal is to create a balance between the value that margins bring to Ag Valley with the necessity of providing competitively priced goods and services that we offer to our members. Stronger expense controls have also been put in place. Staffing adjustments and an emphasis on leadership versus management will continue.

Fundamentally, Ag Valley Cooperative is strong and rising to the challenge of building a better future.

SCHEDULE OF CHANGES IN FINANCIAL POSITION

Years Ended February 29, 2020 and 28, 2019

	2020	2019
FINANCIAL RESOURCES PROVIDED		
Net Savings (Loss)	\$ (118,847)	\$ (1,639,092)
Items Which Do Not Use (Provide) Working Capital		
Depreciation	7,522,916	7,320,959
(Gain) Loss on Sale of Property, Plant & Equipment	(50,144)	1,062,488
(Gain) on Involuntary Conversion	(1,052,692)	-
Reclassification of Long Term Notes Receivable	-	228,973
Patronage Dividends Received as Equity	(4,392,933)	(701,155)
Deferred Income Taxes	(6,280)	(687,660)
WORKING CAPITAL PROVIDED FROM OPERATIONS	\$ 1,902,020	\$ 5,584,513
Proceeds from Sale of Property, Plant & Equipment	1,626,473	120,967
Payments on Notes Receivable & Current Maturities	-	1,720
Equity in Other Organizations Redeemed	625,455	137,741
Additional Long Term Borrowing	192,348	8,790,460
Overaccrual of Prior Year Cash Patronage	-	2,044
TOTAL FINANCIAL RESOURCES PROVIDED	\$ 4,346,296	\$ 14,637,445
FINANCIAL RESOURCES USED		
Additions to Property, Plant & Equipment	3,704,171	10,514,717
Long Term Notes Receivable Issued	303	7,716
Long-Term Prepaid Expenses	45,000	-
Repayments & Current Maturities of Long-Term Debt	3,473,037	4,698,842
Long-Term Prepaid Storage Redeemed	417	1,250
Redemption of Members' Equity	139,191	369,767
TOTAL FINANCIAL RESOURCES USED	\$ 7,362,119	\$ 15,592,292
Increase (Decrease) in Working Capital	(3,015,823)	(954,847)
Working Capital - Beginning of Year	21,006,948	21,961,795
WORKING CAPITAL – END OF YEAR	\$ 17,991,125	\$ 21,006,948



FINANCIALS: THE UPSHOT

Personnel Expenses

 **\$1.3M**

Overall Expenses

 **\$200K**

COMMUNITY SUPPORT

 **17**
LOCATIONS

 **250**
EMPLOYEES

2,417
MEMBERS

 **\$176K**
FOR LOCAL YOUTH

>\$1M
PROPERTY TAXES

 **\$19M** PATRONAGE
SINCE 2002

MEMBER SPOTLIGHT



SPLITT CREEK RANCH MINIATURE HEREFORDS

In 1999, Judy and Steve Splitt bought a patch of land by North Platte, Nebraska along with three Miniature Hereford heifers to begin a ranch now known as Splitt Creek Ranch. The name “miniature” can be deceiving as the cows are similar in size to other Herefords. To be considered miniature, the heifer must be 45 inches or shorter at the hip and the bull must be 48 inches or shorter at the hip. According to Judy, the miniature breed can be traced back to the original Herefords that came to the United States from England.

Today, Splitt Creek Ranch is a family operation. Judy’s daughter and son-in-law, Kily and Shaun Brott, also actively work on the ranch. Kily has a background as a veterinary technician and took on more responsibility along with her husband and their family. Shaun and Kily’s side of the operation became known as Kids Ranch. Both ranches work together as a seed stock operation and take cattle to shows in Denver, Houston, the Cow Palace and Louisville, Kentucky. “It has kept the family together,” says Judy. Raising the Herefords has become a shared hobby and a passion.

Today the ranch has 200 breedable cattle with Grand Champion and Reserve Champion Lines, all registered through the American Hereford Association. While the family operation holds the title of “largest herd of Miniature Herefords in the country,” Shaun’s goal is to have 300 cattle in the next five years.

Shaun and Kily work with Ag Valley Co-op to create their own show feed and mineral program that works best for the Herefords. “Ag Valley sales representatives will call or stop by to see how we are doing and to check on how the cattle are doing,” said Shaun, “We really appreciate that, and that’s why we continue to do business with Ag Valley.”

Learn more about Splitt Creek Ranch and Kid Ranch at www.splittcreekranch.com.

Ag Valley sales representatives will call or stop by to see how we are doing and to check on how the cattle are doing. We really appreciate that, and that’s why we continue to do business with Ag Valley.

– Shawn Broft, Splitt Creek Ranch



Shaun Brott feeding treats to his Herefords

SCHOLAR SPOTLIGHT

HALEY EHRKE

As a 2016 Ag Valley Cooperative scholarship recipient, Haley Ehrke has stayed true to her roots in agriculture. From having her own heifer at eight years old, to being involved in 4H and FFA, the decision to pursue a career in agriculture was an easy one to make. Haley will graduate from the University of Nebraska – Lincoln in May of 2020 with a double major in Agribusiness and Agricultural and Environmental Sciences Communication. She also has a double minor in Agricultural Economics and the Engler Agribusiness Entrepreneurship Program.

Haley is currently a Pathways to Student Intern for the U.S. Department of Agriculture and is working in their Rural Development area. In the past she worked in the area of community programs, assisting in waste and water loans and community facility loans for municipalities. Currently, she is working in housing providing loans to families looking to buy homes in rural Nebraska. This summer, Haley will move to Washington D.C. for the year to be an International Relations Intern with the U.S. Grain Council where she will be working with trade teams on commodities that are exported from Nebraska and across the country.

Haley's advice for this year's scholarship recipients is, "It's ok to not know exactly what you want to major in. I changed my major in my first semester of college. College will provide you with a number of opportunities and experiences that will help you find your passion."



It's ok to not know exactly what you want to major in. I changed my major in my first semester of college. College will provide you with a number of opportunities and experiences that will help you find your passion.



2020 AG VALLEY COOPERATIVE SCHOLARSHIP RECIPIENTS

Alma Public School

Ethan Baker

Arapahoe High School

Danielle Eidson

Cooper Schutz

Cambridge High School

Abigail Andrews

Korynn Clason

Kyle Eubanks

Juliana Hampton

Elwood High School

Megan Houser

Eustis-Farnam

Public School

Andrew Jack

Jacob Rupe

Blake Schmidt

Logan High School

Camryn Greving

Maywood Public School

Karlle Gerlach

Medicine Valley

Jr/Sr High School

Nadia Campbell

Sabra Schmidt

Northern Valley

High School

Isabelle Schemper

Norton High School

Shelby Harting

Lexi Kats

Tayli Ruesch

Mason Schulze

Greyson Tanner

Charlie Voss

Southern Valley High School

Kara Krejdl

Daecie Mustin

Brecken Preitauer

Mandy Schoen

Aubree Warner

Madison Woodring

Stapleton Public Schools

Benjamin Baumgartner

Wallace Public School

Hailey Brooks

Wheatland High School

Jordyn Vincent



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**BUILDING
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TOGETHER**