UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**

For the fiscal year ended December 31, 2018

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**

Commission file number 000-50254

LAKE AREA CORN PROCESSORS, LLC
(Exact name of registrant as specified in its charter)

South Dakota	**46-0460790**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
46269 SD Highway 34 **P.O. Box 100** **Wentworth, South Dakota**	**57075**
(Address of principal executive offices)	(Zip Code)

(605) 483-2676
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Membership Units**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
☐ Yes ☒ No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller Reporting Company ☐
(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☒ No

As of June 30, 2018, the last day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's membership units held by non-affiliates of the registrant was $14,311,625 computed by reference to the most recent public offering price on Form S-4.

As of February 28, 2019, there were 29,620,000 membership units of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant has incorporated by reference into Part III of this Annual Report on Form 10-K portions of its definitive information statement to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year covered by this Annual Report (December 31, 2018). This information statement is referred to in this report as the 2019 Information Statement.

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CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains historical information, as well as forward-looking statements that involve known and unknown risks and relate to future events, our future financial performance, or our expected future operations and actions. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "future," "intend," "could," "hope," "predict," "target," "potential," or "continue" or the negative of these terms or other similar expressions. These forward-looking statements are only our predictions based upon current information and involve numerous assumptions, risks and uncertainties. Our actual results or actions may differ materially from these forward-looking statements for many reasons, including the reasons described in this report. While it is impossible to identify all such factors, factors that could cause actual results to differ materially from those estimated by us include:

- Reductions in the corn-based ethanol use requirement in the Federal Renewable Fuels Standard;
- The impact of small refinery exemptions from the RFS which have reduced ethanol demand;
- Oversupply in the ethanol industry resulting in lower market ethanol prices;
- Negative operating margins which result from lower ethanol prices;
- Lower ethanol prices due to the Chinese and Brazilian ethanol tariffs;
- Lower distillers grains prices due to the Chinese antidumping and countervailing duty tariffs;
- Lower gasoline prices may negatively impact ethanol prices which could hurt our profitability;
- Availability and costs of raw materials, particularly corn and natural gas;
- Changes in the price and market for ethanol, distillers grains and corn oil;
- Our ability to maintain liquidity and maintain our risk management positions;
- Changes in the availability and cost of credit;
- Changes and advances in ethanol production technology;
- The effectiveness of our risk management strategy to offset increases in the price of our raw materials and decreases in the prices of our products;
- Overcapacity within the ethanol industry causing supply to exceed demand;
- Our ability to market and our reliance on third parties to market our products;
- The decrease or elimination of governmental incentives which support the ethanol industry;
- Changes in the weather or general economic conditions impacting the availability and price of corn;
- Our ability to generate free cash flow to invest in our business and service our debt;
- Changes in plant production capacity or technical difficulties in operating the plant;
- Changes in our business strategy, capital improvements or development plans;
- Our ability to retain key employees and maintain labor relations;
- Our liability resulting from potential litigation;
- Competition from alternative fuels and alternative fuel additives; and
- Other factors described elsewhere in this report.

The cautionary statements referred to in this section also should be considered in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf. We undertake no duty to update these forward-looking statements, even though our situation may change in the future. Furthermore, we cannot guarantee future results, events, levels of activity, performance, or achievements. We caution you not to put undue reliance on any forward-looking statements, which speak only as of the date of this report. You should read this report and the documents that we reference in this report and have filed as exhibits completely and with the understanding that our actual future results may be materially different from what we currently expect. We qualify all of our forward-looking statements by these cautionary statements.

PART I

ITEM 1. BUSINESS.

Overview

Lake Area Corn Processors, LLC is a South Dakota limited liability company that owns and manages an ethanol plant that has a nameplate production capacity of 40 million gallons of ethanol per year through its wholly-owned subsidiary Dakota Ethanol, L.L.C. The ethanol plant produces in excess of 50 million gallons of ethanol per year. The ethanol plant is located near Wentworth, South Dakota. Lake Area Corn Processors, LLC is referred to in this report as "LACP," the "Company," "we," or "us." Dakota Ethanol, L.L.C. is referred to in this report as "Dakota Ethanol" or the "ethanol plant."

Since September 4, 2001, we have been engaged in the production of ethanol and distillers grains. Fuel grade ethanol is our primary product accounting for the majority of our revenue. We also sell distillers grains and corn oil, the principal co-products of the ethanol production process.

General Development of Business

LACP was formed as a South Dakota cooperative on May 25, 1999. On August 20, 2002, our members approved a plan to reorganize into a South Dakota limited liability company. The reorganization became effective on August 31, 2002, and the assets and liabilities of the cooperative were transferred to the newly formed limited liability company. Following the reorganization, our legal name was changed to Lake Area Corn Processors, LLC.

Our ownership of Dakota Ethanol represents our primary asset and source of revenue. Since we operate Dakota Ethanol as a wholly-owned subsidiary, all net income generated by Dakota Ethanol is passed to LACP. We make distributions of the income received from Dakota Ethanol to our unit holders in proportion to the number of units held by each member compared to the units held by our members generally.

On February 6, 2018, we executed an Amended and Restated Credit Agreement (the "Amended and Restated Credit Agreement") with FCSA. Pursuant to the Amended and Restated Credit Agreement, we increased our total credit availability to $40 million to support our plant expansion project. Further, the maturity date of this increased credit availability under our Amended and Restated Credit Agreement was extended to January 1, 2026. Until February 1, 2023, interest will accrue pursuant to the Credit Agreement on our increased credit availability at the one month London Interbank Offered Rate ("LIBOR") plus 3.25% per year. We agreed to pay a fee of 0.50% on the unused portion of the increased credit availability.

We are in the process of expanding our production capacity to approximately 90 million gallons of ethanol per year. The cost of the expansion is expected to be approximately $36 million. We commenced the project in December 2017 and we anticipate that the expansion will be complete during our second quarter of 2019.

During our 2018 fiscal year, we paid a total of $2,962,000 in distributions to our members or approximately $0.10 per membership unit.

Financial Information

Please refer to "**Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations**" for information regarding our results of operations and "**Item 8 - Financial Statements and Supplementary Data**" for our audited consolidated financial statements.

Principal Products

The principal products produced at the ethanol plant are fuel grade ethanol, distillers grains and corn oil. The table below shows the approximate percentage of our total revenue which is attributed to each of our primary products for each of our last three fiscal years.

Product	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016
Ethanol	77%	79%	78%
Distillers Grains	20%	17%	19%
Corn Oil	3%	4%	3%

Ethanol

Ethanol is ethyl alcohol, a fuel component made primarily from corn and various other grains. Ethanol is primarily used as: (i) an octane enhancer in fuels; (ii) an oxygenated fuel additive for the purpose of reducing ozone and carbon monoxide vehicle emissions; and (iii) a non-petroleum-based gasoline substitute. Ethanol produced in the United States is primarily used for blending with unleaded gasoline and other fuel products. Ethanol blended fuel is typically designated in the marketplace according to the percentage of the fuel that is ethanol, with the most common fuel blend being E10, which includes 10% ethanol. The United States Environmental Protection Agency ("EPA") has approved the use of gasoline blends that contain 15% ethanol, or E15, for use in all vehicles manufactured in model year 2001 and later. In addition, flexible fuel vehicles can use gasoline blends that contain up to 85% ethanol called E85.

An ethanol plant is essentially a fermentation plant. Ground corn and water are mixed with enzymes and yeast to produce a substance called "beer," which contains approximately 15% alcohol, 11% solids and 74% water. The "beer" is boiled to separate the water, resulting in ethyl alcohol, which is then dehydrated to increase the alcohol content. This product is then mixed with a certified denaturant, such as gasoline, to make the product unfit for human consumption which allows it to be sold commercially.

Distillers Grains

A principal co-product of the ethanol production process is distillers grains, a high protein, high-energy animal feed supplement primarily marketed to the dairy and beef industry. We primarily produce distillers grains in two forms, modified/wet distillers grains and dried distillers grains. Modified/wet distillers grains have a higher moisture content than dried distillers grains. Our modified/wet distillers grains are sold primarily in our local market because they have a shorter shelf life and are more expensive to transport than dried distillers grains.

Corn Oil

We separate a portion of the corn oil contained in our distillers grains which we market separately from our distillers grains. The corn oil that we produce is not food grade corn oil and therefore cannot be used for human consumption. The primary uses for the corn oil that we produce are animal feed, industrial uses and biodiesel production.

Principal Product Markets

Ethanol

The primary market for our ethanol is the domestic fuel blending market. However, in recent years the United States has experienced increased ethanol exports. This increase in ethanol exports follows a conscious effort by the United States ethanol industry to expand ethanol exports along with lower ethanol prices which encouraged exports. During 2018, the primary export markets served by the United States ethanol industry were Canada, Brazil, India, China, South Korea, the Philippines and Peru. However, ethanol export demand is more unpredictable than domestic demand and tends to fluctuate throughout the year as it is subject to monetary and political forces in other nations. Both Brazil and China, each a major source of export demand in the past, instituted tariffs on ethanol produced in the United States during 2017. The imposition of these tariffs has resulted in a decline in demand from these top importers requiring United States producers to seek out alternative markets.

In 2011, the European Union launched anti-dumping and anti-subsidy investigations related to ethanol exports from the United States. In August 2012, the European Union concluded the anti-subsidy investigation and decided not to impose a tariff related to the anti-subsidy portion of the investigation. However, the European Union decided to impose a tariff on ethanol imported from the United States based on the anti-dumping portion of the investigation. The anti-dumping tariff was scheduled to expire in 2018, however an extension is currently under review. We believe this tariff will continue to negatively impact domestic ethanol prices during our 2019 fiscal year. Some ethanol exports to the European Union have continued despite the tariff due to the relatively lower price of ethanol produced in the United States.

Ethanol is generally blended with gasoline before it is sold to the end consumer. Therefore, the primary purchasers of ethanol are fuel blending companies which mix the ethanol we produce with gasoline. As discussed below in the section entitled "Distribution of Principal Products," we have a third party marketer that sells all of our ethanol. Our ethanol marketer makes substantially all decisions regarding where our ethanol is sold.

Distillers Grains

Distillers grains are primarily used as animal feed. Distillers grains are typically fed to animals instead of other traditional animal feeds such as corn and soybean meal. Distillers grains exports have increased in recent years as distillers grains have become a more accepted animal feed. Currently, the United States ethanol industry exports a significant amount of distiller grains. During 2018, the largest importers of United States distiller grains were Mexico, Turkey, South Korea, Thailand, China and Canada. During 2016, China began an anti-dumping and countervailing duty investigation related to distillers grains imported from the United States which contributed to a decline in distillers grains shipped to China. In January 2017, the Chinese finalized the anti-dumping and anti-subsidy duties. The anti-dumping duties range from 42.2% to 53.7%, and the final anti-subsidy tariffs range from 11.2% to 12%. The trade actions taken by the Chinese have resulted in further declines in distillers grains demand and prices. The significant reduction in distillers grains exports to China requires United States distillers grains producers to seek out alternative markets.

We anticipate that the vast majority of our distillers grains will continue to be sold in the domestic market due to our plant's location. Further, management anticipates that we will continue to sell a large proportion of our distillers grains in the modified/wet form which is marketed locally.

Corn Oil

The primary markets for corn oil are the industrial chemicals market, animal feeding market and the biodiesel production market. Corn oil demand was lower during 2018 due to decreased biodiesel production. This biodiesel blenders' tax credit expired at the end of 2016. However, in early 2018 the biodiesel blenders' tax credit was reinstated retroactively for 2017 after it expired at the end of 2016, but no forward looking extension was included. Legislation has been introduced to extend the biodiesel blenders' tax credit for a number of years but this legislation has not been passed. Since corn oil can be used as a feedstock to produce biodiesel, when biodiesel production increases it has a positive impact on corn oil prices. Further, additional corn oil supply has continued to enter the market which has negatively impacted corn oil prices. The market for corn oil is expected to continue to shift as changes in supply and demand of corn oil interact. Our corn oil is primarily marketed in the United States and we do not expect that significant exports of corn oil will occur in the near future.

Distribution of Principal Products

Ethanol Distribution

We have an ethanol marketing agreement with RPMG, Inc. ("RPMG"), a professional third party marketer, which is the sole marketer of our ethanol. We are an equity owner of Renewable Products Marketing Group, LLC ("RPMG, LLC"), the parent company of RPMG, which allows us to realize favorable marketing fees in the sale of our ethanol, distillers grains and corn oil. Our ethanol marketing agreement provides that we can sell our ethanol either through an index arrangement or at a fixed price agreed to between us and RPMG. The term of our ethanol marketing agreement is perpetual, until it is terminated according to the terms of the agreement. The primary reasons our ethanol marketing agreement would terminate are if we cease to be an owner of RPMG, LLC, if there is a breach of our ethanol marketing agreement which is not cured, or if we give advance notice to RPMG that we wish to terminate our ethanol marketing agreement. Notwithstanding our right to terminate our ethanol marketing agreement, we may be obligated to continue to market our ethanol through RPMG for a period of time after termination. Further, following termination we agreed to accept an assignment of certain railcar leases which RPMG has secured to service our ethanol sales. If our ethanol marketing agreement is terminated, it would trigger a redemption by RPMG, LLC of our ownership interest in RPMG, LLC.

Distillers Grains Distribution

Other than the distillers grains that we market locally without a third party marketer, our distillers grains are marketed by RPMG. Our distillers grains marketing agreement with RPMG automatically renews for additional one-year terms unless notice of termination is given as provided by the distillers grains marketing agreement. We pay RPMG a commission based on each ton of distillers grains sold by RPMG.

We market a portion of our distillers grains to our local market without the use of an external marketer. Currently, we market approximately 83%, based on volume, of our distillers grains internally. Shipments of these products are made to local markets by truck. This has allowed us to sell less distillers grains in the form of dried distillers grains which has decreased our natural gas usage and improved our margins from the sale of distillers grains.

Corn Oil Distribution

We market all of our corn oil through RPMG. Our corn oil marketing agreement automatically renews for additional one year terms unless either party gives 180 days notice that the agreement will not be renewed. We pay RPMG a commission based on each pound of our corn oil that is sold by RPMG.

New Products and Services

We did not introduce any new products or services during our 2018 fiscal year.

Patents, Trademarks, Licenses, Franchises and Concessions

We do not currently hold any patents, trademarks, franchises or concessions. We were granted a license by Broin and Associates, Inc. ("Broin"), the company that designed and built the ethanol plant, to use certain ethanol production technology necessary to operate our ethanol plant. The cost of the license granted by Broin was included in the amount we paid Broin to design and build our ethanol plant.

Sources and Availability of Raw Materials

Corn Feedstock Supply

The major raw material required for our ethanol plant to produce ethanol, distillers grains and corn oil is corn. The plant operates in excess of its nameplate capacity of 40 million gallons of ethanol per year, producing approximately 51 million gallons of ethanol annually from approximately 18 million bushels of corn. However, when our plant expansion project is completed we anticipate that our corn consumption will increase significantly. The area surrounding the ethanol plant currently provides an ample supply of corn to meet and exceed our raw material requirements for the production capacity of the plant. We anticipate that the area surrounding our plant will also be able to supply our increased corn needs once our plant expansion project is completed.

Corn prices have been volatile in recent years due to changes in corn demand as well as yield and production fluctuations that have had a significant impact on corn prices. Corn prices were higher during our 2018 fiscal year as a result of weather conditions during the 2018 growing season which raised concerns about the size of the 2018 corn crop. Despite this fact, the 2018 was one of the largest crops harvested. As a result of recent favorable corn crops, we have not had difficulty securing the corn we need to operate the ethanol plant at prices that have allowed us to operate profitably. However, as we experienced during 2012, an unfavorable corn crop can have a significant negative impact on our profitability. We could experience a drought or other unfavorable weather condition during our 2019 fiscal year which could impact the price we pay for corn and could negatively impact the availability of corn near our plant. If we experience a localized shortage of corn, we may be forced to purchase corn from producers who are farther away from our ethanol plant which can increase our transportation costs. In addition, if new corn customers enter the market, it can increase demand for corn which could result in higher corn prices. Since corn is the primary raw material we use to produce our products, the availability and cost of corn can have a significant impact on the profitability of our operations.

Corn is supplied to us primarily from our members who are local agricultural producers and from purchases of corn on the open market. We anticipate purchasing corn from third parties should our members fail to supply us with enough corn to operate the ethanol plant at capacity. We do not anticipate experiencing difficulty purchasing the corn we require to operate the ethanol plant.

We have an agreement with John Stewart & Associates ("JSA") to provide us with consulting services related to our risk management strategy. We pay JSA a fee of $2,500 per month to assist us in making risk management decisions regarding our commodity purchases. The agreement renews on a month-to-month basis.

Natural Gas

Natural gas is an important input to our manufacturing process. We purchase our natural gas on the open market and the price for our natural gas is based on market rates. We have a contract with Northern Natural Gas for the interstate transportation of our natural gas. We contract with NorthWestern Energy for the local transportation of our natural gas. Both contracts expired in 2018 and were renewed until 2028. We have had no interruptions or shortages in the supply of natural gas to the plant since operations commenced in 2001. We anticipate that we will be able to purchase sufficient natural gas to continue to operate the ethanol plant during our 2019 fiscal year.

Electricity

Electricity is necessary for lighting and powering much of the machinery and equipment used in the production process. We contract with Sioux Valley Energy, Inc. to provide all of the electric power and energy requirements for the ethanol plant. We have had no interruptions or shortages in the supply of electricity to the plant since operations commenced in 2001.

Water

Water is a necessary part of the ethanol production process. It is used in the fermentation process and to produce steam for the cooking, evaporation, and distillation processes. We contract with Big Sioux Community Water System, Inc. to meet our water requirements. Our current agreement with Big Sioux is for a five-year term commencing in December 2014 and is renewable for additional five year terms. Since our operations commenced in September 2001, we have had no interruption in the supply of water and all of our requirements have been met.

Seasonal Factors in Business

We experience some seasonality of demand for our ethanol, distillers grains and corn oil. Since ethanol is predominantly blended with gasoline for use in automobiles, ethanol demand tends to shift in relation to gasoline demand. As a result, we experience some seasonality of demand for ethanol in the summer months related to increased driving and, as a result, increased gasoline demand. In addition, we experience some increased ethanol demand during holiday seasons related to increased gasoline demand. We also experience decreased distillers grains demand during the summer months due to natural depletion in the size of herds at cattle feed lots. Further, we expect some seasonality of demand for our corn oil since the biodiesel industry is a major corn oil user and biodiesel plants typically reduce production during the winter months. We experience some seasonality in the price we pay for natural gas with premium pricing during the winter months. This increase in natural gas prices coincides with increased natural gas demand for heating needs in the winter months.

Working Capital

We primarily use our working capital for purchases of raw materials necessary to operate the ethanol plant, for payments on our credit facilities, for distributions to our members and for capital expenditures to maintain and upgrade the ethanol plant. Our primary sources of working capital are income from our operations and investments as well as our revolving lines of credit with our primary lender, FCSA. For our 2019 fiscal year, we anticipate using cash from our operations and our credit facilities for our plant expansion project and to maintain our current plant infrastructure. Management believes that our current sources of working capital are sufficient to sustain our operations for our 2019 fiscal year and beyond.

Dependence on One or a Few Major Customers

As discussed above, we have marketing agreements with RPMG to market our ethanol, distillers grains and corn oil. Therefore, we rely on RPMG to market almost all of our products, except for the modified/wet distillers grains that we market locally. Our financial success will be highly dependent on RPMG's ability to market our products at competitive prices. Any loss of RPMG as our marketing agent or any lack of performance under these agreements or inability to secure competitive prices could have a significant negative impact on our revenues. While we believe we can secure new marketers if RPMG were to fail, we may not be able to secure such new marketers at rates which are competitive with RPMG's.

Our Competition

Ethanol Competition

We are in direct competition with numerous ethanol producers in the sale of our products and with respect to raw material purchases related to those products. Many of the ethanol producers with which we compete have greater resources than we do. While management believes we are a lower cost producer of ethanol, larger ethanol producers may be able to take advantage of economies of scale due to their larger size and increased bargaining power with both ethanol, distillers grains and corn oil customers and raw material suppliers. As of November 30, 2018, the Renewable Fuels Association estimates that there are 213 ethanol production facilities in the United States with capacity to produce approximately 16.5 billion gallons of ethanol per year. According to RFA estimates, approximately 3% of the ethanol production capacity in the United States was not operating as of November 30, 2018. The largest ethanol producers include Archer Daniels Midland, Flint Hills Resources, Green Plains Renewable Energy, POET Biorefining, and Valero Renewable Fuels, each of which is capable of producing significantly more ethanol than we produce.

The following table identifies the largest ethanol producers in the United States along with their production capacities.

U.S. FUEL ETHANOL PRODUCTION CAPACITY
BY TOP PRODUCERS
Producers of Approximately 700
million gallons per year (MMgy) or more

Company	Current Capacity (MMgy)	Percent of Total
Archer Daniels Midland	1,716	10%
POET Biorefining	1,662	10%
Green Plains Renewable Energy	1,408	9%
Valero Renewable Fuels	1,400	9%
Flint Hills Resources	820	5%

Updated: November 30, 2018

The products that we produce are commodities. Since our products are commodities, there are typically no significant differences between the products we produce and the products of our competitors that would allow us to distinguish our products in the market. As a result, competition in the ethanol industry is primarily based on price and consistent fuel quality.

We have experienced increased competition from oil companies that have purchased ethanol production facilities. These oil companies are required to blend a certain amount of ethanol each year. Therefore, the oil companies may be able to operate their ethanol production facilities at times when it is unprofitable for us to operate our ethanol plant. Further, some ethanol producers own multiple ethanol plants which may allow them to compete more effectively by providing them flexibility to run certain production facilities while they have other facilities shut down. Finally some ethanol producers who own ethanol plants in geographically diverse areas of the United States may spread the risk they encounter related to feedstock prices due to localized corn shortages or poor growing conditions.

We anticipate increased competition from renewable fuels that do not use corn as the feedstock. Many of the current ethanol production incentives are designed to encourage the production of renewable fuels using raw materials other than corn. One type of ethanol production feedstock that is being explored is cellulose. Cellulose is the main component of plant cell walls and is the most common organic compound on earth. Cellulose is found in wood chips, corn stalks, rice straw, amongst other common plants. Cellulosic ethanol is ethanol produced from cellulose. There are several commercial scale cellulosic ethanol production facilities either in production or in the construction phase. If this technology can be profitably employed on a commercial scale, it could potentially lead to ethanol that is less expensive to produce than corn based ethanol, especially when corn prices are high. Cellulosic ethanol may also capture more government subsidies and assistance than corn based ethanol. This could decrease demand for our product or result in competitive disadvantages for our ethanol production process.

A number of automotive, industrial and power generation manufacturers are developing alternative clean power systems using fuel cells, plug-in hybrids, electric cars or clean burning gaseous fuels. Electric car technology has recently grown in popularity, especially in urban areas, and continues to represent a source of competition for the ethanol industry. While there are currently a limited number of vehicle recharging stations, making electric cars not feasible for all consumers, there has been increased development of these recharging stations which is making this technology more widely available. Additional competition from these other sources of alternative energy, particularly in the automobile market, could reduce the demand for ethanol, which would negatively impact our profitability.

Distillers Grains Competition

Our ethanol plant competes with other ethanol producers in the production and sales of distillers grains. Distillers grains are primarily used as an animal feed supplement which replaces corn and soybean meal. As a result, we believe that distillers grains prices are positively impacted by increases in corn and soybean prices. In addition, in recent years the United States ethanol industry has increased exports of distillers grains which management believes has positively impacted demand and prices for distillers grains in the United States. In the event these distillers grains exports decrease, including as a result of the Chinese tariffs which have significantly reduced export demand for distillers grains, it could lead to an oversupply of distillers grains in the United States. An oversupply of distillers grains could result in increased competition among ethanol producers for sales of distillers grains which could negatively impact market distillers grains prices in the United States.

Corn Oil Competition

We compete with many ethanol producers for the sale of corn oil. Many ethanol producers have installed the equipment necessary to separate corn oil from the distillers grains they produce which has increased competition for corn oil sales and has resulted in lower market corn oil prices.

Governmental Regulation

Federal Ethanol Supports

The ethanol industry is dependent on several economic incentives to produce ethanol, the most significant of which is the Federal Renewable Fuels Standard (the "RFS"). The RFS requires that in each year, a certain amount of renewable fuels must be used in the United States. The RFS is a national program that does not require that any renewable fuels be used in any particular area or state, allowing refiners to use renewable fuel blends in those areas where it is most cost-effective. The RFS statutory volume requirement increases incrementally each year until the United States is required to use 36 billion gallons of renewable fuels by 2022. Starting in 2009, the RFS required that a portion of the RFS must be met by certain "advanced" renewable fuels. These advanced renewable fuels include ethanol that is not made from corn, such as cellulosic ethanol and biomass based biodiesel. The use of these advanced renewable fuels increases each year as a percentage of the total renewable fuels required to be used in the United States.

The United States Environmental Protection Agency (the "EPA") has the authority to waive the RFS statutory volume requirement, in whole or in part, provided one of the following two conditions have been met: (1) there is inadequate domestic renewable fuel supply; or (2) implementation of the requirement would severely harm the economy or environment of a state, region or the United States. Recently, the EPA has been granting small refinery exemptions from the RFS while not using its authority to waive the RFS statutory volume requirements. These small refinery exemptions created unallocated gallons reducing the corn-based conventional biofuel RFS requirements by 2.25 billion gallons in 2018. These small refinery exemptions have had a significant negative impact on domestic demand for ethanol and have resulted in negative operating margins in the ethanol industry.

On November 30, 2018, the final RVO for 2019 was set at 19.29 billion gallons and the corn-based ethanol RVO was set at 15 billion gallons. However, the EPA did not address small refinery exemptions in its 2019 RVO release. In addition, the EPA did not address the reallocation of 500 million gallons from the 2016 RVO which was ordered by a federal court in a recent lawsuit.

In February 2010, the EPA issued new regulations governing the RFS. These new regulations are called RFS2. The most controversial part of RFS2 involves what is commonly referred to as the lifecycle analysis of greenhouse gas emissions. Specifically, the EPA adopted rules to determine which renewable fuels provided sufficient reductions in greenhouse gases, compared to conventional gasoline, to qualify under the RFS program. RFS2 establishes a tiered approach, where regular renewable fuels are required to accomplish a 20% greenhouse gas reduction compared to gasoline, advanced biofuels and biomass-based biodiesel must accomplish a 50% reduction in greenhouse gases, and cellulosic biofuels must accomplish a 60% reduction in greenhouse gases. Any fuels that fail to meet this standard cannot be used by fuel blenders to satisfy their obligations under the RFS program. The scientific method of calculating these greenhouse gas reductions has been a contentious issue. Many in the ethanol industry were concerned that corn based ethanol would not meet the 20% greenhouse gas reduction requirement based on certain parts of the environmental impact model that many in the ethanol industry believed was scientifically suspect. However, RFS2 as adopted by the EPA provides that corn-based ethanol from modern ethanol production processes does meet the definition of a renewable fuel under the RFS program. Our ethanol plant was grandfathered into the RFS due to the fact that it was constructed prior to the effective date of the lifecycle greenhouse gas requirement and is not required to prove compliance with the lifecycle greenhouse gas reductions. Many in the ethanol industry are concerned that certain provisions of RFS2 as adopted may disproportionately benefit ethanol produced from sugarcane which could make sugarcane based ethanol, which is primarily produced in Brazil, more competitive in the United States ethanol market. If this were to occur, it could reduce demand for the ethanol that we produce.

Most ethanol that is used in the United States is sold in a blend called E10. E10 is a blend of 10% ethanol and 90% gasoline. E10 is approved for use in all standard vehicles. Estimates indicate that gasoline demand in the United States is approximately 143 billion gallons per year. Assuming that all gasoline in the United States is blended at a rate of 10% ethanol and 90% gasoline, the maximum demand for ethanol is 14.3 billion gallons per year. This is commonly referred to as the "blend wall," which represents a theoretical limit where more ethanol cannot be blended into the national gasoline pool. This is a theoretical limit because it is believed that it would not be possible to blend ethanol into every gallon of gasoline that is being used in the United States and it discounts the use of higher percentage blends such as E15 or E85. These higher percentage blends may lead to additional ethanol demand if they become more widely available and accepted by the market.

Many in the ethanol industry believe that it will be impossible to meet the RFS requirement in future years without an increase in the percentage of ethanol that can be blended with gasoline for use in standard (non-flex fuel) vehicles. The EPA has approved the use of E15, gasoline which is blended at a rate of 15% ethanol and 85% gasoline, in vehicles manufactured in the model year 2001 and later. However, there are still state hurdles that need to be addressed in some states before E15 will become more widely available. Many states still have regulatory issues that prevent the sale of E15. Sales of E15 may be limited because it is not approved for use in all vehicles, the EPA requires a label that management believes may discourage consumers from using E15, and retailers may choose not to sell E15 due to concerns regarding liability. In addition, different gasoline blendstocks may be required at certain times of the year in order to use E15 due to federal regulations related to fuel evaporative emissions which may limit E15 sales in these markets. As a result, the approval of E15 by the EPA has not had an immediate impact on ethanol demand in the United States. Recently, the Trump Administration announced that it directed the EPA to move forward with year-round availability of E15 by waiving the fuel evaporative emissions standards for E15 similar to what is available for E10. However, EPA has not yet take action on this issue and there will likely be lawsuits filed to block this waiver request.

Effect of Governmental Regulation

The government's regulation of the environment changes constantly. We are subject to extensive air, water and other environmental regulations and we have been required to obtain a number of environmental permits to construct and operate the ethanol plant. It is possible that more stringent federal or state environmental rules or regulations could be adopted, which could increase our operating costs and expenses. It also is possible that federal or state environmental rules or regulations could be adopted that could have an adverse effect on the use of ethanol. Plant operations are governed by the Occupational Safety and Health Administration ("OSHA"). OSHA regulations may change such that the costs of operating the ethanol plant may increase. Any of these regulatory factors may result in higher costs or other adverse conditions effecting our operations, cash flows and financial performance.

We have obtained all of the necessary permits to operate the ethanol plant. During our 2018 fiscal year, our costs of environmental compliance were approximately $215,000. We anticipate that our environmental compliance costs will be approximately $240,000 during our 2019 fiscal year. Although we have been successful in obtaining all of the permits currently required, any retroactive change in environmental regulations, either at the federal or state level, could require us to obtain additional or new permits or spend considerable resources in complying with such regulations.

In late 2009, California passed a Low Carbon Fuels Standard ("LCFS"). The California LCFS requires that renewable fuels used in California must accomplish certain reductions in greenhouse gases which is measured using a lifecycle analysis, similar to the RFS. The LCFS could have a negative impact on demand for corn-based ethanol and result in decreased ethanol prices affecting our ability to operate profitably.

The European Union concluded an anti-dumping investigation related to ethanol produced in the United States and exported to Europe. As a result of this investigation, the European Union imposed a tariff on ethanol which is produced in the United States and exported to Europe. This tariff resulted in decreased exports of ethanol to Europe which negatively impacted the market price of ethanol in the United States. The anti-dumping tariff was scheduled to expire in 2018 which may result in additional exports to the European Union. However, the decision to remove the tariff is under review.

In August 2017, Brazil instituted an import quota for ethanol produced in the United States and exported to Brazil, along with a 20% tariff on ethanol imports in excess of the quota. This tariff and quota have reduced exports of ethanol to Brazil and may continue to negatively impact ethanol exports from the United States. Any reduction in ethanol exports could negatively impact market ethanol prices in the United States. Recently Brazil announced it may remove this tariff.

We are subject to environmental oversight by the EPA. There is always a risk that the EPA may enforce certain rules and regulations differently than South Dakota's environmental administrators. South Dakota or EPA rules are subject to change, and any such changes could result in greater regulatory burdens on plant operations. We could also be subject to environmental or nuisance claims from adjacent property owners or residents in the area arising from possible foul smells or other air or water discharges from the ethanol plant. Such claims may result in an adverse result in court if we are deemed to engage in a nuisance that substantially impairs the fair use and enjoyment of property.

Employees

As of December 31, 2018, we had a total of 40 full-time employees. In the next twelve months we anticipate hiring an additional five as a result of our plant expansion project.

ITEM 1A. RISK FACTORS.

You should carefully read and consider the risks and uncertainties below and the other information contained in this report. The risks and uncertainties described below are not the only ones we may face. The following risks, together with additional risks and uncertainties not currently known to us or that we currently deem immaterial could impair our financial condition and results of operation.

Risks Relating to Our Business

The spread between ethanol and corn prices can vary significantly which can negatively impact our financial condition. Our only source of revenue comes from sales of our ethanol, distillers grains and corn oil. The primary raw materials we use to produce our ethanol, distillers grains and corn oil are corn and natural gas. In order to operate the ethanol plant profitably, we must maintain a positive spread between the revenue we receive from sales of our products and our corn and natural gas costs. This spread between the market price of our products and our raw material costs has been volatile in the past. If we were to experience a period of time where this spread is negative, and the negative margins continue for an extended period of time, it may prevent us from profitably operating the ethanol plant which could decrease the value of our units.

Decreasing gasoline prices may lower ethanol prices which could negatively impact our ability to operate profitably. Recently, the price of ethanol has been less than the price of gasoline which increased ethanol demand. However, at times gasoline prices have decreased significantly which have reduced the spread between the price of gasoline and the price of ethanol. When it occurs, this trend has negatively impacted ethanol prices. If this trend continues for a significant period of time, it could hurt our ability to profitably operate the ethanol plant which could decrease the value of our units.

Distillers grains demand and prices may be negatively impacted by the Chinese antidumping and countervailing duty investigation. China was historically the world's largest importer of distillers grains produced in the United States. On January 12, 2016, the Chinese government announced that it would commence an anti-dumping and countervailing duty investigation related to distillers grains imported from the United States. In January 2017, the Chinese set the final anti-dumping duties from 42.2% to 53.7%, and set the final anti-subsidy tariffs from 11.2% to 12%. Both during the investigation and after the announcement of the duty, distillers grains demand and prices have been negatively impacted. While we expect China to continue to import some distillers grains, we do not anticipate that the imports will be at the same level as previous years which could continue to negatively impact market distillers grains demand and prices. This reduction in demand along with lower domestic corn prices could negatively impact our ability to profitably operate the ethanol plant.

A reduction in ethanol exports to Brazil due to the imposition by the Brazilian government of a tariff on U.S. ethanol could have a negative impact on ethanol prices. Brazil has historically been a top destination for ethanol produced in the United States. However, in 2017, Brazil imposed a 20% tariff on ethanol which is produced in the United States and exported to Brazil. This tariff has resulted in a decline in demand for ethanol from Brazil and could negatively impact the market price of ethanol in the United States and our ability to profitably operate the ethanol plant.

We may be forced to reduce production or cease production altogether if we are unable to secure the corn we require to operate the ethanol plant. We require a significant amount of corn to operate the ethanol plant at capacity. In recent years, the supply of corn in the market has been higher and we have not had difficulty securing the corn we require at prices that allow us to operate profitably. However, poor weather conditions can have a significant impact on corn production. If the corn crop harvested in future years is smaller than we have recently experienced, it is possible that we could experience corn shortages which could negatively impact our ability to operate the ethanol plant. We may also experience a shortage of corn in our local market which may not increase national corn prices but may require us to increase our corn basis in order to attract corn which can impact our overall corn costs. If we are unable to secure the corn we require to continue to operate the ethanol plant, or we are unable to secure corn at prices that allow us to operate profitably, we may have to reduce production or cease operating altogether which may negatively impact the value of our units.

Our revenue will be greatly affected by the price at which we can sell our ethanol, distillers grains and corn oil. Our ability to generate revenue is dependent on our ability to sell the ethanol, distillers grains and corn oil that we produce. Ethanol, distillers grains and corn oil prices can be volatile as a result of a number of factors. These factors include overall supply and demand, the market price of corn, the market price of gasoline, levels of government support, general economic conditions and the availability and price of competing products. Ethanol, distillers grains and corn oil prices tend to fluctuate based on changes in energy prices and other commodity prices, such as corn and soybean meal. Exports of our products and the various trade actions taken by China and Brazil have impacted the market prices for our products. If we experience lower prices for our products for a significant period of time, the value of our units may be negatively affected.

Our business is not diversified. Our success depends primarily on our ability to profitably operate our ethanol plant. We do not have any other lines of business or any other significant source of revenue if we are unable to operate our ethanol plant and manufacture ethanol, distillers grains and corn oil. If economic or political factors adversely affect the market for ethanol, distillers grains and corn oil, we may not be able to continue our operations. Our business would also be significantly harmed if our ethanol plant could not operate at full capacity for any extended period of time, which could reduce or eliminate the value of our units.

Our inability to secure credit facilities we may require in the future may negatively impact our liquidity. While we do not currently require more financing than we have, in the future we may need additional financing. If we require financing in the future and we are unable to secure such financing, or we are unable to secure the financing we require on reasonable terms, it may have a negative impact on our liquidity which could negatively impact the value of our units.

Our product marketer may fail to market our products at competitive prices which may cause us to operate unprofitably. RPMG is the sole marketer of all of our ethanol, corn oil and some of our distillers grains, and we rely heavily on its marketing efforts to successfully sell our products. Because RPMG sells ethanol, corn oil and distillers grains for a number of other producers, we have limited control over its sales efforts. Our financial performance is dependent upon the financial health of RPMG as most of our revenue is attributable to RPMG's sales. If RPMG breaches our marketing agreements or it cannot market all of the ethanol, corn oil and distillers grains we produce, we may not have any readily available means to sell our ethanol, corn oil and distillers grains and our financial performance could be negatively affected. While we market a portion of our distillers grains internally to local consumers, we do not anticipate that we would have the ability to sell all of the distillers grains, corn oil and ethanol we produce ourselves. If our agreements with RPMG terminate, we may seek other arrangements to sell our ethanol, corn oil and distillers grains, including selling our own products, but we may not be able to achieve results comparable to those achieved by RPMG which could harm our financial performance. Switching marketers may negatively impact our cash flow and our ability to continue to operate the ethanol plant. If we are unable to sell all of our ethanol, distillers grain and corn oil at prices that allow us to operate profitably, it may decrease the value of our units.

We engage in hedging transactions which involve risks that could harm our business. We are exposed to market risk from changes in commodity prices. Exposure to commodity price risk results from our dependence on corn and natural gas in the ethanol production process. We seek to minimize the risks from fluctuations in the prices of corn, natural gas and ethanol through the use of hedging instruments. These hedging instruments can be risky and can negatively impact our liquidity. In times when commodity prices are volatile, we may be required to use significant amounts of cash to make margin calls as a result of our hedging positions. The effectiveness of our hedging strategies is dependent on the price of corn, natural gas and ethanol and our ability to sell sufficient products to use all of the corn and natural gas for which we have futures contracts. Our hedging activities may not successfully reduce the risk caused by price fluctuation which may leave us vulnerable to corn and natural gas prices. We may choose not to engage in hedging transactions in the future and our operations and financial conditions may be adversely affected during periods in which corn and/or natural gas prices increase. These hedging transactions could impact our ability to profitably operate the ethanol plant and negatively impact our liquidity.

We may incur casualty losses that are not covered by insurance which could negatively impact the value of our units. We have purchased insurance which we believe adequately covers our potential losses from foreseeable risks. However, there are risks that we may encounter for which there is no insurance or for which insurance is not available on terms that are acceptable to us. If we experience a loss which materially impairs our ability to operate the ethanol plant which is not covered by insurance, the value of our units could be reduced or eliminated.

Our operations may be negatively impacted by natural disasters, severe weather conditions, and other unforeseen plant shutdowns which can negatively impact our operations. Our operations may be negatively impacted by events outside of our control such as natural disasters, severe weather, strikes, train derailments and other unforeseen events which may negatively impact our operations. If we experience any of these unforeseen circumstances which negatively impact our operations, it may affect our cash flow and negatively impact the value of our business.

We depend on our management and key employees, and the loss of these relationships could negatively impact our ability to operate profitably. We are highly dependent on our management team to operate our ethanol plant. We may not be able to replace these individuals should they decide to cease their employment with us, or if they become unavailable for any other reason. While we seek to compensate our management and key employees in a manner that will encourage them to continue their employment with us, they may choose to seek other employment. Any loss of these managers or key employees may prevent us from operating the ethanol plant profitably and could decrease the value of our units.

We may violate the terms of our loan agreements and financial covenants which could result in our lender demanding immediate repayment of our loans. We have a credit facility with Farm Credit Services of America ("FCSA"). Our credit agreements with FCSA include various financial loan covenants. We are currently in compliance with all of our financial loan covenants. Current management projections indicate that we will be in compliance with our loan covenants for at least the next 12 months. However, unforeseen circumstances may develop which could result in us violating our loan covenants. If we violate the terms of our loan agreements, FCSA, our primary lender, could deem us in default of our loans and require us to immediately repay any outstanding balance of our loans. If we do not have the funds available to repay the loans and we cannot find another source of financing, we may fail which could decrease the value of our units.

Risks Related to Ethanol Industry

Excess ethanol supply in the market could put negative pressure on the price of ethanol which could lead to tight operating margins and may impact our ability to operate profitably. In the past the ethanol industry has confronted market conditions where ethanol supply exceeded demand which led to unfavorable operating conditions. Most recently, in 2012, profitability in the ethanol industry was reduced due to increased ethanol imports from Brazil at a time when gasoline demand in the United States was lower and domestic ethanol supplies were higher. This disconnect between ethanol supply and demand resulted in lower ethanol prices at a time when corn prices were higher which led to unfavorable operating conditions. We may experience periods of time when ethanol supply exceeds demand which could negatively impact our profitability. During 2018 we experienced excess ethanol supply compared to demand which negatively impacted profitability in the industry. The United States benefited from additional exports of ethanol in recent years which may not continue to occur during our 2019 fiscal year. We may experience periods of ethanol supply and demand imbalance during our 2019 fiscal year. If we experience excess ethanol supply, either due to increased ethanol production or lower gasoline demand, it could negatively impact the price of ethanol which could hurt our ability to profitably operate the ethanol plant.

Demand for ethanol may not increase past current levels unless higher percentage blends of ethanol are more widely used. Currently, ethanol is primarily blended with gasoline for use in standard (non-flex fuel) vehicles to create a blend which is 10% ethanol and 90% gasoline. Estimates indicate that approximately 143 billion gallons of gasoline are sold in the United States each year. Assuming that all gasoline in the United States is blended at a rate of 10% ethanol and 90% gasoline, the maximum domestic demand for ethanol is 14.3 billion gallons. This is commonly referred to as the "blend wall," which represents a theoretical limit where more ethanol cannot be blended into the national gasoline pool. Many in the ethanol industry believe that the ethanol industry has reached this blend wall. In order to expand demand for ethanol, higher percentage blends of ethanol must be utilized in standard vehicles. Such higher percentage blends of ethanol are a contentious issue. Automobile manufacturers and environmental groups have fought against higher percentage ethanol blends. The EPA approved the use of E15 for standard (non-flex fuel) vehicles produced in the model year 2001 and later. The fact that E15 has not been approved for use in all vehicles and the labeling requirements associated with E15 may lead to gasoline retailers refusing to carry E15. In addition, restrictions on the evaporative emissions of E15 during the summer months can limit the availability of E15 in some markets. Without an increase in the allowable percentage blends of ethanol that can be used in all vehicles, demand for ethanol may not continue to increase which could decrease the selling price of ethanol and could result in our inability to operate the ethanol plant profitably, which could reduce or eliminate the value of our units.

Technology advances in the commercialization of cellulosic ethanol may decrease demand for corn-based ethanol which may negatively affect our profitability. The current trend in ethanol production research is to develop an efficient method of producing ethanol from cellulose-based biomass, such as agricultural waste, forest residue, municipal solid waste, and energy crops. This trend is driven by the fact that cellulose-based biomass is generally cheaper than corn, and producing ethanol from cellulose-based biomass would create opportunities to produce ethanol in areas of the country which are unable to grow corn. The Energy Independence and Security Act of 2007 and the 2008 Farm Bill offer strong incentives to develop commercial scale cellulosic ethanol. The RFS requires that 16 billion gallons per year of advanced bio-fuels must be consumed in the United States by 2022. Additionally, state and federal grants have been awarded to several companies which are seeking to develop commercial scale cellulosic ethanol plants. This has encouraged innovation and has led to several companies that are either in the process of building or have completed and are operating commercial scale cellulosic ethanol plants. If an efficient method of producing ethanol from cellulose-based biomass is developed, we may not be able to compete effectively. If we are unable to produce ethanol as cost-effectively as cellulose-based producers, our ability to generate revenue and our financial condition will be negatively impacted.

Changes and advances in ethanol production technology could require us to incur costs to update our plant or could otherwise hinder our ability to compete in the ethanol industry or operate profitably. Advances and changes in the technology of ethanol production are expected to occur. Such advances and changes may make the ethanol production technology installed in our plant less desirable or obsolete. These advances could also allow our competitors to produce ethanol at a lower cost than we are able. If we are unable to adopt or incorporate technological advances, our ethanol production methods and processes could be less efficient than our competitors, which could cause our plant to become uncompetitive or completely obsolete. If our competitors develop, obtain or license technology that is superior to ours or that makes our technology obsolete, we may be required to incur significant costs to enhance or acquire new technology so that our ethanol production remains competitive.

Alternatively, we may be required to seek third-party licenses, which could also result in significant expenditures. These third-party licenses may not be available or, once obtained, they may not continue to be available on commercially reasonable terms. These costs could negatively impact our financial performance by increasing our operating costs and reducing our net income.

Decreases in ethanol demand may result in excess production capacity in our industry. The supply of domestically produced ethanol is at an all-time high. According to the Renewable Fuels Association, as of November 30, 2018, there are 213 ethanol plants in the United States with capacity to produce approximately 16.5 billion gallons of ethanol per year. Excess ethanol production capacity may have an adverse impact on our results of operations, cash flows and general financial condition. According to the Renewable Fuels Association, approximately 3% of the ethanol production capacity in the United States was idled as of November 30, 2018. Further, ethanol demand may be negatively impacted by reductions in the RFS. While the United States is currently exporting ethanol which has resulted in increased ethanol demand, these ethanol exports may not continue. If ethanol demand does not grow at the same pace as increases in supply, we expect the selling price of ethanol to decline. If excess capacity in the ethanol industry continues to occur, the market price of ethanol may decline to a level that is inadequate to generate sufficient cash flow to cover our costs, which could negatively affect our profitability.

We operate in an intensely competitive industry and compete with larger, better financed companies which could impact our ability to operate profitably. There is significant competition among ethanol producers. There are numerous producer-owned and privately-owned ethanol plants operating throughout the Midwest and elsewhere in the United States. We also face competition from ethanol producers located outside of the United States. The largest ethanol producers include Archer Daniels Midland, Flint Hills Resources, Green Plains Renewable Energy, POET Biorefining, and Valero Renewable Fuels, each of which is capable of producing significantly more ethanol than we produce. Further, many believe that there will be consolidation occurring in the ethanol industry which will likely lead to a few companies that control a significant portion of the United States ethanol production market. We may not be able to compete with these larger producers. These larger ethanol producers may be able to affect the ethanol market in ways that are not beneficial to us which could negatively impact our financial performance and the value of our units.

Competition from the advancement of alternative fuels and other technologies may lessen demand for ethanol. Alternative fuels, gasoline oxygenates and ethanol production methods are continually under development. A number of automotive, industrial and power generation manufacturers are developing alternative clean power systems using fuel cells, plug-in hybrids, and electric cars or clean burning gaseous fuels. Like ethanol, these emerging technologies offer an option to address worldwide energy costs, the long-term availability of petroleum reserves and environmental concerns. If these alternative technologies continue to expand and gain broad acceptance and become readily available to consumers for motor vehicle use, we may not be able to compete effectively. This additional competition could reduce the demand for ethanol, resulting in lower ethanol prices that might adversely affect our results of operations and financial condition.

Consumer resistance to the use of ethanol based on the belief that ethanol is expensive, adds to air pollution, harms engines and/or takes more energy to produce than it contributes or based on perceived issues related to the use of corn as the feedstock to produce ethanol may affect demand for ethanol. Certain individuals believe that the use of ethanol will have a negative impact on gasoline prices at the pump. Some also believe that ethanol adds to air pollution and harms car and truck engines. Still other consumers believe that the process of producing ethanol actually uses more fossil energy, such as oil and natural gas, than the amount of energy that is produced. Further, some consumers object to the fact that ethanol is produced using corn as the feedstock which these consumers perceive as negatively impacting food prices. These consumer beliefs could potentially be wide-spread and may be increasing as a result of recent efforts to increase the allowable percentage of ethanol that may be blended for use in vehicles. If consumers choose not to buy ethanol based on these beliefs, it would affect demand for the ethanol we produce which could negatively affect our profitability and financial condition.

If exports of ethanol are reduced, including as a result of the imposition by tariffs on U.S. ethanol, ethanol prices may be negatively impacted. The United States ethanol industry was supported during our 2018 fiscal year with exports of ethanol which increased demand for our ethanol. Management believes these additional exports of ethanol were due to lower market ethanol prices in the United States and increased global demand for ethanol. However, these ethanol exports may not continue. In 2012, the European Union concluded an anti-dumping investigation related to ethanol produced in the United States and exported to Europe. As a result of this investigation, the European Union has imposed a tariff on ethanol which is produced in the United States and exported to Europe. Further, in 2017 both Brazil and China implemented tariffs on ethanol produced in the United States. These tariffs have resulted in decreased demand for ethanol from these countries which has negatively impacted ethanol prices in the United States. Any decrease in ethanol prices or demand may negatively impact our ability to profitably operate the ethanol plant.

Overcapacity within the ethanol industry could cause an oversupply of ethanol and a decline in ethanol prices. Excess ethanol production capacity could have an adverse impact on our results of operations, cash flows and general financial condition.

If demand for ethanol does not grow at the same pace as increases in supply, we would expect the price of ethanol to decline. If excess capacity in the ethanol industry occurs, the market price of ethanol may decline to a level that is inadequate to generate sufficient cash flow to cover our costs which could reduce the value of our units.

Many ethanol producers are expanding their production capacity which could lead to an oversupply of ethanol in the United States. Recently, many ethanol producers have commenced projects to expand their ethanol production capacities. These expansions could result in a significant increase in the supply of ethanol in the United States. Currently, ethanol prices are supported by ethanol exports which may not continue at their current levels. While many in the ethanol industry are working to increase the amount of ethanol that is used domestically, specifically in the form of E15, which contains 15% ethanol as compared to the 10% ethanol which is used in most current blends, adoption of E15 has not been as rapid as most ethanol producers would like. Also, the additional ethanol capacity which is being constructed may exceed current domestic and export demand. An oversupply of ethanol negatively impacts domestic ethanol prices which could negatively impact our ability to profitably operate the ethanol plant.

We made significant investments in Guardian Hankinson, LLC and Ring-neck Energy & Feed, LLC which may fail. In December 2013, we made a $12 million investment in Guardian Hankinson, LLC, an entity that owns an ethanol plant in North Dakota. In addition, in July 2017, we made a $10 million investment in Ring-neck Energy & Feed, LLC. Both of these companies will face many of the same risks that we face in operating our ethanol plant. Further, we have limited control over the management decisions made by Guardian Hankinson, LLC and Ring-neck Energy & Feed, LLC. If Guardian Hankinson, LLC or Ring-neck Energy & Feed, LLC is ultimately unsuccessful, it could negatively impact the return we receive on our investment which could negatively impact our financial performance and the value of our units.

Failures of our information technology infrastructure could have a material adverse effect on operations. We utilize various software applications and other information technology that are critically important to our business operations. We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic and financial information, to manage a variety of business processes and activities, including production, manufacturing, financial, logistics, sales, marketing and administrative functions. We depend on our information technology infrastructure to communicate internally and externally with employees, customers, suppliers and others. We also use information technology networks and systems to comply with regulatory, legal and tax requirements. These information technology systems, some of which are managed by third parties, may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components thereof, power outages, hardware failures, computer viruses and ransomware attacks by computer hackers or other cybersecurity risks, telecommunication failures, user errors, natural disasters, terrorist attacks or other catastrophic events. If any of our significant information technology systems suffer severe damage, disruption or shutdown, and our disaster recovery and business continuity plans do not effectively resolve the issues in a timely manner, our product sales, financial condition and results of operations may be materially and adversely affected.

A cyber attack or other information security breach could have a material adverse effect on our operations and result in financial losses. We are regularly the target of attempted cyber and other security threats and must continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address and mitigate the risk of unauthorized access, misuse, computer viruses and ransomware as well as other events that could have a security impact. If we are unable to prevent cyber attacks and other information security breaches, we may encounter significant disruptions in our operations which could adversely impact our business, financial condition and results of operations or result in the unauthorized disclosure of confidential information. Such breaches may also harm our reputation, result in financial losses or subject us to litigation or other costs or penalties.

Risks Related to Regulation and Governmental Action

Government incentives for ethanol production may be reduced or eliminated in the future, which could hinder our ability to operate at a profit. The ethanol industry is assisted by various federal and state ethanol incentives, the most important of which is the RFS set forth in the Energy Policy Act of 2005. The RFS helps support a market for ethanol that might disappear without this incentive. The EPA has the authority to waive the RFS statutory volume requirement, in whole or in part, provided certain conditions have been met. Annually, the EPA is supposed to pass a rule that establishes the number of gallons of different types of renewable fuels that must be used in the United States which is called the renewable volume obligations. In the past, the EPA has set the renewable volume obligations below the statutory volume requirements. On November 30, 2018, the EPA released its final rule and set the 2019 total volume obligation at 19.92 billion gallons of which 15.0 billion gallons could be met by corn-based ethanol. If the EPA were to significantly reduce the volume requirements under the RFS or if the RFS were to be otherwise reduced or eliminated by the exercise of the EPA waiver authority or by Congress in the future, the market price and demand for ethanol could decrease which will negatively impact our financial performance.

The EPA's small refinery exemptions significantly reduced ethanol demand in 2018 which may continue. In 2018, the EPA issued exemptions from the RFS to certain small refiners which may have reduced the corn-based RFS requirement for 2018 by more than 2 billion gallons. These reductions in the corn-based ethanol use requirements have resulted in significant decreases in ethanol demand and have severely impacted ethanol prices during our 2018 fiscal year and we expect this impact to continue. If the EPA continues to exempt small refiners from the RFS it will further erode demand for ethanol domestically which will decrease prices and may prevent us from profitably operating the ethanol plant.

The California Low Carbon Fuel Standard may decrease demand for corn-based ethanol which could negatively impact our profitability. California passed a Low Carbon Fuels Standard ("LCFS") which requires that renewable fuels used in California must accomplish certain reductions in greenhouse gases which reductions are measured using a lifecycle analysis. Management believes that these regulations could preclude corn-based ethanol produced in the Midwest from being used in California. California represents a significant ethanol demand market. If the ethanol industry is unable to supply corn-based ethanol to California, it could significantly reduce demand for the ethanol we produce. This could result in a reduction of our revenues and negatively impact our ability to profitably operate the ethanol plant.

Recently passed tax reform legislation could impact our members. On December 22, 2017, President Trump signed the Tax Cuts and Jobs Act (the "Tax Reform Act"), which amends certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"). The Tax Reform Act has wide ranging impacts, including changes to the taxation of limited liabilities companies such as the Company. The Tax Reform Act includes changes to U.S. federal tax rates, limits the deductibility of interest and allows for the expensing of capital expenditures. The impact of this tax reform on the Company and any implementing regulations and interpretations could adversely affect our business and financial condition and require that we restructure the Company.

Changes in environmental regulations or violations of these regulations could be expensive and reduce our profitability. We are subject to extensive air, water and other environmental laws and regulations. In addition, some of these laws require our plant to operate under a number of environmental permits. These laws, regulations and permits can often require expensive pollution control equipment or operational changes to limit actual or potential impacts to the environment. A violation of these laws and regulations or permit conditions can result in substantial fines, damages, criminal sanctions, permit revocations and/or plant shutdowns. In the future, we may be subject to legal actions brought by environmental advocacy groups and other parties for actual or alleged violations of environmental laws or our permits. Additionally, any changes in environmental laws and regulations, both at the federal and state level, could require us to spend considerable resources in order to comply with future environmental regulations. The expense of compliance could be significant enough to reduce our profitability and negatively affect our financial condition.

Carbon dioxide may be regulated in the future by the EPA as an air pollutant requiring us to obtain additional permits and install additional environmental mitigation equipment, which could adversely affect our financial performance. In 2007, the Supreme Court decided a case in which it ruled that carbon dioxide is an air pollutant under the Clean Air Act for motor vehicle emissions. In 2011 the EPA issued a tailoring rule that deferred greenhouse gas regulations for ethanol plants until July of 2014. However, in July of 2013 the D.C. Circuit issued an opinion vacating the EPA's deferral of those regulations for biogenic sources, including ethanol plants. On June 23, 2014 the U.S. Supreme Court affirmed in part and reversed in part the D.C. Circuit's decision. For plants that already hold PSD permits the court generally affirmed the EPA's ability to regulate greenhouse gas regulations. Our plant produces a significant amount of carbon dioxide. While there are currently no regulations restricting carbon dioxide emissions, if the EPA or the State of South Dakota were to regulate carbon dioxide emissions by plants such as ours, we may have to apply for additional permits or we may be required to install carbon dioxide mitigation equipment or take other as yet unknown steps to comply with these potential regulations. Compliance with any future regulation of carbon dioxide, if it occurs, could be costly and may prevent us from operating the ethanol plant profitably which could decrease or eliminate the value of our units.

Government policies and regulations, particularly those affecting the agricultural sector and related industries, could adversely affect our operations and profitability. Agricultural commodity production and trade flows are significantly affected by government policies and regulations. Governmental policies affecting the agricultural industry, such as taxes, trade tariffs, duties, subsidies, import and export restrictions on commodities and commodity products, can influence industry profitability, the planting of certain crops, the location and size of crop production, whether unprocessed or processed commodity products are traded, and the volume and types of imports and exports. In addition, international trade disputes can adversely affect trade flows by limiting or disrupting trade between countries or regions. Future governmental policies, regulations or actions affecting our industry may adversely affect the supply of, demand for and prices of our products, restrict our ability to do business and cause our financial results to suffer. We may experience negative impacts of higher ethanol tariffs and other disruptions to international agricultural trade related to current trade actions announced by the Trump administration and responsive actions announced by trading partners, including by China. In April of 2018, the Chinese government increased the tariff on United States ethanol imports into China from 30% to 45%. We cannot estimate the exact effect this tariff increase will have on the overall domestic ethanol market. However, the increased tariff is expected to reduce overall United States ethanol export demand, which could have a negative effect on domestic ethanol prices.

ITEM 2. PROPERTIES.

We own Dakota Ethanol as a wholly-owned subsidiary. The ethanol plant is located on Dakota Ethanol's 210-acre rural site near Wentworth, South Dakota. All of our operations occur at our plant in Wentworth, South Dakota.

All of Dakota Ethanol's tangible and intangible property, real and personal, serves as the collateral for debt financing with FCSA described below under "**Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Indebtedness**."

ITEM 3. LEGAL PROCEEDINGS.

From time to time in the ordinary course of business, Dakota Ethanol or Lake Area Corn Processors may be named as a defendant in legal proceedings related to various issues, including, worker's compensation claims, tort claims, or contractual disputes. We are not currently involved in any material legal proceedings, directly or indirectly, and we are not aware of any claims pending or threatened against us or any of the managers that could result in the commencement of material legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES.

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED MEMBER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Recent Sales of Unregistered Equity Securities

None.

Market Information

There is no public trading market for our units. Our units may only be transferred in accordance with our Capital Units Transfer System, which provides for transfers by gift to family members, upon death, and through a qualified matching service, subject to approval by our board of managers. Our qualified matching service is operated through Variable Investment Advisors, Inc., a registered broker-dealer based in Sioux Falls, South Dakota. Variable Investment Advisor's Alternative Trading System may be accessed at www.agstocktrade.com. The matching service consists of an electronic bulletin board that provides information to prospective sellers and buyers of our units. We do not receive any compensation relating to the matching service. We have no role in effecting the transactions beyond approval, as required under our operating agreement, and the issuance of new certificates. So long as we remain a publicly reporting company, information about us will be publicly available through the SEC's filing system.

Unit Holders

As of February 28, 2019, we had 29,620,000 membership units issued and outstanding and a total of approximately 1,065 unit holders.

Bid and Asked Prices

The following table contains information concerning completed unit transactions that occurred during our last two fiscal years. Our bulletin board trading system does not track bid and asked prices and therefore we only have information concerning completed unit transactions.

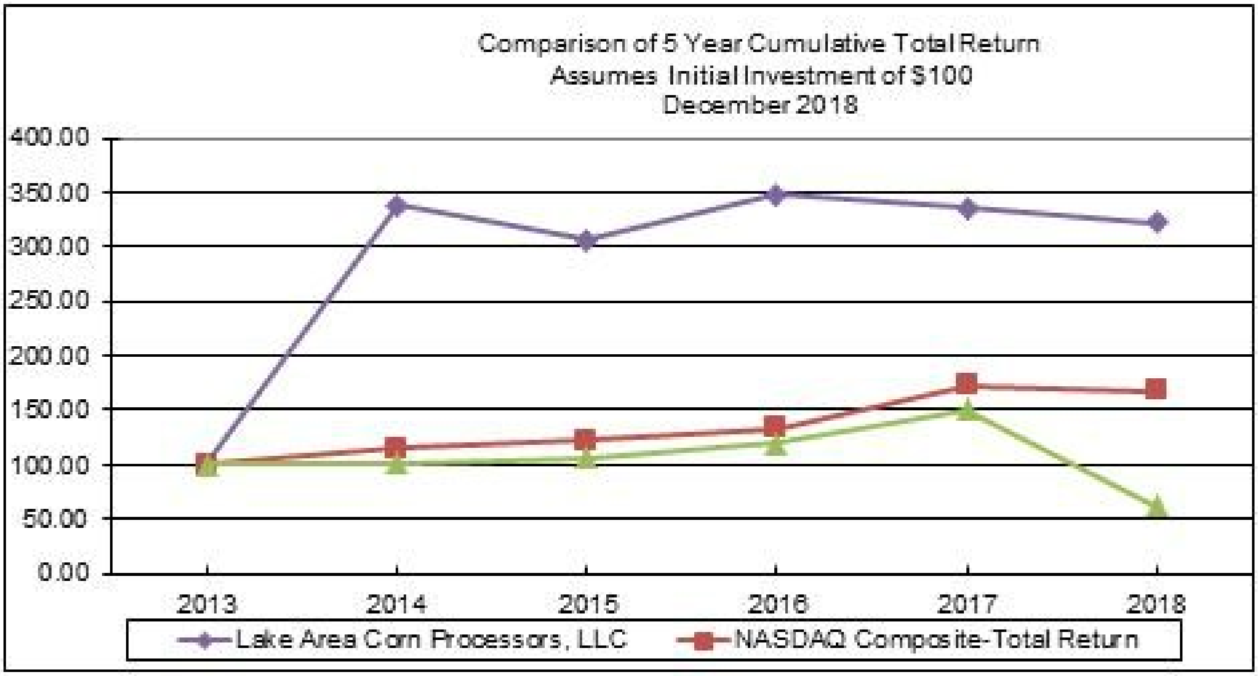
Quarter	Low Price	High Price	Average Price	Number of Units Traded
First Quarter 2017	$ 3.95	$ 4.15	$ 4.01	28,000
Second Quarter 2017	3.86	4.10	3.89	45,000
Third Quarter 2017	3.50	3.51	3.51	20,000
Fourth Quarter 2017	3.39	3.50	3.45	12,500
First Quarter 2018	3.30	3.40	3.32	177,000
Second Quarter 2018	3.20	3.30	3.26	49,000
Third Quarter 2018	3.12	3.29	3.21	48,000
Fourth Quarter 2018	3.21	3.26	3.22	27,500

Distributions

Under the terms of our Third Amended and Restated Operating Agreement, we are required to make distributions to our members and may not retain more than $200,000 of net cash from operations, unless: (1) a 75% super-majority of our board of managers decides otherwise; (2) it would violate or cause a default under the terms of any debt financing or other credit facilities; or (3) it is otherwise prohibited by law. Our ability to make distributions to our members is dependent upon the distributions made to us by Dakota Ethanol. All net income generated from plant operations is distributed by Dakota Ethanol to us since Dakota Ethanol is our wholly-owned subsidiary. We distribute the net income received from Dakota Ethanol to our unit holders in proportion to the number of units held by each unit holder. A unit holder's distribution percentage is determined by dividing the number of units owned by such unit holder by the total number of units outstanding. We anticipate continuing to monitor our financial performance and projected financial performance and we expect to make distributions at such times and in such amounts as will allow us to continue to profitably operate the ethanol plant, maintain compliance with our loan covenants and maintain our liquidity.

Performance Graph

The following graph shows a comparison of cumulative total member return since December 31, 2013, calculated on a dividend reinvested basis, for the Company, the NASDAQ Composite Index (the "NASDAQ Market Index") and an index of other companies that have the same SIC code as the Company (the "SIC Code Index"). The graph assumes $100 was invested in each of our units, the NASDAQ Market Index, and the SIC Code Index on December 31, 2013. Data points on the graph are annual. Note that historic unit price performance is not necessarily indicative of future unit price performance. The data for this performance graph was compiled for us by Zacks Investment Research, Inc.



Pursuant to the rules and regulations of the Securities and Exchange Commission, the performance graph and the information set forth therein shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, and shall not be deemed to be incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

ITEM 6. SELECTED FINANCIAL DATA.

The following table sets forth selected consolidated financial data, which is derived from our audited financial statements for the periods indicated. The selected consolidated balance sheet financial data as of December 31, 2016, 2015 and 2014 and the selected consolidated income statement data and other financial data for the years ended December 31, 2015 and 2014 have been derived from our audited consolidated financial statements that are not included in this Form 10-K. The selected consolidated balance sheet financial data as of December 31, 2018 and 2017 and the selected consolidated income statement data and other financial data for each of the years in the three year period ended December 31, 2018 have been derived from the audited Consolidated Financial Statements included elsewhere in this Form 10-K. You should read the following table in conjunction with (i) the consolidated financial statements and accompanying notes included elsewhere in this Form 10-K; (ii) "**Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations**"; and (iii) "**Item 1A - Risk Factors**" found elsewhere in this Form 10-K. Among other things, those items include more detailed information regarding the basis of presentation for the following consolidated financial data.

Statement of Operations Data:	**2018**	**2017**	**2016**	**2015**	**2014**
Revenues	$ 74,703,630	$ 84,821,788	$ 88,812,550	$ 88,997,947	$ 124,469,094
Cost of Revenues	68,619,694	76,253,945	76,097,861	81,445,770	89,068,125
Gross Profit	6,083,936	8,567,843	12,714,689	7,552,177	35,400,969
Operating Expense	3,837,659	3,717,291	3,642,087	1,827,789	3,550,980
Income From Operations	2,246,277	4,850,552	9,072,602	5,724,388	31,849,989
Other Income (Expense)	470,310	1,534,531	2,332,606	2,929,142	7,957,330
Net Income	$ 2,716,587	$ 6,385,083	$ 11,405,208	$ 8,653,530	$ 39,807,319
Capital Units Outstanding	29,620,000	29,620,000	29,620,000	29,620,000	29,620,000
Net Income Per Capital Unit	$ 0.09	$ 0.22	$ 0.39	$ 0.29	$ 1.34
Cash Distributions per Capital Unit	$ 0.10	$ 0.20	$ 0.40	$ 0.30	$ 1.00

Balance Sheet Data:	**2018**	**2017**	**2016**	**2015**	**2014**
Working Capital	$ 72,709	$ 6,131,109	$ 11,313,046	$ 8,443,572	$ 6,634,185
Net Property, Plant & Equipment	63,748,268	39,968,930	34,824,202	34,184,059	28,349,272
Total Assets	102,866,072	84,072,240	78,116,089	79,746,514	78,574,975
Long-Term Obligations	23,593,368	6,983,944	26,556	106,475	226,940
Members' Equity	68,037,124	68,282,537	67,821,454	68,264,246	68,600,228
Book Value Per Capital Unit	$ 2.30	$ 2.31	$ 2.29	$ 2.30	$ 2.32

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Results of Operations

Comparison of the Fiscal Years Ended December 31, 2018 and 2017

The following table shows the results of our operations and the percentage of revenues, cost of revenues, operating expenses and other items to total revenues in our consolidated statements of operations for the fiscal years ended December 31, 2018 and 2017:

	2018		2017	
Income Statement Data	**Amount**	**%**	**Amount**	**%**
Revenue	$ 74,703,630	100.0	$ 84,821,788	100.0
Cost of Revenues	68,619,694	91.9	76,253,945	89.9
Gross Profit	6,083,936	8.1	8,567,843	10.1
Operating Expense	3,837,659	5.1	3,717,291	4.4
Income from Operations	2,246,277	3.0	4,850,552	5.7
Other Income	470,310	0.6	1,534,531	1.8
Net Income	$ 2,716,587	3.6	$ 6,385,083	7.5

Revenues

Revenue from ethanol sales decreased by approximately 14% during our 2018 fiscal year compared to the same period of 2017. Revenue from distillers grains sales increased by approximately 1% during our 2018 fiscal year compared to the same period of 2017. Revenue from corn oil sales decreased by approximately 25% during our 2018 fiscal year compared to the same period of 2017.

Ethanol

Our ethanol revenue decreased by approximately $9.6 million during our 2018 fiscal year compared to our 2017 fiscal year, a decrease of approximately 14%. This decrease in ethanol revenue was due to a decrease in the average price we received for our ethanol of approximately $0.07 per gallon along with a decrease in the total gallons of ethanol we sold. Management attributes this decrease in ethanol prices with increased ethanol supply in the market which was not met with corresponding increases in demand during our 2018 fiscal year. In addition, the EPA issued more than 2 billion gallons worth of small refinery exemptions from the RFS which did not come to light until later in our 2018 fiscal year. These exemptions significantly reduced ethanol demand during our 2018 fiscal year which negatively impacted ethanol demand in the United States. Ethanol in recent years has sold at a discount compared to gasoline prices which has made ethanol an attractive fuel for blending with gasoline and has increased export demand for ethanol. Ethanol provides additional octane to fuels and the lower price of ethanol positively impacts the overall cost of ethanol blended fuels. Management expects continued lower ethanol prices during our 2019 fiscal year due to anticipated increases in market ethanol supply along with the potential continued demand erosion from the past and potential future small refinery exemptions from the RFS. The ethanol industry depends on ethanol exports which are more volatile than domestic demand. If export markets are not as strong during our 2019 fiscal year, we expect further reductions in market ethanol prices.

Ethanol sales volumes were lower during our 2018 fiscal year compared to the same period of 2017 due to reduced production during our 2018 fiscal year. This reduction in our production was due to throughput restrictions on equipment and additional downtime for expansion related work. Our total gallons of ethanol sold during our 2018 fiscal year was approximately 9% compared to the same period of 2017, a decrease of approximately 4,790,000 gallons. Management anticipates increased ethanol production and sales during our 2019 fiscal year compared to our 2018 fiscal year due to our plant expansion project along with efficiency improvements we have made to the plant.

Distillers Grains

Our total distillers grains revenue increased for our 2018 fiscal year compared to the same period of 2017. The increase in revenue was due to increased values offset by decreased production. For our 2018 fiscal year, we sold approximately 17% of our total distillers grains, by volume, in the dried form and approximately 83% of our total distillers grains in the modified/wet form. For our 2017 fiscal year, we sold approximately 35% of our total distillers grains, by volume, in the dried form and approximately 65% of our total distillers grains in the modified/wet form. The average price we received for our dried distillers grains was approximately 41% greater during our 2018 fiscal year compared to the same period of 2017, an increase of approximately $40 per ton. Management attributes this increase in dried distillers grains prices with increased export demand from countries other than China along with higher corn and soybean meal prices during 2018. Since distillers grains are typically used as a feed substitute for corn and soybean meal, as the prices of corn and soybeans increase, the price of distillers grains typically also decreases. In recent years, China has imported a significant amount of distillers grains from the United States. However, at the request of Chinese distillers grains producers, China commenced an anti-dumping and countervailing duty investigation against the United States during 2016. In September 2016, the Chinese implemented a preliminary anti-subsidy duty of between 10% and 10.7% in addition to a preliminary anti-dumping duty of 33.8%. Further, in January 2017, China finalized the duties to between 11.2% and 12% for the anti-subsidy duty and between 42.2% and 53.7% for the anti-dumping duty. As a result, distillers grains exports decreased sharply during our 2017 fiscal year which significantly impacted distillers grains prices. While exports of distillers grains to other countries were higher during 2018, China has not returned to the market in the way it has in the past. Further, due to trade tensions between the United States and China, management does not anticipate that China will increase its distillers grains imports during 2019. The average price we received for our modified/wet distillers grains was approximately 15% greater for our 2018 fiscal year compared to the same period of 2017, an increase of approximately $17 per dry equivalent ton. Since demand for modified/wet distillers grains is a more local market, it is not as impacted by export demand as compared to dried distillers grains.

Management anticipates increased distillers grains production during our 2019 fiscal year compared to our 2018 fiscal year due to anticipated increased overall production at the ethanol plant due to the expansion project during 2019. Management anticipates lower distillers grains prices and lower export demand for distillers grains until the Chinese increase their imports. However, the low price of distillers grains has resulted in increased export demand to other countries and may be positively impacting domestic distillers grains demand.

Corn Oil

Our total corn oil revenue decreased by approximately 25% during our 2018 fiscal year compared to the same period of 2017. Our total pounds of corn oil sold decreased by approximately 12% during our 2018 fiscal year compared to the same period of 2017, a decrease of approximately 1,376,000 pounds, primarily due to increased downtime on our extraction equipment during our 2018 fiscal year compared to our 2017 fiscal year along with decreased overall production at the ethanol plant. Management anticipates increased corn oil production during our 2019 fiscal year compared to our 2018 fiscal year due to anticipated increased overall production at the ethanol plant due to the expansion project and improved operating efficiencies during 2019.

The average price we received for our corn oil was approximately 14% less during our 2018 fiscal year compared to the same period of 2017. Management attributes this decrease in corn oil prices with decreased demand from the biodiesel industry due to the loss of the biodiesel blenders' tax credit. This tax credit expired and was not extended for 2018 which has negatively impacted the biodiesel industry, a major source of corn oil demand. Management expects corn oil prices to remain lower during our 2019 fiscal year unless the biodiesel blenders' tax credit is extended for 2019.

Cost of Revenues

The primary raw materials we use to produce ethanol, distillers grains and corn oil are corn and natural gas.

Corn

Our cost of revenues relating to corn was approximately 11% less for our 2018 fiscal year compared to the same period of 2017. Our average cost per bushel of corn increased by approximately 1% for our 2018 fiscal year compared to our 2017 fiscal year. Management attributes the increase in corn prices to unfavorable weather conditions and late planting during the 2018 growing season which many believed would impact the size of the 2018 corn crop. While the crop which was actually harvested was larger than initially expected, the early uncertainty resulted in higher corn prices during our 2018 fiscal year. Management anticipates relatively stable corn prices during our 2019 fiscal year due to strong corn supplies and anticipated stable corn demand.

We used approximately 11% fewer bushels of corn during our 2018 fiscal year compared to the same period of 2017 due to reduced overall production at the ethanol plant during our 2018 fiscal year. Management expects our corn consumption will be higher during our 2019 fiscal year compared to our 2018 fiscal year due to anticipated increases in production from our plant expansion project along with improved operating performance by the ethanol plant compared to 2018.

Natural Gas

Our cost of revenues related to natural gas decreased by approximately $860,000, a decrease of approximately 19%, for our 2018 fiscal year compared to our 2017 fiscal year. This decrease was due to lower natural gas prices and consumption during our 2018 fiscal year compared to the same period of 2017. Natural gas prices were lower during our 2018 fiscal year compared to the same period of 2017 primarily because of a natural gas price spike during 2017 which increased natural gas prices during that period of time. Our average cost per MMBtu of natural gas during our 2018 fiscal year was approximately 3% less compared to the cost for our 2017 fiscal year. Management anticipates stable natural gas prices during 2019 due to adequate supplies.

We used approximately 16% less MMBtus of natural gas during our 2018 fiscal year compared to the same period of 2017 due to producing less dried distillers grain and more modified distillers grains along with overall reduced production at the ethanol plant. Management anticipates that our natural gas consumption during our 2019 fiscal year will increase significantly due to our plant expansion project and anticipated increases in production during our 2019 fiscal year.

We experienced approximately $550,000 of combined realized and unrealized gain for our 2018 fiscal year related to our corn derivative instruments which decreased our cost of goods sold. By comparison, We experienced approximately $815,000 of combined realized and unrealized loss for our 2017 fiscal year related to our corn derivative instruments which increased our cost of goods sold. We recognize the gains or losses that result from the changes in the value of our derivative instruments from corn in cost of goods sold as the changes occur. As corn prices fluctuate, the value of our derivative instruments are impacted, which affects our financial performance.

Operating Expense

Our operating expenses were higher for our 2018 fiscal year compared to the same period of 2017 due primarily to increased wages and benefits along with increased environmental compliance costs.

Other Income and Expense

Our interest income was less during our 2018 fiscal year compared to our 2017 fiscal year due to less cash on hand during the 2018 period. Our equity in the net income of our investments was lower during our 2018 fiscal year compared to our 2017 fiscal year due to less profitability in the ethanol industry which negatively impacts the income generated by our investments.

Results of Operations

Comparison of the Fiscal Years Ended December 31, 2017 and 2016

The following table shows the results of our operations and the percentage of revenues, cost of revenues, operating expenses and other items to total revenues in our consolidated statements of operations for the fiscal years ended December 31, 2017 and 2016:

	2017		2016	
Income Statement Data	**Amount**	**%**	**Amount**	**%**
Revenue	$ 84,821,788	100.0	$ 88,812,550	100.0
Cost of Revenues	76,253,945	89.9	76,097,861	85.7
Gross Profit	8,567,843	10.1	12,714,689	14.3
Operating Expense	3,717,291	4.4	3,642,087	4.1
Income from Operations	4,850,552	5.7	9,072,602	10.2
Other Income	1,534,531	1.8	2,332,606	2.6
Net Income	$ 6,385,083	7.5	$ 11,405,208	12.8

Revenues

Revenue from ethanol sales decreased by approximately 3% during our 2017 fiscal year compared to the same period of 2016. Revenue from distillers grains sales decreased by approximately 12% during our 2017 fiscal year compared to the same period of 2016. Revenue from corn oil sales increased by approximately 8% during our 2017 fiscal year compared to the same period of 2016.

Ethanol

Our ethanol revenue decreased by approximately $1.9 million during our 2017 fiscal year compared to our 2016 fiscal year, a decrease of approximately 3%. This decrease in ethanol revenue was due to a decrease in the average price we received for our ethanol of approximately $0.03 per gallon along with a decrease in the total gallons of ethanol we sold. Management attributes this decrease in ethanol prices with increased ethanol supply in the market which was not met with corresponding increases in demand during our 2017 fiscal year.

Ethanol sales volumes were lower during our 2017 fiscal year compared to the same period of 2016 due to increased inventory during our 2017 fiscal year partially offset by an increase in ethanol production during our 2017 fiscal year compared to our 2016 fiscal year. Our total gallons of ethanol sold during our 2017 fiscal year was comparable to the same period of 2016, with a decrease of approximately 71,000 gallons.

Distillers Grains

Our total distillers grains revenue decreased for our 2017 fiscal year compared to the same period of 2016. For our 2017 fiscal year, we sold approximately 35% of our total distillers grains, by volume, in the dried form and approximately 65% of our total distillers grains in the modified/wet form. For our 2016 fiscal year, we sold approximately 36% of our total distillers grains, by volume, in the dried form and approximately 64% of our total distillers grains in the modified/wet form. The average price we received for our dried distillers grains was approximately 12% less during our 2017 fiscal year compared to the same period of 2016, a decrease of approximately $14 per ton. Management attributes this decrease in dried distillers grains prices with significantly decreased export demand from China during our 2017 fiscal year along with lower corn and soybean prices. Since distillers grains are typically used as a feed substitute for corn and soybean meal, as the prices of corn and soybeans decrease, the price of distillers grains typically also decreases. The average price we received for our modified/wet distillers grains was approximately 13% less for our 2017 fiscal year compared to the same period of 2016, a decrease of approximately $16 per dry equivalent ton.

Corn Oil

Our total corn oil revenue increased by approximately 8% during our 2017 fiscal year compared to the same period of 2016. Our total pounds of corn oil sold increased by approximately 8% during our 2017 fiscal year compared to the same period of 2016, an increase of approximately 854,000 pounds, primarily due to decreased downtime on our extraction equipment during our 2017 fiscal year compared to our 2016 fiscal year.

The average price we received for our corn oil was comparable in our 2017 fiscal year and the same period of 2016 due to comparable supply and demand forces in the corn oil market.

Government Incentives

We did not receive any revenue from the State of South Dakota during our 2017 fiscal year compared to approximately $378,000 during the same period of 2016 due to the end of our eligibility for this state ethanol production incentive.

Cost of Revenues

The primary raw materials we use to produce ethanol, distillers grains and corn oil are corn and natural gas.

Corn

Our cost of revenues relating to corn was approximately 3% less for our 2017 fiscal year compared to the same period of 2016. Our average cost per bushel of corn decreased by approximately 2% for our 2017 fiscal year compared to our 2016 fiscal year. Management attributes the decrease in corn prices to several years of large corn crops and additional corn carryover from the 2016 corn crop. This increase in corn supply resulted in lower market corn prices during our 2017 fiscal year.

We used approximately 2% fewer bushels of corn during our 2017 fiscal year compared to the same period of 2016 due to improved corn to ethanol yields during our 2017 fiscal year due to running the plant slower and a new yeast we used which improved our operating efficiency.

Natural Gas

Our cost of revenues related to natural gas increased by approximately $489,000, an increase of approximately 12%, for our 2017 fiscal year compared to our 2016 fiscal year. This increase was due primarily to an increase in market natural gas prices during our 2017 fiscal year compared to the same period of 2016. Natural gas prices rose due to increased demand. Additionally, we experienced a spike in natural gas prices in December 2017 due to the colder weather. Our average cost per MMBtu of natural gas during our 2017 fiscal year was approximately 19% greater compared to the cost for our 2016 fiscal year.

We used approximately 6% less MMBtus of natural gas during our 2017 fiscal year compared to the same period of 2016 due to producing less dried distillers grain and more modified distillers grains.

We experienced approximately $815,000 of combined realized and unrealized loss for our 2017 fiscal year related to our corn derivative instruments which increased our cost of goods sold. By comparison, We experienced approximately $167,000 of combined realized and unrealized gains for our 2016 fiscal year related to our corn derivative instruments which decreased our cost of goods sold. We recognize the gains or losses that result from the changes in the value of our derivative instruments from corn in cost of goods sold as the changes occur. As corn prices fluctuate, the value of our derivative instruments are impacted, which affects our financial performance.

Operating Expense

Our operating expenses were higher for our 2017 fiscal year compared to the same period of 2016 due primarily to increased costs relating to recruiting efforts to fill vacant staff positions within our company.

Other Income and Expense

Our interest income was higher during our 2017 fiscal year compared to our 2016 fiscal year due to higher cash on hand during the 2017 period. Our equity in the net income of our investments was lower during our 2017 fiscal year compared to our 2016 fiscal year due to less profitability in the ethanol industry which negatively impacts the income generated by our investments.

Our net income of investments was also lower due to a write-down of the value of our investment in Prairie Gold Venture Partners as it was deemed impaired.

Changes in Financial Condition for the Fiscal Year Ended December 31, 2018 compared to the Fiscal Year Ended December 31, 2017.

Current Assets

We had less cash and cash equivalents at December 31, 2018 compared to December 31, 2017, primarily due to decreased net income generated and increased capital spending during our 2018 fiscal year. We had fewer accounts receivable at December 31, 2018, compared to December 31, 2017, due to lower ethanol values at December 31, 2018 along with timing of the year end. We had more inventory at December 31, 2018, compared to December 31, 2017, due primarily to having more corn and ethanol inventory at December 31, 2018. The volume of corn on hand at the end of our 2018 fiscal year was greater than the end of our 2017 fiscal year which impacts the value of our corn inventory. In addition, timing of our ethanol shipments impact the value of our finished goods inventory. The value of our derivative financial instruments was less at December 31, 2018 compared to December 31, 2017, primarily because we had less unrealized gains on our futures corn positions along with less cash in our margin account as of December 31, 2018 compared to December 31, 2017.

Property and Equipment

The value of our property and equipment was higher at December 31, 2018 compared to December 31, 2017 due to our plant expansion project which was in progress during our 2018 fiscal year. This increase in the value of our property and equipment was partially offset by the regular depreciation of our assets during our 2018 fiscal year.

Other Assets

The value of our investments was less at December 31, 2018, compared to December 31, 2017, mainly due to distributions received from our investment in Guardian Energy Hankinson.

Current Liabilities

At December 31, 2018, we had more checks which were issued in excess of the amount of cash we had in our bank accounts, compared to at December 31, 2017, due to the timing of transfers between our accounts. Any checks which are presented for payment in excess of the balances in our bank accounts are paid from our revolving lines of credit. Our accounts payable was higher at December 31, 2018, compared to December 31, 2017, due to increased corn payables and construction project liabilities at the end of our 2018 fiscal year. We had more accrued liabilities at December 31, 2018, compared to December 31, 2017 due to increased accrued interest payable as we had more debt oustanding. The liability on our balance sheet related to our derivative instruments was lower at December 31, 2018, compared to December 31, 2017, due to having less unrealized losses on our forward corn purchases at December 31, 2018, compared to at December 31, 2017. The current portion of our long-term debt payments was the same at December 31, 2018 and at December 31, 2017.

Long-Term Liabilities

Our long-term liabilities were higher at December 31, 2018, compared to December 31, 2017, due to the long-term debt we incurred as part of our plant expansion project.

Liquidity and Capital Resources

Our main sources of liquidity are cash from our continuing operations, distributions we receive from our investments and amounts we have available to draw on our revolving credit facilities. Taking into account the Amended and Restated Credit Agreement we executed on February 6, 2018, management does not anticipate that we will need to raise additional debt or equity financing in the next twelve months and management believes that our current sources of liquidity will be sufficient to continue our operations during that time period. We anticipate that any capital expenditures we undertake related to our expansion project will be paid out of cash from operations and existing loans, but will not require any additional debt or equity financing.

Currently, we have two revolving loans which allow us to borrow funds for working capital. These two revolving loans are described in greater detail below in the section entitled "**Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Indebtedness**." As of December 31, 2018, we had $17,600,000 outstanding and

$24,336,000 available to be drawn on these revolving loans. Management anticipates that this is sufficient to maintain our liquidity and continue our operations.

The following table shows cash flows for the fiscal years ended December 31, 2018 and 2017:

	Fiscal Years Ended December 31	
	2018	**2017**
Net cash provided by operating activities	$ 7,804,468	$ 11,567,864
Net cash (used in) investing activities	(26,323,269)	(18,134,893)
Net cash provided by financing activities	15,113,779	1,676,653

<u>Cash Flow From Operations</u>. Our operating activities generated less cash during our fiscal year ended December 31, 2018, compared to the same period of 2017, primarily due to having less net income during the 2018 period along with an increase in inventory which used cash.

<u>Cash Flow From Investing Activities</u>. Our investing activities used more cash during our fiscal year ended December 31, 2018, compared to the same period of 2017, primarily due to significantly increased capital expenditures related to our expansion project and partially offset by fewer investments during the 2018 period.

<u>Cash Flow From Financing Activities</u>. Our financing activities provided more cash during our fiscal year ended December 31, 2018, compared to the same period of 2017, primarily due to the proceeds from borrowing we incurred during the 2018 period along with decreased distributions to our members.

The following table shows cash flows for the fiscal years ended December 31, 2017 and 2016:

	Fiscal Years Ended December 31	
	2017	**2016**
Net cash provided by operating activities	$ 11,567,864	$ 15,679,756
Net cash (used in) investing activities	(18,134,893)	(2,680,173)
Net cash provided by (used in) financing activities	1,676,653	(11,335,414)

<u>Cash Flow From Operations</u>. Our operating activities generated less cash during our fiscal year ended December 31, 2017, compared to the same period of 2016, primarily due to having less net income during the 2017 period along with decreased distributions from our investments.

<u>Cash Flow From Investing Activities</u>. Our investing activities used more cash during our fiscal year ended December 31, 2017, compared to the same period of 2016, primarily due to our investment in Ring-neck Energy & Feed, LLC along with capital costs we incurred related to our expansion project.

<u>Cash Flow From Financing Activities</u>. Our financing activities provided more cash during our fiscal year ended December 31, 2017, compared to the same period of 2016, primarily due to the proceeds from borrowing we incurred during the 2017 period along with decreased distributions to our members.

Indebtedness

We entered into a comprehensive credit facility with Farm Credit Services of America, PCA and Farm Credit Services of America, FLCA (collectively "FCSA"). We have a $10 million revolving operating line of credit (the "Operating Line") and a $40 million reducing revolving loan (the "Reducing Revolving Loan"). All of our assets, including the ethanol plant and equipment, its accounts receivable and inventory, serve as collateral for our loans with FCSA.

On August 1, 2017, we executed an amendment to our credit agreement to create a new $8 million term loan which we used to finance a portion of our investment in Ring-neck Energy & Feed, LLC.

On February 6, 2018, we executed an Amended and Restated Credit Agreement (the "Amended and Restated Credit Agreement") with FCSA. Pursuant to the Amended and Restated Credit Agreement, we increased our total credit availability to $40 million to support our expansion project. Further, the maturity date of this increased credit availability under our Amended and Restated Credit Agreement was extended to January 1, 2026. Until February 1, 2023, interest will accrue pursuant to the Amended and Restated Credit Agreement on our increased credit availability at the one month London Interbank Offered Rate ("LIBOR") plus 3.25% per year. We agreed to pay a fee of 0.50% on the unused portion of the increased credit availability.

Operating Line

On February 6, 2018, Dakota Ethanol executed a revolving promissory note from Farm Credit Services of America (FCSA) in the amount up to $10,000,000 or the amount available in accordance with the borrowing base calculation, whichever is less. Interest on the outstanding principal balance will accrue at 300 basis points above the 1 month LIBOR rate and is not subject to a floor. The rate was 5.35% at December 31, 2018. There is a non-use fee of 0.25% on the unused portion of the $10,000,000 availability. The note is collateralized by substantially all assets of the Company. The note expires on November 1, 2019. On December 31, 2018, Dakota Ethanol had $0 outstanding and $1,936,000 available to be drawn on the revolving promissory note under the borrowing base.

Reducing Revolving Loan

On February 6, 2018, Dakota Ethanol executed a reducing revolving promissory note from FCSA in the amount up to $40,000,000 or the amount available in accordance with the borrowing availability under the credit agreement. The amount Dakota Ethanol can borrow on the note decreases by $1,750,000 semi-annually starting on January 1, 2020 until the maximum balance reaches $26,000,000 on July 1, 2023. The note matures on January 1, 2026. Interest on the outstanding principal balance will accrue at 325 basis points above the 1 month LIBOR rate and is not subject to a floor. The rate was 5.60% at December 31, 2018. The note contains a non-use fee of 0.50% on the unused portion of the note. On December 31, 2018, Dakota Ethanol had $17,600,000 outstanding and $22,400,000 available to be drawn on the note.

2017 Term Loan

On August 1, 2017, Dakota Ethanol executed a term note with FCSA in the amount of $8 million. Dakota Ethanol agreed to make monthly interest payments starting September 1, 2017 and annual principal payments of $1,000,000 starting on August 1, 2018. The notes matures on August 1, 2025. Interest on the outstanding principal balance will accrue at 325 basis points above the 1 month LIBOR rate and is not subject to a floor. The rate was 5.60% at December 31, 2018. On December 31, 2018, Dakota Ethanol had $7,000,000 outstanding on the note.

Covenants

Our credit facilities with FCSA are subject to various loan covenants. If we fail to comply with these loan covenants, FCSA can declare us to be in default of our loans. The material loan covenants applicable to our credit facilities are our working capital covenant, local net worth covenant and our debt service coverage ratio. We are required to maintain working capital (current assets minus current liabilities plus availability on our revolving loan) of at least $13.5 million. We are required to maintain local net worth (total assets minus total liabilities minus the value of certain investments) of at least $28 million. We are required to maintain a debt service coverage ratio of at least 1.25:1.00.

As of December 31, 2018, we were in compliance with our financial covenants under the FCSA loans. Management's current financial projections indicate that we will be in compliance with our financial covenants for the next 12 months and we expect to remain in compliance thereafter. Management does not believe that it is reasonably likely that we will fall out of compliance with our material loan covenants in the next 12 months. If we fail to comply with the terms of our credit agreements with FCSA, and FCSA refuses to waive the non-compliance, FCSA may require us to immediately repay all amounts outstanding on our loans.

Contractual Cash Obligations

In addition to our debt obligations, we have certain other contractual cash obligations and commitments. The following table provides information regarding our consolidated contractual obligations and commitments as of December 31, 2018:

	Payments Due By Period				
Contractual Cash Obligations	**Total**	**Less than One Year**	**One to Three Years**	**Three to Five Years**	**After Five Years**
Long-Term Debt Obligations	$ 24,600,000	$ 1,000,000	$ 2,000,000	$ 2,000,000	$ 19,600,000
Estimated Interest on Long-Term Debt	9,322,604	1,359,406	2,549,866	2,325,866	3,087,466
Purchase Obligations	7,790,693	7,790,693	—	—	—
Other Liabilities	12,000	4,000	8,000	—	—
Total Contractual Cash Obligations	$ 41,725,297	$ 10,154,099	$ 4,557,866	$ 4,325,866	$ 22,687,466

Application of Critical Accounting Policies

Management uses estimates and assumptions in preparing our consolidated financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Of the significant accounting policies described in the notes to our consolidated financial statements, we believe that the following are the most critical:

Derivative Instruments

We enter into short-term forward grain, option and futures contracts as a means of securing corn for the ethanol plant and managing exposure to changes in commodity prices. We enter into short-term forward, option and futures contracts for sales of ethanol to manage exposure to changes in commodity prices. All of our derivatives are designated as non-hedge derivatives, and accordingly are recorded at fair value with changes in fair value recognized in net income. Although the contracts are considered economic hedges of specified risks, they are not designated as nor accounted for as hedging instruments.

As part of our trading activity, we use futures and option contracts offered through regulated commodity exchanges to reduce our risk and we are exposed to risk of loss in the market value of inventories. To reduce that risk, we generally take positions using cash and futures contracts and options.

Unrealized gains and losses related to derivative contracts for corn purchases are included as a component of cost of revenues and derivative contracts related to ethanol sales are included as a component of revenues in the accompanying financial statements. The fair values of derivative contracts are presented on the accompanying balance sheets as derivative financial instruments.

Goodwill

Annually, as well as when an event triggering impairment may have occurred, the Company performs an impairment test on goodwill. The Company performs a quantitative analysis that tests for impairment. The second step, if necessary, measures the impairment. The Company performs the annual analysis on December 31 of each fiscal year. The Company determined that there was no impairment of goodwill at December 31, 2018 and 2017.

Inventory Valuation

Inventories are generally valued using methods which approximate the lower of cost (first-in, first-out) or net realizable value. In the valuation of inventories and purchase commitments, net realizable value is based on estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation.

Revenue Recognition

The Company generally recognizes revenue at a point in time when performance obligations are satisfied. Revenue from the production of ethanol and related products is recorded when control transfers to customers. Generally, ethanol and related products are shipped FOB shipping point, based on written contract terms between Dakota Ethanol and its customers. Collectability of revenue is reasonably assured based on historical evidence of collectability between Dakota Ethanol and its customers. Interest income is recognized as earned.

Shipping costs incurred by the Company in the sale of ethanol, dried distillers grains and corn oil are not specifically identifiable and as a result, revenue from the sale of those products is recorded based on the net selling price reported to the Company from the marketer.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed to the impact of market fluctuations associated with commodity prices and interest rates as discussed below. We have no exposure to foreign currency risk as all of our business is conducted in U.S. Dollars. We use derivative financial instruments as part of an overall strategy to manage market risk. We use cash, futures and option contracts to hedge changes to the commodity prices of corn and natural gas. We do not enter into these derivative financial instruments for trading or speculative purposes, nor do we designate these contracts as hedges for accounting purposes.

Interest Rate Risk

We are exposed to market risk from changes in interest rates. Exposure to interest rate risk results primarily from holding loans which bear variable interest rates. As of December 31, 2018, we had $24,600,000 outstanding on our variable interest rate loans with interest accruing at a rate of 5.60%. Our variable interest rates are calculated by adding a set basis to LIBOR. If we were to experience a 10% increase in LIBOR, the annual effect such change would have on our statement of operations, based on the amount we had outstanding on our variable interest rate loans as of December 31, 2018, would be approximately $58,000.

Commodity Price Risk

We are exposed to market risk from changes in commodity prices. Exposure to commodity price risk results from our dependence on corn and natural gas in the ethanol production process. We seek to minimize the risks from fluctuations in the prices of corn and natural gas through the use of hedging instruments. In practice, as markets move, we actively manage our risk and adjust hedging strategies as appropriate. Although we believe our hedge positions accomplish an economic hedge against our future purchases, they are not designated as such for hedge accounting purposes, which would match the gain or loss on our hedge positions to the specific commodity purchase being hedged. We are marking to market our hedge positions, which means as the current market price of our hedge positions changes, the gains and losses are immediately recognized in our cost of revenues.

The immediate recognition of hedging gains and losses can cause net income to be volatile from quarter to quarter due to the timing of the change in value of the derivative instruments relative to the cost and use of the commodity being hedged. We recorded a decrease to our cost of revenues of approximately $550,000 related to derivative instruments for our fiscal year ended December 31, 2018. We recorded an increase to our cost of revenues of approximately $815,000 related to derivative instruments for the fiscal year ended December 31, 2017. There are several variables that could affect the extent to which our derivative instruments are impacted by price fluctuations in the cost of corn or natural gas. However, it is likely that commodity cash prices will have the greatest impact on the derivatives instruments with delivery dates nearest the current cash price.

As of December 31, 2018, we were committed to purchasing approximately 2.1 million bushels of corn with an average price of $3.52 per bushel. These corn purchases represent approximately 11% of our expected corn usage for the next 12 months. As corn prices move in reaction to market trends and information, our statement of operations will be affected depending on the impact such market movements have on the value of our derivative instruments. Depending on market movements, crop prospects and weather, these price protection positions may cause immediate adverse effects to our financial results, but are designed to produce long-term positive growth for us.

As of December 31, 2018, we were committed to purchasing approximately 642,000 MMBtu's of natural gas with an average price of $2.62 per MMBtu. Under these arrangements, the Company assumes the risk of a price decrease in the market price of natural gas between the time the price is fixed and the time the natural gas is delivered. The Company accounts for these transactions as normal purchases, and accordingly, does not mark these transactions to market. The natural gas purchases represent approximately 55% of the projected annual plant requirements.

As of December 31, 2018, the Company is committed to selling approximately 32,000 dry equivalent tons of distillers grains with an average price of $129 per ton. The distillers grains sales represent approximately 22% of the projected annual plant production.

As of December 31, 2018, the Company is committed to selling approximately 1,343,000 pounds of distillers corn oil with an average price of $0.25 per pound. The distillers corn oil sales represent approximately 12% of the projected annual plant production.

The Company does not have any firm-priced sales commitments for ethanol as of December 31, 2018.

A sensitivity analysis has been prepared to estimate our exposure to ethanol, corn and natural gas price risk. Market risk related to these factors is estimated as the potential change in income resulting from a hypothetical 10% adverse change in the average cost of our corn and natural gas prices and average ethanol price as of December 31, 2018, net of the forward and future contracts used to hedge our market risk for corn and natural gas usage requirements. The volumes are based on our expected use and sale of these commodities for a one year period from December 31, 2018. The results of this analysis, which may differ from actual results, are as follows:

	Estimated Volume Requirements for the next 12 months (net of forward and futures contracts)	**Unit of Measure**	**Hypothetical Adverse Change in Price**	**Approximate Adverse Change to Income**
Ethanol	52,500,000	Gallons	10%	$ 6,090,000
Corn	16,367,238	Bushels	10%	$ 5,352,087
Natural Gas	539,250	MMBTU	10%	$ 200,062

For comparison purposes, our sensitivity analysis for our 2017 fiscal year is set forth below.

	Estimated Volume Requirements for the next 12 months (net of forward and futures contracts)	**Unit of Measure**	**Hypothetical Adverse Change in Price**	**Approximate Adverse Change to Income**
Ethanol	52,500,000	Gallons	10%	$ 6,352,500
Corn	16,275,632	Bushels	10%	$ 4,898,965
Natural Gas	1,141,250	MMBTU	10%	$ 1,029,408

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Members and the Board of Managers of Lake Area Corn Processors, LLC

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Lake Area Corn Processors, LLC and its subsidiary (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, changes in members' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2007.

Des Moines, Iowa
February 28, 2019

LAKE AREA CORN PROCESSORS, LLC
Consolidated Balance Sheets

	December 31, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,697,937	$ 5,102,959
Accounts receivable	1,202,196	3,186,530
Other receivables	26,857	38,704
Inventory	7,561,501	5,526,094
Derivative financial instruments	554,005	862,840
Prepaid expenses	265,793	219,741
Total current assets	11,308,289	14,936,868
PROPERTY AND EQUIPMENT		
Land	874,473	874,473
Land improvements	8,558,720	8,558,720
Buildings	9,001,546	8,955,206
Equipment	61,839,725	53,060,482
Construction in progress	26,203,702	8,475,840
	106,478,166	79,924,721
Less accumulated depreciation	(42,729,898)	(39,955,791)
Net property and equipment	63,748,268	39,968,930
OTHER ASSETS		
Goodwill	10,395,766	10,395,766
Investments	17,300,470	18,739,259
Other	113,279	31,417
Total other assets	27,809,515	29,166,442
TOTAL ASSETS	$ 102,866,072	$ 84,072,240

See Notes to Consolidated Financial Statements

LAKE AREA CORN PROCESSORS, LLC
Consolidated Balance Sheets

	December 31, 2018	December 31, 2017
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Outstanding checks in excess of bank balance	$ 2,247,215	$ 674,936
Accounts payable	6,849,896	6,123,995
Accrued liabilities	765,994	582,487
Derivative financial instruments	368,475	410,785
Current portion of notes payable	1,000,000	1,000,000
Other	4,000	13,556
Total current liabilities	11,235,580	8,805,759
LONG-TERM LIABILITIES		
Notes payable	23,585,368	6,971,944
Other	8,000	12,000
Total long-term liabilities	23,593,368	6,983,944
COMMITMENTS AND CONTINGENCIES (Note 9)		
MEMBERS' EQUITY (29,620,000 units issued and outstanding)	68,037,124	68,282,537
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 102,866,072	$ 84,072,240

See Notes to Consolidated Financial Statements

LAKE AREA CORN PROCESSORS, LLC
Consolidated Statements of Operations

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
REVENUES	**$ 74,703,630**	$ 84,821,788	$ 88,812,550
COSTS OF REVENUES	**68,619,694**	76,253,945	76,097,861
GROSS PROFIT	**6,083,936**	8,567,843	12,714,689
OPERATING EXPENSES	**3,837,659**	3,717,291	3,642,087
INCOME FROM OPERATIONS	**2,246,277**	4,850,552	9,072,602
OTHER INCOME (EXPENSE)			
Interest and other income	**67,042**	77,033	40,367
Equity in net income of investments	**403,268**	1,459,806	2,293,928
Interest expense	**—**	(2,308)	(1,689)
Total other income (expense)	**470,310**	1,534,531	2,332,606
NET INCOME	**$ 2,716,587**	$ 6,385,083	$ 11,405,208
BASIC AND DILUTED EARNINGS PER UNIT	**$ 0.09**	$ 0.22	$ 0.39
WEIGHTED AVERAGE NUMBER OF UNITS OUTSTANDING FOR THE CALCULATION OF BASIC & DILUTED EARNINGS PER UNIT	**29,620,000**	29,620,000	29,620,000

See Notes to Consolidated Financial Statements

LAKE AREA CORN PROCESSORS, LLC
Consolidated Statements of Changes in Members' Equity
Years Ended December 31, 2018, 2017 and 2016

	Members' Equity
Balance, December 31, 2015	$ 68,264,246
Net income	11,405,208
Distributions paid ($.40 per capital unit)	(11,848,000)
Balance, December 31, 2016	67,821,454
Net income	6,385,083
Distributions paid ($.20 per capital unit)	(5,924,000)
Balance, December 31, 2017	68,282,537
Net income	2,716,587
Distributions paid ($.10 per capital unit)	(2,962,000)
Balance, December 31, 2018	$ 68,037,124

See Notes to Consolidated Financial Statements

LAKE AREA CORN PROCESSORS, LLC
Consolidated Statements of Cash Flows

	December 31, 2018	December 31, 2017	December 31, 2016
OPERATING ACTIVITIES			
Net income	$ 2,716,587	$ 6,385,083	$ 11,405,208
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation and amortization	3,173,391	2,977,582	3,375,012
Distributions in excess of earnings from investments	1,848,747	2,598,644	4,032,960
Loss on disposal of property and equipment	38,088	—	—
(Increase) decrease in			
Receivables	1,996,181	816,730	(2,432,676)
Inventory	(2,035,408)	686,526	1,352,871
Prepaid expenses	(46,050)	18,080	43,732
Derivative financial instruments	266,524	(222,375)	(160,259)
Increase (decrease) in			
Accounts payable	(323,542)	(1,550,377)	(2,017,964)
Accrued and other liabilities	169,950	(142,029)	80,872
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,804,468	11,567,864	15,679,756
INVESTING ACTIVITIES			
Insurance proceeds received for damage to equipment	—	—	1,318,955
Purchase of property and equipment	(25,913,312)	(7,989,022)	(3,999,128)
Purchase of investments	(409,957)	(10,145,871)	—
NET CASH (USED IN) INVESTING ACTIVITIES	(26,323,269)	(18,134,893)	(2,680,173)
FINANCING ACTIVITIES			
Increase (decrease) in outstanding checks in excess of bank balance	1,572,279	(360,736)	558,505
Borrowings on issuance of notes payable	26,873,268	8,000,000	—
Financing costs paid	(95,500)	—	—
Payments for long-term debt	(10,274,268)	(38,611)	(45,919)
Distributions to members	(2,962,000)	(5,924,000)	(11,848,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	15,113,779	1,676,653	(11,335,414)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,405,022)	(4,890,376)	1,664,169
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,102,959	9,993,335	8,329,166
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,697,937	$ 5,102,959	$ 9,993,335
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the period for interest, net of capitalized interest of $518,703, $116,650 and $2,940 in 2018, 2017 and 2016, respectively	$ —	$ 2,317	$ 1,687
Capital expenditures in accounts payable	1,160,834	111,390	69,647

See Notes to Consolidated Financial Statements

NOTE 1 - NATURE OF OPERATIONS

Principal Business Activity

Lake Area Corn Processors, LLC and subsidiary (the Company) is a South Dakota limited liability company.

The Company owns and manages Dakota Ethanol, LLC (Dakota Ethanol), a 40 million-gallon (annual nameplate capacity) ethanol plant located near Wentworth, South Dakota. Dakota Ethanol sells ethanol and related products to customers located in North America.

In addition, the Company has investment interests in five companies in related industries. See note 4 for further details.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements of the Company include the accounts of its wholly owned subsidiary, Dakota Ethanol. All significant inter-company transactions and balances have been eliminated in consolidation.

Revenue Recognition

Effective January 1, 2018, the Company adopted the new guidance of ASC Topic 606, *Revenue from Contracts with Customers* (Topic 606), using the modified retrospective approach. Topic 606 requires the Company to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance requires the Company to apply the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the Company satisfies a performance obligation. The Company generally recognizes revenue at a point in time. The majority of the Company's contracts with customers have one performance obligation and a contract duration of one year or less. The adoption of this new guidance did not result in any changes to the timing or amount of revenue recognized prior to January 1, 2018, but did result in expanded disclosures in our consolidated financial statements.

The following is a description of principal activities from which we generate revenue. Revenues from contracts with customers are recognized when control of the promised goods or services are transferred to our customers, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. Generally, ethanol and related products are shipped FOB shipping point and control of the goods transfers to customers when the goods are loaded into rail cars or trucks. Consideration is based on predetermined contractual prices or on current market prices.

- sales of ethanol
- sales of distillers grains
- sales of distillers corn oil

Disaggregation of revenue:

All revenue recognized in the income statement is considered to be revenue from contracts with customers. The following table depicts the disaggregation of revenue according to product line:

	2018	2017	2016
Revenues ethanol	$ 57,705,675	$ 67,281,231	$ 69,188,029
Revenues distillers grains	14,677,962	14,464,977	16,781,848
Revenues distillers corn oil	2,319,993	3,075,580	2,842,673
	$ 74,703,630	$ 84,821,788	$ 88,812,550

Contract assets and contract liabilities:

The Company has no significant contract assets or contract liabilities from contracts with customers.

The Company receives payments from customers based upon contractual billing schedules; accounts receivable are recorded when the right to consideration becomes unconditional. Contract liabilities include payments received in advance of performance under the contract, and are realized with the associated revenue recognized under the contract.

Shipping costs

Shipping costs incurred by the Company in the sale of ethanol, dried distiller's grains and corn oil are not specifically identifiable and as a result, revenue from the sale of those products is recorded based on the net selling price reported to the Company from the marketer.

When the Company performs shipping and handling activities after the transfer of control to the customers (e.g., when control transfers prior to delivery), they are considered as fulfillment activities, and accordingly, the costs are accrued for when the related revenue is recognized.

Cost of Revenues

The primary components of cost of revenues from the production of ethanol and related co-product are corn expense, energy expense (natural gas and electricity), raw materials expense (chemicals and denaturant), and direct labor costs.

Shipping costs on modified and wet distiller's grains are included in cost of revenues.

Inventory Valuation

Inventories are generally valued using methods which approximate the lower of cost (first-in, first-out) or net realizable value. In the valuation of inventories, net realizable value is based on estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand accounts and other accounts with original maturities of three months or less that provide withdrawal privileges.

Receivables and Credit Policies

Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within fifteen days from the invoice date. Unpaid accounts receivable with invoice dates over thirty days old bear interest at 1.5% per month. Accounts receivable are stated at the amount billed to the customer. Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of trade receivables is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management regularly reviews trade receivable balances and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. The valuation allowance was $2,131 and $2,131 as of December 31, 2018 and 2017 respectively.

Investment in commodities contracts, derivative instruments and hedging activities

The Company is exposed to certain risks related to our ongoing business operations. The primary risks that the Company manages by using forward or derivative instruments are price risk on anticipated purchases of corn and natural gas and the sale of ethanol, distillers grains and distillers corn oil.

The Company is subject to market risk with respect to the price and availability of corn, the principal raw material the Company uses to produce ethanol and ethanol by-products. In general, rising corn prices result in lower profit margins and, therefore, represent unfavorable market conditions. This is especially true when market conditions do not allow us to pass along increased corn costs to our customers. The availability and price of corn is subject to wide fluctuations due to unpredictable factors such as weather conditions, farmer planting decisions, governmental policies with respect to agriculture and international trade and global demand and supply.

Certain contracts that literally meet the definition of a derivative may be exempted from derivative accounting as normal purchases or normal sales. Normal purchases and normal sales are contracts that provide for the purchase or sale of something other than a financial instrument or derivative instrument that will be delivered in quantities expected to be used or sold over a reasonable period in the normal course of business. Contracts that meet the requirements of normal purchases or sales are documented as normal and exempted from the accounting and reporting requirements of derivative accounting.

The Company does not apply the normal purchase and sales exemption for forward corn purchase contracts. As of December 31, 2018, the Company is committed to purchasing approximately 2.1 million bushels of corn on a forward contract basis with an average price of $3.52 per bushel. The total corn purchase contracts represent 11% of the projected annual plant corn usage.

The Company enters into firm-price purchase commitments with natural gas suppliers under which the Company agrees to buy natural gas at a price set in advance of the actual delivery. Under these arrangements, the Company assumes the risk of a price decrease in the market price of natural gas between the time the price is fixed and the time the natural gas is delivered. At December 31, 2018, the Company is committed to purchasing approximately 642,000 MMBtu's of natural gas with an average price of $2.62 per MMBtu. The Company accounts for these transactions as normal purchases, and accordingly, does not mark these transactions to market. The natural gas purchases represent approximately 55% of the projected annual plant requirements.

The Company enters into firm-price sales commitments with distillers grains customers under which the Company agrees to sell distillers grains at a price set in advance of the actual delivery. Under these arrangements, the Company assumes the risk of a price increase in the market price of distillers grain between the time the price is fixed and the time the distillers grains are delivered. At December 31, 2018, the Company is committed to selling approximately 32,000 dry equivalent tons of distillers grains with an average price of $129 per ton. The Company accounts for these transactions as normal sales, and accordingly, does not mark these transactions to market. The distillers grains sales represent approximately 22% of the projected annual plant production.

The Company enters into firm-price sales commitments with distillers corn oil customers under which the Company agrees to sell distillers corn oil at a price set in advance of the actual delivery. Under these arrangements, the Company assumes the risk of a price increase in the market price of distillers corn oil between the time this price is fixed and the time the distillers corn oil is delivered. At December 31, 2018, the Company is committed to selling approximately 1,343,000 pounds of distillers corn oil with an average price of $0.25 per pound. The Company accounts for these transactions as normal sales, and accordingly, does not mark these transactions to market. The distillers corn oil sales represent approximately 12% of the projected annual plant production.

The Company does not have any firm-priced sales commitments for ethanol as of December 31, 2018.

The Company enters into short-term forward, option and futures contracts for ethanol, corn and natural gas as a means of managing exposure to changes in commodity and energy prices. All of the Company's derivatives are designated as non-hedge derivatives, and accordingly are recorded at fair value with changes in fair value recognized in net income. Although the contracts are considered economic hedges of specified risks, they are not designated as and accounted for as hedging instruments.

As part of our trading activity, The Company uses futures and option contracts offered through regulated commodity exchanges to reduce risk of loss in the market value of inventories and purchase commitments. To reduce that risk, the Company generally takes positions using forward and futures contracts and options.

Derivatives not designated as hedging instruments at December 31, 2018 and December 31, 2017 were as follows:

	Balance Sheet Classification	December 31, 2018	December 31, 2017
Forward contracts in gain position (corn)		$ 676	$ 3,856
Futures contracts in gain position (corn)		175,038	119,825
Futures contracts in loss position (corn)		—	(1,363)
Total forward and futures contracts		175,714	122,318
Cash held by broker		378,291	740,522
	Current Assets	$ 554,005	$ 862,840
Forward contracts in loss position (corn)	(Current Liabilities)	$ (368,475)	$ (410,785)

Futures contracts and cash held by broker are all with one party and the right of offset exists. Therefore, on the balance sheet, these items are netted in one balance regardless of position.

Forward contracts are with multiple parties and the right of offset does not exist. Therefore, these contracts are reported at the gross amounts on the balance sheet.

Realized and unrealized gains and losses related to derivative contracts related to corn and natural gas purchases are included as a component of cost of revenues and derivative contracts related to ethanol sales are included as a component of revenues in the accompanying financial statements.

	Statement of Operations Classification	Years Ended December 31, 2018	2017	2016
Net realized and unrealized gains (losses) related to purchase contracts:				
Futures contracts	Cost of Revenues	$ 1,544,635	$ 608,250	$ 1,874,523
Forward contracts	Cost of Revenues	(994,854)	(1,423,330)	(1,707,414)

Investments

The Company has investment interests in five companies in related industries. All of these interests are at ownership shares less than 20%. These investments are flow-through entities. Per ASC 323-30-S99-1, they are being accounted for by the equity method of accounting under which the Company's share of net income is recognized as income in the Company's statements of operations and added to the investment account. Distributions or dividends received from the investments are treated as a reduction of the investment account. The Company consistently follows the practice of recognizing the net income based on the most recent reliable data.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the fair value of derivative financial instruments, lower of cost or net realizable value accounting for inventory and forward purchase contracts and goodwill impairment evaluation.

Concentrations of Credit Risk

The Company's cash balances are maintained in bank depositories and regularly exceed federally insured limits. The Company has not experienced any losses in connection with these balances.

Property and Equipment

Property and equipment is stated at cost. Significant additions and betterments are capitalized, while expenditures for maintenance, repairs and minor renewals are charged to operations when incurred. Depreciation on assets placed in service is computed using the straight-line method over estimated useful lives as follows:

- Land improvements 20-40 years
- Equipment 5-20 years
- Buildings 15-40 years

Equipment relates to two general categories: mechanical equipment and administrative and maintenance equipment. Mechanical equipment generally relates to equipment for handling inventories and the production of ethanol and related products, with useful lives of 15 to 20 years, including boilers, cooling towers, grain bins, centrifuges, conveyors, fermentation tanks, pumps and drying equipment. Administrative and maintenance equipment is equipment with useful lives of 5 to 15 years, including vehicles, computer systems, security equipment, testing devices and shop equipment.

The Company reviews its property and equipment for impairment whenever events indicate that the carrying amount of an asset group may not be recoverable. An impairment loss is recorded when the sum of the undiscounted future cash flows is less than the carrying amount of the asset group. An impairment loss is measured as the amount by which the carrying amount of the asset group exceeds its fair value. No indicators of impairment were identified at December 31, 2018 and 2017.

Goodwill

Annually, as well as when an event triggering impairment may have occurred, the Company performs an impairment test on goodwill. The Company performs a quantitative analysis that tests for impairment. The second step, if necessary, measures the impairment. The Company performs the annual analysis on December 31 of each fiscal year. The Company determined that there was no impairment of goodwill at December 31, 2018 and 2017.

Earnings Per Unit

For purposes of calculating basic earnings per unit, units issued are considered outstanding on the effective date of issuance. Diluted earnings per unit are calculated by including dilutive potential equity units in the denominator. There were no dilutive equity units for the years ending December 31, 2018, 2017, and 2016.

Income Taxes

The Company is taxed as a limited liability company under the Internal Revenue Code. The income of the Company flows through to the members to be taxed at the member level rather than the corporate level. Accordingly, the Company has no tax liability.

Management has evaluated the Company's tax positions under the Financial Accounting Standards Board issued guidance on accounting for uncertainty in income taxes and concluded that the Company had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, the Company is no longer subject to income tax examinations by the U.S. federal, state or local authorities for the years before 2014.

Environmental Liabilities

The Company's operations are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdictions in which it operates. These laws require the Company to investigate and remediate the effects of the release or disposal of materials at its locations. Accordingly, the Company has adopted policies, practices and procedures in the areas of pollution control, occupational health and the production, handling, storage and use of hazardous materials to prevent material environmental or other damage, and to limit the financial liability which could result from such events. Environmental liabilities are recorded when the Company's liability is probable and the costs can be reasonably estimated.

Operating Segment

The Company uses the "management approach" for reporting information about segments in annual and interim financial statements. The management approach is based on the way the chief operating decision-maker organizes segments within a company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure and any other manner in which management disaggregates a company. Based on the "management approach" model, the Company has determined that its business is comprised of a single operating segment.

Recently Issued Accounting Pronouncements

In February 2016, FASB issued ASU No. 2016-02, "Leases (Topic 842)" (ASU 2016-02). ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for all leases greater than one year in duration and classified as operating leases under previous GAAP. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and for interim periods within that fiscal year. The Company does not expect this standard to have a material impact on the Company's consolidated financial statements.

In January 2017, FASB issued ASU No. 2017-04, "Intangibles-Goodwill and Other (Topic 350)" (ASU 2017-04). ASU 2017-04 simplifies the test for goodwill impairment. It eliminates the two-step process of assessing goodwill impairment and replaces it with one step which compares the fair value of the reporting unit with its carrying amount. An impairment charge is recognized for the amount by which the carrying value exceeds the fair value up to the amount of the goodwill attributed to the reporting unit. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019, and for interim periods within that fiscal year. The Company does not expect this standard to have a material impact on the Company's consolidated financial statements.

In August 2018, FASB issued ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement" (ASU 2018-13). ASU 2018-13 improves the effectiveness of the fair value disclosures in the financial statements. It adds, removes and modifies various disclosure requirements relating to the fair value hierarchy. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, and for interim periods within that fiscal year. The Company does not expect this standard to have a material impact on the Company's consolidated financial statements.

Risks and Uncertainties

The Company has certain risks and uncertainties that it will experience during volatile market conditions, which can have a severe impact on operations. The Company's revenues are derived from the sale and distribution of ethanol and distiller grains to customers primarily located in the United States. Corn for the production process is supplied to the plant primarily from local agricultural producers and from purchases on the open market. For the twelve months ended December 31, 2018, ethanol sales averaged approximately 77% of total revenues, while approximately 20% of revenues were generated from the sale of distiller grains and 3% of revenues were generated from the sale of corn oil. For the twelve months ended December 31, 2018, corn costs averaged approximately 70% of cost of goods sold.

The Company's operating and financial performance is largely driven by the prices at which it sells ethanol and the net expense of corn. The price of ethanol is influenced by factors such as supply and demand, weather, government policies and programs, and unleaded gasoline and the petroleum markets. Excess ethanol supply in the market, in particular, puts downward pressure on the price of ethanol. The Company's largest cost of production is corn. The cost of corn is generally impacted by factors such as supply and demand, weather, and government policies and programs. The Company's risk management program is used to protect against the price volatility of these commodities.

NOTE 3 - INVENTORY

Inventory consisted of the following as of December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Raw materials	$ 3,396,707	$ 2,466,493
Finished goods	2,589,255	1,193,552
Work in process	514,881	516,362
Parts inventory	1,060,658	1,349,687
	$ 7,561,501	$ 5,526,094

NOTE 4 - INVESTMENTS

Dakota Ethanol has a 6% investment interest in the Company's ethanol marketer, Renewable Products Marketing Group, LLC (RPMG). The net income which is reported in the Company's income statement for RPMG is based on RPMG's September 30, 2018, 2017 and 2016 audited results. The carrying amount of the Company's investment was approximately $1,312,000 and $1,206,000 as of December 31, 2018 and 2017, respectively.

Dakota Ethanol has a 10% investment interest in Lawrenceville Tanks, LLC (LT), a partnership to construct and operate an ethanol storage terminal in Georgia. The net income which is reported in the Company's income statement for LT is based on LT's December 31, 2018, 2017 and 2016 unaudited results. The carrying amount of the Company's investment was approximately $266,000 and $327,000 as of December 31, 2018 and 2017, respectively.

Lake Area Corn Processors has a 10% investment interest in Guardian Hankinson, LLC (GH), a partnership to operate an ethanol plant in North Dakota. The net income which is reported in the Company's income statement for GH is based on GH's December 31, 2018, 2017 and 2016 audited results. The carrying amount of the Company's investment was approximately $5,274,000 and $7,151,000 as of December 31, 2018 and 2017, respectively.

Lake Area Corn Processors has a 17% investment interest in Guardian Energy Management, LLC (GEM), a partnership to provide management services to ethanol plants. The net income which is reported in the Company's income statement for GEM is based on GEM's December 31, 2018, 2017 and 2016 unaudited interim results. The carrying amount of the Company's investment was approximately $53,000 and $33,000 as of December 31, 2018 and 2017, respectively.

Lake Area Corn Processors has an 11% investment interest in Ring-neck Energy & Feed, LLC (REF), a partnership to operate an ethanol plant in South Dakota. The net income which is reported in the Company's income statement for REF is based on REF's December 31, 2018 unaudited interim results. The carrying amount of the Company's investment was approximately $10,396,000 and $10,023,000 as of December 31, 2018 and 2017, respectively. 2017 was the initial year for the investment in REF and the ethanol plant is currently under construction. The carrying amount of the investment exceeds the underlying equity in net assets by approximately $1,020,000. The excess is comprised of a basis adjustment of approximately $474,000 and capitalized interest of $546,000. The excess will be amortized over 20 years when the plant becomes operational. The amortization will be recorded in equity in net income of investments.

Condensed, combined unaudited financial information of the Company's investments in RPMG, LT, GH, GEM and REF are as follows:

Balance Sheet	12/31/2018	12/31/2017	12/31/2016
Current assets	$ 189,839,430	$ 212,154,680	$ 178,539,108
Other assets	234,748,455	164,254,183	151,378,628
Current liabilities	175,836,322	131,152,747	140,898,148
Long-term liabilities	78,589,892	54,754,437	49,924,355
Member's equity	170,161,671	190,501,679	139,095,233
Revenue	259,563,274	255,154,945	255,245,069
Gross Profit	19,921,043	33,033,635	42,635,837
Net Income	5,521,750	19,482,340	29,555,855

The following table shows the condensed financial information of Ring-neck Energy & Feed; the investment in which represents greater than 10% of the Company's assets as of December 31, 2018.

Balance Sheet	12/31/2018	12/31/2017
Current assets	$ 1,018,076	$ 50,000,088
Other assets	128,668,387	42,640,650
Current liabilities	5,724,979	4,716,781
Long-term liabilities	40,414,089	3,230,871
Members' equity	83,547,395	84,693,086
Revenue	—	—
Gross Profit	—	—
Net Income (loss)	(251,015)	(253,522)

The Company recorded equity in net (loss) of approximately ($27,000) and ($123,000) from REF for the years ended December 31, 2018 and 2017. The Company recorded equity in net income of approximately $430,000, $1,582,000 and $2,294,000 from our other investments for the years ended December 31, 2018, 2017 and 2016 respectively. The Company has undistributed net earnings in investees of approximately $1,126,000 and $627,000 as of December 31, 2018 and 2017, respectively.

NOTE 5 - REVOLVING OPERATING NOTE

On February 6, 2018, Dakota Ethanol executed a revolving promissory note with Farm Credit Services of America (FCSA) in the amount up to $10,000,000 or the amount available in accordance with the borrowing base calculation, whichever is less. Interest on the outstanding principal balances will accrue at 300 basis points above the 1 month LIBOR rate and is not subject to a floor. The rate was 5.35% at December 31, 2018. There is a non-use fee of 0.25% on the unused portion of the $10,000,000 availability. The note is collateralized by substantially all assets of the Company. The note expires on November 1, 2019. On December 31, 2018, Dakota Ethanol had $0 outstanding and approximately $1,936,000 available to be drawn on the revolving promissory note under the borrowing base.

NOTE 6 - LONG-TERM NOTES PAYABLE

On August 1, 2017, Dakota Ethanol executed a term note from FCSA in the amount of $8,000,000. Dakota Ethanol agreed to make monthly interest payments starting September 1, 2017 and annual principal payments of $1,000,000 starting on August 1, 2018. The notes matures on August 1, 2025. Interest on the outstanding principal balance will accrue at 325 basis points above the 1 month LIBOR rate and is not subject to a floor. The rate was 5.60% at December 31, 2018. On December 31, 2018, Dakota Ethanol had $7,000,000 outstanding on the note.

On February 6, 2018, Dakota Ethanol executed a reducing revolving promissory note from FCSA in the amount up to $40,000,000 or the amount available in accordance with the borrowing availability under the credit agreement. The amount Dakota Ethanol can borrow on the note decreases by $1,750,000 semi-annually starting on January 1, 2020 until the maximum balance reaches $26,000,000 on July 1, 2023. The note matures on January 1, 2026. Interest on the outstanding principal balance will accrue at 325 basis points above the 1 month LIBOR rate and is not subject to a floor. The rate was 5.60% at December 31, 2018. The note contains a non-use fee of 0.50% on the unused portion of the note. On December 31, 2018, Dakota Ethanol had $17,600,000 outstanding and $22,400,000 available to be drawn on the note.

As part of the note payable agreement, Dakota Ethanol is subject to certain restrictive covenants establishing financial reporting requirements, distribution and capital expenditure limits, minimum debt service coverage ratios, net worth and working capital requirements. The note is collateralized by substantially all assets of the Company.

The balance of the notes payable as of December 31, 2018 and 2017 is as follows:

	2018	2017
Note Payable - FCSA	$ 24,600,000	$ 8,001,000
Less unamortized debt issuance costs	(14,632)	(29,056)
	24,585,368	7,971,944
Less current portion	(1,000,000)	(1,000,000)
	$ 23,585,368	$ 6,971,944

*Derived from audited financial statements

Principal maturities for the next five years are estimated as follows:

Years Ending December 31,	Principal
2019	$ 1,000,000
2020	1,000,000
2021	1,000,000
2022	1,000,000
2023	1,000,000
thereafter	19,600,000

NOTE 7 - EMPLOYEE BENEFIT PLANS

Dakota Ethanol maintains a 401(k) plan for the employees who meet the eligibility requirements set forth in the plan documents. Dakota Ethanol matches a percentage of the employees' contributed earnings. Employer contributions to the plan totaled approximately $113,000, $104,000 and $103,000 for the years ended December 31, 2018, 2017 and 2016, respectively.

NOTE 8 - FAIR VALUE MEASUREMENTS

The Company complies with the fair value measurements and disclosures standard which defines fair value, establishes a framework for measuring fair value, and expands disclosure for those assets and liabilities carried on the balance sheet on a fair value basis.

The Company's balance sheet contains derivative financial instruments that are recorded at fair value on a recurring basis. Fair value measurements and disclosures require that assets and liabilities carried at fair value be classified and disclosed according to the process for determining fair value. There are three levels of determining fair value.

Level 1 uses quoted market prices in active markets for identical assets or liabilities.

Level 2 uses observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 uses unobservable inputs that are not corroborated by market data.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Derivative financial instruments. Commodity futures and options contracts are reported at fair value utilizing Level 1 inputs. For these contracts, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes and live trading levels from the CBOT and NYMEX markets. Over-the-counter commodity options contracts are reported at fair value utilizing Level 2 inputs. For these contracts, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes and live trading levels from the over-the-counter markets. Forward purchase contracts are reported at fair value utilizing Level 2 inputs. For these contracts, the Company obtains fair value measurements from local grain terminal bid values. The fair value measurements consider observable data that may include live trading bids from local elevators and processing plants which are based off the CBOT markets.

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Total	Level 1	Level 2	Level 3
December 31, 2018				
Assets:				
Derivative financial instruments, futures contracts	$ 175,038	$ 175,038	$ —	$ —
forward contracts	676	—	676	—
Liabilities:				
Derivative financial instruments, futures contracts	$ —	$ —	$ —	$ —
forward contracts	368,475	—	368,475	—
December 31, 2017				
Assets:				
Derivative financial instruments, futures contracts	$ 119,825	$ 119,825	$ —	$ —
forward contracts	3,856	—	3,856	—
Liabilities:				
Derivative financial instruments, futures contracts	$ (1,363)	$ (1,363)	$ —	$ —
forward contracts	(410,785)	—	(410,785)	—

During the years ended December 31, 2018 and 2017, the Company did not make any changes between Level 1 and Level 2 assets and liabilities. As of December 31, 2018 and 2017, the Company did not have any Level 3 assets or liabilities.

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis were not significant at December 31, 2018 and 2017.

Disclosure requirements for fair value of financial instruments require disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or nonrecurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non recurring basis are discussed above.

The Company believes the carrying amount of cash and cash equivalents (level 1), accounts receivable (level 2), other receivables (level 2), accounts payable and accruals (level 2) and short-term debt (level 3) approximates fair value.

The carrying amount of long-term obligations (level 3) at December 31, 2018 of $24,600,000 had an estimated fair value of approximately $24,600,000 based on estimated interest rates for comparable debt. The carrying amount of long-term obligations at December 31, 2017 of $8,001,000 had an estimated fair value of approximately $8,001,000.

NOTE 9 - COMMITMENTS, CONTINGENCIES AND AGREEMENTS

Dakota Ethanol has entered into contracts and agreements regarding the operation of the ethanol plant as follows:

Natural Gas - The agreement provides Dakota Ethanol with a fixed transportation rate for natural gas for a ten-year term through August 2021, and is renewable annually thereafter. The agreement does not require minimum purchases of natural gas during their initial term.

Electricity - The agreement provides Dakota Ethanol with electric service for a term of one year. The contract automatically renews unless prior notice of cancellation is given. The agreement sets rates for energy usage based on market rates and requires a minimum purchase of electricity each month during the term of the agreement.

Expenses related to the agreements for the purchase of electricity and natural gas were approximately $6,322,000, $7,259,000, and $6,510,000, for the years ended December 31, 2018, 2017 and 2016, respectively.

Minimum annual payments during the term of the electricity agreement are as follows:

Years Ending December 31,	Amount
2019	$550,200

Ethanol Fuel Marketing Agreement - Dakota Ethanol has an agreement with RPMG (a related party, see note 10), a joint venture of ethanol producers, for the sale, marketing, billing and receipt of payment and other administrative services for all ethanol produced by the plant. The agreement continues indefinitely unless terminated under terms set forth in the agreement.

Distiller's Grain Marketing Agreement - Dakota Ethanol has an agreement with RPMG (a related party, see note 10), for the marketing of all distiller's dried grains produced by the plant. The agreement continues indefinitely unless terminated under terms set forth in the agreement.

Corn Oil Marketing Agreement - Dakota Ethanol has an agreement with RPMG (a related party, see note 10), for the marketing of all corn oil produced by the plant. The agreement continues indefinitely unless terminated under terms set forth in the agreement.

During the years ended December 31, 2016, Dakota Ethanol received an incentive payment from the State of South Dakota to produce ethanol. In accordance with the terms of this arrangement, revenue was recorded based on gallons of ethanol sold. Incentive revenue of $378,307 was recorded for the year ended December 31, 2016. Dakota Ethanol reached the lifetime maximum under the program during 2016 and will no longer receive funds under the program.

From time to time in the normal course of business, the Company can be subject to litigation based on its operations. There is no current litigation nor any litigation that is considered probable at this time.

Dakota Ethanol entered into a design-build agreement with Nelson Engineering Co. for the design and construction of the plant expansion to increase its production capacity to approximately 90 million gallons of ethanol per year. The cost of the expansion is expected to be approximately $35.9 million. There is approximately $6.3 million remaining as of December 31, 2018. The expansion is currently under construction. The Company anticipates that the expansion will be complete during the Company's second quarter of 2019. The Company will pay for the project with cash flows from operations and the long-term revolving debt as amended on February 6, 2018.

NOTE 10 - RELATED PARTY TRANSACTIONS

Dakota Ethanol has a 6% interest in RPMG, and Dakota Ethanol has entered into marketing agreements for the exclusive rights to market, sell and distribute the entire ethanol, dried distiller's grains, and corn oil inventories produced by Dakota Ethanol. The marketing fees are included in net revenues.

Revenues and marketing fees related to the agreements are as follows:

	Years Ended December 31,		
	2018	2017	2016
Revenues ethanol	$ 57,876,705	$ 67,186,350	$ 69,398,350
Revenues distillers grains	1,801,956	4,225,707	5,254,492
Revenues corn oil	2,334,245	3,088,510	2,860,912
Marketing fees ethanol	258,555	249,645	187,431
Marketing fees distillers grains	12,294	31,993	32,979
Marketing fees corn oil	18,824	19,481	18,239
Accounts receivable balance at period end	836,798	2,749,502	3,695,561

The Company purchased corn and services from members of its Board of Directors that farm and operate local businesses. The Company also purchased ingredients from RPMG. Purchases from these related parties during the fiscal years ended December 31, 2018, 2017 and 2016 totaled approximately $1,360,000, $1,099,000 and $1,890,000, respectively. As of December 31, 2018 and 2017, the amount we owed to related parties was approximately $37,000 and $45,000, respectively.

NOTE 11 - TIF BOND GUARANTEE

During December 2003, Dakota Ethanol entered into an agreement to guarantee a bond issued by Lake County, South Dakota. The bond issue was in conjunction with the refunding of the tax increment financing (TIF) bond issued by Lake County in 2001, of which Dakota Ethanol was the recipient of the proceeds. During 2003, Lake County became aware that the taxes collected based on the incremental tax would not be sufficient to cover the debt service of the 2001 bond issue. Based on the aforementioned deficiency and changes in interest rate during December of 2003, Lake County refunded the 2001 bond issue replacing it with two separate bonds. A tax-exempt bond in the amount of $824,599 and a taxable bond in the amount of $1,323,024 were issued. As a part of the refunding, Dakota Ethanol entered into the agreement to guarantee the taxable bond issue. The taxes levied on Dakota Ethanol's property will first go towards the semiannual debt service of the tax-exempt bonds and any remaining taxes will be used for the debt service of the taxable bonds. Dakota Ethanol guarantees any shortfall in debt service for the taxable bonds. The guarantee expired in December 2018.

NOTE 12 - CAPTIVE INSURANCE

The Company participates, along with other plants in the industry, in a group captive insurance company (Captive). The Captive insures losses related to workman's compensation, commercial property and general liability. The Captive reinsures catastrophic losses for all participants, including the Company, in excess of predetermined amounts. The Company's premiums are accrued by a charge to income for the period to which the premium relates and is remitted by the Company's insurer to the captive reinsurer. These premiums are structured such that the Company has made a prepaid collateral deposit estimated for losses related to the above coverage. The Captive insurer has estimated and collected an amount in excess of the estimated losses but less than the catastrophic loss limit insured by the Captive. The Company cannot be assessed over the amount in the collateral fund.

NOTE 13 - QUARTERLY FINANCIAL REPORTING (UNAUDITED)

Summary quarterly results are as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year ended December 31, 2018				
Total revenues	$ 19,804,272	$ 20,077,335	$ 18,796,356	$ 16,025,667
Gross profit	2,612,121	2,065,457	718,120	688,238
Income (loss) from operations	1,628,878	1,073,009	(153,933)	(301,677)
Net income (loss)	1,876,697	1,466,978	(182,218)	(444,870)
Basic and diluted earnings (loss) per unit	0.06	0.05	(0.01)	(0.01)
Year ended December 31, 2017				
Total revenues	$ 22,713,628	$ 21,612,598	$ 19,479,798	$ 21,015,764
Gross profit	2,220,455	2,015,355	1,968,680	2,363,353
Income from operations	1,213,883	1,151,750	1,134,221	1,350,698
Net income	1,610,424	1,314,299	1,815,347	1,645,013
Basic and diluted earnings per unit	0.05	0.04	0.06	0.07
Year ended December 31, 2016				
Total revenues	$ 21,623,796	$ 21,944,230	$ 20,983,806	$ 24,260,718
Gross profit	1,254,612	2,839,644	2,806,148	5,814,285
Income (loss) from operations	319,378	1,979,265	1,927,830	4,846,129
Net income	659,621	2,529,919	2,610,395	5,605,273
Basic and diluted earnings per unit	0.02	0.09	0.09	0.19

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

Our management, including our President and Chief Executive Officer (the principal executive officer), Scott Mundt, along with our Chief Financial Officer (the principal financial officer), Rob Buchholtz, have reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2018. Based on this review and evaluation, these officers have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods required by the forms and rules of the Securities and Exchange Commission; and to ensure that the information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

Inherent Limitations Over Internal Controls

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods is subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's Annual Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013. Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2018.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. As we are a non-accelerated filer, management's report is not subject to attestation by our registered public accounting firm pursuant to Section 404(c) of the Sarbanes-Oxley Act of 2002 that permits us to provide only management's report in this annual report.

<u>Changes in Internal Control Over Financial Reporting</u>.

There were no changes in our internal control over financial reporting during the fourth quarter of our fiscal year ended December 31, 2018 which were identified in connection with management's evaluation required by paragraph (d) of rules 13a-15 and 15d-15 under the Exchange Act that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. MANAGERS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item is incorporated by reference to the definitive information statement from our 2019 annual meeting of members to be filed with the Securities and Exchange Commission within 120 days after our 2018 fiscal year end on December 31, 2018. This information statement is referred to in this report as the 2019 Information Statement.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is incorporated by reference to the 2019 Information Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED MEMBER MATTERS.

The information required by this Item is incorporated by reference to the 2019 Information Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND MANAGER INDEPENDENCE.

The information required by this Item is incorporated by reference to the 2019 Information Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this Item is incorporated by reference to the 2019 Information Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

The following exhibits and financial statements are filed as part of, or are incorporated by reference into, this report:

(1) The financial statements appear beginning on page 32 of this report.

(2) All supplemental schedules are omitted because of the absence of conditions under which they are required or because the information is shown in the Consolidated Financial Statements or notes thereto.

(3) The exhibits we have filed herewith or incorporated by reference herein are identified in the Exhibit Index set forth below.

The following exhibits are filed as part of this report. Exhibits previously filed are incorporated by reference, as noted.

Exhibit No.	Exhibit	Filed Herewith	Incorporated by Reference
3.2	Amended and restated operating agreement of the registrant.		Filed as Exhibit 3.6 on the registrant's Form 10-K filed with the Commission on March 31, 2005 and incorporated by reference herein.
3.3	First amendment to the amended and restated operating agreement of the registrant.		Filed as Exhibit 99.1 on the registrant's Form 8-K filed with the Commission on March 19, 2007 and incorporated by reference herein.
3.4	Third Amendment to the Third Amended and Restated Operating Agreement of Lake Area Corn Processors, LLC dated January 9, 2018		Filed as Exhibit 99.1 on the registrant's Form 8-K filed with the Commission on January 10, 2018 and incorporated by reference herein.
10.1	Distillers Grains Marketing Agreement dated July 15, 2008 between RPMG, Inc. and Dakota Ethanol, L.L.C. +		Filed as Exhibit 10.1 on the registrant's Form 10-Q filed with the Commission on August 14, 2008 and incorporated by reference herein.
10.2	Contribution Agreement between Renewable Products Marketing Group, LLC and Dakota Ethanol, L.L.C. dated April 1, 2007.		Filed as Exhibit 10.1 on the registrant's Form 10-Q filed with the Commission on August 14, 2007 and incorporated by reference herein.
10.3	Addendum to Water Purchase Agreement dated February 28, 2007 between Big Sioux Community Water Systems, Inc. and Dakota Ethanol, L.L.C.		Filed as Exhibit 10.1 on the registrant's Form 10-K filed with the Commission on March 30, 2007.
10.4	Risk Management Agreement dated November 28, 2005 between FCStone, LLC and Dakota Ethanol, L.L.C.		Filed as Exhibit 10.1 on the registrant's Form 8-K filed with the Commission on December 2, 2005 and incorporated by reference herein.
10.5	Employment Agreement between Scott Mundt and Dakota Ethanol, L.L.C. dated April 1, 2009		Filed as Exhibit 10.1 on the registrant's Form 10-Q filed with the Commission on May 15, 2009 and incorporated by reference herein.
10.6	First Amended and Restated Construction Loan Agreement dated June 18, 2009 between First National Bank of Omaha and Dakota Ethanol, L.L.C.		Filed as Exhibit 10.1 on the registrant's Form 10-Q filed with the Commission on August 12, 2009 and incorporated by reference herein.
10.7	Corn Oil Marketing Agreement dated August 11, 2009 between RPMG, Inc. and Dakota Ethanol, L.L.C. +		Filed as Exhibit 10.2 on the registrant's Form 10-Q filed with the Commission on August 12, 2009 and incorporated by reference herein.
10.8	First Amendment to First Amended and Restated Construction Loan Agreement between Dakota Ethanol, L.L.C. and First National Bank of Omaha dated May 13, 2010.		Filed as Exhibit 10.1 on the registrant's Form 10-Q filed with the Commission on August 13, 2010 and incorporated by reference herein.
10.9	Long Term Reducing Revolving Promissory Note between Dakota Ethanol, L.L.C. and First National Bank of Omaha dated May 13, 2010.		Filed as Exhibit 10.2 on the registrant's Form 10-Q filed with the Commission on August 13, 2010 and incorporated by reference herein.
10.10	Operating Line of Credit Promissory Note between Dakota Ethanol, L.L.C. and First National Bank of Omaha dated May 13, 2010.		Filed as Exhibit 10.3 on the registrant's Form 10-Q filed with the Commission on August 13, 2010 and incorporated by reference herein.
10.11	Member Ethanol Fuel Marketing Agreement between Dakota Ethanol, LLC and RPMG, Inc. dated March 26, 2010. +		Filed as Exhibit 10.22 on the registrant's Form 10-K filed with the Commission on March 30, 2011 and incorporated by reference herein.
10.12	Second Amendment of First Amended and Restated Construction Loan Agreement dated May 12, 2011 between Dakota Ethanol, L.L.C. and First National Bank of Omaha.		Filed as Exhibit 10.1 on the registrant's Form 10-Q filed with the Commission on August 11, 2011 and incorporated by reference herein.
10.13	Operating Line of Credit First Amended and Restated Revolving Promissory Note dated May 12, 2011 between Dakota Ethanol, L.L.C. and First National Bank of Omaha.		Filed as Exhibit 10.2 on the registrant's Form 10-Q filed with the Commission on August 11, 2011 and incorporated by reference herein.

10.14	Long Term Reducing Revolver First Amended and Restated Promissory Note dated May 12, 2011 between Dakota Ethanol, L.L.C. and First National Bank of Omaha.	Filed as Exhibit 10.3 on the registrant's Form 10-Q filed with the Commission on August 11, 2011 and incorporated by reference herein.
10.15	Third Amendment of First Amended and Restated Construction Loan Agreement between Dakota Ethanol, L.L.C. and First National Bank of Omaha dated May 1, 2012.	Filed as Exhibit 10.1 on the registrant's Form 10-Q filed with the Commission on May 14, 2012 and incorporated by reference herein.
10.16	Second Amended and Restated Revolving Promissory Note (Operating Line of Credit) between Dakota Ethanol, L.L.C. and First National Bank of Omaha dated May 1, 2012.	Filed as Exhibit 10.2 on the registrant's Form 10-Q filed with the Commission on May 14, 2012 and incorporated by reference herein.
10.17	Second Amended and Restated Promissory Note (Long Term Reducing Revolver) between Dakota Ethanol, L.L.C. and First National Bank of Omaha dated May 1, 2012.	Filed as Exhibit 10.3 on the registrant's Form 10-Q filed with the Commission on May 14, 2012 and incorporated by reference herein.
10.18	Member Amended and Restated Marketing Agreement between RPMG, Inc. and Dakota Ethanol, L.L.C. dated August 27, 2012. +	Filed as Exhibit 10.1 on the registrant's Form 10-Q filed with the Commission on November 13, 2012 and incorporated by reference herein.
10.19	Fourth Amendment to First Amended and Restated Construction Loan Agreement between Dakota Ethanol, L.L.C. and First National Bank of Omaha dated May 1, 2013.	Filed as Exhibit 10.1 on the registrant's Form 10-Q filed with the Commission on May 13, 2013 and incorporated by reference herein.
10.20	Third Amended and Restated Revolving Promissory Note between Dakota Ethanol, L.L.C. and First National Bank of Omaha dated May 1, 2013.	Filed as Exhibit 10.2 on the registrant's Form 10-Q filed with the Commission on May 13, 2013 and incorporated by reference herein.
10.21	Credit Agreement between Farm Credit Services of America and Dakota Ethanol, L.L.C. dated May 15, 2013.	Filed as Exhibit 10.1 on the registrant's Form 10-Q filed with the Commission on August 13, 2013 and incorporated by reference herein.
10.22	First Amendment to Credit Agreement between Farm Credit Services of America and Dakota Ethanol, L.L.C. dated November 20, 2013.	Filed as Exhibit 10.22 on the registrant's Form 10-K filed with the Commission on February 27, 2014 and incorporated by reference herein.
10.23	Second Amendment to Credit Agreement between Farm Credit Services of America, PCA and Farm Credit Services of America, FLCA and Dakota Ethanol, L.L.C. dated November 12, 2014	Filed as Exhibit 10.1 on the registrant's Form 10-Q filed with the Commission on November 13, 2014 and incorporated by reference herein.
10.24	2015 Water Purchase Agreement dated December 17, 2014 between Big Sioux Community Water Systems, Inc. and Dakota Ethanol, L.L.C.	Filed as Exhibit 10.24 on the registrant's Form 10-K filed with the Commission on February 26, 2015 and incorporated by reference herein.
10.25	Third Amendment to Credit Agreement dated May 4, 2015 between Farm Credit Services of America, PCA and Farm Credit Services of America, FLCA and Dakota Ethanol, L.L.C.	Filed as Exhibit 10.1 on the registrant's Form 10-Q filed with the Commission on May 14, 2015 and incorporated by reference herein.
10.26	Fourth Amendment to Credit Agreement dated October 28, 2016 between Farm Credit Services of America, PCA and Farm Credit Services of America, FLCA and Dakota Ethanol, L.L.C.	Filed as Exhibit 10.1 on the registrant's Form 10-Q filed with the Commission on November 14, 2016 and incorporated by reference herein.
10.27	Fifth Amendment to Credit Agreement dated August 1, 2017 between Farm Credit Services of America, PCA and Farm Credit Services of America, FLCA and Dakota Ethanol, L.L.C.	Filed as Exhibit 10.1 on the registrant's Form 10-Q filed with the Commission on August 11, 2017 and incorporated by reference herein.
10.28	Master Agreement between Owner and Nelson Engineering, Inc. dated November 30, 2017.	Filed as Exhibit 10.28 on the registrant's Form 10-K filed with the Commission on March 2, 2018 and incorporated by reference herein.
10.29	Amended and Restated Credit Agreement dated February 2, 2018 between Farm Credit Services of America, PCA and Farm Credit Services of America, FLCA and Dakota Ethanol, L.L.C.	Filed as Exhibit 10.29 on the registrant's Form 10-K filed with the Commission on March 2, 2018 and incorporated by reference herein.

10.30	First Amendment to Amended and Restated Credit Agreement dated December 14, 2018 between Farm Credit Services of America, PCA and Farm Credit Services of America, FLCA and Dakota Ethanol, L.L.C.	X	Filed herewith
31.1	Certificate Pursuant to 17 CFR 240.13a-14(a)	X	Filed herewith
31.2	Certificate Pursuant to 17 CFR 240.13a-14(a)	X	Filed herewith
32.1	Certificate Pursuant to 18 U.S.C. Section 1350	X	Filed herewith
32.2	Certificate Pursuant to 18 U.S.C. Section 1350	X	Filed herewith
101	The following financial information from Lake Area Corn Processors, LLC's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2018 and December 31, 2017, (ii) Consolidated Statements of Income for the fiscal years ended December 31, 2018, 2017 and 2016, (iii) Statement of Changes in Members' Equity, (iv) Consolidated Statements of Cash Flows for the fiscal years ended December 31, 2018, 2017 and 2016, and (v) the Notes to Consolidated Financial Statements.**		

+ Confidential Treatment Requested
** Furnished herewith.

ITEM 16. FORM 10-K SUMMARY.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LAKE AREA CORN PROCESSORS, LLC

Date: February 28, 2019

/s/ Scott Mundt
Scott Mundt
President and Chief Executive Officer
(Principal Executive Officer)

Date: February 28, 2019

/s/ Rob Buchholtz
Rob Buchholtz
Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 28, 2019	/s/ Ronald Alverson Ronald Alverson, Manager
Date: February 28, 2019	/s/ Todd Brown Todd Brown, Manager
Date: February 28, 2019	/s/ Randy Hansen Randy Hansen, Manager
Date: February 28, 2019	/s/ Rick Kasperson Rick Kasperson, Manager
Date: February 28, 2019	/s/ Marty Thompson Marty Thompson, Manager
Date: February 28, 2019	/s/ Wayne Backus Wayne Backus, Manager
Date: February 28, 2019	/s/ Dave Wolles Dave Wolles, Manager

FIRST AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT

This First Amendment to Amended and Restated Credit Agreement ("Amendment") is made and entered into effective the 14th day of December, 2018, by and between **Dakota Ethanol, L.L.C., a South Dakota limited liability company** (hereinafter referred to as "Borrower") and **Farm Credit Services of America, PCA** and **Farm Credit Services of America, FLCA** (each and collectively "Lender") to amend and modify the Amended and Restated Credit Agreement dated February 2, 2018 (hereinafter referred to as the "Credit Agreement"). The Credit Agreement and underlying Loan Documents are modified only to the extent necessary to give effect to the terms of this Amendment, and the remaining terms of said Loan Documents, not otherwise inconsistent herewith, are ratified by the parties. Capitalized terms used but not otherwise defined herein have the respective meanings given to them in the Credit Agreement.

In consideration of the mutual agreements, provisions and covenants herein contained, and furthermore to induce Lender to consider financial accommodations for the Borrower under the terms and provisions of the Credit Agreement, the parties hereby agree as follows:

1. **Exhibit 'B' Compliance Certificate is hereby replaced with the attached Exhibit 'B'.**

2. **The following Section is hereby amended to read as follows:**

Section 6.12.2 Debt Service Coverage Ratio.
Borrower agrees to maintain a Debt Service Coverage Ratio of 1.25:1.00, measured at fiscal year-end. "Debt Service Coverage Ratio" shall be defined as [net profit plus depreciation and amortization, minus gain (loss) on sale of fixed assets] divided by $1,000,000.00 for fiscal years 2018 and 2019. For fiscal year 2020 and thereafter, the Debt Service Coverage Ratio shall be defined as [net profit plus depreciation and amortization, minus gain (loss) on sale of fixed assets] divided by $4,500,000.00.

Borrower hereby represents and warrants to the Lender that, after giving effect to this Amendment, (*i*) no Default or Event of Default exists under the Credit Agreement or any of the other Loan Documents and (*ii*) the representations and warranties set forth in the Credit Agreement are true and correct in all material respects as of the date hereof (except for those which expressly relate to an earlier date).

Borrower hereby ratifies the Credit Agreement as amended and acknowledges and reaffirms (*i*) that it is bound by all terms of the Credit Agreement applicable to it and (*ii*) that it is responsible for the observance and full performance of its respective obligations.

Borrower hereby certifies that the person(s) executing this Amendment on behalf of Borrower is/are duly authorized to execute such document on behalf of Borrower and that there have been no changes in the name, ownership, control, organizational documents, or legal status of the Borrower since the last application, loan, or loan servicing action; that all resolutions, powers and authorities remain in full force and effect, and that the information provided by Borrower is and remains true and correct.

This Amendment may be executed by the parties hereto in several counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same agreement. Delivery of executed counterparts of this Amendment by telecopy shall be effective as an original and shall constitute a representation that an original shall be delivered.

THIS AMENDMENT SHALL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEBRASKA. A CREDIT AGREEMENT MUST BE IN WRITING TO BE ENFORCEABLE UNDER NEBRASKA LAW. TO PROTECT YOU AND US FROM ANY MISUNDERSTANDINGS OR DISAPPOINTMENTS, ANY CONTRACT, PROMISE, UNDERTAKING OR OFFER TO FOREBEAR REPAYMENT OF MONEY OR TO MAKE ANY OTHER FINANCIAL ACCOMMODATION IN CONNECTION WITH THIS AMENDMENT MUST BE IN WRITING TO BE EFFECTIVE.

This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

IN WITNESS WHEREOF, the parties hereto have set their hand effective the day and year first above written.

BORROWER:

Dakota Ethanol, L.L.C.,
a South Dakota limited liability company

By: /s/ Scott Mundt
Scott Mundt, Chief Executive Officer

Address for Notice: P.O. Box 100, Wentworth, South Dakota 57075

LENDER:

Farm Credit Services of America, PCA and
Farm Credit Services of America, FLCA

By: /s/ Alisha Cobb, VP

Name: Alisha Cobb

Title: VP

Address for Notice: 5015 S 118th Street, PO Box 2409, Omaha, NE 68103-2409 United States

CERTIFICATION

I, Scott Mundt, certify that:

1. I have reviewed this annual report on Form 10-K of Lake Area Corn Processors, LLC;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2019

/s/ Scott Mundt

Scott Mundt,
Chief Executive Officer

CERTIFICATION

I, Robbi Buchholtz, certify that:

1. I have reviewed this annual report on Form 10-K of Lake Area Corn Processors, LLC;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2019

/s/ Robbi Buchholtz

Robbi Buchholtz,
Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this annual report on Form 10-K of Lake Area Corn Processors, LLC (the "Company") for the fiscal year ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott Mundt, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 28, 2019

/s/ Scott Mundt
Scott Mundt,
Chief Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this annual report on Form 10-K of Lake Area Corn Processors, LLC (the "Company") for the fiscal year ended December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robbi Buchholtz, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 28, 2019

/s/ Robbi Buchholtz
Robbi Buchholtz,
Chief Financial Officer