MORRIS CO-OP ASSN.

Morris, Minnesota

Fiscal Years Ended January 31, 2020 and 2019

MORRIS CO-OP ASSN.

Morris, Minnesota

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MORRIS CO-OP ASSN.

Morris, Minnesota

OFFICERS AND DIRECTORS:

	Term Expires:
Chairperson - Brad Feuchtenberger - 25385 US Hwy 59 - Morris, Minnesota 56267	2020
Vice-Chairperson - Jeff Paul - 47334 310th Street - Hancock, Minnesota 56244	2020
Secretary-Treasurer - Jason Erickson - 33769 580th Avenue - Chokio, Minnesota 56221	2020
Director - Ron Gausman - 52348 210th Street - Morris, Minnesota 56267	2022
Director - Scott Staples - 51115 300th Street - Morris, Minnesota 56267	2022
Director - Derek Woodke - 12185 430th Avenue - Morris, Minnesota 56267-4560	2021
Director - Steven Storck - 14912 440th Avenue - Morris, Minnesota 56267	2021

EMPLOYEES:

Brian Kruize - General Manager
Nicole Benson - Bookkeeper
Doug Brakken - Professional Applicator
Kent Chan - Professional Applicator
Frederick Crowell Jr. - L. P. Gas Sales
Susan Flogstad - Office Manager
Dylan Gahm - Professional Applicator/Maintenance
Cheryl Groenwold - Agronomy Secretary
Dan Hoffman - Station Attendant
Cory Irwin - Alignment Specialist
Steve Kaiser - Shop Foreman
Jon Kill - Tire Truck/Shop Mechanic
Robert Kirwin - Professional Applicator
Jason Montzka - Petroleum Salesman
Brian Orth - Agronomy Department Supervisor
Don Quandt - Convenience Store Manager
Brock Surerus - Convenience Store
Travis Tonn - Seed Sales

VITAL:

Date of Incorporation - January 6, 1931
Fiscal Year Ends on January 31
Date of Annual Meeting - Set by Board of Directors

ADDRESS:

1000 Atlantic Avenue
P.O. Box 150
Morris, Minnesota 56267-0150
(320) 589-4744
Stevens County

HENNEN & ASSOCIATES, P. L. C.

230 Hardman Avenue South
South St. Paul, MN 55075

Phone: (651) 255-3200
Fax: (651) 255-3205

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Morris Co-op Assn.
Morris, Minnesota

We have audited the accompanying financial statements of Morris Co-op Assn., Morris, Minnesota which comprise the balance sheets as of January 31, 2020 and 2019 and the related statements of operations, comprehensive income, 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 Morris Co-op Assn., Morris, Minnesota as of January 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

Hennen & Associates, P. L. C.
South St. Paul, Minnesota
February 27, 2020

MORRIS CO-OP ASSN.

Morris, Minnesota

BALANCE SHEETS

January 31, 2020 and 2019

	2020:	2019:
ASSETS:		
CURRENT ASSETS:		
Cash	$ 2,077,187	$ 1,239,037
Marketable Securities	743,347	727,676
Accounts Receivable, Less Allowance for Doubtful Accounts	631,738	707,432
Inventories	5,458,666	5,560,569
Prepayments with Suppliers	815,025	930,551
Prepaid Expense and Other Current Assets	331,976	537,905
Total Current Assets	10,057,939	9,703,170
PROPERTY, PLANT AND EQUIPMENT, At Cost	11,940,030	11,867,993
Less Accumulated Depreciation	7,843,567	7,057,155
Book Value	4,096,463	4,810,838
INVESTMENTS AND OTHER ASSETS:		
Investments	3,970,988	4,027,510
TOTAL ASSETS	**$ 18,125,390**	**$ 18,541,518**
LIABILITIES AND PATRONS' EQUITIES:		
CURRENT LIABILITIES:		
Accounts Payable	$ 1,273,958	$ 986,166
Accrued Expenses & Other Liabilities	224,549	225,989
Patrons' Credit Balances	4,665,264	5,216,747
Patronage Refunds Payable in Cash	101,398	69,554
Income Taxes	69,000	45,000
Current Portion of Long-term Debt	83,926	144,630
Total Current Liabilities	6,418,095	6,688,086
LONG-TERM DEBT	-	83,926
DEFERRED TAX LIABILITY	121,000	80,000
Total Liabilities	6,539,095	6,852,012
PATRONS' EQUITIES:		
Allocated Equity	7,053,033	7,359,432
Patronage Refunds For Reinvestment	152,097	104,332
Allocated Capital Reserve	15,809	15,808
Unallocated Capital Reserve	4,365,356	4,202,966
Unrealized Gain (Loss) on Marketable Securities	-	6,968
Total Patrons' Equities	11,586,295	11,689,506
TOTAL LIABILITIES AND PATRONS' EQUITIES	**$ 18,125,390**	**$ 18,541,518**

MORRIS CO-OP ASSN.

Morris, Minnesota

STATEMENTS OF OPERATIONS

Fiscal Years Ended January 31, 2020 and 2019

	2020:		2019:	
SALES	**$ 20,635,244**	**100.00%**	**$ 20,589,938**	**100.00%**
COST OF SALES	**17,130,276**	**83.01%**	**17,235,878**	**83.71%**
GROSS MARGIN	**3,504,968**	**16.99%**	**3,354,060**	**16.29%**
EXPENSES:				
Distribution:				
Salaries	1,249,568		1,240,884	
Payroll Taxes	88,189		88,835	
Employee Insurance	199,425		162,935	
Employee Pension	59,320		56,101	
Delivery Expense	110,386		105,577	
Advertising and Promotion	64,017		74,680	
	1,770,905	**8.58%**	**1,729,012**	**8.40%**
General:				
Depreciation	844,172		828,402	
Insurance	130,154		127,165	
Property and Business Taxes	48,018		57,870	
Rent	49,087		44,242	
Supplies and Repairs	204,424		188,153	
Utilities	73,583		69,151	
	1,349,438	**6.54%**	**1,314,983**	**6.39%**
Administrative:				
Professional Services	18,921		18,774	
Bad Debts and Collection Expense	32,779		9,017	
Directors' Fees and Expense	5,425		4,360	
Meetings, Travel and Training	13,093		15,489	
Office Supplies and Expense	101,716		133,488	
Credit Card Fees	76,242		76,063	
Telephone	19,694		22,765	
	267,870	**1.30%**	**279,956**	**1.36%**
Interest and Other:				
Interest Expense	29,392		48,055	
Service Charges on Accounts	(58,202)		(35,037)	
Other Expense	54,356		57,442	
Other Revenue	(181,713)		(80,406)	
	(156,167)	**(.76%)**	**(9,946)**	**(.05%)**
Total Expenses	**3,232,046**	**15.66%**	**3,314,005**	**16.10%**
LOCAL NET SAVINGS	**272,922**	**1.33%**	**40,055**	**.19%**
PATRONAGE REFUNDS RECEIVED	236,856	1.15%	313,942	1.52%
SAVINGS BEFORE INCOME TAXES	**509,778**	**2.48%**	**353,997**	**1.71%**
INCOME TAXES	(79,902)	(.40%)	(58,003)	(.27%)
NET SAVINGS	**$ 429,876**	**2.08%**	**$ 295,994**	**1.44%**

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

MORRIS CO-OP ASSN.

Morris, Minnesota

STATEMENTS OF COMPREHENSIVE INCOME

Fiscal Years Ended January 31, 2020 and 2019

	2020:	2019:
NET SAVINGS	**$ 429,876**	**$ 295,994**
CHANGE IN UNREALIZED GAIN (LOSS)	-	(33,777)
COMPREHENSIVE INCOME	**$ 429,876**	**$ 262,217**

STATEMENTS OF PATRONS' EQUITIES

Fiscal Years Ended January 31, 2020 and 2019

	Allocated Equity:	Patronage Refunds for Reinvestment:	Allocated Capital Reserve:	Unrealized Gain (Loss) on Marketable Securities:	Unallocated Capital Reserve:	Total:
1-31-2018 Balances	**$ 7,921,306**	**$ 133,728**	**$ 16,116**	**$ 40,745**	**$ 4,093,841**	**$ 12,205,736**
2018 Patronage Distribution	124,302	(133,728)			(12,983)	(22,409)
Change in Unrealized Gain (Loss)				(33,777)		(33,777)
Retirements	(686,176)		(308)			(686,484)
Net Savings for 1-31-2019		173,886			122,108	295,994
Provision for Cash Refunds		(69,554)				(69,554)
1-31-2019 Balances	**7,359,432**	**104,332**	**15,808**	**6,968**	**4,202,966**	**11,689,506**
Prior Period Adjustment				(6,968)	6,968	
Restated 1-31-2019 Balances	**7,359,432**	**104,332**	**15,808**	**-**	**4,209,934**	**11,689,506**
2019 Patronage Distribution	98,577	(104,332)	1		(20,959)	(26,713)
Retirements	(404,976)					(404,976)
Net Savings for 1-31-2020		253,495			176,381	429,876
Provision for Cash Refunds		(101,398)				(101,398)
1-31-2020 Balances	**$ 7,053,033**	**$ 152,097**	**$ 15,809**	**$ -**	**$ 4,365,356**	**$ 11,586,295**

MORRIS CO-OP ASSN.

Morris, Minnesota

STATEMENTS OF CASH FLOWS

Fiscal Years Ended January 31, 2020 and 2019

	2020:	2019:
Cash (Used) Provided by Operating Activities:		
Cash Received From Patrons	$ 20,733,280	$ 20,362,330
Cash Paid to Suppliers and Employees	(19,428,673)	(20,468,844)
Interest Received	52,437	59,554
Interest Paid	(29,392)	(48,055)
Patronage Refunds Received in Cash	166,941	177,062
Income Tax Paid	(14,902)	(23,003)
	1,479,691	**59,044**
Cash (Used) Provided by Investing Activities:		
Proceeds from Sale of Equipment	7,692	16,959
Purchase of Property, Plant and Equipment	(129,797)	(554,756)
Redemption of Investments in Cooperatives	126,437	66,678
	4,332	**(471,119)**
Cash (Used) Provided by Financing Activities:		
New Borrowings:		
Short-term	3,050,000	3,550,000
Long-term	850,000	-
Debt Reduction:		
Short-term	(3,050,000)	(3,550,000)
Long-term	(994,630)	(143,773)
Patronage Refunds Paid in Cash	(96,267)	(111,561)
Retirements of Patrons' Equities	(404,976)	(686,484)
	(645,873)	**(941,818)**
Net Increase (Decrease) in Cash	**838,150**	**(1,353,893)**
Cash at Beginning of Year	1,239,037	2,592,930
Cash at End of Year	**$ 2,077,187**	**$ 1,239,037**
Reconciliation of Net Savings to Net Cash Provided (Used) by Operating Activities:		
Net Savings	**$ 429,876**	**$ 295,994**
Adjustments to Net Savings:		
Depreciation and Amortization	844,172	828,402
Loss (Gain) on Sale of Equipment	(7,692)	(1,069)
Patronage Refunds Received as Investments	(69,915)	(136,880)
(Increase) Decrease in Assets:		
Marketable Securities	(15,671)	-
Accounts Receivable	75,694	(246,510)
Inventories	101,903	67,922
Prepayment Wholesale	115,526	(907,894)
Prepaid Expenses and Other Current Assets	205,929	(313,325)
Increase (Decrease) in Liabilities:		
Accounts Payable	287,792	(347,156)
Accrued Expenses and Other Liabilities	(1,440)	13,993
Patrons' Credit Balances	(551,483)	770,567
Income Tax Provision	24,000	10,000
Deferred Tax Liability	41,000	25,000
Total Adjustments	**1,049,815**	**(236,950)**
Net Cash (Used) Provided by Operating Activities	**$ 1,479,691**	**$ 59,044**
Schedule of Noncash Investing Activities:		
Stock Taken Against Bad Debt	$ 7,201	$ -

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

NOTES TO FINANCIAL STATEMENTS

January 31, 2020 and 2019

(1) Summary of Significant Accounting Policies:

ORGANIZATION AND NATURE OF BUSINESS:
Morris Co-op Assn. is organized and operated on a cooperative basis for the purpose of supplying petroleum products and farm supplies 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 AND CASH EQUIVALENTS:
For purposes of these financial statements, cash includes cash on hand and cash equivalents. 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.

HEDGE POSITIONS:
The company uses forward contracts to hedge against the risk of price level changes in company owned inventory. These contracts are effective economic hedges of the specified risks, although they are not designated and accounted for as hedging instruments. Gains and losses from these hedge transactions are reflected in the current sales for the respective commodity. Margin gains or losses are not recognized until the position is liquidated.

PROPERTY, PLANT AND EQUIPMENT:
Property, plant and equipment are stated at cost. Depreciation is computed on individual assets by the straight-line method at rates adequate to amortize the cost of applicable assets over their useful lives. Expenditures for normal maintenance and repairs are expensed, while major renewals are capitalized.

INVESTMENTS:
Investments are principally in other cooperatives which are recorded at cost plus patronage refunds received in noncash equities. The company believes it is not practicable to estimate the fair value of the securities of these cooperatives without incurring excessive costs because there is no established market for these securities. No cash is received until such time as they are redeemed at the discretion of the issuing cooperative. Patronage refunds and redemptions are recorded in the year they are received.

ADVERTISING:
The company expenses advertising costs as they are incurred.

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.

The cooperative's income tax filings are subject to audit by various taxing authorities and years ended January 31, 2017 to 2020 are open audit periods. Interest and penalties are included in income taxes. Management has determined that there are no material uncertain tax positions at the balance sheet date.

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.

SUBSEQUENT EVENTS:
Management has evaluated subsequent events through February 27, 2020, the date which the financial statements were available for issue.

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) Concentration of Credit Risk:
The company has a policy whereby credit is extended to patrons for the purchase of merchandise and services with no collateral required. The majority of this credit is extended to patrons involved in agricultural production in the nearby surrounding area, and the company would be at risk should that area, or that part of the economy experience adverse conditions.

The company periodically maintains deposits in bank accounts which exceed amounts covered under Federal Deposit Insurance Corporation coverage. Unprotected deposits at the balance sheet dates were $1,604,217 and $979,425 for the years ended January 31, 2020 and 2019.

NOTES TO FINANCIAL STATEMENTS - Continued:

(3) Fair Value Measurements:

A financial asset's classification within the fair value hierarchy is determined based on the lowest level input that is significant to the fair value measurement. Level 1 is quoted prices in active markets, Level 2 is significant other observable inputs and Level 3 is significant unobservable inputs.

Marketable securities are available-for-sale preferred stock investments whose value is based on unadjusted quoted prices in active exchanges and are classified as Level 1 inputs. Changes in the fair market values of these marketable securities are recognized as a component of other comprehensive income (loss) in the company's 2019 Statement of Comprehensive Income and are included with Other Revenue in the 2020 Statement of Operations. There are no assets or liabilities recorded using Level 2 or 3 fair value measurements.

Marketable securities in CHS Inc. are stated at fair value. The Cooperative owns shares of CHSCP Preferred Stock. The fair values for 2020 and 2019 are $29.02 and $28.22. CHS Inc. has the right to buy back on July 18, 2023 for $25.00 per share. The Cooperative owns shares CHSCO Preferred Stock. The fair values for 2020 and 2019 are $27.85 and $27.52 per share. CHS Inc. has the right to buy back on September 26, 2023 for $25.00 per share.

	2020			
	Cost:	Unrealized Gains:	Unrealized Losses:	Fair Value:
CHS Preferred Stock:				
CHSCP - 15,046 shares	$ 399,728	$ 36,907	$ -	$ 436,635
CHSCO - 11,013 shares	320,980	-	(14,268)	306,712
	$ 720,708	**$ 36,907**	**$ (14,268)**	**$ 743,347**

	2019			
	Cost:	Unrealized Gains:	Unrealized Losses:	Fair Value:
CHS Preferred Stock:				
CHSCP - 15,046 shares	$ 399,728	$ 24,871	$ -	$ 424,599
CHSCO - 11,013 shares	320,980	-	(17,903)	303,077
	$ 720,708	**$ 24,871**	**$ (17,903)**	**$ 727,676**

These investments are not considered other-than-temporarily impaired because the Cooperative has the ability and intent to hold the investments for a period of time sufficient for a forecasted market price recovery up to or beyond the cost of the investment.

(4) Receivables:

Receivables at January 31 included the following elements:

	2020:	2019:
Trade Accounts Receivable	$ 645,744	$ 700,822
Officers and Employees Accounts	35,994	26,610
Less Allowance for Doubtful Accounts	(50,000)	(20,000)
	$ 631,738	**$ 707,432**
Trade Accounts 90 Days or More Past Due	**$ 83,523**	**$ 69,236**

NOTES TO FINANCIAL STATEMENTS - Continued:

(5) Inventories:

Major classifications of inventories are as follows:

	2020:	2019:
Petroleum Products	$ 340,048	$ 422,456
Agri-Products	4,803,155	4,811,379
Farm and Home Products	315,463	326,734
	$ 5,458,666	**$ 5,560,569**

(6) Property, Plant and Equipment:

The cost of major classifications of facilities is as follows:

	2020:	2019:
Land and Land Improvements	$ 1,082,592	$ 1,082,592
Buildings	3,728,948	3,741,648
Machinery and Equipment	2,373,494	2,297,717
Agronomy Equipment	3,856,333	3,847,373
Vehicles	898,663	898,663
	$ 11,940,030	**$ 11,867,993**

(7) Investments:

Investments are summarized as follows:

	2020:	2019:
CHS Inc.	$ 3,129,654	$ 3,168,700
Land O'Lakes, Inc.	764,245	733,291
Western Co-op Transport Association	-	52,603
Chippewa Valley Agrafuels Cooperative	23,750	23,750
Federated Telephone	22,184	19,224
CoBank	25,187	23,886
All Others (Under $20,000 Each)	5,968	6,056
	$ 3,970,988	**$ 4,027,510**

(8) Notes Payable:

		2020:		2019:
CoBank	4.20%	**$ -**	5.02%	**$ -**

At January 31, 2020, the company has a total line of credit of $5,000,000 with CoBank which is due in full on November 1, 2020. This loan is secured by a statutory first lien on all equity which the Company may now own or hereafter acquire in CoBank. In addition, the Company agrees to grant to CoBank, by means of such instruments and documents as CoBank shall require, a first lien on all personal property of the Company, and on all real property of the Company, whether now existing or hereafter acquired.

NOTES TO FINANCIAL STATEMENTS - Continued:

(9) Capital Lease:

The cooperative leases agronomy equipment under capital leases. The assets under these capital leases are summarized as follows:

		2020:		2019:
Assets Under Capital Lease	$	935,312	$	935,312
Amortization		(677,481)		(543,865)
	$	**257,831**	**$**	**391,447**

Future minimum lease payments under capital leases for each of the remaining years and in the aggregate are as follows for the years ended January 31:

	2021	$	83,985
	2022		-
	2023		-
	2024		-
	2025		-
			83,985
Less Amount Representing Interest			(59)
Present Value of Minimum Lease Payments		**$**	**83,926**

The leased equipment becomes the property of the cooperative at the end of the lease terms. Consequently, the cost of the leased equipment, present value of future lease payments and related amortization of the lease are reflected on the financial statements as property, plant and equipment, long-term debt and depreciation expense.

(10) Long-term Debt:

	2020:			2019:		
Farm Credit Leasing Services Corporation- #35120	3.05%	$	11,587	3.05%	$	57,060
CoBank #2654342	4.45%		-	5.27%		-
CoBank Lease	2.80%		72,339	2.80%		171,496
Less Current Portion of Term Debt			(83,926)			(144,630)
		$	**-**		**$**	**83,926**

The Farm Credit Leasing Services Corporation- #35120 is a capitalized lease/purchase agreement for Bulk Seed Equipment. Lease is for a period of seven years, has payments of $3,882 per month, and is due in full April 2020.

CoBank loan #2654342 is secured by the same assets as the line of credit shown in Note 8, has a reduction in borrowing capacity of $50,000 per quarter, and is due in full on January 20, 2024. Current borrowing capacity on this note is $800,000 at January 31, 2020.

The CoBank Lease - #001-0083351 is a capitalized lease/purchase agreement for a AGCO 9300 Terragator. Lease is for a period of three years, has payments of $25,731 per month, and a balloon payment of $72,339 in April 2020.

Scheduled principal payments of long-term debt (including capital lease payments) are as follows for January 31: $83,926 in 2021 and $-0- thereafter.

NOTES TO FINANCIAL STATEMENTS - Continued:

(11) Income Taxes:

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

	2020:	2019:
Accrued Income Tax February 1	$ (45,000)	$ (35,000)
Federal Income Tax Paid	10,912	11,597
State Income Tax Paid	3,990	11,406
Accrued Income Tax January 31	69,000	45,000
Current Income Tax Expense	**38,902**	**33,003**
Deferred Income Tax Expense (Benefit)	41,000	25,000
Net Income Tax Expense	**$ 79,902**	**$ 58,003**

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

	2020:	2019:
Allowance for Doubtful Accounts	$ 15,000	$ 9,000
Inventory Capitalization	-	67,000
Vacation Pay	10,000	11,000
Depreciation Differences	(146,000)	(167,000)
	$ (121,000)	**$ (80,000)**

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) Operating Leases:

During this fiscal year, the company leased various equipment under terms of a net operating lease. Lease payments were $49,087 and $44,242 for the periods ending January 31, 2020 and 2019. These amounts were included in rent expense and office expense. Future minimum annual lease payments on equipment at the balance sheet date for the next five years are $1,985 in 2021; $1,985 in 2022; $1,985 in 2023; and $-0- thereafter.

(13) Patron Equities:

This association is organized on a membership basis without capital stock. This association shall have at least one class of members. Membership will be approved by the Board of Directors and shall be restricted to producers of agricultural products. The Board may establish a minimum purchase amount to be eligible for membership.

(14) Pension Plan:

The company has a 401(K) plan which is a defined contribution plan administered by an independent trustee for the benefit of participating employees. An employee must be at least 21 and have completed one year of service to be eligible to participate in this plan. The company contributes matching funds up to 6% of employee's salary plus 2% of net savings.

(15) Commitments and Contingencies:

At January 31, 2020, the company has contracts to purchase propane, seed, and agronomy products. These contracts have various delivery dates and contract prices. Should the wholesale cost of the contracted products or the inventory of these same products drop substantially, the company could suffer a loss.

At January 31, 2020, the company had a contingent liability on CHS Capital loans financed with potential recourse in the amount of $-0-. The company recourse limit is $150,000.

NOTES TO FINANCIAL STATEMENTS - Continued:

(14) Prior Period Adjustment:

The prior period adjustment shown on the Statement of Patron Equities was made to comply with adoption of ASU 2016-01 during the current reporting period. This new standard requires that all unrealized gains and losses on existing unrealized gains or losses from a separate component of equity into the unallocated reserve as of the start of the current period. Net savings of the prior year was unchanged as a result of recording this adjustment.