

ANNUAL STATEMENT

FARMERS UNION OIL COMPANY OF BEACH

Beach, North Dakota

Years Ended October 31, 2020 and 2019



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

2020 Annually Meeting

Minutes of Meeting February 13, 2020

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

General Manager: Brian Sime

The 90th Annual Meeting of Farmers Union Oil Company of Beach was held on Monday, February 13th, 2020 at the Beach Community Center, Beach, North Dakota

The meal was catered by Paul Ridenhower.

Entertainment was provided by Border Line Band.

- Meeting was called to order at 6:02 pm by Board President Doug Davidson
- The National Pledge of Allegiance commenced

- The "Notice of Annual Meeting" was read by secretary Adam Smith
- The register showed that 82 people were in attendance. President Davidson declared quorum of 26 members had been met.

- 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 within and accompanied by the updated Open Accounts policy for review during dinner.
- A thank you was given to Golden Valley County Farmers Union for providing children's activities during the meeting.

The meeting broke for dinner at 6:07pm with entertainment commencing.

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

- A thank you and ovation was given to Paul Ridenhower and the food staff for the delicious meal as well as the Border Line Band for the dinner entertainment.
- The children were dismissed for their activities.

- The 2019 Annual Meeting minutes published in the Annual Statement were discussed
 - ↳ Motion to approve 2019 minutes as printed made by Pam Knopp,
Seconded by Judy Johnson
 - ↳ Motion carries unanimously

FUOCoB
2/13/2020
Annual Meeting
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Yearly Audit

- A summarized financial audit report was presented by GM Brian Sime
 - ↳ Motion to approve the financial audit report was made by Marty Davis,
Seconded by Pam Knopp
 - ↳ Motion passes unanimously

Director Report

- Board President Davidson presented a yearly overview from Board of Directors
- The previously discussed merger with Farmers Union of Baker has been tabled for the time being due to financial concerns on both sides.
- A bulk delivery and on-site tire service working agreement has been enacted instead of merger.
 - ↳ All bulk fuel and propane sales are managed out of Beach with the yearly profits being split 90% to FUC of Beach and 10% to FUC of Baker, based on the percentages of sales in each consumer region prior to the agreement.
 - ↳ If ever the working agreement turned back to a merger discussion, a member vote would still be required.
- The change to the Open Account Policy was explained with the addition to it of placing agricultural liens on 90 day past due and delinquent accounts.
- An update of a long discussed new C-Store idea was given
 - ↳ The Board has not abandoned the idea of a new building but does not feel it is financially responsible to start such a project at this time.

- Introduction of the board members commenced

GM Report

- A yearly managers report was presented by General Manager Brian Sime
- Acknowledgment of employees commenced
- One of the fuel delivery trucks is being swapped out as well as an addition of an updated tire service truck
- There is a need to upgrade fuel dispensers at the C-Store which will cost around \$150,000

Election of two board member commenced

- Alex Maus and Peter Schmeling's term is expiring
- Nominating committee consisted of Meilon Hildebrant and Darin Maus
- President Doug Davidson requested nominations for the first open director position.
 - ↳ Meilon Hildebrant nominated Chad Fullmer on behalf of the committee.
 - ↳ A nomination from the floor was made for Peter Schmeling

- ↳ No additional nominations were received.
 - ↳ With two nominations for the first open directors position, a vote of the members was called for and commenced, resulting in Peter Schmeling being elected to fill the directors seat.
- President Doug Davidson requested nominations for the Second open director position.
 - ↳ Meilon Hildebrant nominated Chad Fullmer on behalf of the committee.
 - ↳ A nomination from the floor was made for Dick Knopp
 - ↳ No additional nominations were received.
 - ↳ With two nominations for the second open directors position, a vote of the members was called for and commenced, resulting in Chad Fullmer being elected to fill the directors seat.
- A motion to destroy the ballots for both directors positions was made by Ron Davidson
 - ↳ Seconded by Pam Knopp
 - ↳ Motion carried
- Door prizes were drawn during the tabulation of each vote.

Unfinished business

- There was no unfinished business

New business

- There was no new business
- Dave Ekre spoke briefly on behalf of the Golden Valley County Farmers Union.
- 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 Marty Davis, seconded by Jason Lee
 - ↳ motion carried
- Meeting adjourned at 7:41pm

(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, 2020 and 2019 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

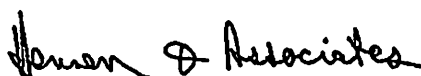
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2020 and 2019, 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 17, 2020

FARMERS UNION OIL COMPANY OF BEACH**Beach, North Dakota****BALANCE SHEETS**

October 31, 2020 and 2019

	<u>2020:</u>	<u>2019:</u>
ASSETS:		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 1,163,838	\$ 415,740
Accounts Receivable, Less Allowance for Doubtful Accounts	831,344	1,239,363
Merchandise Inventory	968,272	1,047,240
Prepaid Expense and Other Current Assets	<u>105,275</u>	<u>88,524</u>
Total Current Assets	3,068,729	2,790,867
PROPERTY, PLANT AND EQUIPMENT	5,995,217	5,687,718
Less Accumulated Depreciation	<u>4,402,968</u>	<u>4,310,010</u>
Book Value	1,592,249	1,377,708
INVESTMENTS AND OTHER ASSETS:		
Investments in Cooperatives	4,905,149	5,038,135
Goodwill	<u>5,250</u>	<u>7,000</u>
Total Investments and Other Assets	<u>4,910,399</u>	<u>5,045,135</u>
TOTAL ASSETS	<u>\$ 9,571,377</u>	<u>\$ 9,213,710</u>
LIABILITIES AND PATRONS' EQUITIES:		
CURRENT LIABILITIES:		
Accounts Payable	\$ 458,523	\$ 530,309
Accrued Expense	179,297	175,984
Patrons' Credit Balances	119,915	114,192
Patronage Refunds Payable in Cash	58,196	46,292
Income Taxes	66,900	55,600
Current Portion of Long-term Debt	<u>70,861</u>	<u>66,288</u>
Total Current Liabilities	953,692	988,665
NON-CURRENT DEFERRED INCOME TAX	49,000	24,000
LONG-TERM DEBT	<u>137,499</u>	<u>209,526</u>
Total Liabilities	1,140,191	1,222,191
PATRONS' EQUITIES:		
Patronage Equity Credits	3,540,017	3,405,113
Patronage Refunds For Reinvestment	135,789	108,013
Unallocated Capital Reserve	<u>4,755,380</u>	<u>4,478,393</u>
Total Patrons' Equities	<u>8,431,186</u>	<u>7,991,519</u>
TOTAL LIABILITIES AND PATRONS' EQUITIES	<u>\$ 9,571,377</u>	<u>\$ 9,213,710</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, 2020 and 2019

	<u>2020:</u>		<u>2019:</u>	
SALES	\$ 13,284,960	100.00%	\$ 15,920,106	100.00%
COST OF SALES	<u>10,333,864</u>	<u>77.79</u>	<u>12,797,990</u>	<u>80.39</u>
GROSS MARGIN	2,951,096	22.21	3,122,116	19.61
EXPENSES:				
Personnel:				
Salaries	1,314,923		1,323,823	
Payroll Taxes	95,518		96,554	
Employee Insurance	241,272		265,260	
Workers Compensation	2,050		876	
Pension Expense	<u>20,419</u>		<u>22,275</u>	
	1,674,182	12.60	1,708,788	10.73
General:				
Depreciation	325,600		318,588	
Amortization	1,750		1,750	
Insurance	113,197		94,718	
Property and Business Taxes	8,007		7,606	
Delivery Expense	269,378		259,139	
Supplies and Repairs	195,224		164,397	
Utilities	<u>41,286</u>		<u>45,249</u>	
	954,442	7.18	891,447	5.60
Administrative:				
Professional Services	26,446		27,094	
Bad Debts	1,423		5,595	
Advertising and Promotion	51,102		44,370	
Directors' Fees and Expense	2,880		3,287	
Educational Expense	-		2,000	
Meetings and Travel	5,381		7,319	
Office Supplies and Expense	54,270		43,521	
Credit Card Expense	80,473		92,578	
Telephone	<u>21,350</u>		<u>24,239</u>	
	243,325	1.83	250,003	1.57
Interest and Other:				
Interest Expense	12,808		24,119	
Service Charges	(61,820)		(43,420)	
Other Expense	61,379		75,892	
Other Revenue	<u>(386,734)</u>		<u>(10,793)</u>	
	(374,367)	(2.82)	45,798	.29
Total Expenses	<u>2,497,582</u>	<u>18.79</u>	<u>2,896,036</u>	<u>18.19</u>
LOCAL NET SAVINGS (LOSS)	453,514	3.42	226,080	1.42
PATRONAGE REFUNDS RECEIVED	142,545	1.07	116,819	.73
JOINT VENTURE SHARE OF INCOME	<u>(4,736)</u>	<u>(.04)</u>	-	
SAVINGS (LOSS) BEFORE INCOME TAXES	591,323	4.45	342,899	2.15
INCOME TAXES	<u>(74,372)</u>	<u>(.56)</u>	<u>(128,618)</u>	<u>(.81)</u>
NET SAVINGS (LOSS)	<u>\$ 516,951</u>	<u>3.89%</u>	<u>\$ 214,281</u>	<u>1.34%</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, 2020 and 2019

	Patronage Equity Credits:	Patronage Refunds for Reinvestment:	Unallocated Capital Reserve:	Total:
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
10-31-2018 Balances	\$ 3,429,788	\$ -	\$ 4,413,488	\$ 7,843,276
Retirements	(24,675)		4,929	(24,675)
Void Old Patronage Checks			4,929	4,929
Net Savings for 10-31-2019		154,305	59,976	214,281
Provision for Cash Refunds		(46,292)		(46,292)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
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)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
10-31-2020 Balances	<u>\$ 3,540,017</u>	<u>\$ 135,789</u>	<u>\$ 4,755,380</u>	<u>\$ 8,431,186</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, 2020 and 2019

	<u>2020:</u>	<u>2019:</u>
Cash Flows from Operating Activities:		
Cash Received From Patrons	\$ 13,760,203	\$ 16,655,239
Cash Paid to Suppliers and Employees	(12,667,986)	(15,444,479)
Interest Received	-	66
Interest Paid	(13,138)	(27,717)
Patronage Refunds Received in Cash	142,441	116,719
Income Taxes Paid	(57,072)	(36,050)
Income Taxes Refunded	-	46,959
Net Cash Provided (Used) by Operating Activities	1,164,448	1,310,737
Cash Flows from Investing Activities:		
Proceeds From Sale of Equipment	126,800	10,710
Purchase of Property, Plant and Equipment	(543,406)	(256,350)
Redemption of Investments in Cooperatives	133,090	49,744
Net Cash Provided (Used) by Investing Activities	(283,516)	(195,896)
Cash Flows from Financing Activities:		
Debt Reduction:		
Short-term	-	(624,917)
Long-term	(67,454)	(61,643)
Patronage Refunds Paid in Cash	(60,483)	-
Retirements of Patrons' Equities	(4,897)	(19,746)
Net Cash Provided (Used) by Financing Activities	(132,834)	(706,306)
Net Increase (Decrease) in Cash and Cash Equivalents	748,098	408,535
Cash and Cash Equivalents at Beginning of Year	415,740	7,205
Cash and Cash Equivalents at End of Year	\$ 1,163,838	\$ 415,740
Reconciliation of Net (Loss) Savings to Net Cash Provided (Used) by Operating Activities:		
Net Savings (Loss)	\$ 516,951	\$ 214,281
Adjustments to Net Savings:		
Depreciation and Amortization	327,350	320,338
Loss (Gain) on Sale of Equipment	(123,535)	(6,003)
Patronage Refunds Received as Investments	(104)	(100)
Joint Venture Proceeds (Profit)/Loss	4,736	-
(Increase) Decrease in Assets:		
Accounts Receivable, Net	413,742	697,308
Merchandise Inventory	78,968	(50,983)
Prepaid Expense	(16,751)	24,155
Deferred Income Tax Asset - Noncurrent	-	49,000
Increase (Decrease) in Liabilities:		
Checking Account Overdraft	-	(35,405)
Accounts Payable and Accrued Expenses	(73,209)	18,546
Income Taxes Payable	11,300	55,600
Deferred Income Tax Liability	25,000	24,000
Total Adjustments	647,497	1,096,456
Net Cash Provided (Used) by Operating Activities	\$ 1,164,448	\$ 1,310,737
Supplementary Disclosures:		
Stock Taken Against Bad Debt	\$ -	\$ 4,760

(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, 2020 and 2019

(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, 2017 to 2020 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.

(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, 2020 and 2019. Unprotected deposits at the balance sheets dates were \$855,212 and \$132,710, 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.

NOTES TO FINANCIAL STATEMENTS - Continued:**(3) Receivables:**

Receivables at October 31 included the following elements:

	<u>2020:</u>	<u>2019:</u>
Trade Accounts:		
General Patrons	\$ 910,892	\$ 1,313,498
Directors and Employees	20,452	25,865
Allowance for Doubtful Accounts	<u>(100,000)</u>	<u>(100,000)</u>
	<u>\$ 831,344</u>	<u>\$ 1,239,363</u>
Trade Accounts 121 Days or More Past Due	<u>\$ 225,165</u>	<u>\$ 213,869</u>

(4) Merchandise Inventory:

Major classifications of inventories were:

	<u>2020:</u>	<u>2019:</u>
Petroleum Products	\$ 217,392	\$ 290,156
Farm and Home Products	<u>750,880</u>	<u>757,084</u>
	<u>\$ 968,272</u>	<u>\$ 1,047,240</u>

(5) Property, Plant and Equipment:

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

	<u>2020:</u>	<u>2019:</u>
Land and Land Improvements	\$ 298,785	\$ 298,785
Buildings	714,074	714,074
Machinery and Equipment	2,870,037	2,732,691
Field Service Equipment	983,124	647,877
Vehicles	<u>1,129,197</u>	<u>1,294,291</u>
	<u>\$ 5,995,217</u>	<u>\$ 5,687,718</u>

(6) Investments In Cooperatives:

Investments in cooperatives are summarized as follows:

	<u>2020:</u>	<u>2019:</u>
CHS Inc.	\$ 4,899,240	\$ 4,993,153
Farmers Union Carriers	1,934	41,047
Land O' Lakes, Inc.	3,419	3,419
All Others (Under \$3,000 Each)	<u>556</u>	<u>516</u>
	<u>\$ 4,905,149</u>	<u>\$ 5,038,135</u>

NOTES TO FINANCIAL STATEMENTS - Continued:

(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>2020:</u>	<u>2019:</u>
Goodwill	\$ 17,500	\$ 17,500
Less Accumulated Amortization	<u>12,250</u>	<u>10,500</u>
	<u>\$ 5,250</u>	<u>\$ 7,000</u>

Future amortization expense is \$1,750 in 2020/2021, \$1,750 in 2021/2022, \$1,750 in 2022/2023, \$-0- in 2023/2024, and \$-0- in 2024/2025.

(8) Operating Leases:

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

(9) Short-term Debt:

	<u>2020:</u>	<u>2019:</u>
First State Bank of Golva	6.50% \$ <u>-</u>	6.50% \$ <u>-</u>

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>2020:</u>	<u>2019:</u>
First State Bank of Golva	8-15-2023	4.00% \$ 208,360	5.75% \$ 275,814
Less Current Portion		<u>(70,861)</u>	<u>(66,288)</u>
		<u>\$ 137,499</u>	<u>\$ 209,526</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.

Scheduled principal payments of long-term debt are \$70,861 in 2020/2021, \$73,748 in 2021/2022, \$63,751 in 2022/2023, \$-0- in 2023/2024 and \$-0- in 2024/2025.

NOTES TO FINANCIAL STATEMENTS - Continued:

(11) Income Taxes:

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

	<u>2020:</u>	<u>2019:</u>
Previous Years Provision	\$ (55,600)	\$ -
Federal Income Taxes Paid/(Refunded)	31,848	-
State Income Taxes Paid/(Refunded)	6,224	18
Current Year Provision	<u>66,900</u>	<u>55,600</u>
Current Income Tax Expense (Benefit)	49,372	55,618
Deferred Income Tax Expense (Benefit)	<u>25,000</u>	<u>73,000</u>
Net Income Tax Expense (Benefit)	<u>\$ 74,372</u>	<u>\$ 128,618</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	17,000	16,000
Accelerated Depreciation	<u>(88,000)</u>	<u>(62,000)</u>
Net Deferred Income Tax Asset (Liability)	<u>\$ (49,000)</u>	<u>\$ (24,000)</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, 2020 and 2019 were \$20,419 and \$22,275, 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 17, 2020, 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.

EMPLOYEES

Brian Sime	General Manager
Judy Kukowski	Bookkeeper
Tracey Streitz	Office/NAPA
Jeana Vollum	Bookkeeping/NAPA
Jacob Stoveland	NAPA/Shop
Paul Ridenhower	NAPA
Briar Sime	NAPA
Bob Schmeling	Bulk Fuel Delivery
Marty Davis	Bulk Fuel Delivery
Jason Lee	Bulk Fuel Delivery
John Kleker	Bulk Fuel Delivery
Doug Meek	Propane Tech/Delivery
Ty Sime	Propane Tech
Joel Fasching	Propane Tech
Steve Westrum	Shop
Mike Walters	Shop
Garrett Remilong	Shop
Doug Wojahn	Shop
James Beeler	Shop
Jeff Mattern	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
Bryon Reeve	C-Store
Jeff Schmeling	C-Store
Adam Trask	C-Store
Andrew Trask	C-Store
Pat Dietz	C-Store
Jerry Twardoski	C-Store Maintenance
Charlene Fasching	Hot Stuff
Susan Stedman	Hot Stuff
Brenna Miller	Hot Stuff
Donald Miller	Hot Stuff
Rebecca Benchouaf	Hot Stuff
Sonja Groll	Hot Stuff