

FIVE YEAR HISTORICAL INFORMATION

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|------------------------------|---------------|---------------|---------------|---------------|---------------|
| Sales | \$160,192,367 | \$145,442,180 | \$144,224,361 | \$159,992,862 | \$168,639,691 |
| Local Net Savings | \$1,461,208 | \$1,023,069 | \$1,441,399 | \$2,531,270 | \$3,171,853 |
| Total Net Savings | \$2,830,216 | \$3,042,332 | \$3,809,521 | \$5,071,211 | \$5,386,644 |
| Cash Returned to Members | \$1,831,338 | \$1,652,476 | \$1,224,030 | \$1,470,823 | \$2,275,954 |
| Working Capital | \$13,478,571 | \$12,883,963 | \$12,428,599 | \$13,725,932 | \$12,825,697 |
| Local Return on Local Equity | 4.17% | 3.00% | 4.33% | 8.10% | 11.02% |
| Ownership Percentage | 59.18% | 66.37% | 64.60% | 61.69% | 58.33% |
| Local Ownership Percentage | 50.82% | 58.32% | 56.59% | 53.37% | 49.92% |
| Employee Efficiency Ratio | 42.58% | 45.05% | 43.90% | 40.66% | 38.94% |



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Serving Central Minnesota

*To be the partner you can count on,
providing real solutions,
for today and tomorrow.*



**Centra Sota Cooperative
Annual Report 2018**

A MESSAGE TO OUR MEMBERS...

The theme of this year's Annual Statement, **"Adapt and Change"**, very accurately describes what Centra Sota Cooperative is all about. The reason we have been around for nearly 100 years has been the ability of your cooperative to **adapt and change** to what is taking place in our environment. This is not only seen at Centra Sota but also in our member's operations. The pace of these **changes** is taking place faster than at any time in history, and it will only intensify going forward. We are committed to being the leader in helping you navigate the **changing** times going forward.

As you can see in the financial statements, your cooperative achieved very positive financial results again this year. Sales during fiscal 2018 were \$160 million and we achieved Net Earnings of \$2.8 million. These numbers reflect lower earnings as compared to a few years ago as is the case with many companies involved in agriculture. We are now in the middle of a much lower commodity price environment as compared to 2012-2015. This is not only reflected in our customer's operations, but also in ours. Being an extension of your farm, Centra Sota may also experience lower earnings until the current down cycle reverses itself.

When any industry enters a downward cycle, many companies react by slashing expenses and curtailing investment spending. It seems almost on a daily basis I read an article showing companies laying off employees and closing facilities. This is exactly opposite of the approach Centra Sota is taking. We will monitor expenses and keep them in control, but at the same time we are making significant investments on your behalf. Over the past 5 years we have invested over \$22 million in new equipment and facilities to better serve you. We have replaced all of our legacy agronomy plants and have all state of the art facilities to serve our members for many years to come. In addition, we have upgraded facilities and equipment in our Feed Division and Energy Division to increase capacity for the foreseeable future. Part of our investment spending has included purchasing businesses which have contributed greatly to our success.

We have also made significant investments in technology to enable us to offer our Yield Quest Program. Adapting to technological **change** is something we truly believe is the key to success in agriculture today and in the future. We have tools available today helping our producers achieve yields and manage their fields in ways a few years ago were not possible.

This is our commitment to our member owners to take the very long-term approach understanding agriculture is a very cyclical industry and we need to be **adapting** constantly. We understand commitment through ups and downs and we must make sure your cooperative is **adapting and changing**.

The bottom line is really pretty simple – Centra Sota Cooperative is in the business of supplying agricultural supplies and services to our customers. Our customers also own this company as cooperative patrons. Therefore, we believe based on these two statements, investing in helping service your needs better only makes good, sound sense. The price of these investments is high, but we are confident this needs to be done.

As significant as these investments are, we feel the best investment we make is in our people. The employee team at Centra Sota is the real difference maker in setting us apart from other choices you have for a supplier. We will continue to invest in people – hiring, developing, and retaining people to add value to your operation.

All of the **changes** Centra Sota makes in facilities, equipment or people, are made in direct alignment with the Vision of your company: **To be the partner you can count on, providing real solutions, for today and tomorrow.**



Jeffrey A. Johnson

Jeff Johnson
CEO/General Manager



Steve Sievek

Steve Sievek
Chairman
Board of Directors



OFFICERS & DIRECTORS

| | | |
|------------------|---------------|--------------|
| Steve Sievek | Chairman | Brainerd |
| Charles Krause | Vice Chairman | Buffalo |
| Bill Holthaus | Secretary | Buffalo |
| Dennis Lietha | Director | St. Cloud |
| Tom Hammer | Director | St. Cloud |
| Rodney Domjahn | Director | Montrose |
| Ken Welle | Director | Little Falls |
| Roger Roerick | Director | Upsala |
| Don Thomes | Director | Paynesville |
| Vern Willenbring | Director | Albany |
| Jeff Johnson | CEO/GM | |
| Dan Malinski | CFO | |

STATEMENT OF OPERATIONS

| | 2018 | 2017 |
|--------------------------------|--------------------|--------------------|
| Sales | \$160,192,367 | \$145,442,180 |
| Cost of Sales | \$134,089,233 | \$120,998,808 |
| Operating Revenue | \$26,103,134 | \$24,443,372 |
| Expenses: | | |
| Employee Expense | \$11,818,982 | \$11,926,332 |
| Depreciation | \$2,903,677 | \$2,993,977 |
| Insurance | \$655,006 | \$681,229 |
| Other Operating Expenses | \$9,890,612 | \$9,079,559 |
| Total Operating Expenses | \$25,268,277 | \$24,681,097 |
| Net Operating Margin | \$834,857 | (\$237,725) |
| Other Income (Expense) | | |
| Interest Expense | (\$703,665) | (\$494,930) |
| Collection/Legal Expense | (\$324,276) | (\$277,250) |
| Partnership Income — MLN, LLC. | \$148,675 | \$242,804 |
| Other Revenue and Expense | \$1,505,617 | \$1,790,170 |
| Net Other Income (Expense) | \$626,351 | \$1,260,794 |
| Local Net Savings | \$1,461,208 | \$1,023,069 |
| Patronage Income | \$1,405,598 | \$2,273,411 |
| Net Income Before Taxes | \$2,866,806 | \$3,296,480 |
| Income Taxes | (\$36,590) | (\$254,148) |
| Net Savings | \$2,830,216 | \$3,042,332 |

CENTRA SOTA COOPERATIVE

Serving Central
Minnesota

Our Vision:

*To be the partner you can count on,
providing real solutions for today and tomorrow.*

This summarized financial information has been extracted from the complete financial statements and auditor's opinions which are on file in the cooperative's offices.



BALANCE SHEET

| ASSETS | 2018 | 2017 |
|--|----------------------|----------------------|
| Current Assets: | | |
| Cash | \$ 675,981 | \$ 698,173 |
| Receivables | 17,201,494 | 18,985,999 |
| Less: Allowance for Doubtful Accounts | (1,288,370) | (1,379,805) |
| Inventory and Other Current Assets | 30,726,589 | 18,858,150 |
| Total Current Assets | 47,315,694 | 37,162,517 |
| Other Assets: | | |
| Fixed Assets | 47,284,241 | 46,533,064 |
| Less: Accumulated Depreciation | (29,352,285) | (27,658,496) |
| Net Fixed Assets | 17,931,956 | 18,874,568 |
| Investments in Other Cooperatives | 17,745,332 | 16,342,703 |
| Total Assets | 82,992,982 | 72,379,788 |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | 11,282,413 | 8,473,646 |
| Patronage Dividends Payable | 686,665 | 666,484 |
| Other Current Liabilities | 21,868,045 | 15,138,424 |
| Total Current Liabilities | 33,837,123 | 24,278,554 |
| Long Term Liabilities | 40,000 | 60,000 |
| Total Liabilities | 33,877,123 | 24,338,554 |
| EQUITY | | |
| Member Equity | 25,570,648 | 25,764,811 |
| Capital Reserve | 23,545,211 | 22,276,423 |
| Total Patron Equity | 49,115,859 | 48,041,234 |
| Total Liabilities and Patron Equity | \$ 82,992,982 | \$ 72,379,788 |

HISTORIC SALES VOLUMES

