

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

DIGHTON, KANSAS

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

DIGHTON, KANSAS

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DIGHTON, KANSAS**

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

Board of Directors
Lane-Scott Electric Cooperative, Inc.
Dighton, Kansas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Lane-Scott Electric Cooperative, Inc. which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of income and patronage capital, 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 Lane-Scott Electric Cooperative, Inc. as of December 31, 2021 and 2020, 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) and the standards applicable to financial audits contained in *Government Auditing Standards* (*Government Auditing Standards*) issued by the Comptroller General of the United States. 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 Lane-Scott Electric Cooperative, Inc. (the Cooperative) and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern within one year after the date that the financial statements are available to be 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 and *Government Auditing Standards* 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, 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 Cooperative'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 Cooperative'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.

Accompanying Information

Our audit was conducted for the purpose of forming an opinion on the Cooperative's basic financial statements. The schedules of electric plant, accumulated provision for depreciation, other property and investments, patronage capital, FFB, CFC and CoBank mortgage notes, and administrative and general expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2022 on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lane-Scott Electric Cooperative, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Cooperative's internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss L.L.P.

Certified Public Accountants

Lubbock, Texas

April 29, 2022

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS
DECEMBER 31, 2021 AND 2020

ASSETS

	December 31,	
	2021	2020
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 61,863,823	\$ 61,045,936
Construction Work in Progress	1,004,116	284,441
Electric Plant Acquisition Adjustment - Net of Accumulated Amortization	(1,541,200)	(1,640,958)
	\$ 61,326,739	\$ 59,689,419
Less: Accumulated Provision for Depreciation	20,807,547	19,224,801
	\$ 40,519,192	\$ 40,464,618
OTHER PROPERTY AND INVESTMENTS - AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 13,247,521	\$ 12,137,651
Other Investments	5,501	5,501
	\$ 13,253,022	\$ 12,143,152
CURRENT ASSETS		
Cash - General	\$ 135,427	\$ 115,526
Temporary Cash Investments	208,329	73,700
Short-Term Investments	5,391,452	5,900,910
Accounts Receivable - Energy (Less allowance for uncollectibles of \$42,677 and \$38,378 for 2021 and 2020, respectively)	1,610,859	1,420,779
Property Tax Adjustment - Undercollected	172,746	251,565
Materials and Supplies at Average Cost	473,727	328,131
Other Current and Accrued Assets	47,773	7,079
Total Current Assets	\$ 8,040,313	\$ 8,097,690
DEFERRED CHARGES	\$ 2,878,839	\$ 578,382
TOTAL ASSETS	\$ 64,691,366	\$ 61,283,842

EQUITIES AND LIABILITIES

EQUITIES		
Patronage Capital	\$ 23,208,094	\$ 22,009,165
Other Equities	1,327,769	392,374
Total Equities	\$ 24,535,863	\$ 22,401,539
LONG-TERM DEBT		
FFB Mortgage Notes Less Current Maturities	\$ 28,688,414	\$ 29,696,484
CFC Mortgage Notes Less Current Maturities	5,213,441	5,789,436
CoBank Mortgage Notes Less Current Maturities	1,177,146	
Capital Lease Obligations Less Current Maturities		231,413
Total Long-Term Debt	\$ 35,079,001	\$ 35,717,333
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 2,514,000	\$ 1,478,000
Accounts Payable - Purchased Power	772,061	743,907
Accounts Payable - Other	437,719	87,057
Power Cost Adjustment - Overcollected	335,774	80,301
Consumer Deposits	112,956	121,550
Accrued Taxes	437,847	455,923
Accrued Interest	289,671	21,141
Accrued Employee Compensated Absences	176,474	177,091
Total Current Liabilities	\$ 5,076,502	\$ 3,164,970
TOTAL EQUITIES AND LIABILITIES	\$ 64,691,366	\$ 61,283,842

See accompanying notes to financial statements.

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

Exhibit B

STATEMENTS OF INCOME AND PATRONAGE CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	December 31,				
	2021		2020		Increase
	Amount	%	Amount	%	(Decrease)
OPERATING REVENUES					
Residential	\$ 3,079,049	16.2	\$ 2,790,498	17.3	\$ 288,551
Irrigation	1,048,719	5.5	1,083,574	6.7	(34,855)
Small and Large Commercial	13,459,269	70.9	11,028,480	68.3	2,430,789
Building & Lighting	110,286	0.6	101,299	0.6	8,987
Sales for Resale	1,275,290	6.7	1,086,557	6.7	188,733
Power Cost Adjustment	(255,475)	(1.3)	40,322	0.2	(295,797)
Property Tax Adjustment	199,115	1.0	188,689	1.2	10,426
Unbilled Revenue		0.0	(264,930)	(1.6)	264,930
Other Sales to Public Authorities	60,463	0.3	99,637	0.6	(39,174)
Total Operating Revenues	\$ 18,976,716	100.0	\$ 16,154,126	100.0	\$ 2,822,590
OPERATING EXPENSES					
Purchased Power	\$ 11,294,294	59.5	\$ 9,219,252	57.1	\$ 2,075,042
Transmission - Operation		0.0	2,133	0.0	(2,133)
Distribution - Operation	1,018,864	5.4	1,474,902	9.1	(456,038)
Distribution - Maintenance	1,245,835	6.6	931,974	5.8	313,861
Customer Accounts	225,551	1.2	211,622	1.3	13,929
Customer Service and Information	67,611	0.4	47,090	0.3	20,521
Selling Expenses	71,976	0.4	61,443	0.4	10,533
Administrative and General	1,453,814	7.7	1,286,158	8.0	167,656
Depreciation	1,943,852	10.2	1,749,790	10.8	194,062
Amortization of Purchase Premium	(99,758)	(0.5)	(99,758)	(0.6)	0
Other Interest	146	0.0	1,971	0.0	(1,825)
Other Deductions	23,031	0.1	40,819	0.3	(17,788)
Total Operating Expenses	\$ 17,245,216	90.9	\$ 14,927,396	92.4	\$ 2,317,820
OPERATING MARGINS - Before Fixed Charges	\$ 1,731,500	9.1	\$ 1,226,730	7.6	\$ 504,770
FIXED CHARGES					
Interest on Long-Term Debt	\$ 1,338,205	7.1	\$ 1,337,470	8.3	\$ 735
OPERATING MARGINS (LOSS) - After Fixed Charges	\$ 393,295	2.0	\$ (110,740)	(0.7)	\$ 504,035
G&T Capital Credits	1,405,537	7.4	392,903	2.4	1,012,634
Other Capital Credits	57,380	0.3	47,965	0.3	9,415
NET OPERATING MARGINS	\$ 1,856,212	9.7	\$ 330,128	2.0	\$ 1,526,084
NON-OPERATING MARGINS (LOSS)					
Interest Income	\$ 160,696	0.8	\$ 240,316	1.5	\$ (79,620)
Non-Operating Loss - Other	513,114	2.7	(89,719)	(0.6)	602,833
Loss on Disposition of Property	(16,119)	(0.1)	7,580	0.0	(23,699)
	\$ 657,691	3.5	\$ 158,177	1.0	\$ 499,514
NET MARGINS	\$ 2,513,903	13.2	\$ 488,305	3.0	\$ 2,025,598
PATRONAGE CAPITAL - BEGINNING OF YEAR	22,009,165		21,618,403		
Transfer to Other Equity - Non-operating Margins	(878,605)		(296,442)		
Transfer to Other Equity - Unbilled Revenue			264,930		
Transfer to Other Equity - Current Year Operating Loss			110,740		
Patronage Capital Retirements	(436,369)		(176,771)		
PATRONAGE CAPITAL - END OF YEAR	\$ 23,208,094		\$ 22,009,165		

See accompanying notes to financial statements.

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

Exhibit C

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	December 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 2,513,903	\$ 488,305
Adjustments to Reconcile Net Margins to Net Cash From Operating Activities		
Depreciation	2,133,551	2,186,433
Electric Plant Acquisition Amortization	(99,758)	(99,758)
Capital Credits	(1,462,917)	(440,867)
Deferred Charges	699,543	200,527
Power Cost Adjustment	255,473	(40,321)
Property Tax Adjustment	78,819	(71,758)
Accounts Receivable	(190,080)	(30,177)
Unbilled Revenue		264,930
Inventories and Other Current Assets	(186,290)	10,831
Payables and Other Current Liabilities	620,059	(188,575)
Net Cash From Operating Activities	\$ 4,362,303	\$ 2,279,570
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (1,926,324)	\$ (1,945,804)
Plant Removal Costs Less Salvage and Other Credits	(162,043)	(246,575)
Investments in Associated Organization	353,047	411,427
Other Investments	509,458	(3,379,939)
Net Cash From Investing Activities	\$ (1,225,862)	\$ (5,160,891)
CASH FLOWS FROM FINANCING ACTIVITIES		
RUS Advance Payment Activity - Net	\$	\$ (194,115)
Payments on Long-Term Debt - CFC	(555,995)	(535,910)
Advances on Long-Term Debt - FFB		4,555,483
Payments on Long-Term Debt - FFB	(763,070)	(758,282)
Payments on Long-Term Debt - CoBank	(972,854)	
Payments on Long-Term Debt - Grant Funds		(150,400)
Payments on Capital Lease Obligations	(310,413)	(149,532)
Other Equities	56,790	(2,539)
Retirement of Patronage Capital	(436,369)	(176,771)
Net Cash From Financing Activities	\$ (2,981,911)	\$ 2,587,934
CHANGE IN CASH AND CASH EQUIVALENTS	\$ 154,530	\$ (293,387)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	189,226	482,613
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 343,756	\$ 189,226
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 1,072,053	\$ 1,340,511
Income Taxes	\$ 0	\$ 0
Polar Vortex Power Cost Financed by CoBank Debt	\$ 3,000,000	\$ 0

See accompanying notes to financial statements.

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Lane-Scott Electric Cooperative, Inc. (the Cooperative) is a non-profit company organized to provide electric service at the retail level to primarily residential and commercial accounts in a designated service area. Power delivered at retail is purchased wholesale from Sunflower Electric Power Corporation (SEPC) and Mid-Kansas Electric Cooperative, Inc. (MKEC) each of which the Cooperative is a member. Any revenues earned in excess of costs incurred are allocated to members of the Cooperative and are reflected as patronage capital in the balance sheets.

System of Accounts

The accounting records of the Cooperative are maintained in accordance with the Rural Utilities Service (RUS) Uniform System of Accounts (USOA) as prescribed for RUS electric borrowers.

Electric Plant, Other Plant, Maintenance, and Depreciation

All plant is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials, and overhead items. Contributions from others toward the construction of plant are credited to the applicable plant accounts.

When property, which represents a retirement unit, is replaced or removed, the average cost of such property as determined from the continuing property records is credited to electric plant and such cost, together with cost of removal less salvage, is charged to the accumulated provision for depreciation.

Maintenance and repairs, including the renewal of minor items of plant not comprising a retirement unit, are charged to the appropriate maintenance accounts, except that repairs of transportation and service equipment are charged to clearing accounts and redistributed to operating expense and other accounts.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and temporary cash investments are considered cash and cash equivalents.

At December 31, 2021 and 2020, cash and cash equivalents consisted of:

	December 31,	
	2021	2020
Money Market Temporary Investments	\$ 208,329	\$ 73,700
Cash and Working Funds	135,427	115,526
Total Cash and Cash Equivalents	<u>\$ 343,756</u>	<u>\$ 189,226</u>

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Accounts Receivable

In the normal course of business, the Cooperative recognizes accounts receivable for energy delivered and billed. The Cooperative considers a service delinquent if a payment is not received by the specified due date.

Allowance for Uncollectible Accounts

The Cooperative provides an allowance for doubtful accounts to recognize the portion of receivables considered uncollectible. The Cooperative accrues amounts monthly to the allowance. The allowance is estimated based on historical trends, aging of receivables, and review of potential bad debts. The Board of Directors reviews accounts written off annually. All payments received on an account after the account is written off are considered a recovery of the bad debt.

Inventories

Materials and supplies inventories are valued at average unit cost.

Electric Revenues from Contracts with Customers

Substantially all operating revenues and customer accounts receivables are derived from contracts with customers. Performance obligations related to the sale of energy are satisfied as energy is delivered to customers. The Cooperative recognizes revenue that corresponds to the price of the energy delivered to the customer. The measurement of energy sales to customers is generally based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated, and the corresponding unbilled revenue is recognized. During 2020, the Cooperative updated their meter reading to read the customers' meters on the last day of the month and includes all billing through December 31 in its customer accounts receivable. Therefore, there is no accrued unbilled revenue for delivered power usage which has not been billed to customers.

The Cooperative's tariffs for electric service include adjustment clauses under which billings to customers are adjusted to reflect changes in the cost of purchased power. In order to match power cost and related revenues these amounts to be billed to consumers in subsequent periods are included with the revenue accrual described above.

The Cooperative does not recognize a separate financing component of its collections from customers as contract terms are short-term in nature. The Cooperative presents its revenues net of any excise or sales taxes.

Federal Income Taxes

The Cooperative is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code. More than 85% of the gross income is collected from members.

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative follows the “uncertain tax positions” provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its filing status as a tax exempt entity. The Cooperative determined that it is more likely than not that its tax positions will be sustained upon examination by the Internal Revenue Service (IRS) and that all tax benefits are likely to be realized upon settlement with taxing authorities. The Cooperative files income tax returns in the U.S. federal jurisdiction and Kansas. The Cooperative is no longer subject to examinations by federal and state taxing authorities for years before 2018.

There were no penalties or interest recognized during years ended December 31, 2021 and 2020.

Group Concentration of Credit Risk

The Cooperative's headquarters facility is located in Dighton, Kansas. The service area includes members located in all or parts of an eight county area in Southcentral Kansas. The Cooperative records a receivable for electric revenues as billed on a monthly basis. The Cooperative may require a deposit from new members upon connection which is applied to unpaid bills and fees in the event of default. The deposit accrues interest annually and is returned to residential accounts along with accrued interest after one year of prompt payments. As of December 31, 2021 and 2020, deposits on hand totaled \$112,956 and \$121,550.

The Cooperative maintains its cash balances in institutions insured by the Federal Deposit Insurance Corporation (FDIC). The cash balances exceeded applicable insurance coverage at times during the year.

Patronage Capital Certificates

Margins are allocated to members annually, based on billings and usage of electricity. Distributions to members are made at the discretion of the Board of Directors in accordance with the bylaws, subject to the restrictions contained in long-term debt obligations.

Patronage capital from associated companies is recorded at the stated amount of the certificates. At the end of each year, the Cooperative receives a final allocation amount from Sunflower Electric Power Corporation. The Cooperative records the allocations as G & T capital credit income. The G & T patronage income recognized for the years ending December 31, 2021 and 2020 was \$1,405,537 and \$392,903, respectively.

Use of Estimates in the Preparation of Financial Statements

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

Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's financial statement presentation. The reclassifications have no effect on net margins of the prior year.

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

2. Assets Pledged

All assets are pledged as security for the long-term debt due to and under management of Federal Financing Bank (FFB) and National Rural Utilities Cooperative Finance Corporation (CFC).

3. Plant

The major classes of plant consisted of the following:

	December 31,	
	2021	2020
Transmission Plant	\$ 1,229,543	\$ 1,229,543
Distribution Plant	54,734,421	53,814,747
General Plant	5,899,859	6,001,646
Total Plant in Service	\$ 61,863,823	\$ 61,045,936
Construction Work in Progress	1,004,116	284,441
Electric Plant Acquisition Adjustment	(2,937,808)	(2,937,808)
Acquisition Adjustment Amortization	1,396,608	1,296,850
Total Plant	<u>\$ 61,326,739</u>	<u>\$ 59,689,419</u>

Provision for depreciation of plant is computed using straight-line rates as follows:

Transmission Plant	3.08%
Distribution Plant	3.08% - 8.33%
General Plant	
Structures and Improvements	3.34%
Office Furniture and Fixtures	6.00%
Transportation Equipment	25.00%
Tools, Shop, and Garage Equipment	6.00%
Power-Operated Equipment	10.00%
Communications Equipment	5.00%
Miscellaneous Equipment	6.00% - 20.00%
Laboratory Equipment	6.00%

Depreciation and amortization for the years ended December 31, 2021 and 2020 was \$2,133,551 and \$2,186,433, of which \$1,943,852 and \$1,749,790 was charged to depreciation expense and \$189,699 and \$436,643 was allocated to other accounts.

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

The Cooperative, along with five other Kansas electric cooperatives, formed MKEC during the year ended December 31, 2005 to acquire the assets and customers of Aquila, Inc. – Kansas operations. In April of 2007, the Cooperative took responsibility for the billing and collection associated with the customers within its share of the new territories. On December 31, 2007, the Cooperative also took ownership of the electric plant assets involved in the transaction. The acquired assets, associated accumulated depreciation, and discount for amounts paid below the net book value of the assets were recorded on the books of the Cooperative. The discount was classified as an electric plant acquisition adjustment and is being amortized over a 30-year period supported by an engineering study conducted by an independent engineering consultant.

During the years ended December 31, 2021 and 2020, the Cooperative recognized amortization income of \$99,758 and \$99,758, respectively, associated with the electric plant acquisition adjustment.

The acquired transmission and distribution plant assets are depreciated based on the Acquila, Inc. original depreciation rates that were approved by the Kansas Corporation Commission.

4. Investments in Associated Organizations

Investments in associated organizations consisted of the following:

	December 31,	
	2021	2020
CFC		
Capital Term Certificates	\$ 221,958	\$ 221,958
Patronage Capital	220,608	210,354
Sunflower Electric Power Corporation		
Patronage Capital	11,500,455	10,309,168
Mid-Kansas Electric Company, Inc.		
Patronage Capital	435,561	513,484
Capital Contribution	57,847	57,847
Contributed Capital	365,193	365,193
Kansas Electric Cooperatives		
Patronage Capital	41,464	39,652
Federated Rural Insurance		
Patronage Capital	160,879	186,482
NISC		
Patronage Capital	68,330	63,433
S&T Telephone		
Patronage Capital	109,656	109,656
Other	65,570	60,424
	<u>\$ 13,247,521</u>	<u>\$ 12,137,651</u>

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

5. Materials and Supplies

Materials and supplies consisted of the following:

	December 31,	
	2021	2020
Electric Inventory	\$ 281,066	\$ 172,901
Resale Inventory	192,661	155,230
	<u>\$ 473,727</u>	<u>\$ 328,131</u>

6. Deferred Charges

Deferred charges consisted of the following:

	December 31,	
	2021	2020
RS Plan Accelerated Funding	\$ 241,051	\$ 401,752
MKEC Pre-Acquisition Costs	141,250	150,512
Work Plans		12,550
Winter Storm Deferral	2,446,977	
Cost of Service Study Deferral	45,696	
Other	3,865	13,568
	<u>\$ 2,878,839</u>	<u>\$ 578,382</u>

In 2013, the Cooperative elected to participate in the NRECA R&S Prepayment. The Cooperative's contribution was \$1,607,008 and is being amortized over 10 years. Amortization expense for the years ended December 31, 2021 and 2020 was \$160,701.

The pre-acquisition costs are related to the investment in MKEC. The original cost was \$277,870 and is to be amortized over 30 years. Amortization expense was \$9,262 for the years ended December 31, 2021 and 2020.

In February 2021, the Cooperative incurred additional power cost associated with Winter Storm Uri. The Cooperative elected to defer \$3,197,628 in additional power costs and recognize the expense over a period of 42 months. The amount amortized to power cost as of December 31, 2021 and 2020 was \$781,935 and \$0, respectively.

7. Return of Capital

Under the provisions of the mortgage agreements, until the equities and margins equal or exceed 30.00% of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited generally to 25% of the patronage capital or margins received by the Cooperative in the prior calendar year. The equity and margins of the Cooperative represent 38% of the total assets at the balance sheet date. The Cooperative retired \$436,369 and \$176,771 during the years ended December 31, 2021 and 2020, respectively.

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

8. Patronage Capital

	December 31,	
	2021	2020
Assigned	\$ 23,997,665	\$ 23,604,762
Retired	(2,924,013)	(2,472,872)
Assignable	2,134,442	877,275
	<u>\$ 23,208,094</u>	<u>\$ 22,009,165</u>

9. Other Equities

	December 31,	
	2021	2020
Other Equities	\$ 483	\$ 515
Non Operating Margins	1,119,392	185,702
Retired Capital Credits - Gain	207,894	206,157
	<u>\$ 1,327,769</u>	<u>\$ 392,374</u>

10. FFB Mortgage Notes

The following is a summary of long-term debt due to FFB and maturing at various times through 2047:

	December 31,	
	2021	2020
Fixed Rate Notes - 1.01% - 4.52%	\$ 34,114,647	\$ 34,749,518
Advance Payments	(4,338,233)	(4,210,034)
	<u>\$ 29,776,414</u>	<u>\$ 30,539,484</u>
Less: Current Maturities	1,088,000	843,000
	<u>\$ 28,688,414</u>	<u>\$ 29,696,484</u>

Principal and interest installments on the above notes are due quarterly. Annual maturities of long-term debt due FFB for the next five years are as follows:

2022	\$ 1,088,000
2023	962,000
2024	981,000
2025	993,000
2026	1,175,000

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

11. CFC Mortgage Notes

The following is a summary of long-term debt due to CFC and maturing at various times through 2034:

	December 31,	
	2021	2020
Fixed Rate Notes - 3.60% - 4.30%	\$ 5,789,441	\$ 6,345,436
Less: Current Maturities	576,000	556,000
	<u>\$ 5,213,441</u>	<u>\$ 5,789,436</u>

Principal and interest installments on the above notes are due quarterly. Annual maturities of long-term debt due CFC for the next five years are as follows:

2022	\$ 576,000
2023	494,000
2024	398,000
2025	414,000
2026	431,000

12. CoBank Mortgage Notes

The following is a summary of long-term debt due to CoBank and maturing in 2024:

	December 31,	
	2021	2020
Fixed Rate Notes - 1.55%	\$ 2,027,146	\$
Less: Current Maturities	850,000	
	<u>\$ 1,177,146</u>	<u>\$ 0</u>

Principal and interest installments on the above notes are due monthly. Annual maturities of long-term debt due CoBank for the next five years are as follows:

2022	\$ 850,000
2023	864,000
2024	313,000
2025	0
2026	0

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

13. Capital Lease Obligations

The Cooperative was leasing vehicles from Farm Credit Leasing. The economic substance of the leases was that the Cooperative was financing the acquisition of the assets through the leases over their terms, and accordingly, they were reflected in the Cooperative's plant assets and long-term liabilities.

The following is an analysis of the book value of the leased assets included in plant at December 31, 2021 and 2020, which are being depreciated over the life of the respective assets at straight-line rates:

	December 31,	
	2021	2020
Cost	\$	\$ 638,003
Less: Accumulated Depreciation		370,164
	\$ 0	\$ 267,839

During 2021, the leased vehicles were purchased and transferred to general plant.

14. Short-Term Borrowing

The Cooperative has a \$4,000,000 line of credit for short-term financing with CFC at a variable interest rate. The Cooperative had \$0 and \$0 outstanding on this line of credit as of December 31, 2021 and 2020, respectively.

The Cooperative has a \$1,000,000 line of credit for short-term financing with CoBank at a variable interest rate. The Cooperative had \$0 and \$0 outstanding on this line of credit as of December 31, 2021 and 2020, respectively.

15. Litigation, Commitments and Contingencies

There is no litigation currently pending against the Cooperative which would have a material effect on the financial position of the Cooperative.

Under its wholesale power agreement, the Cooperative is committed to purchase its electric power and energy requirements from SEPC until March 31, 2052. Effective January 1, 2020, MKEC merged with SEPC. The surviving corporation was SEPC.

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

16. Pension Benefits

Narrative Description

The National Rural Electric Cooperative Association (NRECA) Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is considered a multi-employer plan under the accounting standards. The RS Plan sponsor's Employer Identification Number is 53-0116145 and the RS Plan Number is 333.

A unique characteristic of a multi-employer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Plan Information

The Cooperative's contributions to the RS Plan in 2021 and 2020 represented less than five percent of the total contributions made to the RS Plan by all participating employers. The Cooperative made contributions to the RS Plan of \$544,211 and \$527,576 in 2021 and 2020, respectively. There have been no significant changes that affect the comparability of 2021 and 2020 contributions. Pension expense for the years ended December 31, 2021 and 2020, including amortization of RS prepayment, was \$704,912 and \$688,277, respectively.

For the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 80% funded on January 1, 2021 and January 1, 2020 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

The Cooperative also provides a NRECA sponsored 401(k) savings deferred contribution plan for all employees. The Cooperative's contribution for the years ended December 31, 2021 and 2020 was \$78,889 and \$82,120, respectively.

17. Related Parties

The Cooperative is a member of SEPC which provides electric power and energy to its members. The Cooperative obtains all of its wholesale purchased power from SEPC which amounted to \$11,294,294 and \$9,219,252 for the years ended December 31, 2021 and 2020, respectively. Amounts included in accounts payable purchased power as of December 31, 2021 and 2020 were \$772,061 and \$743,907 due to SEPC.

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

18. Subsequent Events

The Cooperative has evaluated subsequent events through April 29, 2022, the date which the financial statements were available to be issued.

Effective March 2022, the Cooperative increased rates an average of 6.43%.

19. Recently Issued Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The new standard is effective for nonpublic entities for fiscal years beginning after December 15, 2021. The Cooperative is evaluating the impact of the new standard on the financial statements.

ACCOMPANYING INFORMATION

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

Schedule 1

ELECTRIC PLANT
FOR THE YEAR ENDED DECEMBER 31, 2021

	Balance 1/1/2021	Transfers & Additions	Retirements	Balance 12/31/2021
CLASSIFIED ELECTRIC PLANT IN SERVICE				
Transmission Plant				
Organization	\$ 494	\$	\$	\$ 494
Land and Land Rights	3,785			3,785
Structures and Improvements	29,361			29,361
Substation Equipment	679,350			679,350
Poles, Towers, and Fixtures	195,639			195,639
Overhead Conductors and Devices	320,914			320,914
Total	\$ 1,229,543	\$ 0	\$ 0	\$ 1,229,543
Distribution Plant				
Land and Land Rights	\$ 54,943	\$	\$	\$ 54,943
Structures and Improvements	58,333			58,333
Substation Equipment	10,938,939	14,709	16,620	10,937,028
Poles, Towers, and Fixtures	14,038,621	571,959	93,002	14,517,578
Overhead Conductors and Devices	18,572,078	258,585	55,306	18,775,357
Underground Conduit	14,916			14,916
Underground Conductors and Devices	432,029			432,029
Line Transformers	5,760,068	191,982	16,593	5,935,457
Services	913,838	38,760	10,510	942,088
Meters	2,858,157	72,875	37,165	2,893,867
Installations on Consumer Premises	24,543			24,543
Street Lighting	148,282			148,282
Total	\$ 53,814,747	\$ 1,148,870	\$ 229,196	\$ 54,734,421
General Plant				
Land and Land Rights	\$ 36,728	\$	\$	\$ 36,728
Structures and Improvements	2,722,966			2,722,966
Office Furniture and Equipment	403,790	37,902	32,497	409,195
Transportation Equipment	1,353,330			1,353,330
Tools, Shop, and Garage Equipment	95,079			95,079
Laboratory Equipment	43,844			43,844
Power Operated Equipment	1,205,705		126,326	1,079,379
Communications Equipment	57,041			57,041
Miscellaneous Equipment	83,163	19,877	743	102,297
Total	\$ 6,001,646	\$ 57,779	\$ 159,566	\$ 5,899,859
Total Classified Electric Plant in Service	\$ 61,045,936	\$ 1,206,649	\$ 388,762	\$ 61,863,823
Construction Work in Progress for All Plant	284,441	719,675		1,004,116
Total Utility Plant	\$ 61,330,377	\$ 1,926,324	\$ 388,762	\$ 62,867,939

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

Schedule 2

ACCUMULATED PROVISION FOR DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2021

	Balance 1/1/2021	Depreciation Accruals	Retirements and Transfers	Balance 12/31/2021
Transmission Plant	\$ 914,067	\$ 33,799	\$	\$ 947,866
Distribution Plant	\$ 15,143,723	\$ 1,780,253	\$ 389,804	\$ 16,534,172
General Plant				
Structures and Improvements	\$ 1,044,281	\$ 90,617	\$	\$ 1,134,898
Office Furniture & Equipment	310,594	27,642	32,497	305,739
Transportation Equipment	738,437	87,039		825,476
Shop Equipment	63,294	3,402		66,696
Lab Equipment	20,460	2,238		22,698
Communications Equipment	39,046	2,087		41,133
Power Operated Equipment	909,965	102,660	106,102	906,523
Miscellaneous Equipment	58,665	3,814	95	62,384
Total General Plant	\$ 3,184,742	\$ 319,499	\$ 138,694	\$ 3,365,547
Total Classified Electric Plant in Service	\$ 19,242,532	\$ 2,133,551	\$ 528,498	\$ 20,847,585
Retirement Work in Progress	(17,731)		22,307	(40,038)
	\$ 19,224,801	\$ 2,133,551	\$ 550,805	\$ 20,807,547
		(1)	(2)	
(1) Charged to Depreciation Expense		\$ 1,943,852		
Charged to Clearing Accounts		189,699		
		\$ 2,133,551		
(2) Cost of Units Retired			\$ 388,762	
Add: Cost of Removal			195,037	
Less: Salvage Value and Other Credits			32,994	
Loss Due to Retirement			\$ 550,805	

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

Schedule 3

OTHER PROPERTY AND INVESTMENTS
DECEMBER 31, 2021 AND 2020

	December 31,	
	2021	2020
INVESTMENTS IN ASSOCIATED ORGANIZATIONS		
Patronage Capital/Memberships		
Sunflower Electric Power Corporation	\$ 11,500,455	\$ 10,309,168
Mid-Kansas Electric Company, Inc.	435,561	513,484
Kansas Electric Cooperatives	41,464	39,652
National Rural Utilities Cooperative Finance Corporation	220,608	210,354
National Information Solutions Cooperative	68,330	63,433
S&T Telephone	109,656	109,656
Federated Rural Electric Insurance	160,879	186,482
Memberships/Other	65,570	60,424
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	221,958	221,958
Other Contributions		
Mid-Kansas Electric Company, Inc. - Contributed Capital	423,040	423,040
Total Investments in Associated Organizations	\$ 13,247,521	\$ 12,137,651
OTHER INVESTMENTS	\$ 5,501	\$ 5,501
	\$ 13,253,022	\$ 12,143,152

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

Schedule 4

PATRONAGE CAPITAL
DECEMBER 31, 2021

Calendar Year	Capital Credits Assigned	Capital Credits Assignable	Capital Credits Retired	Capital Credits Unretired
1961 - 1987	\$ 1,702,538	\$	\$ 1,702,538	\$
1988	152,942		152,942	
1989				
1990				
1991				
1992				
1993	195,407		195,407	
1994	136,050		136,050	
1995	19,540		19,540	
1996				
1997	101,027		101,027	
1998	438,890		110,645	328,245
1999	865,737		84,731	781,006
2000	552,138		49,310	502,828
2001	586,850		50,244	536,606
2002	894,931		76,801	818,130
2003				
2004	445,392		30,715	414,677
2005	654,896		43,159	611,737
2006	249,907		16,018	233,889
2007	957,875		56,060	901,815
2008	761,198		34,932	726,266
2009	813,194		34,930	778,264
2010				
2011	1,254,464			1,254,464
2012	1,397,098			1,397,098
2013	1,985,150			1,985,150
2014	2,044,951			2,044,951
2015	794,168			794,168
2016	1,498,600		7,922	1,490,678
2017	1,849,734		4,070	1,845,664
2018	1,503,392		9,398	1,493,994
2019	1,748,693		7,574	1,741,119
2020	392,903			392,903
2021		1,856,212		1,856,212
Under-Allocated		278,230		278,230
	<u>\$ 23,997,665</u>	<u>\$ 2,134,442</u>	<u>\$ 2,924,013</u>	<u>\$ 23,208,094</u>

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

Schedule 5

FFB, CFC, AND COBANK MORTGAGE NOTES
DECEMBER 31, 2021

Note Number	Advance Date	Date of Maturity	Interest Rate	Principal Amount	Unadvanced	Principal Repayments	Net Obligation
FFB Mortgage Notes							
FFB-1-1	2/23/2010	12/31/2043	4.52%	\$ 3,973,000	\$	\$ 652,571	\$ 3,320,429
FFB-1-2	9/7/2010	1/3/2045	3.49%	900,000		172,035	727,965
FFB-1-3	1/21/2011	1/3/2045	4.24%	1,128,000		203,243	924,757
FFB-1-4	9/7/2011	1/3/2045	2.84%	3,206,718		577,787	2,628,931
FFB-1-5	3/13/2012	1/3/2045	2.78%	652,282		113,702	538,580
FFB-2-1	12/19/2013	12/31/2047	3.58%	6,208,937		715,315	5,493,622
FFB-2-2	12/19/2013	12/31/2047	3.58%	3,341,812		385,001	2,956,811
FFB-2-3	9/3/2014	12/31/2047	2.90%	2,539,105		292,523	2,246,582
FFB-2-4	9/3/2015	12/31/2047	2.69%	1,000,000		125,322	874,678
FFB-2-5	2/8/2016	12/31/2047	2.34%	1,312,209		163,643	1,148,566
FFB-2-6	9/22/2016	12/31/2047	2.09%	1,000,000		119,243	880,757
FFB-2-7	3/2/2018	12/31/2047	2.96%	713,659		53,696	659,963
FFB-2-8	4/25/2018	12/31/2047	3.08%	2,975,794		212,379	2,763,415
FFB-2-9	4/9/2019	12/31/2047	2.73%	1,000,000		53,878	946,122
FFB-2-10	7/31/2019	12/31/2047	2.34%	2,500,863		128,076	2,372,787
FFB-2-11	11/22/2019	12/31/2047	2.04%	1,312,137		61,987	1,250,150
FBB-2-12	5/12/2020	12/31/2047	1.09%	4,018,753		157,738	3,861,015
FBB-2-13	7/16/2020	12/31/2047	1.01%	536,731		17,214	519,517
Total FFB				\$ 38,320,000	\$ 0	\$ 4,205,353	\$ 34,114,647
CFC Mortgage Notes							
9004-010	6/15/2012	11/30/2021	3.80%	\$ 374,201	\$	\$ 374,201	\$
9004-011	6/15/2012	11/30/2022	3.85%	388,004			388,004
9004-012	6/15/2012	11/30/2023	3.90%	396,739			396,739
9004-013	6/15/2012	11/30/2024	4.00%	398,354			398,354
9004-014	6/15/2012	11/30/2025	4.05%	414,321			414,321
9004-015	6/15/2012	11/30/2026	4.15%	430,682			430,682
9004-016	6/15/2012	11/30/2027	4.20%	448,025			448,025
9004-017	6/15/2012	11/30/2028	4.20%	465,886			465,886
9004-018	6/15/2012	11/30/2029	4.20%	485,073			485,073
9004-019	6/15/2012	11/30/2030	4.25%	471,789			471,789
9004-020	6/15/2012	11/30/2031	4.25%	472,394			472,394
9004-021	6/15/2012	11/30/2032	4.30%	491,740			491,740
9004-022	6/15/2012	11/30/2033	4.30%	484,496			484,496
9004-023	6/15/2012	11/30/2034	4.30%	156,736			156,736
9006-001	6/28/2013	5/31/2023	3.60%	1,657,000		1,371,798	285,202
Total CFC				\$ 7,535,440	\$ 0	\$ 1,745,999	\$ 5,789,441
CoBank Mortgage Notes							
T - 01	3/12/2021	9/20/2024	1.55%	\$ 3,000,000	\$ 0	\$ 972,854	\$ 2,027,146
Total CoBank				\$ 3,000,000	\$ 0	\$ 972,854	\$ 2,027,146

Net obligation includes \$1,088,000 due FFB, \$576,000 due CFC, and \$850,000 due CoBank payable within one year classified as current liabilities on the balance sheet.

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

Schedule 6

ADMINISTRATIVE AND GENERAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	December 31,		Increase (Decrease)
	2021	2020	
Administrative and General Salaries	\$ 559,553	\$ 549,356	\$ 10,197
Office Supplies and Expense	49,293	59,189	(9,896)
Outside Services Employed	117,695	33,891	83,804
Employee Education and Training	201,931	173,768	28,163
Directors' Fees and Expenses	51,573	76,460	(24,887)
Annual Meeting Expense	130,128	147,649	(17,521)
Capital Credits Expense	11,160	11,972	(812)
Dues to Associated Organizations	70,887	80,654	(9,767)
Miscellaneous General Expense	57,480	28,689	28,791
Regulatory Commission Expense	887	1,071	(184)
Maintenance of General Plant	203,227	123,459	79,768
	<u>\$ 1,453,814</u>	<u>\$ 1,286,158</u>	<u>\$ 167,656</u>

COMPLIANCE AND INTERNAL CONTROL

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

**REPORT ON COMPLIANCE WITH ASPECTS OF CONTRACTUAL
AGREEMENTS AND REGULATORY REQUIREMENTS FOR ELECTRIC BORROWERS**

Independent Auditor's Report

Board of Trustees
Lane-Scott Electric Cooperative, Inc.
Dighton, Kansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lane-Scott Electric Cooperative, Inc. (the Cooperative), which comprise the balance sheet as of December 31, 2021, and the related statements of income and patronage capital and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 29, 2022. In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2022, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above and our schedule of findings related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that the Cooperative failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Cooperative's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain written RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

Disclose material related party transactions in the financial statements in accordance with requirements for related parties in generally accepted accounting principles;

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures);

Comply with the requirements for the detailed schedule of deferred debits. See note 6;

Comply with the requirements for the detailed schedule of investments. See note 4 and supplementary information schedule 3.

The purpose of this report is solely to communicate, in connection with the audit of the financial statements, on compliance with aspects of contractual agreements and the regulatory requirements for electric borrowers based on the requirements of 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*. Accordingly, this report is not suitable for any other purpose.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 29, 2022

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

Board of Trustees
Lane-Scott Electric Cooperative, Inc.
Dighton, Kansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lane-Scott Electric Cooperative, Inc. (the Cooperative), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise Lane-Scott Electric Cooperative, Inc.'s basic financial statements, and have issued our report thereon dated April 29, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Cooperative's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lane-Scott Electric Cooperative, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

April 29, 2022

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

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8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

April 29, 2022

Board of Directors
Lane-Scott Electric Cooperative, Inc.
Dighton, Kansas

We have audited the financial statements of Lane-Scott Electric Cooperative, Inc. (the Cooperative) for the year ended December 31, 2021, and have issued our report thereon dated April 29, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated August 31, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Cooperative are described in the notes to the financial statements. No new accounting policies were adopted during year ended December 31, 2021. We noted no transactions entered into by the Cooperative during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

We noted no transactions entered into by the Cooperative during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are the allowance for uncollectible accounts, and lives used to calculate depreciation on distribution plant in service. Management's estimates of the allowance for uncollectible accounts are based on historical activity and current regulatory actions. Management's estimate of the depreciation life used is based on industry accepted guidelines and the lives selected are within those guidelines. We evaluated the key factors and assumptions used to develop the allowance for uncollectible accounts, and accumulated depreciation and depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Attached to this letter are the misstatements identified during the audit and corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 29, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Cooperative's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Cooperative's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the accompanying information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the accompanying information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Board of Directors
Lane-Scott Electric Cooperative, Inc.
April 29, 2022
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Restriction of Use

This information is intended solely for the use of the Board of Directors and management of the Cooperative and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Client: **43976 - Lane-Scott Electric Cooperative, Inc.**
Engagement: **43976 - 2021 Lane-Scott Electric Cooperative, Inc.**
Period Ending: **12/31/2021**
Trial Balance: **017 - Annual Trial balance - 2 Year**
Workpaper: **017 - Adjusting Journal Entry Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entry JE # 1				
To adjust SEP patronage allocation				
123.100.0	PATRONAGE CAPITAL-ASSOC ORGAN		43,600.81	
423.000.0	G & T CAPITAL CREDITS			43,600.81
Total			43,600.81	43,600.81