Annual Report²⁰²¹

Growing Relationships to Maximize Success!®

Innovative Ag Services



A Message From the Board President Randy Blake and CEO Rick Vaughan



Thank You all members and customers for your valued business and continued support. Thank You all IAS employees and Pine Lake Corn Processors employees for your hard work and dedication to our organization. It is a pleasure for us to be reporting to you on another successful year.

Our fiscal results are included in this report. IAS had a very good year in total. We did not arrive at that very good total in our normal fashion. The agronomy, feed, transportation, and maintenance divisions all improved their financial performance from fiscal 2020 with growth and diligent day-to-day management of the business. Energy was down slightly due to the very dry corn harvest of 2020. Lumber was down from fiscal 2020. Our total local earnings were slightly negative for the year. The primary reason was our poor local performance in the grain division. The derecho event and overall production provided fewer bushels to work with. The inverted prices in the corn and bean markets provided challenging marketing decisions. The market inversions dictated that we empty our facilities, and this process exposed our shortcomings to our past grain handling management practices. Regional cooperative earnings were very similar year over year. Pine Lake Corn Processors had significant improvement in earnings year over year due to the improved ethanol markets and continued production efficiency gains. We received approval of our Paycheck Protection Program (PPP) loan forgiveness in fiscal 2021. These monies were intended to offset the negative effects of the COVID-19 economic shutdowns from the spring of 2020. Some of that negative impact carried over into our fiscal 2021. Lastly, we had other earnings on the insurance settlement related to the derecho damage to our Union and Lawn Hill grain bins. All in all, IAS performed well in total and strengthened our financial position year over year while returning consistent earnings and redeemed patronage to our members. You can view these results and your patronage allocation rates for your farming operations in this publication.

Mike Duncomb, IAS VP of Feed announced his retirement date in December 2021. Mike began his career teaching, transferred into the feed sales business, and has worked for IAS in various sales management and division management roles. Mike has served as Vice President of Feed for the last eight years. Mike and his wife Julie reside in Anamosa. They plan to spend more time with children and grandchildren and more time traveling. Mike mentioned he may also spend a little time fishing. I would like to thank Mike for his many years of contributions to IAS and wish him and Julie well in their retirement. Mike Bachman has been named Vice President of Feed for IAS. Mike has worked for IAS and its predecessor companies for many years, primarily in the feed business. Mike most recently has served as feed merchandising manager and regional feed mill manager. I look forward to a seamless transition in our feed division.

People, people, people continue to be a major subject for all industries. We unfortunately are not exempt from those realities in the marketplace. First, thank you to our customers who have been patient with the realities of these challenges. Secondly, thank you to all the full-time and seasonal employees who have helped IAS to bridge this gap. Today's environment causes longer durations to replace people who exit the business for whatever reasons. One of these reasons includes the well-deserved retirement each year of our long-term valued employees. This replacement duration increase is mostly offset by the remaining full-time and seasonal employees but partially offset with disruptions. While we spend time discussing the people who have left for various reasons to pursue other opportunities including retirement, we don't spend enough time thanking the employees who have remained committed to Innovative Ag Services. These employees are what allows our organization to achieve the overall results we do publish every year. These employees deserve an ongoing "Thank You" from our organization and customers for their commitment. We ask all customers to join us in this important gesture.

The new fiscal year has begun with the bean harvest about wrapped up as we draft this article. In mid-August, we thought harvest would be over by October 10th. Once again, Mother Nature had different plans for us as the balance of the growing season unfolded. We are very pleasantly surprised with the yields. An adequate crop should narrow the magnitude of price volatility for the next twelve months and provide our livestock producers with more stable pricing. We believe all other areas of the supply chain will continue to see disruptions and contribute to challenges that need proactive foresight and management. We look forward to the upcoming year and the opportunities that will be presented.

The board, employees, and we thank all our members and customers for your support this past year. We will work hard to continue to earn your business going forward and we appreciate the opportunity you have afforded us. Have a safe and prosperous 2022.



Innovative Ag Services, Co. Annual Meeting Minutes December 7, 2020

The sixteenth annual meeting of Innovative Ag Services Co. was held at the Comfort Suites Hotel in Cedar Falls on Monday, December 7, 2020. The meeting was called to order at 1:00 p.m. by Chairman Randy Blake.

Minutes of the 2019 Annual Meeting were read. It was moved and seconded to approve the minutes. Motion carried.

Ballots were mailed out to all of the company's members. The ballots contained one item of business; that being the election of new directors for the company - Candidates include Randy Blake, Paul Cook, and Stan Norman.

IAS member, Fred Rogers tallied the ballots and provided a signed affidavit of the election results. The results reported that Randy Blake, Paul Cook, and Stan Norman were each elected to three year terms.

It was moved and seconded to accept the results of the election and destroy the ballots. Motion carried.

Randy Blake reported that the board of directors reviewed the auditors' report issued by Meriwether Wilson and Company at a previous meeting and approved its statements of operations for the fiscal year ending on August 31, 2020. The content of the auditors' report is on record and a summary of it was recently sent out to the patrons in the annual report.

Dividend payments approved by the board were recently mailed.

There was no other old business.

There was also no new business brought from the floor.

The meeting was adjourned at 1:14 p.m.

Submitted by,

Loren Manternach, Secretary



Feed Division - Mike Duncomb

2021 has been a good year for your Innovative Ag Services (IAS) Feed Division posting similar volumes with improved profitability over the previous year. We have continued to work through the challenges of COVID-19 along with the livestock and milk markets that continue to be unsettled. Good demand and strong exports have been very supportive and important for our markets as we work through higher input costs, logistics challenges, and the market swings that global social/political issues and weather bring to the marketplace. The market influencers and volatility continue to make it very important that we all have a strong business and marketing plan in place. We also need to make sure we are keeping very in tuned with our consumer customers and continue to be strong advocates for our industry.

Total volumes for the feed division increased slightly at 0.8%. Swine tons were down, beef up, and dairy about even with last year. Service income was down 3% with decreases in swine tons, delivery charges, and soybean roasting income. We have managed our expenses well with local income significantly improved over last year.

Our overall swine business was down in fiscal 2021 with several factors affecting our feed business. There is some optimism in the pork business for the long term, but some current concerns are affecting the marketplace with logistics and labor shortages at the top of the list. Disease pressure has been up, and overall swine numbers have been down in our trade area. The uncertainty in pricing and availability of feed inputs, plus disease pressure resulted in some delayed pig placements and empty contract barns in parts of our geography. A very hot summer has effected feed intakes and feed volumes significantly in the last quarter of fiscal 2021. Our swine team is working to help our customers source and place pigs along with making nutritional adjustments to best work through volatile ingredient markets.

Our beef feedlot business continues to grow with the beef team very focused on helping producers improve performance and profitability in their feedlots. We are working to continue enhancing our feedlot records and monitoring program to help our customers make informed management and business decisions. There is optimism in the beef business with strong demand and exports but there are some of the same concerns with logistics and labor in the beef industry affecting current markets. On the cow/calf side of our beef business, we have seen consolidation and lower margins for our cow/calf producer. Our cow/calf feed business has been similar to last year.

The dairy industry continues to deal in extremes with milk supplies being at very high levels and dairy product exports very strong. Retail demand for dairy products has been improving as schools get back in session and the restaurant industry slowly improves. Consolidation certainly has been a factor in the dairy industry in general and we continue to see fewer but larger dairy operations in our trade area. The dairy team is focused on helping our producers build strong dairy replacement animals through strong calf and heifer programs and works closely with our producers and business partners to provide personalized nutrition to optimize dairy production performance.

Our manufacturing and distribution teams have continued to work through the ebbs and flows of feed volumes working to be as efficient as possible. We are working to keep improving our internal processes along with using technology to enhance our customers' experience working with our feed team. You will see several enhancements to our feed information systems in the near future. Our feed consulting and sales team is working to grow our business bringing strong production, nutrition, and financial expertise to the farm gate. Our employees are the core of our Feed Division, and we very much appreciate all of their hard work and your confidence in the IAS Feed Team and thank you for your business this past year.





Income Statement	FY 2021		FY 2020
Grain Sales	\$ 419,368,129	\$	276,839,944
Merchandise Sales	 339,440,444		279,241,875
Total Sales	758,808,573		556,081,819
Cost of Sales	 713,378,072	-	501,993,678
Gross Commodity Savings	45,430,501		54,088,141
Other Income	 28,059,932		26,222,205
Gross Operating Revenues	73,490,433		80,310,346
Operating Expenses	 66,214,698		72,312,540
Local Income	7,275,735		7,997,806
Patronage Income and Investment Income	3,751,738		2,789,305
Other Income	 4,969,298		520,935
Net Savings Before Taxes	15,996,771		11,308,046
Income Taxes	 685,663		1,705,515
Net Savings	\$ 15,311,108	\$	9,602,531

Balance Sheet as of 8/31		
Assets	FY 2021	FY 2020
Current Assets		
Cash	\$ 5,546,149	\$ 2,206,410
Accounts Receivable	13,721,553	14,001,942
Margin Deposits & Derivatives	9,721,777	10,045,448
Adjustment to Market on Open Contracts	17,601,828	
Inventory	58,788,877	88,528,012
Prepaid Expenses and Other Current Assets	13,225,490	6,888,229
Total Current Assets	118,605,674	121,670,041
Investments	26,694,447	25,489,054
Fixed Assets		
Property & Equipment	299,517,677	286,595,516
Accumulated Depr	(172,613,746)	(163,097,422)
Net Property, Plant & Equipment	126,903,931	123,498,094
Other Assets	3,391,548	1,787,220
Total Assets	\$ 275,595,600	\$ 272,444,409
Liabilities and Member Equity	FY 2021	FY 2020
Current Liabilities		¢ 2.047.920
Operating Note	\$ - 2,395,287	\$ 2,947,820
Current Portion LT Debt & Capital Leases Accounts Payable	37,547,204	11,075,887 23,293,078
Accrued Expenses	6,101,440	6,056,808
Adjustment to Market on Open Contracts	-	5,702,647
Allocated Patronage Refunds	2,280,160	2,020,250
Total Current Liabilities	48,324,091	51,096,490
Long Term Liabilities		
LT Deferred Liabilities	15,053,539	19,489,446
LT Debt & Capital Leases	31,302,289	37,498,457
Total Long Term Liabilities	46,355,828	56,987,903
Member Equity		
Memberships and Subscriptions	1,419,401	1,395,457
Allocated Earnings	35,955,509	36,767,267
Allocated Patronage Refunds	2,280,160	2,020,250
Cooperative Education	61,864	85,099
Retained Earnings	148,071,245	137,320,354
Accum and Other Comp Inc/Loss	(6,872,498)	(13,228,411)
Total Member Equity	180,915,681	164,360,016
Total Liabilities & Member Equity	\$ 275,595,600	\$ 272,444,409

Finance & Information Technology: Risk Management - Brenda Hoefler

The one thing that remains constant is change and this year that continues to be true. We again benefitted from the diversity of our business units. Having several different divisions allows us to withstand some of the ebbs and flows of the agriculture markets just as each of you do with your own farm operations. Also, just like you, we are continuously working on cost containment. Two areas that both the industry and IAS specifically have seen cost increases are in our cyber-security and property and casualty insurance.

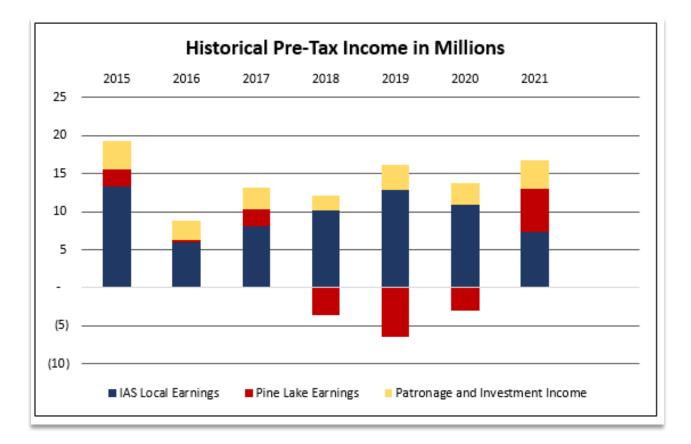
An area that hit too close to home this year is the cyber attacks on the agriculture industry and, specifically, fellow agricultural cooperatives like IAS. It is very unfortunate as the attacks have migrated from being simple nuisances to outright crippling attacks that can render computer systems software and hardware useless and temporarily put business operations at a standstill. The attackers continue to become more sophisticated with their methods of attack and their ever-escalating extortion demands and repercussions if the demands are not met.

IAS is continuously adding layers of protection to prevent cyber-attacks. We have been doing employee training for over two years to help employees identify and stay vigilant in avoiding phishing attempts. Our employees continue to improve on being able to spot them and those that do fail are required to take additional training courses. We introduced multi-factor authentication (MFA) this year whereas any user of our computer systems must provide two pieces of evidence to verify their identity to gain access to our computer systems. This lessens the chances that a hacker can impersonate one of our employees and get unauthorized access. We are in the process of implementing an endpoint detection and monitoring system that will allow us to have 24/7/365 monitoring of our systems. These systems monitor and log network traffic and use artificial intelligence to identify and trigger alerts as they detect unusual patterns of activity. The faster we can detect and identify any intrusion greatly reduces the impact and damage they can do.

Another area that has impacted both the industry and IAS is rising property and casualty insurance rates. This is being driven by inflation, the low-interest-rate-environment, and the impacts of catastrophic weather events throughout the country; including the derecho that impacted much of Iowa in August 2020. These rate increases have required us to make changes to our overall insurance package including our coverage types like actual cash value or replacement cost on some properties, our insured values, and our deductible levels. In addition, insurance underwriting has become more selective, requiring some additional spending before they will even offer to quote. For example, in the cyber insurance market 120 days ago you would need MFA in place to get cyber insurance coverage, now you need MFA and endpoint detection and monitoring to do so, as insurers have had such a drastic increase in claims.

We will continue to monitor these risks and others so we can identify and implement additional layers of protection as we review the cost/benefit analysis of each.

Thank you for your continued support.



Distribution of Net Income	FY 2021			FY 2020	
Patronage Dividend					
Cash Patronage Dividend (50%)		2,280,160			2,020,250
Deferred Patronage Dividend (50%)		2,280,160			2,020,250
Addition to Retained Earnings		10,750,788			5,562,031
Net Savings	\$	15,311,108		\$	9,602,531
Patronage Distribution Rates & DPAD Deduction		FY 2021			FY 2020
Section 199A(g) Deduction Passed through to Members					
per bushel		12.00	¢		11.46 ¢
Grain Services		12.00	%		8.71 %
Agronomy Sales & Service		3.00	%		2.25 %
Feed & Feed Services		3.00	%		2.25 %
Refined Fuels Gallons		7.50	¢		7.50 ¢
Propane Gallons		7.50	¢		7.50 ¢

Agronomy Division - Tim Krausman

During fiscal year 2021 we were short rainfall in many areas. The positive to being drier than normal was adequate time to get fall applications done. We were able to get more fertilizer applied in the fall than we have in the past five years. Growers did a good job of utilizing tools such as stabilizers in their fertilizer applications to maximize nitrogen rates and reduce loss.

This spring we enjoyed weather that allowed an extremely rapid planting pace. For the most part, we were able to keep up with fertilizer and chemical applications. With the early and fast planting, we were able to get crops growing to utilize what water was in the soil at the time. Some timely rains helped in many areas to allow us a good crop this fall. As we went through the season, commodity prices increased while fertilizer and chemical prices were still fairly low during planting. Since then, fertilizer prices have increased throughout the summer and continue to through the fall. Last year also started the supply challenges for glyphosate and glufosinate. This has continued through the year and will likely get worse for the next growing season. Chemical supply issues and production costs have begun this past fiscal year and will show up considerably for the next growing season. The lack of moisture has increased the population of corn rootworms which will likely be a challenge in the next growing season. This past fiscal year growers recognized a higher level need for adding sulfur to their fertilizer applications which will continue through the next growing season.

As we work ourselves through this next fiscal year with increased input prices and supply challenges, we will continue to focus on maximizing profit on each acre. Yield will still be a major function of maximizing opportunities.



Energy Division - Randy Swenson

The energy business has been and will always be a very interesting and volatile business. This describes the entire sector of agriculture. Farmer producers must deal with prices out of their control, as they continue to grow the best yields in the country. Along with uncertain costs, Mother Nature tries to drown or dry up their spirits.

This past fiscal year was another interesting year. We started the year with the pandemic and vaccinations still heavy on our minds and the COVID-19 energy discounts behind us. Demand has picked up and inventories were still struggling to get back to a level to supply demand. With all that said, crude oil prices and all energy markets soared higher than pre-COVID levels.

Our propane sales were down 27% from the previous year, mostly due to the dry corn crop resulting in less corn dryer fuel needed for the fall of '20 as compared to the unseasonal wet corn dryer season from fall of '19. This was partially offset by the sixteen days in February that never reached temps above zero degrees.

Diesel sales were down 9% with most of those gallons lost due to the lack of harvest and trips across the fields due to the Derecho. Gasoline sales were up 2% over and above the sales from the prior year. Gasoline sales continue to compete with new convenience stores and customer opportunities like Hy-Vee's fuel saver card.

Predictions for 2022 crude oil and fuel prices are bullish at this current time. Inventories are low and demand is picking up. Asia and Europe continue to compete for the high bid for our energy products. Ye who has the deepest pockets, win the bid. This has been extremely hard on propane and natural gas prices. Also, we all know that it takes one event in the Middle East and our costs soar even higher.

Energy price forecasts are highly uncertain and with any predictions, prices could differ significantly from the forecast levels.

The agriculture sector in America is a very fast-paced and "get it done now" environment and with tremendous drivers and employees, we strive to continue the value-added service to our customers.

We look forward to continuing to grow our energy business with our great customers!



Staying Vigilant in Safety & Compliance - Brian Kramer

Innovative Ag Services (IAS) continues to conduct internal location audits in the areas of documentation compliance, facilities and equipment, and grain and feed mill housekeeping. Each year improvements are achieved and a culture of ownership by the employee continues to grow. Evidence of this can also be seen this past year from multiple positive external audits conducted by our insurance carrier.

We experienced improvement with our safety rating in the category of vehicle maintenance with the Federal Motor Carrier Safety Administration (FMCSA). We improved our rating in that area by 30 percentile points in the last 12 months!

IAS has several new initiatives underway for the coming year. We have invested in infrared testing equipment to test electrical switchgear, fuse panels, and breaker panels for abnormally elevated temperatures under load. Identifying these situations early on and getting corrective actions taken can reduce the risk of equipment failures or potential fire hazards.

We are also working on standardized documentation being utilized for our facility preventative maintenance programs. In doing so we will ensure compliance with not only our standards but that of OSHA as well.

The storage of certain types of products like bulk fuels, mineral oil, and animal fat tanks requires written Spill Prevention, Containment, and Control (SPCC) plans. IAS is working this coming year to ensure all required plans are updated and in place in accordance with regulations.

Innovative Ag Services is committed to continuously improving its safety culture and providing a safe environment for its employees. Like most success stories, this too takes strategy, a lot of hard work, and commitment from those involved.

Thank you for your patronage and please work safely!



HR Shared Services - Carla Elliott

The fiscal year 2021 came and went in a flash. This past year our employees had little to no reprieve from the markets. When I say that, I mean they had no break between seasons. Innovative Ag Services (IAS) and other companies worked very hard to move grain this summer to get the best pricing possible, and have bins emptied and prepared for the new harvest that is going on now. Fulltime and seasonal staff are thanked for the fortitude they have shown through another challenging year which continues to include COVID-19.

It has not been easy to recruit; those employed have taken on the additional load. This is not unique to IAS and has been impactful across the country as well. Everywhere you go there are help-wanted signs and depending on whom you ask you will get a different opinion. Some people seemed to either change career fields altogether, others moved, retired, or quit working. The demographics of our workforce are changing. We have a shortage of those who want to work in a trade that is physically demanding, will have overtime, and requires working in different temperatures. No, this does not occur all the time, but even seasonal demands can be too demanding for the incoming workforce we hire. IAS is fortunate to be able to offer great benefits, competitive wages, and stability. IAS takes a lot of pride in creating a workplace culture of belonging. Bigger does not mean better and the grass is not always greener, but we do recognize that these changes in the workforce will require us to look inward on how we run our business and where we can create efficiencies.

We are in the process of building a new website, the current one is eight years old. It was time to give it a more modern refreshed look and improved usability We are working with Land O'Lakes Winfield United Group on this build which will give us some additional Agronomic R7 capabilities to use with our farmers. We are hoping for the website to be up and running by December, though our agronomists have access to the R7 tool now. Communication will go out to customers as we get closer to the rollout of the new website.

In closing, we appreciate your business and the support of our employees who are working every day to deliver an exceptional experience for you, our customer. If you have feedback for the HR Shared Services group, please feel free to call (319) 465-2022 Ext. 1060 or email us at <u>hr.dept@ias.coop</u> we are "Growing Relationships to Maximize Success!®"



Pine Lake Corn Processors - James Broghammer

Pine Lake had a very successful fiscal 2021 and a nice financial recovery following the COVID-19 related challenges with the industry in the prior year. Major challenges for fiscal 2021 included the derecho reduced corn supply from many of our farmer corn suppliers and the cold weather that impacted our natural gas supply.

This past year we constructed a new cooling tower, brought a new syrup concentrator online, installed improved Fox Filters, completed a new plant wide computer system upgrade, installed two new sedicanters, installed a new X7E Centrifuge, and various other plant improvements. These improvements will provide yield optimization and plant efficiencies thereby keeping Pine Lake's cost structure in line with the industry's best for years to come.

In addition, we continue to optimize the corn oil and ethanol yields while improving our cost structure in the areas of chemicals, labor, maintenance, general administration, natural gas and electricity. We lowered production costs per gallon again in 2021 on top of a record low in 2020.

Some key highlights for the year

- 1. Produced our highest volume of ethanol at 76.33 million gallons.
- 2. Improved corn oil yield by 5.5% to 1.10 lb/bu. This ranks in the top 5% of the industry
- 3. Lowered our total production cost by 2.1% for annual savings of \$180,000
- 4. Lowest natural gas usage/gallon. 1.2% lower than 2020
- 5. Lowest electrical usage/gallon. 2.1% lower than 2020
- 6. Record low unplanned downtime in both distillation units
- 7. Signed up for carbon sequestration with Summit Carbon Solutions

All these accomplishments were made possible by our 36 employees that have demonstrated great skill, commitment, patience and hard work to the success of Pine Lake. I would like to thank each one of them for their efforts and dedication to Pine Lake. Scott Zabler retired September 30, 2021, after 15 years as General Manger. He oversaw all the ethanol and DDG sales and coordinated those sales with the purchases of corn, natural gas, and chemicals. Scott and his wife Lori will settle in Houston to be near their children and grandchildren. Thank You Scott for your many years of service and dedication to Pine Lake.

We would like to thank all our corn suppliers for their business. We look forward to their additional corn bushels this year.



Committed to Social & Environmental Responsibility

Innovative Ag Services (IAS) prides itself in giving support to the communities we reside in. We feel fortunate to have an opportunity to give back to the communities where customers and employees live.

We reach out to these local areas and organizations in a variety of ways. We give support through monetary donations, our employees donate their time to work local events, and we participate in educational opportunities to share knowledge with those people who are interested in agriculture.

We continue to utilize the Land O' Lakes Matching Funds Program as well as utilize a matching program through our bank, CoBank. This has been a great partnership to support our efforts to continue the tradition of giving back each year. This past fiscal year we have given to a variety of programs. Each year the list changes here are just a few of those programs. Agribusiness Association of Iowa, D.A.R.E., extension offices, high schools, fire departments, first responders, and fairs.

IAS is also very active in the Truterra Nutrient Management Strategy. It allows growers to optimize their use of crop nutrients while helping them significantly invest in their land and their future. As consumer demand and government regulations begin to require all members of the food supply chain to comply with environmentally sustainable agriculture practices, Sustain growers will be recognized as adding value to their industry while maintaining or increasing yield.

IAS is already working on fiscal 2022 initiatives and we look forward to serving and supporting our local communities during this new year.





Thank you for your business. We look forward to serving you in 2022!



Thank you to our board of directors for taking time out of their busy schedules each year to represent the voice of the members doing business with Innovative Ag Services.



