

ANNUAL STATEMENT

FARMERS UNION OIL COMPANY OF BEACH

Beach, North Dakota

Years Ended October 31, 2021 and 2020



OFFICERS AND DIRECTORS

Doug Davidson
Peter Schmeling
Adam Smith
Mark Lund
Chad Follmer

President
Vice-President
Secretary-Treasurer
Director
Director

* * * * *

Prepared From Audit Report of:
HENNEN & ASSOCIATES, P. L. C.
South St. Paul, Minnesota

Farmers Union Oil Company of Beach

2021 Annually Meeting

Minutes of Meeting March 1, 2021

Directors Present: Doug Davidson, Mark Lund, Peter Schmeling, Chad Follmer, Adam Smith

General Manager: Brian Sime

The 91st Annual Meeting of Farmers Union Oil Company of Beach was held on Monday, March 1st, 2021 at the Beach Community Center, Beach, North Dakota

The meeting was livestreamed through Zoom Video Teleconferencing for members unable to attend in person.

The meal was catered by Paul Ridenhower.

- Meeting was called to order at 6:01 pm by Board President Doug Davidson**
- The National Pledge of Allegiance commenced**
- It was explained that to qualify as a voting member, one must be a producer of an agricultural product.**
- Attention was called to the annual statement handout for the members which had been distributed with the previous annual meeting minutes enclosed for review during dinner.**

The meeting broke for dinner at 6:08 pm.

Meeting was called back to order at 6:45 pm by Board President Doug Davidson

- The register showed that 47 people were in attendance with 10 participating on Zoom.**
- With 31 producers in the meeting President Davidson declared quorum had been met.**
- The "Notice of Annual Meeting" was read by Secretary Adam Smith**

- The 2019 Annual Meeting minutes published in the Annual Statement were discussed**
 - └ Motion to approve 2020 minutes as printed made by Vernon Polensky,**
 - Seconded by Mark Lund**
 - └ Motion carries unanimously**

Yearly Audit

- A summarized financial audit report was presented by auditor Jeremy Barth from Hennen & Associates via Zoom**
 - └ Motion to approve the financial audit report was made by Gordon Ueckert,**
 - Seconded by Donnell Michels**

**FUOCoB
3/1/2021
Annual Meeting
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↳ Motion passes unanimously

- Door prizes were drawn.

Director Report

- Board President Davidson introduced the board members and presented a yearly overview from Board of Directors

- The boards plan to retire old patronage starting with the oldest and moving to more current as able was presented.

↳ Some patronage is dated over 90 years back

- An update of a long discussed new C-Store idea was given

↳ Due to the growing financial position of the cooperative, the board feels more comfortable in proceeding with pursuing the construction of a new C-Store.

↳ The board is looking into the feasibility of purchasing more land to accommodate the needs and size of a new C-Store as well as reviewing building plan proposals from numerous building contractors.

↳ Any major action will be presented and discussed with members when the time comes.

Election of one board member commenced.

- Doug Davidson's term is expiring

- Nominating committee consisted of Meilon Hildebrant and Darin Maus

- President Davidson requested nominations for the open director position.

↳ Daren Maus nominated Doug Davidson on behalf of the committee.

↳ No additional nominations were received.

↳ Board President Davidson temporarily relinquished the chair to Board Vice-President Schmeling for the election vote since he had been nominated.

↳ Motion was made by Vernon Polensky that nominations cease and a unanimous ballot be cast for Doug Davidson, Seconded by Darin Maus

↳ Motion cried

- Board President Davidson resumed the meeting chair.

Unfinished business

- There was no unfinished business

New business

- There was no new business

- Remainder of the door prizes were drawn

- With no other business or questions a motion to adjourn meeting was entertained.
- Motion to adjourn was made by Dave Davidson, seconded by Donnell Michels
 - ↳ motion carried
- Meeting adjourned at 7:20pm

(Minutes prepared by Secretary Director Adam Smith)



HENNEN & ASSOCIATES, P. L. C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Farmers Union Oil Company of Beach
Beach, North Dakota

We have audited the accompanying financial statements of Farmers Union Oil Company of Beach, Beach, North Dakota which comprise the balance sheets as of October 31, 2021 and 2020 and the related statements of operations, patrons' equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

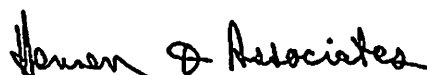
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Farmers Union Oil Company of Beach, Beach, North Dakota as of October 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Hennen & Associates, P. L. C.
South St. Paul, Minnesota
December 8, 2021

FARMERS UNION OIL COMPANY OF BEACH

Beach, North Dakota

BALANCE SHEETS

October 31, 2021 and 2020

| ASSETS: | <u>2021:</u> | <u>2020:</u> |
|---|----------------------------|----------------------------|
| CURRENT ASSETS: | | |
| Cash and Cash Equivalents | \$ 1,218,100 | \$ 1,163,838 |
| Accounts Receivable, Less Allowance for Doubtful Accounts | 967,604 | 831,344 |
| Merchandise Inventory | 1,228,848 | 968,272 |
| Prepaid Expense and Other Current Assets | <u>123,717</u> | <u>105,275</u> |
| Total Current Assets | 3,538,269 | 3,068,729 |
| PROPERTY, PLANT AND EQUIPMENT | 6,205,610 | 5,995,217 |
| Less Accumulated Depreciation | <u>4,716,527</u> | <u>4,402,968</u> |
| Book Value | 1,489,083 | 1,592,249 |
| INVESTMENTS AND OTHER ASSETS: | | |
| Investments in Cooperatives | 4,848,366 | 4,905,149 |
| Goodwill | <u>3,500</u> | <u>5,250</u> |
| Total Investments and Other Assets | <u>4,851,866</u> | <u>4,910,399</u> |
| TOTAL ASSETS | <u><u>\$ 9,879,218</u></u> | <u><u>\$ 9,571,377</u></u> |
| LIABILITIES AND PATRONS' EQUITIES: | | |
| CURRENT LIABILITIES: | | |
| Accounts Payable | \$ 687,664 | \$ 458,523 |
| Accrued Expense | 158,930 | 179,297 |
| Patrons' Credit Balances | 151,039 | 119,915 |
| Patronage Refunds Payable in Cash | - | 58,196 |
| Income Taxes | 2,300 | 66,900 |
| Current Portion of Long-term Debt | <u>-</u> | <u>70,861</u> |
| Total Current Liabilities | 999,933 | 953,692 |
| NON-CURRENT DEFERRED INCOME TAX | 41,000 | 49,000 |
| LONG-TERM DEBT | <u>-</u> | <u>137,499</u> |
| Total Liabilities | 1,040,933 | 1,140,191 |
| PATRONS' EQUITIES: | | |
| Patronage Equity Credits | 3,656,280 | 3,540,017 |
| Patronage Refunds For Reinvestment | - | 135,789 |
| Unallocated Capital Reserve | <u>5,182,005</u> | <u>4,755,380</u> |
| Total Patrons' Equities | <u>8,838,285</u> | <u>8,431,186</u> |
| TOTAL LIABILITIES AND PATRONS' EQUITIES | <u><u>\$ 9,879,218</u></u> | <u><u>\$ 9,571,377</u></u> |

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

FARMERS UNION OIL COMPANY OF BEACH

Beach, North Dakota

STATEMENTS OF OPERATIONS

Fiscal Years Ended October 31, 2021 and 2020

| | <u>2021:</u> | | <u>2020:</u> | |
|---|-------------------|---------------|-------------------|---------------|
| SALES | \$ 16,208,081 | 100.00% | \$ 13,284,960 | 100.00% |
| COST OF SALES | <u>13,308,908</u> | <u>82.11</u> | <u>10,333,864</u> | <u>77.79</u> |
| GROSS MARGIN | 2,899,173 | 17.89 | 2,951,096 | 22.21 |
| EXPENSES: | | | | |
| Personnel: | | | | |
| Salaries | 1,281,309 | | 1,314,923 | |
| Payroll Taxes | 90,686 | | 95,518 | |
| Employee Insurance | 280,558 | | 241,272 | |
| Workers Compensation | 4,528 | | 2,050 | |
| Pension Expense | <u>20,269</u> | | <u>20,419</u> | |
| | 1,677,350 | 10.35 | 1,674,182 | 12.60 |
| General: | | | | |
| Depreciation | 342,331 | | 325,600 | |
| Amortization | 1,750 | | 1,750 | |
| Insurance | 102,726 | | 113,197 | |
| Property and Business Taxes | 8,446 | | 8,007 | |
| Delivery Expense | 237,540 | | 269,378 | |
| Supplies and Repairs | 210,338 | | 195,224 | |
| Utilities | <u>43,114</u> | | <u>41,286</u> | |
| | 946,245 | 5.84 | 954,442 | 7.18 |
| Administrative: | | | | |
| Professional Services | 32,194 | | 26,446 | |
| Bad Debts | 14,673 | | 1,423 | |
| Advertising and Promotion | 43,958 | | 51,102 | |
| Directors' Fees and Expense | 3,676 | | 2,880 | |
| Meetings and Travel | 5,680 | | 5,381 | |
| Office Supplies and Expense | 49,929 | | 54,270 | |
| Credit Card Expense | 109,033 | | 80,473 | |
| Telephone | <u>20,891</u> | | <u>21,350</u> | |
| | 280,034 | 1.73 | 243,325 | 1.83 |
| Interest and Other: | | | | |
| Interest Expense | 1,489 | | 12,808 | |
| Service Charges | (46,493) | | (61,820) | |
| Other Expense | 50,386 | | 61,379 | |
| Other Revenue | <u>(371,107)</u> | | <u>(386,734)</u> | |
| | <u>(365,725)</u> | <u>(2.26)</u> | <u>(374,367)</u> | <u>(2.82)</u> |
| Total Expenses | <u>2,537,904</u> | <u>15.66</u> | <u>2,497,582</u> | <u>18.79</u> |
| LOCAL NET SAVINGS (LOSS) | 361,269 | 2.23 | 453,514 | 3.42 |
| PATRONAGE REFUNDS RECEIVED | 34,737 | .21 | 142,545 | 1.07 |
| JOINT VENTURE SHARE OF LOSS (INCOME) | <u>16,051</u> | <u>.10</u> | <u>(4,736)</u> | <u>(.04)</u> |
| SAVINGS (LOSS) BEFORE INCOME TAXES | 412,057 | 2.54 | 591,323 | 4.45 |
| INCOME TAXES | <u>17,920</u> | <u>.11</u> | <u>(74,372)</u> | <u>(.56)</u> |
| NET SAVINGS (LOSS) | <u>\$ 429,977</u> | <u>2.65%</u> | <u>\$ 516,951</u> | <u>3.89%</u> |

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

FARMERS UNION OIL COMPANY OF BEACH

Beach, North Dakota

STATEMENTS OF PATRONS' EQUITIES

Fiscal Years Ended October 31, 2021 and 2020

| | Patronage Equity Credits: | Patronage Refunds for Reinvestment: | Unallocated Capital Reserve: | Total: |
|-----------------------------|---------------------------------|---|------------------------------------|----------------------------|
| 10-31-2019 Balances | \$ 3,405,113 | \$ 108,013 | \$ 4,478,393 | \$ 7,991,519 |
| 2019 Patronage Distribution | 141,125 | (141,125) | | |
| Share Capital Adjustment | | 33,112 | (47,303) | (14,191) |
| Retirements | (6,221) | | | (6,221) |
| Void Old Patronage Checks | | | 1,324 | 1,324 |
| Net Savings for 10-31-2020 | | 193,985 | 322,966 | 516,951 |
| Provision for Cash Refunds | | (58,196) | | (58,196) |
| 10-31-2020 Balances | 3,540,017 | 135,789 | 4,755,380 | 8,431,186 |
| 2020 Patronage Distribution | 138,135 | (138,135) | | |
| Share Capital Adjustment | | 2,346 | (3,352) | (1,006) |
| Retirements | (21,872) | | | (21,872) |
| Net Savings for 10-31-2021 | | | 429,977 | 429,977 |
| 10-31-2021 Balances | <u>\$ 3,656,280</u> | <u>\$ -</u> | <u>\$ 5,182,005</u> | <u>\$ 8,838,285</u> |

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

FARMERS UNION OIL COMPANY OF BEACH

Beach, North Dakota

STATEMENTS OF CASH FLOWS

Fiscal Years Ended October 31, 2021 and 2020

| | <u>2021:</u> | <u>2020:</u> |
|--|----------------------------|----------------------------|
| Cash Flows from Operating Activities: | | |
| Cash Received From Patrons | \$ 16,145,830 | \$ 13,760,203 |
| Cash Paid to Suppliers and Employees | (15,614,182) | (12,667,986) |
| Interest Paid | (1,854) | (13,138) |
| Patronage Refunds Received in Cash | 36,553 | 142,441 |
| Income Taxes Paid | <u>(57,680)</u> | <u>(57,072)</u> |
| Net Cash Provided (Used) by Operating Activities | 508,667 | 1,164,448 |
| Cash Flows from Investing Activities: | | |
| Proceeds From Sale of Equipment | 50,646 | 126,800 |
| Purchase of Property, Plant and Equipment | (270,584) | (543,406) |
| Redemption of Investments in Cooperatives | <u>54,967</u> | <u>133,090</u> |
| Net Cash Provided (Used) by Investing Activities | (164,971) | (283,516) |
| Cash Flows from Financing Activities: | | |
| Debt Reduction: | | |
| Long-term | (208,360) | (67,454) |
| Patronage Refunds Paid in Cash | (59,202) | (60,483) |
| Retirements of Patrons' Equities | <u>(21,872)</u> | <u>(4,897)</u> |
| Net Cash Provided (Used) by Financing Activities | (289,434) | (132,834) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 54,262 | 748,098 |
| Cash and Cash Equivalents at Beginning of Year | <u>1,163,838</u> | <u>415,740</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 1,218,100</u> | <u>\$ 1,163,838</u> |
| Reconciliation of Net (Loss) Savings to Net Cash Provided (Used) by Operating Activities: | | |
| Net Savings (Loss) | \$ 429,977 | \$ 516,951 |
| Adjustments to Net Savings: | | |
| Depreciation and Amortization | 344,081 | 327,350 |
| Loss (Gain) on Sale of Equipment | (19,227) | (123,535) |
| Patronage Refunds Received as Investments | 1,816 | (104) |
| Joint Venture Proceeds (Profit)/Loss | (16,051) | 4,736 |
| (Increase) Decrease in Assets: | | |
| Accounts Receivable, Net | (105,136) | 413,742 |
| Merchandise Inventory | (260,576) | 78,968 |
| Prepaid Expense | (18,442) | (16,751) |
| Increase (Decrease) in Liabilities: | | |
| Accounts Payable and Accrued Expenses | 224,825 | (73,209) |
| Income Taxes Payable | (64,600) | 11,300 |
| Deferred Income Tax Liability | <u>(8,000)</u> | <u>25,000</u> |
| Total Adjustments | <u>78,690</u> | <u>647,497</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 508,667</u> | <u>\$ 1,164,448</u> |
| Supplementary Disclosures: | | |
| Trade-in Allowance on Equipment | \$ 9,000 | \$ - |

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

FARMERS UNION OIL COMPANY OF BEACH

Beach, North Dakota

NOTES TO FINANCIAL STATEMENTS

October 31, 2021 and 2020

(1) Summary of Significant Accounting Policies:

ORGANIZATION:

Farmers Union Oil Company of Beach (a North Dakota C-Corporation) is organized and operated on a cooperative basis for the purpose of supplying petroleum products, fertilizer, farm supplies and convenience items to its patrons and members. Revenues in excess of operating costs and expenses are allocated to patrons on a patronage basis. Transfers of patronage are permitted only with approval of the cooperative's board of directors.

USE OF ESTIMATES:

Management uses estimates and assumptions in preparing financial statements in accordance with U. S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

CASH EQUIVALENTS:

For the purpose of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less. Cash equivalents are stated at cost which approximates market value.

MARKETABLE SECURITIES:

The organization's marketable securities consist of equities that have a readily determinable fair market value. Since the organization does not intend to hold these securities to maturity and do not intend to sell them in the near term, these securities are classified as available for sale and accordingly, are valued based on unadjusted quoted prices in active markets for identical assets. Both realized and unrealized gains and losses on all marketable securities are determined by specific identification and are charged or credited to current earnings.

ACCOUNTS RECEIVABLE:

Accounts receivable arise from the sale of merchandise to the cooperative's patrons. The cooperative estimates its allowance for doubtful accounts based on an evaluation of historical bad debt experience and an evaluation of the aging and collectability of receivables. Accounts are considered past due when payment is not received within the period allowed under terms of the sale. The cooperative discontinues interest accrual at the time a receivable is charged off. The cooperative's board of directors periodically reviews past due receivables and charges off uncollectible accounts when all reasonable collection efforts have been exhausted.

INVENTORIES:

Inventories are valued at the lower of cost or market, with cost determined on the first-in, first-out method. Market is considered as net realizable value.

DERIVATIVES:

The company uses a combination of futures, options and forward contracts to hedge against the risk of price level changes in company owned contracts. These derivatives are effective economic hedges of the specified risks, although they are not designated and accounted for as hedging instruments.

PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are stated at cost. Maintenance and repair costs are charged to expense as incurred; renewals and betterments are capitalized. Depreciation and amortization of property, plant and equipment are calculated on the straight-line method.

NOTES TO FINANCIAL STATEMENTS - Continued:

GOODWILL AND INTANGIBLE ASSETS:

Goodwill and intangible assets with an indefinite life will be tested for impairment at least annually by comparing the fair values of those assets with their recorded amounts. All other intangible assets with a definite life will be recorded at the original purchase price less related expense. Amortization is computed using the straight-line method over the estimated useful lives of the intangible assets.

INVESTMENTS IN COOPERATIVES:

Investments are principally in other cooperatives and are recorded at their original cost, plus the face value of equities received as patronage refunds. The face value of equities redeemed by the other cooperatives is deducted from the investment balance. The investments are not transferable. No cash is received until such time as they are redeemed at the discretion of the other cooperative. Patronage refunds and redemptions are recorded in the year they are received.

INCOME TAXES:

As a cooperative not exempt from federal and state income taxes, the Cooperative is subject to income taxes on nonpatronage income or additions to the unallocated capital reserve. Deferred income taxes arise from timing differences resulting from income and expense items reported for financial accounting and tax purposes in different periods.

Management evaluates the likelihood that tax positions the company has taken on its income tax returns will prevail upon examination and bases its determination of uncertain tax positions on whether those positions have substantial support with the Internal Revenue Code, Income Tax Regulations, court rulings and other evidence. Management has determined that there are no material uncertain tax positions at the balance sheet date. When applicable, penalties and interest related to income taxes are recorded in other expense and interest expense, respectively. The cooperative's income tax filings are subject to audit by various taxing authorities and years ended October 31, 2018 to 2021 are open audit periods.

ADVERTISING:

The company expenses advertising costs as they are incurred.

SALES TAX:

The Company collects sales tax from nonexempt sales and remits the entire amount to the respective taxing authority. The Company's accounting policy is to exclude sales tax collected and remitted from revenues and cost of sales.

SHIPPING AND HANDLING CHARGES:

The Company reports shipping and handling fees charged to customers as part of net sales and the associated expense as part of cost of sales.

REVENUE RECOGNITION:

The Cooperative recognizes revenues from product sales when the products are shipped or delivered and the title and risk of loss pass to the customer. Provision for any rebates, sales incentives, promotions and product returns and discounts to customers are accounted for as reduction in revenues in the same period revenues are recorded. Revenue associated with customer prepayments is recognized as shipments are made and title, ownership, and risk of loss passes to the customer.

NEW ACCOUNTING PRONOUNCEMENTS:

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2016-13, Financial Instruments - Measurement of Credit Losses. This ASU intends to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by organizations. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Organizations will now use forward-looking information to better form their credit loss estimate. Many of the loss estimation techniques applied today will still be permitted, although the inputs of those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgement to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures that will help investors and other financial statement users better understand significant estimates and judgements used in estimated credit losses, as well as the credit quality and underwriting standards of an organization's portfolio.

NOTES TO FINANCIAL STATEMENTS - Continued:

NEW ACCOUNTING PRONOUNCEMENTS - Continued:

These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. For non-public organization, the ASU on credit losses will take effect for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2016-2, Lease (Topic 842). This ASU provides guidance on the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting standards and new disclosures on key information about leasing arrangements. The new standard supersedes current lease accounting requirements in FASB Accounting Standards Codification (ASC) Topic 840, Leases. When adopted, the amendments in the ASC must be applied using a modified retrospective approach. ASU No. 2016-02 is effective for nonpublic companies for annual periods beginning after December 15, 2021. The Cooperative is currently evaluating the impact of the provisions of ASC 842.

(2) Concentrations of Credit Risk:

The cooperative maintains cash and temporary investments in its financial institution(s). Balances on deposit in its financial institution(s) are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured. Total cash and temporary investments held exceed specified limits at various dates throughout the fiscal years ended October 31, 2021 and 2020. Unprotected deposits at the balance sheets dates were \$820,948 and \$855,212, respectively.

The cooperative grants credit to customers, substantially all of whom are agricultural producers operating in Golden Valley County and surrounding counties of western North Dakota and eastern Montana. The cooperative has no collateral policy and most of the credit granted is unsecured.

(3) Receivables:

Receivables at October 31 included the following elements:

| | <u>2021:</u> | <u>2020:</u> |
|---|-------------------|-------------------|
| Trade Accounts: | | |
| General Patrons | \$ 1,046,957 | \$ 910,892 |
| Directors and Employees | 20,647 | 20,452 |
| Allowance for Doubtful Accounts | <u>(100,000)</u> | <u>(100,000)</u> |
| | <u>\$ 967,604</u> | <u>\$ 831,344</u> |
| | | |
| Trade Accounts 90 Days or More Past Due | <u>\$ 155,725</u> | <u>\$ 225,165</u> |

(4) Merchandise Inventory:

Major classifications of inventories were:

| | <u>2021:</u> | <u>2020:</u> |
|------------------------|---------------------|-------------------|
| Petroleum Products | \$ 372,045 | \$ 217,392 |
| Farm and Home Products | <u>856,803</u> | <u>750,880</u> |
| | <u>\$ 1,228,848</u> | <u>\$ 968,272</u> |

(5) Property, Plant and Equipment:

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

| | <u>2021:</u> | <u>2020:</u> |
|----------------------------|---------------------|---------------------|
| Land and Land Improvements | \$ 300,785 | \$ 298,785 |
| Buildings | 723,463 | 714,074 |
| Machinery and Equipment | 3,008,095 | 2,870,037 |
| Field Service Equipment | 1,000,875 | 983,124 |
| Vehicles | <u>1,172,392</u> | <u>1,129,197</u> |
| | <u>\$ 6,205,610</u> | <u>\$ 5,995,217</u> |

NOTES TO FINANCIAL STATEMENTS - Continued:

(6) Investments In Cooperatives:

Investments in cooperatives are summarized as follows:

| | <u>2021:</u> | <u>2020:</u> |
|---------------------------------|---------------------|---------------------|
| CHS Inc. | \$ 4,844,338 | \$ 4,899,240 |
| Farmers Union Carriers | 3,419 | 1,934 |
| Land O' Lakes, Inc. | 609 | 3,419 |
| All Others (Under \$3,000 Each) | - | 556 |
| | <u>\$ 4,848,366</u> | <u>\$ 4,905,149</u> |

(7) Goodwill:

The Company has implemented the accounting alternative for subsequent measurement of goodwill ASU 2014-02. The cooperative acquired Goodwill as part of the buy-out of a NAPA dealership. The Goodwill is being amortized over a ten year period. Goodwill will be tested for impairment when a triggering event occurs that indicates that the fair value of the entity may be below its carrying amount.

Goodwill is summarized as follows:

| | <u>2021:</u> | <u>2020:</u> |
|-------------------------------|-----------------|-----------------|
| Goodwill | \$ 17,500 | \$ 17,500 |
| Less Accumulated Amortization | 14,000 | 12,250 |
| | <u>\$ 3,500</u> | <u>\$ 5,250</u> |

Future amortization expense is \$1,750 in 2021/2022, \$1,750 in 2022/2023, \$-0- in 2023/2024, \$-0- in 2024/2025, and \$-0- in 2025/2026.

(8) Operating Leases:

The cooperative leases various pieces of equipment under terms of short-term, single use leases.

(9) Short-term Debt:

| | <u>2021:</u> | <u>2020:</u> |
|---------------------------|--------------|--------------|
| First State Bank of Golva | 6.50% \$ - | 6.50% \$ - |

The cooperative maintains a \$1,000,000 line of credit with First State Bank of Golva issued August 8, 2020 which is secured with a security agreement dated August 21, 2008. The line of credit expires September 8, 2025. It is due on demand, but if no demand is made then monthly payments of accrued interest are due beginning October 14, 2020 and ending with accrued interest and principal due September 8, 2025.

(10) Long-term Debt:

| | <u>Due Date:</u> | <u>2021:</u> | <u>2020:</u> |
|---------------------------------|------------------|--------------|-------------------|
| First State Bank of Golva | 8-15-2023 | 4.00% \$ - | 4.00% \$ 208,360 |
| First State Bank of Golva - PPP | | 1.00% - | 1.00% - |
| Less Current Portion | | - | (70,861) |
| | | <u>\$ -</u> | <u>\$ 137,499</u> |

The First State Bank of Golva loan is secured by a mortgage and security agreement dated August 21, 2008. The security agreement covers Accounts and Other Rights of Payment, Inventory, Equipment, Instruments and Chattel Paper, General Intangibles, Documents, Government Payments and Programs, Investment Property, Deposit Accounts, and Patronage Dividends from all Participating Cooperatives. The mortgage covers all real property owned or acquired by the cooperative. This loan was paid in full during this period.

The First State Bank of Golva PPP loans were promissory notes made under the Small Business Administration (SBA) Paycheck Protection Program. The notes were to accrue interest at a rate of 1.00% per annum, calculated from the date of each advance until repayment of each advance. The cooperative has received forgiveness on these notes and those forgiveness amounts were recorded in Other Revenue in each year.

NOTES TO FINANCIAL STATEMENTS - Continued:

(11) Income Taxes:

Following are the significant components which make up the cooperative's income tax expense:

| | <u>2021:</u> | <u>2020:</u> |
|---|---------------------------|-------------------------|
| Previous Years Provision | \$ (66,900) | \$ (55,600) |
| Federal Income Taxes Paid/(Refunded) | 45,685 | 31,848 |
| State Income Taxes Paid/(Refunded) | 8,995 | 6,224 |
| Current Year Provision | <u>2,300</u> | <u>66,900</u> |
| Current Income Tax Expense (Benefit) | (9,920) | 49,372 |
| Deferred Income Tax Expense (Benefit) | <u>(8,000)</u> | <u>25,000</u> |
| Net Income Tax Expense (Benefit) | <u>\$ (17,920)</u> | <u>\$ 74,372</u> |

Following are the components which make up the cooperative's deferred income tax asset (liability):

| | | |
|--|---------------------------|---------------------------|
| Allowance for Doubtful Accounts | \$ 22,000 | \$ 22,000 |
| Accrual Balances Not Deductible | 14,000 | 17,000 |
| Accelerated Depreciation | <u>(77,000)</u> | <u>(88,000)</u> |
| Net Deferred Income Tax Asset (Liability) | <u>\$ (41,000)</u> | <u>\$ (49,000)</u> |

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

(12) Patron Equities:

The cooperative is a nonprofit membership corporation, organized without capital stock. Any person who is a producer of agricultural commodities, whether individual, partnership, cooperative or association may become a member of this cooperative by patronizing the cooperative in the purchase of merchandise or commodities in such amount and of such value as, in the sole discretion of the board of directors, will uniformly qualify such patron for membership. A membership in this cooperative shall automatically terminate at the end of any calendar year in which such member shall not have patronized this cooperative, or by action of the board of directors.

(13) Pension Plan:

The cooperative sponsors a defined contribution pension plan covering substantially all of its employees. Employer contributions are based on 2% of each eligible participant's compensation. In addition, the employer is allowed to make an optional employer profit sharing contribution each plan year. An employee must be at least 18 years old, have completed one year of service, have earned at least \$2,500 during the current fiscal year and be employed on the last day of the fiscal year. Pension costs for the fiscal years that ended October 31, 2021 and 2020 were \$20,269 and \$20,419, respectively.

(14) Commitments and Contingencies:

The cooperative is subject to Federal and State regulations regarding the care, delivery and containment of various petroleum and agronomy products which the cooperative either does or has handled. The cooperative is contingently liable for any contamination cleanup costs which arise from the handling, delivery and containment of these products. Management believes that it is not possible to estimate the possibility of a violation of environmental laws nor the potential negative impact of such an occurrence.

The cooperative periodically pre-buys merchandise for future delivery. Should the wholesale cost of this product drop substantially before delivery is taken on the contracted product, the cooperative could suffer a loss on the contract. Management is unable to predict the likelihood of such a price decrease nor its potential negative effect on the financial position of the cooperative.

NOTES TO FINANCIAL STATEMENTS - Continued:

(15) Subsequent Events:

Management has evaluated subsequent events through December 8, 2021, the date which the financial statements were available for issue.

(16) Change in Risk Factors:

The COVID-19 pandemic could have a material and adverse effect on our business, financial condition and results of operations. The extent to which COVID-19 will impact our business and our financial results will depend on future developments, which are highly uncertain and cannot be predicted. Such developments may include the ongoing geographic spread of the virus, the severity of the disease, the duration of the outbreak and the impact on the U.S. and the global economy. As a result, at the time of this report, it is not possible to predict the overall impact of COVID-19 on our future business, liquidity, capital resources and financial results.

(17) Sales Data:

The following is a summary of the major product lines:

| | <u>2021:</u> | <u>2020:</u> |
|--------------------|-----------------------------|-----------------------------|
| Petroleum Products | \$ 13,132,201 | \$ 10,344,009 |
| Farm and Home | 2,793,718 | 2,643,721 |
| Service | <u>282,162</u> | <u>297,230</u> |
| | <u>\$ 16,208,081</u> | <u>\$ 13,284,960</u> |

EMPLOYEES

| | |
|-------------------|---------------------------|
| Brian Sime | General Manager |
| Judy Kukowski | Bookkeeper |
| Tracey Streitz | Office/NAPA |
| Jeana Vollum | Bookkeeping/NAPA |
| Jacob Stoveland | NAPA/Shop |
| Briar Sime | NAPA |
| Greg Davidson | NAPA |
| Marty Davis | Bulk Fuel Delivery |
| Jason Lee | Bulk Fuel Delivery |
| John Kleker | Bulk Fuel Delivery |
| Jeff Mattern | Propane Delivery |
| Ty Sime | Propane Tech |
| Joel Fasching | Propane Tech |
| Paul Ridenhower | Propane Tech |
| Mike Walters | Shop |
| Ian Peterson | Shop |
| Matthew Barney | Shop |
| Doug Wojahn | Shop |
| James Beeler | Shop |
| Jim Groll | C-Store Manager |
| Sue Branden | C-Store Assistant Manager |
| Lori Brown | C-Store |
| Janie Rathbun | C-Store |
| Terry Stedman | C-Store |
| Kitty Knapkewicz | C-Store |
| Andrea Cunningham | C-Store |
| Marla Haugen | C-Store |
| Pat Dietz | C-Store |
| Brenna Miller | C-Store |
| Jerry Twardoski | C-Store Maintenance |
| Susan Stedman | Hot Stuff |
| Donald Miller | Hot Stuff |
| Sonja Groll | Hot Stuff |
| Brandon Miller | Hot Stuff |