

CALAMCO

A PARTNERSHIP WITH GROWERS



2022 ANNUAL REPORT



PORT OF STOCKTON
PUBLIC WHARF
NO. 3

CLIPPER NEPTUN

MESSAGE TO SHAREHOLDERS

Fertilizer prices along with ammonia costs remained at record highs throughout 2022. As we entered the year, a combination of global factors, including high natural gas prices in Western Europe, increased trade barriers, and plant outages around the world contributed to the high cost.

February 24, 2022 marked the beginning of the Russian invasion of Ukraine. The global supply system now had to deal with the impacts of the invasion. While we were hopeful costs would pull back prior to spring, the shut-down of all exports from Russia through the Yuzhny Port in Ukraine put significant upward pressure on global prices. According to industry sources, Russia supplied approximately 30% of the global ammonia trade in 2021.

CALAMCO purchases ammonia based on the Tampa index, and our cost of

goods are priced at the time the vessel loads. The Tampa index rose 43% in April compared to the February/March price as a result of the Yuzhny Port closure. Since CALAMCO ammonia imports increase in the March/April/May time frame as we prepare for spring planting, we were directly impacted by this increase.

The ammonia shipment we received in early May completely filled our 40,000 ton storage capacity. In a normal season we would have ample room, and this vessel (which carried 23,000 tons) would bring enough product to get us through the remainder of the season. Unfortunately, the effects from the drought caused a dramatic decrease in rice acres planted, therefore ammonia sales were drastically reduced.

By early summer, domestic plants began to return to production and lower natural gas prices in Europe had

plants resuming operation. This eased the pressure on supply, resulting in a (brief) reduction in Tampa prices. As fall approached, a rise in natural gas prices in Europe once again resulted in plant closures. Meanwhile, ammonia exports from Russia remained closed. We were able to moderate some of the impact by filling our tanks with product at the lower summer price.

We increased our 2022 patronage rebate target from \$35 per ton to \$50 per ton. As you know, patronage is payable on CALAMCO supplied products (anhydrous ammonia, aqua ammonia, and AN20) and any upgraded products which contain CALAMCO-supplied anhydrous ammonia. The Board of Directors decided to adjust the patronage system to better comply with CALAMCO's bylaws. This had the direct impact of increasing the overall 2022 patronage rate, which is the basis for the \$15 increase in our target. ■

MARKETING

Lack of rain created yet another year of drought throughout California. State and Federal allocations of surface water for 2022 were once again severely slashed.

Water curtailments created a large reduction in rice acreage in the northern California region once again this spring. Acres planted in 2021 were down about 100 thousand acres from 2020 at 407 thousand acres. Early projections were that 348 thousand acres of rice would be planted in 2022. However, according to the California Rice Commission, of the 500 thousand acres normally produced, approximately 250 thousand were harvested in 2022.

The northern California rice planting season is a huge market for CALAMCO, and the drastic reduction in acreage had a direct impact on sales. March, April and May movement of ammonia (including

aqua and AN20 sales) were down 27% from 2021, and down 38% compared to 2016-2020 average. We ended the year with overall sales down 11% from our 2021 fiscal year for all products combined.

When members are no longer able to utilize their stock, they can contact CALAMCO to fill out the necessary paperwork to list it for sale. We do not buy back the stock, but will purchase and reissue shares when we have a buyer for it, on a priority basis based on the date it was listed for sale. This past year, we were able to purchase and reissue all shares listed on our stock for sale list. We were also able to sell shares that were returned to treasury from our 3-year inactive program. Most of the stock sold has been to our Industrial customer base, which has become a very important, and growing part of our overall business. ■



OPERATIONS

As the demand for anhydrous ammonia delivered to southern California has grown, CALAMCO made the decision to open a new transfer hub near Bakersfield.

The Bakersfield area is a central location that makes it possible for drivers to make the long haul to the southern part of the state by breaking up the haul, allowing drivers to return home each night.

CALAMCO was able to work with a customer who had the perfect location for our desired transfer yard. The yard is adjacent to their retail facility and has a small office located on the site. CALAMCO added security fencing, cameras, and solar lighting to ensure the location is secure. We purchased two new tractors, and hired a truck driver in December of 2021. We then hired a second driver, who is also based in this Bakersfield location.

Drivers are able to make the haul from Bakersfield to Stockton to load and return to Bakersfield the same day. They can then make the haul to southern California and return to Bakersfield the next day. In addition, CALAMCO has purchased two new AN20 trailers, which gives drivers the ability to assist with hauling AN20 to customers in the event no anhydrous ammonia loads are scheduled. ■



SAFETY

On June 8, 2022 CALAMCO hosted and participated with the California National Guard Civil Support Team in a simulated ammonia leak on a rail car at the Stockton Terminal.

This drill included participants from Port of Stockton Police Department, Stockton and Tracy Fire Departments, Stockton Police Department, San Joaquin County Sheriffs, and San Joaquin Office of Emergency Services (OES). The exercise objectives included performing initial emergency notifications and actions required for CALAMCO employees, evacuation actions and mitigation procedures. First responders performed lifesaving rescue in a chemical spill as well as leak mitigation. This exercise also helped many other emergency planning agencies prepare for other large-scale disasters such as wildfires, floods, and terrorist attacks.

CALAMCO was the proud recipient of the 2021 Safety Award from our Terra/ Alternative Risk Underwriting (ARU) captive insurance group. The award recognizes the entire company's sustained efforts and excellent results and is chosen from over thirty companies within the insurance captive.

This is the third time CALAMCO has received this award out of ten years in the program. ■



RETIREMENTS



RUBEN BRAVO

Driver 2002–2022
20 Years of Service



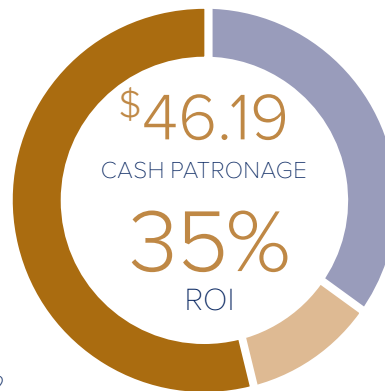
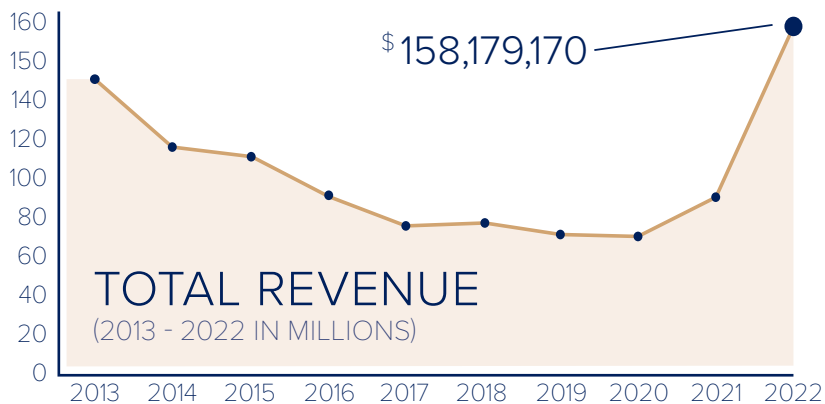
ABEL GUTIERREZ

A-Loader Stockton Terminal 2001-2022
21 Years of Service

FINANCIAL HIGHLIGHTS

Financial Highlights of the Year

	2022	2021
Total Revenue	\$ 158,179,170	\$ 88,946,871
Cash Patronage Allocated to Participating Shareholders	\$ 5,399,253	\$ 8,255,022
Cash Patronage Dividend per Ton of Ammonia	\$ 46.19	\$ 36.56
Net working Capital	\$ 15,826,079	\$ 16,957,497
Property, Plant and Equipment, Net	\$ 10,864,841	\$ 9,732,817
Long Term Debt	\$ 4,672,343	\$ 0
Shareholders' Equity	\$ 25,091,177	\$ 24,920,149
Number of Shareholders	912	986
Shares Outstanding at Year-End	2,070,736	2,071,949



FINANCIAL SUMMARY

CALAMCO's revenues for 2022 were \$158.2 million compared to \$88.9 million for 2021. Total cost of materials and expenses were \$152.5 million compared to \$80.8 million for 2021, leaving a consolidated net margin for 2022 of \$5.6 million compared to \$8.25 million for 2021.

The Board of Directors declared a distribution of patronage income of \$5.4 million which was paid out to members based on 116,470 tons of qualifying ammonia equivalent. We returned a base dividend of \$46.19 per ton of ammonia equivalent to qualifying members for our 2022 fiscal year, which equates to a 35% return on investment for stock purchased at \$20 per share.

In 2016, CALAMCO invested \$3M in Delaware Limited Liability Company (DLLC). In 2017, we invested an additional \$1.4M. DLLC had plans to build a NH3 Plant that would produce anhydrous ammonia using next generation production technology. Subsequently, CALAMCO sold back \$1.4M of our investment. In 2021,

management determined that the investment in the DLLC was impaired and wrote off the remaining investment of \$3M, which is included in other expenses. The DLLC was dissolved during the year ended October 31, 2022.

Shareholder equity of \$25 million remains the same as our 2021 fiscal year. In 2015, CALAMCO entered into a credit agreement which had an available borrowing limit of \$5M at October 31, 2016. The agreement was amended on August 25, 2022. The Company's line of credit is limited to the lesser of combined totals of 65% of inventories and 70% of eligible accounts receivable or a fixed amount as defined in the line of credit agreement. The balance outstanding was \$4.7M and \$0 at October 31, 2022 and 2021, respectively.

The financial condition of CALAMCO remains as strong as ever. CALAMCO's on-going financial strength is reflected in the following financial statements. ■



DAN STONE

President, Chief Executive Officer



CASE VAN STEYN

Chairman of the Board

BOARD OF DIRECTORS

CHAIRMAN OF THE BOARD

Case Van Steyn
District 2

DIRECTORS

Bardin Bengard
District 4

Alan Freese
District 1

Beau Howard
District 3

G.Rey Reinhardt
J.R. Simplot Co.

Chris Shelden
J.R. Simplot Co.

Richard Sunderland
J.R. Simplot Co.

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF CALAMCO

STOCKTON, CALIFORNIA

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of CALAMCO, which comprise the balance sheets as of October 31, 2022 and 2021, and the related statements of net margin and distribution of net margin, shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CALAMCO as of October 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CALAMCO and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CALAMCO's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high

level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose

INDEPENDENT AUDITORS' REPORT

Continued

of expressing an opinion on the effectiveness of CALAMCO's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CALAMCO's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit. ■

CliftonLarsonAllen LLP

CLIFTONLARSONALLEN LLP

Roseville, California

December 16, 2022

FINANCIAL STATEMENTS

BALANCE SHEETS (AS OF OCTOBER 31)

ASSETS	2022	2021
CURRENT ASSETS		
Cash and cash equivalents	\$ 338,850	\$ 10,317,721
Accounts receivable (Net of allowance for doubtful accounts of \$1,161 and \$113 for 2022 and 2021, respectively.)	6,840,602	5,501,225
Inventory	20,085,824	9,678,976
Prepaid expenses and deposits	1,187,701	1,021,692
TOTAL CURRENT ASSETS	28,452,977	26,519,614
PROPERTY AND EQUIPMENT, NET	10,864,841	9,732,817
INVESTMENTS		
LLC ⁽¹⁾	2,005,103	2,001,700
Insurance program ⁽¹⁾	257,025	281,637
TOTAL INVESTMENTS	2,262,128	2,283,337
TOTAL ASSETS	\$ 41,579,946	\$ 38,535,768
LIABILITIES AND SHAREHOLDERS' EQUITY	2022	2021
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 2,677,928	\$ 2,851,632
Line of Credit	4,672,343	-
Current notes payable	588,103	509,688
Income taxes payable	800	800
Patronage dividend due to shareholders	4,687,724	6,199,997
TOTAL CURRENT LIABILITIES	12,626,898	9,562,117
LONG TERM LIABILITIES		
Long-term notes payable	3,263,538	3,391,555
Deferred revenue	234,462	248,438
Deferred compensation plan	363,871	413,509
TOTAL LONG TERM LIABILITIES	3,861,871	4,053,502
TOTAL LIABILITIES	16,488,769	13,615,619
COMMITMENTS AND CONTINGENCIES ^(NOTE 11)		
SHAREHOLDERS' EQUITY		
Common stock	5,186,569	5,179,872
Additional paid-in capital	11,764,568	11,539,373
Retained earnings	8,674,040	8,436,167
Common stock subscriptions	(534,000)	(235,263)
TOTAL SHAREHOLDERS' EQUITY	25,091,177	24,920,149
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 41,579,946	\$ 38,535,768

See accompanying Notes to the Financial Statements

STATEMENTS OF NET MARGIN AND DISTRIBUTION OF NET MARGIN

REVENUES FOR YEARS ENDED OCTOBER 31,	2022	2021
Sales	\$ 156,233,389	\$ 83,894,497
Terminaling	1,589,560	2,972,263
Interest income and other	356,221	2,080,111
TOTAL REVENUES	\$ 158,179,170	\$ 88,946,871
COSTS AND EXPENSES FOR YEARS ENDED OCTOBER 31,	2022	2021
Cost of materials, operations, and distribution	\$ 149,022,096	\$ 74,916,194
Selling, general, and administrative expenses	3,069,206	2,780,384
Interest expense	308,390	25,715
Other expense	141,552	3,097,661
TOTAL COSTS AND EXPENSES	152,541,244	80,819,954
NET MARGIN BEFORE TAXES	5,637,926	8,126,917
Income tax expense (Benefit)	800	(128,106)
NET MARGIN	\$ 5,637,126	\$ 8,255,023
Net margin from member business	\$ 5,399,253	\$ 10,280,800
Net margin from non-member business	237,873	(2,025,777)
NET MARGIN	\$ 5,637,126	\$ 8,255,023

See accompanying Notes to the Financial Statements

FINANCIAL STATEMENTS

STATEMENTS OF SHAREHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	COMMON STOCK SUBSCRIPTIONS	TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT				
BALANCES AT NOVEMBER 1, 2020	2,068,383	\$ 5,179,872	\$ 11,502,386	\$ 8,436,166	\$ (133,518)	\$ 24,984,906
Issuance of common stock	16,650	41,625	291,375	-	(133,380)	199,620
Repurchase of common stock	(16,976)	(41,625)	(263,943)	-	-	(305,568)
Payments received on common stock subscriptions	-	-	9,555	-	31,635	41,190
Distributions declared	-	-	-	(8,255,022)	-	(8,255,022)
NET MARGIN	-	-	-	8,255,023	-	8,255,023
BALANCES AT OCTOBER 31, 2021	2,068,057	\$ 5,179,872	\$ 11,539,373	\$ 8,436,167	\$ (235,263)	\$ 24,920,149
	COMMON STOCK		ADDITIONAL	RETAINED	COMMON	TOTAL
	SHARES	AMOUNT	PAID-IN	EARNINGS	STOCK	SHAREHOLDERS'
			CAPITAL		SUBSCRIPTIONS	EQUITY
BALANCES AT OCTOBER 31, 2021	2,068,057	\$ 5,179,872	\$ 11,539,373	\$ 8,436,167	\$ (235,263)	\$ 24,920,149
Issuance of common stock	32,000	80,000	560,000	-	(450,000)	190,000
Repurchase of common stock	(29,321)	(73,303)	(340,058)	-	-	(413,361)
Payments received on common stock subscriptions	-	-	5,253	-	151,263	156,516
Distributions declared	-	-	-	(5,399,253)	-	(5,399,253)
NET MARGIN	-	-	-	5,637,126	-	5,637,126
BALANCES AT OCTOBER 31, 2022	2,070,736	\$ 5,186,569	\$ 11,764,568	\$ 8,674,040	\$ (534,000)	\$ 25,091,177

See accompanying Notes to the Financial Statements

STATEMENTS OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES FOR YEARS ENDED OCTOBER 31,	2022	2021
Net margin	\$ 5,637,126	\$ 8,255,023
Adjustments to reconcile net margin to net cash provided by (used in) operating activities:		
Depreciation	1,251,145	1,359,582
Gain on equity method investment	(68,996)	(140,798)
Distributions from equity method investment	108,482	102,131
Loss on investment impairment	-	2,962,929
Effect of changes in:		
Accounts receivable, net	(1,339,377)	(2,334,249)
Inventory	(10,406,848)	(4,075,169)
Prepaid expenses and deposits	(166,009)	(26,048)
Deferred compensation	(49,638)	(49,642)
Deferred revenue	(13,976)	(225,769)
Accounts payable and accrued expenses	(173,704)	(242,062)
NET CASH PROVIDED BY OPERATING ACTIVITIES	(5,221,795)	5,585,928
CASH FLOWS FROM INVESTING ACTIVITIES FOR YEARS ENDED OCTOBER 31,	2022	2021
Purchases of property and equipment	(1,888,191)	(3,121,440)
Proceeds from maturities of certificates of deposit	-	6,543,296
Proceeds from sale of investment	-	30,000
Investment contribution	(18,277)	(1,700)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(1,906,468)	3,450,156
CASH FLOWS FROM FINANCING ACTIVITIES FOR YEARS ENDED OCTOBER 31,	2022	2021
Proceeds from issuance of common stock	190,000	199,620
Retirement of common stock	(413,361)	(305,568)
Payments received on common stock subscriptions	156,516	41,190
Distributions to members	(6,911,526)	(6,563,483)
Repayment of long-term debt	(544,580)	-
Revolving line of credit, net	4,672,343	-
Proceeds from long-term debt	-	3,901,243
NET CASH USED IN FINANCING ACTIVITIES	(2,850,608)	(2,726,998)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(9,978,871)	6,309,086
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,317,721	4,008,635
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 338,850	\$ 10,317,721
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	2022	2021
Cash paid for income taxes	\$ 800	\$ 800
SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES	2022	2021
Common stock subscriptions issued	\$ 450,000	\$ 133,380
Accrual of patronage dividend due to shareholders	\$ 4,687,724	\$ 6,199,997
Purchases of property, plant, and equipment	\$ 2,383,169	\$ 3,121,440
Less: Acquisition of property funded by long-term debt	(494,978)	-
Cash paid for equipment	\$ 1,888,191	\$ 3,121,440

See accompanying Notes to the Financial Statements

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following items comprise the significant accounting policies of CALAMCO (the Company). The policies reflect industry practices and conform to accounting principles generally accepted in the United States of America.

Company's Activities:

CALAMCO, located in Stockton, California, is a non-exempt agricultural cooperative that sells and transports anhydrous ammonia and related fertilizer products to its members. The Company also provides terminaling services. Patronage retains are levied and remitted to members at the discretion of the Board of Directors.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents:

The Company considers all highly liquid instruments with a maturity, at date of purchase, of three months or less to be cash equivalents.

Accounts Receivable:

Receivables are carried at the original invoice amount and are written off to expense in the period in which they are deemed uncollectible. The Company provides for estimated losses on accounts receivable based on historical bad debt experience and a review of existing customer receivables. Past due status is based on the terms of each sale. Management's evaluation of accounts receivable resulted in an allowance of \$1,161 and \$113 for the years ended October 31, 2022 and 2021, respectively. The Company charges 1.5% interest per month on past due balances over 30 days.

Inventories:

Inventories, which consist primarily of anhydrous ammonia, aqua ammonia and ammonia nitrate, are carried at the lower of cost (first-in, first-out method) and net realizable value.

Property and Equipment:

Property and equipment are stated at cost, less accumulated depreciation. Costs of repairs and maintenance are charged to expense. Depreciation is computed using the straight-line method over the estimated useful lives of assets, which range from 3 to 50 years. Periodically, the Company assesses the recoverability of its long-lived assets to determine if assets have been impaired. Any impairment loss would be measured at the excess of the carrying amounts of assets over their fair value.

Investments:

A) Insurance Program: The Company became a member of a multi-provider captive insurance company (the Captive) for general liability, auto, and workers' compensation insurance in 2006.

The Captive agreement provides for specific deductibles, a risk sharing pool, and layers of indemnity coverage. Any surplus or deficit of the Risk Pool in respect of a policy year after meeting the attributable claims and expenses shall be credited or debited to the dividend pool balances of the shareholders in accordance with their risk pool allocations. The investment balances, which reflect the expected future payouts from the dividend pool, were \$257,025 and \$281,637 as of October 31, 2022 and 2021, respectively. The difference between the investment carrying value of the Company to the underlying net assets of the Captive is due to the allocation of equity back to the Company based on how its individual risk pool (Company's claim performance) performance in addition to the general pool. Also, members of the Captive are required to fund surplus contributions (based on claims performance), as necessary, which are held as collateral for claims activity.

The Company owns one of thirty-seven shares in the Captive. The Company's investment for the membership interest is included in investments and accounted for using the equity method given the influence the Company provides for its' own claims activity as well as its board representation in the Captive.

The Company amortizes the premiums paid to the Captive over the policy year. At October 31, 2022 and 2021, the Company has a \$315,039 letter of credit available for possible claims. Management estimates any contingent liabilities under the Captive agreement are not material.

Summarized financial information is based upon the most recent financial reports available for the Captive at June 30, 2022 and December 30, 2021 is as follows:

	Unaudited 2022	Audited 2021
Total assets	\$ 114,925,644	\$ 120,619,096
Total liabilities	83,195,344	66,192,804
Net income (loss)	(12,148,856)	11,881,465

B) LLC Investment: During 2015, the Company purchased 25,000 Class A shares in an Arizona Limited Liability Company (the LLC) for the total sum of \$2,000,000 for an 8.5% stake. The LLC is in the business of developing next generation nitrogen fertilizer production technology and has a patent for a zero emissions combined fertilizer and thermal power plant. The Company's interest in the investment is accounted for using the cost method with original investment recorded at cost, plus or minus observable change in value and less impairment. During the current year, there was no observable change in value and there was no impairment recognized. During the year ended October 31, 2022 the Company contributed an additional \$3,403 to the LLC.

C) NH3 Plant Investment: During 2016, the Company purchased 30,000 units (share equivalents) in a Delaware Limited Liability Company (DLLC) for the total sum of \$3,000,000 for a 4.11% stake. During 2017 the Company purchased an additional 13,829 units in the DLLC for \$1,382,929 increasing its stake to 5.89%. Subsequent to this, the Company sold back 14,200 shares for \$1,420,000. DLLC had plans to build a NH3 Plant that would produce nitrogen-based fertilizer using next generation production technology. The Company's interest in the investment was accounted for using the cost method with original investment recorded at cost, plus or minus observable changes in value and less impairment.

During the year ended October 31, 2021, management determined that its investment in the DLLC was impaired and wrote off its remaining investment in the DLLC. The impairment write-off totaled \$2,962,929 and is included in other expenses. The DLLC was dissolved during the year ended October 31, 2022. The Company maintains an option on an offtake agreement in the event the LLC constructs a NH3 Plant in California under a new entity.

Impairment of Long-Lived Assets:

The Company reviews long-lived assets for impairment

whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate to the carrying amount. If the operation is determined to be unable to recover the carrying amount of its assets, then assets are written down first, followed by other long-lived assets of the operation to fair value. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets. As previously noted, there was \$2,962,929 of impairment losses recognized related to the Company's investment in the DLLC as of October 31, 2021. There were no other impairment losses recognized for long-lived assets as of October 31, 2022 or 2021.

Income Taxes:

Under the federal tax code, the Company is a non-exempt cooperative association. Non-exempt cooperatives accrue income taxes on net non-patronage proceeds. No provision for taxes is made for net patronage proceeds paid or allocated to members as qualified notices of allocation.

Deferred tax assets and liabilities are calculated by applying applicable tax rates to the non-patronage differences between the financial statement basis and tax basis of assets and liabilities currently recognized in the financial statements. Deferred tax liabilities and assets are classified as noncurrent on the balance sheet. The accounting standard for uncertain tax positions prescribes a recognition threshold and measurement process for accounting and also provides guidance on various related matters such as derecognition, interest, penalties, and disclosures required. The Company does not have any entity level uncertain tax positions.

It is the Company's policy to include interest and penalties related to unrecognized tax benefits within the provision for income taxes on the statement of net margin. No amounts were recognized for interest and penalties related to unrecorded tax benefits during fiscal years 2022 or 2021.

Patronage Retains:

Net margin may be retained or distributed to members at the option of the Board of Directors. The Board annually determines whether additional retains are needed. Net margins of \$(2,025,777) were allocated to offset non-member operating results from fiscal year 2021.

Member Distributions:

Net margins from member business are distributed on the basis of patronage, not to exceed a calculation based on the number of shares of common stock owned by the individual member.

Revenue Recognition:

The Company recognizes revenue when its customer obtains control of promised goods or services in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services. To determine revenue recognition for the arrangements that the Company determines are within the scope of Topic 606, the Company performs the following five steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the Company satisfies a performance obligation.

The Company enters contracts with its customers to sell ammonia-based fertilizer products (products) which are generally short-term contracts allowing for the satisfaction of all performance obligations in less than one month. The Company also enters into terminaling contracts with a related party where the Company charges a terminaling fee (see Note 12). A contract exists when it has approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance, and collectability of consideration is probable. The Company's contracts with customers typically include a single performance obligation to transfer its products.

The pricing and payment terms for contracts are based on the Company's standard terms and conditions. Contracts do not contain a significant financing component, as the Company's standard terms and conditions generally require payment 30 days from the invoice date.

Revenue is recognized when control of products including shipping and handling fees billed to customers has transferred to customers. For the majority of the Company's customer arrangements related to ammonia product sales, control transfers to customers at a point in time when the products have been delivered to the customer as that is generally when legal title, physical possession, and the risks and rewards of the products transfers to the customer. Revenues related to terminaling fees are recognized over time.

The timing of revenue recognition, billings, and cash collections results in receivables, contract assets, and contract liabilities. Accounts receivable are recorded when the right to consideration becomes unconditional and are presented separately in the balance sheets. The Company does not have significant contract assets or liabilities as of October 31, 2022 or 2021.

The Company has elected a practical expedient to recognize incremental costs incurred to obtain contracts, which primarily represent sales commissions where the amortization period would be less than one year, as an expense when incurred in the financial statements.

The transaction price includes estimates for reductions in revenue from prompt payment discounts, the right to return eligible products, and/or other forms of variable consideration. These amounts are estimated based upon the most likely amount of consideration to which the customer will be entitled. All estimates are based on historical experience, anticipated performance and the Company's best judgment at the time to the extent it is probable that a significant reversal of revenue recognized will not occur. All estimates for variable consideration are reassessed periodically.

Amounts billed to customers related to shipping and handling costs are included in net revenue in the statement of margin and distribution of net margin. The Company has elected to account for shipping and handling costs as fulfillment costs and are included in cost of materials, operations, and distribution in the Statement of Net Margin and Distribution of Net Margin.

Rental income is recognized under the current lease standards with the exception of certain ancillary non-lease revenue items. The Company had no ancillary non-lease revenue items that fall under the guidance of Topic 606.

Recently issued Accounting Pronouncements:

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which changes accounting requirements for leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the entity's leasing activities. In May 2020, the FASB issued ASU 2020-05 which defers the effective date of ASU

NOTES TO FINANCIAL STATEMENTS

NOTE 1, CONTINUED

2016-02 for fiscal years beginning after December 15, 2021 for nonpublic companies. Early adoption is permitted. Management is currently evaluating the effects of this new standard.

NOTE 2: PROPERTY AND EQUIPMENT

Property and equipment as of October 31, 2022 and 2021 consist of the following:

	2022	2021
Land	\$ 70,000	\$ 70,000
Plant equipment	42,434,811	39,954,617
Construction in progress	385,654	498,430
Total	42,890,465	40,523,047
Less accumulated depreciation	32,025,624	30,790,230
Property and equipment, net	\$ 10,864,841	\$ 9,732,817

Depreciation expense amounted to \$1,251,145 and \$1,359,582 for the years ended October 31, 2022 and 2021, respectively.

NOTE 3: INCOME TAXES

The components of the provisions for income taxes for the years ended October 31, 2022 and 2021 are as follows:

	2022	2021
Federal:		
Current tax expense (benefit)	\$ -	\$(128,906)
Deferred tax (benefit) expense	-	-
	-	(128,906)
State:		
Current tax expense (benefit)	800	800
Deferred tax (benefit) expense	-	-
	800	800
Total tax (benefit) expense	\$ 800	\$(128,106)

Income taxes reported on the statement of operations differs from the amount that would result in applying the statutory rate primarily due to treatment of the patronage dividends, deferred tax valuation allowance and other return to provision true ups.

In addition, the Company recognized \$128,906 in Federal income tax refunds during 2021 related to prior period amended tax returns.

The components of net deferred tax assets (liabilities) as of October 31, 2022 and 2021 are as follows:

	2022	2021
Deferred tax assets (liabilities):		
Deferred compensation	\$ 468	\$ 359
Other	248	149
Depreciation	14,208	(29,256)
Investment	(495,185)	(231,128)
Loss carry-forwards	1,030,273	915,925
Net deferred tax assets	550,012	656,049
Valuation allowance	(550,012)	(656,049)
Net deferred tax assets (liabilities)	\$ -	\$ -

The Company has total deferred tax assets of \$1,045,197 and \$916,433 at October 31, 2022 and 2021, respectively. Deferred taxes relate primarily to federal and state loss carry-forwards. Gross Federal and State loss carry-forwards totaled \$3,824,094 and \$3,469,030, respectively. Federal and State loss carry-forwards begin to expire in the fiscal year ending 2034.

The valuation allowance for deferred tax assets as of October 31, 2022 and 2021 was \$550,012 and \$656,049, respectively. The net change in the total valuation allowance was a decrease of \$106,037 for the year ended October 31, 2022, and an increase of \$582,371 for the year ended October 31, 2021. The valuation allowance relates to uncertainties about the ability to realize the loss carry-forwards as a result of the Company's current operating performance related to non-patronage business. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

NOTE 4: LEASES

The Company leases administrative offices, railcars, and certain other equipment under operating lease agreements. Port terminal space is also leased under an agreement that expires, following a 20-year extension, in December 2041. All ammonia is delivered through this port.

Future minimum lease payments for noncancellable operating

leases with terms in excess of one year as of October 31, 2022 are as follows:

<u>Year Ending October 31:</u>	
2023	997,276
2024	874,506
2025	693,189
2026	667,775
2027	652,454
Thereafter	<u>6,472,473</u>
	<u>\$ 10,357,671</u>

The port lease agreement also entitles the Company to receive a wharfage credit against the lease expense based on a tonnage delivered to the port. The lease agreement provides that the Company may be required to remove improvements to the property at its cost at the conclusion of the lease. The Company estimates that the present value of any removal costs is not material. Rental expense incurred under operating leases (including month-to-month rentals) was \$1,011,458 and \$957,341 for the years ended October 31, 2022 and 2021, respectively.

On March 13, 2014, the Company entered into a sublease agreement for a portion of the land from the port. The sublease agreement is between the Company (sublessor) and Crowne Cold Storage LLC (sublessee). The specific terms of the sublease agreement call for \$500,000 to be paid by the sublessor to the sublessee in the first three years of the lease, after which the payments decrease to \$40,000 per year for all years after December 31, 2016. Future minimum expected lease receipts are as follows:

<u>Year Ending October 31:</u>	
2023	40,000
2024	40,000
2025	40,000
2026	40,000
2027	40,000
Thereafter	<u>640,000</u>
	<u>\$ 840,000</u>

The Company recognizes rental income under the straight line method and has recorded a deferred rent liability of \$234,462 and \$248,438 within deferred revenue on the balance sheets as of October 31, 2022 and 2021, respectively. Rental income recognized for the years ended October 31, 2022 and 2021 was \$53,976.

NOTE 5: BANK FINANCING

On October 19, 2015, the Company entered into a credit agreement which had an available borrowing limit of \$5,000,000 at October 31, 2016. The agreement was amended on August 25, 2022. The Company's line of credit is limited to the lesser of combined totals of 65% of inventories and 70% of eligible accounts receivable or a fixed amount as defined in the line of credit agreement. The fixed amount fluctuates from a minimum of \$2,000,000 to a maximum of \$40,000,000 over the life of the agreement. At October 31, 2022, the maximum line of credit available amounted to \$20,000,000. The line of credit accrues interest at BSBY Daily Floating Rate plus 1.375% (4.92% at October 31, 2022) and expires on October 1, 2024. The balance outstanding was \$4,672,343 and \$-0- at October 31, 2022 and 2021, respectively.

The Company has available letters of credit that may not exceed \$1,000,000. The letter of credit in the amount of \$315,039 was outstanding at October 31, 2022 and 2021. The letter of credit matures on October 1, 2024. The Company must pay a non-refundable fee equal to 1.375% per annum of the outstanding undrawn amount of each standby letter of credit, payable annually in advance, calculated on the basis of the face amount of outstanding on the day the fee is calculated.

The credit facilities are subject to an unused commitment fee of .20% per year based on the daily amount of credit outstanding. In the event the Company does not need the full amounts of credit, the Company may lower the upper limits in the existing agreements.

The Company's bank financing is collateralized by substantially all of the Company's accounts receivable, inventory, and equipment.

NOTE 6: NOTES PAYABLE

Long-term debt as of October 31, 2022 and 2021 consists of the following:

	Interest Rate	2022	2021
Note payable, monthly principal and interest payments of \$58,258, secured by equipment	2.93%	\$ 3,851,641	\$ 3,901,243
Less current maturities		(588,103)	(509,688)
		<u>\$ 3,263,538</u>	<u>\$ 3,391,555</u>

Aggregate maturities on long-term debt over the next five years are as follows:

Year Ending October 31:

2023	588,103
2024	606,442
2025	625,368
2026	644,902
2027	665,064
Thereafter	721,762
	<u>\$ 3,851,641</u>

NOTE 7: COMMON STOCK

Common stock consists of the following:

	October 31,	
	2022	2021
Class A, par value \$2.50 per share, 1,200,000 shares authorized; 980,101 and 1,009,422 shares issued and outstanding at October 31, 2022 and 2021, respectively.	\$ 2,459,981	\$ 2,533,285
Class B, par value \$2.50 per share, 1,250,000 shares authorized; 1,090,635 and 1,058,635 shares issued and outstanding at October 31, 2022 and 2021, respectively.	2,726,588	2,646,587
	<u>\$ 5,186,569</u>	<u>\$ 5,179,872</u>

Class A shareholders are entitled to elect at least a simple majority of directors. Class B shareholders are entitled to elect at least one director. J.R. Simplot Co. and affiliates are a 37% shareholder of the Company. 70% of the Class B common stock is owned by Cal Ida Chemical Co. (Cal Ida), a wholly-owned subsidiary of J.R. Simplot Co. (see Note 12).

NOTE 8: EMPLOYEE RETIREMENT PLAN

The Company has a defined contribution retirement plan covering employees meeting eligibility requirements. Employees are eligible to participate on the first day of the plan year in which they complete 12 months of employment, provided that they have worked at least 1,000 hours during that period. Minimum annual contributions to the plan are based upon 6% of annual compensation. Additional amounts may be contributed at the discretion of the Company's Board of Directors. The plan has an

indefinite expiration date. The employee retirement plan expense was \$441,896 and \$414,044 for the years ended October 31, 2022 and 2021, respectively.

NOTE 9: SAVINGS PLAN

The Company has a 401(k) savings plan. Employees are eligible upon date of hire. Matching contributions are made at the discretion of the Board of Directors. All other contributions are made at the discretion of the Board of Directors. All contributions vest immediately. The Company contributed \$127,647 and \$119,360 for the years ended October 31, 2022 and 2021, respectively.

NOTE 10: DEFERRED COMPENSATION PLAN

The Company maintains a non-qualified deferred compensation plan whereby certain eligible employees can defer their compensation. The plan is governed by the Internal Revenue Code and qualifies under the Employee Retirement Income Security Act of 1974. The plan is funded from the general assets of the Company as needed. Payments of \$143,256 and \$177,553 were made to participants during the year ended October 31, 2022 and 2021, respectively. Also, included on the balance sheets as of October 31, 2022 and 2021 are liabilities of \$363,871 and \$413,509, respectively. These liabilities consist of participating employee deferrals adjusted for gains and losses based on model employee-directed investment portfolios in various equity securities and mutual funds.

NOTE 11: COMMITMENTS AND CONTINGENCIES

The Company has a new two year agreement in which it will purchase effectively 100% of ammonia from one vendor. The agreement expires on December 31, 2024. Management believes that alternate vendors are available, if necessary.

The Company is occasionally involved in litigation matters that arise in the ordinary course of business. During the year ended October 31, 2021, the Company settled its ongoing litigation with a vendor where the Company was the Plaintiff. The Company received a favorable outcome and as a result of the settlement, recognized \$1,733,217 of other income included in the statement of net margin and distribution of net margin for the year ended October 31, 2021.

NOTES TO FINANCIAL STATEMENTS

NOTE 11, CONTINUED

There are no other pending significant legal proceedings to which the Company is a party for which management believes the ultimate outcome would have a material adverse effect on the Company's financial position.

NOTE 12: RELATED PARTY

The Company has an agreement with J.R. Simplot Co. and affiliates (collectively Simplot), a 37% shareholder, under which Simplot has agreed to purchase all of their anhydrous ammonia manufacturing needs in California from the Company. Under this agreement, the Company's price for anhydrous ammonia to Simplot is the Company's best dealer price less discounts (as defined in the agreement). Simplot receives an estimated patronage refund at the time of purchase. However, this amount is adjusted to actual monthly, and Simplot pays interest on the amount of any patronage refund received in advance. In February 2019, the Company also entered into an agreement with Simplot in which Simplot manufactures and/or procures AN20 for the Company in exchange for a toll price. This tolling agreement requires Simplot to supply the Company with a minimum of 20,000 short tons of AN-20 a year for 5 years. The agreement will automatically renew for one additional year unless either party notifies the other its intention not to renew.

In April of 2020, the Company modified its agreement with Simplot and its subsidiary Cal Ida Chemical Company (Cal Ida), under which the Cal Ida agrees to purchase all the anhydrous ammonia required by Cal Ida for manufacturing at its or its affiliate-owned Helm, California and Lathrop California plants up to Cal Ida's preferred patronage right in any given calendar year. This agreement has an initial term ending October 31, 2030 and afterwards renews annually unless written notice is provided by either party 180 days before renewal.

In 2012, the Company completed construction and placed into service a second storage tank dedicated to terminaling Urea Ammonium Nitrate (UN32). The Company has entered into an agreement with Simplot to terminal UN32. The Company does not take possession of or sell the product on behalf of Simplot, but merely stores the product for Simplot and charges a related terminaling fee. The agreement has a five-year term with Simplot having the right to exercise seven consecutive five-year options to extend the term.

The total UN32 terminaling revenue includes handling fees and recovery of construction costs for the tank placed into service in 2012. The Company recovered \$2,020,000 for the cost of constructing the storage tank from Simplot within the first five years of the agreement. Management has deferred recognizing the recovery over a ten-year term under the assumption that Simplot will exercise its first option to extend the terminaling agreement for an additional five-year term. The Company completed its recognition of the recovery in the year ended October 31, 2021.

The following amounts relate to transactions with Simplot:

	Years Ended October 31,			
	2022	% of Total	2021	% of Total
Sales	\$ 73,639,124	47%	\$ 34,284,427	40%
Accounts receivable	\$ 1,283,411	19%	\$ 1,245,834	24%
Tolling costs incurred through Simplot	\$ 3,111,741		\$ 4,137,381	
UN32 terminaling revenue	\$ 1,589,560		\$ 2,760,470	
UN32 deferred revenue realized	\$ -		\$ 211,973	
Accounts payable	\$ 340,592		\$ 352,213	

NOTE 13: CONCENTRATION OF CREDIT RISK AND UNCERTAINTIES

Financial instruments that potentially subject the Company to credit risk are funds held by depository institutions and customer trade accounts receivable generated in the normal course of business.

The Company maintains funds at depository institutions, including balances in short-term investment accounts, that periodically exceed the FDIC insurance limits, or in the case of the short-term investments, are not insured. The Company has not experienced any credit losses on these funds held at depository institutions.

The Company has a labor union contract for its Stockton Port employees with International Longshore and Warehouse Union. The contract expires on June 30, 2023. The union employees are covered through the Calamco Employee Retirement Plan.

As discussed in Note 1, the Company sells anhydrous ammonia and related fertilizer products primarily to agricultural distributors and retailers located throughout California and the western United States; therefore, a portion of its customers' ability to

service their obligations is dependent on the agribusiness sector of the economy. Accounts receivable are recorded at the original invoiced amount and are written off against the allowance account when deemed uncollectible by management. While management believes that its security as a creditor is adequate and that the allowance for doubtful accounts is sufficient to provide for potential uncollectible receivables, it is possible that future write-offs could exceed the current allowance. Historical losses and current aging trends have been and are within management's expectations. Management determines the allowance for doubtful accounts based on the evaluation of individual accounts and historical write-offs. The Company does not have a policy for placing trade receivables on non-accrual status and does charge 1.5% interest on past due balances over 30 days.

NOTE 14: RISK AND UNCERTAINTIES

In Early 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Company, COVID-19 may impact various parts of its 2023 fiscal year operations and financial results. Management believes the Company is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated.

NOTE 15: SUBSEQUENT EVENTS

The Company has evaluated subsequent events through December 16, 2022, the date the financial statements were available to be issued and has determined that there are no subsequent events that require disclosure. ■



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