

ATTENTION CLASS “A” MEMBERS

You will soon be receiving a letter with the information below. Included in the envelope will be a questionnaire.

Please watch for it and return as soon as possible. Below is a sample of the letter.

In order to assure our members patronage status remains within the guidelines of the Articles of Incorporation of East Central Iowa Cooperative it is necessary to periodically review our membership list. The Articles are very definitive in the guidelines regarding a member’s distinction between Class “A” and Class “B” membership. Please review the criteria listed below and determine if your producing status has changed.

Article 1.2 A.) Class “A” member conducts farming activities with a profit motive or who is a landlord who receives grain or animals in payment of farm rent.

We currently show you as a Class “A” member. If you still maintain that standard, then there is no need to make any change at this time. If you are no longer an “at risk producer” or if you receive “cash rent,” we request that you complete the information enclosed and return to us as soon as possible.

We would also like to take this opportunity to update your information. As stated in the Bylaws 4.7, Each shareholder is responsible for keeping the cooperative informed of his or her current mailing address. With the use of electronic communication and lack of landlines being used more and more, if you have a cell phone and email address we would appreciate having that information on file also.

Thank you in advance for your immediate response to this request. Should you have any questions regarding this information, feel free to contact the Hudson office at 319.988.3257.

Business Hours

During the busy service seasons (both Spring and Fall), ECI will also extend hours to accommodate member service needs during the planting and harvest phases.

These extended hours are designed to meet patron need and may only affect specific divisions and locations of the Cooperative. During the Fall season, hours of operations will be posted at each elevator location.

Please see hours listed at individual locations.



General Manager
Randy Carlholm

Recently, members of the Senior Staff, Board of Directors and myself have attended several Annual Meetings of Regional Cooperatives that ECI does business with, such as AGP, CHS, CoBank and Land O’Lakes. We were able to visit and network with our fellow managers and directors from neighboring co-operatives.

A common topic was cost control and how are we going to do it? Our cooperative is not much different from your farming operation, cost control in these economic times is very important. Last fiscal year, it took just over \$9.5 Million to operate ECI Co-op. That works out to just over \$26,000 every day – 365 days a year. Well over half of these expenses were property taxes, interest, utilities repairs, etc. In other words, costs the co-op has no, or very little, control over.

Another hot button was insurance cost increases, both corporate property and general liability, and employee health insurance. ECI will have a combined insurance premium of over \$1 million. Insurance reform was a topic of the recent elections and is something I think all of us recognize needs to happen.

The Board of Directors recently completed their annual Strategic Planning meeting. The

first item the Board addressed was to review and change our Mission Statement and Core Values to insure everyone at ECI Co-op is heading in the same direction.

Mission Statement:

ECI Co-op’s sole purpose for existing is for the mutual betterment of our member/owners and ECI Co-op.

The Board took on a very tough topic this year: governance. They reviewed, line by line, paragraph by paragraph, the Articles of Incorporation, Bylaws and Director Policies. These documents had not been updated in some time. These documents insure the Directors, Manager, Senior Staff and Employee Group are all on the same page with the same goal.

This process is necessary for the Board to make informed policy and governing decisions to insure the long term success of ECI Co-op.

As part of the Strategic Planning process, the Board recently received an in depth, “deep dive” analysis of the Agronomy Division. This included breaking out costs and profitability by product line. After much work and discussion, the Board authorized some changes in products and services that will be provided in the future.

Over the next few months, the Board will be going through the same process with the Grain Division.

Because of the hard work and effort on the part of the Board and Staff, I am pleased to report through the first six months of our fiscal year, each Division – Grain, Feed, Agronomy and Energy – are posting positive, bottomline profitability numbers.

While we realize there is still a lot of things that can happen this year, I am very cautiously optimistic about our projected year end.

Attention:

We have a new phone system in all of our locations that now allows us to transfer calls between locations.

ECI TELEPHONE DIRECTORY

HUDSON (319) 988-3257
Hudson TOLL FREE .. (800) 400-3247
JESUP Feed Mill (319) 827-6226
Jesup TOLL FREE (800) 859-8061
Jesup AG CENTER ... (319) 827-3531
Ag Center TOLL FREE (866) 599-7666
LA PORTE CITY (319) 342-3013
La Porte City TOLL FREE (800) 877-3810
La Porte City ENERGY (319) 342-3057
CEDAR FALLS GRAIN (319) 266-0775

WEBSITE:

www.ecicoop.com

YOUR BOARD OF DIRECTORS:

Mike Reiter, President
Ben Bader, Vice President
William Hesse, Secretary
Shane Clark
Ron Hager
Randy Lichty
Dennis Rottinghaus
Jim Fitkin
Jason Wellman, Associate
Joe Fruchtenicht, Associate



CONTROLLER *Joe Murphy*

Tax season is well under way and I'm sure those patrons who did grain business with ECIC have noticed the nice DPAD (Domestic Production Activities Deduction) deduction on your patronage 1099 that was sent in January. Section 199 of the IRS code allows the coop to pass this deduction through to the members if this makes sense with the Cooperative's tax situation. This was the situation with the cooperative's loss from last fiscal year's chemical rebate timing issue. We decided to pass this to the members who did grain business with the coop, with this group being the only members eligible. It is always the goal to send patronage to the members for customer business but when this isn't the case this DPAD deduction allows our customers a nice tax deduction which helps cash flow.

From a membership standpoint we are striving to clean up our membership classes which consist of class A and class B memberships. Class A members must be producers at risk, which may be commodities, livestock or other products with market risk. Class A members have voting rights and are eligible to run for the Board of Directors. Class B membership is for everyone else who doesn't fit the producer at risk requirement for Class A membership. Class B members are not eligible to vote or run for the Board of Directors. With this in mind if there are retired farmers who are no longer engaged in farming and have a Class A membership, please contact the Hudson office and we will change your stock to class B and refund the \$250.00 difference between the classes.

From a financial perspective we are holding our own thanks to another strong harvest for both corn and soybeans. This is very evident to residents of La Porte City who have seen two large piles of corn that have begun to disappear over the last month. Farmer storage revenues are slightly down from last year's record levels as producers continue to look for higher prices. Drying revenue is higher than last year's (fall '15) wind dried crop but more in line with historical levels. Grain margins should be better than normal this year with the carry in the market for the current year.

Agronomy fall season was slow again this year with volumes in line with last fall for dry, liquid and anhydrous. Producers seem to be waiting on the sidelines until spring as low commodity prices continue to delay decisions until the spring season.

The Feed division continues to perform with positive results with tonnages down from last year, but we are optimistic they will begin to rise with new barns coming on the books.

Our energy department is performing well with propane volumes up over last year. Refined fuel margins are improved over last year. Hopefully this warm weather pattern will change back to normal conditions so we can keep LP volumes into the spring.

As expected, patronages from regional cooperatives are down from last year due to the current economic environment within the Ag industry, as their profits are down from previous years.

Have a safe spring season.



GRAIN DIVISION *Ben Buie*

It is getting closer to Spring and I have to admit, after the weather we had the last couple weeks, I had begun to wonder if I had forgotten to flip the calendar over to March already.

This time of year, we get our first forecasts of planting intentions from USDA and private forecasters. The USDA long range forecast from the Ag Outlook Forum called for a four million acre decrease in corn acres from 94 million to 90 million. Soybean acres were estimated to increase by 4.6 million acres to 88 million. This shift was expected given the corn/bean ratio and relative profitability.

In the February crop report, the USDA increased corn demand for ethanol production by 25 million bushels and other industrial demand by 10 million bushels. There were no changes on the supply side, so carryout was reduced by 35 million bushels to 2.32 billion bushels. This wasn't a big surprise with ethanol production continuing at a record-setting pace. There were

no material changes to the soybean supply or demand. Soybean exports remain well ahead of pace to exceed USDA numbers for the year, but with a large South American crop beginning harvest, we could potentially see bean exports drop drastically.

The market had some excitement this week as there was a rumor spread that there would be an executive order mandating that E-15 fuel blend would be made available in all markets year round. However, before the end of the day, the White House came out and publicly denied that rumor and markets quieted down somewhat. The funds continue to be large buyers of both corn and soybeans and that has driven the market to the highest levels we have seen since last June. Given the cumbersome carryouts in both corn and soybeans, I expect sustained rallies to be difficult to maintain unless we run into weather problems this growing season.

There are expectations that we will see record on-farm storage levels in the next stocks report. As temperatures and humidity increase this Spring, please take the time to check on the condition of grain stored in your bins.

Thank you for your patronage and I hope everyone has safe planting this Spring.



FEED DIVISION *Dennis Francik*

There has been much anticipation and uncertainty regarding the role out of the new Veterinary Feed Directive which became law in January of 2017. As a quick reminder the VFD law requires that any medicated livestock feed that utilizes an antibiotic that has a human "cross over" must be prescribed by a licensed veterinarian, much like people going to their doctor to get a prescription for antibiotic use.

To date the roll out of VFD requirement has gone quite well. Our sales staff met with all of our effected producers in November and December to relate how the new ruling will affect our business practices. There have also been numerous local meetings ahead of time put on by the extension service and veterinarians that were very good and helped customers understand the new law as well.

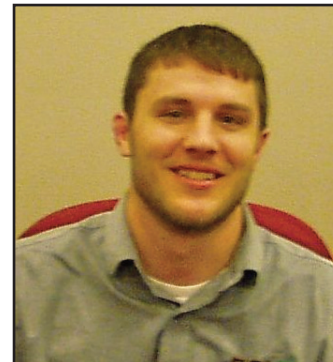
At the Jesup feed mill we have noticed a reduction in the amount of medicated feed additives being used in swine feeds. Some producers have changed medication programs to use as little VFD drugs as possible, others have kept the same protocols and are using the VFDs as required. The new law does not allow any VFD drug to be used as a growth promotant, that change has accounted for the major portion of our reduced usage. To that extent we are seeing a new demand for "nutra – ceuticals" all natural products that promote animal health and growth.

At our bagged feed locations the new law has had little impact other than changing our medicated Ultra Care Pig Starter line to Mecadox in place of the VFD required Denagard/CTC combination we carried. The cattle supplements we inventory are either plain or have Bovatec or Rumensin as ionophores and are not subject to the VFD law.

In 2017 the new FSMA laws were also brought into effect, which apply to safety in livestock feed manufacturing. This January we had our first re-certification audit of our Safe Quality Feed Initiative FSC -34 Certified HACCP food safety plan. The auditor was on site for two full days reviewing our procedures and observing our feed mill operations. The auditor found three minor areas of non-compliance, non-compliance reports and after action reports were filed by our safety staff and those reports were accepted by the review committee. Our mill was scored as 97% compliant again placing our mill in the excellent category. We are extremely proud of this accomplishment and our customers should be very glad to know the feed they receive is manufactured under very stringent conditions with safety and compliance to very high standards.

The new FSMA law has not only required that we make physical changes to the feed mill and milling processes to be compliant, but also requires new levels of safety training for feed staff members. To that extent Roger Ohrt trained and is now our SQF certified Safe Feed Practitioner. Chad Ciesielski has received training as certified Preventative Quality Control Individual and Adam Demuth, our lead mill operator, will also be attending training as certified Preventative Quality Control Individual. Our goal will be to have anyone that works in the feed mill certified Preventative Quality Control.

Thank you for your continued support and patronage – have a great spring planting season, stay safe!



CROP INSURANCE *Rylan Zwanziger*

We hope everyone had a good fall and winter. On the crop insurance front we didn't see a lot of claims last year, with record yields throughout most of the area for both corn and soybeans. What we did have for claims were caused by the heavy rains in mid to late September that caused some ground to get flooded. As for this coming crop year, we just set our spring price on insurance at \$3.96 for corn and \$10.19 for soybeans which are both up from last year's \$3.86 and \$8.85 prices.

Private products still are a hot topic in the industry and I'm seeing a lot of interest in some county plans with additional pricing intervals besides just our February average, as well as products that allow you to insure up to 95% on an enterprise or optional unit base. These products can have some sticker shock initially but when we sit down and analyze them, we are finding a lot of value in certain situations. I would also like to note that Dustin Watt has

joined me as a crop insurance agent within the company and is working out of the La Porte City Office. If you ever want to take a look at your options please contact one of us and we would be more than glad to sit down with you.

As always, we appreciate your patronage and hope you have a great spring!

ECI proudly provides



Diesel Exhaust Fluid

2.5 gallon containers or bulk quantities available

For more information contact Jim Dykstra

Energy Center - 319-939-4695

