

NORTHERN STAR COOPERATIVE SERVICES

Deer River, Minnesota

Fiscal Years Ended September 30, 2020 and 2019

NORTHERN STAR COOPERATIVE SERVICES

Deer River, Minnesota

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NORTHERN STAR COOPERATIVE SERVICES

Deer River, Minnesota

OFFICERS AND DIRECTORS:

	<u>Term Expires:</u>
President - Jim Peterson - PO Box 143 - Deer River, Minnesota 56636	2022
Vice-President - Victor Williams Jr. - 44871 Chase Lake Road - Deer River, Minnesota 56636	2022
Secretary - Travis Anttila - 538 4th St. SE - Deer River, Minnesota 56636	2023
Director - Shirley Nixon - 33072 State Highway 6 - Deer River, Minnesota 56636	2022
Director - Jason Newberg - 35359 State Hwy 6 - Deer River, Minnesota 56636	2023
Director - Barb Gunderson - 33220 State Hwy 6- Deer River, Minnesota 56636	2021
Director - Ryan Fox - 40051 Sunset Lane - Deer River, Minnesota 56636	2021

EMPLOYEES:

Brad Box - General Manager/CEO	Abbey Hawk - Market Place Manager
Pat Bleth - Operations Manager	Frank Hellman Sr. - Deer River L.P. Gas Sales
Nicole Osse - Office Manager	Bruce Hemphill - Energy Specialist
Brenda Hendrickson - Credit Manager	Kenneth Hilton - Hill City L.P. Gas Supervisor
Sarah Bellefy - C-Store Manager	Rachel Hockett - Backus Office
Joe Bender - Northome L.P. Gas Supervisor	Adam Holmied - Deer River L.P. Gas Sales
Sean Bird - Backus L.P. Gas Sales	Mathew Holter - Remer L.P. Gas Sales
Bradley Bowers - Deer River L.P. Gas Supervisor	Tim Hron - Energy Specialist/Bulk Manager
Shelby Box - Marketing Communications Specialist	Aaron James - Hill City L.P. Gas Sales
Sean Casey - Transport Driver	Kevin Kelley - Pine River L.P. Gas Sales
Steve Clayton - Northome L.P. Gas Sales	Eric Kreemer - Long Prairie L.P. Gas Sales
Warren Dailey Jr. - Pine River L.P. Gas Sales	Dalton Lindley - Northome L.P. Gas Sales
Mark Deyette - Backus Petroleum Sales	Darrin Lutgens - Long Prairie L.P. Gas Sales
Lisa Decker - Long Prairie C-Store Manager	Scott McNeil - Hill City L.P. Gas Sales
Shawn Dickinson - Remer C-Store Manger	Art Ogle - Deer River L.P. Gas Sales
John Doss - Backus Petroleum Sales	Julie Olsen - Deer River C-Store
Terese Eby - Assistant Office Manager/HR	Randy Schjenken - Deer River Petroleum Sales
Michael Fernjack - Transport Driver	Margie Schumacher - Deer River C-Store Assistant Mgr.
Kristoffer Flesland - Littlefork L.P. Gas Sales	Jeremy Shutter - Long Prairie L. P. Gas Sales Supervisor
Brandon Fletcher - Pine River L.P. Gas Supervisor	Anthony Strack - Long Prairie L.P. Gas Sales
Nathan Gonczy - L.P. Gas Sales / Service	Jennifer Sword - Marketing Communications Specialist
Dan Graf - Deer River L.P./Petroleum Sales	Mathew Tilbury - Walker L.P. Gas Sales
Jeanne Grossell - Deer River Office	Megan Tyler - Deer River Office
Jerome Grossell - Deer River L.P. Gas Sales	Melissa Tyler - Deer River C-Store
Josh Halverson - Transport Driver	Lydia White - Deer River Office
Art Hamlin - Walker L.P. Gas Supervisor	Christine Wolske - Remer C-Store Assistant Manager
Marty Harmel - Little Fork L.P. Gas Supervisor	Joni Young - Long Prairie Office
Danielle Hartwig - Long Prairie C-Store Asst. Manager	

VITAL:

Date of Incorporation - March 1934
Fiscal Year Ends September 30, Each Year
Date of Annual Meeting - Set by Board of Directors
Number of Stockholders - 12,000 (Estimated)

ADDRESS:

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Deer River, Minnesota 56636-0458
(218) 246-8296
FAX (218) 246-8248
Itasca County

HENNEN & ASSOCIATES, P. L. C.

230 Hardman Avenue South
South St. Paul, MN 55075

Phone: (651) 255-3200
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Northern Star Cooperative Services
Deer River, Minnesota

We have audited the accompanying financial statements of Northern Star Cooperative Services, which comprise the balance sheets as of September 30, 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

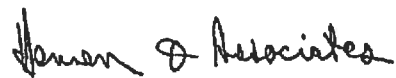
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 Northern Star Cooperative Services, as of September 30, 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.
Grand Forks, North Dakota
November 5, 2020

NORTHERN STAR COOPERATIVE SERVICES

Deer River, Minnesota

BALANCE SHEETS

September 30, 2020 and 2019

	<u>2020:</u>	<u>2019:</u>
ASSETS:		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 9,997,675	\$ 9,436,875
Marketable Securities	4,345,372	4,360,011
Accounts Receivable, Less Allowance for Doubtful Accounts of \$250,000 (2020) and \$250,000 (2019)	954,420	1,231,836
Merchandise Inventory	1,393,447	1,568,390
Prepaid Expense and Other Current Assets	<u>627,993</u>	<u>593,432</u>
Total Current Assets	17,318,907	17,190,544
PROPERTY, PLANT AND EQUIPMENT	32,608,255	30,937,860
Less Accumulated Depreciation	<u>22,738,442</u>	<u>21,198,550</u>
	9,869,813	9,739,310
INVESTMENTS AND OTHER ASSETS:		
Investments in Cooperatives	6,561,781	6,663,070
Paul Bunyan Natural Gas, LLC	<u>1,000,000</u>	<u>-</u>
	7,561,781	6,663,070
TOTAL ASSETS	<u>\$ 34,750,501</u>	<u>\$ 33,592,924</u>
LIABILITIES AND PATRONS' EQUITIES:		
CURRENT LIABILITIES:		
Accounts Payable	\$ 157,796	\$ 179,904
Accrued Expenses	280,406	282,165
Patrons' Credit Balances	5,035,291	4,739,046
Patronage Refunds Payable in Cash	601,734	653,411
Income Taxes	<u>135,000</u>	<u>251,000</u>
Total Current Liabilities	6,210,227	6,105,526
DEFERRED TAX LIABILITY	<u>97,000</u>	<u>111,000</u>
Total Liabilities	6,307,227	6,216,526
PATRONS' EQUITIES:		
Patrons' Equities	13,327,884	13,207,115
Patronage Refunds for Reinvestment	981,776	1,066,091
Unrealized Gain (Loss) on Marketable Securities	-	159,289
Unallocated Capital Reserve	<u>14,133,614</u>	<u>12,943,903</u>
Total Patrons' Equities	<u>28,443,274</u>	<u>27,376,398</u>
TOTAL LIABILITIES AND PATRONS' EQUITIES	<u>\$ 34,750,501</u>	<u>\$ 33,592,924</u>

NORTHERN STAR COOPERATIVE SERVICES

Deer River, Minnesota

STATEMENTS OF OPERATIONS

Fiscal Years Ended September 30, 2020 and 2019

	<u>2020:</u>		<u>2019:</u>	
SALES	\$ 40,918,474	100.00%	\$ 46,012,092	100.00%
COST OF SALES	30,410,267	74.32%	35,143,843	76.38%
GROSS MARGIN	10,508,207	25.68%	10,868,249	23.62%
EXPENSES:				
Personnel:				
Salaries	3,742,982		3,506,743	
Payroll Taxes	279,741		255,179	
Employee Insurance	539,498		445,252	
Pension Expense	179,414		176,544	
	4,741,635	11.58%	4,383,718	9.52%
General:				
Depreciation	1,539,892		1,509,394	
Insurance	376,650		282,117	
Property and Business Taxes	109,932		98,240	
Rent	-		2,800	
Delivery Expense	761,806		710,417	
Supplies and Repairs	862,918		743,637	
Utilities	238,110		218,493	
	3,889,308	9.51%	3,565,098	7.75%
Administrative:				
Professional Services	47,434		53,796	
Bad Debts and Collection Expense	16,248		16,706	
Data Processing	27,630		26,654	
Directors' Fees and Expense	16,534		22,377	
Meetings, Schools and Travel	11,667		26,278	
Advertising and Promotion	129,693		151,400	
Office Supplies and Expense	134,876		120,176	
Credit Card Expense	371,162		389,558	
Telephone	71,074		65,570	
	826,318	2.02%	872,515	1.90%
Interest and Other:				
Interest Expense	5,596		5,834	
Service Charges on Accounts	(54,845)		(73,014)	
Other Expense	21,582		20,582	
Other Revenue	(1,381,675)		(488,354)	
	(1,409,342)	(3.44%)	(534,952)	(1.16%)
Total Expenses	8,047,919	19.67%	8,286,379	18.01%
LOCAL NET SAVINGS	2,460,288	6.01%	2,581,870	5.61%
PATRONAGE REFUNDS RECEIVED	201,395	.49%	128,191	.28%
SAVINGS BEFORE INCOME TAXES	2,661,683	6.50%	2,710,061	5.89%
INCOME TAXES	(157,500)	(.38%)	(95,225)	(.21%)
NET SAVINGS	\$ 2,504,183	6.12%	\$ 2,614,836	5.68%

NORTHERN STAR COOPERATIVE SERVICES

Deer River, Minnesota

STATEMENTS OF COMPREHENSIVE INCOME

Fiscal Years Ended September 30, 2020 and 2019

	<u>2020:</u>	<u>2019:</u>
NET SAVINGS	\$ 2,504,183	\$ 2,614,836
CHANGE IN UNREALIZED GAIN (LOSS)	-	(120,573)
COMPREHENSIVE INCOME	<u>\$ 2,504,183</u>	<u>\$ 2,494,263</u>

STATEMENTS OF PATRONS' EQUITIES

Fiscal Years Ended September 30, 2020 and 2019

	Patrons' Equities:	Patronage Refunds for Reinvestment:	Unrealized Gain (Loss) Marketable Securities:	Unallocated Capital Reserve:	Total:
September 30, 2018 Balances	\$ 13,188,313	\$ 1,052,929	\$ 279,862	\$ 12,003,337	\$ 26,524,441
2018 Patronage Distribution	988,271	(1,052,929)		64,658	
Adjustment to Cash Patronage				(18,527)	(18,527)
Retirements	(970,368)				(970,368)
Share Capital Adjustment	899			(899)	
Change in Unrealized Gain (Loss)			(120,573)		(120,573)
Net Savings for September 30, 2019		1,719,502		895,334	2,614,836
Provision for Cash Refunds		(653,411)			(653,411)
September 30, 2019 Balances	13,207,115	1,066,091	159,289	12,943,903	27,376,398
Prior Period Adjustment			(159,289)	159,289	
September 30, 2019 Restated	13,207,115	1,066,091	-	13,103,192	27,376,398
2019 Patronage Distribution	962,939	(1,066,091)		103,152	
Adjustment to Cash Patronage				6,615	6,615
Retirements	(842,188)				(842,188)
Share Capital Adjustment	18			(18)	
Net Savings for September 30, 2020		1,583,510		920,673	2,504,183
Provision for Cash Refunds		(601,734)			(601,734)
September 30, 2020 Balances	<u>\$ 13,327,884</u>	<u>\$ 981,776</u>	<u>\$ -</u>	<u>\$ 14,133,614</u>	<u>\$ 28,443,274</u>

NORTHERN STAR COOPERATIVE SERVICES

Deer River, Minnesota

STATEMENTS OF CASH FLOWS

Fiscal Years Ended September 30, 2020 and 2019

	<u>2020:</u>	<u>2019:</u>
Cash Flows from Operating Activities:		
Net Savings	\$ 2,504,183	\$ 2,614,836
Adjustments to Net Savings:		
Depreciation and Amortization	1,539,892	1,509,394
(Increase) Decrease in Assets:		
Marketable Securities	14,639	-
Accounts Receivable	277,416	100,696
Merchandise Inventory	174,943	(161,575)
Prepaid Expense and Other Current Assets	(34,561)	(13,270)
Increase (Decrease) in Liabilities:		
Accounts Payable	(22,108)	(99,265)
Accrued Expenses	(1,759)	(12,282)
Patrons' Credit Balances	296,245	57,332
Income Taxes Payable	(116,000)	(84,000)
Deferred Tax Liability	(14,000)	(89,000)
Total Adjustments	<u>2,114,707</u>	<u>1,208,030</u>
Net Cash Provided by Operating Activities	4,618,890	3,822,866
Cash Flows from Investing Activities:		
Redemption of Investments in Cooperatives	101,289	53,609
Paul Bunyan Natural Gas LLC Investment	(1,000,000)	-
Purchase of Property, Plant and Equipment	<u>(1,670,395)</u>	<u>(1,896,264)</u>
Net Cash Used by Investing Activities	(2,569,106)	(1,842,655)
Cash Flows from Financing Activities:		
Patronage Refunds Paid in Cash	(646,796)	(636,913)
Retirement of Patrons' Equities	<u>(842,188)</u>	<u>(970,368)</u>
Net Cash Used by Financing Activities	<u>(1,488,984)</u>	<u>(1,607,281)</u>
Net Increase in Cash and Cash Equivalents	560,800	372,930
Cash and Cash Equivalents at Beginning of Year	<u>9,436,875</u>	<u>9,063,945</u>
Cash and Cash Equivalents at End of Year	<u>\$ 9,997,675</u>	<u>\$ 9,436,875</u>
Supplementary Disclosures:		
Cash Payments Made During Year For:		
Interest	\$ 5,596	\$ 5,834
Income Taxes	\$ 287,500	\$ (20,775)

NORTHERN STAR COOPERATIVE SERVICES

Deer River, Minnesota

NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and 2019

(1) Summary of Significant Accounting Policies:

NATURE OF BUSINESS:

Northern Star Cooperative Services is organized and operated on a cooperative basis, for the purpose of supplying merchandise and services to its patrons and members. In accordance with the corporate bylaws and by action of the board of directors, the annual income as determined each September 30 is distributed as patronage refunds during the following year. Twenty percent of the patronage refund is paid in cash with the balance distributed in the form of stock. Accordingly, the estimated refunds payable in cash are included in current liabilities and the estimated refunds payable in stock are included in member and patrons' equities at September 30.

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:

Cash equivalents consist of cash on hand, deposits in the bank and savings accounts. All cash equivalents have a maturity of three months or less.

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 write-offs, existing economic conditions and the amount of receivable over one year old. The cooperative discontinues interest accrual at the time a receivable is collected or written-off. The cooperative's board of directors periodically review past due receivables and charges off uncollectible accounts when all reasonable collection efforts have been exhausted. Accounts are considered past due when payment is not received within the period allowed under terms of the sale.

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.

PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are stated at cost. Maintenance and repair costs are charged to expenses 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:

INVESTMENTS:

Investments are principally in other cooperatives which are recorded at cost plus patronage refunds received in noncash equities. 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.

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.

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 September 30, 2017 to 2020 are open audit periods. Interest and penalties are included in other expense. Management has determined that there are no material uncertain tax positions at the balance sheet date.

ADVERTISING AND PROMOTION:

The company expenses advertising and promotion costs as 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

(2) 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/Expense in the 2020 Statement of Operations. There are no assets or liabilities recorded using Level 2 or 3 fair value measurements.

NOTES TO FINANCIAL STATEMENTS - Continued:

Fair Value Measurements - Continued:

Marketable securities in CHS Inc. are stated at fair value. The Cooperative owns shares of CHSCP. The fair values for 2020 and 2019 are \$28.67 and \$28.07. 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 \$27.79 and \$27.25 per share. CHS Inc. has the right to buy back in September 26, 2023 for \$25.00 per share. The company owns share of CHSCL preferred stock. The fair values for 2020 and 2019 are \$27.88 and \$27.30 per share. The company owns shares of CHSCN preferred Stock. The fair values for 2020 and 2019 are \$26.65 and \$26.61 per share. The company owns shares of AMLP. The fair values for 2020 and 2019 are \$19.98 and \$9.14 per share.

	2020:			Fair Value:
	Cost:	Unrealized Gains:	Unrealized Losses:	
CHS Preferred Stock:				
CHSCP - 41,278 shares	\$ 1,083,864	\$ 99,576	\$ -	\$ 1,183,440
CHSCO - 24,018 shares	692,563		(25,103)	667,460
CHSCL - 85,200 Shares	2,143,620	231,756		2,375,376
CHSCN - 1,500 Shares	41,095		(1,120)	39,975
AMLP - 3,960 Shares	239,580		(160,459)	79,121
Total Available-for-Sale Securities	\$ 4,200,722	\$ 331,332	\$ (186,682)	\$ 4,345,372

	2019:			Fair Value:
	Cost:	Unrealized Gains:	Unrealized Losses:	
CHS Preferred Stock:				
CHSCP - 41,278 shares	\$ 1,083,864	\$ 74,809	\$ -	\$ 1,158,673
CHSCO - 24,018 shares	692,563	-	(38,072)	654,491
CHSCL - 85,200 Shares	2,143,620	182,340	-	2,325,960
CHSCN - 1,500 Shares	41,095	-	(1,180)	39,915
AMLP - 19,800 Shares	239,580	-	(58,608)	180,972
Total Available-for-Sale Securities	\$ 4,200,722	\$ 257,149	\$ (97,860)	\$ 4,360,011

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.

(3) Receivables:

Receivables at September 30 included the following elements:

	2020:	2019:
Trade Accounts:		
General Patrons	\$ 1,196,098	\$ 1,474,560
Directors and Employees	8,322	7,276
Allowance for Doubtful Accounts	(250,000)	(250,000)
	\$ 954,420	\$ 1,231,836
Trade Accounts 90 Days or More Past Due	\$ 57,968	\$ 112,191

NOTES TO FINANCIAL STATEMENTS - Continued:

(4) Merchandise Inventory:

Major classifications of inventories were:

	<u>2020:</u>	<u>2019:</u>
Petroleum Products	\$ 714,744	\$ 843,451
Market Place	106,191	135,011
Convenience Items and L.P. Gas Accessories	572,512	589,928
	<u>\$ 1,393,447</u>	<u>\$ 1,568,390</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	\$ 1,598,631	\$ 1,598,631
Buildings	7,066,805	7,066,805
Machinery and Equipment	18,442,909	17,261,266
Vehicles	5,499,910	5,011,158
	<u>32,608,255</u>	<u>30,937,860</u>
Less Accumulated Depreciation	<u>22,738,442</u>	<u>21,198,550</u>
	<u>\$ 9,869,813</u>	<u>\$ 9,739,310</u>

(6) Investments In Cooperatives:

Investments in cooperatives are summarized as follows:

	<u>2020:</u>	<u>2019:</u>
CHS Inc.	\$ 6,560,511	\$ 6,661,800
All Others	1,270	1,270
	<u>\$ 6,561,781</u>	<u>\$ 6,663,070</u>

(7) Related Party Transactions:

The company is a 50% partner in Paul Bunyan Natural Gas LLC. The investment in the limited liability company is recorded using the equity method.

	<u>2020:</u>	<u>2019:</u>
Sales to Related Party	<u>\$ 51,617</u>	<u>\$ -</u>

There were no purchases from the realated party. Also there were no accounts receivable or accounts payable with the related party.

(8) 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	\$ (251,000)	\$ (335,000)
Federal Income Taxes Paid	195,062	186,765
State Income Taxes Paid	92,438	81,460
Deferred Income Tax Liability	(14,000)	(89,000)
Current Year Provision	135,000	251,000
	<u>\$ 157,500</u>	<u>\$ 95,225</u>

NOTES TO FINANCIAL STATEMENTS - Continued:

Income Taxes- Continued:

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 tax expense.

Following are the components which make up the cooperatives deferred income tax assets and liabilities:

	<u>2020:</u>	<u>2019:</u>
Allowance for Doubtful Accounts	\$ 77,000	\$ 77,000
Non-Deductible Accruals	10,800	14,000
Accelerated Tax Depreciation	<u>(184,800)</u>	<u>(202,000)</u>
Net Tax Asset (Liability)	<u>\$ (97,000)</u>	<u>\$ (111,000)</u>

Income tax calculated at statutory rate 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 tax expense.

The amount of change in total deferred tax items resulting from a change in the tax rate used to compute those items was \$-0- and \$44,851 for years ending September 30, 2020 and 2019.

(9) Pension Plan:

The cooperative 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 completed 1,000 hours of service to be eligible to participate in this plan. The cooperative contributes 3% of the employees' salary to the plan. The cooperative also matches up to 4% of the employees' contribution to the plan. Pension costs totaled \$179,414 for 2020 and \$176,544 for 2019.

(10) Operating Leases:

The company has a year by year operating lease for property that it rents. Total lease expense for the fiscal years ended September 30, 2020 and 2019 totaled \$-0- and \$2,800, respectively.

(11) Concentrations of Credit Risk:

Northern Star Cooperative Services is locally owned and located in Itasca County. Most of the credit granted is unsecured with no collateral policy.

The cooperative periodically maintains deposits in bank accounts which exceed amounts covered under Federal Deposit Insurance Corporation coverage. Unprotected deposits at the balance sheet date was \$937,421. The Company also has an unprotected surplus funds account with CHS Capital, LLC in the amount of \$8,775,074.

(12) Patrons' Equities:

Northern Star Cooperative Services is a membership cooperative with no stock authorized or issued.

(13) Subsequent Events:

Management has evaluated subsequent events through November 5, 2020, the date which the financial statements were available for issue.

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 marketable securities be recorded in the statement of operations rather than as a separate component of comprehensive income and equity as they previously have been recorded. The prior period adjustment reclassifies 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.

(15) Change in Risk Factors:

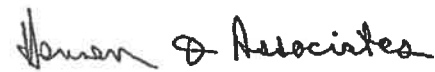
The COVID-19 pandemic could have a material and adverse effect on our business, financial condition and results operations. The extent to which COVID-19 will impact our business and our financial results will depend on future developments, which are highly uncertain and cannot be predicted. Such developments 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.

**INDEPENDENT AUDITOR'S REPORT ON
ADDITIONAL INFORMATION**

Board of Directors
Northern Star Cooperative Services
Deer River, Minnesota

We have audited the financial statements of the Northern Star Cooperative Services, Deer River, Minnesota as of and for the years ended September 30, 2020 and 2019, and our report thereon, which contained an unqualified opinion on those financial statements, appears on page 2. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The additional information which follows in Schedules 1 to 18 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Hennen & Associates, P. L. C.
Grand Forks, North Dakota
November 5, 2020