Use of Estimates in Preparing Financial Statements

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

Derivative Instruments and Hedging Activities

The Company is exposed to risk from fluctuations in the market prices of grain, inventories and related fixed price commitments for purchase and sale of grain. The Company uses futures contracts to reduce those risks. The company’s policy is to maintain a net hedged position, within pre-approved open position limits. Gains and losses on the futures contracts are included in the cost of sales of the related commodity in the income statement.

Inventories and Related Contracts

The Company enters into exchange traded futures contracts to reduce price risk caused by market fluctuations. By using exchange-traded futures contracts, the company minimizes risk from market price fluctuation of merchandisable agricultural commodity (grain) inventories, forward cash purchase and sales contracts. Grain inventories are stated at year-end market bid price to producers. Exchange traded futures contracts forward cash purchases contracts and forward cash sale contracts are valued at market price.

Changes in the market value of grain inventories, forward cash purchase and sales contracts and exchange traded futures contracts are recognized in earning immediately. Unrealized gains on forward cash purchase contracts are forward cash sales contracts are classified on the Company’s balance sheet as current assets. Unrealized losses on forward cash purchase contracts and forward cash sales contracts are classified on the Company’s balance sheet as current liabilities. Net cash on deposit, is shown as “margin account equity” on the balance sheet. Margin account Equity is classified on the balance sheet as a current asset.

Inventories

Grain inventories and all corresponding grain liabilities have been designates as a hedged item in a fair value hedge. These grain inventories and the corresponding grain liabilities are valued at current market less any applicable advances on inventory.

Storage Liability is a contra asset established to identify a liability for the quantity of grain in the elevator that is on an open warehouse receipt or on an open storage assembly sheet and has not been priced by the customer. Title of the grain on storage has not passed to the company and we are under a storage contract until the customer prices the stored grain.