

ANNUAL REPORT

VALUE ADDED PRODUCTS

ALVA, OKLAHOMA

MAY 31, 2020 AND 2019

OFFICERS AND DIRECTORS

Bob Baker	President
Dean Goll	Vice-President
Steve Sterling	Secretary\Treasurer
Ronnie Truelock	Director
Dusty Albright	Director
Gregg Glass	Director
Gordon Karber	Director
Dan Purvis	Director
Jay Lohmann	Director

MANAGEMENT

Geoff Clark	CEO
Beverly Fisher	Controller

VALUE ADDED PRODUCTS
ALVA, OKLAHOMA
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MAY 31, 2020 AND 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Value Added Products
Alva, Oklahoma

We have audited the accompanying financial statements of Value Added Products (an Oklahoma corporation) which comprise the balance sheets as of May 31, 2020 and 2019 and the related statements of operation, members' equity and retained earnings, 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 audit. We conducted our audit 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 Value Added Products as of May 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Substantial Doubt about the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Cooperative will continue as a going concern. As shown in the financial statements, the Cooperative incurred a net loss of \$667,179 for the year ended May 31, 2020, and had a working capital deficiency of \$1,595,941. As described more fully in Note 5 to the financial statements the deficit in working capital and significant losses from operations may impair the Cooperative's ability to meet its future obligations. The Cooperative is not aware of any alternate sources of capital to meet such demands and has stated that substantial doubt exists about the Cooperative's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 5. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Campbell, Shaffer & Company, P.C.

Enid, Oklahoma
July 15, 2020



**VALUE ADDED PRODUCTS
ALVA, OKLAHOMA
BALANCE SHEETS
AS OF MAY 31, 2020 AND 2019**

<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
	<u>5/31/20</u>	<u>5/31/19</u>
Cash and Cash Equivalents	\$ 262,046	\$ 5,946
Accounts Receivable	72,539	242,334
Inventory	248,040	165,028
Prepaid Insurance	11,341	11,493
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	593,966	424,801
	<hr/>	<hr/>
<u>OTHER ASSETS</u>		
Deposits	-	615
	<hr/>	<hr/>
TOTAL OTHER ASSETS	-	615
	<hr/>	<hr/>
<u>PROPERTY, PLANT AND EQUIPMENT</u>		
Land	64,452	64,452
Buildings, Machinery, and Equipment	15,819,316	15,794,744
Furniture and Fixtures	21,010	21,010
	<hr/>	<hr/>
TOTAL PROPERTY, PLANT AND EQUIPMENT	15,904,778	15,880,206
Accumulated Depreciation	(9,217,221)	(8,784,780)
	<hr/>	<hr/>
NET PROPERTY, PLANT AND EQUIPMENT	6,687,557	7,095,426
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 7,281,523</u>	<u>\$ 7,520,842</u>

See accountants' report on additional information.

VALUE ADDED PRODUCTS
ALVA, OKLAHOMA
BALANCE SHEETS
AS OF MAY 31, 2020 AND 2019

<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<u>CURRENT LIABILITIES</u>	<u>5/31/20</u>	<u>5/31/19</u>
Accounts Payable	\$ 257,787	\$ 626,253
Notes Payable	900,000	639,295
Current Portion of Long-Term Debt	713,856	356,758
Accrued Payables and Taxes	318,264	183,159
TOTAL CURRENT LIABILITIES	2,189,907	1,805,465
<u>LONG-TERM LIABILITIES (Net of Current Portion)</u>		
Long-Term Debt	3,466,441	3,423,022
TOTAL LONG-TERM LIABILITIES	3,466,441	3,423,022
TOTAL LIABILITIES	5,656,348	5,228,487
<u>MEMBERS' EQUITY</u>		
Common Stock	19,477	19,477
Additional Paid In Capital	9,718,823	9,718,823
Retained Earnings (Deficit)	(8,113,125)	(7,445,945)
TOTAL MEMBERS' EQUITY	1,625,175	2,292,355
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 7,281,523	\$ 7,520,842

See accountants' report on additional information.

**VALUE ADDED PRODUCTS
ALVA, OKLAHOMA
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED MAY 31, 2020 AND 2019**

	<u>5/31/20</u>	<u>5/31/19</u>
Sales	\$ 4,838,336	\$ 4,975,047
Cost of Sales	<u>4,565,157</u>	<u>5,000,205</u>
GROSS PROFIT (LOSS) ON SALES	<u>273,179</u>	<u>(25,158)</u>
<u>OPERATING EXPENSES</u>		
Payroll and Payroll Benefits	1,909,479	1,939,509
Fixed Expenses	459,737	419,856
Other Operating Expenses	756,110	941,288
Depreciation Expense	<u>433,503</u>	<u>431,798</u>
TOTAL OTHER OPERATING EXPENSES	<u>3,558,829</u>	<u>3,732,451</u>
<u>LABOR AND OVERHEAD ALLOCATION</u>		
Overhead Allocation	(1,626,411)	(1,907,927)
Direct Labor Allocation	<u>(869,606)</u>	<u>(900,873)</u>
TOTAL ALLOCATED EXPENSES	<u>(2,496,017)</u>	<u>(2,808,800)</u>
NET EXPENSES	<u>1,062,812</u>	<u>923,651</u>
<u>OTHER INCOME</u>		
Miscellaneous Income	96,579	159,244
Rental Income	<u>25,875</u>	<u>26,400</u>
TOTAL OTHER INCOME	<u>122,454</u>	<u>185,644</u>
NET LOSS	<u>\$ (667,179)</u>	<u>\$ (763,165)</u>

See accountants' report on additional information.

VALUE ADDED PRODUCTS
ALVA, OKLAHOMA
STATEMENTS OF MEMBERS' EQUITY AND RETAINED EARNINGS
FOR THE YEARS ENDED MAY 31, 2020 AND 2019

	NUMBER OF SHARES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	TOTAL
Balance, May 31, 2018	1,947,660	\$ 19,477	\$9,718,823	\$ (6,682,780)	\$ 3,055,520
Net Loss for the Year Ended May 31, 2019	-	-	-	(763,166)	(763,166)
Balance, May 31, 2019	1,947,660	19,477	9,718,823	(7,445,946)	2,292,354
Net Loss for the Year Ended May 31, 2020	-	-	-	(667,179)	(667,179)
Balance, May 31, 2020	1,947,660	\$ 19,477	\$ 9,718,823	\$ (8,113,125)	\$ 1,625,175

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

VALUE ADDED PRODUCTS
ALVA, OKLAHOMA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31, 2020 AND 2019

<u>CASH FLOW FROM OPERATING ACTIVITIES</u>	<u>5/31/20</u>	<u>5/31/19</u>
Net Loss	(667,179)	(763,165)
Adjustments to Reconcile Net Loss to Net Cash From Operating Activities:		
Depreciation Expense	433,503	431,798
Loss on Disposition of Assets	3,028	32,536
Noncash Adjustment	(1)	-
Changes in Noncash Assets and Liabilities:		
(Increase) Decrease:		
Accounts Receivable	169,795	12,783
Prepaid Insurance	152	14,041
Inventory	(83,012)	105,991
Deposits	615	-
Increase (Decrease):		
Accounts Payable	(368,466)	(378,667)
Accrued Payables and Taxes	135,105	50,208
	<u>(376,460)</u>	<u>(494,475)</u>
<u>NET CASH FROM OPERATING ACTIVITIES</u>	<u>(376,460)</u>	<u>(494,475)</u>
<u>CASH FLOW FROM INVESTING ACTIVITIES</u>		
Purchase of Property, Plant and Equipment	(28,662)	103,570
Proceeds from Sale of Property, Plant and Equipment	-	(305,911)
	<u>(28,662)</u>	<u>(202,341)</u>
<u>NET CASH FROM INVESTING ACTIVITIES</u>	<u>(28,662)</u>	<u>(202,341)</u>
<u>CASH FLOW FROM FINANCING ACTIVITIES</u>		
Payments of Principal on Notes Payable	(2,279,568)	3,478,874
Proceeds from Notes Payable	2,090,273	(509,201)
Payments of Principal on Long-Term Debt	(176,983)	(3,049,375)
Proceeds from Long-Term Notes	1,027,500	781,541
	<u>661,222</u>	<u>701,839</u>
<u>NET CASH FROM FINANCING ACTIVITIES</u>	<u>661,222</u>	<u>701,839</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	256,100	5,023
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR	5,946	923
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 262,046</u>	<u>\$ 5,946</u>

See accountants' report on additional information.

VALUE ADDED PRODUCTS
ALVA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020 AND 2019

NOTE 1: Organization and Summary of Significant Accounting Policies

Organization and Nature of Business

Value Added Products (cooperative) is an Oklahoma corporation and is organized and operated on a cooperative basis as a manufacturing association on behalf of its agribusiness members. Value Added Products purchases, processes, and seeks to add value to, through the manufacturing of bread dough products, grain supplied by its agriculture member producers in northern Oklahoma.

Subsequent Events

The cooperative evaluates events or transactions that occur subsequent to year end for potential recognition or disclosure in the financial statements through the date on which the financial statements are available to be issued. The financial statements were approved by management and available to be issued on July 15, 2020.

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising

The cooperative expenses all advertising costs, including direct response advertising costs, as they are incurred. Total advertising costs for the years ended May 31, 2020 and 2019 were \$13 and \$2,629.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the cooperative considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

The statements of cash flows classify changes in cash according to operating, investing, and financing activities. The following is supplemental information and disclosure of cash flow information.

	<u>5/31/20</u>	<u>5/31/19</u>
Cash Paid During the Year For:		
Interest	\$ 235,659	\$ 164,355
Income Taxes	\$ -	\$ -
Long-Term Debt Exchanged for Fixed Assets Return	\$ -	\$ 227,522

**VALUE ADDED PRODUCTS
ALVA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020 AND 2019**

NOTE 1: Organization and Summary of Significant Accounting Policies (Continued)

Inventory

Inventory is valued at cost (based on first-in, first-out) or net realizable value, whichever is lower. Finished goods consist of raw materials, labor, packaging and overhead used in the production of the finished goods inventory. The major components of the inventory are as follows:

	<u>5/31/20</u>	<u>5/31/19</u>
Raw Materials - Ingredients	\$ 70,534	\$ 54,218
Raw Materials - Packaging	93,124	58,570
Finished Goods	84,382	52,240
TOTAL	\$ 248,040	\$ 165,028

Property, Plant and Equipment

Property, plant and equipment, recorded at cost, are depreciated over the estimated useful lives of the related assets. Depreciation is computed using the normal straight-line method for financial reporting purposes.

Maintenance and repairs are expensed as incurred. Expenditures for those which increase the useful lives of the equipment are capitalized. When assets are sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and gains or losses on the dispositions are recognized as earnings.

NOTE 2: Note Payable and Long-Term Debt

Notes Payable

Alva State Bank

The seasonal bank loan outstanding as of May 31, 2020 and 2019 was \$-0- and \$189,295, respectively. This renewable line of credit is \$200,000 but the available credit is to not exceed the amount calculated upon the companies monthly borrowing base report. The loan is due annually and is renewed in February. The interest rate at May 31, 2020 and 2019 was 6.50%. Certain loan agreement terms on this note are the same as described under long-term debt.

Grace Investment Company, Inc.

The seasonal bank loan outstanding as of May 31, 2020 and 2019 was \$250,000. This renewable line of credit is \$250,000 but the available credit is to not exceed the amount calculated upon the companies monthly borrowing base report. The loan is due annually and is renewed in February. The interest rate at May 31, 2020 and 2019 was 5.00% and 4.50%, respectively. Certain loan agreement terms on this note are the same as described under long-term debt.

Angel Group, L.L.C.

The seasonal loan outstanding as of May 31, 2020 and 2019 was \$650,000 and \$200,000, respectively. This loan was made by a group of related parties of the Cooperative to provide short-term working capital. There are no formal loan documents for this loan; therefore, the terms and payment schedule are unknown. The interest rate on this loan is approximately 14.50%. The group has made assertions that the financing is short term in nature and therefore is classified as a current liability in these financial statements.

VALUE ADDED PRODUCTS
ALVA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020 AND 2019

NOTE 2: Note Payable and Long-Term Debt (Continued)

Long-Term Debt

LOAN TYPE	DATE DUE	INTEREST RATE	5/31/20 BALANCE	5/31/19 BALANCE
EIDL	5/22/51	3.75%	\$ 150,000	\$ -
PPP	4/13/22	1.00%	427,500	-
Term	1/1/32	6.75%	649,397	689,347
Term	3/1/28	5.25%	563,171	609,767
Term	1/1/24	5.00%	1,885,569	1,976,006
Term	12/27/22	0.00%	504,660	504,660
TOTAL			4,180,297	3,779,780
LESS CURRENT			(713,856)	(356,758)
LONG-TERM DEBT			<u>\$ 3,466,441</u>	<u>\$ 3,423,022</u>

Collateral

The term loans are secured by accounts receivable, inventory, equipment, and real estate.

The long-term debt matures during fiscal years ending May 31, in the following amounts:

	<u>LONG-TERM DEBT</u>
2021 (Current Liability)	\$ 713,856
2022	1,499,829
2023	600,129
2024	447,213
2025	125,054
Thereafter	<u>799,216</u>
TOTAL	<u>\$ 4,180,297</u>

The interest expense for the years ended May 31, 2020 and 2019, was \$282,258 and \$209,420, respectively.

PPP Loan

The cooperative received a Paycheck Protection Program (PPP) loan facilitated through Alva State Bank on April 13, 2020. The cooperative may qualify for forgiveness of the PPP loan if the cooperative uses no less than 60 percent and up to 100 percent of the loan proceeds for payroll costs during the cooperative covered period. The remaining unused percentage is allowed to be used for rent, interest, lease payments, and utilities of the cooperative incurred during the covered period.

The cooperative is treating the PPP loan proceeds as debt and will recognize income from the forgiveness of the debt when the cooperative receives notice of forgiveness.

\$427,500 has been classified as long-term debt as of May 31, 2020. The \$427,500 advance received from the PPP loan is included in financing activities in the statement of cash flows for the year ended August 31, 2020.

**VALUE ADDED PRODUCTS
ALVA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020 AND 2019**

NOTE 3: Members' Equity

Capital Stock

The authorized capital at May 31, 2020 and 2019 was 5,000,000 shares at \$.01 par value common stock and 5,000,000 shares of \$.01 par value preferred stock. The cooperative shall have the first lien on all shares of its capital stock and upon all dividends on stock and apportionments declared upon same, for any indebtedness of the holders thereof to the cooperative.

Preferred Stock

On May 31, 2020 and 2019, no shares of preferred stock were issued and outstanding. The preferred stock may be issued and sold to members or nonmembers, but preferred-stockholders shall not be entitled to vote.

Common Stock

On May 31, 2020 and 2019, 1,947,660 shares of common stock were issued and outstanding. The common stock may be purchased, owned, or held only by producers of agricultural products, either as landlords or tenants. At all meetings of the membership, each member shall be entitled to cast only one vote on each question, irrespective of the number of shares of stock owned.

Retained Earnings (Deficit)

Unallocated retained earnings represent the earnings or losses of the cooperative from nonmember/nonpatronage sources after reduction for the related federal and state income taxes.

NOTE 4: Provision for Income Taxes

Allocation of Profits and Income Taxes

Value Added Products is an exempt farmer cooperative taxable under Section 521 of the U.S. Internal Revenue Code. The bylaws of the cooperative require earnings to be allocated on a patronage basis to members only. The cooperative is not liable for income tax on patronage earnings, provided the proper allocation of such earnings and a cash payment of twenty percent (20%) thereof is made to members within eight and one-half (8½) months following the close of its year-end. The cooperative had a taxable net loss of \$362,294 for the year ended May 31, 2020.

Unused Credits

The cooperative has available at May 31, 2020, unused operating loss carryforwards, which may provide future tax benefit expiring May 31 as follows:

<u>EXPIRATION DATE</u>	<u>NET OPERATING LOSS CARRYFORWARD</u>
2021	\$ 1,821,933
2022	5,163,046
2023	1,798,714
2024	399,546
2025	468,680
2026	250,453
2029	372,213
2031	423,707
2033	306,941
2034	28,698
2038	88,817
NA	834,467
TOTALS	<u>\$ 11,957,215</u>

VALUE ADDED PRODUCTS
ALVA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020 AND 2019

NOTE 4: Provision for Income Taxes (Continued)

Accounting for Uncertainty in Income Taxes

The cooperative recognizes the tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The cooperative believes their positions are appropriate based on current facts and circumstances. As of May 31, 2020 and 2019 the cooperative does not have any unrecognized tax benefits in its financial statements. The cooperative's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

NOTE 5: Going Concern

Substantial Doubt about the Cooperative's Ability to Continue as a Going Concern

The consequences of the COVID-19 pandemic have materially and adversely affected the demand for the cooperative's primary product; therefore, its operating results have been negatively impacted. It is uncertain when the cooperative will return to profitability and positive cash flows from operations. As of May 31, 2020, the cooperative sustained a net loss of \$667,179 during its fiscal year and had a deficit of working capital of \$1,595,941. The sustained losses from operations as well as the significant deficit in working capital raises substantial doubt about the cooperative's ability to meet its' future obligations to its' creditors without substantial additional capital being contributed to the cooperative. If the cooperative is unable to meet their obligations to Alva State Bank, the bank could take immediate action against the cooperative and require the initiation of a liquidation plan or immediate repayment of the loans. The cooperative is not aware of any alternate sources of capital to meet such demands, if made, and has stated that substantial doubt exists about the company's ability to continue as a going concern. The board of directors and management are working with the bank to evaluate current operations in an effort to reduce operating expenses, increase operational efficiency, and increase gross margin on sales. The cooperative's ability to continue as a going concern is dependent on the bank's willingness to continue to furnish operating funds. The financial statements do not include any adjustments that might be necessary if the cooperative is unable to continue as a going concern.

NOTE 6: Commitments and Contingencies

Risks and Uncertainties

Normal operations subject the cooperative to lawsuits and potential liabilities for injuries to employees and customers and potential liabilities for noncompliance with a wide variety of federal and state regulations. Management has obtained insurance coverage and established training programs and systems to help manage and control these and other risks.

VALUE ADDED PRODUCTS
ALVA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
MAY 31, 2020 AND 2019

NOTE 7: Concentrations

Credit Risk

The cooperative has accounts due mostly from wholesale distributors taking delivery of product. The cooperative provides an allowance for doubtful accounts which is based upon an evaluation of outstanding trade receivables, historical collection information, and existing economic conditions. Delinquent accounts are written off based on individual credit evaluation and specific circumstances of the customer. The cooperative's credit risks have been anticipated and management believes that adequate provisions have been made for doubtful accounts.

Customers

The cooperative has a significant concentration among its customer base. Three of the cooperative's customers account for 78.10% to the cooperative's total sales.

Product Lines

The cooperative has a significant concentration among its product lines. Pizza crusts account for 99.34% of the cooperatives total sales.

NOTE 8: Related Party Transactions

Angel Group, L.L.C.

The Cooperative obtained a short-term loan from the Angel Group, L.L.C. during the fiscal year ending May 31, 2020. The Angel Group, L.L.C. is composed of individuals that are related parties to the Cooperative. The details of this loan are discussed in Note 2.

NOTE 9: Concentration of Credit Risk

Cash

As of May 31, 2020, the cooperative had cash on deposit in local banks in excess of federally insured limits in the amount of \$84,525. Management believes the involved credit risk is minimal and consequently, no provision for potential losses has been made to the accompanying financial statements.