



ANNUAL REPORT OF CLASS II AND III RAILROADS
NORTH DAKOTA PUBLIC SERVICE COMMISSION
 SFN 14356 (03-03)

File No.

Business Name DAKOTA MISSOURI VALLEY & WESTERN RAILROAD INC	For Year Ended 2022
Business Address 3501 E Rosser Ave, Bismarck, ND 58501	Business Telephone Number 701-223-9282

Instructions: Complete this form in duplicate and return the original to the ND Public Service Commission, 600 E Boulevard Ave., Dept. 408, Bismarck ND 58505-0480. Return it no later than the 15th day of the fourth month following the close of the year for which this report is filed.

General Information

1. Provide the names and addresses of owners, partners, or top five corporate officers.

Name	Address
JEFF WOOD	3501 E Rosser Ave, Bismarck, ND 58501
LARRY WOOD	3501 E Rosser Ave, Bismarck, ND 58501
DERRICK BOSCH	3501 E Rosser Ave, Bismarck, ND 58501
JENNA JAHNER	3501 E Rosser Ave, Bismarck, ND 58501

2. Provide the names and addresses of owners, partners, or stockholders with 20% or more ownership of the company.

Name	Address
DIANA KIRK	3501 E Rosser Ave, Bismarck, ND 58501
LARRY WOOD	3501 E Rosser Ave, Bismarck, ND 58501
JEFF WOOD	3501 E Rosser Ave, Bismarck, ND 58501

I certify that to the best of my knowledge and believe that this is a true and correct report.

Name JEFF WOOD	Signature
Title President	Date 4/13/2023

File No.

Company Statements

3. Condensed Balance Sheet (system)

Asset Side	Balance at End of Year	Liability and Equity Side	Balance at End of Year
Current Assets	11,952,337	Current Liabilities	1,159,848
Other Assets/Deferred Charges	12,835,113	Non-Current Liabilities	0
Transportation Property – Net	17,581,185	Stockholders' Equity	41,208,787
Total Assets	42,368,635	Total Liabilities and Equity	42,368,635

4. Condensed Operating Statement (system)

	Balance at End of Year
Railway Operating Revenues (from revenue schedule below)	24,890,387
Less: Railway Operating Expenses (from schedule A – attached)	23,048,565
Net Income from Railway Operations	1,841,822
Less: Net Rentals	
Railway Income Tax Accruals	
Net Railway Operating Income	1,841,822

Additional Data and Statistics

5. Railway Operating Revenues

	North Dakota Intrastate	System Wide
Freight	15,989,850.26	19,725,493.00
Switching	842,711.00	842,711.00
Demurrage		
Incidental		
Total	16,832,561.26	20,568,204.00

	North Dakota Intrastate	System Wide
6. Miles of road owned and operated at year end	375	502
7. Miles of road operated under trackage rights	14	14
8. Miles of road discontinued during the year		
9. Expenditures for maintenance of way during the year		

10. Operating Statistics

	System Wide
Gross Ton Miles	24,9431,197
Train Miles	75,064
Car Miles	3,792,851
Car Days	50,379
Road Locomotive Hours	22,519
Yard Locomotive Switching Hours	1,126
Trailer/Container Days	0

11. Equipment Inventory

	Owned	Leased
Road Locomotive Units		
Yard Locomotive Units		
Freight Cars		
Covered Hopper		
Open Hopper		
Other		
Trailers/Containers		

File No.

Schedule A
Railway System Operating Expenses

Maintenance of Way & Structures	→	→	→	→	→	→	→	→	→	9,393,558
Maintenance of Equipment:										
Locomotives	→	→	→	→	→	→	→	→	→	
Freight Cars	→	→	→	→	→	→	→	→	→	
Trailers & Containers	→	→	→	→	→	→	→	→	→	
Other	→	→	→	→	→	→	→	→	→	
Total Maintenance of Equipment	→	→	→	→	→	→	→	→	→	
Transportation:										
Train & Engine Crews	→	→	→	→	→	→	→	→	→	
Yard Crews	→	→	→	→	→	→	→	→	→	
Locomotive Fuel:										
Train Operations	→	→	→				→	→	→	→
Yard Operations	→	→	→				→	→	→	→
Total Locomotive Fuel	→	→	→	→	→	→	→	→	→	
Other Transportation:										
Train Operations	→	→	→				→	→	→	→
Yard Operations	→	→	→				→	→	→	→
Total Other Transportation	→	→	→	→	→	→	→	→	→	
Total Transportation	→	→	→	→	→	→	→	→	→	10,526,946
General Administration & Overhead:										
Central Office Personnel	→	→	→	→	→	→	→	→	→	
Property Taxes	→	→	→	→	→	→	→	→	→	
Fringe Benefits	→	→	→	→	→	→	→	→	→	
Other	→	→	→	→	→	→	→	→	→	
Total Other General Administration & Overhead	→	→	→	→	→	→	→	→	→	1,911,679
Total System Expenses	→	→	→	→	→	→	→	→	→	21,832,183

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Schedule B
System Revenue Freight Handled During the Year

Description	Originating		Terminating		Bridge and Overhead Traffic	
	Carloads	Tons	Carloads	Tons	Carloads	Tons
Wheat (except durum)	2,866	372,580				
Durum	2,713	352,690				
Barley	2	260				
Sunflowers	5	650				
Corn	8,208	1,067,040				
Flax	61	7,930				
Oats						
Rye						
Soybeans	4,939	642,070				
Other Grain and Oilseeds	745	96,850				
Wheat Flour						
Malt						
Dairy Products						
Fertilizer			529	68,770		
Cement			330	42,900		
Coal	3,316	431,080				
Petroleum & Petroleum Products			35	4,550		
Chemicals			12	1,560		
Lumber			105	13,650		
Machinery						
Livestock						
Miscellaneous*	5,782	743,360	674	87,620	4	120
Totals	28,637	3,714,510	1,685	219,050	4	120

*List below any commodity that accounts for more than 1% of total carloads or tons:

FLYASH	2,566	333,580
ETHANOL	1,999	259,870
LIME	573	74,490
DDG	857	110,630

File No.

Schedule C
ND Revenue Freight Handled During the Year

Description	Originating		Terminating		Bridge and Overhead Traffic	
	Carloads	Tons	Carloads	Tons	Carloads	Tons
Wheat (except durum)	2,866	372,580				
Durum	301	39,130				
Barley	2	260				
Sunflowers	5	650				
Corn	6,122	795,860				
Flax	61	7,930				
Oats						
Rye						
Soybeans	4,243	551,590				
Other Grain and Oilseeds	303	39,390				
Wheat Flour						
Malt						
Dairy Products						
Fertilizer			529	68,770		
Cement			330	42,900		
Coal	3,316	431,080				
Petroleum & Petroleum Products			35	4,550		
Chemicals			12	1,560		
Lumber			37	4,810		
Machinery						
Livestock						
Miscellaneous*	5,772	743,060			4	120
Totals	22,991	2,981,530	1,617	210,210	4	120

*List below any commodity that accounts for more than 1% of total carloads or tons:

FLYASH	2,566	333,580
ETHANOL	1,999	259,870
LIME	573	74,490
DDG	857	110,630

**DAKOTA, MISSOURI VALLEY AND
WESTERN RAILROAD, INC.
REVIEWED
FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED
DECEMBER 31, 2022 AND 2021**

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
of Dakota, Missouri Valley and Western Railroad, Inc.
Bismarck, North Dakota

We have reviewed the accompanying consolidated financial statements of Dakota, Missouri Valley and Western Railroad, Inc. (a North Dakota corporation) and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Dakota, Missouri Valley and Western Railroad, Inc. and its subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

Basis for Qualified Conclusion

As disclosed in Note 1 to the consolidated financial statements, accounting principles generally accepted in the United States of America require certain lease obligations to be recorded as right-of-use assets and lease liabilities. Management has informed us that the Company has elected not to capitalize certain lease obligations in accordance with accounting principles generally accepted in the United States of America. Management has not determined the effects of this departure on financial position, results of operations, and cash flows.

Qualified Conclusion

Based on our reviews, except for the matter described in the Basis for Qualified Conclusion paragraph, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Hoffman & Brobst, PLLP

Hoffman & Brobst, PLLP
Certified Public Accountants
Marshall, Minnesota

April 6, 2023

DAKOTA, MISSOURI VALLEY AND WESTERN RAILROAD, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 7,378,673	\$ 8,778,340
Accounts Receivable	3,475,188	3,577,292
Inventory	875,445	1,037,128
Prepaid Expenses	59,491	46,113
Current Portion of Notes and Contracts Receivable	163,540	156,930
TOTAL CURRENT ASSETS	<u>11,952,337</u>	<u>13,595,803</u>
PROPERTY AND EQUIPMENT (NET)	<u>17,581,185</u>	<u>16,407,126</u>
OTHER ASSETS		
Notes Receivable - Employees	43,332	65,015
Less Current Portion	(10,833)	(16,433)
Contract for Deed - RCS Properties LLC	901,815	1,201,505
Less Current Portion	(152,707)	(140,497)
Goodwill (Net)	740,000	-
Investment - Real Estate	3,568,090	3,558,621
Investment - Midwest AgEnergy Group	-	1,000,000
Investment - BNC Brokerage Account	2,459,200	2,500,168
Investment - Edward Jones Brokerage Account	3,048,414	3,326,034
Cash Value of Life Insurance	2,047,290	2,338,374
Patronage Dividend Receivable	190,512	178,275
TOTAL OTHER ASSETS	<u>12,835,113</u>	<u>14,011,062</u>
TOTAL ASSETS	<u>\$ 42,368,635</u>	<u>\$ 44,013,991</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	\$ 686,503	\$ 676,996
Accrued Payroll Liabilities	473,345	418,245
Line of Credit	-	-
TOTAL CURRENT LIABILITIES	<u>1,159,848</u>	<u>1,095,241</u>
CONTINGENCIES AND COMMITMENTS		
STOCKHOLDERS' EQUITY		
Common Stock	52	52
Additional Paid In Capital	55,448	55,448
Treasury Stock	(7,908,439)	(7,908,439)
Accumulated Other Comprehensive Income	322,791	630,379
Retained Earnings	48,738,935	50,141,310
TOTAL STOCKHOLDERS' EQUITY	<u>41,208,787</u>	<u>42,918,750</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 42,368,635</u>	<u>\$ 44,013,991</u>

SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT
The accompanying notes are an integral part of these statements.

DAKOTA, MISSOURI VALLEY AND WESTERN RAILROAD, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Freight Revenue	\$ 19,725,493	\$ 17,344,618
Contracting Revenue	1,865,448	1,415,175
Railcar/Locomotive Lease	1,377,194	1,353,900
Other Freight Services	1,340,118	1,364,621
Maintenance Services	127,725	173,210
Crane Service Revenue	454,409	-
TOTAL OPERATING REVENUES	<u>24,890,387</u>	<u>21,651,524</u>
OPERATING EXPENSES		
Maintenance of Way	7,577,477	6,961,870
Transportation Expense	9,978,885	7,790,662
Contracting Expense	1,816,081	1,696,118
Car Repair Expense	66,179	184,285
Car Lease Expense	481,882	414,295
Crane Expense	1,216,382	-
Administrative Expense	1,911,679	1,937,095
TOTAL OPERATING EXPENSES	<u>23,048,565</u>	<u>18,984,325</u>
INCOME FROM OPERATIONS	<u>1,841,822</u>	<u>2,667,199</u>
OTHER INCOME (EXPENSE)		
Miscellaneous	113,731	262,777
Interest Income	66,795	88,883
Gain on Sale of Assets	362,971	41,974
Officer Life Insurance Income (Expense)	(399,820)	154,316
Life Insurance Death Benefit (Net of Cash Value)	-	5,542,853
Income (Loss) on Brokerage Accounts - Net of Fees	(13,447)	130,177
Gain on Sale of Midwest AgEnergy, Inc.	645,803	-
Income on Investment in Midwest AgEnergy, Inc.	140,770	-
Employee Retention Credit	-	560,000
TOTAL OTHER INCOME (EXPENSE)	<u>916,803</u>	<u>6,780,980</u>
NET INCOME	2,758,625	9,448,179
OTHER COMPREHENSIVE INCOME (EXPENSE)		
Unrealized Gain (Loss) on Brokerage Accounts	<u>(307,588)</u>	<u>399,715</u>
COMPREHENSIVE INCOME	<u>\$ 2,451,037</u>	<u>\$ 9,847,894</u>

SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT
The accompanying notes are an integral part of these statements.

DAKOTA, MISSOURI VALLEY AND WESTERN RAILROAD, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Retained Earnings</u>
Balance December 31, 2020	\$ 52	\$ 55,448	\$ (935,836)	\$ 230,664	\$ 44,968,131
Partial Stock Redemption	-	-	(6,972,603)	-	-
Distributions to Stockholders	-	-	-	-	(4,275,000)
Net Income - 2021	-	-	-	399,715	9,448,179
Balance December 31, 2021	52	55,448	(7,908,439)	630,379	50,141,310
Distributions to Stockholders	-	-	-	-	(4,161,000)
Net Income - 2022	-	-	-	(307,588)	2,758,625
Balance December 31, 2022	\$ <u>52</u>	\$ <u>55,448</u>	\$ <u>(7,908,439)</u>	\$ <u>322,791</u>	\$ <u>48,738,935</u>

SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT
The accompanying notes are an integral part of these statements.

DAKOTA, MISSOURI VALLEY AND WESTERN RAILROAD, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 25,229,462	\$ 21,274,554
Cash Paid to Suppliers and Employees	(20,164,162)	(16,712,404)
Cash Received from Employee Retention Credit	-	348,258
Interest Received	53,348	219,060
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	5,118,648	5,129,468
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for Property and Equipment	(3,972,384)	(202,118)
Payments for Goodwill	(800,000)	-
Proceeds from the Disposal of Property and Equipment	401,500	86,262
Advances on Notes Receivable - Bogo Holdings, LLC		
Advances on Notes Receivable - Employees	(500)	(17,000)
Payments Received on Notes Receivable - Employees	22,183	20,383
Payments for Investment in Real Estate	(9,469)	(80,549)
Dividends Received from Investment in Midwest AgEnergy, Inc.	140,770	-
Proceeds from Sale of Midwest AgEnergy, Inc. Investment	1,549,895	-
Payments Received on Notes Receivable - Related Parties	-	700,000
Payments Received on Contract for Deed - RCS Properties LLC	299,690	134,997
Purchase of Investments	(2,991,795)	(1,660,931)
Sale of Investments	3,002,795	1,530,755
Cash Received from Life Insurance Proceeds	-	6,006,526
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	(2,357,315)	6,518,325
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of Treasury Stock	-	(6,972,603)
Stockholders' Distributions	(4,161,000)	(4,275,000)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(4,161,000)	(11,247,603)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,399,667)	400,190
CASH AND CASH EQUIVALENTS, BEGINNING	8,778,340	8,378,150
CASH AND CASH EQUIVALENTS, ENDING	\$ 7,378,673	\$ 8,778,340
NON-CASH INVESTING ACTIVITIES		
Employee Note Receivable Forgiveness	\$ -	\$ 90,000
Unrealized Gain/(Loss) on Brokerage Accounts	\$ (307,588)	\$ 399,715

SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT
The accompanying notes are an integral part of these statements.

DAKOTA, MISSOURI VALLEY AND WESTERN RAILROAD, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES		
Net Income	\$ 2,758,625	\$ 9,448,179
Adjustments to Reconcile Net Income to Net Cash Provided by (Used for) Operating Activities:		
Depreciation and Amortization	2,819,796	2,443,657
Officer Life Insurance Proceeds	-	(6,006,526)
Loss (Gain) on Sale of Property and Equipment	(362,971)	(41,974)
Forgiveness of Employee Note Receivable	-	90,000
Income on Investment in Midwest AgEnergy, Inc.	(140,770)	-
Gain on Sale of Midwest AgEnergy, Inc.	(645,803)	-
(Increase) Decrease in:		
Accounts Receivable	198,012	(1,087,350)
Inventory	161,683	275,129
Notes Receivable - Related Parties		
Prepaid Expenses	(13,378)	(20,391)
Patronage Dividend Receivable	(12,237)	19,237
Cash Value of Life Insurance	291,084	271,243
Increase (Decrease) in:		
Accounts Payable	9,507	(184,454)
Accrued Payroll Liabilities	55,100	(77,282)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u><u>\$ 5,118,648</u></u>	<u><u>\$ 5,129,468</u></u>

SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT
The accompanying notes are an integral part of these statements.

DAKOTA, MISSOURI VALLEY AND WESTERN RAILROAD, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

NATURE OF OPERATIONS

Dakota, Missouri Valley and Western Railroad, Inc. was incorporated on August 1, 1990 to operate a short-line railroad in the States of North Dakota, South Dakota, and Montana. On April 1, 2022 the Company acquired a crane company under a single member limited liability company, DMVW LLC. DMVW LLC is considered a wholly owned subsidiary of Dakota, Missouri Valley and Western Railroad, Inc.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The Company's policy is to prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), with the exception of the accounting for operating leases. U.S. GAAP requires that certain lease obligations be recorded as right-of-use assets and lease liabilities. Management has elected not to record these lease obligations on the consolidated balance sheets, and therefore no amortization or accretion has been recorded related to the operating leases. Management has elected to record rent expense on the consolidated statements of comprehensive income as incurred.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Dakota, Missouri Valley and Western Railroad, Inc. and its wholly owned subsidiary. All material intercompany transactions have been eliminated.

REVENUE RECOGNITION POLICY

The Company's primary source of revenue is freight rail transportation services. The primary performance obligation for the Company is to move freight from a point of origin to a point of destination. The performance obligations are represented by bills of lading which create a series of distinct services that have a similar pattern of transfer to the customer. The revenues for each performance obligation are based on various factors including the product being shipped and the location of the origin and destination. The transaction price is generally a per car amount to transport cars from the origin to the destination.

The Company also has a secondary source of revenue from its wholly owned subsidiary for crane services. The primary performance obligation for the wholly owned subsidiary is to provide crane services when requested. The performance obligations are represented by invoices which create a series of distinct services that have a similar pattern of transfer to the customer. The revenues for each performance obligation are based on completion of the requested service. The transaction price varies per size of crane utilized and duration of the service.

The associated freight revenues are recognized over time as the service is performed because the customer simultaneously receives and consumes the benefits of the service. The Company recognizes revenue based on the proportion of the service completed as of the consolidated balance sheet date. Bills for freight transportation services are generally issued to customers and paid within thirty days or less. As a result, no significant contract assets or liabilities exist and there are no significant financing components in the Company's revenue arrangements.

The associated crane revenues are recognized at the completion of the service as this is when the customer consumes the benefits of the service. The Company recognizes revenue based on the completion of the service performed as of the consolidated balance sheet date. Bills for crane services are generally issued to customers and paid within thirty days or less. As a result, no significant contract assets or liabilities exist and there are no significant financing components in the Company's revenue arrangements.

The Company's contracts include no customer incentives or demurrage rates as of the consolidated balance sheet date, thus there are no timing impacts of variable consideration for certain customers. Receivables from contracts with customers is a component of accounts receivable on the consolidated balance sheets. Remaining performance obligations primarily consist of in-transit freight revenues, which will be recognized in the next reporting period.

SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT

DAKOTA, MISSOURI VALLEY AND WESTERN RAILROAD, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

USE OF ESTIMATES

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

CASH AND CASH EQUIVALENTS

For the purposes of presenting cash flows, investments with original maturities of three months or less are considered to be cash equivalents, except for the money market funds in the brokerage accounts.

INVESTMENTS

The Company's investments are carried at fair value based on quoted market prices and are classified as available-for-sale, except for real estate investments and the investment in Midwest AgEnergy Group, which are carried at cost due to having no readily determinable fair value. Management has determined that investments are not impaired at December 31, 2022 or 2021. Realized gains and losses are reported as a component of income (loss) on brokerage accounts – net of fees and included in other income (expense) on the consolidated statements of comprehensive income. For the years ending December 31, 2022 and 2021, all proceeds from sales remained in the brokerage accounts for reinvestment. The cost of securities sold is based on the purchase price.

FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described below.

- Level 1 inputs to the valuation methodology are unadjusted, quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

All financial instruments subject to fair value measurement held by the Company are categorized as level 1, except as discussed in Note 6. Management has determined that there are no impaired financial instruments. No allowance for credit losses has been calculated, based on the Company's history with the applicable financial instruments.

CONCENTRATION OF CREDIT RISK AND MAJOR CUSTOMERS

In the normal course of business, the Company extends credit to its customers. Credit evaluations of its customers' financial condition are performed but, generally, no collateral is required. Canadian Pacific Railway comprises a significant portion of the Company's customer base. The Company's exposure to credit risk associated with nonpayment from this customer is affected by conditions within the railroad industry.

The Company has deposits with banks that are periodically in excess of federally insured limits.

ACCOUNTS RECEIVABLE

The Company extends credit, in the normal course of business, to customers in North Dakota, South Dakota and Montana. The Company generally extends credit on an unsecured basis. The Company considers accounts receivable to be old after 60 days and generally no finance charges are accrued. An account is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the balance due. The Company writes off any impaired accounts to bad debt expense.

SEE INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

ALLOWANCE FOR DOUBTFUL ACCOUNTS

Management determines the allowance for doubtful accounts by regularly evaluating customer receivables and considering a customer's financial condition and credit history, and current economic conditions. No allowance for uncollectible accounts is calculated because it is reasonably expected, based on the Company's collection history, that all accounts receivable will be collectible. Accounts will be written off when management determines that the outstanding balance will not be collected. Recoveries of accounts receivable previously written off are recorded when received.

INVENTORY

The inventory consists of material purchases and salvage rail to be used on future track projects and is valued at cost and estimated salvage value, as determined on the first-in, first-out (FIFO) method. Such valuations are not in excess of market value.

ADVERTISING COSTS

The Company follows the policy of charging advertising and promotions to expense as incurred. Advertising costs charged to operations for the years ended December 31, 2022 and 2021 were \$92 and \$2, respectively.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Major renewals and improvements are capitalized, while replacements, maintenance and repairs, which do not improve or extend the life of the respective assets are expensed currently. When items are sold or otherwise disposed of, the cost and accumulated depreciation of such items are removed from the accounts. Gains and losses from the sale or abandonment of such items are realized in the period in which the disposal occurred. Depreciation of property and equipment is calculated using straight-line methods over the estimated useful lives of the assets.

GOODWILL

The excess of the acquisition cost over the net book value of assets acquired in the purchase of the crane company has been recorded as goodwill. Goodwill of \$800,000 and \$-0- as of December 31, 2022 and 2021, respectively, has been capitalized and is being amortized over ten years from the date of purchase. The goodwill is recorded on the consolidated balance sheets net of accumulated amortization of \$60,000 and \$-0- as of December 31, 2022 and 2021, respectively. Amortization charged to operations was \$60,000 and \$-0- for the years ended December 31, 2022 and 2021, respectively. The estimated amortization of the remaining asset balance for the next five years is as follows: \$80,000 for the years ended December 31, 2023 through 2027. The Company also assesses goodwill for impairment whenever a triggering event has been deemed to occur that would indicate that the fair value of the applicable location may be below its carrying amount.

INCOME TAXES

The Company has elected Subchapter S status effective January 1, 2002. Earnings and losses after that date are included in the individual income tax returns of the Company's stockholders. Accordingly, the Company does not incur income tax obligations other than corporate level taxes assessed by federal or state taxing authorities.

Under the provisions of subchapter S corporations, the Company's taxable income is reported individually by its stockholders. Therefore, no provision or liability for income taxes has been included in these consolidated financial statements.

The Company will recognize the tax effects of any uncertain tax positions it may adopt, if the position taken is more likely than not sustainable. If a tax position meets such criteria, the tax effect to be recognized by the Company would be the largest amount of benefit with more than a 50% chance of being realized upon settlement. No tax positions meet these criteria.

SHIPPING AND HANDLING

The Company follows the policy of charging shipping and handling costs to expense as incurred.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

SALES TAX

The Company follows the policy of recording sales net of any applicable taxes payable to the State in which the sale was conducted.

RECLASSIFICATIONS

Certain amounts in the prior year data have been reclassified in order to be consistent with the current year's presentation. The Company's prior year equity did not change due to these reclassifications.

2. ACCOUNTS RECEIVABLE

The detail of accounts receivable is as follows:

	<u>2022</u>	<u>2021</u>
Canadian Pacific Railway – Freight Revenue	\$ 2,917,988	\$ 3,191,013
Contracting Projects	26,183	22,231
Internal Revenue Service (Employee Retention Credit)	211,742	211,742
Other Receivables	<u>319,275</u>	<u>152,306</u>
TOTAL ACCOUNTS RECEIVABLE	<u>\$ 3,475,188</u>	<u>\$ 3,577,292</u>

3. NOTES AND CONTRACT RECEIVABLE

The Company has the following notes and contract receivable:

	<u>2022</u>	<u>2021</u>
Contract for deed for commercial real estate from RCS Properties LLC, a related party through common ownership of Jeff Wood, with monthly installments of \$15,500 including principal and interest at a fixed rate of 4.00% to March 1, 2025.	\$ 901,815	\$ 1,201,505

Notes receivable from employees, with principal installments of \$10,833 per year (ranging from \$150 per payroll to \$10,833 per year as of December 31, 2021) with interest of 1.00% (interest ranging from 0.00% to 1.00% as of December 31, 2021) due on December 31, 2026 (various dates through December 31, 2026 as of December 31, 2021).

TOTAL NOTES AND CONTRACT RECEIVABLE	<u>43,332</u>	<u>65,015</u>
LESS: CURRENT MATURITIES	<u>945,147</u>	<u>1,266,520</u>
LONG-TERM NOTES AND CONTRACT RECEIVABLE	<u>\$ 163,540</u>	<u>\$ 156,930</u>
	<u>\$ 781,607</u>	<u>\$ 1,109,590</u>

4. PROPERTY AND EQUIPMENT

	ESTIMATED LIFE	<u>2022</u>	<u>2021</u>
Land		\$ 223,613	\$ 143,613
Buildings and Improvements	10-40 Years	2,403,003	2,403,003
Track and Structures (Leasehold Improvements)	10-20 Years	28,213,249	28,213,249
Locomotives and Improvements	7-10 Years	3,410,839	3,374,510
Track Equipment	5-10 Years	5,311,168	5,280,170
Rail Cars	7-20 Years	8,432,110	8,432,110
Transportation Equipment	3-5 Years	974,173	982,535
Communication Equipment	5-7 Years	499,055	186,920
Cranes and Equipment	5-7 Years	2,779,701	-
Office Equipment	5-7 Years	<u>126,092</u>	<u>126,092</u>
		52,373,003	49,142,202
Less: Accumulated Depreciation		<u>34,791,818</u>	<u>32,735,076</u>
PROPERTY AND EQUIPMENT – NET		<u>\$ 17,581,185</u>	<u>\$ 16,407,126</u>

Depreciation expense for the years ended December 31, 2022 and 2021 totaled \$2,759,796 and \$2,443,657, respectively.

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5. INVESTMENTS

Real Estate

The Company holds real estate investments in Bismarck, North Dakota and Routt County, Colorado. The cost of this real estate for the years ended December 31, 2022 and 2021 was \$3,568,090 and \$3,558,621, respectively.

Midwest AgEnergy Group

The Company had invested in Midwest AgEnergy Group in exchange for a minority share of ownership. This investment was sold in 2022. The cost of this investment in Midwest AgEnergy Group as of December 31, 2022 and 2021 was \$-0- and \$1,000,000, respectively. Distributions for the years ended December 31, 2022 and 2021 totaled \$140,770 and \$-0-, respectively.

BNC Brokerage Account

The Company has invested excess funds in a brokerage account. Investments in this account are recorded at fair market value and include various municipal bonds, mutual funds, common stock, foreign stock, exchange traded funds, and money market accounts.

Edward Jones Brokerage Account

The Company has invested excess funds in a brokerage account. Investments in this account are recorded at fair market value and include various municipal bonds, mutual funds, common stock, and money market accounts.

6. FAIR VALUE MEASUREMENTS – INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the Company's investments at fair value as of December 31, 2022.

	<u>2022</u>		
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets For Identical Assets Level 1</u>	<u>Significant Observable Inputs Level 2</u>
Investments by Fair Value Level			
Fixed income securities			
Closed-end funds	\$ 10,920	\$ 10,920	\$ -
Mutual funds	267,831	267,831	-
Municipal obligations	715,929	-	715,929
Total fixed income securities	<u>994,680</u>	<u>278,751</u>	<u>715,929</u>
Equity securities			
Closed-end funds	74,903	74,903	-
Mutual funds	337,909	337,909	-
Common stock	2,906,505	2,906,505	-
Foreign stock	220,801	220,801	-
Total equity securities	<u>3,540,118</u>	<u>3,540,118</u>	<u>-</u>
Real assets			
Exchange traded funds-commodities	169,640	169,640	-
Mutual funds-real estate	114,022	114,022	-
Total real assets	<u>283,662</u>	<u>283,662</u>	<u>-</u>
Alternatives			
Mutual funds	315,820	315,820	-
Total alternatives	<u>315,820</u>	<u>315,820</u>	<u>-</u>
Total investments by fair value level	<u>\$ 5,134,280</u>	<u>\$ 4,418,351</u>	<u>\$ 715,929</u>

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6. FAIR VALUE MEASUREMENTS – INVESTMENTS (Cont'd)

A summary of investments in the brokerage accounts as of December 31, 2022 is as follows:

Investments disclosed by fair value level	\$ 5,134,280
Accounts not disclosed by fair value level:	
Money Market Accounts	<u>373,334</u>
Total Investments in Brokerage Accounts	<u>\$ 5,507,614</u>
Investment – BNC Brokerage Account	\$ 2,459,200
Investment – Edward Jones Brokerage Account	<u>3,048,414</u>
Total Investments in Brokerage Accounts	<u>\$ 5,507,614</u>

The following table sets forth by level, within the fair value hierarchy, the Company's investments at fair value as of December 31, 2021.

	<u>2021</u>		
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets For Identical Assets Level 1</u>	<u>Significant Observable Inputs Level 2</u>
Investments by Fair Value Level			
Fixed income securities			
Closed-end funds	\$ 14,640	\$ 14,640	\$ -
Mutual funds	341,730	341,730	-
Municipal obligations	<u>1,347,131</u>	<u>-</u>	<u>1,347,131</u>
Total fixed income securities	<u>1,703,501</u>	<u>356,370</u>	<u>1,347,131</u>
Equity securities			
Closed-end funds	75,773	75,773	-
Mutual funds	373,765	373,765	-
Common stock	2,741,804	2,741,804	-
Foreign stock	<u>49,519</u>	<u>49,519</u>	-
Total equity securities	<u>3,240,861</u>	<u>3,240,861</u>	<u>-</u>
Real assets			
Exchange traded funds-commodities	170,960	170,960	-
Mutual funds-real estate	<u>214,424</u>	<u>214,424</u>	-
Total real assets	<u>385,384</u>	<u>385,384</u>	<u>-</u>
Alternatives			
Mutual funds	<u>293,967</u>	<u>293,967</u>	-
Total alternatives	<u>293,967</u>	<u>293,967</u>	<u>-</u>
Total investments by fair value level	<u>\$ 5,623,713</u>	<u>\$ 4,276,582</u>	<u>\$ 1,347,131</u>

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6. FAIR VALUE MEASUREMENTS – INVESTMENTS (Cont'd)

A summary of investments in the brokerage accounts as of December 31, 2021 is as follows:

Investments disclosed by fair value level	\$ 5,623,713
Accounts not disclosed by fair value level:	
Money Market Accounts	<u>202,489</u>
Total Investments in Brokerage Accounts	<u>\$ 5,826,202</u>
Investment – BNC Brokerage Account	\$ 2,500,168
Investment – Edward Jones Brokerage Account	<u>3,326,034</u>
Total Investments in Brokerage Accounts	<u>\$ 5,826,202</u>

For the years ended December 31, 2022 and 2021, there were no transfers between levels.

The following schedule summarizes the composition of income (loss) on brokerage accounts for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 284,671	\$ 170,382
Realized capital gains (losses)	(221,825)	30,285
Realized capital gains (losses) transferred from accumulated other comprehensive income	(14,723)	(11,521)
Fees	<u>(61,570)</u>	<u>(58,969)</u>
Income (Loss) on Brokerage Accounts	<u>\$ (13,447)</u>	<u>\$ 130,177</u>

7. LINE OF CREDIT

As of December 31, 2022 and 2021, the Company had bank credit lines with BNC National Bank totaling \$1,000,000 for each year, at variable rates of interest (7.50% at December 31, 2022 and 4.25% at December 31, 2021). The current line of credit has a maturity date of December 1, 2023. As of December 31, 2022 and 2021, the Company had advances of \$-0- and \$-0-, respectively against these credit lines. Substantially all business assets of the Company and personal guarantees of certain majority stockholders secured these credit lines.

8. CAPITAL STOCK

The authorized capital stock consists of 10,000 shares of common with a par value of \$.01 per share. As of December 31, 2022 and 2021, respectively, 3,848.632 and 3,848.632 shares were issued and outstanding.

During 1998, 2001, 2017 and 2021, respectively, 47.696, 640, 10, and 623.672 shares were redeemed from minority stockholders. During 2002, 20 shares were reissued. For the years ended December 31, 2022 and 2021, respectively, 1,301.368 and 1,301.368 shares were held as treasury stock.

9. RETIREMENT PLAN

On September 1, 2000 the Company established a 401(k) deferred compensation and a defined contribution profit sharing plan covering substantially all eligible employees. Management annually determines the Company's contributions to both plans. For the years ended December 31, 2022 and 2021, the Company's contribution to the 401(k) and profit sharing plans was \$187,139 and \$184,129, respectively.

**10. OPERATING LEASES
TRACKAGE**

The Company has entered into a lease and operating agreement with the Soo Line Railroad Company, a subsidiary of the Canadian Pacific Railway, to operate approximately 531 miles of railroad line in North Dakota, South Dakota and Montana. The term of the agreement was for twenty years and was set to expire in 2010. On August 1, 2006, the Company renewed and modified this agreement. The renewed agreement now extends to June 30, 2026.

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10. OPERATING LEASES (Cont'd)
TRACKAGE (Cont'd)

The renewed agreement provides for the Company to earn handling fees on a per carload basis for movements that are exchanged with the Canadian Pacific Railway. These fees include components for operating costs as well as track maintenance. These fees are to be indexed annually according to the agreement. The agreement further provides for the Company to pay a fee for any other traffic not exchanged with the Canadian Pacific Railway.

These user fees are on a per car and percentage of revenue basis. There are no minimum lease guarantees provided for in this agreement.

Based on the present agreement, the Company bears all costs associated with maintaining the railroad line. The Canadian Pacific Railway is responsible for capital improvements to the railroad line. In addition, the Company is required to participate with the Canadian Pacific Railway in the costs associated with any industrial development projects involving customers' trackage along the lines.

RAILCAR AND EQUIPMENT LEASES

The Company has entered into agreements for the use of locomotives and railcars under non-cancelable leases. The leases, which call for monthly payments, have terms ending at various times through September 30, 2027. Minimum future lease payments under these agreements are as follows:

2023	\$ 478,800
2024	429,100
2025	105,900
2026	76,500
2027	<u>57,375</u>
Total Commitment	<u>\$ 1,147,675</u>

Rental expense under these leases included in operating expenses is \$481,882 and \$414,925 for the years ended December 31, 2022 and 2021, respectively.

The Company also leases various other equipment on a month-to-month basis. Rental expense under these month-to-month leases included in operating expenses is \$22,887 and \$38,257 for the years ended December 31, 2022 and 2021, respectively.

11. RELATED PARTY TRANSACTIONS

The Company holds a contract for deed for commercial real estate from RCS Properties LLC, a related party through the common ownership of Jeff Wood, with monthly installments of \$15,500 including principal and interest at a fixed rate of 4.00% to March 1, 2025. As of December 31, 2022 and 2021 the balance of this contract for deed is \$901,815 and \$1,201,505, respectively. Interest received for the years ended December 31, 2022 and 2021 totaled \$39,311 and \$51,003, respectively.

12. EMPLOYEE RETENTION CREDIT

In 2021 the Company was eligible for the Employee Retention Credit established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This credit is a refundable payroll tax credit based on 70% of eligible wages. Based on the program guidelines, the Company was allowed to claim a credit of \$560,000. This amount is recorded as other income on the statements of comprehensive income. The Company was not eligible for this program in 2022.

13. DERAILMENT

The Company experienced a derailment on its South Dakota line in April of 2020. The costs for unpaid car damage associated with the derailment are estimated to be \$45,716 and \$90,000 as of December 31, 2022 and 2021, respectively. These amounts are reported as a component of accounts payable on the balance sheets at December 31, 2022 and 2021, respectively.

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14. ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET IMPLEMENTED

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments, which is meant to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this Update replace the incurred loss impairment methodology in current accounting principles generally accepted in the United States of America with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This standard was set to be effective on January 1, 2022 but was postponed to January 1, 2023. The adoption of ASU 2016-13 is not expected to have a material impact of the Company’s financial statements.

15. SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 6, 2023 for potential disclosure. This is the date the financial statements were available to be issued.