

**COOPERATIVE REGIONS OF
ORGANIC PRODUCER POOLS**
La Farge, Wisconsin


Audited Financial Statements
Fiscal Years Ended
December 31, 2010 and 2009



Financial Verification

The Financial Statements for the fiscal years ended December 31, 2010 and 2009, have been audited by Hennen & Associates P.L.C.

The Chief Executive Officer, George Siemon, and the Chief Financial Officer, Michael Bedessem, of CROPP Cooperative attest to the material accuracy of the audited financial statements.



CEO Dated 3/17/2011



CFO Dated 3/16/2011

COOPERATIVE REGIONS OF ORGANIC PRODUCER POOLS

La Farge, Wisconsin

OFFICERS AND DIRECTORS:

TERM

President - Wayne Peters - S598 Schlicht Road - Chaseburg, WI 54621	2013
Vice-President - Arnie Trussoni - E1404 Mundsok Road - Genoa, WI 54632	2012
Secretary - Pam Reisgraf - 18160 Pueblo Ave. - Jordan, MN 55352	2013
Treasurer - Jim Miller - 7580 HWY VV - Sun Prairie, WI 53590	2011
Director - Travis Forgues -251 Alburg Spring Road - Alburg, VT 05440	2011
Director -Dan Pearson - 524 Cty MM - River Falls, WI 54022	2012
Director - Mark Kruse - 2601 LaFayette Ridge - Lansing, IA 52151	2012

EMPLOYEES:

George Siemon - Chief Executive Officer
Michael Bedessem - Chief Financial Officer
Louise Hemstead - Chief Operating Officer
Theresa Marquez - Chief Marketing Officer
Eric Newman - Vice President of Sales
Jerry McGeorge - Director of Cooperative Affairs
Cecil Wright - Director of Local Operations and Employee Support
Jim Wedeberg - Director Dairy Pools
Denise Paus - Cooperative Controller
Jane Hannemann - Senior Executive Director of Information Resources
Heidi Davidson, CPA - Internal Auditor

VITAL:

Date of Incorporation - March 10, 1988
Date of Annual Meeting - Set by Board of Directors
Number of Members - 1,618

ADDRESS:

One Organic Way
La Farge, Wisconsin 54639
(608) 625-2602
(888) 444-6455
Fax (608) 625-2600
E-Mail organic@organicvalley.com

SHARE CAPITAL:

	<u>Authorized:</u>	<u>Par Value:</u>
Class A Stock - Voting	\$ 125,000	\$ 25
Class B Stock - Non - Voting	25,000,000	50
Class C Stock - Non - Voting	25,000,000	50
Class E Stock - Non - Voting	75,000,000	50

HENNEN & ASSOCIATES, P. L. C.

230 Hardman Avenue South
South St. Paul, MN 55075

Phone: (651) 255-3200
Fax: (651) 255-3205

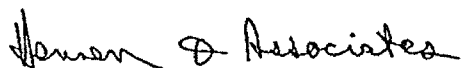
INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Cooperative Regions of Organic Producer Pools
La Farge, Wisconsin

We have audited the accompanying consolidated balance sheets of Cooperative Regions of Organic Producer Pools, La Farge, Wisconsin and its subsidiaries as of December 31, 2010 and 2009 and the related consolidated statements of operations, patrons' equities, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Cooperative Regions of Organic Producer Pools, La Farge, Wisconsin and subsidiaries as of December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Hennen & Associates, P. L. C.

March 7, 2011

COOPERATIVE REGIONS OF ORGANIC PRODUCER POOLS

La Farge, Wisconsin

CONSOLIDATED BALANCE SHEETS

EXHIBIT "A"

December 31, 2010 and 2009

	<u>2010:</u>	<u>2009:</u>
ASSETS:		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 29,330,334	\$ 8,350,230
Accounts Receivable, Net	48,874,478	38,086,279
Equity Assignments	1,886,943	2,143,762
Inventories	46,326,636	40,203,277
Deferred Tax Asset	671,000	503,000
Prepaid Expense	3,681,277	1,852,908
Total Current Assets	130,770,668	91,139,456
PROPERTY, PLANT AND EQUIPMENT, At Cost		
Construction in Progress	44,573,822	42,697,171
Less Accumulated Depreciation	903,714	159,986
	<u>19,332,919</u>	<u>15,726,877</u>
Book Value	26,144,617	27,130,280
INVESTMENTS AND OTHER ASSETS:		
Investments in Cooperatives and Others	245,105	214,382
Investment in Cashton Greens	464,318	-
Investment in Cashton Bond	1,761,836	1,761,836
Notes Receivable/Goodwill	776,208	770,840
Other Assets	267,674	134
	<u>3,515,141</u>	<u>2,747,192</u>
TOTAL ASSETS	<u>\$ 160,430,426</u>	<u>\$ 121,016,928</u>
LIABILITIES AND PATRONS' EQUITIES:		
CURRENT LIABILITIES:		
Accounts Payable	\$ 27,782,415	\$ 20,505,361
Accounts Payable - Patrons	23,959,467	15,386,731
Accrued Expenses	4,502,817	1,852,929
Income Tax Payable	142,000	40,000
Cash Patronage Refunds - 20%	418,276	-
Current Portion of Long-term Debt	1,598,189	1,209,683
Total Current Liabilities	58,403,164	38,994,704
LONG-TERM DEBT	5,425,173	10,167,590
DEFERRED TAX LIABILITY	1,986,000	1,444,000
DEFERRED COMPENSATION LIABILITY	365,000	275,000
Total Liabilities	66,179,337	50,881,294
PATRONS' EQUITIES:		
Class E Stock - Series 1	43,768,819	29,526,971
Class E Stock - Series 2	1,463,022	1,357,564
Class C Stock	2,906,013	2,766,272
Class B Stock	20,914,802	16,501,740
Class A Stock - Voting	40,425	35,100
Patron Equities	-	564,377
Pool Equities	2,020,915	3,118,630
Patronage Refunds for Reinvestment	1,673,102	-
Class B - Subscriptions	1,886,943	2,143,762
Unallocated Capital Reserve	19,577,048	14,121,218
Total Patrons' Equities	94,251,089	70,135,634
TOTAL LIABILITIES AND PATRONS' EQUITIES	<u>\$ 160,430,426</u>	<u>\$ 121,016,928</u>

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

COOPERATIVE REGIONS OF ORGANIC PRODUCER POOLS

La Farge, Wisconsin

CONSOLIDATED STATEMENTS OF OPERATIONS

EXHIBIT "B"

Fiscal Years Ended December 31, 2010 and 2009

	<u>2010:</u>		<u>2009:</u>	
SALES	\$ 619,667,455	100.00%	\$ 523,036,475	100.00%
COST OF SALES	526,868,713	85.02	449,139,209	85.87
GROSS MARGIN	92,798,742	14.98	73,897,266	14.13
EXPENSES:				
Direct Marketing:				
Distributor Advertising	2,392,647	.39	1,635,517	.31
Broker Fees	6,519,597	1.05	5,281,567	1.01
Distributor Promos	3,020,397	.49	3,338,769	.64
Allowances	17,749,264	2.86	15,813,896	3.02
Coupons/Rebates	5,454,621	.88	4,593,810	.88
	35,136,526	5.67	30,663,559	5.86
Indirect Marketing:				
General Marketing	4,685,047	.76	4,244,511	.81
Outside Sales/MSAP	4,371,294	.70	3,929,161	.75
Media/Promo/Education	2,652,864	.43	1,702,715	.32
Field Marketing	2,102,326	.34	1,244,105	.24
Market Relations/Projects/Research	1,486,131	.24	1,362,945	.26
	15,297,662	2.47	12,483,437	2.38
Pool Expenses:				
Dairy Pool/Production	4,436,252	.72	3,589,929	.69
Egg Pool/Production	277,148	.04	319,090	.06
Produce Pool/Production	368,332	.06	332,718	.06
Meat Pool	(5,531)		54,431	.01
Soy Pool	33,770		44,071	.01
Feed Pool	288,472	.05	241,266	.05
Product Development	366,913	.06	337,003	.06
	5,765,356	.93	4,918,508	.94
Administrative:				
General Administrative	5,301,456	.86	4,744,885	.91
Accounting	2,886,530	.47	2,578,446	.50
IT	4,638,172	.75	3,582,911	.69
Maintenance/Supplies	4,251,998	.68	3,107,455	.60
Human Resources	551,306	.09	546,587	.10
Employee Benefits	5,349,724	.86	2,877,645	.55
Training/Recruiting/Safety	163,866	.03	165,179	.03
Directors' Fees and Expense	553,694	.09	520,139	.11
Legal Fees and Co-op Affairs	629,513	.10	486,051	.09
Café/Retail Expenses	257,675	.04	158,973	.03
Other Expenses/Revenue:	(63,459)	(.01)	24,253	.01
	24,520,475	3.96	18,792,524	3.62
Total Expenses	80,720,019	13.03	66,858,028	12.81
LOCAL SAVINGS	12,078,723	1.95	7,039,238	1.32
PATRONAGE REFUNDS RECEIVED	8,907		4,864	
NET SAVINGS	\$ 12,087,630	1.95%	\$ 7,044,102	1.32%

COOPERATIVE REGIONS OF ORGANIC PRODUCER POOLS

La Farge, Wisconsin

CONSOLIDATED STATEMENTS OF PATRON EQUITIES

Years Ended December 31, 2010 and 2009

EXHIBIT "C"

	Class E-1 Stock:	Class E-2 Stock:	Class C Stock:	Class B Stock:	Class A Stock Voting:	Patron Equities:	Pool Equities:	Patronage Refund for Reinvestment:	Class B Stock Subscriptions:	Unallocated Capital Reserve:	Total:
12-31-2008 Balances	\$ 22,339,477	\$ 1,256,910	\$ 2,658,955	\$ 13,058,754	\$ 32,300	\$ 1,346,684	\$ 3,346,877	\$ -	\$ 2,582,406	\$ 10,227,457	\$ 56,849,820
Additional Refunds in Cash										(124)	
Stock Sold	7,403,239			574,323			2,859,017				(124)
Retirements	(1,261,645)		(39,221)	(571,610)		(295)	(343,109)				10,836,579
Class A Stock - Issued					2,800					(2,800)	(2,215,880)
Stock Transfers	84,690			2,647,574			(2,744,155)				(11,891)
Dividends - Stock	961,210	100,654	146,538	792,699					(2,000,682)	419	(979,735)
Dividends - Cash									(979,735)		(782,012)
2001 CWT Payment						(782,012)				(167,000)	(167,000)*
Income Taxes									(438,644)		(438,644)
Base Capital Adjustment										7,044,102	7,044,102*
Net Savings for 12-31-2009											
12-31-2009 Balances	29,526,971	1,357,564	2,766,272	16,501,740	35,100	564,377	3,118,630	-	2,143,762	14,121,218	70,135,634
Stock Sold	13,311,072			1,143,348			2,224,001				16,678,421
Retirements	(728,500)	(2,914)	(18,496)	(482)		(564,377)	(178,220)			(5,325)	(1,492,989)
Class A Stock - Issued					5,325						
Stock Transfers	263,611			2,844,803			(3,143,496)				(35,082)
Dividends - Stock	1,395,665	108,372	158,237	989,770					(2,652,380)	(336)	(336)
Dividends - Cash									(1,273,767)		(1,273,767)
2002 CWT Payment										(608,950)	(564,377)**
Income Taxes									(256,819)		(256,819)**
Base Capital Adjustment								2,091,378		9,996,252	12,087,630**
Net Savings for 12-31-2010								(418,276)			(418,276)
Provision for Cash Patronage											
12-31-2010 Balances	\$ 43,768,819	\$ 1,463,022	\$ 2,906,013	\$ 20,914,802	\$ 40,425	\$ -	\$ 2,020,915	\$ 1,673,102	\$ 1,886,943	\$ 19,577,048	\$ 94,251,089

* 2009 Comprehensive Income - \$ 6,877,102

** 2010 Comprehensive Income - \$ 11,478,680

COOPERATIVE REGIONS OF ORGANIC PRODUCER POOLS
La Farge, Wisconsin

CONSOLIDATED STATEMENTS OF CASH FLOWS

EXHIBIT "D"

Fiscal Years Ended December 31, 2010 and 2009

	<u>2010:</u>	<u>2009:</u>
Cash Flows from Operating Activities:		
Net Savings	\$ 12,087,630	\$ 7,044,102
Adjustments to Net Savings:		
Depreciation	2,849,127	2,870,262
Amortization	910,658	985,716
Patronage Refunds Received as Investments	(6,058)	(3,658)
(Gain) Loss on Sale of Equipment	658	(51,611)
(Increase) Decrease in Assets:		
Accounts Receivable	(10,788,198)	10,519,284
Equity Assignments	256,819	438,644
Due From Commission Firm	-	678,659
Inventories	(6,123,359)	6,816,592
Deferred Tax Asset	(168,000)	(131,000)
Prepaid Expenses	(1,828,369)	666,181
Increase (Decrease) in Liabilities:		
Accounts Payable	7,277,054	(5,641,755)
Accounts Payable - Patrons	8,572,736	(191,230)
Accrued Expenses	2,649,888	(462,821)
Income Tax Payable	102,000	(10,000)
Total Adjustments	<u>3,704,956</u>	<u>16,483,263</u>
Net Cash Provided by Operating Activities	15,792,586	23,527,365
Cash Flows from Investing Activities:		
Proceeds From Sale of Property, Plant and Equipment	12,300	53,317
Purchase of Property, Plant and Equipment	(2,043,352)	(2,010,213)
Construction in Progress	(743,728)	318,834
Redemption of Investments	335	292
Purchase of Other Investments	(489,318)	(100,000)
Deferred Compensation	90,000	45,000
Deferred Tax Liability Adjustment	542,000	273,000
(Increase)Reduction in Note Receivables	(5,368)	(149,325)
(Increase)Reduction in Other Assets	(267,540)	(134)
Net Cash (Used) by Investing Activities	<u>(2,904,671)</u>	<u>(1,569,229)</u>
Cash Flows from Financing Activities:		
New Borrowings - Short- term	-	158,027,954
New Borrowings - Long-term	135,613	-
Debt Reduction - Short- term	-	(180,767,559)
Debt Reduction - Long-term	(4,489,524)	(1,150,171)
Income Taxes	(608,950)	(167,000)
Stock Sold	16,421,602	10,397,935
2002/2001 CWT Payment	(564,377)	(782,012)
Cash Dividend on Class B, C and E Stock	(1,309,185)	(991,207)
Retirement of Patrons' Equities	(1,492,989)	(2,215,880)
Net Cash Provided (Used) by Financing Activities	<u>8,092,190</u>	<u>(17,647,940)</u>
Net Increase in Cash and Cash Equivalents	20,980,105	4,310,196
Cash and Cash Equivalents at Beginning of Year	<u>8,350,230</u>	<u>4,040,034</u>
Cash and Cash Equivalents at End of Year	<u>\$ 29,330,335</u>	<u>\$ 8,350,230</u>

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

COOPERATIVE REGIONS OF ORGANIC PRODUCER POOLS

La Farge, Wisconsin

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

(1) Summary of Significant Accounting Policies:

ORGANIZATION:

Cooperative Regions of Organic Producer Pools, La Farge, Wisconsin is organized and operated on a cooperative basis, marketing organic products for patrons. The Cooperative and its members must adhere to organic certification standards. Major products handled are organic dairy, eggs, meat, juice, 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 Cooperative Regions of Organic Producer Pools, and all of its wholly-owned subsidiaries, The Organic Meat Company and Organic Logistics, LLC. The effects of all significant intercompany transactions have been eliminated.

USE OF ESTIMATES:

Management uses estimates and assumptions in preparing financial statements in accordance with U.S. Generally Accepted Accounting Principles. 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.

CASH AND CASH EQUIVALENTS:

For purpose of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less. Cash equivalents are stated at cost which approximates market value. The Cooperative periodically maintains deposits in bank accounts which exceed amounts covered under Federal Deposit Insurance Corporation. Unprotected deposits at the balance sheet dates 2010 and 2009 were \$31,732,550 and \$7,230,919 respectively. Unprotected deposits can be offset by loan balances with the deposit institution.

FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying values of cash in banks, accounts receivable, accounts payable and accrued expenses, approximates fair value due to the relatively short maturity of these instruments. The amounts shown for notes payable and long term debt approximate fair value since the interest rates are at current market rates.

ACCOUNTS RECEIVABLE:

Accounts receivable arise from marketing products to wholesalers and retailers. The Cooperative estimates its allowance for doubtful accounts based on an evaluation of historical bad debt experience, and an evaluation of the aging, the concentration of accounts, and collectability of receivables. Accounts are considered past due when payment is not received within the period allowed under terms of the sale. The Cooperative discontinues interest accrual at the time a receivable is collected or charged off. The Cooperatives' Management periodically reviews past due receivables and charges off uncollectible accounts when all reasonable collection efforts have been exhausted. The Cooperative grants credit to customers, substantially all of which, are distributors and retailers throughout the United States. All of the credit granted is unsecured with no collateral policy.

INVENTORIES:

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

NOTES TO FINANCIAL STATEMENTS - Continued:

DERIVATIVE FINANCIAL INSTRUMENTS:

The Cooperative procures organic milk from patrons and uses sales contracts to hedge its exposure to price fluctuations to the extent considered practicable for minimizing risk. The Cooperative has a number of sales contracts with customers, and it has a milk supply management policy for all patrons. The policy maintains a list of all producers by regions in order to establish a "last on basis" for milk supply. The Cooperative has also established a quota program for milk supply. Sales contracts are entered into with customers of acceptable creditworthiness, as internally evaluated. The contracts have a buyout clause to limit the exposure of a loss in the event of nonperformance by the counter parties to the contracts. However, the cooperative does not anticipate nonperformance by counter parties.

The Cooperative is exposed to price fluctuations on energy due to fluctuations in the fuel market. The Cooperative uses swap contracts to reduce the effects of price volatility, thereby protecting against adverse short term price movements. Changes in the fair value of derivative instruments are recognized in earnings in the Consolidated Statements of Operations in the period when such changes occur.

PROPERTY, PLANT AND EQUIPMENT- LEASEHOLD IMPROVEMENTS:

Depreciation and amortization is computed on individual assets by 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, except on assets traded. Expenditures for normal maintenance and repairs are expensed, while major renewals and betterments are capitalized. Estimated useful lives of assets are as follows: Buildings 15- 40 years, Equipment 5 - 12 years, Vehicles 5 - 6 years, Leasehold Improvements 3 - 5 years, and Software 3 years.

INVESTMENTS IN COOPERATIVES:

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

MARKETABLE SECURITIES:

The Cooperatives marketable securities consist of a debt security in a bond, which is held-to-maturity. The Cooperative has both the positive intent and the ability to hold the security for the term of the bond.

GOODWILL AND OTHER ASSETS:

Goodwill represents the excess of the purchase price of an acquired entity over the amount assigned to assets acquired and liabilities assumed. Goodwill and other intangible assets are reviewed for impairment annually or more frequently, if impairment conditions arise, those that are impaired are written down to fair value. Loan origination fees are amortized over the length of the loan.

INCOME TAXES:

The Cooperative is exempt from Federal Income Taxes and files a consolidated federal income tax return with its 80% 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 Sec 521 of the 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 status allows The Cooperative to take the amounts paid in dividends, during the tax year, as a tax deduction. The Cooperative is subject to Federal and State income taxes on nonpatronage income or additions to the capital reserve. 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 Cooperative's income tax filings are subject to audit by various taxing authorities and years ended December 31, 2007 to 2010 are open audit periods. Interest and penalties, if any, are included in other expense. Management has determined that there are no material uncertain tax positions at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS - Continued:

REVENUE RECOGNITION:

The Cooperative markets a wide variety of products. All sales are recognized upon transfer of title, which could occur upon either shipment or receipt by the customer, depending upon the contract. Amounts billed to a customer as part of a sales transaction related to shipping and handling are included in net sales.

SHIPPING AND HANDLING FEES AND COSTS:

The Cooperative's shipping and handling costs incurred are reported as a component of cost of goods sold.

ADVERTISING:

The Cooperative generally expenses advertising costs as they are incurred.

(2) Accounts Receivable:

Accounts receivable as of December 31, 2010 and 2009 included the following elements:

	<u>2010:</u>	<u>2009:</u>
Current 1-15 Days	\$ 31,310,095	\$ 24,034,048
16 to 30 Days (Past Due 2 to 16 Days)	12,010,723	10,628,361
31 to 60 Days (Past Due 17 to 46 Days)	7,348,263	4,765,797
61 Days to 180 Days (Past Due 47 to 66 Days)	675,335	408,509
Six-Months to One Year Old	44,425	263,440
Over One Year Old	76,357	268,848
Directors and Employees	10,739	7,220
	<hr/>	<hr/>
Trade Accounts Total	51,475,937	40,376,223
Less Allowance for Doubtful Accounts	(2,601,459)	(2,289,944)
	<hr/>	<hr/>
	\$ 48,874,478	\$ 38,086,279

(3) Equity - Assignments:

Equity subscriptions are recorded when a contract is entered into between The Cooperative and new producers, whereby the latter agrees to purchase base capital investment, to be paid for over some installment period. Actual issuance of Class B shares occurs upon completion of payment.

The Cooperative has four options for dairy producers to meet their capital base investment requirement. Base capital approximates 5.5% of the total annual value of milk the producer ships. Option 1 is to pay in full, within 60 days after shipping has commenced. Options 2 and 3 are an authorization of a milk assignment equity deductions at either \$.50 or \$1.00/cwt from the milk check, once shipping has commenced and until the base is met. Option 4 is a request to delay the equity deduction for a period of one year after shipping has commenced and then begin an assignment of \$1.00/cwt until base is met. The base capital investment is a one-time investment, but can be modified annually based on the amount of deliveries to The Cooperative.

(4) Inventories:

Major classifications of inventories were:

	<u>2010:</u>	<u>2009:</u>
Organic Valley Products and Packaging	\$ 43,915,974	\$ 37,266,762
Organic Meat Company Products and Packaging	2,410,662	2,936,515
	<hr/>	<hr/>
	\$ 46,326,636	\$ 40,203,277

NOTES TO FINANCIAL STATEMENTS - Continued:

(5) Property, Plant and Equipment:

The cost of property, plant and equipment are as follows:

	<u>2010:</u>	<u>2009:</u>
Land	\$ 570,598	\$ 400,941
Buildings	14,648,159	14,264,185
Machinery and Equipment	20,681,271	20,111,540
Software	6,194,087	5,746,788
Vehicles	2,479,707	2,173,717
	<u>\$ 44,573,822</u>	<u>\$ 42,697,171</u>
Total Depreciation Expense	\$ 2,849,127	\$ 2,870,262
Total Amortization Expense	910,658	985,716

(6) Investments In Cooperatives and Others:

Investments in cooperatives are summarized as follows:

	<u>2010:</u>	<u>2009:</u>
Vernon Telephone Cooperative, Inc.	\$ 38,048	\$ 38,372
Viroqua Food Co-op	14,282	13,537
Others	14,775	9,473
	<u>67,105</u>	<u>61,382</u>
Other Investments:		
Northcountry Cooperative Development Fund	103,000	103,000
Main Organic Milling, Inc.	25,000	-
Farmer Direct Cooperative, Ltd.	50,000	-
Best Energies, Inc.	-	50,000
	<u>\$ 245,105</u>	<u>\$ 214,382</u>

The Cooperative has made investments which are classified as available for sale. The investments are reported at fair value which is historical cost due to limited market.

(7) Investment in LLC:

As of May 20, 2009 the Cooperative formed a limited liability company with Gundersen Lutheran Envision, LLC. The company is Cashton Greens Wind Farm, LLC of which the Cooperative is a 50% owner. The primary purpose is to operate a wind generation facility that includes two wind turbines and associated assets and equipment on the property in Cashton. The LLC has an agreement with Upper Midwest Municipal Power Agency an Iowa municipal joint agency to purchase all of the electricity generated less line loss.

	<u>2010:</u>
Initial Contribution	<u>\$ 464,318</u>

(8) Investments in Cashton Bond:

The Cooperative purchased the following debt security as an investment.

<u>Issue:</u>	<u>Face Value</u>
Tax Increment Project Revenue Bond	\$1,761,836

The (TIPR) Bond for the Village of Cashton is considered to be suitable as a long-term investment and will be held until maturity. The bond will be maintained at historical cost. The interest rate is 5.00% and maturity date is December 1, 2025.

NOTES TO FINANCIAL STATEMENTS - Continued:

(9) Goodwill:

The changes in the carrying amount of goodwill for the years ended, are as follows:

	<u>2010:</u>	<u>2009:</u>
Goodwill	\$ 271,010	\$ 271,010
Less Impairment	-	-
	<u>\$ 271,010</u>	<u>\$ 271,010</u>

The Cooperative on August 1, 2003 formed a subsidiary, The Organic Meat Company. All meat intangible costs were sold as goodwill to the new company. Goodwill is reviewed at year end to determine if certain impairment conditions occurred.

(10) Notes Payable:

		<u>2010:</u>	<u>2009:</u>
JPMorgan Chase Bank, N.A.	1.76%	<u>\$ -</u>	<u>1.74% \$ -</u>

The JP Morgan Chase Bank line of credit was renewed on August 12, 2010 and is due in full by July 31, 2013. The line of credit was increased to \$46,000,000. The original line of credit agreement with JP Morgan was signed on February 9, 2006. The bank loan is secured by a security agreement on all inventories and on all receivables and all proceeds arising from the sale of inventories, security agreements covering various equipment, and assignment of investment securities. The Cooperative agrees to maintain substantial compliance at all times with USDA organic standards for its organic products and processes such that it shall at all times be allowed the full use of the USDA Organic Seal under the National Organic Program, including, without limitation, annual certification by the USDA or an accredited USDA agent. The Cooperative shall also notify the Bank within 10 days of obtaining any knowledge of any suspension, termination, or revocation, in whole or in part, with respect to such certification status or any other violation of this covenant. The Cooperative agrees not to enter into money debt and capital lease obligations in an aggregate amount not at any time exceeding \$750,000.

The Cooperative agrees not to make any loans or advances to, investments in, or incur any receivables from any person or entity all in an aggregate amount at any time exceeding \$15,000,000.00; provided, however, that the foregoing limitation shall not apply to receivables from a customer that is not an Affiliate in the ordinary course of business and on ordinary trade terms.

The Cooperative agrees to maintain a consolidated debt service coverage ratio of not less than 1.30 to 1.00. Consolidated debt service coverage ratio means that (i) net savings, plus interest expense, plus 100% of amortization expense, plus 50% of depreciation expense, plus the net cash proceeds received by Borrower from the issuance of additional capital stock, minus income taxes paid, minus dividends and distributions paid in cash, minus any cash paid by Cooperative or any of its Subsidiaries to purchase or redeem any of Cooperative's capital stock or any interest in the Cooperative of any kind held by any of its members, all computed for the Test Period ending on that Test Date, to (ii) the sum of all scheduled principal payments made on all indebtedness of the Cooperative or any of its Subsidiaries, plus all scheduled capital lease payments made by The Cooperative or any of its Subsidiaries, plus interest expense, all computed for the same Test Period ending on the same Test Date. As used herein, the term "Test Period" means a period of four consecutive fiscal quarters.

The Cooperative agrees not to form, create, or acquire any Subsidiary without prior consent of the Bank. However, the Cooperative and its Subsidiary in new Subsidiaries in an aggregate amount not exceeding \$100,000 during any calendar year shall not require the Bank's consent.

NOTES TO FINANCIAL STATEMENTS - Continued:

(11) Long-term Debt:

		<u>2010:</u>		<u>2009:</u>
PNCEF, LLC		\$ 105,201		\$ -
JPMorgan Chase Bank, N.A.	5.33%	3,516,667	5.33%	3,716,667
First National Bangor - #6308	3.75%	431,327	3.75%	748,968
State of Wisconsin Investment Board	7.36%	2,887,667	7.36%	6,806,638
Vernon Telephone Cooperative		82,500		105,000
Less Current Portion of Long-term Debt		<u>(1,598,189)</u>		<u>(1,209,683)</u>
		<u>\$ 5,425,173</u>		<u>\$ 10,167,590</u>

PNCEF, LLC note, dated June 3, 2010, for \$135,613 with 24 payments of principal with no interest, until May 31, 2012. The payment schedule is 14 payments of \$7,602.97 and 10 payments of \$5,416.67 for the purchase of Infor Products and Services software.

The JPMorgan Chase Bank, N.A. note, dated July 10, 2008, for \$4,000,000 with 35 payments of principal and interest for \$16,667, until July 31, 2013. This loan shall be used only to refinance the indebtedness to State of Wisconsin Investment Board. The loan is secured by real estate mortgage on the Cashton Distribution Center and property located in Cashton, Wisconsin, not including subsequent purchases, as well as a security interest in the equipment and fixtures attached to or used primarily in the operations of the building and land included in the real estate mortgage.

The First National Bangor note #6308 is dated July 16, 2007, for \$1,400,000, with 59 payments of principal and interest for \$28,400, beginning August 16, 2007 and continuing thereafter, and on (1) final payment consisting of the unpaid principal and all accrued interest remaining due on July 16, 2012. The lender has a security interest in a butter wrapper, butter container, a refurbished butter wrapper and a rebuilt Soft Caser located at 203 South Main Street, Cheseburg, Wisconsin.

The State of Wisconsin Investment Board (SWIB) Senior Secured Note is dated August 22, 2007, for \$12,000,000, with 120 payments of principal and interest for \$95,647 until September 1, 2017. At the end of note term the principal amount due is \$8,049,953. Advance principal payments are allowable under certain terms and conditions and would reduce the amount due at note termination. The SWIB note is secured by a real estate mortgage on the Cashton Distribution Center and property located in Cashton, Wisconsin, not including subsequent purchases, as well as a security interest in the equipment and fixtures attached to or used primarily in the operations of the building and land included in the real estate mortgage. The loan is subject to pre-payment penalties, which shall be a percentage of the amount of principal prepaid in excess \$2,000,000, in any June 1 to May 31, 12-month period and determined as follows: (i) two percent if on or before May 31, 2009, (ii) one percent if between June 1, 2009 through May 31, 2010, (iii) no penalty thereafter.

NOTES TO FINANCIAL STATEMENTS - Continued:

Long-term Debt - Continued:

The Cooperative agrees to maintain a consolidated debt service coverage ratio of not less than 1.10 to 1.00.

The Cooperative made \$4,000,000 of principal payments under the prepayment provisions of the note: a \$2,000,000 payment on May 30, 2008 and a \$2,000,000 payment on June 2, 2008. These payments will reduce the payoff amount at the end of the note term to zero. The Cooperative made an additional \$3,200,000 principal payment in September of 2010, accelerating the payoff date to 2013.

The Cooperative will not permit the Consolidated Total Debt to Capital Ratio to exceed the amounts shown below during the specified periods, as of the most recently ended fiscal quarter of The Cooperative.

<u>For Quarters Ending in the Period</u>	<u>Consolidated Total Debt to Total Capital Ratio</u>
On or Before December 31, 2009	55%
There After, on or Before December 31, 2010	50%

Consolidated Total Debt to Capital Ratio means, at any time, the mathematical ratio determined by computing the following equation:

$$\frac{D + NCLA}{D + NCLA + CTNW}$$

where D = Debt

NCLA = Noncapital Lease Amount

CTNW = Consolidated Tangible Net Worth

The Cooperative agrees not to form, create or acquire any subsidiary without prior consent of the note holder, provided however, that subject to the condition that no default has occurred and is continuing or would result there from investments by The Cooperative and its subsidiary in new subsidiaries in an aggregate amount not exceeding \$100,000 during any calendar year shall not require the note holders' consent.

The Vernon Telephone Cooperative note is dated September 14, 2004, for \$225,000, with 120 payments of principal of \$1,875.00. Loan is due in full September 14, 2014. Loan is secured by an Irrevocable Letter of Credit, issued by the First National Bank of Bangor. This loan has no interest.

<u>Year Ending</u> <u>December 31:</u>	<u>PNCEF,</u> <u>LLC:</u>	<u>JPMorgan</u> <u>Chase:</u>	<u>First</u> <u>National</u> <u>Bangor:</u>	<u>State of</u> <u>Wisconsin</u> <u>Investment</u> <u>Board:</u>	<u>Vernon</u> <u>Telephone</u> <u>Cooperative:</u>	<u>Total:</u>
2011	\$ 78,118	\$ 200,000	\$ 330,143	\$ 967,428	\$ 22,500	\$ 1,598,189
2012	27,083	200,000	101,184	1,041,083	22,500	1,391,850
2013		3,116,667		879,156	22,500	4,018,323
2014					15,000	15,000
Thereafter						-
	<u>\$ 105,201</u>	<u>\$ 3,516,667</u>	<u>\$ 431,327</u>	<u>\$ 2,887,667</u>	<u>\$ 82,500</u>	<u>\$ 7,023,362</u>

NOTES TO FINANCIAL STATEMENTS - Continued:

(12) Leases and Rents:

The Cooperative leases various equipment, office space and warehousing under terms of net operating leases. Rent expense for these leases amounted to \$116,318 and \$96,563 for 2010 and 2009, respectively. The Cooperative has one long term operating lease for a New Holland Model TN85DA tractor with CNH Capital America, LLC as follows:

	<u>2011:</u>	<u>2012:</u>
Lease Payments:		
Year Ending December 31	\$ 7,911	\$ 1,318

The CNH Capital America, LLC lease has a purchase option price of \$25,997.

(13) Income Taxes:

The following are the significant components which make up The Cooperative's income tax expense:

	<u>2010:</u>	<u>2009:</u>
Accrued Income Tax - January 1	\$ (40,000)	\$ (50,000)
Federal Taxes Paid	-	-
State Taxes Paid	132,950	35,000
Accrued Income Tax - December 31	<u>142,000</u>	<u>40,000</u>
Current Income Tax Expense	234,950	25,000
Deferred Income Tax Asset (Expense) Benefit	(168,000)	(131,000)
Deferred Income Tax Liability (Expense) Benefit	<u>542,000</u>	<u>273,000</u>
Net Income Tax Expense	<u>\$ 608,950</u>	<u>\$ 167,000</u>

Income tax calculated at statutory rates applied to pre-tax accounting income is reduced by The Cooperative's estimated patronage distribution and is modified by Federal and State income tax deductions and other smaller book/tax differences in arriving at the reported income tax expense.

Amounts for deferred tax assets and liabilities at December 31, 2010 and 2009 are as follows:

	<u>2010:</u>	<u>2009:</u>
Deferred Tax Assets:		
Allowances for Doubtful Accounts	\$ 494,000	\$ 435,000
Others	<u>177,000</u>	<u>68,000</u>
Total Deferred Tax Assets	<u>\$ 671,000</u>	<u>\$ 503,000</u>
Deferred Tax Liability:		
Depreciation - Bonus/Accelerated	<u>\$ 1,986,000</u>	<u>\$ 1,444,000</u>

The reconciliation of the statutory federal income tax rates to the effective tax rates for continuing operations for years ended December 31, 2010 and 2009:

	<u>2010:</u>	<u>2009:</u>
Statutory Federal Income Tax Rate	15.00%	15.00%
State and Local Income Taxes, Net of Federal Income Tax Benefit	<u>4.00%</u>	<u>4.00%</u>
Effective Tax Rate	<u>19.00%</u>	<u>19.00%</u>

NOTES TO FINANCIAL STATEMENTS - Continued:

(14) Equities:

In accordance with the By-Laws and by action of the Board of Directors, annual net savings from patronage sources may be distributed to consenting patrons following the close of each year, and is based on amounts using financial statement earnings. 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 cash portion of the patronage distribution is determined annually by the Board of Directors, with the balances issued in the form of allocated patron equities or shares of Class E stock.

	Par Value:	Issued:	Authorized:	Rate Div:
Authorized Capital Stock:				
Class E Stock - Series 1	\$ 50.00	875,376 }	1,500,000	6%
Class E Stock - Series 2	50.00	29,260 }		Variable
Class C Stock	50.00	58,120	500,000	8%
Class B Stock	50.00	418,296	500,000	8%
Class A Stock - Voting	25.00	1,617	5,000	

Class E Stock, Series 1 holders have no voting rights, except voting rights as provided in Wisconsin Statutes, Sections 185.52, 185.61 and 185.63. The rate of dividend to be paid upon Class E Stock shall be determined by the Board of Directors at the time of issuance of a series. Dividends on Class E Stock shall be cumulative. The current issuance of Class E, Series 1 has a dividend of 6%. The Cooperative has not registered the shares under the Securities Act or any applicable state securities laws. The Cooperative is offering the shares in reliance upon certain exemptions from registration contained in the Securities Act and such state securities laws. The Cooperative has no obligation or intention to register the shares. Accordingly, any purchaser of the shares must bear the economic risk of investment for an indefinite period of time. The Cooperative reserves the prior right to acquire any Class E Stock offered for sale by any shareholder, or a right to recall the Class E Stock of any shareholder. The consideration paid for Class E 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. Class E Stock may be transferred only on the books of the cooperative. At a minimum, The Cooperative intends to honor redemption requests of up to 10% of the total balance of Class E Stock, Series 1, outstanding in any calendar year as determined on January 1 of each year. Redemption requests that are not honored in a specific calendar year will be the first considered in the successive calendar year. The Board of Directors have established a policy that any stock issued to one investor over \$100,000 has to be approved by the Board of Directors.

Class E, Series 2 stock is used by the Cooperative to fund farmers patronage based on year-to-year profitability of the Cooperative and is declared at the sole discretion of the Board of Directors. Class E, Series 2 Stock shall be capital stock without voting rights, except voting rights as provided in Wisconsin Statutes, Sections 185.52, 185.61 and 185.63. The stock carries a non-cumulative dividend paying 0-8 percent as determined annually by the Board of Directors. The current rate is 8%. Redemption of Class E, Series 2 Stock is at the sole discretion of the Board of Directors.

Class C Stock shall be capital stock without voting rights, except voting rights as provided in Wisconsin Statutes, Sections 185.52, 185.61, and 185.63 and may be held by any party, whether or not eligible for membership in the cooperative. The rate of dividend upon Class C Stock shall be equal to 8% of its par value per year. Dividends on Class C Stock shall be cumulative. The Cooperative reserves the prior right to acquire any Class C Stock offered for sale by any shareholder, or a right to recall the Class C Stock of any shareholder. The consideration paid for Class C Stock recalled by The Cooperative 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. Class C Stock may be transferred only on the books of the cooperative. At a minimum, The Cooperative guarantees to honor redemption requests of up to 10% of the total balance of Class C Stock outstanding in any calendar year as determined on January 1 of each year. Redemption requests that are not honored in a specific calendar year will be the first considered in the successive calendar year.

NOTES TO FINANCIAL STATEMENTS - Continued:

Equities - Continued:

Class B Stock shall be capital stock without voting rights, except voting rights as provided in Wisconsin Statutes, Sections 185.52, 185.61 and 185.63. The stockholders are entitled to receive dividends. The stock carries an eight (8%) cumulative dividend. The Cooperative reserves the prior right to acquire any Class B Stock offered for sale by any shareholder, or a right to recall the Class B Stock of any shareholder. The consideration paid for Class B 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. Class B Stock may be transferred only on the books of The Cooperative. A holder of Class B Stock may request that the Board of Directors redeem their stock after the stockholder notifies The Cooperative of his/her intention to terminate membership with The Cooperative. The Board of Directors has the discretion to approve the redemption request.

Class A Stock is the membership stock of The Cooperative, which are issued from the unallocated reserve. Only individuals and entities that are producers of agricultural products may own Class A Stock. Membership in the Cooperative is restricted to stockholders of Class A stock. Each Member must hold one share of Class A Stock and the number of shares of Class B Stock as designated by the Board of Directors. No individual or entity, directly or indirectly, may own more than one share of Class A Stock.

Only stockholders of Class A Stock have voting power in The Cooperative. Each share of Class A Stock entitles the stockholders to one vote on matters submitted to a vote of the Members. Cumulative voting is not permitted. Members may vote at an annual meeting or special meeting of the Members called by the President of the Board, a majority of the Directors or upon written petition of at least 20% of the Members. To transact business, there must be a quorum of at least 20% of the Members entitled to vote present (or represented by a mail-in ballot) at an annual or special meeting of the Members. Unless otherwise required by applicable law, the Articles, the Bylaws or the Board of Directors, the affirmative vote of a majority of the Members present at a duly held meeting is necessary for an action to pass.

At the Annual Meeting or at any Special Member Meeting, a Member may vote in person or by mail ballot if a mail ballot has been previously authorized by the Board of Directors. In addition, any action that may be taken at a duly held meeting of the members may be taken without a meeting if a writing setting forth and approving the action taken is signed by 20% of the Members entitled to vote.

The Board of Directors may determine that shares of Class A Stock have come into the hands of a person or entity not eligible for membership, or that the holder of the shares has ceased to be an eligible Member. Upon such determination, the stockholder will cease to have rights or privileges on account of the Class A Stock, and will not have voting rights.

Membership in The Cooperative may be terminated if a member: (i) is given by The Cooperative 180 days written notice, (ii) becomes ineligible for membership, (iii) fails to patronize The Cooperative for one year or more, (iv) fails to pay required membership fees, (v) dies or ceases to exist as a legal entity, (vi) or if the Board of Directors, by resolution, finds that a member, (1) repeatedly violates any provision of the Articles, the Bylaws or policies established by the Board of Directors, (2) willfully obstructs the business of The Cooperative, or (3) breaches any contract with The Cooperative.

Upon termination of membership, stockholders of Class A Stock have no voting rights, and the Board of Directors may redeem the stockholder's Class A Stock for no more than the original value paid to The Cooperative. 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.

Class A Stock is not transferable to any person or entity. Stockholders of Class B Stock, Class C Stock, and Class E Stock may transfer their shares to individuals or entities eligible to hold Class B Stock, Class C Stock, and Class E Stock only with the consent of the Board of Directors. In addition, no purported assignment or transfer passes to any person not eligible to hold it or any rights or privileges on account of the Shares, or to vote or have a voice in the management of the affairs of The Cooperative. The Board of Directors may withhold its consent to proposed assignments or transfers for any reason.

NOTES TO FINANCIAL STATEMENTS - Continued:

Equities - Continued:

A shareholder desiring to sell his/her shares of Class B Stock, Class C Stock or Class E Stock must first offer them to The Cooperative for purchase, if the proposed transferee is not: (i) the spouse, parent, child (or spouse of child), brother or sister (or spouse of brother or sister) of the transferring member; (ii) a family farm corporation or other legal entity consisting of the transferring member's family in which the transferring member is a shareholder; or (iii) a partnership in which the transferring member is a partner. If The Cooperative does not elect to purchase the shares proposed for transfer, the transferring stockholder may only sell the Class B Shares to an agricultural producer eligible to become a member of The Cooperative by following the procedures set forth below. (As noted below, any agricultural producer to whom it is proposed to transfer the Shares must meet the criteria for membership in The Cooperative, including approval by the Board of Directors.) If The Cooperative does not elect to purchase the shares proposed for transfer, the transferring stockholder may sell the Class C Stock and the Class E Stock to any individual or entity by following the procedures below.

The transferring stockholder must give the Board of Directors written notice which sets forth the name and address of the proposed transferee, the number of shares of transferable stock to be transferred and all terms and conditions of the proposed transfer. The Board of Directors shall then agree to purchase the shares for the price or waive the right to purchase the shares. If the Board of Directors decides to waive its right to purchase the Class B stock, the members of the Board of Directors will vote on whether or not to accept the proposed transferee as a new member at their next meeting or at a special meeting called for that purpose. If the proposed transferee is so approved by the Board of Directors, the proposed transfer will be consummated on the terms and conditions stated in the written notice of the proposed transfer within thirty (30) days of such approval.

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 C 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 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; (4) fourth 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; (5) fifth 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; (6) sixth 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 (7) seventh 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 by law.

On September 19, 2008, the membership increased the amount of Class E stock authorized to \$75,000,000. On May 12, 2009, the Board of Directors approved increasing the amount of Class E stock available for sale to \$40,000,000. Sales closed to new investors on March 15, 2010. As of September 30, 2010 the Cooperative discontinued acceptance of outside investments (excluding Members and employees). On October 14, 2010 the Board of Directors approved increasing the amount of Class E Stock available for sale to \$50,000,000.

As members, the Board of Directors are required to meet their capital base investment requirements in Class B. Management has the right as any other investor, to purchase Class E, Series 1 stock. As of December 31, 2010 and 2009, Board of Directors, management and family Members have an investment of \$2,069,872 and \$1,619,808 in The Cooperative, respectively.

NOTES TO FINANCIAL STATEMENTS - Continued:

(15) Pool Equities:

Pool Equities are partial payments to meet the capital base requirements. Once the capital base requirements are met, amounts are transferred to Class B Stock. Dividends are not accrued on any partial payments.

(16) Supplemental Cash Flow and Other Information:

Additional information concerning supplemental disclosures of cash flow activities for the years ended December 31, 2010 and 2009 are as follows:

	<u>2010:</u>	<u>2009:</u>
Net Cash Paid During the Period For:		
Interest	\$ 666,912	\$ 1,026,570
Income Taxes	132,950	35,000
Other Significant Noncash Transactions:		
Exchange of Class A Stock	\$ 5,325	\$ 2,800
Accrual of Dividend Payables	2,652,380	2,000,682

(17) Pension 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 \$910 annually or will contribute 2.3% of an employee's salary if the employee contributes 4.6% 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 company contributions. The Cooperative made matching 401(k) contribution totaling \$395,244 for 2010 and \$385,743 for 2009. The Cooperative made an employee profit contribution of \$2,091,378 for 2010.

(18) Employee Benefit Commitments:

The Board of Directors have approved an unfunded and nonqualified deferred compensation plan for certain key employees. The Board of Directors have approved to contribute \$45,000 and \$45,000, respectively for the years December 31, 2010 and December 31, 2009.

(19) Major Economic Dependency:

The Cooperative conducted a substantial amount of business with top ten customers, equal to an amount of \$310,713,000 in 2010 and \$282,672,000 in 2009 or 52% and 54% respectively.

(20) Subsequent Events:

Management has evaluated subsequent events through March 7, 2011, the date which the financial statements were available for issue.

The Board of Directors have approved to pay the annual eight percent (8%) dividends on Class C and Class B stock. The Board of Directors have approved an eight percent (8%) dividend on Class E-2 stock. Both dividends are accrued in the 2010 financial statements.

On December 9, 2010 the Board of Directors have approved the capital budget for 2011, totaling \$20,491,000.

From time to time The Cooperative is involved as a defendant in various lawsuits, claims and disputes, which are in the normal course of The Cooperative's business. The resolution of any such matters may affect consolidated net savings for any fiscal period. The Cooperative believes that none of these claims would have any material effect on the financial statements.

NOTES TO FINANCIAL STATEMENTS - Continued:

(21) Tax Incremental Finance Commitment:

The Cooperative has entered a development agreement with the Village of La Farge, as of June 13, 2003. The Village is willing to provide assistance through the establishment of a tax incremental district, for the construction of certain public works and improvements. The principle terms of this agreement are as follows: The Cooperative agrees to construct an office building of no less than 40,000 square feet and houses approximately 220 employees. The Cooperative agrees that there will be no other use of land and that all public ways and any land designated as 'Open Space' on the Plot Plan, shall be made a part of any plot it may submit to the Village for approval and shall be dedicated by the Village or Cooperative, as the case maybe, in the locations and dimensions as shown on the Plot Plan and Certified Survey, except for any variations as may be approved by the Village, and The Cooperative agrees to cooperate with the Village in its application for grant funds and will provide all assistance it can with respect to compliance with grant requirements. In addition The Cooperative agreed to employ a minimum of 200 employees and create 105 additional job positions. The Cooperative has met both parts of the agreement.

The Cooperative may not sell, transfer or convey the property prior to January 1, 2028, without the express written consent of the Village. Such consent and restriction shall not be required if in the event any debt issued by the Village with respect to this TIF #1 district has been fully paid or retired. If prior to January 1, 2028, The Cooperative intends to sell, transfer or convey the development to any person or in any manner which would render the development exempt from property taxation, The Cooperative shall first secure the express written consent of the Village for such transfer unless the Prospective Purchaser expressly agrees to annually pay the Village an amount equal to all property taxes which would have been paid for the project, if it were subject to property taxation, unless excused by the Village. Consent of the Village shall not be required in connection with any mortgage loan to finance or refinance the development or in connection with or following any foreclosure (or acceptance of deed in lieu of foreclosure) of such mortgage. The Cooperative shall annually, upon the request of the Village, furnish to the Village's accountants, in confidential form and only to the accountants, such financial information as the Village may reasonably request in order to permit the Village's accountants to comment on the ability of The Cooperative to meet their obligations under this agreement.

The Cooperative has entered a development agreement with the Village of Cashton, as of May 17, 2006. The Village has established a business park within the Village, known as the Cashton Greens Business Energy Park. The Cooperative has developed this property with a distribution center and may develop an ultra high temperature plant in the future. The Village has taken the construction of the TIF District Improvements in accordance with the agreement. The cost of the TIF District Improvements, financing and bond insurance was approximately \$4,885,000. The cost was paid in the following manner. Grants from the Wisconsin Department of Commerce and Wisconsin Department of Transportation (the "Grants") provided \$1,195,000 in financing for those public projects eligible for financing via the grants. The Village issued a Community Development Authority Lease Bond ("CDA Lease Bond") in the amount of \$2,550,000 for payment of CDA Lease Revenue Bond Expenses. The Village issued a Tax Increment Project Revenue Bond ("TIPR Bond"), in the amount of \$1,761,836 which was used to fund the construction of Tax Increment Revenue Bond Expenses. As of February 2011 a second amendment as been proposed, but not finalized.

The Tax Increment received by the Village were used to pay the CDA Lease Bond and the TIPR Bond. The Tax Increment was available in the following priority: (i) first, subject to the annual appropriation by the Village of Cashton, the payment of principal and interest on the CDA Lease Bond; (ii) second, subject to the annual appropriation by the Village of Cashton, the payment of Administrative Fees, in an amount not to exceed \$5,000 per year; (iii) third, subject to the annual appropriation by the Village of Cashton, the payment of principal and interest on the TIPR Bond.

NOTES TO FINANCIAL STATEMENTS - Continued:

Tax Incremental Finance Commitment - Continued:

Contractual commitments of the Cooperative that commence when the Cooperative takes title to the site and with the land through the payback life of the TIF District applicable to the site:

(i) the cooperative shall own/use the site and project improvements in a manner that subjects the site and the Project improvements to property taxation, (ii) the Cooperative shall endeavor to establish and maintain employment opportunities from project operations on the site meeting the employment creation aspects of grants from both the Department of Transportation and Department of Commerce, (iii) the minimum total assessed value of the site for real property tax purposes upon completion of the project will be \$12,000,000 above base. For purposes of this agreement, the parties stipulate and agree that the base value of the Property is \$7,500. The Project was fully completed by December 31, 2007. Accordingly, the Cooperative shall guarantee payments to the Village in form of ordinary property taxes or payments in lieu of, but financially equivalent to, ordinary property taxes (all purposes) to which the property owner would be obligated to pay on property assessed at a value of \$12,000,000 plus the base value. Such payments shall commence in 2009 regardless of the date of completion of the project. In the event that the property is assessed at a value in excess of \$12,000,000, plus the base value, the excess property taxes will be applied in accordance the agreement. If the Cooperative constructs improvements elsewhere in the TIF district and/or if the value of taxable lands owned by the Cooperative increase in value above the base value of such lands, and if additional the Cooperative development does not require additional infrastructure cost to be incurred by the Village or the CDA, the increments received by the Village can be applied to the payments in lieu or property taxes from the project. The same will be true if third parties add incremental value in the TIF district after such increments have paid the share of infrastructure costs equitably assignable to such properties.

(22) Majority-Owned Subsidiaries:

The Cooperative formed Organic Meat Company, on August 1, 2003, a wholly owned corporation. The following provides summarized financial information for the balance sheets as of December 31, 2010 and 2009, and statements of operations for the years ended December 31, 2010 and 2009.

	<u>2010:</u>	<u>2009:</u>
Current Assets	\$ 3,735,712	\$ 3,937,555
Other Assets	271,010	271,010
	<hr/>	<hr/>
Total Assets	4,006,722	4,208,565
Current Liabilities	(2,556,797)	(3,021,270)
	<hr/>	<hr/>
Stockholders' Equity	\$ 1,449,925	\$ 1,187,295
	<hr/>	<hr/>
Sales	\$ 12,760,923	\$ 12,606,967
Cost of Sales	(10,624,451)	(10,893,455)
	<hr/>	<hr/>
Gross Margin	2,136,472	1,713,512
Expense	(1,873,842)	(2,474,500)
	<hr/>	<hr/>
Net (Loss) Income	\$ 262,630	\$ (760,988)
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NOTES TO FINANCIAL STATEMENTS - Continued:**Majority-Owned Subsidiaries - Continued:**

The Cooperative formed Organic Logistics, LLC, on May 1, 2004, a limited liability company, which is a 100% owned transportation subsidiary. The following provides summarized financial information for the balance sheets as of December 31, 2010 and 2009, and statements of operation and member's equity for the years ended December 31, 2010 and 2009.

	<u>2010:</u>	<u>2009:</u>
Current Assets	\$ 6,699,201	\$ 5,292,594
Current Liabilities	<u>(3,259,056)</u>	<u>(2,719,195)</u>
Members' Equity	<u>\$ 3,440,145</u>	<u>\$ 2,573,399</u>
Sales	\$ 6,117,921	\$ 5,065,833
Cost of Sales	<u>(4,703,011)</u>	<u>(3,829,910)</u>
Gross Margin	1,414,910	1,235,923
Expense	<u>(548,164)</u>	<u>(540,315)</u>
Net Income	<u>\$ 866,746</u>	<u>\$ 695,608</u>

(23) Financial Statement Ratios:

	<u>2010:</u>	<u>2009:</u>
Current Ratio	2.24 to 1	2.34 to 1
Milk Contractor's Current Ratio	2.2055 to 1	2.2754 to 1
Debt to Equity Ratio	70.22%	72.55%
Wisconsin Debt to Equity Ratio	.7165 to 1	.7513 to 1
Debt Service Coverage	5.12 to 1	7.95 to 1

(24) Financial Restatement Reclassification:

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the current year financial statements. None of these changes resulted in a change to the prior years net savings.