COOPERATIVE REGIONS OF ORGANIC PRODUCER POOLS

La Farge, Wisconsin

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2016 and 2015

COOPERATIVE REGIONS OF ORGANIC PRODUCER POOLS

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BAKER TILLY

INDEPENDENT AUDITORS' REPORT

Stockholders
Cooperative Regions of Organic Producer Pools
La Farge, Wisconsin

We have audited the accompanying consolidated financial statements of Cooperative Regions of Organic Producer Pools and its subsidiaries (the "cooperative"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, patrons' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the cooperative's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the cooperative's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Stockholders
Cooperative Regions of Organic Producer Pools

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cooperative Regions of Organic Producer Pools and its subsidiaries as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 5, 2017

COOPERATIVE REGIONS OF ORGANIC PRODUCER POOLS

CONSOLIDATED BALANCE SHEETS
As of December 31, 2016 and 2015

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	$ 1,871,654	$ 3,025,113
Accounts receivable, net	85,397,769	81,747,077
Inventories, net	149,085,201	118,331,673
Income tax receivable	1,705,387	30,700
Prepaid and other current assets	4,818,023	3,993,791
Notes receivable - current portion	735,339	509,680
Deferred tax asset - current portion	12,536,617	8,986,914
Total Current Assets	256,149,990	216,624,948
NET PROPERTY, PLANT AND EQUIPMENT	89,652,704	69,064,721
OTHER ASSETS		
Investments	2,280,492	1,791,391
Goodwill, net	1,105,874	1,244,109
Intangibles, net	1,228,958	1,455,995
Notes receivable, net	2,498,187	5,078,597
Other long-term assets	6,778,750	4,959,031
Total Other Assets	13,892,261	14,529,123
TOTAL ASSETS	$ 359,694,955	$ 300,218,792

LIABILITIES AND PATRONS' EQUITY

	2016	2015
CURRENT LIABILITIES		
Accounts payable	$ 47,944,180	$ 47,357,235
Farmer payable	45,930,181	41,531,229
Accrued expenses	8,843,101	9,720,048
Income tax payable	83,276	6,216,079
Line of credit	61,166,368	10,000,000
Current maturities of long term debt	813,294	685,637
Total Current Liabilities	164,780,400	115,510,228
Long-term debt, less current maturities	5,532,144	5,654,675
Deferred tax liability	6,286,102	4,401,702
Deferred compensation liability	1,222,500	992,500
Total Liabilities	177,821,146	126,559,105
PATRONS' EQUITY		
Class E stock	85,265,324	67,543,144
Class B stock	25,643,751	37,223,623
Class A stock	49,625	45,875
Class B stock - subscriptions	4,579,879	2,600,000
Class B stock - subscriptions receivable	(4,579,879)	(2,600,000)
Pool equities	3,007,242	1,934,737
Accumulated other comprehensive income	1,694,189	-
Unallocated capital reserve	64,550,547	65,204,048
Total Controlling Interest	180,210,678	171,951,427
Non-controlling interest in subsidiaries	1,663,131	1,708,260
Total Patrons' Equity	181,873,809	173,659,687
TOTAL LIABILITIES AND PATRONS' EQUITY	$ 359,694,955	$ 300,218,792

See accompanying notes to consolidated financial statements.

COOPERATIVE REGIONS OF ORGANIC PRODUCER POOLS

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2016 and 2015

	2016	2015
GROSS SALES	$ 1,099,648,894	$ 1,042,029,126
Discounts & allowances	(44,571,489)	(25,953,292)
NET SALES	1,055,077,405	1,016,075,834
COST OF SALES	927,529,166	865,169,452
Gross Profit	127,548,239	150,906,382
OPERATING EXPENSES		
Direct marketing	21,304,854	14,832,013
Indirect marketing		
Sales & sales support	11,222,745	9,981,636
Mission & messaging	2,639,967	2,121,013
Brand marketing	19,697,796	16,726,354
Total Indirect Marketing	33,560,508	28,829,003
Pool expenses	9,280,465	7,710,957
General & administrative	54,850,489	47,940,411
Product development	1,086,888	956,259
Governance	1,097,151	1,023,750
Legal fees & co-op affairs	1,792,418	1,580,827
Sustainability	1,059,774	690,747
Other expenses	997,802	4,789,632
Total Operating Expenses	125,030,349	108,353,599
Operating Income	2,517,890	42,552,783
OTHER EXPENSE (INCOME)		
Interest expense	876,872	213,844
Other income	(775,814)	(614,538)
Net Other Expense (Income)	101,058	(400,694)
Income Before Taxes	2,416,832	42,953,477
INCOME TAXES EXPENSE (BENEFIT)	(3,842,285)	6,118,918
NET INCOME	6,259,117	36,834,559
Net loss attributable to non-controlling interest	45,129	5,864
NET INCOME ATTRIBUTABLE TO THE CONTROLLING INTEREST	$ 6,304,246	$ 36,840,423

See accompanying notes to consolidated financial statements.

COOPERATIVE REGIONS OF ORGANIC PRODUCER POOLS

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2016 and 2015

	2016	2015
NET INCOME	$ 6,259,117	$36,834,559
Unrealized gain on derivative instruments, net of tax of $1,024,634	1,694,189	-
COMPREHENSIVE INCOME	$ 7,953,306	$36,834,559

See accompanying notes to consolidated financial statements.

COOPERATIVE REGIONS OF ORGANIC PRODUCER POOLS

CONSOLIDATED STATEMENTS OF PATRONS' EQUITY
For the Years Ended December 31, 2016 and 2015

	Class E-1 Stock	Class E-2 Stock	Class C Stock	Class B Stock	Class A Stock	Pool Equities	Class B Stock - Subscriptions	Class B Stock - Subscriptions Receivable	Unallocated Capital Reserve	Accumulated Other Comprehensive Income	Non-Controlling Interest in Subsidiaries	Patrons' Equities Total
BALANCES, December 31, 2014	$ 56,716,393	$ 1,980,289	$ 3,524,632	$ 36,837,422	$ 44,975	$ 2,447,533	$ 1,697,130	$ (1,697,130)	$ 36,934,848	$ -	$ 668,579	$ 139,154,671
Stock sold	3,743,449	-	-	574,404	-	2,138,639	-	-	-	-	-	6,456,492
Retirements	(1,520,991)	(338,753)	(246,402)	(3,455,293)	-	(783,799)	-	-	-	-	-	(6,345,238)
Class A stock - issued	-	-	-	-	900	-	-	-	(900)	-	-	-
Stock transfers	4,002,998	-	(3,308,179)	1,172,817	-	(1,867,636)	-	-	-	-	-	-
Dividends - stock	2,828,820	130,939	29,949	2,094,273	-	-	-	-	(5,083,981)	-	-	-
Dividends - cash	-	-	-	-	-	-	-	-	(1,504,342)	-	-	(1,504,342)
Base capital adjustment	-	-	-	-	-	-	902,870	(902,870)	-	-	-	-
Net income (loss)	-	-	-	-	-	-	-	-	36,840,423	-	(5,864)	36,834,559
Patronage dividends payable	-	-	-	-	-	-	-	-	(1,982,000)	-	-	(1,982,000)
Non-controlling interest opening equity	-	-	-	-	-	-	-	-	-	-	1,045,545	1,045,545
BALANCES, December 31, 2015	65,770,669	1,772,475	-	37,223,623	45,875	1,934,737	2,600,000	(2,600,000)	65,204,048	-	1,708,260	173,659,687
Stock sold	5,608,941	-	-	1,171,960	-	2,862,521	-	-	-	-	-	9,643,422
Retirements	(1,211,170)	(1,772,475)	-	(3,603,935)	-	(572,601)	-	-	-	-	-	(7,160,181)
Class A stock - issued	-	-	-	-	3,750	-	-	-	(3,750)	-	-	-
Stock transfers	11,569,898	-	-	(10,352,483)	-	(1,217,415)	-	-	-	-	-	-
Dividends - stock	3,526,986	-	-	1,204,586	-	-	-	-	(4,731,572)	-	-	-
Dividends - cash	-	-	-	-	-	-	-	-	(2,324,631)	-	-	(2,324,631)
Base capital adjustment	-	-	-	-	-	-	1,979,879	(1,979,879)	-	-	-	-
Net income (loss)	-	-	-	-	-	-	-	-	6,304,246	-	(45,129)	6,259,117
Patronage dividends payable	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	102,206	-	-	102,206
Unrealized gain on derivative instruments, net of tax of $1,024,634	-	-	-	-	-	-	-	-	-	1,694,189	-	1,694,189
BALANCES, December 31, 2016	$ 85,265,324	$ -	$ -	$ 25,643,751	$ 49,625	$ 3,007,242	$ 4,579,879	$ (4,579,879)	$ 64,550,547	$ 1,694,189	$ 1,663,131	$ 181,873,809

See accompanying notes to consolidated financial statements.

COOPERATIVE REGIONS OF ORGANIC PRODUCER POOLS

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,259,117	$ 36,834,559
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	8,660,939	7,623,599
Noncash portion of patronage allocations received	(81,426)	(2,197)
Equity in loss (income) from joint ventures	(182,616)	202,902
(Gain) Loss on disposal of property and equipment	374,214	(54,414)
Change in inventory reserve	10,068,475	11,105,947
Change in deferred taxes	(2,689,938)	(6,828,212)
Changes in assets and liabilities:		
Accounts receivable	(2,608,412)	2,187,347
Inventories	(40,822,003)	(52,887,025)
Prepaids and other current assets	(1,501,305)	438,084
Accounts payable and farmer payable	8,144,351	5,934,586
Accrued expenses	(1,146,663)	1,282,266
Other assets and liabilities, net	(5,767,892)	6,105,938
Net Cash Flows from Operating Activities	(21,293,159)	11,943,380
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(28,865,964)	(17,481,174)
Proceeds from disposal of equipment	109,905	62,894
Net receipts (advances) on notes receivable	1,312,471	(625,416)
Cash paid for purchase of investment in cooperatives	(300,000)	(200,000)
Dividends from (investment in) joint venture	74,941	(73,807)
Investment in tax increment project revenue bond	(236,249)	(721,049)
Purchase of Dombrovski stock	(1,176,454)	(544,721)
Net Cash Flows from Investing Activities	(29,081,350)	(19,583,273)
CASH FLOWS FROM FINANCING ACTIVITIES		
Retirement of patrons' equities	(7,160,181)	(6,345,238)
Patronage refunds paid to members	(1,982,000)	-
Proceeds from stock sales	9,643,422	6,456,492
Payment of stock dividends	(1,952,708)	(1,504,342)
Net proceeds from line of credit	51,166,368	8,757,458
Repayments of long-term debt	(713,559)	(627,979)
Proceeds from long-term debt	219,708	-
Net Cash Flows from Financing Activities	49,221,050	6,736,391
Net Change in Cash and Cash Equivalents	(1,153,459)	(903,502)
CASH AND CASH EQUIVALENTS - Beginning of Year	3,025,113	3,928,615
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,871,654	$ 3,025,113
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid for interest	$ 909,429	$ 328,332
Cash paid for income taxes	6,643,253	5,639,411
NONCASH INVESTING AND FINANCING ACTIVITIES		
Patronage dividend payable	$ -	$ 1,982,000
Stock dividend issuance	4,731,572	5,083,981
Class A stock issuance	3,750	900
Unrealized gain on derivative instruments, net of tax of $1,024,634	1,694,189	-
Debt obligation incurred for equipment	498,977	-
Acquisition of Dombrovski financed by seller	-	1,176,454

See accompanying notes to consolidated financial statements.

NOTE 1 - Summary of Significant Accounting Policies

Nature of Operations

Cooperative Regions of Organic Producer Pools ("CROPP" or "the cooperative") is organized and operated on a cooperative basis, marketing organic products for patrons domestically and internationally. The cooperative and its members must adhere to organic certification standards. Major products handled are organic dairy, eggs, meat, feed, soy and produce. Revenue in excess of operating costs and expenses are allocated to patrons on a patronage pool basis, as either allocated or unallocated. Transfers of patronage are permitted only with approval of the cooperative's Board of Directors.

Principles of Consolidation

The consolidated financial statements include the accounts of the Cooperative Regions of Organic Producer Pools and its wholly-owned subsidiaries, Organic Logistics, LLC, Worden Elevator, LLC and OMC, LLC along with its 66% and 65% majority-owned subsidiaries, Lorentz Etc., Inc. ("Lorentz") and Dombrovski Meats, LLC ("Dombrovski"), respectively. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less. The cooperative maintains cash in accounts with a financial institution in excess of amounts insured by the Federal Deposit Insurance Corporation. Management does not believe there is a significant credit risk associated with the deposits.

Accounts Receivable

Accounts receivable arise from marketing patrons' products. The cooperative grants credit to customers, substantially all of which, are distributors and retailers throughout the United States. Accounts are considered past due when payment is not received within the period allowed under terms of the sale. Past due accounts receivable bear interest at 18% annually and income is recognized when received. Management periodically reviews past due receivables and charges off uncollectible accounts when all reasonable collection efforts have been exhausted.

The allowance for doubtful accounts reflects management's estimates of inherent credit risks based upon past experience of the cooperative and evaluation of the underlying credit risks. All of the credit granted is unsecured with no collateral policy.

Inventories

Inventories consist primarily of raw and finished dairy products and packaging materials which are valued at the lower of cost or market, with cost determined on the first-in, first-out (FIFO) method. Market is considered as net realizable organic value.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Derivatives

The cooperative recognizes derivative instruments on the balance sheet as either an asset or liability, measured at fair value. The cooperative's derivatives consist entirely of hedging contracts to manage the price risk associated with energy costs. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, whether the hedge is a cash flow hedge or a fair value hedge.

At December 31, 2016 the cooperative elected to designate certain hedging contracts as accounting hedges. The gains or losses on these open contracts are treated as cash flow hedges and are initially included as a component of other comprehensive income. They are subsequently reclassified into cost of sales when the contract is closed. The cooperative documents its risk management strategy and hedge effectiveness at the inception of and during the term of each hedge.

At December 31, 2016 and 2015, the cooperative has not elected to designate certain derivative instruments as accounting hedges. As such, changes in the fair value of these instruments are recorded in the consolidated statements of operations.

It is the policy of the cooperative to execute such contracts with creditworthy counterparties. These activities are subject to policies established by the cooperative which, among other matters, prohibit the use of derivative financial instruments for speculative purposes.

Fair Value Measurements

The cooperative defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Property, Plant and Equipment

Property, plant and equipment are stated at cost and include expenditures for land and improvements, buildings, equipment, vehicles, software and construction in progress. Depreciation and amortization is computed on individual assets using the straight-line method at rates adequate to amortize the cost of applicable assets over their useful lives. The cost and accumulated depreciation of assets sold or otherwise disposed of are removed from the related accounts and the resulting gains or losses are reflected in income. Expenditures for normal maintenance and repairs are expensed, while major renewals and betterments are capitalized.

Investments

Investments in cooperatives are stated at cost plus patronage refunds received in noncash equities less cash distributions received. Investments in cooperatives have no quoted market prices and, as such, it is not practical to estimate the fair value of such investments.

Investments in 20% to 50%-owned companies are accounted for under the equity method as the cooperative can exercise significant influence, but not control, over such investments. The equity method requires that gains (losses) are recognized in other income (expense), net in the consolidated statements of operations.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Notes Receivable

The cooperative has entered into notes receivable with customers in conjunction with the sale of product. Maturity and interest rates vary based on the terms of the notes. Notes receivable payments are generally due each month and interest income is recognized when due. Payments collected on notes receivable are included in net receipts (advances) collected by investing activities in the statement of cash flows. In addition, the cooperative has a note receivable from Cashton Greens Wind Farm, LLC (see Note 6) and a grant receivable from a tax incremental finance commitment with the Village of Cashton (see Note 17).

On an annual basis, management reviews amounts due under its notes receivable for recoverability when events or circumstances indicate that the carrying amounts of the amount due may not be recoverable. At December 31, 2016, the cooperative recorded an allowance for doubtful accounts (see Note 7).

Goodwill

Goodwill represents the excess of purchase price over the net assets acquired. The cooperative amortizes goodwill using a straight-line method over 10 years and has elected to test goodwill for impairment at the entity level when a triggering event has occurred. A triggering event may indicate the fair value of the entity is below its carrying value. No triggering events have occurred during 2016 or 2015 and therefore the cooperative has not recognized any impairment losses in those years.

Intangible Assets

The cooperative has acquired various customer lists, non-competes contracts and trademarks. The cost of the intangibles totaled $1,699,367 as of December 31, 2016 and 2015. The intangibles are being amortized on straight-line method over 5 to 15 years. The accumulated amortization of these intangibles totaled $470,409 and $243,372 as of December 31, 2016 and 2015, respectively. Amortization expenses on intangibles were $227,037 and $93,991 for the years ended December 31, 2016 and 2015. Amortization expense will range from $174,000 to $228,000 per year for the next five years.

Impairment of Long-Lived Assets

The cooperative reviews long-lived assets, including property, plant and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. There was no impairment loss for the years ended December 31, 2016 and 2015.

Income Taxes

The cooperative files a federal income tax return with its 100% or more owned subsidiaries. The cooperative is subject to federal and state income taxes on additions to the unallocated capital reserve. As an exempt cooperative under Section 521 of the Internal Revenue Service ("IRS") code, substantially all of the common voting stock must be held by producers who are marketing their products through the cooperative. The value of products marketed for nonmembers may not exceed the value of products marketed for members. The exempt statutes allow the cooperative to take the amounts paid in dividends, during the tax year, as a tax deduction.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Income Taxes (cont.)

Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for federal and state income tax purposes, at each year end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The tax effects from an uncertain tax position are recognized in the financial statements, only if the position is more likely than not to be sustained on audit, based on the technical merits of the position. The cooperative recognizes the financial statement benefit of a tax position only after determining that the relevant taxing authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized, upon ultimate settlement with the relevant tax authority.

It is the cooperative's policy to recognize interest and penalties related to unrecognized tax benefits in income tax expense. With few exceptions, the cooperative is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for the years ended prior to December 31, 2013. The cooperative is not currently under examination by any taxing jurisdiction.

Revenue Recognition

Revenue is recognized upon transfer of title or ownership and risk of loss pass to the customer, which could occur upon either shipment or receipt by the customer depending upon the contract.

Sales are reduced by customer rebates, discounts and allowances and returns. Amounts related to these customer programs that are earned but not paid are included in accrued expenses on the consolidated balance sheets. Accrued customer programs totaled $3,156,049 at December 31, 2016 and 2015. Amounts billed to a customer as part of a revenue transaction related to shipping and handling are included in net sales.

Shipping and Handling Costs

Shipping and handling costs incurred are reported as a component of cost of sales.

Advertising

Advertising costs are charged to operations when incurred. Advertising expense was $10,618,592 and $6,994,128 for the years ended December 31, 2016 and 2015, respectively.

Research and Development Costs

Research and development costs are charged to operations when incurred and are reported as a component of operating expenses. The amounts charged to expense were $1,086,888 and $956,259 for the years ended December 31, 2016 and 2015, respectively.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

NOTE 2 - Accounts Receivable

The components of accounts receivable at December 31, 2016 and 2015 are as follows:

	2016	2015
Current	$ 58,443,695	$ 55,150,530
1 to 30 days	22,352,476	22,569,474
31 to 60 days	3,729,035	6,343,585
61 days to 90 days	949,891	358,504
Greater than 91 days	2,551,729	2,249,946
Directors & employees	15,964	4,458
Total Accounts Receivable	88,042,790	86,676,497
Less: Allowance for doubtful accounts	(2,645,021)	(4,929,420)
Accounts Receivable, Net	$ 85,397,769	$ 81,747,077

NOTE 3 - Inventories

Inventories consist of the following:

	2016	2015
Raw materials	$ 4,331,285	$ 3,293,061
Finished product	165,446,488	124,874,864
Packaging and ingredients	4,501,817	5,289,662
	174,279,590	133,457,587
Less: Allowance for inventory obsolescence	(25,194,389)	(15,125,914)
Total Inventories	$149,085,201	$118,331,673

NOTE 4 - Derivatives

The cooperative uses derivative instruments to manage its exposure to price volatility for certain energy costs. The cooperative's risk management objective is to limit its cash outflows associated with the risk of fluctuations in the market price of these energy contracts.

The notional amount of the hedging contracts in place at a point in time provides an indication of the extent of the cooperative's involvement in such instruments at that time, but does not represent exposure to market risk or future cash requirements under some of these instruments. As of December 31, 2016 the absolute notional amount of each open contract that is not designated as a hedging instrument is approximately $2,300,000. As of December 31, 2016 the absolute notional amount of each open contract that is designated as a hedging instrument is approximately $15,400,000.

Derivative Instruments Not Designated as Hedging Instruments

At December 31, 2016 and 2015, the cooperative maintained a margin account balance of $665,944 and $3,057,476, respectively, with its counterparties in connection with the derivative instruments. The fair value of the derivatives totaled ($123,497) and ($2,540,572) as of December 31, 2016 and 2015, respectively. The unrealized losses of these instruments are included in other operating expenses in the consolidated statements of operations. The cooperative's net position of the margin account balance and the fair value of the derivatives are included in prepaid and other current assets in the consolidated balance sheets. The cooperative realized $849,041 of gains and ($246,582) of losses in the consolidated statements of operations during 2016 and 2015, respectively, relating to these instruments.

Derivative Instruments Designated as Hedging Instruments

Derivative instruments designated as hedging instruments are reported in the consolidated balance sheets at fair value as of December 31 as follows:

		Fair Value	
	Balance Sheet Location	2016	2015
Energy contracts - current portion	Prepaid and other current assets	$ 997,614	$ -
Energy contracts - long-term	Other long-term assets	1,721,209	-

The assets recorded represent the estimated amounts the cooperative would receive if the contracts were closed at year end. The cumulative $1,694,189 gain, net of tax of $1,024,634, from changes in the open hedging contract's fair value that is included in other comprehensive income for the year ended December 31, 2016 will be reclassified into net income when the contracts are closed. The amount expected to be reclassified from other comprehensive income during 2017 is approximately $998,000. No realized gains or losses on settled commodity hedging contracts were recorded for the year ended December 31, 2016.

NOTE 5 - Property, Plant and Equipment

Property, plant and equipment consist of the following:

	Depreciable Lives	2016	2015
Land		$ 958,864	$ 927,572
Buildings	39 yrs.	57,226,620	38,861,790
Machinery and equipment	5 - 10 yrs.	42,678,538	35,595,377
Software	3 - 5 yrs.	11,246,068	9,249,254
Vehicles	5 yrs.	5,529,897	4,656,924
Construction in progress		19,535,114	19,831,395
Total Property, Plant and Equipment		137,175,101	109,122,312
Less: Accumulated depreciation		(47,522,397)	(40,057,591)
Net Property, Plant and Equipment		$ 89,652,704	$ 69,064,721
Depreciation & amortization expense		$ 8,660,939	$ 7,623,599

NOTE 6 - Investments

Investments consist of the following:

	2016	2015
Investments in other cooperatives	$ 961,258	$ 579,832
Investment in Cashton Greens Wind Farm	832,973	1,001,504
Investment in Vermont Packinghouse	486,261	210,055
Total Investments	$ 2,280,492	$ 1,791,391

Investment in Cashton Greens Wind Farm

Cashton Greens Wind Farm, LLC ("CGWF") is a joint venture with another company, and its primary purpose is to operate a wind generation facility that includes two wind turbines and associated assets. The facility is located on the cooperative's real estate in Cashton, Wisconsin. Upper Midwest Municipal Power Agency purchases all the electricity generated, less line loss, from CGWF. Both parties share voting control and equity ownership equally and neither party exercises control over CGWF.

The cooperative has a note receivable from CGWF which bore interest at 6.00% until December 31, 2016. The note receivable was amended during 2017. The interest rate was changed from 6.00% to 3.00% with interest only payments during 2017 and monthly principal and interest payments of $18,500 each succeeding calendar year with a final payment due June 2027 (see Note 7).

NOTE 6 - Investments (cont.)

Investment in Vermont Packinghouse

Vermont Packinghouse ("VPH") is a joint venture with another company, and its primary purpose is to operate a custom meat and sausage processing facility in North Springfield, Vermont. The facility serves customers throughout the northeastern part of the United States. Both parties share voting control and equity ownership equally and neither party exercises control over VPH.

The investments are accounted for using the equity method with gains (losses) recognized in net other income (expense), net in the consolidated statements of operations. The net income of the cooperative for the year ended December 31, 2016, includes ($168,531) of loss and $351,147 of income from CGWF and VPH, respectively. The net income of the cooperative for the year ended December 31, 2015, includes ($250,827) of loss and $47,925 of income from CGWF and VPH, respectively. At December 31, 2016, CGWF had total assets of $8,665,552, total liabilities of $6,999,606, total equity of $1,665,946 and a net loss of ($337,062). At December 31, 2016, VPH had total assets of $1,370,633, total liabilities of $398,111, total equity of $972,522 and net income of $702,294.

NOTE 7 - Notes Receivable

The components of notes receivables at December 31, 2016 and 2015 are as follows:

	2016	2015
Notes receivable from producers	$ 2,117,500	$ 2,324,972
Grant note receivable	243,377	1,343,376
Notes receivable from Cashton Greens Wind Farm	1,829,929	1,829,929
Other receivables	85,000	90,000
Total Gross Notes Receivable	4,275,806	5,588,277
Allowance for doubtful accounts	(1,042,280)	-
Total Net Notes Receivable	$ 3,233,526	$ 5,588,277

Analysis of the change in the allowance for doubtful accounts follows:

	2016	2015
Beginning balance	$ -	$ -
Charge-offs	-	-
Transfer (to) from allowance for doubtful accounts	1,042,280	-
Provision	-	-
Ending Balance	$ 1,042,280	$ -

NOTE 7 - Notes Receivable (cont.)

As of December 31, 2016 and 2015, the analysis of the age of the notes receivable is as follows:

	2016	2015
Current	$ 3,233,526	$ 5,588,277
Past Due	-	-
Total Notes Receivable	$ 3,233,526	$ 5,588,277

NOTE 8 - Goodwill

The components of net goodwill at December 31, 2016 and 2015 are summarized as follows:

	2016	2015
Goodwill	$ 1,382,343	$ 1,382,343
Less: Accumulated amortization	(276,469)	(138,234)
Net Goodwill	$ 1,105,874	$ 1,244,109

Future amortization expense is expected to be $138,235 per year through fiscal 2025.

Total amortization expense was $138,235 for the years ended December 31, 2016 and 2015. Amortization expense has been included in operating expenses in the accompanying consolidated statements of operations.

NOTE 9 - Line of Credit

The cooperative has a five-year credit agreement with a bank, which matures during June 2018, that allows the cooperative to borrow up to $100,000,000. The syndicated credit agreement is secured by a security agreement which includes substantially all assets of the cooperative. Interest accrues at a rate of LIBOR plus an applicable margin (effectively 2.31% and 1.81% at December 31, 2016 and 2015, respectively). The credit agreement has an unutilized fee of 0.25%.

As of December 31, 2016 and 2015, there was $61,166,368 and $10,000,000 outstanding on the line of credit. Under the terms of the line of credit, the cooperative is required to abide by certain financial covenants.

NOTE 10 - Long-Term Debt

	2016	2015
Wisconsin Economic Development Corp	$ 225,314	$ 310,298
Purity Farms	263,428	390,329
Merchants Bank Loan A	954,568	1,076,308
Merchants Bank Loan B	3,732,478	3,977,054
Merchants Bank Loan C	196,003	236,207
Golden Bison Company LLC	-	36,514
Wells Fargo Loan	283,750	313,602
Jules & Associate Loan A	229,030	-
Jules & Associate Loan B	374,289	-
Jules & Associate Loan C	53,288	-
Other	33,290	-
	6,345,438	6,340,312
Less: Current maturities of long-term debt	(813,294)	(685,637)
Total long-term debt	$ 5,532,144	$ 5,654,675

Wisconsin Economic Development Corp ("WEDC")

The cooperative has a long-term note payable to WEDC with an original principal balance of $590,000 and bears interest at 2.00% with monthly principal and interest payments of $7,535. The note matures on September 7, 2019 and is collateralized by equipment. The cooperative is required to abide by certain covenants related to maintaining a workforce in LaFarge, Wisconsin.

Purity Farms

The cooperative has a long-term note payable to Purity Farms with an original principal balance of $666,667 with annual principal payments of $130,110. The note matures on January 15, 2018 and is non-interest bearing.

Merchants Bank

Merchants Bank Loan A - Lorentz has a long-term note payable to Merchants Bank with an original principal balance of $1,388,308 and bears interest at 3.95% with monthly principal and interest payments of $13,562. The note matures on August 15, 2023 and is collateralized by substantially all assets of Lorentz.

Merchants Bank Loan B - Lorentz has a long-term note payable to Merchants Bank with an original principal balance of $4,500,000 and bears interest at 3.95% with monthly and principal and interest payments of $33,319. The note matures on August 15, 2023 and is collateralized by the real estate located in Cannon Falls, Minnesota.

NOTE 10 - Long-Term Debt (cont.)

Merchants Bank (cont.)

Merchants Bank Loan C - Lorentz has a long-term note payable to Merchants Bank with an original principal balance of $300,000 and bears interest at 4.25% with monthly and principal and interest payments of $4,135. The note matures on April 1, 2019 and is collateralized by substantially all assets of Lorentz.

The cooperative guarantees the notes payable to Merchant Bank.

Golden Bison Company, LLC

Lorentz had a capital lease obligation for equipment which required 84 monthly principal and interest payments of $2,362. The obligation had a purchase option for $25,000 at the end of the lease, which matured during 2016. The obligation was paid in full during 2016.

Wells Fargo Loan

Dombrovski has a long-term note payable to Wells Fargo with an original principal balance of $314,497 and bears interest at 1.98% through December 2016 and then 4.75% through the remainder of the term note payable. The note requires monthly principal and interest payments of $2,905 through December 2016 and then $3,278 through the remainder of the term note payable. The note matures on November 25, 2025 and is collateralized by the real estate of Dombrovski.

Jules & Associates

Jules & Associates Loan A - Dombrovski has a capital lease obligation for equipment which requires 59 monthly principal and interest payments of $4,371. The obligation has a purchase option for $4,371 at the end of the lease, which matures during 2021.

Jules & Associates Loan B - Dombrovski has a capital lease obligation for equipment which requires 59 monthly principal and interest payments of $7,242. The obligation has a purchase option for $7,242 at the end of the lease, which matures during 2021.

Jules & Associates Loan C - Dombrovski has a capital lease obligation for equipment which requires 59 monthly principal and interest payments of $2,274. The obligation has a purchase option for $2,274 at the end of the lease, which matures during 2019.

Future minimum payments on the long-term debt for the year ended December 31, 2016 are as follows:

	WI Economic Development	Purity Farms	Merchant Bank	Wells Fargo	Julies & Associates	Other	Totals
2017	$ 86,700	$ 130,109	$ 423,700	$ 26,456	$ 141,177	$ 5,152	$ 813,294
2018	88,450	133,319	441,269	27,740	145,716	5,304	841,798
2019	50,164	-	523,772	29,087	131,211	5,460	739,694
2020	-	-	430,100	30,499	131,794	5,620	598,013
2021	-	-	447,331	31,980	106,709	5,785	591,805
Thereafter	-	-	2,616,877	137,988	-	5,969	2,760,834
Totals	$ 225,314	$ 263,428	$ 4,883,049	$ 283,750	$ 656,607	$ 33,290	$ 6,345,438

NOTE 11 - Leases

The cooperative leases certain equipment and office space under terms of operating leases. Rent expense for these leases amounted to $290,248 and $361,149 for 2016 and 2015, respectively. The lease terms mature in 2017 - 2024 with approximate annual lease payments of $24,000 - $64,000 over the next five years.

The cooperative rents warehousing space for the storage of finished goods and packaging inventory. The rental agreements renew annually. Total rent expense for these agreements totaled $2,799,615 and $2,200,899 for 2016 and 2015, respectively.

NOTE 12 - Income Taxes

The income tax expense consists of the following:

	2016	2015
Current expense (benefit)	$ (1,152,347)	$ 12,947,130
Deferred expense (benefit)	(2,689,938)	(6,828,212)
Income Tax Expense (Benefit)	$ (3,842,285)	$ 6,118,918

The income tax expense reflects a combined federal and state tax rate. The difference between the effective tax rate of (156.87%) and 13.07% for the years ended December 31, 2016 and 2015, respectively, and the statutory rate of 35% and applicable state taxes is primarily due to the domestic production activities deduction and dividends.

Deferred tax arises from recognizing revenue and expense in different years for tax and financial statement purposes. The net deferred tax asset and liability are comprised of:

	2016	2015
Deferred Tax Asset:		
Allowance for doubtful accounts	996,820	1,910,725
Inventory reserves	9,494,928	6,118,748
Other accruals	2,044,870	956,984
Net operating losses	23,229	38,722
	$ 12,559,847	$ 9,025,179
Deferred Tax Liability:		
Property, plant and equipment	$ 5,058,276	$ 4,353,232
Other	1,251,056	86,735
	$ 6,309,332	$ 4,439,967

Deferred taxes are classified in the balance sheet as follows:

	2016	2015
Deferred tax asset - current portion	12,536,617	8,986,914
Deferred tax liability	(6,286,102)	(4,401,702)
	$ 6,250,515	$ 4,585,212

NOTE 12 - Income Taxes (cont.)

Net operating loss carryforwards as of December 31, 2016, which will produce a future tax benefit, were approximately $57,000 and $65,000 for federal and state, respectively. The federal net operating losses will expire beginning 2025 through 2036 and the state net operating losses will expire beginning 2020 through 2036.

In assessing the realizability of deferred tax assets, the cooperative considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets at December 31, 2016, is dependent upon the cooperative's ability to generate future profitability during the periods the temporary differences become deductible and prior to the expiration of the tax loss carryforwards. Based upon the cooperative's profitable performance and projections of future profitability over the years prior to the expiration of the tax loss carryforwards, management believes it is more likely than not the cooperative will fully realize the benefits of the deferred tax assets.

NOTE 13 - Deferred Compensation

The Board of Directors has approved an unfunded and nonqualified deferred compensation plan for certain key employees. The Board of Directors has approved to award $230,000 and $270,000 for the years December 31, 2016 and 2015, respectively.

NOTE 14 - Equities

Equity Capital Base Subscriptions

Capital Base Equity Subscriptions are recorded when a contract is entered into between the cooperative and new member producers, whereby the latter agrees to purchase Capital Base Equity, to be paid for over some installment period. As of December 31, 2016 and 2015, Class B stock subscriptions outstanding were $4,579,879 and $2,600,000, respectively. This balance is offset by a Class B stock subscription receivable.

When the member producer’s investment begins, partial payments toward their Capital Base requirement are recorded to Pool Assignments. Payments that fully satisfy the Capital Base requirement are issued to Class B Preferred shares.

Equity Program

In accordance with the cooperative’s articles and bylaws and by action of the Board of Directors, net savings from patronage sources, after reserves for necessary purposes, may be distributed to consenting patrons following the close of each year based on financial statement earnings. The cash portion of the patronage distribution is determined annually by the Board of Directors, with any retained balances issued in the form of allocated patron equities. As of December 31, 2015, the cooperative recorded $1,982,000 of patronage dividend payable which is included in farmer payables in the consolidated balance sheets. No patronage dividend payable was recorded for 2016.

NOTE 14 - Equities (cont.)

Equity Program (cont.)

The cooperative has a first lien on all capital stock, equity credits, and other interests standing on its books for all indebtedness of the respective holders or owners thereof to the cooperative. The cooperative also has the right, exercisable at the option of the Board of Directors, to offset such indebtedness against the amount of such capital stock, equity credits, or other interests standing on its books; provided, that nothing contained herein shall give the owners of capital stock, equity credits, or other interests any right to have such offset made.

The Board of Directors has the discretion to approve or deny all requests for redemption or transfer of the cooperative's stock. Stock may be transferred only on the books of the cooperative. The cooperative reserves the prior right to acquire any stock offered for sale by any shareholder, or a right to recall the stock of any shareholder. The consideration paid for stock recalled by the cooperative or purchased by the cooperative, under the prior right to acquire described above, shall be its par value plus any accrued unpaid dividends, provided that if the book value of such stock is less than the par value, the consideration shall be such book value.

The components of equities included in the financial statements as of December 31 are as follows:

Year ended December 31, 2016					
	Par Value	Authorized Shares	Issued Shares	Dividend Rate	Paid
Class E Series 1	$ 50.00	3,000,000	1,705,306	6%	Quarterly
Class B	$ 50.00	1,500,000	512,875	8%	Annually
Class A	$ 25.00	5,000	1,985	n/a	n/a

Year ended December 31, 2015					
	Par Value	Authorized Shares	Issued Shares	Dividend Rate	Paid
Class E Series 1	$ 50.00	3,000,000	1,315,413	6%	Quarterly
Class E Series 2	$ 50.00	-	35,449	0-8% variable	Annually
Class B	$ 50.00	1,500,000	744,472	8%	Annually
Class A	$ 25.00	5,000	1,835	n/a	n/a

Class E, Series 1 Preferred Stock - This stock is an optional investment opportunity issued to members and non-members based on the Board of Directors approved plan. These stockholders have no voting rights. The stock carries a cumulative dividend currently paying 6% annually, paid and compounded quarterly, as determined by the Board of Directors. The cooperative has not registered the shares under the Securities Act or any applicable state securities laws, but instead relies on certain exemptions from registration contained in the Securities Act and such state securities laws. Management has the right as any other investor, to purchase Class E, Series 1 Stock.

NOTE 14 - Equities (cont.)

Equity Program (cont.)

On January 20, 2016, the Board of Directors approved the sale of Class E, Series 1 stock and reinvested dividends up to $85 million through December 31, 2016. This includes reinvested dividends, new investments (with a maximum of $50,000 per person per calendar year) from employees, farmer-members and those who are actively involved or have a financial interest or ownership in a member farm operation, and transfers of Class B or Class E, Series 1 stock.

On October 28, 2016, the Board of Directors approved the sale of Class E, Series 1 stock and reinvested dividends up to $90 million through December 31, 2016.

On January 18, 2017, the Board of Directors approved the sale of Class E, Series 1 stock and reinvested dividends up to $96 million through December 31, 2017.

On March 2, 2017, the Board of Directors approved to retire Class E, Series 1 stock beginning April 1, 2017. All dividends on Class E, Series 1 stock will be paid in cash annually at the close of the second quarter of the calendar year. The Board of Directors approved the sale of Class E, Series 4 stock beginning July 1, 2017 to active employees and farmer-members of the cooperative (with a maximum investment of $50,000 per person per calendar year). Class E, Series 4 stock will be offered up to 100,000 shares with a par value of $50.00 per share. The stock will carry an annual dividend of 4% payable at the close of the second quarter.

Class E, Series 2 Preferred Stock - This stock was used by the cooperative to fund retained patronage distributions which were based on year-to-year profitability of the cooperative and were declared at the sole discretion of the Board of Directors. These stockholders had no voting rights. The stock carried a non-cumulative dividend paying 0-8 percent as determined annually by the Board of Directors.

On January 20, 2016, the Board of Directors approved to retire Class E, Series 2 stock and declared an 8% dividend on Class E, Series 2 for 2016.

Class B Preferred Stock - This stock shall be capital stock for the purpose of member producers fulfilling their Capital Base investment requirement. This type of stock is non-voting. Each Board of Director is required to meet their related membership Capital Base investment requirement in Class B.

On April 28, 2016, the Board of Directors approved that each three year calendar period, beginning with 2016, a members' Capital Base investment requirement will be reconciled with the members' capital investment. In the event that a member is invested beyond 100% of the Capital Base investment requirement, the member may choose a cash dividend or transfer to another investment. During 2016, total transfers to Class E, Series 1 stock were $10,858,131.

On January 18, 2017, the Board of Directors declared an 8% dividend on Class B stock for 2016.

Class C Preferred Stock - This stock was held by members and non-members of the cooperative and held no voting rights. Class C stock carried a cumulative dividend paying 8% as determined annually by the Board of Directors. This stock was called as of April 30, 2015. Stockholders were able to redeem or transfer to Class E, Series 1 stock. During 2015, total transfers to Class E, Series 1 stock were $3,308,179.

NOTE 14 - Equities (cont.)

Equity Program (cont.)

Class A Common Stock - This stock is the membership stock of the cooperative and is issued from the Unallocated General Reserve. Only individuals and entities who are producers of agricultural products may own Class A Stock. Each member holds one share of Class A stock which entitles the holder to one vote on matters submitted to a vote of the members. No individual or entity, directly or indirectly, may own more than one share of this stock.

As of December 31, 2016, Board of Directors, Management, and their immediate family have investment of $4,332,237 in the cooperative.

The Board of Directors may determine that Class A Stock has come into the hands of a person or entity not eligible for membership. Upon such determination, the stockholder will cease to have voting rights or privileges of the Class A Stock. Further, the Board of Directors may, in its sole discretion, terminate the ineligible stockholder's right and obligations to deliver agricultural products to the cooperative under the cooperative's membership agreement.

In the event of any liquidation, dissolution or winding up of the affairs of the cooperative, whether voluntary or involuntary, all debts and liabilities of the cooperative shall be paid first according to their respective priorities. The remaining assets shall be distributed in the following manner and order of preference: (1) first to the holders of shares of Class E Stock in an amount equal to the par value of such shares or book value, whichever is lower, plus any unpaid dividends declared thereon, in such priority of series of such shares as may have been established upon the issuance of the shares and on a pro rata basis within a series if necessary; (2) second to the holders of shares of Class B Stock in an amount equal to the par value of such shares or book value, whichever is lower, plus any unpaid dividends declared thereon, without priority and on a pro rata basis if necessary; (3) third to the holders of Class A Stock in an amount equal to the value of the consideration for which the shares of Class A Stock were issued, without priority and on a pro rata basis if necessary; (4) fourth to payment of the stated dollar amount of all patrons' equities (other than non-patronage earnings certificates), in chronological order of year beginning with the oldest outstanding patrons' equities first and on a pro rata basis within a year if necessary; (5) fifth to payment of the stated dollar amount of non-patronage earnings certificates, in chronological order of year beginning with the oldest outstanding non-patronage earnings certificates first and on a pro rata basis within a year if necessary; and (6) sixth to the patrons in accordance with their interest in capital reserves.

Any assets remaining after the foregoing payments shall be allocated among the allocation units in the manner as the Board of Directors, having taken into consideration the origin of the amounts, shall determine to be reasonable and equitable. Amounts so allocated shall be paid to current and former patrons of each such allocation unit in proportion to their patronage of the unit over the period as may be determined to be equitable and practicable by the Board of Directors. The obligations to distribute shall be construed as a preexisting duty to distribute any patronage sourced net gain realized in the winding up process to the maximum extent allowable bylaw.

Pools Equities

Pool Equities are partial payments to meet the member producer’s Capital Base requirements. Once the Capital Base requirements are met, amounts are transferred to Class B Preferred shares. Class B dividends are not accrued on any partial payments. For the years ended December 31, 2016 and 2015, total transfers from pool equities were $1,217,415 and $1,867,636, respectively.

NOTE 14 - Equities (cont.)

Equity Program (cont.)

The cooperative has various options for member producers to meet their Capital Base requirement. Capital Base investment approximates 5.5% of the total annual value of products shipped to the cooperative (or per the producer's contract) for each of the producer's farm pool operations. The Capital Base investment is a one-time investment, but can be modified based on changes in the farm pool operation's value of product shipped to the cooperative.

NOTE 15 - Fair Value Measurements

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- *Cash and cash equivalents, trade receivables, other assets, accounts payable and accrued expenses:* The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.

- *Investments in other cooperatives:* The carrying amounts are stated at cost plus allocated equities less cash distributions received, which approximate fair value.

- *Derivatives:* The fair value of derivative instruments are based upon quoted market prices or derived from prices in underlying futures markets.

- *Notes receivable:* The carrying value of the loan approximates fair value. The interest rate approximates a rate currently observed for debt of similar terms (see Note 7).

- *Long-term debt:* The carrying value of the cooperative's debt approximates fair value because the underlying rate of interest on the credit agreement and long-term notes payable are variable based upon LIBOR or fixed interest rates that approximate current rates should the cooperative obtain additional financing.

The Financial Accounting Standards Board (FASB) Topic 820, *Fair Value Measurements*, establishes 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 measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the cooperative has the ability to access at the measurement date.

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

- Level 3 inputs are unobservable inputs for the asset or liability.

NOTE 15 - Fair Value Measurements (cont.)

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The risk management activities presented in Note 4 are the only assets or liabilities carried at fair value measured on a recurring basis as of December 31, 2016 and 2015. Cost management arrangements related to energy contracts are considered Level 2 inputs.

Goodwill and intangibles are measured at fair value on a nonrecurring basis, if impaired, and are considered level 3 items.

NOTE 16 - 401(K) Plan

The cooperative has a 401(k) plan which is a defined contribution plan administered by two employee trustees for the benefit of participating employees. An employee must complete 3 months of service to participate in salary deferrals. An employee must complete one year of employment with at least 1,000 hours of service to be eligible to participate in the employer contribution. The cooperative provides a dollar for dollar match up to $1,300 annually or will contribute 3.2% of an employee's salary if the employee contributes 6.4% of their annual salary. The cooperative may contribute a discretionary amount of their salary deferrals which will be determined each year. The cooperative may make a discretionary profit sharing contribution to all eligible participants. Employees are vested 100% on their own salary deferrals. Employees are vested over a six year schedule for cooperative contributions. The cooperative made matching 401(k) contribution totaling $1,105,838 and $855,622 for the years ended December 31, 2016 and 2015, respectively. The cooperative elected to contribute an additional employee profit sharing contribution of $1,900,000 for 2015 that was funded in 2016. No employee profit sharing contribution was elected for 2016.

NOTE 17 - Concentration and Commitments

Customer Concentration

One customer individually accounted for 10% or more of sales for the year ended December 31, 2016 and 2015. Sales to this customer represented 21% of sales for 2016 and 2015. One customer individually accounted for 10% or more of accounts receivable as of the year ended December 31, 2016 and 2015. Accounts receivable from this customer represented 12% of total accounts receivable at December 31, 2016 and 2015.

Purchase Commitment

At December 31, 2016, the cooperative had outstanding commitments of approximately $5,800,000 and $1,700,000 for the construction of new plant facilities in Cashton, Wisconsin and McMinnville, Oregon, respectively.

NOTE 17 - Concentration, Commitments and Contingencies (cont.)

Tax Incremental Finance Commitment

Village of La Farge - The cooperative entered into a development agreement with the Village of La Farge ("VLF"), as of June 13, 2003. The VLF provided assistance through the establishment of a tax incremental district for the construction of certain public works and improvements. The cooperative agreed to construct an office building of no less than 40,000 square feet and house approximately 220 employees. In addition, the cooperative agreed to assist the VLF in its application for grant funds and provide all assistance it could with respect to compliance with grant requirements. Under the development agreement, the cooperative may not sell, transfer or convey the property prior to January 1, 2028, without the express written consent of the VLF.

Village of Cashton - The cooperative has entered into a development agreement with the Village of Cashton ("VC"), as of May 17, 2006. The VC has established a business park within the Village of Cashton known as the Cashton Greens Business Energy Park. The cost of the tax incremental finance district improvements, financing and bond insurance was approximately $4,885,000 which included grants from the Wisconsin Department of Commerce and Wisconsin Department of Transportation (the "grants") totaling $1,500,000, as amended during April 2011, in financing for those public projects eligible for financing via the grants. Under this agreement, the VC also issued a tax increment project revenue bond ("TIPR Bond A") in the amount of $1,761,836, as amended during April 2011, which is used to reimburse the cooperative for the costs of funding the construction. TIPR Bond A bears interest at 7.00% and requires annual principal and interest payments of approximately $145,000 that are received by the cooperative. TIPR Bond A matures on December 1, 2025.

On June 25, 2012, the cooperative amended the development agreement with the VC and established a second tax increment project revenue bond ("TIPR Bond B") that will be issued in the amount of $4,500,000 when the infrastructure expenses related to to the construction of the distribution addition, completion of Organic Drive, and site work related to construction of the Cashton office building are completed. The cooperative anticipates that TIPR Bond B will be issued during 2017. In addition to the TIPR Bond B, this agreement includes a community development block grant and other state agency grants that require the cooperative to assist the VC in applying for the grants. In addition to the TIPR Bond B, these grants will reimburse the cooperative for the infrastructure expenses incurred.

The VC development agreement includes various clauses including site improvements, employment opportunities and a minimum assessed real property tax value of $12,000,000.

As of December 31, 2016, the cooperative has a grant receivable of $243,377 and an investment in Cashton TIPR bonds of $4,976,372. As of December 31, 2015, the cooperative has a grant receivable of $1,343,376 and an investment in Cashton TIPR bonds of $4,874,094. On the accompanying consolidated balance sheets, the grant receivable is included in long-term notes receivable and the investment in Cashton TIPR bonds is included in other long-term assets.

NOTE 18 - Acquisition of Dombrovski

On November 18, 2015, the cooperative purchased 65% of the stock of Dombrovski, which is based in Foley, Minnesota and is engaged in the processing and sale of meat products. The cooperative purchased the stock for $2,021,175 which includes an earnout amount of $300,000. The earnout is payable over the next three years based on pre-tax income goals and is included in accrued expenses in the consolidated balance sheets as of December 31, 2015. The cooperative paid $544,721 at closing and a final payment of $1,176,454 during January 2016. The earnout amount of $300,000 was paid during 2016. The final payment is included in accounts payable in the consolidated balance sheets as of December 31, 2015.

The allocation of the fair value of the net assets acquired is as follows:

Accounts receivable	$ 259,498
Inventory	645,215
Property, plant and equipment	1,738,751
Tradename	1,069,367
Other assets	34,404
Accounts payable	(300,574)
Term note payable	(316,231)
Other liabilities	(63,710)
Non-controlling interest	(1,045,545)
	$ 2,021,175

The cooperative recognized a tradename intangible of $1,064,367 that is being amortized on a straight-line method over 7 years with annual amortization expense of approximately $152,000.

NOTE 19 - Investment in Joint Venture

During November 2016, the cooperative entered into a joint venture agreement with Dean Foods Company to create a limited liability corporation, Organic Valley Fresh LLC “OV Fresh.” OV Fresh entered into Co-Packing, Brand Licensing, Product for Resale Purchase, Milk Supply and Product Sales and Distribution agreements with its members. The nature of the business to be conducted by OV Fresh is to process, distribute, market and sell organic dairy and related products under the Organic Valley ® brand and under private label. OV Fresh is scheduled to be operational during 2017.

NOTE 20 - Subsequent Events

The cooperative has evaluated subsequent events from the consolidated balance sheet date through April 5, 2017, the date at which the consolidated financial statements were available to be issued, and determined there are no other items to disclose.

NOTE 21 - Future Accounting Pronouncement

Income Taxes: Balance Sheet Classification of Deferred Taxes

During November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-17, “Balance Sheet Classification of Deferred Taxes.” ASU No. 2015-17 requires deferred tax assets and liabilities to be classified as noncurrent in a classified balance sheet. ASU No. 2015-17 is effective for annual periods beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. The cooperative is currently assessing the effect that ASU No. 2015-17 will have on its financial position.

Revenue from Contracts with Customers

During May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. During 2015 and 2016, the FASB also issued various amendments to ASU 2014-09. Topic 606 (as amended) is effective for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The cooperative may elect to apply the guidance earlier, but no earlier than fiscal years beginning after December 15, 2016. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The cooperative is currently assessing the effect that Topic 606 (as amended) will have on its results of operations, financial position and cash flows.

Leases

During February 2016, the FASB issued ASU 2016-02, "Leases," which provides guidance for accounting for leases. The standard's core principal is that a company will recognize a lease asset and lease liability for most leases currently classified as operating leases under previous guidance. The standard also requires enhanced qualitative disclosures relating to leases. The standard will be applied using a modified retrospective approach and will be effective for the cooperative's fiscal years ending after December 15, 2019. The cooperative is currently assessing the effect that ASU 2016-02 will have on its results of operations, financial position and cash flows.

BAKER TILLY

INDEPENDENT AUDITORS' REPORT
ON THE SUPPLEMENTAL INFORMATION

Stockholders
Cooperative Regions of Organic Producer Pools
La Farge, Wisconsin

We have audited the consolidated financial statements of Cooperative Regions of Organic Producer Pools and its subsidiaries as of and for the years ended December 31, 2016 and 2015, and have issued our report thereon dated April 5, 2017 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The supplemental information provided, as identified in the table of contents, is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
April 5, 2017

SUPPLEMENTAL INFORMATION

COOPERATIVE REGIONS OF ORGANIC PRODUCER POOLS

CONSOLIDATING BALANCE SHEET
As of December 31, 2016

	CROPP	Organic Logistics	Worden Elevators	Organic Meat Company	Lorentz	Dombrovski	Total	Consolidating Eliminations	Consolidated
ASSETS									
CURRENT ASSETS									
Cash and cash equivalents	$ 16,082	$ 373,783	$ 88,876	$ 1,049,823	$ 81,651	$ 261,439	$ 1,871,654	$ -	$ 1,871,654
Trade accounts receivable, net	83,181,369	499,816	73,738	1,135,799	550,981	298,058	85,739,761	(341,992)	85,397,769
Related party receivable	7,280,403	10,794,435	-	696,426	-	-	18,771,264	(18,771,264)	-
Inventories, net	141,457,660	-	-	6,430,438	503,375	693,728	149,085,201	-	149,085,201
Income tax receivable	1,610,486	-	-	-	94,901	-	1,705,387	-	1,705,387
Prepaids and other current assets	4,770,433	-	-	8,830	38,760	-	4,818,023	-	4,818,023
Current portion of deferred tax asset	12,301,985	60,973	-	105,438	59,723	8,498	12,536,617	-	12,536,617
Current portion of notes receivable	735,339	-	-	-	-	-	735,339	-	735,339
Total Current Assets	251,353,757	11,729,007	162,614	9,426,754	1,329,391	1,261,723	275,263,246	(19,113,256)	256,149,990
NET PROPERTY, PLANT AND EQUIPMENT	81,480,714	-	19,292	-	5,557,551	2,595,147	89,652,704	-	89,652,704
OTHER ASSETS									
Long-term notes receivable, net	2,498,187	-	-	-	-	-	2,498,187	-	2,498,187
Investments	11,970,125	-	-	3,570,975	486,261	-	16,027,361	(13,746,869)	2,280,492
Intangibles, net	330,650	-	-	-	-	898,308	1,228,958	-	1,228,958
Goodwill, net	177,504	-	-	-	928,370	-	1,105,874	-	1,105,874
Other long-term assets	6,697,583	-	-	-	20,339	60,828	6,778,750	-	6,778,750
TOTAL ASSETS	$ 354,508,520	$ 11,729,007	$ 181,906	$ 12,997,729	$ 8,321,912	$ 4,816,006	$ 392,555,080	$ (32,860,125)	$ 359,694,955
LIABILITIES AND PATRONS' EQUITY									
CURRENT LIABILITIES									
Line of credit	$ 61,166,368	$ -	$ -	$ -	$ -	$ -	$ 61,166,368	$ -	$ 61,166,368
Current maturities of long-term debt	216,793	-	-	-	423,716	172,785	813,294	-	813,294
Accounts payable	42,170,913	4,956,269	3,780	687,932	316,572	150,706	48,286,172	(341,992)	47,944,180
Farmer payable	45,930,181	-	-	-	-	-	45,930,181	-	45,930,181
Accrued expenses	8,447,829	-	-	38,335	236,400	120,537	8,843,101	-	8,843,101
Related party payable	10,730,347	-	748,733	6,744,580	528,597	19,007	18,771,264	(18,771,264)	-
Income tax payable	-	-	-	-	-	83,276	83,276	-	83,276
Total Current Liabilities	168,662,431	4,956,269	752,513	7,470,847	1,505,285	546,311	183,893,656	(19,113,256)	164,780,400
Long-term debt, less current maturities	271,967	-	-	-	4,459,332	800,845	5,532,144	-	5,532,144
Deferred compensation liability	1,222,500	-	-	-	-	-	1,222,500	-	1,222,500
Deferred tax liability	5,270,705	-	3,228	-	180,141	832,028	6,286,102	-	6,286,102
PATRONS' EQUITIES									
Class E stock	85,265,324	-	-	-	-	-	85,265,324	-	85,265,324
Class B stock	25,643,751	-	-	-	-	-	25,643,751	-	25,643,751
Class A stock	49,625	-	-	-	-	-	49,625	-	49,625
Class B stock - subscriptions	4,579,879	-	-	-	-	-	4,579,879	-	4,579,879
Class B stock - subscriptions receivable	(4,579,879)	-	-	-	-	-	(4,579,879)	-	(4,579,879)
Pool equities	3,007,242	-	-	-	-	-	3,007,242	-	3,007,242
Accumulated other comprehensive income	1,694,189	-	-	-	-	-	1,694,189	-	1,694,189
Unallocated capital reserve	63,420,786	6,772,738	(573,835)	5,526,882	2,177,154	2,636,822	79,960,547	(15,410,000)	64,550,547
Total Controlling Interest	179,080,917	6,772,738	(573,835)	5,526,882	2,177,154	2,636,822	195,620,678	(15,410,000)	180,210,678
Non-controlling interest in subsidiaries	-	-	-	-	-	-	-	1,663,131	1,663,131
Total Patrons' Equity	179,080,917	6,772,738	(573,835)	5,526,882	2,177,154	2,636,822	195,620,678	(13,746,869)	181,873,809
TOTAL LIABILITIES AND PATRONS' EQUITY	$ 354,508,520	$ 11,729,007	$ 181,906	$ 12,997,729	$ 8,321,912	$ 4,816,006	$ 392,555,080	$ (32,860,125)	$ 359,694,955

COOPERATIVE REGIONS OF ORGANIC PRODUCER POOLS

CONSOLIDATING STATEMENT OF OPERATIONS
For the Year Ended December 31, 2016

	CROPP	Organic Logistics	Worden Elevators	Organic Meat Company	Lorentz	Dombrovski	Total	Consolidating Eliminations	Consolidated
GROSS SALES	$ 1,049,373,519	$ 12,773,521	$ 274,789	$ 22,540,910	$ 11,176,477	$ 6,646,647	$ 1,102,785,863	$ (3,136,969)	$ 1,099,648,894
Discounts & allowances	(42,918,093)	-	-	(1,442,472)	-	(210,924)	(44,571,489)	-	(44,571,489)
NET SALES	1,006,455,426	12,773,521	274,789	21,098,438	11,176,477	6,435,723	1,058,214,374	(3,136,969)	1,055,077,405
COST OF SALES	891,034,729	10,646,272	-	16,835,524	9,401,820	2,747,790	930,666,135	(3,136,969)	927,529,166
Gross Profit	115,420,697	2,127,249	274,789	4,262,914	1,774,657	3,687,933	127,548,239	-	127,548,239
OPERATING EXPENSES									
Direct marketing	20,252,079	-	-	1,052,775	-	-	21,304,854	-	21,304,854
Indirect marketing									
Sales & sales support	10,732,241	-	-	490,504	-	-	11,222,745	-	11,222,745
Mission & messaging	2,639,967	-	-	-	-	-	2,639,967	-	2,639,967
Brand marketing	19,347,942	-	-	349,854	-	-	19,697,796	-	19,697,796
Total indirect marketing	32,720,150	-	-	840,358	-	-	33,560,508	-	33,560,508
Pool expenses	9,280,465	-	-	-	-	-	9,280,465	-	9,280,465
General & administrative	46,816,840	1,761,707	486,194	1,189,922	1,408,642	3,187,184	54,850,489	-	54,850,489
Product development	1,068,905	-	-	17,983	-	-	1,086,888	-	1,086,888
Governance	1,078,212	-	-	18,939	-	-	1,097,151	-	1,097,151
Legal Fees & co-op affairs	1,792,418	-	-	-	-	-	1,792,418	-	1,792,418
Sustainability	1,059,774	-	-	-	-	-	1,059,774	-	1,059,774
Other expenses (income)	960,358	40,098	-	(2,654)	-	-	997,802	-	997,802
Total Operating Expenses	115,029,201	1,801,805	486,194	3,117,323	1,408,642	3,187,184	125,030,349	-	125,030,349
Operating Income (Loss)	391,496	325,444	(211,405)	1,145,591	366,015	500,749	2,517,890	-	2,517,890
OTHER EXPENSE (INCOME)									
Interest expense	660,380	-	-	286,358	235,675	10,999	1,193,412	(316,540)	876,872
Other income	(592,250)	-	-	(50,384)	(380,577)	(69,143)	(1,092,354)	316,540	(775,814)
Net Other Expense (Income)	68,130	-	-	235,974	(144,902)	(58,144)	101,058	-	101,058
Income (Loss) Before Taxes	323,366	325,444	(211,405)	909,617	510,917	558,893	2,618,948	-	2,416,832
INCOME TAX EXPENSE (BENEFIT)	(4,699,722)	(144,718)	3,684	(192,593)	240,655	950,409	(3,842,285)	-	(3,842,285)
NET INCOME (LOSS)	5,023,088	470,162	(215,089)	1,102,210	270,262	(391,516)	6,259,117	-	6,259,117
Net loss (income) attributable to non-controlling interest	-	-	-	-	(91,895)	137,024	45,129	-	45,129
NET INCOME (LOSS) ATTRIBUTABLE TO THE CONTROLLING INTEREST	$ 5,023,088	$ 470,162	$ (215,089)	$ 1,102,210	$ 178,367	$ (254,492)	$ 6,304,246	$ -	$ 6,304,246

COOPERATIVE REGIONS OF ORGANIC PRODUCER POOLS

RECEIVABLES AND FINANCIAL RATIOS
As of December 31, 2016

Receivables	
Details of receivables are as follows:	
Trade accounts receivable	$ 77,842,424
Other receivables	10,200,366
	88,042,790
Allowance for doubtful accounts	(2,645,021)
	$ 85,397,769
An aging of receivables is as follows:	
Period of charge	
Current	$ 58,443,695
1 to 30 days	22,352,476
31 to 60 days	3,729,035
61 to 90 days	949,891
Greater than 91 days	2,551,729
Director and employees	15,964
	88,042,790
Allowance for doubtful accounts	(2,645,021)
	$ 85,397,769
Financial ratios	
Total current assets	$ 256,149,990
Excluded related party receivable	(15,964)
Net Current Assets	$ 256,134,026
Current liabilities	$ 164,780,400
Current ratio	1.55
Total liabilities	$ 177,821,146
Total patrons' equity	$ 181,873,809
Less: Excluded related party receivable	(15,964)
Adjusted Total Patrons' Equity	$ 181,857,845
Total Liabilities to Total Patrons' Equities Ratio	0.98

COOPERATIVE REGIONS OF ORGANIC PRODUCER POOLS

GRAIN REPORTING REQUIREMENTS
As of December 31, 2016

Wisconsin Grain Reporting Requirement

The dollar amount paid for and bushels of producer grain procured and deferred payments for the year ended December 31, 2016 are summarized as follows:

	Total Amount Paid	Deferred Payment	Total Bushels Paid For
January	$ 129,794	$ 101,342	11,884
February	36,974	17,781	3,753
March	-	-	-
April	15,638	15,638	1,586
May	7,599	7,599	1,033
June	21,945	-	2,883
July	32,065	20,358	4,410
August	21,960	13,099	2,602
September	-	-	-
October	39,134	39,134	5,089
November	228,356	208,442	29,130
December	22,700	22,700	2,244
Total	$ 556,165	$ 446,093	64,614

As of December 31, 2016 and 2015, the cooperative had $16,227 and $261,616 grain obligations to grain producers and producer agents, respectively.

Iowa Grain Reporting Requirement

As of December 31, 2016, there are no differences between the grain obligations as included in the consolidated balance sheets and the monthly Iowa grain report for the year ended.

There are no collateral warehouse receipts.

There is no cooperative owned grain stored in unlicensed facilities.

There is $7,289 of unpaid cooperative owned grain as of December 31, 2016. Total outstanding grower contracts as of December 31, 2016 were $32,143 for a total of 2,679 bushels.

The dollar value of grain and number of bushels purchased during the year ended December 31, 2016 are summarized as follows:

	Dollar Value	Bushels
Corn	$ 125,592	$ 13,841
Soybean	34,767	1,958

Gross grain sales for the year ended December 31, 2016 were $17,944,108.

Gross non-grain sales for the year ended December 31, 2016 were $1,081,704,786 and cost of sales were $930,069,650. For the year ended December 31, 2016, depreciation and interest expense was $8,660,939 and $876,872, respectively.