2015 Annual Report

September 1, 2014 – August 31, 2015

Crystal Valley

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CRYSTAL VALLEY COOPERATIVE
Lake Crystal, Minnesota

PERSONNEL AND ORGANIZATIONAL DATA
August 31, 2015

OFFICERS AND DIRECTORS

Name	Address	Term Expires	Position
Tom Trahms	Janesville, MN	2016	Chairman
Tim Lewer	New Richland, MN	2018	Vice-Chairman
Mark Christenson	Madelia, MN	2017	Secretary/Treasurer
Dean Duffey	Lake Crystal, MN	2016	Director
Dan Jones	Lake Crystal, MN	2017	Director
Judd Hendrycks	North Mankato, MN	2017	Director
Brian Wallace	Garden City, MN	2018	Director
Bryon Christenson	LaSalle, MN	2018	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 financial statements of Crystal Valley Cooperative, Lake Crystal, Minnesota, which comprise the balance sheets as of August 31, 2015 and 2014, and the related statements of savings, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the 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 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 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 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, 2015 and 2014, 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 15, 2015

Gardiner Thomsen

CRYSTAL VALLEY COOPERATIVE
Lake Crystal, Minnesota

BALANCE SHEETS
August 31, 2015 and 2014

ASSETS

	2015	2014
CURRENT ASSETS		
Cash	**$ 13,369,337**	$ 16,690,562
Marketable Securities	**710,377**	710,377
Receivables		
Trade – Net of Allowance for Doubtful Accounts of $250,000	**7,082,168**	8,761,527
Storage and Handling	**6,207**	24,935
Grain in Transit	**3,191,076**	1,226,918
Other	**162,386**	376,683
Inventories		
Grain	**10,457,564**	1,001,223
Agronomy	**20,617,924**	23,763,499
Feed	**1,716,049**	1,378,657
Petroleum	**882,752**	1,214,587
Propane	**183,555**	549,344
Miscellaneous	**230,977**	163,040
Prepaid Expenses	**759,129**	1,189,481
Prepaid Inventory	**5,408,517**	21,571,154
Deferred Tax Asset	**166,384**	153,425
Total Current Assets	**64,944,402**	78,775,412
PROPERTY, PLANT AND EQUIPMENT		
Land and Land Improvements	**8,222,498**	7,849,602
Buildings and Equipment	**108,254,372**	79,321,355
	116,476,870	87,170,957
Accumulated Depreciation	**(54,793,748)**	(50,735,507)
Undepreciated Cost	**61,683,122**	36,435,450
Construction in Process	**21,127**	27,051,520
Net Property, Plant and Equipment	**61,704,249**	63,486,970
INVESTMENTS		
Equity in Other Organizations	**13,531,937**	13,197,457
Other Investments	**406,819**	406,819
Total Investments	**13,938,756**	13,604,276
TOTAL ASSETS	**$140,587,407**	$155,866,658

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

CRYSTAL VALLEY COOPERATIVE
Lake Crystal, Minnesota

BALANCE SHEETS
August 31, 2015 and 2014

LIABILITIES AND MEMBERS' EQUITY

	2015	2014
CURRENT LIABILITIES		
Checks Written in Excess of Bank Balance	**$ 6,230,097**	$ 4,996,626
Current Maturities of Long–Term Debt	**3,429,202**	4,508,000
Notes Payable – Operating	**160,169**	0
Patron Demand Notes	**10,099,001**	8,718,836
Payables		
Trade	**10,616,289**	15,915,376
Customer Credit Balances	**3,166,429**	5,766,429
Unpaid Grain	**12,524,965**	8,783,770
Margin Accounts	**1,057,770**	462,389
Other	**331,671**	278,969
Accrued Expenses		
Interest	**131,191**	111,441
Property Taxes	**902,596**	765,113
Payroll	**1,094,114**	1,557,222
Other	**122,335**	125,677
Patronage Dividends Payable	**1,124,461**	1,785,138
Total Current Liabilities	**50,990,290**	53,774,986
LONG–TERM LIABILITIES – Net of Current Maturities		
Notes Payable	**14,281,000**	30,371,217
Patron Fixed Term Notes	**3,931,231**	3,650,125
Total Long–Term Liabilities	**18,212,231**	34,021,342
DEFERRED INCOME TAXES	**255,883**	182,359
MEMBERS' EQUITY		
Revolving Fund	**25,297,892**	25,207,123
Patronage Payable in Equities	**1,686,691**	2,677,707
Unallocated General Reserve	**44,144,420**	40,003,141
Total Members' Equity	**71,129,003**	67,887,971
TOTAL LIABILITIES AND MEMBERS’ EQUITY	**$140,587,407**	$155,866,658

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

CRYSTAL VALLEY COOPERATIVE
Lake Crystal, Minnesota

STATEMENTS OF SAVINGS
Years Ended August 31, 2015 and 2014

	2015	2014
Sales	**$233,692,387**	$270,197,343
Cost of Goods Sold	**205,804,496**	242,639,579
Gross Savings on Sales	**27,887,891**	27,557,764
Other Operating Revenue	**12,702,659**	12,686,486
Total Gross Revenue	**40,590,550**	40,244,250
Operating Expenses, Including Interest	**35,156,183**	33,307,503
Operating Savings	**5,434,367**	6,936,747
Patronage Dividend Income	**2,100,129**	2,134,632
Savings Before Income Taxes	**7,534,496**	9,071,379
Income Taxes		
Current	**439,162**	(59,636)
Deferred	**60,565**	12,865
Net Savings	**$ 7,034,769**	$ 9,118,150

DISTRIBUTION OF NET SAVINGS

Patronage Dividends		
Cash – 40%	**$ 1,124,461**	$ 1,785,138
Deferred – 60%	**1,686,691**	2,677,707
	2,811,152	4,462,845
Retained Savings	**4,223,617**	4,655,305
Total	**$ 7,034,769**	$ 9,118,150

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

CRYSTAL VALLEY COOPERATIVE
Lake Crystal, Minnesota

STATEMENTS OF MEMBERS' EQUITY
Years Ended August 31, 2015 and 2014

	Total	Revolving Fund	Patronage Payable in Equities	Unallocated General Reserve
Balance – August 31, 2013	$62,992,217	$24,503,859	$ 3,193,091	$35,295,267
Stock Redeemed	(2,466,620)	(2,466,656)	0	36
Distribution of Patronage Dividends	0	3,162,039	(3,162,039)	0
Over Accrual of Prior Year Patronage Dividends	21,481	0	(31,052)	52,533
Adjustments	7,881	7,881	0	0
Current Period Savings	9,118,150	0	0	9,118,150
Patronage Dividends				
Cash	(1,785,138)	0	0	(1,785,138)
Deferred	0	0	2,677,707	(2,677,707)
Balance – August 31, 2014	67,887,971	25,207,123	2,677,707	40,003,141
Stock Redeemed	(2,635,256)	(2,635,451)	0	195
Distribution of Patronage Dividends	0	2,738,381	(2,738,381)	0
Under Accrual of Prior Year Patronage Dividends	(28,914)	0	60,674	(89,588)
Adjustments	(5,106)	(12,161)	0	7,055
Current Period Savings	7,034,769	0	0	7,034,769
Patronage Dividends				
Cash	(1,124,461)	0	0	(1,124,461)
Deferred	0	0	1,686,691	(1,686,691)
Balance – August 31, 2015	$71,129,003	$25,297,892	$ 1,686,691	$44,144,420

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

CRYSTAL VALLEY COOPERATIVE
Lake Crystal, Minnesota

STATEMENTS OF CASH FLOWS
Years Ended August 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Savings	**$ 7,034,769**	$ 9,118,150
Adjustments to Reconcile Net Savings to Net Cash Provided by (Used in) Operating Activities		
Depreciation	**6,285,418**	5,369,566
Gain on Sale of Property, Plant and Equipment	**(535,039)**	(438,595)
Bad Debt Income	**(198,303)**	(151,141)
Patronage Dividends Received as Equity	**(1,020,803)**	(1,217,670)
Deferred Income Taxes	**60,565**	12,865
Change in Assets and Liabilities		
Decrease in Receivables	**146,439**	1,182,062
(Increase) Decrease in Inventories	**(6,018,471)**	4,893,058
(Increase) Decrease in Prepaid Expenses	**430,352**	(843,203)
(Increase) Decrease in Prepaid Inventory	**16,162,637**	(2,323,367)
Decrease in Payables	**(3,509,809)**	(2,438,921)
Decrease in Accrued Expenses	**(309,127)**	(54,787)
Net Cash Provided by Operating Activities	**18,528,628**	13,108,017
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Property, Plant and Equipment	**766,581**	446,306
Additions to Property, Plant and Equipment	**(4,734,239)**	(26,790,356)
Equity in Other Organizations Purchased	**(418)**	0
Redemption of Equity in Other Organizations	**686,741**	1,036,661
Net Cash Used in Investing Activities	**(3,281,335)**	(25,307,389)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Borrowings (Repayments) Under Line–of–Credit Agreement	**1,540,335**	(1,049,090)
Additional Borrowings of Long–Term Debt	**702,307**	30,274,362
Retirement of Long–Term Debt	**(17,590,217)**	(2,141,105)
Stock Redeemed	**(2,635,256)**	(2,466,620)
Allocated Patronage Paid	**(1,814,052)**	(2,107,246)
Equity Adjustments	**(5,106)**	7,881
Increase (Decrease) in Checks Written in Excess of Bank Balance	**1,233,471**	(3,271,594)
Net Cash Provided by (Used in) Financing Activities	**(18,568,518)**	19,246,588

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

STATEMENTS OF CASH FLOWS (CONTINUED)

	2015	2014
Net Increase (Decrease) in Cash	**$ (3,321,225)**	$ 7,047,216
Cash – Beginning of Year	**16,690,562**	9,643,346
Cash – End of Year	**$13,369,337**	$16,690,562

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid During the Year for:		
Interest	**$ 1,453,853**	$ 816,699
Income Taxes	**7,043**	785,000

SUPPLEMENTAL SCHEDULE OF NON–CASH INVESTING AND FINANCING ACTIVITIES

Allocated Patronage Dividends	**$ 2,811,152**	$ 4,462,845

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

Notes to 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. 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.

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 and LeSueur counties in Minnesota. Approximately 52% 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, 2015 and 2014, cash balances exceeded FDIC coverage by $10,993,523 and $13,883,196, 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.

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.

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

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.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fair Value Measurements and Disclosures Topic of the *Financial Accounting Standards Board* (FASB) *Accounting Standards Codification* (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 market, 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 expenses are capitalized.

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 $6,285,418 and $5,369,566 has been charged against operations for the year ended August 31, 2015 and 2014, respectively.

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 $5,000 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 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 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 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 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.

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.

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

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 year ended August 31, 2015 and 2014 was $122,524 and $130,052, 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 $156,561 and $205,716 as of August 31, 2015 and 2014, respectively. The Company had customer credit balances from directors and employees of $168,185 and $228,586 as of August 31, 2015 and 2014, respectively.

Note 4: Marketable Securities

The Company has marketable securities that are classified as available–for–sale securities. The securities are valued at cost.

2015	Number of Shares	Cost
CHS 7.785% Cumulative Pfd.	23,983	$710,377

During the year ended August 31, 2014, CHS, Inc. converted $710,377 of deferred patronage into 23,983 shares of Class B, Series I Preferred Stock. The Company has elected to show these securities at cost. The unrecognized gain or loss on these securities at August 31, 2015 and 2014 was not significant to the financial statements.

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, 2015 consists of the following:

2015	Costs to Date	Estimated Completion Cost	Completion Date
Driveway Entrance – Janesville	$18,903	$ 75,000	09-03-15
PJ DS Step Deck 41' Trailer – Madelia	2,224	28,000	09-24-15
	$21,127	$103,000	

Construction in process at August 31, 2014 that was completed during the year are as follows:

2014	Actual Completed Cost
Compuweigh Smart Truck System – Hope	$ 138,319
Grain Dryer – Madelia	2,289,415
Propane Storage – Hope	706,061
Hope Grain Shuttle Facility	26,591,977
Bulk Fuel Truck – Lake Crystal	271,917
	$29,997,689

Note 6: Investments

At August 31, 2015 and 2014 the Company had equity in other organizations as follows:

	2015	2014
Equity in Other Organizations		
CHS, Inc.	$ 8,496,405	$ 8,231,803
Land O'Lakes	3,178,792	3,177,010
CoBank, ACB	1,571,774	1,500,182
Renville Co–op Transport	119,255	119,255
Western Co–op Transport Association	79,294	79,294
Ag Processing, Inc.	28,297	28,297
Others	58,120	61,616
	$13,531,937	$13,197,457

At August 31, 2015 and 2014, the Company had investments in other companies as follows:

	2015	2014
Other Investments		
Pillar Insurance Limited	$ 356,819	$ 356,819
AgQuest Financial Services	50,000	50,000
	$ 406,819	$ 406,819

Note 7: Financing Arrangements

Financing arrangements as of August 31, 2015 and 2014 were as follows:

Lender	Interest Rate	Balance 2015	Balance 2014	Repayment Basis
CoBank, ACB RIZ237TO1H Variable	2.70%*	$ 0	$12,750,000	Quarterly commitment reductions of $375,000 starting on 02-20-15 through 11-20-22. Balance due on 02-20-23.
RIZ237T02C Fixed	4.27%	5,289,000	6,297,000	(27) quarterly payments of $252,000 starting 02-20-14 through 08-20-20. Final unpaid balance due on 11-20-20.
RIZ237T03B Variable	2.70%*	12,000,000	15,832,217	(39) quarterly payments of $500,000 starting 02-20-15 with final payment due on 08-20-24.
Patron Fixed Term 3 Year Notes	3.00%	807,332	695,771	Principal and accrued interest due on maturity.

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

Lender	Interest Rate	Balance 2015	Balance 2014	Repayment Basis
Patron Fixed Term (Continued)				Principal and accruad interest due
5 Year Notes	3.75%	$ 3,545,101	$ 2,954,354	on maturity.
		21,641,433	38,529,342	
Less: Current Maturities		3,429,202	4,508,000	
Long–Term Debt		$18,212,231	$34,021,342	

* - Denotes continuously variable interest rate

Seasonal borrowings in effect at August 31, 2015 and 2014 are as follows:

Lender	Interest Rate	Balance 2015	Balance 2014	Repayment Basis
CoBank, ACB				
RIZ237SO1U				
Variable	2.45%*	$0	$0	Due 03-01-16.

* - Denotes continuously variable interest rate

Loan Commitments in effect at August 31, 2015 and 2014 were as follows:

	2015	2014
Operating	$25,000,000	$50,000,000
Term	28,539,000	39,047,000

Patron demand notes at August 31, 2015 and 2014 were $10,099,001 and $8,718,836, respectively and accure an interest rate of 2.00%. These notes are due upon demand.

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 $1,571,774 and $1,500,182 of equity in the bank at August 31 2015 and 2014, 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.

The patron fixed term and demand notes are unsecured.

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

Aggregate annual maturities of the long–term debt outstanding at August 31, 2015 are as follows:

Maturity Date Year Ending August 31	
2016	$ 3,429,202
2017	3,303,498
2018	5,636,328
2019	3,536,426
2020	3,486,979
Thereafter	2,249,000
	$21,641,433

Interest expense charged to operations at August 31, 2015 and 2014 was $1,473,603 and $812,252, respectively.

Note 8: Unpaid Grain

Unpaid grain at August 31, 2015 and 2014 consisted of price later contracts, deferred payments contracts, priced not paid grain, and various other grain contracts. 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:

Note 8: Unpaid Grain ***(Continued)***

	2015		2014	
	Bushels	Amount	Bushels	Amount
Price Later Contracts				
Corn	1,543,679	$ 5,186,761	546,716	$1,840,128
Soybeans	10,733	97,774	1,383	17,952
		5,284,535		1,858,080
Deferred Payment Contracts				
Corn	392,130	2,081,785	366,251	1,998,471
Soybeans	74,738	938,694	111,423	1,467,253
		3,020,479		3,465,724
Priced Not Paid Contracts				
Corn	926,623	3,537,766	575,865	2,572,435
Soybeans	55,819	692,019	66,797	891,115
Oats	0	0	233	874
		4,229,785		3,464,424
Less: Advances		9,834		4,458
		$12,524,965		$8,783,770

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 9: 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, 2015 and 2014 were $356,134 and $343,491, respectively.

Note 10: 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 year ended August 31, 2015 and 2014, $2,635,451 and $2,466,656, 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 11: Income Taxes

Components of the provision for income tax expense for the years ended August 31, 2015 and 2014 was as follows:

	2015	2014
Federal Income Tax	$ 52,868	$ 0
State Income Tax	377,586	450,000
Under (Over) Accrual of Prior Years	8,708	(22,366)
Refund of Amended Returns	0	(487,270)
	$439,162	$ (59,636)
Deferred Tax Expense	$ 60,565	$ 12,865

Total income tax expense for the year ended August 31, 2015, 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.

Note 11: Income Taxes ***(Continued)***

The Company has excluded allocated patronage dividends from its taxable income for the years ended August 31, 2015 and 2014, 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 $562,230 and $892,569 in 2015 and 2014, respectively, must be or were paid in cash by May 15, 2016 and 2015, respectively. The Company has elected to pay 40% in cash, which amounted to $1,124,461 and $1,785,138 for the years ended August 31, 2015 and 2014, 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, 2015 and 2014 are as follows:

	2015	2014
Deferred Tax Asset – Current		
Allowance for Doubtful Accounts	$ 30,000	$ 30,000
Compensated Absences	81,299	73,499
Inventory Capitalization	55,085	49,926
	$166,384	$153,425
Deferred Tax Liability – Non–Current		
Depreciation – Book/Tax Difference	$255,883	$182,359

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, 2015, 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 files tax returns with the Internal Revenue Service and the State of Minnesota. As of August 31, 2015, the Company is no longer subject to examinations by relevant tax authorities for the fiscal years prior to August 31, 2012.

Note 12: Operating Leases

The Company has various cancelable 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, 2015.

Maturity Date Year Ending August 31	
2016	$1,108,359
2017	795,926
2018	795,926
2019	592,149
2020	412,567
Thereafter	451,366
	$4,156,293

Rental expense for the year ended August 31, 2015 and 2014 amounted to $1,109,113 and $863,021, respectively.

Note 13: 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.

<u>Note 13: Fair Value Measurements</u> (Continued)

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, 2015 and 2014:

	Fair Values as of August 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Grain Inventories	$ 0	$11,633,609	$0	$11,633,609
Futures Grain Contracts	2,516,613	0	0	2,516,613
	$2,516,613	$11,633,609	$0	$14,150,222
Liabilities				
Forward Grain Contracts	$ 0	$ 3,692,658	$0	$ 3,692,658

	Fair Values as of August 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets				
Grain Inventories	$ 0	$ 6,371,017	$0	$ 6,371,017
Futures Grain Contracts	2,689,825	0	0	2,689,825
	$2,689,825	$ 6,371,017	$0	$ 9,060,842
Liabilities				
Forward Grain Contracts	$ 0	$ 8,059,619	$0	$ 8,059,619

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, 2015 and 2014, respectively.

Note 14: 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:

	2015	2014
Derivative Assets		
Commodity Futures Contracts	$2,516,613	$2,689,825

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, 2015 and 2014, were $5,696,670 and $9,495,164, respectively.

Note 15: Commitments and Contingencies

a. The Company is contingently liable for any weight or grade deficiencies that may occur at time of delivery on 430,048 bushels of grain in storage under warehouse receipts or awaiting disposition at August 31, 2015.

Daily Position Record (DPR)	Corn	Soybeans	Oats
Open Storage	258,167	66,430	0
Warehouse Receipts			
Grain Bank	105,451	0	0
Storage Obligation	363,618	66,430	0
Company Owned – Unpaid	2,862,432	141,290	0
Company Owned – Paid	589,187	(79,714)	7,632
Total Company Owned	3,451,619	61,576	7,632
Total Obligations Per DPR	3,815,237	128,006	7,632

b. The Company has entered into an agreement with Partners in Production where the Partners in Production will provide input financing to certain company patrons. The Company agrees to perform services regarding the origination, servicing, and collection of completed documents from patrons and related parties. The Company will guarantee 0% to 100% of the total non–collectible producer loan amounts, as well as 0% to 100% of any expenses incurred by the Partners in Production in the collection or attempted collection of any patron loan. Total Patron note balance and the outstanding balances as of August 31, 2015 is as follows:

***Note 15: Commitments and Contingencies* (Continued)**

Company Recourse Limit	$2,000,000
Total Producer Loan Commitment	464,805
Outstanding Principal Balance	118,515
Maximum Potential Liability	91,585

c. The Company is a guarantor of loan obligations held by AgQuest Financial Services, Inc. The loan guarantee pool which is not to exceed $1,500,000, is given to induce AgQuest to make loans to the Company's patrons to promote production of agriculture in the trade area.

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 2015 and 2014 was $225,173 and $211,927, respectively.

Note 16: Subsequent Event

The Company has considered the effect, if any, that events occurring after the balance sheet date and up to December 15, 2015 have on the financial statements as presented. This date coincides with the date the financial statements were available to be issued.

Nine Year Financial Highlights

OPERATING STATEMENT

	2015	2014	2013	2012
Sales	**$233,692,387**	$270,197,343	$373,321,493	$345,478,281
Cost of Goods Sold	**205,804,496**	242,639,579	343,897,981	318,287,412
Gross Margin	**27,887,891**	27,557,764	29,423,512	27,190,869
Percent of Sales	**11.93%**	10.20%	7.88%	7.87%
Operating Revenue	**12,702,659**	12,686,486	11,579,276	10,687,931
Total Gross Revenue	**40,590,550**	40,244,250	41,002,788	37,878,800
Operating Expenses	**35,156,183**	33,307,503	32,998,412	31,937,530
Operating Savings (Local Net)	**5,434,367**	6,936,747	8,004,376	5,941,270
Percent of Sales	**2.33%**	2.57%	2.14%	1.72%
Patronage Dividend Income	**2,100,129**	2,134,632	3,417,379	3,638,112
Gain (Loss) on Sale of Marketable Securities	**0**	0	0	0
Savings Before Income Taxes	**7,534,496**	9,071,379	11,421,755	9,579,382
Income Taxes	**499,727**	(46,771)	732,904	841,277
Net Savings	**$7,034,769**	$9,118,150	$10,688,851	$8,738,105

DISTRIBUTION OF NET SAVINGS

Patronage Dividends				
Cash – 40%	**$1,124,461**	$1,785,138	$2,128,727	$1,636,484
Deferred – 60%	**1,686,691**	2,677,707	3,193,091	2,454,727
Total Dividends	**2,811,152**	4,462,845	5,321,818	4,091,211
Retained Savings	**4,223,617**	4,655,305	5,367,033	4,646,894
Total	**$7,034,769**	$9,118,150	$10,688,851	$8,738,105

Nine Year Financial Highlights

OPERATING STATEMENT

2011	2010	2009	2008	2007
$305,851,530	$199,227,649	$239,063,002	$222,668,968	$162,525,854
280,653,476	179,721,850	218,087,621	201,905,318	144,436,386
25,198,054	19,505,799	20,975,381	20,763,650	18,089,468
8.24%	9.79%	8.77%	9.32%	11.13%
10,861,271	11,850,328	10,957,893	8,160,710	7,297,160
36,059,325	31,356,127	31,933,274	28,924,360	25,386,628
31,339,433	26,738,950	27,379,474	24,974,126	22,536,979
4,719,892	4,617,177	4,553,800	3,950,234	2,849,649
1.54%	2.32%	1.90%	1.77%	1.75%
2,015,070	1,321,097	3,102,865	2,614,453	1,711,270
69,774	920	-1,857	1,414,887	141,604
6,804,736	5,939,194	7,654,808	7,979,574	4,702,523
374,565	214,506	1,100,805	722,232	1,133,009
$6,430,171	$5,724,688	$6,554,003	$7,257,342	$3,569,514

DISTRIBUTION OF NET SAVINGS

$1,491,850	$1,471,222	$1,524,258	$1,238,628	$766,212
2,237,776	2,206,834	2,286,388	1,857,941	1,149,317
3,729,626	3,678,056	3,810,646	3,096,569	1,915,529
2,700,545	2,046,632	2,743,357	4,160,773	1,653,985
$6,430,171	$5,724,688	$6,554,003	$7,257,342	$3,569,514

Nine Year Financial Highlights

BALANCE SHEET

	2015	2014	2013	2012
ASSETS				
Current Assets	**64,944,402**	78,775,412	73,774,906	113,171,766
Property, Plant & Equipment	**61,704,249**	63,486,970	42,073,891	36,110,553
Other Assets	**0**	0	0	0
Investments/ Equity in other Organizations	**13,938,756**	13,604,276	14,133,644	15,140,285
TOTAL ASSETS	**$140,587,407**	$155,866,658	$129,982,441	$164,422,604
Current Liabilities	**50,990,290**	53,774,986	57,432,967	91,879,377
Long Term Debt	**18,212,231**	34,021,342	9,388,085	15,490,000
Deferred Income Tax	**255,883**	182,359	169,172	182,228
Total Members' Equity	**71,129,003**	67,887,971	62,992,217	56,870,999
TOTAL LIABILITIES & MEMBERS' EQUITY	**$140,587,407**	$155,866,658	$129,982,441	$164,422,604
Working Capital	**$13,954,112**	$25,000,426	$16,341,939	$21,292,389

FIXED ASSETS

	2015	2014	2013	2012
Fixed Asset Expenditures	**$4,734,239**	$26,790,356	$11,615,116	$1,666,954

EQUITY REVOLVEMENT

	2015	2014	2013	2012
Equity Revolvement	**$2,635,256**	$2,466,620	$2,448,549	$2,835,084

Nine Year Financial Highlights

BALANCE SHEET

2011	2010	2009	2008	2007
$124,848,816	$58,744,434	$52,608,631	$94,566,777	$46,385,174
39,992,648	32,098,028	24,274,593	23,974,700	23,266,239
0	0	0	0	173,368
16,341,846	15,695,027	15,811,070	15,773,754	15,433,106
181,183,310	106,537,489	92,694,294	134,315,231	85,257,887
109,974,162	50,541,601	42,828,787	85,089,887	38,706,321
18,432,623	5,557,692	1,111,254	2,645,033	3,261,429
226,871	279,888	206,881	168,191	184,603
52,549,654	50,158,308	48,547,372	46,412,120	43,105,534
$181,183,310	$106,537,489	$92,694,294	$134,315,231	$85,257,887
$14,874,654	$8,202,833	$9,779,844	$9,476,890	$7,678,853

FIXED ASSETS

2011	2010	2009	2008	2007
$13,214,947	$12,045,134	$4,970,861	$4,829,466	$3,974,396

EQUITY REVOLVEMENT

2011	2010	2009	2008	2007
$2,473,873	$2,665,067	$2,710,728	$2,120,645	$1,690,659

Crystal Valley

Crystal Valley

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Employees

John Anderson
Jason Androli
Tim Arndt
Rae Barbknecht
Dean Barott
Leslie Barr
Tom Basmoen
Chris Baumgard
Nick Beckius
Harlan Bergeleen
Sam Bethke
Tom Bishop
Terry Bloomquist
Nate Boomgarden
Dave Borchardt
Tom Bosch
Gary Bose
Dale Botten
Ryan Brandts
Travis Brekken
Amanda Britton
Josh Bruns
Rose Burgess
Brendon Caraway
Rosie Chamberlen
Shawn Clausen
Jerry Conlon
Matt Conway
Bill Coonradt
Josh Coy
Jim Cutler
Arvin Dahl
Dave Dahl
Tim Danberry
Brian Davis
Adam Edwards
Luke Eichberger
Tony Elg
Steve Enderle
Don Epper
Mike Fitzsimmons
Dave Frantum
Matt Frederickson
Jim Friedrichs
Shane Gerhart
Mitchell Gilman
Blake Goodburn
John Graham
Serena Groskreutz
Derek Hagene
Cindy Haler
Tom Hansen
Jeff Harriman
Jim Harriman
Courtney Hennis
Gary Hulke
Randy Hulke
Josh Iverson
Tony Jacobs
Kevin Jeurissen
Craig Johnson
Jim Johnson
Sheri Johnson
Jim Jung
Lee Kachelmeier
Jerrick Kalis
Terry Kalis
Jamie Kantack
Russell Keniston II
Roger Kienholz
Lucas Kietzer
Ben Kitzmiller
Cole Kottke
Tony Krogman
Kyle Kurth
Jolene Kuster
Aaron Lachmiller
Bill Landin
Amber Lang
Jon Langland
Paul Lange
Greg Lassas
Jason Leary
Dan Leiding
Ashley Leivermann
Tim Lewis
Dave Limoges
Julie Lorentz
Patrick Madery
Matt McMonagle
Joe Michaelis
Steve Michels
Doris Miller
Paul Miller
Matt Missling
Kevin Monahan
Nathan Monroe
Dean Morrison
Kevin Moulder
Eric Nelson
Joyce Nelson
Jesse Nikoley
Justin Nilson
Creig Noren
Mark Norell
Ryan Osborn
Samantha Paap
Bryan Paulson
Marlene Peters
Tammy Petterson
Mike Pioske
Susan Piper
Jeff Pluym
Chris Priem
James Prince
Bob Raue
Corey Raygor
Les Reed
Brian Reid
Mitch Rettke
Kevin Roeker
Nathan Rolling
Taylor Rudenick
Nik Samuelson
Ritchie Schaefer
Mike Scheibel
Duane Schlieman
Jay Schlomann
Justin Schlaffman
Matt Schoper
Tyler Schutte
Mike Schwanke
Mike Scott
Shane Shumski
Terri Sittig
Todd Sittig
Lloyd Skluzacek
Ann Smith
Daryl Sonnabend
Gary Spence
Jeff Spence
Jeff Stauffer
Tim Steinborn
Al Stokes
John Thomas
Dan Thorn
John Tierney
Stan Timmerman
Jemie Tollefson
Drew Tolzmann
Matt Trcka
Dan Trullinger
Jayme Underwood
Trent Wadd
Darrick Wegner
Chris Whitehead
Todd Wihlm
Joe Williams
Gina Windschitl
Gayle Wolf
Katie Wolle
Ben Youngerberg