

# Glacial Lakes Corn Processors

Consolidated Financial Report  
August 31, 2018

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## Independent Auditor's Report

RSM US LLP

Board of Directors  
Glacial Lakes Corn Processors

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Glacial Lakes Corn Processors and its subsidiaries (the Company), which comprise the consolidated balance sheets as of August 31, 2018 and 2017; the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, 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 the 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 Glacial Lakes Corn Processors and its subsidiaries 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.

*RSM US LLP*

Sioux Falls, South Dakota  
November 20, 2018

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## Glacial Lakes Corn Processors

### Consolidated Balance Sheets August 31, 2018 and 2017

	2018	2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 21,337,952	\$ 52,104,417
Short-term investments	68,632,797	47,964,354
Accounts receivable, net	11,973,976	13,385,725
Inventories	18,133,078	18,021,345
Derivative financial instruments	2,742,461	748,442
Prepaid expenses	94,447	249,420
Income tax receivable	27,741	6,605
<b>Total current assets</b>	<b>122,942,452</b>	<b>132,480,308</b>
Property and equipment, net	101,727,856	103,018,097
Investments in unconsolidated affiliates	18,824,096	17,050,964
Other assets	1,359,482	1,356,938
<b>Total assets</b>	<b>\$ 244,853,886</b>	<b>\$ 253,906,307</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Checks issued in excess of bank balance	1,108,222	\$ 4,817,701
Accounts payable	26,963,322	25,885,294
Accrued expenses	3,158,138	3,747,003
Patronage dividends payable	7,425,466	7,425,466
Glacial Lakes Exports distributions payable	2,271,058	1,058,534
Current maturities of long-term debt	-	4,117,500
<b>Total current liabilities</b>	<b>40,926,206</b>	<b>47,051,498</b>
Long-term debt, less current maturities	-	2,774,375
Deferred income taxes	1,415,644	2,964,831
Other	4,486,900	3,588,000
<b>Total liabilities</b>	<b>46,828,750</b>	<b>56,378,704</b>
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, \$1.00 par value; authorized 1,000,000 shares; no shares issued and outstanding	-	-
Common stock, \$0.00056 par value; authorized 500,000,000 shares; 185,636,652 shares issued and outstanding in 2018 and 2017	103,061	103,061
Additional paid-in capital	113,507,620	113,507,620
Cerificates of interest	1,262,166	1,262,166
Unallocated capital	75,726,823	75,229,290
Allocated capital	7,425,466	7,425,466
<b>Total stockholders' equity</b>	<b>198,025,136</b>	<b>197,527,603</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 244,853,886</b>	<b>\$ 253,906,307</b>

See notes to consolidated financial statements.

## Glacial Lakes Corn Processors

### Consolidated Statements of Operations Years Ended August 31, 2018 and 2017

	2018	2017
Revenue:		
Product sales	\$ 430,268,242	\$ 432,064,952
Service revenue	598,042	466,967
Government incentive revenue	358,385	753,083
<b>Total revenue</b>	<b>431,224,669</b>	433,285,002
Cost of goods sold	<b>395,013,366</b>	390,966,014
<b>Gross profit</b>	<b>36,211,303</b>	42,318,988
Operating expenses:		
General and administrative expenses	7,153,613	6,975,835
Legal settlements (Note 13)	-	3,081,104
<b>Total operating expenses</b>	<b>7,153,613</b>	10,056,939
<b>Operating income</b>	<b>29,057,690</b>	32,262,049
Other income (expense):		
Interest expense	(226,780)	(690,334)
Interest income	1,368,402	453,624
Equity in earnings of unconsolidated affiliates	1,697,829	2,491,825
Other income, net	202,506	415,843
	<b>3,041,957</b>	2,670,958
<b>Income before income taxes</b>	<b>32,099,647</b>	34,933,007
Income tax provision (benefit)	(951,446)	1,233,116
<b>Net income</b>	<b>\$ 33,051,093</b>	<b>\$ 33,699,891</b>
Basic and diluted earnings per common share	<b>\$ 0.178</b>	<b>\$ 0.182</b>

See notes to consolidated financial statements.

## Glacial Lakes Corn Processors

### Consolidated Statements of Stockholders' Equity Years Ended August 31, 2018 and 2017

	Common Stock	Additional Paid-In Capital	Certificates of Interest	Unallocated Capital	Allocated Capital	Total
Balance, August 31, 2016	\$ 103,061	\$ 113,507,620	\$ 1,262,166	\$ 68,228,193	\$ 5,919,774	\$ 189,020,814
Net income	-	-	-	33,699,891	-	33,699,891
Patronage earnings allocated to stockholders	-	-	-	(18,990,630)	18,990,630	-
Dividends allocation	-	-	-	(5,218,515)	5,218,515	-
Patronage dividends	-	-	-	3,385,698	(22,703,453)	(19,317,755)
Glacial Lakes Exports distributions	-	-	-	(6,200,711)	-	(6,200,711)
Pool fees	-	-	-	327,464	-	327,464
Unit repurchase (1,500 shares)	-	-	-	(2,100)	-	(2,100)
Balance, August 31, 2017	103,061	113,507,620	1,262,166	75,229,290	7,425,466	197,527,603
Net income	-	-	-	33,051,093	-	33,051,093
Patronage earnings allocated to stockholders	-	-	-	(29,701,864)	29,701,864	-
Patronage dividends	-	-	-	-	(29,701,864)	(29,701,864)
Glacial Lakes Exports distributions	-	-	-	(2,851,696)	-	(2,851,696)
<b>Balance, August 31, 2018</b>	<b>\$ 103,061</b>	<b>\$ 113,507,620</b>	<b>\$ 1,262,166</b>	<b>\$ 75,726,823</b>	<b>\$ 7,425,466</b>	<b>\$ 198,025,136</b>

See notes to consolidated financial statements.

## Glacial Lakes Corn Processors

### Consolidated Statements of Cash Flows Years Ended August 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Net income	\$ 33,051,093	\$ 33,699,891
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,848,290	21,725,507
Deferred income taxes	(1,549,187)	309,116
Equity in earnings of unconsolidated affiliates	(1,697,829)	(2,493,926)
Distributions from unconsolidated affiliates	2,424,697	1,959,303
Amortized loss on held-to-maturity investments	54,645	33,391
(Gains) losses on disposal of equipment	220,851	(6,200)
(Gains) losses on derivative financial instruments	(9,936,440)	6,695,549
Change in operating assets and liabilities:		
Accounts receivable	1,411,749	(4,153,434)
Inventory	(111,733)	3,879,795
Derivative financial instruments	7,942,421	(3,627,741)
Prepaid expenses	154,973	123,354
Income tax receivable	(21,136)	2,808,738
Other assets	(2,544)	(181,007)
Accounts payable	966,019	5,071,993
Accrued expenses	310,035	(61,187)
<b>Net cash provided by operating activities</b>	<b>52,065,904</b>	<b>65,783,142</b>
Cash flows from investing activities:		
Purchases of property and equipment	(19,150,875)	(17,738,035)
Proceeds from sale of property and equipment	1,642,109	6,200
Purchase of held-to-maturity securities	(72,723,088)	(47,943,153)
Maturity of held-to-maturity securities	52,000,000	41,954,000
Investment in unconsolidated affiliates	(2,500,000)	-
<b>Net cash used in investing activities</b>	<b>(40,731,854)</b>	<b>(23,720,988)</b>
Cash flows from financing activities:		
Decrease in checks issued in excess of bank balance	(3,709,479)	(1,520,612)
Payments on long-term debt	(7,050,000)	(4,200,000)
Purchase of shares	-	(2,100)
Patronage dividends paid	(29,701,864)	(22,703,564)
Glacial Lakes Exports distributions	(1,639,172)	(5,142,177)
<b>Net cash used in financing activities</b>	<b>(42,100,515)</b>	<b>(33,568,453)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(30,766,465)</b>	<b>8,493,701</b>
Cash and cash equivalents:		
Beginning	52,104,417	43,610,716
Ending	\$ 21,337,952	\$ 52,104,417
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 252,684	\$ 664,430
Cash paid for income taxes	\$ 618,987	\$ 485,000
Supplemental schedule of noncash investing and financing activities:		
Property and equipment acquired with accounts payable	\$ 705,289	\$ 593,280
Patronage dividends payable	\$ 7,425,466	\$ 3,713,273
Glacial Lakes Exports distributions payable	\$ -	\$ 1,058,534

See notes to consolidated financial statements.

## Glacial Lakes Corn Processors

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies

**Nature of business:** Glacial Lakes Corn Processors (GLCP), a cooperative located near Watertown, South Dakota, was organized in May 2001 and operates ethanol plants in South Dakota for commercial sales. Wholly owned subsidiaries of GLCP are Glacial Lakes Energy, LLC (GLE) and Aberdeen Energy, LLC (AE). GLE owns and operates a 100 million gallon per year ethanol plant near Watertown, South Dakota. AE owns and operates a 100 million gallon per year ethanol plant near Aberdeen, South Dakota.

**Principles of consolidation:** The financial statements include the accounts of GLCP and its wholly owned subsidiaries (collectively, the Cooperative). All significant inter-company accounts and transactions have been eliminated in consolidation.

A summary of the Company's significant accounting policies follows:

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates. Estimates significant to the financial statements include inventory valuation, stock-based compensation, accrual for damage to leased railcars, derivative financial instruments, deferred income taxes, and useful lives of property and equipment.

**Revenue recognition:** The Company generally sells ethanol and dried distillers grains pursuant to marketing agreements. Revenue from product sales is recorded when the product is loaded and title transfers to the customer. Product sales are recorded net of outbound shipping costs and commissions. Service revenue is recognized as earned. Government incentive revenue is recognized in accordance with the terms of the program.

**Expense classification:** Cost of goods sold includes raw materials, payroll for plant employees and general plant overhead charges. General and administrative expenses consist primarily of payroll for management and administrative employees and fees paid to service providers for legal, accounting and consulting services.

**Shipping and commission costs:** Shipping costs for product sales paid directly by the Cooperative's marketers and commissions deducted by to the marketers are presented on a net basis in product sales on the consolidated statements of operations. Shipping costs were \$73,737,604 and \$74,543,295 and commission costs were \$2,877,872 and \$3,266,575 for the years ended August 31, 2018 and 2017, respectively.

**Concentrations of credit risk:** The Cooperative performs periodic credit evaluations of its customers and generally does not require collateral. The Cooperative's results of operations may vary with the volatility of the markets for inputs (including corn, natural gas, chemicals and denaturant) and for the finished products (ethanol and distiller's grains).

**Cash and cash equivalents:** The Cooperative considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Cooperative maintains bank deposit accounts which periodically exceed federally insured limits. The Cooperative has not experienced any losses in such accounts. The Cooperative believes it is not exposed to any significant credit risk on cash and cash equivalents.

## Glacial Lakes Corn Processors

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

**Accounts receivable:** Accounts receivable are carried at original invoice amount less an allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and using historical experience applied to an aging of receivables. Receivables are written-off when deemed uncollectible. Recoveries of receivables previously written-off are recognized when received.

**Inventory:** Corn inventory is stated at the lower of cost or net realizable value on the weighted-average cost method. Other inventories are stated at the lower of cost or net realizable value on the first-in, first-out method.

**Derivative financial instruments:** The Cooperative enters into forward purchase and sales contracts for corn, ethanol and distiller's grain, which meet the definition of a derivative under accounting standards but qualify for the normal purchase, normal sale exception to derivative accounting. These contracts provide for the purchase or sale of commodities in quantities that are expected to be used or sold over a reasonable period of time in the normal course of operations. These contracts are not marked to market in the financial statements. In circumstances where management estimates that cash contract values from purchased corn cannot be recovered through the sale of ethanol and related outputs, a loss is recorded on the contract. Such losses are included in cost of goods sold.

Exchange-traded futures contracts are marked to market as derivative financial instruments on the consolidated balance sheets. Changes in fair value are included in product sales or cost of goods sold on the consolidated statements of operations consistent with the commodity being hedged.

**Property and equipment:** Property and equipment is stated at cost. Depreciation is computed by the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	15-20
Buildings	20-30
Railroad equipment and rolling stock	5-20
Machinery and equipment	7-30
Office equipment	3-7

**Long-lived assets:** The Cooperative reviews long-lived assets for impairment when events and circumstances indicate that the assets may not be recoverable. For purposes of this review, long-lived assets grouped with other assets to the lowest level for which identifiable cash flows are largely independent of other groups of assets and liabilities (asset group). If the sum of undiscounted cash flows estimated to be generated by an asset group are less than the carrying amounts of those assets, an impairment loss is recognized for the excess of the carrying value of the asset over its fair value.

## Glacial Lakes Corn Processors

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

**Income taxes:** The Cooperative is a non-exempt cooperative association subject to federal income tax on non-patronage income and patronage income not allocated to members. The Cooperative is permitted to deduct the portion of patronage income allocated to the members in the form of cash dividends and qualified written notice of allocations from taxable income. The Cooperative allocates its patronage income on the tax basis. Deferred income taxes are recorded on the consolidated balance sheets for basis differences related to non-patronage income from the Cooperative's investments in unconsolidated affiliates. The deferred tax liability represents the future tax return consequences of those differences. The Cooperative uses accelerated depreciation methods for income tax purposes, which causes taxable income to be different than net income for financial reporting purposes. Taxable income is also different than net income on the consolidated statements of operations for differences related to derivative financial instruments, stock-based compensation, accrued railcar damages, accrued compensation and certain recorded losses. No deferred income taxes are recognized on these differences.

Management has evaluated the Cooperative's tax positions and concluded that the Cooperative has taken no uncertain tax positions that require recognition in the consolidated financial statements. The Cooperative recognizes interest and penalties related to unrecognized tax benefits in its provision for income taxes. During the years ended August 31, 2018 and 2017, there were no material amounts recognized for interest or penalties related to unrecognized tax benefits.

The Cooperative files income tax returns in the federal and Minnesota jurisdiction. The Cooperative is no longer subject to federal tax examinations by tax authorities beyond three years. The Cooperative has no U.S. federal or state examinations currently in progress.

**Earnings per share (EPS):** Basic EPS is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that would occur, using the treasury stock method, if securities or other obligations to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in the Cooperative's earnings, unless such effects are antidilutive.

**Domestic international sales corporation:** The Cooperative's members own Glacial Lakes Exports Holdings, LLC. Glacial Lakes Exports Holdings, LLC owns 100 percent of Glacial Lakes Exports, Inc., which is a domestic international sales corporation (DISC) under the Internal Revenue Code. Glacial Lakes Exports, Inc. receives a commission from GLE and AE on certain international sales. These commissions are recognized as distributions to the Cooperative's members in the consolidated statements of stockholders' equity in the year the sales occur.

**Advertising costs:** Advertising and promotion costs are expensed when incurred and totaled \$225,993 and \$183,911 for the years ended August 31, 2018 and 2017, respectively.

**Recent accounting pronouncements:** In August 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. These amendments refine and expand hedge accounting for both financial (e.g., interest rate) and commodity risks. Its provisions create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. It also makes certain targeted improvements to simplify the application of hedge accounting guidance. The ASU will be effective for the Cooperative beginning on September 1, 2020, however, early adoption is permitted. The Cooperative is currently evaluating the impact of this guidance on its consolidated financial statements.

## Glacial Lakes Corn Processors

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. These amendments require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments eliminate the exception for an intra-entity transfer of an asset other than inventory. The amendments do not include new disclosure requirements; however, existing disclosure requirements might be applicable when accounting for the current and deferred income taxes for an intra-entity transfer of an asset other than inventory. The ASU will be effective for the Cooperative beginning on September 1, 2019; however, early adoption is permitted. The Cooperative is currently evaluating the impact of this guidance on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The ASU is intended to simplify various aspects of accounting for share-based compensation arrangements, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For example, the new guidance requires all excess tax benefits and tax deficiencies related to share-based payments to be recognized in income tax expense, and for those excess tax benefits to be recognized regardless of whether it reduces current taxes payable. The ASU also allows an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur. ASU 2016-09 will be effective for the Cooperative beginning on September 1, 2018. Different methods of adoption are required for the various amendments and early adoption is permitted, but all of the amendments must be adopted in the same period. The Cooperative is currently evaluating the impact of the adoption of this guidance on its consolidated financial condition, results of operations and cash flows.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after September 1, 2020, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Cooperative is currently evaluating the impact of the adoption of the new standard on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. This ASU simplifies the presentation of deferred income taxes by eliminating the requirement for entities to separate deferred tax liabilities and assets into current and noncurrent amounts in classified balance sheets. Instead, it requires deferred tax assets and liabilities be classified as noncurrent in the balance sheet. ASU 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2017. Early adoption is permitted, and this ASU may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The adoption of this standard is not expected to have a material impact on the Cooperative's consolidated financial statements. Upon adoption of this standard on a retrospective basis, all deferred income tax assets and liabilities will be presented as noncurrent.

## Glacial Lakes Corn Processors

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Cooperative has not yet selected a transition method and is currently evaluating the effect that the standard will have on our consolidated financial statements.

**Subsequent events:** The Cooperative has evaluated subsequent events through November 20, 2018, the date which the consolidated financial statements were available to be issued.

#### Note 2. Investments in Held-to-Maturity Securities

The following is a summary of the Cooperative's investment in held-to-maturity securities:

	2018	2017
Due within one year	\$ 68,632,797	\$ 47,964,354

  

	Held to Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Market Value
August 31, 2018:				
United States and corporate securities	\$ 68,632,797	\$ -	\$ (47,684)	\$ 68,585,113
August 31, 2017:				
United States and corporate securities	\$ 47,964,354	\$ -	\$ (33,390)	\$ 47,930,964

The securities in a loss position have been in an unrealized loss position for less than 12 consecutive months as of August 31, 2018.

Held-to-maturity securities are recorded in the balance sheet at amortized cost. Estimated market value at August 31, 2018 and 2017, was determined by reference to quotations or market indices for the respective investment securities. The unrealized gains and losses are determined at a point in time and would only be realized upon the sale of the investment securities. If the investment securities are held to their contractual maturities, no gains or losses are realized. Actual maturities may differ from contractual maturities because the issuers of certain debt securities may have the right to call or prepay their obligations.

## Glacial Lakes Corn Processors

### Notes to Consolidated Financial Statements

#### Note 3. Accounts Receivable

The following table summarizes accounts receivable as of August 31, 2018 and 2017:

	2018	2017
Trade	\$ 9,990,830	\$ 12,047,917
Other	1,985,694	1,341,093
	<u>11,976,524</u>	<u>13,389,010</u>
Less allowance for doubtful accounts	2,548	3,285
	<u>\$ 11,973,976</u>	<u>\$ 13,385,725</u>

#### Note 4. Inventories

The following table summarizes inventories as of August 31, 2018 and 2017:

	2018	2017
Grain	\$ 7,737,612	\$ 9,804,207
Chemicals and ingredients	1,144,532	792,587
Ethanol and co-products:		
Finished goods	3,753,936	2,590,082
In process	1,695,013	1,397,047
Spare parts	3,801,985	3,437,422
	<u>\$ 18,133,078</u>	<u>\$ 18,021,345</u>

Inventory is stated net of a valuation adjustment of \$572,640 and \$0 for the years ended August 31, 2018 and 2017, respectively.

#### Note 5. Derivative Financial Instruments

The Cooperative has entered into short-term exchange-traded contracts as a means of managing exposure to changes in commodity prices. As of August 31, 2018 and 2017, the Cooperative has entered into the following exchange traded derivative financial instruments, none of which are designated as hedging instruments:

		2018		2017	
		Notional	Fair Value	Notional	Fair Value
		Quantity	Assets (Liabilities)	Quantity	
GLE					
Corn contracts	Bushels	(2,495,000)	\$ 742,425	(225,000)	\$ 90,150
		-	-	(1,025,000)	(95,875)
Ethanol contracts	Gallons	(2,730,000)	634,725	(5,544,000)	(97,020)
Deposit with broker			1,079,914		350,928
AE					
Corn contracts	Bushels	(2,535,000)	969,725	540,000	22,475
		(20,000)	(100,838)	580,000	(38,938)
Ethanol contracts	Gallons	(16,380,000)	2,960,475	(2,772,000)	9,148
		(2,016,000)	(40,421)	(8,316,000)	(290,930)
Deposit with (due to) broker			(3,503,544)		798,504
Total			<u>\$ 2,742,461</u>		<u>\$ 748,442</u>

## Glacial Lakes Corn Processors

### Notes to Consolidated Financial Statements

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#### Note 5. Derivative Financial Instruments (Continued)

These contracts and related amount on deposit with (due to) broker are presented net in derivative financial instruments in the balance sheets.

The following table summarizes the gains (losses) on derivative transactions reflected in the Cooperative's consolidated statements of operations for the years ended August 31, 2018 and 2017, none of which are designated as hedging instruments:

	2018	2017
Gain (loss) recognized in consolidated statements of operations:		
Revenue—product sales:		
Ethanol contracts	\$ 10,350,153	\$ (10,159,391)
Cost of goods sold:		
Corn contracts	(949,260)	2,237,026

#### Note 6. Property and Equipment

The following table summarizes property and equipment as of August 31, 2018 and 2017:

	2018	2017
Land and land improvements	\$ 19,042,873	\$ 18,492,790
Buildings	31,240,436	33,135,064
Railroad equipment and rolling stock	19,139,000	18,606,543
Machinery and equipment	315,165,110	297,153,128
Office equipment	1,307,298	1,181,385
Construction in progress	2,013,326	3,516,530
	387,908,043	372,085,440
Less accumulated depreciation	(286,180,187)	(269,067,343)
	<u>\$ 101,727,856</u>	<u>\$ 103,018,097</u>

Depreciation expense for the years ended August 31, 2018 and 2017, was \$18,690,165 and \$21,643,006, respectively.

#### Note 7. Revolving Lines of Credit and Long-Term Debt

**Revolving lines of credit:** The Cooperative has a \$25,000,000 term revolving line of credit with Compeer Financial. Revolving line of credit advances borrowed and repaid may be reborrowed at any time prior to the revolving line of credit termination date of June 30, 2019. Amounts borrowed on the revolving line of credit bear interest at a rate 3.10 percent above the one month LIBOR (5.1775 percent at August 31, 2018). Amounts borrowed under the revolving line of credit are secured by substantially all the assets of the Cooperative, GLE and AE. There were no outstanding borrowings, and the amount available under the agreement was \$25,000,000 as of August 31, 2018.

The Cooperative had a loan agreement that included a \$25,000,000 seasonal revolving line credit to be used for working capital and ongoing operating expenses. This seasonal revolving line of credit was terminated during the year ended August 31, 2018. Amounts borrowed on the revolving line of credit bore interest at a rate 3.00 percent above the one month LIBOR. Amounts borrowed under the revolving line of credit were secured by substantially all the assets of the Cooperative, GLE and AE. There were no outstanding borrowings, and the amount available under the agreement was \$25,000,000 as of August 31, 2017.

## Glacial Lakes Corn Processors

### Notes to Consolidated Financial Statements

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#### **Note 7. Revolving Lines of Credit and Long-Term Debt (Continued)**

The Company will pay Compeer Financial an unused commitment fee on the average daily unused portion of the Term Revolving Loan Commitment from the closing date until the maturity date at the rate of 40 basis points on a per-annum basis.

**Long-term debt:** The Cooperative, GLE and AE are entered into a term loan agreement with Compeer Financial. This loan agreement was due in monthly installments of \$350,000 plus accrued interest. Interest accrued on the term loan at a rate 3.10 percent above the one month LIBOR. The term loan was due to mature on June 30, 2019, and secured by substantially all the assets of the Cooperative, GLE and AE. The balance outstanding as of August 31, 2018 and 2017, was \$0 and \$11,250,000, respectively.

**Covenants and requirements of loan agreement:** The Loan Agreement with Compeer Financial requires compliance with a number of covenants including minimum working capital levels, fixed-charge coverage ratio, minimum tangible net worth, limitations on distributions and limitations on capital expenditures.

#### **Note 8. Stockholders' Equity**

The Cooperative is an agricultural association whereby members must meet established membership criteria, hold a minimum of 2,500 shares of common stock, pay the required membership fee and enter into a uniform delivery and marketing agreement.

The common stock of the Cooperative is the membership stock of the Cooperative and entitles each member to one vote in the affairs of the Cooperative regardless of the number of common shares owned. Patronage dividends are paid on the common stock. According to the articles of incorporation, the Cooperative may issue preferred stock. Preferred stock of the Cooperative would be non-voting with allowable non-cumulative dividends paid on preferred stock not to exceed 8 percent annually of the par value of the preferred stock.

In the event of a liquidation or dissolution of the Cooperative, net assets remaining after the liabilities of the Cooperative are settled will be distributed first to the holders of preferred stock up to an amount equal to the consideration given. Second, distributions will be to the holders of the common stock and any nonvoting certificates of interest into which the common stock was converted, up to an amount equal to the consideration given plus, in the case of holders of certain shares of common stock, a Share Revaluation Preference. Third in preference is the members holding patron equities in the order from oldest to most recent. Fourth distribution is to the existing members on the basis of their past patronage. Final distributions will be to patrons in accordance with their credited interest in capital reserves, and any remaining assets to patrons in proportion to their patronage since the most recent issuance of capital stock in which a Share Revaluation Preference was created. The purpose of the Share Revaluation Preference is to equalize the liquidating distribution entitlements associated with outstanding shares with those associated with newly issued shares, notwithstanding that they were issued at different times and at different prices. This will equalize the entitlements of the pre-2006 shares with shares issued after May 31, 2006 (newly issued shares). However, the tax treatment on liquidation will be considerably different because the Share Revaluation Preference on the pre-2006 shares will be taxed as patronage dividends to the holders of those shares, to the extent the Cooperative recognizes gain on sale of assets and such gain constitutes patronage sourced gain, and assuming that the Cooperative remains taxable as a cooperative. The newly issued shares, on the other hand, will have their tax basis to offset against their distribution.

## Glacial Lakes Corn Processors

### Notes to Consolidated Financial Statements

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#### Note 8. Stockholders' Equity (Continued)

A reconciliation of net income from continuing operations and common stock share amounts used in the calculation of basic and diluted earnings per share (EPS) for the years ended August 31 are as follows:

	Net Income	Weighted Average Shares Outstanding	Per Share Amount
2018:			
Basic EPS	\$ 33,051,093	185,636,652	\$ 0.178
Effects of dilutive securities:			
Exercise of stock units	-	-	-
	<u>\$ 33,051,093</u>	<u>185,636,652</u>	<u>\$ 0.178</u>
2017:			
Basic EPS	\$ 33,699,891	185,637,227	\$ 0.182
Effects of dilutive securities:			
Exercise of stock units	-	-	-
	<u>\$ 33,699,891</u>	<u>185,637,227</u>	<u>\$ 0.182</u>

#### Note 9. Fair Value Measurements

Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

**Level 1:** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Cooperative has the ability to access.

**Level 2:** Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

**Level 3:** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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.

## Glacial Lakes Corn Processors

### Notes to Consolidated Financial Statements

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#### Note 9. Fair Value Measurements (Continued)

The following table summarizes by level, within the fair value hierarchy, the Cooperative's assets (liabilities) measured at fair value on a recurring basis at August 31, 2018 and 2017:

Balance Sheet Location:	August 31, 2018			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments, assets	\$ 5,307,350	\$ -	\$ -	\$ 5,307,350
Derivative financial instruments, liabilities	(141,259)	-	-	(141,259)
	<u>\$ 5,166,091</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,166,091</u>

  

Balance Sheet Location:	August 31, 2017			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments, assets	\$ 121,773	\$ -	\$ -	\$ 121,773
Derivative financial instruments, liabilities	(522,763)	-	-	(522,763)
	<u>\$ (400,990)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (400,990)</u>

The derivative financial instruments consist of commodity contracts which are valued based on quoted market prices.

#### Note 10. Leases

The Cooperative leases 505 hopper and 642 tanker cars under operating lease agreements. Generally, the Cooperative is required to pay executory costs such as maintenance and insurance.

Rent expense on the rail cars for the years ended August 31, 2018 and 2017, totaled \$6,024,939 and \$10,981,847, respectively, which is net of sublease income of \$158,909 and \$212,492, respectively.

The Cooperative is responsible for repairs and maintenance on the rail cars, as well as damages that are assessed at the end of the lease term. Accruals recorded for estimated damages as of August 31, 2018 and 2017, were \$5,070,400 and \$4,346,000, respectively. The portions of these accruals classified as long-term were \$4,486,900 and \$3,588,000 as of August 31, 2018 and 2017, respectively.

The Cooperative's approximate future minimum lease payments as of August 31, 2018, are as follows:

Years ending August 31:	
2019	\$ 9,620,385
2020	8,337,725
2021	6,986,750
2022	5,471,900
2023	2,606,100
Thereafter	1,419,000
	<u>\$ 34,441,860</u>

## Glacial Lakes Corn Processors

### Notes to Consolidated Financial Statements

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#### Note 11. Related-Party Transactions and Concentrations

**Corn marketing and purchases:** The Board of Directors of the Cooperative voted to have its members deliver 92,818,326 (0.50 per share) and 90,962,694 (0.49 per share) bushels of corn, for the years ended August 31, 2018 and 2017, respectively, on an open delivery system. For those bushels not delivered by the members of the Cooperative, GLE obtained those bushels through a corn pool operated by GLE and charged a pool fee of \$0.008 and \$0.007 per bushel for 2018 and 2017, respectively.

For the years ended August 31, 2018 and 2017, the Cooperative purchased corn from its members (including committed bushels described above) as follows:

	Bushels	Dollars
2018:		
Individuals	29,196,796	\$ 92,893,722
Elevators	30,519,857	97,116,594
	<u>59,716,653</u>	<u>\$ 190,010,316</u>
2017:		
Individuals	25,440,835	\$ 80,229,751
Elevators	24,478,218	77,714,221
	<u>49,919,053</u>	<u>\$ 157,943,972</u>

Included in the amounts paid to the members of the Cooperative for the purchase of corn for the years ended August 31, 2018 and 2017, the Cooperative paid \$3,395,180 and \$2,812,495, respectively, as freight allowance on committed bushels and \$60,900 and \$60,900 as additional payment to those members who purchased over 50,000 shares of stock at the time the Cooperative was organized (called "Commercial Level Investors") for the years ended August 31, 2018 and 2017, respectively.

**Distiller's grain sales:** For the years ended August 31, 2018 and 2017, the Cooperative sold distiller's grain to members of the Cooperative as follows:

	Tons	Dollars
2018:		
Dry distiller's grain	10,316	\$ 1,344,020
Wet distiller's grain	76,114	4,699,604
	<u>86,430</u>	<u>\$ 6,043,624</u>
2017:		
Dry distiller's grain	11,204	\$ 1,100,795
Wet distiller's grain	68,537	3,842,185
	<u>79,741</u>	<u>\$ 4,942,980</u>

**Receivables and payables:** As of August 31, 2018 and 2017, amounts receivable from or due to members of the Cooperative were as follows:

	2018	2017
Receivables for distiller's grains	\$ 426,408	\$ 238,016
Receivables for net pool fees	526,970	512,470
Payables for corn and freight allowances	10,559,955	7,748,394

## Glacial Lakes Corn Processors

### Notes to Consolidated Financial Statements

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#### Note 11. Related-Party Transactions and Concentrations (Continued)

**Customer concentrations:** During the years ended August 31, 2018 and 2017, the Cooperative had major customers from which the product sales and receivables were as follows:

	Product Sales		Accounts Receivable	
	Years Ended August 31,		August 31,	
	2018	2017	2018	2017
Eco Energy	\$ 322,283,206	\$ 360,281,613	\$ 4,558,622	\$ 8,063,271
Cenex Harvest States	50,140,611	41,322,314	2,926,790	1,660,841

#### Note 12. Employee Benefits

**Defined contribution plan:** The Cooperative has a Safe Harbor 401(k) plan for its employees. Eligible employees are able to contribute amounts (subject to IRS limits) and the Cooperative will match 100 percent of the employee's contribution, up to a maximum of 4 percent of the employees' salary. All employer contributions for eligible employees are vested immediately. During the years ended August 31, 2018 and 2017, the Cooperative contributed \$327,385 and \$278,799, respectively, to the 401(k) plan.

**Long-term incentive plan:** Glacial Lakes Energy, LLC has a Long-Term Stock Unit Incentive Plan which provides deferred compensation to certain key employees of the Cooperative. The plan awards Stock Incentive Units (Units) which are assigned a value determined by the Board of Directors. No grants of new Units shall be made under that plan after August 31, 2025, and the plan terminates after all participants have been paid in full. Up to 500,000 Units may be awarded under the Plan. The Units vest three years from the date of employment. The Units also carry a Dividend Equivalent which is the equivalent amount of patronage dividends actually paid in cash to the Cooperative's and Glacial Lakes Exports Holdings, LLC's members. Dividend Equivalents are paid on both vested and unvested Units. As of August 31, 2018, the Cooperative has awarded 380,625 Units under the plan and 308,750 of these units were vested. The Cooperative has recorded a liability of \$456,950 and \$241,313 for the value of the Units as of August 31, 2018 and 2017, respectively.

#### Note 13. Commitments and Contingencies

**Environmental:** Substantially all of the Cooperative's facilities are subject to federal, state and local regulations relating to the discharge of materials into the environment. Compliance with these provisions has not had, nor does management expect to have, any material effect upon operations. Management believes that the current practices and procedures for the control and disposition of such byproducts will substantially comply with the applicable federal and state requirements.

**Other litigation and claims:** On January 8, 2009, the Cooperative entered into Termination Agreements with their ethanol marketer, Aventine, to terminate the marketing agreements with Glacial Lakes Energy and Aberdeen Energy and all rights and obligations of the parties under the marketing agreements, effective January 16, 2009. Under the Termination Agreements, the Cooperative had recorded a receivable of \$965,876 (related to unpaid true-up payments on sales of ethanol to Aventine from January 2009) and a payable of \$1,184,188 (related to unpaid termination fees and other charges).

On April 7, 2009, Aventine filed for relief under Chapter 11 of the United States Bankruptcy Code, and on May 5, 2009, the Bankruptcy Court granted Aventine's motion to reject certain contracts including the master railcar leases between Aventine and various railcar companies of the tanker cars that the Cooperative has subleased from Aventine, effective as of April 7, 2009.

## Glacial Lakes Corn Processors

### Notes to Consolidated Financial Statements

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#### **Note 13. Commitments and Contingencies (Continued)**

In July 2013, Aventine brought a lawsuit against both Glacial Lakes Energy and Aberdeen Energy, in which Aventine sought damages for breach of the Termination Agreements. In response to Aventine's complaints, Glacial Lakes Energy and Aberdeen Energy filed a motion for summary judgment seeking dismissal of all of Aventine's claims. The court granted the dismissal motions on February 29, 2016. However, Aventine appealed that decision to the Seventh Circuit Court of Appeals and an unfavorable decision from the appellate court was rendered.

In February 2017, Aventine and Glacial Lakes Energy and Aberdeen Energy, under court order, executed a settlement agreement under which Glacial Lakes Energy and Aberdeen Energy paid in cash to Aventine \$3.44 million in final resolution of these matters. This amount, net of the previously recorded receivable and payable, resulted in an expense of \$3,081,104 recognized as legal settlements on the Cooperative's consolidated statement of operations for the year ended August 31, 2017.

**Ethanol marketing:** The Cooperative sells substantially all of the ethanol produced from both GLE and AE pursuant to a marketing agreement. The Cooperative pays a commission on a per gallon sold basis. The contract term for both GLE and AE commenced on January 1, 2017, and expires March 31, 2020.

**Distiller's grain marketing:** The Cooperative has an agreement with a national distiller's grain marketer to sell its production of distiller's grain to the marketer and pay a commission based on the net selling price. The agreement is for a rolling one-year period expiring on October 1 of each year and the agreement shall remain in effect until terminated by either party by providing the other party not less than 120 days written notice of its election to terminate the agreement. The agreement allows the Cooperative to sell distiller's grain shipped by truck while the national marketer sells distiller's grain shipped by railcars.

**Natural gas supply:** The Cooperative currently has natural gas supply agreements in place with a national supplier for its production requirements. The contracts for GLE and AE expire on December 31, 2020.

## Glacial Lakes Corn Processors

### Notes to Consolidated Financial Statements

#### Note 13. Commitments and Contingencies (Continued)

**Forward purchase and sales contracts:** As of August 31, 2018, the Cooperative has entered into forward purchase and sale contracts for the following:

	Quantity	Average Price	Delivery Date
Purchase of corn (in bushels):			
Basis contracts	4,181,138		By 11/30/19
Priced contracts	4,384,040	\$ 3.36	By 2/15/19
Total (primarily from members)	<u>8,565,178</u>		
Sale of ethanol (in gallons):			
Index contracts	57,924,000		By 6/30/19
Priced contracts	-	\$ -	
Total	<u>57,924,000</u>		
Sale of dry distiller's grains (in tons):			
Index contracts	-		
Priced contracts	56,516	\$ 131.38	By 12/31/18
Total	<u>56,516</u>		
Sale of modified wet distiller's grains (in tons):			
Index contracts	-		
Priced contracts	16,253	\$ 65.35	By 12/31/18
Total	<u>16,253</u>		

#### Note 14. Investments in Unconsolidated Affiliates

The Cooperative's investments in other renewable fuel businesses consist of the following as of August 31, 2018 and 2017, respectively:

	2018	2017
Granite Falls Energy, LLC	\$ 12,551,860	\$ 13,173,022
Redfield Energy, LLC	3,766,636	3,872,342
Harvestone Group, LLC	2,500,000	-
Other investments	5,600	5,600
	<u>\$ 18,824,096</u>	<u>\$ 17,050,964</u>

**Investments in Granite Falls Energy, LLC:** The Cooperative owns 5,004 units (16.35 percent) of Granite Falls Energy, LLC (GFE). GFE operates a 70 million gallon fuel ethanol plant near Granite Falls, Minnesota. GFE has a controlling ownership interest (50.7 percent) of Heron Lake BioEnergy, LLC (HLBE). HLBE operates a 72.3 million gallon fuel ethanol plant near Heron Lake, Minnesota.

For the years ended August 31, 2018 and 2017, the Cooperative recognized equity in net income of GFE of \$1,304,693 and \$2,056,116, respectively, and received cash distributions of \$1,925,852 and \$1,826,460, respectively.

## Glacial Lakes Corn Processors

### Notes to Consolidated Financial Statements

#### Note 14. Investments in Unconsolidated Affiliates (Continued)

The Cooperative's equity in the net income of GFE is based upon estimated earnings of the affiliate as of July 31 of each year. Summary financial information for GFE as of July 31, 2018 and October 31, 2017, (its fiscal year) is as follows:

Condensed Balance Sheets	July 31, 2018 (Unaudited)	October 31, 2017
Current assets	\$ 34,968,498	\$ 45,202,938
Property and equipment, net	68,241,215	72,271,013
Other assets	11,586,968	9,615,579
Total assets	<u>\$ 114,796,681</u>	<u>\$ 127,089,530</u>
Current liabilities	\$ 7,132,282	\$ 8,980,073
Long-term debt, less current maturities	8,295,555	8,465,502
Member's equity	76,771,028	83,998,672
Non-controlling interest	22,597,816	25,645,283
Total liabilities and member's equity	<u>\$ 114,796,681</u>	<u>\$ 127,089,530</u>

  

Condensed Statements of Operations	Nine Months Ended July 31, 2018 (Unaudited)	Year Ended October 31, 2017
Revenues	\$ 161,764,393	\$ 215,782,391
Costs of goods sold	(151,250,420)	(194,682,913)
Gross profit	10,513,973	21,099,478
Operating expenses	(4,786,700)	(6,167,883)
Other income (expense), net	87,910	189,951
Net income	5,815,183	15,121,546
Less noncontrolling interest	(1,263,725)	(3,636,213)
Net income attributed to GFE	<u>\$ 4,551,458</u>	<u>\$ 11,485,333</u>

**Investment in Redfield Energy, LLC:** The Cooperative owns 3,321,052 units (8.13 percent), of Redfield Energy, LLC (RE). RE operates a 60 million gallon fuel ethanol plant near Redfield, South Dakota.

Included in the total units of RE owned by the Cooperative are 1,010,526 units received as part of the consulting and management agreement, representing 5 percent of the outstanding units after the close of the offering in February 2006. These units receive a pro rata allocation of the ongoing earnings and distributions of RE, however, under the terms of RE's operating agreement, no amount was initially credited to the Cooperative's capital account at RE for these units, effectively reducing the Cooperative's equity in the net assets of RE from what would otherwise be expected. However, these units have a distribution preference of up to \$2,021,052 in any gain recognized by RE upon liquidation as long as other members receive a minimum liquidating distribution of \$1.00 per unit.

For the years ended August 31, 2018 and 2017, the Cooperative recognized equity in net income of RE of \$392,452 and \$435,709, respectively, and received \$498,158 and \$132,842 of cash distributions, respectively.

## Glacial Lakes Corn Processors

### Notes to Consolidated Financial Statements

#### Note 14. Investments in Unconsolidated Affiliates (Continued)

The Cooperative's equity in the net income of RE is based upon estimated earnings of the affiliate as of August 31 of each year. Summary financial information for RE as of and for the years ended August 31, 2018 and 2017, is as follows:

Condensed Balance Sheets	2018 (unaudited)	2017
Current assets	\$ 18,575,890	\$ 19,224,114
Property and equipment, net	27,977,854	30,457,242
Other assets, net	5,270,947	2,722,316
Total assets	<u>\$ 51,824,691</u>	<u>\$ 52,403,672</u>
Current liabilities	\$ 4,424,359	\$ 4,406,292
Long-term debt, less current maturities	1,240,582	2,827,181
Member's equity	46,159,750	45,170,199
Total liabilities and member's equity	<u>\$ 51,824,691</u>	<u>\$ 52,403,672</u>
Condensed Statements of Operations	2018 (unaudited)	2017
Revenues	\$ 109,580,110	\$ 112,316,807
Costs of goods sold	(102,492,053)	(104,559,449)
Gross profit	7,088,057	7,757,358
Operating expenses	(3,021,711)	(3,026,643)
Other income, net	778,475	628,560
Net income	<u>\$ 4,844,821</u>	<u>\$ 5,359,275</u>

**Investments in Harvestone Group, LLC:** Harvestone Group, LLC is an ethanol marketer which intends to market ethanol for various ethanol plants throughout the country. The investment is a flow-through entity and is being accounted for by the equity method of accounting under which the Company's share of net income is recognized as income in the Company's statements of operations and added to the investment account. During the fiscal year ended August 31, 2018, the Company purchased a 10.4 percent investment interest in Harvestone Group, LLC, an unlisted company. Harvestone Group, LLC is in the start-up stage and has had no operations as of August 31, 2018. Income from the investment totaled \$0 for the year ended August 31, 2018.

#### Note 15. Income Taxes

The provision for income taxes charged to income for the years ended August 31, 2018 and 2017, consists of the following:

	2018	2017
Current expense	\$ 597,741	\$ 924,000
Deferred expense (benefit)	(1,549,187)	309,116
Total income tax expense (benefit)	<u>\$ (951,446)</u>	<u>\$ 1,233,116</u>

## Glacial Lakes Corn Processors

### Notes to Consolidated Financial Statements

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#### Note 15. Income Taxes (Continued)

Deferred taxes are comprised of basis differences related to non-patronage earnings from the Cooperative's investments in GFE and RE. Since the Cooperative allocates its patronage earnings on the tax basis of accounting, deferred income taxes have not been recognized on the temporary differences associated with its patronage earnings. The most significant differences between book and tax earnings are depreciation and recognition of gains and losses associated with derivative financial instruments.

Deferred tax liabilities as of August 31, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Deferred tax liability:		
Investment in GFE and RE	\$ (1,415,644)	\$ (2,964,832)
Net deferred tax liability	<u>\$ (1,415,644)</u>	<u>\$ (2,964,832)</u>

As of August 31, 2018 and 2017, the Cooperative has a net patronage loss carryforward for income tax purposes of approximately \$0 and \$3,723,000 and a net patronage research and development credit carryforward for income tax purposes of approximately \$17,862,000 and \$13,904,000.



RSM US LLP

## Independent Auditor's Report on the Supplementary Information

Board of Directors  
Glacial Lakes Corn Processors

We have audited the consolidated financial statements of Glacial Lakes Corn Processors and its subsidiaries (the Company) as of and for the years ended August 31, 2018 and 2017, and have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements. See pages 1-2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual companies and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*RSM US LLP*

Sioux Falls, South Dakota  
November 20, 2018

## Glacial Lakes Corn Processors

### Consolidating Balance Sheet August 31, 2018

	Glacial Lakes Corn Processors	Glacial Lakes Energy, LLC	Aberdeen Energy, LLC	Eliminations	Consolidated
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 1,592,755	\$ 11,742,861	\$ 8,002,336	\$ -	\$ 21,337,952
Short-term investments	-	38,795,756	29,837,041	-	68,632,797
Accounts receivable, net	7,425,466	7,007,359	5,571,578	(8,030,427)	11,973,976
Inventories	-	9,563,225	8,569,853	-	18,133,078
Derivative financial instruments	-	2,457,064	285,397	-	2,742,461
Prepaid expenses	-	75,230	19,217	-	94,447
Income tax receivable	27,741	-	-	-	27,741
<b>Total current assets</b>	<b>9,045,962</b>	<b>69,641,495</b>	<b>52,285,422</b>	<b>(8,030,427)</b>	<b>122,942,452</b>
Property and equipment, net	-	53,540,596	48,187,260	-	101,727,856
Investments in unconsolidated affiliates	197,820,429	18,824,096	-	(197,820,429)	18,824,096
Other assets	-	817,777	541,705	-	1,359,482
<b>Total assets</b>	<b>\$ 206,866,391</b>	<b>\$ 142,823,964</b>	<b>\$ 101,014,387</b>	<b>\$ (205,850,856)</b>	<b>\$ 244,853,886</b>
<b>Liabilities and Stockholders' Equity</b>					
Current liabilities:					
Checks issued in excess of bank balance	\$ -	\$ -	\$ 1,108,222	\$ -	\$ 1,108,222
Accounts payable	150	12,965,598	22,028,001	(8,030,427)	26,963,322
Accrued expenses	-	2,178,883	979,255	-	3,158,138
Patronage dividends payable	7,425,466	-	-	-	7,425,466
Glacial Lakes Exports distributions payable	-	698,812	1,572,246	-	2,271,058
<b>Total current liabilities</b>	<b>7,425,616</b>	<b>15,843,293</b>	<b>25,687,724</b>	<b>(8,030,427)</b>	<b>40,926,206</b>
Deferred income taxes	1,415,644	-	-	-	1,415,644
Other	-	3,423,000	1,063,900	-	4,486,900
<b>Total liabilities</b>	<b>8,841,260</b>	<b>19,266,293</b>	<b>26,751,624</b>	<b>(8,030,427)</b>	<b>46,828,750</b>
Stockholders' equity	198,025,131	123,557,671	74,262,763	(197,820,429)	198,025,136
<b>Total liabilities and stockholders' equity</b>	<b>\$ 206,866,391</b>	<b>\$ 142,823,964</b>	<b>\$ 101,014,387</b>	<b>\$ (205,850,856)</b>	<b>\$ 244,853,886</b>

## Glacial Lakes Corn Processors

### Consolidating Balance Sheet August 31, 2017

	Glacial Lakes Corn Processors	Glacial Lakes Energy, LLC	Aberdeen Energy, LLC	Eliminations	Consolidated
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 2,356,780	\$ 26,306,368	\$ 23,441,269	\$ -	\$ 52,104,417
Short-term investments	-	23,982,177	23,982,177	-	47,964,354
Accounts receivable, net	7,425,466	8,067,906	6,694,704	(8,802,351)	13,385,725
Inventories	-	8,357,407	9,663,938	-	18,021,345
Derivative financial instruments	-	248,183	500,259	-	748,442
Prepaid expenses	-	154,999	94,421	-	249,420
Income tax receivable	6,605	-	-	-	6,605
<b>Total current assets</b>	<b>9,788,851</b>	<b>67,117,040</b>	<b>64,376,768</b>	<b>(8,802,351)</b>	<b>132,480,308</b>
Property and equipment, net	-	50,830,236	52,187,861	-	103,018,097
Investments in unconsolidated affiliates	199,352,583	17,050,964	-	(199,352,583)	17,050,964
Other assets	-	815,246	541,692	-	1,356,938
<b>Total assets</b>	<b>\$ 209,141,434</b>	<b>\$ 135,813,486</b>	<b>\$ 117,106,321</b>	<b>\$ (208,154,934)</b>	<b>\$ 253,906,307</b>
<b>Liabilities and Stockholders' Equity</b>					
Current liabilities:					
Checks issued in excess of bank balance	\$ -	\$ 53,213	\$ 4,764,488	\$ -	\$ 4,817,701
Accounts payable	165,000	11,512,496	23,010,149	(8,802,351)	25,885,294
Accrued expenses	-	2,174,075	1,572,928	-	3,747,003
Patronage dividends payable	7,425,466	-	-	-	7,425,466
Glacial Lakes Exports distributions payable	-	283,207	775,327	-	1,058,534
Current maturities of long-term debt	-	2,058,750	2,058,750	-	4,117,500
<b>Total current liabilities</b>	<b>7,590,466</b>	<b>16,081,741</b>	<b>32,181,642</b>	<b>(8,802,351)</b>	<b>47,051,498</b>
Long-term debt, less current maturities	-	1,387,187	1,387,188	-	2,774,375
Deferred income taxes	2,964,831	-	-	-	2,964,831
Other	-	2,914,000	674,000	-	3,588,000
<b>Total liabilities</b>	<b>10,555,297</b>	<b>20,382,928</b>	<b>34,242,830</b>	<b>(8,802,351)</b>	<b>56,378,704</b>
Stockholders' equity	198,586,137	115,430,558	82,863,491	(199,352,583)	197,527,603
<b>Total liabilities and stockholders' equity</b>	<b>\$ 209,141,434</b>	<b>\$ 135,813,486</b>	<b>\$ 117,106,321</b>	<b>\$ (208,154,934)</b>	<b>\$ 253,906,307</b>

**Glacial Lakes Corn Processors**

**Consolidating Statement of Operations  
Year Ended August 31, 2018**

	Glacial Lakes Corn Processors	Glacial Lakes Energy, LLC	Aberdeen Energy, LLC	Eliminations	Consolidated
<b>Revenue:</b>					
Product sales	\$ -	\$ 210,509,719	\$ 219,758,523	\$ -	\$ 430,268,242
Service revenue	-	567,361	30,681	-	598,042
Government incentive revenue	-	358,385	-	-	358,385
<b>Total revenue</b>	-	211,435,465	219,789,204	-	431,224,669
<b>Cost of goods sold</b>					
	-	186,225,025	208,788,341	-	395,013,366
<b>Gross profit</b>	-	25,210,440	11,000,863	-	36,211,303
<b>Operating expenses:</b>					
General and administrative expenses	1,294	4,137,896	3,014,423	-	7,153,613
<b>Total operating expenses</b>	1,294	4,137,896	3,014,423	-	7,153,613
<b>Operating income (loss)</b>	(1,294)	21,072,544	7,986,440	-	29,057,690
<b>Other income (expense):</b>					
Interest expense	-	(114,839)	(111,941)	-	(226,780)
Interest income	10,043	877,117	481,242	-	1,368,402
Commissions income (expense)	-	(746,158)	(2,105,537)	2,851,695	-
Equity in earnings of unconsolidated affiliates	-	1,697,829	-	-	1,697,829
Equity in earnings of consolidated subsidiaries	29,228,241	-	-	(29,228,241)	-
Other income, net	10,957	191,549	-	-	202,506
<b>Total other income (expense)</b>	29,249,241	1,905,498	(1,736,236)	(26,376,546)	3,041,957
<b>Income before income taxes</b>	29,247,947	22,978,042	6,250,204	(26,376,546)	32,099,647
Income tax provision (benefit)	(951,446)	-	-	-	(951,446)
<b>Net income</b>	\$ 30,199,393	\$ 22,978,042	\$ 6,250,204	\$ (26,376,546)	\$ 33,051,093

**Glacial Lakes Corn Processors**

**Consolidating Statement of Operations  
Year Ended August 31, 2017**

	Glacial Lakes Corn Processors	Glacial Lakes Energy, LLC	Aberdeen Energy, LLC	Eliminations	Consolidated
Revenue:					
Product sales	\$ -	\$ 208,821,458	\$ 223,243,494	\$ -	\$ 432,064,952
Service revenue	-	287,548	179,419	-	466,967
Government incentive revenue	-	753,083	-	-	753,083
<b>Total revenue</b>	<b>-</b>	<b>209,862,089</b>	<b>223,422,913</b>	<b>-</b>	<b>433,285,002</b>
Cost of goods sold					
	-	184,759,099	206,206,915	-	390,966,014
<b>Gross profit</b>	<b>-</b>	<b>25,102,990</b>	<b>17,215,998</b>	<b>-</b>	<b>42,318,988</b>
Operating expenses:					
General and administrative expenses	1,141	3,853,313	3,121,381	-	6,975,835
Legal settlements	-	1,441,971	1,639,133	-	3,081,104
<b>Total operating expenses</b>	<b>1,141</b>	<b>5,295,284</b>	<b>4,760,514</b>	<b>-</b>	<b>10,056,939</b>
<b>Operating income (loss)</b>	<b>(1,141)</b>	<b>19,807,706</b>	<b>12,455,484</b>	<b>-</b>	<b>32,262,049</b>
Other income (expense):					
Interest expense	-	(345,167)	(345,167)	-	(690,334)
Interest income	13,231	237,159	203,234	-	453,624
Commissions income (expense)	-	(2,785,024)	(1,420,309)	4,205,333	-
Equity in earnings of unconsolidated affiliates	-	2,491,825	-	-	2,491,825
Equity in earnings of consolidated subsidiaries	31,764,075	-	-	(31,764,075)	-
Other income, net	10,043	405,800	-	-	415,843
<b>Total other income (expense)</b>	<b>31,787,349</b>	<b>4,593</b>	<b>(1,562,242)</b>	<b>(27,558,742)</b>	<b>2,670,958</b>
<b>Income before income taxes</b>	<b>31,786,208</b>	<b>19,812,299</b>	<b>10,893,242</b>	<b>(27,558,742)</b>	<b>34,933,007</b>
Income tax provision	1,233,116	-	-	-	1,233,116
<b>Net income</b>	<b>\$ 30,553,092</b>	<b>\$ 19,812,299</b>	<b>\$ 10,893,242</b>	<b>\$ (27,558,742)</b>	<b>\$ 33,699,891</b>