



To: **Board of Trustees and Attorney**

A regular meeting of the Board of Trustees has been scheduled for May 1, 2023, at 7:00 p.m.

Proposed Agenda:

1. Call to Order
2. Reading and Approval of Minutes
3. Presentation of Check Registers
4. Presidents Report
5. Attorneys Report
6. Sunflower EPC Report
7. KEC Report
8. General Managers Report
9. Old Business
10. New Business
 - a. BGSM – Audit Presentation
 - b. 2022 Capital Credit Allocation
 - c. General Manager Evaluation
11. Safety Program Report
12. Executive Session (if requested)
13. Adjourn

Upcoming Events:

KEC Board Meeting	Wichita	May 10-11
Sunflower Annual Meeting	Dighton	May 17
Office Closed – Memorial Day		May 29
LSEC Board of Trustees meeting	Dighton	June 5

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**MINUTES OF THE REGULAR APRIL 2023
MEETING OF THE BOARD OF TRUSTEES
OF THE LANE-SCOTT ELECTRIC COOPERATIVE, INC.**

CALL TO ORDER

A regular meeting of the Board of Trustees of the Lane-Scott Electric Cooperative, Inc., was held on Monday, April 3, 2023, in the offices of the cooperative at 410 South High Street, Dighton, Kansas. President Richard Jennison called the meeting to order at 6:58 p.m. In addition to President Richard Jennison, the other trustees in attendance were: Rad Roehl, Harold Hoss, Randy Evans, Eric Doll, Richard Sorem, Chad Griffith, Paul Seib Jr. and Craig Ramsey. Also present Richard McLeon IV, Lee Tafanelli and Joseph D. Gasper, Attorney.

KEC UPDATE

Lee Tafanelli, CEO of KEC presented the following update on KEC matters:

- At the last KEC meeting, the topic of strategic risk to the industry was brought up. The conversation regarding these strategic risks will continue to be discussed and investigated.
- This last legislative session has been different than previous sessions. The increasing number of urban legislators has some effect but there seems to be more emphasis on policy rather than facts. Misinformation and disinformation seems to be discussed without much fact checking.
- There is a push among many legislators to develop more renewable energy in the state.
- In the past, Coops have been able to get exempted from certain legislation but that appears to be more difficult as we move into the future.
- There is a push from the DOE to require amorphous core steel transformers. KEC has drafted and sent a letter to DOE regarding the issue. These transformers cost more and are more unavailable.
- It appears that with a divided federal congress that the Biden administration is likely to pursue more of its agenda on the regulatory side.
- There has been some opposition to new wind development on the eastern side of the state.
- The clean energy and push towards electric cars is going to result in many changes to the industry.
- There is the possibility that small nuclear facilities may be looked at in the future.

Lee left the meeting after his presentation.

MINUTES OF PRIOR MEETING

President Jennison called for action on the minutes of the prior meeting held on March 13, 2023. *Hearing no corrections to the minutes, President Jennison declared the minutes stand approved as printed.*

CASH DISBURSEMENTS

President Jennison called for questions regarding the check list for the month.

There were no questions regarding the checks.

PRESIDENT'S REPORT

President Jennison asked the Trustees to return the completed manager evaluations to him by April 24.

ATTORNEY'S REPORT

Attorney Gasper had no current items to report..

REPORT OF SUNFLOWER DELEGATE

A copy of the Sunflower report was included in the board packet and emailed to the trustees.

Manager McLeon added the following:

- Sunflower will be conducting a strategic planning session that the member managers have been invited to participate in.

KEC REPORT

A copy of the KEC report was included in the packet.

Craig Ramsey had no additions.

MANAGER'S REPORT

Manager McLeon commented on the following matters:

- The credit card statements were presented to the Trustees for review.

- The year-to-date overall rate is 11.81 which is up about 10% over the five year average.
- The reliability numbers are good.
- Retail wheeling continues to be discussed at the legislature. Retail wheeling would likely not have a significant impact on the distribution side.
- A table showing the percentages of various rate classes and their percentages of kWh sold and percentages of income for each class was included in the board packet.
- Katie Riffle started as the new cashier/receptionist.
- The ECA Audit:

The Audit and the ECA. This has become a very complicated issue. There are two components to the issue: 1. The ECA calculation, and 2. How LSEC is accounting for the ECA.

1. The Energy Cost Adjustment Process.

- a. LSEC sends out our Power bill around the 1st of the month for the previous months' energy usage. Because we do not yet have the Sunflower wholesale power bill, there is \$0.06975 embedded in every rate class representing the "average" wholesale power cost. The difference between the embedded cost and the actual cost is estimated.
- b. The ECA calculation is calculated as:

$$ECA = \frac{C - (B \times S) + E}{S}$$

Where:

ECA = Energy Cost Adjustment expressed in \$0.00000 per kilowatt hour.

C = The total power cost from all suppliers for the most recent month, excluding the power cost directly billed to member at their points of delivery.

E = The difference between actual and recovered cost in prior periods.

S = The total estimated kilowatt hours sold for the billing period.

B = The base wholesale power amount of \$0.06975.

2. The Billing process. Sunflower sends out the monthly power bill on or about the 8th of every month. This is after we have billed, so the ECA must be estimated for billing using the tariff formula in above.

The current power bill is represented in item C above. The general ledger account of power bill costs and adjustments is represented in item E above.

3. The investigation.

- a. ECA calculation. The calculation that we were using up to last fall was derived from the KCC. The transition to a rolling 12-month was not as smooth as expected and a spreadsheet error was made when forwarding the calculation to a 2023 sheet. Elena Larson with Power System Engineers is researching our calculations back to 2016 and has been tasked with creating a new, simplified ECA calculation process with a “fill in the blanks” worksheet that is easier to complete.
- b. The accounting process. This is separate and involves the actual amount billed and collected. The recent audit identified discrepancies in that balancing process. While Richard doesn’t have the details, Randy will be here next month to present and discuss.

4. Good News / Bad news

- a. Changing the ECA process from a monthly to a rolling 12-month calculation (part E above) created a large enough variance to expose the accounting issue.
- b. Unaudited 2022 Revenues were overstated by \$620,668. I have not seen the audited results yet.
 - i. The \$620,668 amount reduces our 2022 Operating margins from \$1,183,976 to \$563,308 thereby reducing the 2022 capital credit allocation.
 - ii. The 2022 revenue reduction will push our financial operating metrics (OTIER and ODSC) back into risky territory.
 - iii. The 2023 Budget was prepared using the overstated revenues. Richard can manage the income statement by:
 - a) Controlling expenses
 - b) Shifting work from general maintenance to construction work plan projects. This will shift expenses to the Balance Sheet and will reduce cash.
 - c) The Cost-of-Service Study is probably back on the schedule for 2023. Potentially soon.
 - d) Richard will not have confidence in the monthly financials until this is resolved. Wholesale power costs is about 60% of our total expenses
 - e). The actual under-collection or over-collection amounts will be determined by the Power Systems study. Once we have those amounts, we will determine the next step.

5. Where we go from here.

- a. Define a final ledgering process based on BSGM recommendations.
- b. An Annual audit of the ECA accounts by BSGM.
- c. Controls:
 - i. The monthly amount will come to Richard for review and approval.
 - ii. The new accountant will review it with Richard, learn the process and oversee it, and be responsible for the monthly ledgering.
- d. Personnel actions may be sooner rather than later.

- Dal attended the phase 3 staking school.
- Carrie is working on the work management operations.
- The repeaters for the radios came in.
- Pricing for boring underground is being sought.
- Kasey and Nate are working on establishing back feeds on critical lines.
- Two errors on the billing due to incorrect multipliers. The underbilling was for Lane County Feeders and the Ness City Hotel. The twelve months prior underbilling will be collected.
- There are four outstanding Generac quotes.
- The nominating committee will meet May 1.
- The member satisfaction survey will be conducted in April.
- The paperless promotion will end in March. Paperless members have increased from 259 to 346.
- Pole supplies are getting better with shorter delivery times.
- The board discussed the new hires and feasibility with the uncertain financials. Manager McLeon felt the hires would still be beneficial and that he was comfortable with the hires and overall financial situation with the amount of cash on hand.
- There will likely need to be a COSS performed soon.
- The board discussed how long the mistake on the ECA had been going on and why it had not been discovered. Manager McLeon answered that the final report had not been completed to give the full picture. The auditor had not been asked to audit the ECA calculation until this issue had come up.
- *A motion to enter executive session to discuss personnel issues was made, duly seconded and carried at 8:41 p.m. The board came out of executive session at 9:07 p.m.*

RECEIPT OF MANAGER'S REPORT

The board received the Manager's report as indicated herein, and there were no follow-up questions.

SAFETY REPORT

A safety report was included in the board packet.

OLD BUSINESS

There was no old business before the board.

NEW BUSINESS

1. Sunflower Delegates

- *A motion to appoint Paul Seib, Jr. as voting delegate and Manager McLeon as alternate voting delegate at the Sunflower Electric Power Corporation and Sunflower Electric Holdings, Inc. annual meetings was made, duly seconded and carried.*

ADJOURNMENT

A motion to adjourn the meeting was made, seconded and carried at 9:13 p.m., on Monday, April 3, 2023.

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Accounts Payable Check Register

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Bank Account: 2 - FIRST STATE BANK

Check / Tran Date	Pmt Type	Vendor	Vendor Name	Reference	Amount
2996 03/31/2023	WIRE	1239	CULLIGAN OF DODGE CITY	Monthly Invoice	246.85
3005 04/03/2023	WIRE	44	NEX-TECH WIRELESS, LLC	Monthly Invoice	1,038.51
49952 04/03/2023	CHK	1	COME AND GET IT BBQ	Sunflower Meal	165.00
49953 04/03/2023	CHK	1	FIRST CHRISTIAN CHURCH	Memorial Donna Schneider	50.00
49954 04/03/2023	CHK	1	LONE TREE RETIREMENT CENTER	Memorial-Robert McCulloch	50.00
49955 04/03/2023	CHK	1	ST THERESA CATHOLIC CHURCH	Hall Rent and Deposit for Sunflower Mtg	750.00
49956 04/03/2023	CHK	25	LANE-SCOTT ELECTRIC COOPERATIVE,	Payroll Transfer	59,500.00
49957 04/03/2023	CHK	73	STANION WHOLESALE ELEC CO INC	Monthly Invoice	27,342.77
49958 04/03/2023	CHK	79	POSTMASTER	USPS Marketing Mail	290.00
49959 04/03/2023	CHK	107	CINTAS CORPORATION #449	Monthly Invoice-Ness City	68.43
49960 04/03/2023	CHK	122	MYRON SEIB	Supplies	95.69
49961 04/03/2023	CHK	136	NATHAN BURNS	Per Diem-Meterman Conference	224.00
49962 04/03/2023	CHK	146	REBECCA CAMPBELL	Car Rental at NISC Training	205.53
49963 04/03/2023	CHK	164	FAIRBANK EQUIPMENT INC.	Monthly Invoice	114.90
49964 04/03/2023	CHK	203	SIGN PRO	Magnets and Decals	947.87
49965 04/03/2023	CHK	361	ANN M JENNINGS	Clothing Allowance	543.75
49966 04/03/2023	CHK	366	DIANA KUHLMAN	Per Diem HR summit	160.00
49967 04/03/2023	CHK	383	HUXFORD POLE AND TIMBER CO INC	Poles	26,807.10
49968 04/03/2023	CHK	395	DOLLAR GENERAL - REGIONS 410526	Supplies	7.53
49969 04/03/2023	CHK	429	IT1 CONSULTING LLC	Monthly Invoice-Software	5,079.29
49970 04/03/2023	CHK	498	BLAKE MCVICKER	Supplies	15.08
49971 04/03/2023	CHK	555	HEALZER PLUMBING HEATING & AIR	Ness Shop Bathroom	49.52
49972 04/03/2023	CHK	803	ALTEC INDUSTRIES, INC	Gearbox for Truck #117	5,995.09
49973 04/03/2023	CHK	1197	GARDEN CITY WHOLESALE SUPPLY	Monthly Invoice	4,584.87
49974 04/03/2023	CHK	1225	CINTAS CORPORATION	Monthly Invoice-Dighton	391.14
49975 04/03/2023	CHK	1228	BENJAMIN L MANN	Per Diem-Meterman Conference	224.00

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Accounts Payable Check Register

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Bank Account: 2 - FIRST STATE BANK

Check / Tran Date	Pmt Type	Vendor	Vendor Name	Reference	Amount
49976 04/03/2023	CHK	1243	TRI-CENTRAL OFFICE SUP-HAYS	Office Supplies	654.10
49977 04/03/2023	CHK	1244	PROTECTIVE EQUIPMENT TESTING	Gloves Testing	151.75
49978 04/03/2023	CHK	1285	TIFCO INDUSTRIES	Monthly Invoice	155.88
49979 04/03/2023	CHK	1293	DAL HAWKINSON	Per Diem-Meterman Conference	965.45
49980 04/03/2023	CHK	511	AXIO GLOBAL, INC	Axio 360 Assestment Platform	840.00
3004 04/04/2023	WIRE	530	SNAP-ON CREDIT LLC	Monthly Invoice	50.72
3014 04/06/2023	WIRE	1224	NRECA RETIREMENT & SECURITY	NRECA RS - Gr Ins	56,550.85
3015 04/06/2023	WIRE	62	NRECA GROUP BENEFITS TRUST	NRECA Gr 1 - April Group Ins	2,751.59
3016 04/06/2023	WIRE	180	NRECA	NRECA Gr 1 adm Fee - April Gr In Adm Fee	232.97
3006 04/07/2023	WIRE	168	ONLINE INFORMATION SERVICES, INC	Monthly Invoice	81.82
3007 04/07/2023	WIRE	468	U.S. BANK	Monthly Credit Card Invoice	8,411.49
3008 04/07/2023	WIRE	1267	AFLAC	Monthly Premiums	1,078.73
3009 04/10/2023	WIRE	18	CITY OF DIGHTON	Monthly Invoice	1,371.46
3013 04/10/2023	WIRE	265	HASLER - POSTAGE ACH	Postage	250.00
49981 04/10/2023	CHK	1	UTICA MAYDAY COMMITTEE	Donation	250.00
49982 04/10/2023	CHK	15	ERIC DOLL	April Board Meeting	395.85
49983 04/10/2023	CHK	30	HAROLD HOSS	April Board Meeting and hotel for KEC	872.46
49984 04/10/2023	CHK	45	BUMPER TO BUMPER OF DIGHTON	Filters and Parts for all Trucks	4,223.96
49985 04/10/2023	CHK	55	NESS COUNTY NEWS	Advertising	126.56
49986 04/10/2023	CHK	60	PAUL SEIB JR	April Board Meeting	393.23
49987 04/10/2023	CHK	63	RICHARD JENNISON	April Board Meeting	367.03
49988 04/10/2023	CHK	96	STEPHENS LUMBER - DIGHTON	Monthly Invoice	64.68
49989 04/10/2023	CHK	104	HOME OIL CO	Monthly Fuel Invoice	1,111.60
49990 04/10/2023	CHK	105	CITY OF NESS CITY	Monthly Invoice	615.30
49991 04/10/2023	CHK	117	NESS CITY FARM & FEED	Monthly Invoice	81.35
49992 04/10/2023	CHK	146	REBECCA CAMPBELL	mileage	81.22

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Accounts Payable Check Register

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Bank Account: 2 - FIRST STATE BANK

Check / Tran Date	Pmt Type	Vendor	Vendor Name	Reference	Amount
49993 04/10/2023	CHK	179	RAD ROEHL	April Board Meeting	361.79
49994 04/10/2023	CHK	184	JOHNSTONE SUPPLY	Monthly Invoice	359.98
49995 04/10/2023	CHK	187	S&W SUPPLY DIVISION	Supplies	25.29
49996 04/10/2023	CHK	202	CHAD GRIFFITH	April Board Meeting	399.13
49997 04/10/2023	CHK	238	ILLINOIS MUTUAL	Premiums	153.20
49998 04/10/2023	CHK	248	CENTRAL PUMP & SUPPLY	MOntly Invoice	27.58
49999 04/10/2023	CHK	261	LOCKE SUPPLY CO	Monthly Invoice	392.47
50000 04/10/2023	CHK	269	ANIXTER INC	Monthly Invoice	3,847.31
50001 04/10/2023	CHK	272	LEWIS AUTOMOTIVE GROUP INC	Monthly Invoice	633.65
50002 04/10/2023	CHK	279	IT1 SOURCE LLC	Software-Cashier and Accountant	254.98
50003 04/10/2023	CHK	298	OVERLEASE K-LAWN	Substations	5,950.13
50004 04/10/2023	CHK	304	STECKLINE COMMUNICATIONS INC	Advertising	200.00
50005 04/10/2023	CHK	306	BORDER STATES INDUSTRIES INC	Monthly Invoice	23,931.02
50006 04/10/2023	CHK	361	ANN M JENNINGS	Easter Eggs	21.31
50007 04/10/2023	CHK	387	WESTERN FUEL & SUPPLY	Monthly Fuel Invoice	60.25
50008 04/10/2023	CHK	427	DIGHTON HERALD LLC	Advertising	180.00
50009 04/10/2023	CHK	439	BOLINGER, SEGARS, GILBERT & MOSS,	2022 Audit	16,000.00
50010 04/10/2023	CHK	450	RANDALL G EVANS	April Board Meeting	350.66
50011 04/10/2023	CHK	454	OCONNER COMPANY	Monthly Invoice	1,088.81
50012 04/10/2023	CHK	487	S&S TRAILER SALES INC	part	13.85
50013 04/10/2023	CHK	506	K&J FOODS	Supplies	21.32
50014 04/10/2023	CHK	520	CENTURY BUSINESS TECHNOLOGIES, I	Copier Contract	54.85
50015 04/10/2023	CHK	556	MILSPEC INDUSTRIES	Annual Meeting giveaway	4,676.00
50016 04/10/2023	CHK	773	BRETZ, INC.	Monthly Invoice	95.11
50017 04/10/2023	CHK	790	SUNBELT SOLOMON	Transformers	21,662.04
50018 04/10/2023	CHK	1016	KANSAS ONE-CALL SYSTEM INC	Locate Fees	126.00

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Accounts Payable Check Register

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Bank Account: 2 - FIRST STATE BANK

Check / Tran Date	Pmt Type	Vendor	Vendor Name	Reference	Amount
50019 04/10/2023	CHK	1030	THE SCOTT COUNTY RECORD	Advertising	30.00
50020 04/10/2023	CHK	1169	WASHER SPECIALTIES CO.	Monthly Invoice	133.52
50021 04/10/2023	CHK	1172	WESTERN SUPPLY COMPANY	Monthly Invoice	1,239.30
50022 04/10/2023	CHK	1251	TECHLINE, LTD	Monthly Invoice	5,024.23
50023 04/10/2023	CHK	1263	RICHARD SOREM	April Board Meeting	406.33
50024 04/10/2023	CHK	1299	DEANNE DECHANT	Cookies for Board Meeting	72.00
50025 04/10/2023	CHK	1300	CRAIG RAMSEY	April Board Meeting	382.75
50026 04/10/2023	CHK	1303	LANE COUNTY IMPLEMENT, INC	part for #117	15.46
3011 04/11/2023	WIRE	1160	S&T TELEPHONE COOP ASSN.	Monthly nvoice	850.82
3010 04/12/2023	WIRE	124	GOLDEN BELT TELEPHONE	Monthly Invoice	302.90
50027 04/17/2023	CHK	25	LANE-SCOTT ELECTRIC COOPERATIVE,	Payroll Transfer	53,500.00
50028 04/17/2023	CHK	40	KANSAS ELECTRIC COOPERATIVES	Monthly Dues and HR Summitt	8,366.07
50029 04/17/2023	CHK	105	CITY OF NESS CITY	Monthly Invoice	26.46
50030 04/17/2023	CHK	107	CINTAS CORPORATION #449	Monthly Invoice-Dighton	283.40
50031 04/17/2023	CHK	169	AMERICAN ELECTRIC-GARDEN CITY	Monthly Invoice	1,284.19
50032 04/17/2023	CHK	172	TYNDALE COMPANY, INC.	Clothing Allowance-Kasey	313.57
50033 04/17/2023	CHK	557	KATIE RIFFLE	Clothing Allowance	250.00
50034 04/17/2023	CHK	803	ALTEC INDUSTRIES, INC	Parts #117	12,364.17
50035 04/17/2023	CHK	903	NISC	Monthly Invoice	13,011.88
50036 04/17/2023	CHK	1215	POWER SYSTEM ENGINEERING, INC.	ECA and Arc Falsh Study	6,702.50
50037 04/17/2023	CHK	1248	COMPLIANCE ONE	Drug & Alcohol Testing	418.55
50038 04/17/2023	CHK	1293	DAL HAWKINSON	Clothing Allowanc-Dal	171.85
50039 04/17/2023	CHK	9999	DANIELLE LEE	INACTIVE REFUND	21.38
3012 04/18/2023	WIRE	1229	SCHABEN SANITATION	Monthly Invoice	673.73

Total Payments for Bank Account - 2 : (102) 403,808.76

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**Accounts Payable
Check Register**

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Bank Account: 2 - FIRST STATE BANK

Check / Tran Date	Pmt Type	Vendor	Vendor Name	Reference	Amount	
					Total Voids for Bank Account - 2 :	(0) 0.00
					Total for Bank Account - 2 :	(102) 403,808.76
					Grand Total for Payments :	(102) 403,808.76
					Grand Total for Voids :	(0) 0.00
					Grand Total :	(102) 403,808.76



SUNFLOWER ELECTRIC POWER CORPORATION

A Touchstone Energy® Cooperative

... energy done right

SUNFLOWER ELECTRIC POWER CORPORATION BOARD MEETING SUMMARY APRIL 21, 2023

NEW PRAIRIE LAND BOARD MEMBER

Sandra Benoit was appointed to serve as the new Sunflower Board director from Prairie Land, and Ronald “Ron” Griffith will serve as the alternate.

ICARE

2023 Rate Study

James Brungardt continued discussions on the 2023 rate study. Sunflower is planning to perform shadow billing for all three options (\$4, \$6, or \$8 CP kW) from April through July.

The Western Kansas Industrial Electric Consumers (WKIEC) proposed a revised Energy Cost Adjustment (ECA) that provides hourly settlements for Standby Rider customers and a revised definition of Coincident Peak (CP) demand based on the average of four summer months. They did not contest the addition of adding a Non-Coincident Peak (NCP) component.

Rich Macke, Power System Engineering, continued discussions on whether a Standby Rate is needed with an NCP charge.

CURRENT ACTIVITIES

Annual Meeting

Lane-Scott is hosting the 2023 Sunflower Annual Meeting.

- Tuesday, May 16
 - Scott Community Golf Course, 806 N. Main Street, Scott City
 - 12 p.m. – Lunch with tee times immediately following
 - Lane-Scott Electric Cooperative, 410 S. High Street, Dighton
 - 5:30 p.m. – Facility Tour
 - 6:30 p.m. – Annual BBQ
- Wednesday, May 17, 2023
 - St. Theresa Catholic Church Hall, 335 South 1st Street, Dighton
 - 7:30 a.m. – Continental Breakfast served until 8:00 am
 - 8 a.m. – Annual and Regular Board meetings
 - 12 p.m. – Lunch

PRESIDENT’S REPORT

Operations

Alternative Fuel Options at Rubart Station

Kim Harp presented key findings of the Burns & McDonnell studies conducted in 2021 and 2022. Propane conversion costs were significantly higher than LNG costs on a \$/kW basis. Several challenges remain unresolved: (1) a persistent natural gas quality concern associated with mid-stream processing; (2) the recent Southwest Power Pool (SPP) accreditation rule changes resulting in capacity loss due to gas quality; and (3)

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future SPP rules that could include fuel assurance to accreditation, causing an even greater capacity loss. The next step is to consider the feasibility of alternate or additional pipelines.

Synchronous Condenser Project

Ken Sabourin updated the board on the Fort Dodge 4 (FD4) synchronous condenser project. The purpose of this project is to modify FD4 to run as a synchronous condenser in addition to a generator. Conversion allows FD4 to provide continuous reactive power (MVAR). The reactive capability improves transient voltage behavior; the large spinning mass provides inertia, which improves system reliability; and the project improves short-circuit strength, which improves system stability during disturbances. The detailed engineering phase will run from late 2022 through early 2023 with commercial operation scheduled no later than June 2025.

Power Supply & Delivery & Market Affairs

Energy Hedging

ACES evaluated supplemental energy hedging for summer 2023, winter 2023/2024, and spring 2024 (a Holcomb outage is scheduled for most of March, April, and May). Fixed price energy block and financial natural gas swaps were evaluated at different sizes and shapes to determine the final recommendations. The evaluated natural gas hedges did not result in benefits worth pursuing. Staff may purchase part of winter and spring recommendations now and part later. There is ample liquidity with three counterparty offerings.

Board action: The Sunflower Board approved energy block purchases as follows:

- 50 MW 7X16 block for August 2023
- Up to 100 MW 7X24 block for December 2023 and January/February 2024
- Up to 200 MW 7X24 block for March, April, and May 2024

Board action: The Sunflower Board approved a hedge policy exception to exceed maximum "Total % Hedged," as outlined in Board Policy 314: Energy Risk Management in November and December 2023.

Russell Solar Project

Sunflower executed the Engineering, Procurement, and Construction (EPC) contract with DEPCOM Power on April 13. Staff are looking at options for a public announcement regarding execution of the EPC contract. Design, engineering, and material procurement are underway. Construction is scheduled to start in February 2024, initial synchronization to the grid in early December 2024, and commercial operation in January 2025.

Fort Dodge Solar Project

Alluvial sent its first redline of the Purchase Power Agreement (PPA) on April 6. Due to the shared interconnection service that will be utilized by the Fort Dodge solar project, several agreements will need to work in conjunction with the PPA. To ensure Sunflower retains primary rights to interconnection service at all times, under all scenarios staff must construct a matrix to define linkages between agreements under various future scenarios.

Liberal Solar

Staff recommended Sunflower abandon the Liberal solar project due to transmission, land control, and interconnection study concerns.

Board action: The Sunflower Board approved the abandonment of the Liberal Solar Project and write-off of associated expenses.

Renewable Energy Rider

Staff proposed an edit to the Renewable Energy Charge calculation for Tier 1 and Tier 2 in the Renewable Energy Rider. This would allow the implementation of an ECA on full energy consumption and adding a profit and loss calculation (net of solar/wind contract price and market revenue for their participation energy).

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Board action: The Sunflower Board approved edits to Tiers 1 and 2 of the Renewable Energy Rider to reflect the proposed calculation of the Renewable Energy Charge.

Technology Services

Sunflower's Evolution of Physical Security

Chad Wasinger shared that the electricity sector continues to experience attacks, sabotage, vandalism, and theft on infrastructure, and the frequency of these attacks is rising. Recent events and the availability of new technology presented Sunflower staff with the opportunity to implement a pilot program to evaluate a new, expanded substation video surveillance infrastructure. Sunflower plans to complete the technology pilot at Bluff Creek Substation (targeting June 2023) and Barber Substation (targeting August 2023). The estimated cost for each substation and associated budget availability has been identified. Next, staff will study network connectivity implementation feasibility at the remaining substations.

Website Denial of Service Attack

Sunflower experienced a denial-of-service attack on its sunflower.net public-facing website on March 23. This was considered a high-severity case. The root cause was identified, a fix was implemented, and corrective action measures were enabled.

Financials

March Financials

Overall Member loads were down 1.35% from budget for the month and down 1.47% from budget year to date. Large industrial loads were down 11.32% from budget for the month and down 4.53% from budget year to date. Operating expenses were down 10.68% from budget for the month and down 11.86% from budget year to date.

Audit

Chad Moore from FORV/S, LLP, presented the Independent Auditor's Report for Sunflower. In their opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of Sunflower 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. The Sunflower Board accepted the 2022 audit as presented.

Legal

Board Policy 320 – Retail Metering

The Board reviewed the retail metering policy, which states a Member or non-Member of Sunflower can supply retail electric service within its certified territory to the administrative buildings at Sunflower's generation facilities.

Board action: The Sunflower Board approved the policy as presented.

Board Policy 321 – CEO Delegation

The Board approved the new CEO delegation policy, which delegates authority to the President and Chief Executive Officer (CEO) and expresses the Board's expectations regarding performance; including the expectations regarding the monitoring and reporting of the accomplishments of the President and CEO to the Board and to defining the relationship between the Board and the President and CEO.

Board action: The Sunflower Board approved the policy as presented.

Sunflower Annual Meeting

We will be hosting the Sunflower Electric Annual Meeting on May 16th and 17th. LSEC Trustees who would like to attend are welcome.

The agenda is:

May 16:

- 12:00 pm: We will be providing lunch and golf at the Scott City golf course on the 16th. RSVPs are needed for golf. Sunflower board members have been asked to RSVP to Sunflower, but if **any other LSEC Trustees would like to play, you can RSVP to me.**
- 6:30: Catered BBQ by Jesse Piedra at Lane-Scott Electric

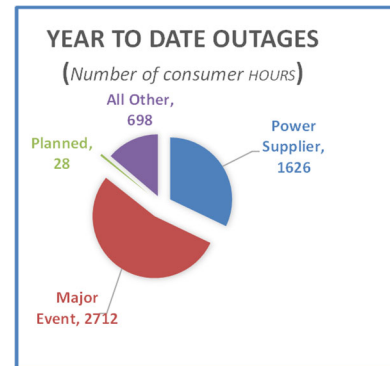
May 17: Annual Meeting at St. Theresa Catholic Hall

- 7:30 – 8 am: Breakfast
- 8am – Annual Meeting
- 12 pm – Lunch

8. General Manager's Report

1. Rates and Reliability Dashboard

Rate Summary - Mar	current month (\$/kWh)	year to date average (\$/kWh)	ytd '17-22 avg. (\$/kWh)
Residential	0.1447	0.1445	0.1208
Residential - Seasonal	0.2546	0.2430	0.1893
Irrigation	0.0976	0.1020	0.0876
C&I 1000kVa or less	0.1205	0.1248	0.1071
C&I over 1000 kVa	0.1070	0.1083	0.1052
Public Street and Lighting	0.1518	0.1553	0.1285
Other Sales to Public Authorities	0.1460	0.1461	0.1406
Sales for Resale - Other	0.0546	0.0600	0.0838
Total Sales price per kWh:	0.1160	0.1185	0.1080



metric	2020	2021	2022	2023	measures
SAIDI	2.45	8.19	3.36	0.88	Interruption DURATION / average for every member (hrs)
SAIFI	1.16	2.56	1.33	0.29	Interruption FREQUENCY / Average # of interruptions per customer
CAIDI	2.10	3.20	2.53	2.98	Customer Avg Interruption Duration Index - IF you are out, how long (hrs).
ASAI	99.97%	99.91%	99.96%	99.99%	Service Availability

Mar-23	meters	kWh	\$\$s
<i>Residential Sales</i>	38.5%	13.1%	16.3%
<i>Residential Seasonal</i>	19.4%	1.3%	2.9%
<i>Irrigation Sales</i>	5.8%	2.0%	1.7%
<i>C&I 1000 kVa or less</i>	32.0%	34.3%	35.6%
<i>C&I over 1000 kVa</i>	3.1%	43.9%	40.4%
<i>Public Street and Lighting</i>	0.2%	0.3%	0.3%
<i>Other Sales to Public Authorities</i>	0.8%	0.3%	0.4%
<i>Sales for Resale - RUS Borrowers</i>	0.0%	0.0%	0.0%
<i>Sales for Resale - Other</i>	0.0%	4.9%	2.3%

- ECA. With the help of Randy Robbins and BSGM we all now have a firm understanding of the separation of the ECA calculation spreadsheet (used to estimate the billing number) and the Accounting ledgering process (used to ledger the actual amount billed). The \$1.08MM under-collected that I reported to the Board was in the ECA estimation worksheet and was an error. However, it did not affect the accounting side, only the estimation side. We will continue monitoring the monthly estimation process.

The current financials are corrected, and I have full faith in the accuracy of the numbers.

- Rainmaker Training. Last year Lee Tafari and I began a conversation focused on the general lack of Leadership training among electric cooperatives. That conversation has led Lee to bring speakers Denver O'Rourke and Bruce Tulgan to KEC events to teach leadership, supervision, and communications skills. At the KEC meeting in Topeka, Lee introduced me to Bruce and we spent

the next hour talking about what a Leadership program would look like. The product of that conversation and several phone follow-ups was the creation of one-year training certification program for up to 14 employees. The cost is \$55,500 or \$3,964.29 per person.

Lane-Scott is the pilot, or beta, test of the program which will include:

- a full, one-day program in Dighton with Bruce.
- Four quarterly interactive webinars including books, reading packets, “homework”, etc.
- A monthly one-on-one telephone coaching session with each participant with Bruce.
- Full access to an on-line training portal.

My plan is to offer the program to up to 14 employees that would represent the next level of leadership at Lane-Scott Electric Cooperative. Any employee within 8 years of retirement will not be included because this is a component of the employee succession planning in the Strategic Plan. My current thoughts are to include:

- Accounting / Finance – Rebecca Campbell and Jacelyn Walker
- Engineering – Dal Hawkinson and Ben Mann
- Human Resources – Diana Kuhlman
- IT / Cybersecurity – Carrie Borell
- Member Services / Communications – Ann Marie Jennings
- Operations – Kasey Jenkinson, Chad Rupp, and Chris Terhune
- Warehouse/Retail – Scott Briand
- and three yet-to-be determined others.

This is intended to be as much about communication and leadership training as it is about team-building. We are working out the details, but I expect we will begin in June.

4. The Credit Card records are available for the Boards review.

5. Departments / Sections (full reports are in the Supplemental file)

- Finance. The ledger portion of the ECA issue has been resolved and the financials adjusted accordingly. March gave us an additional \$312,600 from Irrigation Horsepower charges. Key Metrics are:
 - YTD OP margins - \$100,866. YTD Patronage Margins - \$222,073
 - Cash Balance - \$6,581,251
 - YTD Equity ratios: % of Assets – 39.49%, Distribution – 25.5%, % of Capitalization – 42.45%.
 - YTD Financial Ratios: TIER/OTIER – 1.74/1.34, DSC/ODSC – 1.12/1.0 (too low – 1.25/1.1)
 - General Funds Level – 13.73%
 - Current Ratio – 2.07
 - Cash to Debt Ratio – 19.42%
- Operations Report.
 - Maintenance

- Replace meter loops at Dave Albers and Joey Boese's.
- Cut down old secondary at JD Erskin's.
- Fix broken primary jumper on Darren York's irrigation.
- Repair secondary at James Bergen's round top.
- Set poles and built new regulator platform to replace the Brownell regulators.
- Framed poles and platform for Bartlett Grain in Healy.
- Changed out bad cutout on the Ehmke lease.
- Line Retired
 - Retired 9 spans for V phase line in the Utica area.
 - Retired open secondary and replaced with triplex in alley behind Paul Seib's.
 - Retired connect for Scott Blackburn and Finney Co Road Department.
- Pole Change Outs – multiple poles were replaced for upgrades, clearances, repair, etc.
 - Changed out 2 junction poles on the east Mantina 3 phase.
 - Changed out bad V phase pole at the park in Utica.
 - Changed out 3 single-phase poles by Carlynn Foos's feed lot.
 - Changed out double circuit pole on the Magellan circuit.
 - Changed out bad single-phase pole by JD Erskin's.
 - Changed out 10 single-phase poles by Kerry Dinges's house.
 - Changed out single-phase pole for clearance across highway 283 in Hodgeman Co.
 - Change out bad 3-phase pole in alley behind Mini Mart in Ness City.
- IT / Cybersecurity Report.
 - Work Management Operation Suite
 - iVue HR Connect/ESS platform transition project.
 - Employee cybersecurity education, testing, and warning notification.
 - Phishing e-mails. These are sent out monthly to test employee awareness. Good news / bad news – of the 10 phishing e-mails sent to all employees last month NONE were opened, but NONE were reported either.
- Engineering. (This is a compilation of Dal and Nates' reports)
 - Projects
 - WindMil model. We are working with PSE to:
 - Update the model
 - Schedule winter and summer analysis of the model to identify weaknesses in our system.
 - Working on Data-mining our demand information from the MDMS. We need accurate demand profiles to project load shed impacts and for the COSS.
 - Kasey, Ben, and Nate are working on establishing back feeds on critical lines.
 - Utica Autotransformer project is being updated for this summer.
 - Metering
 - Reset and updated meter firmware.
 - Built new meter programs with Landis & Gyr and Boarder States.
 - Ben, Dal, and Nate attended Heartland metering conference

- Staking
 - a new gas recapture/injection facility in the Shallow Water area
 - a new Cellular tower just NE of Ness City
 - Nate is getting boring price estimates from contractors for line construction
- 6. Dal has completed and received his Certified Staking Technician accreditation.
- Member Services Report.
 - CoBank Success Sharing grants. We received a record 20 applications and the employee committee awarded \$1,000.00 each to:
 - USD 303 Ness City Schools
 - SW Kansas Family Crisis Center
 - American Legion 8th District Honor Guard
 - Utica Rural Fire Department.
 - Scholarships – underway with 32 applications this year!
 - The Member Satisfaction Survey was completed with 250 responses. Results are not available yet.
 - The Distributed Generation Interconnection application has been updated. The IRA Act has spawned a lot of questions and interest about DG Interconnections. We offer three types:
 - Net metering (LSEC from KEC). Renewable Energy, max 15kW (Res.) and 100kW (Comm), net generation is absorbed by LSEC.
 - Parallel Generation (KSA 66-1, 184). Renewable Energy, max 25kW (Res.) and 200kW (Comm), net generation is paid at 150% of system average monthly cost by LSEC.
 - Qualifying Facilities (CFR 18, PURA of 1978). Any source under 1mW paid at system average monthly cost by LSEC.
- Warehouse Report. Retail Non-operating margins = \$2,400.54 (March) and \$27,259.44 YTD.
 - Generac. We are caught up on installations and are focusing on service.
 - Electrician / HVAC services. All hands are busy and working on positive margins.
 - Materials. We are starting to see some transformers arrive earlier than expected. This allows us to continue working on CWP / Pole Inspection change-outs.

Respectfully submitted,

Richard McLeon, MBA
General Manager

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0572-0032. The time required to complete this information collection is estimated to average 15 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.				
UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION		BORROWER DESIGNATION <div style="text-align: right;">KS0042</div>		
INSTRUCTIONS - See help in the online application.		PERIOD ENDED March 2023		
		BORROWER NAME <div style="text-align: right;">The Lane-Scott Electric Cooperative, Inc.</div>		
This information is analyzed and used to determine the submitter's financial situation and feasibility for loans and guarantees. You are required by contract and applicable regulations to provide the information. The information provided is subject to the Freedom of Information Act (5 U.S.C. 552)				
CERTIFICATION <p>We recognize that statements contained herein concern a matter within the jurisdiction of an agency of the United States and the making of a false, fictitious or fraudulent statement may render the maker subject to prosecution under Title 18, United States Code Section 1001.</p> <p style="text-align: center;">We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.</p> <p style="text-align: center;">ALL INSURANCE REQUIRED BY PART 1788 OF 7 CFR CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES DURING THE PERIOD COVERED BY THIS REPORT PURSUANT TO PART 1718 OF 7 CFR CHAPTER XVII</p> <p style="text-align: center;"><i>(check one of the following)</i></p> <div style="display: flex; justify-content: space-between; margin-top: 10px;"> <div style="width: 45%;"> <input checked="" type="checkbox"/> All of the obligations under the RUS loan documents have been fulfilled in all material respects. </div> <div style="width: 45%;"> <input type="checkbox"/> There has been a default in the fulfillment of the obligations under the RUS loan documents. Said default(s) is/are specifically described in Part D of this report. </div> </div> <div style="display: flex; justify-content: space-between; margin-top: 10px;"> <div style="width: 40%; text-align: center;"> <u>Richard McLeon</u> </div> <div style="width: 20%; text-align: center;"> <u>4/16/2023</u> DATE </div> </div>				
PART A. STATEMENT OF OPERATIONS				
ITEM	YEAR-TO-DATE			THIS MONTH
	LAST YEAR <i>(a)</i>	THIS YEAR <i>(b)</i>	BUDGET <i>(c)</i>	<i>(d)</i>
1. Operating Revenue and Patronage Capital	4,838,564	4,437,536	5,680,872	1,733,817
2. Power Production Expense				
3. Cost of Purchased Power	2,686,381	2,320,358	3,577,413	700,559
4. Transmission Expense				
5. Regional Market Expense				
6. Distribution Expense - Operation	208,440	392,706	268,095	115,652
7. Distribution Expense - Maintenance	325,632	258,399	349,281	68,903
8. Customer Accounts Expense	58,239	65,509	68,031	20,366
9. Customer Service and Informational Expense	12,848	17,056	15,741	7,243
10. Sales Expense	16,954	18,720	17,898	5,971
11. Administrative and General Expense	406,274	477,953	425,301	186,644
12. Total Operation & Maintenance Expense (2 thru 11)	3,714,768	3,550,701	4,721,760	1,105,338
13. Depreciation and Amortization Expense	466,741	483,836	540,852	161,727
14. Tax Expense - Property & Gross Receipts				
15. Tax Expense - Other				
16. Interest on Long-Term Debt	314,836	298,682	312,948	98,941
17. Interest Charged to Construction - Credit				
18. Interest Expense - Other	63	1,377	87	460
19. Other Deductions	1,750	2,074	6,633	825
20. Total Cost of Electric Service (12 thru 19)	4,498,158	4,336,670	5,582,280	1,367,291
21. Patronage Capital & Operating Margins (1 minus 20)	340,406	100,866	98,592	366,526
22. Non Operating Margins - Interest	9,197	85,138	17,499	44,762
23. Allowance for Funds Used During Construction				
24. Income (Loss) from Equity Investments				
25. Non Operating Margins - Other	(12,780)	27,259	16,251	2,401
26. Generation and Transmission Capital Credits				
27. Other Capital Credits and Patronage Dividends	24,069	8,810	20,000	
28. Extraordinary Items				
29. Patronage Capital or Margins (21 thru 28)	360,892	222,073	152,342	413,689

UNITED STATES DEPARTMENT OF AGRICULTURE RURAL UTILITIES SERVICE FINANCIAL AND OPERATING REPORT ELECTRIC DISTRIBUTION			BORROWER DESIGNATION KS0042		
INSTRUCTIONS - See help in the online application.			PERIOD ENDED March 2023		
PART B. DATA ON TRANSMISSION AND DISTRIBUTION PLANT					
ITEM	YEAR-TO-DATE		ITEM	YEAR-TO-DATE	
	LAST YEAR (a)	THIS YEAR (b)		LAST YEAR (a)	THIS YEAR (b)
1. New Services Connected	19	7	5. Miles Transmission		
2. Services Retired	6	24	6. Miles Distribution – Overhead	2,038.73	2,038.10
3. Total Services in Place	6,065	6,055	7. Miles Distribution - Underground	7.66	8.73
4. Idle Services (Exclude Seasonals)	285	273	8. Total Miles Energized (5 + 6 + 7)	2,046.39	2,046.83
PART C. BALANCE SHEET					
ASSETS AND OTHER DEBITS			LIABILITIES AND OTHER CREDITS		
1. Total Utility Plant in Service	60,800,547		30. Memberships	0	
2. Construction Work in Progress	1,493,861		31. Patronage Capital	22,565,638	
3. Total Utility Plant (1 + 2)	62,294,408		32. Operating Margins - Prior Years	563,308	
4. Accum. Provision for Depreciation and Amort.	21,153,403		33. Operating Margins - Current Year	100,867	
5. Net Utility Plant (3 - 4)	41,141,005		34. Non-Operating Margins	2,327,921	
6. Non-Utility Property (Net)	0		35. Other Margins and Equities	278,285	
7. Investments in Subsidiary Companies	239,416		36. Total Margins & Equities (30 thru 35)	25,836,019	
8. Invest. in Assoc. Org. - Patronage Capital	12,291,170		37. Long-Term Debt - RUS (Net)	0	
9. Invest. in Assoc. Org. - Other - General Funds	445,461		38. Long-Term Debt - FFB - RUS Guaranteed	31,825,749	
10. Invest. in Assoc. Org. - Other - Nongeneral Funds	221,958		39. Long-Term Debt - Other - RUS Guaranteed	0	
11. Investments in Economic Development Projects	0		40. Long-Term Debt Other (Net)	4,716,207	
12. Other Investments	5,501		41. Long-Term Debt - RUS - Econ. Devel. (Net)	0	
13. Special Funds	0		42. Payments – Unapplied	1,517,862	
14. Total Other Property & Investments (6 thru 13)	13,203,506		43. Total Long-Term Debt (37 thru 41 - 42)	35,024,094	
15. Cash - General Funds	83,117		44. Obligations Under Capital Leases - Noncurrent	0	
16. Cash - Construction Funds - Trustee	100		45. Accumulated Operating Provisions and Asset Retirement Obligations	0	
17. Special Deposits	25		46. Total Other Noncurrent Liabilities (44 + 45)	0	
18. Temporary Investments	6,498,009		47. Notes Payable	0	
19. Notes Receivable (Net)	0		48. Accounts Payable	886,219	
20. Accounts Receivable - Sales of Energy (Net)	1,801,166		49. Consumers Deposits	115,348	
21. Accounts Receivable - Other (Net)	288,169				
22. Renewable Energy Credits	0		50. Current Maturities Long-Term Debt	2,271,957	
23. Materials and Supplies - Electric & Other	546,466		51. Current Maturities Long-Term Debt - Economic Development	0	
24. Prepayments	108,801		52. Current Maturities Capital Leases	0	
25. Other Current and Accrued Assets	123,314		53. Other Current and Accrued Liabilities	1,283,251	
26. Total Current and Accrued Assets (15 thru 25)	9,449,167		54. Total Current & Accrued Liabilities (47 thru 53)	4,556,775	
27. Regulatory Assets	0		55. Regulatory Liabilities	0	
28. Other Deferred Debits	1,623,210		56. Other Deferred Credits	0	
29. Total Assets and Other Debits (5+14+26 thru 28)	65,416,888		57. Total Liabilities and Other Credits (36 + 43 + 46 + 54 thru 56)	65,416,888	

10. a. 2022 Lane-Scott Electric Cooperative Financial Audit Report

The Audit Report will be presented by Mr. Randy Robbins, CPA of Bolinger, Segars, Gilbert & Moss. Ms. Kathy Lewis will also attend the meeting.

Staff request that the Board accept the Audit Report as presented.

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

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

April 20, 2023

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, 2022, and have issued our report thereon dated April 20, 2023. 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 July 14, 2022. 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, 2022. 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. You have represented to us in your letter dated April 20, 2023 that you have considered the effect of the uncorrected misstatements and that the effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Attached to this letter are the misstatements identified during the audit and corrected by management and the one uncorrected misstatement.

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 20, 2023.

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.

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,

Balinger, Legars, Gilbert & Moss LLP

Certified Public Accountants

Client: **43976 - Lane-Scott Electric Cooperative, Inc.**
Engagement: **43976 - 2022 Lane-Scott Electric Cooperative, Inc.**
Period Ending: **12/31/2022**
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 accrued ECA at 12/31/2022				
448.100.0	PCA REVENUE OVER / (UNDER)		620,668.10	
173.200.0	ACCRUED ECA UNDER COLLECTED			620,668.10
Total			620,668.10	620,668.10
Adjusting Journal Entry JE # 2				
To adjust 2022 SEP allocation to final				
123.100.0	PATRONAGE CAPITAL-ASSOC ORGAN		14,555.72	
423.000.0	G & T CAPITAL CREDITS			14,555.72
Total			14,555.72	14,555.72

Client: **43976 - Lane-Scott Electric Cooperative, Inc.**
Engagement: **43976 - 2022 Lane-Scott Electric Cooperative, Inc.**
Period Ending: **12/31/2022**
Trial Balance: **017 - Annual Trial balance - 2 Year**
Workpaper: **006 W - Proposed Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
Proposed Journal Entries				
Proposed Journal Entries JE # 1001				
UAD - To record estate retirement capital credit payable approved in Dec 2022				
201.100.0	PATRONAGE CAPITAL CREDITS-LSEC		38,642.01	
232.000.0	ACCOUNTS PAYABLE			38,642.01
Total			38,642.01	38,642.01

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

DIGHTON, KANSAS

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

AND

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

**LANE-SCOTT ELECTRIC COOPERATIVE, INC.
DIGHTON, KANSAS**

**FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

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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, 2022 and 2021, 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 financial statements referred to above present fairly, in all material respects, the financial position of Lane-Scott Electric Cooperative, Inc. 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) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Cooperative's financial statements as a whole. 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 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 financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2023 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 LLP

Certified Public Accountants

Lubbock, Texas

April 20, 2023

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

Exhibit A

BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

ASSETS

	December 31,	
	2022	2021
UTILITY PLANT AT COST		
Electric Plant in Service	\$ 63,487,301	\$ 61,863,823
Construction Work in Progress	1,368,011	1,004,116
Electric Plant Acquisition Adjustment - Net of Accumulated Amortization	(1,441,442)	(1,541,200)
	\$ 63,413,870	\$ 61,326,739
Less: Accumulated Provision for Depreciation	22,277,843	20,807,547
	\$ 41,136,027	\$ 40,519,192
OTHER PROPERTY AND INVESTMENTS - AT COST OR STATED VALUE		
Investments in Associated Organizations	\$ 13,631,217	\$ 13,247,521
Other Investments	5,501	5,501
	\$ 13,636,718	\$ 13,253,022
CURRENT ASSETS		
Cash - General	\$ 29,960	\$ 135,427
Temporary Cash Investments	39,779	208,329
Short-Term Investments	5,127,376	5,391,452
Accounts Receivable - Energy (Less allowance for uncollectibles of \$39,728 and \$42,677 for 2022 and 2021, respectively)	1,957,432	1,610,859
Property Tax Adjustment - Undercollected	114,686	172,746
Power Cost Adjustment - Undercollected	194,847	
Materials and Supplies at Average Cost	508,040	473,727
Other Current and Accrued Assets	25,304	47,773
Total Current Assets	\$ 7,997,424	\$ 8,040,313
DEFERRED CHARGES	\$ 1,931,548	\$ 2,878,839
TOTAL ASSETS	\$ 64,701,717	\$ 64,691,366

EQUITIES AND LIABILITIES

EQUITIES		
Patronage Capital	\$ 23,902,703	\$ 23,208,094
Other Equities	1,746,785	1,327,769
Total Equities	\$ 25,649,488	\$ 24,535,863
LONG-TERM DEBT		
FFB Mortgage Notes Less Current Maturities	\$ 29,588,587	\$ 28,688,414
CFC Mortgage Notes Less Current Maturities	4,719,010	5,213,441
CoBank Mortgage Notes Less Current Maturities	312,756	1,177,146
Total Long-Term Debt	\$ 34,620,353	\$ 35,079,001
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 2,551,000	\$ 2,514,000
Accounts Payable - Purchased Power	707,251	772,061
Accounts Payable - Other	180,119	437,719
Power Cost Adjustment - Overcollected		335,774
Consumer Deposits	113,757	112,956
Accrued Taxes	416,215	437,847
Accrued Interest	282,633	289,671
Accrued Employee Compensated Absences	180,901	176,474
Total Current Liabilities	\$ 4,431,876	\$ 5,076,502
TOTAL EQUITIES AND LIABILITIES	\$ 64,701,717	\$ 64,691,366

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, 2022 AND 2021

	December 31,				
	2022		2021		Increase
	Amount	%	Amount	%	(Decrease)
OPERATING REVENUES					
Residential	\$ 3,442,083	16.5	\$ 3,079,049	16.2	\$ 363,034
Irrigation	1,509,134	7.2	1,048,719	5.5	460,415
Small and Large Commercial	13,819,484	66.1	13,459,269	70.9	360,215
Building & Lighting	125,597	0.6	110,286	0.6	15,311
Sales for Resale	1,302,712	6.2	1,275,290	6.7	27,422
Power Cost Adjustment	530,621	2.5	(255,475)	(1.3)	786,096
Property Tax Adjustment	119,660	0.6	199,115	1.0	(79,455)
Other Sales to Public Authorities	64,956	0.3	60,463	0.3	4,493
Total Operating Revenues	\$ 20,914,247	100.0	\$ 18,976,716	100.0	\$ 1,937,531
OPERATING EXPENSES					
Purchased Power	\$ 12,903,008	61.7	\$ 11,294,294	59.5	\$ 1,608,714
Distribution - Operation	1,095,418	5.2	1,018,864	5.4	76,554
Distribution - Maintenance	1,133,982	5.4	1,245,835	6.6	(111,853)
Customer Accounts	256,928	1.2	225,551	1.2	31,377
Customer Service and Information	59,232	0.3	67,611	0.4	(8,379)
Selling Expenses	74,714	0.4	71,976	0.4	2,738
Administrative and General	1,640,676	7.8	1,453,814	7.7	186,862
Depreciation	1,987,794	9.5	1,943,852	10.2	43,942
Amortization of Purchase Premium	(99,758)	(0.5)	(99,758)	(0.5)	0
Other Interest	269	0.0	146	0.0	123
Other Deductions	16,024	0.1	23,031	0.1	(7,007)
Total Operating Expenses	\$ 19,068,287	91.2	\$ 17,245,216	90.9	\$ 1,823,071
OPERATING MARGINS - Before Fixed Charges	\$ 1,845,960	8.8	\$ 1,731,500	9.1	\$ 114,460
FIXED CHARGES					
Interest on Long-Term Debt	\$ 1,282,652	6.1	\$ 1,338,205	7.1	\$ (55,553)
OPERATING MARGINS - After Fixed Charges	\$ 563,308	2.6	\$ 393,295	2.1	\$ 170,013
G&T Capital Credits	684,641	3.3	1,405,537	7.4	(720,896)
Other Capital Credits	50,306	0.2	57,380	0.3	(7,074)
NET OPERATING MARGINS	\$ 1,298,255	6.2	\$ 1,856,212	9.8	\$ (557,957)
NON-OPERATING MARGINS (LOSS)					
Interest Income	\$ 132,044	0.6	\$ 160,696	0.8	\$ (28,652)
Non-Operating Income - Other	137,786	0.7	513,114	2.7	(375,328)
Gain (Loss) on Disposition of Property	2,946	0.0	(16,119)	(0.1)	19,065
	\$ 272,776	1.3	\$ 657,691	3.5	\$ (384,915)
NET MARGINS	\$ 1,571,031	7.5	\$ 2,513,903	13.2	\$ (942,872)
PATRONAGE CAPITAL - BEGINNING OF YEAR	23,208,094		22,009,165		
Transfer to Other Equity - Non-operating Margins	(272,776)		(878,605)		
Transfer to Other Equity	(88,319)				
Patronage Capital Retirements	(515,327)		(436,369)		
PATRONAGE CAPITAL - END OF YEAR	\$ 23,902,703		\$ 23,208,094		

See accompanying notes to financial statements.

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

Exhibit C

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	December 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Margins	\$ 1,571,031	\$ 2,513,903
Adjustments to Reconcile Net Margins to Net Cash From Operating Activities		
Depreciation	2,147,277	2,133,551
Electric Plant Acquisition Amortization	(99,758)	(99,758)
Capital Credits	(734,946)	(1,462,917)
Deferred Charges	947,291	699,543
Power Cost Adjustment	(530,621)	255,473
Property Tax Adjustment	58,060	78,819
Accounts Receivable	(346,573)	(190,080)
Inventories and Other Current Assets	(11,844)	(186,290)
Payables and Other Current Liabilities	(345,852)	620,059
Net Cash From Operating Activities	\$ 2,654,065	\$ 4,362,303
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Utility Plant	\$ (2,451,038)	\$ (1,926,324)
Plant Removal Costs Less Salvage and Other Credits	(213,316)	(162,043)
Investments in Associated Organization	351,250	353,047
Other Investments	264,076	509,458
Net Cash From Investing Activities	\$ (2,049,028)	\$ (1,225,862)
CASH FLOWS FROM FINANCING ACTIVITIES		
RUS Advance Payment Activity - Net	\$ 1,861,867	\$
Payments on Long-Term Debt - CFC	(576,431)	(555,995)
Payments on Long-Term Debt - FFB	(856,694)	(763,070)
Payments on Long-Term Debt - CoBank	(850,390)	(972,854)
Payments on Capital Lease Obligations		(310,413)
Other Equities	57,921	56,790
Retirement of Patronage Capital	(515,327)	(436,369)
Net Cash From Financing Activities	\$ (879,054)	\$ (2,981,911)
CHANGE IN CASH AND CASH EQUIVALENTS	\$ (274,017)	\$ 154,530
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	343,756	189,226
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 69,739	\$ 343,756
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 1,289,690	\$ 1,072,053
Income Taxes	\$ 0	\$ 0
Polar Vortex Power Cost Financed by CoBank Debt	\$	\$ 3,000,000

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) 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, 2022 and 2021, cash and cash equivalents consisted of:

	December 31,	
	2022	2021
Money Market Temporary Investments	\$ 39,779	\$ 208,329
Cash and Working Funds	29,960	135,427
Total Cash and Cash Equivalents	<u>\$ 69,739</u>	<u>\$ 343,756</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 and property taxes. In order to match power cost and related revenues, these amounts to be billed or credited to consumers in subsequent periods are recognized on the balance sheets as Power Cost Adjustment – Undercollected (Overcollected) and Property Tax Adjustment – Undercollected (Overcollected) and as an increase (decrease) of classified operating revenues on the statements of income and patronage capital. The Cooperative had undercollected (overcollected) power cost of \$194,847 and (\$335,774) at December 31, 2022 and 2021, respectively. Also, the Cooperative had undercollected property taxes of \$114,686 and \$172,746 at December 31, 2022 and 2021, respectively.

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 2019.

There were no penalties or interest recognized during years ended December 31, 2022 and 2021.

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, 2022 and 2021, deposits on hand totaled \$113,757 and \$112,956.

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, 2022 and 2021 was \$684,641 and \$1,405,537, 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,	
	2022	2021
Transmission Plant	\$ 1,229,543	\$ 1,229,543
Distribution Plant	56,202,132	54,734,421
General Plant	6,055,626	5,899,859
Total Plant in Service	\$ 63,487,301	\$ 61,863,823
Construction Work in Progress	1,368,011	1,004,116
Electric Plant Acquisition Adjustment	(2,937,808)	(2,937,808)
Acquisition Adjustment Amortization	1,496,366	1,396,608
Total Plant	<u>\$ 63,413,870</u>	<u>\$ 61,326,739</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, 2022 and 2021 was \$2,147,277 and \$2,133,551, of which \$1,987,794 and \$1,943,852 was charged to depreciation expense and \$159,483 and \$189,699 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, 2022 and 2021, 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,	
	2022	2021
CFC		
Capital Term Certificates	\$ 221,958	\$ 221,958
Patronage Capital	229,881	220,608
Sunflower Electric Power Corporation		
Patronage Capital	11,909,396	11,500,455
Mid-Kansas Electric Company, Inc.		
Patronage Capital	381,169	435,561
Capital Contribution	57,847	57,847
Contributed Capital	365,193	365,193
Kansas Electric Cooperatives		
Patronage Capital	42,395	41,464
Federated Rural Insurance		
Patronage Capital	177,392	160,879
NISC		
Patronage Capital	67,237	68,330
S&T Telephone		
Patronage Capital	103,289	109,656
Other	75,460	65,570
	<u>\$ 13,631,217</u>	<u>\$ 13,247,521</u>

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

5. Materials and Supplies

Materials and supplies consisted of the following:

	December 31,	
	2022	2021
Electric Inventory	\$ 286,879	\$ 281,066
Resale Inventory	221,161	192,661
	<u>\$ 508,040</u>	<u>\$ 473,727</u>

6. Deferred Charges

Deferred charges consisted of the following:

	December 31,	
	2022	2021
RS Plan Accelerated Funding	\$ 80,350	\$ 241,051
MKEC Pre-Acquisition Costs	131,988	141,250
Work Plans	129,224	
Winter Storm Deferral	1,533,977	2,446,977
Cost of Service Study Deferral	30,907	45,696
Other	25,102	3,865
	<u>\$ 1,931,548</u>	<u>\$ 2,878,839</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, 2022 and 2021 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, 2022 and 2021.

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, 2022 and 2021 was \$938,322 and \$781,935, respectively.

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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 40% of the total assets at the balance sheet date. The Cooperative retired \$515,327 and \$436,369 during the years ended December 31, 2022 and 2021, respectively.

8. Patronage Capital

	December 31,	
	2022	2021
Assigned	\$ 26,052,505	\$ 23,997,665
Retired	(3,448,057)	(2,924,013)
Assignable	1,298,255	2,134,442
	<u>\$ 23,902,703</u>	<u>\$ 23,208,094</u>

9. Other Equities

	December 31,	
	2022	2021
Other Equities	\$ 620	\$ 483
Non Operating Margins	1,471,767	1,119,392
Retired Capital Credits - Gain	274,398	207,894
	<u>\$ 1,746,785</u>	<u>\$ 1,327,769</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,	
	2022	2021
Fixed Rate Notes - 1.01% - 4.52%	\$ 33,257,952	\$ 34,114,647
Advance Payments	(2,476,365)	(4,338,233)
	<u>\$ 30,781,587</u>	<u>\$ 29,776,414</u>
Less: Current Maturities	1,193,000	1,088,000
	<u>\$ 29,588,587</u>	<u>\$ 28,688,414</u>

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

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:

2023	\$	1,193,000
2024		981,000
2025		993,000
2026		1,175,000
2027		1,243,000

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,	
	2022	2021
Fixed Rate Notes - 3.60% - 4.30%	\$ 5,213,010	\$ 5,789,441
Less: Current Maturities	494,000	576,000
	<u>\$ 4,719,010</u>	<u>\$ 5,213,441</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:

2023	\$	494,000
2024		398,000
2025		414,000
2026		431,000
2027		448,000

12. CoBank Mortgage Notes

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

	December 31,	
	2022	2021
Fixed Rate Notes - 1.55%	\$ 1,176,756	\$ 2,027,146
Less: Current Maturities	864,000	850,000
	<u>\$ 312,756</u>	<u>\$ 1,177,146</u>

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LANE-SCOTT ELECTRIC COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

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

2023	\$	864,000
2024		312,756

13. 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, 2022 and 2021, 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, 2022 and 2021, respectively.

14. 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.

15. 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.

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

NOTES TO FINANCIAL STATEMENTS

Plan Information

The Cooperative's contributions to the RS Plan in 2022 and 2021 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 \$544,296 and \$544,211 in 2022 and 2021, respectively. There have been no significant changes that affect the comparability of 2022 and 2021 contributions. Pension expense for the years ended December 31, 2022 and 2021, including amortization of RS prepayment, was \$704,997 and \$704,912, 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, 2022 and January 1, 2021 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, 2022 and 2021 was \$81,913 and \$78,889, respectively.

16. 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 \$12,903,008 and \$11,294,294 for the years ended December 31, 2022 and 2021, respectively. Amounts included in accounts payable purchased power as of December 31, 2022 and 2021 were \$707,251 and \$772,061 due to SEPC.

17. Subsequent Events

The Cooperative has evaluated subsequent events through April 20, 2023, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

Schedule 1

ELECTRIC PLANT
FOR THE YEAR ENDED DECEMBER 31, 2022

	Balance 1/1/2022	Transfers & Additions	Retirements	Balance 12/31/2022
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	<u>\$ 1,229,543</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,229,543</u>
Distribution Plant				
Land and Land Rights	\$ 54,943	\$ 17,093	\$	\$ 72,036
Structures and Improvements	58,333			58,333
Substation Equipment	10,937,028			10,937,028
Poles, Towers, and Fixtures	14,517,578	849,297	147,977	15,218,898
Overhead Conductors and Devices	18,775,357	240,925	66,663	18,949,619
Underground Conduit	14,916			14,916
Underground Conductors and Devices	432,029	120,648		552,677
Line Transformers	5,935,457	288,944	34,847	6,189,554
Services	942,088	78,491	20,571	1,000,008
Meters	2,893,867	181,010	38,639	3,036,238
Installations on Consumer Premises	24,543			24,543
Street Lighting	148,282			148,282
Total	<u>\$ 54,734,421</u>	<u>\$ 1,776,408</u>	<u>\$ 308,697</u>	<u>\$ 56,202,132</u>
General Plant				
Land and Land Rights	\$ 36,728	\$	\$	\$ 36,728
Structures and Improvements	2,722,966			2,722,966
Office Furniture and Equipment	409,195	21,031		430,226
Transportation Equipment	800,398	186,260		986,658
Tools, Shop, and Garage Equipment	95,079			95,079
Laboratory Equipment	43,844			43,844
Power Operated Equipment	1,632,311		134,072	1,498,239
Communications Equipment	57,041	30,715		87,756
Miscellaneous Equipment	102,297	72,729	20,896	154,130
Total	<u>\$ 5,899,859</u>	<u>\$ 310,735</u>	<u>\$ 154,968</u>	<u>\$ 6,055,626</u>
Total Classified Electric Plant in Service	\$ 61,863,823	\$ 2,087,143	\$ 463,665	\$ 63,487,301
Construction Work in Progress for All Plant	<u>1,004,116</u>	<u>363,895</u>		<u>1,368,011</u>
Total Utility Plant	<u>\$ 62,867,939</u>	<u>\$ 2,451,038</u>	<u>\$ 463,665</u>	<u>\$ 64,855,312</u>

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

Schedule 2

ACCUMULATED PROVISION FOR DEPRECIATION
FOR THE YEAR ENDED DECEMBER 31, 2022

	Balance 1/1/2022	Depreciation Accruals	Retirements and Transfers	Balance 12/31/2022
Transmission Plant	\$ 947,866	\$ 33,799	\$	\$ 981,665
Distribution Plant	\$ 16,534,172	\$ 1,819,619	\$ 472,498	\$ 17,881,293
General Plant				
Structures and Improvements	\$ 1,134,898	\$ 89,384	\$	\$ 1,224,282
Office Furniture & Equipment	305,739	30,381		336,120
Transportation Equipment	761,459	63,103		824,562
Shop Equipment	66,696	3,209		69,905
Lab Equipment	22,698	2,204		24,902
Communications Equipment	41,133	2,701		43,834
Power Operated Equipment	970,540	96,381	105,019	961,902
Miscellaneous Equipment	62,384	6,496	20,896	47,984
Total General Plant	\$ 3,365,547	\$ 293,859	\$ 125,915	\$ 3,533,491
Total Classified Electric Plant in Service	\$ 20,847,585	\$ 2,147,277	\$ 598,413	\$ 22,396,449
Retirement Work in Progress	(40,038)		78,568	(118,606)
	\$ 20,807,547	\$ 2,147,277	\$ 676,981	\$ 22,277,843
		(1)	(2)	
(1) Charged to Depreciation Expense		\$ 1,987,794		
Charged to Clearing Accounts		159,483		
		\$ 2,147,277		
(2) Cost of Units Retired			\$ 463,665	
Add: Cost of Removal			268,421	
Less: Salvage Value and Other Credits			55,105	
Loss Due to Retirement			\$ 676,981	

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

Schedule 3

**OTHER PROPERTY AND INVESTMENTS
DECEMBER 31, 2022 AND 2021**

	December 31,	
	<u>2022</u>	<u>2021</u>
INVESTMENTS IN ASSOCIATED ORGANIZATIONS		
Patronage Capital/Memberships		
Sunflower Electric Power Corporation	\$ 11,909,396	\$ 11,500,455
Mid-Kansas Electric Company, Inc.	381,169	435,561
Kansas Electric Cooperatives	42,395	41,464
National Rural Utilities Cooperative Finance Corporation	229,881	220,608
National Information Solutions Cooperative	67,237	68,330
S&T Telephone	103,289	109,656
Federated Rural Electric Insurance	177,392	160,879
Memberships/Other	75,460	65,570
Capital Term Certificates		
National Rural Utilities Cooperative Finance Corporation	221,958	221,958
Other Contributions		
Mid-Kansas Electric Company, Inc. - Contributed Capital	<u>423,040</u>	<u>423,040</u>
Total Investments in Associated Organizations	\$ <u>13,631,217</u>	\$ <u>13,247,521</u>
OTHER INVESTMENTS	\$ <u>5,501</u>	\$ <u>5,501</u>
	<u>\$ 13,636,718</u>	<u>\$ 13,253,022</u>

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

Schedule 4

PATRONAGE CAPITAL
DECEMBER 31, 2022

Calendar Year	Capital Credits Assigned	Capital Credits Assignable	Capital Credits Retired	Capital Credits Unretired
1961 - 1998	\$ 2,746,394	\$	\$ 2,746,394	\$
1999	865,737		208,853	656,884
2000	552,138		53,912	498,226
2001	586,850		55,492	531,358
2002	894,931		84,972	809,959
2003				
2004	445,392		34,539	410,853
2005	654,896		48,554	606,342
2006	249,907		17,794	232,113
2007	957,875		61,760	896,115
2008	761,198		38,178	723,020
2009	813,194		38,839	774,355
2010				
2011	1,254,464		16,578	1,237,886
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		9,957	1,488,643
2017	1,849,734		5,845	1,843,889
2018	1,503,392		13,253	1,490,139
2019	1,748,693		11,255	1,737,438
2020	392,903			392,903
2021	2,054,840		1,882	2,052,958
2022		1,298,255		1,298,255
	<u>\$ 26,052,505</u>	<u>\$ 1,298,255</u>	<u>\$ 3,448,057</u>	<u>\$ 23,902,703</u>

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

Schedule 5

FFB, CFC, AND COBANK MORTGAGE NOTES
DECEMBER 31, 2022

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	\$	\$ 735,420	\$ 3,237,580
FFB-1-2	9/7/2010	1/3/2045	3.49%	900,000		192,753	707,247
FFB-1-3	1/21/2011	1/3/2045	4.24%	1,128,000		223,568	904,432
FFB-1-4	9/7/2011	1/3/2045	2.84%	3,206,718		635,566	2,571,152
FFB-1-5	3/13/2012	1/3/2045	2.78%	652,282		125,669	526,613
FFB-2-1	12/19/2013	12/31/2047	3.58%	6,208,937		829,766	5,379,171
FFB-2-2	12/19/2013	12/31/2047	3.58%	3,341,812		446,602	2,895,210
FFB-2-3	9/3/2014	12/31/2047	2.90%	2,539,105		339,327	2,199,778
FFB-2-4	9/3/2015	12/31/2047	2.69%	1,000,000		148,599	851,401
FFB-2-5	2/8/2016	12/31/2047	2.34%	1,312,209		195,717	1,116,492
FFB-2-6	9/22/2016	12/31/2047	2.09%	1,000,000		144,713	855,287
FFB-2-7	3/2/2018	12/31/2047	2.96%	713,659		70,600	643,059
FFB-2-8	4/25/2018	12/31/2047	3.08%	2,975,794		281,990	2,693,804
FFB-2-9	4/9/2019	12/31/2047	2.73%	1,000,000		78,894	921,106
FFB-2-10	7/31/2019	12/31/2047	2.34%	2,500,863		194,384	2,306,479
FFB-2-11	11/22/2019	12/31/2047	2.04%	1,312,137		98,379	1,213,758
FBB-2-12	5/12/2020	12/31/2047	1.09%	4,018,753		285,504	3,733,249
FBB-2-13	7/16/2020	12/31/2047	1.01%	536,731		34,597	502,134
Total FFB				\$ 38,320,000	\$ 0	\$ 5,062,048	\$ 33,257,952
CFC Mortgage Notes							
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		1,560,225	96,775
Total CFC				\$ 6,773,235	\$ 0	\$ 1,560,225	\$ 5,213,010
CoBank Mortgage Notes							
T - 01	3/12/2021	9/20/2024	1.55%	\$ 3,000,000	\$ 0	\$ 1,823,244	\$ 1,176,756
Total CoBank				\$ 3,000,000	\$ 0	\$ 1,823,244	\$ 1,176,756

Net obligation includes \$1,193,000 due FFB, \$494,000 due CFC, and \$864,000 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, 2022 AND 2021**

	December 31,		Increase
	2022	2021	(Decrease)
Administrative and General Salaries	\$ 613,210	\$ 559,553	\$ 53,657
Office Supplies and Expense	113,700	49,293	64,407
Outside Services Employed	60,990	117,695	(56,705)
Employee Education and Training	265,658	201,931	63,727
Directors' Fees and Expenses	73,014	51,573	21,441
Annual Meeting Expense	151,987	130,128	21,859
Capital Credits Expense	13,309	11,160	2,149
Dues to Associated Organizations	79,525	70,887	8,638
Miscellaneous General Expense	45,904	57,480	(11,576)
Regulatory Commission Expense	1,600	887	713
Maintenance of General Plant	<u>221,779</u>	<u>203,227</u>	<u>18,552</u>
	<u>\$ 1,640,676</u>	<u>\$ 1,453,814</u>	<u>\$ 186,862</u>

COMPLIANCE AND INTERNAL CONTROL

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

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2022, 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 20, 2023. In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2023, 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 20, 2023

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, 2022, 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 20, 2023.

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 and significant deficiencies 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 20, 2023

LANE-SCOTT ELECTRIC COOPERATIVE, INC. POLICY

Dated: November 1, 2021

Policy No.: 113

SUBJECT: Capital Credits

I. OBJECTIVE:

The objective of this Capital Credits Policy ("Policy") is to state the general policy of Lane-Scott Electric Cooperative, Inc., ("Cooperative") for allocating and retiring capital credits.

II. POLICY:

The Cooperative shall allocate and retire capital credits in a manner that:

- A. is consistent with state and federal law;
- B. is consistent with operating on a cooperative basis under federal tax law;
- C. is fair and reasonable to the Cooperative's patrons and former patrons;
- D. provides the Cooperative with sufficient equity and capital to operate effectively and efficiently; and
- E. protects the Cooperative's financial condition. Subject to law, the Cooperative's Articles of Incorporation, and the Cooperative's Bylaws, the allocation and retirement of capital credits are at the sole discretion of the Cooperative's Board of Trustees ("Board").

III. PROCEDURE:

- A. Board Approval. The Cooperative shall allocate and retire capital credits according to the manner, method, timing, and amount approved by the Board.
- B. Operating Margin Allocations. As required by the Cooperative's bylaws, for electric energy sales provided by the Cooperative on a cooperative basis during a fiscal year, the Cooperative shall allocate on a patronage basis to each patron during the fiscal year, the Cooperative's operating margins from providing the electric energy sales during the fiscal year. Capital credits allocated and credited to the Cooperative by its affiliated G&T cooperative in connection with the furnishing of electric energy to the Cooperative will be separately allocated on a patronage basis.
- C. Operating Margin Loss Allocations. For electric energy sales provided by the Cooperative on a cooperative basis, the Cooperative shall offset operating losses with the Cooperative's operating earnings from providing the electric energy sales during the next succeeding future fiscal year(s).
- D. Non-Operating Allocations. As approved by the Board, the Cooperative may use, retain, or equitably allocate the Cooperative's Non-Operating earnings.
- E. Non-Operating Loss Allocations. The Cooperative shall offset non-operating losses with the Cooperative's non-operating earnings during any fiscal year.
- F. General Capital Credits Retirements. The Cooperative will generally retire capital credits with the goals of:

1. maintaining an adequate equity level as determined by the Board;
2. retiring some capital credits each year, provided the financial condition will not be impaired thereby with the goal of working toward and maintaining an equity level of 40%;
3. retiring capital credits on a first-in, first-out full payment method of rotation;
4. retiring capital credits on a regular rotation;
5. communicating and promoting the cooperative principles;
6. fostering loyalty and support among patrons and former patrons; and
7. maximizing public relations and political goodwill. Notwithstanding the foregoing, affiliated G&T cooperative capital credit allocations will not be retired and paid in whole or in part until retired and paid by the G&T cooperative.

G. Special Capital Credits Retirements.

1. The Cooperative may specially retire capital credits allocated to a patron or former patron:
 - a. upon the death of an individual patron or former individual patron, subject to board approval; or
 - b. upon a former patron failing to pay an amount owed to the Cooperative when the Board, in its sole judgment, determines the indebtedness owed to the Cooperative by a patron is uncollectible.
2. The Cooperative may not specially retire capital credits allocated to a patron or former patron:
 - a. during or after the dissolution, liquidation, or cessation of existence of an entity patron or former entity patron. No capital credits held in the name of a trust may be approved for the payment to a trustee, unless the trust was revocable by the member-grantor at death, or the trust was includable in the member-grantor's estate for federal estate tax purposes.;
 - b. during or after the reorganization, merger, or consolidation of an entity patron or former entity patron;
 - c. upon a patron or former patron reaching a certain age; or
 - d. upon a patron becoming a former patron. No payment shall be made to any person until the time to admit a will to probate and the time to file creditor's claims has expired.
3. Payment shall be made directly to those entitled thereto under a decree of descent or under an affidavit of heirship, an example of which is attached.
4. Requests for payment of capital credits to estates of deceased patrons will be paid twice yearly, in June and December, upon approval by the Board of Trustees.

- H. Recoupment, Offset, Setoff. After retiring, and before paying, capital credits allocated to a patron or former patron, the Cooperative shall recoup, offset, or setoff any amount owed to the Cooperative by the patron or former patron, including any interest or late payment fees, by reducing the amount of retired capital credits paid to the patron or former patron by the amount owed to the Cooperative, regardless of a statute of limitation or other time limitation.

IV. LIMITATIONS

Forfeiture of Capital Credits. The Cooperative shall not require or enter into contracts through which a patron or former patron forfeits the right to the allocation or retirement of capital credits as a condition of receiving or having received electric service.

V. Responsibility

The General Manager shall ensure that this policy is implemented.

ATTESTED _____

Secretary

Seal

Previous Revisions: August 13, 2018, January 8, 2018, July 28, 1997, February 24, 1997, May 24, 1993, August 1966, July 1966, and January 1962.

10. b. 2022 Capital Credit Allocation

The Allocation of Capital Credits is addressed in the LSEC Bylaws, Article VII, Section 2. **Patronage Capital in Connection with Furnishing Cooperative Services** and in Board Policy 113 **Capital Credits**.

Board Policy 113 addresses Allocations as follows:

OBJECTIVE: *The objective of this Capital Credits Policy ("Policy") is to state the general policy of Lane-Scott Electric Cooperative, Inc., ("Cooperative") for allocating and retiring capital credits.*

POLICY: *The Cooperative shall allocate and retire capital credits in a manner that:*

- 1) is consistent with state and federal law;*
- 2) is consistent with operating on a cooperative basis under federal tax law;*
- 3) is fair and reasonable to the Cooperative's patrons and former patrons;*
- 4) provides the Cooperative with sufficient equity and capital to operate effectively and efficiently; and*
- 5) protects the Cooperative's financial condition. Subject to law, the Cooperative's articles of incorporation, and the Cooperative's bylaws, the allocation and retirement of capital credits are at the sole discretion of the Cooperative's Board of Trustees ("Board").*

EXPECTATIONS:

- A. Board Approval.** *The Cooperative shall allocate and retire capital credits according to the manner, method, timing, and amount approved by the Board.*
- B. Operating Margin Allocations.** *As required by the Cooperative's bylaws, for electric energy sales provided by the Cooperative on a cooperative basis during a fiscal year, the Cooperative shall allocate on a patronage basis to each patron during the fiscal year, the Cooperative's operating margins from providing the electric energy sales during the fiscal year. Capital credits allocated and credited to the Cooperative by its affiliated G&T cooperative in connection with the furnishing of electric energy to the Cooperative will be separately allocated on a patronage basis.*
- C. Operating Margin Loss Allocations.** *For electric energy sales provided by the Cooperative on a cooperative basis, the Cooperative shall offset operating losses with the Cooperative's operating earnings from providing the electric energy sales during the next succeeding future fiscal year(s).*
- D. Non-Operating Allocations.** *As approved by the Board, the Cooperative may use, retain, or equitably allocate the Cooperative's Non-Operating earnings.*
- E. Non-Operating Loss Allocations.** *The Cooperative shall offset non-operating losses with the Cooperative's non-operating earnings during any fiscal year.*

The Bylaws and Policy draw a distinction between Operating Margins and Non-Operating Margins. Operating Margins are allocated while Non-Operating Margins allocations are at the discretion of the Board.

The 2022BSGM Audit report (Exhibit B) identifies 2022 items as follows:

Operating Margins – After Fixed Charges	\$563,308
Non-Operating Margins – Interest Income	\$132,044
Non-Operating Margins – Other <i>plus</i> Gain (Loss) on Disposition of Property	\$140,732
Generation and Transmission Capital Credits	\$684,641
Other Capital Credits and Patronage Dividends	\$50,306

According to Policy:

Operating Margins Allocated	G&T Capital Credits (allocated separately)	Non-Operating Margins (option to allocate)
563,308		
		132,044
		140,732
	684,641	
50,306		
		0
613,614	684,641	272,776

Recognizing that the auditors use estimates in the preparation of Audit Statements and state. “Actual results could differ from those estimates.” (*Page 12 of 31*) Any material difference will be reviewed by the staff and the Auditors.

Therefore, the staff requests that the Board approve:

- 1. An allocation of \$613,614 in 2022 Operating Margins, and**
- 2. An allocation of \$684,641 in 2022 Generation and Transmission Capital Credits, and**
- 3. That the Cooperative retain (no allocation) all Non-Operating Margins (\$272,776).**

10. c. General Manger Evaluation

Items to be presented during the Board meeting.

SAFETY PROGRAM

SAFETY PROJECTS COMPLETED AS OF April 2023

- Rubber gloves changed out.
- Rubber sleeves changed out.
- Auto transformer stands have been installed in Dighton Hi to resolve substation clearance.
- Ann Jennings's submitted report:
 - Safe Digging Month-call 811
 - 2 National work zone Awareness Messages-Move over message & Distracted Driving message.
 - Outdoor Weather Safety- When thunder roars go indoors.
- Diana Kuhlman submitted reports:
 - KEC Loss Control, Safety and Compliance System Monthly Statistical Report.
 - Compliance One drug and alcohol monthly roster report.
 - OSHA 300A Report
 - Federated OSHA 300 Log.
 - KEC No Lost Time Accident Report.
- KEC Hearing Conservation Program & Decibel Testing of Equipment, Accident Investigation. Administrative Office Ergonomics

SAFETY PROJECTS IN PROGRESS AS OF April 2023

1. SDS Program products updates and documentation improvements.
2. Safety Amp software inspection form templates.
3. FCC radios are received will schedule soon for installation in trucks.
4. Demo trailer hardware in process of being installed. Transformer sent to Solomon Corp.to be reworked.
5. RESAP Onsite Observation
 - Nate Burns is working on arc hazard assessment study.
 - Circuits are being identified.
 - The switching procedure for Twin Springs Sub. is in progress.
 - URD cables being identified and labeled.
 - Padmount and switch cabinet signage in progress of being updated.

LANE-SCOTT ELECTRIC COOPERATIVE, INC.

SAFETY MEETING

April 14th, 2023

Chris Terhune called the meeting to order at 9:17am.

Minutes were read: Dal Hawkinson made a motion to approve the March 29th, 2023 minutes and Dellon Shelton seconded. Minutes were read and approved as printed.

Present: Ben Mann, Dal Hawkinson, Chad Rupp, Chris Terhune, Myron Seib, Dellon Shelton, Blake McVicker, Dylan Fehrenbach, Nate Burns, Scott Briand, Michael Pollock, Kathy Lewis, Carrie Borell, Rebecca Campbell, Dianna Kuhlman, and Katie Riffle

Absent: Richard McLeon, Kasey Jenkinson, Kevin Bradstreet, Leighton Ayers, Kalo Mann, Mark McCulloch, Ann Marie Jennings

Guest: None

Truck report of inspections:

105	Dellon Shelton	OK
110	Blake McVicker	OK
112	Leighton Ayers	OK
117	Chris Terhune	OK
123	Mark McCulloch	OK
132	Dylan Fehrenbach	OK
135	Nate Burns	OK
136	Dylan Fehrenbach	OK
143	Scott Brandt	OK
144	Michael Pollock	OK
145	Chris Terhune	OK
150	Dellon Shelton	Windshield to Be Replaced
173	Chad Rupp	OK
191	Michael Pollock	OK
193	Myron Seib	OK
200	Ben Mann	OK
201	Dal Hawkinson	OK
304	Myron Seib	OK
305	Myron Seib	OK

Trailer and Equipment report of inspections:

502	Myron Seib	OK
507	Myron Seib	OK
515	Myron Seib	OK
504	Chris Terhune	OK
505	Chris Terhune	OK
508	Chris Terhune	OK
509	Chris Terhune	OK
513	Chris Terhune	OK
516	Chris Terhune	OK
700	Chris Terhune	OK
701	Chris Terhune	OK
702	Chris Terhune	OK
512	Scott Briand	OK
514	Scott Briand	OK

Warehouse, building, and pole yard inspections:

Ness City Warehouse	Myron Seib	OK
Ness Pole Yard & Transformer Dock	Myron Seib	OK

Warehouse	Scott Briand	OK
Pole Yard & Transformer Dock	Scott Briand	OK
Office	Diana Kuhlman	OK

Personal Tools: All Passed

Gloves Monthly Test Results: All Passed

Line Hoses Annual Test Results: N/A

Sleeves Quarterly Test Results: All Passed

Substation and Regulator Report:

- ♦ Ben Mann: Ness 34.5 arresters need to be replaced and will be conducted with a two-day outage. LTC tap changer will have gasket replaced also.
- ♦ Ben Mann: Installed stands under regulators in Dighton Hi Sub. Brownell regulator platform is built waiting on regulators from Solomon Corp. for completion. Ordering batteries for Beeler Sub, main circuit switcher.
- ♦ Myron Seib: Ness City substation support pole is laying in sub waiting for outage for replacement.

PCB Report: None to Report

Line Clearance: City of Ransom, Hendricks 3 phase, City of McCracken.

Accident and Near Misses: None to report.

Old Business:

- ♦ Diana Kuhlman: Thanked everyone for turning in the policy acknowledgment sheets.
- ♦ Chris Terhune: Checking with Solomon on status of repair on pad mount transformer for demo trailer.

New Business:

- ♦ Carrie Borell: KnowBe 4 Training due in May. Microsoft is vulnerable right now, be aware of strange emails.
- ♦ Diana Kuhlman: Attended HR Summit
- ♦ Dal Hawkinson: Nate Burns, Ben Mann, and Dal Hawkinson attended Heartland Marketing Conference in Wichita.
- ♦ Dal Hawkinson: Finished staking school.
- ♦ Rebecca Campbell: Attended NISC Training.
- ♦ Chris Terhune: Welcomed Lane-Scott's new employee, Katie Riffle, and congratulated Chad Rupp for becoming Crew Chief. Checking into doing a safety demo for Farm Bureau on May 3rd.
- ♦ Myron Seib: Getting a quote for City of Arnold Tornado Siren.
- ♦ KEC: Mikey Goddard discussed Hearing Conservation Program & Decibel Testing of Equipment, and Accident Investigation. *Admin.* Discussed Office Ergonomics.

Meeting adjourned.

Chris Terhune
Safety Coordinator

Carrie Borell
Safety Administrator