2018 Annual Report

September 1, 2017 - August 31, 2018

Crystal Valley

Serving You Since 1927

CRYSTAL VALLEY COOPERATIVE
Lake Crystal, Minnesota

PERSONNEL AND ORGANIZATIONAL DATA
August 31, 2018

OFFICERS AND DIRECTORS

Name	Address	Term Expires	Position
Dan Jones	Lake Crystal, MN	2020	Chairman
Mark Eggimann	Jackson, MN	2020	Vice-Chairman
Tim Lewer	New Richland, MN	2021	Secretary/Treasurer
Dean Sonnabend	Vernon Center, MN	2019	Director
Tom Trahms	Janesville, MN	2019	Director
Scott Fisher	Trimont, MN	2019	Director
Judd Hendrycks	North Mankato, MN	2020	Director
Bryon Christenson	LaSalle, MN	2021	Director
Gene Meyer	Round Lake, MN	2021	Director

Roger Kienholz – General Manager

ORGANIZATIONAL DATA

Date of Incorporation.. January 27, 1927

Under Laws of State of..Minnesota

Fiscal Year Ends...August 31

Main Office ....Lake Crystal, Minnesota

NATURE OF BUSINESS

Nature of Business.................... Farmers Cooperative Purchasing and Marketing Association

Products Handled......................Agronomy, Feed, Grain, Petroleum and Other Farm Supplies

Gardiner Thomsen
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Crystal Valley Cooperative
Lake Crystal, Minnesota

We have audited the accompanying consolidated financial statements of Crystal Valley Cooperative, Lake Crystal, Minnesota, which comprise the consolidated balance sheets as of August 31, 2018 and 2017, and the related consolidated statements of savings, members' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Crystal Valley Cooperative, Lake Crystal, Minnesota, as of August 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

December 12, 2018

Gardiner Thomsen

CRYSTAL VALLEY COOPERATIVE
Lake Crystal, Minnesota

CONSOLIDATED BALANCE SHEETS
August 31, 2018 and 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash	**$ 4,861,272**	$ 20,051,191
Marketable Securities	**1,897**	1,897
Receivables		
Trade – Net of Allowance for Doubtful Accounts of $250,000	**12,970,344**	10,603,888
Storage and Handling	**73,303**	134,762
Grain in Transit	**479,263**	66,568
Other	**291,648**	329,728
Inventories		
Grain	**10,427,282**	12,560,450
Agronomy	**21,643,281**	22,586,250
Feed	**1,693,191**	1,828,679
Petroleum	**1,017,234**	1,118,562
Propane	**450,182**	485,833
Miscellaneous	**969,962**	740,627
Prepaid Expenses	**553,123**	761,694
Prepaid Inventory	**13,941,089**	2,573,171
Deferred Tax Asset	**204,910**	208,550
Total Current Assets	**69,577,981**	74,051,850
PROPERTY, PLANT AND EQUIPMENT		
Land and Land Improvements	**9,218,887**	9,248,687
Buildings and Equipment	**146,483,900**	133,619,531
	155,702,787	142,868,218
Accumulated Depreciation	**(77,666,540)**	(68,086,258)
Undepreciated Cost	**78,036,247**	74,781,960
Construction in Process	**726,774**	6,154,160
Net Property, Plant and Equipment	**78,763,021**	80,936,120
OTHER ASSETS		
Notes Receivable	**2,961**	17,036
INVESTMENTS		
Equity in Other Organizations	**22,924,179**	23,074,749
Other Investments	**1,034,997**	797,424
Total Investments	**23,959,176**	23,872,173
TOTAL ASSETS	**$172,303,139**	$178,877,179

The accompanying notes are an integral part of the consolidated financial statements.

CRYSTAL VALLEY COOPERATIVE
Lake Crystal, Minnesota

CONSOLIDATED BALANCE SHEETS
August 31, 2018 and 2017

LIABILITIES AND MEMBERS' EQUITY

	2018	2017
CURRENT LIABILITIES		
Checks Written in Excess of Bank Balance	**$ 5,125,048**	$ 8,032,333
Current Maturities of Long–Term Debt	**3,117,441**	5,779,417
Current Maturities of Capital Leases	**731,180**	1,156,929
Member Investment Notes – Demand	**11,118,303**	12,594,952
Payables		
Trade	**10,072,710**	12,987,703
Customer Credit Balances	**8,585,088**	8,125,388
Unpaid Grain	**15,162,350**	13,364,113
Margin Accounts	**1,316,539**	870,559
Other	**1,509,082**	539,714
Accrued Expenses		
Interest	**104,178**	120,834
Property Taxes	**1,585,013**	1,383,019
Payroll	**2,178,543**	1,864,487
Other	**132,073**	151,696
Patronage Dividends Payable in Cash	**454,281**	384,895
Total Current Liabilities	**61,191,829**	67,356,039
LONG–TERM LIABILITIES – Net of Current Maturities		
Notes Payable	**1,257,000**	3,265,000
Capital Leases	**2,888,168**	3,619,348
Member Investment Notes	**6,411,926**	5,023,600
Total Long–Term Liabilities	**10,557,094**	11,907,948
DEFERRED INCOME TAXES	**1,061,429**	802,123
MEMBERS' EQUITY		
Revolving Fund	**32,845,617**	34,872,933
Patronage Payable in Equities	**681,421**	577,342
Equity Acquired in Merger	**11,806,377**	11,806,377
Unallocated General Reserve	**54,159,372**	51,554,417
Total Members' Equity	**99,492,787**	98,811,069
TOTAL LIABILITIES AND MEMBERS' EQUITY	**$172,303,139**	$178,877,179

The accompanying notes are an integral part of the consolidated financial statements.

CRYSTAL VALLEY COOPERATIVE
Lake Crystal, Minnesota

CONSOLIDATED STATEMENTS OF SAVINGS
Years Ended August 31, 2018 and 2017

	2018	2017
Sales	**$336,148,030**	$258,800,000
Cost of Goods Sold	**298,248,764**	228,424,150
Gross Savings on Sales	**37,899,266**	30,375,850
Other Operating Revenue	**19,299,351**	15,524,589
Total Gross Revenue	**57,198,617**	45,900,439
Operating Expenses, Including Interest	**53,791,992**	42,876,555
Operating (Local Net) Savings	**3,406,625**	3,023,884
Patronage Dividend Income	**709,703**	1,586,982
Loss on Sale of Marketable Securities	**0**	(47)
Savings Before Income Taxes	**4,116,328**	4,610,819
Income Taxes		
Current	**176,836**	218,206
Deferred	**262,946**	89,806
Net Savings	**$ 3,676,546**	$ 4,302,807

DISTRIBUTION OF NET SAVINGS

	2018	2017
Patronage Dividends		
Cash – 40%	**$ 454,281**	$ 384,895
Deferred – 60%	**681,421**	577,342
	1,135,702	962,237
Retained Savings	**2,540,844**	3,340,570
Total	**$ 3,676,546**	$ 4,302,807

The accompanying notes are an integral part of the consolidated financial statements.

CRYSTAL VALLEY COOPERATIVE
Lake Crystal, Minnesota

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
Years Ended August 31, 2018 and 2017

	Total	Revolving Fund	Patronage Payable in Equities	Equity Acquired in Merger	Unallocated General Reserve
Balance – August 31, 2016	$73,257,717	$24,226,202	$ 835,411	$ 0	$48,196,104
Stock Redeemed	(2,561,150)	(2,561,150)	0	0	0
Distribution of Patronage Dividends	0	835,411	(835,411)	0	0
Over Accrual of Prior Year Patronage Dividends	7,096	(10,645)	0	0	17,741
Adjustments	(76)	(78)	0	0	2
Equity Acquired in Merger	24,189,570	12,383,193	0	11,806,377	0
Current Period Savings	4,302,807	0	0	0	4,302,807
Patronage Dividends					
Cash	(384,895)	0	0	0	(384,895)
Deferred	0	0	577,342	0	(577,342)
Balance – August 31, 2017	98,811,069	34,872,933	577,342	11,806,377	51,554,417
Stock Redeemed	(2,566,194)	(2,566,194)	0	0	0
Distribution of Patronage Dividends	0	577,342	(577,342)	0	0
Over Accrual of Prior Year Patronage Dividends	25,568	(38,352)	0	0	63,920
Adjustments	79	(112)	0	0	191
Current Period Savings	3,676,546	0	0	0	3,676,546
Patronage Dividends					
Cash	(454,281)	0	0	0	(454,281)
Deferred	0	0	681,421	0	(681,421)
Balance – August 31, 2018	$99,492,787	$32,845,617	$ 681,421	$11,806,377	$54,159,372

The accompanying notes are an integral part of the consolidated financial statements.

CRYSTAL VALLEY COOPERATIVE
Lake Crystal, Minnesota

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended August 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Savings	**$ 3,676,546**	$ 4,302,807
Adjustments to Reconcile Net Savings to Net Cash Provided by Operating Activities		
Depreciation	**10,516,197**	8,714,959
Gain on Sale of Property, Plant and Equipment	**(1,072,793)**	(481,765)
Bad Debt Expense (Income)	**(131,655)**	160,910
Loss on Sale of Marketable Securities	**0**	47
Patronage Dividends Received as Equity	**(135,028)**	(537,411)
Loss from Investments	**16,531**	0
Deferred Income Taxes	**262,946**	89,806
Change in Assets and Liabilities		
Increase in Receivables	**(2,547,957)**	(179,457)
Decrease in Inventories	**3,119,269**	3,789,387
Decrease in Prepaid Expenses	**208,571**	29,415
(Increase) Decrease in Prepaid Inventory	**(11,367,918)**	3,520,037
Increase (Decrease) in Payables	**758,292**	(5,374,557)
Increase (Decrease) in Accrued Expenses	**479,771**	(210,796)
Net Cash Provided by Operating Activities	**3,782,772**	13,823,382
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Property, Plant and Equipment	**1,737,659**	706,587
Additions to Property, Plant and Equipment	**(9,007,964)**	(11,948,414)
Cash from Acquisition	**0**	1,305,342
Other Investments Purchased	**(258,319)**	(12,692)
Other Investments Redeemed	**4,215**	15,000
Proceeds from Sale of Marketable Securities	**0**	108,935
Redemption of Equity in Other Organizations	**285,598**	112,175
Net Decrease in Notes Receivable Non-Current	**14,075**	(17,036)
Net Cash Used in Investing Activities	**(7,224,736)**	(9,713,067)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (Decrease) in Checks Written in Excess of Bank Balance	**(2,907,285)**	328,455
Net Repayments Under Line–of–Credit Agreement	**0**	(364,382)
Net Borrowings (Repayments) Member Investment Notes	**(1,476,649)**	2,026,926
Additional Borrowings of Long–Term Debt	**0**	2,726,001
Retirement of Long–Term Debt	**(4,438,579)**	(6,685,241)
Stock Redeemed	**(2,566,194)**	(2,561,150)
Allocated Patronage Paid	**(359,327)**	(549,844)
Equity Adjustments	**79**	(77)
Net Cash Used in Financing Activities	**(11,747,955)**	(7,106,238)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	2018	2017
Net Decrease in Cash	**$(15,189,919)**	$ (2,995,923)
Cash – Beginning of Year	**20,051,191**	23,047,115
Cash – End of Year	**$ 4,861,272**	$ 20,051,191

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid (Received) During the Year for:		
Interest	**$ 2,391,987**	$ 1,315,454
Income Taxes	**(74,219)**	(16,390)

SUPPLEMENTAL SCHEDULE OF NON–CASH INVESTING AND FINANCING ACTIVITIES

Allocated Patronage Dividends	**$ 1,135,702**	$ 962,237
Assets, Liabilities and Equity Acquired in Merger		
Receivables	**$ 0**	$ 4,216,277
Inventories	**0**	19,598,091
Margin Deposits	**0**	225,207
Prepaid Inventory	**0**	3,794,564
Prepaid Expenses	**0**	132,000
Deferred Taxes	**0**	306,000
Property, Plant and Equipment	**0**	18,576,736
Investments	**0**	9,134,536
Seasonal Note Payable	**0**	(2,391,308)
Checks in Excess of Bank Balance	**0**	(1,966,579)
Payables	**0**	(18,189,860)
Accrued Expenses	**0**	(731,555)
Long–Term Debt	**0**	(9,226,879)
Deferred Taxes – Long Term	**0**	(593,000)
Members' Equity	**0**	(24,189,570)

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1: Organization and Nature of Business

The Company was organized in 1927 under Minnesota Law and is operating as a cooperative for the mutual benefit of its members. The Company reorganized under Chapter 308B of the Minnesota statues on January 29, 2014. Voting membership is limited to agricultural producers on a one share–one vote premise. Net savings on business transacted by members is allocated to them on the books of the Corporation or paid to them through patronage dividends.

On November 30, 2016, the voting members of Farmers Cooperative Association, Jackson, Minnesota (FCA) and CV-FCA, a wholly owned subsidiary of Crystal Valley Cooperative, Lake Crystal, Minnesota (the Company) approved merger of the two companies. The merger became effective on March 1, 2017, with CV-FCA Cooperative operating as the surviving entity operating under Crystal Valley Cooperative. At the time of the merger each share of FCA was converted into equal shares of Crystal Valley Cooperative. Assets and liabilities of FCA were merged at their carrying values, which closely approximated estimated values for all assets and liabilities other than fixed assets and income tax assets and liabilities, which were merged at their fair values in accordance with the Business Combinations Topic of the *Financial Accounting Standards Board* (FASB) *Accounting Standards Codification* (ASC). Carrying and fair value of assets and liabilities on the merger date are included as a supplemental non-cash disclosure to the consolidated statement of cash flows.

Note 2: Summary of Significant Accounting Policies

The significant accounting practices and policies are summarized below.

NATURE OF OPERATION AND CONCENTRATION OF CREDIT RISK

The Company operates a licensed public grain warehouse; provides grain marketing and related services, sells feed, petroleum and agronomy products and services in and around Blue Earth, Nicollet, Waseca, Watonwan, Steele, LeSueur, Jackson, Nobles and Martin counties in Minnesota. Approximately 42% of the Company's total gross revenue is generated by agronomy sales and related services. In the normal course of business, the Company provides credit to its patrons under standard terms without collateral.

The Company maintains cash balances with local and national financial institutions, which may at times exceed the coverage of U.S. Federal Deposit Insurance Company (FDIC). The coverage is up to $250,000 for accounts at these institutions. At August 31, 2018 and 2017, cash balances exceeded FDIC coverage by $2,958,762 and $14,306,783, respectively.

The Company historically prepays or makes deposits on undelivered inventories. Concentration of credit risk with respect to inventory advances, are primarily with a few major suppliers of agricultural inputs. The Company purchases a large amount of its farm supply inventory from Land O'Lakes and CHS, Inc.

Notes to Consolidated Financial Statements (Continued)

Note 2: Summary of Significant Accounting Policies ***(Continued)***

Principles Of Consolidation And Basis Of Presentation

The consolidated financial statements include the accounts of Crystal Valley Cooperative and its wholly owned subsidiary, CV-FCA Cooperative. In consolidation all significant intercompany accounts and transactions have been eliminated from the financial statements.

Marketable Securities

Marketable securities include equity securities classified as available–for–sale. Marketable securities considered available–for–sale are recorded in the consolidated financial statements at fair market value, in accordance with the Investments – Debt and Equity Securities Topic of the FASB ASC. Unrealized gains and losses on these investments, are included as separate component of accumulated other comprehensive income. Realized gains (losses) on available–for–sale securities are included in current earnings and, when applicable, are reported as a reclassification adjustment in other comprehensive income. Realized gains or losses on the sale of securities are based on the average cost of the securities sold.

Receivables, Net

Receivables are shown on the balance sheet net of the allowance for doubtful accounts for book purposes. The amount of the allowance is based on historical bad debt experience and a current evaluation of the aging and collectibility of receivables. For tax purposes, uncollectible amounts are charged against current operations and no allowance for doubtful accounts is maintained.

Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the accounts receivable and the related allowance may change in the near term.

Trade receivables with credit balances have been included in the customer credit balances payable as a current liability.

Grain In Transit

In accordance with industry practice on contracts, subject to final grade and weight determination at the destination point, the Company consistently records a sale at the time grain is shipped.

Hedging

The Company generally follows a policy of hedging its grain transactions to protect gains and minimize losses due to market fluctuations. Gains and losses from these hedge transactions are reflected in the margins of the respective commodity.

<u>Note 2: Summary of Significant Accounting Policies</u> (Continued)

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fair Value Measurements and Disclosures Topic of the FASB ASC defines fair value as the price that would be received to sell an asset or paid to transfer a liability between market participants in the principal market or in the most advantageous market when no principal market exists. Market participants are assumed to be independent, knowledgeable, able and willing to transact an exchange and not under duress. Nonperformance or credit risk is considered when determining the fair value of liabilities. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized in a current or future market exchange.

INVENTORIES

Inventories are valued at the lower of cost (first–in, first–out) or net realizable value (NRV), with the exception of the grain inventories which are valued at market and are adjusted to reflect significant net gains and/or losses on open contracts. For tax purposes, certain operating inventory is capitalized.

In July 2015, the FASB issued ASU No. 2015-11 – Inventory (Topic 330): simplifying the Measurement of Inventory." This update changes the guidance on accounting for inventory accounted for on a first-in first-out (FIFO) basis. Under the revised standard, an entity should measure FIFO inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predicable costs of completion, disposal and transportation. The amendments in this ASU have been applied prospectively and are effective for fiscal years beginning after December 15, 2016. We believe the adoption of this ASU will not have a material impact on our financial statements.

PROPERTY, PLANT AND EQUIPMENT

Land and depreciable assets are valued at cost. For book purposes, depreciation is calculated using the straight–line method with an equal amount being expensed each year over the estimated lives of the individual assets ranging between three and fifty years. When fixed assets are sold or retired, any resulting gain or loss is reflected in current operations. For tax purposes, depreciation is calculated in accordance with an acceptable tax method.

Maintenance and repairs are expensed as incurred. Expenditures for new facilities and those which increase the useful lives of the buildings and equipment are capitalized.

Depreciation expense in the amount of $10,516,197 and $8,714,959 has been charged against operations for the year ended August 31, 2018 and 2017, respectively.

Notes to Consolidated Financial Statements (Continued)

Note 2: Summary of Significant Accounting Policies ***(Continued)***

EQUITY IN OTHER ORGANIZATIONS/PATRONAGE DIVIDEND INCOME

Equities in other organizations are recorded at cost, plus unredeemed patronage dividends received in the form of capital stock and other equities. Cooperative stocks are not transferable, thereby precluding any market value, but they may be used as collateral in securing loans. Patronage dividends received are recognized as income and any impairment of equities is not recognized by the Company until formal notification is received or when there has been permanent impairment of the carrying volume of the investment. Redemption of these equities is at the discretion of the various organizations.

MEMBERS' EQUITY

The Company is organized without capital stock on a membership basis. A membership in the Company may be issued to agriculture producers who reside in the territory served by the Company who patronize the Company by doing not less than $10,000 in business annually, and who have been approved by the Board of Directors.

Each member is entitled and restricted to only one vote in the affairs of the Company.

DISTRIBUTION OF NET SAVINGS

Net savings is allocated to patrons on a patronage basis, based on taxable income and in accordance with the articles and bylaws of the Company.

Patronage refunds to members of the cooperative may take the form of either qualified or nonqualified written notices of allocation. The terms qualified and nonqualified refer to the tax aspect of a refund. For a patronage refund to be qualified as an income tax deduction for the Company at least 20% of the refund must be paid in cash. A nonqualified refund then, is a refund where less than 20% of the refund is paid to the member in cash and does not qualify as a tax deduction for the Company.

Unallocated savings, after provision for income taxes, is accounted for as an addition to general reserve.

USE OF ESTIMATES

The preparation of consolidated 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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2: Summary of Significant Accounting Policies (Continued)

REVENUE RECOGNITION

The Company provides a wide variety of products and services, from production of agricultural inputs such as crop nutrients, fuels, livestock feeds and other farm supplies, to grain marketing, storage and drying services, agronomy spreading and spraying, transportation, and other agricultural related services. Sales are recorded upon transfer of title, which could occur at the time commodities are shipped or upon receipt by the customer, depending on the terms of the transaction. Service revenues are recorded once such services have been rendered.

INCOME TAXES

The Company, as a non–exempt cooperative, is taxed on non–patronage earnings and any patronage earnings not paid or allocated to patrons.

The Tax Cut and Jobs Act of 2017 (TCJA) was signed into law on December 22, 2017. The law includes significant changes to the U.S. Corporate income tax system, including among other things, a reduction in the Federal corporate income tax rate from 35% to 21%. The Company has estimated the effects of certain applicable aspects of the law in the accounting for income taxes at August 31, 2018.

The Company evaluates uncertain tax benefits arising from tax positions taken or expected to be taken based upon the likelihood of being sustained upon examination by applicable tax authorities. If the Company determines that a tax position is more likely than not of being sustained, it recognizes the largest amount of the arising benefit that is greater than 50% likely of being realized upon settlement in the consolidated financial statements. Any tax positions taken or expected to be taken that do not pass the more likely than not test, the Company establishes reserves offsetting the benefits related to such positions. Interest and penalties, if any, are included in the current period provision for income taxes in the Company's statement of savings and are included as a current liability in the balance sheet.

DEFERRED INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The principal temporary differences are due to the use of different financial reporting and income tax methods for depreciation, bad debts, inventory capitalization, grain quality and compensated absences. Deferred tax assets and liabilities may be reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets or liabilities will not be realized.

SALES TAXES

Various entities impose a sales tax on specific categories of the Company's sales. The Company collects the sales tax from patrons and remits the entire amount to the respective taxing authorities. The Company excludes the tax collected and remitted from sales and the cost of sales, respectively.

Notes to Consolidated Financial Statements (Continued)

Note 2: Summary of Significant Accounting Policies ***(Continued)***

LEASES

Leases which meet certain criteria are classified as capital leases, and assets and liabilities are recorded at amounts equal to the fair value of the leased properties at the beginning of the respective lease terms. Such assets are amortized evenly over the related lease terms of their economic lives. Leases which do not meet such criteria are classified as operating leases and related rentals are charged to expense as incurred.

ADVERTISING EXPENSES

The Company's advertising expenses are charged against income during the year in which they are incurred. Total advertising costs charged to expense for the years ended August 31, 2018 and 2017 was $229,746 and $128,272, respectively.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company has only limited involvement with derivative instruments and does not use them for trading purposes. They are used to manage well–defined commodity price risks. The Company may use futures, forward, option and swap contracts to reduce the volatility of grain. These contracts permit final settlement by delivery of the specified commodity. These contracts are not designated as hedges as defined by the Derivative and Hedging Topic of the FASB ASC. These contracts are marked to market each month and the unrealized gains or losses are recognized in earnings.

OFF–BALANCE SHEET RISK – COMMODITY CONTRACTS

Realized and unrealized gains and losses from future sales and purchase contracts and commitments (grain and farm supply commodities) are included in gross savings. There is a possibility that future changes in market prices may make these contract and commitments more or less valuable, thereby subjecting them to market risk. Risk arises from changes in the value of these contracts and commitments and the potential inability of counterparties to perform under the terms of the contracts. There are numerous factors which may significantly influence the value of these contracts and commitments including market volatility.

Note 3: Related Party Transactions

The Company, organized on a cooperative basis, conducts a substantial portion of their operations with the members (owners) of the Company and has ownership interests in various regional cooperatives from whom they purchase products for resale or sell products to.

The Company sells to and purchases grain from the board of directors and certain employees. The aggregate of these transactions is not significant to the financial statements.

The Company had trade receivables due from directors and employees of $297,985 and $316,572 as of August 31, 2018 and 2017, respectively. The Company had customer credit balances from directors and employees of $480,287 and $374,134 as of August 31, 2018 and 2017, respectively.

Note 4: Marketable Securities

During the year ended August 31, 2017, CHS, Inc. converted $110,879 of deferred patronage into 3,858 shares of Class B Series I Preferred Stock.

The Company owned 66 shares of the above mentioned CHS Stock for the year ended August 31, 2018. The Company has elected to show these securities at cost. The unrecognized market gain or loss on these securities at August 31, 2018 was not significant to the consolidated financial statements.

Realized gains and losses on the sale of marketable securities are based on original cost and are included in earnings. The Company sold 3,792 shares of CHS stock for $108,935 with the Company realizing a loss of $47 on the sale of the securities for the year ended August 31, 2017.

Note 5: Construction in Process

Construction in process is stated at cost. No provision for depreciation is made on construction in process until such time as the relevant assets are completed and put into service. Construction in process at August 31, 2018 consists of the following:

2018	Costs to Date	Estimated Completion Cost
Office Building – Round Lake	$175,240	$360,249
Feed Mill Bin and Distributor Upgrades – Janesville	249,866	304,181
Feed Mill Conveyor and Distributor Upgrades – La Salle	52,482	119,727
105’ Power Bin weep – Trimont	83,403	108,040
90’ Power Bin Sweep – Jackson	63,850	98,000
Various Projects	101,933	Varies
	$726,774	$990,197

Construction in process at August 31, 2017 that was completed during the year is as follows:

2017	Actual Completed Cost
Liquid Fert/Chemical Storage and Loadout Facility – Janesville	$1,643,480
Grain Scale Pole Shed – Madelia	160,036
Grain Bin, Pit and Scale – Trimont	6,686,858
Power Sweep – Madelia	73,159
Grain Tester – Jackson	7,471
Grain Tester – Trimont	7,471
	$8,578,475

Note 6: Investments

At August 31, 2018 and 2017 the Company had equity in other organizations as follows:

	2018	2017
Equity in Other Organizations		
CHS, Inc.	$15,901,139	$15,901,138
Land O'Lakes	4,050,118	4,079,199
CoBank, ACB	2,406,175	2,350,751
Ag Processing, Inc.	238,055	237,898
Renville Co–op Transport Association	0	160,406
Western Co–op Transport Association	79,380	79,380
Others	249,312	265,977
	$22,924,179	$23,074,749

At August 31, 2018 and 2017, the Company had investments in other companies as follows:

	Ownership Percentage	2018	2017
Other Investments			
Pillar Insurance Limited		$ 426,994	$426,994
FCA Grain Condo 1, LLC	44%	265,254	273,466
AgQuest Financial Services		50,000	50,000
Minnesota Soybean Processors, LLC	<1%	31,436	34,496
Heron Lake Bioenergy, LLC	<1%	11,313	12,468
40 Square Cooperative Solutions		250,000	0
		$1,034,997	$797,424

Investments in Pillar Insurance Limited, 40 Square Cooperative Solutions and AgQuest Financial Services are being accounted for using the cost method. The remaining investments in other companies are being accounted for using the equity method.

Note 7: Financing Arrangements

Financing arrangements as of August 31, 2018 and 2017 were as follows:

Lender	Interest Rate	Balance 2018	Balance 2017	Repayment Basis
CoBank, ACB Term T01 Variable	4.58%*	$ 0	$ 0	Quarterly commitment reductions of $375,000 starting on 02-20-17 through 11-20-22. Balance due on 02-20-23.
Term T02 Fixed	4.27%	2,265,000	3,273,000	(15) quarterly payments of $252,000 starting 02-20-17 through 08-20-20. Final unpaid balance due on 11-20-20.

Note 7: Financing Arrangements ***(Continued)***

Lender	Interest Rate	Balance 2018	2017	Repayment Basis
CoBank, ACB (Continued)				
Term T03 Variable	4.58%*	$ 1,000,000	$ 3,000,000	(8) quarterly payments of $500,000 starting 02-20-17 with final payment due on 02-20-19.
Term T04 Variable	4.58%*	0	0	Quarterly commitment reductions through 12-20-19. Balance due on 03-20-20.
Patron Fixed Term				
3 Year Notes	3.00%	2,105,207	1,021,548	Principal and accrued interest due on maturity.
5 Year Notes	3.75%	5,416,160	6,773,469	Principal and accrued interest due on maturity.
		10,786,367	14,068,017	
Less: Current Maturities		3,117,441	5,779,417	
Long–Term Debt		$ 7,668,926	$ 8,288,600	

* – Denotes continuously variable interest rate

Seasonal borrowings in effect at August 31, 2018 and 2017 are as follows:

Lender	Interest Rate	Balance 2018	2017	Repayment Basis
CoBank, ACB				
Seasonal Variable	4.08%*	$0	$0	Due 03-01-19.

* – Denotes continuously variable interest rate

Loan Commitments in effect at August 31, 2018 and 2017 were as follows:

	2018	2017
Operating Seasonal	$50,000,000	$45,000,000
Term		
T01	6,750,000	8,250,000
T02	2,265,000	3,273,000
T03	1,000,000	3,000,000
T04	2,493,500	3,933,500

Patron demand notes at August 31, 2018 and 2017 were $11,118,303 and $12,594,952, respectively and accrue an interest rate of 2.00%. These notes are due upon demand.

***Note 7: Financing Arrangements* (Continued)**

The patron fixed term and demand notes are unsecured.

The CoBank, ACB notes are secured by a first mortgage lien on all real property owned by the Company and a security agreement covering all personal property, including inventory and accounts receivable arising from the sale thereof, subject only to first mortgages and security agreements for other contracts. The Company also has $2,406,175 and $2,350,751 of equity in the bank at August 31 2018 and 2017, respectively, which is held as additional collateral.

Restrictive covenants on the CoBank, ACB loan agreements provide, among other things, (1) maintaining minimum working capital during the year and at year end, (2) restrictions on incurring additional indebtedness, (3) maintaining a minimum amount of contingent liabilities, (4) maintaining a minimum net worth and other covenants as determined by the bank.

Aggregate annual maturities of the long–term debt outstanding at August 31, 2018 are as follows:

Maturity Date Year Ending August 31	
2019	$ 3,117,441
2020	1,696,783
2021	1,981,366
2022	2,509,272
2023	1,481,505
	$10,786,367

Interest expense charged to operations at August 31, 2018 and 2017 was $2,354,049 and $1,313,420, respectively.

Note 8: Capital Leases

The Company leases certain equipment under agreements that classify as capital leases. The cost of the equipment under capital lease is included in buildings and equipment and is amortized over the estimated useful life of the asset, in accordance with the policy described in Note 2. Amortization of the assets under capital lease is included in depreciation expense.

Notes to Consolidated Financial Statements (Continued)

***Note 8: Capital Leases** (Continued)*

Information regarding capital leases as of August 31, 2018 and 2017 is as follows:

Lessor	Interest Rate	2018 Balance	2017 Balance
Farm Credit Leasing Minneapolis, Minnesota			
Jackson Fertilizer Plant Equipment (Monthly payments of $14,003 with additional final payment of $244,912 due 01-01-23).	3.03%	$884,117	$1,023,076
Round Lake Grain Storage (Monthly payments of $21,369 with additional final payment of $ 242,823 due 11-01-17).	6.19%	0	261,593
Jackson Bin Project (2013) (Monthly payments of $9,450 with additional final payment of $119,502 due 08-01-20).	3.57%	312,568	412,862
Jackson Feed Receiving System (Monthly payments of $9,224 with additional final payment of $122,810 due 01-01-19).	2.37%	149,406	255,184
2012 AGCO Terragator 9300 (Monthly payments of $5,658 with additional final payment of $77,269 due 11-01-17).	2.62%	0	82,579
2011 AGCO Terragator 9300 (Monthly payments of $5,390 with additional final payment of $73,716 due 12-01-18).	2.58%	6,418	43,753
2013 Freightliner Semi (Monthly payments of $1,911 with additional final payment of $25,925 due 01-01-18).	2.82%	0	31,390
2014 Peterbilt Semi #1 (Monthly payments of $1,961 with additional final payment of $26,594 due 06-01-18).	2.82%	0	41,560
2014 Peterbilt Semi #2 (Monthly payments of $1,961 with additional final payment of $26,594 due 06-01-18).	2.82%	0	41,560
2014 AGCO Rogator 1300 (Monthly payments of $4,119 with additional final payment of $138,618 due 02-01-20).	3.23%	196,854	239,185

Note 8: Capital Leases ***(Continued)***

Lessor	Interest Rate	2018 Balance	2017 Balance
(3) 2015 Chevrolet Silverado's (Monthly payments of $1,523 with additional final payment of $14,429 due 05-01-20).	3.46%	$ 41,743	$ 58,265
(2) 2016 Wilson Hopper Trailers (Monthly payments of $1,286 with an additional final payment of $12,164 due 06-01-20).	3.52%	36,391	50,280
Jackson Grain Dryer (Monthly payments of $16,576 with an additional final payment of $270,850 due on 11-01-25).	4.20%	1,417,397	1,553,654
2016 Walinga Feed Trailer (Monthly payments of $1,486 with an additional final payment of $25,635 due on 05-01-23).	4.06%	95,685	109,331
2015 Freightliner Feed Truck (Monthly payments of $1,499 with an additional final payment of $14,104 due on 06-01-21).	3.69%	58,376	73,904
Feed Truck Wet Kit (Monthly payments of $151 with an additional final payment of $1,959 due on 06-01-21).	3.70%	6,367	7,913
2017 Freightliner Propane Truck (Monthly payments of $2,903 with an additional final payment of $38,598 due on 09-01-21).	3.40%	131,456	161,270
2015 Terragator 9300 (Monthly payments of $4,829 with an additional final payment of $133,000 due on 10-01-21).	3.77%	282,570	328,918
		3,619,348	4,776,277
Less: Amount Due Within One Year		731,180	1,156,929
Long–Term Portion		$2,888,168	$3,619,348

The following property is held under capital lease at August 31, 2018 and 2017:

	2018	2017
Equipment	$5,924,699	$6,402,733
Less: Accumulated Depreciation	(973,408)	(345,616)
	$4,951,291	$6,057,117

Amortization expense on this leased property totaled $670,086 and $345,616 for the years ended August 31, 2018 and 2017, respectively, and is included in depreciation expense.

***Note 8: Capital Leases** (Continued)*

Information regarding gross annual payments outstanding as of August 31, 2018 is as follows:

2019	$ 863,318
2020	914,020
2021	542,530
2022	517,780
2023	405,956
2024 & Later	771,418
Total Future Minimum Lease Payments	4,015,222
Less: Amount Representing Interest	395,674
Present Value of Future Minimum Lease Payments	$3,619,348

Note 9: Unpaid Grain

Unpaid grain at August 31, 2018 and 2017 consisted of price later contracts, deferred payments contracts and priced not paid grain. Price later contracts represent grain on which title has passed to the Company with the price to be fixed at a later date. Deferred payment contracts represent grain on which title has passed to the company and payment is deferred to a later date. Unpaid grain also includes minimum price, enhanced minimum price, and extended grain pricing contracts, of which title has transferred, minimum/advance payments have been made to seller with final price yet to be determined, based on a later pricing of a future position. These contracts are valued at the current bid net of any adjustment for unrealized gains or losses in relation to the corresponding future or option position. The contracts are summarized as follows:

	2018		2017	
	Bushels	Amount	Bushels	Amount
Price Later Contracts				
Corn	2,017,940	$ 6,106,570	1,524,822	$ 4,634,931
Soybeans	75,600	564,221	104,800	933,009
		6,670,791		5,567,940
Deferred Payment Contracts				
Corn	478,698	2,506,477	664,740	2,626,456
Soybeans	80,887	1,383,751	205,921	2,224,337
		3,890,228		4,850,793
Priced Not Paid Contracts				
Corn	1,064,273	3,651,651	732,969	2,394,665
Soybeans	104,913	979,398	54,513	536,587
Wheat	0	0	11,920	78,909
		4,631,049		3,010,161
Less: Advances		29,718		64,781
		$15,162,350		$13,364,113

***Note 9: Unpaid Grain** (Continued)*

The Company merchandises grain utilizing hedge–to–arrive contracts (HTA). HTA contracts are forward type grain contracts, representing a commitment by the patrons to deliver grain in the future with the final pricing to be established by the delivery date. Under these contracts the patron has established a specific commodity's futures price and period to be used in the equation of the final pricing. The patron, upon final pricing, is obligated for the difference between their established commodity's future price and the current market value of the specified futures period. The Company has established positions on the commodity futures market to cover these contracts and protect themselves against future changes in market prices.

The Company is contingently at risk from various factors which may significantly influence the fair value of the HTA contract commitments. These factors include market volatility, the potential inability to deliver quantities relative to their annual production, and the patron's willingness to perform under the terms of the HTA contract agreements. Because of the uncertainties inherent in the estimate of the fair value of these contracts, management's estimate of the fair value of these contracts may change as future changes in the market prices make these contracts more or less valuable.

Note 10: Retirement Plan

The Company has a 401(k) retirement plan that covers substantially all full–time employees. Employer payments to the plan are equal to 100% of each participant's contribution to a maximum of 5% of each participant's regular compensation. Pension costs are funded as they are accrued. Employer contributions at August 31, 2018 and 2017 were $587,807 and $471,086, respectively.

Note 11: Members' Equity

Revolving Fund

The patrons' revolving fund account was established for the purpose of acquiring non–stock capital. The Company maintains a record of the holders of credits and the amount allocated to each holder. The principal source of additions to the patrons' equity are the capital contributions by each member of a portion of his share of the patrons' net margins. Patrons' equity credits may be retired at anytime at the discretion of the Board of Directors. During the years ended August 31, 2018 and 2017, $2,566,194 and $2,561,150, respectively, were retired. The Company holds a first lien on each patrons' equity credit for any indebtedness of the holder to the Company.

General Reserve

Total net margins less the patrons' net margins, as defined in the articles and bylaws of the Company, are designated as the Company's net margins. These margins are taxable to the Company and consist of patronage–sourced margins not allocated, as well as all non–patronage–sourced net margins.

Note 12: Income Taxes

Components of the provision for income tax expense for the years ended August 31, 2018 and 2017 was as follows:

	2018	2017
State Income Tax	$151,026	$217,530
Over (Under) Accrual of Prior Years	(17,287)	676
Prior Years Amended Returns	43,097	0
	$176,836	$218,206
Deferred Tax Expense	$262,946	$ 89,806

Total income tax expense for the years ended August 31, 2018 and 2017, was less than the normal amount computed by applying the U.S. federal income tax rate to savings before income taxes primarily because of allocated patronage dividends, the surtax exemption, permanent timing differences, and temporary timing differences creating deferred income taxes.

The Company has excluded allocated patronage dividends from its taxable income for the years ended August 31, 2018 and 2017, as provided under Section 1382 of the Internal Revenue Code. In order to utilize this exclusion, at least 20% of the patronage dividends amounting to $227,140 and $192,447 in 2018 and 2017, respectively, must be or were paid in cash by May 15, 2019 and 2018, respectively. The Company has elected to pay 40% in cash, which amounted to $454,281 and $384,895 for the years ended August 31, 2018 and 2017, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred taxes are classified as current or non-current, depending on the classification of the assets and liabilities to which they relate. Deferred taxes arising from timing differences that are not related to an asset or liability as current or non-current depending on the periods in which the timing differences are expected to reverse.

Amounts for deferred tax assets and liabilities at August 31, 2018 and 2017 are as follows:

	2018	2017
Deferred Tax Asset – Current		
Allowance for Doubtful Accounts	$ 30,000	$ 30,000
Compensated Absences	116,004	115,313
Inventory Capitalization	58,906	63,237
	$ 204,910	$ 208,550
Deferred Tax Asset (Liability) – Non–Current		
Depreciation – Book/Tax Difference	$(1,495,751)	$(1,375,276)
Capital Leases	434,322	573,153
	$(1,061,429)	$ (802,123)

***Note 12: Income Taxes** (Continued)*

The Company recognizes any uncertain tax benefits if such benefits are a result of a tax position that is more likely than not sustainable upon examination by Federal or State tax authorities. When an uncertain benefit is determined to be more likely than not sustained, the Company values the position, for financial statement purposes, of the largest amount of the tax benefit that is more than 50% likely of being realized upon resolution of the benefit. For any tax positions taken that do not meet the more likely than not criteria, the Company establishes a tax reserve for 100% of the position taken.

As of August 31, 2018, no significant amounts of unrecognized tax benefits existed nor does the Company anticipate any significant changes in unrecognized tax benefits to occur within the next year, other than tax settlements.

The Company has a net operating loss of $2,380,957 acquired from the merger of FCA. The net operating loss is set to expire by August 31, 2036.

The Company files tax returns with the Internal Revenue Service, the State of Minnesota and the State of Iowa.

Note 13: Operating Leases

The Company has various cancelable and noncancelable operating leases and rental agreements on property and various types of equipment.

The following is a schedule of approximate minimum rental payments required under the operating leases that have initial or remaining non–cancelable lease terms in excess of one year as of August 31, 2018.

Maturity Date Year Ending August 31	
2019	$ 592,149
2020	412,567
2021	300,910
2022	150,455
	$1,456,081

Rent and lease expense for the years ended August 31, 2018 and 2017 amounted to $1,053,176 and $1,102,222, respectively.

Note 14: Fair Value Measurements

The Company determines the fair value of certain inventories of agricultural commodities, derivative contracts, and marketable securities based on the fair value definition and hierarchy levels as established below:

Level 1	Values are based on unadjusted quoted prices in active markets for identical assets or liabilities. These assets or liabilities include commodity derivative contracts on the Chicago Board of Trade.
Level 2	Values are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities exchanged in inactive markets.
Level 3	Values are based on unobservable inputs reflecting management's own assumptions and best estimates that market participants would use in pricing the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The carrying value of the Company's other assets and liabilities, consisting principally of trade receivables, accounts payable, lines of credit and other obligations, approximates fair value due to the short–term maturity of these instruments. The carrying value of long–term borrowings approximates fair value as the interest the Company could obtain on similar debt instruments approximate the interest rates of current debt obligations. The Company's investments in other cooperatives are stated at cost. There is no established market for these investments, and it is not otherwise practical to determine the fair value of investments in cooperatives.

The following table sets forth the level, within the fair value hierarchy, the Company's assets and liabilities at fair value as of August 31, 2018 and 2017:

	Fair Values as of August 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets				
Grain Inventories	$ 0	$13,072,647	$0	$13,072,647
Futures Grain Contracts	2,663,500	0	0	2,663,500
	$2,663,500	$13,072,647	$0	$15,736,147
Liabilities				
Forward Grain Contracts	$ 0	$ 5,308,865	$0	$ 5,308,865

***Note 14: Fair Value Measurements* (Continued)**

	Fair Values as of August 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Grain Inventories	$ 0	$13,526,882	$0	$13,526,882
Futures Grain Contracts	1,514,313	0	0	1,514,313
	$1,514,313	$13,526,882	$0	$15,041,195
Liabilities				
Forward Grain Contracts	$ 0	$ 2,480,745	$0	$ 2,480,745

Grain inventories are measured at fair value based on exchange quoted prices adjusted for differences in local markets, and as such are categorized as Level 2. Commodity derivative futures contracts are measured at fair value based on quoted prices on active exchanges and as such are categorized as Level 1. Commodity derivative forward contracts are measured at fair value based on exchange quoted prices and/or recent market bids, adjusted for location specific inputs and as such are categorized as Level 2. The Company had no Level 3 measurements as of August 31, 2018 and 2017, respectively.

Note 15: Derivative Instruments

The Company's purpose for entering into derivatives and its overall risk management strategies are discussed in Note 2.

The fair value of derivatives is located in inventories on the balance sheets. The fair value of commodity derivatives (future contracts and options) is as follows at August 31:

	2018	2017
Derivative Assets		
Commodity Futures Contracts	$2,663,500	$1,514,313

Gains and losses on commodity derivatives are located in Gross Savings on Sales on the Statement of Savings. Net gains on futures contracts for the years ended August 31, 2018 and 2017, were $6,935,737 and $2,302,847, respectively.

Note 16: Commitments and Contingencies

a) The Company is contingently liable for any weight or grade deficiencies that may occur at time of delivery on 1,295,839 bushels of grain in storage under warehouse receipts or awaiting disposition at August 31, 2018.

Note 16: Commitments and Contingencies (Continued)

Daily Position Record (DPR)	Corn	Soybeans	Oats
Open Storage	758,102	276,426	0
Warehouse Receipts	12,000	3,197	0
Grain Bank	246,114	0	0
Storage Obligation	1,016,216	279,623	0
Company Owned – Unpaid	3,531,399	224,573	455
Company Owned – Paid	(571,842)	389,855	2,811
Total Company Owned	2,959,557	614,428	3,266
Total Obligations Per DPR	3,975,773	894,051	3,266

b) The Company is a guarantor of loan obligations held by AgQuest Financial Services, Inc. The loan guarantee pool which is not to exceed $2,000,000, is given to induce AgQuest to make loans to the Company's patrons to promote production of agriculture in the trade area. Actual guarantees at August 31, 2018 was $843,051.

c) The Company is a guarantor on financing notes due from patrons to the Cooperative Credit Company. The total financing notes outstanding at August 31, 2018 are as follows:

Current Commitment	Outstanding Balance	Guarantee Percent	Guarantee Amount
$17,040	$16,267	100%	$16,267

d. The Company is subject to various federal and state regulations regarding the care, delivery and containment of products which the Company handles and has handled. The Company is contingently liable for any associated costs which could arise from the handling, delivery and containment of these products.

e. The Company is a member of a group of other agricultural cooperatives in the Access Insurance Association Workers Compensation Self Insurance Group. The Company pays an annual premium to the plan to cover administrative, group co–insurance and reinsurance costs. Assessments are possible for each member depending on their incurred losses for the calendar plan year if the Company's losses exceed 50% of their premium with a maximum assessment not to exceed their annual premium. The assessment, if applicable, is payable in two equal installments the following year. The Company's annual premium for 2018 and 2017 was $155,464 and $259,724, respectively.

Note 17: Subsequent Event

The Company has considered the effect, if any, that events occurring after the consolidated balance sheet date and up to December 12, 2018 have on the consolidated financial statements as presented. This date coincides with the date the consolidated financial statements were available to be issued.

Ten Year Financial Highlights

OPERATING STATEMENT

	2018	2017	2016	2015
Sales	**$336,148,030**	$258,800,000	$255,862,563	$233,692,387
Cost of Goods Sold	**298,248,764**	228,424,150	226,668,114	205,804,496
Gross Margin	**37,899,266**	30,375,850	29,194,449	27,887,891
Percent of Sales	**11.27%**	11.74%	11.41%	11.93%
Operating Revenue	**19,299,351**	15,524,589	12,952,545	12,702,659
Total Gross Revenue	**57,198,617**	45,900,439	42,146,994	40,590,550
Operating Expenses	**53,791,992**	42,876,555	38,390,643	35,156,183
Operating Savings (Local Net)	**3,406,625**	3,023,884	3,756,351	5,434,367
Percent of Sales	**1.01%**	1.17%	1.47%	2.33%
Patronage Dividend Income	**709,703**	1,586,982	2,126,466	2,100,129
Gain (Loss) on Sale of Marketable Securities	**0**	(47)	(24,511)	0
Savings Before Income Taxes	**4,116,328**	4,610,819	5,858,306	7,534,496
Income Taxes	**439,782**	308,012	444,509	499,727
Net Savings	**$3,676,546**	$4,302,807	$5,413,797	$7,034,769

DISTRIBUTION OF NET SAVINGS

Patronage Dividends				
Cash – 40%	**$454,281**	$384,895	$556,940	$1,124,461
Deferred – 60%	**681,421**	577,342	835,411	1,686,691
Total Dividends	**1,135,702**	962,237	1,392,351	2,811,152
Retained Savings	**2,540,844**	3,340,570	4,021,446	4,223,617
Total	**$3,676,546**	$4,302,807	$5,413,797	$7,034,769

Ten Year Financial Highlights

OPERATING STATEMENT

2014	2013	2012	2011	2010	2009
$270,197,343	$373,321,493	$345,478,281	$305,851,530	$199,227,649	$239,063,002
242,639,579	343,897,981	318,287,412	280,653,476	179,721,850	218,087,621
27,557,764	29,423,512	27,190,869	25,198,054	19,505,799	20,975,381
10.20%	7.88%	7.87%	8.24%	9.79%	8.77%
12,686,486	11,579,276	10,687,931	10,861,271	11,850,328	10,957,893
40,244,250	41,002,788	37,878,800	36,059,325	31,356,127	31,933,274
33,307,503	32,998,412	31,937,530	31,339,433	26,738,950	27,379,474
6,936,747	8,004,376	5,941,270	4,719,892	4,617,177	4,553,800
2.57%	2.14%	1.72%	1.54%	2.32%	1.90%
2,134,632	3,417,379	3,638,112	2,015,070	1,321,097	3,102,865
0	0	0	69,774	920	-1,857
9,071,379	11,421,755	9,579,382	6,804,736	5,939,194	7,654,808
(46,771)	732,904	841,277	374,565	214,506	1,100,805
$9,118,150	$10,688,851	$8,738,105	$6,430,171	$5,724,688	$6,554,003

DISTRIBUTION OF NET SAVINGS

$1,785,138	$2,128,727	$1,636,484	$1,491,850	$1,471,222	$1,524,258
2,677,707	3,193,091	2,454,727	2,237,776	2,206,834	2,286,388
4,462,845	5,321,818	4,091,211	3,729,626	3,678,056	3,810,646
4,655,305	5,367,033	4,646,894	2,700,545	2,046,632	2,743,357
$9,118,150	$10,688,851	$8,738,105	$6,430,171	$5,724,688	$6,554,003

Ten Year Financial Highlights

BALANCE SHEET

	2018	2017	2016	2015
ASSETS				
Current Assets	**$69,577,981**	$74,051,850	$56,569,755	$64,944,402
Property, Plant & Equipment	**78,763,021**	80,936,120	59,367,787	61,704,249
Other Assets	**2,961**	17,036	0	0
Investments/ Equity in other Organizations	**23,959,176**	23,872,173	14,425,588	13,938,756
TOTAL ASSETS	**$172,303,139**	$178,877,179	$130,363,130	$140,587,407
Current Liabilities	**61,191,829**	67,356,039	45,681,941	50,990,290
Long Term Debt	**10,557,094**	11,907,948	11,053,637	18,212,231
Deferred Income Tax	**1,061,429**	802,123	369,835	255,883
Total Members' Equity	**99,492,787**	98,811,069	73,257,717	71,129,003
TOTAL LIABILITIES & MEMBERS' EQUITY	**$172,303,139**	$178,877,179	$130,363,130	$140,587,407
Working Capital	**$8,386,152**	$6,695,811	$10,887,814	$13,954,112

FIXED ASSETS

	2018	2017	2016	2015
Fixed Asset Expenditures	**$9,007,964**	$11,948,414	$5,106,552	$4,734,239

EQUITY REVOLVEMENT

	2018	2017	2016	2015
Equity Revolvement	**$2,566,194**	$2,561,150	$2,675,798	$2,635,256

Ten Year Financial Highlights

BALANCE SHEET

2014	2013	2012	2011	2010	2009
$78,775,412	$73,774,906	$113,171,766	$124,848,816	$58,744,434	$52,608,631
63,486,970	42,073,891	36,110,553	39,992,648	32,098,028	24,274,593
0	0	0	0	0	0
13,604,276	14,133,644	15,140,285	16,341,846	15,695,027	15,811,070
$155,866,658	$129,982,441	$164,422,604	$181,183,310	$106,537,489	$92,694,294
53,774,986	57,432,967	91,879,377	109,974,162	50,541,601	42,828,787
34,021,342	9,388,085	15,490,000	18,432,623	5,557,692	1,111,254
182,359	169,172	182,228	226,871	279,888	206,881
67,887,971	62,992,217	56,870,999	52,549,654	50,158,308	48,547,372
$155,866,658	$129,982,441	$164,422,604	$181,183,310	$106,537,489	$92,694,294
$25,000,426	$16,341,939	$21,292,389	$14,874,654	$8,202,833	$9,779,844

FIXED ASSETS

2014	2013	2012	2011	2010	2009
$26,790,356	$11,615,116	$1,666,954	$13,214,947	$12,045,134	$4,970,861

EQUITY REVOLVEMENT

2014	2013	2012	2011	2010	2009
$2,466,620	$2,448,549	$2,835,084	$2,473,873	$2,665,067	$2,710,728

Crystal Valley

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Employees

Jay Adkins
Tyler Allen
Tim Arndt
Matthew Ask
Aaron Barnard
Dean Barott
Rodney Barr
Tom Basmoen
Chris Baumgard
Doyle Becker
Nick Beckius
Harlan Bergeleen
Andrew Bergemann
Sam Bethke
Tom Bishop
Bob Bloomgren
Terry Bloomquist
Shelly Boles
Nate Boomgarden
Dave Borchardt
Gary Bose
Ryan Brandts
Denny Bratrud
Travis Brekken
Amanda Britton
Rose Burgess
Billy Burgy
Joel Burmeister
Sam Burton
Brendon Caraway
Brandon Chonko
Shawn Clausen
Erin Connell
Matt Conway
Bill Coonradt
Cordell Coult
Josh Coy
Tom Cregeen
William Crissinger
Adam Crissinger
Thomas Cunningham
Jim Cutler
Arvin Dahl
David Dahl
Tim Danberry
Brian Davis
Jeff Dean
Tyler DePoppe
Jeremy Ebeling
Adam Edwards
Courtney Eibs
Luke Eichberger
Tony Elg
Cory Engen
Don Epper
David Fast
Trent Flom
Arthur Forst
Dan Fox
Dave Frantum
Paul Frantum
Lee Freeman
Jim Friedrichs
TJ Fulton
LeRoy Gappa
Mitchell Gilman
John Graham
Serena Groskreutz
Cindy Haler
Kevin Hansen
Skylar Hansen
Tom Hansen
Jeff Harriman
Jim Harriman
Jeff Hendricks
John Howard
Josh Howard
Randy Hulke
Mandy Hunecke
Andrew Hunt
Josh Iverson
Tony Jacobs
Kevin Jeurissen
Ben Johnson
Craig Johnson
Jonathan Johnson
Scott Johnson
Sheri Johnson
Jim Jung
Lee Kachelmeier
Terry Kalis
Jerrick Kalis
John Kaveney
Julie Kemi
Russell Keniston II
Roger Kienholz
Lucas Kietzer
Kevin Knaack
Jason Knutson
Eldon Kolander
Shane Kolander
Nikole Kolden
Jim Konda
Caleb Kortuem
Cole Kottke
Krista Krieger
Brian Krumwiede
Tyler Kueker
Sarah Kunz
Kyle Kurth
Jolene Kuster
Bill Landin
Amber Lang
Paul Lange
Martin Langhorst
Jon Langland
Chad Larson
Greg Lassas
Kyle Leary
Jason Leary
Edward Lehman
Dan Leiding
Ashley Leivermann
Ann Lesch
Tim Lewis
Sarah Libra
Dave Limoges
Shane Lines
Julie Lorentz
Jesse Malchow
Julie Mathews
Dave Matz
Mindy McDonough
Jason Melzer
Brent Meshke
Blaine Meyer
Joe Michaelis
Steve Michels
Denise Micklos
Doris Miller
Paul Miller
Matt Missling
Kevin Monahan
Nate Monroe
Brad More
Mark More
Monte More
Dean Morrison
Kory Mosher
Kevin Moulder
Kody Moulder
Eric Nelson
Joyce Nelson
Jesse Nikoley
Justin Nilson
Mark Norell
Riley Oeltjenbruns
Rick Olson
Mitch Olson
Logan O'Rourke
Samantha Paap
Bryan Paulson
Chad Pederson
Glen Pell
Jeff Pell
Marlene Peters
Tammy Petterson
Dale Pfundt
Michael Pioske
Jeffrey Pluym
Chris Priem
James Prince
Bob Raue
Skylar Reed
Brian Reid
Mitch Rettke
Chad Riley
Kevin Roeker
Jill Roelofs
Hilary Rossow
David Rothfork
Bailey Rustman
Nik Samuelson
Nick Sandberg
Mike Sands
Tony Sazama
Jackie Sazama
Mike Scheibel
Justin Schlaffman
Duane Schlieman
Matt Schoper
Mike Schwanke
Mike Scott
Shane Shumski
Brittany Sieg
Mike Silverthorn
Drayton Slaughter
Ann Smith
Scott Snow
Gary Spence
Jeff Spence
Jeff Stauffer
Tim Steinborn
Ann Stephenson
Gary Stewart
Nick Stiernagle
Al Stokes
Devon Taft
Patrick Tajaran
Tyler Thoeny
John Thomas
Chris Thompson
Dan Thorn
Jemie Tollefson
Drew Tolzmann
Matt Trcka
Megan Tusa
LeRoy Urban
Julie Van Wyhe
Luke Van Wyhe
Julie Voight
Nate Voss
Trent Wadd
Darrick Wegner
Bryce Wendling
Chris Whitehead
Carter Wihlm
Todd Wihlm
Tammi Will
Joe Williams
Gina Windschitl
Steven Wolf
Gayle Wolf
Katie Wolle
Koby Wright
Ben Youngerberg
Tim Zander

OPERATING STATEMENT

	2018	2017	2016	2015
Sales	**$336,148,030**	$258,800,000	$255,862,563	$233,692,387
Cost of Goods Sold	**298,248,764**	228,424,150	226,668,114	205,804,496
Gross Margin	**37,899,266**	30,375,850	29,194,449	27,887,891
Percent of Sales	**11.27%**	11.74%	11.41%	11.93%
Operating Revenue	**19,299,351**	15,524,589	12,952,545	12,702,659
Total Gross Revenue	**57,198,617**	45,900,439	42,146,994	40,590,550
Operating Expenses	**53,791,992**	42,876,555	38,390,643	35,156,183
Operating Savings (Local Net)	**3,406,625**	3,023,884	3,756,351	5,434,367
Percent of Sales	**1.01%**	1.17%	1.47%	2.33%
Patronage Dividend Income	**709,703**	1,586,982	2,126,466	2,100,129
Gain (Loss) on Sale of Marketable Securities	**0**	(47)	(24,511)	0
Savings Before Income Taxes	**4,116,328**	4,610,819	5,858,306	7,534,496
Income Taxes	**439,782**	308,012	444,509	499,727
Net Savings	**$3,676,546**	$4,302,807	$5,413,797	$7,034,769

DISTRIBUTION OF NET SAVINGS

Patronage Dividends				
Cash – 40%	**$454,281**	$384,895	$556,940	$1,124,461
Deferred – 60%	**681,421**	577,342	835,411	1,686,691
Total Dividends	**1,135,702**	962,237	1,392,351	2,811,152
Retained Savings	**2,540,844**	3,340,570	4,021,446	4,223,617
Total	**$3,676,546**	$4,302,807	$5,413,797	$7,034,769

OPERATING STATEMENT

	2014	2013	2012	2011	2010	2009
Sales	$270,197,343	$373,321,493	$345,478,281	$305,851,530	$199,227,649	$239,063,002
Cost of Goods Sold	242,639,579	343,897,981	318,287,412	280,653,476	179,721,850	218,087,621
Gross Margin	27,557,764	29,423,512	27,190,869	25,198,054	19,505,799	20,975,381
Percent of Sales	10.20%	7.88%	7.87%	8.24%	9.79%	8.77%
Operating Revenue	12,686,486	11,579,276	10,687,931	10,861,271	11,850,328	10,957,893
Total Gross Revenue	40,244,250	41,002,788	37,878,800	36,059,325	31,356,127	31,933,274
Operating Expenses	33,307,503	32,998,412	31,937,530	31,339,433	26,738,950	27,379,474
Operating Savings (Local Net)	6,936,747	8,004,376	5,941,270	4,719,892	4,617,177	4,553,800
Percent of Sales	2.57%	2.14%	1.72%	1.54%	2.32%	1.90%
Patronage Dividend Income	2,134,632	3,417,379	3,638,112	2,015,070	1,321,097	3,102,865
Gain (Loss) on Sale of Marketable Securities	0	0	0	69,774	920	-1,857
Savings Before Income Taxes	9,071,379	11,421,755	9,579,382	6,804,736	5,939,194	7,654,808
Income Taxes	(46,771)	732,904	841,277	374,565	214,506	1,100,805
Net Savings	$9,118,150	$10,688,851	$8,738,105	$6,430,171	$5,724,688	$6,554,003

DISTRIBUTION OF NET SAVINGS

Cash – 40%	$1,785,138	$2,128,727	$1,636,484	$1,491,850	$1,471,222	$1,524,258
Deferred – 60%	2,677,707	3,193,091	2,454,727	2,237,776	2,206,834	2,286,388
Total Dividends	4,462,845	5,321,818	4,091,211	3,729,626	3,678,056	3,810,646
Retained Savings	4,655,305	5,367,033	4,646,894	2,700,545	2,046,632	2,743,357
Total	$9,118,150	$10,688,851	$8,738,105	$6,430,171	$5,724,688	$6,554,003

Ten Year Financial Highlights

BALANCE SHEET

	2018	2017	2016	2015
ASSETS				
Current Assets	**$69,577,981**	$74,051,850	$56,569,755	$64,944,402
Property, Plant & Equipment	**78,763,021**	80,936,120	59,367,787	61,704,249
Other Assets	**2,961**	17,036	0	0
Investments/ Equity in other Organizations	**23,959,176**	23,872,173	14,425,588	13,938,756
TOTAL ASSETS	**$172,303,139**	$178,877,179	$130,363,130	$140,587,407
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