



The CORN Connection

Central Iowa Renewable Energy's Mission Statement

To successfully add value to locally grown grains which will profit our investor owners and area grain and livestock producers while benefitting our local communities through economic growth.

The Corn Connection Is
Published Quarterly By
CORN, LP
To Provide Information For
Our Owners And Investors

For Timely News & Updates
Check Our Web Site
www.cornlp.com

Volume 6 -- Issue 2
August, 2011

Inside CORNland

By
Brad Davis
CORN, LP
General Manager



Every occupation or field of endeavor you could possibly include on a list will have its own language, its own terminology, its own specific and unique characteristics.

The more highly specialized or skilled, complex or technical the occupation is, the more unique and specific its language and terminology will be.

For those who share a particular occupation or field of endeavor, or who at least have what could be called a "layman's" understanding of it, it's simple and virtually effortless to communicate with one another in the language and terms of that occupation because everyone else in it uses the same language and terms.

Doctors speak in medical terminology few if any of us not trained in medical sciences can comprehend.

Lawyers speak a legalese all their own, and sometimes I wonder if even they know what all those terms in our most complex legal agreements mean.

Accountants, and in this case controllers like **CORN, LP Controller Jim Glawe**, have their own language and terminology, clear, concise and, for them anyway, easy to comprehend.

For proof of that statement, just remember, they really do know and understand what all those things are and what all of those words mean on all those pages of your tax forms.

As for the rest of us, well, in many cases we require a more complete explanation, and with that in mind I want to commend Jim for the time and effort which I know he has put in as he prepared this month's **CORN's Checkbook** article.

Jim has done a very good job with the explanation of the concept of "accounting for derivative instruments" in an effort to help everyone not well versed in accounting to get a better grasp of the tools utilized by **CORN, LP** as we secure the most attractive opportunities to lock in favorable crush margins.

Personally, I can assure everyone that Brad Davis finds "derivatives" to be difficult to understand, extremely difficult to explain verbally to another individual without paper and pencil in hand to illustrate examples, and virtually impossible to explain in a newsletter article.

It's therefore a comfort to have a person with Jim's capabilities, skills and talents keeping me on the straight and narrow to accurately interpret our derivative position, and I can assure you that is something I am especially grateful for.

But while a grasp of accounting concepts such as derivatives and how they work will likely remain a mystery to the vast majority of us, there are a couple of things about the figures for the second quarter that Jim has reported to you this month which I do want to emphasize to everyone.

First of all, and most importantly, is the fact that **CORN, LP** is indeed having a very good year through the end of the first six months of operations.

It has been a very profitable, highly productive and extremely efficient year at **CORN, LP**, one that I am sure everyone on the **CORN, LP Team** is extremely proud of, one that I know everyone will continue to work hard to sustain, and one which we hope all of you also feel good about.

Secondly, let me also assure you that if by some stroke of fate Brad Davis were to have been the individual in charge of accounting at **CORN, LP**, which would by definition also make him fully versed in the **Generally Accepted Accounting Principles (GAAP)** (as opposed to the more limited grasp of

Inside CORNland -- Continued On Page 4



This is a picture of our oil storage, oil storage load-out, and load-out containment pad.



CORN's Checkbook

By
Jim Glawe
CORN, LP Controller



WOW! What a quarter! Net Income for CORN, LP for the second quarter of operations (April 1 through June 30, 2011) was in excess of \$8 million, bringing the year-to-date net income to just below \$10 million through the first 6 months of this fiscal year.

I would be happy to report a net income of \$10 million for all of 2011!

And I am sure you would be equally thrilled to have me be able to do just that as well.

And to be honest, we very well could have a net income of \$10 to \$11 million at the end of 2011, so I may indeed have the opportunity to give you figures such as those.

Naturally, I assume after reading statements and figurers such as these, most of you are asking: *How could we have such a huge profit in the first half of the year and make next to nothing in the second half of the year?*

The answer lies in accounting for derivative instruments and hedging activities, and hopefully in this article for **The CORN Connection** I can explain how those tools have functioned to bring us to this point.

FAS 133, or what is now referenced as **Accounting Standards Codification 815**, requires derivatives to be recognized at fair value on the balance sheet with the change in fair value recorded as a gain or loss on the income statement.

Through the first half of the year, we have more than \$6 million in gains as a result of this accounting treatment, with the gains being reported as unrealized gains, since we still own the derivative.

Once the derivative is liquidated, the resulting gain, or loss, will become realized, and until it is liquidated, the amount of the gain or loss can fluctuate dramatically.

Our **Merchandising Team** calculates the crush margin (the price at which we can sell ethanol less the cost of corn and operating expenses), and when the crush margin is at an acceptable profit margin, they lock that margin in by selling crush swaps.

They have been able to lock in a high percentage of our production for the balance of this year, and since we have such a high percentage of production locked in we are reporting larger

gains from these derivatives when we see the market drop.

Until all of our derivatives are liquidated, we will continue to see changes to the unrealized gains and losses as their fair values change with the market.

It is, in fact, highly possible we could even show a loss in the third quarter, but as the derivatives are used, offsetting future production costs, we will see the crush margin show through.

Other highlights of the quarter are listed, as always, in the summary which is included elsewhere on this page.

As you can see, **Total Sales** for the second quarter topped \$48 million, up \$10 million from **CORN, LP's** first quarter sales total, and up \$23 million from the second quarter total sales of last year.

The average selling price of ethanol increased by 60 cents per gallon from the last quarter, and the average selling price of distillers' grains increased by an average of \$29.00 per ton.

The increases from the second quarter of 2010 on the average selling price for these same two items were \$1.27 per gallon of ethanol and \$94.00 per ton of distillers' grains.

Cost Of Goods Sold was \$38.4 million, which was up \$2.7 million from the first quarter of 2011, and up \$12.8 million from one year ago.

The average purchase price of corn increased by 75 cents per bushel from the average corn price for the first quarter, and is up by \$2.84 per bushel from last year.

Although \$2.84 is a significant increase in the per bushel cost of corn, when you divide this by a yield of 2.85 gallons of ethanol per bushel, it would equate to a one dollar increase in the cost to produce a gallon of ethanol.

At the same time, we saw our average sales price per gallon of ethanol increase by \$1.27, thus offsetting the increased cost of corn and even improving the crush margin we are receiving.

Net Income for the quarter amounted to \$8.1 million compared to a net income of \$1.4 million for the first quarter, and to a loss of \$1.3 million that was being reported for the second quarter of 2010.

If you are interested in comparing production totals through the first six months of 2011 to the first six months production totals of 2010, you can check the year-to-date figures in this issue of **The CORN Connection** to those in the August, 2010 issue, which can be referenced on **CORN, LP's** web site under the newsletter archives.

It's good to complete the first six months of the fiscal year on such a positive note as we have with the figures being reported to you in this issue, and while we still have another six months remaining, it's nice to have such a solid foundation established from which to continue this year.

Enjoy the rest of your summer!

CORN, LP 2nd Quarter (April 1 to June 30, 2011) Operation Highlights (Unaudited)

	2nd Quarter	Year-To-Date
Sales	\$ 48,037,370	\$ 86,097,969
Cost Of Goods Sold	38,400,794	74,128,276
Gross Profit	9,636,576	11,969,693
General & Administrative Expense	362,714	713,774
Income From Operations	9,273,862	11,255,919
Other Income(Expense)	(1,145,449)	(1,694,525)
Net Income	\$ 8,128,413	9,561,394
Net Income Per Unit	\$ 259	305
Return On Investment	25.92%	30.49%



Coach's CORNER

By

Andy Miller

CORN, LP Plant Manager

I'll start this article for **The CORN Connection** by making a statement few on this planet would argue with: **It Has Been HOT!**

Naturally, everyone knows there are places even hotter, but once temperatures reach into those triple digit ranges, you really don't need to quibble about a few extra degrees here or there.

"When it's hot, it's hot", as the Jerry Reed song declared, and that holds true everywhere, by the way.

It seems whenever the talk turns to temperatures there always seems to be someone in the group who mentions the heat in Arizona, and someone invariably pipes up and says, *"Yes, but it's a dry heat"* as if 100 plus degrees was comfortable in certain places. **IT'S NOT.** Not in Iowa, not in Arizona or even the Sahara Desert.

And when it gets hot like that, everything and everyone is affected, and that goes for a lot of things in the **CORN, LP** plant, where **"heat"** is a natural part of the production process, specifically in the fermentation process, and thus heat is a pivotal player in the business we are in.

As temperatures push into these upper 90 and 100 degree ranges, things inside the fermentation tanks at the **CORN, LP** plant start turning into a **Real Party Place**, with the possibility of all kinds of strange and unusual behavior going on.

It's a lot like being at a party where there are lots of adult beverages being consumed, and as the action continues to increase, you can count on the fact that sooner or later someone is going to get out of control and **"Run Amuck"** as they say in the **Land Down Under**.

Before that happens and the party erupts into a brawl, you need to have someone **Step In To Cool Things Down** and restore order, since the last thing you want to do is to spoil everyone's fun by having the law arrive to shut the party completely down.

We have therefore developed a guideline for each operator that provides a series of step-by-step procedures that can be utilized to make the necessary and proper decisions at the various stages of the fermentation process.

This guideline enables them to respond to any potential problems that would be encountered in high temperature situations, thus enabling them to be able to **Step In To Cool Things Down** at precisely the right time, and to have the capability to do so without interfering, impeding or otherwise negatively affecting the maximum fermentation process that is necessary for optimum production/output.

GETTING READY: As we start out the third quarter at the **CORN, LP** plant, preparations and planning are already underway for the next planned total shutdown of the plant's operations, which is scheduled to take place in early September.

This upcoming shutdown is, in many ways, much like the major service and maintenance schedules all of you observe at certain set intervals with your vehicles and/or machinery.

In essence what we're doing is lifting the hood to conduct a thorough inspection of the engine, draining all the fluids and

replacing them with fresh supplies of all the **"consumables"**, doing a complete tune up and, of course, performing any and all necessary repairs and service to fine tune performance and efficiency so everything is ship shape and running like the proverbial top once again.

We do not anticipate there will be any major or high dollar repair items nor any significant problems encountered during the course of this shutdown, and the time that has been allocated to take the plant down, perform all the tasks on the service/maintenance schedule that has been established, then start things back up covers just four days.

I should note that since the previous plant shutdown, which I discussed in the previous issue of **The CORN Connection** as having just been completed in early April, there have been a grand total of 6 hours during which we have had the plant shut down to address a few minor issues.

As always, I believe it is solid testimony to the outstanding job being done and the hard work and dedication of the entire **CORN, LP Team** at the plant, to have such a nominal number of unplanned shutdown hours - 6 hours out of 2,184 hours - and clearly this illustrates why we are all so very pleased with the way the plant continues to operate and perform at such a high level.

OIL PRODUCTION: In closing I want to once again touch on the newest segment of our plant's activities, **Oil Production**.

This production process, while only in its preliminary start up stage, is so far doing very well, and as we continue to refine and fine-tune the process, I feel we are making very good progress.

Through our continuing efforts we have been able to identify physical characteristics of the mid-stillage that play a very important role in the oil separation process.

These discoveries, and many others, have enabled us to successfully tweak the system and add even more value to our second quarter results.



This is a picture of the oil separation equipment.



Inside CORNland -- Continued From Page 1

them he actually has as **CORN, LP General Manager**), then I am sure the more cautious and deliberate personality traits that typically personify the accounting profession would have made me reluctant to lay all my cards on the table with six full months still to go in the year, and I most likely would have then opted to "Save A Little Back".

Third, having qualified matters in that manner, and with your knowledge and understanding that in most situations the personality traits possessed by Brad Davis and those conservative traits of the individuals most of us typically associate with the accounting profession are "considerably different", I sincerely believe that unless something remarkable and completely out of the blue occurs, this is very much the level of performance I foresee **CORN, LP** being able to report to you when the year concludes in December.

And I am certainly confident everyone at **CORN, LP** will make every effort to assure that outcome.

A TREMENDOUS JOB: In many of the articles appearing in **The CORN Connection** we talk about the outstanding levels of production, efficiency and performance of the **CORN, LP** plant, and in doing so we naturally recognize the fantastic job that is being done in the plant by the **CORN, LP Team**, led by **CORN, LP Plant Manager Andy Miller**, his dedicated staff and all of the employees in all areas.

All of these individuals continue to do a superb job, and I know the **CORN, LP Board of Directors** and I work hard to supply them with the full compliment of "tools" necessary to do the best possible job.

There is one more absolutely crucial part of the **CORN, LP Team** that plays a huge role in whatever positive financial objectives are reached at **CORN, LP**, one comprised of **Duane Madeorin, Lyle Larsen and Darren Fritz, the Risk Management & Merchandising Team for CORN, LP.**

I sincerely believe this outstanding team has fine-tuned to new heights of perfection the use of crush swaps to lock in margins well into the future whenever there are opportunities that present themselves to do so.

As everyone knows, the accelerated pace at which all markets are trading at in these high tech, globally influenced and instantaneously accessible times creates tremendously exagger-

CORN, LP Board Of Directors

Dr. John Gazaway, President	CORN, LLC
Paul Rasmussen, Vice-President	CORN, LLC
Clayton Hansen, Secretary	CORN, LLC
Joseph Horan, Treasurer	CORN, LLC
Max Nedved, Director	CORN, LLC
Dean Reichter, Director	CORN, LLC
Mark Wigans, Director	CORN, LLC
Bill Cruise, Director	Gold-Eagle
Duane Vorrie, Director	Gold-Eagle
Dave Reinhart, Director	Fagen, Inc.
Greg Krissek, Director	ICM, Inc.

ated volatility.

Therefore, whenever a window of opportunity to secure a desirable profit margin does appear, it may only present itself in an instant, and is gone again equally fast.

It takes a tremendous amount of skill, knowledge and understanding of risk management and marketing to be able to recognize the signals that will trigger the opening of a window of opportunity, and to capture that opportunity in the narrow slit of time just before the window slams shut.

I therefore feel it is especially fitting to recognize and salute **Duane, Lyle and Darren** at this time as we operate in a market with such elevated price levels for corn, the overwhelming input expense item at **CORN, LP**, levels that have obviously narrowed windows of opportunity to secure profit margins even tighter.

This **Team** has continued to seize upon virtually every positive opportunity that has presented itself to them, has missed very few opportunities in this volatile market as it has moved with such amazing speed, and has fit through even the smallest gap to secure both near and long term profit margins to enable **CORN, LP** to manage near and long term risks for the always uncertain future.

CORN, LP Production Highlights

April 1 to June 30, 2011

	2nd Quarter	Year-To-Date
Ethanol Production	14,421,653 Gal.	29,550,711 Gal.
DDGS Production	40,820 Tons	85,331 Tons
Wet Cake Sales	178 Tons	470 Tons
Corn Purchases	5,041,938 Bu.	10,330,486 Bu.



CORN, LP

515 North Locust Street
P.O. Box 280
Goldfield, Iowa 50542

First Class Mail
U.S.POSTAGE
PAID
Des Moines, IA
Permit No. 2929

RETURN SERVICE REQUESTED