

ANNUAL FINANCIAL REPORT

CLIFFORD FARMERS CO-OPERATIVE ELEVATOR COMPANY

CLIFFORD, NORTH DAKOTA

FOR PERIOD:
JANUARY 1, 2020 TO DECEMBER 31, 2020

Incorporated: July 10, 1918

STEVE BALDOCK, GENERAL MANAGER

OFFICERS AND DIRECTORS

Tim Garrett, President

Brent Kohls, Vice President

Don Satrom, Secretary & Treasurer

James Aarsvold

Chad Elbert

Scott Judisch

Nick Erickson

John Bower

Jesse Bring

Burke, Myers & Associates, Ltd.
3332 4th Avenue S • Suite 2A
Fargo, ND 58103-2201

Telephone: (701) 232-8400

EMPLOYEES

Galesburg

Dereck Clauson
Corey Verke
Craig Hutchins
Dave Ust
Josh Ziegler
Fred Vadnie
Randy Friesz

Office

Lona Flaten
Christina Leland
Shelly Satrom, Galesburg
Kristen Olstad, Galesburg
Mikenzie Elliott, Clifford

Hope

Mike Amundson, Assistant Manager
Lee Jacobson
Brandon Funk

Clifford

Mike Bjerke, Assistant Manager
Steve Olson
Robert Sanderson
Scott Haux
John Henn
Adam Giedd
Terry Haugen
Judd Wilson
Colton Huschka

Agronomy Department

Barry Dickhoff, Manager
Brandon Abell, Agronomist
Aaron Lee

Casselton

Brad Kjar, Grain Merchandiser
Doug Lingen, Grain Merchandiser

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Clifford Farmers Co-operative Elevator Company
Box 68
Clifford, ND 58016-0068

Report on the Financial Statements

We have audited the accompanying financial statements of Clifford Farmers Co-operative Elevator Company, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, changes in patrons' equity, 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 Clifford Farmers Co-operative Elevator Company as of December 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.

Respectfully submitted,



Burke, Myers & Associates, Ltd.
Fargo, North Dakota

February 19, 2021

CLIFFORD FARMERS CO-OPERATIVE ELEVATOR COMPANY

BALANCE SHEET

AS OF DECEMBER 31,

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents:		
Cash on Hand and in Bank	\$ 8,142,205.37	\$ 3,143,627.43
Investment Accounts	31,391,579.12	41,539,878.94
Margins Account	1,420,720.14	2,066,664.04
Total Cash and Cash Equivalents	\$ 40,954,504.63	\$ 46,750,170.41
Receivables:		
Accounts Receivable	\$ 2,004,126.35	\$ 2,541,908.32
Less: Reserve for Doubtful Accounts	(385,730.23)	(387,565.01)
Other Trade Receivables	102,689.03	24,844.99
Customer Purchase Advances	1,165,887.96	1,955,241.56
Accrued Gain on Open Contracts	7,788,917.94	
Grain in Transit - Net of Advances	702,704.35	1,999,193.12
Total Receivables	\$ 11,378,595.40	\$ 6,133,622.98
Inventories:		
Grain Inventory	\$ 38,771,765.17	\$ 24,424,178.38
Merchandise Inventory	9,486,702.61	6,103,792.03
Total Inventories	\$ 48,258,467.78	\$ 30,527,970.41
Prepaid Items	8,446,689.25	7,682,542.06
Total Current Assets	\$ 109,038,257.06	\$ 91,094,305.86
Property, Plant, and Equipment:		
Plant and Equipment - at cost	\$ 39,344,005.97	\$ 34,208,997.81
Construction in Progress		4,604,110.59
Less: Accumulated Depreciation	(27,338,674.51)	(25,755,494.64)
Land - at cost	235,961.68	235,961.68
Net Property, Plant, and Equipment	\$ 12,241,293.14	\$ 13,293,575.44
Other Assets:		
Investment in Alton Grain Terminal, LLC	\$ 5,675,283.40	\$ 5,756,895.63
Investment in Alton Agronomy, LLC	1,316,444.48	1,393,311.85
Investment in La Rinascente Pasta, LLC	13,113.69	12,292.31
Investment in Prairieland Ag, LLC	10,000.00	10,000.00
Investments in Regional and Other Local Cooperatives	1,341,311.25	1,231,824.93
LP Tank Receivables	62,498.74	57,661.83
Total Other Assets	\$ 8,418,651.56	\$ 8,461,986.55
TOTAL ASSETS	<u>\$ 129,698,201.76</u>	<u>\$ 112,849,867.85</u>

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

	<u>2020</u>	<u>2019</u>
LIABILITIES AND PATRONS' EQUITY		
Current Liabilities:		
Outstanding Checks	\$ 3,576,367.64	\$ 16,973,933.45
Grain Related Payables:		
Priced Grain Payable	\$ 10,314,903.51	\$ 6,619,508.53
Delayed Pricing & Basis Fixed Liability	32,940,275.62	33,186,153.44
Accrued Liability on Open Contracts		2,379,404.92
Deferred Payment Contracts	<u>24,146,799.49</u>	<u>2,644,824.52</u>
Total Grain Related Payables	\$ 67,401,978.62	\$ 44,829,891.41
Miscellaneous Payables:		
Accounts Payable	\$ 1,545,496.10	\$ 2,007,821.60
Accrued Expenses	1,251,270.63	1,335,808.77
Patron Credit Balances & Advance Payments	4,185,285.84	2,556,808.30
Patronage Dividend Declared Payable	6,500,000.00	4,300,000.00
Equity Retirements Declared Payable	<u>4,094,705.36</u>	<u>3,555,692.09</u>
Total Miscellaneous Payables	\$ 17,576,757.93	\$ 13,756,130.76
Seasonal Loans & Current Notes:		
Local Demand Notes Payable	<u>1,068,509.49</u>	<u>885,555.43</u>
Total Current Liabilities	\$ 89,623,613.68	\$ 76,445,511.05
Patrons' Equity:		
Capital Stock Preferred (Authorized 4,000 Shares \$100 par value, no shares issued or outstanding)		
Capital Stock Common (Authorized 1,000 Shares \$100 par value, 475.5 & 480.5 fully paid shares issued and outstanding)	\$ 47,550.00	\$ 48,050.00
Revolving Capital	20,973,097.92	17,289,801.31
Non-Qualified Notices of Allocation	5,760,499.79	6,143,680.03
Capital Reserve - Unallocated	<u>13,293,440.37</u>	<u>12,922,825.46</u>
Total Patrons' Equity	\$ 40,074,588.08	\$ 36,404,356.80
TOTAL LIABILITIES AND PATRONS' EQUITY	<u>\$ 129,698,201.76</u>	<u>\$ 112,849,867.85</u>

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

STATEMENT OF CHANGES IN PATRONS' EQUITY
FOR PERIOD: JANUARY 1, 2020 TO DECEMBER 31, 2020

	<u>Capital Stock Common</u>	<u>Revolving Capital</u>	<u>Non-Qualified Notices</u>	<u>Unallocated Capital Reserve</u>
Balance as of 1-1-2020	\$ 48,050.00	\$ 17,289,801.31	\$ 6,143,680.03	\$ 12,922,825.46
Underallocation of 12-31-19 Patronage Dividend		(21,033.00)	(34,315.52)	76,386.27
Equity Retirements		(281.08)	(48.67)	
<u>Equity Retirements Payable:</u>				
Estates and Age Retirement 100% of 2016	(500.00)	(131,112.53) (2,664,276.78)	(39,621.04) (1,259,195.01)	
<u>Distribution:</u>				
0.88% of Net Proceeds to Unallocated Capital Reserve				126,045.16
Non-Patronage Net Income				168,183.48
Non-Qualified Notices of Allocation			950,000.00	
50% of Qualified Patronage to Revolving Capital		6,500,000.00		
BALANCE AS OF 12-31-2020	<u>\$ 47,550.00</u>	<u>\$ 20,973,097.92</u>	<u>\$ 5,760,499.79</u>	<u>\$ 13,293,440.37</u>

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

FOR PERIOD: JANUARY 1, 2019 TO DECEMBER 31, 2019

	<u>Capital Stock Common</u>	<u>Revolving Capital</u>	<u>Non-Qualified Notices</u>	<u>Unallocated Capital Reserve</u>
Balance as of 1-1-2019	\$ 48,300.00	\$ 16,573,475.41	\$ 5,217,760.97	\$ 12,421,507.23
Underallocation of 12-31-18 Patronage Dividend		(38,894.91)	(27,053.77)	104,997.54
Equity Retirements	(50.00)	10,033.02	3,652.71	
<u>Equity Retirements Payable:</u>				
Estates and Age Retirement 100% of 2015	(200.00)	(9,820.47) (3,544,991.74)	(679.88)	
<u>Distribution:</u>				
0.39% of Net Proceeds to Unallocated Capital Reserve				39,468.52
Non-Patronage Net Income				356,852.17
Non-Qualified Notices of Allocation			950,000.00	
50% of Qualified Patronage to Revolving Capital		4,300,000.00		
BALANCE AS OF 12-31-2019	<u>\$ 48,050.00</u>	<u>\$ 17,289,801.31</u>	<u>\$ 6,143,680.03</u>	<u>\$ 12,922,825.46</u>

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

STATEMENT OF OPERATIONS
FOR YEARS ENDING DECEMBER 31,

	<u>2020</u>	<u>2019</u>
GROSS SALES	\$ 279,150,456.16	\$ 295,789,177.44
Deduct Cost of Sales:		
Beginning Net Inventory	\$ 30,527,970.41	\$ 38,203,950.94
Purchases During Year	283,088,984.49	276,645,080.45
Less: Ending Net Inventory	<u>(48,258,467.78)</u>	<u>(30,527,970.41)</u>
Total Cost of Sales	<u>\$ 265,358,487.12</u>	<u>\$ 284,321,060.98</u>
GROSS PROCEEDS FROM TRADING	\$ 13,791,969.04	\$ 11,468,116.46
Add: Storage & Handling	\$ 2,260,428.42	\$ 1,219,969.52
Local Services - See Note #16	1,743,466.23	1,114,768.61
Trucking Income	932,131.36	902,609.73
Miscellaneous Rent	3,900.00	3,900.00
Finance Charges	130,990.96	170,631.74
Interest Income	673,705.41	1,319,094.42
PPP Loan Forgiveness	621,610.42	
Gain on Asset Disposition	<u>29,212.16</u>	<u>152,398.54</u>
Total Service & Other Income	<u>\$ 6,395,444.96</u>	<u>\$ 4,883,372.56</u>
GROSS PROCEEDS FROM LOCAL OPERATIONS	\$ 20,187,414.00	\$ 16,351,489.02
Less: General Expenses	\$ 5,524,800.35	\$ 5,768,011.01
Interest Expense	31,158.77	48,925.44
Depreciation	<u>1,873,000.98</u>	<u>2,129,302.20</u>
Total Expenses	<u>\$ 7,428,960.10</u>	<u>\$ 7,946,238.65</u>
NET LOCAL PROCEEDS	\$ 12,758,453.90	\$ 8,405,250.37
Add: Patronage Dividends Received		
Div. From Other Co-ops. - Cash	\$ 333,826.57	\$ 352,461.07
Div. From Other Co-ops. - Non-Cash	<u>112,150.83</u>	<u>168,163.60</u>
Total Patronage Dividends Received	\$ 445,977.40	\$ 520,624.67
Add: Earnings From Alton Grain Terminal, LLC	968,234.71	811,824.00
Earnings From Alton Agronomy, LLC	123,132.63	270,925.25
Earnings From La Rinascente Pasta, LLC	<u>4,264.00</u>	<u>536.00</u>
NET PROCEEDS BEFORE INCOME TAXES	\$ 14,300,062.64	\$ 10,009,160.29
Less: Income Tax (Expense) Benefit		
Federal	(49,094.00)	(104,140.00)
State	<u>(6,740.00)</u>	<u>41,300.40</u>
NET PROCEEDS FOR THE YEAR	<u>\$ 14,244,228.64</u>	<u>\$ 9,946,320.69</u>

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

	<u>2020</u>	<u>2019</u>
<u>Distribution of Net Proceeds as follows:</u>		
<u>Association Net Proceeds:</u>		
0.88% for 2020 & 0.39% for 2019 Of Net Proceeds to Unallocated Capital Reserve	\$ 126,045.16	\$ 39,468.52
Non-Patronage Net Income	<u>168,183.48</u>	<u>356,852.17</u>
Association Net Proceeds	\$ 294,228.64	\$ 396,320.69
 <u>Patrons' Net Proceeds:</u>		
50% for 2020 and 50% for 2019 Cash Patronage Dividend	\$ 6,500,000.00	\$ 4,300,000.00
50% for 2020 and 50% for 2019 Reinvested in Revolving Capital	6,500,000.00	4,300,000.00
Non-Qualified Notices of Allocation	<u>950,000.00</u>	<u>950,000.00</u>
Patrons' Net Proceeds	<u>\$ 13,950,000.00</u>	<u>\$ 9,550,000.00</u>
 TOTAL DISTRIBUTION	 <u><u>\$ 14,244,228.64</u></u>	 <u><u>\$ 9,946,320.69</u></u>

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

STATEMENT OF CASH FLOWS
FOR YEARS ENDING DECEMBER 31,

	<u>2020</u>	<u>2019</u>
Cash Provided by (Used for) Operations:		
Net Proceeds for the Year	\$ 14,244,228.64	\$ 9,946,320.69
Add (Deduct) Non-Cash Items:		
Depreciation	1,873,000.98	2,129,302.20
Non-Cash Dividends from Other Co-ops.	(112,150.83)	(168,163.60)
Earnings from La Rinascente Pasta, LLC Reinvested	(821.38)	
(Gain) Loss on Asset Disposition	(29,212.16)	(152,398.54)
Changes in Certain Elements of Working Capital:		
Receivables	(5,249,809.33)	(2,314,817.23)
Inventories	(17,730,497.37)	7,675,980.53
Prepaid Items	(764,147.19)	(1,982,377.42)
Payables	23,653,701.11	(11,787,313.84)
Cash Provided by (Used for) Operations	<u>\$ 15,884,292.47</u>	<u>\$ 3,346,532.79</u>
Cash Provided by (Used for) Investing Activities:		
Investments in Other Co-ops. Received	\$ 2,664.51	\$ 7,289.59
Cash Distribution from La Rinascente Pasta, LLC		2,906.62
Cash Distribution from AA, LLC	76,867.37	
Cash Distribution from AGT, LLC	81,612.23	293,278.05
Proceeds from Disposal of Fixed Assets	205,200.00	522,871.64
Purchase of Fixed Assets	(996,706.52)	(5,390,112.37)
Cash Provided by (Used for) Investing Activities	<u>\$ (630,362.41)</u>	<u>\$ (4,563,766.47)</u>
Cash Provided by (Used for) Financing Activities:		
Change in Outstanding Checks	\$ (13,397,565.81)	\$ 12,051,500.55
Change in Seasonal Loan		(1,095,924.00)
Change In Short-Term Local Notes Payable	182,954.06	(10,128.16)
Retirement of Common Stock	(200.00)	(250.00)
Retirement of Revolving Capital	(3,555,093.29)	(3,248,625.21)
Non-Qualified Notices Redeemed	(728.55)	(1,519,114.57)
Patronage Dividend Paid	(4,278,962.25)	(3,710,951.14)
Cash Provided by (Used for) Financing Activities	<u>\$ (21,049,595.84)</u>	<u>\$ 2,466,507.47</u>
Increase or (Decrease) in Cash	\$ (5,795,665.78)	\$ 1,249,273.79
Cash and Cash Equivalents, January 1	<u>46,750,170.41</u>	<u>45,500,896.62</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31	<u>\$ 40,954,504.63</u>	<u>\$ 46,750,170.41</u>
Interest Paid	\$ 43,835.55	\$ 41,699.40
Income Tax Paid	\$ 106,934.00	\$ 98,839.60

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

CLIFFORD FARMERS COOPERATIVE ELEVATOR COMPANY

NOTES TO FINANCIAL STATEMENTS

FOR YEAR ENDED DECEMBER 31, 2020

Note 1 - Summary of Significant Accounting Policies

Nature of Operations: The Company is C-Corporation operating as a cooperative. Operations include the agricultural industry, which includes the buying and selling of ag commodities, ag inputs and related agribusiness services. The Company operates facilities in Clifford, Hope, Galesburg and Casselton, ND.

Use of Estimates: Management uses estimates and assumptions in preparing financial statements in accordance with 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.

Revenue Recognition: The Company recognizes revenue from the sale of grain and various retail products, as well as the performance of various services for its customers. The Company recognizes revenue at the transaction price the Company expects to be entitled to at the point in time when the Company satisfies its performance obligation by transferring control of a product or service to a customer in accordance with the terms of the underlying contract. For a majority of the Company's contracts with customers, control transfers to a customer at the point in time when the products or services have been delivered which is, generally, when legal title, physical possession, and risk and rewards of ownership transfer to the customer. In certain circumstances, control transfers over time as the customer simultaneously

Fair Value Measurements: The Company determines the fair value of certain assets and liabilities in accordance with the provisions of FASB ASC 820 "Fair Value Measurements and Disclosures". Fair value is defined as the price that would be received to sell an asset, or the price that would be paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The standard establishes a valuation hierarchy, which prioritizes the valuation inputs into three broad levels as follows:

Level 1: inputs consist of quoted prices in active markets for identical assets and liabilities.

Level 2: inputs consist of quoted prices for similar assets and liabilities in active markets, or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration.

Level 3: inputs consist of unobservable inputs based on the Company's own assumptions used to measure assets and liabilities at fair value.

Concentration Risk:

1. The Company primarily transacts its business with two financial institutions. Deposits in these financial institutions periodically exceed FDIC's insured limits with these financial institutions. Deposits in these financial institutions were \$2,713.19 and \$4,168,350.97 as of December 31, 2020.
2. The Company periodically has deposits with ADM Investor Services, Inc. who holds the Company's commodity brokerage account. These funds are unsecured and uninsured.
3. The Company has a cash management system established with CoBank, Denver, CO. This results in deposits with CoBank in their investline program and in their checking accounts. Deposits with CoBank are not covered under FDIC's insurance limits.
4. The Company grants credit to patrons', substantially all of who are local residents in the regional trade area, who are primarily involved in agribusiness. Most of the credit granted is unsecured with no collateral policy.

Accounting Changes: Certain items have been reclassified in the 2019 statement to conform to the format of the 2020 statement.

Note 2 – Change in Accounting Principle

As of January 1, 2020, the Company adopted the provisions of FASB ASC Topic 606 “Revenue from Contracts with Customers”, which provides a comprehensive revenue recognition model to account for revenue from contracts with customers. The new model requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company adopted this new standard using the modified retrospective approach, which had no significant or material effect on the prior year financial statements.

Note 3 - Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consist of cash on hand, deposits in various banks, excess funds in CoBank, and net amounts in the commodity hedge account.

Note 4 - Receivables:

1. Accounts Receivable - are from sales of ag inputs and services to its agricultural customers. The Company evaluates the collectibility of all receivables at year-end. Amounts considered uncollectible are written off when such determination is made. Amounts considered doubtful of collection are reserved in a reserve for doubtful accounts.

Aging of Accounts Receivable are as follows:

	<u>12/31/2020</u>	<u>12/31/2019</u>
30 Days & Under	\$ 402,700.39	\$ 460,741.74
Deferred Billing	370,919.64	102,865.63
31 to 60 Days	138,006.35	22,642.56
61 Days to 1 Year	1,036,715.62	1,876,397.91
1 Year & Over	<u>55,784.35</u>	<u>79,260.48</u>
Total Accounts Receivable	<u>\$ 2,004,126.35</u>	<u>\$ 2,541,908.32</u>

2. Reserve for Doubtful Accounts - the Company establishes a reserve for uncollectible accounts receivable based on historical collection experience and management’s evaluation of collectibility of outstanding accounts receivable.
3. Other Trade Receivables – for 2020 is a receivable for chemical rebates received in January 2021.
4. Customer Purchase Advances - are primarily advances given to producers in the area who have grain stored in the elevator or have contracted grain for nearby delivery. The grain in the elevator or the purchase contract serves as collateral on the advance.
5. Derivative Contract Accruals - the Company utilizes future contracts, option contracts, and forward purchase and sales contracts to hedge against price level change risk in grain and fertilizer inventories and grain and fertilizer liabilities. These contracts are considered as a fair value hedge. Gains and losses on these designated fair value hedge derivatives are included within the sales or cost of sales of these grain and fertilizer items. The open contractual obligations are compared to market value and any corresponding accrued gain or loss are booked to the income statement and included in the sales or cost of sales. Details of derivative contracts are as follows:

	<u>12/31/2020</u>	<u>12/31/2019</u>
Balance in Commodity Hedge Accounts	\$ 9,142,320.14	\$ 1,578,639.04
Add (Subtract) Open Futures Positions	<u>(7,721,600.00)</u>	<u>488,025.00</u>
Net Liquid Value in Margin Account	<u>\$ 1,420,720.14</u>	<u>\$ 2,066,664.04</u>
Accrued Equity on Grain Purchase Contracts	\$ 6,820,658.92	\$ (4,751,100.87)
Accrued Equity on Grain Sales Contracts	<u>968,259.02</u>	<u>2,371,695.95</u>
Net Gain (Loss) on Open Contracts	<u>\$ 7,788,917.94</u>	<u>\$ (2,379,404.92)</u>

6. Grain in Transit, Net of Advances – is a receivable for grain that has been shipped as of the balance sheet date and payment will be received in the subsequent period. The transit grain is categorized as either priced or unpriced. Priced transit grain has been sold and is priced according to confirmation of sales or actual grain settlements in the subsequent period. Unpriced transit grain has been shipped to another facility but has not been fully priced as of the balance sheet date. Title to this unpriced transit grain has passed to the other facility and it is priced according to their market as of the balance sheet date. The transit grain is shown net of any applicable advances received.

Note 5 – Inventories

1. Grain inventories and all corresponding grain liabilities have been designated as a hedged item in a fair value hedge. These grain inventories and the corresponding grain liabilities are valued at current market value.
2. Merchandise inventories consist of agronomic products, propane and miscellaneous merchandise and are valued at lower of cost or net realizable value.

Note 6 - Prepaid Items

Prepaid items are expenses, merchandise orders, or credits for returns. These items are either expenses paid in advance or credits that have not yet been received. The major categories of prepaid items are as follows:

	<u>12/31/2020</u>	<u>12/31/2019</u>
Prepaid General Expenses	\$ 152,727.89	\$ 143,540.05
Supply House Credits (Advanced payment or returns for credit)	8,237,861.36	7,452,545.01
Estimated Tax Deposits	108,000.00	189,457.00
Less: Provision for Income Taxes	<u>(51,900.00)</u>	<u>(103,000.00)</u>
Total Prepaid Items	<u>\$ 8,446,689.25</u>	<u>\$ 7,682,542.06</u>

Note 7 - Property, Equipment and Depreciation

Property and equipment are carried at cost. Depreciation is calculated using the straight-line method over their estimated useful lives. Maintenance and repair costs are expensed as incurred. Expenditures, which materially increase values or extend the useful life of existing fixed assets are capitalized.

Estimated useful lives of assets for depreciation are as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Useful Life</u>
Buildings	\$ 19,956,900.69	\$ 12,150,279.34	5 to 50 Years
Permanent Equipment	12,828,523.62	10,193,695.36	5 to 25 Years
Mobile Equipment	<u>6,558,581.66</u>	<u>4,994,699.81</u>	3 to 15 Years
Totals	<u>\$ 39,344,005.97</u>	<u>\$ 27,338,674.51</u>	

The Company reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If expected future cash flows are less than the carrying value, an impairment loss will be recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. As of December 31, 2020, there have been no impairment adjustments to the carrying value of fixed assets.

Note 8 - Investment in LLC's

- Effective June 2001, the Company made a capital investment in Alton Grain Terminal, LLC, which is an LLC that owns and operates a high-speed grain terminal in Hillsboro, ND. The capital investment by the Company bought an 18% ownership interest in the LLC. With the merger of Galesburg Cooperative Elevator Company, the Company acquired an additional 18.10% ownership interest in the LLC. Effective September 1, 2017 the LLC purchased a membership interest of 2%, thereby increasing the Company's ownership to 36.8367%. The fiscal year end of Alton Grain Terminal, LLC is August 31st, and the Company is reporting it's earnings from the LLC on the equity method. The investment in Alton Grain Terminal, LLC is as follows:

	<u>12/31/2020</u>	<u>12/31/2019</u>
18% Capital Investment	\$ 804,800.00	\$ 804,800.00
18.1% Capital Investment-Galesburg Merger	947,355.00	947,355.00
Accumulated Earnings Reinvested	<u>3,923,128.40</u>	<u>4,004,740.63</u>
Total Investment in Alton Grain Terminal, LLC	<u>\$ 5,675,283.40</u>	<u>\$ 5,756,895.63</u>
	<u>12/31/2020</u>	<u>12/31/2019</u>
Beginning of Year Balance	\$ 5,756,895.63	\$ 6,050,173.68
Current Year GAAP Earnings	968,234.71	811,824.00
Less: Cash Distributions	<u>(1,049,846.94)</u>	<u>(1,105,102.05)</u>
End of Year Balance	<u>\$ 5,675,283.40</u>	<u>\$ 5,756,895.63</u>

Condensed Financial Information of Alton Grain Terminal, LLC:

	<u>8/31/2020</u>	<u>8/31/2019</u>
Current Assets	\$ 27,213,982	\$ 25,459,778
Property, Plant & Equipment	7,763,428	8,291,670
Other Assets	509,651	509,651
Total Assets	<u>\$ 35,487,061</u>	<u>\$ 34,261,099</u>
Current Liabilities	\$ 20,859,556	\$ 19,488,610
Long-Term Liabilities	76,568	
Member Equity	14,550,937	14,772,489
Total Liabilities & Equity	<u>\$ 35,487,061</u>	<u>\$ 34,261,099</u>
Gross Sales	\$ 102,448,569	\$ 131,702,399
Net Income	\$ 2,628,449	\$ 2,203,844

2. Effective October 2003, the Company invested \$260,000 for a 16.67% equity ownership in Alton Agronomy, LLC. With the merger of Galesburg Cooperative Elevator Company, the Company acquired an additional 16.67% ownership interest in the LLC. Alton Agronomy, LLC is a high-speed wholesale dry fertilizer plant in Hillsboro, ND. The LLC has three other members, with two each owning 16.67%, and one owning 33.33%. The year-end for Alton Agronomy, LLC is September 30th and the Company is reporting their earnings using the equity method. The investment in Alton Agronomy, LLC is as follows:

	<u>12/31/2020</u>	<u>12/31/2019</u>
16.67% Capital Investment	\$ 260,000.00	\$ 260,000.00
16.67% Capital Investment-Galesburg Merger	260,000.00	260,000.00
Accumulated Earnings Reinvested	796,444.48	873,311.85
Total Investment in Alton Agronomy, LLC	<u>\$ 1,316,444.48</u>	<u>\$ 1,393,311.85</u>

	<u>12/31/2020</u>	<u>12/31/2019</u>
Beginning of Year Balance	\$ 1,393,311.85	\$ 1,393,311.85
Current Year GAAP Earnings	123,132.63	270,925.25
Less: Cash Distributions	<u>(200,000.00)</u>	<u>(270,925.25)</u>
End of Year Balance	<u>\$ 1,316,444.48</u>	<u>\$ 1,393,311.85</u>

Condensed Financial Information of Alton Agronomy, LLC:

	<u>9/30/2020</u>	<u>9/30/2019</u>
Current Assets	\$ 1,860,655	\$ 2,107,058
Property, Plant & Equipment	2,710,708	2,984,417
Other Assets	150,937	149,952
Total Assets	<u>\$ 4,722,299</u>	<u>\$ 5,241,427</u>
Current Liabilities	\$ 772,966	\$ 1,061,491
Member Equity	3,949,333	4,179,936
Total Liabilities & Equity	<u>\$ 4,722,299</u>	<u>\$ 5,241,427</u>
Net Income	\$ 369,398	\$ 812,776

3. Effective June 2003, the Company made a capital investment in La Rinasente Pasta, LLC. The Company invested \$10,000 for a one half interest in 1 of 32 active membership units. La Rinasente Pasta, LLC manufactures pasta in a factory in Hope, ND. The year-end for La Rinasente Pasta, LLC is December 31st, and the Company is reporting the earnings on a tax basis. The investment in La Rinasente Pasta, LLC is as follows:

	<u>12/31/2020</u>	<u>12/31/2019</u>
One-half Membership Unit Investment	\$ 10,000.00	\$ 10,000.00
Accumulated Earnings Reinvested	<u>3,113.69</u>	<u>2,292.31</u>
Total Investment in La Rinasente Pasta, LLC	<u>\$ 13,113.69</u>	<u>\$ 12,292.31</u>

4. Effective April 2018, the Company signed a subscription agreement and purchased one Class B Membership Unit in Prairieland Ag, LLC for \$10,000. The LLC was formed to enhance the marketing and price competitiveness of agricultural input products for its members. The year-end of Prairieland Ag, LLC is December 31 and the Company will report it's earnings from the LLC in accordance with the operating agreement of the LLC.

Note 9 - Investments In Regional and Other Local Cooperatives

Investments are primarily non-cash dividends from other cooperatives and are stated at cost, plus reinvested patronage refunds. These investments are payable strictly at the issuing entities discretion and have no readily available market value. The principal investments were as follows:

	<u>12/31/2020</u>	<u>12/31/2019</u>
Land O'Lakes, Inc.	\$ 751,644.32	\$ 643,178.10
Winfield United (LOL)	250,641.00	250,340.00
CoBank	47,771.30	47,741.68
Farmers Union Oil Co. of Portland	49,256.97	50,195.53
CHS, Inc.	189,596.68	190,187.61
Other Local Cooperatives	<u>52,400.98</u>	<u>50,182.01</u>
Total Investments in Other Co-ops.	<u>\$ 1,341,311.25</u>	<u>\$ 1,231,824.93</u>

Impairment

The Company believes it is not practical to estimate the fair value of the investments in these regional cooperatives without incurring excessive costs because there is no established market for these investments and it is inappropriate to estimate future cash flows, which is largely dependent on future earnings of these organizations. If these investments in regional cooperatives become impaired, the Company will cancel the same amounts of allocated equity to its' patrons, having no effect on the locally owned equity.

Note 10 – LP Tank Receivables

The Company has sold LP tanks to customers on credit. The customer makes monthly, quarterly, or annual payments on the tank for the next ten to eleven years. Upon the last payment, title of the tank passes to the customer. As of December 31, 2020, the outstanding balance was \$62,498.74.

Note 11 - Grain Related Payables

1. Priced Grain Payable - represents a payable for grain on an open priced assembly sheet but the customer has not yet requested payment.
2. Delayed Pricing Liability – represents a payable for grain on a delayed pricing contract or on an assembly sheet with a delayed pricing designation. The grain is not priced in any form but title to the grain has passed to the elevator.
3. Basis Fixed Liability – represents a payable for grain on a basis fixed contract or an assembly sheet with a basis fixed designation. The grain is priced for basis purposes but open on futures pricing. Terms of a basis fixed contract turn title of the grain over to the elevator.
4. Deferred Payment Contracts – represents a payable for grain the customer has priced with our Company. The customer has chosen not to receive payment for that priced grain until a later date for the customer's income tax purposes.

Note 12 - Miscellaneous Payables

1. Patron credit balances and advance payments are payments we have received from our customers to secure pricing and availability of agronomic and propane products and services for delivery in a future period. The advanced payment is carried as a payable until the customer physically picks up the product.
2. Provision for Income Taxes - the Company has a taxable status for income tax purposes and, accordingly, the provision for income taxes is based on unallocated patronage sourced income and all non-patronage sourced income. The current year provision has been netted against the current year estimated deposits. Income tax (expense) benefit is as follows:

	<u>12/31/2020</u>	<u>12/31/2019</u>
<u>Federal</u>		
Current Provision	\$ (43,500.00)	\$ (85,500.00)
Prior Year Adjustment	(5,594.00)	(18,640.00)
Total Federal	<u>\$ (49,094.00)</u>	<u>\$ (104,140.00)</u>
<u>State</u>		
Current Provision	\$ (8,400.00)	\$ (17,500.00)
Prior Year Adjustment	1,660.00	58,800.40
Total State	<u>\$ (6,740.00)</u>	<u>\$ 41,300.40</u>
Income Tax (Expense) Benefit	<u>\$ (55,834.00)</u>	<u>\$ (62,839.60)</u>

Management considers the likelihood of changes by taxing authorities in its filed income tax returns and recognizes a liability for or discloses potential changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed income tax returns that require recognition or disclosure in accompanying financial statements. The Company's income tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

3. Patronage dividend payable represents a payable for the cash portion of the Company's current year dividend allocation.

- Equity retirements payable is a payable established because the Company's board of directors has approved to retire patrons' equity in the period subsequent the balance sheet date.

Note 13 – Seasonal Loans and Current Notes

The Company has the following short-term line of credit with the following creditor:

	<u>Variable Interest Rate</u>	<u>Amount Available</u>	<u>Balance Due as of 12/31/2020</u>
CoBank Denver, CO Loan # 38033200S01-C Subject to Renewal 8-1-2021	2.66%	\$ 5,000,000	\$ -0-

<u>Loan Covenants:</u>	<u>Working Capital</u>	<u>Local Net Worth</u>
CoBank	\$ 8,250,000	\$ 14,000,000
12-31-2020 Balance Sheet	\$ 19,414,643	\$ 31,718,435

Note 14 – Local Demand Notes Payable

<u>Payee</u>	<u>Collateral</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Balance Due as of 12/31/2020</u>
Numerous Local Entities	None	On Demand	Fixed 0.6%	\$1,068,509.49

A detailed list may be found in the office.

Interest is paid annually on March 1st.

Due to rate change on 9-1-20, interest was paid through 8-31-20.

Note 15 – Patrons' Equity

- Common Stock is the Company's voting stock. After an active customer has accumulated \$100 of revolving capital through patronage the Company may convert that accumulated revolving capital to a share of common stock which gives the customer the right to vote on matters of this Company. If the customer becomes inactive or indebted to this Company for a period of time the Company has the right to revoke this voting share.
- Revolving Capital is the patronage allocated to our members in a non-cash form. The Revolving Capital reflected as capital liabilities are payable at the discretion of the Board of Directors. See By-laws, Article VII - Revolving Capital, Section 6.
- The Company has issued non-qualified notices of allocation to its members. The non-qualified notices are not deductible at the cooperative level and are not taxable to the recipients until time of redemption. They are payable at the discretion of the board of directors.
- Capital Reserve - Pursuant to its By-laws, the Company has established a capital reserve for the purpose of providing a reserve against which the Company may charge operating and capital losses and other charges, which properly could be charged against the surplus of a business corporation for profit.

Note 16 - Local Services

	<u>12/31/2020</u>	<u>12/31/2019</u>
Drying	\$ 812,963.62	\$ 587,667.08
Less: Dryer Fuel	(84,478.49)	(344,726.87)
Custom Applications	788,012.94	669,081.03
Treating & Inoculating	139,604.54	130,087.13
Agronomic Services	57,259.51	36,273.06
LP Labor	6,352.00	8,742.50
Equipment Rentals	23,752.11	27,644.68
	<hr/>	<hr/>
Total Local Services	<u>\$ 1,743,466.23</u>	<u>\$ 1,114,768.61</u>

Note 17 – Leases & Rent

	<u>12/31/2020</u>	<u>12/31/2019</u>
1. The Company has an ongoing operating lease with the Burlington Northern Santa Fe Railroad. The lease pertains to real estate on which the Company has its' various house tracks.	\$8,781.32	\$8,684.76
2. The Company rents equipment and buildings on an as needed basis with no contractual obligations for future years.	\$-0-	\$16,015.88

3. Contractual Leases:

<u>Vendor</u>	<u>Equipment</u>	<u>Lease Payments</u>	<u>Due</u>	<u>Lease Maturity</u>	<u>Residual Option</u>	<u>12/31/2020</u>	<u>12/31/2019</u>
Micada, Inc Hope, ND	Land for LP Tank Leased 7-29-08	\$ 900.00	Annually Due 7-31	8/1/2023	NA	\$ 900.00	\$ 900.00
Madson Windom, LLP Hillsboro, ND	Land for LP Tank Leased 8-1-08	\$ 2,400.00	Annually Due 7-31	7/31/2020	NA	<u>2,400.00</u>	<u>2,400.00</u>
Total Contractual Leases						<u>\$ 3,300.00</u>	<u>\$ 3,300.00</u>

Minimum Rental Payments Due:

12/31/2021	\$ 900.00
12/31/2022	900.00
12/31/2023	<u>900.00</u>
Total	<u>\$ 2,700.00</u>

Note 18 - Profit Sharing Retirement Plan

Funding of the profit sharing retirement plan for employees is at the discretion of the Board of Directors to be based on a percentage of the Net Proceeds, not to exceed 25% of eligible employees total wages and bonuses. A contribution to the Profit Sharing Retirement Plan was declared payable for 2020 in the amount of \$229,638.60 and for 2019 in the amount of \$255,225.23.

Note 19 – Advertising Costs

Costs for producing and distributing advertising are expensed as incurred. Advertising expenses:

<u>12/31/2020</u>	<u>12/31/2019</u>
<u>\$9,039.92</u>	<u>\$15,675.67</u>

Note 20 – Fair Value Measurements

The following table presents assets and liabilities that are carried at fair value, measured on a recurring basis. The classification of an asset or liability within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement.

	<u>Fair Value Measurements at December 31, 2020</u>		
	<u>Quoted Prices In Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>Assets:</u>			
Open Futures Positions	\$ (7,721,600.00)		
Open Contract Accruals		\$ 7,788,917.94	
Grain in Transit - Unpriced		\$ 7,052,704.35	
Grain Inventories		\$ 38,771,765.17	
<u>Liabilities:</u>			
Delayed Pricing Liability		\$ 27,848,450.77	
Basis Fixed Liability		\$ 5,091,824.85	
	<u>Fair Value Measurements at December 31, 2019</u>		
	<u>Quoted Prices In Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>Assets:</u>			
Open Futures Positions	\$ 488,025.00		
Grain in Transit - Unpriced		\$ 1,835,173.18	
Grain Inventories		\$ 24,424,178.38	
<u>Liabilities:</u>			
Delayed Pricing Liability		\$ 28,389,694.00	
Basis Fixed Liability		\$ 4,796,459.44	
Open Contract Accruals		\$ 2,379,404.92	

Note 21 – PPP Loan Forgiveness

The Company applied for a loan under the Paycheck Protection Program (PPP) through the Small Business Administration (SBA). The loan was granted for \$621,610.42 and was administered through CoBank ACB, Greenwood Village, CO. After meeting the requirements of the program, the Company applied for full forgiveness of the loan. The SBA has fully paid the loan along with any accrued interest, and the Company has been legally released from the obligations of the loan; therefore, the Company has removed the loan obligation and classified the PPP loan forgiveness in other income

Note 22 - Market Position

	<u>Wheat</u>	<u>Corn</u>	<u>Soybeans</u>
Long (Short) with Market	<u>(7,459)</u>	<u>44,369</u>	<u>(91)</u>
Long (Short) with Basis	<u>60,390</u>	<u>1,157,015</u>	<u>(325,844)</u>

The Company is contingently liable for market fluctuation on the long or short grain and basis position that is reflected on its market position.

Note 23 - Contingent Liabilities and Commitments

The Company is contingently liable for quality and grade of grains it has on warehouse receipts and other corresponding grain liabilities.

The Company is subject to federal and state regulations regarding the care, delivery, and containment of various ag input products that the Company handles. The Company is contingently liable for any contamination cleanup costs that could arise from the handling, delivery, and containment of these products.

Effective November 1, 2009, the Company signed a 3-year contract to supply corn to the ethanol plant in Casselton, ND. The plant will consume approximately 43 million bushels of corn. After the original 3 year contract expires the contract can be extended on a year by year basis for a period up to 5 years at the processors discretion. Effective July 17, 2019, the Company renewed the corn origination contract for an additional 10 years, expiring on July 31, 2029. Upon expiration the processor has the option to extend the contract on a year by year basis not exceeding a total of 5 years under the same terms and conditions.

During 2020, a novel strain of coronavirus (COVID-19) surfaced in many national and global communities and has been characterized as a pandemic. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown in many areas. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of any government and local responses, remains unclear at this time; however, the Company is closely monitoring its operational and financial performance to minimize any potential impacts that may occur from this pandemic.

Note 24 - Subsequent Events

Management has evaluated subsequent events through February 19, 2021, the date the financial statements were available to be issued.

STATEMENT OF GENERAL EXPENSES
FOR YEARS ENDING DECEMBER 31,

	<u>2020</u>	<u>2019</u>
Directors Fees	\$ 6,500.00	\$ 10,890.00
Salaries and Wages	2,855,663.55	2,937,142.20
Payroll Taxes	189,526.54	187,599.08
Employee Insurance	575,440.24	555,638.83
Profit Sharing Retirement Plan	229,638.60	255,225.23
Unemployment Taxes	2,487.14	5,424.84
Worker's Compensation	6,319.97	7,046.59
	<hr/>	<hr/>
Employee Related Expenses	\$ 3,865,576.04	\$ 3,958,966.77
Railroad Site & Property Rent	8,781.32	8,684.76
Equipment & Building Rent		16,015.88
Contractual Leases - See Note #17	3,300.00	3,300.00
Repairs & Maintenance - Plant & Equipment	125,601.08	209,278.38
Grounds Maintenance	275.00	
Repairs - Mobile Equipment	263,124.92	215,406.54
Vehicle Licensing	37,093.72	29,469.29
Gas & Fuel	253,671.14	323,674.91
Insurance, License and Bonds	322,389.49	300,324.56
Property Taxes	149,374.52	119,206.14
Utilities	211,747.30	221,752.16
Telephone and Markets	58,226.32	58,054.06
Warehouse Supplies	30,239.40	46,804.77
Office Supplies	34,230.79	43,341.04
Bank Charges	6,682.91	6,962.70
Equipment Inspections and Service Contracts	50,698.68	52,481.31
Advertising and Customer Gifts	9,039.92	15,675.67
Dues and Subscriptions	19,477.12	38,256.48
Professional Fees	44,000.00	43,000.00
Payroll Service	3,135.89	3,485.01
Legal & Other Fees	4,597.22	23,983.18
Safety, Compliance, & Drug Testing Fees	7,758.54	3,074.19
Grain Measurement	3,968.04	4,337.06
Pest Control	4,380.00	4,290.00
Mileage, Meetings, and Travel	7,130.99	14,073.68
Annual Meeting	300.00	4,112.47
	<hr/>	<hr/>
TOTAL GENERAL EXPENSES	<u>\$ 5,524,800.35</u>	<u>\$ 5,768,011.01</u>

(See independent auditor's report on supplementary information)

COMMODITIES HANDLED
FOR YEARS ENDING DECEMBER 31,

<u>Commodity</u>	2020 New Receipts Net Bu.	2019 New Receipts Net Bu.	2020 Sales Net Bu.	2019 Sales Net Bu.
Wheat	1,753,915	2,161,216	1,856,029	2,070,996
Barley		1,124		2,071
Corn	62,614,714	58,121,643	59,381,361	60,305,749
Soybeans	4,321,271	5,336,325	5,216,234	5,497,469
TOTAL HANDLED	68,689,900	65,620,308	66,453,623	67,876,285
 <u>Fertilizer Sales - Tons:</u>				
Dry Fertilizer			21,416	19,571
NH3			1,587	1,643
Liquid Fertilizer			1,409	2,967
Total Fertilizer			24,412	24,181
 Bulk Grain Seed Sales - Bushels			 11,174	 20,642
Propane Sales - Gallons			1,185,101	1,986,838
 <u>Merchandise Dollar Sales:</u>				
Commercial Seed			\$ 2,739,819.19	\$ 4,097,849.52
Chemical & Misc. Merchandise			\$ 5,563,033.61	\$ 5,747,030.18
Seed & Fertilizer Supplements			\$ 245,747.76	\$ 388,382.84
LP Tanks & Mdse			\$ 61,326.43	\$ 82,389.61
Less: Cash Discounts			\$ (162,168.19)	\$ (109,515.38)

(See independent auditor's report on supplementary information)