



# ANNUAL REPORT

December 31, 2022

# The Garden City Company

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*December 31, 2022*

## DIRECTORS

William J. Hybl (Chair)

R. Thayer Tutt, Jr.	William J. Hybl, Jr.
William R. Ward	David J. Palenchar
Troy J. Dumler	Kyle H. Hybl
Lt Gen Michael C. Gould, USAF (Ret)	

## OFFICERS/MANAGEMENT

President and CEO	R. Thayer Tutt, Jr.
Senior Vice President, General Manager	Troy J. Dumler
Vice President	Kyle H. Hybl
Secretary	Christine M. Sohn
Treasurer	Elaine M. Martinez
Assistant Treasurer	David J. Palenchar
Assistant Secretary	Jessica L. Heckel
Transfer Agent	Connie M. Rickard
Assistant Transfer Agent	Stacy D. Pons

## OFFICES

P.O. Box 597, Garden City, Kansas 67846

10 Lake Circle, Colorado Springs, Colorado 80906



# THE GARDEN CITY COMPANY

— ESTABLISHED 1905 —

R. THAYER TUTT, JR.  
PRESIDENT AND CEO

## THE STOCKHOLDERS:

The earnings for The Garden City Company for the year ended December 31, 2022, were \$107.07 per share. Total income for 2022 was \$8,893,845. Income from operations increased from \$4,456,777 to \$4,870,062, a 9% improvement. The increase was the result of improved grain prices and oil and gas royalties. Dividends per share for the year were \$80.00, including the quarterly payments of \$5.00 and a special dividend of \$60.00 paid in December 2022.

Farm Rental Income increased from \$6,268,768 in 2021 to \$6,579,300 in 2022. The increase in income was due to improved grain prices. Precipitation in 2022 was the second lowest on record. Coupled with higher temperatures during the growing season, both non-irrigated and irrigated crop yields were much lower than average. Crop insurance indemnities were collected on non-irrigated wheat, corn, and grain sorghum. Due to the drought, irrigation use from groundwater wells was the highest since 2013, and surface water was also not available in 2022. Total farm rental expenses in 2022 were 15% higher than expenses in 2021-due to increasing prices for crop inputs and higher irrigation fuel demands.

Energy price inflation in 2022 resulted in increased royalty income from gas and oil production. While natural gas and oil production declined slightly in 2022, production was offset by increased prices. Net Royalty income was \$2,194,196, which was a 46% improvement compared to 2021.

Expectations of a global economic slowdown as a result of global efforts to combat inflation have negatively impacted energy and agricultural commodity prices in 2023. However, agricultural input costs including fertilizer and natural gas for irrigation pumping have declined from the 2022 peaks. Also, forecasted transition from a La Niña weather pattern which typically generated dry conditions in the Southern Plains of the U.S., to a neutral or El Niño weather pattern may improve agricultural production compared to 2022.

Business involved in agriculture face challenges every year. 2022 was no exception for The Garden City Company. The management team at The Garden City Company is grateful for all the hard work performed by employees and tenant farmers during the past year. We look forward to continued success and stability in 2023.

Sincerely,

*Forward Looking Statements*

*Certain statements that we make about The Garden City Company may constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Forward-looking statements include information concerning future objectives, business prospects, financial results (including expenses, earnings, commodity prices, cash flow and capital expenditures), or market conditions or general economic conditions. Forward-looking statements are not guarantees, and they involve risks, uncertainties and assumptions. Although we make such statements based on assumptions that we believe to be reasonable, there can be no assurance that actual results will not differ materially from those expressed in the forward-looking statements. We caution investors not to rely unduly on any forward-looking statements. We expressly disclaim any obligation to update any forward-looking statement in the event it later turns out to be inaccurate, whether as a result of new information, future events or otherwise.*

THE GARDEN CITY COMPANY  
FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2022 AND 2021





## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders  
The Garden City Company

### ***Opinion***

We have audited the accompanying financial statements of The Garden City Company, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of The Garden City Company, as of December 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Garden City Company 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 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.

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 The Garden City Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

*Auditor's 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 auditor's 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 of expressing an opinion on the effectiveness of The Garden City Company'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 The Garden City Company'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.



LEWIS, HOOPER & DICK, LLC

March 9, 2023

THE GARDEN CITY COMPANY  
BALANCE SHEETS  
December 31, 2022 and 2021

	<u>ASSETS</u>	
	<u>2022</u>	<u>2021</u>
CURRENT ASSETS		
Cash	\$ 763,970	\$ 1,097,912
Short-term investments	2,535,545	3,367,068
Marketable securities	2,837,707	2,770,935
Accounts receivable	599,772	344,989
Inventory, grain	3,857,773	2,241,185
Inventory, supplies	83,198	45,377
Prepaid expenses	<u>13,772</u>	<u>13,616</u>
TOTAL CURRENT ASSETS	10,691,737	9,881,082
PROPERTY AND EQUIPMENT, at cost, less accumulated depreciation and depletion	5,193,576	5,222,987
OTHER ASSETS		
Co-op stock and equity credit	<u>152,477</u>	<u>149,226</u>
TOTAL ASSETS	<u>\$ 16,037,790</u>	<u>\$ 15,253,295</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
	<u>2022</u>	<u>2021</u>
CURRENT LIABILITIES		
Accrued liabilities	\$ 259,784	\$ 259,947
Income tax payable	622,485	706,631
Current portion of accumulated postretirement health benefits	<u>59,558</u>	<u>46,892</u>
TOTAL CURRENT LIABILITIES	<u>941,827</u>	<u>1,013,470</u>
LONG-TERM LIABILITIES		
Accumulated postretirement health benefits, less current portion	646,179	935,568
Deferred tax liability	<u>937,000</u>	<u>920,000</u>
TOTAL LONG-TERM LIABILITIES	<u>1,583,179</u>	<u>1,855,568</u>
TOTAL LIABILITIES	<u>2,525,006</u>	<u>2,869,038</u>
STOCKHOLDERS' EQUITY		
Capital stock, no par value; 40,000 shares authorized; 34,780 and 34,605 shares issued and outstanding in 2022 and 2021, respectively	2,865,783	2,642,483
Additional paid-in capital	2,944,798	2,978,748
Retained earnings	<u>7,702,203</u>	<u>6,763,026</u>
TOTAL STOCKHOLDERS' EQUITY	<u>13,512,784</u>	<u>12,384,257</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 16,037,790</u>	<u>\$ 15,253,295</u>



THE GARDEN CITY COMPANY  
STATEMENTS OF INCOME  
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
REVENUES		
Farm rental income	\$ 6,579,300	\$ 6,268,768
Oil and gas royalties	2,422,623	1,646,603
Investment portfolio	<u>(108,078)</u>	<u>381,142</u>
 TOTAL REVENUES	 <u>8,893,845</u>	 <u>8,296,513</u>
 COSTS AND EXPENSES		
Farm rental expense	3,113,164	2,696,981
Oil and gas royalties	228,427	143,466
Investment expenses	34,757	35,234
General and administrative and water issues expenses	<u>647,435</u>	<u>964,055</u>
 TOTAL COSTS AND EXPENSES	 <u>4,023,783</u>	 <u>3,839,736</u>
 INCOME BEFORE INCOME TAXES	 4,870,062	 4,456,777
 INCOME TAX EXPENSE	 <u>1,148,485</u>	 <u>1,085,578</u>
 NET INCOME	 <u>\$ 3,721,577</u>	 <u>\$ 3,371,199</u>
  BASIC EARNINGS PER SHARE	  <u>\$ 107.07</u>	  <u>\$ 97.46</u>
 DILUTED EARNINGS PER SHARE	 <u>\$ 106.89</u>	 <u>\$ 97.22</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

THE GARDEN CITY COMPANY  
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
For the Years Ended December 31, 2022 and 2021

	<u>Capital Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>
Balance, December 31, 2020	\$ 2,783,669	\$ 2,722,640	\$ 5,641,152	\$ (156,486)
Net income	-	-	3,371,199	-
Dividends - \$65 per share	-	-	(2,249,325)	-
Stock-based compensation expense	-	98	-	-
Stock options exercised	-	256,010	-	15,300
Treasury shares canceled	<u>(141,186)</u>	<u>-</u>	<u>-</u>	<u>141,186</u>
Balance, December 31, 2021	<u>2,642,483</u>	<u>2,978,748</u>	<u>6,763,026</u>	<u>-</u>
Net income	-	-	3,721,577	-
Dividends - \$80 per share	-	-	(2,782,400)	-
Stock options exercised	<u>223,300</u>	<u>(33,950)</u>	<u>-</u>	<u>-</u>
Balance, December 31, 2022	<u>\$ 2,865,783</u>	<u>\$ 2,944,798</u>	<u>\$ 7,702,203</u>	<u>\$ -</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

THE GARDEN CITY COMPANY  
STATEMENTS OF CASH FLOWS  
For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net income	\$ 3,721,577	\$ 3,371,199
Adjustments to reconcile net income to net cash provided by operating activities	<u>(1,682,291)</u>	<u>667,937</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>2,039,286</u>	 <u>4,039,136</u>
 <u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Net change in short-term investments	831,523	(1,880,038)
Purchase of marketable securities	(4,718,115)	(2,148,840)
Proceeds from sales of marketable securities	4,440,000	2,449,988
Purchase of property and equipment	(385,586)	(272,577)
Proceeds from sale of property and equipment	52,000	1,000
Deferred patronage redeemed	<u>-</u>	<u>2,546</u>
 NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	 <u>219,822</u>	 <u>(1,847,921)</u>
 <u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from exercise of stock options	189,350	271,310
Dividends paid	<u>(2,782,400)</u>	<u>(2,249,325)</u>
 NET CASH USED BY FINANCING ACTIVITIES	 <u>(2,593,050)</u>	 <u>(1,978,015)</u>
 INCREASE (DECREASE) IN CASH	 (333,942)	 213,200
 CASH, BEGINNING OF PERIOD	 <u>1,097,912</u>	 <u>884,712</u>
 CASH, END OF PERIOD	 <u>\$ 763,970</u>	 <u>\$ 1,097,912</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

THE GARDEN CITY COMPANY  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2022 and 2021

(1) Summary of significant accounting policies

*Operations*

The Garden City Company (the Company) owns farmland in Southwest Kansas which it rents to tenant farmers on a crop share basis. In addition, the Company receives oil and gas royalties from wells maintained by third parties on its property.

*Crop share leases*

The farm ground of the Company is leased to tenant farmers on an annual basis. The Company recognizes income (the Company's share of the crops produced) when the crops are harvested and inventoried. Expenses related to these leases are recognized when incurred.

*Revenue recognition*

As mentioned above, crop share revenue is recognized when the crop is harvested and inventoried. Revenue from the sale of crops is recognized once an arrangement exists, delivery has occurred, the price is determinable, and collectability is assured. The Company does not have significant financing components as payment is received at or shortly after the point of sale. Revenue from oil and gas royalties is recognized monthly as received from the producers.

*Cash*

Cash balances with brokerage firms are not considered cash but are considered to be short-term investments. For purposes of the statements of cash flows, the Company's definition of cash does not include short-term investments and marketable securities with original maturity dates of three months or less.

*Marketable securities*

Marketable equity and debt securities are stated at fair value. Marketable equity securities are classified in the balance sheets as current assets while marketable debt securities are classified in the balance sheets according to the maturity date of the security. Changes in the fair value of marketable securities is recorded in the income statement. Fair market values of marketable securities are determined for each individual security in the investment portfolio using quoted prices in active markets for identical assets, (Level 1). Marketable securities are summarized in Note (2).

*Inventory*

Grain inventory, which represents farm rents received in crop shares not yet sold, is valued at contract price or current local market values. Supplies are carried at cost.

THE GARDEN CITY COMPANY  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2022 and 2021

(1) Summary of significant accounting policies (continued)

*Property and equipment*

Property and equipment is stated at cost. Maintenance and repairs are charged to expense as incurred; costs of major additions and betterments are capitalized. When property and equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in income.

*Depreciation and depletion*

Depreciation is computed over the estimated useful lives of the assets using either the declining-balance or the straight-line method. Useful lives used for calculating depreciation are as follows: buildings and improvements, 6-20 years; irrigation systems, 5-20 years; grain storage facilities, 10-20 years; equipment, 3-10 years. Depletion of minerals is computed using the unit-of-production method.

*Income taxes*

Deferred income taxes are provided for timing differences in reporting income for financial statement and income tax purposes. The timing differences are mainly due to the use of different methods of accounting for depreciation, the adjustment of marketable securities to fair value, the accrual of postretirement liabilities, and the expensing of stock options.

*Earnings per share*

Basic earnings per share (EPS) is calculated using net earnings available to common stockholders divided by the weighted-average number of shares of common stock outstanding during the year. Diluted EPS is similar to basic EPS except that the weighted-average number of shares is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued. Dilutive common stock options are included in the diluted EPS calculation using the treasury stock method. Amounts used in computing the basic and diluted EPS are listed in Note (10).

*Stock option plan*

The Company maintains a non-compensatory stock option plan. During 2018, the plan was amended to extend the plan for 10 years, to be effective beginning March 1, 2019. The purpose of the plan is to attract and retain qualified personnel for positions of substantial responsibility and to provide incentive to officers, directors and key employees of the Company. Under the plan no director, employee or other person shall have the right to be selected as a participant under the plan. The maximum aggregate number of shares that may be optioned or granted under the plan is the greater of: a) 5,100 shares, of which 2,150 shares are the subject of existing options or grants as of the restatement date, or b) a number of shares determined by the board of directors. The exercise price of each option is equal to the market value of the common stock of the Company, determined within thirty days after the beginning of each year. The maximum term of the options is 10 years. The options vest at 20% per year from the time of award. Awards become fully vested after five years.

THE GARDEN CITY COMPANY  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2022 and 2021

(1) Summary of significant accounting policies (continued)

*Stock option plan (continued)*

Share-based payments to employees, including grants of employee stock options, issued after December 2006 are recognized on the income statement based on their fair values. This accounting treatment is also applied to all awards, modifications, repurchases, and cancellations made after December 2006. The valuation of awards made after December 2006 is computed using the intrinsic value method. The Accounting Standards Codification allows this method of valuation when it is impractical to reasonably estimate the volatility of a stock and when no industry stock index exists to estimate volatility. The plan is described further in Note (9).

*Defined contribution retirement plan and postretirement health benefits*

The Company accounts for its 401(k) defined contribution retirement plan and postretirement health benefits plan according to the Financial Accounting Standards Board (FASB) Accounting Standards Codification, which requires that the funded status of postretirement plans be fully recognized in the balance sheet. The plans are described further in Notes (5) and (6).

*Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Marketable securities

Marketable securities classified as current assets include the following:

	2022		2021	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
U.S. Treasury securities	\$ 987,349	\$ 987,349	\$ 699,144	\$ 699,144
Equity securities	<u>1,850,358</u>	<u>138,476</u>	<u>2,071,791</u>	<u>139,705</u>
Totals	<u>\$ 2,837,707</u>	<u>\$ 1,125,825</u>	<u>\$ 2,770,935</u>	<u>\$ 838,849</u>

The contractual maturities of debt securities available for sale are all within one year of the balance sheet dates.



THE GARDEN CITY COMPANY  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2022 and 2021

(2) Marketable securities (continued)

Sales proceeds and the change in unrealized holding gains on securities are:

	<u>2022</u>	<u>2021</u>
Sale proceeds	\$ 4,440,000	\$ 2,449,988
Gross realized gains	\$ -	\$ -
Change in unrealized holding gains included in earnings	\$ (205,908)	\$ 320,503

(3) Property and equipment

Property and equipment consists of the following:

	<u>2022</u>	<u>2021</u>
Cost		
Land and water rights	\$ 2,931,393	\$ 2,931,393
Buildings and improvements	909,957	877,317
Irrigation systems	9,531,812	9,292,930
Grain storage facilities	1,294,923	1,289,223
Equipment	729,279	696,694
Total cost	15,397,364	15,087,557
Less: accumulated depreciation and depletion	(10,203,788)	(9,864,570)
Net property and equipment	\$ 5,193,576	\$ 5,222,987
Depreciation and depletion expense	\$ 398,995	\$ 400,335

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THE GARDEN CITY COMPANY  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2022 and 2021

(4) Income taxes

The income tax provision differs from the expense that would result from applying federal and state statutory rates to income before income taxes because certain expenses are deductible for income tax purposes that are not deductible for financial statement purposes.

The components of income tax expense are:

	<u>2022</u>	<u>2021</u>
Current	\$ 1,131,485	\$ 988,578
Deferred tax expense	<u>17,000</u>	<u>97,000</u>
Income tax expense	<u>\$ 1,148,485</u>	<u>\$ 1,085,578</u>

Total deferred tax assets and liabilities are as follows:

	<u>2022</u>	<u>2021</u>
Deferred tax asset	<u>\$ 217,000</u>	<u>\$ 302,000</u>
Deferred tax liability	<u>\$ 1,154,000</u>	<u>\$ 1,222,000</u>

(5) Defined contribution retirement plan

During 2013 the Company adopted a 401(k) defined contribution retirement plan. The plan covers employees who meet minimum age and service requirements and elect to participate. Company contributions to the plan for 2022 and 2021 total \$84,640 and \$88,139, respectively.

(6) Postretirement health benefits

The Company provides health insurance benefits to retired employees. In accordance with the FASB Accounting Standards Codification, such costs are to be accounted for on the accrual basis. At December 31, 2022, and 2021, the accumulated postretirement benefit obligation is estimated to be \$705,737 and \$982,460, respectively. There are no plan assets. Benefit payments are funded from operations. Employer contributions and benefits paid during 2022 and 2021, totaled \$46,892 and \$48,757, respectively.

*Changes in the plan*

During 2022 and 2021, there were no combinations, divestitures, curtailments, or settlements.

THE GARDEN CITY COMPANY  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2022 and 2021

(6) Postretirement health benefits (continued)

*Recognition of gains and losses*

The FASB Accounting Standards Codification requires, at a minimum, amortization of gains and losses in excess of 10% of the Accumulated Postretirement Benefit Obligation (APBO) over the average remaining service period of active participants. The Standards allow for any systematic method of amortization of gains and losses that results in recognition that is at least as great as the minimum. The Company has established a policy of recognizing all unrecognized gains or losses immediately. This policy accelerates the recognition of gains or losses beyond the minimum required.

The following schedules set forth the plan's funded status and amounts as of December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 982,460	\$ 1,033,418
Service cost	20,131	20,241
Interest cost	26,281	24,120
Actuarial (gain) loss	(276,243)	(46,562)
Benefits paid	<u>(46,892)</u>	<u>(48,757)</u>
	<u>705,737</u>	<u>982,460</u>
Change in plan assets		
Fair value of plan assets at beginning of year	-	-
Estimated employer contributions	46,892	48,757
Estimated benefits paid	<u>(46,892)</u>	<u>(48,757)</u>
	<u>-</u>	<u>-</u>
Fair value of assets at end of year	<u>-</u>	<u>-</u>
Funded status	<u>\$ (705,737)</u>	<u>\$ (982,460)</u>

Balance sheet classifications of amount recognized:

	<u>2022</u>	<u>2021</u>
Current liability	\$ 59,558	\$ 46,892
Noncurrent liability	646,179	935,568

THE GARDEN CITY COMPANY  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2022 and 2021

(6) Postretirement health benefits (continued)

Net periodic benefit costs include the following components:

	<u>2022</u>	<u>2021</u>
Service cost	\$ 9,618	\$ 20,131
Interest cost	33,748	26,281
Amortization of losses	3,014	10,148
Recognized net actuarial (gain) loss	<u>(65,059)</u>	<u>218,318</u>
 Net periodic benefit cost	 <u>\$ (18,679)</u>	 <u>\$ 274,878</u>

The Company expects to contribute approximately \$59,558 to the plan in 2023. Benefits expected to be paid by the plan during the next 10 fiscal years are as follows:

2023	\$ 59,558
2024	57,079
2025	54,646
2026	52,282
2027	50,010
2028-2032	<u>214,847</u>
 Total	 <u><u>\$ 488,422</u></u>

The weighted-average discount rate used to determine the benefit obligation and net benefit cost is 4.99%. A 3.00% annual rate of increase in the cost of health care benefits for current retirees is assumed for all years.

A one percentage-point change in these assumed health care costs trend rates would have the following effects:

	<u>One Percentage Point</u>	
	<u>Increase</u>	<u>Decrease</u>
Effect on total of service cost and interest cost	\$ (1,689)	\$ 1,811
Effect on postretirement benefit obligation	(13,440)	13,214

THE GARDEN CITY COMPANY  
NOTES TO FINANCIAL STATEMENTS  
For the Years Ended December 31, 2022 and 2021

(7) Statements of cash flows

Adjustments to reconcile net income to net cash provided by operating activities consist of the following:

	<u>2022</u>	<u>2021</u>
Depreciation and depletion	\$ 398,995	\$ 400,335
Provision for deferred taxes	17,000	97,000
Premiums and discounts	(10,090)	(828)
(Gain) loss on marketable securities	211,349	(319,686)
Contribution of marketable securities	10,084	9,962
Gain on disposal of property and equipment	(35,998)	(938)
Retirement costs	(276,723)	(50,958)
Compensation expense from stock options	-	98
Noncash patronage income	(3,251)	(618)
<u>(Increase) decrease in:</u>		
Accounts receivable	(254,783)	(116,663)
Inventories	(1,654,409)	268,816
Prepaid expenses	(156)	1,045
<u>Increase (decrease) in:</u>		
Accrued liabilities	(163)	(17,174)
Income tax payable	(84,146)	397,546
	<u>\$ (1,682,291)</u>	<u>\$ 667,937</u>

During 2022 and 2021 the Company donated marketable securities to a charitable organization. A summary of the transactions follows:

	<u>2022</u>	<u>2021</u>
Fair value of securities donated	\$ 10,084	\$ 9,962
Cost of securities donated	<u>(1,228)</u>	<u>(759)</u>
	<u>\$ 8,856</u>	<u>\$ 9,203</u>
Gain recognized		
Related noncash contribution expense	<u>\$ 10,084</u>	<u>\$ 9,962</u>

Supplemental disclosures of cash flow information:

	<u>2022</u>	<u>2021</u>
Cash paid during the year for:		
Income taxes	<u>\$ 1,215,578</u>	<u>\$ 591,085</u>

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(8) Changes in stockholders' equity

During 2022 two directors exercised their options for 175 shares of stock under the stock option plan discussed in Notes (1) and (9). The exercise of the options resulted in 175 shares of stock being issued in exchange for \$189,350. Capital stock was increased for the \$223,300 and additional paid-in capital was reduced by \$33,950.

During 2021 six employees and directors exercised their options for 450 shares of stock under the stock option plan discussed in Notes (1) and (9). The exercise of 255 options resulted in 255 shares of stock being issued in exchange for \$271,310. Because the aggregate purchase price of these shares exceeded the aggregate cost of the treasury shares issued, an increase in additional paid-in capital of \$256,010 and a reduction in treasury stock of \$15,300 were recorded. The remaining 195 options were exercised as a cashless exercise and resulted in additional compensation of \$54,465 being paid to the employees and directors and no stock was issued. In addition, stock options issued after December 2006 resulted in an increase to additional paid-in capital and compensation expense in the amount of \$98. As of October 18, 2021, the Board of Directors approved a resolution to cancel all outstanding shares of treasury stock.

(9) Stock option plan

Stock option plan activity during the years ended December 31, 2022 and 2021, is as follows:

	2022		2021	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, Beginning of Year	620	\$ 1,098.29	1,070	\$ 1,083.80
Granted	-	\$ -	-	\$ -
Exercised	(175)	\$ 1,082.00	(450)	\$ 1,063.84
Forfeited	-	\$ -	-	\$ -
Outstanding, End of Year	445	\$ 1,104.70	620	\$ 1,098.29
Options vested and exercisable at end of year	445	\$ 1,104.70	620	\$ 1,098.29



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(9) Stock option plan (continued)

The weighted average contract term of fully vested share options at December 31, 2022 is less than one year.

	<u>2022</u>	<u>2021</u>
Total intrinsic value of options exercised for shares	\$ <u>33,950</u>	\$ <u>54,070</u>
Total intrinsic value of options exercised as cashless	\$ <u>-</u>	\$ <u>54,465</u>
Tax benefit realized from exercise of options	\$ <u>10,000</u>	\$ <u>9,000</u>
Cash received from the exercise of options	\$ <u>189,350</u>	\$ <u>271,310</u>

As of December 31, 2021 all shares had vested. Following is a summary of nonvested shares as of December 31, 2021, and changes during the year:

	<u>2021</u>	
	Number of Shares	Weighted Average Fair Value
Outstanding, Beginning of Year	10	\$ <u>59.00</u>
Granted during the year	-	\$ <u>-</u>
Vested during the year	(10)	\$ <u>(8.00)</u>
Forfeited during the year	-	\$ <u>-</u>
Outstanding, End of Year	<u>-</u>	<u>\$ -</u>
Fair value of shares vested during the year		<u>\$ 12,760</u>

For stock options granted after December 2006, as discussed in Note (1), the Company recognized no increase in compensation expense for the year ended December 31, 2022, and a \$98 increase to compensation expense during the year ended December 31, 2021. As of December 31, 2022 and 2021, unrecognized compensation expense related to the options granted after December 2006 totaled zero.

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(10) Earnings per share

The following data shows the amounts used in computing earnings per share and the effect on income and the weighted-average number of shares of dilutive potential stock.

	<u>2022</u>	<u>2021</u>
Income available to stockholders used in basic EPS	<u>\$ 3,721,577</u>	<u>\$ 3,371,199</u>
Weighted average number of stock shares used in basic EPS	34,759	34,589
Effect of dilutive stock options	<u>59</u>	<u>86</u>
Weighted average number of stock shares and dilutive potential stock used in diluted EPS	<u>34,818</u>	<u>34,675</u>

(11) Concentration of credit risk arising from cash deposits in excess of insured limits

Cash balances are maintained with financial institutions and securities dealers located in Kansas and Colorado. Accounts are insured up to \$250,000 by either the Federal Deposit Insurance Corporation or the Securities Investor Protection Corporation. At December 31, 2022 and 2021, uninsured cash balances total \$366,890 and \$727,424, respectively.

(12) Subsequent events

Subsequent to December 31, 2022, four directors exercised their options for 320 shares of stock under the stock option plan. The exercise of these options resulted in 85 shares of stock being issued in exchange for \$91,970. The remaining 235 options were exercised as a cashless exercise and resulted in additional compensation of \$44,650 being paid and no stock being issued.

Management has evaluated the Company for subsequent events through March 9, 2023, the date at which the financial statements were available to be issued. The Company has not been evaluated for any events after this date.