

WEST CENTRAL AG SERVICES

ULEN, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

OFFICERS AND DIRECTORS

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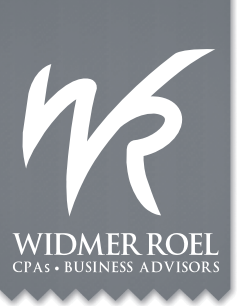
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
West Central Ag Services
Ulen, Minnesota

Opinion

We have audited the accompanying financial statements of **West Central Ag Services** (a Cooperative), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, changes in patrons' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **West Central Ag Services** as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of **West Central Ag Services** and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about **West Central Ag Services'** ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud

may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of **West Central Ag Services'** internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about **West Central Ag Services'** ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.



Fargo, North Dakota
March 24, 2022

WEST CENTRAL AG SERVICES**BALANCE SHEETS
DECEMBER 31, 2021 AND 2020**

ASSETS	2021	2020
CURRENT ASSETS		
Cash and cash equivalents		
Cash on hand and in banks	\$ 2,147,476	\$ 527,597
Receivables		
Trade accounts receivable, net of allowances	8,011,295	1,363,844
Grain receivable, net of advances	12,779,595	7,169,509
Futures and options	12,117,905	8,475,377
Patron advances	1,062,633	4,368,905
Grower advantage, net of allowances	24,494,805	20,165,868
Other receivables	178,561	2,625,631
	<u>58,644,794</u>	<u>44,169,134</u>
Inventory		
Grain inventory, at local market	102,100,923	102,217,617
Merchandise inventories, at net realizable value, principally first in, first out, or market	126,061,509	93,609,560
	<u>228,162,432</u>	<u>195,827,177</u>
Prepaid expenses		
Prepaid income taxes	14,114	720,528
Prepaid expense	546,134	486,878
	<u>560,248</u>	<u>1,207,406</u>
Total current assets	<u>289,514,950</u>	<u>241,731,314</u>
OTHER ASSETS		
Investment in other cooperatives	25,505,326	25,576,314
Investment in Alton Agronomy, LLC	658,223	658,223
Investment in Central Plains Ag Services, LLC	13,137,370	13,040,283
	<u>39,300,919</u>	<u>39,274,820</u>
PROPERTY, PLANT AND EQUIPMENT, at cost		
Land	4,202,829	4,081,629
Buildings and equipment	173,050,650	167,745,579
New construction	9,075,302	6,258,536
	<u>186,328,781</u>	<u>178,085,744</u>
Accumulated depreciation	(88,644,000)	(82,453,085)
	<u>97,684,781</u>	<u>95,632,659</u>
Total assets	\$ <u>426,500,650</u>	\$ <u>376,638,793</u>

LIABILITIES AND PATRONS' EQUITY	2021	2020
CURRENT LIABILITIES		
Seasonal loan payable		
Outstanding drafts and seasonal loan account	\$ -	\$ 21,223,998
Notes and contracts payable		
Deferred payment contracts	61,135,018	37,959,166
Grain payable	95,625,402	72,193,905
Current portion of long-term liabilities	1,831,978	5,031,444
	<u>158,592,398</u>	<u>115,184,515</u>
Accounts payable		
Accounts payable	15,309,003	9,365,914
Patrons' credit balances	54,606,830	39,242,686
Patronage dividends payable	5,680,426	3,872,107
Other accounts payable	489,366	601,998
	<u>76,085,625</u>	<u>53,082,705</u>
Taxes and expenses accrued or payable		
Other accrued expenses	112,000	112,000
Income taxes payable	127,348	-
Grain, sales and payroll taxes payable	999,115	837,271
Accrued interest	5,330	242,601
Property tax payable	114,644	114,644
	<u>1,358,437</u>	<u>1,306,516</u>
Total current liabilities	<u>236,036,460</u>	<u>190,797,734</u>
LONG-TERM LIABILITIES		
Long-term debt	5,679,528	18,099,200
Long-term capital leases	14,646,744	16,739,361
Deferred tax liability	1,786,560	1,837,792
	<u>22,112,832</u>	<u>36,676,353</u>
Less current maturities listed above	(1,831,978)	(5,031,444)
Total long-term liabilities	<u>20,280,854</u>	<u>31,644,909</u>
Total liabilities	<u>256,317,314</u>	<u>222,442,643</u>
PATRONS' EQUITY		
Local patrons' credits	52,656,602	46,093,670
Regional patrons' credits	20,308,392	20,758,184
Unallocated capital reserve	97,218,342	87,344,296
Total patrons' equity	<u>170,183,336</u>	<u>154,196,150</u>
	<u>\$ 426,500,650</u>	<u>\$ 376,638,793</u>

WEST CENTRAL AG SERVICES
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
SALES		
Grain	\$ 533,683,590	\$ 336,253,238
Merchandise	162,628,436	130,564,028
Total sales	696,312,026	466,817,266
 COST OF SALES		
Grain	515,089,958	316,425,557
Merchandise	125,205,965	101,992,918
Total cost of sales	640,295,923	418,418,475
Gross profit on sales	56,016,103	48,398,791
 OTHER PROCEEDS (EXPENSE)		
Patron and other services	5,703,641	2,152,506
Freight and delivery income	2,653,277	2,274,034
Partnership income (loss)	1,931,375	(69,108)
Drying income	1,447,287	2,282,557
Storage and handling	888,549	1,664,863
Finance charges and interest	521,770	585,796
Gain on disposal of property, plant and equipment	477,041	674,138
Total other proceeds	13,622,940	9,564,786
Gross operating proceeds	69,639,043	57,963,577
 EXPENSES		
Operating expenses	33,684,869	31,024,766
Depreciation	8,958,353	8,940,124
Interest	1,985,381	1,442,229
Total expenses	44,628,603	41,407,119
LOCAL NET INCOME	25,010,440	16,556,458
PATRONAGE FROM OTHER COOPERATIVES, net	1,882,636	1,958,813
NET INCOME BEFORE INCOME TAX	26,893,076	18,515,271
INCOME TAX PROVISION (BENEFIT)	782,530	(56,378)
NET INCOME	\$ 26,110,546	\$ 18,571,649

WEST CENTRAL AG SERVICES
STATEMENTS OF CHANGES IN PATRONS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>Local</u>		<u>Regional</u>	<u>Unallocated</u>	<u>Total</u>
	<u>Patrons'</u>	<u>Patrons'</u>	<u>Patrons'</u>	<u>Capital</u>	
	<u>Credits</u>	<u>Reserve</u>	<u>Credits</u>	<u>Reserve</u>	
Balance, December 31, 2019	\$ 42,712,016	\$ 343,845	\$ 21,325,132	\$ 79,509,819	\$ 143,890,812
Adjustment to prior year estimated patronage allocation	(1,518)	-	-	(17,850)	(19,368)
Equity reclassification	-	(343,845)	-	343,845	-
Equity cancelations net of accounts receivable off-sets	(4,060)	-	(777)	-	(4,837)
Redemption of patrons' equity	(3,803,828)	-	(566,171)	-	(4,369,999)
Cash patronage dividends	(3,872,107)	-	-	-	(3,872,107)
Net income	<u>11,063,167</u>	<u>-</u>	<u>-</u>	<u>7,508,482</u>	<u>18,571,649</u>
Balance, December 31, 2020	46,093,670	-	20,758,184	87,344,296	154,196,150
Adjustment to prior year estimated patronage allocation	4,335	-	7	(6,706)	(2,364)
Redemption of patrons' equity	(3,990,771)	-	(449,799)	-	(4,440,570)
Cash patronage dividends	(5,680,426)	-	-	-	(5,680,426)
Net income	<u>16,229,794</u>	<u>-</u>	<u>-</u>	<u>9,880,752</u>	<u>26,110,546</u>
Balance, December 31, 2021	<u>\$ 52,656,602</u>	<u>\$ -</u>	<u>\$ 20,308,392</u>	<u>\$ 97,218,342</u>	<u>\$ 170,183,336</u>

WEST CENTRAL AG SERVICES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 26,110,546	\$ 18,571,649
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	8,958,353	8,940,124
Patronage refunds received in the form of allocations, net	(230,443)	(211,727)
Gain on disposal of property, plant and equipment	(477,041)	(674,138)
Partnership loss (income)	(1,931,375)	69,108
Allocation adjustments and equity cancelations	(2,364)	(19,368)
Changes in assets and liabilities		
Receivables	(10,146,723)	(12,574,252)
Inventory	(32,335,255)	(53,852,993)
Prepaid expenses	647,158	(481,586)
Notes and contracts payable	46,607,349	30,962,413
Accounts payable	21,194,600	(2,573,074)
Taxes and expenses accrued or payable	51,921	38,948
Deferred tax liability	(51,232)	(328,832)
	58,395,494	(12,133,728)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from retirement of equity held in other cooperatives	301,431	446,808
Grower advantage loans	(4,328,937)	(20,060,688)
Distributions received from partnerships	1,834,289	100,000
Proceeds from disposal of property, plant and equipment	533,574	872,929
Capital expenditures	(11,067,008)	(8,835,659)
	(12,726,651)	(27,476,610)
CASH FLOWS FROM FINANCING ACTIVITIES		
Changes in seasonal loan, net	(21,223,998)	14,868,269
Increase in long-term debt	-	3,099,200
Payments on long-term debt	(14,512,289)	(2,520,784)
Cash portion of patronage allocation, prior year	(3,872,107)	(2,646,914)
Redemption of patrons' equity	(4,440,570)	(4,369,999)
	(44,048,964)	8,429,772
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,619,879	(31,180,566)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	527,597	31,708,163
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2,147,476	\$ 527,597

WEST CENTRAL AG SERVICES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ <u>1,980,051</u>	\$ <u>1,199,628</u>
Cash paid for income taxes, net	\$ <u>-</u>	\$ <u>700,681</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS		
Patronage dividends payable	\$ <u>5,680,426</u>	\$ <u>3,872,107</u>
Cancellation of patron equity	\$ <u>-</u>	\$ <u>4,837</u>

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

West Central Ag Services, a Minnesota corporation, operates as an agricultural Cooperative. The Cooperative is engaged in purchasing and marketing of grains and sales of crop nutrients, crop protection products, and other farm supply products to individuals and businesses (principally patrons) located in its trade area. The Cooperative has facilities in the central region of western Minnesota; the Cooperative's headquarters are in Ulen, Minnesota. Minnesota grain purchases included in cost of goods sold were \$515,089,958 and \$316,425,557 during the years ended December 31, 2021 and 2020, respectively.

Cash and Cash Equivalents

For the purpose of cash flows, the Cooperative considers all highly liquid investments with a maturity of three months or less when purchased to be "cash equivalents".

Trade Receivables

Accounts receivable are stated at the contractual amount billed to the customer plus any accrued and unpaid interest. Customer account balances that do not have special financing terms with invoices dated over 90 days old are considered past due. Interest continues to accrue on past due accounts until the age of any invoices exceeds 180 days and exceeds the associated allowances. The account is then placed on nonaccrual status. When a customer balance is placed on nonaccrual status, the Cooperative reverses any accrued but uncollected interest previously recognized through interest income. In addition, the Cooperative discontinues the accrual of interest and does not resume these accruals unless the account first ceases to be classified as past due and then subsequently requalifies for accrual status.

The Cooperative reduces the carrying amount of accounts receivable by an allowance for credit losses that reflects its best estimate of the amounts that will not be collected. The Cooperative individually reviews each customer balance where all or a portion of the balance exceeds 90 days from the invoice date. Based on the assessment of the customer's current creditworthiness, the Cooperative estimates the portion, if any, of the balance that will not be collected.

Grower Advantage Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are generally reported at their outstanding principal balances adjusted for charge-offs and the allowance for loan losses. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Transfers of financial assets:

Transfers of financial assets are recorded when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Cooperative, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Cooperative does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Allowance for loan losses:

The allowance for loan losses is established as losses estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management confirms the loan balance is not collectable. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Cooperative will be unable to collect scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including length of delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of collateral if the loan is collateral dependent. Large groups of smaller balance homogenous loans are collectively evaluated for impairment.

Loan income and fees

Loan income and fees consist of various service charges and maintenance fees after origination. The consideration fixed and the Cooperative's performance obligations are satisfied at the time the service or maintenance results from customer activity.

When crop payments are repossessed in satisfaction of a loan, the receivable is written down against the allowance for losses to the estimated fair value of the asset less costs to sell, transferred to other assets, and subsequently carried at the lower of cost or estimated fair value less costs to sell.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Inventory

Grain inventory and stored grain outstanding are priced at local market, including adjustments to market for open sales and purchase contracts. Fertilizer inventory is priced at local market, including adjustments to market for open sales and purchase contracts. Merchandise inventory is priced at cost (first-in, first-out method) or net realizable value.

The Cooperative performed a physical measurement and count of all station grain and merchandise inventory for the periods ended December 31, 2021 and 2020. Variances with perpetual inventory records were determined due to normal operations and appropriate adjustments were approved for recognition in the current period.

Property and Equipment

Property and equipment are stated at cost. Additions, renewals, and betterments are capitalized, whereas expenditures for maintenance and repairs are charged to expense. The cost and related accumulated depreciation of assets retired or sold are removed from the appropriate asset and depreciation accounts and the resulting gain or loss is reflected in income.

It is the policy of the Cooperative to evaluate for capitalization all fixed asset purchases over \$5,000 and to provide depreciation and amortization over the estimated useful life of the individual asset, ranging from 5 to 40 years.

Investments

Cash paid investments are stated at cost and investments incurred from patronage dividends are recorded as written notices of allocation received by the Cooperative.

The patronage earnings and/or losses from other Cooperatives vary substantially from period to period, and interim operating results are not available. Accordingly, patronage allocations of earnings and/or losses for which notifications have not been received cannot be reasonably determined.

Qualified Patronage allocations are credited to patronage refunds received and are not considered in determining local net income. Non-qualified patronage allocations are recognized as income when received and/or determined collectible by management.

The Cooperative believes it is not practicable to estimate the fair value of the securities of these Cooperatives without incurring excessive costs because there is no established market for the securities and it is inappropriate to estimate future cash flows which are largely dependent on future patronage earnings of these Cooperatives.

Grain Payable and Deferred Payment Contracts

Grain payable includes contracted grain payable and delayed pricing contract grain. Contracted grain payables represent grain that title has passed to the Cooperative through receipt of grain under a fixed price, hedge to arrive, or basis fixed agreement. Delayed pricing contracts represent grain that title has passed to the Cooperative through receipt of grain with the price to be determined at a later date. Deferred payment contracts represent grain that title has passed to the Cooperative through receipt of grain under a contract with the payment due at a specified future date.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Revenue Recognition

Revenue is recognized at the transaction price the Cooperative expects to be entitled to in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. The Cooperative follows a policy of recognizing revenue at the point in time that the Cooperative satisfies its performance obligation by transferring control of a product or service to a customer in accordance with the underlying contract. The majority of the revenues are attributable to forward commodity sales contracts, which are considered to be physically settled derivatives under ASC 815, Derivatives and Hedging (Topic 815). For physically settled derivative sales contracts that are outside the scope of the revenue guidance, the Cooperative recognize revenue when control of the inventory is transferred within the meaning of ASC Topic 606, or other applicable guidance.

Income Taxes

The effective income tax rate for fiscal years 2021 and 2020 is less than the statutory rate, primarily due to the issuance of patronage refunds, which are deductible for tax purposes but treated as a distribution for financial reporting purposes. Statutory rates are further reduced by provisions available under IRS Section 199A(g). The Cooperative files nonexempt federal and state income tax returns wherein it is subject to tax on income from non-patronage sources and undistributed patronage sourced income.

Income tax expense is primarily the tax calculated for the current period. Uncertain tax positions are recorded in a threshold evaluation and measurement process. Management has determined that the Cooperative does not have any uncertain tax positions.

Commodity Derivatives

The Cooperative uses derivative financial instruments including forward contracts and exchange traded commodity futures and options contracts to manage its exposure to market fluctuations in commodity values. These derivatives are not designated as hedging instruments under FASB Codification subtopic 815-20 and are recorded through cost of sales and included in net income; margin deposits are included on the balance sheet. Futures and options used for hedging are traded through regulated commodity exchanges. The Cooperative's use of commodity contracts and the corresponding freight bookings is a hedge to reduce the risks associated with adverse price movements and market volatility. In its normal course of operations, the Cooperative has exposure to commodity inventory values that may not be fully hedged, due, in part, to the lack of derivative financial instruments for certain commodities. The effect of derivative instruments are identified as commodity contracts and are recorded at fair value.

Advertising Costs

Advertising and promotion costs are expensed as incurred. Total advertising costs totaled \$71,281 and \$52,742 for the years ended December 31, 2021 and 2020, respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Presentation of Grain Taxes

The State of Minnesota imposes a grain tax on all of the Cooperative's purchases from nonexempt producers. The Cooperative withholds that grain tax from customers and remits the entire amount to the State. The Cooperative's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Reclassification of Financial Statement Presentation

Certain reclassifications may have been made to the 2020 financial statements to conform to 2021 financial statement presentation. Such reclassifications had no effect on net income as previously reported.

NOTE 2 – REVENUE RECOGNITION

The Cooperative provides a wide variety of products and services to its patrons, commission companies, and others. Product sales include agricultural inputs such as farm supplies and agronomy products, to agricultural outputs that include grain. The Cooperative derives its revenues through origination and marketing of grain, including activities conducted at rail and truck terminals, and through retail and wholesale sales of agronomy products and retail sales of farm supplies.

Revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied, which generally occurs when control of the goods has transferred to the customer. For the majority of the Cooperative's contracts with customers, control transfers to the customer at a point in time when goods and or services have been delivered, as that is generally when legal title, physical possession, and risks and rewards of goods and or services transfer to the customer.

Identify Contracts with Customers

Revenues are measured based on the amount of consideration specified in a contract with a customer. Revenues are recognized when and as performance obligations are satisfied, which generally occurs with the transfer of control of the goods to the customer. The Company's contracts are generally accounted for as a single performance obligation. The evaluation of contracts with customers, performance obligations, and variable consideration requires significant judgment; the decision to combine contracts or separate a combined or single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period.

Performance Obligations

Contracts are considered to contain a single performance obligation if the promise to transfer individual goods is not separately identifiable from other promises in the contracts. For performance obligations related to wholesale manufacturers, control transfers to the customer at a point in time. Payment is due based on terms as specified in the contracts. Warranties are included in the sale and do not provide customers with a service in addition to assurance of compliance with agreed-upon specifications. We do not consider these assurance-type warranties to be separate performance obligations.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Variable Consideration

The nature of the Cooperative's business gives rise to variable consideration, including rebates, allowances, and returns that generally decrease the transaction price which reduces revenue. These variable amounts are generally credited to the customer and are based on achieving certain levels of sales activity, product returns, or price concessions. Variable consideration is estimated at the most likely amount that is expected to be earned. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Estimates of variable consideration are estimated based upon historical experience and known trends.

Significant Judgments

The evaluation of contracts with customers, performance obligations, and variable consideration requires significant judgment; the decision to combine contracts or separate a combined or single contract into multiple performance obligations could change the amount of revenue and profit recorded in a given period.

The following tables present revenues recognized under ASC Topic 606, as well as the amount of revenues recognized under ASC Topic 815, *Derivatives and Hedging* ("ASC Topic 815"), ASC Topic 905, *Agriculture* ("ASC Topic 905"), and other applicable accounting guidance for the years ended December 31, 2021 and 2020.

<u>Revenue Recognized</u>	2021			
	<u>ASC Topic 606</u>	<u>ASC Topic 815</u>	<u>ASC Topic 905</u>	<u>Total Revenues</u>
Grain	\$ -	\$ 533,683,590	\$ -	\$ 533,683,590
Merchandise	162,628,436	-	-	162,628,436
Other proceeds	13,622,940	-	-	13,622,940
Patronage dividends	-	-	1,882,636	1,882,636
	<u>\$ 176,251,376</u>	<u>\$ 533,683,590</u>	<u>\$ 1,882,636</u>	<u>\$ 711,817,602</u>
<u>Revenue Recognized</u>	2020			
	<u>ASC Topic 606</u>	<u>ASC Topic 815</u>	<u>ASC Topic 905</u>	<u>Total Revenues</u>
Grain	\$ -	\$ 336,253,238	\$ -	\$ 336,253,238
Merchandise	130,564,028	-	-	130,564,028
Other proceeds	9,564,786	-	-	9,564,786
Patronage dividends	-	-	1,958,813	1,958,813
	<u>\$ 140,128,814</u>	<u>\$ 336,253,238</u>	<u>\$ 1,958,813</u>	<u>\$ 478,340,865</u>

NOTE 3 – CONCENTRATION OF CREDIT RISK

Due to the nature of its business operations, the Cooperative grants unsecured credit to its patrons and customers, and derives cash flow from its customers, substantially all of whom are local residents engaged in agri-business. In addition, as a member affiliate, the Cooperative markets a substantial amount of its commodities to CHS, Inc.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Other financial instruments that potentially subject the Cooperative to concentration of credit risk consist principally of local bank deposits in excess of federally insured limits and the uninsured deposits in CoBank and hedging accounts. The Cooperative is at risk for funds in excess of the FDIC insurance limits with regard to financial institutions in the amount of \$12,117,805 and \$8,791,592 as of December 31, 2021 and 2020, respectively.

NOTE 4 – TRADE ACCOUNTS RECEIVABLE

The aging classification of trade accounts receivable is as follows as of December 31:

	<u>2021</u>	<u>2020</u>
Current	\$ 8,834,599	\$ 3,386,428
31 to 60 days	25,131	140,683
61 to 90 days	31,567	19,306
Over 91 days	19,998	189,427
	<u>8,911,295</u>	<u>3,735,844</u>
Allowance for doubtful accounts	<u>(900,000)</u>	<u>(2,372,000)</u>
	<u>\$ 8,011,295</u>	<u>\$ 1,363,844</u>

NOTE 5 – GROWER ADVANTAGE LOAN RECEIVABLE

The Grower Advantage loan receivable is as follows as of December 31:

	<u>2021</u>	<u>2020</u>
Loans	\$ 26,086,805	\$ 20,165,868
Allowance for credit losses	<u>(1,592,000)</u>	<u>-</u>
	<u>\$ 24,494,805</u>	<u>\$ 20,165,868</u>

The Cooperative provides secured financing for crop production to its qualified members. Security consists of UCC-1's and/or input liens. Grower advantage loan receivables secured under such arrangements totaled \$24,494,805 and \$20,165,868 as of December 31, 2021 and 2020, respectively.

The allowance for credit losses reserves for probable and estimate-able losses incurred in the Cooperative's loan and lease portfolio. Activity in the allowance for credit losses and related loan balances, by portfolio type, is as follows:

December 31, 2021 Allowance for credit losses:

	<u>Seed</u>	<u>Crop protection & fertilizer</u>	<u>Total loans</u>
Balance at beginning of year	\$ -	\$ -	\$ -
Loans charged off	-	-	-
Recoveries	-	-	-
Provision for credit losses	<u>955,200</u>	<u>636,800</u>	<u>1,592,000</u>
Balance at end of year	<u>\$ 955,200</u>	<u>\$ 636,800</u>	<u>\$ 1,592,000</u>

(Continued)

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

December 31, 2021 Allowance for credit losses (cont.):

	<u>Seed</u>	<u>Crop protection & fertilizer</u>	<u>Total loans</u>
Allowance balance at end of year related to:			
Loans individually evaluated for impairment	\$ -	\$ -	\$ -
Other loans collectively evaluated for impairment	<u>955,200</u>	<u>636,800</u>	<u>1,592,000</u>
Total allowance for credit losses	<u>\$ 955,200</u>	<u>\$ 636,800</u>	<u>\$ 1,592,000</u>
Loans individually evaluated for impairment	\$ -	\$ -	\$ -
Other loans collectively evaluated for impairment	<u>15,986,837</u>	<u>10,099,968</u>	<u>26,086,805</u>
Total gross loans	<u>\$ 15,986,837</u>	<u>\$ 10,099,968</u>	<u>\$ 26,086,805</u>

December 31, 2020 Allowance for credit losses:

	<u>Seed</u>	<u>Crop protection & fertilizer</u>	<u>Total loans</u>
Balance at beginning of year	\$ -	\$ -	\$ -
Loans charged off	-	-	-
Recoveries	-	-	-
Provision for credit losses	<u>-</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Allowance balance at end of year related to:			
Loans individually evaluated for impairment	\$ -	\$ -	\$ -
Other loans collectively evaluated for impairment	<u>-</u>	<u>-</u>	<u>-</u>
Total allowance for credit losses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Loans individually evaluated for impairment	\$ -	\$ -	\$ -
Other loans collectively evaluated for impairment	<u>11,682,164</u>	<u>8,483,704</u>	<u>20,165,868</u>
Total gross loans	<u>\$ 11,682,164</u>	<u>\$ 8,483,704</u>	<u>\$ 20,165,868</u>

Credit Quality

The quality of the Cooperative's loan portfolio is assessed as a function of net credit losses, levels of nonperforming assets and delinquencies, and credit quality ratings as defined by the Cooperative. These credit quality ratings are an important part of the Cooperative's overall credit risk management process and evaluation of its allowance for credit losses.

The following table provides a summary of loans by portfolio type, including the delinquency status of those loans that continue to accrue interest, and those loans that are nonperforming:

<u>Accruing</u>	<u>Current</u>	<u>Past Due</u>	<u>More Past Due</u>	<u>Non-Accrual</u>	<u>Total</u>
Crop input loans, December 31, 2021	26,052,805	-	-	-	26,052,805
Crop input loans, December 31, 2020	20,165,868	-	-	-	20,165,868

(Continued)

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Risk Ratings

The Cooperative has established a three letter Loan Risk Rating scale with a “AA” being assigned to the highest quality credits and a “B” to the lowest quality. Each rating shall signify the overall quality of the loans and/or borrowing relationship and the risk associated therewith. Loans with a risk rating between AA and B are categorized as “Pass”, loans with a risk rating below a B are not issued credit commitments. The following table provides a summary of loans by portfolio type and the Cooperative’s internal credit quality rating:

<u>Risk Rating</u>	<u>AA</u>	<u>A</u>	<u>B</u>	<u>Total</u>
Crop input loans, December 31, 2021	6,096,055	18,350,597	1,640,153	26,086,805
Crop input loans, December 31, 2020	2,650,880	14,397,176	3,117,812	20,165,868

Impairment

A loan is considered to be impaired when, based on the current events or information, it is probable the Cooperative will be unable to collect all amounts due per the contractual terms of the loan agreement. Impaired loans include certain accruing and non-accruing loans, including loans for which a charge-off has been recorded based upon the fair value of the underlying collateral. All loans and commitments to extend credit balances are considered in the valuation allowance. The total loans had an individual impairment allowance of \$-0- and \$-0- as of December 31, 2021 and 2020, respectively.

NOTE 6 – GRAIN INVENTORY AND STORAGE OBLIGATIONS

Stored grain inventory is deducted from gross inventories to reflect the net value of the grain inventory owned by the Cooperative. The Cooperative acts as warehouseman insofar as the stored inventory is concerned and its only liability is to deliver the warehouse receipted grain when it is called for. A summary of grain inventory, stored grain liability, and alternative disclosure of trading activities is presented as follows as of December 31:

2021						
<u>Total Grain Inventory</u>		<u>Warehouse Receipt and Open Stored Grain</u>		<u>Cash Grain Position</u>		
	<u>Amount</u>	<u>Bu./Cwt.</u>		<u>Amount</u>	<u>Bu./Cwt.</u>	
Spring wheat	\$ 42,683,406	4,393,331	\$ -	-	\$ 42,683,406	4,393,331
Soybeans	6,675,956	506,141	-	-	6,675,956	506,141
Corn	60,855,521	10,013,086	-	-	60,855,521	10,013,086
Commodity contracts	<u>(8,113,960)</u>	-	<u>-</u>	-	<u>(8,113,960)</u>	-
	\$ <u>102,100,923</u>		\$ <u>-</u>		\$ <u>102,100,923</u>	
2020						
<u>Total Grain Inventory</u>		<u>Warehouse Receipt and Open Stored Grain</u>		<u>Cash Grain Position</u>		
	<u>Amount</u>	<u>Bu./Cwt.</u>		<u>Amount</u>	<u>Bu./Cwt.</u>	
Spring wheat	\$ 31,555,719	5,324,024	\$ -	-	\$ 31,555,719	5,324,024
Soybeans	37,452,991	3,005,879	-	-	37,452,991	3,005,879
Corn	39,137,521	8,493,169	-	-	39,137,521	8,493,169
Commodity contracts	<u>(5,928,614)</u>	-	<u>-</u>	-	<u>(5,928,614)</u>	-
	\$ <u>102,217,617</u>		\$ <u>-</u>		\$ <u>102,217,617</u>	

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 7 – MERCHANDISE INVENTORY

The major classifications of merchandise inventory on hand were as follows as of December 31:

	<u>2021</u>	<u>2020</u>
Prepaid merchandise	\$ 63,513,381	\$ 41,850,355
Chemicals	25,766,203	23,491,058
Dry fertilizer	22,803,075	12,448,973
Seed	8,072,944	11,789,246
Liquid fertilizer	3,463,446	2,460,083
Nutritionals	2,251,985	1,439,193
Other merchandise	190,475	130,652
	<u>\$ 126,061,509</u>	<u>\$ 93,609,560</u>

NOTE 8 – OTHER ASSETS - INVESTMENTS IN OTHER COOPERATIVES

The principal investments held in other Cooperatives, consisting of allocated equities and cash investments, were as follows as of December 31:

	<u>2021</u>	<u>2020</u>
CHS, Inc.	\$ 20,386,173	\$ 20,580,935
Land O'Lakes, Inc.	4,327,165	4,263,080
All others	791,988	732,299
	<u>\$ 25,505,326</u>	<u>\$ 25,576,314</u>

NOTE 9 – OTHER ASSETS - INVESTMENTS IN PARTNERSHIPS

The principal other assets held by the Cooperative consists of investments in other companies.

The Cooperative holds a 50% interest in Central Plains Ag Services, LLC, a 16.67% interest in Alton Agronomy, LLC, and an immaterial percentage of ownership in all other investments. Due to the Cooperative's ability to exercise significant influence as a result of ongoing patron contact and relationships, these investments are accounted for under the equity method of accounting. The Cooperative recognized income (loss) of \$1,656,019 and (\$130,674) from Central Plains Ag, LLC and \$275,356 and \$61,566 from Alton Agronomy, LLC for the years ended December 31, 2021 and 2020, respectively.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

The Cooperative's investment in Central Plains Ag Services, LLC is reflected on the accompanying balance sheets as investments in LLC's and on the accompanying statements of operations as partnership income. The following is a summary of the financial position and results of operations for Central Plains Ag Services, LLC for the years ended December 31:

	2021	2020
Current assets	\$ 107,298,121	\$ 70,047,120
Noncurrent assets	<u>20,125,545</u>	<u>23,100,297</u>
	<u>\$ 127,423,666</u>	<u>\$ 93,147,417</u>
Current liabilities	\$ 94,148,927	\$ 60,066,851
Noncurrent liabilities	7,000,000	7,000,000
Equity	<u>26,274,739</u>	<u>26,080,566</u>
	<u>\$ 127,423,666</u>	<u>\$ 93,147,417</u>
The Cooperative's 50% interest in equity is reflected on the balance sheets as follows:	<u>\$ 13,137,370</u>	<u>\$ 13,040,283</u>
Total revenue	\$ 129,042,652	\$ 101,076,042
Total expenses	<u>125,730,614</u>	<u>101,337,389</u>
Net income	<u>\$ 3,312,038</u>	<u>\$ (261,347)</u>
The Cooperative's 50% interest in net income is reflected on the statements of operations as follows:	<u>\$ 1,656,019</u>	<u>\$ (130,674)</u>

NOTE 10 – RELATED PARTY TRANSACTIONS

The Cooperative is a membership cooperative with one member, one vote. The Board of Directors, each serving three-year staggered terms, is elected from among its membership each year at the patrons' annual meeting. Director compensation is established by the Board and consists of \$500 per month and \$200 per meeting for both its President and Secretary and \$150 for all remaining directors. The Cooperative purchases commodities and sells products and services to members of the Board of Directors in the ordinary course of business.

Transactions between West Central Ag Services and related parties were principally the result of the purchase of grain and the sale of agronomy products in the ordinary course of business with the Board of Directors. Related party transactions for the years ended December 31, 2021 and 2020 were as follows, net:

	2021	2020
Sales to	\$ 5,926,780	\$ 3,915,033
Purchases from	8,555,699	8,095,940

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Related party receivables and payables resulting from transactions in the ordinary course of business as of December 31, 2021 and 2020 were as follows:

	2021	2020
Due to	\$ 16,028,619	\$ 13,510,695
Due from	277,178	2,437,558

NOTE 11 – NOTES PAYABLE AND LONG-TERM DEBT

The Cooperative was indebted on seasonal loans and long-term financing on December 31, 2021 and 2020 as follows:

The Cooperative has a seasonal loan commitment from CoBank which matures on June 1st of each year the commitment is in effect. Interest is payable at a variable rate, currently 1.96%, determined by CoBank on any outstanding balance. Advances on the seasonal loan shall be limited to \$160,000,000. The loan is secured by all accounts receivable, inventories, personal property and fixtures owned by the Cooperative. The balances outstanding on the seasonal loan as of December 31, 2021 and 2020, were \$-0- and \$18,649,330, respectively. Outstanding checks in excess of outstanding deposits on the seasonal loan as of December 31, 2021 and 2020, were \$-0- and \$2,574,668, respectively.

Under terms of the special term loan agreement with CoBank, the Cooperative was granted a term-loan commitment to be repaid at final maturity on June 20, 2023. Interest is payable at a variable rate, currently 2.21%, determined by CoBank. Advances on the loan shall be limited to \$15,000,000. The Cooperative has a clearing account utilized for the processing of cleared checks. This account is utilized for short-term funds before transactions are processed and drawn against the CoBank term and seasonal loans. The CoBank special term loan is secured by a first real estate mortgage covering all real property and a security interest in all personal property and fixtures owned by the Cooperative. The balances outstanding on the term loan account as of December 31, 2021 and 2020 were \$5,679,528 and \$15,000,000, respectively.

Under terms of the Citizens Bank – PPP loan agreement, the Cooperative was granted a loan in the amount of \$3,099,200 that is due in full on March 3, 2022. Collateral includes deposits accounts with the creditor. The scheduled seventeen monthly payments of \$175,000 and an irregular payment of \$161,844 on this PPP loan begin October 3, 2020 with the final payment due in full March 3, 2022. The Cooperative has received debt forgiveness on the loan. The balance of the loan was recorded as income.

Payee	Assigned as Collateral	Interest Rate	Final Maturity Date		2021	2020
CoBank	Security Agreement (see above)	4.61%	6/20/2023	\$	5,679,528	\$ 15,000,000

(Continued)

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

<u>Payee</u>	<u>Assigned as Collateral</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>2021</u>	<u>2020</u>
Citizens Bank - PPP	Security Agreement (see above)	1.00%	3/3/2022	-	3,099,200
				<u>5,679,528</u>	<u>18,099,200</u>
Current maturities				-	(3,099,200)
				<u>\$ 5,679,528</u>	<u>\$ 15,000,000</u>

While the loan agreement is in effect, the Cooperative has agreed to comply with (among others) the following conditions placed on them by CoBank:

Transfer of Assets

The Cooperative shall not sell, transfer, lease, or otherwise dispose of any of its assets, except: (a) in the ordinary course of business; and (b) the sale, transfer or disposal of any obsolete or worn-out assets that are no longer necessary or required in the conduct of the Borrower's business.

Change in Business

The Cooperative shall not engage in any business activities or operations substantially different from or unrelated to present business activities or operations.

Use of Proceeds

The Cooperative shall not use the proceeds of any loan made by CoBank, whether directly or indirectly, and whether immediately, incidentally, or ultimately, to purchase or carry margin stock (within the meaning of Regulation U of the Board) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund indebtedness originally incurred for such purpose.

Working Capital

The Borrower will have at the end of each period for which financial statements are required to be furnished pursuant to this Agreement an excess of consolidated current assets over consolidated current liabilities of not less than \$30,000,000, except that in determining consolidated current assets, any amount available under any revolving term promissory note with Lender hereunder (less the amount that would be considered a current liability if fully advanced) may be included (all as determined in accordance with the Accounting Standards).

Local Net Worth

The Borrower will have at the end of each period for which financial statements are required to be furnished pursuant to this Agreement an excess of consolidated total assets over consolidated total liabilities, minus investments in other cooperatives and joint ventures, of not less than \$82,000,000 (the "Minimum Local Net Worth Requirement"). The Minimum Local Net Worth Requirement shall be increased, on a cumulative basis, at the end of fiscal year 2020 of the Borrower and at the end of each fiscal year of the Borrower thereafter by an amount equal to 30.00% of the Borrower's net income, if positive, as calculated as of the end of such fiscal year (all as determined in accordance with the Accounting Standards). The Minimum Local Net Worth Requirement shall not be decreased

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

if the Borrower has a net loss at the end of any fiscal year of the Borrower. The Cooperative was in compliance with all covenants for the fiscal year ended 2021 and all other periods for which the financial statements were required to be furnished.

Long-term debt maturities are as follows:

2022	\$	-
2023		<u>5,679,528</u>
	\$	<u><u>5,679,528</u></u>

NOTE 12 – LONG-TERM CAPITAL LEASES

Property held under capital lease, included with owned property on the balance sheets, consists of the following, net of insurance proceeds received as of December 31:

	<u>2021</u>	<u>2020</u>
Case floaters	\$ 787,586	\$ 787,586
Timpte trailers	136,500	136,500
Freightliners	457,840	1,417,100
Ulen storage expansion	4,853,327	4,853,327
Beltrami storage expansion	<u>16,897,181</u>	<u>16,897,181</u>
	23,132,434	24,091,694
Accumulated depreciation	<u>(4,954,967)</u>	<u>(4,231,944)</u>
Equipment under capital lease, net	\$ <u><u>18,177,467</u></u>	\$ <u><u>19,859,750</u></u>

Capital lease obligations consist of the following as of December 31:

Non-cancelable equipment leases expiring through January of 2028, payable in installments aggregating approximately \$2,303,758, annually, including imputed interest at various rates ranging from 3.37% to 4.79%, secured by equipment under lease.

	<u>2021</u>	<u>2020</u>
Total capital lease obligations	\$ 14,646,744	\$ 16,739,361
Current portion of capital lease	<u>(1,831,978)</u>	<u>(1,932,244)</u>
Long-term capital lease obligations, net	\$ <u><u>12,814,766</u></u>	\$ <u><u>14,807,117</u></u>

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

The following is a schedule of future lease payments under capital lease as of the periods ending December 31:

2022	\$ 2,303,758
2023	2,394,714
2024	2,171,807
2025	2,171,807
2026	2,171,807
Thereafter	<u>5,273,765</u>
	16,487,658
Amount representing interest	<u>(1,840,914)</u>
	14,646,744
Current portion	<u>(1,831,978)</u>
Long-term lease obligations, net	<u>\$ 12,814,766</u>

NOTE 13 – INCOME TAXES AND DEFERRED TAX LIABILITY

The provision for income taxes consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Currently payable	\$ 833,762	\$ 174,885
Tax effect of timing differences	<u>(51,232)</u>	<u>(230,960)</u>
Income tax provision (benefit)	<u>\$ 782,530</u>	<u>\$ (56,075)</u>

The income tax provision for the years ended December 31, 2021 and 2020, was reduced as a result of the Cooperative utilizing certain deductions available to cooperatives pursuant to the internal revenue code.

The deferred tax liability resulting from temporary differences consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Deferred tax liability		
Accelerated tax depreciation	\$ 1,054,049	\$ 1,118,451
Allowance for doubtful accounts	(498,401)	(379,520)
Accelerated partnership tax depreciation	1,328,129	1,196,116
Section 263a adjustment	<u>(97,217)</u>	<u>(97,255)</u>
Total deferred tax liability	<u>\$ 1,786,560</u>	<u>\$ 1,837,792</u>

NOTE 14 – PATRONAGE DIVIDENDS AND PATRONAGE CREDITS

The Board of Directors determines annually the cash dividends to be paid to the patrons from current period net income. The balance of patronage credits represents accumulated patronage dividends allocated to patrons but not paid in cash.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 15 – RETIREMENT PLANS

The Cooperative participates in the defined and cash balance multiple employer pension plans for all employees of member Cooperatives of CHS, Inc. All employees who work over 1,000 hours per year and have at least one year of service are covered by the plan. The plan is greater than 159% funded as reported on the Annual Report of Employee Benefit Plan, IRS form 5500. Contributions made by the Cooperative are determined on an actuarial basis. Benefits are funded by an unallocated group annuity contract. Employer contributions to the plan for the years ended December 31, 2021 and 2020, totaled \$1,144,466 and \$1,157,001, respectively.

The Cooperative provides a 401(k) plan for its employees. All employees who work over 1,000 hours per year, are at least 21 years of age, and have at least 1,000 hours of service are eligible to participate in the plan. The Cooperative matches employee contributions up to 4% for each individual that participates in the plan. For the years ended December 31, 2021 and 2020, contributions made by the Cooperative totaled \$474,355 and \$415,434, respectively.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Any gain or loss that may be realized from weight, grade, or quality variations on open grain sales, purchase, and hedging contracts are not necessarily reflected in these financial statements. The Cooperative is contingently liable for any weight, grade, or quality deficiencies that may occur at settlement of stored grain obligations and delayed pricing grain contracts payable.

The Cooperative has entered into contractual agreements to construct additional storage and service facilities. The cost to complete the project is estimated by management to approximate \$1,990,000. As of December 31, 2021, the Cooperative has made capital expenditures of approximately \$9,075,000 associated with these projects.

The Cooperative is party to various leases classified as operating leases. Rents paid for sites, storage, and equipment totaled \$623,780 and \$641,575 for the years ended December 31, 2021 and 2020, respectively.

Future minimum lease payments on such operating leases are as follows:

2022	\$	222,705
2023		182,600
2024		108,200
2025		108,200
2026		108,200

The Cooperative is subject to federal and state regulations regarding the care, delivery, and containment of petroleum, agronomy, and other products the Cooperative handles or has handled. The Cooperative is contingently liable for any cleanup costs resulting from contamination which could arise from the handling, delivery, and containment of these products.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 17 – GRAIN RECEIPTS AND SALES IN UNITS

The major commodities handled by the Cooperative were as follows for the years ended December 31:

		<u>2021</u>	<u>2020</u>
Units received			
Wheat	Bu.	18,614,898	16,172,903
Soybeans	Bu.	12,069,449	16,933,487
Corn	Bu.	<u>30,602,995</u>	<u>29,113,285</u>
Total		<u>61,287,342</u>	<u>62,219,675</u>
		<u>2021</u>	<u>2020</u>
Units sold			
Wheat	Bu.	19,545,591	14,715,111
Soybeans	Bu.	14,569,187	16,208,419
Corn	Bu.	<u>29,083,078</u>	<u>24,887,550</u>
Total		<u>63,197,856</u>	<u>55,811,080</u>

NOTE 18 – FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with the Fair Value Measurements Topic of the FASB Accounting Standards Codification (ASC 820), the Fair Value Measurements table represents the Cooperative’s fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of the measurement date. Exchange traded futures and options are valued based on unadjusted quoted prices in active markets and are classified within Level 1 of Fair Value Measurements. Forward commodity purchase and sales contracts, flat price or basis fixed contracts and, rail freight contracts are adjusted for local inputs and are classified within Level 2 of Fair Value Measurements. The Cooperative is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The carrying value of the Cooperative’s financial instruments, including grain and fertilizer inventory, forward and future grain contracts, and delayed price grain, approximates fair value based on the short-term maturity of these instruments. This note contains information related to all other fair value notes disclosed in this financial statement. The three levels are as follows:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Cooperative has the ability to access at the measurement date. These assets and liabilities include the Cooperative’s exchange traded derivative contracts and available-for-sale investments.

Level 2: Inputs are other than quoted prices included within Level 1; the inputs are observable for the asset or liability, either directly or indirectly.

Level 3: Values are generated from unobservable inputs that are supported by little or no market activity and that are a significant component of the fair value of the assets or liabilities.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

The estimated fair values of the Cooperative's financial instruments were as follows:

	2021			
	Fair Value	Level 1	Level 2	Level 3
Financial assets				
Grain inventory	\$ 110,214,883	\$ -	\$ 110,214,883	\$ -
Grain futures contracts	(4,243,688)	(4,243,688)	-	-
Forward grain contracts	(3,870,272)	-	(3,870,272)	-
Fertilizer inventory	26,266,521	-	26,266,521	-
Financial liabilities				
Accrued interest payable	5,330	5,330	-	-
Delayed price grain payable	47,626,387	-	47,671,387	-
CoBank debt	5,679,528	5,679,528	-	-
Long-term capital leases	12,814,766	12,814,766	-	-
Off-balance sheet instruments				
Commitments to extend credit	595,236	-	-	595,236
2020				
	Fair Value	Level 1	Level 2	Level 3
Financial assets				
Grain inventory	\$ 108,146,231	\$ -	\$ 108,146,231	\$ -
Grain futures contracts	(6,140,500)	(6,140,500)	-	-
Forward grain contracts	211,886	-	211,886	-
Fertilizer inventory	14,909,056	-	14,909,056	-
Financial liabilities				
Accrued interest payable	242,601	242,601	-	-
Delayed price grain payable	33,777,581	-	33,777,581	-
Citizens Bank - PPP	3,099,200	3,099,200	-	-
CoBank debt	15,000,000	15,000,000	-	-
Long-term capital leases	14,807,117	14,807,117	-	-
Off-balance sheet instruments				
Commitments to extend credit	389,560	-	-	389,560

The following methods and assumptions were used by the Cooperative in estimating fair values of financial instruments as disclosed herein:

Money market mutual funds – Valued at the net asset value (“NAV”) of shares held by the plan at year-end. Mutual funds held by the plan are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and transact at that price. The money market mutual funds held by the plan are deemed to be actively traded.

Grain inventory and forward grain contracts – Valued at the contract value of the underlying units, which approximates fair value. Fair value is determined by adjusting the exchange traded futures and options for local market basis. Basis is defined as the amount in cents per bushel a specified local cash price is above or below a futures price for a specified delivery month, due to factors including transportation costs, the cost and availability of storage, and the local demand for the commodity.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Grain futures contracts – Valued at the end of the trading day market value. The values, as provided by the CME Group Inc. and Minneapolis Grain Exchange, Inc., are unadjusted quoted prices for identical assets or liabilities.

Fertilizer inventory – Valued at the contract value of the underlying units, which approximates fair value. Fair value is determined by adjusting the exchange traded futures and options for local market factors or secondary purchase transactions on or near year end. Local market factors include transportation costs, the cost and availability of product, and the local demand for the product.

Accrued interest payable – The carrying amounts of accrued interest payable approximate their fair values.

Delayed price grain payable – Fair values for delayed price grain payable are based on local market prices and approximate fair value.

CoBank debt – The carrying amount of short-term borrowings approximates its fair value. Long-term CoBank borrowings have a variable interest rate and approximate their fair value.

Long-term capital leases – The carrying amount of long-term capital leases approximates the fair value.

Off-balance-sheet instruments – Fair values for off-balance sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

The carrying value of the Cooperative's financial instruments, consisting of receivables, inventory, prepaid expenses, lines of credit, payables, and other obligations, approximates fair value based on the short-term maturity of these instruments. The carrying value of long-term obligations approximates its fair value as interest rates approximate market rates.

Limitations – Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Cooperative's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Cooperative's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial assets or liabilities include the patron advances receivable, patron accounts receivable, other inventories, property, plant and equipment, and accounts payable. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in many of the estimates.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

NOTE 19 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Cooperative is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its patrons. These financial instruments include commitments to extend credit for crop inputs. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position. The contract or notional amounts of those instruments reflect the extent of involvement the Cooperative has in particular classes of financial instruments.

Financial instruments whose contract amounts represent credit risk:

**Contract or
Notional Amount**

Commitments to extend credit	\$ 59,523,554
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The Cooperative's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Cooperative uses the same credit policies in making commitments as it does for on-balance sheet instruments.

NOTE 20 – DERIVATIVES

The Cooperatives operations utilize exchange traded futures and options as well as over-the-counter (OTC) cash forward purchase and sales contracts to manage commodity price risk associated with marketing grain. Substantially all of the grain sales of the Cooperative are the result of physical delivery of commodities against forward cash contracts, and substantially all of the grain cost of sales are the result of purchases of commodities on forward cash contracts, and gains and losses from all other commodity derivatives along with the change in value of grain inventories (non-derivatives) which are recorded at market price. These derivatives meet the definition of trading activities and may be presented using an alternative disclosure format, which includes disclosing the realized and unrealized gains and losses on both derivative instruments and non-derivative instruments.

As of December 31, 2021 and 2020, the Cooperative and its subsidiaries had the following quantities outstanding (on a net basis) on derivative contracts that were entered into as non-designated economic hedges of overall price risk:

Underlying		2021	2020
Wheat	Bu.	4,765	(9,819)
Soybeans	Bu.	(3,351)	1,658
Corn	Bu.	(1,120)	5,129

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

The effect of open derivatives held as economic hedges but not designated under ASC 815 is shown below, as reported in the Statements of Operations for the years ended December 31, 2021 and 2020, respectively:

Commodity contracts recognized in income	2021	2020
Cost of sales	\$ (8,113,960)	\$ (5,928,614)

The following table includes the effect of closed trading activities on the Statements of Operations for the years ended December 31, 2021 and 2020, respectively:

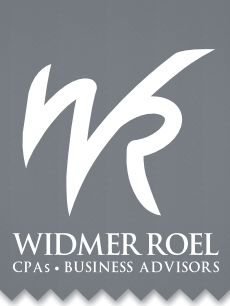
Commodity contracts recognized in income	2021	2020
Cost of sales	\$ (36,005,483)	\$ (23,001,306)

NOTE 21 – SUBSEQUENT EVENTS

The Cooperative has evaluated subsequent events through the date of the auditor’s report, which is the date the financial statements were available to be issued. Subsequent to the balance sheet date, the Board of Directors authorized an equity retirement of approximately \$4,210,723 as a component of the financing activities due and payable during the 2022 calendar year.

WEST CENTRAL AG SERVICES

**SUPPLEMENTARY FINANCIAL INFORMATION
DECEMBER 31, 2021 AND 2020**



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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY FINANCIAL INFORMATION

Board of Directors
West Central Ag Services
Ulen, Minnesota

We have audited the financial statements of **West Central Ag Services** (a Cooperative) as of and for the years ended December 31, 2021 and 2020, and our report thereon dated March 24, 2022, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 30 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Fargo, North Dakota
March 24, 2022

WEST CENTRAL AG SERVICES
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Salaries and wages	\$ 17,213,205	\$ 15,087,055
Payroll taxes	1,247,043	1,119,200
Employee insurance	2,617,586	2,516,141
Employee retirement plans	1,618,821	1,572,345
Total salaries and benefits	<u>22,696,655</u>	<u>20,294,741</u>
Mobile equipment	2,071,773	1,781,688
Insurance and bonds	1,714,329	1,398,610
Repairs and maintenance	1,449,515	1,658,896
Utilities	1,334,802	1,444,580
Property taxes	854,260	821,882
Building, equipment and other rent	623,780	641,575
Data processing	474,467	374,419
Dryer fuel	473,175	641,470
Meetings, convention and travel	381,212	292,706
General supplies	264,207	227,023
Office supplies & postage	239,113	266,631
Professional fees	175,277	292,657
Telephone	149,744	151,210
Director fees	135,100	136,900
Bank and credit card charges	121,058	103,691
Bad debt expense	120,000	151,635
Market quoter	96,650	87,852
Miscellaneous	86,108	44,776
Advertising	71,281	52,742
Dues, subscriptions and memberships	47,400	46,052
Safety, training and education	31,179	10,244
Licenses and fees	30,048	87,326
Contract labor	29,109	-
Contributions	14,627	15,460
	<u>10,988,214</u>	<u>10,730,025</u>
	<u>\$ 33,684,869</u>	<u>\$ 31,024,766</u>

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