Throughout America, you’ll be hard pressed to find a group more fiercely independent than the American farmer. Yet the paradox of rural life is this: while staunchly independent with a world-revered work ethic, farmers are among the first to help a neighbor. It’s this dichotomy that’s powered Wheat Growers since our formation in 1923.

Today Wheat Growers is a cooperative stronger than ever, thanks to more than 5,300 active member-owners who elect a board to govern co-op operations in North Dakota and South Dakota. For nearly 90 years, Wheat Growers has provided, with integrity, customers with reliable markets, services and quality products through a safety-oriented, profitable and innovative organization.

Your cooperative looks forward to another 90 years. Because together, we’re stronger.

Business Profile

Wheat Growers began as a state wheat pool in 1923.

38 locations

16,000 equity holders

Marketing over 160 million bushels annually

5,300 active producer members
Utilizing a Wheat Growers Delegate Group is an extra step your cooperative takes to ensure grassroots input. Delegates are elected by the membership in five districts and provide invaluable insight to the board and help it stay better connected to the needs of the membership as a whole. Delegates provide final approval of Articles of Incorporation and Bylaws amendments, the annual audit and declare director vacancies each year.

Wheat Growers Board of Directors

Unlike some agribusinesses, which are governed by people who have never planted an acre, Wheat Growers is governed by active agricultural producers. The board is comprised of 19 elected members.

**District 1**

**Directors:**
- Glen Crawford, Aberdeen, SD
- Dave Thomsen, Mansfield, SD
- Joel Erickson, Langford, SD
- Mick Abler, Berlin, ND
- Lance Hansen, Columbia, SD

**Delegates:**
- Shad Albrecht, Columbia, SD
- Gaylon Anderson, Aberdeen, SD
- Troy Chappell, Deuk, ND
- Chad Braund, Cades, SD
- Michael Dej, Columbus, SD
- Brian Dement, Columbus, SD
- Craig Dunker, Groton, SD
- Greg Erickson, Aberdeen, SD
- Paul Mathews, Oglesby, ND
- Kirk Schramek, Aberdeen, SD
- Brian Shep, Bath, SD
- Scott Speary, Bath, SD
- Harlen Young, Aberdeen, SD
- Curt Young, Berlin, ND

**District 2**

**Directors:**
- Hal Clemensen, Conde, SD
- Charles Harles, Ashton, SD
- Matt Johnson, Boxholm, SD
- Wallace Knott, Willow Lake, SD
- Roy Toomer, Williston, SD
- Joel Erickson, Langford, SD

**District 3**

**Directors:**
- Mark Bushfield, Hitchcock, SD
- Jeff Lakner, Wessington, SD
- David Salmen, Wessington Springs, SD
- Brad Wedel, Yale, SD

**Delegates:**
- Philip Edwards, Wessington, SD
- Ron Gilbert, Hitchcock, SD
- Michael Puffer, Hitchcock, SD
- Andrew Boomsma, Wolsey, SD
- Matt Micheel, Cavour, SD
- Eric Zell, Cavour, SD
- Darby Fast, Iroquois, SD
- Bob Moody, Cavour, SD
- Linn Dickson, Conde, SD
- Dave Artz, Plankinton, SD

**District 4**

**Directors:**
- Chris Eymer, Reliance, SD
- Dale Swanson, Pulaski, SD
- Tom Womig, Miller, SD

**Delegates:**
- Janes Beckurts, Rockin, SD
- Jim Melaleu, Pulaski, SD
- Brian Krouk, Reliance, SD
- Harlan Millert, Prehope, SD
- Jerry Busch, Kenmore, SD
- Doug Heksten, Kenmore, SD
- Dale Hargens, Miller, SD
- Mark Engel, Hand, SD
- Michael Sandman, Pulaski, SD
- Fall Stevens, Miller, SD

**District 5**

**Directors:**
- Gary Rau, McCaughlin, SD
- Dan Malen, Roseau, SD
- Steve Pfeifer, McCaughlin, SD

**Delegates:**
- Jeff Crandall, Woonsocket, SD
- Jim Ketelhut, Pukwana, SD
- Brian Kraus, Reliance, SD
- Norval Millard, Presho, SD
- Jerry Busch, Kenmore, SD
- Doug Heksten, Kenmore, SD
- Dale Hargens, Miller, SD
- Mark Engel, Hand, SD
- Michael Sandman, Pulaski, SD
- Fall Stevens, Miller, SD

Wheat Growers Leadership Team

Fiscal Year 2010 Director and Delegate Group

Members of the Wheat Growers Leadership Team are dedicated to helping member-owners succeed through vigilant oversight of business operations. Back Row: Richard Bentley, Chief Operating Officer
Blake Bewarden, Chief Financial Officer
Dale Lecakes, Chief Executive Officer
Travis Engag, Vice President, Sales and Marketing
Roger Orange, Vice President, Grain Front Row: South Dakota Governor, A. Governor, Bio Skipping, Vice President, Human Resources and Organizational Development
Roger Rau, Vice President, Business Development

strong leadership creates opportunities for everyone.
In 2010, Wheat Growers continued our tradition of being an innovative grain and agronomy cooperative that serves member-owners with integrity and pride. Grain handling and marketing services deliver cost-saving efficiency and feature grain transportation and marketing plans customized for each producer. Agronomy services focus on expert, one-on-one consultation on seed selection, nutrients and crop protection. We also offer an advanced custom application fleet, precision ag solutions, equipment financing and more. Special services that connect multiple growers who have similar needs and challenges with solutions that save everyone time and money.

Wheat Growers constantly reviews our product and service offerings and seeks input from growers to make sure we're continuing to deliver what member-owners need to succeed.

In fiscal 2010, your board recognized that we needed to improve customer service. An extremely wet 2009 fall wreaked havoc with harvest schedules and created unprecedented demand for grain drying system-wide. Those factors, along with some system inefficiencies, meant member-owners were left sitting in line waiting to deliver their crops to Wheat Growers' facilities for too long. With the strong support of member-owners, your board saw the need to invest in expanded facilities that improved customer service and in new equipment and storage and handling facilities that dramatically increased drying capacity and overall efficiency. The result was Connecting to Tomorrow, a cooperative-wide system upgrade that will pay dividends for years to come. Read much more about it on the next page.

While Connecting to Tomorrow is certainly the headline-making news of 2010, let's not forget the continuing efforts of every Wheat Growers employee to meet the member-owners' needs and to treat everyone as they would like to be treated themselves.

Your cooperative will only succeed if its member-owners succeed.
CONNECTING TO TOMORROW improves receiving capacity and efficiency

Efficiency and capacity are the twin pillars of effective cooperative operations, especially during harvest time. In 2010, member-owners made strides in strengthening both pillars for years to come.

Corn and soybean yields in Wheat Grower’s grain study area increase by about 19 million bushels every year. The growing productivity of our member-owners is a testament to their skill and efficiency. Those yields, combined with the historic weather challenges during the 2009 harvest and 2010 growing season, identified system-wide opportunities for improvement during the fiscal year.

Driven by ever-increasing production, growing global demand and the constant challenge of managing risks posed by weather, Wheat Growers member-owners overwhelmingly chose to invest in your cooperative’s capacity and efficiency through the Connecting to Tomorrow capital initiative.
The Phase 1 investments included projects at 11 locations that:

- Added 30 percent to our receiving capacity for faster unloading of your trucks. That means member-owners will lose less harvesting time while sitting unproductively in line.

- Doubled drying capacity with bigger, more energy-efficient driers. During a perfect harvest, there’s no need for the additional expense of drying (as during harvest 2010). History and experience reminds us that most harvests are less than perfect, however, and some are closer to disastrous, such as the extremely wet 2009 harvest. Thanks to far-sighted investments by Wheat Growers’ member-owners, your cooperative is now well positioned to manage the risk of a system-wide wet harvest for the next decade or more.

- Increased system storage capacity by 23 percent. Member-owners made incredible strides in productivity between 2000 and 2008, and productivity in harvests are projected to continue to increase as farmers respond to the world’s growing food and fuel needs. Significant storage expansion reduces the need for expensive, less-efficient alternative storage strategies.

- Brought new market access to member-owners in Roscoe and Andover through two new, 110-car shuttle loaders.

Your Wheat Growers board, delegates and fellow members overwhelmingly approved funding the Connecting to Tomorrow improvements by investing old-year equity payments for three years instead of borrowing from the bank. Even with this change, Wheat Growers still maintains one of the most current equity retirement schedules in the industry. The Age 70 Retirement Program and Estate Revolvement are not affected by this effort and will continue to be paid.

Connecting to Tomorrow investments began generating return on investment during harvest 2010 (which is part of fiscal year 2011). The speed of unloading and traffic flow at upgraded sites showed dramatic improvements and also took pressure off other system locations. These long-term investments will continue to serve member-owners well into the future.

Phase 2 includes projects that could begin in the next two or three years, depending on cash flow generated throughout your cooperative.
The late season and disastrous, wet field conditions also meant corn and soybeans had to be harvested simultaneously, creating still more handling headaches. Wheat Growers’ employees and member-owners did an amazing job coping in the face of these formidable challenges. The second consecutive wet year also motivated your cooperative to invest in dramatically increasing handling and drying capacity as part of the Connecting to Tomorrow project (discussed in more detail on page 9).

Thanksfully, harvest weather for 2010 was much better. That, combined with Connecting to Tomorrow improvements, made grain handling across the Wheat Growers network quick and efficient for both the company and its member-owners.

Grain Handling Increases, Agronomy Sales Impacted

The weather was chief among the factors that created some negatives in your business. Rainfall in the wet harvest of 2009 and the wet growing season of 2010, which are included in fiscal year 2010 which ran from August 1, 2009 through July 31, 2010, created some negatives in your business. Both in the wet harvest of 2009 and the wet planting of 2010, which were included in fiscal year 2010 which ran from August 1, 2009 through July 31, 2010.

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Fertilizer Storage Expansion

As part of Wheat Growers’ expansion, agronomy projects at the Oakes, ND, and McLaughlin and Wolsey, SD, locations are a significant step forward in convenience and efficiency for customers in these markets.

The Wolsey Retail Agronomy Center project improved the supply of seeds, fertilizer and other crop protection products to its patrons. The facility has a precision ag service center and a sprayer parts department to handle fittings, parts, hoses, etc. A precision ag coordinator is based in the Wolsey center. The facility was operational by spring 2010.

The Oakes agronomy expansion was also finished in time for the 2010 spring season. The previous, 1960s-era 1,500-ton facility is now a state-of-the-art 19,000-ton plant, capable of bringing 1,200 tons of fertilizer per hour off rail. The two new blenders increased blending capacity from 60 tons per hour to 350 tons per hour.

There was a similarly dramatic expansion in the McLaughlin fertilizer facility, which added 20,000 tons of storage capacity, and also tripled its blending capabilities by adding two new blenders.

The project began in February 2010 and was completed in late spring 2010.

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The project began in February 2010 and was completed in late spring 2010.
A LOT HAS CHANGED SINCE 1923, but the core of what we do remains the same.

Even in our technology-saturated, constantly changing world, some things endure for generations. Like the notion of integrity, superior service, a focus on meeting current need while preparing for future needs, the importance of sound financial practices, the value of progressive leadership and a commitment to safety, above all.

These are the core values member-owners have instilled in Wheat Growers, and they’re as vital today as they were nearly 90 years ago when visionary founders created a “wheat pool” to unite producers for the common good.

In 2010, the same spirit lives on in your company. Not only does your member-ownership in Wheat Growers keep the legacy of strong, traditional values alive and well even in a high-tech age, your involvement in the association is also critical to maintaining and expanding business opportunities for all.

Guided by strong core values and a commitment to the idea of a shared future, producers unite as member-owners in their Wheat Growers cooperative to create a powerful vision for the success of rural America for generations to come. Your cooperative remains focused on serving all member-owners by meeting needs at home and expanding opportunities across the nation and around the world.

stronger for generations
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Independent Auditors’ Report

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To the Board of Directors
South Dakota Wheat Growers Association
Aberdeen, South Dakota

We have audited the accompanying consolidated balance sheets of South Dakota Wheat Growers Association, Aberdeen, South Dakota, as of July 31, 2010 and 2009, and the related consolidated statements of savings, members’ equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of South Dakota Wheat Growers Association, Aberdeen, South Dakota, as of July 31, 2010 and 2009, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of South Dakota Wheat Growers Association and all of its subsidiaries as of July 31, 2010 and 2009, and the related statements of savings, members’ equity and cash flows for the years then ended (none of which is presented herein), and we expressed an unqualified opinion on those financial statements. Such consolidated financial statements are the general-purpose financial statements of South Dakota Wheat Growers Association and its subsidiaries.

November 24, 2010

Gardiner Thomsen, P.C.
## CONSOLIDATED BALANCE SHEETS • July 31, 2010 and 2009

### ASSETS

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td></td>
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<tr>
<td>Cash and Cash Equivalents</td>
<td>$ 53,053,033</td>
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<tr>
<td>Marketable Securities</td>
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<tr>
<td>Receivables: Notes &amp; Contracts</td>
<td>13,492,045</td>
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<td>Trade – Net of Allowance for Doubtful Accounts of $1,000,000 and $1,550,000</td>
<td>12,907,749</td>
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<tr>
<td>Grain in Transit</td>
<td>12,031,873</td>
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<tr>
<td>Unadvanced Loan Commitment</td>
<td>12,907,749</td>
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<td>Other</td>
<td>12,907,749</td>
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<tr>
<td>Margin Account</td>
<td>12,907,749</td>
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<tr>
<td>Inventories</td>
<td>12,907,749</td>
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<tr>
<td>Total Current Assets</td>
<td>257,614,781</td>
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<tr>
<td>Property, Plant and Equipment</td>
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<tr>
<td>Land</td>
<td>4,483,033</td>
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<tr>
<td>Buildings and Equipment</td>
<td>238,882,942</td>
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<tr>
<td>Accumulated Depreciation</td>
<td>243,567,945</td>
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<tr>
<td>Undepreciated Cost</td>
<td>120,303,113</td>
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<tr>
<td>Construction and Purchase in Progress</td>
<td>40,743,287</td>
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<tr>
<td>Total Property, Plant &amp; Equipment</td>
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<td>Other Assets</td>
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<tr>
<td>Notes &amp; Contracts</td>
<td>1,464,093</td>
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<tr>
<td>Organization &amp; Finance Costs</td>
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<td>Land Purchases Options</td>
<td>31,033</td>
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<td>Goodwill/Intangibles</td>
<td>2,073,214</td>
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<td>Total Other Assets</td>
<td>5,110,143</td>
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<tr>
<td>Total Assets</td>
<td>$472,650,888</td>
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</table>

### LIABILITIES AND MEMBERS’ EQUITY

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
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</thead>
<tbody>
<tr>
<td>Current Liabilities</td>
<td></td>
</tr>
<tr>
<td>Current Maturities of Long-Term Debt</td>
<td></td>
</tr>
<tr>
<td>Notes Payable</td>
<td>117,309,302</td>
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<tr>
<td>Unpaid Grain</td>
<td>14,105,644</td>
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<td>Deferred Compensation</td>
<td>1,038,086</td>
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<td>Total Current Liabilities</td>
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<td>Deferred Revenue</td>
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<td>Condo Storage</td>
<td>3,042,680</td>
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<tr>
<td>Deferred Income Taxes</td>
<td>1,915,288</td>
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<tr>
<td>Total Deferred Revenue</td>
<td>4,958,028</td>
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<tr>
<td>Members’ Equity</td>
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<tr>
<td>Patron’s Reserve</td>
<td>42,095,440</td>
</tr>
<tr>
<td>Retired Patron’s Reserve</td>
<td>4,415,381</td>
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<tr>
<td>Comprehensive Income</td>
<td>182,660</td>
</tr>
<tr>
<td>Reserve Capital</td>
<td>129,048,732</td>
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<tr>
<td>Total Members’ Equity</td>
<td>175,609,541</td>
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<tr>
<td>Total Liabilities and Members’ Equity</td>
<td>$472,650,888</td>
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</tbody>
</table>

The accompanying notes are an integral part of the consolidated financial statements.
### CONSOLIDATED STATEMENTS OF SAVINGS • Years Ended July 31, 2010 and 2009

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and Service Income</td>
<td>$1,020,365,208</td>
<td>$1,178,185,003</td>
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<tr>
<td>Cost of Goods Sold</td>
<td>$502,572,670</td>
<td>$1,101,860,177</td>
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<tr>
<td>Gross Savings on Sales and Service Income</td>
<td>$677,792,538</td>
<td>$75,315,486</td>
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<tr>
<td>Other Revenue</td>
<td>$20,512,112</td>
<td>$20,201,764</td>
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<tr>
<td>Total Gross Revenue</td>
<td>$108,504,642</td>
<td>$96,517,250</td>
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<tr>
<td>Operating Expenses, Including Interest</td>
<td>$99,395,592</td>
<td>$79,637,597</td>
</tr>
<tr>
<td>Operating (Local) Savings</td>
<td>9,109,050</td>
<td>16,879,653</td>
</tr>
<tr>
<td>Gain on Sale of Plant &amp; Equipment</td>
<td>1,163,230</td>
<td>1,163,230</td>
</tr>
<tr>
<td>Gain on Sale of Investments</td>
<td>4,935</td>
<td>430,959</td>
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<tr>
<td>Income from Investments</td>
<td>2,649,043</td>
<td>2,447,153</td>
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<tr>
<td>Patronage Dividend Income</td>
<td>3,535,722</td>
<td>8,061,051</td>
</tr>
<tr>
<td>Proposed Fines and Penalties</td>
<td>(1,600,000)</td>
<td>0</td>
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<tr>
<td>Savings before Taxes</td>
<td>14,581,489</td>
<td>28,872,951</td>
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<tr>
<td>Income Taxes</td>
<td>$1,430,439</td>
<td>1,808,327</td>
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<tr>
<td>Net Savings</td>
<td>$14,976,059</td>
<td>$27,681,014</td>
</tr>
</tbody>
</table>

### DISTRIBUTION OF NET SAVINGS

| Personnel Dividend Provision | $1,420,000          | $2,560,000         |
| Current (40%)                | 2,130,000           | 3,643,890          |
| Deferred (60%)               | 3,200,000           | 6,406,850          |
| Capital Reserve              | 11,388,059          | 20,657,124         |
| $14,976,059                  | $27,681,014         |

### CONSOLIDATED STATEMENTS OF MEMBERS’ EQUITY • Years Ended July 31, 2010 and 2009

<table>
<thead>
<tr>
<th>Total</th>
<th>Patron/ Reserve</th>
<th>Paid-in Patron/ Reserve</th>
<th>Comprehensive Income</th>
<th>Reserve Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings – July 31, 2008</td>
<td>$121,646,103</td>
<td>$4,314,458</td>
<td>$3,896,451</td>
<td>$1,367,000</td>
</tr>
<tr>
<td>Net Savings</td>
<td>27,064,014</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other Comprehensive Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized Gains on Marketable Securities (Net of $105,891 Income Tax)</td>
<td>(1,350,105)</td>
<td>0</td>
<td>0</td>
<td>(1,350,105)</td>
</tr>
<tr>
<td>Net Comprehensive Income</td>
<td>25,715,909</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### DISTRUBUTION OF NET SAVINGS

| Balance – July 31, 2008 | 143,270,297 | 41,824,758 | 3,521,997 | 116,895 | 97,808,647 |
| Net Savings             | 14,976,059 | 0 | 0 | 0 | 14,976,059 |
| Other Comprehensive Income |                   |                          |                      |                |
| Unrealized Gains on Marketable Securities (Net of $2,095 Income Tax) | 65,765 | 0 | 0 | 65,765 | 0 |
| Net Comprehensive Income | 14,941,824 | 0 | 0 | 0 | 14,941,824 |

### DISTRUBUTION OF NET SAVINGS

<table>
<thead>
<tr>
<th>Patrons' Reserve</th>
<th>Paid-in Patrons' Reserve</th>
<th>Comprehensive Income</th>
<th>Reserve Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patrons' Reserve Provision</td>
<td>$1,420,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Current (40%)</td>
<td>2,130,000</td>
<td>3,643,890</td>
<td>0</td>
</tr>
<tr>
<td>Deferred (60%)</td>
<td>3,200,000</td>
<td>6,406,850</td>
<td>0</td>
</tr>
<tr>
<td>Capital Reserve</td>
<td>11,388,059</td>
<td>20,657,124</td>
<td>0</td>
</tr>
<tr>
<td>$108,408,841</td>
<td>$42,396,448</td>
<td>$4,410,981</td>
<td>$182,680</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the consolidated financial statements.
<table>
<thead>
<tr>
<th>CASH FLOWS FROM OPERATING ACTIVITIES</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Savings</td>
<td>$14,376,059</td>
<td>$27,064,014</td>
</tr>
<tr>
<td>Adjustments to Recode Net Savings to Net Cash</td>
<td>Provided by (Used in) Operating Activities</td>
<td></td>
</tr>
<tr>
<td>Depreciation &amp; Amortization</td>
<td>19,349,500</td>
<td>16,567,821</td>
</tr>
<tr>
<td>Gain on Sale of Property, Plant &amp; Equipment</td>
<td>(1,134,239)</td>
<td>(134,135)</td>
</tr>
<tr>
<td>Nettax</td>
<td>(1,134,239)</td>
<td>(134,135)</td>
</tr>
<tr>
<td>Patronsal Income Received as Equity</td>
<td>(1,764,601)</td>
<td>(5,262,708)</td>
</tr>
<tr>
<td>Gain on Sale of Marketable Securities</td>
<td>(4,935)</td>
<td>(430,959)</td>
</tr>
<tr>
<td>Income from Investments</td>
<td>(2,649,543)</td>
<td>(2,447,153)</td>
</tr>
<tr>
<td>Deferred Compensation Plan</td>
<td>122,115</td>
<td>381,316</td>
</tr>
<tr>
<td>Deferred Income Taxes</td>
<td>(15,125)</td>
<td>431,385</td>
</tr>
<tr>
<td>Change in Assets and Liabilities</td>
<td>7,291,185</td>
<td>18,835,658</td>
</tr>
<tr>
<td>Increase in Receivables</td>
<td>2,378,568</td>
<td>16,358,632</td>
</tr>
<tr>
<td>(Increase) Decrease in Inventories</td>
<td>(10,352,508)</td>
<td>72,496,058</td>
</tr>
<tr>
<td>(Increase) Decrease in Prepayments on Inventories</td>
<td>(3,023,198)</td>
<td></td>
</tr>
<tr>
<td>(Increase) Decrease in Prepaid Expenses</td>
<td>(1,179,958)</td>
<td>381,316</td>
</tr>
<tr>
<td>Change in Accrued Expenses</td>
<td>1,868,213</td>
<td>484,981</td>
</tr>
<tr>
<td>Net Cash Provided by Operating Activities</td>
<td>20,525,408</td>
<td>146,081,100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOWS FROM INVESTING ACTIVITIES</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from Sale of Property, Plant &amp; Equipment</td>
<td>1,792,201</td>
<td>268,836</td>
</tr>
<tr>
<td>Increase in Receivables</td>
<td>(2,779,260)</td>
<td>16,358,632</td>
</tr>
<tr>
<td>(Increase) Decrease in Inventories</td>
<td>(10,352,508)</td>
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<table>
<thead>
<tr>
<th>CASH FLOWS FROM FINANCING ACTIVITIES</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease in Checks in Excess of Bank Balance</td>
<td>0</td>
<td>(7,779,760)</td>
</tr>
<tr>
<td>Net Repayments Under Line-of-Credit Agreements</td>
<td>(5,910,659)</td>
<td>(111,000,000)</td>
</tr>
<tr>
<td>Increase in Long-Term Grain Contracts</td>
<td>664,641</td>
<td>3,419,705</td>
</tr>
<tr>
<td>Additional Long-Term Borrowings</td>
<td>10,037,241</td>
<td>53,114,368</td>
</tr>
<tr>
<td>Retirement of Long-Term Debt</td>
<td>(15,404,878)</td>
<td>(4,068,782)</td>
</tr>
<tr>
<td>Increase (Decrease) in Condo Storage</td>
<td>(9,398,271)</td>
<td>99,385</td>
</tr>
<tr>
<td>Redemption of Members’ Equity</td>
<td>(5,830,232)</td>
<td>(1,050,453)</td>
</tr>
<tr>
<td>Tax Adjustments</td>
<td>440,526</td>
<td>389,622</td>
</tr>
<tr>
<td>Allocated Patronage Dividends Paid in Cash</td>
<td>(2,551,477)</td>
<td>(1,888,121)</td>
</tr>
<tr>
<td>Net Cash Provided by (Used in) Finishing Activities</td>
<td>14,376,059</td>
<td>(412,016)</td>
</tr>
<tr>
<td>Net Increase (Decrease) in Cash</td>
<td>(37,400,739)</td>
<td>90,602,078</td>
</tr>
<tr>
<td>Cash – Beginning of Year</td>
<td>39,664,562</td>
<td>42,486</td>
</tr>
<tr>
<td>Cash – End of Year</td>
<td>$53,263,823</td>
<td>$90,664,562</td>
</tr>
</tbody>
</table>

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</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Paid During the Year for:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>$ 4,840,043</td>
<td>8,264,573</td>
</tr>
<tr>
<td>Income Taxes</td>
<td>(621,000)</td>
<td>1,903,259</td>
</tr>
<tr>
<td>Allocated Patronage Dividends</td>
<td>$ 3,500,000</td>
<td>6,495,880</td>
</tr>
<tr>
<td>SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES</td>
<td>2010</td>
<td>2009</td>
</tr>
<tr>
<td>Receivables</td>
<td>905,317</td>
<td>522,754</td>
</tr>
<tr>
<td>Inventories</td>
<td>2,649,544</td>
<td>1,644,209</td>
</tr>
<tr>
<td>Margin Deposits</td>
<td>(23,716)</td>
<td>181,861</td>
</tr>
<tr>
<td>Deposits on Undelivered Inventories</td>
<td>120,605</td>
<td>0</td>
</tr>
<tr>
<td>Prepaid Expenses</td>
<td>7,766</td>
<td>2,772</td>
</tr>
<tr>
<td>Deferred Income Taxes</td>
<td>0</td>
<td>(54,390)</td>
</tr>
<tr>
<td>Property, Plant &amp; Equipment</td>
<td>3,300,050</td>
<td>2,635,478</td>
</tr>
<tr>
<td>Equity in Other Organizations</td>
<td>701,150</td>
<td>10,312</td>
</tr>
<tr>
<td>Partnership Interest in LLC</td>
<td>112,616</td>
<td>14,432</td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>0</td>
<td>(264,672)</td>
</tr>
<tr>
<td>Seasonal Debt</td>
<td>(9,310,609)</td>
<td>0</td>
</tr>
<tr>
<td>Current Portion of Term Debt</td>
<td>(945,254)</td>
<td>0</td>
</tr>
<tr>
<td>Payables</td>
<td>(2,699,200)</td>
<td>975,470</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>(119,804)</td>
<td>(31,907)</td>
</tr>
<tr>
<td>Term Debt</td>
<td>(1,186,748)</td>
<td>1,122,988</td>
</tr>
<tr>
<td>Deferred Condo Storage</td>
<td>(102,300)</td>
<td>0</td>
</tr>
<tr>
<td>Members’ Equity</td>
<td>(2,804,900)</td>
<td>(1,088,030)</td>
</tr>
</tbody>
</table>
Note 1: Organization and Nature of Business
The Association is a South Dakota corporation operating as a cooperative for the mutual benefit of its members. The Association operates a licensed public grain warehouse; provides grain marketing services; and supplies feed, fertilizer, chemicals and other types of merchandise for its members, primarily, in and around Dickey, Stutsman and LaMoure Counties in North Dakota and Aurora, Beadle, Brown, Brule, Clark, Corson, Day, Edmunds, Faulk, Hand, Hyde, Jerauld, Lyman, Marshall, Sanborn and Spink Counties in South Dakota.

Note 2: Summary of Significant Accounting Policies
The significant accounting practices and policies are summarized below.

PRINCIPALS OF CONSOLIDATION AND BASIS OF PRESENTATION
The consolidated financial statements include the accounts of South Dakota Wheat Growers Association and its wholly owned subsidiaries, South Dakota Wheat Growers Inc., SDWNG v. McLoughlin Terminals, LLC and Cresbard Terminals, LLC, South Central North Dakota, LLC, but does not include the subsidiary, James Valley Grain, LLC. In consolidation all significant intercompany accounts and transactions have been reclassified, where appropriate, to conform with the current year’s financial statement presentation.

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

FINANCIAL STATEMENT RECLASSIFICATION
For comparability, certain amounts in the prior year’s financial statements have been reclassified, where appropriate, to conform with the current year’s financial statement presentation.

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FINANCIAL STATEMENT RECLASSIFICATION
For comparability, certain amounts in the prior year’s financial statements have been reclassified, where appropriate, to conform with the current year’s financial statement presentation.

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

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

BAD DEBTS
Bad debts are provided for on the reserve method based on historical experience and management’s evaluation of outstanding receivables at the end of the year.

INVENTORY VALUATIONS
Grain inventories are valued on the basis of current local market prices with appropriate adjustment for freight, weight, discounts and other differentials. Grain merchandise inventories are valued at the lower of cost (first-in, first-out method) or market price.

REVENUE RECOGNITION
The Association provides a wide variety of products and services, from production of agricultural inputs such as crop nutrients and other farm supplies, to grain marketing, storage and drying services, agronomy spreading and spraying, transportation, and other agricultural related services. Sales are recorded upon transfer of title, which could occur at the time commodities are shipped or upon receipt by the customer, depending on the terms of the transaction. Service revenues are recorded once such services have been rendered.
In accordance with the Income Taxes Topic of the FASB ASC, the Association evaluates uncertain tax benefits arising from tax positions taken or expected to be taken based upon the likelihood of being sustained upon examination by applicable tax authorities. If the Association determines that a tax position is more likely than not of being sustained, it recognizes the largest amount of the arising benefit that is greater than 50% likely of being realized upon settlement in the financial statements. Any tax positions taken or expected to be taken that do not pass the more likely than not test, the Association establishes reserves offsetting the benefits related to such positions. Interest and penalties, if any, are included in the current period provision for income taxes in the Association’s statement of savings and are included as a current liability in the balance sheet.

DEFERRED INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The principal temporary differences are due to the use of different financial reporting and income tax methods for depreciation, bad debts, inventory capitalization, grain quality and compensated absences. Deferred tax assets and liabilities are recognized based on the fair value of the asset and long-lived assets to be disposed of are reported at the lower of their carrying amount or their fair value less selling costs. There were no impairment losses recorded during the years ended July 31, 2010 and 2009.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill represents the excess of purchase price over the fair value of net assets acquired. Goodwill is not amortized, rather it is evaluated for impairment annually or whenever events or changes in circumstances indicate that the value of the asset may be impaired. Goodwill is evaluated for impairment by determining the fair value on a discounted cash flow method or relative market-based approach.

PROPERTY, PLANT AND EQUIPMENT

Land, buildings and equipment are stated at cost. Depreciation methods and estimated useful lives of assets are discussed in Note 6. Maintenance and repairs are expensed as incurred. Expenditures for new facilities and those which increase the useful lives of the buildings and equipment are capitalized. When assets are sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and gains or losses on the disposals are recognized in earnings.

ADVERTISING

The Association expenses advertising costs as they are incurred, which amounted to $335,957 and $382,288 for the years ended July 31, 2010 and 2009, respectively.

PATRONAGE DIVIDEND INCOME

Patronage dividend income from other cooperatives is recognized as income in the year the Association receives formal notification from the distributing cooperative.

INCOME TAXES

The Association, as a non-exempt cooperative, is taxed on non-patronage earnings and any patronage earnings not paid or allocated to patrons. In accordance with the Association’s articles and bylaws, the Association may allocate net savings, after provisions for reasonable and adequate reserves, to patrons on a patronage basis, based on taxable income. Such allocations are at the discretion of the Association’s Board of Directors and may be made in the form of cash and allocated equities in such proportion as determined by the Board of Directors.

DISTRIBUTION OF NET SAVINGS

In accordance with the Association’s articles and bylaws, the Association may allocate net savings, after provisions for reasonable and adequate reserves, to patrons on a patronage basis, based on taxable income. Such allocations are at the discretion of the Association’s Board of Directors and may be made in the form of cash and allocated equities in such proportion as determined by the Board of Directors.

Note 3: Significant Concentrations of Risk

CREDIT RISK — FINANCIAL INSTITUTIONS

The Association maintains cash balances with the local and national financial institutions, which may at times exceed the coverage of U.S. Federal Deposit Insurance Corporation (FDIC). This coverage amounted to $350,500 for the fiscal years ended July 31, 2010 and 2009. At July 31, 2010 and 2009, cash balances exceeded FDIC coverage by $5,372,410 and $105,603,761, respectively.

CREDIT RISK — RECEIVABLES

The Association issues credit to local patrons in and around various communities located in South and North Dakota, under industry standard terms without collateral in most cases. As these receivables are concentrated in an agricultural area and industry, collection on these receivables may be dependent upon economic returns from farm crop and livestock production.

CREDIT RISK — SUPPLIERS

The Association historically prepays for or makes deposits on undelivered inventories. Concentration of credit risk with respect to inventory advances, are primarily with a few major suppliers of petroleum products and agricultural inputs.

OFF-BALANCE SHEET RISK — COMMODITY CONTRACTS

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

Note 4: Related Party Transactions

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

The Association sells products and provides services to the board of directors and certain employees. The aggregate of these transactions is not significant to the financial statements.

For the convenience of its customers, the Association provides credit to qualified patrons. Directors and employees may qualify to use the Association’s credit programs, however, they are subject to the same credit and repayment terms as all other patrons.

The Association sells products and services to, purchases products and services from, has receivables due from, and payables due to the companies that the Association has investments in. The related party transactions between the companies and the Association are summarized to the right.

<table>
<thead>
<tr>
<th>Company</th>
<th>Sales To</th>
<th>Purchases From</th>
<th>Receivable Due From</th>
<th>Payable Due To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced Bioenergy, LLC</td>
<td>$100,302,590</td>
<td>0</td>
<td>$2,617,384</td>
<td>0</td>
</tr>
<tr>
<td>Dakota feeds, LLC</td>
<td>109,000</td>
<td>154,140</td>
<td>4,392</td>
<td>2,660</td>
</tr>
<tr>
<td>James Valley Grain, LLC</td>
<td>8,977,040</td>
<td>0</td>
<td>12,399</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$108,678,638</strong></td>
<td><strong>$154,140</strong></td>
<td><strong>$3,145,635</strong></td>
<td><strong>$2,660</strong></td>
</tr>
</tbody>
</table>

Note 5: Marketable Securities

The Association has marketable securities that are classified as available-for-sale securities. The securities are valued at market. Net unrealized holding gains (losses) on available-for-sale securities in the amount $26,195 and $206,760 for the years ended July 31, 2010 and 2009, respectively, have been included in accumulated other comprehensive income net of tax.

Following are the market value, original cost and unrealized gains and losses on marketable securities classified as available-for-sale as of July 31, 2010 and 2009:

<table>
<thead>
<tr>
<th>Number of Shares</th>
<th>Cost</th>
<th>Unrealized Gain</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Assets Holding Corporation Common Stock</td>
<td>13,020</td>
<td>$22,014</td>
<td>$220,559</td>
</tr>
<tr>
<td>FCStone Group, Inc. Common Stock Series II</td>
<td>2,585</td>
<td>$4,070</td>
<td>$15,438</td>
</tr>
<tr>
<td></td>
<td>Series III</td>
<td>41,547</td>
<td>17,944</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$135,981,340</strong></td>
<td><strong>$202,014</strong></td>
<td><strong>$246,754</strong></td>
</tr>
</tbody>
</table>

Realized gains and losses on the sale of marketable securities are based on original cost, and are included in earnings. The Association had realized gains on the sale of marketable securities at July 31, 2010 and 2009 of $4,935 and $430,959, respectively.

Effective September 30, 2009, FCStone Group, Inc. merged with International Assets Holding Company. For each share of FCStone common stock, FCStone shareholders received 295 shares of International Assets common stock.

Note 6: Property, Plant and Equipment

Depreciation is computed using the straight-line method over the estimated useful lives of the individual assets. The cost and estimated useful lives of depreciable assets is as follows:

<table>
<thead>
<tr>
<th>Life in Years</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and Equipment</td>
<td>$131,845,680</td>
<td>$119,891,459</td>
</tr>
<tr>
<td>Machinery and Equipment</td>
<td>$9,313,855</td>
<td>73,963,312</td>
</tr>
<tr>
<td>Transportation Equipment</td>
<td>17,777,984</td>
<td>14,779,963</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$238,938,542</strong></td>
<td><strong>$208,594,874</strong></td>
</tr>
</tbody>
</table>

Depreciation expenses for the years ended July 31, 2010 and 2009 amounted to $15,363,215 and $15,889,713, respectively.
Concrete Shuttle Elevator — Andover $ 6,516,662 $22,000,000
7,000 bph Dryer; Conveyors; Bins; Legging — Alpena 2,530,025 4,785,000
10,000 bph Dryer; (2) Bins; Conveyors; 20,000 bph Receiving Leg — Berlin 2,768,592 3,200,000
10,000 bph Dryer; (2) Wet Bins; Conveyors; Shuttle Loader Equip — Grebner 4,374,369 5,050,000
Grain Dryer & Equipment — Hecla 2,196,422 1,130,000
10,000 bph Dryer; (3) Bins; 20,000 bph Receiving Leg; Conveyors; Shuttle Loader Equip — Highmore 7,224,493 8,685,000
Concrete Shuttle Elevator — Mellette 3,821,575 4,150,000
10,000 bph Dryer; Conveyors; Wet Bin; Truck Scale; Legging — Willow Lake 754,971 1,100,000
Big Bin; Truck Scale; Conveyors; 30,000 bph Legging — Wolsey 2,811,526 3,500,000
7,000 bph Dryer; Bin; Conveyors — Yale 1,143,014 2,500,000
20,000 ton Dry Fert Plan Expansion — McLaughlin 4,418,047 4,500,000
Office Building — Chamberlain Fert 161,191 170,000
Fall Protection System — Cavour 26,160 45,000
Concrete Shuttle Elevator — Roscoe 4,855,338 21,600,000
10,000 bph Dryer; Conveyors; Legging — Alpena $ 582,987 $ 614,061
Grain Conveyors — Alpena 383,491 383,491
Grain Storage Upgrade — Berlin 383,491 383,491
Other Various Projects 737,838 666,815
$1,340,336 $1,644,387

Consolidated Notes to Financial Statements (Continued)

Construction in process at July 31, 2010 consisted of the following:

<table>
<thead>
<tr>
<th>Projects</th>
<th>Costs To Date</th>
<th>Approved Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concrete Shuttle Elevator — Andover</td>
<td>$ 6,516,662</td>
<td>$22,000,000</td>
</tr>
<tr>
<td>10,000 bph Dryer; Conveyors; Bin; Legging — Alpena</td>
<td>2,530,025</td>
<td>4,785,000</td>
</tr>
<tr>
<td>7,000 bph Dryer; (2) Bin; Conveyors; 20,000 bph Receiving Leg — Berlin</td>
<td>2,768,592</td>
<td>3,200,000</td>
</tr>
<tr>
<td>10,000 bph Dryer; (2) Wet Bin; Conveyors; Receiving Leg — Grebner</td>
<td>4,374,369</td>
<td>5,050,000</td>
</tr>
<tr>
<td>Grain Dryer &amp; Equipment — Hecla</td>
<td>2,196,422</td>
<td>1,130,000</td>
</tr>
<tr>
<td>10,000 bph Dryer; (3) Bin; 20,000 bph Receiving Leg; Conveyors; Shuttle Loader Equip — Highmore</td>
<td>7,224,493</td>
<td>8,685,000</td>
</tr>
<tr>
<td>Concrete Shuttle Elevator — Mellette</td>
<td>3,821,575</td>
<td>4,150,000</td>
</tr>
<tr>
<td>10,000 bph Dryer; Conveyors; Wet Bin; Truck Scale; Legging — Willow Lake</td>
<td>754,971</td>
<td>1,100,000</td>
</tr>
<tr>
<td>Big Bin; Truck Scale; Conveyors; 30,000 bph Legging — Wolsey</td>
<td>2,811,526</td>
<td>3,500,000</td>
</tr>
<tr>
<td>7,000 bph Dryer; Bin; Conveyors — Yale</td>
<td>1,143,014</td>
<td>2,500,000</td>
</tr>
<tr>
<td>20,000 ton Dry Fert Plan Expansion — McLaughlin</td>
<td>4,418,047</td>
<td>4,500,000</td>
</tr>
<tr>
<td>Office Building — Chamberlain Fert</td>
<td>161,191</td>
<td>170,000</td>
</tr>
<tr>
<td>Fall Protection System — Cavour</td>
<td>26,160</td>
<td>45,000</td>
</tr>
<tr>
<td>Concrete Shuttle Elevator — Roscoe</td>
<td>4,855,338</td>
<td>21,600,000</td>
</tr>
<tr>
<td>10,000 bph Dryer; Conveyors; Legging — Alpena</td>
<td>582,987</td>
<td>614,061</td>
</tr>
<tr>
<td>Grain Conveyors — Alpena</td>
<td>383,491</td>
<td>383,491</td>
</tr>
<tr>
<td>Grain Storage Upgrade — Berlin</td>
<td>383,491</td>
<td>383,491</td>
</tr>
<tr>
<td>Other Various Projects</td>
<td>737,838</td>
<td>666,815</td>
</tr>
<tr>
<td>$46,743,237</td>
<td>$50,660,750</td>
<td></td>
</tr>
</tbody>
</table>

Construction in process at July 31, 2009 and completed during the year consisted of the following:

<table>
<thead>
<tr>
<th>Projects</th>
<th>Costs To Date</th>
<th>Approved Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grain Conveyors — Alpena</td>
<td>$ 582,987</td>
<td>$ 614,061</td>
</tr>
<tr>
<td>Grain Storage Upgrade — Berlin</td>
<td>383,491</td>
<td>383,491</td>
</tr>
<tr>
<td>Other Various Projects</td>
<td>737,838</td>
<td>666,815</td>
</tr>
<tr>
<td>$1,340,336</td>
<td>$1,644,387</td>
<td></td>
</tr>
</tbody>
</table>

Consolidated Notes to Financial Statements (Continued)

Note 7: Goodwill

The Association accounts for its goodwill and other intangible assets in accordance with FASB ASC Topic 350, Intangibles — Goodwill and Other. Under this standard, goodwill and intangible assets deemed to have indefinite lives are not amortized but are subject to annual impairment tests. The Association recorded goodwill of $2,073,214 from the acquisition of Dakota Ag Co-op on September 1, 2009. There were no goodwill impairment charges recorded during 2010 and 2009.

Note 8: Equity in Other Cooperatives

Equities in other cooperatives are recorded at cost, plus unredeemed patronage dividends received in the form of capital stock and other equities, less any loss allocation or impairments recognized. Most cooperative stocks are not transferable, thereby precluding any market value, but they may be used as collateral in securing loans. Any impairment of equities normally is not recognized by the Association until formal notification is received or can be reasonably estimated. Redemption of these equities is at the discretion of the various organizations. A substantial portion of the business of these cooperatives is dependent upon the agribusiness economic sector.

CHS, Inc. had issued marketable securities to the Association in exchange for their non-marketable preferred stock. The Association elected to show those securities at cost. The unrecognized market gain or loss on those securities at July 31, 2009 were not significant to the financial statements.

Note 9: Investment in Other Companies

At July 31, 2010 and 2009, the Association had equity in other cooperatives as follows:

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHS, Inc</td>
<td>$14,798,112</td>
</tr>
<tr>
<td>CHS, Inc (Marketable Securities)</td>
<td>0</td>
</tr>
<tr>
<td>CoBank, ACB</td>
<td>4,205,838</td>
</tr>
<tr>
<td>Land’O Lakes, Inc</td>
<td>6,471,666</td>
</tr>
<tr>
<td>Ag Processing, Inc</td>
<td>349,692</td>
</tr>
<tr>
<td>Country Hedging, Inc</td>
<td>587,678</td>
</tr>
<tr>
<td>United Suppliers, Inc</td>
<td>381,056</td>
</tr>
<tr>
<td>All Others — Net of Acquisition Discount</td>
<td>55,168</td>
</tr>
<tr>
<td>$26,788,519</td>
<td>$25,845,200</td>
</tr>
</tbody>
</table>

Note 6: Property, Plant and Equipment (Continued)

At July 31, 2010 and 2009, the Association had equity in other cooperatives as follows:

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHS, Inc</td>
<td>$14,798,112</td>
</tr>
<tr>
<td>CHS, Inc (Marketable Securities)</td>
<td>0</td>
</tr>
<tr>
<td>CoBank, ACB</td>
<td>4,205,838</td>
</tr>
<tr>
<td>Land’O Lakes, Inc</td>
<td>6,471,666</td>
</tr>
<tr>
<td>Ag Processing, Inc</td>
<td>349,692</td>
</tr>
<tr>
<td>Country Hedging, Inc</td>
<td>587,678</td>
</tr>
<tr>
<td>United Suppliers, Inc</td>
<td>381,056</td>
</tr>
<tr>
<td>All Others — Net of Acquisition Discount</td>
<td>55,168</td>
</tr>
<tr>
<td>$26,788,519</td>
<td>$25,845,200</td>
</tr>
</tbody>
</table>

Investments in other companies are reported using the equity method, which is the Association’s original cost plus the proportionate share of undistributed earnings or losses. At July 31, 2010 and 2009, the Association had investments in other companies, as follows:
### Note & Investment in Other Companies (Continued)

#### Consolidated Notes to Financial Statements (Continued)

<table>
<thead>
<tr>
<th>Company</th>
<th>Ownership Percentage</th>
<th>Contribution/Redemption</th>
<th>Income/(Loss)</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advanced Bioenergy, LLC</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$449,780</td>
</tr>
<tr>
<td>James Valley Grain, LLC</td>
<td>64.370%</td>
<td>(648,877)</td>
<td>2,437,188</td>
<td>10,191,302</td>
</tr>
<tr>
<td>Dakota Feed, LLC</td>
<td>33.000</td>
<td>(247,500)</td>
<td>182,498</td>
<td>1,279,590</td>
</tr>
<tr>
<td>Sabre Initiatives, LLC</td>
<td>0.000</td>
<td>(11,432)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Redfield Energy, LLC</td>
<td>1.477</td>
<td>87,889</td>
<td>36,473</td>
<td>1,063,792</td>
</tr>
<tr>
<td>Sioux Falls Proc., LLC</td>
<td>4.668</td>
<td>4,440</td>
<td>0</td>
<td>19,440</td>
</tr>
<tr>
<td>South Dakota Soybean Proc., LLC</td>
<td>9.025</td>
<td>0</td>
<td>(472)</td>
<td>8,301</td>
</tr>
<tr>
<td>ACES</td>
<td>0.000</td>
<td>0</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Condo Storage LLC (Kennebec)</td>
<td>0.000</td>
<td>0</td>
<td>50,847</td>
<td></td>
</tr>
<tr>
<td>St. Lawrence Grant Storage Condo</td>
<td>100</td>
<td>0</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Dakota Ag Grain Storage LP</td>
<td>100</td>
<td>0</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>South Dakota Oilseed Producers</td>
<td>0.151</td>
<td>12,987</td>
<td>(5,144)</td>
<td>6,843</td>
</tr>
<tr>
<td></td>
<td>($802,210)</td>
<td>$2,849,543</td>
<td></td>
<td>$13,084,095</td>
</tr>
</tbody>
</table>

Note: Consolidaed Notes to Financial Statements (Continued)
Note: Financing Arrangements

Long-term financing arrangements at July 31, 2010 and 2009, are as follows:

<table>
<thead>
<tr>
<th>Lender</th>
<th>Interest Rate</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
</tr>
</tbody>
</table>
| Notes and Contracts CoBank, ACS Omaha, Nebraska Revolving Term Note — Annual commitment reduction of $12,500,000 starting 12-01-10 through 12-01-12; final commitment reduction of $12,500,000 with balance due on 12-01-15. Weighted Average Interest Rate Variable Rate 5.58% 3.08% (5.0)% $25,000,000 25,000,000 $25,000,000 25,000,000 Term II Note — Balance due on 12-01-17. Weighted Average Interest Rate 6.77% 16,000,000 25,500,000 0 5,000,000 1-Month LIBOR Rate Fix Term I Note — Annual payments of $5,500,000 starting 12-01-11 through 12-01-13; annual payment of $5,500,000 on 12-01-14; annual payments of $3,500,000 starting 12-01-15 through 12-01-17; remaining balance due on 12-01-18. Weighted Average Interest Rate Variable 3.08% 20,000,000 0 Dakotas I, LLC Sioux Falls, South Dakota Term Note A — Due 02-15-14 7.16% 6,651,000 6,651,000 Term Note B — Due 02-15-37 7.16% 2,279,000 2,279,000 RDP 4, LLC Mason City, Iowa Term Note A — Due 07-17-14 5.78% 10,495,500 10,495,500 Term Note B — Due 07-17-37 5.78% 3,754,500 3,754,500 Dakotas V, LLC Sioux Falls, South Dakota Term Note A — Due 06-04-17 6.31% 12,491,600 0 Term Note B — Due 06-04-40 6.31% 3,828,400 0 Consolidated Notes to Financial Statements (Continued) Consolidated Notes to Financial Statements (Continued)

Note 9: Investment in Other Companies (Continued)

The condensed financial information for the material investment in other companies as of July 31, 2010 and 2009 is as follows:

<table>
<thead>
<tr>
<th>Period Ended</th>
<th>7-31-10</th>
<th>7-31-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and Service Income</td>
<td>$144,307,411</td>
<td>$214,449,440</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>137,272,082</td>
<td>206,861,597</td>
</tr>
<tr>
<td>Gross Income</td>
<td>7,035,329</td>
<td>7,587,843</td>
</tr>
<tr>
<td>Other Income</td>
<td>1,800,192</td>
<td>1,800,192</td>
</tr>
<tr>
<td>Expenses</td>
<td>(5,340,960)</td>
<td>(6,087,199)</td>
</tr>
<tr>
<td>Patronage Dividend Income</td>
<td>3,576</td>
<td>55,076</td>
</tr>
<tr>
<td>Net Income</td>
<td>$3,498,137</td>
<td>$3,376,665</td>
</tr>
</tbody>
</table>

Balance Sheets

<table>
<thead>
<tr>
<th>Assets</th>
<th>Current Assets</th>
<th>$22,266,474</th>
<th>$28,618,361</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, Plant &amp; Equip., Net</td>
<td>14,806,489</td>
<td>12,287,207</td>
<td></td>
</tr>
<tr>
<td>Other Assets</td>
<td>291,485</td>
<td>290,436</td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$37,452,458</strong></td>
<td><strong>$41,296,154</strong></td>
<td></td>
</tr>
</tbody>
</table>

| Liabilities & Partners Capital | Current Liabilities | $19,862,547 | $27,049,936 |
| Long-Term Liabilities | 2,377,377 | 1,218,221 |
| Partners' Capital | 15,512,534 | 13,277,971 |
| **Total Liabilities & Partners Capital** | **$37,452,458** | **$41,296,154** |
### Consolidated Notes to Financial Statements (Continued)

**Note 10: Financing Arrangements (Continued)**

<table>
<thead>
<tr>
<th>Lender (continued)</th>
<th>Interest Rate</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>McLaughlin Conson Reg. Railroad Authority, Pierre, South Dakota</td>
<td>Notes and Contracts (Continued)</td>
<td>Notes and Contracts (Continued)</td>
<td>Notes and Contracts (Continued)</td>
</tr>
<tr>
<td>McLaughlin Conson Reg. Railroad Authority, Pierre, South Dakota</td>
<td>Promissory Note - $2,480,000 Commitment; Annual payment of $317,285, includes interest, starting 02-01-08; balance was paid in full on 06-30-10.</td>
<td>4.75%</td>
<td>$0</td>
</tr>
<tr>
<td>Hyde Co. Reg. Railroad Authority, Pierre, South Dakota</td>
<td>Promissory Note - Annual payment of $54,850, includes interest, starting 08-01-08; balance was paid in full on 06-30-10.</td>
<td>5.00%</td>
<td>0</td>
</tr>
<tr>
<td>ABC Regional Railroad Authority, Pierre, South Dakota</td>
<td>Promissory Note - Annual payment of $130,750, includes interest; balance was paid in full on 10-01-09.</td>
<td>5.00%</td>
<td>0</td>
</tr>
<tr>
<td>Klose Farmers Elevator, Eldridge, North Dakota</td>
<td>Investment in Mainline Agronomy division per operating agreement.</td>
<td>N/A</td>
<td>134,881</td>
</tr>
<tr>
<td>Joy Wardeshub &amp; Coral Freerman, Mellette, South Dakota</td>
<td>Deed contract – Payment due on 01-20-11.</td>
<td>N/A</td>
<td>40,000</td>
</tr>
<tr>
<td>AAA Leasing, L.P., LaMoure, South Dakota</td>
<td>Capital Lease – Annual payment of $58,474, includes interest, with balance due on 03-01-11.</td>
<td>6.00%</td>
<td>62,716</td>
</tr>
<tr>
<td>Unpaid Grain</td>
<td>14,165,644</td>
<td>13,540,998</td>
<td></td>
</tr>
<tr>
<td>Deferred Compensation Plan</td>
<td>1,538,086</td>
<td>1,415,971</td>
<td></td>
</tr>
<tr>
<td>Less: Current Portion</td>
<td>12,710,512</td>
<td>13,050,585</td>
<td></td>
</tr>
<tr>
<td>Total Long-Term Liabilities</td>
<td>$133,613,062</td>
<td>$106,480,922</td>
<td></td>
</tr>
</tbody>
</table>

*Denotes Continuously Variable Interest Rate

**Note 11: Financing Arrangements (Continued)**

<table>
<thead>
<tr>
<th>Lender (continued)</th>
<th>Interest Rate</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Small Business Administration, Plano, Texas</td>
<td>Disaster Note #4517 (Yale) – Annual payment of $13,010, includes interest, with balance due on 01-30-15.</td>
<td>4.00%</td>
<td>$64,338</td>
</tr>
<tr>
<td>Disaster Note #6008 (Dakota Ag) – Annual payment of $62,175, includes interest, starting 10-04-09; balance due on 10-04-21.</td>
<td>4.00%</td>
<td>586,669</td>
<td>0</td>
</tr>
<tr>
<td>Disaster Note #4004 (Dakota Ag) – Annual payment of $46,509, includes interest, starting 07-18-10; balance due on 07-18-18.</td>
<td>4.00%</td>
<td>307,638</td>
<td>0</td>
</tr>
<tr>
<td>Farm Credit Leasing, Minneapolis, Minnesota</td>
<td>(7) 10,000 bu. Grain Dryers – Terms of this Agreement have not been established as projects are still in process.</td>
<td>N/A</td>
<td>3,851,025</td>
</tr>
<tr>
<td>Gary &amp; Jonell Fau</td>
<td>Deed Contract – Payment due on 01-20-11.</td>
<td>N/A</td>
<td>40,000</td>
</tr>
<tr>
<td>Craig Galbreath</td>
<td>Deed Contract – Annual payments of $3,300 starting on 01-20-10 with final payment due on 01-20-12.</td>
<td>N/A</td>
<td>16,000</td>
</tr>
<tr>
<td>Upsida Grain</td>
<td>14,163,644</td>
<td>13,540,998</td>
<td></td>
</tr>
<tr>
<td>Deferred Compensation Plan</td>
<td>1,538,086</td>
<td>1,415,971</td>
<td></td>
</tr>
<tr>
<td>Less: Current Portion</td>
<td>12,710,512</td>
<td>13,050,585</td>
<td></td>
</tr>
<tr>
<td>Total Long-Term Liabilities</td>
<td>$133,613,062</td>
<td>$106,480,922</td>
<td></td>
</tr>
</tbody>
</table>

*Denotes Continuously Variable Interest Rate
In addition, the Association had a Revolving Credit Facility and seasonal line of credit available at July 31, 2010, as follows:

- **Note 10: Financing Arrangements (Continued)**

  **Consolidated Notes to Financial Statements (Continued)**

  **Consolidated Notes to Financial Statements (Continued)**

  **Table 1: Collateral**

<table>
<thead>
<tr>
<th>Lender</th>
<th>Expires</th>
<th>Interest Rate</th>
<th>Commitment</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>CoBank, ACB</td>
<td>11-14-2011</td>
<td>3.75%*</td>
<td>$420,000,000</td>
<td>$0</td>
</tr>
<tr>
<td>Wells Fargo Bank South Dakota, N.A.</td>
<td>02-15-2011</td>
<td>5.00%*</td>
<td>$ -4,000,000</td>
<td>$0</td>
</tr>
</tbody>
</table>

*Denotes Continuously Variable Interest Rate

The Revolving Credit Facility was obtained from CoBank, ACB through a loan syndication involving CoBank, ACB and other financial institutions. Each of the financial institutions has committed to provide a determined amount of revolving credit facility. The loan commitment is for a three year period with a maturity of November 14, 2011.

Seasonal and term notes with CoBank, ACB are secured by a first mortgage lien covering certain specified real property owned by the Association, together with a security agreement under the Uniform Commercial Code covering substantially all personal property owned by the Association, including receivables, inventories, and equipment. The Association also has $4,225,838 of equity in the bank at July 31, 2010, which is held as additional collateral.

The Association instituted a deferred compensation plan in order to facilitate and help retain current employees. The plan accrues a “retention” bonus at the end of each year based off the current year’s performance. The accrued bonus is payable to the employee only after three years of continued employment.

**Aggregate annual maturities of the long-term debt outstanding at July 31, 2010,** are as follows:

<table>
<thead>
<tr>
<th>Maturity Date – Year Ending July 31,</th>
<th>Notes and Contracts</th>
<th>Unpaid Grain</th>
<th>Deferred Compensation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$ 12,710,512</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 12,710,512</td>
</tr>
<tr>
<td>2012</td>
<td>16,094,950</td>
<td>10,563,375</td>
<td>501,379</td>
<td>27,159,704</td>
</tr>
<tr>
<td>2013</td>
<td>16,090,086</td>
<td>1,980,421</td>
<td>653,150</td>
<td>18,723,657</td>
</tr>
<tr>
<td>2014</td>
<td>20,740,250</td>
<td>723,435</td>
<td>383,557</td>
<td>34,347,242</td>
</tr>
<tr>
<td>2015</td>
<td>5,605,298</td>
<td>539,322</td>
<td>0</td>
<td>6,143,620</td>
</tr>
<tr>
<td>2016 &amp; Thereafter</td>
<td>59,378,748</td>
<td>380,091</td>
<td>47,238,839</td>
<td></td>
</tr>
</tbody>
</table>

Total interest charged to operations amounted to $9,358,092 and $8,463,203 for the years ended July 31, 2010 and 2009, respectively.

The promissory note with Hyland County Regional Railroad Authority and the State of South Dakota is secured by the railroad track that is located in Highmore, South Dakota.

The loans with the Small Business Administration are secured by Collateral Security Agreements, which include mortgage deeds and leasehold improvements.

The Farm Credit Leasing notes will be secured by the grain dryers.

The promissory note with McLaughlin Corson Regional Railroad Authority and the State of South Dakota is secured by the railroad track that is located in McLaughlin, South Dakota.

The Association instituted a deferred compensation plan in order to facilitate and help retain current employees. The plan accrues a “retention” bonus at the end of each year based off the current year’s performance. The accrued bonus is payable to the employee only after three years of continued employment.

Aggregate annual maturities of the long-term debt outstanding at July 31, 2010, are as follows:

- **Table 1: Collateral**

<table>
<thead>
<tr>
<th>Lender</th>
<th>Expires</th>
<th>Interest Rate</th>
<th>Commitment</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>CoBank, ACB</td>
<td>11-14-2011</td>
<td>3.75%*</td>
<td>$420,000,000</td>
<td>$0</td>
</tr>
<tr>
<td>Wells Fargo Bank South Dakota, N.A.</td>
<td>02-15-2011</td>
<td>5.00%*</td>
<td>$ -4,000,000</td>
<td>$0</td>
</tr>
</tbody>
</table>

*Denotes Continuously Variable Interest Rate

The Revolving Credit Facility was obtained from CoBank, ACB through a loan syndication involving CoBank, ACB and other financial institutions. Each of the financial institutions has committed to provide a determined amount of revolving credit facility. The loan commitment is for a three year period with a maturity of November 14, 2011.

Seasonal and term notes with CoBank, ACB are secured by a first mortgage lien covering certain specified real property owned by the Association, together with a security agreement under the Uniform Commercial Code covering substantially all personal property owned by the Association, including receivables, inventories, and equipment. The Association also has $4,225,838 of equity in the bank at July 31, 2010, which is held as additional collateral.

The Association instituted a deferred compensation plan in order to facilitate and help retain current employees. The plan accrues a “retention” bonus at the end of each year based off the current year’s performance. The accrued bonus is payable to the employee only after three years of continued employment.

Aggregate annual maturities of the long-term debt outstanding at July 31, 2010, are as follows:

<table>
<thead>
<tr>
<th>Maturity Date – Year Ending July 31,</th>
<th>Notes and Contracts</th>
<th>Unpaid Grain</th>
<th>Deferred Compensation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$ 12,710,512</td>
<td>$ 0</td>
<td>$ 0</td>
<td>$ 12,710,512</td>
</tr>
<tr>
<td>2012</td>
<td>16,094,950</td>
<td>10,563,375</td>
<td>501,379</td>
<td>27,159,704</td>
</tr>
<tr>
<td>2013</td>
<td>16,090,086</td>
<td>1,980,421</td>
<td>653,150</td>
<td>18,723,657</td>
</tr>
<tr>
<td>2014</td>
<td>20,740,250</td>
<td>723,435</td>
<td>383,557</td>
<td>34,347,242</td>
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<td>0</td>
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</tr>
<tr>
<td>2016 &amp; Thereafter</td>
<td>59,378,748</td>
<td>380,091</td>
<td>47,238,839</td>
<td></td>
</tr>
</tbody>
</table>

Total interest charged to operations amounted to $9,358,092 and $8,463,203 for the years ended July 31, 2010 and 2009, respectively.
Note 11: Grain Payables
Unpaid grain at July 31, 2010 and 2009 consisted of deferred payment contracts, delayed pricing contracts and priced not paid contracts. Deferred payment contracts and priced not paid contracts represent grain whose title has passed to the Association where the final price has been established with payment to be made at a specified or later date. Delayed pricing contracts represent grain on which title has passed to the Association with a price to be fixed at a later date. The Association includes these bushels as purchases and reflects the corresponding liability based on the local bid price at July 31. The contracts are summarized as follows:

Deferred Payment Contracts $88,251,126 $81,208,489
Classified as Long-Term Liabilities (14,165,644) (13,540,998)
Advances (2,833,836) (2,408,591)
71,251,646 65,258,900

Delayed Pricing Contracts 35,244,642 44,967,683

Condo Storage Contracts

Total Storage Space Leased – Bushels 6,821,300 6,390,300
Total Income Recorded from Contracts $1,839,073 $952,388
Total Receivables $348,887 $581,915
Total Deferred Revenue $3,542,698 $4,445,769

Deferred Taxes

Federal Tax Expense $10,423 $1,341,392
State Tax Expense 8,037 36,160
Deferred Income Tax (Benefit) Expense (13,030) 431,385
$ 5,430 $1,808,937

Components of the provision for income tax for the years ended July 31, 2010 and 2009, were as follows:

2010 2009
Federal Tax Expense $10,423 $1,341,392
State Tax Expense 8,037 36,160
Deferred Income Tax (Benefit) Expense (13,030) 431,385
$ 5,430 $1,808,937

Note 12: Condo Storage
The Association has entered into 5, 10, 18, or 20 year condo storage contracts with patrons. These contracts lease storage space to patrons for an annual fee of 6¢ per bushel and a total fee of $6.30 to $16.80 per bushel, depending on the contract year and length of contract. This storage space currently can only be used for corn, soybeans or wheat. Additional storage charges of ½¢ per month are charged over the actual time the grain is in storage.

Note 13: Members’ Equity
The Association is organized without capital stock on a membership basis. Memberships in the Association may be issued to or held only by (i) producers, (ii) who reside in the territory served by the Association and (iii) who patronize this Association by doing not less than $5,000 in business during the year. ‘Voting rights are limited to a one-vote premise. The balance of patrons’ and retired patrons’ reserve represents accumulated patronage dividends allocated to patrons but not paid in cash.

The Association has $182,660 and $116,895 of accumulated other comprehensive income as of July 31, 2010 and 2009, respectively. This income was created when FCStone Group, Inc. converted from a cooperative to a regular corporation in 2005 and then became a publicly traded company on the NASDAQ stock exchange in 2007. The FCStone Group, Inc. merged with International Assets Holding Company on September 30, 2009. The net comprehensive income adjustment for the years ended July 31, 2010 and 2009 amounted to $65,765 and $(7,250,105), respectively.

The Association has a program to pay to its retired patrons their accumulated patronage over a 10-year period after the patrons reach their 70th birthday. It is anticipated that this program, based on present applications, will require the following estimated annual payments for the next five years.

2011  $513,937
2012  585,141
2013  501,723
2014  515,870
2015  542,404

Note 14: Income Taxes
Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of estimated taxes currently due. Deferred taxes generally are recognized for the differences between the basis of assets and liabilities for financial statement and income tax purposes. These differences relate primarily to depreciable assets (use of different lives for financial statement and income tax purposes), allowance for doubtful accounts, accrued compensated absences, accrued property taxes, gains and losses on investments, and inventory capitalization (not deductible or includable for income tax purposes).

Components of the provision for income tax for the years ended July 31, 2010 and 2009, were as follows:
The Association has excluded allocated patronage dividends from its taxable income as provided under Section 1382 of the Internal Revenue Code. In order to utilize this exclusion, at least 20% of the patronage dividends, amounting to $710,000 and $1,281,376, must be paid in cash by April 15, 2011 and 2010, respectively. The Association intends to pay 40% of the allocation in cash, amounting to $1,420,000 and $2,563,000 for the years ended July 31, 2010 and 2009, respectively.

Deferred tax assets and liabilities consisted of the following:

**Consolidated Notes to Financial Statements (Continued)**

**Note 14: Income Taxes (Continued)**

Effective August 1, 2009, the Company adopted “Accounting for Uncertainty in Income Taxes” under the Income Taxes Topic of the FASB ASC. Under this topic, the Company recognizes any uncertain tax benefits if such benefits are a result of a tax position that is more likely than not sustainable upon examination by Federal or State tax authorities. When an uncertain benefit is determined to be more likely than not sustained, the Company values the position, for financial statement purposes, of the largest amount of the tax benefit that is more than 50% likely of being realized upon resolution of the benefit. For any tax positions taken that do not meet the more likely than not criteria, the Company establishes a tax reserve for 100% of the position taken.

**Deferred tax assets and liabilities consisted of the following:**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computed “Expected” Tax Expense</td>
<td>$5,049,154</td>
<td>$9,816,803</td>
</tr>
<tr>
<td>Increase (Reduction) in Taxes Resulting from:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patronage Dividend Provision</td>
<td>$(1,207,000)</td>
<td>$(1,207,000)</td>
</tr>
<tr>
<td>State Income Taxes, Net of Federal Benefit</td>
<td>5,304</td>
<td>20,856</td>
</tr>
<tr>
<td>Book to Tax Adjustments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obsolescence Reserve</td>
<td>$(1,477,692)</td>
<td>388,020</td>
</tr>
<tr>
<td>Investment Income</td>
<td>$(20,816)</td>
<td>$(36,773)</td>
</tr>
<tr>
<td>Property, Plant &amp; Equipment</td>
<td>$(2,392,720)</td>
<td>3,843,297</td>
</tr>
<tr>
<td>Condo Storage</td>
<td>(155,720)</td>
<td>256,346</td>
</tr>
<tr>
<td>Fines &amp; Penalties</td>
<td>584,590</td>
<td>0</td>
</tr>
<tr>
<td>Domestic Production Activity Deduction</td>
<td>$(1,207,000)</td>
<td>$(1,207,000)</td>
</tr>
<tr>
<td>Deferred Income Taxes</td>
<td>$(1,303,000)</td>
<td>401,360</td>
</tr>
<tr>
<td>Other</td>
<td>$(33,807)</td>
<td>220,216</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,430</strong></td>
<td><strong>$1,930,937</strong></td>
</tr>
</tbody>
</table>

Total income tax expense for the years ended July 31, 2010 and 2009, was less than the normal amount computed by applying the U.S. federal income tax rate to savings before income taxes for the following reasons:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Asset</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for Doubtful Accounts</td>
<td>$80,000</td>
<td>$124,000</td>
</tr>
<tr>
<td>Accrued Compensated Absences</td>
<td>114,666</td>
<td>103,326</td>
</tr>
<tr>
<td>Accrued Bonus Retention</td>
<td>136,180</td>
<td>141,278</td>
</tr>
<tr>
<td>Self-Funded Insurance Reserve</td>
<td>8,267</td>
<td>14,907</td>
</tr>
<tr>
<td>Accrued Obsolescence Reserve</td>
<td>0</td>
<td>346,320</td>
</tr>
<tr>
<td>263(a) Inventory Capitalization</td>
<td>55,194</td>
<td>52,821</td>
</tr>
<tr>
<td>Accumulated Comprehensive Income</td>
<td>(13,788)</td>
<td>(17,979)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$393,519</strong></td>
<td><strong>$736,673</strong></td>
</tr>
</tbody>
</table>
Note 17: Fair Value Measurements

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

Level 1 Values are based on unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access. These assets include the exchange-traded commodity instruments.

Level 2 Values are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities exchanged in inactive markets. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Their assets include the grain inventory and the gain or loss on forward contracts.

Level 3 Values are based on unobservable inputs that are supported by little, if any, market activity. These unobservable inputs would reflect management’s own estimates of assumptions that market participants would use in pricing related assets or liabilities.

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

Note 15: Pension Plans

The Association participates in a defined contribution (401(k)) plan. Under the terms of the plan, qualifying employees may elect to contribute to the plan a percentage of their compensation, such contributed compensation may be partially matched by the Association, up to a maximum of 3%. The Association contributed $723,061 and $599,633 to the thrift plan for the years ended July 31, 2010 and 2009, respectively.

The Association’s employees participate in the Co-op Retirement Plan, which is a multiple-employer defined benefit plan that is funded by contributions from employer and employees. All employees may participate who meet the age and service requirement. The fund is administered by United Benefits Group, and provides for monthly income for life upon retirement or upon total and permanent disability. The amount of benefits is based upon length of service and compensation.

The association intends to continue to participate in the plan indefinitely; however, it may voluntarily discontinue the plan at any time. If the plan is under-funded on a termination basis at the time of withdrawal, the Association will be required to pay its share of the under-funding to the plan (the Withdrawal Charge). Employer contributions charged to pension expense for the years July 31, 2010 and 2009 was $3,213,873 and $1,636,700, respectively. The plan uses the aggregate cost method of evaluation. Under this method, the normal cost is adjusted each year to reflect the experience under the plan, automatically spreading gains or losses over future years. The relative position of each employer associated with the plan, with respect to the actuarial present value of the accumulated benefits, is not determinable.

Note 16: Operating Leases

The Association has certain cancelable and non-cancelable operating leases and rental agreements on property and equipment. The rental expense was $4,487,116 and $3,574,961 for the years ended July 31, 2010 and 2009, respectively. The future required minimum annual lease payments are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Lease Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$ 659,329</td>
</tr>
<tr>
<td>2012</td>
<td>234,480</td>
</tr>
<tr>
<td>2013</td>
<td>231,480</td>
</tr>
<tr>
<td>2014</td>
<td>146,879</td>
</tr>
<tr>
<td>2015 &amp; Thereafter</td>
<td>5,750</td>
</tr>
<tr>
<td>Total</td>
<td>$1,267,918</td>
</tr>
</tbody>
</table>

Note 14: Income Taxes (Continued)

Consolidated Notes to Financial Statements (Continued)
## Note 18: Derivative Instruments

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

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

<table>
<thead>
<tr>
<th>Derivative Assets (Liabilities)</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodity Futures Contracts</td>
<td>$(10,562,450)</td>
<td>$16,280,388</td>
</tr>
</tbody>
</table>

Gains and losses on commodity derivatives are located in Gross Savings on Sales on the Statement of Savings. Net gains (losses) on futures contracts for the years ended July 31, 2010 and 2009, were $(5,422,807) and $126,942,176, respectively.

## Note 19: Business Combinations

Effective September 1, 2009, the Association merged with Dakota Ag Coop, St. Lawrence, South Dakota through its wholly-owned subsidiary SDWG V. As a result of the merger, the Association acquired assets of $10,924,861 and assumed liabilities of $8,120,855 and patron’s equity of $2,804,006. The merger was accounted for under the purchase method of accounting.

## Note 17: Fair Value Measurements (Continued)

The following table sets forth the level, within the fair value hierarchy, of the Association’s assets and liabilities at fair value as of July 31, 2010 and 2009:

### Assets at Fair Values as of July 31, 2010

<table>
<thead>
<tr>
<th>Financial Assets</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketable Securities</td>
<td>$246,754</td>
<td>$0</td>
<td>$0</td>
<td>$246,754</td>
</tr>
<tr>
<td>Grain Inventories</td>
<td>69,767,434</td>
<td>0</td>
<td>0</td>
<td>69,767,434</td>
</tr>
<tr>
<td>Futures Grain Contracts</td>
<td>16,280,388</td>
<td>0</td>
<td>0</td>
<td>16,280,388</td>
</tr>
<tr>
<td>Total</td>
<td>$16,527,142</td>
<td>$69,767,434</td>
<td>$0</td>
<td>$86,294,576</td>
</tr>
</tbody>
</table>

### Financial Liabilities

| Futures Grain Contracts | $0 | $16,496,330 | $0 | $16,496,330 |

### Financial Assets

| Grain Inventories | 79,056,106 | 0 | 0 | 79,056,106 |
| Forward Grain Contracts | 1,925,340 | 0 | 0 | 1,925,340 |
| Futures Grain Contracts | $10,562,450 | $0 | $0 | $10,562,450 |

### Financial Liabilities

| Futures Grain Contracts | $10,562,450 | $0 | $0 | $10,562,450 |

### Note 20: Contingencies and Commitments

a. The Association is contingently liable for any weight or grade deficiencies that may occur at time of delivery on the following grain in storage under warehouse receipts or awaiting disposition at July 31, 2010.

<table>
<thead>
<tr>
<th>Commodity Storage Obligation</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>7,108,200</td>
</tr>
<tr>
<td>Oats</td>
<td>153</td>
</tr>
<tr>
<td>Soybeans</td>
<td>1,493,317</td>
</tr>
<tr>
<td>Milo</td>
<td>17,429</td>
</tr>
<tr>
<td>Sunflowers</td>
<td>1,728</td>
</tr>
<tr>
<td>Total</td>
<td>14,512,160</td>
</tr>
</tbody>
</table>

b. The Association will be required to comply with various governmental laws and regulations incident to its normal business operations. In order to meet its compliance requirements, remediation of identified issues would be included as an expense. Cost for matters which may be identified in the future cannot be determined at present; while the resolution of any such matters may have an impact on the Association’s financial results for a particular reporting period, management believes any such matters will not have a material effect on the financial position of the Association due to the contingency reserve fund as established by the board of directors.
c. The Association has entered into “Natural Gas Delivery Distribution & Facilities Construction Agreements” with NorthWestern Energy for the construction and supply of natural gas service to the Association’s grain drying facilities in Aberdeen, South Dakota; Andover, South Dakota; Willow Lake, South Dakota; and Yale, South Dakota. The agreements require the Association to meet minimum usage obligations on an annual basis and total obligations for the contract term. The agreements have a contract term of 10 years, starting October 1, 2010. The Association is required to obtain and hold a surety bond for each of the projects for an amount equal to the construction costs as estimated by NorthWestern Energy for the term of the agreements. The surety bond amounts required may decline annually, if the minimum usage requirements are met, based on an amortization of the initial construction costs over the term of the agreements. The Association has obtained surety bonds for each of the projects for an initial term of 3 years, with an annual renewal option at the end of the 3 year term. The Association may be liable up to the value of the surety bonds, which is $4,256,608 as of July 31, 2010, for any breach of contract.

d. The Association has entered into “Firm Gas Service Extension Policy Rate 120” with Montana-Dakota Utilities Co. for the construction and supply of natural gas service to the Association’s grain drying facility in Roscoe, South Dakota. The agreement requires the Association to meet minimum usage obligations on an annual basis. The agreement has a contract term of 62 months, starting July 12, 2010. The Association is required to obtain and hold a surety bond guaranteeing the performance of the above contract for the term of the agreement. The surety bond amount required may decline annually, if the minimum usage requirements are met, based on an amortization of the initial construction costs over the term of the agreements. The Association has obtained surety bonds for the project for an initial term of 3 years, with an annual renewal option at the end of the 3 year term. The Association may be liable up to the value of the surety bond, which is $270,000 as of July 31, 2010, for any breach of contract.

e. The U.S. Occupational Safety Health Administration (OSHA) conducted an investigation after an accidental death of a worker at the company’s McLaughlin, South Dakota location. OSHA has the authority to issue citations alleging violations of the Occupational Safety and Health Act and the regulations thereunder and to propose civil penalties for any such violations. Following its investigation, OSHA issued numerous citations with total proposed civil penalties of $1.6 million. The Company has appealed all of the citations and proposed penalties. The appeal of this OSHA matter is on-going and the Company is unable to predict the final outcome of this matter with certainty. For the 2010 consolidated financial statements, the company recorded a liability for $1.6 million. OSHA penalties are not covered by insurance, and are not deductible for federal income tax purposes.

Note 21: Subsequent Events

The Association has considered the effect, if any, that events occurring after the balance sheet date and up to November 24, 2010 may have on the financial statements as presented. This date coincides with the date the financial statements were available to be issued.